

SYLLABUS

DESCRIPTION OF THE COURSE: Finance is an integral part of most management decisions. Whether the decision is to hire, fire, or promote an employee, to purchase or sell an item, to start or end a program, or to improve client services, managers must weigh a decision's financial implications. Inadequate attention to the financial system can affect the attainment of organizational goals.

The finance idea suffers from an image of sclerotic bureaucratization. Fighting fraud, waste, and abuse, finance officers have created what many believe is horrendous red tape or, at least, endlessly frustrating procedures. A more balanced view comes from two observers who said: "Every local jurisdiction has its own practices within the bounds of state requirements for spending, but the issues are about the same everywhere. Agencies view [financial management] as a positive resource to be used to accomplish their mission, goals, and objectives. They favor maximum discretion to use dollars as they best see fit and tend to view both limitations and reporting requirements as wasteful obstacles to getting the job done. [Chief Financial Officers] see [financial management] as a series of procedural rules and substantial limits designed to curb the possibilities of waste, fraud, and abuse, and to protect the fiscal health of the local government. Both perspectives have validity, and the balance between them is probably best struck when each side pursues its claims with vigor" (Susan L. Riley and Peter W. Colby, 1991, *Practical Government Budgeting*, Albany, New York: State University of New York Press, 119).

The solution to the balancing of procedure with performance is a fascinating subject to investigate. The balance is probably the best description of this course.

OBJECTIVE OF THIS COURSE: Since this course deals with implementation, we will concentrate on the question: How does an organization ensure that the objectives outlined in the budget and the appropriation ordinance are realized? More to the point, however, the course looks at ways to avoid dissipating effort whether through nonfeasance, misfeasance, or malfeasance. You should understand and be able to apply the systems of control to your organization as a result of your study in this course.

The specific objectives of the course are as follows:

1. Become familiar with existing budget implementation and execution systems.
2. Be able to read a local government financial statement, to understand where the information in it originates, and to judge the financial condition of the organization based on the data in the statement.

3. Be able to design efficient and effective purchasing, risk management and cash management systems.
4. Become familiar with the problems of public payroll systems.
5. Be able to plan a change program that incorporates the principles and technologies of modern financial management.
6. Be able to understand the SAP integrated software solutions package.
7. Be able to investigate and, based upon that, recommend improvements in an existing financial management process in an actual local government.

TEXTS FOR THE COURSE: You should purchase the following from the Rutgers University Bookstore:

Rabin, Jack, W. Bartley Hildreth and Gerald J. Miller, **Budgeting** (RHM or Rabin, Hildreth, and Miller), Athens, GA: Vinson Institute of Government, is a text we will use most often.

Petersen, John and Dennis Strachota, **Local Government Finance: Concepts and Practices**, Chicago: Government Finance Officers Association.

Kahn, Aman and W. Bartley Hildreth, **Case Studies in Public Budgeting and Financial Management**, 2d ed. New York: Dekker.

You should, if you have unlimited funds, buy all three. If not, buy the Kahn and Hildreth casebook and the RHM **Budgeting**. I will provide and fill in the few things you otherwise need.

In addition, you will find **Municipal Finance Administration in New Jersey** (Benecke, Rutgers Bureau of Government Research) useful and should think seriously about purchasing it from the Bureau in New Brunswick (Rutgers, Department of Government Services, PO Box 5079, New Brunswick 08903-5079).

I will provide additional material, case studies, and exercises.

OFFICE HOURS: I will be available on Thursday afternoons or almost any other time by arrangement with you. Please telephone at 973-353-5093 x21 at Rutgers to talk. Fax number is 973-353-5907 and e-mail is gjmiller@andromeda.rutgers.edu. Fax numbers are 973-353-5907 and 201-451-0728.

Mailing address: Department of Public Administration, Rutgers University
701 Hill Hall
360 Dr. Martin Luther King, Jr. Boulevard
Newark, New Jersey 07102

GRADES: The homework, exercises, and a major project will all be graded with these weights:

Homework (case briefs and problems)	10%
Exercises	
1. 10 Point Test and financial condition-related work on a municipality you choose	20%
2. Evergreen Audit, generally as a change management problem,	20%
3. and then specifically as technical problems solved with the SAP (there should be at least two problems – purchasing and payroll -- which we will agree to weight as the amount of work tells)	20%
Major Project	30%
	100%

WRITING UP CASES AND HOMEWORK: Since we will be dealing with case studies and problems in the tradition of most graduate management and finance programs in the United States, how do you read and report a case? In every case, I will give you a point of view or a question to answer. Reading the case or problem, then, involves finding the answer. However, I also want you to read for the broader application of the principles and ideal procedures we talk about from the textbooks (“Budgeting: Formulation and Execution” and “Local Government Finance: Concepts and Practices”).

Generally, you should prepare a case or problem brief for class discussion and provide me with a typed copy for homework credit. The *brief* should outline the facts in the case, state the question that we decide is the center of the case, and then answer the case with the facts, the facts from the textbook reading, and your own good judgment. The briefs become the major part of our class discussion. Be prepared to talk about what your judgment leads you to conclude about the question.

HOMEWORK AND CLASS PROJECTS: Homework, specifically work done outside but for class, helps you to focus on a particular issue. I want you to complete homework projects as a way to increase your understanding of financial management processes in government institutions. In return, I will reward you for your effort. The ground rules are:

1. Make sure you know what you are doing; I assume you do.
2. Make the work legible and understandable if you want the benefit of the doubt.
3. Hand it in on time.

A note about work you hand in: Keep copies of everything you give me; I will hand back graded work, but I want to keep it in my files. If you want copies of your work; make copies. At the end of the course, I will count in your grade only the work for which I have copies.

THE SEMESTER SCHEDULE

Session Subject

1-4 Introduction

Organization, philosophy, discussion of ground rules and assignments

Budgeting Implementation and Execution: What is the strategic objective?

The budget in the most cases seems to be a “given” to implement as the budget orders. What happens after a city council, state legislature, or Congress appropriate and the executive signs the final document? In a narrow view, nothing happens and the budget is nothing but a big stack of paper unless a financial manager goes to work in implementing or executing what the political powers have ordered. The financial manager has much discretion. What does he or she choose to do?

Let’s see.

2. Implementation problems

Irene Rubin, *The Politics of Public Budgeting*, Chapter 8 (I’ll provide)

Homework exercise: Summarize, then compare and contrast the two local level case studies in Rubin’s Chapter (“Massachusetts Overcontrols the Cities, 1875-1933” and “Ohio’s 1 Percent Law”). What are the lessons of history for the present day from these two cases?

3. Do governments actually use an annual budget or do they use “serial budgets?”

RHM 30 “Rebudgeting: The serial nature of the municipal budget process”

Homework exercise: What is the state policy guiding local governments in rebudgeting. Find out from your local government’s Chief Financial Officer.

4. Execution structures

Susan Riley and Peter Colby, *Practical Government Budgeting*, Chapter 9 (I’ll provide)

Homework exercise: Solve either problem 1 or problem 2 at the end of Riley and Colby’s chapter.

5-7 Accounting system information and financial analysis

We will cover the big ideas in accounting here. Much remains to know and study – we get to the important points and leave the craftsmanship to Professor Bob Werner and his government accounting course (<http://accounting.rutgers.edu/raw/govt>). We will deal with the important internal controls later, but for now, we want to explore what financial reports provide in determining financial health. The financial report outputs usually come in the form of financial ratios that permit some assessment of the financial condition of a local government and help predict financial stress. We will go through a financial statement for general features. Then, you will take any local government you wish and calculate the local government's financial condition using the local government's financial report (an Official or Offering Statement containing a Balance Sheet and Statement of Revenues and Expenditures).

READINGS: RHM 11 (“Financial Indicators for Local Government” glance at this for a sense of what indicators can provide),

RHM 44 (“Fund Accounting” we will breeze through and update this with <http://www.aicpa.org/pubs/jofa/jan2000/klasny.htm> “Government Reporting Faces an Overhaul” by Klasny and Williams – download and read this one),

RHM 50 (“Proposed Financial Ratios”) and

ESPECIALLY RHM 49 Ken Brown's “The 10 Point Test of Financial Condition” which forms the basis of the major Exercise described below. Peterson and Strochota 10 may be helpful in understanding fiscal capacity.

CASES: Fiscal Health in New Jersey's Largest Cities, in which I examined public financial data for Newark, Paterson, Jersey City, Elizabeth and Trenton for the years 1998 and 1999. The report may be found at the Cornwall Center for Metropolitan Studies website.

Urban Fiscal Health : How Do New Jersey Cities Compare To Other American Cities?, in which I examined public financial data for 11 cities for the years 1998 and 1999. The report may be found at the Cornwall Center for Metropolitan Studies website.

HOMEWORK EXERCISE: Determine from the cases Newark's financial health.

Exercise 1: Using the framework provided, select a municipality, get access and the latest Offering Statement or Official Statement or bond prospectus; determine the city's financial condition.

8-11 Internal controls and the tools and techniques of budget execution

The organization of the finance function

We will talk about the organization of finance – particularly the integration and fragmentation of functions that exists in today's local government finance office. I will introduce the software integration package called SAP.

Read RHM, Chapter 2 and
Petersen and Strochota, Chapters 1,3

Case: "Evergreen's Audit" (provided with this syllabus)

Exercise 2 (this is the midterm exam): Solve the Evergreen Audit case in general organization change terms. Consider politics. Find out through a review of the literature what the politics are (search the library databases -- <http://www.libraries.rutgers.edu/rul/indexes/indexes.shtml> -- as well as the web (your favor; mine are http://www.google.com/advanced_search and <http://www.bbc.co.uk/>) with such words as "government reengineering" and "government change management" and limit these searches with the words "financial management"); let your imagination do a great deal of the work on politics as well. Then consider the human factor. Again, search the literature (web and otherwise) for the humane use of change technology and process.

Introduction to SAP (this will carry us through all of the remaining sessions)

Internal control systems that are highly integrated seem to provide an efficient mechanism for enhancing management decision making, budgeting, purchasing, and payroll. SAP provides an integrated software backbone to promote internal control. SAP has certain advantages that must be experienced in the computer lab. We will look at the fund accounting part of SAP and explore its use through several transactions, amplifying the benefits that SAP could have brought in the Evergreen Audit implementation.

We will also look at the reporting features of SAP and then deal with the outputs of reporting account data.

Session Subject**Public Purchasing Systems**

Purchasing functions alongside payroll as the two primary means of implementing a budget. SAP integration of purchasing with accounting and inventory permits a considerable development in practice among purchasing managers and tighter internal control for the finance officer and the local government decision makers. We will go through SAP's purchasing functions and determine how well purchasing may be integrated with accounting and budget. You will then go back to the Evergreen Audit case and propose a technical, integrative solution to the purchasing problems in the case incorporating SAP.

RHM, Chapters 40, 41; and Petersen and Stochota, Chapter 17

CASE: "Procurement dilemmas" (I'll provide) and back to "Evergreen Audit"

EXERCISE 3A: Evergreen Audit and your purchasing recommendations based on SAP.

Public Payroll Systems

While the purchasing function has a major responsibility for implementing a budget, the payroll system must wisely and efficiently spend approximately two-thirds to three-fourths of that budget. Integration of compensation systems into the financial management function is a rare occurrence; many of the compensation system decisions are the province of human relations professionals specially trained in the area. However, compensation and payroll are a process in need of integration with budgeting and accounting, as the Evergreen Audit case illustrates.

We will incorporate SAP into our work on compensation and payroll. Using SAP you will develop a solution to the problems Evergreen faced as a result of its audit.

RHM: Chapter 26 and information I provide you.

EXERCISE 3B: Solve, with SAP, the Evergreen Audit payroll problems.

Session Subject**12 Cash management**, including cash budgeting, mobilization, and investment

RHM, Chapters 31 “Cash Management: Basic Principles and Guidelines;” and Petersen and Strochota’s cash management chapter

CASE: “Learning from experience” (I’ll provide)

We will also work with SAP to show the cash management features it has.

13 Risk management

RHM: 42 “Advantages of a Risk Management Program” (hopefully updated with another chapter I’ve done) and Petersen and Strochota, Chapter 18

CASES: “Analyzing workers’ compensation risks” (I’ll provide), “Risk Management in Lawrence County, Minnesota” (I’ll provide), and “Fewer workplace injuries and illnesses are adding to economic strength” (I’ll provide).

HOMEWORK EXERCISE: Solve the riddle of managing risks from the case “Fewer workplace injuries and illnesses are adding to economic strength” or what is the root cause of fewer workplace injuries?

We will also investigate the recordkeeping functions in SAP and how they contribute to risk management.

14 Final: Major Project Results Presented and Discussed, then Due

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FIRST MAJOR EXERCISE

Using the official statement you have obtained from a local government, complete the following:

1. Compute the 10 Point Test (Brown, “The 10-Point Test of Financial Condition: Toward an Easy-to-Use Assessment Tool for Smaller Cities”) for the local government. Show all numbers used to form the ratios, with one ratio per page of your presentation, and provide page references (or specific directions on how I can verify) the numbers you obtained from the official statement.
2. Explain what you found point by point in a discussion after the computations, concentrating on the definition of the ratio and its meaning according to Brown.
3. Interpret the results of the test generally (what was the bottom line?) and relate this interpretation to whatever you know about the municipality generally.

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SECOND MAJOR EXERCISE

GENERAL DIRECTIONS: Read the case study “Evergreen’s Audit.” Consider the process of implementing the changes called for in the management letter on internal control.

As a nontechnical level, requiring no specialized knowledge of government purchasing or payroll processes, the Evergreen dilemma is a political and managerial one both types clearly involving social and financial threats and opportunities. Think about the options open to the case’s main character Susan Dewing: “postpone until after primary; initiate in-house task forces; hire consultants; or use the accountants to follow up; think of more [options].”

1. In an essay of less than 1,000 words, establish and justify a plan. First, establish the result to be achieved -- a strategic objective for the reengineering. Survey, list, and discuss the costs and benefits of each option above (and any others you can think of) to achieve your strategic objective. Then propose what the main character, Susan Dewing, should say in her memo and why.

2. Then, write the short, convincing memo for Susan Dewing.

Remember that your task is to solve the Evergreen Audit case problem Susan Dewing faces. You should approach the case and its problem in general organization change terms and not by process evaluation of the missteps or inefficiencies in either purchasing or payroll. General organization change refers to ideas we hear constantly, usually “reinvention” and such, and refer to the methods of moving a group of people accustomed to working in one way to a different process, set of behaviors, relationships, level of knowledge, and view of the world (perhaps).

Consider the political factor. Find out through a review of the literature what the politics are (search the library databases -- <http://www.libraries.rutgers.edu/rul/indexes/indexes.shtml> --

as well as the web (your favorite; mine are http://www.google.com/advanced_search and <http://www.bbc.co.uk/>) with such words as “government reengineering” and “government change management” and limit these searches with the words “financial management”). Let your imagination do a great deal of the work on politics as well. Who wins and who loses as change takes place? How?

Then consider the human factor. Who knows how to reengineer? What are the consequences of doing it well or poorly? Again, search the literature (web and otherwise) for the humane use of change technology and process.

We will decide together the deadline for the assignment – an essay and a memo.

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EXERCISE 3A

1. Diagram (flow chart) an improved purchasing process for Evergreen, solving all the problems that the audit turned up.
2. Transfer the thinking to SAP.
3. Justify the improved purchasing process in terms of the principles and ideals we find in the literature.

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EXERCISE 3B

1. Diagram (flow chart) an improved payroll process for Evergreen, solving all the problems the audit turned up.
2. Transfer the thinking to SAP.
3. Justify the improved payroll process in terms of the principles and ideals we find in the literature.

THE FINAL PROJECT

Consider the following statement made by two recent observers of financial management systems (from the first page of the syllabus (Susan L. Riley and Peter W. Colby, 1991, *Practical Government Budgeting*, Albany, New York: State University of New York Press, 119):

Every local jurisdiction has its own practices within the bounds of state requirements for spending, but the issues are about the same everywhere. Agencies view [financial management] as a positive resource to be used to accomplish their mission, goals, and objectives. They favor maximum discretion to use dollars as they best see fit and tend to view both limitations and reporting requirements as wasteful obstacles to getting the job done. [Chief Financial Officers] see [financial management] as a series of procedural rules and substantial limits designed to curb the possibilities of waste, fraud, and abuse, and to protect the fiscal health of the local government. Both perspectives have validity, and the balance between them is probably best struck when each side pursues its claims with vigor.

Consider another view from Robert N. Anthony and David W. Young (*Management Control in Nonprofit Organizations*, Boston, Irwin-McGraw Hill, 532):

In any organization, for-profit or nonprofit, the right balance has to be struck between freedom and restraint. *Freedom* is needed to take advantage of the ability and knowledge of the person on the firing line. *Restraint* is needed to ensure that management policies are followed and to reduce the effect of poor judgments or counterproductive decisions by lower level managers.

In nonprofit organizations, there are two complications to attaining an appropriate balance between freedom and restraint. First, the absence of profit as an overall basis for measuring performance usually calls for somewhat less freedom and somewhat more restraint than in a for-profit organization. Second, the presence of professionals in many nonprofits introduces a level of knowledge about client needs that senior management must consider carefully.

This is a matter of degree. Many nonprofit organizations, particularly government organizations, impose far too many and too detailed restraints on first-line managers. Sometimes this is caused by the *goldfish bowl problem*. Errors are likely to be played up in the newspapers, and, as a protective device, managers prescribe rules, which they can point to when errors come to light: "I am not to blame; he (the sinner) broke my rule." The detailed restraints also result from encrustation: a sin is committed, and a rule is promulgated to avoid that sin in the future; but the rule continues even after the need for it has disappeared. No one considers whether the

likelihood and seriousness of error is great enough to warrant continuation of the rule.

Investigate the problem of balance between freedom and restraint, the problem of “red tape.” Take any major set of procedures (accounting systems, purchasing systems, risk management systems, position control systems, payroll systems or anything else) and test the validity of the observation above.

Develop your own set of criteria for a good financial control system (whether it be accounting, purchasing, risk management, position control, payroll or anything else). Then, contact knowledgeable people in a government or nonprofit which you do not work for. Diagram and describe the procedures used by the people in that government. Investigate the operating or line agency view and the finance office view of the set of procedures by interviewing a knowledgeable individual in each. Do you find tension between the two; the agency staff think that the process should be looser and the Chief Financial Officer wants it to be tighter? Determine how well the specific financial control system works by the criteria you set out initially.

Since this is a major research piece, I recommend that you get started as quickly as possible. The due date is the final examination date, usually our last normal meeting time.