

## **CONSIDERATIONS REGARDING THE INTERNAL CONTROL MANAGEMENT SYSTEM IN THE UNIVERSITY DEPARTMENTS**

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**ABSTRACT:** *Public administration reform in Romania refers especially to the overall efforts to improve management, administrative capacity and the way the whole public sector is organized. Obviously, better governance is necessary at all hierarchical levels universities are, as public institutions, but also within them. This paper addresses the issue of internal control management concerning the university departments, in terms of necessity, of organization, the risks associated with the different activities carried out by this institutional structures as well as the need to keep them under control, by resorting to various management techniques. Also this paper is a starting point in studying the sensitive issue of the risks associated with the university education (and not only) because, naturally, in time, after solving the problem of the existence of an internal control management system, it is followed by the stage of “perfection” to make it more efficient, using as key element the decision factors responsible (both with education, and effective management of risks associated with this noble activity).*

**KEY WORDS:** *risk management; university department; internal control; uncertainty.*

**JEL CLASSIFICATION:** *M48.*

### **1. INTRODUCTION**

It is known that education and training are a fundamental mechanism in the equation of economic growth and sustainable human development, the role played by universities being to model individual and social behavior, to train competitive human resources in terms of orientation towards results, demand, productive and social consumption satisfaction, allocation of funds in relation to the performance and the need for their effective management.

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Universities must take responsibility by ensuring the quality of their own services; it is the only way they can obtain the confidence of the society in their ability to meet the demands and expectations (Man & Ciurea, 2015, p.201).

Effective management of an entity, which is specialized in the provision of public services, involves management concern for the organization's internal control system and permanently updating it. The approach requires (also) a lot of attention in managing existing risks in the environment in which it operates.

Internal control in educational institutions comprises all forms of exercised control, including internal audit, established by management in accordance with its objectives and legal regulations (Morariu & Suci, 2004, p.19) in order to effectively manage public funds. Control activity involves at least three essential elements: knowledge, observation, comparison, namely knowing ideal state of affairs, finding practical realities and their comparison /confrontation (Teiusan, 2009, p.28), which, in our opinion, are the sources of risk identification.

Without some means to manage and regulate what people do, an institution that can literally fail, can be dismantled. From this point of view, internal management control may be a fundamental inner strength that can maintain the integrity of the organization. The process of targeting the activity of individuals towards achieving the organisation's objectives is not one easily taken, but perhaps for this reason, control has been called one of the Siamese twins of management (Simionescu et. al., 2006, p. 168), the other Siamese twin being the forecast. The course of action is mapped by the manager, but risk and uncertainty are two constants which are present in the decision. All intelligent decision makers, who are faced with uncertainty, want to know the size and nature of the risk they take when choosing a particular course of action.

The managers of educational institutions must have a clear vision of the objectives and the means of achieving them, need to understand what resources they have and the effective ways to invest them and they should be able to make certain or risk decisions, depending on the certainty of achieving the objectives.

## **2. THE NECESSITY OF AN INTERNAL CONTROL MANAGEMENT RISK**

Control in its semantical meaning is a permanent or periodical analysis of a situation, in order to track its progress and to take improvement measures. (<http://www.scmi-educatie.ro>).

At the university level and not only, internal control has an evolutionary character as the environment in which they operate is in constant motion. A healthy system of public administration involves strengthening a control system of all activities to ensure reliability and integrity of information, compliance with applicable legal framework, protection of assets, including legal and efficient collection of state resources, economic, efficient and effective use of resources (Ispir, 2008, p.47).

A SWOT analysis of the management of public administration in Romania revealed, among the weaknesses and difficulties encountered in applying management functions (Guta, 2015, p.152), including for the control function – s.n., also the opportunity to introduce quality management standards in public administration,

completed in our view with the need for proper training of the personnel involved in such an activity.

The control function is based on respect for rules, on the results that were obtained and it is also a means of obtaining feedback which allows the adjustment of the action to purposes (Chevallier and Loschak, taking over after Hintea & Hudrea, 2013, p.50).

Each activity involves, however, some risks that have to be monitored so that it runs at optimal parameters and provides a degree of certainty that can not be absolute, which ingrains processuality and relativity in their management. Universal character is added to the two features, because risk management is conducted by senior staff from all levels and is targeted to all human resources.

To maximize potential benefits and minimize dysfunctional behaviors, university management has to design systems of risk control and management that meet the following requirements: are based on valid performance standards, communicate appropriate information to employees, and are supported by employees, use multiple approaches, admit the relationship between power investments and control (Simionescu et. al., 2006, p.177-178).

Risk is considered a possible threat, more or less predictable, a threat with a less favorable effect on the ability of a structure to achieve its objectives and to lead to better completion of strategies, and the possibility that a phenomenon (not necessarily negative) to happen and influence the organization's objectives. As opportunity, risk appears as a challenge collector that determines management to ensure that activities were understood and are correctly conducted.

Dangers are adverse manifestations of normal situations, represented by events, circumstances, conditions or actions with negative-destructive potential and which, by association with vulnerabilities or internal weaknesses affect the achievement of the public entity's objectives (Bolchi, 2012, p.38).

Risks may be inherent, that means they exist naturally before applying any intervention measures i.e. waste remaining after exercising internal control and corrective measures. They can be constituted from measurable or non-measurable, internal or external risks.

Risk management is the systematic process of identification, analysis and response to potential risk and requires a structural and formal approach, focused on the necessary steps and the actions planned to determine and control the risks, keeping them to an acceptable level (Ceocea, 2010, p.46-47).

### **3. POLICY AND RISK MANAGEMENT IN THE UNIVERSITY DEPARTMENTS**

Information is an element that improves knowledge about reality and the chances of making a good decision. It is estimated that there are risk circumstances when a decision should be made based on incomplete information. But even in this context of incomplete information, the managers of university departments are able to calculate the probability of events, and also of results and their accounts, then selecting the most suitable alternative. Probability can be determined in two ways, subjectively,

based on experience or intuition, or objectively, based on historical data. Making a decision based on probability is a feature of the current management of university departments. The existence of risk circumstance involves a deliberative process. Everyday experience shows that greater risks are assumed in terms of ability, when the subject can not influence the probability of consequences of the chosen variant, only if the result is dependent on the ability of the subject to perform the action.

Any activity, as a form of embodiment of a certain function of the university, it is rational to be carried out in a well-defined policy. Thus, by agreement or pursuant to a decision of the authorizing officer – the rector, each member of the working group who is also the leader of the department (dean, director of the department / research center, etc.) must establish, namely to know the policy that is required to take, including internal control and risk management (Methodological Guidance for the Development of Internal Control in Public Entities, p.30).

The purpose of internal control is to ensure consistency of objectives, identify key factors for success and communicate information on the performance and prospects to the entity managers, in real time. Whatever the nature or size of the entity, the efforts to implement a satisfactory internal control are related to the application of best practices (<http://www.consultingreview.ro>).

The department is the functional academic unit that ensures the production, transmission and exploitation of knowledge in one or more specialty areas (National Education Law no. 1/2011, art. 133, and paragraph 1). As organizational subdivision, the department is formed by grouping, based on objective criteria, a reasonable number of positions under a single authority, within which it is performed, on an ongoing basis, the whole relatively homogeneous tasks, requiring specialized knowledge and use of appropriate methods and techniques.

At the level of university departments, control is exercised through information cycles that compare past information on the results to a standard (procedure), which will be used to manage future performance, convergence of goals and individual values to collective performance, adaptation organizational composition to the current socio-economic environment.

Thus, in university departments, as institutional structures, procedure (regulation) control prevails, specific to public institutions. Changes in recent years in universities (university classification, study programs, the change of framework law, of minimal conditions for obtaining an academic rank, etc.) lead to an environment that can no longer be considered a stable, less competitive, characterized by repetitive, simple and standardized work, involves no particular strategic reflections (Sgârdea, 2007, p.12). However, the specific type of control is mainly operational control manifested by controlling compliance with standards, rules and procedures (Tabără, 2009, p.83).

Malfunctions, deficiencies, weaknesses or errors that may be found in the operation of public entities, will always find their cause in the fault of one of the internal control tools implemented by management, or the failure to implement another, later set as needed. It is very important that the internal control system is built with the same tools for all university departments.

The content of risk management at the level of university departments consists of a systematic process of knowledge of potential factors that threaten the department security, measuring their severity, reducing the effects by prevention, transferring those effects that can not be managed by the department itself to departments specialized in risk management (risk management department).

Internal management control is the responsibility of the executives in the university departments, which are required to implement it and to continuously improve it.

The risk monitoring committee coordinates the updating process of objectives and activities to which we can associate performance or outcome indicators, analyze and prioritize significant risks, analyzes in order to obtain the approval, giving information regarding the performance monitoring on the department. Since 2016, the head of the department is assisted in the risk management process by a person who is responsible of risks (Order of the General Secretary of the Government no. 200 of 2016, art. 5).

The heads of departments prepare quarterly the self-assessment questionnaire to check and self-assess their own system of internal management control, and to determine the degree of compliance with the internal management control standards.

The purpose of the department management is to maximize the probability of success of an activity undertaken within it, by increasing the chances of improving performance and at the same time, reducing the chances for unexpected developments. The success of an activity means that the activity is feasible from an educational, economic, technical point of view, etc.

#### **4. RISK MANAGEMENT TECHNIQUES**

Optimal operation of universities, based on an integrated internal control framework, requires a proper control environment to promote ethical values, to be transparent, to accept standards of good practice and to establish responsibilities in line with the strategies and policies approved by the high level management (Ghita et. al., 2009, p.106).

The general objectives of internal control are designed to achieve, at an appropriate level of quality, the duties of the universities and the existing within structures, established in accordance with their mission in terms of regularity, effectiveness, economy and efficiency; the protection of public funds against losses due to error, waste, abuse or fraud; compliance with laws, regulations and management decisions (Government Ordinance no. 119/1999, art. 3). To these we can add development and maintenance of systems for collecting, storing, processing, updating and dissemination of financial and management data and information, as well as systems and procedures of adequate public information by periodic reports.

Particular attention, within internal control, should be paid to risks, especially since it is not possible to set some permanent, topical rules, for each situation encountered. Each department must have a system of risk analysis and evaluation, by defining the objectives and the conditions necessary for managing change, identification of risk location, undertaking necessary actions to mitigate them.

Why?

Because there are risks in any business, namely uncertainties of results or actions to be taken on the segment of the possibility of something happening and the impact that could be caused by realizing this possibility.

Currently, in Romania, there are implemented fundamental processes of risk management in all public sector organizations under the regulations, but the real challenge lies in successfully building and implementing internal control systems of activities conducted in these institutions.

Thus, the rector of the university establishes the measures necessary to design and develop the internal control management system, including the establishment of a structure responsible in this regard (The Order of the General Secretary of the Government no. 400/2015 approving the Internal Management Control Code for public entities, art. 3) respectively, the monitoring committee (Order of the General Secretary of the Government no. 200/2016, art. 3).

The implementation development status of the internal control and management systems in universities and the special situations, found in the monitoring, coordination and methodological guidance situations, are the information subject for the Ministry of National Education and Scientific Research.

From April 2016 the methodological norms regarding coordination, methodological guidance and supervision of the implementation status and development of internal control management in public entities were transposed practically including the universities.

Their purpose is to control “regulatory activity of the politics in the internal management control system through the reality verification activities and the accuracy of reporting and methodological guidance of public entities in the implementation and development of the internal control management system” (The Order of the General Secretary of the Government no. 201/2016, p.2.2.).

Risk approach at university level and university departments should be made through the characteristics of this type of organizations: achieving social objectives, use of public capital, the importance of the budget process, managers’ accountability on the implementation of internal control system.

The objectives of university structures are derived from the general ones established, with three elements as milestones (The Order of the Ministry of Public Finance no. 946/2005, annex no. 1, paragraph 1), namely effectiveness and efficiency of operation, reliability of internal and external information and compliance with laws, regulations and internal policies. The probability that the risk may materialize with the expected impact contributes to establishing its value.

As in all public organizations, in public institutions of higher education there are few decisions made under certainty. A decision always involves a prediction. Therefore, the function of decision making is to select courses of action for the future (Horngren, 1982, p. 364).

The analysis of action-result ratio (Figure 1) involves maximizing the probabilities and consequences of positive events and minimizing the probabilities and consequences of negative events.

Action state	Result possibility
Certainty	There is only one result for each alternative and there is complete and accurate knowledge on it.
Risk	There are several possible results for each alternative and each can be attached to a value or a probability of achieving results.
Uncertainty	Number of results, values and probabilities is not known.

Source: C. Ceocea, *Risk in management activity*, Economica Publishing House, Bucharest, 2010, p. 45

**Figure 1. Action-result ratio**

The risk is quantified by probabilities and is evaluated by its consequences, but these consequences can be reduced substantially by risk management. It requires anchoring to a performance operating scheme of cause-effect relationships. Risk management means all operations seeking to limit losses that can affect an organization, group or person (Ceocea, 2010, p. 46).

Among the new techniques the manager of an institution may use in risk management may include preference theory, decision tree and risk analysis. The extent, to which an institution manager uses such techniques to improve the quality of decisions subject to uncertainty, depends on many coordinates, not always subjective.

Preference theory is an interesting tool with practical value, developed by the decision theory, which develops and supplements the statistical probability techniques (Simionescu et. al., 2006, p.68), but pure statistical probabilities, as they apply for the decision, are based on the questionable assumption that the decision-makers respect it. The attitude towards risk varies by event, by individual and by hierarchical position occupied. To assign probabilities the practical significance in decision making, a better understanding of risk aversion is useful.

Most managers fall into the category of those with risk aversion. It varies not only in relation to the individual, but also in relation to the size of the risk, the hierarchy or the fund source of the managed organisation (public or private). Even if fear of failure is the same, research has shown that managers of private equity companies are not prone to risk, while managers in public institutions assimilated risk to another level, being rather inclined to adopt decisions set by other decision-making bodies (senate, board of directors) than to assume them individually.

Virtually, every decision is based on the interaction of a number of critical variables, many of which having an element of uncertainty, but a high degree of probability. Risk analysis tries to find a probability distribution curve for each critical variable of a decision problem.

Decision tree method is applied to decision-making situations of great complexity, involving random events that occur in sequence. Decision-making processes are described through them as diagrams in which future events condition the decision, determining a set of values on the results of each considered decisional alternative. What characterizes the decision tree is its simplicity rendered in the virtual presentation.

Risk management seeks to maximize the success probability of the activity undertaken in an entity, by increasing the chances of improving performance and reducing those of unanticipated evolution.

It includes a wide range of rigorously defined and organized activities, based on existence conditions and fundamental objectives of the public entity, as well as analysis of risk factors in an optimal and efficient operating concept. In this respect, it is necessary to define the acceptable level of exposure to these risks; assessing the probability that the risk will externalize, the size of its impact; monitoring and evaluation of risks and the adequacy of internal controls to risk management; checking the budget execution reporting.

A sensitive issue in implementing and developing the internal management control system is the correct and complete identification of all the risks associated with the objectives that were set at the institutional level. Building the internal management control system is a long process, which requires the involvement of all management structures, but also overcoming the current issues such as insufficient training of persons dealing with the implementation of the internal management control system (department managers operating in various knowledge segments, who need an adequate training with a clear and concise indication of the purpose of that process in order to avoid questions like „Why should we still do this?“), ineffective delegation of responsibility, lack of motivation etc.

Although the conditions under which decisions are made are varied, there are some common elements to all management decisions. Presumption of risk and uncertainty is mirrored in decision definition. A decision means choosing a variant of a number of alternatives, preferably optimal, and the rational decision-making process consists of a series of steps that managers follow, either formally or on the basis of intuition, but always under risk and uncertainty. A good manager must be realistic when deciding and optimistic when implementing the decision.

## **5. CONCLUSIONS**

Present means dynamism and challenge, but also the opportunity to assert oneself by the noble and responsible work of training future specialists in all fields of knowledge. Teaching and scientific activity of the department aims at a development direction, whose coordinates are value, initiatives, stimulation, responsibility and competence.

For most people, the word ‘risk’ has negative connotations, but for some areas (investment, information technology), risk is one of the key factors of success. It is certain that at the level of any entity, risk is not an abstract but a real variable, its consequences can be estimated and its causes can be reduced. All these concern a new field, relatively new and developing, that of risk management.

Risk approach, as opportunity is recent and has generated a number of concerns, including at the level of higher education institutions. Gradually, these entities were required to address the issue of establishing risk response strategies. Management and risk management come with systematic solutions for solving problems occurred in crisis situations in institutions.

The benefits of implementing a risk management system include: creating and protecting value in the institution by exploring the best opportunities and avoiding threats, ensuring compliance with risk management legislation, increasing the

confidence of the institution. Concerns for an effective risk management have intensified in the public domain; the variety of categories of risks faced by this sector requires the use of new methods of streamlining decision making process under risk.

The management of university departments should be the promoter of change, allow transparency and take responsibility for the risks within this organizational structure, understand that risks can not be avoided, but should be kept to an acceptable level. Naturally, the process of risk management in universities and their departments are start-ups. However, it is very important that the policy of small steps lead to a performant university management.

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