

**PUBLIC ADMINISTRATION 550**  
**FINANCIAL MANAGEMENT OF GOVERNMENT**  
**Spring 2011: #30997**

Professor: Rebecca Hendrick  
Email: [hendrick@uic.edu](mailto:hendrick@uic.edu)  
Class time: Thursday, 6-9pm  
Location: 204 Taft Hall

Office: 134 CUPPA Hall  
Off. Phone: 355-0305  
Off. Hours: by appointment  
Hm Phone: 312/243-3970

This course introduces students to the concepts and practices associated with the financial management of public organizations and governments. Although this course will focus on local government, much of what will be covered here applies to state government as well. Also, the required text for the course covers financial management for health and non-profit organizations (there are only two good texts on public financial management). This information will be useful to some of you, but due to differences with public sector financial management (e.g. cash flows, some areas of accounting, and debt financing), we will not emphasize the material that is relevant to these sectors.

Financial management is a broad area covering many topics including budgeting, treasury and cash management, capital financing and debt management, accounting and financial reporting, management of retirement systems, purchasing, and risk management. Entire courses may be devoted to many of these topics, such as governmental accounting (PA 551) and capital budgeting (PA 552). Because of the breadth and depth of financial management, this class will only be able to introduce students to most subjects and focus on key issues and concepts. Also, because you have already taken the general budgeting course (PA 504) we will not spend much time on subjects covered in that course, but we will review some of this material.

The class will be a combination of discussion, lecture, and class exercises. Discussion will focus on those areas or subject matter that are less technical and on assigned case studies. Lectures will target the more technical and concept-heavy subject matter. Understanding much of this material requires that you also learn many new concepts and become proficient with the nomenclature of these areas. Please note that the required text has a glossary, and that some of the additional **required readings** include glossaries to assist you with this task.

Because of the primary assignment, I will be covering the material in this course in a different order than is presented in the required text. I will also be supplementing deficiencies in the text with additional required reading. The first part of the course will focus on financial accounting and control, financial reporting, and assessing government financial condition and costs. The second part of the course will focus on managing the resources and liabilities of the government in the long-run and short-run, including short-term resources (cash management), debt management, capital and long-term financial planning, internal controls, procurement, and risk management. I will not cover pensions or long-term investments.

## REQUIRED TEXT

Finkler, Steven A. 2010. *Financial Management for Public, Health, and Not-for-Profit Organizations*, 3rd edition (New Jersey: Pearson/Prentice Hall). ISBN 10: 0-13-609842-8  
Amazon used: \$132

## ADDITIONAL READINGS: sources for required and recommended readings

- Aronson, J. Richard and Eli Schwartz (eds.). 2004. *Management Policies in Local Government Finance*, 5<sup>th</sup> edition (Washington, DC: International City/County Manager's Association)
- Casey, Joseph P. and Michael J. Mucha (eds). 2007. *Capital Project Planning and Evaluation: Expanding the Role of the Finance Officer* (Chicago: Government Finance Officers Association)
- GFOA. 1998. *An Introduction to Treasury Management Practices* (Chicago: Government Finance Officer's Association)
- Groves, Sanford M. and Maureen G. Valente, revised by Karl Nollenberger. 2003. *Evaluating Financial condition: A Handbook for Local Government* (Washington, DC: International City Managers Association) We will be using most of this book, but due to its cost of \$87.00 I did not order this for the main assignment. Students who wish to purchase this book may do so from ICMA directly: 202/289-4262.
- Gauthier, Stephen J. 1996. *Evaluating Internal Controls* (Chicago: Government Finance Officers Association)
- Joseph, James C. 1994. *Debt Issuance and Management: A Guide for Smaller Governments* (Chicago: Government Finance Officers Association)
- Kavanagh, Shayne C. 2007. *Financing the Future: Long-Term Financial Planning for Local Government* (Chicago: Government Finance Officers Association)
- Michel, R. Gregory. 2004. *Cost Analysis and Activity-Based Costing for Government*, (Chicago, IL: Government Finance Officers Association).
- Miller, Girard (with M. Corrinne Larson and W. Paul Zorn). 1998. *Investing Public Funds*, 2<sup>nd</sup> edition (Chicago: Government Finance Officers Association)
- Tigue, Patricia. 1996. *Capital Improvement Programming: A Guide for Smaller Governments*, (Chicago, IL: Government Finance Officers Association)

## COURSE REQUIREMENTS

There are four course requirements as indicated below. The weighting of each of these requirements is also indicated.

### 1. Homework Assignments (50% of course grade)

There will be 10 weekly exercises or case analyses that you must complete and turn in for a grade. Each set of exercises or case analyses is worth 10 points. One point will be deducted for each day that the assignment is not turned in after the due date listed in the Course Outline. You are encouraged to use Excel to complete the assignment where appropriate.

## 2. Analysis of Financial Condition- group project (50% of course grade)

Groups of 3-4 students will evaluate a local government's financial condition using EXCEL, the ICMA Financial Trend Monitoring System, and at least four years of annual financial reports from the government. Each group will write a report that contains the graphs of trends and assessed the overall financial condition of the government. The Excel spreadsheets will be given to the government to allow them to add data to the spreadsheets in the future. Detailed instructions on this assignment are presented separately. I will assign students to groups.

## GRADING

Students' grades for each requirement will be based on the following point system.

1. Homework Assignments:	100 points
2. Financial Analysis:	100 points
TOTAL	200 POINTS

Final grades are based on total points received in the course and are not an average of the set of points. I also reserve the right to base final grades on a "curve" rather than using strict percentage ranges.

## COURSE POLICIES

### Original Work

The policy of this course is that papers and other submitted work must be original for each student. Because some activities related to the course involve working in groups, it is important to consider where individual work is required rather than group activity. Working together where it is clearly indicated is entirely appropriate, but if you are preparing a written product that will be submitted for evaluation, that product is expected to be the result of your work **alone**. Where questionable situations arise, always ask the instructor for clarification.

### The Learning Environment

I am committed to and **expect** to maintain a positive learning environment based on open communication, mutual respect, and non-discrimination. Our University does not discriminate on the basis of race, gender, age, disability, veteran status, religion, sexual orientation, color, or national origin. Any suggestions as to how to further such an environment will be appreciated and given serious consideration.

### Incompletes, late assignments, and extra work

I do not allow individual students to redo assignments or to do extra work (i.e. an additional paper) to improve their grade in the course. This is not fair to other students who are not given the same opportunity. Late assignments will be penalized unless the student has a legitimate excuse or crisis causing the delay in completing work (i.e. illness, family death). Also I will only grant incompletes to students who have legitimate excuses or crises and who make requests prior to the end of the course.

## **COURSE SUMMARY**

- 1) **1/13:** Introduction to course
- 2) **1/20:** Introduction to Financial Management and Review of Budgeting
- 3) **1/27:** The Balance Sheet and Governmental Accounting
- 4) **2/3:** Activity and Cash Flow Statements
- 5) **2/10:** Financial Statements
- 6) **2/17:** Analysis of Financial Condition
- 7) **2/24:** **No class: work on project**
- 8) **3/3:** Managing Short-Term Resources and Obligations
- 9) **3/10:** Accountability and Internal Controls
- 10) **3/17:** Understanding, Measuring, and Evaluating Costs
- 3/24:** **SPRING BREAK**
- 11) **3/31:** Long Term Financial Planning
- 12) **4/7:** Capital Budgeting and Financing
- 13) **4/14:** Debt Issuance and Management
- 14) **4/21:** Capital Project Planning and Evaluation
- 15) **4/28:** Risk Management and Procurement
- 16) **5/5:** **FINALS WEEK**, financial condition assignment due

## **Important Content Areas on Blackboard**

**Assigned Readings:** required and recommended readings not in the main text

**Case studies:** case study exercises

**Exercise answers:** answers to exercises (these will not be available until due date)

**Financial condition assignment:** project assignment and materials for the assignment including the readings

**Lectures:** lecture outlines and other materials presented in class (these will not be updated until day of class)

**Syllabus:**

## **COURSE OUTLINE**

1) **1/13: Introduction to course**

2) **1/20: Introduction to Financial Management and Review of Budgeting**

This material will provide the groundwork for the course with particular attention to local government. We will examine how financial management contributes directly to the basic functions of government, the objectives of financial management, key concepts and areas of financial management, and the context and environment within which financial management occurs. We will also review budgeting topics learned in PA 504.

**Required Readings:**

Finkler: chapters 1 - 3

Ruchelman: The Finance Function in Local Government (from Aronson & Schwartz)

3) **1/27: The Balance Sheet**

This material will review the unique aspects of governmental accounting in state and local governments and the components of the Annual Financial Report, some of which was covered in PA 504. This segment will also present the accounting function, accounting concepts, and the fundamental reporting frameworks of financial activity—the balance sheet and general ledger.

**Required Readings:**

Finkler: chapters 9

4) **2/3: Activity and Cash Flow Statements and Governmental Accounting**

This material will cover specific aspects of recording transactions and reporting financial activities and resource information for short-term and long-term perspective. This section will also revisit the balance sheet and general ledger for governmental accounting.

**Required Readings:**

Finkler: chapter 10 & 12

**Exercises 1 Due:** 9-26, 9-27, 9-28 (p. 362 Finkler)

5) **2/10: Financial Statements**

This material presents an overview of the end-of-the-year financial statements- called annual financial reports. These are the primary documents you will use to gather data for the financial condition project. Bring the financial statements for your group to examine in class.

**Required Readings:**

Finkler: chapter 13 and chapter 14 (up to page 535 only)

**Exercises 2 Due:** 12-4, 12-5 12-7; do 12-4 and 12-5 for general fund only

6) **2/17: Analysis of Financial Condition**

This material will introduce you to the indicators you will use for the financial condition project and the importance of ratios in assessing different aspects of financial condition.

**Required Readings:**

Finkler: chapter 14 (pp. 535 – end) and chapter 15

Groves et al: Overview of ICMA indicators

**Recommended Readings:**

Groves et al: remainder of readings for financial condition assignment

**Exercises:** apply the FTMS indicators to your government

7) **2/24: No class: meet with your groups to begin assignment**

8) **3/10: Managing Short-Term Resources and Obligations**

This material will cover cash / treasury and inventory management activities, including short-term investments and debt, and concepts such as cash budgets and accounts payable.

**Required Readings:**

Finkler: chapter 7

GFOA: Intro to Treasury Management Processes

**Recommended Readings**

Miller: chapters 2, 4, 6

**Exercises 3 Due:** 14-10

9) **3/3: Accountability and Internal Controls**

This material focuses on the procedures and systems governments can use to safeguard its resources and the meaning of accountability.

**Required Readings:**

Finkler: chapter 8

Gauthier: chapter 1 and Appendix

**Recommended Readings:**

Gauthier: All of book

**Exercises 4 Due:** 7-30, 7-31, 7-33 & Baldwin case exercise (on Blackboard)

10) **3/17: Understanding, Measuring, and Evaluating Costs**

This material will cover the methods and concepts that financial managers use to assess the costs of public goods and services. These tools are critical for establishing charges and contracts, and assessing productivity and other areas of financial performance.

**Required Readings:**

Finkler: chapter 4

**Recommended Readings:**

Michel, chapters 1 – 5 (not on Blackboard)

**Exercises 5 Due:** 8-25, 8-27, 8-28, 8-29, 13-8 (for general fund only)

**3/24: SPRING BREAK- no class**

**11) 3/31: Long Term Financial Planning**

Long-term financial planning is critical for strategic planning, capital planning, and helping government be more proactive in achieving its fiscal objectives.

**Required Readings:**

Kavanagh, chapters 1, 2, 5 & 10

**Case Studies:**

Kavanagh, chapter 4

**Exercises 6 Due:** 4-32, 4-51, 4-52, 4-54, 4-55

**12) 4/7: Capital Budgeting and Financing**

This section covers the procedures that governments use to plan for capital infrastructure and equipment, and the methods of financing these types of expenditures.

**Required Readings:**

Finkler: chapter 5 & 6

Joseph: chapters 1 – 4

**Recommended Readings**

Tigue: not on Blackboard

**Exercises 7 Due:** Case analysis- St. Louis County (on Blackboard)

**13) 4/14: Debt Issuance and Management**

Issuing and managing the debt once it is incurred is often a complex and confusing quagmire for public officials, especially if the government issues bonds. This section will review this process, define important concepts, and identify critical issues associated with this activity.

**Required Readings:**

Joseph: chapters 5 - 13

**Exercises 8 Due:** 5-20, 5-22, 5-24, 5-27, 5-32

**14) 4/21: Capital Project Planning and Evaluation**

Capital planning, financing, and budgeting are only the beginning of the capital development process. Now you have to follow through on the projects. This section covers planning, implementing, and evaluating capital projects.

**Required Readings:**

Casey: The Finance Officer's Role in Capital Projects (from Casey & Mucha)

Westerman & Casey: Cost Estimation and Budgeting (from Casey & Mucha)

Cutsogeorge & Black: Project Schedule and Oversight (from Casey & Mucha)

**Exercises 9 Due:** Clearview Township case analysis (I will pass out)

15) **4/28: Risk Management and Procurement**

This section covers two important but often overlooked areas of financial management. Risk management deals with procedures and systems for reducing government exposure to risks, including job safety and insurance. Procurement is about purchasing.

**Required Readings:**

Young & Reiss: Risk Management (from Aronson & Schwartz)

Thai: Procurement (from Aronson & Schwartz)

**Exercises 10 Due:** Capital project planning case analysis (on Blackboard)

16) **5/5: FINALS WEEK:**

**Financial Condition Analyses due**

**Exercises 11 Due (extra credit):** Lawrence County case exercise (problems 1-9 only) (on Blackboard)