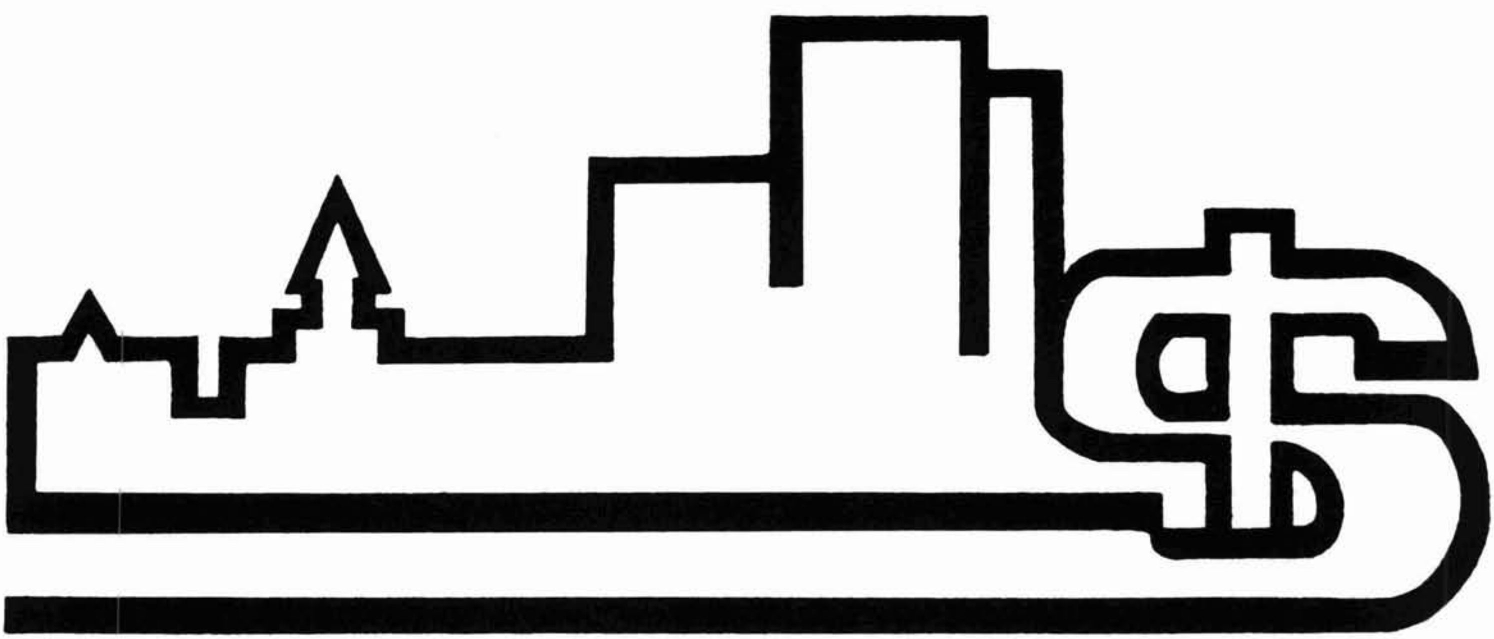
U.S. Department of Housing and Urban Development
Office of Policy Development and Research

DCA Roles in Local Government Financial Management

Ten State Profiles



DCA ROLES IN LOCAL GOVERNMENT FINANCIAL MANAGEMENT: Ten State Profiles

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by

Council of State Community Affairs Agencies
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for

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Office of Policy Development and Research

The Council of State Community Affairs Agencies (COSCAA) is the national organization representing the State executive level agencies responsible for a variety of local assistance functions in community development, housing, economic development, human resources, planning, training, and management capacity building.

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FOREWORD

Financial management was once the exclusive property of technicians and clerks. Today it is a crucial skill for policy makers.

To spread that skill as widely as possible, HUD's Financial Management Capacity Sharing Program has developed a series of publications that focus on three urgent--and--solvable problems:

- o how to integrate budgeting, accounting, and auditing, and how to use performance standards;
- o how to forecast revenues and expenditures;
- o how to improve State and Federal oversight and technical assistance

All of our efforts have been developed with the close cooperation of State and local officials. Their help has meant that our program is diverse, responsive, and flexible--precisely what it must be if the program is to serve the variety of governments it is aimed at.

The publication documents the assistance efforts of 10 Departments of Community Affairs. These DCAs are filling an increasingly important, and interesting, role in the State/local financial management relationship.

In addition to the State and local officials who have made valuable contributions to the direction and quality of this publication, I note the supervision of Joseph D. Panaro of the Division of Government Capacity Building. I am grateful to them all.

Donna E. Shalala
Assistant Secretary for Policy
Development and Research

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Barbara Cohn
Project Director
COSCAA

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INTRODUCTION

In recent years, a number of highly publicized events has focused national attention on the need for local government financial management improvements. The fiscal plight of New York City was perhaps the most closely watched local government financial event during the 1970's. However, the financial problems in New York City are unique only in terms of their magnitude. The substance of many of these problems is shared by local jurisdictions, of all sizes, across the country.

The lastest event, having national repurcussions, was the overwhelming approval of the Jarvis-Gann amendment (Proposition 13) by California voters. Its aftermath has been referred to as "Proposition 13 Fever" in which taxpayers everywhere are organizing efforts to stem the tide of increasing tax rates. Local governments will be the first to feel the effects of the unwillingness of citizens to pay more each year in taxes. Resulting from Proposition 13 and the New York City situation is the need to more effectively manage and utilize existing revenues rather than seek new ways to generate additional dollars from the same tax bases.

In order to develop a response to the increasing pressures for better financial management at the local level, the Office of Policy Development and Research (PD&R) of the U.S. Department of Housing and Urban Development (HUD) consulted with various State and local government officials, and professional groups familiar with local problems, about the need for a financial management assistance effort and the design of a financial management capacity sharing program. A national effort was undertaken to specify the range of financial management problems facing local governments today.

Because States are the principal designated overseers of local financial systems, in part through the establishment of the local regulatory environment, their involvement in HUD's needs assessment process was critical. The Council of State Community Affairs Agencies (COSCAA) provided a vehicle for State input in HUD's Financial Management Capacity Sharing Program. COSCAA is the national organization representing State Departments of Community Affairs (DCAs). Typically, DCA's are the State agencies responsible for providing a variety of local assistance functions in such areas as community development, housing, economic development, planning, training, and technical assistance. Many DCAs have been providing direct financial management assistance services to local governments for a number of years.

To provide the States' perspective in HUD's program, the DCAs from the States of Colorado, Iowa, Kentucky, Maryland, Mississippi, Montana, New Jersey, Pennsylvania, Texas, and Wisconsin were each asked to prepare case studies discussing their perceptions of local government problems, the State's regulatory environment, and existing providers of financial management assistance. The case studies were used to form the basis of a report to PD&R outlining the States' perceptions of local financial management problems as well as the capacity of DCAs (and other State and non-State organizations) to provide assistance to local jurisdictions.

The purpose of this report is to provide a summary of the ten case studies which were submitted for the capacity sharing program. The case studies have been edited to allow the reader a quick review of the States' regulatory situations, ranges of local problems, the methodologies employed by the DCAs to assess local problems, and the assistance efforts employed by the DCAs to aid local governments with their financial management practices.

While each State identified a range of financial management problems affecting their local jurisdictions, it was interesting to note that certain financial management problems are common. The most pervasive problem, as identified in the case studies, is the absence of professional financial management capacity in many local jurisdictions. This problem is especially prevalent in smaller communities which, unlike their larger urban counterparts, often cannot afford full-time professional financial management specialists. Generally, smaller communities must rely on a part-time non-professional staff, or individual, to perform a full range of financial management activities. Many local jurisdictions lack the tools necessary to prepare meaningful budgets, comply with reporting requirements, prepare annual audits, and forecast revenues and expenditures.

Another common problem, which has been identified by those who prepared case studies, is a failure to link financial management with sound general municipal management practices. A failure to integrate fiscal management into the overall central management and executive direction of municipalities has eliminated useful financial management information from the policy-making process.

DCAs have been attempting to mobilize their limited resources to aid hard-pressed municipalities increase their capacity to comply not only with State financial requirements, but also to adhere to the principles of sound financial management practices. Some DCAs have established training programs covering a number of financial management topics in order to build local capacities. Others respond to local needs by providing on-site assistance on request. In certain instances, States operate training programs in order to provide certification of local financial officers. Most of the DCAs, reported on herein, produce and distribute printed manuals, bulletins, and other materials related to specific financial management issues.

This report is intended to provide timely and relevant information on local government financial management needs and the ability of ten DCAs to respond to these needs. This report should prove to be useful to DCAs as they examine their financial management environment and assistance efforts. The ten profiled DCAs were chosen because they represent, nationally, a diversity in geographic and demographic characteristics, and their capacity to provide assistance services to their local governments. It is hoped that the information contained in this report will encourage DCAs to reexamine their financial management assistance programs, share information with other DCAs, and cooperate with the other active resource providers in their States.

CHAPTER I

State Regulatory Frameworks

To receive a fuller understanding of the particular local government financial management problems within the ten States and the means by which the DCAs provide assistance, it is first necessary to describe each State's regulatory environment. This environment includes the State laws and regulations governing local financial management practices and the degree to which each State enforces these laws and regulations. The following format provides an individual description of the regulatory environment for each State. With this format, the reader can more readily compare the environment of one State to another. The matrix following this Chapter provides a brief summary of major State financial management requirements.

Colorado

The Department of Local Affairs, the State Auditor, and the State Board of Education have the designated statutory responsibility for the collection and dissemination of general financial, tax, taxable values, debt, and community data. These data are collected by means of local government reports and are disseminated for general distribution. The sources of these data are the over 1,600 units of local government in the State, which include approximately 63 counties, 261 municipalities, 181 school districts, and 1,100 special districts.

The local government budget process is statutorily defined through the provisions of the "Local Government Budget Law." The Law requires all units of local government to adopt an annual budget. The State imposes a statutory limitation on property tax revenue for purposes other than debt. Local governmental units are also required to conduct an annual independent audit. However, units with an annual total budget of less than $50,000 can petition the State for an exemption from the audit provision. Collection of school district budgets and review of their requests for property tax revenue is the responsibility of the State Board of Education. The State Auditor's Office collects and reviews all audits and rules on petitions for exemption from audit.

Colorado law mandates that the total local revenue for all purposes, other than bonded indebtedness, cannot exceed the previous year's total revenue by more than seven percent.

Iowa

In comparison to the other States, Iowa ranks in the middle in both land area and population size. Of the 1,818 units of local government (including school districts and various local authorities), 1,586 lie outside Standard Metropolitan Statistical Areas. Only 27 localities have populations of 10,000 or greater.

The major piece of legislation which impacts on municipal financial management practices is the Home Rule Act, authorized by a constitutional amendment in 1969. The Act does not include counties, but has had significant effects on cities. The Act established a City Finance Committee which is composed of both

State and municipal representatives. It is empowered to direct the development and establishment of various legislative mandates, including program-performance budgeting and capital improvement programming. The Committee can specify budgetary formats, provide rules for interfund transfers and budget amendments, and establish uniform accounting practices. Under the direction of the Committee, most cities now have a uniform chart of accounts and double entry accounting.

Municipal budgeting is accomplished on State-prescribed forms, and there are uniform guidelines for budget preparation and presentation. The Office of the State Comptroller reviews all budgets to ensure that no deficit financing is planned and that all anticipated revenues have been properly appropriated. Budgets must show expenditures for each program, income from sources other than property taxation, amounts to be raised by property taxation, and comparisons between estimated expenditures and actual expenditures in each program during the preceding two years.

General obligation bonding is constitutionally limited at five percent of assessed valuation, a limit which is seldom approached in practice. The purposes for which G.O. Bonds may be issued are specified in considerable detail by statute; referenda are required for some types of projects. Bond transactions are controlled by permissible maturities, interest rates, and types of bonds; bidding methods are also prescribed by statute.

Cities are required to prepare and publish an annual financial report and submit it to the State Auditor. The contents of the financial report are prescribed by statute and the Auditor. Periodic independent financial audits are required for all municipalities - annually for cities over 2,000 in population.

Kentucky

The laws and regulations involving financial management are rather clearly defined for counties, but are not as well defined for cities. Counties are required by law to utilize a standardized budget and chart of accounts. Counties are also subject to audit and must report financial information on a quarterly basis to the State. In addition, counties must submit their proposed budget to the State for approval before the beginning of each fiscal year.

In contrast, there are no laws of this type which are specifically applicable to cities. Cities are not required to adopt budgets, utilize a standardized chart of accounts, nor report to the State. In reality, the State has no specific control over the financial management of city funds. There are laws regulating taxation and publication requirements in both counties and cities. However, the emphasis of control is currently directed toward counties.

During the past legislative session, which was held the beginning of 1978, legislation was proposed whereby beginning on January 1, 1980, cities would also be required to budget their funds, report annually to the State and be subject to audits. The legislation failed to pass during the session. Although interim study will continue on this legislation, it is unclear whether it will pass the next session which will meet in January of 1980.

Maryland

Maryland, geographically one of the smallest States and eighteenth in population, has 23 counties and 151 municipalities. Most of the urban population in the State is located in the Washington, D.C. and Baltimore City SMSA's and the corridor between these cities.

Although counties were originally little more than the State's administrative jurisdictions, the General Assembly has gradually increased county power so that today Maryland is considered a "strong county State." Six counties have executive-council forms of government, two counties are under council management, one county has "code" home rule, and eight counties have "constitutional home rule;" hence, counties operate under delegated power to perform certain functions. The General Assembly may not make laws which affect specific charter counties. The other counties must have specific powers granted by the General Assembly and much of their "local" legislation is handled by the Assembly. An annual fiscal report is required of all local governments which is reviewed by the State Division of Audit.

Mississippi

Mississippi is predominately a rural state with small municipalities. Only one city is larger than 50,000, and less than half of the State's 2.3 million people live inside incorporated places. Ninety percent of all municipalities are under 10,000 population, and 68 percent of the counties have less than 25,000 people.

The major State laws relating to local financial management are not overly restrictive. The difficulty is that the laws are not self-executing. Non-compliance with State financial management requirements are commonplace among local jurisdictions throughout Mississippi.

State laws require an operating budget for all local governments. In addition, the budget format is standardized and requires an associated accounting system. However, budgets are not subject to State approval, and State oversight of any type is minimal. Other State laws set tax levies and bonding limits, and govern fund transfers and budget amendments.

Annual audits are required by the State. Municipal audits are done by CPAs retained by the cities, while the State Auditor performs the county audits.

Variable standards exist for different classes and sizes of communities. For example, one chart of accounts and budget format is tailored for small cities and another for large municipalities. Municipalities with under 1,000 people have different audit requirements than municipalities of larger size.

In addition to constitutional provisions which require equal and uniform treatment in property tax administration, a considerable amount of statutory law dealing with tax assessments has been enacted. Local assessment procedures are governed by such regulations. These regulations also give the State Tax Commission authority to review local assessments and require adjustments as needed to insure uniformity.

Montana

Montana is a rural State with a population of approximately 750,000 spread over 147,138 square miles. The basic units of local government are cities, towns, and counties. Only three cities have populations over 50,000 and only three counties have populations in excess of 70,000. There are 76 incorporated towns, 48 incorporated cities, 54 counties, and two unified governments. In addition, there are approximately 640 school districts for which the counties serve as fiduciary agents. There are also numerous single-purpose special districts in the State.

In 1975, the State began the incremental implementation of the mandatory Budgetary, Accounting, and Reporting System (BARS) for Montana Cities and Counties. Presently, the Department of Community Affairs is providing intensive on-site assistance to individual jurisdictions in order to implement the initial phases of the system. Version I of BARS was designed with the intention of providing basic financial reports to assist local government managers in the day-to-day financial decision-making process. More advanced versions, scheduled for development in 1979-80, will involve additional applications designed to enhance the capabilities and efficiency of the system.

A significant impact on local government financial resources is realized through the State tax laws. These laws limit the taxing authority of local governments in designated categories. In 1976, voters in Montana were given an opportunity to elect home rule. A home rule local government must follow State budget, finance, and debt limit laws. Home rule also allows the local government to exceed tax levy limitations. However, only eleven towns and four cities have elected to adopt home rule.

The City and County Budget Acts require a balanced budget, restrict budget transfers, establish procedures for emergency expenditures, define reporting requirements, and give the DCA responsibility for defining accounting systems.

Other State laws set debt limits, restrict investments, establish bonding requirements, establish responsibilities of elected officials, and restrict revenue sources and purposes of expenditure. Several types of services are required, by State law or administrative regulation, to be provided by local governments in areas like welfare, sewer, landfill, and public health. State laws establish minimum wages for policemen and firemen and dictate pension requirements and contributions. Counties are required to use local banks for investment of surplus funds rather than shop around for the best interest rate.

All cities, towns, and counties are required to submit a copy of their budget and annual financial report to the DCA. A desk audit is performed to detect gross omissions, format errors, or legal violations. The DCA has the legal responsibility for yearly audits of local governmental units. However, the Department is inadequately staffed to conduct the audits on an annual basis. As of June 1, 1976, the Department can contract with private CPAs to do local audits. Local jurisdictions are allowed to select their own auditor, subject to approval by the DCA.

New Jersey

New Jersey is a small State with relatively high population density and a large number of local governments. Since 1917, a system of State regulation of local finance has developed incrementally into what now is regarded as one of the strongest among the States. While this system permits substantial home rule with respect to determining services to be offered by the local governments, the fact that so many local governments are small (often with part-time or a partially professional staff) makes many of them dependent on this system of State supervision. The system actually fosters uniformity in fiscal management procedures.

The basic scheme for State regulation of local finance rests on the Local Government Supervision Act of 1947, as amended. Essentially, this Act provides for the existence of the Division of Local Government Services with the general statutory mandate to "exercise State regulatory and supervisory powers over local government, assist local government in the solution of its problems, and plan and guide needed readjustments for effective local self government." In addition to this broad mandate, the Division's legal authority has been augmented by an extensive scheme of regulatory powers authorized by a series of laws.

A comprehensive Local Bond Law limits the amount of debt that may be incurred by every local government and prescribes detailed procedures for incurring this debt. The debt limit may be exceeded upon approval of the Local Finance Board (which is attached to the Division). This law has been recently supplemented by the Qualified Bond Act which allows the Board to pledge certain State aid to meet the debt payments and to set additional requirements on the participating municipality.

The Local Budget Law requires that every local government adopt an annual budget, in balance, on a modified cash basis. The budget format is rigidly prescribed and enforced. Every local government is required to file the budget with the Division of Local Government Services which reviews it to assure compliance with all statutory requirements. Any local government failing to do so will have a budget prepared by the Division legally obligating the municipality to abide by it.

The Local Fiscal Affairs Law provides for additional State regulation of various fiscal procedures. It also requires an annual audit of every local government subject to regulatory oversight by the Division. The audits are performed by Registered Municipal Accountants in accordance with the standards developed by the Division.

A variety of other laws provide for the involvement of the Division in such matters as tax collection, purchasing, and the administration of State aid programs. The Division and the Board may intervene when a local government becomes fiscally unsound. Additional legislation has given the Director of the Division broad investigatory powers.

Finally, New Jersey has enacted legislation which limits the annual growth of local governments' budget expenditures. Municipalities are limited to an expenditure increase of no more than five percent over the previous year's budget.

Pennsylvania

Pennsylvania has more than 2,600 units of local government, ranging in size from Philadelphia, with a population of 1,950,000, to Seven Springs Borough, with a population of 12. Pennsylvania is considered an urbanized States, having 71.5 percent of its population living in areas defined by the U.S. Census Bureau as urban. However, Pennsylvania also has the largest rural population in the Nation.

Numerous constitutional and statutory provisions delineate the powers which local governments may exercise. In Pennsylvania, the General Assembly has enacted a system of classification of local governments by population. Presently, there are nine classes of counties, four classes of cities, two classes of townships and one class of borough. The basic legislation for each class of municipality is found in a separate municipal code (i.e., the Borough Code, the Second-Class Township Code, etc.). In addition, there are general laws applicable to all classes of municipalities. As of 1977, there were 67 counties, 52 cities, 963 boroughs, one town, 92 townships of the first class, and 1,460 townships of the second class.

A constitutional restriction forbids the Legislature from passing special or local legislation regulating the affairs of a particular community. Laws must affect classes of municipalities and must apply equally to all local governments in that particular class.

In 1972, a Home Rule option was granted by the Legislature. A municipality which chooses to operate under a home rule charter drafts its own constitution. These municipalities may then exercise any power or perform any function not expressly denied them by the State. Since its passage, approximately 52 municipalities have become home rule communities.

State statutes allow for a certain amount of flexibility and independence in the management of local fiscal affairs. However, there are certain requirements by which municipalities must abide.

Pennsylvania does not mandate a uniform accounting system. There is a uniform chart of accounts, however its use is strictly voluntary. There are no standardized forms and procedures for recording receipts and disbursements nor for maintaining journals and ledgers.

The State mandates that budgets must be adopted annually prior to the beginning of the fiscal year (which runs concurrent with the calendar year). Capital budgets are not separated from operating budgets. Appropriations affecting the budget are enacted as ordinances or resolutions and taxes which require annual enactment are also adopted at this time. Copies of the budget together with tax levy ordinances or resolutions are filed with the State after adoption. The State has <u>no</u> authority to approve or disapprove these budgets. Budgets are not submitted for electoral approval. The form or development of municipal budgets is not mandated by any State law.

The State has <u>no</u> authority to audit the finances of municipal governments, except where State funds are involved. Statute provides for elected auditors or boards of auditors to audit the accounts of local governments. Local units have the option of appointing independent qualified auditors to audit accounts in lieu of elected auditors. These audit reports must be filed with the Department of Community Affairs.

The Department of Community Affairs receives and reviews a financial report from each municipality in the Commonwealth. The financial reports are done on standard prescribed forms established by the DCA.

There is no limit on the debt which may be approved by the electorate of a municipality. However, a specific debt limit of 250 percent of a municipality's average total revenue over the past three years is placed upon non-electoral debt. Borrowing by municipal governments requires the approval of the Department of Community Affairs. The only exception to this rule is tax anticipation notes; these notes may not exceed 85 percent of the outstanding tax revenues and must be repaid during the fiscal year in which they are incurred.

State law places millage maximums for each class of municipality. In addition, the Local Tax Enabling Act authorizes localities to tax earned income, per capita, real property transfer, mercantile license, business privilege, amusement, occupational privilege, occupation, and mechanical devices.

Texas

The State of Texas has a vast, highly diversified system of county and local governments. There are 254 counties and over one thousand municipal governments. The population distribution is such that Texas contains two population giants - one urban and one rural.

Texas has twenty-five designated SMSAs which contain approximately 80 percent of the population. Only three States, New York, California, and Illinois, have more citizens living in urban areas than does Texas. However, Texas' rural population is also sizable, numbering over two million persons.

Such a large, yet diverse, population poses somewhat unique problems for State government entities attempting to serve and/or regulate local governments. Sixty-two percent of the total population is served by 151 municipal governments within the SMSAs. An additional twenty-three percent of the population is served by an additional 838 municipal governments. The remaining fifteen percent of the population is served only by county governments.

Balanced budgets are required of all counties and incorporated cities within the State. A copy of the budget is required to be filed with the respective County Clerk or City Clerk and the State Comptroller. Capital budgets are separate from operational budgets.

Within small cities, tax for any purpose, for any one year, shall not exceed 1½ percent of the taxable property of the city. Those cities above 5,000 population are limited to 2½ percent. Taxes assessed and collected to pay interest and to provide a sinking fund to satisfy indebtedness must be assessed and collected separately from those assessed and collected for current expenses.

All cities are required to have their records and accounts audited and a financial statement, based on such an audit, prepared annually. Municipalities file financial statements with the county. The State Comptroller collects local financial data, but there is no law requiring the filing of audit reports at the State level. The State Comptroller collects and reviews city and county budgets. However, no State agency has been authorized to approve or disapprove local budgets.

All bonds and certificates of obligation are required to be approved by the State Attorney General and must be registered by the Comptroller of Public Accounts.

Although State statutes require budgets and financial audits, State enforcement of these requirements is quite lax. Smaller municipalities have frequently failed to comply with budget audit requirements. The budget requirement does not specify any particular format, which provides for flexibility, but enhances the opportunity for a municipality to overlook the requirement - especially when no follow-up enforcement is present.

Wisconsin

There are nearly 2,000 general purpose local governments in Wisconsin. These range in size from the Town of Cedar Rapids whose $22,700 budget serves 11 residents, to the City of Milwaukee whose $219.0 million budget serves 670,665 residents. County governments range in size from Florence County, with 3,500 residents, and a $1 million operating budget, to Milwaukee County, with 1,012,536 population and an operating budget of $352 million. Obviously, the wide variances in local government structures, sizes and service requirements result in wide variances in financial management practices.

The quality of financial management practices among local governments is also diverse. On one end of the spectrum, nearly 200 towns do not enact a budget. At the other end, the Cities of Milwaukee and Madison have consistently received the MFOA Certificate for Conformance on Financial Reporting. Few units of government under 5,000 in population have even one full-time staff person dealing with financial administration. On the other hand, larger units can and do devote considerable resources to financial administration.

As set forth in State statutes, the broad, general organization for financial administration varies by type of local government. Within the general statutory framework, Wisconsin's local governments enjoy considerable discretion in managing their financial affairs. This is due to the home rule authority granted the cities and villages and to the absence of extensive State restrictions on financial management practices.

However, there are a number of State regulations affecting local financial management. All local governments are statutorily required to adopt, by ordinance, a budget showing the previous year's actual expenditures, estimated expenditures for the current year, and the proposed expenditures for the budget year. (This requirement is not directly enforced, however). General obligation indebtedness is limited to five percent of the locality's equalized value of taxable property, and the term of any such debt may not exceed twenty years.

The State limits the increase in local governments' operating levy to the rate of increase in taxable property values state-wide. The Department of Revenue monitors local compliance with State restrictions on levying and borrowing requirements. Finally, all local governments must complete and return an annual financial report form to the Department of Revenue.

TABLE 1

STATE LEGAL REQUIREMENTS OF LOCAL FINANCIAL MANAGEMENT

Law and/or Regulation	CO	IA	KY	MD	MS	MT	NJ	PA	TX	WI
State Collects/Reviews Local Budgets	X	X	X[3]		X	X	X	X	X	
State Oversight/Approval of Budget			X[3]				X			
Local Budgets Required	X		X[3]		X	X	X	X	X[7]	X
Prescribed Budgetary Format	X	X	X[3]		X	X	X			X
Financial Reports Required			X[3]	X	X	X	X			X
State Collection of Financial Reports	X		X[3]	X	X	X	X	X	X	X
Prescribed Format for Financial Reports	X	X		X	X	X	X	X	X	X
Uniform Accounting Systems		X	X[3]		X	X[4]	X	X[6]		X
Annual Audits Required	X[1]	X[2]	X[3]	X	X	X	X	X	X	
State Collects/Reviews Local Audits	X	X					X	X	X[6]	
Long-Term Debt Limits		X			X	X	X		X	X
Property Tax Limits	X				X	X[5]		X[5]	X	X
Local Revenue and/or Expenditure Lids	X						X			

1 Units with annual budgets of $50,000 or less can petition for exemption
2 Required for cities over 2,000 in population
3 For counties only
4 Being implemented
5 Millage maximums set for classes of municipalities
6 Voluntary/no law requiring compliance
7 Counties and incorporated cities

CHAPTER II

DCA Perceptions Of Local Financial Management Problems

The major purpose of the ten State case studies was to provide an insight into the significant financial management problems currently facing local jurisdictions. The following chapter summarizes, from the DCA perspective, those problems which represent the greatest concern for local governments.

As mentioned in the Introduction, the most significant cross-cutting problem is the lack of financial management personnel capacity at the local level. This particular deficiency is the cornerstone of a myriad of local financial management problems. Without sufficient personnel capacity, localities are often unable to adequately adhere to State regulations, prepare meaningful budgets and financial reports, account for local revenues and expenditures, perform long-range fiscal forecasting, and include financial information in responsible decision making.

Because the DCAs are quite often the state-level agency responsible for providing financial management assistance to local jurisdictions, they also employ various mechanisms for assessing local needs. In addition to describing the various local management problems, this chapter provides a brief discussion on DCA needs assessment techniques.

Colorado

The Colorado Department of Local Affairs is given a number of statutorily defined responsibilities. These responsibilities were described in detail in the previous chapter. The major responsibility of the Department is the review of local budgets. It is through this responsibility and local requests for assistance that the Department becomes aware of local financial management needs.

Less than fifteen percent of the municipalities and special districts, and only one-third of the counties in the State have permanent on-board resources to copé with the fiscal complexities necessary for sound financial management practices. The principal effects of the inability of local governments to adequately identify and implement solutions to their financial management problems are:

1. Probable decrease of services;
2. Increasing demand for property tax revenue to continue present levels of service;
3. Inability to plan for events or cycles which will fiscally impact the governmental unit, resulting in "management by reaction;"
4. No measurement of the effectiveness or the performance of government activities;
5. Failure to assess other revenue sources, e.g., fees and sales tax;
6. Weak or non-existent management programs;

7. Higher maintenance and operating costs due to lack of or inadequate capital outlay forecasts; and,

8. Growing citizen dissatisfaction with units of government.

The major problem, as perceived by the State, is the inability of the local unit to identify and relate to a fiscal management need before it becomes a problem and subsequently a burden for local government and its constituents. This situation is common when local financial management responsibilities are borne by non-professionals.

Iowa

Neither the Division of Municipal Affairs of the Office for Planning and Programming, nor any other State agency, assumes an active, formal role in identifying local financial management needs. Knowledge of local needs comes through contact with local officials. DMA has recently initiated plans for a survey of local government planning and development needs, and financial management needs will be incorporated into that survey instrument.

A major problem facing Iowa's communities is that financial management is viewed from the perspective of technique rather than policymaking and management. Many of the home rule mandates are ostensibly intended to provide mechanisms for improving policymaking capabilities at the local level. These mandates provide for the institution of, for example, mandatory program-performance budgeting and capital improvement programming. However, State technical assistance for the implementation of these systems tends to concentrate on providing finance persons with an understanding of the technical aspects of the systems and subordinates their policymaking and management implications. Therefore, most city clerks can now prepare a program budget, using state-mandated forms, but there is little evidence that these budgets have more than minimal policy impact.

One major reason underlying the policy failure of new financial management systems is the inability or unwillingness (at the State level) to deisgn them so that they are related in a practical or meaningful sense to local decision making. At times, the tools given to city councils and managers are not relevant to them or are inappropriate for their particular jurisdiction.

Related to the above, information on revenues and expenditures necessary to operate municipal services is not being properly integrated in the decision-making process. Part of the problem results from the mandatory use of elaborate financial reporting procedures required by various State agencies. These formats are designed to insure uniformity in reporting; however, they do not always consider the various informational needs and fiscal cycles of individual jurisdictions. In addition, local officials often concentrate upon fulfilling these reporting requirements, and generally fail to realize the potential management benefits of the financial data.

Another set of problems the Division of Municipal Affairs sees as being significant concerns the local budgetary process. In many larger jurisdictions of the State, collective bargaining agreements seem to be supplanting the normal budgetary process as primary determinants of the local budget. In this regard, the budget process is coming to be comprised of a variety of bargaining units operating independently of one another.

Citizen participation in the budget process is not being effectively utilized. Despite the numerous requirements for public hearings, these hearings are quite often either too formal, too late, or too shallow for effective citizen input.

Finally, the Federal granst process causes a number of local financial management problems. Most significant are the effects of seemingly ever-changing Federal requirements. These changes place an undue strain on local administrative mechanisms, particularly those of a small city. Additionally, there is considerable uncertainty on the continuation of Federal programs and their funding levels. This uncertainty can hamper strategic planning of local program objectives.

Kentucky

The Department for Local Government maintains direct contact with local governments through the following methods: personal visits; telephone inquiries; workshops and seminars; specific requests from the local governments; community development programs; and, area development districts (ADDs). The ADDs are an important component in the Department's assessment mechanism. The coordination of efforts by the fifteen ADDs and the Department provides an excellent mechanism for assessing problems as well as responding to them.

Briefly, the most apparent problems confronting local governments throughout Kentucky include:

- Inadequate financial management of grant programs;
- Lack of uniform accounting and budgeting procedures for cities;
- Lack of qualified personnel;
- Lack of training for personnel;
- Low salaries for accounting personnel;
- Non-existence of reporting requirements to the State by cities;
- Low utilization of computers;
- Inadequate financial planning;
- Poor investment policies; and,

- Lack of understanding of the requirements of certain Federal regulations, such as revenue sharing and community development.

Of the above problems, the financial management of grant programs and accounting and budgeting procedures are seen as the most pressing. As in other States, these problems are a direct result of the lack of qualified, trained financial management personnel at the local level.

As Federal grant programs increase, it can be assumed that all local governments will eventually be affected. The most prevalent problem is the lack of adequately trained personnel, at the local level, to administer the financial portion of grant programs. Such lack of training results in the misunderstanding and improper application of regulations and policies as published by the grants. The inability to follow the guidelines of Federal grants can jeopardize their subsequent awarding and funding.

Many local governments fail to implement appropriate accounting and budgeting procedures. Such failures may result in inadequate cash supply, late payment of invoices, loss of revenue, and general inefficient operation. The cause for failure to implement appropriate accounting and budgeting procedures vary. However, many local governments lack the financial resources to obtain qualified personnel to administer these procedures. Having the personnel, other governments are in need of procedures for implementaion.

Maryland

The State's perception of financial management needs comes from two types of proactive needs identification strategies. These strategies include regular needs survey teams which schedule interviews with local elected officials and city managers, and the distribution of formal needs identification questionnaires. In addition, the State provides analysis of the problems identified by local governments in the day-to-day administration of the local portion of the U.S. Intergovernmental Personnel Grant Program.

The latest needs identification questionnaire, which went to potential Block Grant communities in Maryland, asked about specific financial management problems. The results gave the Department considerable insight into the perceptions these communities have of their financial management problems. The technical assistance evaluation questionnaires also request needs analysis data.

Financial management is a significant problem in many of Maryland's small cities, towns and counties outside the Washington-Baltimore area and the smallest towns in that highly urbanized area. It is not that the larger municipalities and counties do not have financial management problems, but that generally these governments have the capacity to solve their problems without State help.

The Maryland Department of Economic and Community Development finds that meeting financial management needs of local government is crucial to improving their ability to govern. Any "cures" which treat financial management needs alone will not bring the necessary improvements unless they are orchestrated and focused along with broader management improvement efforts at the elected official, administrative and financial technician levels.

The following is a list of problems identified by DECD as being significant financial management problems facing Maryland's local governments:

1. Local personnel who do not understand the fundamentals of good financial management;

2. An inability to predict income and expenses, resulting in budgetary overruns with deficits coming as surprises;

3. A failure to use the budget as a management tool or to relate it to community goals;

4. An inability to properly manage Federal and State grants, and a lack of knowledge regarding Federal grant financial management requirements;

5. A failure to get adequate returns on inactive funds. On some occasions, large checks (usually grant funds) are not deposited for days and weeks. In addition, often there is no competition for short-term investment funds;

6. A failure to utilize expensive data processing systems to their capacity; and,

7. The inability of jurisdictions to find the actual contractual costs for services.

Mississippi

The primary method used by the Research and Development Center to assess local government financial management needs is the evaluation of local government planning work done under the HUD 701 Planning Assistance Program. Evaluations of these plans have, in many cases, revealed inadequacies in finance and management that have seriously impeded the ability of local governments to make effective use of significant work that has been done in planning.

The Center's involvement in community and economic development allows it to identify financial management problems when it inventories community assets. Assistance in the implementation of community and economic development projects provides insight into local financial management needs.

Other mechanisms employed in defining local needs are the Center's direct provision of training to local governments, and interaction with the State Auditor of Public Accounts.

A number of financial management problems confronts local governments in Mississippi. Perhaps the greatest problem is the lack of trained people to operate financial management systems. This particular problem is the underlying cause of many of the other financial management deficiencies which are discussed below.

A severe problem exists in local accounting and budgeting practices. While budget formats and accounting systems are prescribed and required by State law, most communities are not using these systems. Many communities receive minimal benefits from required budgeting exercises; they often go through them only to comply with the State law which disallows any expenditure unless a budget has been prepared.

Generally, the State does not provide any enforcement of the standarized budgeting and accounting systems it mandates. The lack of State enforcement is mostly due to the fact that many localities simply do not have the personnel capacities to implement the required systems. As a result, many localities employ only rudimentary accounting and budgeting systems. Without proper budgets, communities are not planning or accomplishing effective utilization of resources. Without proper accounting systems, communities do not have effective control of their financial operations, nor can they use accounting systems as a basis for management.

Another serious problem in the State is that of property reappraisal, which has a number of wide-ranging, and expensive implications. Many communities are unable to afford the high cost of property reappraisal. As a result of this inability, the revenue bases of many communities are severely limited. Property reappraisal would greatly enhance the financial resources available to a community. However, correction of this problem is politically unfeasible or impractical without a new State mandate.

Additional problems include:

- Poor financial planning, inappropriate use of revenues (e.g., revenue sharing funds used in operating expenses), and inadequate capital budgeting;

- Inadequate reporting of financial management information to local decision makers;

- Inability to manage government resources and effect profitable investment programs;

- Inability to maintain up-to-date and complete assessment data and tax bases. This can result in low bond ratings that are not necessarily a reflection of the true financial condition of the government;

- Difficulty in meeting community development needs because of low debt limits due to low assessments;

- Lack of cost accounting systems to provide for effective cost management. This results in poor purchasing practices and controls, inadequate inventory control systems, poor equipment maintenance records, and inefficient replacement proceedings; and,

- Outdated data processing equipment and difficulties in selecting new equipment.

Montana

The staff of the Audit and Accounting Systems' Bureau of the DCA's Local Government Services Division, through their daily contact with local governments, are able to receive an accurate indication of the needs of local governments. This contact, which comes through audits and requests for local assistance, enables the staff to monitor common, recurring problems and to receive a first-hand view of some of the causes. In addition, the BARS Advisory Council, which met during the System's design, provided guidance concerning the accounting and reporting needs of local governments.

The most important need for cities and counties in Montana is that of developing and upgrading financial information systems. Accounting systems presently in use have remained unchanged for decades. As demands for services mushroom and the cost of providing such services escalates, there is an ever-increasing public and private demand for fiscal information on governmental operations. The present systems are unable to meet the informational demands of modern governments. The full State-wide introduction of BARS will have a great impact in meeting the demand for fiscal information. However, its total implementation is a number of years in the future.

The second significant problem of local governments in the State is the lack of financial expertise in most small units of government. The inability to afford the needed expertise is not the only cause of this problem. In a deeper analysis, this problem is compounded by a lack of motivation to acquire the necessary level of skills and knowledge. Additionally, there is a prevailing attitude that the current systems in use are adequate.

Another very serious problem is one of mistrusting the intentions of State government. Unsolicited offers of help from the State are received with suspicion from the local governments. There exists a long-standing tradition of individualism among Montana's communities. Local governments often resent State aid in an effort to assert their own organizational uniqueness. As a result, many useful ideas stressing the value and transferability of another's system are thrown aside as a token of preservation of local "uniqueness."

From the local perspective, many laws of the State are antiquated and cause hardships for local government financial managers. Budget laws, for example, are very rigid and do not allow managerial flexibility, such as appropriation transfers between categories even in the same department and fund. State laws also provide a distribution formula for the investment of surplus funds which can inhibit shopping around for the best rate of return.

One of the most serious State-imposed hindrances to upgrading the capacities of county financial personnel is a series of laws restricting salaries. In many populous counties, salaries are so low as to discourage college-trained people from accepting jobs in the finance area.

Also, the State imposes burdens on local governments for the administration of various programs, taxes, fees, and licensing operations without providing financial remuneration.

Finally, a structural problem exists, especially for the counties, which impedes financial cohesiveness. Rather than having a central financial director, the counties have an elected treasurer and an elected clerk and recorder. The clerk provides the financial accounting and writes warrants in payment of claims. The treasurer collects all revenues, including taxes, and redeems the warrants. This dual financial structure under two separate elected officials often creates a polarity caused by lack of informational flow, resulting in much duplication of effort.

New Jersey

The Division of Local Government Service, through its legislatively defined role, is heavily involved in the financial management activities of the State's local governments. Aside from its regulatory functions, the Division provides extensive technical assistance. It is through such involvement and frequent contact with local governments that the Division is able to assess local financial management needs.

One of the main concerns of local governments is the additional managerial burdens and cash flow problems associated with Federal grant programs. The cash flow problem is caused by delays in fiscal reimbursements to local matches on various projects. Other problems occur in the lack of ability to manage the accounting, budgetary, and procedural aspects of Federal grants.

Despite the active role in regulation of local financial management and the provision of certification and training by the Division of Local Government Services, the lack of competent local financial management personnel remains a problem. Underlying this problem is the rapid turnover of local personel. Turnover of local officials means that any educational advances made by the Division today will have to be repeated several years from now just to stay on top of the changing personnel scene.

Finally, the State has a large number of local authorities, many of which encompass more than a single municipality. Because these authorities have been playing larger roles in the administration of Federal programs, it is believed that State regulation and technical assistance will be needed to assure proper utilization and accounting of Federal dollars.

Pennsylvania

The DCA has undertaken a variety of needs surveys and co-sponsored others. The most recent survey of municipal managers, taken in 1977, found that "an understanding of financial management and its impact on local government" was the number one priority. The results of this survey, and others, aid in determining the types of training assistance to be provided by the DCA. In addition, the daily contact the DCA maintains with the local communities across the State, provides a clear understanding of local financial management needs.

The basic financial management problem facing Pennsylvania's communities is the lack of municipal capacity to properly manage finances. Common among most of Pennsylvania's communities is the lack of an in-house capacity to solve financial management problems. Typically, local staff do not know what standards of adequacy to apply to financial management practices. As a result, accounting systems and a meaningful budget process do not exist, financial reporting is limited, and auditing procedures are conducted by "elected amateurs."

The need for competent financial management exists in both the highly complex as well as the basic aspects of financial management. The absence of the basic tools of financial management is the critical problem for Pennsylvania's communities.

The basic areas of deficiency include: the failure of accounting systems to provide an accurate reflection of the locality's financial condition to be used as a basis for financial decision making; the inability to use the budgetary process as a management tool; the lack of a system for conducting municipal audits; and, the failure of financial personnel to accurately describe the financial condition of the community at the end of the fiscal year.

Texas

The Texas Department of Community Affairs has not conducted an academic or formalized local government financial management needs assessment. However, through its daily contacts with local communities, the DCA is aware of the prevailing financial management problems within the State. Additionally, calls for assistance from local governments are another means of identifying local needs.

In most of the State's rural areas, the local elected officials and local employees do not have sufficient expertise to establish and practice sound financial management. The fiscal squeeze of static or decreasing revenues and constantly increasing expenditure demands mean that greater efficiency and establishment of priorities are essential. Information is needed at the local level to make decisions about resource allocations, to control operations and to evaluate the results. However, most rural government decision makers do not have the necessary information oriented toward helping them determine an appropriate allocation of resources, the efficiency and effectiveness of operations, and the impact of changes and alternatives.

Some of the lack of expertise is due to the presence of a part-time, non-professional administration in small rural communities. In both municipal and county governments, it is not uncommon for the top elected administrators to be owners or employees of other concerns which take priority over their elected jobs. This is only natural since most such jobs are either extremely low-paid or non-paid positions. Thus the attention given to local problems is limited.

Even if the government has full-time financial department personnel, their expertise is usually limited. One reason for this is that a few people must perform many functions which would be segregated in a larger government. The scope of the responsibility assumed leads to incompetence in some areas.

Another major factor is the lack of proper training for financial department personnel. Due to the low salaries usually paid by rural governments, the procurement of qualified people is hindered. Once poorly trained people are hired, there is little training made available to help improve their skills.

Often the accounting personnel perform the recording function in a very mechanical sense without understanding why things are handled in a certain manner. If the transaction does not "fit" the mechanical process, the personnel are lost. Since all financial reports originate from bookkeeping functions, improperly trained staff can effectively confuse all managers and their decisions.

Another serious personnel problem is a general lack of motivation. This is due mainly to low-paying jobs, split priorities, poor training, and the absence of a career ladder.

The effective implementation of accounting theory by local and county government employees poses a substantial problem. Accounting theory for governmental units is quite different from that employed by the business sector. Generally accepted accounting principles as taught by business schools, colleges, and universities cannot be applied uniformly to municipal entities.

In most rural communities the personnel involved in the municipal accounting function are not properly trained to perform municipal accounting. Their educational background is not normally sufficient to provide the necessary knowledge needed to do an adequate job. Even if the staff is trained in accounting, the vast majority of their accounting knowledge is in "business" accounting and little if any in municipal accounting.

Thus, without proper training, employees of local governments are faced with an accounting dilemma. If they do not understand the accounting theory, then proper recording of events is impaired. If the funds are not properly maintained, then managers have limited confidence in periodic reports. Without such confidence, managers are incapable of making sound decisions.

The formulation of budgets represents problems in theory and practice. Most often, the budget officers of small rural communities have no perception of any system other than line item estimations. This constraint greatly reduces the possibility of making decisions based upon future needs of the community, for the process tends to skew revenue allocations towards historical patterns. A definite need exists for budgeting scarce resources on a priority basis within a local government. Budgets need to be viewed as a system of interrelated functions whose results meet the service expectations of the citizens, subject to their ability and willingness to pay for such.

There also exists a need to employ long-range fiscal planning on an ongoing basis. Generally, the long-range planning that is done is confined to capital projects. The process of financial forecasting is often ignored due to its complexity.

Cash flow determination is a problem in that many persons charged with administrative duties in rural counties and cities cannot comprehend the fact that equal cash receipts and cash disbursements do not always occur within a certain time frame. The symptoms of no cash flow determination are untimely and unnecessary borrowing, large cash surplus in a non-interest drawing demand account, or the inability to meet cash obligations as they become due.

Cash management is a problem in rural cities and counties because many of these entities have no definite cash management program, no expertise in the area, and no records concerning cash flow requirements. As expenses increase faster than revenues, the problems of cash management will become very important to all citizens who are served by the organization.

In addition, the lack of proper personnel training adversely affects the quality of local debt management and auditing procedures.

Wisconsin

The State's determination of local government financial needs is achieved through three direct means. The first is direct contact with local officials at training conferences and at local government association meetings. The second is evaluating the quality of certain financial reports forms submitted to the State. The third means of needs assessment is periodic use of surveys. In addition, an indirect means of needs assessments is surveying the training materials prepared by certain national organizations such as the ICMA, MFOA, ASTD, and others.

One of the most serious problems facing Wisconsin communities is the inability to accurately complete required financial reports. These reports, which have multiplied in number over the past few years, are essential to insure that localities receive their fair share of State aids and to insure local compliance with State levy limits. The underlying cause of the problem is the inability of many communities to devote adequate resources to hire full-time professional financial administrators.

Another major problem is the difficulty in forecasting local government revenues. Much of the cause of this problem lies in the difficulty in determining the level of State aid payments to specific localities. Additional hindrances include the inability of local governments to develop sound data bases and to hire the expertise necessary to prepare accurate revenue forecasts.

The management of cash resources is another problem for many local governments. Too few municipalities invest idle cash balances which results in the sacrifice of interest earnings and reduces local government revenues. Much of the problem results from the lack of awareness of local treasuries of either the propriety of investing public funds, their authority to do so, or the existence of State-administrated investment pools. Also, local treasurers are often unaware of those periods where revenues exceed disbursements, thereby creating temporary cash surpluses.

Additionally, many local governments have problems in capital financing. It is not uncommon for local governments to be bearing higher than necessary net interest costs because of inadequate knowledge of the bond market. Again, this is a reflection of the lack of local personnel capacities and the resources necessary to monitor the bond market and develop long-term capital financing plans.

TABLE 2

DCA PERCEPTIONS OF LOCAL FINANCIAL MANAGEMENT PROBLEMS

	CO	IA	KY	MD	MS	MT	NJ	PA	TX	WI
Lack of Professional Capacity[1]	X		X	X	X	X	X	X	X	X
Low Salary Levels[1]			X		X	X			X	X
Lack of Motivation[1]						X			X	
Failure to Tie Financial Management to Decision Making[1]		X		X		X		X	X	X
Inadequate Financial Planning[1]	X		X	X	X	X			X	X
Cash Management and Investments			X	X	X	X				X
Management of State/Federal Grants		X	X	X			X		X	
Cost of State/Federal Mandates		X			X	X	X			
Inadequate Capital Budgeting					X	X				X
No Performance Measurements	X									
Outdated Property Assessments					X				X	
Inadequate Utilization of Computers			X	X	X	X				
Lack of Information for Decision Making					X	X			X	
Lack of Citizen Input	X	X								
Lack of Uniform Budgeting and Accounting			X		X[2]	X				
Improper Use of Revenues				X						
Inaccuracy/Lack of Financial Reports					X			X	X	X

[1] Although not specifically mentioned in each case study, these problems seem to be universal in nature.

[2] Need to enforce existing laws

CHAPTER III

DCA Assistance Efforts

Building on the information provided in the previous sections, this concluding Chapter highlights the specific local government financial management assistance activities undertaken by the ten DCAs. Typically, DCAs are the lead State-level agency providing local assistance. However, the level of financial management assistance each DCA can and does provide varies greatly.

The reasons for the variation in DCA assistance levels are numerous. Such reasons include the amount of DCA resources and the number of staff devoted to providing financial management assistance; the organizational structure of the DCAs and their position in the State government hierarchy; and, their legislative mandates and regulatory functions.

Certain DCAs are given broad-based, legislatively defined powers in the enforcement of State fiscal regulations and provisions of technical assistance. Other DCAs have loosely defined mandates and no enforcement powers over local fiscal affairs. To receive a more in-depth understanding of DCA roles, organizational structures, and legislatively defined powers, the reader is referred to COSCAA's June, 1978 publication entitled, State Departments of Community Affairs: A Resource Manual of Their Organizations and Functions.

Colorado

Three divisions within the Department of Local Affairs have the primary responsibilities for financial management assistance, information collection, and information dissemination. The Division of Planning is responsible for the collection of local demographic data. The Division of Property Taxation gives guidance and assistance to local government assessment agencies, and, in some instances, performs the actual property assessments. However, it is the Division of Local Affairs which provides the Department's primary involvement in local government fiscal management.

The Division of Local Government has the statutory responsibilities to supplement local government financial management practices under the "Local Government Budget Law" and impose limitations on local property tax revenues. The Division publishes and distributes the "Local Government Budget Manual," a compilation of Colorado laws governing the budget preparation for municipalities, counties, and special districts. The Division distributes budget forms for counties, municipalities, and most special districts to augment uniform reporting procedures. In addition, it publishes an annual financial compendium; prepares fiscal notes on legislative economic impacts; provides on-site fiscal management technical assistance, upon request, to local jurisdictions; administers a state/local purchasing program; administers various State/Federal grant programs; is the source of general government and fiscal information for the public; and, conducts workshops and seminars.

The Divisions's core of involvement is mostly due to its designation as the official State review agency for budgets of municipalities, counties, and special districts. The Division also collects audit reports for counties, municipalities, and several of the larger special districts.

The Division's three primary responsibilities in the local government budget process include: the review of all local budgets for their compliance with the "Local Government Budget Law," and advise in areas in which the budget is deficient; the approval of local units' requests for tax increases; and, the provision of assistance to local units upon request, with their budget preparation.

Despite its regulatory responsibilities, the role of the Department of Local Affairs is mostly advisory. Except in the case of property tax limitation, it has no enforcement authority. The Division of Local Government does not have the authority to require changes in local budgets. It does, however, make recommendations and provide technical assistance to political subdivisions upon request.

Iowa

The Division of Municipal Affairs (DMA), administratively located in the Office for Planning and Programming, is responsible for a number of functions; however, it has a limited ability to provide financial management assistance to local governments. At present, nearly all the Division's services in this area are supplied by the Division's administrative personnel, although the technical assistance and "701" sections are involved periodically. DMA has no specific budget for financial management assistance.

However, DMA has, in the past, supplied funds for, and developed in-house, a number of manuals related to the implementation of home rule requirements and other management techniques. On some occasions, DMA has supplied field personnel; for example, in on-site training sessions, to implement the budgeting-accounting systems mandated by the Home Rule Act.

The typical DMA role can be summarized through an indication of current activities in the area of financial management: developing, in-house, a capital improvement programming manual; providing speakers for instructional schools for local finance persons; and, sponsoring workshops for larger cities on budgetary performance measurement systems.

The major resource provider of day-to-day technical assistance is the League of Iowa Municipalities. The State Comptroller's Office, Local Government Extension Programs, and other agencies have a more limited assistance role.

Kentucky

The Department for Local Government has recently added a Financial Management Section in order to expand its capacity to provide direct financial management technical assistance to local governemnts. Formerly, requests for financial management assistance has been handled by the Management Assistance Section. The Financial Management Section is currently expanding its staff in order to more readily respond to local requests for assistance. Presently, the Section provides, on request, on-site assistance in the areas of accounting, budgeting, purchasing, community development, grants management, and other areas of municipal fiscal concern.

The Department has also initiated a number of training programs to address specific financial management problems. Past workshops and seminars have included: training of newly elected county officials; the proper utilization and reporting of Federal revenue sharing funds; the use of anti-recession funds; financial management of Federal grants; and, other topics. The Financial Management Section will continue the Department's initiative in sponsoring training programs on topics of need to local jurisdictions in the State.

Historically, the Department's role in providing assistance has emphasized close personal contact with local officials. Such involvement has established the credibility of the Department with local governments throughout the State. This type of involvement provides an excellent forum for assessing and resolving problems.

Maryland

The Department of Economic and Community Development (DECD) offers technical assistance, coaching, and training in general management and public administration, including financial management. The DECD Training and Management Assistance (TMA) staff is small and it is concerned mostly with administration of the Intergovernmental Personnel Act at the local level. The small TMA staff is augmented by two "when actually employed" financial management experts.

The financial management focus of DECD is on the budgeting process, budgeting controls, and cash management. An attempt is made to tie these components into other management proceses. All financial management assistance by the Department includes help to implement the recommendations.

DECD personnel provide coaching to local staff and policy makers during the installation of a new budgeting or other financial management system. An attempt is made to adjust any new system to fit the local staff capacities. Although accounting is not a particular focus of DECD, when local accounting system changes are required and desired, TMA experts work with a local public accounting firm and city staff to develop the system.

A more in-depth assistance approach occurs during TMA staff visits to Maryland municipalities and counties. An appointment is requested with the local governing body and chief administrative officer. A team of two or more management specialists (usually including a financial management expert) is sent to ask them to talk about their jurisdiction's day-by-day work, the things they are pleased about and their problems. The DECD personnel also describe the ways in which they may be of assistance. If problems surface, DECD may, if requested, do a one- to three-day in-depth study of each particular problem. The results of these studies are given to the governing body along with recommendations on ways to seek a solution and/or identify resources leading to solutions. The solution process recommended may or may not include an offer of DECD help.

Mississippi

The Mississippi Research and Development Center (R&D) was created in 1964 and given the responsibility of facilitating Mississippi's economic growth. Integral parts of the R&D Center's economic development program involve providing planning and management services to local governments. Services and assistance are provided in the areas of public works and engineering, urban design, community appearance, recreation and tourism, housing, community planning, and public administration.

The Public Administration Section, with six staff members, provides financial management assistance to local governments. The four public administrators on staff also provide assistance in personnel, and codes and ordinances. The Section's services are available to 288 municipalities, 82 counties, 10 planning and development districts, the State government, 150 school districts, public hospitals, and other agencies. The public administration budget is approximately one-eighth of the entire community development budget.

The lead agency in the provision of training to local governments in the State is the Mississippi State Cooperative Extension Service. The R&D Center, State associations of local officials, the universities, and planning and development districts, provide input into the development of training programs. The Center participates in the workshops and training sessions sponsored by the Extension Service.

The Center has also prepared how-to manuals on purchasing, budgeting, assessing, and finance. The Center attempts to provide on-site technical assistance in conjunction with the manuals. This on-site assistance also serves as a follow up to training sessions in an attempt to build a capacity at the local level for effective financial management.

Another unit of the Center, primarily funded with a Ford Foundation grant, provides community development services to eight selected communities headed by Black officials. A circuit-rider approach is used to upgrade the management and administrative capacities of these communities. The Unit has a total of seven professionals.

On the whole, the demand for financial management assistance services far exceeds the Center's staffing capabilities to provide such assistance. The present budget severely limits the staff available to provide technical assistance services.

Montana

The Montana Department of Community Affairs (DCA) has a primary function of providing financial and technical assistance to local governments in the areas of human resource development, planning, transportation, fiscal management, and information gathering. The Department of Community Affairs' annual budget for these functions is approximately $11 million. Of this amount, approximately $200,000, or two percent, is devoted strictly to financial management assistance programs for local governments.

This financial assistance to local government is provided principally through the Accounting and Management Systems Bureau, Division of Local Government Services. This Bureau was established in 1972 for the purpose of designing, implementing and maintaining uniform budgetary, accounting and reporting systems for Montana cities, towns, counties, school districts, and single-purpose districts.

During the past few years, the Accounting and Management Systems Bureau has devoted most of its resources to the design and implementation of BARS. The implementation of BARS involves intensive on-site assistance in the conversion of accounting records to the new system. A training manual developed in conjunction with BARS, provides the following: standardized procedures for the processing of accounting transactions; various budget techniques; equipment cost accounting methods; and, a detailed chart of accounts based on national standards. In addition, the DCA also assists in converting manual financial systems to an automated processing mode.

The DCA also provides a series of two-day regional seminars to train local government personnel in such areas as governmental accounting, budgeting, investments, and financial reporting. These seminars also reinforce the local assistance provided for the implementation of BARS. Much of the source materials for the seminars were acquired from the Career Development Center of the Municipal Finance Officers Association (MFOA). The MFOA courses can be adapted to unique situations and are seen as a cost-effective means of providing top quality reference materials.

New Jersey

The Division of Local Government Services is located in the Department of Community Affairs and works in close cooperation with the State Treasury Department. Aside from its function as a regulatory agency, the Division has primary responsibility for providing technical assistance and advice in the area of financial management to local jurisdictions.

The staff of the Division includes 12 auditors in the Bureau of Financial Regulation, who enforce the system of state financial regulation; and, 24 members of the technical assistance staff, housed in the Bureau of Local Management Services. The technical assistance staff deals with such areas of fiscal management assistance as debt management, investment of idle funds, data processing, purchasing systems, budgeting systems, grantsmanship, and general municipal management and organizational studies. The approach of the technical assistance staff emphasizes hands-on assistance rather than production of lengthy written reports. However, technical assistance bulletins are also prepared as needed.

Because the turnover in local personnel is quite high, training programs are necessary to insure acceptable levels of local financial management expertise. To this end, the Division works in cooperation with other State agencies and universities in the development of courses and certification standards for certain local finance officials. In cooperation with the Extension Division of Rutgers University, the Division has developed training courses leading toward certification of local officials. Finance officers, tax collectors, assessors, and municipal clerks participate in these certification programs.

The Division also cooperates with the State Board of Public Accountants in the examination and licensing process for Registered Municipal Accountants. In addition, the Division also maintains liaison with the New Jersey League of Municipalities, the New Jersey Association of Counties, and a host of other organizations representing such groups as clerks, collectors, treasurers, and municipal managers.

The essential concern of the Division of Local Government Services is to promote professionalism in financial management. Fiscal management cannot be separated from general management and must be integrated into the overall management and executive direction of municipalities. Therefore, the Division emphasizes the inseparability of these functions to insure competency in municipal management.

Pennsylvania

The Pennsylvania Department of Community Affairs views financial management assistance as a top priority in its management capacity building efforts. The Bureau of Local Government Services, and its various divisions, has the primary responsibility of providing financial management assistance. The Bureau emphasizes the four basics of financial management: accounting, auditing, budgeting, and reporting, in its consultative, training and informational activities.

The Municipal Training Division operates an extensive network of formal educational training programs for local governments in financial management. Over 17,000 people attended a full range of DCA-sponsored management assistance training courses in 1977. Basic budgeting, auditing and accounting are the fundamental financial management courses offered by the Division. Each of these courses was scheduled for fifteen or more sessions since July 1, 1977. In addition, more sophisticated courses have been offered. The most notable of these are: capital budgeting, life cycle cost analysis, public works cost management, municipal cost analysis, budgeting and municipal management, and cost savings in municipal operations. Training manuals and materials are provided for each course.

The Municipal Consulting Services Division provides a considerable amount of direct consultation in financial management, as well as in other areas of concern to municipalities. The services of the Municipal Consulting Services Division are provided through the DCA's Central Office in Harrisburg and the five regional offices located throughout the State. The Central Office has a staff of twelve professionals, five of whom are assigned to financial management matters. Each regional office has either one or two public administration consultants who devote a significant amount of their time to financial management assistance. These consultative efforts strongly emphasize municipal accounting procedures and municipal budgeting. The interrelationship of accounting and budgeting to properly manage a community is stressed to municipal officers.

Other areas of financial management assistance, such as cash management, capital budgeting, investments, and debt management are dealt with on a more limited basis by the DCA. Recently considerable local interest and departmental emphasis has been placed on pension administration.

Finally, the Information Services Division of the Bureau of Local Government Services responds to local requests for information and publishes several financial management manuals used by municipal officials.

Texas

The Texas Department of Community Affairs consists of nine operating divisions, of which only one, County and Rural Services, actively works in local government financial management areas. Within the County and Rural Services Division there are five staff members who contribute to financial management training; however, none of these have designated responsibilities solely for financial management. The training and technical assistance provided by the DCA is mostly targeted toward small cities (less than 10,000 population).

On the whole, the ability of the DCA to provide financial management assistance is, at best, limited. The Department's budget for financial management services is inadequate in view of the great local need for assistance. There is, in fact, no specific appropriation for financial management assistance services. Existing personnel periodically provide services to individual cities upon request, as time and funds allow.

Because of the aforementioned constraints, the Department can only provide a limited amount of formal training. Such training generally consists of workshops which may cover several subject areas. Consequently, no single subject area can be treated in great detail. This training is provided for both individual cities and council of government-sponsored meetings.

Wisconsin

The primary role of the Department of Local Affairs and Development (DLAD) in financial management assistance is the provision of training to local officials. The Bureau of Community Training Services of the Division of Community Development devotes three full-time positions and $164,000 (half of this from a Federal IPA grant) to sponsor financial management training sessions.

In cooperation with the University of Wisconsin-Extension, the Wisconsin Department of Revenue, various other State agencies, and private organizations, DLAD sponsored over 105 training sessions which drew over 3,000 people in FY 1977-78. Topics included cash management, property tax administration, financial reporting, and general accounting. In addition, the Bureau of Community Management Services provides direct financial management assistance to local jurisdictions on request.

Other forms of assistance provided by the Department of Local Affairs and Development include the distribution of technical assistance manuals for financial management. Toward this end, DLAD, with Title VIII funding from the 1964 Housing and Community Development Act, sponsored the development of an extensive series of training manuals on budgeting and accounting. Other direct technical assistance is provided on request.

Other providers of technical assistance to local governments include the Department of Revenue's Bureau of Municipal Audit, the State Treasurer's Office, regional planning commissions and private consultants. The Bureau of Municipal Audit offers, at cost, an independent post-audit of local government financial records. The State Treasurer's Office provides a service for investing the idle funds of local governments.

TABLE 3

DCA ASSISTANCE EFFORTS

STATE \ TYPES OF ASSISTANCE	How-To Manuals	Purchasing	Budgeting/Assessing	Finance	Accounting	Reporting	Home Rule	Capital Improvement Programming	Grants Management	On-Site Technical Assistance	Advisory Assistance by Phone/Letter	*Training Workshops and Seminars	Accounting	Budgeting	Financial Reporting	Cash Management	Budgetary Perforamnce Measuring Systems	Capital Budgeting	Investments	Revenue Sharing	Grant Management	Anti-Recession Funds	Automatic Data Processing	Cost Management	Property Tax Administration	Auditing
Colorado - Department of Local Affairs	X		X							X		X														
Iowa - Division of Municipal Affairs	X		X		X		X	X	X	X		X	X	X			X	X			X					
Kentucky - Department for Local Government										X	X	X								X	X	X				
Maryland - Department of Economic and Community Development	X		X							X	X	X	X	X	X	X		X	X							
Mississippi - Research and Development Center	X	X	X	X						X	X	X[1]	X	X	X					X		X				
Montana - Department of Community Affairs	X		X		X	X		X		X	X	X	X	X	X	X			X	X		X	X		X	X
New Jersey - Division of Local Government Service	X		X		X					X	X	X[2]														
Pennsylvania - Department of Community Affairs	X		X	X	X	X		X		X		X	X	X	X	X	X	X	X	X	X		X	X	X	
Texas - Department of Community Affairs	X				X					X	X	X	X	X												
Wisconsin - Department of Local Affairs and Development	X		X	X	X	X				X	X	X	X	X	X	X			X	X	X	X	X	X	X	X

[1] Mississippi State University Extension Service provides most of the training

[2] New Jersey provides cooperative arrangements among State agencies and universities for training courses leading toward certification

* In many cases, the DCAs have prepared training manuals for use in their training sessions

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