

## Chapter 5

# Internal Control in a Public Hospital: The Case of Financial Services Expenditure Department

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### ABSTRACT

*Internal control (IC) is receiving increasing attention at the level of public administration including the hospitals of the National Health Service. It is seen as a privileged instrument of management, administration and control, which provides an increase of efficiency and effectiveness, a greater information reliability and compliance with legal standards. In this chapter, the authors intended to analyze existing procedures and controls in the Financial Sector of Public Hospitals, in particular the expenditure department, and taking into account the human, material and technical resources available to effect systematization of control practices and the identification of key IC system vulnerabilities. Using the information collected by interviews and documentary analysis between December 2014 and 2015, a set of actions is proposed in order to mitigate the vulnerabilities of the procedures studied, as well as the structure for a manual of IC procedures, applicable to the expenditure department as an instrument to promote the legality and efficiency of the management of public funds.*

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## **INTRODUCTION**

Managers in public costing centers should be accountable for the activities they carry out to achieve a better management of public funds (Dragija, Vašiček, & Hladika, 2011), and the internal control (IC) is a good mean to do that.

The IC is perceived as a management tool, contributing to compliance with criteria of economy, efficiency, and effectiveness, safeguarding legality, and promoting the trust of management bodies in procedures and processes, attending as assurance of the quality, reliability and accountability of the information provided by the different institution's services.

In recent years, the health sector and particularly the hospital area have undergone changes at the management level, particularly based on the need to improve the efficiency and quality of services.

The opportunity of this study rests on a recently created Hospital Center (HC) in the scope of the Portuguese hospital park, with a view to improving health care delivery, ensuring quality and offering diversification, universal access, but also services efficiency. However, it is subject to new regulatory mandates and changes in organizational support (Decree-Law no. 30/2011, of March 2).

Decree-Law no. 244/2012, of November 9, amended the legislation that established the legal regime and approved the statutes of hospitals and hospital centers of a business nature integrated into the National Health Service. These rules were based on the Court of Auditors<sup>1</sup> recommendations in the scope of the IC of the public entities health sector and considering the modifications introduced to the Statute of the Public Manager. Therefore, to achieve the management efficiency and effectiveness in public hospitals it is necessary to implement an adequate IC system.

The Financial Services (FS), within the HC under study, play a decisive role for the good institution management. Within these services, the expenditure department is fundamental to ensure an adequate use of public money but does not have a manual of IC procedures. Thus, based on the analysis of existing procedures and controls and taking into account available human, material, and technical resources, it is intended to systematize effective control practices and identify vulnerabilities in order to structure an IC manual for the expenditure department.

It is hoped that this tool will allow a better understanding of the processes, the discovery of new solutions, the increase of productivity and the capacity of sharing information and knowledge, both from the operational point of view and from the analytical and decision support process.

To achieve the objective, it was used interviews and documentary analysis. It should be noted that the framework used may be applied to any public entities, after the necessary adaptations, so it is an instrument to promote the legality and efficiency of the management of public funds.

The paper is organized as follows. The introduction presents and justifies the choice of subject. In the background, it is presented the most relevant concepts for the study and a characterization of the health system and the public hospital sector in Portugal. Next, the methodology used to reach the objective is presented, followed by the presentation of the case study, characterizing the HC, as well as the description of the processes and procedures of the expenditure department that will be the object of this study. At this point, the results obtained are presented, which constitute the recommendations for IC improvement of the HC, as well as the structure of the respective IC manual. Finally, the conclusions, limitations, and proposals for future work are presented.

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