

Financial Management

Presented in the Workshop on
“Good Governance (Office Management
and Financial management)”

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Financial Management

Definition of Financial Management

Financial management refers to the efficient and effective management of money (funds) in such a manner as to accomplish the objectives of the organization. [From Wikipedia](#)

"Financial management is that activity of management which is concerned with the planning, procuring and controlling of the financial resources. " [By Deepika & Maya Rani](#)

"Financial management is the application of the planning and control function to the finance function." – [by K.D. Willson](#)

[Profit maximization](#) happens when [marginal cost](#) is equal to [marginal revenue](#). This is the main objective of Financial Management.

Financial vs Fiscal Management

- For our purposes:
 - **fiscal management is limited to the management of the funds, etc. during the institution's twelve-month fiscal year**
 - **financial management includes fiscal management and goes beyond just a twelve-month period**

Organizational Accountability

Accountability is a managerial responsibility with managerial functions that include coordination among units, control mechanisms to manage inputs and outputs, and reporting the findings.

Organizational Accountability

Accountability is important because people are asking if the benefits of library services (or, for that matter education; city services; foreign policy) equals or exceeds its cost.

- tax payers want tax-supported institutions held more accountable for the funds, time and other resources allocated and expended.
- they want institutions to demonstrate their effectiveness through efficiency and quality.

Organizational Accountability

As library managers, we are accountable to:

- Academic Dean or an Academic Vice President or Provost
- they, in turn, to the institutional President
- President → Board of Trustees or Chancellor
- eventually, State Government (Dept. of Higher Education)
- eventually, the regional accrediting association. They, in turn, are responsible to the Council for Higher Education Accreditation.
- maybe (likely) one or more professional accrediting associations
- eventually, students and whoever is responsible for supporting their tuition. Could be a parent; could be the federal government.

Controlling

Controlling is the process whereby managers monitor and regulate how efficiently and effectively an organization and its members are performing the activities necessary to achieve organizational goals

Control is often used to coordinate the various organizational units

Budgeting

Budgets as a planning and controlling tool:

- in its simplest form, it is stated in terms of income and expenses
- it reflects the goals and objects of providing information services
- it is a political document, expressing policy decisions about priorities of programs
- are commitments with funding authorities for services and programs to be rendered, and facilitate the process of evaluating how successfully the programs and services are being provided

The control function of budgets is increasing as accountability needs increase

Finance and Budgets as Control

Budgeting

- think of budgets as spending plans rather than a “tool of constraint”
- an operating budget is a blueprint that states how managers intend to use organizational resources to achieve organizational goals efficiently
- budgets are more than numbers; they reflect the mission, goals, plans and intentions of your organization

Budget Cycle

Planning → Budget submission →
Budget allocation → Operations
(controls and reporting) → End-of-year
reporting → Auditing → Final internal
and external reports

Steps in the Budget/Funding Cycle

- First, a budget cycle is much longer than a fiscal year
 - fiscal year is 12 months; fiscal years do not run concurrently
- The budget cycle includes
 - preparation of the budget
 - its execution
 - and its auditing
- Oftentimes, three budget cycles are running concurrent. Shortest time period is usually 2 years

Steps in the Budget/Funding Cycle

- Guidelines issued from the parent to the library
 - the library must follow the budget system and budgeting cycle of the parent institution
- Preparation of the budget based upon categories being requested with justification for amounts (programs and services needed, how much, and why the program and service is needed for the requested dollar amount)
 - staff involved in the preparation, oftentimes representing the functional units of the organization chart
 - use planning document to budget by action plan → objective (program) → goal (bottom-up budgeting)
- Submission of the requested budget

Steps in the Budget/Funding Cycle

- Face-to-face review by the parent institution of the requested budget with the library explaining and defending identified programs and services, and the amount requested (marketing opportunity)
- Approval of the budget allocated and submission of that information to the library
- Appropriation of the budget during the fiscal year (all at once; monthly; etc.)

Steps in the Budget/Funding Cycle

- Execution of the budget through the fiscal year
- Reporting of the expenditures to the parent institution (may be done by the library or the institution's business office, or a combination)
- Financial and program audit of the expenditures to determine if the funds were actually expended as reported

Steps in the Budget/Funding Cycle

- Librarians are increasingly spending time on systematic budget review, analysis and evaluation to justify what has been expended, why, and as feedback to the planning (preparation) for the next budget cycle

Budget Information

- Where do we get costs and budget information?
 - Data produced internally, both current and historical
 - Information from vendors, such as inflation projections
 - Information from the professional associations and organizations, such as provided by *Bowker's Annual*

Sources of Funds

- Internal
 - the parent institution's general budget
 - departmental charges
 - fees
- Support to the library from the parent institution depends upon
 - its level of funding
 - its sources (taxed-based; tuition; grants; endowments; competing interests of other units in the institution).

Sources of Funds

- External
 - fundraising
 - inter-governmental support from various levels
 - private foundations or other philanthropic grants
 - from gifts or support groups (Friends or Associates)
 - from fines and fees (membership; reimbursement)

Budgets

- types of budgets
 - operational (income and expenses)
 - capital (extraordinary acquisitions or services with life spans of more than one year and in excess of a dollar amount set by the institution)

Lump Sum Budgets

- library receives a “lump” of funds from the institution
- ultimate flexibility – directors love this
- lacks specific relationships to the library’s goals and objectives
- can lead to financial mismanagement

Line-item Budgets

- most common form because of its simplicity
 - handout
- broad categories
- based upon historical information
- incremental
- critics claim that it is no longer effective, but it is actively used
- easy to prepare
- in many institutions, the bottom line is the most important; managers can unilaterally move allocations between categories without approval as long as the bottom line is not over-expended

Formula Budgets

- used primarily in large systems with branch or campus libraries
- assumes no changes in mission, goals and objectives
- usually determines what the library will get, but not how it is expended
- popular formula:
 - dollars per FTE student
 - % spent on materials out of total budget (public libraries)
- sometimes used for departmental collection resource allocations
 - handout

Program Budgeting

- establishes costs for programs, usually aligned with the strategic plan (Robinson & Robinson)
- programs
 - ILL
 - reference services
- the reality: we program budget, but implement by line-item because that is the way the business office handles expenditures and accounting controls

Performance Budgeting

- performance budgeting
 - funding is linked to outcomes
 - bases expenditures on performance of activities, emphasizing efficiency of operations
 - tasks over programs
 - measures quantity rather than quality; uses cost-benefit analysis

Zero-Based Budgeting (ZZB)

- requires organizations to review and to evaluate each of their service programs and activities on the basis of both output measures and costs.
- aligned with strategic plan and program objectives; forward looking rather than based on past performance
- resource needs are calculated for each program at what is needed, and then at a cut-off point that states: “if funds for this program is allocated at this level, it makes no sense to do this program.”
- essentially, once you get the funding allocated, fund the priorities starting at the highest until funds run out.

Cost Terminology: Direct Costs

- of a program are costs incurred for the sole benefit of the program
 - example of a direct cost = salary of a reference staffer

Cost Terminology: Indirect Costs

- indirect costs are costs incurred for the common benefit of two or more programs.
 - example of an indirect cost = salary of the library director

Cost Terminology: Overhead Costs

- are usually administered centrally by the parent and then assigned to the library based upon a formula, such as square feet.
 - insurance costs
 - utilities
 - maintenance

Cost Terminology: Fixed and Variable Costs

- fixed cost stays constant while volume increases or decreases
 - salaries
- variable costs fluctuate dependent upon volume
 - printing supplies

Costs Terminology

- Capital costs
 - acquire assets with a life cycle longer than one fiscal year
 - or, as determined by local policy (with the help of auditors)
 - budgeting for an upgrade/replacement for the integrated library system
 - the annual operating piece is the annual maintenance costs for upkeep of the system

Fund Raising

- Non-parental support is increasingly important because of the constraints on institutional sources.
 - Fundraising activity to enhance budgets is increasing; seeking budgetary support for special projects and capital needs.
 - Fundraising has its own political and public relations role.

Fund Raising

- make sure it is program-based
- do not ask for more than you can handle
- keep complete records of allocations, expenditures, and what you did with them
 - make sure they are auditable

Fund Raising

- report back to the funder when required
- publicize what you received and what good you were able to do with it
- failure to do what you said you would do, and/or mismanagement of funds, could end the funding and your career

Accountability for Funds: Reporting

- keeping accurate records of what has been disbursed, what has been encumbered, and the balance
- monthly reports (budget status reports) are usually forwarded to the library from the parent. Library managers need to reconcile this report with their internal reports.
- library internal reports are usually maintained on the library's integrated system, except for personnel costs.
- much of this is done through the library's business office operations which is an administrative unit, with accountants, HR specialists, and others.

Accountability for Funds: Audits

- most institutions conduct an annual financial audit of expenditures to verify that control mechanisms work, and that funds were allocated, expended and reported accurately.
 - program audit: funds actually expended on programs as planned and outcomes reported are factual.
 - in an institutional audit, the library is a program

Reports

- libraries report their information, internally and externally.
- internal institutional reports are usually factual based, identifying allocations (inputs), expenditures, and measures of outputs.
 - Example: spent \$100,000 for monographs. Bought 1,500 monographs.
 - The intent is to demonstrate efficiency and effectiveness of managing resources allocated to meet stated service objectives.

Reports

- external reporting is usually a public relations activity.
 - the purpose is to solicit support for causes set forth in the goals of the library.
 - shows effectiveness of how support received has been used to provide services.
 - it also tactfully requests continued or expanded support: “with support (usually funding), we can provide this program or service which we have identified as a critical need of our users.”

Standards and Guidelines

- no prescriptive standards and guidelines since the 1970s
 - use to be libraries were responsible for about 5% of the institutional expenditures
 - now, lucky to get 2%
- goal: spend more on collections than on staff

2009 - 2011

- budget requests are reduced and/or approved allocations are rescinded during fiscal year
- strategies: ensure that the library
 - provides important and valued services to its users (know your users' needs) (handout – Polk)
 - implements marketing strategies to inform users of services (let users know the library is meeting their needs, and how it is doing it) (handout – UC-SC)
 - is prepared with its own proposals for reductions (know your priorities) (handout - UC-SF)

Political Budget Strategies

- Washington Monument Strategy
 - Essentially this: if the funding is not there for a popular or mission critical program, it will not be undertaken.
 - used by the Clinton administration to close federal government when the Republican-controlled House would not pass budget authorizations. Clinton closed federal government monuments, among other services.
 - used by libraries all of the time: hours open is an example
- Squeaky Wheels
 - decisions are heavily influenced by those making the most complaints
- Program Accreditations
 - resources diverted to become, or maintain, accreditation status