

FINANCE MANAGEMENT IN INDEPENDENT PUBLIC HEALTH CARE CENTRES – DIAGNOSIS ATTEMPT



ISMSME
International Society for Manufacturing,
Service and Management Engineering

received: 28 April 2015

accepted: 30 June 2015

**BOGDAN NOGALSKI, ANDRZEJ J. KOZŁOWSKI
IWONA Z. CZAPLICKA-KOZŁOWSKA, MARTA BONCZAR**

Corresponding authors:

Bogdan Nogalski

University of Gdańsk

e-mail:

bogdan.nogalski@ug.edu.pl

Andrzej J. Kozłowski

Siedlce University
of Natural Sciences and Humanities
Faculty of Economic Sciences

e-mail:

kajak@uwm.edu.pl

Iwona Z. Czaplicka-Kozłowska

University of Warmia
and Mazury in Olsztyn
Faculty of Economic Sciences
Department of Organization
and Management

e-mail:

iwona.kozlowska@uwm.edu.pl

Marta Bonczar

Warmia and Mazury
Marshal Office in Olsztyn

e-mail:

m.bonczar@warmia.mazury.pl

ABSTRACT

The objective of efficient management in the public sector is first of all the rational use of limited resources that sector has. It is only possible when the performance of activities is entrusted to qualified managers specializing in the management of public sector organizations. It also depends on the implementation of modern management methods, for example procedures which enforce the efficient use of material (especially financial) resources: it is so-called management technology. Health protection and the management of public health care system units is one of the key elements of the state policy carried out as part of its constitutional duty regarding the common good. Within the system of managing these resources, territorial self-governments, particularly communal self-governments, are responsible for performing the activities which have the fundamental importance for citizens. The problem discussed in this article is first of all the clarity of planning in self-governmental independent health care centers and the availability of information on the management of public financial resources. It presents the results of research carried out in selected independent public health care centers in Warmia and Mazury region. Apart from drawing certain conclusions, the aim of the article was to propose changes in the financial management system of self-government health care units, especially planning which involves the performance budget execution system of the revenue and expenditure plan.

KEY WORDS

independent health care center, territorial self-government, performance budget

DOI: 10.12846/J.EM.2015.03.06

INTRODUCTION

Within the framework of the new budgetary classification, in contemporary democracies the functions of health protection, health care or medical services are usually attributed to the state, namely, the public sector. In Poland, health is the 20th item in the state revenue and expenditure plan in the performance system (Information ..., 2015, p. 195). In Western democracies, most activities that in Poland are performed by the central administration have been moved from the public sector to the self-governmental one, to public benefit organizations, or directly to individuals or private organizations (Kozłowski, Czaplicka-Kozłowska, 2011). This has led to a clear increase in effectiveness, because the executors of common good activities are now closer to the

direct stakeholders. It must be emphasized, however, that the efficient management of public sector organizations, including health care centers, is only possible when the execution of the activities is entrusted to qualified managers specializing in the management of public sector organizations. It is related to the necessary implementation of modern management methods, including procedures which enforce the efficient use of material resources, especially financial ones. Since human health is of special importance, health protection and the management of health care infrastructure components is one of the most important functions of the state, carried out as part of its constitutional duty regarding common good resources. The performance of this activity, which is of key

importance for the citizens, has mostly been assigned to territorial self-governments. The basic problem discussed in the presented article is the transparency of planning in self-governmental health care centers, including the citizens' access to these financial plans and statements. In the study it was assumed that the transparency of planning in health care centers contributes to the rational use of the entrusted material resources. The article presents the results of research carried out in selected health care centers in Warmia and Mazury region. Apart from conclusions, the article includes recommendations showing the need for changes in the financial management system of self-government health care units, especially planning which involves the performance budget execution system of the revenue and expenditure plan.

1. INDEPENDENT PUBLIC HEALTH CARE CENTERS IN POLISH MEDICAL SERVICE SYSTEM

An independent public health care center, which is the subject of the research, is a very complex organizational structure. In Polish conditions it is usually managed by a doctor with the help of a complex administrative apparatus. A hospital usually consists of the emergency room, hospital wards, outpatient clinics, as well as diagnostic and rehabilitation units and a pharmacy. The main goal of a hospital is to provide medical services for people covered by health insurance within the scope and on the conditions set forth in contracts with the National Health Fund or other insurance institutions, as well as for people who are not covered by health insurance but want to use such services. The basic tasks of a hospital usually include (Organization Rules ..., 2012):

- providing in-hospital treatment to patients whose health condition necessitates stay in hospital;
- providing outpatient specialist treatment;
- health assessment, including the adjudication of temporary incapacity to work, and cooperation with institutions adjudicating permanent incapacity to work;
- organizing other forms of medical care in emergency situations (natural disasters, catastrophes, epidemics);
- defence activities in accordance with the applicable regulations;
- doctors' postgraduate and specialization education;
- scientific and research work;
- postgraduate education and student traineeships for nurses and midwives;
- health promotion workshops for nurses and midwives;
- rehabilitation services.

Whereas the effectiveness of private sector organizations is measured on the basis of sales and the resulting profit, in the case of public sector organizations it is mostly evaluated on the basis of material indices regarding the management of common good resources. This first of all refers to satisfying specific social needs (Nogalski, Klimek, 2014), and satisfying the needs of health protection (in various dimensions, beginning with the cost of insurance and the availability of medical services) is especially significant. That is why a very important criterion for economic decisions in public sector organizations is the quality, efficiency or rationality, and in the discussed field also for example the time of waiting for a medical appointment or admission to the hospital (a significant index in a plan based on the performance system). Yet, it should be noted that within the public sector the decisions are often forced by the necessity and obligation to perform the activities specified in the social contract. Taking into consideration the choice by the public (Owsiak, 1997, pp. 63-64), this may generate other factors affecting, on the one hand, the effectiveness of using public financial resources, and on the other hand, the efficiency of operation of public sector organizations, including independent public health care centers. The problem of arranging medical activity accepted by the society and by the medical circle alike, which is not characteristic of Poland only, calls for decisions made as part of New Public Management, based first of all on the transparency of management of health care centers' resources. Thus, the search for an answer to the question regarding the expenditure of independent public health care centers founded by territorial self-government units (Lubińska, 2009, p. 296) is important for the evaluation of the use of public financial resources, the efficiency of functioning and the execution of social control by the territorial self-government. What needs to be emphasized is that an independent public health care center manages its finances autonomously on the basis of a financial plan established by the manager (Act of 15 April 2011 on Medical Activity). Inappropriate management may lead to the violation of financial stability and to a negative financial result. The deficit may be covered by the founding entity, yet it is not obligatory. Therefore, by virtue of Article 59, if the negative financial result is not covered, the competent self-government authority may change the organizational/legal form of the health care center

or even liquidate it (Act of 15 April 2011 on Medical Activity). Taking into consideration the consequences of such decisions for local finances, it seems necessary to inform self-government members about financial management of health care centers, by publishing clear financial plans and statements.

The assets of independent public health care centers are basically two kinds of capital: the founding capital (assets coming from the founding body) and the health care center's capital (all the assets belonging to the health care center minus the founding capital). An independent public health care center may obtain financial resources by offering paid services, from interest on deposits, separate business, donations, bequests, legacies, or the performance of other legal activities. The basic source of financing independent public health care centers is paid medical activity, predominantly contracts with the National Health Fund, concluded as a result of contests or negotiations and usually accounting for over 90% of the medical entity's revenues. The medical entity may sell services not included in the contract. All this shows that an independent public health care center, as an element of the public sector, has at its disposal financial resources which use is regulated mainly by the Public Finance Act. The new regulations included in the Public Finance Act, which came into force on 1st January 2015, have introduced some changes aimed at increasing the efficiency of management of public finance liquidity and decreasing the public debt. The regulation extends the obligation to deposit free cash on a deposit kept by the Ministry of Finance at Bank Gospodarstwa Krajowego. Independent public health care centers are obliged to deposit free cash on the deposit of the funding entity if the entity is the territorial self-government and if it decides so (Public Finance Act).

The basis for financial management of an independent public health care center is a financial plan. The scope of information to be included in a financial plan is set forth in the Public Finance Act. A significant element of financial management of independent public health care centers is the investment plan, which shows the asset expenditure and the sources of investment financing. The financial plan should include all the revenues and expenditure of the entity, because it can only contract liabilities up to the amount resulting from the plan of expenses or costs minus staff expenditure and obligatory contributions and charges. For independent public health care centers, exceeding the planned expenditure means violation of public finances discipline. A change of planned revenues, in turn, is possible within a calendar year; this provides the possibility of increasing expenditure too, but it does

not refer to increasing the planned liabilities level. The manager of an independent health care center is responsible for drawing up and adopting the financial plan, and the board of trustees of the founding body expresses their stance towards it in the form of a resolution, which, however, is not binding for the manager (Act of 15 April 2011 on Medical Activity).

The Maastricht Treaty (Official Journal of the European Union C 115 of 9 May 2008), on the basis of subsidiarity principle in the European Union member states, introduced decentralization, transferring state activities to territorial self-governments. These include activities connected with health care. Thus, territorial self-governments became engaged in health care issues and whenever they are the founding bodies of health care institutions, they have to reserve resources for the centers' operation in their budgets. Besides, self-governments also carry out activity connected with broadly understood social services (including medical services provided at nursing homes), assistance for the disabled, or activities aimed at the prevention of drug addiction and alcohol abuse (Act of 8 March 1990 on Communal Self-government). Still, it can be assumed that all these aspects of care provided by self-governments are dispersed and therefore – to make their performance more effective – they require proper coordination of activities to ensure well-functioning local health care policy. For lowest level public health care activity (investigated in the research) to be effective and transparent, broad and comprehensive evaluation of specific programmes (aimed for example at the enhancement and improvement of prevention) is necessary. Since the main source of financing of such activities is public financial resources mostly coming from taxpayers' levies, they should have the right to receive full and clear information about the purposes for which health care centers' resources are used and whether they are spent reasonably and effectively (Lubińska, 2009, pp. 311-316).

Referring to Griffin, we need to stress that management is a system which includes actions such as planning and decision-making, organizing, managing people and controlling. In the case of health care institutions management, the effectiveness and efficiency of their operation are of key importance for health protection (Griffin, 2005, pp. 6, 104). That is why what matters in the management of independent public health care centers is, on the one hand, the qualifications of managers, and on the other hand, the clarity of short- and multiannual plans. As our study shows, most independent public health care centers are

managed by doctors, few of whom have qualifications in the field of management of public sector organizations. In accordance with the Act on Medical Activity, the person only needs to have experience at a managerial position, for example as a head of ward or another organizational unit, to meet the manager skill requirements for the position of the manager (Act of 15 April 2011 on Medical Activity). In many territorial self-governments, it is typical to appoint as managers health professionals working as doctors in the given institution. Management of health care centers is sometimes referred to as setting objectives and achieving them. For such objectives to be achieved, the person managing the health care center must display the holistic approach, including the development of a functional organizational structure, rational decision-making and information processes, an effective management style and the appropriate repair actions in management (Galicki, 2011).

In accordance with the Act on Medical Activity, the supervision of medical entities is exercised by the founding body; in the case of the investigated independent public health care centers the supervisor is the competent territorial self-government. The supervision is mostly executed by means of control, surveillance and evaluation of the performed activities. The object of supervision is among others the availability and quality of the provided medical services, the accuracy of management of assets and public resources, and the financial management of independent public health care centers. Independent public health care centers are separate organizational entities established to constantly provide medical services on the basis of a specific material and staff potential and with relative economic autonomy guaranteed (Galicki, 2011). Health care organization management involves the medical processes of the institution, ancillary processes (food supply, accommodation, clothing, instrumentation, renovation and transport), managing the staff, including medical personnel, managing finances and knowledge. As for the time frame, the orientation of operational management should be short-term (1 year), and of strategic management, long-term (even up to 15 years), (Galicki, 2011). The most frequent planning method applied in independent public health care centers is management of predominantly public finances on the basis of the current budgetary classification. The classification has its origins in the period of socialist organizations hiding their financial management and is unclear, and the only person who has the knowledge on financial flows is the one who directly manages the finances (the chief accountant of the health care institution), (Nogalski et al., 2014). Transparency

of financial planning helps make quicker and better investment, reorganization or functional decisions. It allows to prepare emergency plans, and import data from other plans in order to create new planning models (Głowacka, Klamerek, 2011, pp. 37). Different techniques are applied in independent public health care centers' financial planning, but most of them are based on traditional planning, resulting in the incomprehensible system of the revenue and expenditure plan.

2. FINANCE MANAGEMENT IN INDEPENDENT PUBLIC HEALTH CARE CENTRES – ANALYSIS OF THE AUTHORS' RESEARCH

It was assumed in the research that pursuant to the applicable regulations of the Public Finance Act (Journal of Laws Dz.U. 2009, No. 157 item 1240 as amended) and first of all the Act on Access to Public Information (Journal of Laws Dz.U. 2001 No. 112 item 1198 as amended), financial plans and statements of independent public health care centers shall be published in the Public Information Bulletin (in Polish: Biuletyn Informacji Publicznej, abbreviated to BIP). The preliminary research involving BIP resources shows that none of the 18 randomly selected health care organizational units in Warmia and Mazury region had the current revenue and expenditure plan or the report from budget implementation published in BIP. Hence, it may be assumed that the selected independent public health care centers have violated the right to access to public information. Therefore, the next step in the study was to apply to the managers of those organizations for information concerning their financial management. Interestingly, only 2 institutions gave a positive response. Thanks to the authors being acquainted with some members of the boards of trustees, data of three other independent public health care centers were obtained¹. It seems that the lack of access to information about financial management, the lack of publication in BIP, and thus preventing territorial self-government (its members) from the execution of social control is the basic element of pathology in health care center management in Poland.

Information obtained at the end of the 1st quarter is very general and it is hard to evaluate thoroughly the institutions' financial management on that basis.

1 The researchers decided not to make a complaint to the supervising authority regarding this fact, coming to the conclusion that it is not the responsibility of scientific workers or the aim of the research. They also resolved not to reveal what institutions and what people the information was received from.

In most investigated entities, the profit and loss account is used as a document summing up the financial plan. In most cases, this is what the authors received. The Tab. 1 below presents these reports from financial statements regarding the most important financial data.

The obtained data concerning financial management lead to the following conclusions:

- independent public health care centers mainly obtain financial resources from the National Health Fund, so their basic source of financing is public financial resources, the use of which is regulated by public finance law;
- the health care centers' total revenues compared to National Health Fund subsidies show that their operation is financed from sources other than NHF resources to a very limited degree;
- it may be assumed that the basic cost in the functioning of independent public health care centers is staff remunerations;
- in 2014, the investigated entities had positive financial results.

The conducted research work, including the analysis of the obtained documentation of five

no indices of the achievement of the assumed operating or strategic goals, which makes internal control (being the basis of evaluation of the effectiveness of using public financial resources) practically impossible.

3. RECOMMENDATIONS

The effectiveness of using public financial resources is the subject of interest not only for people managing public entities, the employees of those organizations or the bodies which supervise them, but also for citizens who benefit from the resources of common good, also because these organizations mostly operate thanks to the public levies contributed by them. In order to ensure rational resource management in independent public health care centers, the management technology has been drawn up to improve the efficiency of their operation, including a system of access to public information as well as a system of supervision and broadly understood social control. However, as the research indicates, in most cases the system was drawn up but not

Tab. 1. Analysis of financial data of medical entities in Warmińsko-Mazurskie Voivodeship

DATA FROM THE FINANCIAL STATEMENT	INVESTIGATED ENTITIES				
	A	B	C	D	E
Total expenditure planned for 2014	1,136,388.60	11,051,000.00	28,281,005.63	16,561,880.73	2,397,301.93
EXECUTION OF THE PLAN FOR 2014					
Total revenues	1,086,032.73	11,274,300.00	26,341,934.36	16,583,679.83	2,589,086.09
Total operating costs	1,139,251.35	11,169,900.00	27,971,914.35	16,401,657.35 16,527,074.88	2,460,461.51
Financial result	52,759.79	104,200.00	117,658.02	54,007.35	100,354.58
Staff remunerations	490,568.88	6,629,000.00	9,840,003.99	7,881,652.78	649,363.35
% of remunerations in operating costs	45	58	37	55	25
Revenues from the NHF	1,057,549.64	11,049,000.00	22,813,566.00	14,305,358.03	2,505,596.07

Source: authors' own study based on information obtained from medical entities.

medical entities and taking into account the principles on which it was obtained, the following conclusions can be drawn:

- access to financial information of an independent public health care center is difficult, in this regard one of the main principles of public finance law – the right to access to public information – is not observed;
- financial statements and plans are drawn up on the basis of the valid but unclear budget execution system of the revenue and expenditure plan, which makes it harder for boards of trustees or territorial self-governments (citizens and bodies within the self-governments) to supervise the use of public financial resources;
- the achievement of the assumed operating or strategic goals of the entities is not described in financial plans and statements, there are

implemented. The significance of internal control, functioning in public finance entities for a few years, must also be emphasized. This system forces the entities to implement appropriate annual planning, monitoring, and reporting. But in order for internal control in independent public health care centers to function properly, these entities need to be appropriately supervised by the founding bodies; besides, infrastructure used to perform internal control must be developed. Failure to implement planning based on the goals and indices of the degree of goal achievement makes broad internal control impossible. Our research and the obtained information show that the following solutions in finance management in independent public health care centers could rightly be implemented:

- multiannual financial plans and reports from their implementation should be published on BIP sites of all public sector entities, including communal

Tab. 2. Proposal of the revenue and expenditure plan in the performance system for a communal self-government (the portion concerning health care)

ACTION	FINANCIAL SCHEDULE OF THE ACTION	PREVIOUS CLASSIFICATION OF EXPENSES – NEW CLASSIFICATION	LEGAL BASIS	PLANNED AND ACTUAL EXPENDITURE IN PLN AND INDICES IN THE YEARS 2013-2017				
				2013	2014	2015	2016	2017
				Execution in PLN Index value	Execution in PLN Index value	Plan in PLN Index value	Plan in PLN Index value	Plan in PLN Index value
FUNCTION: HEALTH PROTECTION								
ACTIVITY 15: HEALTH PROGRAMMES FOR COMMUNE RESIDENTS				62,500.00	60,000.00	58,000.00	56,000.00	55,000.00
Objective: Reduction of flu incidence and limitation of flu complications								
Indicator: people staying in care and nursing or care and treatment institutions and in nursing homes in the period of raised incidence				2,500	2,700	2,780	2,700	2,500
TASK 17: PURCHASE OF PREVENTIVE VACCINES AND DISEASE PREVENTION				5,208.10	5,000.00	4,833.33	4,666.25	4,583.60
Objective: provision of infection prevention measures and preventive education.								
Indicator: – the number of vaccines purchased – the number of interviews and preventive education				265 1,350	230 1,000	200 850	185 850	170 720
Purchase of necessary preventive vaccines, support in prevention aimed at lowering the incidence of infectious diseases	Once a month – 1/12th of the annual expenditure plan	85117	Act of 5 December 2008 on the Prevention and Control of Infections and Infectious Diseases in Humans					

self-governments and independent public health care centers: this would be in agreement with the principle of public finance transparency;

- so as to ensure instruments for internal control, an execution system of revenue and expenditure plan should be implemented which would be based on certain goals (for example shortening the time of waiting for admission to a health care center or for a surgery) and indices (for example the time of waiting for a surgery, the expenditure for specific surgeries, the number of patients) precisely showing the use of public financial resources and its effects.

Financial planning based on performance budget execution system should first of all be implemented in communal and powiat self-governments; many self-governments in Poland have started working on such projects (Kozłowski, Czaplicka-Kozłowska, 2014) and it is very important for the implementation of the programme of public finance education for all citizens. The implementation of planning on the basis

of the budget execution system proposed in Tab. 2 might force the managers of public organizations managing common property to pay more attention to effective management of public finance. Concealing financial flows, for example failure to make financial plans and statements available and drawing them up only on the basis of the valid budgetary classification, should be a signal for thorough control of financial management, including internal control, in independent public health care centers.

CONCLUSIONS

As part of the research the authors mainly found negative phenomena in financial management in independent public health care centers, which belong to the public sector and use public financial resources. The research confirmed the assumption of problems regarding access to public information and the impossibility to evaluate the effectiveness of resource management in independent public

health care centers. Analyzing the financial management of health care centers subjected to the basic organizational units of Warmia and Mazury territorial self-government, especially the transparency of planning and information about the results, it is evident that financial information is unavailable. Thus, it is hard to determine the effectiveness of expenses, which could be evaluated not only by self-governmental authorities but first of all by the citizens who benefit from the services of those institutions and cover the costs of their operation. Therefore, the implementation of rules within new public management should be considered to regulate financial management based on clear annual and multi-annual revenue and expenditure plans in the performance system. This is the fundamental condition for management to be based on communication with citizens and treating them as the subjects and participants of activity execution. It should be stressed that a self-government consists of residents, and it is them who exercise the authority through their representatives in councils, for example influence the appropriate functioning of independent health care centers. The lack of access to public information violates the basic civil rights and shows the management of health care centers and the supervising bodies do not implement the law. All this confirms that the health care system in Poland needs thorough reforms.

LITERATURE

- Galicki J. (2011), Współczesne zarządzanie w zakładzie opieki zdrowotnej, in: Głowacka M.D. (ed.), Zarządzanie zakładem opieki zdrowotnej. Konteksty i determinanty zmian, Polskie Towarzystwo Nauki o Zdrowiu, Poznań
- Głowacka M.D., Klamerek A. (2011), Planowanie finansowe, jako narzędzie procesu decyzyjnego, in: Głowacka M.D. (ed.), Zarządzanie zakładem opieki zdrowotnej. Konteksty i determinanty zmian, Polskie Towarzystwo Nauki o Zdrowiu, Poznań
- Griffin R.W. (2005), Podstawy zarządzania organizacjami, Wydawnictwo Naukowe PWN, Warszawa
- Informacja o wykonaniu wydatków w układzie zadaniowym w 2014 r. (2015), Rada Ministrów, Warszawa
- Kozłowski A.J., Czaplicka-Kozłowska I.Z. (2011), Zarządzanie finansami w samorządzie terytorialnym. Wybrane zagadnienia, Pracownia Wydawnicza ElSet, Olsztyn
- Kozłowski A.J., Czaplicka-Kozłowska I.Z. (2014), Transparentność zarządzania finansami lokalnymi. Uwarunkowania wdrożenia planu dochodów i wydatków w układzie zadaniowym, Oficyna Wydawnicza „Impuls”, Kraków
- Lubińska T. (2009), Nowe Zarządzanie Publiczne-skuteczność i efektywność. Budżet zadaniowy w Polsce, Wydawnictwo Difin, Warszawa
- Nogalski B., Klimek A. (2014), Administracja publiczna. Poprzez proces do struktury. Koncepcja instytucji

katastru, Wyższa Szkoła Bankowa w Gdańsku, CeDeWu.PL, Warszawa

- Nogalski B., Kozłowski A.J., Czaplicka-Kozłowska I.Z. (2014), Funkcjonujący i pożądaný układ wykonawczy planu dochodów i wydatków a transparentność zarządzania finansami w samorządzie gminnym, in: Ostaszewski J., Kosycarz E. (ed.), Rozwój nauki o finansach. Stan obecny i pożądaný kierunki jej ewolucji, Szkoła Główna Handlowa w Warszawie. Oficyna Wydawnicza, Warszawa
- Owsiak S. (1997), Finanse publiczne. Teoria i Praktyka, Wydawnictwo Naukowe PWN, Warszawa
- Regulamin organizacyjny Miejskiego Szpitala Zespołowego w Olsztynie z dnia 20 grudnia 2012 r., <http://www.e-bip.pl/Start/23277/Information/15242> [15.07.2015]
- Traktat z Maastricht (Dz.U. UE C 115 z dnia 9 maja 2008 r.).
- Ustawa z dnia 15 kwietnia 2011 r. o działalności leczniczej (Dz.U. nr 112, poz. 654 z późn. zm.)
- Ustawa z dnia 27 sierpnia 2009 r. o finansach publicznych (Dz.U. nr 157, poz. 1240 z późn. zm.)
- Ustawa z dnia 8 marca 1990 roku o samorządzie gminnym (Dz.U. nr 16, poz. 95 z późn. zm.)