

EXECUTION, INTERNAL MONITORING, BUDGET VALUATION AND FINANCIAL CONTROL – ELEMENTS OF ADMINISTRATION OF LEGAL PERSONS WITHOUT PATRIMONIAL PURPOSE

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Abstract:

In order to elaborate a functional budget, namely the functionality to allow the non-profit organization to cash the programmed income on time and assign hereto the corresponding destination as expenses, must be considered certain stages that the manager of organization with the help of functional compartment have to meet. These are: planning, execution, monitoring, evaluation and reaction, we refer here to the last four, but laying emphasis on the financial administration control function. We shall refer in this article to the characteristics which are given by the spending the public money in the partnerships of non-profit organizations with entities financed from public funds.

Key words: non-profit organization, budget, execution, evaluation, control

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By establishing as main objective in the management, financing and administration of legal persons without patrimonial purpose, we appreciate that in the context of the current tendency in the activity of territorial administrative units, non-profit organizations (hereinafter NPO's) from their area of activity and of Orthodox Parishes, the decentralization, management, financing and administration must be looked upon as an inter-conditioning and a mutual interaction between these, each requesting and assuming the intervention of one towards the other in a given context.

In this regard, the financial instrument of presentation, administration and analysis – the budget – represents the transposition in financial measures of the purpose and objectives of a non-profit organization. A non-profit organization included in the area of responsibility of a local authority, can decide considering the budget how to allot the resources in order to achieve the objectives. The budget, the stages of the budget formation, the analysis, and substantiation and evaluation techniques of the budget represent the management “axis” from a non-profit organization.

Thus, the budget must represent a plan so it can direct all resources that are available to the non-profit organization: time, human resources, physical resources; resources which represent just a budget aspect, and the budget document, expressed in financial terms, are part from the *integrated annual plan of the non-profit organization*, which is a managerial plan.

In order to elaborate a functional budget, name that the functionality allow the non-profit organization namely the functionality to allow the non-profit organization to cash the programmed income on time and assign hereto the corresponding destination as expenses, must be considered certain stages that the manager of organization with the help of functional compartment have to meet. These are: planning, execution, monitoring, evaluation and reaction. In what follows, we shall concentrate upon the budgetary planning appreciating the budget construction as the concrete operation through which, based on some standard type forms and by complying with the budgetary principles, it proceeds to the elaboration of the two budget parts: the income

part and the expenses part with the inventory of all possible income which might be formed during the financial year, respectively with the detail of all expenses taking into consideration the economic classification of these (material expenses and expenses for providing services, staff expenses capital expenditure).

The budget execution of non-profit organization consists in collecting the income¹ and making the expenses approved by the organization manager. The execution is a wide and complex process, for whose achievement take part a great number of organization member (the employees and volunteers from its functional department). Responsibility of budgetary execution goes to the manager (chairman) of the non-profit organization and the staff within it, to whom were given identification and collection competences at a higher level of income, but also of efficient use of resources allotted, by complying with the principle, according to which income represents minimum limits to be accomplished, and the expenses approved represent maximum limits which cannot be exceeded, the non-profit organization being obliged to comply with the destinations established for each sum allotted.

The performance of budget execution, respectively collecting the income and making expenses, is achieved with the help of specialized organization departments, the income execution representing the application of techniques, methods and legal procedures in order to collect in a greater amount the programmed income from the sources provided in the budget structure. Making a similarity with the execution of budget type of income and which become public financial resources, we could say that the four stages of income collection, respectively set up, liquidation, issue and levy, these stages can be practiced by the non-profit organization as well, since:

- setting up represents the identification and dimensioning of income of which the non-profit organization can have when elaborating the budget;
- liquidation represents the income level which can be collected by the non-profit organization based on the legal provisions concerning public financial resources and contractual provisions related to private financial sources;
- issue represents the operation through which in the document – disposition, the manager registers and authorizes the staff entitled with money collection, to proceed to the notification of the person who makes available the public and private financial sources in order to initiate the operations of transferring them to organizations;
- levy consists in the effective collection of income in the quantum and terms established, discharge from contractual obligations in case of private sources and budgetary provisions in case of public financial sources.

By carrying the stages mentioned above, one can achieve a healthy execution of income by providing the manager with the financial resources required to initiate and perform expenses by complying with their type and destination.

As for the execution of expenses, we can point that this represents the initiation of actions in order to perform activities which belonged to the budget expenses of the non-profit organization.

The execution of expenses also implies four stages²: budgeted commitment, liquidation, order to pay and payment of resource allocated. If we are to consider for instance that a non-profit organization of national social assistance kind has financial

1 Gisberto-Chițu A., Tudorache S., Pitulice C., - *Contabilitatea și gestiunea instituțiilor publice (Accounting and administration of public institutions)*, Editura CECCAR, București. 2003, p. 23

2 Order no. 1.792 from 24th December 2002 (updated until 28th September 2011) on the approval of methodological norms regarding the budgeted commitment, liquidation, order to pay and payment of public institutions expenses, as well as the organization, records and report of budgetary and legal commitments, Issuer: Ministry of Public Finances, Published in: Official Journal no. 37 from 23rd January 2003, Date of entry into force: 23rd January 2003

resources from the state consolidated budget, then the four stages have the following significance³:

- budgeted commitment refers to assuming the decision to commitment made by a credit accountant (manager) on the budgetary expenses, and which generates the obligation to perform payments based on the credits opened. Expense commitment and payment performance cannot take place if these do not result from a legal document (contracts, orders, invoices, etc.) through which the provider's and beneficiary's obligations are established, and without bearing the preventive financial control visa given by the head of financial accounting department or his deputy;

- liquidation represents the operation through which is verified and noted how goods are provided, the execution of works or services provided as a result of receptions made, by which it is established the quantum of sums that are to be paid from the approved budgetary allocation. Being a later operation, the liquidation must be based on supporting documents (invoices, shipment slips, acceptance certificates, completion reports through which is determined the level of payments that are to be performed by the beneficiary non-profit organization);

- order to pay is the document issued by the non-profit organization, namely the payment order through which, based on the evaluation made by liquidation, is ordered the payment of a sum of money from the organization account to a third party;

- payment represents the effective payment by the non-profit organization of a sum owed by providers to creditors in order to discharge the money obligation towards the latter ones, for the supply of goods, execution of works and/or for services provided.

A for the private financial resources coming from private sources, these are driven in the operation for expense execution, fully or partially covering the expense quantum, and go through all four stages of execution previously mentioned, with the difference that it is for the organization manager and not the credit accountant.

The manager's legal obligations, as a leader of a NPO and representative of a legal person, also comprise those obligations concerning the organization, administration and report of budgetary and legal commitments of a NPO towards the local budget. Operations specific to budgeted commitments, liquidation and order to pay expenses are in the competence of the NPO manager, and are performed based on the specialized departments of social activity approvals. The public finances law⁴ provides that credit accountants (managers) are authorized to commit, liquidate and order the payment of expenses throughout the budgetary year, in the limit of budgetary credits approved, and the expense payment is performed by authorized persons, who are generically referred to as accountants.

Similarly, the NPO manager as „credit accountant” compulsory performs the following activities:

- through norms establishes the documents, their circuit and persons authorized to perform the activities of organization, as well as the organization, record and report of legal budgetary commitments;

- through internal document establishes the person appointed to perform activities of organization and administration of legal and budgetary records within the organization;

- is liable for the performance of the commitment, liquidation, order to pay and payment operations – *Synthesis based on the MPF Order no. 1792/2002, which contains all annexes, in mandatory format, which are signed by the persons mentioned,*

3 Popovici D., - *Buget și trezorerie publică (Budget and public treasury)*, Editura Eurostampa, Timișoara, 2007, p. 37

4 Law no. 500 from 11th July 2002 (updated), on public finances, Issuer: Parliament, published in Official Journal no. 597 from 13th August 2002, Art. 1 paragraph (2).

and who are liable in front of the law for the decisions taken and for the truthful character of official documents.

The execution of the non-profit organization budget is even better since the income (representing minimum limits to achieve) is fully performed or in a percentage closer to the income maximum level, and the expense execution (representing maximum limits to commit or liquidate) by complying with its type and destination, is also as closer to its maximum level. We appreciate that with a rigorous management, performed by the organization management through the financial manager, these shall be achieved and the organization shall attain the goal desired by founders with the deliverable effects from the beneficiaries.

Though the manager is not the one who has to perform and register the financial-accounting operations, he must carefully monitor since he and the specialized staff are liable for the correct, real and legal character of these operations. The monthly control of expenses performed is essential in the financial management. The legal character, the opportunity of payments and expense commitment performed, must be analyzed in full knowledge by the Manager, the Board of Directors and the Financial – Accounting Department. The monitoring activity must answer to the questions such as:

- How does the budgetary cycle correlate with the development plan?
- How is the information related to NPO collected and interpreted?
- How are the discussions and operation on the budget revision performed?
- How are priorities from the next year program embraced?

The budgetary performance stage (or „execution”) is the one in which the financial accounting operations are decisive. Though the NPO manager cannot (should be of the specialty – social assistance) and must not be accountant, it would be good for him to know a series of specific elements; among these elements, the principles of accounting are the most significant ones. The application norms for the Accounting Law⁵ define the following principles: carefulness principle, principle of methods permanence, principle of activity continuity, principle of exercise independence, principle of opening balance intangibility; non-compensation principle.

If we are to consider the provisions of art.1, paragraph 2 of the Accounting Law din no. 82/1991, which defines the fact that „public institutions, associations and other legal persons with or without patrimony purpose have the obligation to organize and render the financial accounting”, based on supporting documents, proves that through accounting, the expenses and income achieved by the non-profit organization chronologically are highlighted. By comparing them with the values of the initial budget, it can be determined the plus or minus differences against the provisions made.

We also appreciate that the manager must be capable of establishing financial performances which the organization must achieve at certain intervals, and correspondingly evaluate the performances obtained.

Concerning the evaluation of financial performances, the manager must answer, from a financial-accounting point of view, to a series of essential questions:

- Was the budget adequately planned?
- Were there unplanned expenses? Which were the causes? Which dysfunctions resulted from this?
- What is the impact on the unplanned expenses on achieving the development plan objectives?
- Do the expenses performed have the desired effect?

The answers to these questions exceed the level of accounting operations, being offered to the strategic level of NPO activity.

5 Law no. 82 from 24th December 1991 (republished)(updated until April 2011), on accounting no. 82/1991, Issuer: Parliament, Published in: Official Journal no. 454 from 18th June 2008, Date of entry into force: 18th of June 2008

Besides attaining the organizational purpose, the second big requirement for the entire financial process is the possibility of a more adequate control and the elaboration of some „awareness” mechanisms, which define the liability concerning the spending of money. The control follows the planning process from the moment in which the plan - budget – was approved; the decisions have been implemented in order to see if actions are performed according to this. There are three directions in which investigations are performed: measurement and registration of current performances; comparing them with expectations (reaching objectives, keeping the rhythm planned, etc.) and obtaining the *feedback* to continue the events monitoring.

The differences between what was budgeted and the current performance obliged us to think in system terms: the entire process is actually a control of the system.

The non-profit organization is subject to an internal control, which follows the defense of its wealth integrity, respectively the legality, necessity, opportunity and efficiency of using financial funds, as well as the compliance of obligations towards the consolidated public budget, towards the providers, creditors, compliance with contractual clauses, etc.

The internal control is represented within a non-profit organization by the preventive financial control, current operative hierarchical control and the internal financial management control. Also, an external financial control is made to non-profit organizations of by specialized institutions appointed to perform such control. In this regard, we shall give details to both internal and external control forms:

a). Preventive financial control of NPO – is exercised prior to the performance of economic and financial operations. No expense, regardless of the funds from which it is supported, is approved and is not performed if not previously allowed according to the law⁶, by the chief of financial - accounting department or by other persons appointed with exercising the preventive financial control from economic units and public institutions, so from a NPO as well. The preventive financial control has the aim of prevent illegal actions and expenses, as well as the prevention of immobilizing funds. It refers to the majority of financial activities, from which we mention: the conclusion and performance of economic agreements; payments of salaries and any other type of claims; constitution of funds provided by the law; registration of loss in the expense section; annulment and declassification of goods; investment works, etc.. The method of granting the preventive financial control visa is explicitly defined by law, once with the liability of the one who is entitled and grants or not the preventive financial control visa, as well as the procedures to follow in case the preventive financial control visa is granted or not. The conditions that an economical-financial operation must meet to receive the preventive financial control visa are connected to the necessity, opportunity, economies, reality, without neglecting the efficiency and effectiveness.

b). Current operative hierarchical control⁷ (simultaneous control) – is made once with achieving the objectives from economical and financial programs (at the same time with achieving the operations which need material and liquid means). This type of control is exercised to each organizational level and towards all departments controlled and unexpected, in the places where material values are kept and administered. The

6 Ordinance no. 119 from 31st of August 1999 (republished)(updated on December 2010), on the preventive internal and financial control, Issuer: Government, Published in: Official Journal no. 799 from 12th of November 2003, Date of entry into force: 12th of November 2003

7 Resolution no. 720 from 10th of October 1991 on the approval of norms for the organization and exercise norms of financial control elaborated by the Ministry of Economy and Finances, Issuer: Government, Published in: Official Journal no. 75 from 24th of April 1992, Date of entry into force: 24th of April 1992

current operative control has the following aims: administration of material and liquid means – reception, deposition, conservation, use, inventory, keeping accounting, pointing debtors, method of collecting debts, etc.

c). Internal financial administration control (post factum) – is made after the economical, social and financial operations have been executed. There is verified the method in which financial accounting operations, which received the preventive financial control visa, have attained the purpose desired by the legislator and the deliverable effects when initially programmed.

Concerning the **specialized institutions** and besides the non-profit organization which exercises the financial control towards the non-profit organizations, we shall mention:

a). Ministry of Public Finances⁸, through its specialized units – General Directorate of Public Finance – Activity of fiscal inspection, Treasury and public accounting, Financial control agency – these perform the operational and unexpected control related to the compliance of all fiscal, customs, budgetary and commercial legal norms and all other attributions given by law, as well as specialized departments within the territorial administrative units for local fees and taxes.

b). County Courts of Accounts⁹ usually provide the post-factum control of income and expenses of the local or central public institutions, thus the method of interaction with such a superior control authority of that NPO is highly limited. Still, such a meeting can take place within a crossed control towards the method of spending the public money, which the Court of Accounts deems fit. Such a control is more justified in the case of national non-profit organization which performs actions with such character and uses public financial sources from consolidated budget.

We thus conclude that both in relation with possible financers that are state owned companies, similar public institutions, territorial administrative units, and European institutions, the non-profit manager must provide a rational management of all material and money resources collected and efficiently used within a time interval – usually for the mandate conferred by the position obtained as a result of the vote given by founders – using the rules of expense execution which the financer adopts, this fact conferring him a higher trust in spending the public money and having as possible consequence, the permanent partnership in financing certain organization development programs.

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⁸ Resolution no. 34 from 22nd of January 2009 (updated) on the organization and operation of the Ministry of Public Finances, Issuer: Government, Published in: Official Journal no. 52 from 28th of January 2009, Date of entry into force: 28th of January 2009

⁹ Law no. 94 from 8th of September 1992 (republished)(updated on December 2010) on the organization and operation of the Court of Accounts, Issuer: Parliament, Published in: Official Journal no. 282 from 29th of April 2009, Date of entry into force: 29th of April 2009

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