

DYSFUNCTIONS IN THE APPLICATION OF THE MANAGERIAL CONTROL SYSTEMS IN ROMANIAN PUBLIC INSTITUTIONS: THE REPORTING IMPROPRIETIES, THE INFORMATION AND THE COMMUNICATION STANDARDS

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Abstract: *The development level of managerial control systems in the Romanian public entities is not a remarkable one, on the contrary, some institutions do not understand the real usefulness of the internal control system and the related set of standards; the compliance is determined only by the regulatory norms. The practice of implementing the internal control proves that the perception of executives and middle managers regarding that system is not a favourable and supporting one. The managers face difficulties caused by the ambiguity of some of the standards, poorly understood, and for which the body of laws does not provide advices. Thus, some institutions report the high compliance of standards, although the reality shows numerous inconsistencies. Other public institutions assess their own level of implementation only partially, but do not identify improvement solutions. Because of the lacking of benchmarking initiatives and knowledge transferring between institutions, the picture of this situation indicates dysfunctions that influence the efficiency of the activities and the achievement of the objectives. In this paper, we will analyze the correlation between the observed shortcomings in the implementation of three of the most important standards, namely the Reporting improprieties, the Information and the Communication. The methodology used is an analytical and exploratory one and critically examines the implementation status of these three standards in more than 40 public institutions in Dolj County, Romania. Also, by analyzing the answers to the questionnaire, our study identifies differences in interpretation and implementation of these standards between certain types of organizations (given the heterogeneity of the investigated sample). The results show a high interdependence between this control standards and our proposals focus on the strengthening of the interpersonal skills and the personal relationships. Our study is directed toward the conclusion that the three internal/managerial control standards and their potential impact on the organizational optimization are not optimal exploited.*

Keywords: public institutions; internal/managerial control; control standards; reporting improprieties

JEL classification: D83; H83; M48

The issues on managerial practices in Romania ranges from applauding several private initiatives and successful business models and the accusation of the inefficient public management, also characterized by bureaucracy, their lack of performance, not to mention the corruption issues. The state of managerial uncertainty, characterizing all the fields, was not yet saved by borrowing successful practices from the institutions with a remarkable management, and that because such model institutions did not detached from the great mass of mediocre organizations.

In such circumstances, it seems clear that the improvement of internal / managerial control is an imperative and crucial step. The point is reinforced by Henry Mintzberg in a recent article (published in Harvard Business Review and referring to the U.S. public health care system) which recommends a strengthening of the internal social systems in organizations. Thus, Mintzberg outlines some directions such as: "Look to the people on the ground, not outside experts, for ideas for real improvements" or "Encourage greater collaboration" or "Build communities that engage people rather than conventional hierarchies that control them" (Mintzberg, HBR October 2011, p. 44).

1. Introduction

Contemporary management increasingly recognise the need to measure other intangible aspects of performance to manage the value creating activities of the institutions. Romanian legislation (adapted to European legislation) requires that the public organizations to develop their internal control systems and to conform at a set of 25 standards. A higher sensitivity is observed for the three standards examined in our study. This research aims to quantify the robustness and functionality of the informational and communicational subsystems through their internal sides; therefore we tested the information and communication issues within the organization. The communications and the information flows realised with outside partners are not therefore covered by this study.

We will establish and test the following hypothesis: The link between the dependent variable (Reporting improprieties standard) and the independent variables (Information and Communication standards) is linear. For that, we used statistical tests offered by the instruments of the SPSS software (Statistical Package for the Social Sciences), as we will present further on.

2. Methodology

The sample of the research consists of county and local government institutions (an institution of the prefect and 5 municipalities), public health units (three hospitals), security units (a gendarmerie headquarters, three police stations and one fire station), education (two universities, seven high schools and three elementary schools, a county inspectorate) and cultural institutions (one municipal library and a museum), General Departments (nine institutions including the Department of Public Finance, the County Direction of pensions and health insurance House), county offices (6 institutions, eg. the Consumer Protection Office and the Office of Cadastre and Cartography), judicial institutions (three Courts and the Court of Appeal), two transport units (the public transport company and an airport), other county bodies (Directorate of Youth and Sport, Forestry Department, Customs Directorate, Directorate for Statistics etc.).

There were 58 questionnaires sent, 42 of which were completed and collected (= a 72% response rate). Even the response rate (although a reasonable rate is a not too high parameter) proves a certain reluctance of the recipients who we addressed with our investigation. The 42 responses comply with the heterogeneity of the selected public institutions of the sample.

We also sent the explicit request that answers be given by a member of the "Structure responsible for monitoring, coordination and methodological guidance". This functional structure is recommended through the legislation to operate and to support the implementation of the internal managerial control system in the public institutions. By involving a member of this structure in the phase of completing the questionnaires, we wanted to strengthen the relevance of the information collected from the employees having control responsibilities.

3. Preliminary remarks

Achieving the standard no 16 - Reporting improprieties is one of the complex managerial challenges. The difficulties are recognized even by the Ministry of Public Finance , because the standard is directly related with the “context of applying values such as culture of trust and ensurance of a morality level in the public entity, given the risk of interpretation of the standard as similar with the denouncement. a system of values should be cultivated to limit this risk, a system based on the understanding the fact that, in the public entity, all employees exert different levels of management and have essentially the same goals. In such an environment they can be created the immunity mechanisms necessary to rebalance the system. If they are not created such immunities, the management should ensure detection and removal of the irregularities through an open dialogue with members of the public entity”.

From our point of view, the culture of trust and the favorable environment can only be built by using tools provided by transparent communication and information. And these two management concerns represents the content of other two standards of internal / managerial control: 12 – Information and 13 – Communication. As we will discuss below, the questionnaire that we applied proves inconsistencies regarding the understanding and application of an internal control system. And a major source of disagreements is represented by the vicious circle consisting of these standards: Information-Communication- Reporting improprieties.

The first clear information regarding the disfunctions is shown through the overall self-evaluation on the state of implementation of the internal/ managerial control system in the public institutions. Almost all surveyed institutions reported a partial conformity of the control system, which means that a number of 3 to 6 out of the 25 standards are not yet implemented. Some institution asumed that the 16th standard - Reporting improprieties is not implemented, but also assess that their Information and Communication standards as implemented.

The evasive answers and those directly related with the existence of procedures or practices for improprieties reporting, We find, however, that the entities wich declared this standard as implemented, face, in fact, with an inconstancy of understanding of the content of this standard (hence their erroneous assessment) or with a deliberately favourable evaluation, caused by all the sensitive valences of the standard. Thus, half of the questionnaires responded negatively to the question regarding the constantly and officially registration of the submissions on irregularities from the lower levels to the top managers, even though over 90% of respondents said that their organization encourages such practices (“supportive attitude”) and almost all organizations declare among their values also the following: culture of trust, transparency, honest working relationship or team spirit (open response questions in the addressed questionnaire).

The causes of failures in the implementation of internal / managerial control standards can be classified, from our point of view, in the following two categories: formal, procedural causes and subjective causes, related to the spiritual side of the organization..

The assumption about the lack of understanding of the standard's content is confirmed by the negative responses frequency (93%) given to the question “Did the job descriptions contain instructions regarding the communications addressed to the top managers related with the observed irregularities?”. The very high frequency of these responses demonstrates the formal causes that generate malfunction.

Undoubtedly, the impediments encountered in the implementation of the standard no 16 - Reporting improprieties are also generated by the non-formal factors. Of these, the answers for our questionnaire highlight the lack of organizational trust. These responses demonstrate for almost all institutions an inefficient info-structure, less open that supports to a small extent the dialogue and the development. Nordström and Ridderstråle metaphorically draw the attention to the risks posed by "the lack of a trusted environment: doubtful cooperation and increased contract and monitoring costs; and the contemporary organizations seem factories of fear rather than temples of confidence" (2007, pp. 220-221, Romanian version).

And this non-conformity of organizational trust comes from the rigidity of organizational charts or from the frequently changes of institutional management (the political instability impose in many cases, the leadership reshuffle in many institutions) and even the exaggerated level of bureaucracy. All these shortcomings are reflected in the informational subsystem and in the communication procedures and practices, and through them, indirectly, in the methods for reporting improprieties.

The internal communicational subsystem contribute to achieving the 16th standard - Reporting improprieties: the procedures mention the transmitting codes of personal and confidential data and encourage staff to notify managers the potential weaknesses of the entire operational system. Thus, managers have a responsibility to facilitate and coordinate the reporting of information regarding irregularities.

4. Statistical analysis

Considering the analysis of the correlation between dependent variable, *Reporting improprieties implementation level* (1÷10), and the predictors, the *quality of information* and *communication systems* (1÷10).

Table no. 1 – The correlation matrix

Correlations				
		<i>Report_impr opr_level</i>	<i>Information _qual</i>	<i>Comunication _qual</i>
Pearson correlation	<i>Report_impropr_level</i>	1.000	0.905	0.865
	<i>Information_qual</i>	0.905	1.000	0.792
	<i>Comunication_qual</i>	0.865	0.792	1.000
Sig. (1-tailed)	<i>Report_impropr_level</i>		0.000	0.000
	<i>Information_qual</i>	0.000		0.000
	<i>Comunication_qual</i>	0.000	0.000	
N	<i>Report_impropr_level</i>	42	42	42
	<i>Information_qual</i>	42	42	42
	<i>Comunication_qual</i>	42	42	42

The statistical analysis presented in Table no. 1 contains three parts, in accordance with the significance of data, namely:

- a) the first part reflects the values of the Pearson correlation coefficients;
- b) the second part encompasses the values of the significance threshold (Sig.) corresponding to the testing of the significance of values registered by Pearson coefficients;
- c) the third part points out the number of observations considered (n=42 in our case).

The level of Pearson coefficient offers information on the meaning and intensity of the correlation between the analyzed variables. Theoretically speaking, this coefficient can take value within the interval [-1, 1], when their value is oriented towards the limits of the interval, the correlation becomes stronger. As well, a positive value implies a direct

correlation, while a negative value implies a reverse correlation. When appreciating the intensity of the correlations between variables we took into consideration also the thresholds of significance (Sig.), considering a maximal significance threshold of 0.05, below which coefficients are considered statistically significant. In other words, the 0.000 Sig. values for each calculated coefficient prove in our case that there is a significant correlation between the Reporting improprieties level, the Information and the Communication systems quality.

To verify the correlation between the degree of implementation of the three standards, we have measured the dependence relation between the answers given to the three key questions of the questionnaire. The standard no 12 Information is highlighted by the question: *To what extent are implemented efficient procedures and processes for ensuring managers that the information flow is effective (information is transmitted correctly, completely, on time, operatively) and in accordance with rules and legislation?* (1÷10 scale).

The communication standard was investigated using the following question: *What is your evaluation regarding the quality of the communication system (quick, fluent and accurate information's dissemination so that the users received it completely and on time) and the adapting level of this system to internal users?* (1÷10 scale).

The recorded answers to the questionnaire largely correspond with the answers given to the question related with the 16th standard - Reporting improprieties: *How would you rate the quality of procedures for reporting irregularities, the manager's measures to treat them, to protect those involved and to build a confidence spirit?* (1÷10 scale).

The resulting values reveal a very strong and direct correlation between the *Reporting improprieties implementation level* (determined variable) and the *quality of Information managerial system* (0.905) and between the determined variable and the *Quality of Communication system* (0.865).

5. Comparative interpretations

Some clearly superior results of public organizations were sustained by the stable communication systems and by the informational platforms. Both are favorable for the improprieties' reporting, by establishing clear and direct communication linkages, internal controls may be strengthened without sacrificing organizational understanding. It is true that just a few public organizations in the sample have claimed the functionality of these standards, and the explanation lies with their size: they are just smaller institutions with staffing sized at most a few dozen employees. The organisations whose staff exceeds several hundred of people do not benefits from the flexibility of the formal and informal organizational relationships, and the management must ensure that all barriers to communication are removed.

Table no 2 - Determining factors for the compliance level of control standards

Differentiation criteria	Observations
Organization size	Standards compliance is higher in small organizations
Organizational culture	Newly created public entities (non-crystallized cultures) do not benefit from the standards compliance. Old organizations, associated with numerous groups have many dissipated cultures that are not beneficial for effective control systems.
Level of decentralization	Decentralization causes difficulties for information flow and communication (especially the horizontal and oblique flows) and for the reporting improprieties practices

Management stability	Managers having greater seniority can facilitate the development and the implementation of standards through the relationships strengthening, improvements in time and cultivating a culture of trust
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Source: analyses of authors

Based on this observation, we identified several traits that underlie the high/ low level of implementation for the standards studied here (Table no 2). Of course that all factors are determined by the organizational size: the decentralization degree affect the circulation of information and the feeling of trust in management; the seniority of management positions is beneficial for the quality of human relations and the organizational culture diminishes reluctance for the open dialogue.

6. Conclusions and suggestions

An INTOSAI document emphasizes the connections between the information, the communication and the improprieties reporting and their combined impact on the level of development of the internal control system: Pertinent informations on irregularities should be identified, captured and communicated in a form and timeframe that enables staff to carry out their internal control and other responsibilities (timely communication to the right people). Information systems produce reports on irregularities that contain operational, financial and non-financial, and compliance-related information and that make it possible to run and control the operation (INTOSAI Guidelines, 2004).

We can conclude with confidence that most public organizations are confronted with control deficiencies related to reporting improprieties. Afterman (2007) quotes a definition, considering that “a control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect on a timely basis noncompliance with a type of compliance requirement of a federal program”. This standard of control is superficially treated; the organisations do not develop transparent procedures to encourage reporting and treatment of irregularities. As a result, the 16th standard - Reporting improprieties does not allow to the management the improvement of efficiency and effectiveness. Although organization's management are aware that the three standards are particularly important for the entire control system, their work affects the sequence of operations in a less favorable manner.

The weakness of this study which considers the correlation as analysis method, consists in the fact that these three standards analyzed are not quantified in interdependence with other standards, given the systemic nature of the internal / managerial control.

Our recommendation for the public managers is to use the organisational culture, group norms and a focus on goals (in parallel with the rules and procedures) to foster compliance with organisational goals. Because we highlighted the decentralized control problem, we also suggest the spread of the open-book management, based on the information sharing, encouragement of active participation, teamwork and cross-functional communication. Open-book management “helps employees appreciate why efficiency is important to the organisation's success as well as their own. The goal of open-book management is to get every employee thinking and acting like a top-manager or like the business owner. Open-book management turns traditional control on its head” (Daft, 2009, pp. 390-391) - being in this case a rather utopian solution, but having a partially applicable utility.

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