Contents

PART I	Introduction
	Chapter 1 The Management Control Function
	Planning and Control Activities 4 Strategic Planning 4 Task Control 4 Management Control 5 The Management Control Environment 5 Organizational Structure 6 Organizational Relationships and Members Behavior 6
	Information 7 Efficiency and Effectiveness 11 The Management Control Structure 12
	Types of Responsibility Centers 13 Mission Centers and Service Centers 15 Responsibility Centers and Programs 16 The Management Control Process 18
	Programming 18 Budget Preparation 19 Operating and Measurement 20
	Reporting and Evaluation 20 Characteristics of a Good Management Control System 21 Boundaries of Management Control 22
	Boundaries of this Book 23 Exclusion of Systems Approach 24 Suggested Additional Readings 25
	Case 1-1 Hoagland Hospital 26 Case 1-2 Boston Public Schools 36

1

PART II

Chapter 2	
Characteristics of Nonprofit Organizations	47
Nature of the Nonprofit Sector 48	
Diversity of Demands on Managers 50	
Size and Composition of the Nonprofit Sector 50	
Characteristics of Nonprofit Organizations 52	
The Profit Measure 52	
Usefulness of the Profit Measure 53	
Tax and Legal Considerations 55	
Tax Considerations 55	
Legal Considerations 57	
Service Organizations 59	
Constraints on Goals and Strategies 59	
Diversification through New Ventures 60	
Source of Financial Support 61	
Contrast between Client-Supported and Public-Supported Organization	s 62
Professionals 63	. 02
Governance 65	
Governing Boards in Nonprofit Organizations 65	
Government Organizations 66	
Political Influences 67	
Necessity for Reelection 67	
Public Visibility 68	
Multiple External Pressures 68	
Legislative Restrictions 68	
Management Turnover 68	
Civil Service 69	
Tradition 69	
Barriers to Progress 69	
Summary 70	
Appendix Differences among Nonprofit Organizations 70	
Suggested Additional Readings 74	
Case 2-1 Boston Symphony Orchestra, Inc. 75	
Case 2-2 Metropolitan Institute of Art 81	
Management Control Principles	93
Chapter 3	
General-Purpose Financial Statements	95
Nature of Accounting Principles 95	
Source of Principles 96	
Financial Statements 96	
Balance Sheet 97	
Operating Statement 97	
The Statement of Cash Flows 98	

Features of Nonprofit Accounting 98 Revenues 98 Expenses 101 Significance of Net Income 104 Reporting Expenses and Revenues 105 Contributed Capital and Fund Accounting 106 Capital Contributions 106 Financial Statement Presentation 107 Endowment Fund 108 Plant Fund 109 Other Fund Types 109 Transfers 110 Variations in Practice 111 State and Local Governments 111 Federal Government 112 Problems with Inconsistent Practices 114 Summary 114 Suggested Additional Readings 115 Case 3-1 Brookstone Ob-Gyn Associates (B) 117 Case 3-2 Menotomy Home Health Services 123 Case 3-3 Transitional Employment Enterprises, Inc. 129 Case 3-4 Michael Morris University 136 Case 3-5 City of Douglas 141 Appendix Basics of Financial Accounting 149 Case 3A-1 Brookstone Ob-Gvn Associates (A) 165 Case 3A-2 Early Years Day Care Center 171 Case 3A-3 National Helontological Association 172

Chapter 4
Full-Cost Accounting

Uses of Full-Cost Information 178

Case 3A-4 Gotham Meals on Wheels 175

Pricing 178
Profitability Assessments 179

Comparative Analyses 179

Cost Accounting System Decisions 180

Final Cost Object 180

Intermediate Cost Objects 181

Cost Centers 182

Direct and Indirect Costs 183

Bases of Allocation 183

The Allocation Method 185

Distributing Mission Center Costs to Cost Objects 187 Summary of Cost Accounting System Decisions 189

Interactive Effects 192

Complicating Factors 192
Defining Direct Costs 192
Appropriateness of Indirect Costs 193
Standard Costs 194
Capital Employed 196
Opportunity Costs 196
Imputed Costs 197
Problems with Using Full-Cost Information 197
Froblems with Statistical Systems 198
Published Cost Principles 198
Appendix A Cost Accounting Terminology 100
Appendix B The Reciprocal Method of Cost Allocation 200 Suggested Additional Readings 202
Case 4-1 Crosswell University Hagnital 202
Case 4-4 Jellerson High School 212
Case 4-3 Rosemont Hill Children's Contan 210
Case 4-4 Charles W. Morgan Museum 222
Chapter 5
Measurement and the arms
Measurement and Use of Differential Costs
The Nature of Cost Analyses for Alternative Choice Decisions 236 Cost Behavior 237
Fixed Costs 237
Step-Function Costs 237
Variable Costs 238
Semivariable Costs 238
Total Costs 240
Breakeven Analysis 242
Unit Contribution 244
Fundamental Assumptions of Breakeven Analysis 245 Estimating the Cost VI.
23th atting the Cost-volume Relationship 247
High-Low Method 248
Scatter Diagram Method 248
Least Squares or Linear Regression Method 249 Incremental Method 249
Element Analysis 250
Complicating Factors 250
Use of Information from Full-Cost Reports 250
Differential Costs versus Variable and Fixed Costs 252
Contribution to Overhead Costs 254
The Contract-Out Decision 255
Nature of the Contract-Out Decision 255
Absence of General Principles 256
Role of Depreciation 256
The Move toward Privatization 257

Summary 259 Suggested Additional Readings 259 Case 5-1 Centerville Home Health Agency 261 Case 5-2 Springfield Handyman Program 264 Case 5-3 Abbington Youth Center 265 Case 5-4 Lakeside Hospital 268 Case 5-5 Town of Belmont 273
Chapter 6 Pricing Decisions
Relevance of Pricing to Management Control 278 Client Behavior 279 Measure of Output 280 Behavior of Managers 280
Normal Pricing 281 Rationale for Normal Pricing 281 Full Cost 283
Estimating the Margin 285 The Pricing Unit 285 Prices Influenced by Outside Forces 287
Variations from Normal Prices 288 Cost Reimbursement 288 Market-Based Prices 289
Prospective Prices 290 Danger of Normal Pricing 290 Pricing Subsidized Services 290
Subsidy of Certain Services 291 Subsidies for Some Clients 292 Subsidies for All Clients 293
Free Services 294 Public Goods 294 Quasi-Public Goods 295
Charges for Peripheral Services 296 Other Free Services 297 Transfer Prices 297
Motivational Considerations 297 Setting Transfer Prices 298 Measure of Efficiency 299
Summary 300 Suggested Additional Readings 301 Case 6-1 Harlan Foundation 302
Case 6-2 Grindel College 305 Case 6-3 Town of Waterville Valley 310 Case 6-4 White Hills Children's Museum 319

Case 6-5 National Youth Association 322

PART III	Management Control Systems	325
	Chapter 7	323
		327
	The Management Control Environment The Organizational Structure 328 Responsibility Centers 329 Types of Responsibility Centers 329 Criteria for Profit Centers 330 Profit Centers and Managerial Autonomy 332 The Program Structure 332 Components of a Program Structure 334 Criteria for Selecting a Program Structure 336 Matrix Organizations 337 The Information Structure 340 Information for Comparative Purposes 341 The Account Structure 341 Administrative Factors 343 Types of Rules 343 Types of Rules 343 The Reward Structure 344 Behavioral Factors 345 Goal Congruence 346 Cooperation and Conflict 347 The Bureaucracy 348	327
	Role of the Controller 349 Cultural Factors 350	
	Management Attitude 350 Other Aspects of Culture 351	
9	Summary 351 Suggested Additional Readings 352 Appendix A A Program and Expense Element Structure 352 Appendix B Types of Accounts in the Account Structure 355	
(Case 7-1 Rural Health Associates (A) 358 Case 7-2 Piedmont University 367 Case 7-3 New York City Sanitation Department 371 Case 7-4 Office of Economic Opportunity 374 Case 7-5 Lomita Hospital 380	
C	Chapter 8	
	<u>Programming</u>	392

Nature of Programming 392

Programming and Budgeting 392

Programming and Strategic Planning 393

Goals, Objectives, and Programs 394 Linking Goals, Objectives, and Programs 397 Participants in the Programming Process 398 Planning Staff 398 Role of the Controller 399 Process for Considering a Proposed New Program 400 Initiation 400 Screening 400 Technical Analysis 402 Political Analysis 402 Decision and Selling 403 Formal Programming Systems 405 The Planning, Programming, and Budgeting System 406 The Programming Period 406 Steps in a Formal Programming System 407 Summary 410 Additional Suggested Readings 410 Case 8-1 Suard College 411 Case 8-2 Wright State University 414 Case 8-3 South Brookfield Hospital 419 Chapter 9 Program Analysis Benefit/Cost Analysis 431 Status of Benefit/Cost Analysis 432 Role of Benefit/Cost Analysis 432 Clarifying Goals 434 Proposals Susceptible to Benefit/Cost Analysis 435 Benefit/Cost as a Way of Thinking 437 Some Analytical Techniques 438 Capital Investment Analysis 438 Payback Period Analysis 438 Present Value Analysis 438 Net Present Value Analysis 439 Benefit/Cost Ratio 441 Internal Rate of Return 441 Choice of a Discount Rate 442 Problems Associated with Low Discount Rates 444 Incorporating Risk into the Analysis 446 Use of Models 447 Limitations of Models 449 Quantifying the Value of a Human Being 449 Summary 452 Appendix The Concept of Present Value 453

Suggested Additional Readings 454

Case 9-1 Yoland Research Institute 458 Case 9-2 Downtown Parking Authority 460 Case 9-3 New York City Asphalt Plant (A) 463 Case 9-4 New York City Asphalt Plant (B) 468 Case 9-5 Disease Control Programs 471	
Chapter 10 Operations Budget	
Operations Budgeting	481
The Capital Budget 481	701
General Nature of the Operating Budget 482	
Relationship between Programming and Budgeting 482 Two-Stage Budgets 483	
Contrast with For-Profit Companies 483	
Components of the Operating Budget 484	
Revenues 404	
Expenses and Expenditures 487	
Output Measures 480	
Steps in the Operations Budgeting Process 490	
- "Sommation of Guidelines 401	
Preparation of Budget Estimates 492 Review of Budget Estimates 494	
Budget Approval 499	
Summary 499	
Appendix Some Budget Ploys 500	
Suggested Additional Readings 500	
Case 10-1 Orion College 510	
Case 10-2 Moray Junior High School 515	
Ouse 10-3 Urban Arts Institute 521	
Case 10-4 Fernwood College 536 Case 10-5 Rush-Presbytaring St. J.	
Case 10-5 Rush-Presbyterian-St. Luke's Medical Center 544	
Chapter 11	
Control of Operations	,
Financial Control in General 567	567
Types of Financial Control 568	
Flow of Spending Authority 569	
Budget Adjustments 571	
Financial Control via the Accounting System 572	
General Characteristics 572	
Encumbrance Accounting 574	
Financial Control via Auditing 574 Internal Auditing 574	
External Auditing 577	
Performance Control 578	
Relationship to Task Control 578	
Tush Comion 1/8	

Relationship to Productivity 579

Role of Operational Auditing 580

Project Control 585

Specification of Work Packages 585

Preparation of Schedules and a Budget 586

Reporting of Outputs and Costs 586

Revisions to the Plan 586

Behavioral Considerations 586

Senior Management Involvement 586

Importance of Adequate Staffs 586

Balance between Freedom and Restraint 588

Motivation 588

Summary 591

Appendix The Encumbrance Accounting Process 592

Suggested Additional Readings 595

Case 11-1 Hospital San Pedro 596

Case 11-2 Northeast Research Laboratory (A) 599

Case 11-3 Northeast Research Laboratory (B) 606

Case 11-4 WIC Program 619

Chapter 12 Measurement of Output

630

Basic Measurement Categories 631

Social Indicators 631

Results Measures 632

Process Measures 632

Linkage among Measures 636

Issues in Selecting Output Measures 637

Subjective versus Objective 638

Quantitative versus Nonquantitative 638

Discrete versus Scalar 639

Actual versus Surrogate Measures 639

Quantity versus Quality 640

Implementing Output Measures: Some General Propositions 642

Proposition 1. Some Measure of Output Is Usually Better than None 642

Proposition 2. If Feasible, Compare Output Measures to Measures

Available from Outside Sources 643

Proposition 3. Use Measures that Can Be Reported in a Timely

Manner 644

Proposition 4. Develop a Variety of Measures 646

Proposition 5. Don't Report More Information than Is Likely to

Be Used 647

Proposition 6. Don't Give More Credence to Surrogates than Is Warranted 648

Comparison of Output Measures for Strategic Planning and Management Control 648 Precision 648 Causality 649 Responsibility 649 Timeliness 650 Cost 650 Relation to Program Elements 650 Summary 650 Suggested Additional Readings 651 Case 12-1 Morazan and Izaltenango 652 Case 12-2 Davidson Community Health Center 661 Case 12-3 Charlottesville Fire Department 673	
Chapter 13	
Reporting on Performance: Technical Aspects	679
Types of Information 679	0,,
Types of Organizations 680	
Businesslike Organizations 681	
Fixed-Resource Organizations 681	
Fixed-Job Organizations 682	
Role of Responsibility Centers 682 Variance Analysis 682	
Volume Variances 683	
Mix Variances 685	
Selling Price Variances 685	
Rate Variances 685	
Usage/Efficiency Variances 686	
Use of Variance Analysis 687	
An Illustration of Variances in a Hospital Setting 688	
variance Analysis and Management Control 604	
other Measures 695	
Summary 695	
Appendix Computing Variances 696	
Suggested Additional Readings 699	
Case 13-1 Pacific Park School 700 Case 13-2 Arnica Mission 702	
Case 13–3 Nucio Hospital 704	
Case 13-4 University Daycare Center 705	
Chapter 14	
Reporting on Performance: Management Control Reports	713
Types of Reports 713	
Information Reports 713	

Performance Reports 714 Sources of Information 715 Contents of Control Reports 715 Relationship to Personal Responsibility 715 Comparison with a Standard 718 Focus on Significant Information 720 Technical Criteria for Control Reports 722 The Control Period 722 Bases for Comparison 723 Timeliness 723 Clarity 723 Integration 725 Benefit/Cost 725 An Illustration 725 Use of Control Reports 728 Feedback 728 Review and Identification 729 Investigation 731 Action 731 Summary 732 Suggested Additional Readings 733 Case 14-1 Rural Health Associates (B) 734 Case 14-2 Cook County Hospital 739 Case 14-3 Union Medical Center 749 Chapter 15 Operations Analysis and Program Evaluation **Basic Distinctions 757** Differences between Operations Analysis and Program Evaluation 758 Operations Analysis 759 Need for Operations Analysis 759 Impetus for Operations Analysis 759 Who Conducts the Operations Analysis? 760 The Operations Analysis Process 761 **Program Evaluation 767** Impetus for Program Evaluation 767 Problems in Program Evaluation 768 Types of Program Evaluations 772 Steps in Making an Evaluation 776 Summary 778 Suggested Additional Readings 779 Case 15-1 Bureau of Child Welfare 780 Case 15-2 Comprehensive Employment and Training Act 786 Case 15-3 Timilty Middle School 789

Case 15-4 Massachusetts Housing Finance Agency 802

PART I	Implementing a Management Control System	011
	Chapter 16	811
	System Design and Installation	813
	Necessary Preconditions 813	013
	Senior Management Support 814	
	Support from Outside Agencies 815 System Designers 816	
	Almost Enough Time 817	
	Problems in System Design and Implementation	
	Problems in System Design and Implementation 818 Attitudes of Operating Manager 818	
	Identifying Information Needs 821	
	Requirements of Outside Agencies 823	
	Transition from the Old to the New System 824	
	Need for Education 825	
	Steps in System Design and Installation 826	
	Phasea Installation 827	
	Role of Personal Computers 829	
	Concluding Comment 830	
	Summary 831	
	Suggested Additional Readings 833	
	Case 16-1 United Way 834	
	Case 16-2 North Suffolk Mental Health Association 840 Case 16-3 Hennepin County 854	
	Chapter 17	
	Summary: The Well-Managed Nonprofit Organization	866
	The Basic Problem 866	000
	Organizational Relationships 867	
	Management Control Principles 868	
	Account Classification 868	
	External Financial Reporting 868	
	The Accounting System 869	
	Management Accounting 869	
	Pricing Decisions 870	
	The Management Control Environment 871	
	Responsibility Structure 871	
	Program Structure 871 Account Structure 872	
	The Control Process 872	
	Programming 872	
	Operations Budgeting 873	
	Control of Operations 874	
	Measurement of Output 875	
	* * * * * * * * * * * * * * * * * * *	

Reporti	ng on Performance 876
Evaluat	tion 877
System	Design and Installation 878
Main Line	s for Improvement 878
Concludin	g Remarks 879
Case 17-1	The Johns Hopkins Hospital 880
	Hoagland Hospital (B) 901
4 .1 -	
Author In	ıdex

Author Index	903
Case Index	907
Subject Index	909