

# FUNDING PUBLIC INSTITUTIONS IN ROMANIA

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## Abstract:

*The development of this article started from the fact that in the field of public institutions accounting there have been many changes and it aims to capture the essential aspects of their financing. Thus the article covers a series of issues related to the credit officers, to employment, to settlement and payment of public institutions expenditure, to the budgeting and budgetary credits accounting. It also presents a brief classification of the public institutions according to several criteria, as well as their financing sources.*

*The paper also practically presents the accounting of the budgetary credits and their sharing mechanism between the principal, secondary and tertiary budgetary credits officers.*

**Keywords:** public institutions, budgeting, budgetary credit, budgetary credit officer, budgetary commitment

**JEL classification:** M41 – Accounting

## 1. Introduction

A definition of the public institutions is given in Law 500/2002 on public finances according to which they represent the generic name that includes the Parliament, the Presidential Administration, the ministries, the other specialised bodies of public administration, other public authorities, autonomous public institutions, as well as institutions subordinated to them, regardless of their mode of financing.

In a broader sense, public institutions can be defined as patrimonial units created and organised by the state for carrying out its functions in the field of public administration, of social-cultural activities, of defence, public order and national security and those related to the organisation of other services and public interest activities in the non-profit system.

Public institutions can be classified according to several criteria, but according to the most representative criteria they are classified as follows:

- according to the subordination relationship public institutions are divided into two main categories:
  - Institutions of central public administration;
  - Institutions of local public administration.
- according to the legal status, public institutions are divided into:
  - Public institution with legal personality;
  - Public institution with legal personality.
- according to the hierarchy:
  - Higher public institutions;
  - Subordinated public institutions

## 2. The literature

The management of public institutions is done through the credit officers who have the ability to approve the public expenditure.

By credit officer we understand the natural person empowered to fulfil a leadership position within a state agency, an institution vested by the legislator with the right to have budgetary credits approved by its own budget of revenue and expenditure of the respective institution (C.O. Ţenovici, 2008, p. 11).

Public spending refers to the economic and social relations expressed in money, which manifest between the state, on the one hand, and individuals and businesses, on the

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other hand, on the occasion of the distribution and use of the state's financial resources to fulfil its functions (I. Văcărel, 2006, p.127).

Public expenditures are made within the limits of the budgetary credits. The budgetary credit represents the amount approved through the budget, representing the maximum limit up to which one can order and make payments during the fiscal year for the commitments made during the budget year and/or the previous years for multilateral actions, namely one can engage, order and make payments from the budget for other actions (Law 273/2006).

The engagement of all the expenditures from the public sources comprises two components: the legal commitment and the budgetary commitment.

The legal commitment is that phase in the budgeting execution that represents any legal act which results in, or could result in an obligation on the public funds (M. Dumitru, C. Pitulice, A. Ștefănescu, 2014, p. 9). The legal commitment must be submitted in writing, signed by the credit officer and take the form of a public contract, order, convention, etc.

The budgetary commitment represents any act by which a competent authority, under the law, distributes public funds to certain destinations, within the limits of the budgetary credits approved (M. Dumitru, C. Pitulice, A. Ștefănescu, 2014, p. 9).

### **3. Research Methodology**

The approach is based on what a public institution is and considers the financing method of its activity, as well as the mechanism through which the funding is achieved. Thus, the following aspects are analysed:

- credit officers;
- budgeting;
- sources of public institutions funding;
- budgetary appropriations;
- accounting of budgetary credits.

### **4. Credit officers**

The managers of public institutions are credit officers. They are granted by law the right to assign and distribute or only use budgetary credits, as appropriate, depending on the category they belong to. Thus, according to the rights and powers they have in the budgeting execution, the budgetary credits officers fall into three categories:

- main credit officers;
- secondary credit officers;
- tertiary credit officers.

The main credit officers for the public institutions financed from the state budget, the state social insurance budget and special funds budgets are the heads of the public authorities, ministers and heads of other specialised bodies of the central public administration. Locally, the main credit officers are the presidents of the county councils or mayors, depending on the budget.

The main budgetary officers have the ability to approve the expenditures from their own budget, in compliance with the law, and to allocate the budgetary credits approved by the state budget, the state social insurance budget and special funds budgets, to the subordinate units, in accordance with their tasks listed in the respective budgets, in compliance with the law.

The secondary and tertiary credit officers are the heads of the other public institutions who are in direct subordination to the main credit officers or secondary officers when it comes to the tertiary credit officers.

The secondary credit officers are the heads of the public institutions subordinated to the main credit officers. The secondary credit officers approve the expenses out of their own budgets and of those from the special funds budgets, in compliance with the law, and allocate the budgetary credits approved for the subordinate units whose heads are the tertiary credit officers.

The tertiary credit officers are leaders of the public institutions authorised by the main or secondary credit officers to use the budgetary credits which were allocated only for the needs of the institutions they lead. They do not subordinate other public institutions and do not have the ability to allocate budgetary credits to other institutions.

The credit officers are responsible, according to the law, for:

- the use of the budgetary credits;
- making the income;
- efficient and effective use of funds received from the state budget, from the state social insurance budget, from the special funds budget, from the local budgets and from other budgets of the public institutions;
- the integrity of the goods entrusted to the unit that they manage;
- organising and updating the accounting and presentation on time of the accounting reports on the budgetary execution;
- organising the internal audit and the preventive financial control.

### **5. The budgetary process**

The budgeting represents all the actions and steps taken by state institutions in order to define the financial policy applied by the budgetary authority. This is a very complex process, which is achieved by involving a large number of participants, some of whom have the right to decide on the budget and others perform the budget execution or the control on it.

The budgeting has a number of features that offer it specific features:

- it is a decision making process, since it involves meeting the needs of the companies for public goods and services with limited resources and most often insufficient in relation to the requirements;
- it is a democratic process, because during the performance of its stages the attributes of the rule of law are manifested on the one hand, and on the other hand the possibility of imposing the economic and social interests of various groups of citizens who have the majority of the political decision;
- it is a mainly political process, since the options reflected in the budget represent an act of political decision of the major political forces in the parliament;
- is a cyclical process, because the budgeting stages are carried out and achieved in concrete terms, stages that are repeated for each budgetary year;
- is a process with a broad public impact, with implications at macro and micro economic level, which manifests itself both economically and socially.

The budgetary process is a sequence of stages that the public budgets go through with institutional involvement through the use of methods, techniques and procedures in the design and implementation of specific indicators of income and expenses based on a clearly defined legal framework.

The budgetary process involves going through the following steps consecutively:

- drafting the budget project: it is the first phase of the budgetary process and consists of formulating the proposals on the budgetary revenue and expenditure by the budgetary credits officers, their communication to the Ministry of Public

Finance where the centralisation takes place in a document called project of the state budget law. The state budget draft includes:

- presenting the reasons and the draft of the state budget law;
  - annexes to the draft of the budgetary law;
  - documentation information on the substantiating method of the budget.
- approving the budget: the Parliament is the public institution empowered by the Constitution to approve the annual budgetary laws and the laws of rectification, developed by the Government in the context of the macroeconomic strategy undertaken by it.
  - implementation of the budget: consists of cashing the budgetary revenues and making the expenditures approved by the budget, in other words in the execution of the part of the budgetary revenue and the execution of the part of the budgetary expenditure:
    - the execution of the part of budgetary revenue involves the following steps staggered in time:
      - settlement of the budgetary revenues;
      - liquidation of the budgetary revenues;
      - issuance of the cashing securities;
      - levying the budgetary revenues.
    - the implementation of the part of budgetary expenditure involves the following distinct phases:
      - engaging the budgetary public expenditure;
      - liquidation of the budgetary expenditure;
      - authorisation of the budgetary expenditure;
      - payment of the budgetary expenditures.
  - the end of the budgetary year requires specific works that aim to establish the result of the implementation of the budget, namely the income earned, the expenses incurred and the balance recorded at the end of each budgetary year. For this purpose the budgetary execution account shall be made. It reflects the purpose of the revenue and expenditure execution operations and leads to the establishment of the execution result, which may be a surplus or deficit on the respective budgetary year.
  - the control of the budgetary execution: the Court of Accounts performs the judicial control and prepares the Annual Public Report containing the observations on the execution accounts of the budgets subject to its control, the financial irregularities and deficiencies, the accountability measures taken and other issues it deems necessary.
  - the approval of the budgetary execution: the general annual execution account of the state budget is finalised by the Government and presented for approval to the Parliament, which approves it through the law.

## **6. The financing sources of the public institutions**

The financing sources of the public institutions may differ from one institution to another.

The spending of the public institutions may be financed as follows:

- entirely from the state budget or from the local budgets, as appropriate, the social security budget or the special funds budget;
- wholly or partly on account of its own income through self-financing;
- based on the subsidies allocated from the state budget, the local budgets, the social insurance budget or the special funds budget;
- special purpose budgetary allocations, etc.

The public institutions financed entirely from one of the budgets listed above are required to transfer the budget fully to the budget from which the revenues achieved are funded. The income made by the public institution increase the budgetary credits related to the budget from which the funding is made.

The own income of the public institutions financed out of the own revenues are used in accordance with the income and expenditure budget approved for the institution in question.

#### **7. The budgetary credits and their accounting**

The budgetary credit is defined as the maximum limit to which a public institution can make cash payment.

The distribution or supply with funds of the accounts opened on behalf of the approved budgetary credits is made at the request of the main credit officers only after the opening of the credits.

The main credit officers require the Ministry of Public Finance to open the budgetary credits both for their own activity and for the activity of the subordinate units, based on the opening request of the budgetary credits.

The budgetary credits approved for a credit officer cannot be used to finance another credit officer's activity, and the expenses approved in a chapter cannot be used to finance another chapter's expenses. There is though one exception, when during the budgetary year additional tasks occur, and the credits in a particular chapter are not sufficient, and in others there is a surplus of availabilities, starting with the third quarter of the year one may make transfers of budgetary credits. The transfer of budget credits involves a reduction of the budgetary credits for a specific category of expenses, where there has been a surplus of availabilities and most of them in another category of budgetary expenditure, where these are insufficient.

Opening the budgetary credits are made based on the application procedure of starting the budgetary credits, a request stating the amount and purpose of the budgetary credits with breakdown on the budgetary classification structure.

The main credit officers retain from the budgetary credits opened their amounts necessary for their own expenses and allocate to the subordinated units the budgetary credits approved for this purpose, based on the budgetary provision for apportionment.

The opening and distribution of the budgetary credits is followed by the process of their use in accordance with the approved budgetary objectives. The payments made by the credit officers from budgetary or extra budgetary funds are known as cash payments.

The budgetary credits' accounting is performed using the off-balance sheet accounts. To illustrate the accounting of the budgetary credits we consider that: the Ministry of Public Finance allocates to the Ministry of Administration and Internal Affairs, as the main credit officer the amount of 150 million lei, out of which 100 million lei for their own activity, and the remainder to be distributed to the five secondary credit officers subordinated.

The first secondary officer subordinated receives the amount of 15,000,000 lei, out of which 10 million lei for his/her own activity, and the difference is distributed to the three subordinate tertiary officers in the following way: for the first tertiary officer the amount of 1,500,000 lei, for the second tertiary officer the amount of 2,500,000 lei, and the difference of 1,000,000 lei for the third secondary subordinate officer. The second secondary subordinated officer receives the amount of 10 million lei, out of which 8,000,000 lei for his/her own activity, and the difference for the tertiary officer subordinated to him. The third secondary subordinated officer receives the amount of 9,000,000 lei, out of which 7,000,000 lei for his/her activity, and the remainder is distributed equally to the two tertiary subordinated officers. The fourth secondary subordinated officer shall receive the sum of 12 million lei, out of which 6,000,000 lei for his/her own activity, and the remainder is distributed equally to the two tertiary

subordinated officers. The fifth secondary subordinated officer receives the amount of 4,000,000 lei, out of which 3,000,000 for his/her own activity, and the difference for the tertiary officer subordinated to him.

- the approval of the request to open the budgetary credit is recorded:

D	806.00	150,000,000
	“Budgetary credits approved”	

D	806.10	50,000,000
	“Budgetary credits to allocate”	

D	806.20	100,000,000
	“Budgetary credits opened for own expenses”	

- the budgetary credit distribution by the secondary officers is recorded:

C	806.10.OS1	15,000,000
	“Budgetary credits to allocate”	

	806.10.OS2	10,000,000
	“Budgetary credits to allocate”	

	806.10.OS3	9,000,000
	“Budgetary credits to allocate”	

	806.10.OS4	12,000,000
	“Budgetary credits to allocate”	

	806.10.OS5	4,000,000
	“Budgetary credits to allocate”	

- recognition of the opening of the financing in accounting of the secondary officers (based on budgetary allocation provision):

a) in the accounting of the first secondary officer:

D	806.00	15,000,000
	“Budgetary credits approved”	

D	806.10	5,000,000
	“Budgetary credits to allocate”	

D	806.20	10,000,000
	“Budgetary credits opened for own expenses”	

b) in the accounting of the second secondary officer:

D	806.00	10,000,000
	“Budgetary credits approved”	

D	806.10	2,000,000
	“Budgetary credits to allocate”	

D	806.20	8,000,000
	“Budgetary credits opened for own expenses”	

c) in the accounting of the third secondary officer:

D	806.00	9,000,000
	“Budgetary credits approved”	

D	806.10	2,000,000
	“Budgetary credits to allocate”	

D	806.20	7,000,000
	“Budgetary credits opened for own expenses”	

d) in the accounting of the fourth secondary officer:

D	806.00		12,000,000
	“Budgetary credits approved”		
D	806.10		6,000,000
	“Budgetary credits to allocate”		
D	806.20		6,000,000
	“Budgetary credits opened for own expenses”		
	e) in the accounting of the fifth secondary officer:		
D	806.00		4,000,000
	“Budgetary credits approved”		
D	806.10		1,000,000
	“Budgetary credits to allocate”		
D	806.20		3,000,000
	“Budgetary credits opened for own expenses”		
	• the allocation of the budgetary credit is recorded, for the own expenses, towards the tertiary officers (based on the budgetary allocation provision):		
	a) in the accounting of the first secondary officer:		
C	806.10.OT1		1,500,000
	“Budgetary credits to allocate”		
	806.10.OT2		2,500,000
	“Budgetary credits to allocate”		
	806.10.OT3		1,000,000
	“Budgetary credits to allocate”		
	b) in the accounting of the second secondary officer:		
C	806.10.OT1		2,000,000
	“Budgetary credits to allocate”		
	c) in the accounting of the third secondary officer:		
C	806.10.OT1		1,000,000
	“Budgetary credits to allocate”		
	806.10.OT2		1,000,000
	“Budgetary credits to allocate”		
	d) in the accounting of the fourth secondary officer:		
C	806.10.OT1		3,000,000
	“Budgetary credits to allocate”		
	806.10.OT2		3,000,000
	“Budgetary credits to allocate”		
	e) in the accounting of the fifth secondary officer:		
C	806.10.OT1		1,000,000
	“Budgetary credits to allocate”		
	• recognition of the budgetary credits in the accounting of tertiary credit officers:		
D	806.00	The record in each tertiary officer’s accounting is repeated with the amount allocated	
	“Budgetary credits approved”		
D	806.20	The record in each tertiary officer’s accounting is repeated with the amount allocated	
	“Budgetary credits opened for own expenses”		

## 8. Conclusions

The management of the public institutions is done with the help of credit officers, who after the rights and powers they have in the budgeting execution can be divided into three main categories: main credit officers, secondary credit officers and tertiary credit officers.

The credit officers implicitly help to the development and implementation of the financial policy applied by the budgetary authority by the fact that they are participants in the budgetary process.

Depending on the rights and duties that they have in the budgeting execution, the credit officers shall request, use and distribute the budgetary credits as follows:

- the main credit officers have the ability to approve executing the expenditures from their own budget and to allocate the budgetary credits approved towards the subordinated secondary and tertiary budgetary credit officers;
- The secondary budgetary credit officers are the leaders of the public institutions subordinated to the main credit officers and have the ability to approve the execution of the expenditures from their own budget and to allocate the budgetary credits approved for the subordinated units whose heads are tertiary credit officers;
- the tertiary credit officers are the managers of the public institutions empowered by the main or secondary officers to use the budgetary credits which were allocated to them only for the own needs of the institutions they lead.

The budgetary credits' mechanism involves following the next steps: opening the funding through the application of opening the budgetary credits; the use and allocation of the budgetary credits based on the budgetary provision for apportionment.

The accounting of the budgetary credits is organised at the level of each public institution by the credit officer.

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