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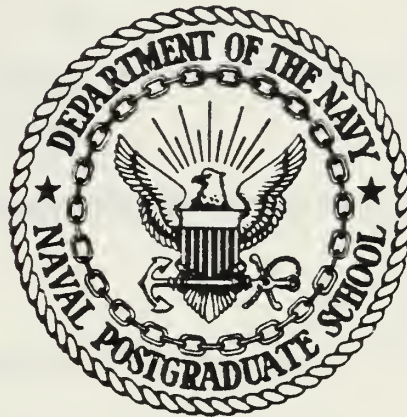






# NAVAL POSTGRADUATE SCHOOL

Monterey, California



## THESIS

MANAGEMENT CONTROL SYSTEMS IN  
NOT-FOR-PROFIT ORGANIZATIONS: A CASE STUDY

by

Jay R. Benecke  
Thomas K. Quigley

December 1982

Thesis Advisor:

S. S. Liao

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Management Control Systems  
in  
Not-for-Profit Organizations: A Case Study

by

Jay R. Benecke  
Commander, United States Navy  
B.S., University of Missouri, 1967

and

Thomas K. Quigley  
Lieutenant Commander, United States Navy  
B.A., Moorhead State University, 1971

Submitted in partial fulfillment of the  
requirements for the degree of

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from the

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December 1982



## ABSTRACT

Management control has been defined as "the process by which management assures that an organization carries out its strategies effectively and efficiently." Rapidly rising costs evidenced over the past decade have resulted in increased emphasis on these qualities in all organizations, particularly those in the public sector or similar nonprofit, service-oriented organizations where management controls have historically been lacking. This thesis investigates the requirement for and feasibility of developing a formal management control system in these organizations. The key traits, characteristics and standards important to management control are developed from a literature survey and contrasted against procedures identified in a field study as existing in a nonprofit organization. The authors conclude that a requirement for a formal management control system exists and make recommendations for implementing such a system utilizing tailored output measures and a program budget structure.



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## I. INTRODUCTION

### A. GENERAL

The process of management control has existed as long as organizations have been in existence, but it has not been the subject of extensive systematic study until fairly recently.

As high inflation has plagued the economy for the past decade and both private and public-sector spending has accelerated, the public has become increasingly concerned about how its money is spent. As a result, legislators and government officials, as well as the general public, have become interested in more than financial accountability. They are now interested in knowing whether organizations that are using public or privately donated funds are achieving their goals within the parameters of the law and in an efficient and economical manner. According to most authorities, it is the process of management control that enables management to achieve these objectives [Ref. 1: p. 3].

This thesis project is a study of management control in nonprofit organizations. The study includes a review of management control procedures in general and an evaluation of management controls at a local nonprofit organization. The organization chosen for this project is the Monterey County Society for the Prevention of Cruelty to Animals (MCSPCA). The MCSPCA was selected because of its similarity to nonprofit government organizations, its proximity to the Naval Postgraduate School, and the fact that it is a self-contained organization where a complete management control system can be evaluated and developed if necessary.





## B. SPECIFICATION OF RESEARCH

The purpose of the project is to evaluate current management control practices at a nonprofit organization to determine the requirement for a management control system in such an organization and, if required, demonstrate the feasibility of developing a formal system by using the MCSPCA as a test case.

## C. RESEARCH METHODS

The first phase of the study was a review of current literature on management control procedures and systems in nonprofit organizations. This literature review provided the basic knowledge which was applied in the next phase of the study. A summary of this review is provided in Chapter II of this paper which is entitled "Management Control in Nonprofit Organizations".

The next phase of the study was an on-site field study of the MCSPCA organization and its policies, procedures and practices relating to management control.

## D. ORGANIZATION OF PAPER

The organization and contents of this paper are briefly summarized as follows:

Chapter II provides an overview of management control and management control practices that are characteristic of well managed nonprofit organizations. This section is based primarily on a literature review on management control in nonprofit organizations.

Chapter III presents a short chronicle of the history of the MCSPCA and a sketch of its current operational structure, goals and financial status. This section is included to familiarize the reader with the organization chosen for this study.



Chapter IV describes current management control practices at the MCSPCA. This description is based on an evaluation of the existing practices during the on-site field study.

Chapter V examines the various aspects and problems related to measuring performance. Characteristics of meaningful output measures are addressed and output measures for specific program objectives formulated by MCSPCA program managers for the forthcoming budget year are developed. The chapter concludes with a discussion of performance reporting methods and use of output measures.

Chapter VI develops a budgeting system tailored to the needs of the MCSPCA. The complete budgeting process from time requirements to designation of responsible parties and the forms necessary for budget execution are detailed in this chapter.

Chapter VII summarizes study results and conclusions. This chapter also details areas where additional study or research might be conducted.



## II. MANAGEMENT CONTROL IN NONPROFIT ORGANIZATIONS

### A. INTRODUCTION

The question as to what constitutes sound management control practices does not have a universal answer. However, current literature on the subject does provide some general principles and guidance as to what management control practices have been effective in the recent past. In this chapter, we will review the relevant literature on the management control process and operation of nonprofit organizations. The findings from this literature research will serve as the frame of reference for evaluating management control practices at a typical nonprofit organization and for selecting appropriate management control methods for that organization.

By way of a preview of this chapter, we will begin with a brief definition of management control, a brief discussion of the basic problem facing a nonprofit organization and a brief discussion of organizational responsibilities. This will be followed by a discussion of preferred management control practices. The discussion will be organized according to the two main categories of a management control system: the control structure and the control process. Under the control structure we will discuss account classifications, accounting systems and reports, and output measurement. Under the control process we will discuss programming, budgeting, operating, measurement, reporting, and analysis. In the final section of this chapter, we will summarize the general characteristics of a management control system.





## B. MANAGEMENT CONTROL DEFINED

Robert Anthony and Regina Herzlinger define management control as "the process by which management assures that the organization carries out its strategies effectively and efficiently" [Ref. 1: p. 3]. This process includes two related activities: (1) planning and (2) control. Planning is deciding what to do, how to do it and when to do it. Control is assuring that the desired results are attained.

## C. THE BASIC PROBLEM OF NO PROFIT

The principal characteristic that distinguishes the problem of management control in a nonprofit organization from that in a profit-oriented company is the absence of profit as an objective. The profit-oriented company uses profit as a criterion for appraising proposed courses of action and as a means of measuring effectiveness, efficiency and performance in general. The absence of profit in the nonprofit organization tends to make the management control problem somewhat different and more difficult [Ref. 2: p. 101].

Managers in nonprofit organizations should recognize this fundamental difference. Its recognition should not lead to an attitude that management control is unimportant, inappropriate or hopeless, but rather to a commitment to devise and implement the best possible control structure and control process under the circumstances. Since profit is not an objective in nonprofit organizations, management must think carefully about what the organization's goals and objectives are, even though they may be difficult to formulate and quantify. Since proposed courses of action cannot be judged in terms of how well they meet a profit objective, management must develop other criteria for deciding on matters such as programs and budgets. Since the lack of a





profit measure does not signal unsatisfactory performance, substitute performance measures and other ways of evaluating the success of the organization must be developed [Ref. 3: p. 31].

#### D. ORGANIZATIONAL RESPONSIBILITIES

There are three levels of management in nonprofit organizations. They are: (1) the governing board, (2) top management and, (3) operating management. The responsibilities of each of these three levels of management are briefly described in the following paragraphs.

The governing board is primarily responsible for establishing long range goals for the organization and broad strategies for achieving these goals. This process is often referred to as "strategic planning." These goals and strategies provide the criteria and guidance for the activities of the organization. The governing board is also responsible for setting policy on the specific use of funds. As an example, the board would specify what funds are authorized for use in operations and what funds are to be used for the purchase of land, plant, or equipment. In the public sector, this is accomplished by the congressional appropriations process.

Top management is responsible for implementing these strategies and assuring that the goals are achieved economically, efficiently, and within the funding policy guidance provided by the governing board. These objectives are achieved with the aid of a planning and control system. If such a system does not exist, it is top management's responsibility to devise and implement such a system.

Operating managers are responsible for planning and carrying out the day-to-day activities of the organization. These activities are based on specific objectives developed



to achieve the goals and strategies set forth by the governing board.

As stated earlier, management control is the process by which management assures that the organization carries out its strategies effectively and efficiently. It is essential that all three levels of management understand the importance of management control. Although the governing board is not directly involved in the management control process, it should understand and support the process.

Management control systems are designed to aid both top managers and operating managers in the performance of their duties. These managers should understand how to use the management control system and be willing to devote enough time to the management control process. If management has the attitude that measures to ensure the effective and efficient use of resources are relatively unimportant in a nonprofit organization, then management control will be ineffective, no matter how well designed the system itself may be [Ref. 4: p. 122].

## E. THE CONTROL STRUCTURE

As is the case with any system, a management control system can be described in terms of (1) its structure and (2) its process. The control structure provides the framework for which the process operates and will be addressed first.

### 1. Account Structure

An account is a device for collecting data about what is indicated by its title and as specified in the definition of what is to be collected. Accounts collect data on either inputs or outputs. They are used to collect both historical and estimated future data [Ref. 6: pp. 2-3]. A



formal management control system normally contains two principal account structures, a program structure and a responsibility structure. Both of these structures are interrelated.

a. Program Structure

The program structure contains information on the programs that the organization undertakes or plans to undertake. The program structure should be arranged so that data collected in the program accounts are useful for three principal purposes:

- (1) To make decisions about the programs that are to be undertaken and the amount and kind of resources that should be devoted to each program.
- (2) To permit comparisons of the costs and outputs of similar programs carried on by several organizations.
- (3) To provide a basis for setting fees charged to clients or for reimbursement of costs incurred [Ref. 1: p. 84].

b. Responsibility Structure

The second principal way of classifying information is by responsibility centers. A responsibility center is a unit of an organization headed by a manager who is responsible for what it does. Information classified by responsibility centers is used for (1) planning the activities of responsibility centers, (2) coordinating the work of the responsibility centers in an organization, and (3) controlling the responsibility center manager [Ref. 1: p. 7]. There are four principal types of responsibility centers: (1) expense, (2) profit, (3) revenue, and (4) investment. Brief definitions of these centers are presented in the following paragraphs:

Expense Centers: If the management control system measures the expenses incurred by a responsibility center but does not measure the monetary value of the unit's





output, the unit is an expense center. The authority and responsibility of managers of expense centers therefore is restricted to the planning and control of expenditures and costs. While revenue may also be generated by an expense center, it is clearly incidental and of secondary importance [Ref. 7: p. 470]. Although every responsibility center has outputs (ie. it does something), in many cases it is neither feasible nor necessary to measure these outputs in monetary terms. In many nonprofit organizations, all the responsibility centers are expense centers. For these, the accounting system records expenses incurred, but not revenue earned.

Profit Centers: Revenue is a monetary measure of output, and expense is a monetary measure of input or resources consumed. Profit is the difference between revenue and expense. Thus, in a profit-oriented business, if performance in a responsibility center is measured in terms of both the revenue it earns and the expense it incurs, the unit is called a profit center. Therefore, managers of profit centers are charged with planning and controlling both revenues and most related expenses [Ref. 7: p. 471]. Although profit is not an objective of nonprofit organizations, responsibility centers which charge fees for services provided to clients are often designated as profit centers. In this case, revenues earned from services should approximately equal the value of those services.

Revenue Centers: Revenue centers are responsible for generating services or products which will produce a target level of revenue [Ref. 5: p. 579]. In many nonprofit organizations, it is difficult to match expenses incurred in the delivery of services to revenues that support those services. In this situation, it is desirable to treat responsibility centers as both revenue centers and expense centers rather than profit centers.





Investment Centers: In an investment center, the account structure measures not only profit but also the capital employed in generating that profit. An investment center can then be thought of as a profit center that has authority over and responsibility for investment decisions relating to capital assets [Ref. 7: p. 471]. In practice, the investment center concept is rarely used in nonprofit organizations.

Mission Centers and Service Centers: In addition to the four principal classifications it is also useful to classify responsibility centers as either mission centers or service centers. The output of a mission center contributes directly to the objectives of the organization [Ref. 1: p. 80]. The output of a service center contributes to the work of other responsibility centers, which may be either mission centers or other service centers; its output is thus one of the inputs of these responsibility centers.

A service center can be either an expense center or a profit center. Its objective is not to make a profit, but rather to break even. The extension of the profit center idea to service centers is relatively new, especially in nonprofit organizations. The service center concept should only be used in organizations where service costs are significant. When the account structure is set up properly, it can provide a powerful instrument for management control.

c. Relationship of the Program and Responsibility Structures

When responsibility centers work on more than one program it is necessary to utilize both the program structure and responsibility structure as described above. However, when responsibility centers in an organization work solely on one program, then the program structure corresponds to the responsibility structure. In this simple case



it is not necessary to develop a separate program structure with different labels than those of the responsibility centers.

## 2. Accounting System

Similar to the requirements of profit oriented organizations, the accounting system used by nonprofit organizations must be capable of collecting data to be used in both internal management reports and external general purpose financial reports [Ref. 8: pp. 51-53].

### a. Management Reports

Management accounting reports should focus on the extent to which the organization has operated so as to maintain its operating capital. In order to do this the system measures the revenues earned and the expenses incurred during an accounting period.

Revenues in nonprofit organizations arise from the sale of goods and services; from membership dues; from taxes, contributions, grants, endowment earnings, and appropriations that are used for operating purposes. It is the responsibility of the governing board to establish firm policy regarding the types of contributions and grants that are to be treated as revenues to be used for operations and the types that are to be capitalized (i.e., for purchase of major equipment).

Expenses measure the resources used in operations during a period. They decrease the organizations equity. The accounting system in a nonprofit organization should measure spending for programs and by responsibility centers in terms of expenses when feasible [Ref. 9: pp. 32-33]. Many nonprofit organizations, however, report spending in terms of expenditures rather than in terms of expenses. Expenditures measure the resources acquired



during the period, as contrasted with expenses which measure the resources consumed or used during the period. As an example, when materials are acquired and added to inventory, there is an expenditure. When these materials are used, there is an expense. Thus, if the inventory level of an organization fluctuates, there is a difference between expenses and expenditures of the period. In organizations with an insignificant amount of inventories, this difference is unimportant. Spending should be reported in terms of expenditures only in those cases where the difference between expenditures and expenses is insignificant.

Most expenses recorded in management reports are measured according to the same principles that govern financial reporting, but in more detail. They are collected both by responsibility center and by program element. For responsibility center reporting, many organizations measure only direct costs and omit allocated costs. This is done because managers feel they shouldn't be held responsible for allocated costs over which they have no control. For program reporting, however, it is necessary to measure both direct costs and allocated (indirect) costs to measure the full cost of the program. Controllable (direct) expenses are normally identified separately from noncontrollable (indirect) expenses, but both types are reported [Ref. 10: p. 23].

#### b. General-purpose Financial Reports

In addition to the accounts needed for management control purposes, the accounting system must be able to collect the data needed for general-purpose financial reports prepared for outside parties. The most important financial statement is the operating statement. Its primary purpose is to show how the organization operated to maintain its operating capital and remain viable. In order to focus





on operating results, operating revenues are reported separately from contributions of permanent capital (gifts, grants, appropriations or other resource inflows which are intended for construction of plant, for endowment, or for other nonoperating purposes).

### c. Other Accounting Information

In addition to management and general-purpose financial reports, outside agencies may require reports prepared according to requirements that they specify. These reports may or may not be useful to the management of the organization that prepares them. Ideally, the information these special purpose reports give should be summaries of the information contained in the management control system, as outside agencies presumably should not need more, or different, information from that which is useful to management [Ref. 11: p. 51].

### 3. Output Measurement

A nonprofit organization does not have a way of measuring output that is comparable to the revenue, gross margin or net income numbers routinely available in a business enterprise, nor can it hope to develop a nonmonetary measure that is as good as these measures. However, it needs the best possible substitute that can be devised because without some reasonable measure of output, there is no way of assessing either the efficiency or the effectiveness of the organization's performance [Ref. 12: p. 43]. The well managed nonprofit organization therefore devotes considerable attention to developing satisfactory output measures. It recognizes that although output measures are of limited validity, they are better than nothing. Since output should be related to an organization's objectives, it is essential, as a first step, to try to state the more





important objectives in quantitative terms, if at all possible.

Output measures are normally in one of two categories: results measures, which indicate the organization's performance in accomplishing its objectives or process measures, which indicate the quantity of work done. Reliable results measures are likely to be more difficult to devise than process measures, but they are more significant to higher level management. Process measures are relatively easy to identify and are more useful in the measurement of current, short-run performance. The management control system should include an appropriate mix of both types of measures. A third type of output measure, the social indicator (i.e., reduced crime in a city), is of relatively little use in management control because few social indicators can be related to the work of a single organization, but instead are affected by forces from many sources [Ref. 13: p. 57]. They may be useful in long range planning, provided that the governing board and management recognizes its limitations; at best, it is a rough measure of performance.

A measure of the quantity of output is more reliable and easier to develop than a measure of the quality of output, but a well-managed organization does not permit this fact to lead to an overemphasis on quantity. Quality must be controlled, even though its measurement is subjective. The notion that the search for good output measures is hopeless because output cannot be measured perfectly should be rejected. There should be a continuous search for new, more valid measures. At the same time, the limitations of existing output measures should be recognized [Ref. 14: p. 195]. Finally, only those output measures that are useful in the management control process should be collected.



## F. THE CONTROL PROCESS

The management control process takes place in an organization that already exists, that has goals, and that has decided on broad strategies for achieving these goals. Much of the management control process is informal. It occurs by means of memoranda, meetings and conversations. Most well-managed organizations also have a formal system. The information in this system consists of planned and actual data on both outputs and inputs. Prior to actual operations, decisions and estimates are made concerning what outputs and inputs are to be; during actual operations, records are maintained as to what outputs and inputs actually are; and subsequent to operations, reports are prepared that compare actual output and inputs to planned outputs and inputs, and action is taken on the basis of these reports.

The principal steps in the formal management control process are the following:

(1) Programming (2) Budgeting (3) Operating and Measurement (4) Reporting and Analysis

Each of these steps leads to the next. They recur in a regular cycle, and together they constitute a closed loop. Relevant external information is considered during each step or phase of the process [Ref. 5: p. 580].

### 1. Programming

Programming is the fine tuning of the goals and strategies established by the governing board during its strategic planning process. Program managers within the organization are responsible for developing specific program objectives and outputs for the forthcoming year to achieve these goals.



Unless an organization continues with the same activities, year after year, it should have a procedure for generating ideas for new programs, analyzing these, reaching a decision on them, and incorporating the approved individual programs into an overall plan [Ref. 15: pp. 49-50]. This is basically the programming phase.

It is important for management to create an environment in which ideas for new programs are encouraged. When an idea is sufficiently attractive so that it gains the support of an influential advocate, it becomes a proposal. If an organization has many such proposals, it might utilize a staff unit to analyze each of them and submit its analysis to top management as a basis for decision. The analysis seeks to determine how well the proposal will help the organization achieve its goals.

When feasible, the analysis should include an estimate of the costs and benefits of the proposal, both being expressed in monetary terms [Ref. 16: p. 6]. A cost/benefit comparison is possible when the benefits can be measured in economic terms, such as savings in operating costs or increased output. A cost/benefit analysis can also be made in comparing two proposals, either of which will accomplish a desired objective satisfactorily; the proposal with the lower cost is preferred. If there is no plausible relationship between costs and benefits, however, the organization should not waste time in attempting a cost/benefit analysis.

If the benefits cannot be valued in monetary terms, an attempt should be made to estimate whether the benefits are at least as great as the costs. Management must recognize that a cost/benefit analysis does not by itself provide a basis for decision because many relevant considerations cannot be measured. Nevertheless, the analysis reduces the area in which subjective judgement must be applied [Ref. 17: pp. 615-616].





In addition to an analysis of the economic and social benefits, the decision maker must consider political implications of proposals. In many cases, political considerations become the overriding factor in the final decision on program proposals [Ref. 18: p. 36].

Top management must always recognize that most proposals are advocacy proposals and that the accompanying analysis and justification is more than likely biased to some extent. To offset this bias, management should carefully review proposals or set up an adversary relationship in which natural opponents of the proposals are encouraged to criticize it.

If an organization is large, if it considers a sizeable number of new programs, and if its activities change substantially over time, the well managed organization should have a formal programming system. A formal programming system provides a mechanism for incorporating the individual programs, both on-going and new, into an overall plan, often called a five-year plan, and evaluating this plan for balance and feasibility.

## 2. Budgeting

A budget is a written financial plan covering a future period of specified time [Ref. 16: p. 2]. A budget has two important functions in an organization. First, it states the realistic objectives of the organization for the timeframe covered by the budget and secondly, it provides a tool to monitor the organization's financial activity during this same timeframe [Ref. 19: p. 72].

Knowledgeable managers and management scholars view budgeting as the most important part of the management control process because the budget specifies in monetary terms the way in which activities are to be conducted in the coming year [Ref. 16: p. xvi] [Ref. 20: p. 428] [Ref. 21: p.





65]. It is considered to be a more important process in a nonprofit organization than in a profit-oriented organization. In a profit-oriented organization, operating managers can safely be permitted to modify certain plans on their own initiative, provided that the revised plan promises to increase profit. Operating managers of nonprofit organizations, especially those whose annual revenue is essentially fixed, must adhere closely to plans as expressed in the budget.

The annual budget should be derived from approved programs. In the course of the budgeting process, careful estimates of costs must be made for each program, and responsibility for execution of the programs should be assigned to individual responsibility centers. The budget process starts with a realistic estimate of revenues. Next, total expenses should be planned so that they are approximately equal to total revenues. If an organization's budgeted expenses are lower than its revenues, it might be viewed as not providing the quantity of services that those who provide the revenues have a right to expect [Ref. 22: p. 7]. If its budgeted expenses exceed its revenues, the difference must be made up by the drawing down of endowment or other capital funds that are intended to provide services to future operations. If the first approximation of budgeted expenses exceeds estimated revenues, the prudent course of action usually is to reduce expenses rather than to anticipate that revenues can be increased.

The initial budget is normally a program budget, that is, one that focuses on the amounts to be spent on each program. Objects of expense such as salaries, supplies, and purchased services are the basis for developing the program budget. Summary information on objects of expense may be included, but are not the main focus. Programs should be identified with the responsibility centers that are to execute them.



The first actual step in the budget process is the formulation of guidelines by top management and their communication to operating managers. Operating managers participate in the budget formulation by preparing proposed budgets consistent with these guidelines and negotiating these proposals with top management. This two-way planning process provides a mechanism for making tradeoffs between alternative programs, both old and new, that are designed to move an organization towards its expressed goals. When the process is completed, the budgetee has committed to accomplishing the planned program objectives within the spending limits specified in the approved budget. Top management should regard such accomplishment as representing satisfactory performance [Ref. 23: pp. 24-25].

### 3. Operating and Measurement

A well managed nonprofit organization normally has a system to assure that actual spending is kept within limits specified in the approved budget, unless there are compelling reasons to depart from the budgeted amounts. During the period of actual operations, records should be kept of resources consumed and outputs actually achieved. The records of resources consumed (ie., costs) must be structured so that costs are collected by programs and by responsibility centers [Ref. 24: pp. 39-43]. This structure should be the same as that used during the budget formulation.

In most government organizations and certain others, budget limitations are stated as authority to obligate or encumber. This tends to increase the complexity of the control system. Controls must be stated in obligation or encumbrance terms. Because expenses measure the actual quantity of resources consumed and are considered to be the best financial indication of the inputs that were used to



accomplish whatever the organization did, it is often necessary to use one system for measuring obligations and another for measuring expenses.

Organizations should have a well defined procedure for revising the budget during the period of actual operations when circumstances require it [Ref. 19: p. 77]. Managers should be positively required to follow this procedure, rather than to hide overruns by charging expenses to incorrect accounts. This procedure should also provide for the reporting of excess funds which are not expected to be used. Operating managers who are able to reduce spending and still accomplish the planned outputs should be rewarded and not penalized.

Operational Control: In addition to financial controls, well-managed nonprofit organizations have other well defined rules and prescribed procedures for controlling operations. In promulgating these rules and procedures an appropriate balance should be struck between the need to assure a reasonable degree of consistency in action taken by various managers on the one hand, and the danger of inhibiting initiative and sound operating decisions if the rules are too detailed on the other hand [Ref. 16: pp. xvi-xvii].

Appropriate audit and internal control procedures should be used to minimize the possibility of loss by theft, fraud, or abuse; to ensure that both the financial and nonfinancial rules are adhered to; and to ensure that information flowing through the system is accurate.

#### 4. Reporting and Analysis

In this phase of the management control process, management should be provided with all the information it needs but not with more than it can assimilate. Accounting information, along with a variety of other information, should be summarized, analyzed, and reported to those





individuals who are responsible for knowing what is happening in the organization and for improving performance [Ref. 10: p. 25]. These reports essentially compare planned outputs and inputs with actual outputs and inputs.

A comparison of actual expenses and results with planned expenses and results in each responsibility center is one of the key comparisons summarized in these reports. Information on actual expenses should be collected in a double-entry accounting system. The system must use accounts and rules for charging accounts that are entirely consistent with those in the budget. Reports containing this information should be made available on a timely basis [Ref. 16: p. 70].

In general, these reports should be used for three purposes. First, the reports provide a basis for coordinating and controlling the current activities of the organization. This information, together with information that is obtained from conversations or other informal sources, enables managers to identify situations that may be out of control. Managers should initiate corrective action if investigation shows such action to be necessary.

Second, the reports provide a basis for evaluating operating performance. Such an evaluation leads to actions with respect to managers such as praise for a job well done; constructive criticism; and to promotion, reassignment, or, in extreme cases, termination of the managers of the responsibility centers whose performance is reported. It may also lead to improved methods of operating.

Third, the reports provide a basis for program evaluation. If it is determined that the plan under which a program is being conducted is not optimal then the budget and the program should be revised.





## G. MANAGEMENT CONTROL SYSTEMS

A formal management control system is normally a total system in the sense that it encompasses all aspects of an organization's operation. It should be a total system because an important function of management is to coordinate the operations of each of its parts with one another. In order to ensure this coordination, management must be provided with appropriate information about each of the parts. An effective management control system is invariably built around a sound and well defined financial structure; that is, resources are expressed in monetary terms. Money is the only common denominator which provides a means for comparing the elements of resources such as hours of labor, types of labor, quantity of material, and quality of material. This does not mean that accounting information is the sole, or even the most important, part of the system; it means only that the accounting system provides a unifying core to which other types of information can be related. Although the financial structure is usually the central focus, nonmonetary measures such as minutes per operation, number of persons, and number of complaints are also important parts of the system.

Formal systems should contain information about both inputs and outputs. In nonprofit organizations, however, output information is often difficult to express in monetary terms, in contrast with input information which can usually be expressed in terms of costs.

The management control process should be rhythmic or periodic; it should follow a definite pattern and timetable, month after month, and year after year. For example, in budgeting, certain steps are taken in a prescribed sequence and at specified dates each year; dissemination of guidelines, preparation of original estimates, submission of



these estimates up through the several echelons in the organization, review of these estimates, final approval by top management, dissemination back through the organization, operating and accounting, reporting and the analysis of performance. The procedure to be followed at each step in the process, the dates when the steps are to be completed, and even the forms to be used should be set forth in a procedures manual.

Finally, a management control system should be a coordinated, integrated system; that is, although data collected for one purpose may differ from those collected for another purpose, these data should be reconcilable with one another. Although the management control system is viewed as a single system, it is in many cases two interlocking subsystems, one focusing on programs and the other focusing on responsibility centers.

#### H. CONCLUSION

This chapter summarized the basic theory of what constitutes sound management control practices. It is our intention to illustrate how this theory can be used to develop a workable management control system. The MCSPCA will be used as a model to illustrate this. The next chapter presents a brief background of the MCSPCA.



### III. MCSPCA--A NONPROFIT ORGANIZATION

#### A. INTRODUCTION

The previous chapter outlined the general principles of an effective management control system. In this chapter, we will familiarize readers with the Monterey County Society for Prevention of Cruelty to Animals (MCSPCA). A short chronicle of the organization's history and a sketch of its current operational structure, goals and financial status will reveal that the society is an independent, non-profit organization which until the late 1970's received the majority of its operating funds from volunteer contributions, which still account for approximately 40% of its revenue. With this chapter as background, we will evaluate the management control structure and process in existence at the MCSPCA in subsequent chapters.

#### B. GENERAL HISTORY OF ORGANIZATION

The MCSPCA was formed in 1905 to promote the principles of Henry Bergh's American Society for the Prevention of Cruelty to Animals (ASPCA) on the Monterey Peninsula. Bergh had founded the ASPCA in April of 1866 with the chartered purpose of ending cruelty to all domesticated animals and to disseminate the humane ethic [Ref. 25: p. 8]. In 1928, the MCSPCA built its first permanent animal shelter in Monterey. Prior to this, society meetings and care of injured animals had taken place in rented facilities or the homes of society members. Working from the new facility, the organization broadened the scope of its activities and by the late 1930's, it was able to extend operations to almost all of the cities on the Peninsula.





By 1954, MCSECA activities had grown to the point that larger facilities were required and late that year, the society moved to new, larger quarters in Pacific Grove. Society operations continued to grow during the late 1950's and early 1960's and by 1962, the scale of operations had expanded to the point that a full time manager was warranted and the first paid director was hired.

In 1966, it was apparent that the society's operations would soon overrun the Pacific Grove shelter and 200 acres of rural land were purchased mid-way between Monterey and Salinas which could be used for a new shelter. Construction of a new shelter was begun in 1967 and when work was completed a year later all MCSPCA operations moved to the new facility which was designated the "La Vega Verde Center for Animal Welfare."

Since its opening in 1968, additional buildings have continued to be added to the center in order to facilitate the society's ever expanding operations. In 1970, a barn was erected to better accomodate livestock and other large animals housed by the society. In 1974, a building incorporating two surgical theaters and post operative recovery areas was constructed for the Veterinary Services/Spay-Neuter Clinic.

In 1976 the scope of MCSPCA operations greatly increased when the organization began to provide animal control services on a contract basis for Monterey County. With the additional income provided by this contract, revenue generated from department operations exceeded volunteer contributions for the first time in the organization's history. In 1979, a Humane Education Center which contained offices and classrooms was built. The latest addition is a Wildlife Rehabilitation Center which was opened the middle of this year. Structures in the Wildlife Center have been especially designed to meet the unique demands of handling





non-domesticated animals in a manner which will allow them to be returned to their natural environment after necessary treatment is completed. By the end of 1981, the historical cost of land, buildings and equipment owned by the MCSPCA was over 1.3 million dollars.

### C. ORGANIZATION STRUCTURE

The MCSPCA is not a local branch of a national animal organization but rather is a separate entity on its own. As such, it is responsible for its own financial well being and for establishing its own operating policies and procedures. National organizations, such as The Humane Society of the United States (HSUS) and American Humane Association (AHA), maintain loose ties with local groups like the MCSPCA and aid the operations of these groups only in general ways such as providing professionally prepared public information packets at low cost, promoting animal welfare issues on a national basis and acting as a communication channel between local groups. This arrangement allows the MCSPCA to organize itself in any manner necessary in order to focus its energy and resources on improving animal welfare within the county.

The society is headed by a thirteen member Board of Directors elected by the dues paying members of the society. Board members are elected at the annual meeting of the society to a three year term with terms of the various directors staggered to ensure continuity. Board members are volunteers and receive no monetary compensation. The board is presided over by a President who is elected by a vote of the other board members. Additional board officials include the First and Second Vice President, the Treasurer, and the Secretary. Board members represent a variety of occupations, ages and interests. The board's current members



typify its usual composition. The President is a retired foreign service officer who teaches at a local college and served on the board for two years prior to assuming the duties of President. Other board members include a retired college administrator who presently operates a fund-raising consulting firm, a college counselor, a retired brokerage officer, a bookkeeper employed by a local CPA, a doctor, a dentist, the owner of a public relations firm and several housewives who were active volunteers in various MCSPCA activities for several years before becoming members of the Board. While the business experiences and backgrounds vary greatly, all members have in common a concern for promoting the well-being of animals. The Board of Directors exercises its decisions and policies through a full-time paid staff, headed by an Executive Director. The Executive Director oversees daily activities and is directly responsible to the Board of Directors for all MCSPCA operations.

The Executive Director's staff is divided into nine departments and the supervisor of each department is responsible to the Executive Director for activities within that department. Currently, 39 full or part-time employees are distributed among the nine departments which are designated Shelter Operations, Animal Control, Humane Education, Wildlife, Veterinary Services/Clinic, Bookkeeping, Public Relations, Volunteer Services and Fund Development. A schematic diagram of the organization is shown in Figure 3.1. The functions and scope of each department's operations are briefly outlined below.

The Shelter Department receives and cares for all animals that have been voluntarily turned in or impounded by the society's Animal Control Officers. The Shelter Manager is responsible for all activities related to the operation of the shelter's small animal kennel and the barnyard area including maintenance of buildings and equipment. The



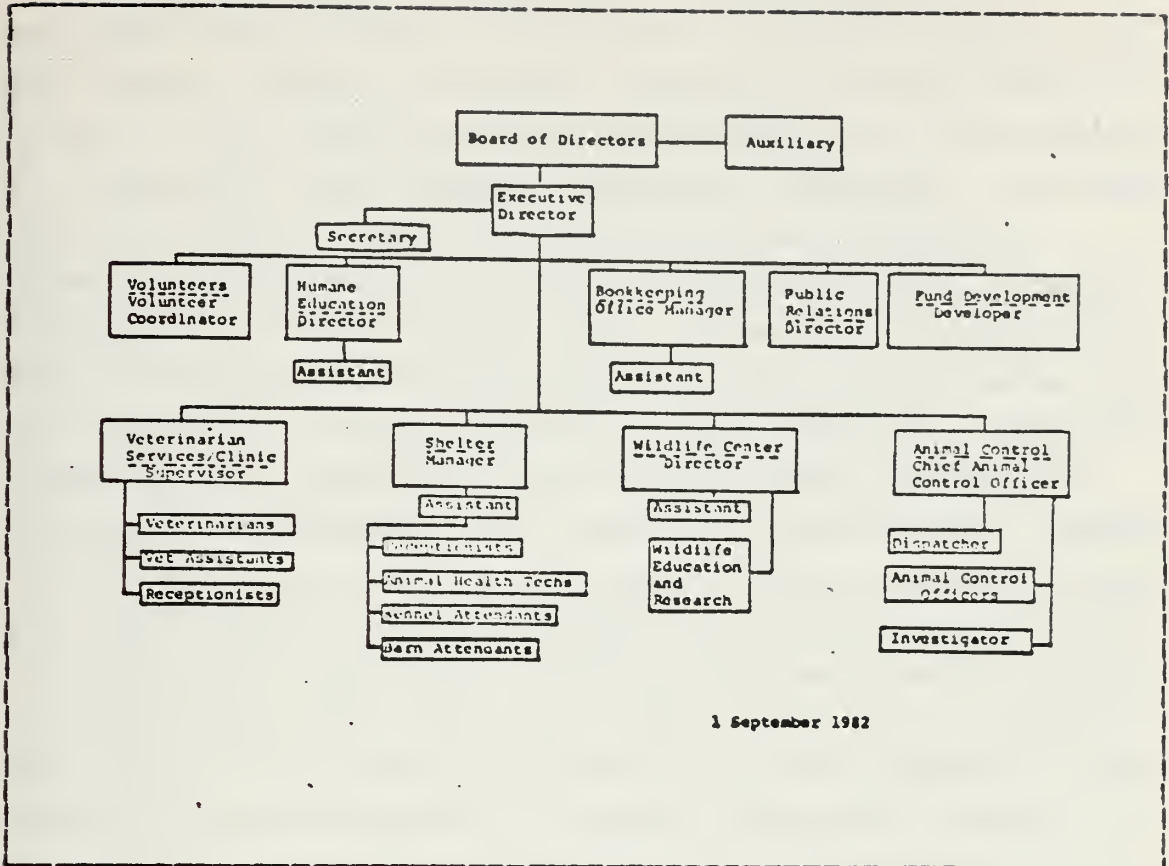


Figure 3.1 MCSPCA Organization Chart.

Shelter Department also operates a small store which sells pet supplies as a convenience to owners who have just adopted animals at the shelter. In 1981, the Shelter Department received 11,407 animals. Approximately 1,250 of these animals were identified as strays and returned to owners who had reported them missing. An additional 1,800 animals were placed into new homes. The remaining animals were euthanized after shelter personnel were unable to locate a new home for them in a reasonable amount of time. Operation of the shelter is one of the largest functions within the MCSPCA and 13 paid and many volunteer staff work in the shelter as Adoption Counselors, Animal Attendants and Boutique Salespeople.





The Animal Control Department is responsible for enforcing animal control ordinances in Monterey County and the cities of Marina, Soledad, Greenfield and King City which have all contracted with the MCSPCA for this service. In discharging their duties, department personnel are responsible for animal leash enforcement; impounding stray animals; investigation of public complaints; bite, cruelty or neglect reports; transporting injured animals to veterinarians; inspection of pet stores, stables and kennels; and the processing of all applications for county dog licenses. Animal Control personnel also rescue animals in peril or distress when incidents are reported or discovered. Because of the extensive training required to perform these duties, all eight Animal Control Officers are full-time paid staff. In 1981, while patrolling the 3,324 square miles for which they are responsible, the department's eight Animal Control Officers and one Special Investigator investigated 414 complaints of animal cruelty or neglect, processed several hundred bite reports and issued 2,241 dog licenses. Additionally, they assisted the Education Department in educating the public of the real responsibilities of pet ownership by stressing this in their daily interactions with county residents and by participating in numerous briefings for school, church and community service groups.

The Department of Humane Education is responsible for presenting educational programs of the SPCA both in schools and at the shelter. Additionally, the department provides animal-related material to area school teachers to encourage them to elaborate on the society's presentations. In 1981, the Director of Education, two paid staff members and many volunteers gave presentations to over 16,000 school children, sponsored a series of summer day camps and coordinated numerous tours of MCSPCA facilities for scouting and other youth groups.





The Wildlife Department is responsible for handling, raising and rehabilitating of all wildlife received in the society's facilities. Beyond caring for the animals in the facility, the Director of the Wildlife Department and the two full time staff members assigned to the department frequently assist Animal Control Officers in the rescue of injured or wounded wild animals. In 1981, the department treated over 2,000 animals, including marine mammals and over 90 species of wild birds, of which over forty percent were rehabilitated back into the wild. Forty-five volunteers assist in caring for the animals in the wildlife center.

The Veterinary Services/Clinic Department provides for the health of all animals in MCSPCA facilities. Daily operations in the clinic are conducted by two veterinarians and six full time paid staff and many volunteer Animal Health Technicians. These personnel check and treat any sick or injured animals brought to the shelter, including wildlife. Clinic Workers also inspect and provide necessary inoculations to all animals placed in new homes by shelter personnel. The department also manages and operates a low cost spay and neuter clinic which in 1981 performed 3,351 operations.

The Bookkeeping Department is responsible for all aspects of the accounting, bookkeeping, purchasing, contract budgeting and personnel functions within the MCSPCA. At the present level of operations, all department obligations are fulfilled by five full time paid staff members.

The Public Relations Department is responsible for publicizing all MCSPCA accomplishments and events. In addition to acting as the liaison between the society and local radio, television and newspaper media, the Public Relations Director oversees production of MCSPCA's quarterly newsmagazine, brochures, leaflets and pamphlets promoting SPCA



programs or promulgating MCSPCA's views on environmental or animal-related issues. The Public Relations Director works closely with the Director of Education by giving presentations to adult groups and service clubs and with other department heads in organizing the MCSPCA's Annual Animal Fair.

Contributions of time and labor by volunteers are an essential element in almost all of the society's departments. Volunteers act as Adoption Counselors, Animal Attendants, Receptionists and Animal Health Technicians. Additionally, volunteers are entirely responsible for all aspects of the society's pet visitation program and the operation of resale shops in Pacific Grove, Carmel, Carmel Valley and Salinas which produce considerable revenue to support MCSPCA operations. In 1981, over 250 people participated in the volunteer program. A full time, paid Volunteer Coordinator is responsible for the proper training and scheduling of these volunteers as well as all other aspects of the volunteer program.

The Fund Developer is responsible for all administrative, financial, personnel and program related aspects of the fund-raising programs which produce contribution income for the society. Current programs include direct mail appeals and an active drive to obtain participants for newly developed deferred giving and will/bequest plans.

In addition to volunteers who assist in the operation of MCSPCA facilities, an Auxiliary with over 200 members supports the society with money resulting from memberships and social events. Funds raised by the Auxiliary are pinpointed for special projects which are not included in the yearly operating budget.



#### D. ORGANIZATION GOALS

As noted previously, the MCSPCA was originally founded for the purpose of ending cruelty to domestic animals and to disseminate the humane ethic. To satisfy this original goal, society pursuits were initially focused on ensuring that work animals were properly cared for and terminating "blood sports" such as dogfighting. As the organization matured, this goal expanded until the primary and motivating concern of the organization can now be viewed as the prevention of cruelty to all animals, wild and domestic.

To guide the organization in its application of these beliefs to its endeavors, the following principles are ascribed to by society members and employees:

- (1) It is wrong to kill animals needlessly or for entertainment or to cause animals pain or torment.
- (2) It is wrong to fail to provide adequate food, shelter and care for animals for which man has accepted the responsibility.
- (3) It is wrong to use animals for medical, educational or commercial experimentation or research unless absolute necessity can be demonstrated and unless such is done without causing the animals pain or torment.
- (4) It is wrong to maintain animals that are to be used for food in a manner that causes them discomfort or denies them an opportunity to develop and live in conditions that are reasonably natural for them.
- (5) It is wrong to kill animals for food in any manner that does not result in instantaneous unconsciousness. Methods employed should cause no more than minimum apprehension.
- (6) It is wrong to confine animals for display, impoundment or as pets in conditions that are not comfortable and appropriate.
- (7) It is wrong to permit domestic animals to propagate to an extent that leads to overpopulation and misery.

The elimination of the wrongs enumerated by these principles would fulfill the goal of the MCSPCA and the organization devotes its efforts and resources to that end. The society believes that their primary tools for working towards this goal are leadership, education and action, using whatever legal means are available and effective. The society thinks





that all living creatures are entitled to kindness and dignity. By humanly enforcing animal control programs and offering educational programs to the public, the MCSPCA attempts to promote animal welfare in specific situations and strives to bring about new respect for all living things.

Animal Control Contracts: Many of the specific goals or objectives of the MCSPCA are dictated by contractual agreements with Monterey County and the cities of Marina, King City, Green Field and Soledad. The county contract was signed in October of 1981 and is effective through August of 1984. For a set monthly fee which is increased 8.5% each year of the contract, the county has contracted the MCSPCA to act as its agent for most animal related matters. The contract carefully delineates what patrol and investigative powers MCSPCA Animal Control personnel have and the limits of their authority. Geographic areas within the county for which the MCSPCA is responsible and the minimum number of hours of patrol are also specified by the contract.

In addition to providing the MCSPCA Animal Control Officers with the authority to enforce certain animal regulations, other major provisions of the contract require the MCSPCA to:

1. Maintain and operate an animal shelter in a secure and sanitary manner adequate for the confinement, treatment and disposal of all animals delivered to it from all areas of the county. The contract details days and hours which the shelter must be open and stipulates that supervision, labor, food, tools and all other items necessary to operate the shelter will be paid for by the society.
2. Accept and dispose, without charge, all dogs and cats delivered to the shelter by county and state officials





and all residents of the county. The contract states that animal disposal may be accomplished either by returning an animal to its owner if the owner can be identified, adoption to a new owner or destruction. The society is allowed to retain any adoption fees collected.

3. Keep timely, complete and accurate records of the receipt and disposition of all dogs and cats delivered into its custody at the shelter, and a complete and accurate set of books showing the revenues, expenses and related financial transactions pertinent to the operation and maintenance of the animal shelter facility. These records and books must be maintained in a manner that permits ready distinction between MCSPCA activities and costs accrued in discharging the contract and other corporate activities and costs as a humane society.
4. Pay all costs associated with training and equipping Animal Control Officers, insurance covering all MCSPCA operations (including public liability and property damage coverage), and Workers' Compensation insurance. The contract also requires the society to provide (at its own cost) all vehicles, radios and equipment necessary to patrol designated areas by motor vehicle and transport all impounded animals to the shelter.

Contracts with the individual cities vary slightly but are modeled after the County's contract.

#### **E. ORGANIZATION FINANCIAL STATUS**

This section reveals the MCSPCA's current financial status, major sources of revenue and areas of expenditures. Dollar figures presented in this section are aggregate



totals taken from the society's 1981 financial statements which were reviewed by a public auditing firm.

MCSPCA income is derived from three principal sources; (1) operation of society departments, (2) dividends and interest earned by accumulated funds and (3) contributions. In 1981, revenues totaled \$956,552.00. As noted in Figure 3.2, approximately 51% of this total resulted from departmental operations, 9% from dividend/interest income and 40% from volunteer contributions. This balance between various sources of funding is representative of that experienced in previous years.

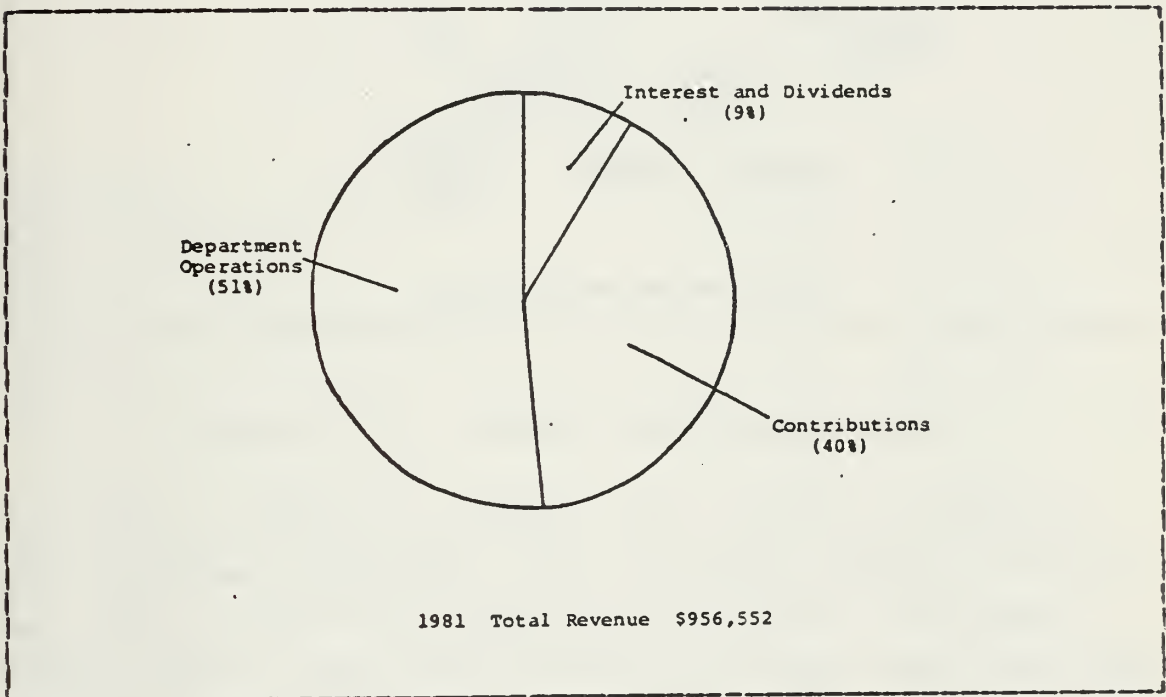


Figure 3.2 MCSPCA 1981 Revenue Sources.

Expenditures for society operations during 1981 totaled \$873,597.00. Corresponding to experiences of previous years, the majority of these expenses resulted from meeting the obligations of the animal control contracts and by



operational expenses of the Shelter and Veterinary Services/Clinic Departments. Figure 3.3 shows general area of expenses as recorded on MCSPCA 1981 records.

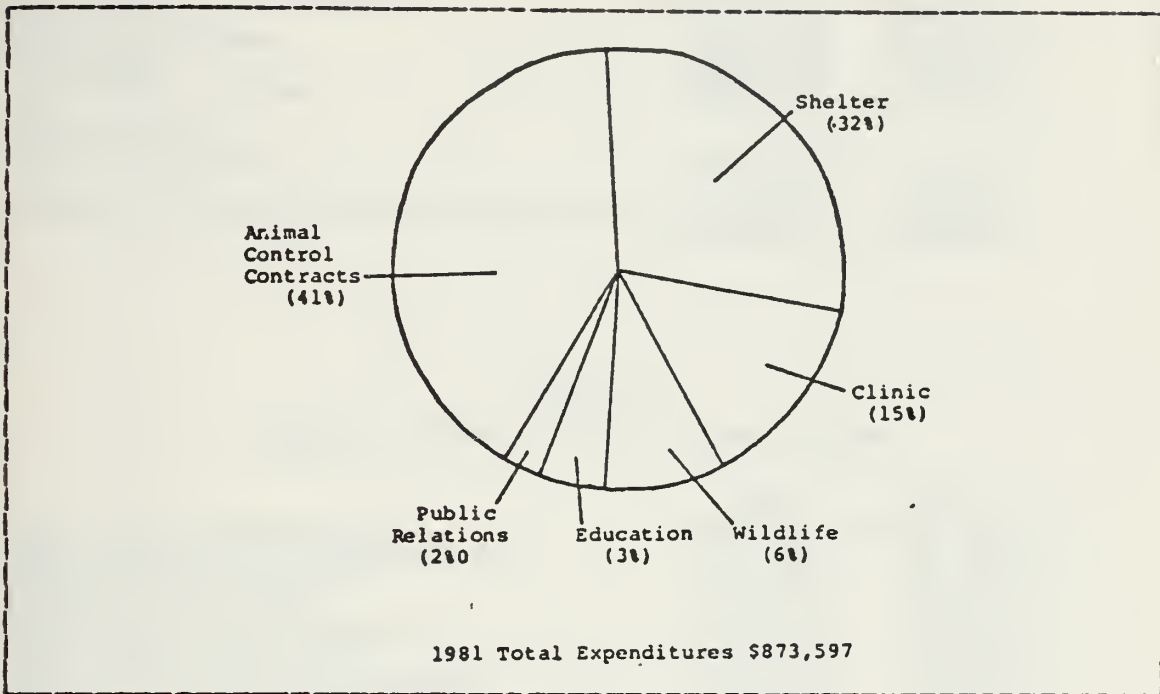


Figure 3.3 MCSPCA 1981 Expenditures.

Table I delineates MCSPCA's 1981 income and Table II 1981 expenses by specific item and dollar amounts. Totals for 1980 are shown for comparative purposes. Increases in totals such as those which occurred between these two years have also occurred during previous years, however, an excess of income over expenditures has been realized every year since 1975.

By the end of 1981, the MCSPCA had accumulated assets totaling over 2.3 million dollars. These assets are shown in Table III with amounts held at the end of 1980 also presented for comparison.





**TABLE I**  
**MCSPCA 1980 and 1981 Income**

	1980	1981
Donations and Bequests	\$305,669	\$377,945
Contracts	318,366	335,153
Sales and Fees	147,902	154,420
Interest	120,777	89,034
Total Income	<u>892,714</u>	<u>956,552</u>
Expenditures per Table II	<u>774,821</u>	<u>873,597</u>
Excess of Income over Expenditures	<u>117,893</u>	<u>82,955</u>

**TABLE II**  
**MCSPCA 1980 and 1981 Expenditures**

	1980	1981
Employee Compensation	\$436,520	\$505,507
Vehicles and Transportation	65,776	76,006
Veterinary Expense	47,759	54,792
Medical Supplies	30,100	36,611
Utilities and Telephone	31,804	33,000
Operating Supplies	19,857	27,044
Public Relations/Information	29,408	25,524
Repairs and Maintenance	33,416	24,669
Outside Services	13,108	24,313
Animal Food	19,713	22,418
Fund Raising	-	19,687
Minor Equipment	30,100	36,611
Acquisition or Rental	10,524	4,473
General Insurance	16,148	8,786
Meeting and Travel	9,769	4,057
Miscellaneous/Sundry	7,700	3,827
Fees, Dues and Permits	3,219	2,823
Total Expenditures	<u>774,821</u>	<u>873,597</u>
Income per Table I	<u>892,714</u>	<u>956,552</u>
Excess of Income over Expenditures	<u>117,893</u>	<u>82,955</u>

The reduction in current assets from 1980 to 1981 primarily resulted from the large payments made for construction of the Wildlife Center.

The society's outstanding liabilities and fund balance at the end of 1981 are shown in Table IV. Values from 1980 are again presented for comparison.



TABLE III  
MCSPCA Assets

	1980	1981
Current Assets	\$820,704	\$634,769
Investments	4,000	4,000
Land	329,675	329,675
Buildings	816,530	816,530
Equipment	113,428	128,504
Vehicles	89,085	89,085
Deposits	7,000	5,000
Prepaid Construction Fees	<u>40,519</u>	<u>295,260</u>
Total Assets	<u>\$2,220,941</u>	<u>\$2,302,823</u>

TABLE IV  
MCSPCA Liabilities and Fund Balance

	1980	1981
Current Liabilities	\$ 7,228	\$ 6,261
Deferred Liabilities	30,106	30,000
Fund Balance	<u>2,183,607</u>	<u>2,266,562</u>
Total Liabilities and Fund Balance	<u>\$2,220,941</u>	<u>2,302,823</u>

The prepaid spay fees represent money received in adoption fees for the spaying/neutering of animals that were unable to receive the operation at the time of adoption. Shelter policy requires that the adoption charge for all animals include payment for spay/neuter operation. When these animals are later spayed or neutered, payment is made to the veterinarian performing the operation. Experience indicates that not all animals are returned for the operation however no time limit has been set by which this liability automatically expires.

While the data shown in Table III and Table IV reflects no restrictions as to the use of various assets, a small portion of the assets are restricted as to their use and disposition. These restricted funds consist of \$120,000 provided by the Whittell Foundation to finish construction of



the Wildlife Center and \$7,000 which were contributed to the society with the stipulation they could be used only for wildlife rescue operations. Normally, the society receives funds designated or restricted for use in specific purposes infrequently. Restricted funds usually result from special fund drives started to raise funds for a specific purpose such as a new building or piece of equipment. These are normally spent shortly after their receipt.



## IV. MANAGEMENT CONTROL AT MCSPCA

### **A. INTRODUCTION**

Management control was defined in Chapter II as the process by which management assures that its organization carries out its goals efficiently and effectively. This process does not formally exist at the MCSPCA. As is the case with many small and even some larger nonprofit organizations, the existing process at the MCSPCA is informal and not well defined. It occurs by means of memoranda, meetings and conversations between the Executive Director and the nine department managers. As a result, the Executive Director has little formal or routine means at his disposal to either monitor or evaluate the performance of his managers or to evaluate how effectively or efficiently the programs and activities of the organization are being carried out.

In this chapter, we will describe current management control practices at MCSPCA. We will also make recommendations for improvement and development of a formal system. In certain cases, we will actually detail specific changes and steps to be used in a formal system at the MCSPCA. In those instances where we make only recommendations, it will be up to MCSPCA to develop those parts of the formal system.

The description of existing control practices at the MCSPCA is based on a field study conducted from April to June of 1982 and continued observations made through November 1982.





## B. ORGANIZATIONAL ENVIRONMENT AND STRUCTURE

Although the management control procedures now being employed at the MCSPCA may be less than optimal, the organizational environment necessary for a good system to operate is present. To a great extent, this is due to the fact that the Board of Directors and the Executive Director readily acknowledge that shortcomings exist in the present system, realize that these deficiencies can be eliminated, and are actively working to do so.

While the Board of Directors does not have any full-time or professional staff, members allot sufficient time to complete their board duties. Their different backgrounds have resulted in a governing board with political awareness and business acumen particularly well-suited to oversee an organization such as the MCSPCA. The board has not been observed to overstep its bounds by attempting to utilize this experience in running daily operations but rather appears to give the Executive Director the latitude necessary to direct these activities.

The organizational structure depicted in Figure 3.1 is such that it could support a good management control system without major modifications. The current structure is aligned according to function in most cases although, to some degree, personnel currently employed have dictated some structural arrangements. While not absolutely critical, we have already recommended that consolidation of some departments (i.e., grouping together of Public Relations, Volunteer Coordination and Administrative functions) be considered in order to keep the Executive Director's span of management within an effective limit of 6-8 people [Ref. 26: pp. 248-261]. The possibilities of combining various functions was discussed with the Executive Director, who agreed with our recommendation to consolidate, and decided to begin



by incorporating the functions of the Volunteer Coordinator into the Education Department and eliminating the Wildlife Education and Research position, also reassigning these duties to the Education Department.

The new organization structure is shown in Figure 4.1 and consists of eight departments and nine distinct responsibility centers which are identified by an asterisk. These responsibility centers will be discussed in the next section.

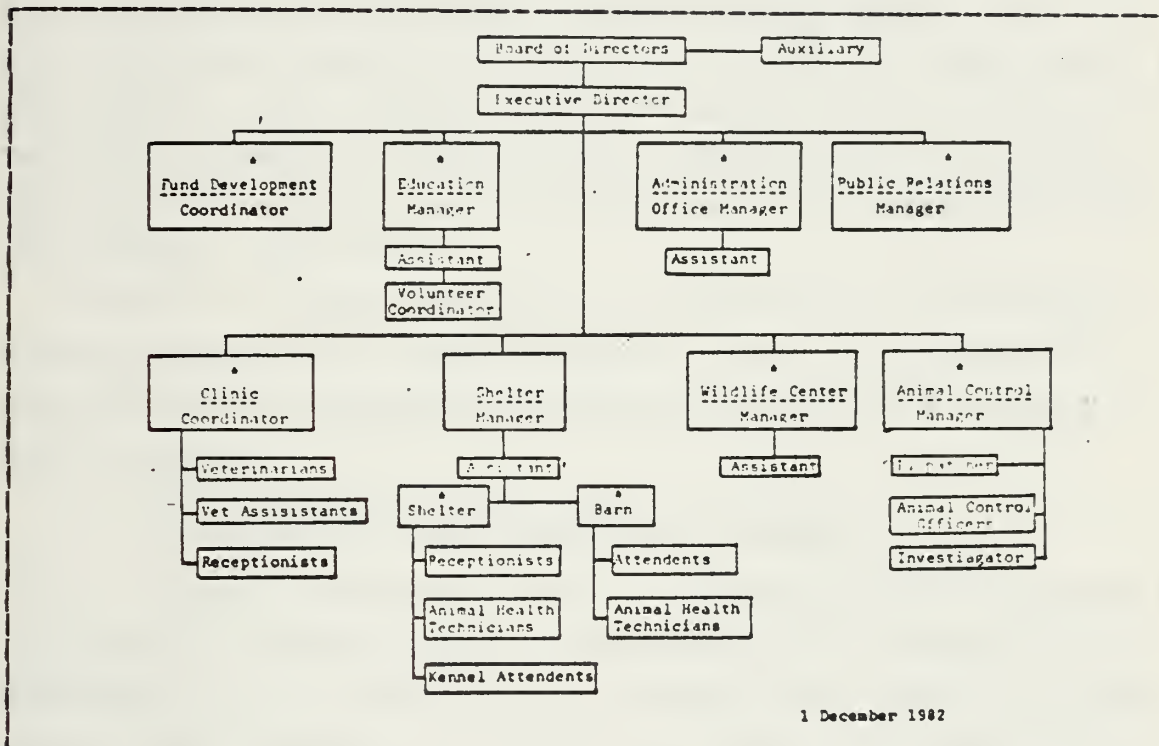


Figure 4.1 Revised MCSPCA Organization Chart.



## C. CONTROL STRUCTURE

As discussed in Chapter II, most effective management control systems are designed around program and responsibility account structures. The MCSPCA account structure is not presently designed to collect data either by program or responsibility center.

The existing account structure and accounting system is designed to primarily collect data by line item; that is, by object of revenue and expenditure. The system also provides for the collection of data relevant to the County of Monterey animal control contract and other city contracts. The system, quite simply, does not provide for collecting or reporting revenue and expenditure information in relationship to the managers who are responsible or accountable for the various line items.

The first change necessary to formalize the management control system is to restructure the chart of accounts to facilitate the collection of data by program and responsibility center.

### 1. Programs and Responsibility Centers

Before developing the new structure, it is necessary to identify the programs and responsibility centers of the organization. A program can be defined as a group of activities, each activity of which is necessary to accomplish a desired goal or objective [Ref. 16: p. 4]. The scope and complexity of a program should be predicated upon the following characteristics:

- (1) Activities should be combined in such a manner that an administrative unit can be identified. Ideally, each program should be assigned to a single manager.
- (2) Relationship between activities of a program should be such that expenditures in carrying out the activities should be traceable to the program. If possible, revenues should also be traceable to programs.
- (3) Boundaries of a program should take into consideration the kinds of measurements which are to be used to evaluate performance.





The results of our study indicated that there are basically nine programs at the MCSPCA. These programs are directly related to the nine responsibility centers that are tasked with carrying them out. Each responsibility center is responsible for one and only one of the nine programs. In this case, the program titles are the same as the responsibility center titles. Therefore, the program structure and the responsibility structure are one and the same. The programs/responsibility centers and the responsible managers are identified in Table V. With the exception of the Shelter, each of the responsibility centers is a department of the organization charted in figure 4.1. The Shelter Department is divided into two responsibility centers (Shelter and Barn), because these two divisions perform separate and distinct functions. These functions will be outlined in the next chapter.

TABLE V  
MCSPCA Program/Responsibility Centers

<u>Program/Responsibility Center</u>	<u>Responsible Manager</u>
Shelter	Shelter Manager
Barn	Shelter Manager
Clinic	Clinic Coordinator
Animal Control	Animal Control Manager
Humane Education	Education Manager
Public Relations	Public Relations Manager
Wildlife	Wildlife Manager
Fund Development	Fund Development Coordinator
Administration	Administration Manager

## 2. Classification of Responsibility Centers

At the MCSPCA, it is difficult and impractical to attempt to match expenses incurred in the delivery of services to revenues that support those services by responsibility center.



In Chapter II, we discussed the usefulness for control purposes of designating responsibility centers as profit centers. A normal criteria for a profit center would be that expenses incurred should approximate revenues earned in the responsibility center. This is not the case in any of the responsibility centers at the MCSPCA. For example, one of the responsibility centers generates no revenue while some generate revenues that greatly exceed expenses incurred. The only responsibility center which could reasonably be designated a profit center is the clinic. However, since the clinic doesn't fully cost its services as a matter of policy and its total revenue does not approximate its expenses, it would probably not really serve any purpose for it to be treated as a profit center.

Since all nine centers do incur expenses in carrying out their respective programs, it is recommended that each of these be classified as expense centers. Eight of the nine centers are additionally responsible for generating revenue required to cover those expenses. Therefore, these eight are recommended to be classified as both expense centers and revenue centers. Table V identifies each responsibility center by type. A complete explanation of responsibility center type is contained in Section E of Chapter II.

TABLE VI

Classification of MCSPCA Responsibility Centers

<u>Responsibility Center</u>	<u>Expense Center</u>	<u>Revenue Center</u>
Shelter	X	X
Barn	X	
Clinic	X	X
Animal Control	X	X
Humane Education	X	X
Public Relations	X	X
Wildlife Center	X	X
Fund Development	X	X
Office Management	X	X



### 3. Account Structure

In Chapter II, an account was defined as a device for collecting data consistent with its title and definition. As stated in the beginning of this chapter, the existing account structure provides for the collection of data by line item and by charges related to the county and city contracts. The revised accounts recommended in this study continue to provide for the collection of data by line item (required by the Board of Directors) and by contract. In addition, the new structure would provide for the collection of data by program and responsibility centers. The revised accounts would be used to collect both historical and estimated future data. This structure will provide the framework for the financial control of programs, responsible managers and contracts.

Elements of the Account Number: Each account number, as recommended would contain a three digit general ledger account number. These general ledger account numbers identify specific assets, liabilities, fund balances, revenues, and expenditures. In addition to the general ledger account numbers, subcodes would be used with revenue and expenditure accounts to identify the program and responsibility center which generated or used the funds and to identify the county or city contract to be charged. This level of accounting is necessary to meet contract obligations which require the MCSPCA to identify and report all costs incurred under terms of the contracts separately from those incurred for other MCSPCA activities.

#### Illustration:

Account Number 501.111

- (1) The first three digits identify the general ledger account. The number 501 used in this illustration identifies the object of expense, salaries.





- (2) The first digit of the subcode (after the decimal point) would identify the program and responsibility center. The number .1\_\_ used here would identify the Shelter.
- (3) The last two digits of the subcode would identify the purpose, other than the program: revenues are identified to one of four funds; expenditures are identified to MCSPCA operations, county contract, or other contracts. In this example, .\_11 identifies an expenditure charged to the county contract.

The account number in the illustration identifies salaries of shelter workers performing work required by the county contract.

The complete chart of accounts, which has been revised to include the collection of data by program and responsibility center is included as Appendix A. The general ledger account numbers contained in the existing chart of accounts are adequately identified. The formulas for allocating costs to the new subcodes could be revised by the MCSPCA bookkeeper at a later date. This could then be included as part of the chart of accounts when completed.

#### 4. Output Measurement

In Chapter II, we discussed the fact that a nonprofit organization does not have a way of measuring output that is comparable to the revenue, gross margin or net income numbers that are routinely available in a profit-oriented business, nor can it hope to develop a nonmonetary measure that is as good as these measures. The nonprofit organization needs to develop reasonable





substitute output measures to provide management with a means to assess both efficiency and effectiveness of the organization's performance.

The MCSPCA is not currently utilizing output measures to assess the performance of the organization. Because this is such an important part of management control in a nonprofit organization, the next chapter will address the topic of output measures and develop measures which can be used by the MCSPCA.

#### D. THE CONTROL PROCESS

As stated in the beginning of this chapter, the MCSPCA does not have a formal management control process. What little management control that does exist is strictly informal. In this section, we will outline the steps to be taken at the MCSPCA to formalize this process.

The principal steps in the formal management control process are the following:

- (1) Programming
- (2) Budgeting
- (3) Operating and Measurement
- (4) Reporting and Analysis

The programming and budgeting steps take place prior to actual operations. It is during these steps that decisions and estimates are made as to what outputs and inputs are to be. During actual operations, step (3), records are maintained as to what outputs and inputs actually are. During step (4), which occurs subsequent to operations, reports are prepared that compare actual outputs and inputs to planned outputs and inputs, and action is taken on the basis of these reports. Each of these steps leads to the next. They recur in a regular cycle and together they constitute a closed loop. Relevant external information must be considered during each step of the process.



## 1. Programming

Programs do not formally exist at the MCSPCA. During our study, however, programs have been identified. Program objectives and recommended output measures for each program are addressed in the next chapter. With this in mind, the remainder of this section assumes that programs will exist.

The MCSPCA is not a large organization nor do its activities change dramatically from year to year. There is no formal strategic planning conducted by the Board of Directors. The long range goals of the organization have remained unchanged for years. These goals and strategies were outlined in Section D of Chapter III. Because of the fact that activities do not change dramatically from year to year, it is not considered necessary to develop a formal programming system. Top management at the MCSPCA agreed with our recommendation that programming should be included as the first step in the budgeting process.

During this step, each of the program managers would be required to review and update the ongoing program objectives and output measures which are specified in the next chapter. Decisions on program objectives and outputs would be reached as a result of negotiations between the program managers and the Executive Director. This procedure would result in the "revised program objectives" for the upcoming year, which would be forwarded to the Board of Directors, with the proposed budget, for approval.

## 2. Budgeting

The current budgeting process does not include formal participation of the operating managers. The budget is prepared only as a formality, to be given to the Board of Directors for ratification. The Executive Director prepares



the budget with informal inputs from his managers and bases his figures almost entirely on actual cost figures from the previous year's line item operating statement. The budget is currently prepared solely by line item with no regard for either program or responsibility center.

Once the budget is approved by the Board of Directors and returned, it is filed in the Executive Director's office. The department heads have not been provided with formal spending limits. In short, the operating budget appears to have been more or less pro-forma in nature and has not really been used as a real planning or management tool.

As we discussed in Chapter II, budgeting is probably the one most important part of the management control process in a nonprofit organization. Because of this, we have developed detailed procedures for budgeting at the MCSPCA. These procedures will be presented in Chapter VI and provide the foundation of the MCSPCA's "Manual of Budget Policies and Procedures."

### 3. Operating and Measurement

Accounting System: The accounting system currently in use at the MCSPCA is adequately set up for the collection of data to be used in general-purpose financial reports, such as the balance sheet and operating statement. However, it is not set up to provide management reports required for management control.

Management accounting reports should focus on the extent to which the organization has operated so as to maintain its operating capital. In order to do this the system should measure the operating revenues earned and the operating expenses incurred during an accounting period. The current system is designed to accomplish this for parts of the organization and for the organization as a whole. It is





not, however, designed to measure revenues and expenses by program and responsibility center, thus, there is no formal mechanism for controlling either.

Appendix B is a copy of the spread sheet from MCSPCA's 1981 annual operating statement. This spread sheet provides an example of the way in which financial data has been collected and reported. Revenues and expenditures are summarized for only six of the nine programs along with sums charged to the county contract and other (city) contracts. These figures are somewhat misleading since the expenditures listed under the contracts are actually allocated expenditures incurred by several of the responsibility centers.

With the revised account structure, the accounting system would be capable of collecting and summarizing revenue and expenditure data by both program and responsibility center. Additionally, the system will enable management to extract and summarize costs chargeable to the contracts. MCSPCA top management would have the necessary information to exercise financial control over programs, responsible managers, and contracts. This revision would not affect any of the special or general-purpose financial reports which are currently being used.

Expenses versus Expenditures: As discussed in Chapter II, expenses measure the resources used in operations during a period. Most authorities agree that spending for programs and by responsibility centers should be in terms of expenses, rather than in terms of expenditures, because expenditures measure resources acquired, which does not necessarily correspond to resources used.

The MCSPCA uses expenditures to measure resources used rather than expenses. MCSPCA charges off supplies and services to operations when they are acquired. Based upon a review of historical data it appears that the actual difference between expenditures and expenses is minimal and would



not justify the work and expense to maintain the additional accounts required in an accrual system of accounting. Therefore, it is our opinion that they should continue to use this procedure. This opinion is based on the fact that the MCSPCA does not carry large inventories of supplies nor does it carry large pre-paid expenses. Supplies and services are ordered as they are needed and they are consumed within a short period of time after they are acquired. Thus, expenditures currently closely approximate expenses and it is assumed would continue to do so. This procedure is also in line with concept of materiality prescribed by the Financial Accounting Standards Board (FASB) as part of the Generally Accepted Accounting Principles [Ref. 6: p 575].

Output Measurement: In addition to the collection and measurement of financial information during the period of actual operations, actual nonfinancial outputs should be recorded. Again, this will be discussed in the next chapter.

Operational Control: Nonprofit organizations need well defined rules and prescribed procedures for controlling operations other than financial controls. Although these procedures are not normally included as part of a formal management control system, they are certainly important. These rules and procedures should be designed to not only ensure operational economy and efficiency but to minimize the possibility of loss by theft, fraud, or abuse.

During our study we found that improvements could be made in the operational control area. Specific attention is considered necessary for the following areas: (1) safe-keeping of assets, (2) inventory control, (3) purchasing, (4) personnel management, (5) work scheduling, (6) overtime, (7) vehicle control, (8) work order requests, and (9) energy conservation. A complete description of our findings and recommendations regarding operational controls was presented to the MCSPCA in a separate report [Ref. 27].



#### 4. Reporting and Analysis

In this final phase of the management control process, management should be provided with all of the information needed to control the activities of the organization. Both financial and non-financial information should be summarized, analyzed, and reported to those individuals who are responsible for knowing what is happening in the organization and for improving it. These reports essentially should compare planned outputs and inputs with actual outputs and inputs.

Reports of this type were not observed at MCSPCA. Therefore, it is recommended that the MCSPCA develop management control reports for each program/responsibility center and for the county and city contracts. These reports should summarize and compare the following data: (1) actual revenues received to planned revenues, (2) actual expenditures to planned expenditures, (3) actual outputs (results) to planned outputs. Information on actual revenues and expenses would be collected in the accounting system described in the previous section, utilizing the revised account structure. The reports should be prepared in the same format as the budget. This format will be outlined for each program/responsibility center and contract in Chapter VI. The output reports should follow the format outlined in Chapter V.

The frequency of these reports is at the discretion of the Executive Director. It would normally be recommended that these reports be generated monthly. However, it is recognized that it is probably not feasible to generate the financial reports that frequently, because of the present workload in the bookkeeping section of the Administration Department and the fact that the accounting system is not automated. The reports should be generated, at a minimum, quarterly.





Once these reports are developed and incorporated into the formal management control system, management at the MCSPCA would be better able to: (1) coordinate and control the current activities of the organization; (2) evaluate operating performance of the individual responsibility center managers; and (3) evaluate programs.

Variances, as would be indicated in these reports, between actual data and planned data could alert management to the fact that something is not proceeding as planned. These variances should be investigated and analyzed to determine the cause and corrective action necessary. A variance could result from either poor planning or inefficient operations. If it is determined that the plan under which a program is being conducted is not optimal then the program and the budget should be revised.





## V. MEASURING PROGRAM OUTPUTS AT MCSPCA

### A. INTRODUCTION

If one were concerned only with the measurement of a nonprofit organization's overall financial performance, the measure could be made against the standard of its own previous performance, other agencies performance currently and in the past, a predetermined plan quantified in the form of a financial operating budget, or a target established by supporters which is tied to present or future funding. However, since economic profit is not the primary aim of a nonprofit organization, the achievement of its goals cannot be ascertained exclusively through standard financial measurement techniques and reports. The problem with measuring performance using the measurement techniques noted above is that all of these techniques and others of a similiar nature are unidimensional. They are concerned only with analyzing financial performance and there is no determination of the benefit received in exchange. Because of this, the performance of nonprofit organizations must be measured in other ways, with the analysis of financial statements being only one ingredient of the process.

While reporting the allocation and use of resources by a nonprofit organization among its programs is a relatively straight forward task after the proper account structure has been established, the equally important task of measuring and reporting program results is considerably more complex. Quantifying benefits is not an easy task but one that must be attempted because it is the essence of a nonprofit organizations operations and underlies the usefulness of financial information gathered about it. The question which



must be answered is, to what extent have the organization's goals for the period been achieved and what is the resulting cost/benefit relationship?

For a profit-seeking organization, the ability to earn profit is usually a valid performance measure, but a similar "common yardstick" does not exist for nonprofit organizations. While some programs of a nonprofit organization may produce income, that is not their primary objective and the income which is generated is seldom, if ever, an appropriate measure of the program's output. In order for the managers and, equally important, the sponsors of nonprofit organizations to completely analyze the agency's efficiency in the use of resources and effectiveness in accomplishing its goals, it is necessary to devise adequate nonmonetary substitutes of output measure.

The previous chapter developed an account structure for the MCSPCA to utilize a program budget. This chapter discusses the various aspects of an output measurement system and the problems which must be dealt with in developing such a system. The term "output" as used here refers to the goods and services produced by an organization, which the organization hopes will achieve specific secondary results, namely fulfillment of organizational goals. It is important to recognize that outputs are different than results. Results are stated in terms of what was achieved because of the outputs [Ref. 28: p. 23]. Outputs cannot be considered without considering the goals which they are designed to achieve and the objectives which have been established for activities which will lead to attainment of the goals. In one of the sections of this chapter, goals and objectives are detailed for each of the organization's nine programs which would be used in the initial program review phase of the budget process. Additionally, output measures which can be used for evaluating the program's



effectiveness in reaching these stated objectives will be listed.

## B. GOALS AND OBJECTIVES

Evaluation has been defined as an attempt to determine whether programs are achieving the results for which they were authorized and for which funds were made available [Ref. 29: p. 6]. In short then, evaluation is a determination of how well the goals and objectives of an institution or organization are being met. Just as meaningful discussion requires knowledge of the subject, good evaluation systems must begin with the proper development of goals and objectives.

A goal can be defined as a statement describing a broad or abstract intent, state or condition [Ref. 30: p. 35]. Anthony and Herzlinger define a goal as a statement of intended output in the broadest terms [Ref. 1: p. 228]. A goal usually is not related to a specific time period, nor is it quantifiable. Because of this, a goal usually cannot be used as the basis for a measurement system. The main purpose of a goal is to communicate the organization's aims and priorities.

An objective is one of a set of steps that leads to the achievement of an organization's goal. It should indicate a specific result to be achieved. A statement listing an organization's objectives is essential because the effectiveness of the organization can be measured only if actual outputs can be related to objectives [Ref. 1: p. 230].

Evaluation is facilitated if objectives are stated in clear and measurable terms [Ref. 31: p. 17]. Objectives should be reasonable and perceived as attainable by those who are expected to achieve them. Objectives that are perceived as being too difficult can have an adverse effect





on the attitude and performance of an organization's members [Ref. 32: p. 718]. Objectives should be time oriented so a completion date can be established. Additionally, since measurements are always quantitative, objectives should be stated in quantitative terms, if at all possible. In cases where an objective cannot be reduced to terms which can be scalarly measured, if at all possible it should be stated so that the achievement of the objective can be discretely determined by observation or some other manner (i.e., a planned event did or did not take place). Care must be exercised to ensure that objectives are consistent with the organizations goals and not vaguely worded or they may lead to actions which do not contribute or may even hinder achievement of the organizations goals.

### C. MEASURING OUTPUT

Performance itself is rarely measured; instead, some specific attribute that can be related to the performance is measured [Ref. 33: p. 8]. As noted in Chapter II, several types of output measures can be collected to help determine an organization's performance. The two most frequently used are result measures and process measures.

Result measures express output in terms which are related in some way to the organization's objectives. If objectives are stated in terms that are measurable, the output measures can be stated in these terms. A process measure expresses output in terms of the volume of activity. The use of a process measure assumes that as the organization functions, its objectives are being fulfilled. This assumption may not always be true.

Many of the objectives of nonprofit organizations frequently cannot be stated quantitatively. In these instances, result measures cannot be made directly and it is



necessary to measure the components of a performance or indicators which are believed to correlate to the performance. The indicator is a proxy measure which can be used to assess progress in the achievement of objectives. The selection of a proper indicator is difficult. A surrogate can only serve its purpose when; (1) the goal is well-defined and provides a clear idea of the change or condition that a program is trying to achieve; (2) there is a strong correlation between the change or condition and the indicator; (3) it is feasible to verify objectively the presence of, or changes in, the indicator selected; and (4) the organization must be able to specify the amounts of expected change and the time interval in which it should occur.

Some organizational experts hold that only the inputs or resources allocated to an activity can be undisputably measured. These people argue that many reasons contribute to preventing development of clear output measures or quantifiable objectives, including the following: (1) conflicts of values and interests between different perceivers, (2) a lack of knowledge about means-end relationships in which the activity considered represents the means and, (3) rapid changes in the environment force new objectives or make existing objectives obsolete without immediately suggesting new ones [Ref. 14: p. 194].

Others take the opposite view, believing that outputs can also be quantified and the problem is merely finding the right measure. Valid points can be found in the arguments of both sides but we believe that if control is to be exercised over an organization's activities, some measurement of both efficiency and effectiveness is necessary and an organization should make every effort to develop output associated measures. Finding the proper measures may be exceedingly difficult in some cases and if a search for indicators which can truly be identified with output is made



without success, measures of input can be used as proxies. This situation is less than ideal [Ref. 26: p. 576].

Initially, it may appear that result measures are more informative and superior to process measures because they relate directly to the impact that an organization has on its environment. Result measures are "ends-oriented" while process measures are "means-oriented." An ends-oriented indicator is a direct measure of success in achieving an objective. A means-oriented indicator is a measure of what a single component of an organization does [Ref. 1: p. 233]. Process measures however are very useful in measuring current or short term performance. They are easy to interpret because frequently there is a close relationship between inputs and process measures. But, they can lead to ineffective performance if they are unrelated to result measures. Result measures require that outputs be expressed in terms that are related to an objective. As noted previously, this often entails the use of a substitute or proxy measure which can cause new or additional problems. As an example, an organization may focus so much attention on the substitute indicator that its achievement becomes more important than achieving the real objective. The dangers of how inappropriate accounting measures can lead to undesirable results is covered particularly well in Kerr's article "On the Folly of Rewarding A, While Hoping for B" [Ref. 34 : pp. 769-783].

In view of the advantages and disadvantages of each type, a combination of both process and result measures should be incorporated into an organization's output measurement system. Keeping in mind the limitations of each type of measure, the manager can use process measures to help measure efficiency and result measures to help measure effectiveness.





An output measurement system can utilize measures that are obtained subjectively or objectively. Subjective measures reflect the judgment of a person or group of people while objective measures are those that are obtained directly from the data and are not dependent on human judgment. Subjective measures are usually a better measure for the quality of a performance than objective measures because the analyst making the judgment can make allowances for circumstances or peculiarities which impacted on or influenced the performance that cannot be accounted for in objective measures. This feature is also the major disadvantage of subjective measures, in that the measure can be biased by the attitudes, prejudices, emotions or physical state of the evaluator at the time the judgment was made [Ref. 1: p. 237].

Performance has both quantity and quality dimensions. Usually, it is easier to measure quantity than quality. However an output measurement system should make provisions to measure both dimensions. In nonprofit organizations, measures of quality can be more important than in profit-seeking organizations because the market environment in which a profit-seeking firm operates provides an automatic check on quality [Ref. 1: p. 237]. If the quality of the product or service produced by a profit-oriented company is not on a par with those produced by others in the same field, consumers will not purchase its products, a signal which will quickly be noticed by the firm's manager. Because no such automatic check exists to evaluate the services of most nonprofit organizations, extra effort should be taken to include quality measures in their measurement systems even if they are elementary in nature. To this end, the use of indicators and judgemental measures must be relied on in some instances.





#### D. CHARACTERISTICS OF OUTPUT MEASURES

An output measurement system should provide performance measures to meet the needs of all phases of the management control process. In the short-run, managers need data that can facilitate financial control and control of daily activities. In the long-run, there is a need for more general information that can be used for long range or strategic planning. Measures that are useful for strategic planning purposes and those that are most useful for management control of daily operations can be distinguished in several different characteristics.

Accuracy: For strategic planning, rough estimates of output are acceptable. In controlling daily operations, managers require measures that are more precise.

Objectivity: Direct first line supervisors require output measures that are clearly connected to the activities performed by the department/personnel they supervise. For strategic planning, the ties do not need to be as close.

Responsibility: For management control purposes, output measures must be designed so they can be related to the actions of a specific person or unit. Direct accountability is not required for strategic planning.

Timeliness: Output measures must be provided to first line managers before the action be measured is completed if they are to be on any value in determining the final outcome. Timing for strategic planning is not so critical but measures still must be available when needed.

Cost: For both strategic planning and management control, the benefit of obtaining information about inputs and outputs must exceed the cost of collecting the information.



## E. SELECTION OF OUTPUT MEASURES

As evidenced by the material in the previous sections, many factors must be considered in determining what measures should be employed to evaluate the performance or output of a nonprofit organization. We believe that, at a minimum, the following aspects should be considered when selecting output measures:

1. In most instances, some measure of output is better than none. Flaws can be pointed out in almost every measure of output. However, managers should not cast them all aside as worthless. Instead, they should recognize the limitations of various measures and utilize the information available from each measure to the maximum extent possible. By combining a variety of different measures, a manager may be able to get a good picture of organization performance. Additionally, every effort should be made to develop a measure for all of an organization's major goals. One of the dysfunctional effects of using a measurement system is that unmeasured goals tend to receive less attention, if they are not totally ignored [Ref. 35: p. 54].

2. If feasible, relate output measures to measures available to outside sources. If this can be accomplished, the manager's ability to analyze the performance of his/her organization can be improved by allowing comparisons to other organizations engaged in similar work. Extreme care should be taken to ensure that measures which are the basis of comparisons are prepared according to the same definitions and procedures or the comparisons may be more harmful than helpful.

3. Use measures that can be reported in a timely manner. The importance of timely information to the first line manager has been previously noted. For management control purposes, a timely, but less accurate measure is often preferable to an accurate, but less timely measure.



4. Develop different measures for different purposes.

A common, all-purpose report on output that compares to a general purpose financial statement does not exist. Documents which report output must be customized or tailored based on the performance being measured and the needs of the individuals who will use the reports.

5. Focus on important measures. For most programs, and for the organization as a whole, there are a few key result measures which provide a general indication of the quality and quantity of performance. It is important that these indicators be included in the measurement system and, equally important, that the system does not contain so many other measures that these key ones are lost in the crowd. This latter point requires a delicate balance with the first.

6. Don't report more information than is likely to be used. The output measurement system need not produce an avalanche of paper to document performance measurement. In the same way that the presence of too many measures will hinder the use of the relevant ones, too much data can adversely effect the output measuring system. The potential of overwhelming managers with too much information is particularly high given today's automatic data processing techniques.

7. Don't give more credence to substitute measures than is warranted. The dangers of using substitute measures has already been mentioned. Managers should always keep in mind that an indicator used to measure output is only an approximation and should not be confused for actual results.





## F. OUTPUT MEASURES FOR THE MCSPCA

As we have already noted, a budget is nothing more than a plan verbalized in dollars and cents. It is not a license to spend money provided for in the budget without good cause, nor is it deterrent to spending money not previously allocated in the budget if such an expenditure is deemed necessary by top management. This position requires that each unit of an organization, down to its lowest level establish objectives for the coming year and more general objectives for follow-on years that are all centered about the organization's goals and plans for the future. Program statements and objectives for each of the nine programs at the MCSPCA are contained in Appendix C. These objectives were developed by MCSPCA program managers for the forthcoming budget year and accepted by the Executive Director as activities which would lead to fulfillment of the Society's overall goal and principles as listed in Section E of Chapter III. Following each program objective, measures to be used by program managers in marking progress in achieving the objective are listed. Desired or minimum performance levels are specified within these measures.

An important point which should be kept in mind concerning output measures is that the development process is not a unique, one-time task. Instead, it is an ongoing process, subject to constant review to identify necessary changes or further refinements. For this reason, output measures listed in Appendix C should not be thought of as unchangeable or absolute. While every effort was made to adhere to the guidelines contained in the previous two sections in developing these measures, the many difficulties associated with developing quantifiable objectives and output measures for service type programs are hard to overcome and some inadequacies can be found in these initial



measures. Top management and program managers at MCSPCA should be aware that these deficiencies exist and continue efforts to develop better or additional measures. As an example, the timeframe required to collect some measures is fairly extensive and may not provide managers with sufficient time to institute changes which would bear on the final outcome. Additionally, measures of performance are only stated at an organizational or group level. Program managers may need to further detail the objectives and measures used in their program into ones which can be measured at an individual level.

#### G. REPORTING PERFORMANCE RESULTS

The subjective nature of many of MCSPCA's objectives makes reporting of performance a complex problem which can probably best be solved by primarily using narrative type reports. A narrative format is particularly well suited for presenting summary data in a concise manner and is not as time consuming to prepare as documents requiring great numerical detail. Additionally, a brief explanation or background information concerning the reported performance level can be incorporated into the narrative. When these narrative reports are used in conjunction with the financial reports developed in the next section, they should provide top management and program managers with sufficient information to permit evaluation of the organization's effectiveness and efficiency as well as make informed decisions. Additionally, a summary showing results of overall program operations can be easily compiled from these narratives to accompany MCSPCA external financial statements. Financial statements by themselves tend to become dry columns of numbers. The complementary information provided by this program summary can breathe life into these figures



and better show the organization's performance to its sponsors and other interested parties.

A report format for proposing program objectives and reporting progress in achieving them is shown in Figure 5.1 Program managers for each program will prepare these reports for their programs on a periodic basis as determined by top management. It is recommended that at a minimum, reports should be prepared quarterly. Narratives of these reports should specifically address the following items:

- (1) General discussion of overall program goals and objectives and status of activities that have been undertaken in an effort to fulfill these items.
- (2) Discussion in as specific and measurable terms as possible of work performed to satisfy any program goals and objectives established specifically for the budget period at hand.
- (3) Explanation of variances between planned and actual results or budgeted and actual resource allocation.
- (4) Explanation of any significant shifts in resource allocation between reporting periods.
- (5) Clarification of any items contained in the financial statements which might otherwise be misleading.
- (6) If the measurement system contains any built-in or inherent weaknesses, they should be pointed out to prevent erroneous interpretation by users.

#### H. USING OUTPUT MEASURES

Measurement itself is not an absolute but, rather, a relative term. When we speak of it, we imply the use of a predetermined norm or standard. Measurement then is the comparison of an unknown quantity with a standard [Ref. 36: p. 67]. A comparison implies that differences will arise between the measurement standard and the items being compared to it. Determination and analysis of these differences becomes an integral part of the usefulness of the measuring process [Ref. 37: p.6]. Measurement, then, directs attention toward measured dimensions of goals and provides corrective and evaluative feedback [Ref. 35: p. 55].





Program Objectives and Progress Report

Program Name: \_\_\_\_\_

Description of Objective

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Progress Report

First Quarter: \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Second Quarter: \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Third Quarter: \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Fourth Quarter: \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Submitted By

Original Request	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
_____	_____	_____	_____	_____
Date: ___	Date: ___	Date: ___	Date: ___	Date: ___

Reviewed By

_____	_____	_____	_____	_____
Date: ___	Date: ___	Date: ___	Date: ___	Date: ___

Figure 5.1 Program Objectives and Progress Report.





After an organization's desired results have been clearly defined and appropriate measures or indicators which will serve as proxy measures have been selected, an organization's top management must establish standards or levels of each measure which will be accepted as adequate performance and represent progress towards fulfilling the organization's goals. The organization's actual performance can be compared periodically against these set standards to determine if performance is satisfactory or if adjustments are required. This evaluation process is conducted for each program/responsibility center for all applicable measures, including financial.

At the times designated by top management, program managers should examine and compare the accomplishments of their departments against what was expected of it. When comparisons have been made, the findings are recorded in narrative format in the appropriate portion of the "Program Objectives and Progress Report" and forwarded to top management for analysis. A well prepared and well executed budget should reflect little or no variance between what was projected to happen and what in fact has occurred. Unfortunately, this will not always be the case and when variances are detected, the cause for the variance must be determined as any difference between the set standard and actual performance indicates an area of poor or superior performance.

The analysis should determine if the variance is a result of the program providing more or less service than was originally budgeted, inefficient operation of the responsibility center/program or due to unplanned changes in inputs which are beyond the control of the program manager. Program managers and top management will discuss the reasons and causes of these variances at the Budget Review Meeting which is part of the budgeting process established in the



next chapter. The organization must be prepared to take action to modify program activities or, if necessary, entire programs if output measures indicate that the desired level of service is not being provided or the financial aspects of the budget are not being met. Many nonprofit organizations fail to make these necessary adjustments. While nonprofit organizations must adhere to their budgets somewhat closer than profit-oriented organizations, they should not be completely inflexible as they do have some choice over what services to offer and at what level as long as legal or organizational restrictions are met.



## VI. BUDGET PREPARATION AT THE MCSPCA

### A. GENERAL DISCUSSION

A budget is a plan expressed in monetary terms. There are several types of budgets, including the capital budget which lists and describes planned capital acquisitions, the cash budget which summarizes planned cash receipts and disbursements, and the operating budget which describes planned operating activities for a specified period of time. The policies and procedures outlined in this chapter relate primarily to the operating budget, because of its importance as an integral part of the management control process.

The operating budget is important because it is the document that authorizes and controls current financial operations. It serves as an important link between the Executive Director and the operating managers, providing operating managers with a convenient channel through which they can communicate upward their proposed plans and program objectives for consideration, and conversely, providing the Executive Director with a tool for overseeing and controlling the organization's financial activities. In other words, the budget serves a dual purpose; that is, it functions initially as a planning document and later as a control device.

### B. BUDGETING APPROACH

A combination of two budgeting approaches are recommended for the budgeting process at the MCSPCA. These are the line-item budgeting approach and the program budgeting approach.





The line-item approach focuses on inputs or resources to be consumed during operations. Although this approach is used in identifying particular objects of expenditures (i.e., salaries, supplies, animal food, maintenance, and uniforms) it does not, by itself, identify the purposes for which money is to be spent to fulfill the organization's goals and objectives. Most importantly it fails to associate the costs of resources with organization outputs.

In order to associate costs of resource utilization with organization outputs and to facilitate management control over both programs and responsibility center managers, line-item budgeting should be incorporated into a program budgeting approach.

Program budgeting is a planning-oriented process which emphasizes costs of programs carried out by responsibility centers. The programs specify the desired outputs of the MCSPCA and the program budget identifies the specific costs related to the outputs. Program costs would be identified by utilizing the line-item budgeting approach; that is, the estimated costs of resources required to achieve the planned program outputs will be identified by line-item.

It is therefore recommended that a matter of policy, the MCSPCA Executive Director should present the proposed budget to the Board of Directors in both a line-item format and program format.

### C. PROGRAM STRUCTURE

Under the concept recommended, the main emphasis of budgeting at the MCSPCA would be on programs for the reasons stated in the preceding paragraphs. As noted, the recommended budgeting process is dependent upon the program structure developed in Chapter IV, which in turn, is dependent upon output measures developed in Chapter V. This



section is included to identify the recommended MCSPCA programs and responsible managers. There are nine programs which have been organized to conform to the responsibility structure of the organization. Each of these nine responsibility centers is responsible for one and only one program. The program and responsibility center titles are the same. The following list identifies both the programs and responsible managers:

<u>Program</u>	<u>Responsible Manager</u>
Shelter	Shelter Manager
Barn	Shelter Manager
Clinic	Clinic Coordinator
Animal Control	Animal Control Manager
Humane Education	Humane Education Manager
Public Relations	Public Relations Manager
Wildlife	Wildlife Manager
Fund Development	Fund Development Coordinator
Administration	Administration Manager

#### D. THE BUDGETING PROCESS

Coordination of the budgeting process at the MCSPCA should be the responsibility of the Executive Director. He would ensure that the established policies and procedures are followed during the budgeting process.

The budgeting process at the MCSPCA would consist of five basic phases, beginning with program revision and ending with quarterly revision of the approved budget. These five phases are as follows:

- (1) Program Revision
- (2) Budget Preparation
  - (a) Revenue Planning
  - (b) Expenditure Planning
- (3) Budget Submission to Board of Directors



(4) Promulgation of the Approved Budget

(5) Quarterly Revision of the Approved Budget

An important document to be used and followed throughout the budgeting process is the "Budget Calendar." The Executive Director would be responsible for the preparation and promulgation of the calendar to the program managers who will be involved in the process. The calendar will show: (1) start and completion dates for each phase or step of the process and (2) the program managers responsible for executing each phase.

Recommended policies and procedures for executing each phase of the process are set forth in the following paragraphs. This chapter would be required reading for all program managers and used as a guide throughout the budgeting process. Occasionally, the Executive Director may wish to provide special instructions for the preparation of segments of the budget. Special instructions will be included as an enclosure to the calendar.

The calendar for a typical budget year is shown in Figure 6.1. This figure and all other figures for this chapter are included at the end of the chapter to facilitate reading of the narrative.

#### 1. Program Revision

The first phase of the budgeting process is the review and updating of program objectives and output measures. This step will be accomplished by each of the responsible program managers. Considerations for establishing and updating program objectives and output measures were outlined in Chapter V. The "Program Objectives and Progress Report" shown in Figure 5.1 will be used to indicate revised objectives for the upcoming year.





Program revisions will be reviewed by the Executive Director. He will be ultimately responsible for approving the revisions. The revised objectives and outputs will provide the basis for the development of the program budget.

## 2. Budget Preparation

Revenue Planning: Estimating revenue is necessary at this point because income is the major constraint in planning expenditures and ultimately in deciding on program objectives.

With the possible exception of Fund Development, the programs at the MCSPCA are structured primarily to provide services and not to generate revenue. For this reason, revenue planning is not tied to programs but to responsibility centers for budgeting and controlling purposes. The fact that revenue is not part of the program structure does not mean it is unimportant. It can be considered a program in and of itself with each of eight responsibility centers playing a contributing part.

Specific responsibilities for estimating revenues, by responsibility, center are as follows:

### Shelter Manager

Responsible for:

- Donations-Shelter
- Donations-Mail
- Donations-Other
- Adoption Fees
- Memberships
- Cremation
- Boutique Sales

### Shelter Manager (Barn)

Responsible for:

- Adoptation Fees





Clinic Coordinator

Responsible for:

Donations-Mail  
Donations-Other  
Clinic Income  
Clinic Pre-paid Neuters

Animal Control Manager

Responsible for:

Donations-Mail  
Donations-Other  
Memberships  
Animal Disposal (pickup)  
Animal Control Escrow

Humane Education Manager

Responsible for:

Donations-Mail  
Donations-Other  
Volunteer Donation Boxes  
Volunteer-Activities  
Memberships

Public Relations Manager

Responsible for:

Donations-Mail  
Donations-Other  
Newsletter  
Memberships

Wildlife Manager

Responsible for:

Donations-Mail  
Donations-Other  
Volunteer-Activities



Fund Development Coordinator

Responsible for:

Donations-Mail  
Donations-Bequests  
Grants  
Donations-Other  
Memberships

Administration Manager

Responsible for:

Benefit Shop #1  
Benefit Shop #2  
Benefit Shop #3  
Benefit Shop #4  
Auxiliary  
County Contract  
Marina Contract  
Soledad Contract  
Greenfield Contract  
King City Contract  
Dividends  
Interest  
Sales of Equipment  
Sales-Other  
Court Settlements

Estimated revenue figures will be submitted to the Executive Director for review and summation. The "Revenue Planning Worksheets" to be used by the responsibility center managers for estimating revenue are included as Figure 6.2

After reviewing each worksheet with the respective responsible managers, the Executive Director will summarize the revenue figures by line-item. The "Revenue Summary Worksheet" (Figure 6.3) will be utilized to accomplish this. The total estimated revenue figure will then be used as the target for planning expenditures.



Expenditure Planning (Program Budget Formulation):

This is the most critical and time consuming planning phase of the budget preparation process. The ultimate objective of this phase is to match total planned expenditures to total estimated revenues. Since the estimated revenues must be assumed to be fixed in the short run, the planning of expenditures becomes a tedious process.

Program managers are responsible for providing the Executive Director with realistic estimates of anticipated expenditures for the upcoming budget year. These initial estimates will be based on the costs of resources, such as materials and personnel, required to achieve the revised program objectives and level of outputs listed on all of the "Program Objectives and Progress Reports" authorized by the Executive Director for implementation in the forthcoming year. In addition to these estimates, estimates of expenditures for general operations of the responsibility centers will be included as part of the program's total costs. These general operating costs include such items as insurance, utilities, and maintenance of equipment. In essence, program managers are translating the narrative program objectives into dollar values which can be listed on the "Program Budget Worksheet."

Program managers will utilize the "Program Budget Worksheets" (Figure 6.4) to prepare their initial expenditure estimates. These estimates will be developed for each quarter and then totaled for the year. This allows for fluctuations in activity volume throughout the year.

Costs that each program manager are responsible for will be indicated by an asterisk on the worksheet. As a general rule, only those costs which are controllable by the program manager will be included.





When the "Program Budget Worksheets" have been completed, they will be jointly reviewed by both the Executive Director and the program manager. Program managers should be prepared to explain each object of expenditure listed on the work sheet as it relates to program objectives. Paperwork containing calculations for deriving the estimated figures should be brought to this meeting.

Upon completion of this review, the Executive Director will summarize the program estimates both by program and by line-item on the "Program Summary Worksheet (Figure 6.5)". He will then compare the total estimated expenditure figure from the "Program Summary Worksheet" with the total revenue figure from the "Revenue Summary Worksheet". It is more than likely that the expenditure figure will be higher.

If the expenditure figure does exceed the revenue figure, the Executive Director will divide the total revenue figure into target amounts for each program. These target amounts will be pro-rated on the basis of expenditure totals for each program to the total expenditure figure. The program managers will then be required to revise their respective expenditure budgets to equal those target figures.

If it is determined that planned program objectives and outputs cannot be achieved as a result of cutting expenditures, then it may be necessary to revise the program objectives and output. During this step of the expenditure planning phase, negotiations between the Executive Director and program managers will take place.

The final decision on both programs and the program budget will be the responsibility of the Executive Director. His ultimate objective is to define programs with objectives and outputs that are achievable within the program budget constraints.



### 3. Budget Submission

Upon completion of planning phases of the budgeting process, the Executive Director will prepare the budget document for submission to the Board of Directors for consideration and approval.

The operating segment of the budget document will show a summary of estimated revenues and expenditures by line-item. In addition, it will show a summary of expenditures by program. A "Program Budget Schedule" will be included to provide a detailed summary of expenditures by both program and line-item. This segment of the budget will be preceded by a brief description of the proposed programs for the upcoming year.

The formats to be used in presenting the "Operating Budget" and the "Program Budget Schedule" are included as Figures 6.6 and 6.7 respectively.

### 4. Promulgation of the Approved Budget

Once the proposed budget has been approved by the Board of Directors, the Executive Director is responsible for formally promulgating the approved budget for each quarter. The quarterly target amounts indicated in the budget should not be exceeded during the quarter unless specifically authorized by the Executive Director.

### 5. Quarterly Revision of Approved Budget

During the second week of the second, third and fourth quarters, the Executive Director will meet with each of the program managers to review and revise the current budget for the remainder of the budget year. Prior to this meeting, program managers should complete the appropriate section on the lower portion of the "Program Objective and Progress Report" form as noted in Section H of Chapter V.



Program Managers should be prepared to discuss the following:

- (1) Shortfalls in estimated revenues.
- (2) Unanticipated revenues.
- (3) Unanticipated expenditures.
- (4) Excess of funds available due to lower levels of expenditures than originally estimated.
- (5) Variances in expected performance and actual performance.

The Executive Director will revise each of the program budgets as a result of these meetings. If it appears that estimated revenues for the remainder of the year are insufficient to support operations at the current level, it may be necessary to revise program objectives.



Budget Calendar

<u>Event</u>	<u>Responsibility</u>	<u>Date Start</u>	<u>Date Complete</u>
Prepare program revisions and submit	Program Manager	Aug. 30	Sept. 6
Review program revisions and provide feedback	Executive Director	Sept. 7	Sept. 14
Prepare revenue estimates	Program Manager	Sept. 15	Sept. 30
Review revenue estimates and provide feedback	Executive Director	Oct. 1	Oct. 7
Prepare initial expenditure estimates and submit	Program Manager	Oct. 1	Oct. 22
Review expenditure estimates and provide feedback	Executive Director	Oct. 23	Oct. 30
Revise expenditure estimates and submit	Program Manager	Nov. 1	Nov. 14
Prepare program proposals and budget for submission to Board of Directors	Executive Director	Nov. 15	Nov. 29
Submit budget to Board of Directors	Executive Director		Nov. 30
Promulgate approved program budgets	Executive Director		Dec. 15
Review current budget execution	Executive Director and Program Directors	Apr. 1 Jul. 1 Oct. 1	Apr. 16 Jul. 16 Oct. 16

Figure 6.1 Budget Calendar.





REVENUE PLANNING WORKSHEET  
 Responsibility Center \_\_\_\_\_ (Page 1 of 3)

A/C #	Revenue	Total	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
401	Donations - Shelter					
402	Donations - Mail					
403	Donations - Bequests					
405	Donations - Grants					
409	Donations - Other					
409						
409						
409						
409						
409						
420	Benefit Shop #1					
421	Benefit Shop #2					
422	Benefit Shop #3					

Figure 6.2 Revenue Planning Worksheet.



REVENUE PLANNING WORKSHEET

Budget Year \_\_\_\_\_ Responsibility Center \_\_\_\_\_ Page 2

A/C #	Revenue	Total	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
423	Benefit Shop #4					
430	SPCA Auxiliary					
431	Volunteer - Donation Boxes					
432	Volunteer - Activities					
450	Adoption Fees					
451	Neuter Fees					
452	Membership					
453	News Letter					
454	Cremation					
455	Clinic Income					
459	Animal Disposal (Pickup)					
460	Animal Control - ESCROW					
461	County Contract					

Figure 6.2 - Continued.



REVENUE PLANNING WORKSHEET

Page 3

Responsibility Center

Budget Year

A/C #	Revenue	Total	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
462	Marina Contract					
463	Soledad Contract					
464	Greenfield Contract					
466	King City Contract					
470	Dividend Income					
471	Interest Income					
490	Sale of Equipment					
491	Sales - Other					
492	Boutique - Sales					
495	Court Settlement					
	Total					

Figure 6.2 - Continued.





REVENUE SUMMARY WORKSHEET

(Page 1 of 3)

Budget Year _____																		
A/C #	Revenue	Total	Shelter	Barn	Clinic	Animal Control	Humane Education	Public Relations	Wildlife	Fund Development	Administration							
401	Donations - Shelter																	
402	Donations - Mail																	
403	Donations - Bequests																	
405	Donations - Grants																	
409	Donations - Other																	
409																		
409																		
409																		
409																		
420	Benefit Shop #1																	
421	Benefit Shop #2																	
422	Benefit Shop #1																	
423	Benefit Shop #4																	
430	SPCA Auxiliary																	
434	Volunteer - Donation Boxes																	
432	Volunteer - Activities																	
450	Adoption Fee																	

Figure 6.3 Revenue Summary Worksheet.



REVENUE SUMMARY WORKSHEET

(Page 2)

Budget Year		Revenue	Total	Shelter	Barn	Clinic	Animal Control	Humane Education	Public Relations	Wildlife	Fund Development	Administration
A/C #												
451		Neuter Fee										
452		Membership										
453		News Letter										
454		Cremation										
455		Clinic Income										
459		Animal Disposal (Pickup)										
460		Animal Control - Backrow										
461		County Contract										
462		Marina Contract										
463		Soledad Contract										
464		Greenfield Contract										
466		King City Contract										
470		Dividend Income										
471		Interest Income										
490		Sale of Equipment										
491		Sales - Other										
492		Boutique - Sales										
493		Court Settlement										

Figure 6.3 - Continued.







PROGRAM BUDGET WORKSHEET

Budget Year \_\_\_\_\_ Program \_\_\_\_\_ (Page 1 of 5)

A/C #	Expenditure	Total	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
501	Salaries					
502	Payroll Taxes					
503	Employee Health Ins.					
504	Workman's Comp.					
505	Insurance - General					
506	Dental Insurance					
507	Retirement					
510	Phone & Communications					
511	Utilities					
515	Printing					
516	Quarterly Newsletter					
517	Photography					
520	Office Supplies					

Figure 6.4 Program Budget Worksheet.





PROGRAM BUDGET WORKSHEET

A/C #	Expenditure	Budget Year				Program				Page 2		
		Total	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	
521	Operating Supplies											
522	Medical Supplies											
523	Boutique Purchases											
555	Equipment (Minor)											
557	Equipment - Rental											
560	Animal Food											
564	Repairs - Structures and Grounds											
565	Repairs - Equipment and Others											
567	Animal Disposal											
568	Garbage Disposal											
569	Septic Tank Service											

Figure 5.4 - Continued.



PROGRAM BUDGET WORKSHEET

Budget Year		Program				Page 3
A/C #	Expenditure	Total	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
572	Veterinary Expense - 597 (f)					
573	Veterinary Expense - Charitable					
574	Veterinary Expense - Other					
575	Legal					
576	Uniforms					
577	Uniform Allowance					
580	Transportation					
581	Accounting					
582	Dues & Permits					
584	Travel					

Figure 6.4 - Continued.



PROGRAM BUDGET WORKSHEET

A/C #	Expenditure	Budget Year				Program				Page 4
		Total	First Quarter	Second Quarter	Third Quarter	Fourth Quarter				
585	Promotion									
586	Meetings									
588	Advertising									
590	Lobby Expenditures									
591	Outside Services									
595	Bad Check Clearing									
599	Other									
701	Gas and Oil									
704	Repairs and Maintenance - Vehicles									
707	Supplies - Vehicles									
709	Equipment - Vehicles									
712	Vehicle Lease									
715	Insurance - Vehicles									

Figure 6.4 - Continued.









Budget Year _____											
A/C #	Expenditures	Total	Shelter	Barn	Clinic	Animal Control	Humane Education	Public Relations	Wildlife	Fund Development	Administration
501	Salaries										
502	Payroll Taxes										
503	Employee Health Ins.										
504	Workman's Comp.										
505	Insurance - General										
506	Dental Insurance										
507	Retirement										
510	Phone & Communications										
511	Utilities										
515	Printing										
516	Quarterly Newsletter										
517	Photography										
520	Office Supplies										
521	Operating Supplies										
522	Medical Supplies										
523	Boutique Purchases										
555	Equipment (Minor)										
557	Equipment - Rental										

Figure 6.5 Program Summary Worksheet.



A/C #	Expenditure	Total	Shelter	Barn	Clinic	Animal Control	Human Education	Public Relations	Wildlife	Fund Development	Administration
560	Animal Food										
564	Repairs - Structures and Grounds										
565	Repairs - Equipment and others										
567	Animal Disposal										
568	Garbage Disposal										
569	Septic Tank Service										
572	Veterinary Expenses - 597 (4)										
573	Veterinary Expenses - Charitable										
574	Veterinary Expenses - Other										
575	Legal										
576	Uniforms										
577	Uniform Allowance										
580	Transportation										

Figure 6.5 - Continued.



PROGRAM SUMMARY BUDGET

(Page 3)

A/C #	Expenditure	Total	Shelter	Barn	Clinic	Animal Control	Humane Education	Public Relations	Wildlife	Fund Development	Administration
581	Accounting										
582	Dues & Permits										
584	Travel										
585	Promotion										
586	Meetings										
588	Advertising										
590	Lobby Expenditures										
591	Outside Services										
595	Bad Check Clearing										
599	Other										
701	Gas and Oil										
704	Repairs and Maintenance - Vehicles										
707	Supplies - Vehicles										
709	Equipment - Vehicles										
712	Vehicle Leases										
715	Insurance - Vehicles										
720	Vehicle Licenses										
721	Vehicle Depreciation										

Figure 6.5 - Continued.





PROGRAM SUMMARY WORKSHEET

Page 4

A/C #	Expenditures	Total	Shelter	Bath	Clinic	Animal Control	Human Education	Public Relations	Wildlife	Fund Development	Administration
	Total =										

Figure 6.5 - Continued.



MONTEREY COUNTY SPCA  
OPERATING BUDGET FOR BUDGET YEAR

<u>I. LINE-ITEM PRESENTATION</u>	
<u>Revenues:</u>	<u>Amount</u>
Monterey County Contract	\$
City Contracts	
Clinic Income (Welter Fees)	
All Other Sources:	
Donations - Shelter	
Donations - Mail	
Donations - Bequests	
Donations - Grants	
Donations - Other	
Benefit Stays	
Auxiliary	
Volunteers	
Adoption Fees	
Membership Fees	
Newsletters	
Dramatizations	
Animal Disposal Pick-up	
Animal Control - Record	
Invidenda & Interest	
Sales Equipment & other	
Boutique Sales	
Court Settlements	
Total Anticipated Revenue	\$
<u>Expenditures:</u>	
Salaries & Wages	\$
Payroll Taxes	
Employee Health & Dental Insurance	
Workman's Compensation Insurance	
Retirement Plan	
Subtotal: Payroll Expenses	\$
General Insurance	
Telephone Communications	
Utilities	
Printing	
Newsletters	
Office Supplies	
Operating Supplies	
Medical Supplies	
Repairs & Maintenance	
Veterinary Expenses Section 5972	
Other Veterinary Expense	
Legal Fees	
Uniforms	
Accounting	
Dues & Permits	
Meetings & Travel	
Advertising	
Vehicle Expenses (Including Depreciation)	
Photography	
Minor Equipment	
Animal Food	
Animal Disposal	
Garbage Disposal	
Septic Tank Service	
Transportation	
Misc. (Gifts, Bad Check Clearing, Boutique Purchases, etc.)	
Total Anticipated Expenditures	\$
Net Gain or (Loss)	\$
<u>II. PROGRAM BUDGET</u>	
Total Anticipated Revenue	\$
<u>Program Expenditures:</u>	\$
Shelter	
Bath	
Clinic	
Animal Control	
Humane Education	
Public Relations	
Wildlife	
Fund Development	
Administration	
Total Anticipated Program Expenditures	\$
Net Gain or (Loss)	\$

Figure 6.6 Line-Item and Program Budget.



PROGRAM BUDGET SCHEDULE

	Total	Shelter	Board	Clinic	Animal Control	Humane Education	Public Relations	Wildlife	Fund Development	Administration
Total Anticipated Revenue and <u>(Program Targets)</u>	\$	(\$ )	(\$ )	(\$ )	(\$ )	(\$ )	(\$ )	(\$ )	(\$ )	(\$ )
<u>Expenditures:</u>										
Salaries and Wages										
Payroll Taxes										
Employee Health & Dental Insurance										
Workman's Compensation Insurance										
Retirement Plan										
<u>Subtotal: Payroll Expenses</u>										
General Insurance										
Telephone Communications										
Utilities										
Printing										
Newsletter										
Office Supplies										
Contractor Expenses										
Medical Supplies										
Repairs & Maintenance										
Veterinary Expenses (Section 5972)										
Other Veterinary Expense										
Legal Fees										
Uniforms										
Advertising										
Dues & Permits										
Meetings & Travel										
Advertising										
Vehicle Expenses										
(Including depreciation)										
Photography										
Animal Transport										
Animal Food										
Animal Disposal										
Garbage Disposal										
Septic Tank Service										
Transportation										
Misc. (Gifts, Bad Check Clearing, Boutique Purchases, etc.)										
Total Anticipated Expenditures	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Net Gain or (Loss)	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$

Figure 6.7 Program Budget Schedule.





## VII. SUMMARY AND CONCLUSIONS

### A. GENERAL

The study of management control presented in this paper was conducted in three phases. The first being a review of relevant literature on management control procedures, methods and systems. The purpose of this review was to gain a basic knowledge to be used as a frame of reference for the evaluation of management control in nonprofit organizations.

The second phase consisted of an on-site field study and evaluation of a typical nonprofit organization. The organization chosen for the study, the MCSPCA, was used as a model to apply the theory learned during the literature review. The specific purpose of the second phase of the study was to evaluate current management control practices at a nonprofit organization and determine how a formal management control system should be developed.

In the final phase of the study, we demonstrated the feasibility of developing a formal management control system by recommending procedures to improve the management control process. These recommended procedures were those generally recommended in the literature which we reviewed.

### B. LITERATURE REVIEW

The general conclusion drawn from the review of relevant literature is that there is no definitive prescription for management control in nonprofit organizations. However, most authorities agree that there is a need for an orderly approach to assist management in achieving organizational goals and strategies effectively and efficiently. A well designed management control system provides the mechanism by



which managers assure the achievement of these goals and strategies.

A formal management control system is normally a total system in the sense that it encompasses all aspects of an organization's operation. The essence of an effective system is to provide relevant information to management for the purpose of controlling organizational activities. These activities are usually grouped into programs for which operating managers are held responsible. The information in this system consists of planned and actual data on both outputs and inputs. Prior to actual operations, decisions and estimates are made as to what outputs and inputs are desired. During actual operations, records are maintained as to what outputs are produced and what inputs are consumed. When operations are complete, reports are prepared that compare actual output and inputs to planned outputs and inputs. Management action is taken on the basis of the information in these reports.

Most authorities agree that an effective structure for the control system should consist of both a program structure and a responsibility structure. The program structure should be arranged so that data collected in the program accounts are useful for four principle purposes: (1) to make decisions about the programs that are to be undertaken and the amount and kind of resources that should be devoted to each program; (2) to permit comparisons of the costs and outputs of similar programs carried on by several organizations; (3) to provide a basis for setting fees charged to clients or for reimbursement of costs incurred; and (4) to evaluate program effectiveness.

The responsibility structure provides for the collection of data by organizational units called responsibility centers. Information classified in this manner is used for: (1) planning the activities of responsibility centers; (2)



coordinating the work of the responsibility centers in an organization; (3) controlling the responsibility center manager; and (4) evaluating the performance of the responsibility center manager.

The ideal control structure occurs when programs are assigned to responsibility centers on a one for one basis. When this is the case, it is necessary to develop only one structure with each responsibility center manager responsible for one, and only one, program.

The accounting system used in a nonprofit organization is similar to one used in a profit-oriented organization. It must be capable of collecting data to be used in both internal management reports and external general purpose reports. The major difference in the two is that, in a nonprofit organization, the system should be designed to collect data by both program and responsibility center.

Because profit is not an objective of nonprofit organizations, management control systems must include alternative means, other than profit, for measuring effectiveness, efficiency and performance in general. The well managed nonprofit organization, therefore, includes quantifiable output measures as part of the system. Output measures are normally in one of two categories: (1) result measures, which indicate the organization's performance in accomplishing its objectives, or (2) process measures, which indicate the quantity of work done. The management control system should include an appropriate mix of both types of measures.

The majority of the literature indicated that the control process should consist of four basic phases. These are (1) programming, (2) budgeting, (3) operating and measurement, and (4) reporting and analysis. The following paragraphs provide a brief explanation of each of these four phases.





Programming is the fine tuning of organizational goals and strategies which are normally established by higher authority, usually the governing board. During this step, program managers within the organization are responsible for developing specific program objectives and outputs which will reflect achievement of these goals.

Budgeting is the process of developing a written financial plan covering a future period of specified time. A budget serves two important functions in an organization. First, it states the objectives of the organization, in monetary terms, for the timeframe covered by the budget. Second, it provides a tool to monitor the organization's financial activity during this same timeframe. Authorities view budgeting as the most important part of the management control process, and most recommend program budgeting as the preferred approach in nonprofit organizations. Program budgeting focuses on the amounts to be spent on each program. Operating managers participate in the budget formulation by preparing proposed budgets consistent with program objectives, and negotiating these proposals with top management. When the process is completed, the operating manager has committed to accomplishing the planned program objectives within the spending limits specified in the approved budget.

During the period of actual operations, records should be kept of resources consumed and outputs actually achieved. The records of resources consumed (i.e., costs) are part of the accounting system which should be structured to collect cost data by program and responsibility center. This structure should be identical to that used during the budgeting phase.

In the final phase of the management control process, management should be provided with relevant information in the form of management reports. These reports include





summarizations of data collected during actual operations and should present comparisons of planned outputs and inputs with actual outputs and inputs. These reports provide a basis for coordinating and controlling the current activities of the organization, provide a basis for evaluating operating performance, and provide a basis for program evaluation.

The management control process should be rhythmic or periodic; it should follow a definite pattern and timetable, month after month, and year after year. Each of the steps in the process leads to the next and together they constitute a closed loop.

### C. FIELD STUDY FINDINGS AND CONCLUSIONS

At the time that the on-site field study was conducted at the MCSPCA, a formal management control system did not exist. We found that management control, as practiced at the MCSPCA, was strictly informal and not well defined. It occurred by means of memoranda, meetings and conversations between the Executive Director and the nine department managers.

Based on our study and evaluation of these existing informal control practices, we concluded that the informal management control process being used did not provide the Executive Director with the necessary tools to routinely monitor and evaluate the performance of his managers or to evaluate how effectively or efficiently the goals and strategies of the organization were being carried out.

This conclusion was based on the findings summarized in the following paragraphs. These findings reflect the principles and theory learned during the literature review.



The existing account structure and accounting system at the time the study commenced was designed to collect data by line item; that is, by object of revenue and expenditure. The system also provided for the collection of data relevant to the County of Monterey animal control contract and other city contracts as required by these contracts. The system did not collect or report revenue and expenditure data according to program or the manager who is primarily responsible or accountable for each line item.

Activities necessary to achieve organizational goals were not grouped into programs. In addition, organizational units were not formally recognized or classified as responsibility centers. Organizational unit managers were not being formally held responsible or accountable for their financial activities.

The MCSPCA did not have a formal system for developing and planning specific objectives and output measures to provide guidance and measurement criteria in carrying out organizational goals and strategies.

The existing operating budget appears to be more or less pro-forma in nature and is not really used as a planning or a management control tool. The existing budgeting process does not include formal participation of the operating managers. The budget had been prepared by the Executive Director only as a formality, to be given to the Board of Directors for ratification. It was prepared solely by line item without regard for either program or responsibility center.

The accounting system being used at the MCSPCA is adequately set up for the collection of data to be used in general purpose financial reports, such as the balance sheet and operating statement. However, it is not set up to provide internal management reports required for adequate management control. As previously mentioned, the current



system was not designed to measure revenues earned and expenditures incurred by program and responsibility centers, thus, the current system does not provide a mechanism for management control.

The management reports currently utilized at the MCSPCA do not provide some of the relevant financial and non-financial information considered necessary to monitor and control the activities of the organization. The current management reports provide summaries of actual data on revenues earned and expenditures incurred during the report period. These reports do not compare planned outputs and inputs with actual outputs and inputs. In addition these reports are not structured to present data by program or responsibility center. Thus, the current reports are not considered adequately useful as a management control tool.

#### D. RECOMMENDATIONS

To provide management with the structure and process to effectively plan and control the activities of the MCSPCA, it is recommended that a formal management control system be developed and implemented. This formal system should provide the Executive Director with the necessary tools to routinely monitor and evaluate the performance of his managers and to evaluate how effectively and efficiently the goals of the organization are being carried out.

The following paragraphs summarize the recommendations presented in this thesis for developing a formal management control system. Again, these recommendations reflect the principles and theory presented in relevant literature.

Most effective management control systems in nonprofit organizations are designed around program and responsibility structures. Since this structure has been successful in other nonprofit organizations, it was recommended for the





MCSPCA. Programs and responsibility centers were identified and discussed in Chapter IV, Section C.

In order to allow for the collection of data by program and responsibility center, a revised account structure is recommended. A recommended revised account structure has been developed and is presented in Chapter IV, Section C.

Because the MCSPCA does not have a way of measuring output that is comparable to the gross margin or net income numbers which are routinely available in a profit-oriented business, it is recommended that substitute output measures for each program be developed. Output measurement in nonprofit organizations is considered an extremely important part of a management control system by many authorities. Therefore, a recommended plan for developing and measuring output for each of the MCSPCA programs has been provided in Chapter V.

According to almost all of the current literature, budgeting is probably the most important part of a management control system and program budgeting has proved to be the most successful approach to budgeting in nonprofit organizations. It is therefore recommended that such an approach be developed and utilized at the MCSPCA. Recommended detailed procedures for budget preparation at the MCSPCA, together with a discussion of program budgeting and budget preparation procedures for the MCSPCA are included in Chapter VI.

Additionally, it is recommended that the current accounting system at the MCSPCA be modified to be capable of collecting revenue and expenditure data by program and responsibility center. A discussion of this recommendation can be found in Chapter IV, Section D.

The management reports which are generated as part of a management control system should provide management with all of the relevant information needed to monitor and control the activities of the organization. Accordingly, it is





recommended that reports be developed to satisfy this requirement. Recommendations regarding the types, formats and frequency of these management reports are discussed in Section D of Chapter IV and Section 3 of Chapter V.

The recommendations contained in the preceding paragraphs have been reviewed by the MCSPCA management and appear to have tentative acceptance. MCSPCA management has indicated its intention to implement the recommended system in January of 1983. The budget for calendar year 1983 is presently being prepared in accordance with the guidelines presented in Chapters V and VI.

#### **E. FUTURE RESEARCH**

The material presented in this thesis leads to many possibilities for potential additional research. Foremost among these would be a follow up study of MCSPCA operations approximately one year after the recommended formal management control system has been implemented. Such a study should include comparisons of the organization's performance during periods before and after the changes were made to determine if improved efficiency and effectiveness have resulted. If the changes have not been beneficial, the study should analyze reasons why expected improvements were not realized. If the changes have in fact been beneficial, the study could address additional areas for improvement, possibly to include the automation of the organization's accounting system and establishment of an integrated management information system.

Our literature review, combined with the experience gained in quantifying the objectives of the MCSPCA and developing appropriate output measures has shown that the measurement of output continues to be an extremely pervasive subject despite its centrality to the management decision



process. Because of the importance of measurement in the management control process, additional research on the general theory of measurement in a managerial context would be appropriate. The goal of such a study should be to attempt to develop more meaningful measuring techniques which would benefit nonprofit, service oriented organizations in the managerial aspects of internal control and it's external reporting system.

Finally, the possibility of the introduction of new budgeting process and employment of output measures has caused a noticeable "stir" in some of the MCSPCA's long time employees. MCSPCA's implementation of a major management control system could provide an interesting model for a study on the effects of change in an organization.



APPENDIX A  
CHART OF ACCOUNTS AND ACCOUNT SUBCODES

Assets

<u>A/C #</u>	
101	Wells Fargo Bank General Checking
102	Wells Fargo Bank General Savings
103	Wells Fargo Bank Restricted Savings
104	Wells Fargo Bank Payroll
105	Wells Fargo Bank Animal Control
106	Petty Cash
113	Monterey Savings & Loan Bond (County)
120	Accounts Receivable
130	Common and Preferred Stocks
131	Corporate Bonds
134	Gasoline Inventory
140	Buildings - Shelter
141	Accumulated Depreciation - Shelter Buildings
142	Buildings - Clinic
143	Accumulated Depreciation - Clinic Buildings
144	Buildings - Barn
145	Accumulated Depreciation - Barn Buildings
150	Equipment - Shelter
151	Accumulated Depreciation - Shelter Equipment
152	Equipment - Clinic
153	Accumulated Depreciation - Clinic Equipment
154	Equipment - Barn
155	Accumulated Depreciation - Barn Equipment
160	Vehicle





Liabilities

A/C #

200 Accounts Payable  
210 Animal Control Payable  
221 Health Insurance Payable  
222 Payroll Taxes Payable  
230 Notes Payable  
290 Deferred Income - Neuter Deposits

Fund Balances

A/C #

301 Endowment Fund Balance  
302 Land, Buildings and Equipment Fund Balance  
303 Restricted Fund Balance  
304 Unrestricted Fund Balance

Revenue

A/C #

401 Donation - Shelter  
402 Donation - Mail  
403 Donation - Bequests  
404 Donation - County  
405 Grants  
409 Donations - Other  
  
420 Benefit Shop #1  
421 Benefit Shop #2  
422 Benefit Shop #3  
423 Benefit Shop #4  
  
430 SPCA Auxiliary  
431 Volunteer - Donation Boxes



432 Volunteer - Activities  
436 Notes Receivable  
  
450 Adoption Fees  
452 Membership  
453 Newsletter  
454 Cremation  
455 Clinic Income  
456 Clinic Pre-paid Neuters  
459 Animal Disposal - Pickup  
  
460 Animal Control - Escrow  
461 Country Contract  
462 Marina Contract  
463 Soledad Contract  
464 Greenfield Contract  
466 King City Contract  
  
470 Dividends  
471 Interest  
  
490 Sale of Equipment  
491 Sales - Other  
492 Boutique Sales  
495 Court Settlements

Expenditures

A/C #

501 Salaries  
502 Payroll Taxes  
503 Employee Health Insurance  
504 Workman's Compensation  
505 Insurance - General  
506 Dental Insurance  
507 Retirement



5 10 Telephone and Communications  
5 11 Utilities  
  
5 15 Printing  
5 16 Quarterly Newsletter  
5 17 Photography  
  
5 20 Office Supplies  
5 21 Operating Supplies  
5 22 Medical Supplies  
5 23 Boutique Purchases  
  
5 55 Equipment  
5 57 Equipment - Rental  
  
5 60 Animal Food  
5 64 Repairs - Structures and Grounds  
5 65 Repairs - Equipment and Other  
5 67 Animal Disposal  
5 68 Garbage Disposal  
5 69 Septic Tank Service  
  
5 72 Veterinary Expense - 597(f)  
5 73 Veterinary Expense - Charitable  
5 74 Veterinary Expense - Other  
5 75 Legal  
5 76 Uniforms  
5 77 Uniform Allowance  
  
5 80 Transportation  
5 81 Accounting  
5 82 Dues and Permits  
5 84 Travel and Travel Related  
5 85 Promotion  
5 86 Meetings  
5 88 Advertising  
  
5 90 Lobby Expenditures



591	Outside Services
595	Bad Check Clearing
599	Other
701	Gas and Oil - Vehicle
704	Repairs and Maintenance- Vehicle
707	Supplies - Vehicle
709	Equipment - Vehicle
712	Vehicle Leases
715	Insurance - Vehicle
720	Vehicle License Fees

ACCOUNT SUBCODES

General Structure

<u>First Digit</u>	<u>Program/Responsibility Center</u>
.1__	Shelter
.2__	Barn
.3__	Clinic
.4__	Animal Control
.5__	Humane Education
.6__	Public Relations
.7__	Wildlife
.8__	Fund Development
.9__	Office Management

Second and

<u>Third Digits</u>	<u>Revenues</u>
._01	General Funds-Unrestricted
._02	General Funds-Restricted
._03	Land, Building & Equipment Fund
._04	Endowment Fund

Expenditures

._10	Operations-MCSPCA
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.\_11                   Animal Control Contract-County  
 .\_12                   Animal Control Contract-Cities

Specific Subcodes

Revenue

Shelter (.1\_\_)

.101                   General Funds - Unrestricted  
 .102                   General Funds - Restricted  
 .103                   Land, Buildings & Equipment Fund  
 .104                   Endowment Fund

Clinic (.3\_\_)

.301                   General Funds - Unrestricted  
 .302                   General Funds - Restricted  
 .303                   Land, Buildings & Equipment Fund  
 .304                   Endowment Fund

Animal Control (.4\_\_)

.401                   General Funds - Unrestricted  
 .402                   General Funds - Restricted  
 .403                   Land, Buildings & Equipment Fund  
 .404                   Endowment Fund

Humane Education (.5\_\_)

.501                   General Funds - Unrestricted  
 .502                   General Funds - Restricted  
 .503                   Land, Buildings & Equipment Fund  
 .504                   Endowment Fund

Public Relations (.6\_\_)

.601                   General Funds - Unrestricted  
 .602                   General Funds - Restricted  
 .603                   Land, Buildings & Equipment Fund  
 .604                   Endowment Fund

Wildlife (.7\_\_)

.701                   General Funds - Unrestricted



.702 General Funds - Restricted  
.703 Land, Buildings & Equipment Fund  
.704 Endowment Fund

Fund Development (.8\_\_)

.801 General Funds - Unrestricted  
.802 General Funds - Restricted  
.803 Land, Buildings & Equipment Fund  
.804 Endowment Fund

Administration (.9\_\_)

.901 General Funds - Unrestricted  
.902 General Funds - Restricted  
.903 Land, Buildings & Equipment Fund  
.904 Endowment Fund

EXPENDITURE

Shelter (.1\_\_)

.110 Operations- MCSPCA  
.111 Animal Control Contract - County  
.112 Animal Control Contract - Cities

Barn (.2\_\_)

.210 Operations- MCSPCA

Clinic (.3\_\_)

.310 Operations- MCSPCA  
.311 Animal Control Contract - County  
.312 Animal Control Contract - Cities

Animal Control (.4\_\_)

.410 Operations- MCSPCA  
.411 Animal Control Contract - County  
.412 Animal Control Contract - Cities



Humane Education (.5\_\_)

- .510 Operations- MCSPCA
- .511 Animal Control Contract - County
- .512 Animal Control Contract - Cities

Public Relations (.6\_\_)

- .610 Operations- MCSPCA
- .611 Animal Control Contract - County
- .612 Animal Control Contract - Cities

Wildlife (.7\_\_)

- .710 Operations- MCSPCA
- .711 Animal Control Contract - County
- .712 Animal Control Contract - Cities

Fund Development (.8\_\_)

- .810 Operations- MCSPCA
- .811 Animal Control Contract - County
- .812 Animal Control Contract - Cities

Administration (.9\_\_)

- .910 Operations- MCSPCA
- .911 Animal Control Contract - County
- .912 Animal Control Contract - Cities





APPENDIX B

**1981 MCS PCA OPERATING STATEMENT SPREAD SHEET**

	<u>TOTAL</u>	<u>Shelter</u>	<u>Barn</u>	<u>Clinic</u>	<u>Animal Control</u>	<u>Other Contract</u>	<u>Humane Education</u>	<u>Public Relations</u>	<u>Wildlife</u>
<u>INCOME</u>	\$256,552	\$500,663	-0-	\$116,319	\$306,964	\$28,189	-0-	-0-	\$4,417
<u>EXPENDITURES:</u>									
Salaries & wages	420,619	99,527	14,089	62,970	175,407	18,920	17,840	14,897	16,969
Payroll taxes	8,240	8,240	1,201	5,181	14,424	1,550	1,481	1,059	1,418
Employee health insurance	16,554	4,131	597	2,621	6,343	1,785	756	597	721
Workman's compensation	12,745	2,977	437	1,905	5,347	570	558	424	527
Retirement Plan	21,038	21,038							
Sub-total Payroll Expenses	505,507	135,913	16,324	72,677	201,521	21,825	20,635	16,977	19,635
General insurance	8,786	1,833	313	1,255	3,591	362	260	286	888
Telephone	10,375	4,401		769	5,205				
Utilities	22,625	11,550		1,794	9,083		198		
Printing	9,127	6,217		22	1,852		464		223
Newsletter	13,995	13,995							
Office supplies	7,151	2,718		935	2,350		695		100
Operating supplies	19,893	9,912	592	1,189	6,717		716		771
Medical supplies	36,611	7,003		22,550	7,004				54
Repairs & maintenance	24,669	10,482	251	2,627	8,082		2,855		318
Veterinary expense (Sec. 591f)	20,010	( 21)			18,960	1,071			
Other veterinary expense	34,782	9,602	1,658	23,161	960	49	312		
Legal fees	1,909	949			2,202				85
Uniforms	2,502	135			1,495				
Accounting	2,705	1,210			1,495				
Dues & permits	914	666		75	70		49		24
Meetings & travel	4,057	1,054		464	524		143		1,825
Advertising	1,587	1,734		19	385				449
Animal control vehicle	71,788	14,358			45,226	12,204			
Photography	815	163					298		6
Minor equipment	3,337	679	109	150	1,364		339		602
Equipment rental	1,136	560		273	212		91		94
Animal food	22,418	4,918	6,826	962	4,841		138		4,733
Animal disposal	6,686	3,311	75		3,300				
Carbargo disposal	2,386	1,103			1,183				
Septic tank service	436	218			218				
Transportation	4,278	1,036					3		3,064
Bad debts	207	241		31	( 65)				
Sundry	1,118	767		145	206				
Outside services	31,807	10,839		548	394		319		19,687
Sub-total	368,090	130,713	9,824	56,969	125,263	13,686	6,880	2,370	37,386
Total Expenditures	873,597	256,626	26,148	129,646	326,784	35,511	27,515	19,346	52,021
Excess of income	82,955	244,037	( 26,148)	( 13,327)	( 19,820)	( 7,322)	( 27,515)	( 19,346)	( 47,604)
Over Expenditures									
Deduct Depreciation:									
Animal control truck bodies	7,575	1,515			4,924	1,136	748		
Animal control truck (not recorded in accounting records - 5 Year life)	10,242	1,925			6,135	1,434			
<u>TOTAL</u>	\$-55,138	\$240,522	\$126,148	\$133,327	\$130,829	\$1,822	\$128,263	\$19,346	\$17,604



APPENDIX C  
PROGRAM OBJECTIVES AND MEASURES

**A. SHELTER PROGRAM**

1. Program Statement: Develop and maintain quality facilities to house all small animals in MCSPCA custody and programs to provide for their care, return to owners, placement into new homes or disposal in some other manner.
2. Program Objectives:
  - (a) Provide animal care at level above that required for certification by HSUS.
    - (1) Shelter Manager conduct daily inspection to ensure adherence to established handling procedures.
    - (2) Department personnel conduct animal care procedures for handling, security, feeding and cleaning of animals on a daily basis.
    - (3) Conduct monthly training session for Shelter Department staff and volunteers reviewing proper procedures for animal handling and medical treatment.
    - (4) Maintain activity logs and records sufficient to document activities of Department personnel and volunteers.
    - (5) Conduct weekly check to ensure proper level of supplies on hand.
  - (b) Maintain Kennel facilities at a level above that required for certification by HSUS.
    - (1) Perform all required repairs on department plant or equipment within five days or report repairs



beyond department repair capability to the Administrative Department within three days of discovery.

- (2) Shelter Manager conduct daily inspections to ensure adherence to maintenance security, and sanitation policies and that facilities present a good appearance inside and out.
  - (3) Department personnel conduct necessary cleaning procedures on a daily basis.
- (c) Increase number of pet adoptations by 10% over previous year.
- (1) Increase number of volunteer adoption counselors by 25%.
  - (2) Conduct monthly training sessions for counselors and receptionists.
  - (3) Provide Public Relations Department with materials/information on pets available for adoption at least every three days which can be used to publize adoption program through local media.
- (d) Return 100% of animals which can be identified to their owners and increase total number of animals which are identified and returned.
- (1) Notify owners of identified animals within one working day of animal's whereabouts for every such animal. Conduct followup program to ensure owners pick up animals within seven days of initial notification. If an animal is not claimed within this timeframe, it will be designated as abandoned and eligible for adoption.
  - (2) Ensure 100% of animals adopted from Shelter are properly licensed.
  - (3) Conduct active search for owners of impounded animals employing all available means (i.e., media, volunteers in neighborhood).



- (e) Provide services required by county and city contracts.
  - (1) Maintain "isolation" section in kennels to hold animals in quarantine when required.
  - (2) Keep the shelter open minimum of 8 hours on weekdays and 4 hours on Saturday.
  - (3) Have the shelter prepared to accept animals any time of day or night.
- (f) To help defray expense of program operations, generate 10% more revenue than previous year.
  - (1) Increase Boutique profits by 10% over previous year.

## B. BARN PROGRAM

- 1. Program Statement: Develop and maintain quality facilities to house all farm and other large domestic animals in MCSPCA custody and programs to provide for their care and ultimate disposition.
- 2. Program Objectives:
  - (a) Provide animal care at level above that required to gain certification by HSUS.
    - (1) Shelter Manager conduct daily inspection to ensure adherence to established handling procedures.
    - (2) Department personnel conduct animal care procedures for handling, security, feeding and cleaning of animals on a daily basis.
    - (3) Conduct monthly training session for Barn Department staff and volunteers reviewing proper procedures for animal handling and medical treatment.
    - (4) Maintain activity logs and records sufficient to document activities of department personnel and volunteers.







- (5) Conduct weekly check to ensure proper level of supplies on hand.
- (b) Maintain Barn facilities at a level above that required for certification by HSUS.
  - (1) Perform all required repairs on department plant or equipment within five days or report repairs beyond department repair capability to Administrative Department within three days of discovery.
  - (2) Shelter Manager conduct daily inspections to ensure adherence to maintenance, security, and sanitation policies and that facilities present a good appearance inside and out.
  - (3) Department personnel conduct necessary cleaning procedures on a daily basis.

#### C. ANIMAL CONTROL PROGRAM

1. Program Statement: Conduct field operations to prevent abuse or mistreatment of animals and rescue animals within the confines of Monterey County that are injured or in distress.
2. Program Objectives:
  - (a) Ensure residents of Monterey County observe existing laws and regulations addressing animal care.
    - (1) Animal Control Officers patrol minimum 850 hours/month.
    - (2) Maintain six Animal Control Officers on patrol every weekday and two every weekend day or holiday. Officers on patrol should be alert to detect any incidents involving animal abuse or neglect and initiate actions necessary to correct the situation. To this end, 20% of Animal Control Officers case load should consist of self-initiated activities.



- (3) Maintain daily logs and records necessary to document activities of Animal Control Officers.
  - (4) Animal Control Officer present at the location of every reported incident of illegal animal abuse/mistreatment within 20 minutes of report receipt.
  - (5) Complete investigation of all reported or detected incidents of animal abuse or neglect within three working days. Investigations should be properly completed and contain sufficient detail to obtain minimum of 95% conviction rate.
  - (6) Initiate legal proceedings against every case of intentional animal abuse.
  - (7) Respond within 30 minutes to every reported violation of license or leash laws and take appropriate actions to rectify situation.
  - (8) Maintain a minimum of two animal control officers available to respond to calls at all times.
  - (9) Complete processing of all license applications within one working day of application receipt.
- (b) Provide care for injured animals and remove them from distressful situations.
- (1) Animal Control Officer present within 20 minutes at the scene of every report of an animal that is sick, injured or in distress.
- (c) Assist in promoting MCSPCA Educational programs and teaching a humane ethic for animals.
- (1) Provide personnel to address school or community groups for 100% of requests for assistance from the Humane Education or Public Relations Departments.
- (d) Develop positive public relations image of MCSPCA Animal Control Operations.
- (1) Ensure Animal Control Officers present a professional appearance and follow humane ethic at all



- times through weekly uniform inspections and review of case records by Animal Control Manger.
- (2) Investigate every complaint received concerning conduct of Animal Control Officers during performance of their duties.
- (e) Ensure Animal Control Officers are adequately prepared to complete assigned duties.
- (1) Conduct on-going training program including weekly meetings for all Animal Control Officers covering/reviewing matters related to animal control (i.e., Animal handling techniques, use of available equipment, medical and field euthanasia procedures, legal aspects).
  - (2) Give presentation at least semi-annually for entire MCSPCA staff and volunteers covering subjects related to animal control.
- (f) Ensure vehicles, equipment and facilities utilized by department personnel properly maintained and available in adequate quantities.
- (1) Comply with established preventive maintenance programs ensuring all vehicles and equipment receive necessary attention within scheduled limits 100% of the time.
  - (2) Maintain inventory supply at proper level, avoiding excessive levels.

#### D. HUMANE EDUCATION PROGRAM

1. Program Statement: Conduct activities to teach the tenants of the MCSPCA and develop in the residents of Monterey County a humane regard for animals.
2. Program Objectives:
  - (a) Develop and present humane education programs to students from preschool to college age.





- (1) Present lectures promoting animal awareness to 100% of elementary students, 80% of junior and senior high school and 50% of college students enrolled in the county.
  - (2) Develop and administer short quiz to test animal awareness in children of various age levels. Administer test before and after lectures with scores after lecture at least 20% higher than the pre-lecture score or above 90% correct.
  - (3) Conduct teacher training workshop at least once a year. Contact teachers at least once every three months during the school year to encourage and assist in presenting humane education material in normal classroom activities. Respond to 100% of teacher requests for materials or assistance within two days of request receipt.
  - (4) Publish and distribute newsletter for teachers monthly during August-April timeframe and distribute to 100% of elementary, middle and High School teachers.
  - (5) Increase instructional materials available for loan to teachers by 10% by beginning of 1983 school year.
  - (6) Incorporate new materials provided by HSUS into MCSPCA education programs within 2 weeks of receipt.
  - (7) Conduct 6 sessions of Summer Day Camp on MCSPCA grounds to familiarize attendees with MCSPCA activities and goals.
- (b) Promote humane attitude and increased awareness of domestic animals and local wild life.
- (1) Request 100% of community civic/service groups in the county for an opportunity to lecture on MCSPCA operations and goals. Present lecture to 100% of the groups that provide an opportunity.





- (2) Provide articles and other materials stressing humane ethic to Public Relations Department monthly for inclusion in MCSPCA publications or other media.
- (c) Increase volunteer participation in MCSPCA activities.
- (1) Conduct quarterly drive for new volunteers.  
Increase number of active volunteers by 5% over previous year.
  - (2) Conduct volunteer training session on quarterly basis to indoctrinate new volunteers.
  - (3) Communicate with current volunteers at least monthly and arrange schedule of volunteer work hours to accommodate maximum number of hours each volunteer is willing to provide with a minimum of at least two per person per week.
  - (4) Update volunteer manual by end of third quarter.
- (d) Maintain Humane Education department facilities and equipment in quality condition.
- (1) Perform all required repairs on department plant or equipment within five days or report repairs beyond department repair capability to Administrative Department within three days of discovery.

## E. WILDLIFE PROGRAM

1. Program Statement: Conduct activities to intern and rehabilitate injured or distressed wild animals and return them to their natural environment.
2. Program Objectives:
  - (a) Provide animal care at level above that required for certification by HSUS.



- (1) Wildlife Manager conduct daily inspection to ensure adherence to established procedures.
  - (2) Department personnel conduct animal care procedures for handling, security, feeding and cleaning of animals on a daily basis.
  - (3) Conduct monthly training session for Wildlife Department staff and volunteers reviewing proper procedures for animal handling and medical treatment.
  - (4) Maintain activity logs and records sufficient to document activities of Department personnel and volunteers.
  - (5) Conduct weekly check to ensure proper level of supplies on hand.
- (b) Maintain Wildlife care facilities at level sufficient to warrant recertification by HSUS.
- (1) Wildlife Manager conduct daily inspection to ensure adherence to established handling procedures.
  - (2) Wildlife Manager conduct daily inspections to ensure adherence to maintenance, security, and sanitation policies and that facilities present a good appearance inside and out.
  - (3) Department personnel conduct necessary cleaning procedures on a daily basis.
  - (4) Conduct monthly training session for Wildlife Department staff and volunteers reviewing proper procedures for animal handling and medical treatment.
  - (5) Maintain activity logs and records sufficient to document activities of Department personnel and volunteers.
  - (6) Conduct weekly check to ensure proper level of supplies on hand.



(c) Research and develop techniques for the handling and treatment of wild animals.

(1) Publish results of studies on a monthly basis.

(d) Participate in wildlife rescues and related field work.

(1) Respond to 100% of requests from Animal Control Department for assistance in the rescue of injured or distressed wildlife.

## F. CLINIC PROGRAM

1. Program Statement: Develop and maintain quality medical facilities required for MCSPCA operations intended to deter the overbreeding of domestic pets as well as provide medical care to animals in MCSPCA custody.

2. Program Objectives:

(a) Operate spay-neuter operation to prevent overbreeding of domestic pets.

(1) Conduct an average of 13 operations per workday.

(2) Initiate follow-up program to contact 100% of owners of pets which were adopted through the Shelter Program to ensure at least 95% of pets receive operation.

(3) Schedule and perform at reduced fee established by Board of Directors spay/neuter all operations requested by residents of Monterey County within four weeks of request.

(b) Develop and maintain facilities at level sufficient to warrant certification by HSUS.

(1) Perform all required repairs on department plant or equipment within five days or report repairs beyond department repair capability to Administrative Department within three days of discovery.



- (2) Clinic Coordinator conduct daily inspections to ensure adherence to maintenance, security, and sanitation policies and that facilities present a good appearance inside and out.
  - (3) Department personnel conduct necessary cleaning procedures on a daily basis.
  - (4) Maintain a preventive maintenance program for all department equipment and ensure required maintenance performed prior to due date for 100% of equipment.
- (c) Provide quality medical treatment for injured and sick animals in MCSPCA custody.
- (1) Maintain on-going training program for department personnel to include a meeting at least once a week.
  - (2) Conduct monthly training session covering animal medical treatment and first aid procedures for staff and volunteers Animal Control, Wildlife, Shelter and Barn programs.
  - (3) Clinic Coordinator maintain proper level of medical supplies on hand to support operations by all MCSPCA programs. Purchase orders for supplies sent to Administration Department at least five days prior to required delivery date 100% of the time.
  - (4) Clinic Coordinator ensure an Animal Health Technician is available to assist other program personnel with treatment of sick or or injured animals at all times during normal working day.







## G. ADMINISTRATION PROGRAM

1. Program Statement: Perform all activities related to management of MCSPCA financial and personnel records and the maintenance of MCSPCA grounds, buildings and vehicles.
2. Program Objectives:
  - (a) Attend to all activities associated with financial record keeping and payroll in a competent and timely manner.
    - (1) Answer within one working day all questions presented by employees regarding payroll records and record keeping procedures.
    - (2) Conduct ongoing training program to include weekly meeting addressing material related to financial and payroll record keeping.
    - (3) Prepare monthly financial statements and send to Board of Directors and Executive Director by the 15th of each month.
    - (4) Provide daily accounting of activity for all investment accounts.
    - (5) Provide each department head with monthly expense and revenue statements for their specific areas of responsibility no later than the fifteenth day of the following month.
    - (6) Provide brief sheet to all MCSPCA personnel within two weeks after any changes to current payroll regulations explaining effects of change and impacts on individuals.
    - (7) Make all financial ledger and journal entries within two working days of receipt of original documentation.
  - (b) Attend to all activities associated with personnel records in a timely and competent manner.



- (1) Review personnel record of every employee once a month and make necessary updates.
  - (2) Conduct on-going training program for Administration Department personnel to include weekly meetings covering new or reviewing existing department procedures.
  - (3) Give yearly presentation to all MCSPCA employees detailing all aspects of pension and benefit plans.
  - (4) Complete all required reports before due date 100% of the time.
- (c) Keep MCSPCA equipment, grounds and buildings in good condition.
- (1) Establish and maintain an up-to-date preventive maintenance program to include all MCSPCA buildings and vehicles.
  - (2) Grounds mowed at least three times weekly during Spring-Fall seasons and as required during Winter. All gardening attended to on a weekly basis.
  - (3) Administration Manager make weekly inspection of all MCSPCA facilities to appraise their material condition.
  - (4) Implement and maintain a work order request system to expedite repairs necessary to MCSPCA plant and property.
  - (5) Assign maintenance personnel to make repairs within organizational capability or initiate procedures for repair by other companies within five working days of notification of repair requirement.
  - (6) Maintain daily logs and records required to document maintenance personnel activity.



## H. PUBLIC RELATIONS PROGRAM

1. Program Statement: Conduct active public relations and public information programs which will promulgate MCSPCA's position on humane issues as well as publicize ongoing and planned MCSPCA activities.
2. Program Objectives:
  - (a) Promote ongoing MCSPCA activities in local area.
    - (1) Publish Newsletter Quarterly, mail copy to 100% of members and area libraries. Distribute 50 additional copies of each newsletter to public facilities or to individual residences to acquaint county residents who are not members of the organization with MCSPCA operations.
    - (2) Submit news releases to all local newspapers, radio and television stations at least 10 days before special events or activities of MCSPCA programs.
    - (3) Publicize 100% of court settlements of animal abuse cases deemed newsworthy by the Executive Director.
    - (4) Increase publicity for pet adoption program by 10%.
    - (5) Initiate and complete whenever possible all special projects assigned by the Executive Director or requested by other Program Managers within 5 workdays of request receipt.
    - (6) Establish on-site photographic development facilities by the end of the first quarter. Do all MCSPCA photo processing for one quarter and evaluate if expense is less than using outside service.
  - (b) Conduct active public relations program stressing MCSPCA positions on animal related matters.



- (1) Have at least one article addressing animal related matter of active interest to MCSPCA appear in local media at least quarterly.
  - (2) Respond to all inquires concerning MCSPCA position on animal related issues within two days for media and five days for general public.
- (c) Generate 10% more revenue than previous year to help defray program costs.
- (1) Increase newsletter advertising revenue by 10% over previous year.
  - (2) Develop two new designs for t-shirts, stickers, buttons which can be sold to MCSPCA supporters.
  - (3) Increase profit from Annual MCSPCA Animal Fair by 5%.
- (d) Conduct active pet visitation program.
- (1) Conduct pet visits in at least 5 homes per week.
  - (2) Conduct training meeting for visitation program volunteers at least once a quarter.
  - (3) By end of the third quarter, develop lesson plan for inclusion in general training program to eliminate requirement for separate special training program.
  - (4) Conduct semi-annual seminar for all visitation program volunteers.

## I. FUND DEVELOPMENT

1. Program Statement: Develop and maintain a consistent, substained fund raising program which will provide contributory income to support activities of MCSPCA.
2. Program Objectives:
  - (a) Increase contributory income by 10% (\$40,000) above that collected in 1982.
    - (1) Expand direct appeals program by 10%.







- (2) Develop and maintain "Will and Bequest" program. Sign average of 2 donors per month.
  - (3) Develop and maintain "Deferred Giving" program. Sign average of 2 donors per month.
  - (4) Prepare and submit grant proposals to corporations and foundations. Average at least one presentation per month.
  - (5) Develop and maintain a Donor Prospect Development Information System. Have data base complete by end of second quarter.
  - (6) Prepare publications that promote charitable giving to MCSPCA. Design/redesign at least one document semi-annually.
- (b) Assist Executive Director with development and management of annual budget.
- (1) Provide forecast of expected future revenues as required by Budget Calendar.
  - (2) Brief Executive Director and Board of Directors monthly of trends and new programs in philanthropy, emphasizing material which could be used for long range planning of organization activities.
- (c) Maintain a high level of expertise in all fund raising program areas particularly laws and governmental regulations concerning nonprofit institutional fund raising programs.
- (1) Answer all questions related to legality of MCSPCA fund raising programs and tax exempt status within three work days of receipt.
- (d) Train and provide support to other MCSPCA employees and volunteers involved with fund raising programs.
- (1) Assist Humane Education Department recruit volunteers needed to participate in fund raising programs.



- (2) Conduct training program, to include at least one meeting per month, covering all aspects of fund raising programs.



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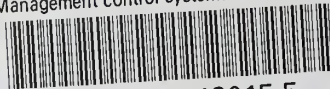
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