
PUBLIC FINANCIAL MANAGEMENT

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INTRODUCTORY ESSAY

This syllabus introduces into the standard course outline for Public Financial Management (PFM), a service project component to support student-learning objectives. PFM courses traditionally focus on financial planning and accounting for public and nonprofit organizations. The service project component, a startup nonprofit organization, provides students structured and fully functioning context for the classwork and course material.

When previously teaching PFM, students expressed concern about the lack of hands-on experience presented through the classroom. This resonates since the course is on the management of public agencies and the class does not have access to the actual financial management system for a functioning agency. Smaller scale demonstrations may present a single transaction such as purchasing a vehicle and a breakdown of the allocation of assets, liabilities, and expenses necessary to depreciate a vehicle over five years. But without the overhead of an existing financial system, the example can seem hollow.

Presenting students with a hands-on learning activity can help them construct better mental models of the activity and encourages learning and inquiry. However, financial material can be ineffective if presented in the classroom using slides (Sugahara & Boland, 2007). Established organizations have complex finances that are difficult to work with. However, students can benefit from service experiences. Accordingly, the class will run a startup nonprofit during the course of the semester as a service activity.

In this course, the service project is structured differently from traditional service learning activities (Reinke, 2003). In a traditional service project, students participate in a service and through the service, acquire domain knowledge. The process of service learning focuses on learning through methods that cannot be gained in a traditional classroom (Cohen, Hatchett, & Eastridge, 2006). Learning is reinforced through the reflection process, a critical-thinking step where students evaluate service-learning experience (Jacoby, 1996).

In this course, students are encouraged to apply their classroom learning to a service project. Many service learning activities could be provided in the marketplace by a nonprofit organization. Accordingly, creating a nonprofit organization to provide a service project, an institutional home creates an opportunity to extend financial management for organization into a service project. An organization's startup process focuses on financial matters from strategic planning, to basic accounting, to filing a tax exemption form. These core financial management tasks align with the goals and objectives of the PFM course and the MPA program overall. Further, the skills developed are applicable to public, health care, and even private for-profit entities (Bryson & Alston, 2011; Swayne, Duncan, & Ginter, 2012; Pearce & Robinson, 2013).

The service project is structured within the main outline of the course. The weekly schedule includes tasks for starting the organization that derive from weekly course material and classwork. In addition to the

startup nonprofit assignment, the course includes two more traditional assignment types. Most weeks include a regular homework assignment of two to four assigned problems from the prior week's chapter. While textbook exercises are often contrived, these exercises present simple examples of the course material that is later applicable to the service project and thus, real world application, desired by students.

Finally, the course requires two memoranda. One focuses on analyzing the financial health of a municipal government and the second presents a critique of a nonprofit organization's financial statement. Selection of a government and nonprofit organization are left at the discretion of the student, while the two- to three-page limit on each is designed to encourage memoranda appropriate for a modern agency setting (Rich, 1981, p. 131).

Public Financial Management is delivered in person in a one, two and a half hour block every week over the course of the semester. In addition to Sakai, students participating in the nonprofit project are required to use Trello, the free online Kanban project management platform (Ahmad, Markkula, & Oivo, 2013). The Kanban method is a system that organizes tasks into categories based on state. A typical Kanban state list includes four states, "To Do," "Doing," "For Review," and "Done." Elements of a project are broken into discrete tasks and added to "To Do" and migrate to different states until "Done." This system formalizes to-do lists without the overhead of dependency and schedule management typically in more traditional project management regimes. Trello is used to guide the development of the nonprofit project. In addition, because the instructor manages the course itself in Trello, the project board for the class is also available to the students to promote transparency and understanding the Kanban method.

COURSE DETAILS, SETTING, AND ORGANIZATION

Public Financial Management (PFM) is a three-credit-hour graduate elective offered by the master of public administration (MPA) program in the College of Public Affairs (CPA) at the University of Baltimore. The MPA program is offered online and on-site and caters to adult and part-time learners. Students may mix and match courses between the two delivery methods. All courses are offered in the evenings and on weekends.

In addition to MPA students, the course is marketed to graduate students across CPA, which includes a doctor of public administration program, and master's programs in nonprofit management, health systems administration, and human systems administration programs. Programs in criminal justice, forensics, and security are also housed in CPA.

This syllabus is for a traditionally face-to-face delivered course. The course has no prerequisites, though a public budgeting course is a required core course of the MPA program is assumed to be taken previously. PFM is required for students completing the budgeting and fiscal administration track within the MPA program.

The course is an introduction to financial management for public agencies, nonprofit organizations, and health care institutions. While a course in public sector budgeting is required for MPA students, it need not be taken first and students coming from outside the MPA program may have no budgeting requirement. Accordingly, the course opens with a three-week introduction to budgeting. This introduction concentrates on the theory of budgeting and less on the mechanics, thereby keeping the material fresh for students with budgeting experience and focusing on the important pieces for students

without the background. The course then moves into cash and debt management and provides both short term and long-term financial planning options for organizations.

The second half of the course focuses on the accounting aspects of financial management opening with accountability, followed by reporting, and the structure of financial statements. During this second half of the semester, a week is devoted to local government financial management and a week is spent on nonprofit and health care organizations. Time allowing, the final week is a review of case studies presented in the textbook.

The MPA program tends to draw students from the Baltimore metropolitan region and many of the courses include a component focusing on the Baltimore area. In this class, that focus leads to a discussion of the specific financial situation of Baltimore and surrounding governments, the tax policies of the state of Maryland, and discussion of how the region's proximity to Washington, D.C., affects financial management.

SYLLABUS

INTRODUCTION

Public financial management is the study of a governmental, non-profit, or health-care organization's financial management planning, practices, and condition affect the organization. Almost all organizations, be they public or private, require money to operate. Money pays for staff, supplies, events, and facilities. Understanding how we spend money will help the organizations we support succeed, regardless of our role in the organization.

In this class, we will consider financial management from the role of the public manager. As managers, we have the critical role of implementing the policies decided by executives, legislatures, and sometimes the courts. These policy decisions usually come with funding attached, but sometimes they do not. Further, we have the role of supporting future decision-making based on our analysis of how previous decisions fared. Frequently, this analysis will involve a large financial component.

This course is divided into two halves. The first half, covering financial planning, includes a substantial budgetary component, but the budgetary component is used for year-over-year understanding of the larger financial picture. We will consider the role of grants, taxes, and user fees and how they affect the services our organization provides. We will also develop models for predicting future revenue and spending, giving the budget analysts a framework for long-term planning. Finally, in the first half, we will develop the links between the financial planning process and the strategic planning process.

The second half of the course is dedicated to financial reporting. This will include an overview of basic accounting practices. Following the overview, we will learn how to interpret and write basic financial statements such as income statements and balance sheets. We will also learn how to assess the financial condition of an organization from these documents, and predict future performance.

Students, regardless of their specialization, benefit from this information because, increasingly, programs, departments, and agencies are evaluated based on their financial performance and how much they can do with the resources they are given. Further, given the central role of funding in all organizational tasks,

understanding how accountants, auditors, and the general public will view the finances benefits the public manager. Finally, with this information, public managers can plan for long-term success, even in era of decreasing resources.

Overall, this course focuses on governmental finances, especially with analysis of taxation. When appropriate, we will also look at the financial management of nonprofit organizations and health care organizations. Both types of organizations are intimately tied to governmental management and there is a substantial overlap in both theory and practice. We will explore this through a group project that builds a nonprofit organization from the ground up to better understand the role of financial management in organizational management.

COURSE DESCRIPTION

Topics include municipal expenditure patterns and revenue sources, taxation at the local level, fiscal and economic aspects of federalism and federal-state-local fiscal coordination, and the role of budget in the determination of policy, in administrative integration and in influencing government operations. There is an emphasis on the foregoing as they pertain to the Baltimore metropolitan area.

COURSE OBJECTIVES

At the end of this course, a student should have a strong understanding of public financial management and be prepared to work directly with accountants, auditors, and other financial professionals in public or third sector organization. Specifically, a student should be able to:

- Implement a financial management plan for an organization or agency,
- Create a set of financial controls for accountability,
- Link the financial management structure to the strategic plan,
- Predict long term revenue and expense requirements, and
- Present basic financial reports on program activities for management.

COURSE MATERIALS

TEXTBOOK

Finkler, S. A., Calabrese, T., Purtell, R., & Smith, D. L. (2012). *Financial Management for public, health, and not-for-profit organizations* (4th ed.). Prentice Hall.

ADDITIONAL READINGS ON RESERVE

Hendrick, R. (2006). The role of slack in local government finances. *Public Budgeting & Finance*, 26(1), 14-46.

Hildreth, B. W. & Miller, G. J. (2002). Debt and the local economy: problems in benchmarking local government debt affordability. *Public Budgeting & Finance*, 22(4), 99-113.

Hughes, J. (2007). Local government internal controls to ensure efficiency and integrity. In A. Shah (Ed.), *Local public financial management* (Chap. 5, pp. 157-191). Public Sector Governance and Accountability Series. Washington: The World Bank.

Larson, C. M. (2007). Local government cash management. In A. Shah (Ed.), *Local public financial management* (Chap. 2, pp. 33-68). Public Sector Governance and Accountability Series. Washington: The World Bank.

Mullins, D. R. (2007). Local Budget Process. In A. Shah (Ed.), *Local budgeting* (Chap. 8, pp. 213-267). Public Sector Governance and Accountability Series. Washington: The World Bank.

Vogt, J. A. (2007). Local capital budgeting. In A. Shah (Ed.), *Local budgeting* (Chap. 10, pp. 307-360). Public Sector Governance and Accountability Series. Washington: The World Bank.

COURSE REQUIREMENTS

COURSE ASSIGNMENTS

There will be homework assignments for each week. These assignments can be turned in via PDF, Word, Excel, or on paper. These assignments are due on the dates listed on the schedule and will not be accepted late except under unusual circumstances. There are 11 homework assignments and they are each worth 4 percent of the final course grade. Collectively, they comprise 44 percent of the course grade. Each will consist of a number of problems of equal weight and will be graded on the 12-point scale presented in **TABLE 1**. The points for each grading category are summed and final grade taken as the percentage of points received divided by the total possible points.

MEMORANDA

There are two memoranda to be written for this class. The memo will be graded on four key domains, outlined in **Table 1**. The points for each grading category are summed and final grade taken as the percentage of points received divided by the total possible points. Each memo will be worth 14 percent of the final course grade.

For the first memorandum, you will select a city or local government, and write a memorandum assessing the government's fiscal condition. To begin, you will identify a city or county government, in any state, and locate a copy of its Comprehensive Annual Financial Report. This report typically contains the

TABLE 1. PRIMARY GRADING RUBRIC

consolidated statements of the government and many breakdowns of income, expenses, and other accounting categories. In addition, these reports often include comparisons of the current year to the last two or three years. For this memorandum, you are to calculate appropriate solvency ratios to assess the financial condition of the local government. Additional ratios can be calculated, at your discretion. Based on these ratios, and any other information included in the report, you will write a memorandum of two to three pages that assesses the financial health of the government. This memorandum should include the current condition, how that condition has changed since previous years, and any future predictions you are able to make. Your memorandum should also include, in the assessment a definitive statement of whether the government is financially health or not supported by appropriate analysis.

Some organizations use the annual report as a showcase for their current position beyond the basic financial statement. Some organizations have relegated actual financial statements to other documents and only leave a high-level financial statement or none at all in the annual report. For the second memorandum, you will select a nonprofit organization and write a memorandum of two to three pages critiquing its annual report. This memorandum will not address the contents, but rather its presentation,

Category	0 points	1 point	2 points	3 points
Claims	None made	Claims are made, but not directly relevant	Claims are clear and relevant	Claims are correct and support the response
Evidence	None given	Evidence is given, but does not support the claim	Evidence is given and relevant to the claim	Evidence directly supports the claim
Clarity	Response is off-topic	Response is on-point, but unclear and not well organized	Response is clear, but occasionally misses key details or lacks organization	Response is well organized and well-thought-out
Mechanics	Response is not understandable	Response contains errors in spelling or grammar that do hamper readability	Response contains errors in spelling or grammar that do not hamper readability	Response is relatively free of spelling and grammar errors

including any recommendations included. You will analyze the presentation and the usefulness of the information provided within the report for assessing the organization's financial status. Your memorandum should include this assessment and any appropriate recommendations that would make the report more useful to someone interested in the financial health of the organization. Both the assessment and recommendations should be supported by relevant details and potential applications to the organization.

CLASS PROJECT

Finally, there is a group project in this course. For the group project, together, we will launch a new nonprofit organization. During this process, we will focus on the technical financial administration of the organization. At the same time, our goal is to have a functioning organization at the end of the semester. Each student will take a different lead role in the organization at different times during the semester and

lead the class through establishing that component of the organization's startup. The high-level tasks are outlined on the weekly task list, but additional tasks of varying sizes will be necessary and may come up unexpectedly. We will use a computer-based project management tool to ensure all core tasks are completed.

This project is a nontraditional service project. In many courses that incorporate a service project, accomplishing the objective of the project contributes to the learning experience. This course is different in that we learn about the administrative infrastructure of organizations. Therefore, accomplishing the service project's objective is ancillary to the overall goal of the service project. The learning experience comes from getting to the point of the service project. As a result, selecting a service project is left at the discretion of the participating members and should be interesting and motivational to them to encourage the service project's goals. Successful completion of the service project is getting to the point of activity, not completing activity. Beyond the course, students are encouraged to continue the project after the end of the class session, having developed a new suite of tools for achieving their goals.

The project also will involve a substantial commitment of time from participating members. Accordingly, students who do elect to participate in the project are expected to work diligently and professionally with their fellow students to accomplish the goals of the project. This means meeting deadlines, communicating with fellow students in a respectful manner, and working together to achieve the service project's objectives. Students may also be expected to work with third parties, such as independent people, government agencies, or other nonprofits. While students will not be representing the university

Points	Explanation
0	No work done to advance the organization
1	Student contributed to class discussions on the organization but did not engage in any outside work on the organization
2	Student completed one or two smaller tasks on the organization but did not lead any component of the startup process
3	Student led a component of the startup process and completed numerous smaller tasks during the organization opening

TABLE 2. PROJECT GRADING RUBRIC

in these interactions, students should remember how they conduct themselves will reflect not just on the class, but the university as a whole.

For the project, individual grades will be based on contributions to the startup process as outlined in **Table 2**. The project will be 28 percent of the final grade.

TENTATIVE SCHEDULE

Week 1 Introduction and Foundations of Public Finance

- Finkler, Calabrese, Purtell, and Smith (2012), Chapter 1
- Objectives:
 - Explain the goals of financial management
 - Understand the differences between for-profit and nonprofit organizations
 - Understand how government funds itself
 - Explain the role of profits in different organizational types
- Nonprofit startup:
 - Initial discussion and explanation of the project

Week 2 Budget Theory

- Finkler et al. (2012), Chapters 2 and 3
- Mullins (2007)
- Objectives:
 - Differentiate between a vision statement and mission statement
 - Explain the role of the mission statement in budgeting
 - List and explain the differences among different budgeting techniques
 - Understand the differences between program and functional budgets
- Nonprofit startup:
 - Identification of purpose
 - Decide a name for the organization

Week 3 Costs and Expenditures

- Finkler et al. (2012), Chapter 4
- Homework due: problems 2-26, 2-31, 3-26
- Objectives:
 - Understand fixed and variable costs
 - Conduct a breakeven analysis
 - Allocate costs using different methods
- Nonprofit startup:
 - Develop a mission statement and vision statement
 - Create the outline of the strategic plan

Week 4 Capital Budgeting

- Finkler et al. (2012), Chapter 5
- Vogt (2007)

- Homework due: problems 4-34, 4-43
- Objectives:
 - Explain why capital budgets are separate from operating budgets
 - Calculate the time value of money over different periods
 - Analyze programs from a cost-benefit perspective
- Nonprofit startup:
 - Develop a list of costs to execute the mission
 - Outline a basic budget of the organization

Week 5 Cash Management

- Finkler et al. (2012), Chapter 7
- Larson (2007)
- Hendrick (2006)
- Homework due: problems 5-28, 5-33, 5-37
- Objectives:
 - Create a cash management plan
 - Evaluate marketable securities, accounts receivable, and inventory
 - Distinguish short-term obligations from long-term obligations
- Nonprofit startup:
 - Create a capital budget for the organization

Week 6 Long-Term Financing

- Finkler et al. (2012), Chapter 6
- Homework due: problems 7-30, 7-31, 7-32
- Objectives:
 - Calculate retained earnings and increase in net assets
 - Develop strategies for debt versus capital financing
 - Recommend financing strategies for different conditions
- Nonprofit startup:
 - Develop an asset management plan for the organization

Week 7 Debt Management

- Finkler et al. (2012), Chapter 16
- Hildreth and Miller (2002)
- Homework due: problems 6-16, 6-18
- Objectives:
 - Develop a debt management plan for long-term financing
 - Recommend analysis ratio for different analyses
- Nonprofit startup:
 - Create a capital financing plan for the organization

Week 8 Accountability

- Finkler et al. (2012), Chapter 8
- Hughes (2007)
- Homework due: problems 16-10, 16-11, 16-12, 16-13
- Objectives:
 - Detect and explain budgetary variances
 - Implement fiscal controls for an organization
- Nonprofit startup:
 - Fill out a draft IRS Form 1024 for tax exemption

Week 9 Local Government Reporting

- Finkler et al. (2012), Chapter 13
- Hughes (2007)
- Homework due: problems 8-28, 8-30
- Objectives:
 - Show how local governments use fund accounting and why
 - Record elementary transactions using the cash, accrual, and modified accrual methods
- Nonprofit startup:
 - Create a financial management controls for the organization

Week 10 Accounting Processes

- Finkler et al. (2012), Chapter 14
- Homework due: problems 13-4
- Objectives:
 - Explain why governments use financial reporting
 - Recommend which type of financial report to use for different circumstances
 - Interpret and analyze the different sections of financial reports
- Nonprofit startup:
 - Develop any additional funds necessary to provide improved accounting

Week 11 Balance Sheets

- Finkler et al. (2012), Chapter 10
- Homework due: Memo on a Local Government Fiscal Condition
- Objectives:
 - Use assets, liabilities, and equity to draft a balance sheet

- Properly record assets and liabilities
- Record a transaction on the general ledger
- Nonprofit startup:
 - Create a tree of accounts for the organization

Week 12 Cash Flows

- Finkler et al. (2012), Chapter 11
- Homework due: problems 10-23, 10-24
- Objectives:
 - Describe income and expenses
 - Show how the activity statement relates to the balance sheet
 - Record income and expense transactions
- Nonprofit startup:
 - Create the balance sheet for the first quarter of operations

Week 13 Health Care and Nonprofit Organizations

- Finkler et al. (2012), Chapter 12
- Homework due: problems 11-14, 11-17
- Objectives:
 - Describe how government is different from other public organizations, financially
 - Calculate the depreciation table for a piece of equipment
 - Record donated goods and services
 - File an unrelated business income tax statement when necessary
- Nonprofit startup:
 - Create the statement of activity for the first quarter of operations

Week 14 Financial Statements

- Finkler et al. (2012), Chapter 15
- Homework due: problems 12-15, 12-17
- Objectives:
 - Create a financial analysis based on the balance sheet, income, and other financial statements
 - Interpret the notes accompanying financial statements
- Nonprofit startup:
 - Create a long-term funding plan for the organization

Week 15 Case Studies

- Finkler et al. (2012), Chapter 9
- Homework due: Memo on a Nonprofit Annual Report

- Objectives:
 - Review a financial management case study
- Nonprofit startup:
 - Decide on the future of the organization

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