Expanding the Financial Literacy of Program Managers in Public Human Service Organizations

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Introduction

The effects of the Great Recession of 2008 to 2013 on public human service organizations in the Bay Area were substantial (Graaf, Hengeveld--Bidmon, Carnochan, Radu, Austin, 2014). Child welfare services, domestic violence programs, programs helping the elderly and disabled, welfare to work services, and other social service programs were negatively impacted by the Great Recession (Graaf et al., 2014). The 11 county social service agencies included in the Graff et al. (2014) study reacted to this in different ways. For example, some reduced the actual number of staff members, others temporarily furloughed public employees, and still others reduced the number of hours worked by each staff member in order to keep all or most employees. Some counties increased partnerships with communities and developed innovative ways to continue providing services at reduced costs, while others eliminated services and programs; many counties engaged in some combination of efforts to maintain or cut programming and staff that they believed best fit the unique needs of their diverse counties (Graaf et al., 2014).

These decisions were made with varying degrees of transparency and program managers participation; some counties engaged with their staff in transparent practices, while others expressed some regret about not sufficiently engaging staff in the decision-making process

(Graaf et al., 2014). Due to the nature of their work, their routine interactions with clients, program managers typically have a greater understanding of community needs than do finance managers, making their involvement in the decision-making process helpful in ensuring that changes to programs and services are made in ways that maximize services the community needs (D. Kaplan, G. Hermann, T. Blue, personal communication, August 21, 2015; R. Manchia, personal communication, April 27, 2015). Among other findings, Graaf et al. (2014) identified the need for program staff, specifically program managers, to learn more about the financial management processes operating in their agencies and programs in order to expand their financial literacy and substantially contribute to those decision-making processes.

Since each county agency and programs within each agency operate with different policies and procedures, this exploratory analysis focuses on identifying concepts that are shared across counties. After interviews with CFOs from human service agencies in the Bay Area, the shared concepts were grouped within two main themes: cost allocations and funding sources. These are basic concepts that will be elaborated in this essay with the intention of identifying a "broad introductory framework (that is) empowering (and provides) clear beginnings" in order to facilitate discussions between program managers and finance managers that can result in increased financial literacy for an increased ability to engage in financial decision-making (J. Wyman, personal communication, August 25, 2015).

Literature Review

The Great Recession took a toll on human services, increasing need and reducing funding (County Welfare Directors Association of California & California State Association of Counties, 2009; Graaf et al., 2014; Johnson, Oliff, & Williams, 2011a, 2011b, 2012). The recession created difficult-to-manage realities for human service agencies, the impact of which will be felt for years to come (Graaf et al.; Johnson, Oliff, & Williams, 2011b; Johnson, Oliff, & Williams, 2012). This reality has been explored in several fairly recent studies, but specifics about engaging program managers in the process of managing finances in order to maximize services during difficult financial times has not received much attention.

Discussions about the survival of human service organizations during times of financial difficulties can be found in the literature over the past three decades. Hodges (1982) noted the need for financial coordination among various organizational departments that may sometimes work against each other. Others have discussed planning for and avoiding financial difficulties by providing financial training for social workers (Hackshaw & Robertshaw, 1988) and creating and implementing strategic plans that account for financial complexities (Dvetanovic, 1990). Mordock (1989) discussed ways in which human service organization can manage financial difficulties, describing structural, political and other strategies that can be employed to better meet financial obligations. Ezel (2001) focused on helping administrators in human service organizations better understand and manage finances, with more specific discussions about financial management practices.

Other related literature emphasizes leadership and communications skills needed by administrators to effectively engage direct service providers (Sims--Vanzant, 2007; Busch, 2006). While there is an extensive literature on financial management in nonprofit organizations (Jean-Francois, E., 2014; RAND Health & RAND Education, 2012), there is far less attention to financial management in public sector human service organizations and even less focused on engaging program managers in that process. A notable exception, Schmidt & Austin (2004), discuss making efficient use of multiple funding sources in order to maximize client services at a county human service agency. More recent literature on financial literacy focuses on the process of helping clients/consumers develop personal budgeting skills, with far less attention to the financial management of public human service programs (Kindle, 2013).

Methods

Based on a recent study of the impact of the Great Recession on county human service organizations (Graaf et al., 2014), a follow-up exploratory analysis was designed to document the financial decision-making processes in four counties (a subset of the 11 counties) in order to identify key concepts or practices for use in a regional training tool for program managers at public human service organizations. The data were gathered primarily through interviews with Chief Financial Officers. The topics of these interviews are noted in their priority rankings and related questions in Figure 1.

Figure 1. Content Priorities for Financial Literacy Training

Rank	Topic	Main Points/Questions
1	Drawdown and Match	● What are “drawdown” and “match”? ● What services drawdown higher percentages of state and/or federal monies? What services require lower matches? ● Which staff positions generate revenue?
2	County Dollar	● Where does the county dollar come from? ● What affects the amount of the county dollar? ● How does it operate in relation to federal and state dollars? ● What are the political implications of managing county funds?
3	Financial Modeling and Time Studies	● What is financial modeling? ● What role do time studies play in creating and managing budgets? ● How are costs allocated, and what are the implications of allocations?
4	Allocations	● What are allocations, and how are they made? ● How are allocations used in claims? ● What is the impact of overspending and underspending? ● Which allocations are distributed during the fiscal year and how? ● What is closeout, and how does that process work? ● How does this all affect the county’s planning?

5	Budgeting	● How do organizations build budgets, and project costs and savings? ● How do they hold themselves accountable?
6	Realignment	● What is realignment? ● What programs do 1991 and 2011 realignments affect? ● How much of a county's budget is represented by realignment? ● What affects the amount of realignment funds a county will receive each year, and how does this relate to the need for services?

A current and comprehensive financial management training manual used in public human service programs for finance managers was also reviewed (Haynes, 2014). The major content areas covered in the existing cross-country training manual are noted in Figure 2. Since there appear to be no other comprehensive training materials related to local financial management issues in public human service organizations, it became clear that a basic primer for current staff and future trainees would be useful.

Figure 2. Table of Contents for Existing Training

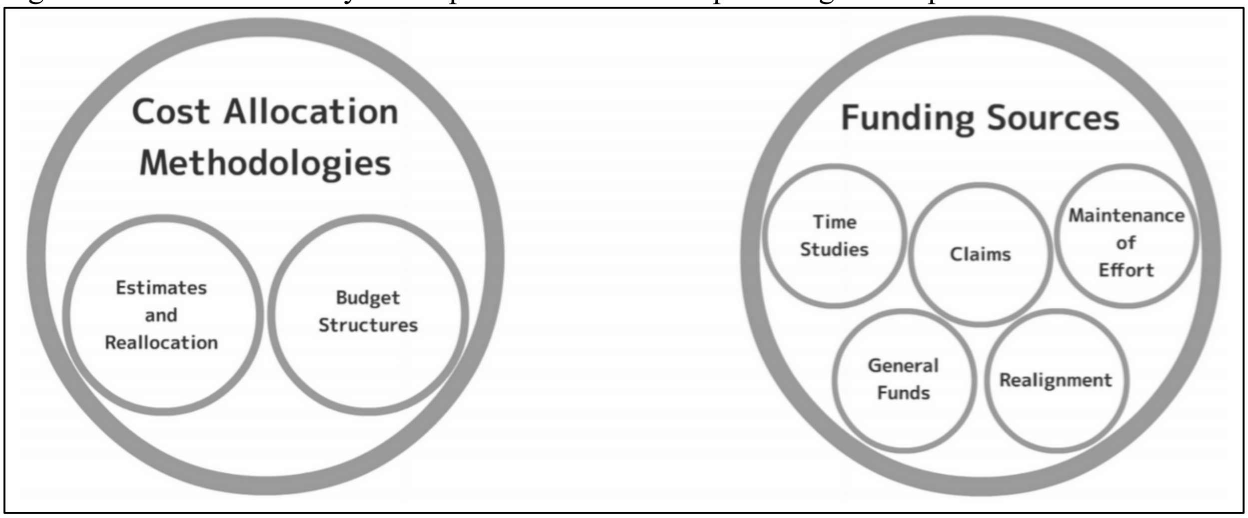
Section	Title
1	Federal Funding
2	State Budget
3	Realignment
4	Assistance Claims
5	Time Studies
6	County Expense Claims
7	Advance Planning Document
8	Budgeting

(Haynes, 2014)

Findings

Based on this data gathering process, two major themes emerged: cost allocation methodologies and multiple funding sources. The theme of cost allocation methodologies includes the topics of funding estimates and reallocation as well as budget structures. The theme of multiple funding sources includes the topics of time studies, claims, maintenance of effort, general funds, and realignment. The components of these two themes are highlighted in Figure 3.

Figure 3: Financial Literacy Concepts Needed to Anticipate Program Expansion and Contraction



Understanding these themes at a basic level can help program managers in all counties build on their capacity to anticipate program expansion and contraction, as well as prepare them to better engage in financial decision-making. Finance managers can then work with program managers to develop county- and program-specific financial literacy through formal and informal training processes (J. Wyman, personal communication, August 25, 2015). These can take the form of one-on-one trainings when program managers are first hired (J. Huang, personal communication, August 21, 2015) and explanations of processes as they occur (G. Hermann, personal communication, August 21, 2015). This can be an empowering experience, allowing finance managers to move away from being viewed as “controllers” of finances who place restrictions on what services program managers can offer and instead filling the role of “enablers” who works with program managers to facilitate the delivery of services needed by their specific communities (G. Hermann, personal communication, August 21, 2015). Program managers can break free of the constraints they may feel when considering how to run programs within the financial restrictions placed on them, instead feeling empowered to think unconventionally and explore new possibilities for service delivery (D. Kaplan, personal communication, August 21, 2015; R. Manchia, personal communication, April 27, 2015). They can then dialogue with finance managers to figure out how to make their ideas work, moving beyond an interaction that simply communicates an approval or denial from the finance managers to the program managers, but taking the time to make sure both parties understand the need for services and funding implications (D. Kaplan, G. Hermann, & T. Blue, personal communication, August 21, 2015; R. Manchia, personal communication, April 27, 2015).

Cost Allocation Methodologies

Cost allocation is a planning process for distributing the revenues received by a human service agency (often involving millions of dollars) for the annual delivery of services. The planning of an annual budget involves the extensive estimation of future revenues since the array of needed services that are eligible for reimbursement or matching funds can only be estimated. The estimates are also affected by changes in local, state or federal policies as well as administrative guidelines (e.g. All County Letters from the state) on how funds can be used. In essence, considerable experience and expertise are needed to project the expenditure of hundreds of millions of dollars over the course of a year. Since most of the agency's expenditures are only reimbursed after they have been expended, counties do not know how much money will be received until they know how much money they have spent (e.g. imagine trying to plan your household budget without knowing how much money you will receive in a given year, which purchases will be reimbursed or not, and how the "rules" might change regarding how you can receive and spend money). This complex process can be best understood by focusing on: a) estimates and reallocation and b) budget structures.

Estimates and reallocation. The projections of revenues and expenses often represent "educated " estimates based on the previous year in addition to any new information related to new regulations or changes in community needs as well as projected new costs associated with new facilities and/or programs. Counties often use budget projection models to simulate future expenditures and revenues. Given the need for continuous revisions, this is an ongoing process due to changing conditions. For example, new programs developed after budget estimates have already been made may require the reallocation of funds in order to support start-up costs of a new program. A similar reallocation process may be needed when new funding restrictions are introduced (e.g. changes in federal or state regulations) that were not known when the budgets were developed.

Budget structures. All counties, and even different departments/programs within counties, develop budgets in slightly different ways. These differences affect the manner in which financial decisions impact not only a program's budget but also the effectiveness of its services. For example, some counties fund office assistants within specific service programs while other counties fund them through their overall general administration budget. As a result, reallocating work hours of office assistants may impact the budget of programs in some counties but not in others. It is important for program managers and finance managers to be in continuous communications in order to more fully understand the implications of financial decisions related to the management of human resources as well as the management of direct service funds and other areas of the organization.

Diverse Funding Sources

Funding sources are often directly impacted by the rules and regulations located in federal, state, and county social and administrative policies. The largest sources of state and federal funding involve the use of times studies and claiming processes needed to justify cost reimbursements. Other significant sources of funding include county general funds, state realignment funds, and maintenance of effort funding.

Times studies. Time studies are used to document the time allocated by staff to different work activities and are used to document the reimbursement claims for costs incurred in the delivery of services. Since this process is managed differently in each county, program managers need to consult with their finance managers to increase their understanding of how the time studies need to be completed in order to maximize the generation of revenues. For example, there are different claim codes for the same activity that can be used by staff with different credentials in order to claim additional funds as noted in Example 1.

Example 1. Time Studies in Napa County Department of Health and Human Services

The agency's use of funds is based on the use of time. For example, general case management codes will drawdown less money than health-related case management codes, so whenever possible, it makes fiscal sense to use health codes to account for one's time. This is only possible in some situations, because the use of certain codes requires staff to possess certain credentials (e.g., a person with a bachelor's degree in nursing may be eligible to use the health code while someone with a bachelor's degree in social work may not). Whether it is appropriate to use certain codes also depends on the specific services provided to the client, requiring fiscal managers to engage with program managers to truly understand how time is being spent.

(C. Haynes, personal communication, March 17, 2015)

Claims processes. While cost allocation processes help develop budget plans to guide future spending and time studies establish guidelines for allocating the funding, the claims process represents specific justifications for securing the revenues. As a result of the claims process, the county is able to receive the actual funds needed to cover most or all of the cost associated with the delivery of services. Some services have higher claims potentials than others, potentially generating 50%, 75%, or even 100% funding.

Program managers who understand how different services generate different levels of funding are more equipped to participate in financial decision-making processes related to the expansion or contraction of services. It is also important to know that some claim codes may allow the county to access more state and federal money. Since there are numerous factors to take into account when determining which codes can be used, program managers need to be in continuous communications with their finance managers when seeking to maximize the claims process for expanding or reducing services as noted in Example 2.

Example 2. Claims Process in San Mateo County Human Services Agency

> To maximize the amount of money a county can receive through the claims process, it is important to understand the relationship between (a) county general funds and (b) state and federal funds. For some programs, state and/or federal matching funds are capped. Because of this, it makes fiscal sense to stop spending county general funds on those programs once the county receives the maximum allowed state and/or federal funds. For other programs, the state and/or federal match is uncapped. It makes fiscal sense to fund those uncapped programs as much as possible in order to collect as much state and/or federal money as possible. In order to ensure the agency provides services the community needs in a way that allows the agency to maximize the state and federal funds it can receive, it is necessary for fiscal and program managers to work together when making claims-related decisions.

(R. Manchia, personal communication, April 27, 2015)

General funds. The term "county general funds" refers to money that comes directly from the county budget that is supported primarily by local taxes. These funds are not usually tied to a specific a program/service and may allow for more discretionary use. County funds are often used to: (1) fund programs that are not eligible for state or federal funding and (2) provide the required "matching" funds needed to “draw down” state and/or federal funding. The amount of general funds available in each county varies based on numerous factors (e.g. size of the county, local economy and tax base, the role of publicly-elected officials, and the role of advocacy groups and their impact on those officials) as illustrated in Example 3.

Example 3. General Funds in San Francisco City & County Department of Human Services

> General funds are often the focus of county-level decision-making. During a recession, as available general funds are reduced, administrators must determine which programs and services should be eliminated, continued, or expanded. Understanding the way general funds leverage state and federal funds is crucial. Programs that rely primarily on state and federal funds may impact the county budget only minimally. For example, in the CalFresh program, administrative expenses are covered 15% with general funds and 85% with state and federal funds, and CalFresh benefits provided to clients have no general fund share. This means a relatively small general fund investment in CalFresh leverages a relatively large benefit. Other categories of cost may have a significantly higher share of general funds or, in some cases, be 100% paid for with general funds. When building a reduction plan for general funds, decision makers have to be aware of the amount of leveraged state and federal money, and ultimately, the amount of client benefit they will be giving up in order to remain financially viable.

(D. Kaplan, personal communication, March 5, 2015)

Maintenance of effort funds. Maintenance of Effort (MOE) can be thought of as matching or deductible funds for programs. The state can spend uncapped funds for services that are covered by an MOE. For example, CalWorks and In--Home Support Services funding are based on the county's contribution of an initial amount that varies between various programs/services and between counties. The county can use general funds and realignment funds, discussed below, to cover the "deductible" for those services. Counties seek to maximize these MOE-related funds because the cost to the county does not change regardless of how many clients are served. As a result, there is generally less budgetary concern with services covered by MOEs in contrast to funding related to services covered by claims as noted in Example 4.

Example 4. Maintenance of Effort Funds in Monterey County Social Services Department

> With regard to the CalWorks and In-Home Support Services (IHSS) programs, the county is responsible for a set amount of money, which can be thought of as a deductible, for both programs. CalWorks, for example, required a county payment of $9,000,000 while IHSS required a county payment of $1,800,000. Even if the county were to spend $40,000,000 on CalWorks and $10,000,000 on IHHS, their costs remain the same. The state then covers all other costs with no cap. It makes sense for the county to maximize their use of these programs, because their costs remain the same regardless of the amount of services provided or number of clients served.

(W. Russell, personal communication, April 30, 2015)

Realignment funds. The term “realignment funds” refers to the decisions by the State of California in 1991 and 2011 to transfer state tax-generated funds to the counties to address local priorities [insert refs]. The amount of state funding available for each county varies according to its population size and local tax base. Since realignment funds come from tax dollars, the state's economic climate significantly impacts the amount of money available (the better the economy, the more taxes being collected, the more realignment funds available). This has an inverse relationship with the need for social services, as social services are in higher demand when the economy is doing poorly. Since the use of realignment funds vary across counties in terms of how service programs are affected, it becomes increasingly important for program managers to consult with finance managers to increase their understanding of the role of these funds throughout the organization as illustrated in Example 5.

Example 5. Realignment Funds in Sonoma County Human Services

In this agency, realignment funds account for over 33 percent of the budget, totaling approximately $70,000,000. Realignment funds, like county general funds, allow a great deal of flexibility. As such, programs that receive more realignment funds than others may have greater flexibility when it comes to defining services. For those programs, times studies and claims may not be as important, so it is necessary for the staff members who manage those programs to be well-versed with the functioning of realignment funds. Because of the differences in agency structures across counties, the impact of realignment funds may vary. However, there are some programs that are the same regardless of county, such as CalFresh and MediCal.

(C. Vanden Heuvel, personal communication, April 28, 2015)

Practice Implications

Expanding financial literacy is necessary if program managers and finance managers are going to work together to maximize client services while remaining financially viable. Ensuring program managers understand the concepts noted in this essay is only a first step toward true financial literacy, with additional initial and on-going county- and program-specific trainings being a necessary component of these efforts. Each county’s financial managers can determine the best method for expanding on a foundational cross-county training based on the findings of this study as discussed below. Each county's financial and program managers must also learn how to work with each other to meet common goals, focusing on the issue of organizational communication, also discussed below.

When considering practice implications, there are a number of relevant questions that should be given consideration. These may not be addressed in this study, but have been noted as significant factors when trying to move toward a more collaborative relationship between the different staff groups in county human service agencies. These questions are presented in Figure 4, categorized by two main themes: Programs and Services, and Administration and Organization.

Figure 4. Questions for Consideration of Practice Implications.

Programs and Services	**Administration and Organization**
What does developing this financial decision-making capacity have to do with meeting changing community needs? How can one engage in effective communication across disciplines? How significant are county funds in all decisions related to programs and services?	How centralized or decentralized is financial decision-making in your specific county, and what are the implications of this structure? What is the role of the agency director in promoting financial literature? How well prepared is your county for unanticipated declines in realignment funds?

Staff Development

A cross-county training program based on the findings in this exploratory analysis could focus on basic agency finance topics that include cost allocation methodologies and diverse funding sources. It is important for this training to emphasize the need to develop county-specific knowledge about each topic covered, because there are many differences in how finances are managed between counties.

A second step in developing financial literacy could include focusing on topics that are the same for all programs in the county and reviewing "big picture" concepts specific to the county. Finance managers from each county share more detailed information in a variety of formats, including county-specific training similar to the primer described above. The second step could also include the general knowledge needed to understand county-wide decisions related to program expansion and contraction. By making county finance managers available to program managers to discuss any questions, it is also possible to keep program managers updated on ever-changing human service financing.

These steps provide finance managers with different ways of educating program managers by using a training manual, group presentations, and one-on-one or small group meetings to discuss program specifics.

Organizational Communication

With regard to organizational communications, a full understanding of the implications of program expansion and contraction requires both finance and program knowledge. Decisions to reduce and add services need to be aligned with budgeting processes and calls for the capacities to speak "finance language" and "program language". This "bilingual" capacity is need for program managers to understand how the agency maintains financial viability in order to run programs and finance managers to understand the importance of responding to changing community needs. Additionally, any prejudicial perceptions that finance and program staff may have about each other need to be addressed in order to move toward a more collaborative relationship. In essence, the staff charged with managing finances and the staff charged with managing programs need to engage in ongoing constructive dialogue in order to promote effective organizational communications.

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