

Unger, István
Retired Major of the Border Guards

**AN ANALYSIS OF THE TREASURY MANAGEMENT OF THE
HUNGARIAN BORDER GUARDS,
AN INVESTIGATION OF THE POTENTIAL DIRECTIONS OF
ITS DEVELOPMENT IN LIGHT OF EU REQUIREMENTS**

PhD Dissertation
Executive Summary

Consultant expert:
Dr. Orosz, László (PhD)

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1. DEFINING THE SCOPE OF SCIENTIFIC INVESTIGATION

I chose to analyse the treasury management of the Hungarian Borders Guards because I believe that prior to a further reform of public finances and a fresh impetus given to the development of the Hungarian treasury system it is definitely essential to summarize the experience of the period since the establishment of the Hungarian State Treasury. Considering this experience and with a view to European legislation I decided to explore potential directions of further improving the management of the Hungarian Border Guards.

My objective was to explore whether one can be reassured that given the newly founded basis of the safe management of public funds and given the achievements and savings of the Border Guards in the past period of time, can one sit back and relax assuming that the current system has been perfected without asking ourselves whether it has any shortcomings? Is there a need for further improvement and adjustments? Is there another way regarding the economic structure of the organisation set up previously?

In the course of my analysis I arrived to the conclusion that the issue is still highly topical, which supported by the fact that Hungary has just assumed EU and Schengen membership and that Hungary must fully comply with the requirements of the controlling system set for the full members of the Schengen Agreement. What this entails is a restructuring of the organisation and the setting up of a new operating order. With a view to ensuring a safe working order I wanted to see how effective the spending of public funds is, how it is controlled at the Border Guards; and I also analysed the appropriateness of the treasury concepts, and investigated the procedures in effect both in Hungary and in the investigated EU Member States by having a close look at the budgets of public finances and that of the border guards. The analysis also encompasses the possible ways and potentials the Border Guards have to adapt to EU standards of operation.

The paper wishes to prove the view that fully complying with EU requirements, the Hungarian Border Guards enhances the scope of authority of the implementing services, reduces the number of leadership levels, structural elements and persons, their proportion compared to the total, streamlines the supporting and ancillary services provided for the organisation and improves its capacities to protect order and boosts other special skills. The paper also aims at tabling a recommendation of an adequate way of financing, which pays extra attention to ensuring operational costs and a scheduled replacement of equipment amortised besides guaranteeing an operational framework and planned development.

2. RESEARCH OBJECTIVES

When pinpointing the topic I have set the following issues as research objectives.

I wished to

1. **investigate the external environmental impacts defining the management opportunities and limits as well as the primary tasks of the Borders Guards;**
2. **summarise the expectations and requirements arising from adjusting to a new working order determining the future operation of the Border Guards in line with EU membership with a view to international experience;**

3. **explore the cause-and-effect mechanisms** following the establishment of the Hungarian State Treasury and to investigate their influence on the Border Guards' fulfilling its primary tasks and to present the interrelatedness between management and the said mechanisms;

4. analyse the management of the period following the establishment of the Hungarian treasury system on the basis of the annual budgetary report and annual reports of the Border Guards, and also **to elaborate recommendations to streamline the practice of management and funding.**

In order to hit the targets set, I employed general and specific research methods including observations, library research, statistical analyses, general analysis, synthesising, induction and adaptation. I gained an insight into both the relevant Hungarian and international literature, and I looked into the practices of EU Member States. On the basis of budgetary report and other documents I analysed the budgetary management of the Hungarian Border Guards. I have concluded my scientific activities as of 31 December, 2004¹.

3. A BRIEF DESCRIPTION OF THE INVESTIGATIONS CARRIED OUT AND PROCEDURES FOLLOWED

The paper deals with the subject matter in four main chapters.

Chapter 1 analyses the situation after the social and economic changes of 1989 and the need for a reform of public finances. **It presents** the macro-economic environment and the reform of Hungarian public finances, which gave rise to the establishment of the treasury system in Hungary. **It analyses** the factors triggering budgetary deficit, structural aspects of the budget, and the effect of monetary policy as well as the major elements of the said reform of the public finances.

Chapter 2 presents experience relating to treasury systems; **introduces** centralized and decentralized treasury systems, elaborates on the process establishing the Treasury; and **describes** its operation and its impact on the management of the Border Guards. **It analyses** the treasury type implementation and funding of the budget, the concentration of the treasury function integrated into a single institution. It looks into the costs of fund management and funding, and the costs of the controlling system thereof, which operates regularly and with full competence prior to the emerging of public expenditures and their settlements, and it also investigates the attitude and the habits of the public sector.

Chapter 3 outlines the preparation of the Border Guards for the tasks arising from EU membership, presents the border controlling system in compliance with EU requirements, and the developments related to EU accession. **It analyses** the budgetary management of the Border Guards, how tasks and their funding is harmonised, the management of real estates and the changes in assets.

Chapter 4 introduces Hungarian financing techniques. **It analyses** the main conditions of the modernisation and development of management, and the model of public finances working with task based funding. **It systemises** the theoretical foundations of the task-based financing of the Border Guards. **It provides an interpreting** of a task-oriented

budget design and the concepts of centralisation and decentralisation in a Border Guards environment.

Finally I come to a conclusion on how centralisation and decentralisation work in an up-to-date model of operation of the economic organisation of the Border Guards.

4. CONCLUSIONS

The issues pointed out as the objectives of the dissertation have been elaborated on and analysed in the individual chapters. Concerning the particular objectives I arrived at the following conclusions:

The investigations seem to support the view that the establishment of the Hungarian State Treasury failed to bring about fundamental changes in budgetary management neither in terms of macro-rules, nor in terms of the regulations and laws on the financial management of the budgetary institutions. Neither the central, nor the institutional regulation of calculation, implementation, accounting and controlling has changed substantially. Due to a rather loose legal background the pointless and unjustified income-orientated financial system of the institutions has prevailed or has even become stronger, as has the right of full disposal over the incomes debited on the accounts and the state funding.

My analyses make me agree with the view that the duality of professional tasks and their funding is relevant to all levels of public finances as they seem to operate independently. The public player implementing the state task or function and the financial agent funding the task is consistently different legally, structurally and in terms of their tasks. By integrating treasury functions into a single institution, financing the budget through a treasury system could cut down on the costs of managing public funds and public financing but this would lay the foundations for a financial controlling system which is capable of regularly performing its tasks in full prior to the emerging of public expenditures and their settlements.

I reached the conclusion that by being a budgetary institution the basic rule of the financial management of the Border Guards is that it must keep to the limits set by the Budgetary Act, including the provisions on staff management. However, the current practice of planning does not seem to follow this as it operates on the basis of the actual cash flow and ignores the fact that the activities can be characterised by the resources actually used, that is, the total costs. This approach establishes no connections between performance and costs and indeed fails to interpret the idea of performance.

My research has led to the conclusion that concerning the base, especially the actual material and maintenance costs the Border Guards is unable to perform its tasks as provided for by relevant legislation, without using automatic mechanisms. The extra tasks are not fully funded by the budgetary proposal. In the case of legal obligations entering into effect after the adoption of the annual budget the mere chance of being incorporated into the budget proposal is lost.

My analyses seem to point to the conclusion that the inevitable growth of the costs and expenditures and the structural changes have not been met with an increase in funding commensurate with the former, although the organisation is forced to produce an increasing

amount of incomes. As a result, the room for manoeuvring in terms of financial management has been further reduced and constant funding hitches arose. Major austerity measures were introduced to balance the situation and keep processes under control, including the identification of internal resources, exploring potential sources of income. This, however, led to an easing of tensions and delayed the problem to be tackled.

The analyses show that the internal proportion of operational costs has annually been deteriorating at the cost of material and maintenance costs. Further tensions were generated by the lack of the automatic mechanisms, which could have served to counteract the adverse effects of inflation. During the phase of planning not even the costs of the extra tasks ordered by law was provided for.

The investigations seem to support the fact that the 15-year process of the Border Guards' preparation for EU membership, including putting the necessary legal, organisational framework, staff, training and technical requirements as well as financial means in place in order to achieve an adequate order procedures. Since Hungary filed its application for membership with the Commission, the Border Guards has actively been preparing, and initiated reforms in the border controls, the border traffic controls and the defence of the borders following the EU example.

The results of the research carried out suggest that main idea of a task-based model of public finances is that resources are allocated to tasks and not to institutions. This follows logically from current social demands. People will not feel happier if they know they support institutions (such the Border Guards, fire guards, hospitals, etc.). But they will be content knowing that these institutions provide services for them. The state therefore orders services directly from these institutions instead of providing unconditional funding for the institutions if it is to avoid a constant increasing of the sizes and scopes of authority of the offices and institutions and wants to avoid red tape. This conclusion applies not only to the public administrative system, but also to all state institutions. The state is therefore not there to fund the hospitals but to finance health care. It is not the Border Guards to be financed but the task of patrolling and investigations, not the Hungarian Army, but a certain level of alarm of national defence, etc. It is essential that all the requirements and indices are to be clearly defined for each of the institutions, which serve as a basis of the assessment of their performance. Competent authorities and politicians in a position to make objective judgements whether or not the functioning of the particular institution meet the expectation of society, 'was it worth the money invested?' only if we can clearly pinpoint what results have been achieved using what resources.

In the course of research I arrived at the conclusion that planning and organising relating to the structural development of the Border Guards, putting in place the necessary, integrated local, regional and central structural elements of EU border controlling practice, pooling, analysing and utilising operational experience are all relevant and integral parts of effective operation. It seems justified that the model of financial management be streamlined in order to match tasks and resources. The independence of the basic unit of border guarding, that is, the local offices should be enhanced in terms of financial management (differently on internal and external borders, of course) with the centre taking over tasks from the regional bodies providing an opportunity to further strengthen the supervising function of the directorates.

5. NEW SCIENTIFIC RESULTS

I regard the following points as the scientific outcome of my research.

- 1. By exploring the relationship between the Hungarian State Treasury and the Border Guards I presented the Treasury's impact on the processes of financial management. I synthesised and summarised the characteristic features of the financial management of an institution funded by the Treasury, and also the necessary changes proposed in the management of the Border Guards.**
- 2. Regarding the factors of the external environment, exerting their effects in the course of years I provided evidence that budgetary limits are decisive constraining factors in performing primary tasks and determine the capacity of the institution to do so.**
- 3. I provided evidence supporting the view that the operation of the Border Guards under the new system requires a management model of task-based funding by the Treasury. The idea to allocate funds to tasks and not to institutions is its most significant element. I also provided theoretical grounds to support this and made a recommendation on the way of operation.**
- 4. I have pointed out and explained that the centralisation and decentralisation of financial tasks run go hand in hand during streamlining financial management to meet EU requirements. I have provided evidence that an increasing number of local tasks require local powers regarding financial management as well, carried out differently at internal and external borders, and that the various tasks of financial management can be performed more effectively when consigned to the background institution of the central organ (GEK), which, in turn, strengthens the supervising and the management role of the regional and local units, respectively.**

6. RECOMMENDATIONS, APPLICABILITY OF RESEARCH OUTCOMES

The issues and questions analysed and elaborated upon and the conclusions drawn thereof can be of interest to experts and researchers dealing with social and economic changes and restructuring, or investigating the international and domestic experience resulting from the period following the establishment of the Hungarian State Treasury, or researching the development and modernisation of funding.

I find the dissertation suitable for use as source material in the training at the Zrínyi Miklós University for National Defence and Police College. It can serve as an important source of information for anybody interested in any of the questions detailed at length in the individual chapters.

In the course of my research I made an attempt to present, analyse and interpret the main procedures which, as a rather sophisticated system, are in place anyway serving as the basis of the Border Guards' Treasury-based financial management. In the face of all this there are

considerable EU requirements defining primary tasks and the way to carry out economic activities. I was aiming at including international, and EU theory and practice in particular on social changes into the paper. I should think that by investigating significant but less explored aspects of the issue and by drawing conclusions I have reached my objective.

7. LIST OF PUBLICATIONS

Articles and studies

1. An Analysis of the Budgetary Financial management of the Szombathely District (Zalaegerszeg Institution of the College for Financial Studies and Accounting 1990. Zalaegerszeg)
2. Financial Management at the Border Guards (Special edition of the Review of the Ministry of the Interior 1998. Budapest)
3. On Introducing the Euro (Scientific Papers at Berzsényi Dániel Teacher Training College 4. 1999. Szombathely pp 39-54 ISSN 1419-3604)
4. A Historical, International and Domestic Overview of the Relationships between the Management Systems of Treasury-funded Institutions (Scientific Papers at Berzsényi Dániel Teacher Training College 5. 2000. Szombathely pp 9-18. ISSN 1419-3604)
5. Specific Features of the Local Tax System (Scientific Papers at Berzsényi Dániel Teacher Training College 5. 2000. Szombathely pp 19-28. ISSN 1419-3604)
6. The Establishment of the Hungarian State Treasury. (Border Guards Studies 2000./1. pp. 114-132.)
7. Experience of the Operation of the Hungarian State Treasury so far. Opportunities for Development. (Border Guards Studies 2000/2. pp 24-37.)
8. Tasks performed and Services offered by the Hungarian State Treasury (Border Guards Studies 2000/3. pp 119-132.)
9. The effect of the Treasury on the financial management of Treasury-funded State Institutions, possible directions of development. (Faculty of Economic Studies, University of Western Hungary, 2000.)
10. The reform of Public Finances.(Scientific Papers at Berzsényi Dániel Teacher Training College 8. 2001 pp 23-30. ISSN 1419-3604)
11. Matters of Budgetary Balance in the mid 1990s. (Scientific Papers at Berzsényi Dániel Teacher Training College 8. 2001 pp 31-38. ISSN 1419-3604)
12. The Border Guards' Experience of implementing the Public Procurement Act, its Effect on management. (Papers of the University for National Defence VI. 2002/2 pp 190-205. ISSN 1417-7323)

13. On the relationship between Treasury-funded Budgetary Institutions and The Hungarian State treasury. (Scientific Papers at Berzsenyi Dániel Teacher Training College 2002. 9. pp 53-55. ISSN 1419-3604)

Conferences and lectures

1. A geographical positioning of the Border Guards in light of the EU requirements. (Professional Day of the Institute for Natural Sciences, BDF 29 January, 2002)
2. The circumstances of the establishment of the Hungarian State Treasury and its functions. (International conference on applied economic, technical and natural sciences, organised by BDF 11 May 2002. pp 2, 14. ISBN 963 929069 6; see the full text in the proceedings of the conference ISBN 963 929068 8 pp 75-84)
3. The budgetary funding of the Border Guards by the Treasury in the management system of National Defence. (Conference titled 'Topical issues of the management of National Defence co-organised by the competence Dept. of the Hungarian Society for Defence Sciences and the Zrínyi Miklós University for National Defence, 8 October, 2002, Budapest. For the full text, see the proceedings volume of the conference ISBN 963 2105117 pp. 44-51)
4. A budgetary control and the order of management of the Border Guards within public finances (2nd International conference on applied economic, technical and natural sciences, organised by BDF 10 May, 2003 p 23; for the full text see the proceedings volume of the conference, still under publishing)
5. On certain aspects of the practice of budgetary planning of organisations falling under the competence of the Ministry of the Interior, of the Border Guards in particular. (Conference titled 'Defence Planning and its economic aspects' co-organised by the Hungarian Society for Military Sciences, the Zrínyi Miklós University for National Defence, the Office for Defence Planning and Coordination of the Ministry for National Defence and the Scientific Council of the Logistics and Ancillary Headquarters of the Hungarian Army 21 September, 2004)
6. On the relationship between logistics and the financial management of the Treasury-funded Border Guards (3rd International conference on applied economic, technical and natural sciences, organised by BDF 20 October 2004 p 17, ISBN 963 9290 69 6: for the full text see the proceedings of the conference to be published electronically)
7. The theory and practice of budgetary planning at the Border Guards (3rd International conference on applied economic, technical and natural sciences, organised by BDF 20 October 2004 p 18, ISBN 963 9290 69 6: for the full text see the proceedings of the conference to be published electronically)

Papers submitted as part of the Scientific Forum for Students

1. The current management of Hungarian public finances and Government loans, the potential ways of its development (Faculty of Economic Studies, University of Western Hungary, 2000, Sopron)

8. PROFESSIONAL AND SCIENTIFIC CURRICULUM VITAE

I was born on 5 April, 1955 in Berettyóújfalu. I am married with two grown-up children, one of them has already graduated from a university for legal studies, the other one is a fifth-year student at a university for legal studies. My wife works as the head of a laboratory.

I did my GCSE equivalent examinations of the Rudas László Secondary School for Economic Studies in Szombathely in 1973. Later I became chartered accountant corporate planner and statistician. I am also a qualified electric mechanic for vehicles and I have a professional driving licence (categories A, B and C) and I am also a qualified light machinery operator.

I graduated from Juhász Gyula Teacher Training College, Szeged in 1982 as a teacher of Hungarian language and literature and as an administrator of pedagogy.

I graduated from the Zalaegerszeg Institution of the College for Financial Studies and Accounting in 1990 as an economist with specialisation in budgetary matters awarded by the Examining Board for Accounting of the Ministry of Finances.

I did supplementary financial studies in the Sopron Faculty for Economics of the University of Western Hungary in 2000 and was awarded a university degree in economics.

At the Doctorate School of the A Zrínyi Miklós University for National Defence I have fully met the examination and study requirements the certificate of which is dated 11 March, 2004.

From 1975 I worked as an administrator in the Szombathely Dairy Plant.

Having done my compulsory military service, I worked as a patron officer in the Szombathely Jail from 1 September, 1977.

From 1 July 1983 I worked at the Szombathely Border Guards Centre first as a financial controller, as deputy head of the financial department from 1988, as Chief Financial Officer from 1991 which was later renamed as Financial Vice Director.

I worked at the National Headquarters of the Border Guards between 1995 and 2001 when I retired as the financial vice head of the institution with national powers and competences. As the Financial Director I was in charge of Controlling, supervising and coordinating activities of the Border Guards related to budgetary matters, matters of financial management and informatics. I coordinated tasks related to management (operation and accumulation), accounting, payroll matters, vehicle maintenance, technical, arms, cultural technology, security technology, renovation, building maintenance and operation, food and clothing supply, estate management, communications, IT and procurement. During my time

as Financial Director the Border Guards had no liquidity problems and had no debts. All state checks and audits by the various competent state authorities (ÁSZ, KEHI, BM) assessed the economic activities and the management of the organisation as positive.

As of 1 March 2001 the minister for Agriculture and Rural Development appointed me the Deputy Head of the Vép Agricultural Vocational Secondary School of the Ministry.

At present I am also a part-time lecturer at Berzsenyi Dániel College.

I have State Language Certificates in German and in Russian, type C

I was a member of the Board of Trustees of the pension fund Honvéd Önkéntes és Magánnyugdíj Pénztár between 1996 and 2002.

For providing accounting services I am registered under Nr 114113 at the Ministry of Finances in line with the Governmental Decree 93/2002. (V. 5.).

In line the provisions of article 2 of paragraph 95/A of the Public Finances Act, the National Auditing Office has registered me as a person meeting the legal requirements set for the head of the supervisory boards of enterprises.

The National Council for Public Procurement entered me into the list of public procurement advisors under Nr 123/2005 on 9 March, 2005.

I also participate in the work of the Department of Defence Management and Border Guards Department of the Hungarian Society for Military Sciences, the Association of Management and Scientific Societies, The Hungarian Society for Maintaining Law and Order, the Society for County Vas, the County Body of the Hungarian Academy of Sciences and in the work of the Hungarian Society for Economics.

25 May, 2005, Budapest.

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Retired major of the Border Guards