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# THE MANAGER

MANAGEMENT STRATEGIES FOR IMPROVING HEALTH SERVICES

## In This Issue



## Case



MSH MANAGEMENT SCIENCES *for* HEALTH

# Assessing Your Organization's Capacity to Manage Finances

## Editors' Note

THERE ARE MANY REASONS HEALTH ORGANIZATIONS may consider strengthening their organizational capacity to manage finances. They may wish to improve their internal services, better manage decreasing funds, qualify for grants, or strengthen the ability of their partners to account for funds. Political and economic reforms may be changing the way their country provides health services and affecting how they need to account for funds.

In many countries, central governments are turning away from directly providing services while giving other government levels and nongovernmental organizations (NGOs) more responsibility to decide the mix of services that best meet local needs. Central governments are also expecting health care providers to find new sources of funds instead of depending exclusively on central allocations. But new sources of funds often call for strict accountability and transparency in handling funds. Becoming accountable and transparent requires developing strong financial management systems. Assessing financial management systems can help organizations make improvements in these systems, so they can better account for their revenue, more efficiently implement their operational plans, and even attract new donors.

THIS ISSUE OF *THE MANAGER* offers financial and program managers—from headquarters to the service delivery level—solid reasons to assess their financial management systems and a method for performing this assessment. It introduces FIMAT, the Financial Management Assessment Tool, a step-by-step process and instrument for rapidly assessing budgeting, accounting, purchasing, and other financial systems. It describes how managers can use their assessment results to develop detailed action plans that can be incorporated into their organization's annual operational plans. ■

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## Why Has Health Reform Created Financial Challenges at the Local Level?

During the past decade, three far-reaching changes have affected the way many countries provide and finance health care services. First, national strategies for health sector reform are changing the role of the central government from providing services to overseeing, governing, and financing health care through health insurance. This increasingly gives clients control over how health care funds will be spent. Secondly, the public sector is decentralizing health care systems, so that lower levels of government (provinces and districts) and NGOs are becoming responsible for deciding what health services to offer and for providing those services. Thirdly, demand for health services, especially HIV-related services, is increasing, and health care costs are exceeding available public funds for direct service delivery.

As a result of these changes, both NGOs and the levels of government that now control the mix of services must generate new operating funds, often from the same sources, and improve their use of resources. To do this, their managers need to:

**Secure diversified funding.** To meet their operating expenses, growing numbers of managers in the public sector and in NGOs must now generate funds for health care from direct client payments and insurance premiums for covered populations. To be successful, their services must satisfy their clients. They can supplement this revenue with funding from donors, for example through global disease control initiatives for underserved regions with a high prevalence of specific diseases. And they need to advocate with the central government or headquarters to make sure they receive the central funds allocated to them.

**Manage resources well.** With public funds for service delivery scarcer than in the days of more generous government health budgets, these managers need to carefully track the flow of the resources they receive so they can determine whether they are using them efficiently, within the guidelines governing their use, to respond to priorities that benefit the populations they serve.

**Be transparent and accountable for all funds.** These managers must responsibly protect and spend the funds they receive and demonstrate this to their donors, boards, or the government officials to whom they report. Ministries of Health (MOHs) are stimulating networks of independent private providers, NGOs, and autonomous public institutions to provide services, while allowing insurance organizations to finance groups of beneficiaries. To prevent the misuse of public funds, MOHs are establishing regulations that require public and private providers to be transparent in their financial dealings and accountable for their funds.

If NGO managers and public-sector managers who now control the mix of health services can generate sufficient funds, strengthen financial management, and provide effective services, they can expand their coverage and their role in national health care. As a first step in managing finances better, these managers should assess the strengths and weaknesses of their organization's financial systems. Organizations that do not yet feel these external pressures, but simply want to better allocate revenues or enhance their eligibility to receive outside funds, should consider the same step.

This issue of *The Manager* was developed for health managers in government and NGOs who are responsible for the mix and pricing of their services, whether they are at the district, provincial, or regional level, and for the managers who support these decision makers. It explores the implications of health sector reform for organizational performance and for the financial management systems on which strong performance depends. It describes the components of financial management that must work smoothly to inform programmatic decisions. The issue introduces FIMAT, the Financial Management Assessment Tool, which both public-sector and NGO managers can use to assess the strengths and weaknesses of their financial management systems. By following the FIMAT process, they can develop ways to improve their systems in budgeting, accounting, purchasing, payment, banking, supplies, and reporting to better meet the needs of their staff, vendors, donors, and, ultimately, their clients.

This issue was written by Paul Fishstein and Gerald Rosenthal of the Center for Health Systems and Services of Management Sciences for Health (MSH). Paul Fishstein, a Senior Program Officer, has provided technical assistance in financial analysis, institutional development, management information systems, and evaluation to public and private institutions in Africa, Asia, and Eastern Europe since 1977. Gerald Rosenthal, formerly Senior Fellow/Senior Health Economist, has more than 30 years of experience in providing technical support for health sector reform, institutional development, and health financing in Africa and Latin America. Mr. Fishstein and Dr. Rosenthal have developed tools for analyzing costs and revenues and for assessing management development to support the effective and equitable delivery of health services.

### Facing the Challenge of Reduced Funds

Poor management in setting up financial systems for decentralization can lead to inadequately funded local services, as the following country examples show.

THE PHILIPPINES — The Philippines transferred a significant share of national funds directly to municipalities for primary care and to provinces for hospital services. National public employees were suddenly working directly for provinces and municipalities. However, the central government allocated only two-thirds of the previous budget's requirements, expecting that providers, particularly the provincial hospitals, would generate additional revenue to support service delivery. The transition occurred without steps to prepare the local managers, who had expected 100 percent funding to carry out these new responsibilities.

SENEGAL — In Senegal, all national primary health care funds were directly transferred to municipalities with no guidelines for their expenditure. The municipalities did not know about existing health priorities and, as a result, used many of these health funds to support roads and water supplies instead.

## Seeking Alternative Sources of Revenue

If you are a public-sector or NGO health manager, you are probably experiencing the challenge of having insufficient funds to provide adequate services. In earlier decades, you may have received all your funds from the central government, which allocated funds for health services in a way that was not proportional to service volume or improvements in health indicators. Central governments tended to keep the same mix of "free" services, even if people turned toward private services that cost money, such as traditional healers, pharmacists, or the private evening clinics of government doctors. But more and more, your organization and others providing health services are expected to generate revenue regardless of their level of public funding.

If you are at the central level or in headquarters, you need to support the managers in your organization who decide what services will be provided. Where possible, your support may include technical assistance and available funds so they can perform well in this challenging environment. If you are responsible for local health services, you need to attract clients and their fees or premiums from expanding insurance programs.

You can also seek funds from municipal governments. Politics often determine how local government funds are allocated, but you can learn to negotiate using evidence of strong performance and sound management. And finally, you may be able to attract funds from donors who wish to bypass the central level and give funds directly to those in charge of services.

At the local level, you may face increasing competition for securing funds. If your central government is funding fewer services for the whole population, then more, private independent providers and NGOs may be entering the health care market. The government may stimulate competition by procuring services for specific populations from private as well as from formerly public institutions. To be competitive, you need to organize your services to meet your clients' needs and achieve a level of quality that satisfies them and generates needed revenue.

## Performing Well: The Key to Attracting Funds

Individual clients, insurance companies, donors, and local governments will seek services from whatever provider gives them more value for their money. To successfully attract sources of funds and clients, your organization needs to develop a solid record of performing well. What does performing well mean?

> Good performance is achieved when an organization uses its resources to achieve a mix of services that is responsive to its clients and has a good service outcome. Its use of resources, including its distribution of staff hours and capabilities, is cost-effective.

In other words, your organization needs to be able to attract and retain clients while operating as efficiently as possible. To do this, you need to make strategic management decisions that improve the mix, quality, and efficiency of your services.

### Making Strategic Management Decisions

The types of service decisions that can affect your number of clients include:

- redefining your mix of health services;
- setting prices for services;
- changing service hours;
- increasing productivity and optimizing staffing patterns;
- reducing costs;
- projecting future costs;
- providing health services on behalf of local and central governments;
- opening a new facility;
- managing the risk of financial losses.

In making these types of decisions, it is helpful to apply financial analyses. *For example, to make decisions about your service mix, it is helpful to scan the environment for opportunities to provide new services or modify existing ones. You can analyze new service opportunities and identify potential sources of revenue for these services. Tools for financial analysis can help you develop scenarios with different numbers of users or different service inputs and project the costs and revenues for each scenario, so that you can identify optimal service arrangements that would keep costs less than revenues.*

## Supporting Performance through Good Financial Management

If you have timely, accurate financial information about your costs, revenues, and allocation of resources, you can use your resources effectively. You can get this information by first building a strong financial management system and then drawing information from it to perform financial analyses.

## Distinguishing between a Financial Management System and Financial Analysis

| | |
|---|---|
| FINANCIAL MANAGEMENT SYSTEM | A financial management system routinely tracks and monitors an organization's use of financial resources. It supports the use of data on financial performance, which is linked to overall organizational performance. |
| FINANCIAL ANALYSIS | Financial analysis depends on specific studies of existing financial data from a financial management system and other sources to help compare the financial performance over time of different departments, services, or other divisions of an organization. A financial analysis is necessary to determine the cost of new services and to support changes in service mix and other operations that could affect the quality of or demand for the organization's services, its financial health, and its long-term sustainability.<br><br>To perform a financial analysis, managers can use a wide range of specially designed tools. Some tools available from MSH include CES (a cost estimate strategy for reproductive health commodity management), CORE (a tool for cost and revenue analysis), HOSPICAL (a tool for allocating hospital costs), and the Primary Health Care Costing Tool. |

To build a financial management system that supports strong organizational performance, you need to:

- use teamwork to improve financial management;
- monitor the financial capacity of local partners.

### Using Teamwork to Improve Financial Management

Both financial and program managers responsible for the pricing and mix of services will need to work as a team to improve their financial management system. In multilevel organizations, such teams should include, where possible, representatives from headquarters and branch offices (or from the central and lower levels) so that financial procedures at different levels are integrated and the staff operating the financial management system adhere to the same standards. That way, information derived from the system will be valuable for each level and for the organization as a whole.

In identifying and making improvements, financial staff at the head office may be capable of and have time to provide technical assistance in financial management to other levels. Alternatively, consultants may need to be engaged to provide technical assistance.

### Monitoring the Financial Capacity of Local Partners

No matter what organizational level you work at, you may fund community providers or local organizations to carry out activities of value to your mission or mandate. It is important that you and they understand their financial capacity to handle funds. *For example, sometimes in a crisis or in situations with high HIV/AIDS prevalence, managers encounter great pressure to deliver funds to local service providers, often without first determining if the local organizations can regularly account for these funds. Even though many local organizations have the capacity to use funds effectively, they often do not have the staff or training to report on their use in ways that satisfy the funding source. This often worries funders, who may interpret a lack of financial capacity as a lack of technical capacity.* As a responsible manager, you need to ensure that your potential local partners' or contractors' financial management systems will use acceptable accounting procedures to account for an influx of funds and will comply with requirements.

The following table summarizes how financial management is changing under both health sector reform and the shifts in donor funding to become more responsive to market opportunities. It identifies first the changes that have affected both public-sector and NGO managers and then the changes that have affected these groups separately.

**How Health Sector Reform Is Changing Financial Management**

| Type of Organization | Before Reform | During and after Reform |
|---|---|---|
| Public organizations and NGOs | **Lack of incentives.** Local managers lacked incentives to improve financial management or expand and improve their services because their financial resources were provided without being linked to performance. They could still reduce costs, improve efficiency, and effectively manage funds. | **Incentive to serve clients and become sustainable.** Local managers are responsible for changing the service mix and expanding services to meet the needs of different client groups. They need to develop financial expertise and a financial management system that provides sufficient information to calculate the costs of providing different services with different inputs. |
| | **Simple organizational accountability, limited information.** Local managers showed accountability to other management levels if they monitored expenditures for each budget category and reported them. When they wanted better financial information, they needed to lobby the central level. | **Increased responsibility for performance and for managing resources used for services.** Local managers need to maximize use of their resources and support service sites that perform well. Their financial management system must provide information suitable for comparing the financial implications of various service delivery strategies against the total work load of their service sites. Central-level managers need to help improve the financial management system. |
| | **Accountability to separate donors.** Local managers set up a separate system for each donor and tracked expenditures according to the donor's specifications. | **Accountability to groups of donors.** Groups of donors pool resources for one project at a subnational level (basket funding) or supplement a sector-wide national operating or development plan. Managers need a fund accounting system with a unique code for each donor and/or each contract, so they can report fund balances. |
| | **Ad hoc analyses.** To assess the financial implications of a change, managers performed ad hoc financial analyses often based on inadequate financial data. | **Ongoing and periodic analyses.** To rapidly assess the financial implications of market opportunities, managers need to regularly analyze finances using readily available data and to repeat analyses periodically with cost and revenue analysis tools. |
| Public organizations | **Lack of budgetary control.** Local managers could not significantly alter centrally allocated budgets to meet local conditions. | **Increasing budgetary control.** Local managers can make budgetary adjustments to take advantage of service delivery opportunities and meet local priorities. |
| | **Lack of control over key resources.** Local managers could not make decisions about centrally managed, essential resources, such as personnel, which did not show up in facility budgets. | **Greater control over key resources.** Local managers can decide, within funding guidelines, how they will use all their resources. They therefore need to include all resources in their budgets. |
| NGOs | **Donor-driven budgets.** Managers found their budgets were heavily influenced by external donors and patient payments. | **Government sources of funds.** Managers can offer service delivery through public-private contracts with the government. They need strong financial management systems to assess the financial implications of such contracts on their organization and to monitor their fiscal performance in relation to their service delivery performance. |

The rest of this issue provides important background on financial management systems and their assessment. It also describes one assessment tool you can use to collect data on financial operations and make plans to improve them, so that they can better support organizational decision making and fiscal accountability. For more information on basic financial management and financial analyses, please refer to *The Manager,* volume 8, number 4, "Understanding and Using Financial Management Systems to Make Decisions," and volume 7, number 2, "Using Cost and Revenue Analysis Tools."

## Assessing Your Financial Management System

Becoming accountable and transparent depends on the staff who handle funds, the financial management systems they use, and the capacity of managers to oversee these systems. You should consider performing a complete assessment of your financial management systems and staffing if your organization finds itself in the following situations:

- it is about to receive new or substantially increased funding, which may flow to its subunits;
- it is decentralizing management functions to local organizational levels;
- it is undertaking a comprehensive initiative to strengthen its management systems overall;
- there are concerns about inefficiency or a lack of financial information.

If you are a manager at the central or regional level, you are in the best position to initiate a financial management assessment of your organization. Such an assessment can help you understand the current capacity of different organizational units to manage their finances. You can use the results of your assessment to demonstrate to a potential funder or board that your organization has the ability to manage and account for its funds, or is making progress to do so.

Before undertaking a financial management assessment, however, it is helpful if you and others who will be involved in the assessment understand the:

- scope of a financial management assessment in the context of overall management capabilities;
- essential components of financial management.

### Accepting the Risks of Assessing Financial Management

**DUTY TO CORRECT SOME DEFICIENCIES**

If you are a financial manager, you will quickly realize that some risks may accompany the benefits of assessing financial management. For example if your assessment uncovers poor practices in cash control or accounting and record-keeping, your organization is not meeting its fiduciary responsibility for the external funds it is managing. It is obligated to correct these deficiencies or risk liability. Before beginning an assessment, senior management must be aware of such potential risks and be committed to making improvements.

### Assessing Financial Management in the Context of Overall Management Capabilities

You may want to assess financial management in the context of overall management strengths and weaknesses. Sometimes problems in financial management are the result of systemic problems throughout the organization, such as a weak supervisory system. A full management assessment is not an essential step to assessing financial management, but if you want to explore difficulties underlying financial management and other management areas together and you have sufficient resources to complete two assessments, consider beginning with an overall management assessment. The Management and Organizational Sustainability Tool (MOST) is one tool you can use to do a management assessment.

## A MOST Assessment

In a MOST assessment, an organization's leadership (the director and senior managers), staff from all the major divisions of the organization, and other key stakeholders work together to review and agree on the stage of development of their organization in each of five management areas and their associated subcomponents. These management areas include mission, values, strategy, structure, and systems. A MOST assessment covers the financial management system, as well as systems for organizational planning, monitoring and evaluation, collection of data, use of information, quality assurance, management of supplies, generation of revenue, and human resource management. In the general assessment of the financial management system, managers provide evidence of key characteristics of financial management and decide on their organization's stage of development for the component. The characteristics of the first stage describe an organization that has done very little to develop the component, while the characteristics of the fourth stage portray an organization that operates extremely effectively in this area of financial management. Managers then make concrete plans for improvements.

| Management Components | Stages of Development and Characteristics | | | | Current Stage | Evidence |
|---|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | | |
| **Systems** | | | | | | |
| **Financial Management** | Financial staff develop budgets without input from program managers. The finance system does not accurately track expenditures, revenues, and cash flow. | Financial staff develop budgets and usually seek input from program managers. The finance system tracks expenditures, revenues, and cash flow by line item (e.g., salaries, utilities, materials), without links to program outputs or services. | Financial staff develop budgets in conjunction with program managers. The finance system tracks expenditures, revenues, and cash flow by line item, with some links to program outputs and services. | Program managers work with financial staff to develop budgets that support programmatic decisions. The finance system presents an accurate, complete picture of expenditures, revenues, and cash flow in relation to program outputs and services. | | |

Your overall management assessment will either indicate that your organization handles important aspects of its financial management system well, or show that your organization has room to improve these aspects as it addresses shortcomings in other management areas. If there is room for improvement, then a more detailed financial management assessment will provide you with in-depth information for strengthening your system. Using financial management assessment tools, you can assess whether your organization meets criteria for operations that should occur, and then make improvements that will lead your organization to a more advanced stage of financial capacity.

The following example from Haiti illustrates how a network of NGOs assessed their financial management systems as part of an overall management assessment in order to receive substantial donor funds.

## Working Solutions—Haiti

### NGOS STRENGTHEN FINANCIAL MANAGEMENT AS PART OF PERFORMANCE GRANTS

In Haiti, NGOs are helping to fill the gap between the health services the Haitian Government provides and the extensive health needs of the population. A network of over 30 service delivery NGOs delivers the Paquet de Services Prioritaires (PSP) [package of priority services] through more than 100 service delivery points, covering over three million people, more than 40 percent of the national population. A subset of these NGOs agreed to be assessed and improve their systems to become eligible for performance-based grants through the USAID-funded HS-2004 Project's Performance-Based Financing Program. These grants paid a bonus to recipients who met their performance goals.

**Assessment process.** The HS-2004 Project team and USAID approved the participation of each NGO in the Performance-Based Financing Program from the results of an overall management assessment. The assessment reviewed the management systems that supported service delivery: financial management, systems for conducting community interventions and mobilizing community support, human resource management, management of essential drugs, and service delivery information systems. As part of the assessment, PAGS, a local contractor, measured the extent to which each NGO's financial system met donor requirements and general financial management and accounting standards.

**Plans for improving systems.** Using the findings from the PAGS assessment report, each NGO developed an action plan for improving their management systems. Their performance-based grant with the Project incorporated these plans and agreed-on performance indicators. To gain support for achieving the performance objectives in their subcontracts, NGO managers attended monthly network meetings, where they demonstrated progress, exchanged strategies, and received technical assistance in improving their systems and services.

## Understanding the Essential Components of Financial Management

To assess your financial management system, you need to first understand the essential components of financial management. To many program managers, financial management is a dense forest of barely understood, complicated functions and processes. It helps to think of financial management as a set of independently structured, but interdependent essential functions, or components. *For example, all organizations must pay staff, purchase goods and services, and track inventory.* When you assess your financial management system, you assess these components to see if they operate according to generally agreed-on standards. Assessing each of them is necessary for a complete picture of your capacity to manage finances.

The following table presents the ten essential components of financial management that a financial assessment should review, their subcomponents, and the reason it is important to assess them. Dysfunctions in any of these areas can indicate problems for your whole financial management system. While lists of financial management components may be organized differently, you will always find nearly all the same basic subcomponents.

## Essential Components and Subcomponents of Financial Management

| Component/Subcomponent | Assess the Component to See Whether… |
|---|---|
| **Organization and Personnel**<br>■ Organizational structure<br>■ Human resources | ■ Staff are organized into effective work units with clear roles, responsibilities, and accountability.<br>■ The financial management system is supported by an adequate, authorized level of staffing, and staff have sufficient training, qualifications, and experience to carry out their duties. |
| **Budgeting**<br>■ Short-term (annual) budgeting<br>■ Budget control<br>■ Multiyear budgeting | ■ The organization can allocate resources, monitor expenditures, make interim adjustments, and achieve financial balance in its operations.<br>■ Multiyear budgets support the goals of the organization, and short-term financial plans are linked to operations. |
| **Accounting and Record-Keeping**<br>■ Accounting policies and procedures<br>■ Chart of accounts<br>■ Vouchers and journal entries<br>■ Trial balance<br>■ Management reports and financial statements | ■ All expenditures are authorized, controlled, balanced, and accounted for.<br>■ Documentation for transactions are well archived.<br>■ Managers receive accurate, timely financial information. |
| **Purchasing and Procurement**<br>■ Procurement policies and procedures<br>■ Purchase orders and check requisitions<br>■ Receipt of goods and services<br>■ Monitoring | ■ The organization makes purchases transparently, in compliance with norms, and can obtain good value for money.<br>■ Goods and services are procured in a timely manner to avoid tying up resources in unnecessary stock or to prevent stockouts that hinder completion of immediate activities. |
| **Payroll**<br>■ Payroll policies and procedures<br>■ Payment and labor information system<br>■ Payroll control | ■ Salary and benefits are paid to documented employees, in compliance with local tax withholding requirements and labor laws. |
| **Timely Payment and Invoicing for Goods and Services**<br>■ Timely payment for staff<br>■ Timely payment for vendors<br>■ Timely invoicing for goods and services | ■ Payments both to staff and outside vendors are timely, and appropriate for the work performed.<br>■ Invoices to donors and customers are sent in a timely manner when goods and services are provided. |

| Component/Subcomponent | Assess the Component to See Whether… |
|---|---|
| **Cash Control, Banking, and Cash Flow**<br>■ Receipts and banking<br>■ Cash receipts control<br>■ Use of checkbooks and receipt books<br>■ Reconciliation of cash and bank statements<br>■ Cash management | ■ The organization properly records, controls, and accounts for funds received and disbursed from any source.<br>■ The organization's systems guard against fraud and misuse of funds. |
| **Stock, Inventory, and Fixed Assets**<br>■ Policies and procedures for stock, inventory, and fixed assets<br>■ Record-keeping for stock, inventory, and fixed assets<br>■ Control of stock, inventory, and fixed assets | ■ The organization accurately records, controls, and accounts for all stock purchased, stored, and consumed.<br>■ The organization keeps track of its fixed assets. |
| **Audit**<br>■ Internal audit<br>■ External audit | ■ The organization is transparent in its financial operations on a routine, ongoing basis, as verified through independent audits.<br>■ Comprehensive internal audit procedures exist; they indicate how testing is done and what components and supporting documents are looked at. |
| **Use of Information**<br>■ Budget development<br>■ Resource management<br>■ Program performance<br>■ Management decisions | ■ The financial information supports the assessment of the organization's financial condition and effective management decisions about improvements in resource management, program performance, and financial sustainability. |

## Introducing FIMAT, the Financial Management Assessment Tool

FIMAT, the Financial Management Assessment Tool offers you a method for assessing the current capacity of your organization to manage its finances and some steps you can take to improve that capacity. FIMAT consists of both a defined process and an instrument with criteria for conducting a financial management assessment. By using FIMAT, you can:

- gain a picture of existing capacity, skills, and experience, relative to government or donor requirements and the organization's desired performance;
- determine the extent to which your organization complies with applicable donor or government laws, regulations, and policies;
- identify essential financial components that need strengthening;
- develop a set of specific recommendations for improving capacity, including systems, human resources, and procedures;
- reach agreement within the organization and among stakeholders on actions that need to be taken to improve the system.

FIMAT's main features include:

- a comprehensive set of ten steps from planning and organizing the assessment to implementing it, and finally, to integrating the reforms into the organization's operational plan;

- a participatory process, based on the assumption that the most effective way to achieve organizational change is to involve staff and other important stakeholders in an open assessment and consensual planning;
- adaptability to the organization's specific situation and circumstances;
- placement of the organization's level of development of its financial management components on a scale of pre-basic, basic, intermediate, and advanced;
- complementarity with the Management and Organizational Sustainability Tool (MOST) by addressing in detail one of the major management systems of the organization.

The example on the next page provides background about how FIMAT was developed and how it is being used in the context of a sector-wide approach to health. For a detailed guide to the FIMAT process and instrument, please refer to *FIMAT, the Financial Management Assessment Tool*.

The sections that follow briefly describe:

- the organizations and individuals who can use FIMAT;
- FIMAT's adaptability;
- organizational units' levels of financial capacity;
- FIMAT's uses for specific situations;
- FIMAT's step-by-step process;
- the kinds of results and actions that FIMAT's application can generate;
- the importance of integrating recommended actions into operational plans.

## Who Can Use FIMAT?

If you are at the central or provincial level in one of a wide range of small to mid-size public and private organizations with limited resources, you can use FIMAT both for your head office and your branches or suboffices. You would find it especially useful if you are in an organization with subsidiary units, such as an NGO with branch offices, a smaller ministry of health, or any institution with semi-independent projects or units. Large and multilevel NGOs and public institutions may prefer to hire a qualified financial management specialist or an accounting firm to support the assessment of their financial management systems.

FIMAT is appropriate for organizations whose external audit process, if any, fails to provide recommendations for improving financial management systems. It can help organizations who cannot afford or are not allowed to use outside professional services to develop their financial management capacity. On the other hand, well-developed NGOs and public institutions that already benefit from solid external auditing services do not need FIMAT to assess their financial management systems, since their auditing services would diagnose weaknesses and recommend improvements in their systems. They can, however, benefit from using FIMAT's participatory approach and its review and action planning processes in implementing recommendations for improving their systems.

Using FIMAT can help you get a sense of your financial management capacity in advance of an official audit or donor investigation. It is not an official audit tool, but rather, is intended for internal use.

> **Note:** You should not use FIMAT if your organization is suffering an acute financial crisis, such as problems resulting from financial malfeasance with legal implications. In such a case, you should seek the assistance of an audit firm.

Like many initiatives to improve systems, applying FIMAT requires:

- committed senior management;
- teamwork;
- different perspectives.

**Committed senior management.** To use FIMAT, you need to gain ongoing commitment from senior managers to allocate resources for the assessment and for carrying out the recommended improvements.

## ASSESSING FINANCIAL MANAGEMENT CAPACITY AT THE PROVINCIAL LEVEL

As part of health sector reform and provincial strategic planning, the Government of Mozambique realized that implementing a sector-wide approach to health, funded by multiple donors would require the provinces to improve their management capacity. A management assessment using MOST had uncovered a number of problems, especially in financial management. In following up, the Government wanted to understand the provinces' present financial management capacities so that it could apply its sector-wide approach to financially responsive units.

Under an agreement between MSH and the Ministry of Health, FIMAT was developed to look at financial management capacity at the provincial level and resolve financial problems in an integrated way with other management problems through the provincial strategic planning process. This arrangement ensured that those financial management problems needing attention over time would remain in focus while other financial management problems would be resolved rapidly.

**Development process.** Under contract with MSH, the accounting firm of PriceWaterhouseCoopers developed a draft of FIMAT, which was reviewed at the national level by the Directorate of Administration and Finance, the Directorate of Planning and Cooperation (DPC), and MSH. The province took responsibility for the assessment, and the Provincial Director of Health, in coordination with the head of the Department of Administration and Finance within the provincial Directorate of Health, assumed leadership of the process, including follow-up activities. During a pilot test, local terms and conditions were incorporated into an adapted version of FIMAT. *For example, the audit component was ignored, because no such function existed at the provincial level.*

**Assessment process.** On the first day, the assessment team met with the Provincial Director of Health and the head of the provincial Department of Administration and Finance to establish a plan for joint activities with the DPC. The core team and local stakeholders divided into data collection teams and spent the next two days looking at different components of financial management in their provincial offices. At the end of each day, the entire team summarized their findings together. On the fourth day, the team presented its results to all the participants in a workshop who then discussed an action plan. On the fifth and last day, the team presented their report on the assessment and action plan to the senior DPC staff for final comments.

This final workshop provided an important opportunity for provincial staff to discuss their financial management issues. Jointly developing an action plan immediately after the assessment focused all participants' energies on developing constructive solutions rather than on compliance. Finally, wide participation from the Provincial Directorate of Health fostered better relationships among the district officers, the Provincial Directorate of Health, and the provincial level of the DPC.

**Teamwork.** To initiate the assessment, you need to organize a core team of senior and branch officials, from both financial and program areas, to plan the assessment and champion the implementation of recommended improvements. A subgroup of this core team will be your data collection team. You will want to involve additional stakeholders, such as users of financial management systems, when it is time to develop the action plan for improvements.

**Different perspectives.** Because assessing each financial management component requires specific technical expertise, and because you will want to ensure support from your colleagues, you will want to involve a mix of skills and backgrounds in the assessment. The FIMAT process benefits from having staff with different perspectives during data collection and analysis. It also encourages collaborative planning for improvements at the end. At different stages in the assessment, you would include representatives from different groups. Depending on the size of your organization, you need to consider including:

- senior representatives of units with direct financial management responsibilities;
- decision makers responsible for the overall performance of your organization;
- senior representatives of other organizational units (e.g., personnel director, planning office director, program representatives);
- subunit heads and representatives with financial management responsibilities;
- staff in human resources, accounting, purchasing, and payroll, as well as storemen and auditors in the sites you assess;
- stakeholders (e.g., users of the financial management system, board members, donors);
- consultants (e.g., a financial management expert engaged specifically for this assessment, and a consultant familiar with your organization, perhaps through providing technical support in management).

## Adapting FIMAT to Fit Your Situation

The FIMAT instrument is a master checklist of assessment criteria. Because organizations' needs and situations vary, not all components may be relevant for all organizations, and some organizations may require additional elements. As one of the initial steps in using FIMAT, you and your core team will carefully consider the aspects of FIMAT that are appropriate for your situation, and aspects you need to modify.

While all organizations, whether public or private or small or large, must carry out certain financial management functions, the ways in which these functions are carried out will vary greatly according to type and size of organization, country, and even history. This includes differences in the country's, parent organization's, or donor's rules and regulations for financial reporting and accountability.

*For example, in the public sector, you may be interested in the relationship between financial performance and government policy. In Mozambique, the Directorate of Administration and Finance added criteria that reflected compliance with government regulations:*

- *budgets are aligned with the national macroeconomic plan for delivering efficient health services;*
- *approved government systems are in place so that correct government procedures can be practiced.*

## Defining the Level of Capacity of Your Organizational Units

Within each essential financial component, FIMAT's criteria are organized according to three levels of capacity: basic, intermediate, and advanced. The basic level refers to generally accepted, fundamental, good financial management systems, procedures, and practices, while the intermediate and advanced levels refer to those at a higher level of institutional development. The following box illustrates part of a completed page from a sample FIMAT assessment in a head office.

To define an organizational unit's level of capacity for a component, you determine whether or not the unit fulfills each criterion, based on staff knowledge of the unit's situation, and note the evidence that justifies the group's response. By reviewing the responses for all the criteria in the component, you and your team can determine what level of capacity the unit has reached for the component as a whole. A unit has attained a specific level of capacity when it can answer "yes" to all the criteria for that level.

**FIMAT ASSESSMENT FORM**

**Unit:** Cinguro Provincial Office

**Date:** 15.5.04

*Check "yes" or "no" in response to whether your organization meets each criterion, and enter the evidence on which you base your response.*

| **Component 2: Budgeting** This component covers the budget's process, approval, control, and reporting, as well as links to annual operational planning. | | Response Yes or No | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Level 1 Basic | | Level 2 Inter-mediate | | Level 3 Advanced | | |
| **Crite-rion No.** | **Criteria to Assess Component** | Yes | No | Yes | No | Yes | No | **Evidence for Response** |
| **2.8.1** | An annual budget development process is in place, including steps for review and approval. | ✔ | | | | | | The Financial Officer showed actual budget submissions at various steps as he described the process the office went through in developing its current budget, including review notes, a math check of all calculations, and final formal approval. |
| **2.9.1** | Annual budgets are directly linked to the organization's annual operational plans. | ✔ | | | | | | The budget outline reflects the operational plan's programs and activities. The programs and activities have been individually budgeted for. |
| **2.10.2** | A multiyear budget is developed with the involvement of all senior managers. | | | | ✔ | | | The Director indicated that a multiyear budget had been discussed, but not yet developed. |
| **2.11.3** | The multiyear budget is linked to multiyear strategic plans and guides the annual budgeting system. | | | | | | ✔ | Currently no multiyear budget exists. |

Once you have identified the level of capacity in each area, you need to determine the level that all your units should be operating at. Consider why you are using the tool. For some functions, a basic level of competency may be sufficient for your needs. On the other hand, a donor may require that you meet higher standards for particular components.

Assigning the existing level and identifying the desired level of capacity (defining the gap) helps you communicate with other managers and planners about the need for resources to improve the component. *For example, if your assessment shows that accounting and record-keeping are at an intermediate level in many units, but their cash control practices are well below the basic level, you may determine that their cash control practices should be at the same level as their accounting. You can use information on the problem areas identified in the assessment to advocate for resources to significantly improve the units' cash control practices.*

> Before you decide on improvements that will help a financial management component at the intermediate level to reach the advanced level, consider strengthening all other components to at least a basic level.

## Using FIMAT for Specific Situations

FIMAT can be used to address specific situations that cut across several components. One such situation that many organizations face is handling donor funds. While improving your processes for handling all funds helps your handling of donor funds, several criteria in FIMAT focus specifically on the use of donor funds. You may want to separately analyze these and other donor-related criteria you have added, then make improvements to bring them up to a level required by the donors from whom you might solicit funds. The following table indicates FIMAT's criteria for assessing how well an organization handles donor funds.

| Assessing How You Handle Donor Funds | | |
|---|---|---|
| **Financial Management Component** | **Criterion for Handling or Reporting Donor Funds (Criterion Number)** | **Level of Development Indicated by Met Criterion** |
| **Accounting and Record-Keeping** | The annual financial statements report information about expenses for specific program services, supporting services, and donors (in ways that meet donors' reporting requirements). (3.39.2) | Intermediate |
| **Purchasing and Procurement** | Existing systems and practices ensure that all donor-funded purchases are acquired according to the terms specified by each donor. For example, as evidence for the response, donors do not find disallowed expenditures during their audits. (4.31.1) | Basic |
| | At the end of each contract, staff always compare actual expenditure against contracted expenditure. (4.32.1) | Basic |
| **Timely Payment and Invoicing for Goods and Services** | All donors and customers are invoiced:<br>▪ during the month following the month when goods or services are provided (6.7.1) | Basic |
| | All donors and customers are invoiced:<br>▪ within the month when goods or services are provided (6.8.2) | Intermediate |
| **Cash Control, Banking, and Cash Flow** | Funds from each donor are deposited in a separate bank account when the agreement or contract with the donor requires it. (7.12.1) | Basic |
| | Cash exceeding the amounts needed for current payments is held in interest-bearing accounts or short-term investments if allowed by local law and the donor, if any. (7.20.2) | Intermediate |
| **Use of Information** | Donor reports are submitted on time with accurate information. (10.9.1) | Basic |
| | Managers analyze information on financial performance on an ongoing basis, looking for a high percentage of donor funds absorbed before the end of the project and a low percentage of rejected expenses from expense reports to the donor. (10.11.3) | Advanced |

## FIMAT's Step-by-Step Process

While FIMAT is a technical assessment, its participatory process can help you achieve reliable measurements and secure commitment from stakeholders. The FIMAT process involves planning for the assessment, collecting data, summarizing data for each component, analyzing findings in detail, developing an action plan, and institutionalizing the action plan. It is best to start collecting data at the head office. Among the many reasons for this, it signals to all stakeholders and local units that the head office is fully committed to the assessment. From there, you can move the assessment to your subunits. To complete this process, you follow ten steps:

Step 1: Plan the assessment.
Step 2: Hold an initial meeting and develop a schedule.
Step 3: Review the FIMAT instrument.
Step 4: Carry out the assessment and complete the assessment form.
Step 5: Prepare a summary for each component.
Step 6: Develop a detailed summary of causes and needed actions for each weakness.
Step 7: Develop a unit-level action plan.
Step 8: Reach consensus on priority actions at a one-day workshop.
Step 9: Develop an integrated action plan for the whole organization.
Step 10: Link the action plan to annual operational planning, budgeting, and monitoring.

Once you have completed these steps, your organization will do the actual work of strengthening the financial management functions that need improvement, and monitoring progress in making the improvements.

## Using Results from FIMAT

Once you have completed the assessment form and prepared a summary for each component, your data collectors and site staff participating in the assessment will meet together at the assessment site (the head office or subunit) to draw out the implications of the findings by asking: What areas require improvement? What causes contribute to these findings? What actions could be taken to reduce the effect of the contributing causes? The group discusses the implications of the findings and completes a detailed summary of weaknesses, causes, and required actions, as well as an action plan for their unit.

Then, in a final assessment workshop, the entire core assessment team and key stakeholders review the detailed summaries and action plans from the head office and all the subunits, asking "What improvements should we, as an organization, make first, and over what time period?" They will come up with an action plan that integrates the action plans of all the units according to organizational priorities. The recommended actions will vary depending what kind of organization you work in. If you are in an NGO, you have greater ability to make quick changes. If you work in the public sector, you are more limited by the need to follow national or provincial civil service regulations, but you can still make significant improvements, especially if you stay focused over the long term.

In the meetings at the assessment sites as you analyze the findings, and again in the final workshop as you develop an organizationwide action plan, you and the participants need to remember to:

- **Identify causes contributing to the observed problems.** Some financial management problems may really be symptoms of larger, organizational problems. For instance, the underperformance of financial staff may occur because of poor supervision or an unspoken organizational norm that discourages sharing information. Delays in processing transactions may result from internal difficulties, staffing inadequacies, or weaknesses in the banking system. You may need to ask more questions and investigate more widely to discover real causes.
- **Be aware that computerization will not solve all your problems.** Many organizations conclude that computerizing (or re-computerizing) their financial management system will eliminate late reports or confusing information. Computerization will solve nothing if other contributing causes are not addressed, and it may create a new set of problems.
- **Be realistic about your future use of information.** Although organizations store information and provide it to donors, most rarely use their data to improve efficiency or reduce waste. If you are considering using more information, ask if you will realistically use the new information being proposed (for example, a costly new coding scheme). Will the benefit of the additional information be worth the personnel time and resources needed to gather it?
- **Realistically pace proposed activities.** While you are excited about the planned changes, remember that people generally have very busy schedules. Pace proposed activities to fit in with the limited extra time they have and the resources available to implement the changes. Breaking down the change process into smaller components provides the opportunity for successful completion of tasks, bolsters morale, and keeps the momentum positive.
- **Consider all costs and implications of proposed improvements.** Take into account any new human resources and equipment that will be required. Be sure to consider hidden costs, such as training or maintaining equipment.
- **Be aware of the subtle effects that change may bring.** Even when proposed changes are not inspired by a crisis, your staff may be nervous about what the changes will mean for them. They may worry about their employment, new responsibilities, or physical changes in workspace.

The following table illustrates the kind of information you would include when you develop a detailed summary of contributing causes and action needed to address each weak area in your system. It illustrates financial management problems that health organizations around the world have found, the contributing factors they identified for their findings, and the actions they recommended to resolve the problems.

## Examples of Financial Assessment Findings and Recommended Actions

| Financial Management Component | Identified Weaknesses | Why Does This Situation Exist? | Specific Actions Required for Improvement |
|---|---|---|---|
| **Organization and Personnel** | Managers documented financial management procedures through a series of memos to staff, but did not compile them into a manual accessible to staff at all levels. Some staff were confused about whether the procedures existed and where to find them. | A difference in perspective between management and staff was leading to confusion. Managers insisted that procedures and policies existed, while some staff had no way to know about them. | ■ Compile all of the memos into a manual for policies and procedures, and review them to ensure that all situations are covered.<br>■ Make a plan to keep the manual up to date.<br>■ Distribute it to staff and provide them with an orientation. |
| **Accounting and Record-Keeping** | Staff experienced long delays in having their expense forms and timesheets processed. At the same time, the processing staff were overloaded and under great stress. | More staff were required to sign off on certain documents than were necessary to achieve accountability.<br>Staff were also submitting expense forms late because the forms took too much time to complete. | ■ Eliminate unnecessary signatures from the process.<br>■ Add a staff person to process the forms during peak times.<br>■ Since individual employee's payroll forms stayed the same, or nearly the same, from month to month, format the forms as spreadsheets to reduce the amount of staff time required to complete the forms. |
| **Purchasing and Procurement** | Delays in procurement of critical supplies and equipment were causing work delays and undermining staff morale. | The original procurement rules were out of date; they were written when the organization was smaller and the head office carried out all procurement functions. | ■ Revise the procurement rules and procedures to reflect the organization's current scale and capacity.<br>■ Increase purchasing thresholds.<br>■ Revise the list of items that local offices can procure without central authorization. |
| **Cash Control, Banking, and Cash Flow** | The office was frequently running out of petty cash. | There was only one signatory on the account, and that person was often traveling.<br>Requests for funds were not submitted soon enough to account for the lag-time in processing the request. | ■ Add another signatory who can refill petty cash on short notice.<br>■ Add additional time to the cash forecasting cycle.<br>■ Increase the size of local cash accounts for operations.<br>■ Pay specific recurrent expenses by direct or electronic transfer instead of by petty cash. |

| Financial Management Component | Identified Weaknesses | Why Does This Situation Exist? | Specific Actions Required for Improvement |
|---|---|---|---|
| **Cash Control, Banking, and Cash Flow (continued)** | Advances to staff for purchasing, travel, and other work-related functions were not cleared and remained open against the employee's or vendor's account.<br><br>Some staff had large outstanding advances. | Clinical staff found the paperwork burdensome and did not understand the importance of completing the necessary documentation.<br><br>No criteria existed to trigger action when outstanding balances became excessive. | ▪ Resolve outstanding staff advances within a specific period, using payroll deductions, if necessary.<br>▪ Educate the staff on the importance of documentation and the need to clear advances in a timely manner.<br>▪ Allow no new advances to a staff member if the last one or two advances have not cleared.<br>▪ Aggressively pursue repayment for advances to local government authorities. |

### Integrating Financial Management Improvements into Operational Plans

Once you have an integrated action plan, your organization can begin to make improvements in its financial management systems. Make sure someone is responsible for following through on the plan.

To keep momentum, integrate your activities for financial management improvements into your organization's planning and monitoring systems. During staff meetings, your core team should advocate for including the recommended activities in monthly workplans and then report on progress. More importantly, during annual budgeting and planning sessions, the team needs to make sure annual operational plans incorporate and fund these activities. In addition, core members can work with supervisors in their department and with the human resource department to ensure that supervisors include the new financial management objectives in the performance reviews of the individuals responsible for the activities.

By inspiring management's continued commitment to financial improvements and publicizing progress made, you can transform your organization's financial management into a truly transparent, accountable system that helps your organization attract the funds it needs to survive, achieve high-quality services for its clients, and improve its reputation.

## Getting the Most from Your Improved Financial Management System

Whether you are in the public or private sector, the changing financial environment in which you work increasingly demands more accountability and transparency. When the legal and political environment offers greater local autonomy and decision making, it may result in fewer resources flowing to the local level. By implementing a participatory financial management assessment first at the head office and then in subunits, and by drawing on many skills from these different levels, you can help your whole organization develop a strong financial management system.

A good financial management system will provide solid support for a wide range of organizational activities. All staff can use it to support short- and long-term operational plans by formulating matching financial plans for mobilizing, allocating, monitoring, and managing all kinds of resources, including human, physical, and financial resources. The amount and timing of financial commitments will sustain your progress toward the goals of your annual and long-term plans. Your financial management system will also help you develop longer-term financial plans that identify needed funding sources and quantities required for making program plans operational.

When you have a good financial management system, your organization can also monitor expenditures to help make sure that the planned resources are available and used efficiently. It can track the costs associated with each activity and make adjustments in the allocation of financial resources when appropriate. As you put your financial management system to more use, you will find its operations essential for implementing your organization's planned activities and achieving its performance goals.

## Reviewers' Corner

*A forum for discussing concepts and techniques presented in this issue*

**On the importance of financial management capacity in these times…**

*A reviewer responds,* "It is good to see such attention being paid to financial management capacity…particularly in the current environment of decreased government aid and increased reliance on private donors or locally generated income."

**On key components of financial management…**

*Another reviewer emphasizes,* "It is important for financial management to stress reporting, accounts payable and receivable, and revenue collection. Informative, timely reporting is really crucial. Also, organizations need internal controls—not having the same person perform too many related tasks, and having a second person approve key actions."

**On dealing with a climate of secrecy…**

*One reviewer warns,* "Beware of conflict of interest where a finance manager may wish to hide weaknesses for a variety of reasons."

**On the duration of financial management action plans…**

*A reviewer advises,* "It may be necessary for an action plan to be made for more than one year as some changes (e.g., computerization) can take longer. A good length may be three years, with an annual breakdown."

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# Checklist for Assessing Your Organization's Capacity to Manage Finances

- Identify the internal and external challenges caused by health sector reform that affect your organization's financial management.
- Investigate how your role as a manager may have changed in supporting health services. If you are an NGO or local public-sector manager, you may now need to generate funds for health services. If you are a central-level manager who now oversees the health system, you need to support your local health units, offering them technical assistance, where possible, in planning and financial management.
- Explore with your colleagues whether a financial assessment is called for, especially if your organization will receive increased new funding, is in the process of decentralizing its management functions, is engaged in efforts to strengthen its overall management, or has concerns about inefficiency and lack of financial information.
- Before undertaking your assessment, obtain support from senior staff, if you have not yet secured it. Educate yourself about the essential components of financial management and accept the risks of such an assessment.
- Familiarize yourself with FIMAT, the Financial Management Assessment Tool, and decide whether it is appropriate for your assessment, based on the kinds of organizations it is designed for, its adaptability, and its participatory process.
- Gather a core group of head office and subunit officials from financial and program areas to implement your assessment. Using FIMAT:
    - collect data on the financial management systems in your head office and subunits;
    - summarize your findings for each component and probe for contributing causes, which may lie within the financial management system or in other management areas;
    - involve your stakeholders in developing an integrated action plan for your organization to improve its financial management systems.
- Incorporate into annual operational plans, budgets, and performance reviews the activities needed to support your recommended improvements in financial management.

THE MANAGER

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