

CONTROL OF INTERNALLY GENERATED FUNDS IN GOVERNMENT HOSPITALS

GRACE ODOOM

MAY 2008

Investigating Report submitted to the Business Administration Department of
Christian Service University College in partial fulfilment of the requirements for the
degree for Bachelor of Business Administration.

Supervisor:

Mr. Hayford Nsiah

ABSTRACT

This study evaluates the financial controls on internally generated funds in three government hospitals in Kumasi. Critical examinations were conducted on the internal controls of each hospital to ascertain their effectiveness and efficiency. While most of the controls from revenue generation to accounts management were similar due to policy directives from the ministry of health, the hospitals reserve the right to implement other control activities to attain the control goals set by the Ministry of Health. The results suggest that the controls on the internally generated funds are strong and leave little or no room for losses due to errors in processing, embezzlement and fraudulent acts. The increases in revenue from the mobilization points after the introduction of new control procedures such as swapping seem to suggest that the existing controls are more efficient than the previous ones. The evaluation further suggests the use of electronic ticketing systems and the computerisation of the whole financial setup will further improve the revenue mobilization and internal transactions.

TABLE OF CONTENT

ABSTRACT	-----	III
ACKNOWLEDGEMENT	-----	IV
TABLE OF CONTENT	-----	V

CHAPTER ONE

INTRODUCTION

1.0	Background of the Study	-----	7
1.1	Statement of the Research Problem	-----	8
1.2	Objectives of the Research	-----	8
1.3	Research Question	-----	9
1.4	Methodology	-----	9
1.5	Significance of the Research	-----	9
1.6	Limitations of the Research	-----	10
1.7	Organization of Research	-----	11

CHAPTER TWO

LITERATURE REVIEW

2.1	Definition of Terms	-----	12
2.2	Internal controls in an organisation	-----	13
2.3	Components of Internal Control	-----	15
2.4	Internal Controls and Financial Transactions	-----	16
2.5	Factors to Consider when Instituting Internal Controls	-----	18
2.6	Authorisation Procedures and Related Responsibilities	-----	19
2.7	Limitations of Internal Controls	-----	19
2.8	Conclusions	-----	21

CHAPTER THREE

METHODOLOGY OF RESEARCH

3.1 Research frame work	-----	22
3.2 Population and Sample	-----	22
3.3 Sampling Technique	-----	22
3.4 Data Collection Instrument	-----	23
3.5 Data Collection Methods	-----	23

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 Background Analysis of Data	-----	24
4.2 Analysis on Management Systems	-----	24
4.3 Interview Results	-----	25
4.4 Analysis of Interview Results	-----	29

CHAPTER FIVE

CONCLUTIONS AND RECOMMENDATIONS

5.1 Summary of Findings	-----	32
5.2 Conclusions	-----	32
5.3 Recommendations	-----	33
References	-----	34
Appendix A	-----	35
Appendix B	-----	

CHAPTER ONE

INTRODUCTION

1.0 Background of the Study

There is a growing concern on the issues of embezzlement and misappropriation of funds in some public institutions, in light of recent auditor general's report for the year 2004 which was made public. In all government institutions in the country however, there are laid-down rules and regulations (controls) instituted to guard against fraud, creative accounting and organized theft. In spite of these measures put in place; there still exist the practices of creative accounting, fraud, embezzlement, misallocation and the misuse of funds. This therefore calls for stricter control of funds flowing in and out of these public institutions.

Prior to 1992 the health system in Ghana was a universally accessible national health service, where the services provided by the hospitals were virtually free. Funding for the hospitals were from government and donor sources only but were inadequate. Therefore acting upon the advice of the World Health Organization to the Ghana government in 1992, the 'cash and carry' system, in which all patients attending government hospitals had to pay in full for drugs and services was introduced. This system brought about the generation of funds by the hospitals and the revenue generated was to be used for the running of the hospitals. The need to ensure an efficient collection and expenditure structure was paramount and therefore financial controls on the internally generated funds were instituted to prevent loss of funds.

For this reason this research seeks to examine the laid-down rules and regulations, instituted to guard against loss of funds through errors, fraud and organized theft in some government institutions hospitals. This research however focuses on the internal ones which check the internal handling of funds and revenue.

1.1 Statement of the Research Problem

Although control mechanisms have been instituted in all government institutions to guard against, and to detect fraud and any material misstatements in accounts, there still exist these activities. This may stem from the neglect of simple standard procedures, to sophisticate organized systems, which elude the control mechanisms.

There is therefore the need to periodically assess and modify where necessary, the control mechanisms to conform to the changing trends and technology. In light of the above, it was seen that this research is necessary and pursued.

1.2 The Objectives of the Research

This study will examine the internal control mechanisms in some government hospitals in Kumasi, namely the Komfo Anokye Teaching Hospital, Suntreso Hospital and Tofo Hospital. The examination will seek to identify the strengths and weaknesses in the controls and suggest possible remedy for improvements. This will be achieved by assessing the effectiveness or otherwise of the internal controls instituted in the hospitals. The research aims to:

- a. Determine the sources of internally generated funds,
- b. Analyze the forms of internal controls,
- c. Determine the accuracy and validity of transactions vis-à-vis the laid down controls.
- d. Suggest possible improvements in the control mechanisms.

1.3 Research Question

An analysis of the objectives of the research and review of literature indicated that, the following research questions were appropriate to form the focus of the study:

- a. How does segregation of duties, as pertaining to the institutions affect the internal control functions?

- b. With reference to laid down controls, how efficient and effective are the internal financial control operations?
- c. What are the necessary changes that can be made to improve the controls?

1.4 Methodology

The research is limited to some selected government hospitals in the Kumasi metropolis. The selection included; the Komfo Anokye Teaching Hospital, Suntreso Hospital and the Tafo Hospital. The selection process was not random, but involved a careful consideration of the size, geographical location and rate of attendance. Though all hospitals in the metropolis were not involved in this research, it is hoped that the findings will be applicable in most, if not all government hospitals.

Both primary and secondary sources of data were employed in this research. The primary data shall was collected through interviews and the secondary data shall was sought from the hospital administration. Direct interviews on a structured questionnaire were conducted to gather the needed information for this research. Direct interview was chosen, because of the fear that relevant questions bordering on issues of fraud and misappropriation of funds, may not be willingly given if respondents were to answer a questionnaire. But with the direct interview leading questions could probe further for “rough estimates” to give a general view of the situation. However in cases where it became impossible to conduct the direct interview, the questionnaire was given out and then collected at a latter date.

The purposive sampling technique was used to select five respondents from the senior staff and two respondents from the junior staff of each hospital. The purposive sampling technique was chosen because; it gives the best people who are in charge of the controls in the institution. This was done without the prior knowledge of any worker so that the information gathered would be true.

1.5 Significance of the Research

This research seeks to bring to light, the factors that influence top level management in the setting of specific internal control mechanisms in the hospitals. The responds of personnel to the control, leading to it's success or otherwise. Recommendations are suggested to improve the existing controls.

It is hoped that this research will be of great benefit to the following:

- a. the researcher, through this research will gained insight into how internally generated funds or revenue are controlled in government hospitals and through a careful study make some suggestions.
- b. the hospitals, could also use this research material as an independent source, to assess their internal control mechanisms to ascertain their effectiveness and efficiency. And may further adopt some of the recommendations for improvements where necessary.
- c. future researchers, who may be interested in the topic “ Internal Control Mechanisms ” could also make use of the information in this material, and
- d. the government through the ministry of health, may use this material as an independent source to evaluate how revenue is controlled.

1.6 Limitations of the Research

- a. The short period for this research could not allow for a more detailed research covering many hospitals as possible.
- b. Lack of financial support prevented the purchase of some data on fraud which could have made this work more meaningful.
- c. Some respondents were not being willing to give detailed information on the internal control mechanisms for security reasons.
- d. Respondents were reluctant and unwilling to give out information on embezzlement and fraud in their institution for the project.
- e. Some respondents could not be interviewed directly and therefore had to respond through the questionnaires.

1.8 Organization of the Research

This research work has been categorized into five distinctive chapters.

Chapter one deals with the introduction, statement of the research problem, the objectives of the research, the research question, methodology, significance of the research and the limitations of the research.

Chapter two deals with the literature review which involves, definition of terms, internal controls in an organization, components of internal control, internal controls and financial transactions, factors to consider when instituting internal controls, authorization procedures and related responsibilities, limitations of internal controls and conclusions.

Chapter three looks at the methodology of the research, which also involves the research frame work, population and sample, sampling technique and data gathering instrument.

Chapter four deals with data presentation and analysis, which also includes; background analysis of data, analysis of management systems, interview results and analysis of interview results.

Chapter five which is the last chapter of this research, finally deals with the summary, conclusions and recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.1 Definition of Terms

Control defined: control as used in every day language has a wide range of meanings or connotations. Funk and Wagnalls (1967) defined control as “to exercise a direct restraining or governing influence over” or “to check an account by means of a duplicate register, verify or rectify” or “one who or that which controls” in their standard dictionary. By the first and third definitions, control is seen as a point of domination, the person in control is the one who has the power to enforce his/her ideas on others. However the second definition views it as a point of regulation.

In the case of Merchant (1990) “control is the process that helps ensure the proper behaviours of people in an organization, which should be consistent with the organizations policies”. Control is seen here as taking preventative measures to keep things in the organizations on track.

Internal control is defined as a process, effected by an organizations board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: effectiveness and efficiency of operations, reliability of financial reporting and compliance with laws and regulations (Changchit, Holsapple & Madden 2001:438).

The above definition suggests that internal controls within an organization function as a process, a measure and an organizational tool in making sure that the organization accomplishes its obligations, objectives and mandate. This involves, reporting on authentic and reliable financial information, inefficiencies and effectiveness of the organizational operations and its compliance with relevant laws and regulations.

- a. As a process means, internal control is not an end to its self but it is a means to an end.
- b. As a measure means, internal controls set up standards which people in the organization work to keep up with.
- c. Reasonable controls suggest that the internal control can not provide absolute control over the organization. Among others, it could depend on the culture of the organization, which is the management's commitment and zeal to take strategic decisions in order to maintain an effective internal control.

Fraud is the act of convincing another to believe in information that is not true for personal (financial) gain. This arise when the fraudster do not have direct access to the funds and therefore has to present a doctored or false information to gain access to it.

Embezzlement is the act of dishonestly appropriating goods, usually money, by one to whom they have been entrusted. It may start from a cashier with a few cedis to the chief executive officer with millions of cedis.

2.2 Internal Controls in an Organization.

Organizations set up their own internal controls with specific objectives in mind. These controls are simply 'dos and don'ts' that govern operations or transactions in the organization. The controls covers all methods, procedures and arrangements which are instituted or adopted to ensure as far as possible; the accuracy, completeness, reliability, safe guarding of assets and accounting records, the promotion of operational efficiency and adherence to management policy.

Applegate & Wills (1999:1) state that according to the Committee of Sponsoring Organizations of the Tradeway Commission (COSO), the three primary objectives of an internal control are to ensure; efficient and effective operations, accurate financial reporting and compliance with laws and regulations.

I. Efficient and effective operations

These are the two criteria for measuring the performance of responsibility center. These are almost used in a relative rather than in absolute terms. It cannot be said that an establishment is say 50% efficient, rather it is more or less efficient than budgeted.

- a. Efficiency is the ratio of a responsibility center's output to its input that in output per unit of input (Robert & David 1975). Unit A is more efficient than B if it uses: fewer resources than B but has the same results, same resources as B but has more output.

The measure of efficiency does not require us to quantify output; it only requires a reasonable judgment that the output of two units is approximately equal. If management is satisfied that unit A and B are both doing a satisfactory job and if their jobs are comparable magnitude, then the unit with fewer inputs (lower cost) is more efficient. (Robert & David)

- b. The relationship between a responsibility center's output and it's objectives is an indication of effectiveness. The more its output contribute to it's objectives, the more effective a responsibility center is, since both attitude and success in meeting objectives may be difficult to quantify, measures of effectiveness are difficult to obtain. Effectiveness is therefore usually expressed in qualitative judgmental terms, such as "a colleague A is doing a first rate job" or "colleague B has slipped some what in recent years".

An organizations unit should attempt to be both efficient and effective; it is not a matter of being one or the other. A manager who meets a responsibility center's objectives with the least resources may be efficient, but if the centers output is inadequate in it contribution to the units' objectives, the manager is ineffective (Robert and David).

II. Accurate financial reporting

The success of every organization be it profit or non-profit making depends on a sound financial base. Therefore internal controls ensure that accurate financial reports on all transactions are presented on time.

III. Compliance with laws and regulations

The government has enacted laws to regulate how organizations operate within her boundaries. There are laws on auditing, taxation, transfer of funds, spending, purchasing and supply, remunerations, etc. Therefore internal controls ensure that, the organizations operations are within the laws of the land.

2.3 Components of Internal Control

Internal control system consists of five components that are interrelated to each other. For these components to be effective, they have to be integrated into the organizational objectives, vision, and mission and with the basic managerial processes and principles, like planning, organizing, leading and evaluation. The components are:

a. Control environment

The control environment sets the tone of an organization and influences people within the organization. Within this component, integrity, ethical values, competence of the personnel, management philosophy, operating style and the way management assigns authority and responsibility are important.

b. Control activities

At this level policies and procedures that help to ensure management directives, are carried out. They are formed to offset risks that help the organization to achieve its objectives, and occur throughout and at all levels and functions. These activities include approvals, authorizations, verifications, reconciliations, reviewing operating performance, security assets and segregation of duties.

c. Information and communication

Relevant information regarding controls should be shared within an organization at periodic intervals so that people are able to carry out their responsibilities effectively.

Effective information systems that are able to produce reports contain operations information and compliance-related information should be instituted. People in the organization must be motivated and informed of their role in the internal control system.

d. Monitoring

The internal control system must be monitored. This is the process that accesses the quality of the system's performance over time. The monitoring process can take place in the course of operations or at separate evaluation periods or both. Monitoring includes regular management and supervisory activities other actions personnel take in performing their duties. Internal deficiencies identified should be reported to the top management.

e. Enforcements and variations

From the monitoring and evaluation stage, necessary disciplinary measures, training of personnel or variations to the control are applied to strengthen the existing control.

2.4 Internal Controls and Financial Transactions

Internal controls may be described in terms of, the objective they pertain to and the nature of the control activity itself.

a. Objective categorization

The specific target used to determine whether a control is operating effectively is called the control objective. Control objective fall under several detailed categories; in financial auditing, they relate to particular financial statement

assertions, but broader frame works are helpful to also capture operational and compliance aspects;

- i. *Existence or validity*: only valid or authorized transactions are processed, that is all invalid transactions are rejected.
- ii. *Occurrence or cut-off*: transactions occurred during the correct period or were processed timely
- iii. *Completeness*: all transactions are processed without any omissions.
- iv. *Valuation*: transactions are calculated using the appropriate methodology or are computationally accurate.
- v. *Rights and obligations*: assets represents the rights of the company whiles liabilities its obligations, as of a given date.
- vi. *Presentation and disclosure*: components of financial statements or other reporting are properly classified (by type or account) and described.
- vii. *Reasonableness*: transactions or results appear reasonable relative to other data trends.

For example a control objective for an accounts payable function might be: “payments are only made to authorized suppliers or vendors for goods and services received”. This is a validity objective. A typical control procedure designed to achieve this objective is “the accounts payable system compares the purchases order receiving record, and supplier invoice prior to authorizing payment”.

b. Activity categorization

Control activities may also be described by the type or nature of the activity. These include (but are not limited to):

- i. *Segregation of duties*: separating of authorization, custody and record keeping roles, limit the risk of fraud or error by one person.
- ii. *Authorization of transactions*: review of particular transactions by an appropriate person such a supervisor may also limit the risk of errors or fraud.
- iii. *Retention of records*: maintaining documentations of transactions ensures transparency.

- iv. *Supervision or monitoring of operations*: include observation or review of ongoing operational activity, serve to correct errors timely.
- v. *Physical safeguards*: usage of cameras, locks, physical barriers, ect., in protecting property, ensure that unauthorized personnel do not have access to the property.
- vi. *Analysis of results*: periodic and regular operational reviews and, the use of metrics and other key performance indicators help to measure the quality of operations.
- vii. *Information technology security*: usage of passwords, access logs, ect ensure that access are restricted to authorized personnel only.

From the above it is relised that, management is responsible for implementing appropriate controls that apply to transactions in their areas of responsibilities. Internal auditors perform their audits to evaluate whether the controls designed are been implemented effectively in addressing the relevant objectives.

2.5 Factors to Consider when Instituting Internal Controls

Any internal control measure instituted in an organization must have the following characters:

- a. **Timeliness**: An internal control system should detect potential or actual deviations early enough, ensuring that management can take corrective action timely to limit unnecessary cost.
- b. **Economy**: Although an internal control system should provide assurance that the objectives of an institution are achieved, it should also ensure minimum cost and the least desirable side effects as possible.
- c. **Accountability**: An internal control should ensure that staffs are held accountable for their assigned responsibilities. This can be achieved by applying prescribed procedures.
- d. **Flexibility**: Changing of work environment is inevitable. Therefore internal controls should be designed to accommodate changes without themselves requiring change.

- e. **Appropriateness:** Internal controls should fit into the personnel and organizational structure of the institution.

2.6 Authorization Procedures and Related Responsibilities

Proper authorization procedures involve assigning responsibilities, so that only proper authorized activity takes place in the organization. The person responsible for such activities and the related assets are identified at every step in the process. Basically this element of internal accounting control should ensure that transactions do not occur without sufficient authorization.

For some transactions, this authorization can be general. For example; a sales clerk in a department store has a general authorization to make sales of a particular goods using a particular cash register and keying a specific clerk number. The authorization for other transactions is likely to be specific; whether the authorization is general or specific, the control concept remains the same.

Some one should be responsible for all activities in which an organization engages. Unless some one has authorized and assured responsibility for an action, that action should not be taken by the organization. Correspondingly, after some activities have occurred, it should be possible to determine who authorized it and therefore is held responsible.

2.7 Limitations of Internal Controls

No internal control, however elaborate and extensive can by itself ensure efficient administration and reliability of financial records, nor can it be a wall against fraud. Some limitations of internal controls are:

- a. The design of internal control systems faces resource constraints. Sometimes the control concept may need equipments like computers, networking, cameras etc. Which the budget may not be able to support.
- b. Internal control which depends on division of labour (segregation of duties) can be abused or thwarted by those involved. Authorization control can be misused by the person in such position in whom authority is inherent. (Okai 1996).

- c. "Managers can avoid some control problems by trying to eliminate the risk of undesired behaviors by ensuring such risks are passed unto others who can control them" Emmanuel C, Otley D and Merchant K.(1990). Avoidance possibilities as stated by them are as follows;
- viii. *Centralization*; Top level management usually reserve some important decisions for themselves. Control however is not a problem in these areas because only a small group is involved, however in a larger and complex organization, only a limited number of decisions can be centralized before stifling reduces the effectiveness of such a strategy.
 - ii. *Elimination of an entity or organization*; Managers without a means to control certain activities, (perhaps because they do not understand the process involved well enough) can eliminate the associated control problems by changing the activities and restricting their operations to activities they are confident can be controlled.
- d. Organizational changes and management attitude can have a profound impact on the effectiveness of internal control and the personnel operating the system. It is therefore important that management should continuously review and update the control, communicate the changes to personnel and set example of adherence to those controls.
- e. Internal controls depend on the 'human factor', it is subject to flaws in design, errors of judgment or interpretation, misunderstanding, carelessness, fatigue, distraction, collusion, abuse and override which are associated with people.
- The human factor has been a major problem regarding the limitations of internal controls. It is because people within an organization sometimes prefer a short cut at operational level by undermining internal system or procedure. It is important to monitor internal controls because the human factor is able to affect internal controls negatively and this becomes detrimental to an organization.

2.8 Conclusion

It can be concluded from this chapter that internal controls are very important in organizational structures to set the tone for operations, in preventing errors and detecting fraud. Controls ensure that all transactions and preparation of financial statements are in accordance with relevant legislation and accounting standards.

However it is also noticed that internal controls can only provide reasonable, but not absolute assurance in achieving the organizational objectives. Also fraudulent collusions and abuse of authorization of controls are some of the limitations that hinder the effectiveness of these controls. The most mitigating factor known as 'the human factor' determines a control's success or otherwise.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter deals with the methods used to collect data for the study. It includes research framework, population and sample, sampling technique and data collection instrument.

3.1 Research Framework

This research work is an assessment and evaluation type. The assessment part of the research oversees and describes the controls that exist at the time of this research. The assessment sought to bring to light the control systems in place at each hospital. The evaluations also sought to make judgment about the effectiveness and efficiency of the control systems in each hospital.

In combining these two research designs, it is hoped that the assessment will expose the conditions of the controls thereby making the judgment of their efficiency and effectiveness very meaningful.

In this research, the specific objective 'financial controls' from each hospital was assessed independently. The assessment was based primarily on information gathered through the interviews and data obtained from the administration.

The evaluations were also based on information from the interviews, data from administration, personal observations and informal interviews.

From the evaluations conclusions were drawn to show how efficient or effective the controls are, suggestions were then given to improve the system as it pertains in the hospital. By this method conclusions drawn every meaningful and true.

3.2 Population and Sample

The population of the study was a selected part of the six major government hospitals in the Kumasi Metropolis. The population was chosen because is limited

to the Kumasi metropolitan area. The six hospitals forming the population include the Komfo Anokye Teaching Hospital, Suntreso Hospital, Tafo hospital, Manhyia Hospital, Kumasi South Hospital and the Kwame Nkrumah University of Science and Technology Hospital.

Out of the six, three of the hospitals were selected randomly for the research. They include the Komfo Anokye Teaching Hospital, Suntreso Hospital and the Tafo Hospital.

3.3 Sampling Technique

The purposive sampling technique was used in selecting five respondents from the senior staffs and two from the junior staff of each hospital. These five were considered, because they are the people who are directly involved in the formulation, implementation and application of various accounting rules and regulations. The two junior staff members were also selected because they constitute the people who operate within the controls, but have no authority to change or manipulate them. This was done without prior knowledge of any worker so that the information gathered would be true.

3.4 Data Gathering Instrument

Under this research both primary and secondary source of information were used in obtaining data. Structured interview questions were designed to contain both open and close ended questions. Direct interviews were conducted for most respondents because it gives the opportunity for extracting relevant questions which otherwise might have been misunderstood or neglected. In other situations it gives the opportunity to ask for estimates or rough projections when respondents are uncomfortable in giving real figures. Though time consuming, it gives the opportunity to prior for further information on answers which otherwise could not have been answered, by requesting for estimates, thoughts, feelings etc.

In some cases it became impossible to conduct direct interviews therefore questionnaires were employed to attain the relevant information.

Interview dates were first booked and followed up on the interview day. The interviews were based on a questionnaire. Respondents who could not be interviewed were rescheduled for another date and those that could not be interviewed the second time were contacted by phone and given the questionnaire. Respondents who answered the questionnaire were given one week to complete them, after which they were collected.

CHAPTER FOUR

DATA ANALYSIS

4.0 Background Analysis of Data

In this research three out of the six government hospitals in the Kumasi metropolis were selected. The research was limited to the Kumasi metropolitan area for reasons such as time and logistical constraints. For each hospital a total of seven people were interviewed, with two from the junior staff and five from the senior staff. In all a total of twenty-one people responded to the interviews. Fifteen respondents were directly interviewed while the remaining six responded through the questionnaire. The respondents were purposely selected because of their functions in the financial control procedures. The senior staff members selected from each hospital for this research are people who have a hand in the formulation and implementation of various accounting controls, while the junior staffs are the people who work with or within the controls. It was observed that the persons interviewed have been in post for a considerable number of years ranging from a minimum of four to a maximum of fifteen years.

4.1 Analysis of Management Systems

From the information gathered, the management systems of the hospitals are run with a general policy direction from the Ministry of Health through the Ghana Health Service. The management system of a hospital is made up of the board of directors, executive management and directorates or units.

The board of directors provides a governance, guidance and oversight to management. The boards are constituted by, three government appointees, the chief executive officer, medical director, director of administration, director of finance, director of pharmacy, director of nursing services and a secretary to the board.

The board is followed by the executive management which consists of five members from the board with the chief executive as the head. The executive management members include the chief executive officer, medical director, and director of

administration, director of finance, director of pharmacy and the director of nursing services.

Management is further decentralized into directorates or units. The units aim at giving some level of autonomy and control to the operational levels of the hospital. They provide crucial support to management to ensure the smooth running of the hospital. The directorates include: the human resource management unit, Biostatistics unit, Supply Chain Management Unit, Quality Assurance Unit, Internal Audit Unit, Security Unit, General Administration Unit and Public Relations Unit.

4.2 Interview Results

a. Sources of revenue

From the interviews conducted it was observed that revenue for government hospitals are from the following sources:

- i. Government of Ghana budgeted funds from the consolidated fund, distributed through the ministry of health every budget year for the running of the hospitals,
- ii. Internally generated funds from services and projects undertaken by the hospitals with approval from the ministry of health and
- iii. Donations and grants from persons, institutions and donor agencies.

It was further observed that internally generated revenue are from six service points which include the following;

- i. The records section which is the first point of call for all patients,
- ii. Consultations, this is the point where a consulting fee is paid before meeting the doctor,
- iii. Pharmacy department, where drugs are sold to the public,
- iv. Laboratory services, including x-rays, scanning services.
- v. Mortuary services such as embalming, autopsy and freezing.
- vi. Other services such as warding and catering rendered to in patients, etc.

Table 4.1 below shows the percentage contributions of revenue from service points to total internally generated funds from the hospitals.

Table 4.1

percentage contributions of services rendered to internally generated funds (IGF) from the three hospitals.

Service Center	% composition to total IGF from KATH	% composition to total IGF from Tafo Hospital	% composition to total IGF from Suntreso Hospital
Records	6.8	11.4	10.8
Consultations	11.1	19.7	15.8
Pharmaceutical	28.2	33.8	35.3
Laboratory	21.5	25.3	26.1
Mortuary	14.4	*	*
Others	18.0	9.8	12.0
Total	100%	100%	100%

** Mortuary service is not available in this hospital*

From table 4.1 it is observed that revenue mobilization is not from a single source but from the different service points. At the Komfo Anokye Teaching Hospital for example, there are about thirty mobilization points from where people pay to asses services. This therefore calls for a strict control regime to prevent losses at all these points.

b. Revenue mobilization and expenditure

A cashier at a point of mobilization collects the amount payable for the service and in turn issues a receipt to that effect. After close of work, the cashier pays to the accounts office the total amount relised for the day or shift with the receipt duplicate as evidence. The accounts office upon closure for the day then sends the revenue to the bank the same day. This shortly describes how revenue from the service centers get into the hospitals accounts. It was observed that this system was practiced in all three hospitals.

From the interviews it was also noted that the internally generated funds (IGF) were used for the same purposes in all three hospitals. The funds are used for the following;

- Procurements such as the purchases of machinery, tools, pharmaceuticals etc.
- Paying for services rendered to the hospital such as utilities, consultancies, etc.
- Enumerations for workers hired by the hospital but are not on the central governments pay-roll,
- Projects such as building of new structures, repairs of offices and worn out structures,
- Payment of allowances for personnel attending seminars, workshops and training to upgrade their quality of service at the hospital and
- Other expenditure such as, petty expenses, etc.

Table 4.2 below shows the percentage expenditures from the hospitals.

Table 4.2 *Percentage expenditure from the hospitals on internally generated funds*

Purpose	% expenditure from KATH	% expenditure from Tafo Hospital	% expenditure from Suntreso Hospital
Procurements	50	55	52
Services	14	11	13
Enumerations	5	7	6
Projects	20	18	20
Allowances	7	5	5
Others	4	4	4
Total	100%	100%	100%

c. Accounts management and procedures

The signatories for the hospitals accounts are as follows:

Komfo Anokye Teaching Hospital- Financial director, Chief executive officer, medical director, and director of administration, director of pharmacy and the director of nursing services.

Suntreso Hospital- Financial Director, Chief executive officer, medical director, and director of administration, director of pharmacy and the director of nursing services.

Tofo Hospital- Financial Director, Chief executive officer, medical director, and director of administration, director of pharmacy and the director of nursing services.

From the above, it is noticed that the signatories for the accounts of all the hospitals are people of the same position and is influenced by the general policy direction from the health ministry. These people by virtue of their position and work function hold in trust the accounts of the hospitals and it was further noticed that all cheques are drawn against only authorized expenditure.

From the interviews the procedure for withdrawals and transfer of funds is summarized below.

- i. Documents covering the transfer or withdrawal is prepared by the finance office and then sanctioned by the finance officer.
- ii. The documents are then sent to the internal audit section for examination and record purposes. The examinations look for correct cheque number, date, arithmetical accuracy, gross amount and proper description of details. Comments are then made for acceptance or referral.
- iii. Upon the comments from the audit section, the accountant approves the document and the signatories affect their signatures for the cheque to be issued for the transfer or redrawal.

The control procedures for payment of goods and services are as follows:

- i. Goods or service invoice endorsed by the head of department is presented by the department to the finance department.

- ii. Records of the invoice such as vendor or supplier, date of supply, department supplied and the gross amount are taken. Remarks are made and then forwarded to the audit section.
- iii. The audit section makes the necessary examinations, which include; checking for the correct cheque number, date, arithmetical accuracy, gross amount and proper description of details. Also the auditors compare the service or supply invoice to their own records to ensure that the service or supply have been duly provided. Remarks are then made for acceptance or referral.
- iv. Acting upon the comments from the audit section, the accountant approves the document and the signatories affect their signatures for the cheque to be issued for the payment.

d. Audit unit functions

All the hospitals interviewed have an internal audit unit. As discussed in section 4.1 of this chapter, the audit unit is an autonomous directorate within the management setup. The unit is allowed to set its own priorities, prepare its budget and implement its own programmes.

The audit units in the hospitals have contributed immensely in increasing the revenue of the hospitals through its programmes.

- Questions bothering on errors, fraud and embezzlement to loss of funds received a negative responds, which seems to suggest the absence of such activities. However, there was the general acknowledgement of the improvements made by the internal audit unit.

4.3 Analysis of Interview Results

From section 4.1 of this chapter it was revealed that all three hospitals operated the same management system in accordance to the directions of the ministry of health through the Ghana Health Service. The segregation of powers and function with degrees of autonomy within the management structure ensures that the financial and other departments perform with fewer impediments from top managers. This also presents responsibilities and challenges to the units in meeting targets set by top management.

It should be said that this is a positive atmosphere for the institution of effective financial controls.

The hospitals aside the budget support from central government, have other revenue sources that are not fixed. Revenue generated internally is not treated differently but is directed into the hospitals account. Though Data covering the percentage of internally generated funds to other sources could not be obtained, estimates suggested it was between 40% to 45% which is very significant.

The revenue generation centers, which constitute the service points are continually been upgraded to improve the quality of service delivery to internationally accepted standards. This is envisaged to increase the patronage of the services to increase funds generated internally for the running of the hospitals.

In the area of revenue mobilization it was relised that a lot of control changes had already been instituted which has increased the quantum of revenue. Here specific controls such as the following have been put in place:

Control Procedure:

- All people assessing a service must first contact the revenue collector.
- All payments made must be issued with a receipt.
- Any person assessing a service must show the receipt to that effect before the service is rendered.
- The service provider must record the name and receipt number in the record book before proceeding to provide the service.

Control objective:

With this short control procedure is hoped that the situation where people assessed the service without paying for it is removed. This was necessary because many people were provided the services only to relise that they could not pay. This system has made it more of pay to assess which has cut down losses significantly.

Control activities:

The control activities for the above procedure include the following:

- Periodically shifting cashiers at mobilization points to prevent condoning and conniving between the cashier and the service provider.

- Periodic audits of records by comparing cashiers records to the service records.
- Periodic assessments to improve the system.

It is evident that the above control system was instituted when it was realised that attendance to revenue generation ratio was not matching. However this current system can be greatly modified with the use of electronic ticketing system which will be discussed later.

One of the areas which have also attracted a lot of changes in control procedures is the purchasing and supply area. For this purpose a Supply Chain Management Units have been set up in all the hospitals. This ensures that supplies are actually received, before payments are made. The procurement law provides the general directions for purchases. Purchases exceeding a ceiling (an amount) must be opened to competitive tender. The suppliers could therefore be legally charged in the event of inferior supplies, failure to supply or any other problems that may arise.

Most financial transactions within the hospitals are done manually. According to the interviews, there are plans to computerize all hospital operations in a project known as the health sector computerization project, to be undertaken by the ministry of health.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

From the analysis in chapter four and the literature review in chapter three, it can be concluded that, segregation of duties which is a needed component for an effective control system is practiced in all three hospitals. This provides the platform for authorization and responsibility sharing.

The controls as it pertains in the three hospitals have been improving over the years suggesting a more effective control procedure and monitoring systems.

5.2 Conclusions

The objective of this study was to assess the effectiveness and efficiency of the financial controls in the three hospitals. It is noted from the study that;

- The general control procedures are given by the ministry of Finance through the Finance department of the Ghana Health Service. This relationship therefore revealed that the three hospitals are operating almost the same controls.
- From the above analysis, it can be concluded that there is a strong control on the internally generated funds from collection, deposit and expenditure stages.
- A careful observation of the systems suggests that they are more efficient than say five years back. This suggests that control activities must be monitored closely to effect variations where necessary for further improvements.
- Personal observations suggested that the controls are effective as issues that mitigate the increase in revenue have been removed. This is revealed through the confirmation on the increase in revenue to the rate of attendance.

- The involvement of the internal audit unit in approving payments has removed the incidence of errors in payments, since payments are scrutinized.
- The fact that the interviewees could not point out any incidence of a fraudulent act or embezzlement may suggest that the controls are either very efficient or very blind. But the above suggests efficiency.

5.3 Recommendations

The conclusions paint an efficient picture of the controls. However it should be noted that the system as it is relies on good ethical and discipline character of the personnel. From the conclusion drawn in section 5.2 of this chapter, the following recommendations have been made to improve the controls:

- Though the hospitals are waiting for the computerization of the entire health sector, it will be prudent to gradually start the computerization themselves, by using some of the internally generated funds.
- The cashiers should be provided with an electronic ticketing system instead of the current receipt book system. This system is time consuming and less efficient. With the electronic monitoring system, sales can be monitored at any time from the main office.
- Awards should be instituted to reward personnel who follow due procedures in their work, to serve as a motivator for personnel to work within the laid down controls.

References

Arthur, J. 1996. Auditing in the public sector, IRWIN Books term, Chicago, USA.

Emmanuel, Otley, D. and Merchant K. 1990, quoted Rathe, P. 1980, Auditing third edition, IRWIN Books term, Chicago, USA.

Funk, P. And Wagnalls J. 1967. Standard dictionary 3rd edition

Okai, T., 1996. Auditing for you, National Science and Technology Press, CSIR, Accra, Ghana.

Robert, H. And David, W., 1975. Auditing 8th edition. Bell and Bain Publishers, New York.

Changchit, T., Holsapple, K. And Madden F. 2001. Financial Management Concepts, Bay Press, Toronto.

Applegate, A. and Wills S. 1999. Organizational Control Assessments, PPC Books, Cape Town.

Appendix A: Research questionnaire

CHRISTIAN SERVICE UNIVERSITY COLLEGE

DEPARTMENT OF BUSSNESS ADMINISTRATION

PROJECT TOPIC: "CONTROL OF INTERNALLY GENERATED FUNDS IN
GOVERNMENT HOSPITALS"

Research Questionnaire

*(All information given in this questionnaire will be used for academic purposes
only)*

NAME OF INSTITUTION:

NAME OF RESPONDENT:

POSITION:

NUMBER OF YEARS AT POST:

1. Who collects the revenue?

2. From which centers are revenue generated?

a. b.

c. d.

e. f.

3. How long does it take the revenue collected to be deposited at the bank?

.....

4. How often is bank reconciliations prepared and who prepares it?

.....

5. Does the hospital operate the imprest system? ☐ Yes ☐ No

6. If yes how much imprest?

.....

7. Does the hospital grant IOU's? ☐ Yes ☐ No

Financial controls

8. What are the internally generated funds used for?

.....

-
-
9. Who are the signatories to the hospital's account?
-
-
10. Are all signatories needed to validate cheques for withdrawals or transfers? ☐ Yes ☐ No
11. Can one signatory authorize transfers or withdrawals? ☐ Yes ☐ No
12. How long are the signatories tied to the account?
-
13. What is the control procedure for withdrawals or transfer of funds?
- i.....
- ii.....
- iii.....
- iv.....
- v.....
14. What is the control procedure of paying for goods and services?
- i.....
- ii.....
- iii.....
- iv.....
- v.....
15. How purchases are verified vis-à-vis supplies?
-
-
-
-
16. Does the hospital have an internal audit unit? ☐ Yes ☐ No
17. Give two core functions of this unit?
- i.....
- ii.....

18. Has the audit unit made any recommendations for changes in procedures in:
- Withdrawals and transfers over the past two years? ☐ Yes ☐ No
 - Purchasing and supplies over the past three years? ☐ Yes ☐ No
19. Have there been any loss of funds over the past four years due to:
- Errors in processing resulting in over payments?
☐ Yes ☐ No ☐ can't recall
 - Negligence of due procedures?
☐ Yes ☐ No ☐ can't recall
 - Fraudulent act by an employee? ☐ Yes ☐ No ☐ can't recall. ☐
 - Embezzlement by person in trust? ☐ Yes ☐ No ☐ can't recall.
20. If yes to any of question 19, which body detected this loss?
- ☐ Internal audit unit ☐ External auditors
- ☐ any other (*specify*).....
21. Has there been a report of missing financial documents? Yes ☐
No ☐
22. Financial transactions are done ☐ manually ☐ electronically
23. Are your systems secure from unauthorized access ☐ Yes ☐
No