



IMPACT OF INTERNAL CONTROL PRACTICES ON MANAGEMENT CONTROL SYSTEMS IN TERTIARY HOSPITALS IN THE PROVINCE OF LAGUNA: BASIS FOR INPUTS TO EFFECTUAL MONITORING

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ABSTRACT

The Company base their strategies in the vision of the company (A.B. Ilano). The company may not realize that the employees and the subordinate managers may or may not act with the same goals. The company should set internal controls practices for the rank and file employees and set management control systems for subordinate managers in order to give reasonable assurance that there is only one goal perceived by the management and employees. This study aimed to determine the impact of internal control practices on management control systems of tertiary hospitals in the province of Laguna. The researcher was able to determine the level of internal control practices (independent variable) and management control systems (dependent variable) of the tertiary hospitals in the province of Laguna following a certain procedure. Results revealed that validity, completeness and authorization of cash transactions do not significantly impact the cash management and inventory management while valuation significantly impact the cash management. Also, internal control practices do not significantly impact the receivable management. The results were deemed helpful in deeper understanding the internal control practices and management control systems of tertiary hospital in the province of Laguna. Moreover, this study proposed an effectual monitoring system that can be widely used not only by the health care industry but also in the other industry as well.

Keywords: Internal Control Practices, Management Control Systems, Hospital Management, Cash Management, Receivable Management, Inventory Management

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INTRODUCTION

The hospital management is under the supervision of health allied professionals where they are giving most of the attention to the quality and convenience of health care services while trading off the part of management and administration control to its employees (Finkler et al., 2017). At the beginning, when the hospital is small, the management 2 decisions may still be congruent with the organization's vision, mission and objectives since all the information are highly assured because the data are control by only few employees. On the other hand, when the hospital is growing, the hospital become more complex and its operation becomes more difficult. All data and information in a specified period of time will increase in volume which cannot be processed by few employees. This is where decentralization is needed.

In decentralized organizations, the information that will be provided may be misleading which makes the manager's decision to be dysfunctional with the organization's vision, mission and objectives. In the hospital setting, there are different departments which authorities have been delegated such as pharmacy, radiology, laboratory, diagnostic, rehabilitation center, purchasing, general stockroom and other ancillaries. The company should create an environment which will help the top management to assess whether the subordinate managers act within their boundaries and act in line with the vision, mission and objectives of the company. To create this environment, hospitals should adopt management control system.

Management control systems is a set of system composed of procedures that influence the subordinate managers to act in accordance with organization's vision, mission and objectives in a systematic and organized way (Macintosh & Quattrone, 2017). This is also a tool in measuring the quality performance of subordinate managers whether they are in compliance with the system or not. It will give guidance to the management on how to make decisions which are in line with the organization's objectives. These sets of system may be useful in creating policies and procedures clear and precise which motivates the employees to work effectively and efficiently. However, management control systems has its own limitations and imperfections. These limitations and imperfections may give opportunity to the employee to make some fraudulent activities or malpractice in the workplace. When this happen, information coming from the system will be distorted that will lead to dysfunctional decision making by managers. Therefore, adequate internal control must be established to guard the organization from this malicious actions.

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Internal control system is the process by which management structures an organization to provide reasonable assurance that an entity operates effectively and efficiently, has a reliable financial reporting system and complies with applicable laws and regulations (Fawcett & Homewood, 2016). It is necessary to help employees and other stakeholders understand the attitude and objectives of the organization as a whole. It is a process where it is connected in another processes to prevent the commission of fraud. This will help the manager to have reliable information which is needed in planning, execution of transactions, and evaluating and monitoring results.

There were many studies related to internal control practices and management control systems. However, only limited studies have been conducted relating to health care services specifically in a hospital. This study pursued arising from the curiosity and eagerness of the researcher to determine the internal control practices and its impact to management control systems in tertiary hospitals in Laguna. The results deemed helpful in deeper understanding internal control practices and its impact to the management control systems. Moreover, this study proposed an effectual monitoring that can be widely used not only by the hospitals but also by other health care services.

MATERIALS AND METHODS

This study was a quantitative research that used impact analysis method of research. Impact analysis (IA) is defined by Bohner and Arnold (as cited in Teufl & Hackenberg, 2015) as "identifying the potential consequences of a change, or estimating what needs to be modified to accomplish a change", and they focus on IA in terms of scoping changes within the details of a design.

The data were gathered from the selected level 2 tertiary hospital in Laguna. The researcher conducted the study in Laguna due to the accessibility of the respondents. The selected hospitals were included in the list of registered hospital in Philippine Health Insurance Corporation.

This study used the stratified random sampling to ensure the availability of the respondents. Stratified random sampling is a method of sampling that involves the division of a population into smaller groups known as strata. The researcher used GPower application to get

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the sample size to be used to conduct the study. There were 219 samples size obtained with an effect size of 26.80% (25% medium) for a three (3) groups in the F-test family. There were two hundred five (205) tasked employees, 52 seven (7) managers and seven (7) internal auditors who will respond on this research and who were selected from level 2 tertiary hospitals in Laguna.

Table A presents the Number of Level 2 Hospitals and its ratio in the Province of Laguna. Specifically, the table provides the details of the cities and municipalities with level 2 hospitals and their respective ratio.

Table A
Number of Level 2 Hospitals and its Ratio in the Province of Laguna

No.	Location of Level 2 Hospials'	Number of Hospital	Share in the Market (%)
1	San Pedro	1	5%
2	Biñan	2	10%
3	Sta. Rosa	5	25%
4	Cabuyao	1	5%
5	Calamba	2	10%
6	Los Baños	2	10%
7	Sta. Cruz	3	15%
8	San Pablo	4	20%
Total		20	100%

The respondents of the study were the tasked employees, managers and internal auditors who responded on this research and who were selected from level 2 tertiary hospitals in Laguna. The respondents were chosen regardless of age, gender, marital and economic status. The tasked employees may be directly handling the position of cashiering, collecting cash from receivables, disbursing cash, time keeping, charging/billing, monitoring credits, safekeeping the inventories, dispensing/selling inventories, purchasing inventories and bookkeeping. Managers may be a comptroller, finance manager or chief accountant which are responsible for making decisions that is congruent to company's goals and objectives. Internal auditors are the one who ensure that

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the company policy, rules and regulations, and systems are properly authorize, complete, valid and with accurate value.

The researcher utilized the self-made questionnaire as an instrument of the study. The development of the questionnaire will be based on the data and information gathered from all the readings which primarily gathered to answer the questions of the study. The self-made research questionnaire can be categorized as a validity questionnaire, completeness questionnaire, authorization questionnaire and valuation questionnaire which will be categorized to cash management, receivable management and inventory management. Table 1B represents the content of internal control practices scale. Specifically, the table provides the detail of internal control practices in 55 terms of validity, completeness, authorization and categorize into cash, receivable and inventory.

Table B
Internal Control Practices Scale

	Validity	Completeness	Authorization	Valuation	TOTAL
Cash	10	7	9	5	31
Receivables	11	6	6	7	30
Inventories	6	8	5	5	24
TOTAL	27	21	20	17	85

The following are the statistical treatments applied to the study by the statistician using Statistical Package for Social Sciences (SPSS) 1. The mean and the four -point Likert Scale was used to describe the Tertiary Hospital level of internal control practices. 2. ANOVA was used for establishing the significant difference between the assessment of internal control practices by tasked employees and managers from the assessment of internal auditors. 3. The mean and the four -point Likert Scale was used to describe the Tertiary Hospital level of management control system. To establish the impact between the internal control practices in terms of validity, completeness, authorization and valuation and management control system in terms of cash

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management, receivable management and inventory management, the multiple linear regression was used.

RESULTS AND DISCUSSION

Discussion per problem and per table/thematic chart followed by discussion, interpretation/reflection, and supporting literature.

Table 1
Test of Significant Difference in the Assessments of the Tasked Employees, Managers and Internal Auditors as regards the Level of Implementation of Internal Control Practices for Cash Transactions

Indicators		Sum of Squares	df	Mean Square	F	Sig.	Remarks	Decision
Validity	Between Groups	0.455	2	0.227	3.57	0.036	Significant	Reject Ho
	Within Groups	3.184	50	0.064				
	Total	3.639	52					
Completeness	Between Groups	0.048	2	0.024	0.197	0.822	Not Significant	Accept Ho
	Within Groups	6.039	50	0.121				
	Total	6.086	52					
Authorization	Between Groups	0.009	2	0.005	0.075	0.928	Not Significant	Accept Ho
	Within Groups	3.05	50	0.061				
	Total	3.06	52					

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Valuation	Between Groups	0.425	2	0.213	1.619	0.208	Not Significant	Accept Ho
	Within Groups	6.566	50	0.131				
	Total	6.992	52					

The following probability values .822, .928 and .208 of completeness, authorization and valuation are all greater than the level of significance at .05. Thus accept the null hypothesis. It can be concluded that there is no significant difference on the assessment of the aforementioned variables.

On the other hand there is significant difference on the assessment of validity. As shown on the table, the probability value of .036 is less than the level of significance at .05. Thus reject the null hypothesis.

Assessment of tasked employees, managers and intern auditors with regards to the internal control practices in terms of completeness, authorization and valuation do not have significant difference. However, there is a significant difference between the assessment of tasked employees and managers /internal auditors as to validity for cash transactions. The tasked employees believe that the internal control for cash as to validity is not strictly implemented. If there is a difference between the perceptions of the personnel within the organization, it may create a room for possible non-compliance if not monitored. Managers believe that all policies and procedures are being carried out by the employees and are unaware of the noncompliance by employees. Lax managers tend to believe that the controls will guarantee that the employee will follow rules and regulations without being monitored (Ilano, 2017). An entity with a long and rich history of operating with integrity and whose culture is well understood by people throughout the organization, will likely find a little difficulty in communicating its message. An entity without such a tradition will likely need to put more effort into the way messages are communicated (Ireneo, 2017).

2. Receivable transactions

Table 2 shows the significant difference in the assessments of the tasked employees, managers and internal auditors as regards the level of implementation of internal control practices for receivable transactions.

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Table 2
Significant Difference in the Assessments of the Tasked Employees, Managers and Internal Auditors as regards the Level of Implementation of Internal Control Practices for Receivable Transactions

Indicators		Sum of Squares	Df	Mean Square	F	Sig.	Remarks	Decision
Valid	Between Groups	0.501	2	0.25	2.723	0.074	Not Significant	Accept Ho
	Within Groups	5.239	57	0.092				
	Total	5.739	59					
Completeness	Between Groups	0.998	2	0.499	5.109	0.009	Significant	Reject Ho
	Within Groups	5.569	57	0.098				
	Total	6.567	59					
Authorization	Between Groups	2.202	2	1.101	10.303	0	Significant	Reject Ho
	Within Groups	6.092	57	0.107				
	Total	8.295	59					
Valuation	Between Groups	0.986	2	0.493	1.815	0.172	Not Significant	Accept Ho
	Within Groups	15.48	57	0.272				
	Total	16.465	59					

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The following probability values .074 and .172 of validity and valuation are all greater than the level of significance at .05. Thus accept the null hypothesis. It can be concluded that there is no significant difference on the assessment of the aforementioned variables.

On the other hand there is significant difference on the assessment of completeness and authorization. As shown on the table, the probability value of .009 and .000 are less than the level of significance at .05. Thus reject the null hypothesis.

Assessment of tasked employees, managers and internal auditors with regards to the internal control practices in terms of validity and valuation do not have significant difference. However, there is a significant difference between the assessment of tasked employees and managers and internal auditors as to completeness and authorization for receivable transactions. The tasked employees believed that the internal control for receivable as to completeness and authorization is not strictly implemented. Managers believe that all policies and procedures are being carried out by the employees and are unaware of the noncompliance by employees. Lax managers tend to believe that the controls will guarantee that the employee will follow rules and regulations without being monitored (Ilano, 2017). An entity with a long and rich history of operating with integrity and whose culture is well understood by people throughout the organization, will likely find a little difficulty in communicating its message. An entity without such a tradition will likely need to put more effort into the way messages are communicated (Ireneo, 2017).

3. Inventory transactions

Table 3 shows the significant difference in the assessments of the tasked employees, managers and internal auditors as regards the level of implementation of internal control practices for receivable transactions.

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Table 3
Significant Difference in the Assessments of the Tasked Employees, Managers and Internal Auditors as regards the Level of Implementation of Internal Control Practices as to Inventory

Indicators		Sum of Squares	df	Mean Square	F	Sig.	Remarks	Decision
Validity	Between Groups	0.189	2	0.094	0.276	0.759	Not Significant	Accept Ho
	Within Groups	45.151	132	0.342				
	Total	45.34	134					
Completeness	Between Groups	0.658	2	0.329	2.23	0.112	Not Significant	Accept Ho
	Within Groups	19.474	132	0.148				
	Total	20.132	134					
Authorization	Between Groups	0.205	2	0.102	0.142	0.868	Not Significant	Accept Ho
	Within Groups	95.384	132	0.723				
	Total	95.589	134					
Valuation	Between Groups	0.595	2	0.298	0.638	0.53	Not Significant	Accept Ho
	Within Groups	61.581	132	0.467				

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Total 62.176 134

The following probability values .530, .759, .112, and .868 of validity, completeness, authorization and valuation are all greater than the level of significance at .05. Thus accept the null hypothesis. It can be concluded that there is no significant difference on the assessment of the aforementioned variables.

Assessment of tasked employees, managers and internal auditors with regards to the internal control practices in terms of validity, completeness, authorization and valuation do not have significant difference. An entity with a long and rich history of operating with integrity and whose culture is well understood by people throughout the organization, will likely find a little difficulty in communicating its message. An entity without such a tradition will likely need to put more effort into the way messages are communicated (Ireneo, 2017).

Level of Implementation of Management control systems of Tertiary Hospitals in the province of Laguna in terms of:

4. Cash Management

Table 4 shows the level of implementation of management control systems of Tertiary hospitals in the province of Laguna in terms of Cash Management.

Table 4
The Management Control System in terms of Cash Management

Indicators	Mean	interpretation
Are all expenses being paid as incurred or after their due date?	3.86	A
Are all credit purchases being paid on or before its due date?	3.64	A
Does the company did not experience any cash shortage?	3.79	A
Is debt financing limited to approved credit range?	3	O

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Is a cash budget for the company being appropriately set?	3.07	O
Are cash conversion cycle being maintained in an acceptable ratio compared to peer industries?	2.29	R
Composite	3.27	O

Legend: 3.50 - 4.00 Always (A) 1.50 - 2.49 Rarely (R)
 2.50 - 3.49 Often (O) 1.00 - 1.49 Never (N)

The composite mean is 3.27 and interpreted as **"Often"** which shows that the hospitals are implementing the management control system. Are all expenses being paid as incurred or after their due date? Has the highest mean which is 3.86 and interpreted as **"Always"** which shows that the hospitals are strictly implementing the management control system. Are cash conversion cycle being maintained in an acceptable ratio compared to peer industries? has the lowest mean of 2.29 and interpreted as **"Rarely"** which shows that the hospitals are sometimes implementing the management control system.

As cited by JP Morgan, cash is one of your most important assets and should be managed efficiently to support your growth and financial strength. Corporations are very keen on the implementation of control with regard to cash transactions. The managers monitor the cash inflows and outflows of the company.

Moreover, companies are most likely to pay the debts to supplier or any other expenses on a regular basis. In large companies, there is a separate function for disbursing of cash through checks. The manager should know the cash position of the company to avoid bouncing checks or unfunded payments.

Thus, cash itself is not capable of generating any sort of income on its own. It is rather the prime requirement of income generating sources and functions. Thus, a firm should go for minimum possible balance of cash, yet maintaining its adequacy for the obvious reason of firm's solvency. Cash management deals with maintaining sufficient quantity of cash in such way that the quantity denotes the lowest adequate cash figure to meet business obligations. Cash management involves managing cash flows (into and out of the firm), within the firm and the cash balances held by a concern at a point of time (Cabrera 2011).

In connection with the above mention discussions, the unlisted corporations are usually not comparing its financial ratio to the industry average. They seem to have their own culture of

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how cash is manage. The management control function in an organization is influenced by the style of senior management. The style of the CEO or president of the company affects the management control process in the entire organization (Anthony & Govindarajan; Macintosh & Quattrone, 2017).

5. Receivable Management

Table 5 shows the level of implementation of management control systems of Tertiary hospitals in the province of Laguna in terms of Receivable Management.

Table 5
The Management Control System in terms of Receivable Management

Indicators	Mean	Interpretation
Are all receivables from HMOs being collected within set due dates?	3.14	O
Are all receivables from Affiliated Companies being collected within the given due dates?	3.21	O
Are all receivables from Self-paying patients collected within the given due dates?	3.14	O
Are all receivables from Philhealth being collected within the prescribed due dates?	3.36	O
Are receivable projections reasonably set?	2.93	O
Are Average age of receivables have decreased steadily?	2.79	O
Are the doubtful accounts expenses being maintained in unacceptable rate?	2.43	R

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Are credit policies and procedures being strictly implemented by employees?	3.29	0
Are all necessary documents such as Promissory notes, intake sheets and other relevant documents are being promptly received and approved decisively?	3.21	0

Composite	3.06	0
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Legend:	3.50 - 4.00 Always (A)	1.50 - 2.49 Rarely (R)
	2.50 - 3.49 Often (O)	1.00 - 1.49 Never (N)

The composite mean is 3.06 and interpreted as **"Often"** which shows that the hospitals are implementing the management control system. Are all receivables from Philhealth being collected within the prescribed due dates? has the highest mean which is 3.36 and interpreted as **"Often"** which shows that the hospitals are implementing the management control system. Are the doubtful accounts expenses being maintained in unacceptable rate? has the lowest mean of 2.43 and interpreted as **"Rarely"** which shows that the hospitals are sometimes implementing the management control system.

In relation with the above mention findings, one of the assets of a company that needs to be manage is the receivables. Receivable management is also called credit management. Credit management is needed to control the risks associated with credit sales. Its purpose is to manage both the financial and the political risks. Inevitably, enterprise will always have the challenges brought by the credit sales.

Furthermore, the system of payment is considered simple and receive on the prescribed due datessince the Philhealth is a government agency. The credit extended to the government agency will be paid by disbursing officer of the government on a timely basis after inputting it to the new government accounting system.

With these, management control systems may be covered by macro environment factors such as legal and political such as tax laws, labor laws, executive orders, constitution, special laws and behaviour of the politicians. With that, the hospital cannot refuse patients who has an emergency case even if they do not have the ability to pay. If there are no proper investigation of credit, the company will incur losses coming from doubtful accounts (Valix & Peralta, 2016).

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6. Inventory Management

Table 6 shows the level of implementation of management control systems of Tertiary hospitals in the province of Laguna in terms of Inventory Management.

Table 6
The Management Control System in terms of Inventory Management

Indicators	Mean	interpretation
Is the inventory level consistently being monitored to avoid unwarranted shortage or overage?	2.21	R
Is the emergency purchase of inventory within the acceptable frequency?	2.5	O
Is the inventory budget reasonably set up?	2.5	O
Is the trend of periodic amount of spoiled inventory decrease continuously?	1.86	R
Are expired medicines being dispose properly?	2.5	O
Are the inventory unit costs in decreasing trend?	1.5	R
Are holding costs of inventory being maintained in an acceptable level?	2.07	R
Is the amount of inventory in the books can be considered reliable and sound basis for decision on purchasing of inventory?	2.29	R
Are ordering costs of inventory being maintained in an acceptable level?	1.64	R
Composite	2.12	R

Legend: 3.50 - 4.00 Always (A) 1.50 - 2.49 Rarely (R)
2.50 - 3.49 Often (O) 1.00 - 1.49 Never (N)

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The composite mean is 2.12 and interpreted as **"Rarely"** which shows that the hospitals are sometimes implementing the management control system. Is the emergency purchase of inventory within the acceptable frequency? Is the inventory budget reasonably set up? and Are expired medicines being dispose properly? has the highest mean which is 2.50 and interpreted as **"Often"** which shows that the hospitals are implementing the management control system. Are the inventory unit costs in decreasing trend? has the lowest mean of 1.50 and interpreted as **"Rarely"** which shows that the hospitals are sometimes implementing the management control system.

In light of the foregoing studies, inventory Management became popular for a manufacturing company since they have cost accounting functions. Goods can be held in inventory which is a buffer that dampens the impact on production activity fluctuations in sales volume. Moreover, the costs service company are essentially fixed in the short run. However, in the hospital point of view, even if hospital is a service industry, inventories has a vital and critical role in the business. Since medicines and other medical supplies are the main inventories of the hospital, it should have appropriate policies (Finkler et al., 2017).

In addition, hospitals are budgeting the needed medicines and other medical supplies in order to limit the increase of emergency purchase to other drug store outside the hospital premises. The effect of having many emergency purchases is that it increases the unit costs of the inventory because it is bought in the retail price and other expenses incurred such as gasoline or transportation (Finkler et al., 2017).

Therefore, one of the output of proper inventory management is the decrease of unit costs. As the experience of the manager and the level of his/her knowledge, he/she may eliminate non value adding costs to the products and services offered by the hospital thereby increasing customer satisfaction and possible addition to market share (Finkler et al., 2017).

Significant Impact between the level of implementation of internal control practices on management control systems of Tertiary Hospitals in the Province of Laguna

7. Cash Management

Table 7 shows the regression analysis on the impact of internal control practices to the cash management control systems in Tertiary Hospitals in Laguna.

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Table 7
Regression Analysis on the Impact of Internal Control Practices to the Cash Management Control Systems in Tertiary Hospitals in Laguna

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Remarks	Decision
	B	Std. Error	Beta				
(Constant)	1.445	1.769		.817	.433		
Validity	-.608	.489	-.440	-1.243	.242	Not Significant	Accept ho
Completeness	-.430	.409	-.342	-1.050	.318	Not Significant	Accept ho
Authorization	.463	.573	.222	.808	.438	Not Significant	Accept ho
Valuation	1.076	.392	.869	2.745	.021	Significant	Reject ho

a. Dependent Variable: Cash Management
R – Square = .773 F-value = 3.708
Adjusted R Square = .436 Significance = .042

The validity, completeness and authorization do not impact the cash management control system. The probability values are .242, .318 and .438 of validity, completeness and authorization respectively are greater than the level of significance at .05.

On the other hand, the valuation significantly impacts the cash management control system. The probability value is .021 which is less than the level of significance at .05.

Internal Control practices in terms of validity, completeness and authorization do not have significant impact on the cash management control system. Managers influence other members of organization to implement the organization’s strategies. In order for the managers to assess whether the strategies or objectives are attain, there should have a present control environment since management control focusing primarily on the behaviour within the organization. Without

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this, the organization cannot assure that managers and other members of the organization will have the same goals and objectives (Anthony & Govindarajan; Macintosh & Quattrone, 2017).

Internal control system consists of all policies and procedures adopted by the management of an entity to assist in achieving management's objecting of ensuring, as far as practicable, the orderly and efficient conduct of its business, including the adherence to management policies, the safeguarding assets, the prevention and detection of fraud and error, the accuracy and completeness of accounting records, and the timely preparation of reliable financial information. It is not merely a policy manual and forms, but people at every level of organization. Internal control changes over time. The way controls are applied may evolve. Once effective procedures become less effective perhaps no longer performed. This can be due to the arrival of new personnel, the varying effectiveness of training and supervision and time and resource constraints or additional pressures (Ireneo, 2017).

There are cases that the internal control system is properly implemented, but still the decisions may not be aligning with the company's objectives and strategies. This may be because of possible mismanagement. If cash flow problems are not addressed, they will only fester and become even bigger issues. Typically, cash flow management issues result from inexperience or because it mismanages the receivables. The business owner has no experience in analyzing cash flow problems. (Cash Flow Mismanagement Can Drain, 2018).

On the other hand, internal control practices in terms of valuation have significant impact on cash management control system. Usually, subordinates' attitudes reflect what they perceive their superior's attitudes to be, and their superior's attitudes ultimately stem from the CEO or the top management (Anthony & Govindarajan; Macintosh & Quattrone, 2017). Since the doctors as the top management of hospital, they are less aware of other accounting management related issues other than the cash. Thus, managers are more focused on the mathematical accuracy or correct financial figures rather than the qualitative part specifically the completion of documents such as having complete series of receipts, having signatures or having it recorded (Cabrera, 2011).

8. Receivable Management

Table 8 shows the regression analysis on the impact of internal control practices to the receivable management control systems in Tertiary Hospitals in Laguna.

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Table 8
Regression Analysis on the Impact of Internal Control Practices to the Receivable Management Control Systems in Tertiary Hospitals in Laguna

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Remarks	Decision
	B	Std. Error					
(Constant)	1.454	1.835		.792	.449		
Validity	1.017	.613	.670	1.659	.132	Not Significant	Accept ho
Completeness	-.046	.408	-.039	-.112	.914	Not Significant	Accept ho
authorization	-.328	.522	-.254	-.628	.545	Not Significant	Accept ho
Valuation	-.193	.299	-.245	-.646	.535	Not Significant	Accept ho

a. Dependent Variable: Receivable Management
R – Square = .243 F-value = .723
Adjusted R Square = .093 Significance = .598

The validity, completeness, authorization and valuation do not impact the cash management control system. The probability values are .132, .914, .545 and .535 of validity, completeness, authorization and valuation respectively are greater than the level of significance at .05.

In a health care industry, doctors, nurses and hospital administrators must satisfy the dual objectives of achieving a high quality of patient care while also delivering a significant return on investment for stakeholders. Credit investigation should be done first before rendering of services is one of the procedures to minimize the risk of having possible uncollected receivables. However, it is unlawful for any hospital or medical clinic to refuse administering to patients treatment and support that could prevent their death or permanent disability, according to Republic Act No. 8344, also known as the Anti-Hospital Deposit Law. This is part of the business risk of a company in health care industry (Finkler et al., 2017). Even though there are strict implementation of

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internal controls for receivable transactions, the risk of probable of collections is high if affected by its inherent risk. Thus, internal control system do not have significant impact on receivable management control system.

9. Inventory Management

Table 9 shows the regression analysis on the impact of internal control practices to the inventory management control systems in Tertiary Hospitals in Laguna. The validity, completeness and authorization do not impact the cash management control system. The probability values are .845, .439 and .751 of validity, completeness and authorization respectively are greater than the level of significance at .05.

On the other hand, the valuation significantly impact the inventory management control system. The probability value is .021 which is less than the level of significance at .05.

Table 9
Regression Analysis on the Impact of Internal Control Practices to the Inventory Management Control Systems in Tertiary Hospitals in Laguna

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Remarks	Decision
	B	Std. Error					
(Constant)	.664	1.385		.480	.643		
validity	.034	.168	.045	.201	.845	Not Significant	Accept ho
Completeness	.170	.210	.176	.810	.439	Not Significant	Accept ho
authorization	-.093	.285	-.058	-.327	.751	Not Significant	Accept ho
valuation	.453	.162	.716	2.803	.021	Significant	Reject ho

a. Dependent Variable: Inventory Management

R – Square = .780 F-value = 7.985

Adjusted R Square = .682 Significance = .005

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Internal Control practices in terms of validity, completeness and authorization do not have significant impact on the inventory management control system. Managers have different management style. In order for the managers to assess whether the strategies or objectives are attain, there should have a present control environment since management control focusing primarily on the behaviour within the organization. Without this, the organization cannot assure that managers and other members of the organization will have the same goals and objectives (Anthony & Govndarajan; Macintosh & Quattrone, 2017). As stated earlier, internal control practices do not have impact on management control system because the top management is more concerned with the quantitative data or figures rather that the qualitative areas.

As cited by Lynda Moultry Belcher, "inventory is among the more significant sources of revenue for a company. After all, inventory equals profit, so an accurate accounting of product in stock and inventory to be ordered can have a dramatic financial impact on your business. In fact, bad inventory can have a damaging effect on your organization and can affect more than just the bottom line." Inefficient inventory management can ruin your business.

Consequently, internal control practices in terms of valuation have significant impact on inventory management control system. It implies that the managers decides on the basis of the mathematical accuracy of the inventory. Managers are more focused on the mathematical accuracy or correct financial figures rather than the qualitative part specifically the completion of documents such as having complete series of receipts, having signatures or having it recorded (Cabrera, 2011).

Proposed Effectual Monitoring System

The effectual monitoring system aims to help the Top management and internal auditor in Tertiary hospitals level 2 to strengthen both internal control and management control system for tasked employees and managers respectively. The proposed effectual monitoring system is displayed in the succeeding figures with details.

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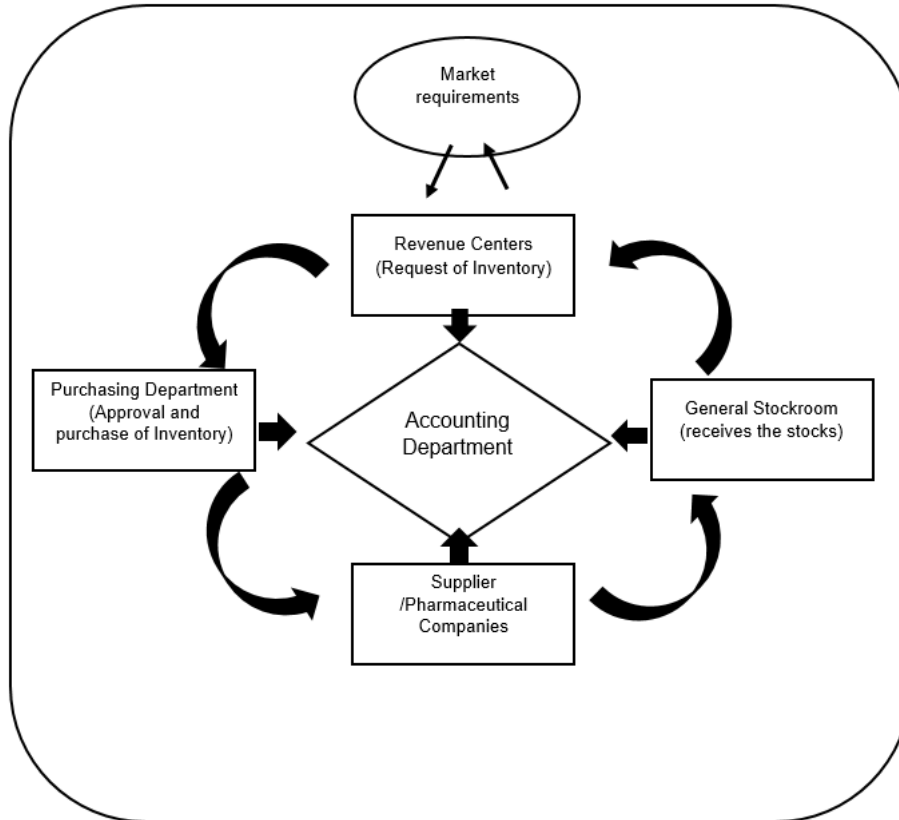


Figure 1: Centralized Inventory Management Process

General description of the proposed effectual monitoring system for inventories: The inventory process starts with the market requirement (doctors' orders) and ends with the fulfilment of the requirement.

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Specifically,

1. Market requirement
 - a. Doctors or medical practitioner should request for the medicines and medical supplies needed and accomplish it with a pre-numbered doctors order form (3 copies – Doctors, Accounting and Revenue centers involve).
 - b. It should be noted that the doctors order form should be signed by medical director or other authorized personnel to approve the requests.
2. Revenue Centers
 - a. After receiving doctors order form, the revenue centers will accomplish a pre-numbered purchase requisition form signed with the directors or head of the revenue centers. (3 copies –Purchasing, Accounting and Revenue centers involve).
3. Purchasing Department
 - a. After collecting all requests on a regular basis, it will accomplish pre-numbered purchase order (3 copies –Purchasing and Accounting; General stockroom's copy have no balance in the quantity ordered).
4. General or Warehouse Department
 - a. The delivery should be received only by this department. After receiving the goods delivered, this department should accomplish receiving reports and submit it together with the blind PO and Sales invoice to the accounting department.
 - b. General stockroom (GS) personnel should notify the revenue centers that the request are available.
 - c. The Purchasing dept. should keep all pre-numbered debit notes (evidence of inventory returned to suppliers). This documents should be submitted to accounting department.
5. Revenue Centers
 - a. After the inventory made available, the respective revenue center should request it to the GS personnel thru materials/stocks requisition forms (Accounting department may not have a copy of material requisitions).
 - b. The revenue center should keep all pre-numbered charge slips (evidence that the inventory is sold) and pre-numbered credit notes (evidence of inventory returned by customers). These documents should be submitted to accounting department.
6. Market requirement
 - a. The goods then be received by patients thru hospital services and will be reflected to the medical chart (if in patients) or consultant's records.

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Documents required and its definition (Retrieved from <http://smallbusiness.chron.com/accounting-definition> on April 19, 2018).

A purchase order (PO) is a commercial document and first official offer issued by a buyer to a seller, indicating types, quantities, and agreed prices for products or services. It is used to control the purchasing of products and services from external suppliers.

Purchase request or requisition (PR) is a document generated by a user department or storeroom-personnel to notify the purchasing department of items it needs to order, their quantity, and the timeframe. It may also contain the authorization to proceed with the purchase.

A receiving report (RR) is an important record of the merchandise that a retailer has actually received from a supplier because it documents what is owed to the supplier in terms of payment for the goods received or the return of the goods, in some cases.

A Sales Invoice (SI) can be simply defined as the request of payment by the customer for goods sold or services provided the seller. An invoice generally lists the description and the quantity of the item sold or service provided. The document is also a record of the sale for both the seller and the buyer

A credit note or Credit Memorandum (memo) (CM) is a commercial document issued by a seller to a buyer. ... In other words the credit note is evidence of the reduction in sales

A debit note or Debit Memorandum (memo) (DM) is a commercial document issued by a buyer to a seller as a means of formally requesting a credit note. Debit note acts as the Source document to the Purchase returns journal.

For the centralized inventory management process: The following should be done by the internal audit department to enhance implementation of Internal Controls and Management Controls

Reception of Stocks

1. The Purchase Requisition (PR), Purchased Orders (PO), Receiving Reports (RR) and Sales Invoice (SI) should be compared regularly. It should be noted that RR should contain the PR number, PO number and SI number. This will indicate that there is an existing transaction.

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2. If there will be a cancelled PR, PO, and RR, It should compiled and stamped "Cancelled". If there are differences from the PO and actual deliveries due to defects/expired/unavailability of medicines and medical supplies, the company should secure pre-numbered debit memorandum attached to the PR, PO, RR and SI. The auditor should ensure that all of these documents are present before the payment will be made.
3. The pre-numbered PR, PO, Debit Memo and RR should be checked regularly if there are missing series. If there are missing series, the responsible personnel should accomplish an incident report.
4. The internal auditor should also have compared the amount paid by treasury department to the amount in the PO, RR and SI. If there are discrepancies, apply necessary measures applicable to the policies and procedures of the hospital.
5. The General stockroom should have pre-numbered materials requisition form as an evidence of the issuance of the inventory to the ancillary department such as pharmacy, laboratory, diagnostics and other medical related.
6. In cases that there are inventories that are nearly expired or already expired, it should be returned to the General Stockroom with the supporting pre-numbered expired medicines forms.
7. All forms should be checked if it bears the signature of the transacting person in order to know who is accountable for the transactions.
8. Compared the actual balance of inventory to the recorded amount in the books and reconcile where the discrepancies came from.

Issuance/Sale of the Inventories

1. Compared the Pre-numbered requests from different wards and render it with the supporting pre-numbered charge slips.
2. Requests that will be cancelled should be stamped cancelled. Just in case it was already been rendered, the charge slip should not be deleted, instead, create a pre-numbered credit note which includes the inventories that were returned and the corresponding charge slip.

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Overall management of inventory

1. There should be a regular re-evaluation of the quality of the medicines requested by doctors and medical consultants.
2. There should be a report of slow moving and fast moving items. The slow moving should be bought in a small quantities and the fast moving should be bought in bulk. This will reduce the carrying cost and ordering costs.
3. There should at least proper arrangement of the medicines. (i.e. the medicines that will expire first should be in the front of the shelves and the other should be placed at the back of the shelves.
4. The departments that are responsible for purchasing, storing, disbursing and recording should be independent. The auditor or the control officer should not also part of the departments stated.
5. The hospital should also request for freebies such as free medicines or medical supplies in order for them to decrease the unit cost.

The benefit of the centralized warehousing/ inventory management are as follows (retrieved from <http://microchannel.com.au/company-blog/april-2016/the-benefits-of-centralised-warehousing> on April 19, 2018):

1. Less Duplication

Multiple warehouses means that the fixed costs of one warehouse gets duplicated several times over. There will be multiple warehouse rents/purchases and utility bills to pay. Picking, packing, shipping personnel and their managers, as well as warehouse equipment and supplies are duplicated. A single warehouse strategically located among your customers consolidates these fixed costs under a single roof.

2. Improved Prices from Suppliers

More warehouses splits the overall inventory among several purchasers who in turn order smaller quantities from their local suppliers. This diminishes their ability to reduce costs by purchasing in bulk. The purchaser representing a single centralised warehouse that buys large quantities not only gets better deals, but exerts greater influence with his suppliers. He's responsible for a large chunk of his suppliers' business and is therefore considered an important customer.

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3. Reduced Inbound Transport Costs

Because the centralised operation purchases larger quantities from local suppliers, the inbound shipping costs are reduced. Bulk quantities are shipped on a few large trucks as compared to multiple warehouses with multiple purchasers receiving smaller shipments on lots of smaller trucks from their local suppliers. A single warehouse can represent major savings, especially if you choose a location where land or existing warehouse space is inexpensive and one that is central to your customers for faster and easier shipping.

4. Reduced Safety Stock

Each separate region has some amount of demand uncertainty which would require a local warehouse to carry adequate safety stock to ensure customer satisfaction should a demand spike occur. However, choosing centralised warehousing means you are aggregating the demand of these multiple regions.

This has the beneficial effect of reducing the overall demand uncertainty. Why? Because some cancellation occurs when the demand uncertainties of the different regions are added together. When one region experiences unusually high demand at the same time that another experiences unusually low demand, the two cancel. Therefore the safety stock for the demand of all the regions combined will be less than the combined safety stock required for each region taken separately.

5. Staffing

A business with a central warehouse also sees an advantage in terms of staffing. Even if a centralized warehouse needs to be very large to replace multiple regional warehouses, it will still require fewer workers than needed when staffing multiple locations. You will also realize economies of scale from having to hire security personnel, management, inventory control staff and material handlers for only a single facility. Fewer workers means a slimmer payroll and additional cost savings.

In addition, staffing a centralized warehouse allows you to target inventory managers with a greater degree of experience or expertise. Since you will need fewer inventory managers, you may be able to hire those that command a higher salary but promote greater efficiency.

6. Simplicity

Centralized warehouses simplify inventory management. Customers will know how long orders take to ship regardless of what they order. Company-wide inventory is also easier to track, with a single facility to examine rather than multiple inventory reports that

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you must compile, compounding the chance for error. Finally, you'll be able to implement new inventory management policies at the centralized warehouse without coordinating efforts throughout multiple warehouses in your supply chain.

Proposed Effectual Monitoring on Receivables

The following reports should be submitted by the internal audit department or other personnel who can access with the following reports:

1. Philhealth receivables

a. Performance Monitoring in terms of authorization and completeness

The idea is that the number of patients with Philhealth benefits discharged in a month should be the number of patients to be transmitted on time to Philhealth. The same number of patients should be paid by Philhealth. It should be reported to the top management or those charge with governance to diagnose the problem and give sound decisions. (Basic Formula: Number of patients philhealth record transmitted divided by number of patients discharged = performance of the Philhealth section/department).

b. Performance Monitoring in terms of validity and valuation

Even if it is transmitted to Philhealth, there are times that it will be returned to hospital with numerous reasons. In order to effectively monitor it, the formula is number of return to hospital (with errors/ invalid claims) divided by the number of patients'philhealth record transmitted that will yield to the percentage of error by the hospitals in filing claims. This will measure the efficiency of the personnel of the PHIC Section.

c. Performance measurement as a whole

Number of documents returned to hospital divided by number of patients discharged with Philhealth benefits. This formula will be used as an overall assessment tool for the effectiveness and efficiency of Philhealth personnel.

Other claims

Same as the Philhealth except that the returned to hospital is not present to other claims.

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CONCLUSIONS

Hospitals in Laguna generally strictly implementing the internal control in terms of validity for cash transactions. However, they are rarely practicing internal control procedure in terms of validity specifically the issuance of "blind copy" of PO's to the receiving department. Hospitals in Laguna are rarely practicing internal control procedure in terms of valuation, specifically the monitoring of costs on a perpetual inventory basis. Hospitals in Laguna are implementing the internal control procedures. It denoted that there are internal controls that are not implemented at all times. Hospitals in Laguna are rarely practicing internal control procedure in terms of valuation which is having some personnel who reviews inventory for obsolete or slow moving, valued it properly and reported them timely to higher authority.

There is no significant difference between the assessment of tasked employees, managers and internal auditors as regards the level of implementation of internal control practices in terms of completeness, authorization and valuation for cash transactions. On the other hand, there is a significant difference between the assessment of tasked employees, managers and internal auditors as regards the level of implementation of internal control practices in terms of validity. There is no significant difference between the assessment of tasked employees, managers and internal auditors as regards the level of implementation of internal control practices in terms of validity and valuation for receivable transactions. On the other hand, there is a significant difference between the assessment of tasked employees, managers and internal auditors as regards the level of implementation of internal control practices in terms of completeness and authorization. There is no significant difference between the assessment of tasked employees, managers and internal auditors as regards the level of implementation of internal control practices in terms of validity, completeness, authorization and valuation for inventory transactions. Hospitals managers in Laguna are rarely practicing benchmarking of cash conversion cycle to peer industries. Hospital managers are not maintaining the doubtful accounts expenses in acceptable rate. Hospital managers rarely implementing management control system to inventory management in general.

In terms of cash management, internal control practices in terms of validity, completeness and authorization do not significantly impact the implementation of management control system in Tertiary Hospitals in Laguna. On the other hand, internal control practices in terms of valuation significantly impact the implementation of management control system in Tertiary Hospitals in Laguna. In terms of receivable management, internal control practices in terms of validity, completeness, authorization and valuation do not significantly impact the implementation of management control system in Tertiary Hospitals in Laguna. In terms of inventory management, internal control practices in terms of validity, completeness and authorization do not significantly

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