

IS 594 FMO
Fall 2020

What is wrong with each of the following quotes? Each is a direct quotation from published texts about library financial management. In my opinion, each quote has misleading, confusing, or just plain incorrect language in one or more places. Explain what is wrong, suspect, or misleading about each.

- A. "Most [library] organizations employ either a cash or accrual accounting system. Unfortunately for most government-funded information services, the system is the cash basis. A cash system does *not* allow one to carry forward unexpended funds..." (*Management Basics for Information Professionals*, by G. Edward Evans and Patricia Layzell Ward, 2nd edition p. 425-426)
According to GAAP, the cash basis of accounting cannot be used for governmental, for-profit, or nonprofit financial statements. Rather, libraries typically use the modified accrual basis and the accrual bases to determine when revenues/expenses are recorded. In the accrual system, at the end of a given period recorded, any unexpended funds would have been closed out of temporary accounts and transferred to net asset accounts.
- B. "There are similarities between fund accounting and profit-motivated accounting systems in terms of activities, terminology, and qualitative objectives. However, profit enterprises use a single-entry focus while fund accounting usually involves many fragmented financial reports. Such reports focus on separate individual funds and the flow of liquid assets, rather than income." (*Management Basics for Information Professionals*, by G. Edward Evans and Patricia Layzell Ward, 2nd edition p. 441)
Fund accounting includes *both* revenues and expenditures for specific areas or different types of materials; it is self-balancing by definition.
- C. "The library's capital assets, or fixed assets, are those items it owns (i.e. its property). Examples of a library's assets are the buildings, furnishings, book collection, and bookmobile. Long-term assets may be depreciated or appreciated as their value decreases or grows. For example, the value of a book collection may appreciate with age as the average cost per volume increases. The value of a bookmobile or of library furnishings will depreciate with age as the asset gets older and becomes worth less on the market." (Arlita W. Hallam and Teresa R. Dalston. *Managing Budgets and Finances: A How-to-Do-It Manual for Librarians and Information Professionals*, p. 24)
According to Chapter 19, note 3: In general, the value of the book collection would not appreciate. Since 2000, under GAAP, the books' "expected useful life" would be determined (for a period such as 10 years), and over that time the book collection's value as capital assets would *depreciate* in value. At the end of the books' useful-life term the books would be removed from financial

statements. However, rare-book collections are an exception due to the fact that their useful life is more comparable to “museum-like artifacts”; their value on the financial statements is based on their “estimated market value,” and thus may appreciate over time.

- D. “You will also see the term *asset* on a library’s financial balance sheet. In this case, an asset refers to revenues, or income, not to long-term fixed assets, such as those listed above.” (Arlita W. Hallam and Teresa R. Dalston. *Managing Budgets and Finances: A How-to-Do-It Manual for Librarians and Information Professionals*, p. 24)

The Assets recorded on the Balance Sheet would include current *and* non-current assets. Assets refer to the resources owned or managed by the library and are recorded on the Balance Sheet, Revenue describes the inflow of resources that are entering the organization and are recorded on the Statement of Activities; They are not the same thing.

- E. “Income is the actual money coming into the library, through fines, tax receipts, donations, nonresident cards, photocopier charges, or any other source. It is counted as income after it is received.” (Arlita W. Hallam and Teresa R. Dalston. *Managing Budgets and Finances: A How-to-Do-It Manual for Librarians and Information Professionals*, p. 24)

In both the modified-accrual and accrual bases of accounting (which are the bases used by libraries), revenue is recorded wither when it is earned and available (modified) or when it is simply earned. Neither bases records revenue when it is received.

Section 3 (10 points)

Imagine you are an administrator who supervises several department managers in a university library. Craft a policy for the library’s manual about staying within the allocated budget for student wages. More information and advice follow.

In monitoring library student wage budgets at your university, you notice some managers either consistently overspend or underspend. These two groups have tended to balance each other out. Still, you would prefer that everyone get closer to the target. Write up a new policy and procedure document that will help these managers understand your expectations. To assist you, here is a list of questions your policy should answer:

- What does “staying within the budget” mean exactly? (It is virtually impossible to hit a budget to the dollar, so what kind of leeway are you affording?)
- Who is responsible for monitoring the budget? How?
- What is the reporting process if a budget manager is concerned about future spending issues? Or reporting “all good” for that matter?

- What are the consequences for missing the budget target?
A budget is a tool that helps plan for future spending. The budget defines goals and objectives that an organization plans to accomplish. Since a budget is prepared based on past financial information, estimations of past and present information, and forecasting of future spending; Because forecasting is not based on actual numbers, some budget variances are bound to occur. A consistent failure to “stay within budget” may mean that there is inadequate funding, that funds have been misallocated, or that the staff has not been trained properly. One principle used to counter this tendency is to build in “error protection countermeasures” that overestimate expenses and underestimating revenues.

Responsibility-centered budgeting can be used to place the responsibilities for budget management within each direct unit (in this case, each student-worker manager). Managers should have adequate knowledge of fiscal responsibility, the organization’s expectations and goals, and any incentives/penalties that may occur in the case of mis-management. Managers may be rewarded for their fiscal responsibility by providing new incentives that may be funded by surplus funds, and through allowing funds to roll-over into the next year (and thus encourage savings).

Budgets should be monitored (by the student-worker manager) according to monthly measurements via budget-monitoring reports. Budgets should be divided into meaningful segments (such as, for summer break, student-worker spending will probably be budgeted for less expenses) that can show the budget status/progress at periods throughout the year. Variances (between the expected values and the actual values) can help departments understand if they are on budget, or (in the case that they are off) how far off of budget they are. Managers should provide narratives explaining variations. At this point, budgets may be adjusted to reset goals. Such monitoring should also be done in communication with the cost-center manager, and potentially the director and board. When a budget begins to “slip” guidelines (developed by a committee with policy-making roles) should be in place that will prevent the potential for significant damage to the organization’s assets. These may include contingency plans controls such as using an encumbrance system, or setting up automatic denials of expenditures (that pends on higher management approval) when a certain threshold has been reached.

Section 4 (10 points)

Activity-based costing is being used in public libraries for several legitimate reasons, not the least of which is that municipalities are using it for financial decision-making. Discuss:

- A. the value/purpose of using activity-based costing (2 points)

Activity-based accounting is a method of cost accounting that can be used to achieve greater accuracy in accounting for costs. Rather than focusing only on budgets (in isolation), this method also includes long-term indirect costs, evaluates what the activity-cost drivers are, and considers more wholistic environment that the activity occurs within. Thus, it is more useful than traditional cost accounting methods in acquiring valuable information needed to make financial management decisions and ensuring that resources are allocated in ways that add value.

- B. the steps involved in activity-based costing. Include an explanation of what the step entails. (5 points)
- First, the workflow process of an activity should be defined. What resources does it use and how? (For this response, include documentations of measurements, interview the direct workers and managers involved.) What are its goals, or outputs, or outcomes? Is there any form of monitoring or quality-control overseeing these activities? How do these outputs relate to the organization's mission?
 - Second, you must identify the current and projected costs affiliated with this activity. Are these costs fixed, variable, or mixed costs? This process will allow you to create an activity-based cost pool which includes details of what an activity's long-term costs are across the entire organization.
 - Ask if this activity will continue in the future. Is this activity part of the organization's long-term strategic plan?
 - Then ask how the activity benefits the organization. What would be the disadvantage be if this activity no longer existed? If parts of the activity (or the whole activity) were cut out of services offered, how might the library as a whole organization be affected? What other activities would be impacted? Would the costs of the library or the patron be affected (would they increase)?
 - Finally, suggest workflow or process changes that would enhance efficiency and value. Eliminate non-value-adding activities.
- C. how you would use the information obtained in an activity-based costing analysis and the caveats you would give to anyone using this type of analysis. (3 points)
- The information gleaned through this method are used to make informed financial decisions, that consider how possible choices will impact the entire organization. The main caveat is that this method may take a long time and be expensive, the director would need to decide if this process will provide enough benefits or savings to support its costs.

Section 5 (10 points)

This is a differential cost exercise. You will be asked to determine the cost of each option and discuss other factors in considering which alternative to choose.

Your academic library has a large backlog of 2,626 uncatalogued titles written in the Azeri language that must be cataloged. This Azeri collection is respectable, and there are 2 or 3 scholars who are still active in the area and use the volumes regularly. About 40 additional titles are bought each year, so the backlog is growing. You no longer have someone who can read and catalog Azeri. You have come up with two possible ways to get the backlog cataloged.

The first is to directly hire a cataloger on contract who knows Azeri to catalog the volumes. You are not sure how efficient this is because you will have to advertise regionally for such a person, but you estimate that they could catalog the backlog in 14 months or so. Some of the material is already cataloged on OCLC, but some of the books will require original cataloging. The temporary cataloger would have an annual salary of \$54,000 plus benefits equal to 23% of their salary. A contract for a temporary cataloger can be for as many months as you wish.

The second way is to contract with a cataloging outsourcing company that has an excellent reputation in the field and claims that they can catalog Azeri materials. The cataloging outsourcing company would charge \$30 for cataloging each title, which includes all costs for providing a shelf-ready book.

Answer the following questions.

- A. Determine the costs to catalog just the backlog of 2,626 titles for each alternative. Ignore any present value calculations that you might have considered for this question (i.e. don't worry about inflation or salary increases). Allied costs can also be ignored here. Provide these costs in a table that enables easy comparison between the two. (4 points)

	tempStaff	outsource
per book	29.5	30
total 14mo project	77490	78780

- B. How will you ensure that the cataloging meets your library's standards, for whichever alternative is chosen? (3 points)
- It sounds like the main concern is the quality of the cataloging. To assure quality control, the head of technical services should train the staff in any localized concerns and monitor the work (give feedback and offer advice for improvements). This monitoring and evaluation could be performed as a random survey, with more frequent evaluations at the beginning of the project and gradually less as the new staff gains more accuracy and consistency in their work. Since no one in the library catalogues Azeri, if you have chosen to hire a temporary staff, you may have to also ask someone (such as an outside volunteer consultant) to provide feedback assessing the work's output—this

would assure that the volumes will be accessible to researchers given the subject headings used, etc.

- C. Choose which alternative you think is best, taking into consideration not only the cost but other factors that you should use to make the decision. Describe your reasoning and rationale. (3 points)

The differential costs between the two options are very comparable. The leading risk of outsourcing is a lack of quality control that the library is able to assure. Yet, the lack of anyone on staff to be able to read Azeri also poses a quality-control risk that is larger than just the cataloguing issue at hand. (Who is qualified to supervise either cataloguers' work? Who is qualified to make new acquisition decisions? How are reference services offered for this collection?) If the Azeri collection is an important part of the library's mission and service-offerings, the library needs to invest in a full-time staff member who has some knowledge of this collection. If it is not, perhaps another nearby library would be more suited to stewarding this collection.

To refocus on the question at hand, and offer an immediate recommendation, I would choose to hire a temporary staff member who can catalogue Azeri materials, yet with a long-term strategy: I would choose someone with a wide-range of useful skills. After the backlog project is complete, I would transition the staff member into another position that serves the library more holistically, yet retain their professional services for the Azeri collection as needed.

Section 6 (10 points)

When an employee resigns or retires from your library, they are paid for any unused vacation days. Your municipality does not periodically calculate the liability for unused vacation days of library employees. As a result, this liability does not appear anywhere in the Financial Statements.

1. Provide the business manager of the municipality reasons why doing this is not a good idea, not only practically, but from an accounting perspective. Your answer should be in the form of a written memo to the business manager. (5 points)

This is really irresponsible, with the sort of automated services offered today this liability should be automatically calculated and always included in financial statements. The major risk that we have here is not knowing how much unused vacation days are pending payment, and thus how much of our assets need to be restricted to pay these benefits as they become due. Depending on how many employees the library has, and if unused vacation days may accrue, this could be a very sizable amount. Does the library have these funds available, even... are we sure?

This is both a risk to the financial security, and potentially a legal and humanity issue (regarding the contract that the employee had entered). As Berger describes: "If the supervisor or, for all intents and purposes, a financial

manager at the basic level fails to do what is required in ensuring accurate reporting of hours worked, monitoring vacation and sick leave, or managing other information, that is malfesance because that supervisor is failing to safeguard the library's assets: cash to pay the employee." (p. 317)

2. If you did assume this liability, would it appear on the General Fund balance sheet or the Government Wide Statement of Net Position, or both? Why does it appear where it does? What rule(s) dictate this? (5 points)

Vacation days are reported as a personnel cost/liability, and would appear (or at least be accounted for) in both the Gov.-wide Statement and the Gov.-funds Statement. This is an indirect personnel cost. Any vacation day payments that have become due in the current fiscal year would be reported as a Current Liability (e.g. "employee benefits") on both the Gov.-funds Statement *and* Gov.-wide Statement, whilst expected future payments would be reported as a Non-current Liability (e.g., "compensated absences") on the Gov.-wide Statement.

For example, on the Charlevoix Public Library financial statements that we examined in class, "Compensated absences are reported on the accrual method in the Statement of Activities and recorded as an expenditure only when financial resources are used in the governmental funds." And later: "A liability for these amounts is reported in the government wide financial statements; however, a liability is only recorded in the government fund financial statements if they have matured, for example, as a result of employee resignations or retirements."

For both of these answers a response of approximately 200 words is expected. One or two sentences will not be sufficient to receive full credit.

Section 8 (5 points)

In a brief essay about 250-300 words, explain why knowing about financial management is important to your goals, even if you are not a "numbers person".

Presumably you decided to go into library and information science work for more than just a job. Those reasons differ with each one of us. For many of us it has something to do with the creation and maintenance of a civil society, or with education of children and youth, or with some aspect of social justice, among other reasons. The fact that you enrolled in this course on financial management may a bit incongruous with those goals and aspirations. After all, what do accounting, budgeting, and financial statements have to do with those more humane goals? (*Tip: when you are writing this essay, imagine you are addressing it to a friend, loved one, or fellow student who has wondered at your choice.*)

During the first week of class, I pulled this quote from our readings: "Clearly the cost of financial illiteracy is a social problem which is likely to devolve not only to the least capable individuals, but to society as a whole. As the President Obama's Advisory

Council on Financial Literacy recently stated: ‘While the crisis has many causes, it is undeniable that financial illiteracy is one of the root causes... Sadly, far too many Americans do not have the basic financial skills necessary to develop and maintain a budget, to understand credit, to understand investment vehicles, or to take advantage of our banking system. It is essential to provide basic financial education that allows people to better navigate an economic crisis such as this one.’ Enhancing financial literacy is crucial to successful retirement, particularly among the most financially vulnerable.” This quote as well as the National Financial Capability Study quiz have functioned to center my goals and intentions with this course.

It is difficult, from a place within the economic crisis during the COVID-19 pandemic to not see just to what extent financial literacy is a social-justice issue: Bail outs for private businesses are confronted with comparative requests for student-debt relief and assertive conversations about universal income and minimum wage protections; protests to defund the police and increase public-health services are confronted with wide-spread monitoring of our city’s Comprehensive Annual Financial Report are going to police services (and their court fees/settlements); we have seen our entire network of Arts and Culture organizations and programs crumble due to aggressive cuts to public fund and obese mis-management of funds by private businesses; Unemployment claims are at 853,000 as of Dec. 10, 2020 (actual unemployment is higher than this, but many unemployed persons have used up their allotted access to benefits and can no longer file claims). Without an understanding of financial information, we can’t see where this money is going, we can’t document audit and document malicious activities and we can’t fight against such mis-management in useful ways, we become powerless ...we don’t even know what questions to ask, and the pressure of finances weighs upon us to such degree that we are psychologically forced to look away and exercise benign neglect in order to preserve sanity.

Financial management information is a powerful tool that individuals need access to, and to learn how to manage—not just so that they can evade overdraft fees from their bank, but to enhance the demand for financial responsibility from our businesses and elected officials. As I used to say to the administrative professionals that I went to school with: financial management isn’t just about how well one can spend money from their parents’ bank account; It’s about being able to manage income and resources, enhance value and opportunities (not only among business enterprises, but human and environment values as well), make informed decisions, and to be accountable for those checks.

Section 9 (10 points)

From your reading of the book by Huff and material discussed in class, assess the quality of the reasoning behind the following statements. The first two items only require a brief explanation. The third item requires a more extended exposition.

- A. The mean price of journals has risen 9% each year over the past 10 years. (This % is based on the entire population of academic journals, not a sample.)

Therefore, in projecting next year's price increases, we should forecast a 9% increase. (2 points)

Forecasting is used to determine a future value, that is currently unknown. In this case, the idea that the journal increase will rise by the same % that it has in the future is a prediction that the situation will the future will follow patterns that we can observe taking place in the past. But this is not true. The mean of 9% can be defined as the arithmetic average of all 10 years, some years were higher percentages, and other years were lower percentages. Knowing each of these years' percentages would help us forecast a more accurate number: These numbers could actually be rising each year, and thus the pattern is concealed within the quick figure of 9%.

- B. We need to find out the turnaround time from the instant we order a book from Yankee Book Peddler (YBP) to receipt of the item in our library. We will then decide, based on the result, whether to retain YBP as our vendor. We are not going to tell them about this test, which will include all items that we order in September. (2 points)

There are other factors that should be considered: the accuracy of the order, the condition of the item upon receipt, the quality of the item. In the print production world we have a truism: "you have quality, speed, or price...pick 2." Each of these issues should be addressed in whether to retain a vendor or not. Additionally, there may be some temporary issue that effects the speed of the order to arrive (that have nothing to do with YBP: such as if USPS is has recently been poorly restructured and simultaneously experiencing a significant decrease of staff due to COVID and the entire system is slower than usual. While measuring the time it takes between ordering a book and receiving it may tell you one piece of information, it is unlikely to expose the whole picture.

- C. The following quote is taken from ARL instructions on recording statistics dealing with information literacy. Imagine your library has several separate departments with several staff in each. Discuss whether or not these instructions adequately ensure that all the people in your departments will collect the statistics in a valid, reliable, and comparable way.

ARL instructions: "**Presentations to Groups.** Report the total number of sessions during the year of presentations made as part of formal bibliographic instruction programs and through other planned class presentations, orientation sessions, and tours. If the library sponsors multi-session or credit courses that meet several times over the course of a semester, each session should be counted. Presentations to groups may be for either bibliographic instruction, cultural, recreational, or educational purposes. Presentations both on and off the premises should be included as long as they are sponsored by the library. Do not include meetings sponsored by other groups using library meeting rooms. Do not include training for library staff. "(6 points)

The definition of what qualifies as a presentation that should be counted seems straight-forward. If there is a calendar of presentations (especially on a website, managed by the PR department, or on public display in the lobby such as at the Newberry Library) that is maintained by the library, these instructions could be used to come up with very straight-forward counts of the presentations that the library offers to groups. If not, there would need to be some sort of system created that would define who would gather these statistics and how. As in “responsibility-centered budgeting” example above, the management of each unit’s presentations could be collected by the manager of each department, and then consolidated by the library’s manager, for example.