

Poland Post-Accession Rural Support Project (PARSP)

**ASSESSMENT OF ORGANISATIONAL STRUCTURE OF
KRUS**

Final Report

- (i) Assessment of the KRUS Organisation;**
- (ii) Recommendations on required changes in KRUS; and**
- (iii) Comments on the IT Strategy for KRUS (as received).**

19th July 2005

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Terms of Reference:

Scope of Terms of Reference and Assistance Required:

The technical assistance requested in this TOR is intended to support a report, which would allow for assessment of current KRUS organisational structure and suggesting required modifications of this structure aiming at increase of efficiency of KRUS activities. The report should contain a set of recommendations on required changes in KRUS and outline direction of research and analysis for the future. These activities should constitute basis for subsequent decisions aimed at modification of organisational structure and modus operandi of KRUS.

Goal, Objectives, and Activities

Goal: effective and transparent system of farmers' social security system

Objectives	Activities
1. Diagnosis of current stage of KRUS institutional development and its capacity to deliver constitutional functions and tasks Assessment of KRUS HR capacity, organisational structure and modus operandi	1.1. analysis of organisational structure of KRUS: headquarters and regional offices – links, relations, division of tasks, information flow 1.2. analysis of professional capacity of KRUS personnel to deliver tasks required; assessment of organisational structure and management methods 1.3. analysis of management practices 1.4. evaluation of efficiency of KRUS functioning
2. Designing a set of recommendations on required changes in KRUS in the context of how social security systems function in Poland Identification of institutional organisation and management methods crucial for efficiency of KRUS	2.1. pointing out critical issues and areas – weak elements of the system which should be a subject of inquisitive analysis; identification of crucial needs related to enhancement of efficiency of KRUS operations 2.2. preparation of solutions for identified problems 2.3. description of conditions that shall be met to implement new solutions that will improve KRUS performance

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Consultant's Reporting Obligations

Report 1 **Assessment of KRUS organisation;** including diagnosis of organisational structure, current stage of institutional development

Deadline: July 5, 2005; 3 copies, format: print-out and electronic version, in English

Report 2 **Recommendations on required changes in KRUS;** including description of spheres critical for proper functioning of KRUS in terms of functionality and effectiveness and proposition of solution for problems identified

Deadline: August 10, 2005; 3 copies, format: print-out and electronic version, in English

Consultants Report as submitted

The Consultant has carried out a review of KRUS organisation and combined Report 1 and Report 2 as set out above with a view to providing KRUS and the Ministry of Social Policy with earlier access to findings and recommendations on required changes.

It recognises the fact that discussions are ongoing regarding possible changes and funding. In order to facilitate these discussions a draft report has been produced combining both obligations of the Consultant, at an earlier date.

It is expected that this draft report will be translated, presented to KRUS for examination and comment and the comments or feedback supplied to the Consultant who will visit KRUS in July to discuss the report and feedback received and thereafter update the report to correct any misinformation or misunderstandings and provide a final report which takes into account relevant feedback.

PART 1: ASSESSMENT OF KRUS CURRENT ENVIRONMENT

Introduction

This section of the report presents KRUS current environment in terms of: organisational structure; distribution of functions; numbers of staff at business unit level; description of current IT systems; structure of funds within KRUS, high-level business process maps describing the core business processes; and an overview of the human resource management policy that is currently implemented within the fund.

This section, Part 1, concludes with the list of the main weaknesses identified during the analysis. This is followed in Part 2 with the recommendations which have been formulated specifically to address the current identified weaknesses. Part 3 of the Report comments on more strategic issues facing KRUS and Part 4 provides comment on the IT Strategy (part thereof that was received for comment).

It should be noted that the functions presented in the report are based on the KRUS rulebook and these have been cross-checked during interviews with the President, Deputy Presidents, Directors and Deputy Directors of Departments, Heads of Regional Offices, Local Offices and the Rehabilitation centre. The analysis and interviews were undertaken to establish: what functions are currently carried out; current staffing levels; support systems available to the organisational units in their daily roles; and the current business processes.

Overview of farmers social insurance

The Farmer's Social Insurance System in Poland has been administered since 1991 by the Agricultural Social Insurance Fund (KRUS). It is totally separate from ZUS which manages the social insurance fund for other workers. KRUS manages the farmers' social insurance system which is monitored by the Ministry of Social Policy who took over this responsibility from the Ministry of Agriculture in 2004.

KRUS carries out its activities in accordance to:

- Law on farmers' social security of 20 December 1990 (J.L. of 1998 No 7, item 25, with amendments),
- Statute, constituting an Annex to the Regulation of the Council of Ministers of 1 March 1994 on bestowing of a Statute on Agricultural Social Insurance Fund (J.L. No 33, item 120), and
- Internal rules of procedures.

KRUS has the following tasks:

- Service of the insured persons and beneficiaries in matters covered by social insurance,
- Payment of insurance benefits,
- Leading medical certification system,

- Prevention activity in the field of occupational injuries and sickness,
- Rehabilitation activity,
- Initiating development of voluntary insurance,
- Keeping the accounts of premiums of health insurance for farmers and their families, keeping a record of premiums on the insured persons' accounts and transmitting information about the insured to the National Health Service, and
- The realisation of other tasks given by the state.

In addition to KRUS, the Contribution Fund completes the basis for farmers' social insurance in Poland. Contribution Fund is a separate legal entity and acts in accordance with the Law on farmers' social security of 20 December, 1990 and according to the statute authorised by Minister of Agriculture. The Contribution Fund is managed by the board, which consist of a single member, the KRUS President. The Contribution Fund is supervised by the Supervisory Board, which consists of 9 members: 5 members of Council of Farmers, 2 representatives of Ministry of Social Policy, 1 representative of the Ministry of Finance and 1 representative of the Ministry of Agriculture.

Overseeing KRUS there is the Council of Farmers which exercises control over the President of KRUS. It has the final decision on the Contribution Fund activities as these are approved by the Council. It authorises, annually, the size of accident, sickness and maternity insurance contributions. The Council consists of 25 members appointed by farmers' organizations for a 3 year term.

The role of the Council of Farmers' Social Insurance:

- Control over the President of KRUS,
- Supervision of the Contribution Fund,
- Estimating the amount of quarterly contribution into accident, sickness and maternity insurance, and
- Representing the interests of insured persons and beneficiaries.

KRUS organisational structure

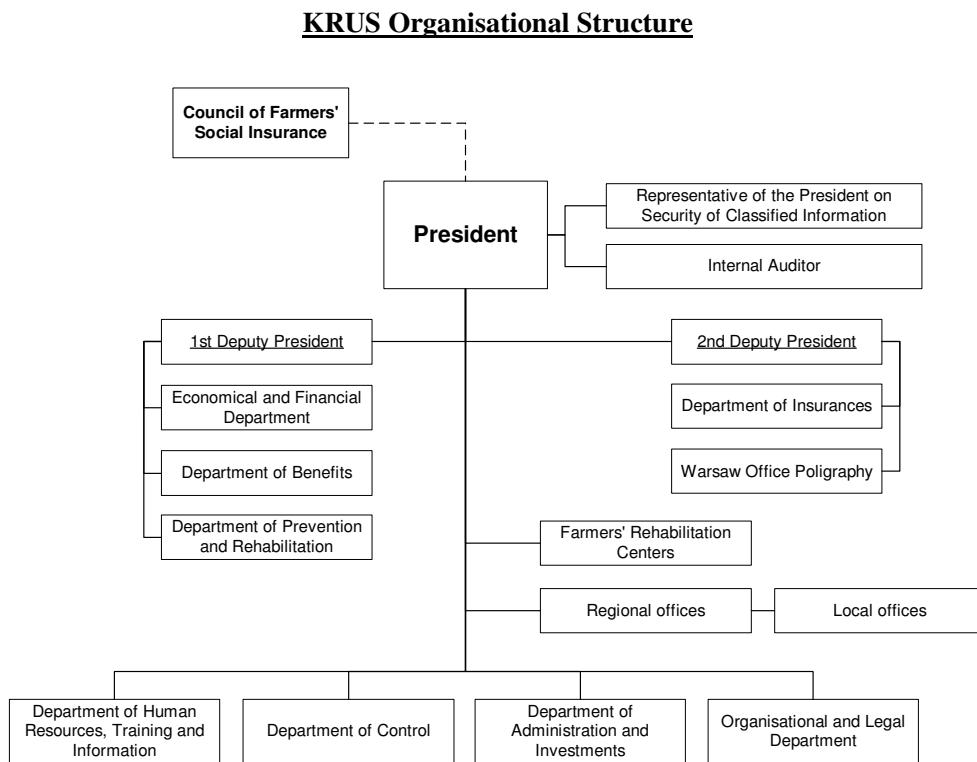
KRUS is supervised by the Minister of Social Policy. KRUS is managed by the President who is appointed and dismissed by the Prime Minister on application of the Minister of Social Policy in agreement with the Council of Farmers' Social Insurance. The President of KRUS is a legal entity. The president has 2 deputy Presidents reporting directly to him.

KRUS consists of the following organisational units:

- Head Office
- 49 Regional offices
- 220 Local offices

- 7 Rehabilitation Centres (4 of which are owned by the Contribution fund) and public medical care centres

The organisational structure of KRUS is set out hereunder:



Functions of the President

According to the rulebook, President defines key goals and action plans of the Agricultural Social Insurance Fund and its organisation. The President is responsible for the following:

- accomplishment of government's policy in the area of farmers' social security,
- financial management of the Fund, including financial control responsibilities defined by respective Acts,
- bestowing of rules of procedure on the Fund,
- definition of rules of control activities in the Fund and monitoring of these activities,
- establishment and liquidation of organisational units of the Fund and supervision thereof,
- acceptance of rules of procedure of Fund's organisational units,

- definition of competencies of President's deputies and directors of organisational units,
- definition of key goals of Fund's HR policy,
- performing duties of an employer in respect to employees of the Head Office, directors, vice-directors and chief accountants of regional offices, local offices and centres, as defined by Labour Code,
- granting power of attorney and authorising to act on President's behalf,
- acceptance of:
 - Fund's action plans and reports on their accomplishment,
 - Fund's draft budget, KRUS funds' draft material-financial plans and annual report on their accomplishment,
 - distribution of employee positions among the Head Office and organisational units,
 - goals of control activities, annual control plans and control programmes,
 - joint investment plans and reports on their accomplishment,
 - annual plans and reports on Fund's activities in the area of prevention and rehabilitation,
 - materials (documents) presented during Council of Ministers, Sejm, Senat and Ministry of Social Policy sessions,
- issuing decisions on:
 - payment of membership contributions to international social security organisations,
 - expenditures related to hosting foreign delegations by the Fund and expenditures related to foreign official trips defined by separate regulations,
 - foreign official trips of Fund's employees and domestic official trips of President's deputies,
 - carrying out additional works and tasks completed by the Fund in line with procedures defined by separate regulations,
 - sales, rent out, lease or charge-free transfer of real estate managed by President of the Fund, following regulations referring to management of State Treasury real estate,
 - remittance of Fund's due amounts relating to farmers' social security contributions and illegible benefits paid out,
 - granting farmers' social security benefits on exceptional basis,
 - claims on repayment of amounts disbursed in relation to benefits paid on the basis of accident or professional disease from persons who delivered malfunctioning work equipment or unacceptable services,
- resolution of competence conflicts,
- issuing internal legal regulations,
- publishing in "Monitor Polski" of notices issued on the basis of statutory competencies,
- formulation of Fund's information policy, including relationships with mass media,
- applying for awarding orders, state distinctions and honorary decorations to Fund's employees,
- furnishing of documents, materials and information to Farmers' Council,
- issuing decisions on Farmers' Council applications,

- allocation, in co-operation with Farmers' Council Chairman, of motivational fund's resources,
- awarding special awards for achievements of exceptional value for the Fund,
- supervision of Fund's foreign co-operation,
- supervision of Fund's internal audit responsibilities,
- supervision of Fund's activities in the area of planning and accomplishment of construction investments and modernisation and renovation of Fund's real estate property,
- supervision of planning and accomplishment of central supplies within the framework of centralised investment and non-investment purchases,
- supervision of realisation of Law on public procurement in Fund's Head Office,
- supervision of administration and management of Fund's property in Fund's organisational units,
- supervision of material, stock, fire protection and property protection management in Fund's organisational units,
- supervision of realisation of tasks relating to regulations on alcohol abuse, health protection, smoking and other tobacco products usage,
- supervision of accordance of proceeding with labour protection, safety and hygiene of work, fire protection and civil defence regulations,
- performing of tasks relating to classified information protection, including supervision of activities of the Representative of the President for Security of Classified Information,
- issuing decisions on complaints on directors and deputy directors of Head Office and directors and their deputies in Fund's organisational units,
- acceptance of business trips and holiday leaves of Head Office directors,
- acceptance of requests for holiday/leave of directors of Fund's regional offices and centres.

The President of the Fund directly supervises work of:

- Organisational and Legal Department (including deputy director of the department – Representative of the President for Public Procurement and deputy director of the department – Representative of the President for IT),
- Department of Human Resources, Training and Information (including Press Spokesman – Representative of the President for Co-operation with Mass media and deputy director - Representative of the President for Quality Management and Safety of Information System),
- Department of Administration and Investments,
- Department of Control,
- Representative of President for Security of Classified Information, and
- Internal Auditor.

President is substituted by 1st Deputy and, during his absence, 2nd Deputy or other person appointed by the President.

Functions of the deputies of the President

The President's deputies perform the following delegated activities:

- define tasks and instruct directors of supervised departments on merits of tasks to be completed,
- accept:
 - issues to be further decided on by the President,
 - plans of Fund's activities and reports on their accomplishment,
 - rules of procedure of supervised departments,
 - annual work plans of supervised departments and reports on their accomplishment,
 - proposed awards and salary increases for directors and deputy directors of departments,
 - materials presenting activities of supervised departments presented during meetings of the Board of the Fund,
 - points of view presented to the Council of the farmers,
- decide on and sign:
 - guidelines, interpretations and instructions disseminated among all Fund's organisational units, except for Fund's internal legal regulations,
 - correspondence with external contractors pursuant to authorisation of President,
- apply for control activities,
- order inspections in KRUS organisational units within the scope of supervision of departments,
- represent the Fund within the scope of competencies invested in them and authorisations issued,
- forward opinions on applications of directors of departments related to employment relationships in supervised departments.

Functions of 1st Deputy of the President covers the direct supervision of the Agricultural Social Insurance Fund's activities in the following areas:

- material-financial planning of (disbursement/allocation) of KRUS funds, contracted tasks and development of materials to be presented during Sejm and Senat sessions in relation to next year state budget works,
- negotiating material-financial plans with Minister of Finance,
- on acceptance of Budget Act, allocation of administration budget to regional offices and Head Office,
- development of information needed for construction of material-financial plans of the Fund and contracted tasks and presentation thereof in Sejm and Senat Commissions in relation to acceptance of execution of previous year's budget,
- co-operation with Ministry of Finance in the field of replenishment of the Fund with budget resources and current replenishment of regional offices and Head Office in financial resources,

- carrying out accounting and financial reporting of the funds and development of Fund's balance,
- servicing of Fund's banks,
- carrying out Fund's statistical reporting,
- following accounting rules, regulations of Law on public finances and applicable tax regulations,
- medical assessment in farmers' social security system,
- awarding and timely payment of benefits, including those eligible pursuant to EU regulations and international agreements,
- indexation of retirement and disability-related benefits and periodical rise of other benefits,
- performance of tasks in the area of collection and resolution of income tax and health social security of pensioners and disability pensioners,
- applications for benefits from farmers' social security system granted by the President on exceptional basis,
- claiming and remitting KRUS due amounts relating to illegible benefits,
- applications for revocation of legally binding sentences on farmers' social security benefits,
- the issues of prevention and rehabilitation, including, inter alia:
 - carrying out activities aimed at agricultural work-related accidents and agricultural professional diseases prevention,
 - undertaking assistance activities focused at the insured and eligible persons totally unable to undertake any agricultural works, but for whom recovery in effect of treatment or rehabilitation was prognosticated or, focused at those threatened with total disability to work in agriculture,
 - planning and execution of revenues and disbursements of Prevention and Rehabilitation Fund,
- activities of KRUS farmers' rehabilitation centres.

1st Deputy of the President directly supervises works of:

- Economic-Financial Department,
- Department of Benefits,
- Department of Prevention and Rehabilitation.

Functions of 2nd Deputy of the President covers the direct supervision of Fund's activities in the following areas:

- confirmation of insurance obligations, covering by and excluding from farmers' social insurance,
- keeping evidence of contributors and carrying out financial settlements with them,
- claiming Fund's amounts due in relation to farmers' social security contributions,
- remittance of Fund's amounts due in relation to farmers' social security contributions (taking decisions),
- performance of Fund's tasks within the scope of active farmers' social security,

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- assessment of Fund's results within the scope of value of contributions and collecting of amounts due,
- participation in calculation of the value of social security, health and maternity contributions,
- forecasting processes related to farmers' social security,
- reviewing applications for revocation of legally binding sentences in insurance obligation, value and collection of contributions cases,
- performance of tasks in the area of co-ordination of law on social security in relation to EU integration process,
- supervision of implementation of Law on public procurement (J.L. of 2004, No 19, par. 117 and later amendments) in KRUS organisational units,
- printing services for the Fund and management of printed materials, including:
 - acceptance of the Publishing Plan,
 - issuing opinions on reports of publishing activities of Centre in Warsaw.

2nd Deputy of the President directly supervises works of:

- Department of Insurances,
- Regional Office of the Fund in Warsaw – in the area of printing activities and management of printed materials.

KRUS Headquarters Departments

Organisational and Legal Department

The functions performed by this department can be categorised under the following 3 main areas: Organisational and Legal, Information Technology and Public Procurement. The following detailed functions are performed by the Organisational and Legal Department and are specified in the rulebook. These functions are grouped under each of these three areas:

Organisational and Legal

- Administration assistance during Council of Farmers works,
- organisation of Fund's co-operation with public administration units,
- co-ordination of activities in the area of establishment, transformation and liquidation of Fund's organisational units,
- co-ordination of issues related to complaints and motions and development of analyses and reports on these issues,
- organisation of meetings and councils called by the President,
- maintenance of offices of Fund Management's members,
- issuing opinions and preparing studies on legal aspects of legal acts and other regulations developed in the Fund,

- issuing, in co-operation with Head Office departments, opinions on projects of legal acts furnished to the Fund to be agreed upon,
- legal services for Head Office,
- consulting, issuing explanations and legal opinions to Fund's organisational units,
- supervision of appeals from President's decisions in insurance cases and development of periodical analyses and reports thereof,
- maintenance of data bases and registers of internal legal acts,
- monitoring of organisation of legal services in KRUS organisational units,
- initiation, organisation and co-ordination of Fund's foreign co-operation,
- development and dissemination of information on foreign solutions in the area of social insurance, as well as organisation and methods of operation of these institutions in the world,
- performance of tasks arising from Fund's membership in international organisations and associations,
- servicing of foreign business trips of Fund's representatives, maintenance of records, documentation and reports thereof,
- designing programmes and organisation of visits of foreign delegations to the Fund,
- co-ordination of Fund's activities in areas defined by EU and other international agreements.

Information Technology

- Development of KRUS IT Strategy on the basis of KRUS strategy and accomplishment of individual tasks arising thereof,
- planning, development and maintenance of KRUS IT infrastructure,
- implementation and monitoring of IT systems operating in KRUS,
- assistance to KRUS organisational units in the area of usage and operation of IT systems,
- co-ordination of all KRUS organisational units works related to IT establishment, implementation and operation processes,
- technical and maintenance assistance to KRUS personnel using IT software and hardware,
- realisation of general and specific provisions of IT systems safety and limited-access information protection policies,
- development of periodical material-financial plans for IT investments in KRUS and in IT Team,
- supervision of IT Team.

All aspects of the Long-term Benefits System are currently outsourced with external providers (20 different companies). Certain other IT activities can be performed by way of supervision of external contractors.

Public Procurement

- Co-ordination of team's and Procurement Commission's works in the area of preparation of Procurement Commission meetings, during which Procurement Procedures motioned by KRUS departments are reviewed,

- receiving applications for initiation of procurement furnished by departments,
- organisation and servicing of Procurement Commission meetings,
- development of explanations, notices, inquiries and opinions on procurement in accordance with provisions of Law on Public Procurement,
- formal and legal review of proceedings' documents,
- development of periodical analyses, information and studies on accomplishment of procurements in Head Office,
- assistance to Fund's organisational units in implementation of Law on Public Procurement,
- co-operation with Public Procurement Office in reference to implementation of Law on Public Procurement.

Deputy Director – Representative of the President for Procurement holds the position of Chairman of Head Office's Public Procurement Commission.

The department purchases the services of an external legal company, which specialises in Public Procurement, as Public Procurement is a complicated area due to frequent changes in legislation. However, the department is also considering an option to hire its own public procurement specialist as an alternative to outsourcing. It is unlikely that wage levels at KRUS would be sufficient to facilitate this option.

Staffing (34): 1 Director of Department, 19 staff in organisational/ legal area, 1 Deputy Director for Public Procurement, 3 staff in Public procurement, 1 Deputy Director for IT, 9 staff in IT area.

Regional offices have own legal specialists (at least 1 per regional office), as well as own staff responsible for IT maintenance (on average 2 per regional office). Regional offices also perform their own public procurement according to approved budget unless the items have to be purchased centrally, e.g. to maintain consistency across all organisational units, e.g. computers, vehicles, etc. There are no specific monetary levels establish above which the purchases have to be made by HQ, however, the amounts tendered locally are considered low.

Department of Insurances

This department is primarily responsible for farmer's insurance, e.g. monitoring registration and contribution collection activity of the regional offices.

The following detailed functions are performed by Department of Insurances and are specified in the rulebook:

- development of guidelines and instructions for Fund's organisational units in the area of:
 - social insurance eligibility,
 - register of contributors and beneficiaries,
 - settlements with contributors,
 - forms of claiming amounts due,

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- register of persons covered by health insurance and register of health insurance contributions,
 - remittance and reduction of amounts due,
- review of individual cases related to department's scope of activities,
- issuing opinions on applications for remittance of due payments and preparation of documents for the President to make a decision,
- monitoring of compliance of insurance obligation verdicts, settlements of contributions and financing claims with binding regulations,
- supervision of adequacy of register of farmers, their families and household members covered by health insurance, settlements of health insurance contributions and information on the insured and contributions paid transferred to National Health Fund,
- assessment of KRUS results in the area of evaluation and collection of social insurance contributions and analysis of accomplishment of tasks in Fund's organisational units,
- issuing opinions on projects of appeals from legally effective sentences in insurance obligation, contribution value and amounts due claims cases; representation of the Fund in cases thereof examined by Supreme Court,
- co-operation with other institutions in the area of accomplishment of tasks by insurance section, including, among others electronic data processing teams, in the area of effective servicing of the insured and establishment of new and modification of operating systems,
- supervision of tasks arising from EU regulations and other international agreements.

Staffing (24): 1 Director of Department, 1 Deputy Director and 22 staff.

Department of Benefits

This department is primarily responsible for monitoring the allocation and payment of benefits function of all regional offices. Department also monitors medical certification system. In addition the department monitors collection of health contributions.

The following detailed functions are performed by Department of Benefits and are specified in the rulebook:

- development of guidelines and instructions for Fund's organisational units in the area of granting and payment of benefits, including those granted on the basis of EU regulations and international agreements, including:
 - resolution of individual cases furnished by regional offices, local offices, other institutions and citizens and delivering information to individuals on currently binding regulations,
 - monitoring of adequacy and timeliness of granting benefits,
 - monitoring of adequacy and timeliness of payment of benefits,
 - monitoring of adequacy and timeliness of granting and payment of benefits related to EU regulations and international agreements,
 - preparation and co-ordination of indexation of pensions and disability-related benefits and indexation of other benefits,

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- preparation of projects of exceptional decisions and decision of the President, including relevant documents,
- analysis of legitimacy of KRUS regional offices appeals in dubious cases and revocations of sentences in social security benefits case, representation of KRUS in such cases in Supreme Court,
- carrying out analysis of accomplishment of benefits-related tasks by KRUS organisational units,
- co-operation with other institutions in accomplishment of benefits-related tasks and with electronic data processing offices in the area of servicing of benefits, including development of IT guidelines for IT systems and supervision of the upgrade of these systems,
- supervision of adequacy of collection and resolution of income tax and servicing of health insurance of the pensioners and disability pensioners, including deduction of amounts defined in the (Tax) Law from benefits,
- delivery of training for managers of KRUS regional offices and local offices within the scope of granting and payment of benefits, including co-operation with authors of IT systems within the scope of IT services,
- carrying out inspections within the scope of granting and payment of benefits in KRUS organisational units,
- supervision of accomplishment by KRUS organisational units of medical assessment tasks. The supervision, pertinent to President's authorisation, is executed by Fund's chief medical doctor and covers, specifically:
 - control of application of medical assessment procedures
 - offering explanations and guidelines,
 - delivery of training,
 - analysis and explanation of individual intervention cases,
- co-operation and liaison with competent Member States institutions within the scope of accomplishment of EU regulations.

Six regional offices are designated in the area of pensions and disability pensions as competent organisational units in terms of EU regulations of migrant workers' 1408/71 and 574/72. Much of the work related to Polish migrant workers is actually addressed by ZUS but the work that falls to KRUS under these regulations is growing each year.

Staffing (22): 1 Director of Department, 1 Deputy Director, 1 Deputy Director, Chief Medical Doctor and 19 staff.

Economical and Financial Department

This department is primarily responsible for planning, accounting and financial reporting of all KRUS financial operations. The following detailed functions are performed by Economical and Financial Department and are specified in the rulebook:

- Within the scope of planning, reporting and analyses:
 - material-financial planning of commissioned tasks financed from the state budget,
 - on acceptance of the budget, allocation of administration fund to KRUS regional offices and Head Office,

- analysis of data relating to execution of KRUS funds' material-financial plans and presentation thereof in Sejm and Senat Commissions during sessions devoted to acceptance of previous year's budget execution,
 - material-financial planning of state budget commissioned expenditures related family benefits and health contributions paid in the name of insured farmers,
 - preparation of analyses of material-financial plans accomplishment for Fund's Board Meetings and other internal and external occasions,
 - carrying out Fund's statistical reporting,
 - development of periodical analyses of accomplishment of funds' and prevention and rehabilitation fund's material-financial plans,
 - co-operation with Ministry of Finance and Ministry of Social Policy in the area of agreement on and acceptance of KRUS material-financial plans and other earmarked expenditures financed by the state budget,
 - development of methodology and guidelines in the area of planning, reporting and statistics in KRUS for KRUS organisational units,
- Within the scope of financial and accounting issues:
 - co-operation with Ministry of Finance in the area of replenishment the fund with current budget resources and co-operation with banks,
 - co-operation with ZUS in the area of social insurance fund and pension fund balance,
 - replenishment, on daily basis, of regional offices and Head Office with financial resources,
 - bank services for KRUS funds and commissioned tasks,
 - accounting records of KRUS funds and commissioned tasks,
 - FMRs for KRUS funds and commissioned tasks,
- Supervision, training and guidelines for KRUS organisational units on Department's scope of activities.

Functions of Deputy Director of Economic-Financial Department/Fund's Chief Accountant consists of execution of tasks in accordance with provisions of Law on Public Finances (J.L. of 1998 No 155, item 1014 with further amendments), Law on accounting (J.L. of 2002 No 76 item 694 with further amendments) and other legal regulations defining tasks of chief accountant in public finances sector unit.

Staffing (17): 1 Director of Department, 2 Deputy Directors and 14 staff.

Department of Prevention and Rehabilitation

This department is primarily responsible for all prevention activities, supervising regional offices for allocation of rehabilitation and supervision of rehabilitation centres. The following detailed functions are performed by Department of Prevention and Rehabilitation and are specified in the rulebook:

- accomplishment of statutory tasks in the area of prevention and rehabilitation and supervision of tasks being carried out in this area by KRUS organisational units,
- planning and execution of revenues and expenditures of Prevention and Rehabilitation Fund,

- prevention of farming professional activities-related accidents and agricultural professional diseases, including:
 - analysis of causes of accidents and professional diseases,
 - programming and organisation of voluntary, free training for the insured in the area of life and health protection principles in farming household and first aid procedures in case of farming activities-related accidents,
 - dissemination of information on accidents and professional diseases risk; dissemination of information on life and health protection principles in farming household and first aid procedures in case of farming activities-related accidents,
 - promotion of production and distribution of safe agricultural equipment and machinery and protective clothing for farmers,
 - development of promotional materials on life and health protection for farmers and their families,
- conducting regress judicial cases against manufacturers of malfunctioning agricultural machinery and equipment and against contractors delivering inappropriate/unacceptable agricultural services,
- assistance to the insured and persons eligible to insurance benefits who are currently unable to undertake any agricultural professional activities but could potentially recover in effect of rehabilitation and treatment; assistance to persons endangered by inability to work in agriculture, including:
 - sending patients to rehabilitation centres,
 - supporting day-care rehabilitation services in rural areas,
 - inquiries, studies and analyses of work disability,
 - commissioning scientific research and studies of work disability,
 - promotion of health,
 - health prevention in rural environment,
- supervision of activities of KRUS centres,
- co-operation with state administration units, health-care institutions, organisations, associations, farmers' social-professional organisations and other bodies responsible for prevention and rehabilitation in rural environment,
- training for staff of KRUS organisational units in the area of the Department's activities.

Staffing (20): 1 Director of Department, 1 Deputy Director and 18 staff.

Department of Control

This department is primarily responsible for performing comprehensive, specific, short-notice and follow-up controls of regional and local offices. The following detailed functions are performed by Department of Control and are specified in the rulebook:

- planning, organisation and co-ordination of KRUS control activities and supervision of control services activities in KRUS organisational units,
- analysis of the control system in KRUS and forwarding proposals in reference to its streamlining,

- organisation and execution of comprehensive and evaluation controls in all KRUS organisational units,
- execution of short-term controls following President's order or in effect of department's own initiative,
- presentation of results of controls to KRUS management and directors of competent departments,
- development of post-control reports and, on their acceptance by the President, ordering implementation of post-control conclusions and evaluation of accomplishment of the implementation,
- co-operation with external control bodies, maintaining records of external controls in Head Office and gathering of documents related to external controls in the Head Office.

Staffing (15): 1 Director of Department, 1 Deputy Director and 13 staff.

Department of Human Resources, Training and Information

The functions performed by this department can be grouped into the following 3 main areas: human resources management (HRM) and Training; Fund's Spokesperson – cooperation with mass media and public relations; and Quality Management and Information Safety. The following detailed functions are performed by Department of Human Resources, Training and Information and are specified in the rulebook. The functions listed are divided into 3 main areas:

Human Resources Management and Training

- All HR issues of Head Office staff, directors, deputy directors and chief accountants of regional offices and KRUS organisational units directly supervised by the President,
- development of plans of employment and salaries fund for KRUS organisational units,
- maintaining work position and financial records for all regional offices,
- maintaining work position and financial records for all Head Office departments assuming allocation to administration fund,
- supervision of adequate management of salaries fund,
- resolution of payments in respect of execution of motivational fund in line with President's decisions and furnishing of quarterly reports on execution of fund to Chairman of the Council of Farmers and annual reports to the Council of Farmers,
- support services to the Commission evaluating execution of tasks by KRUS organisational units eligible to motivational fund,
- development of plans and resolution of payments from Central Occasional Disbursements Fund to Head Office and KRUS organisational units,
- development, analysis and resolution of department's plan of disbursements financed by administration fund,
- supervision of keeping binding regulations of work rules of procedure in the Head Office,
- supervision of keeping binding personal data protection regulations,

- implementation of statutory provisions of Law on Public Procurement within the scope of IT services, training, work safety and management of Social Benefits Fund,
- reporting on issues related to department's scope of activities,
- co-ordination and training for KRUS staff,
- accomplishment of social and work safety tasks.

Cooperation with Mass media and Public Relations

- Co-ordination of KRUS co-operation with media in the area of dissemination and analysis of information on farmers' social insurance and KRUS activities,
- planning and monitoring of administration fund expenditures relating to Fund's information activities, conclusion and execution of press contracts with publishing houses,
- co-ordination of activities related to press information obligations and explanation to the public of issues related to KRUS activities,
- dissemination of information received from Head Office departments among media co-operating with KRUS,
- editorial development of materials for KRUS "Insurances in Agriculture. Materials and Studies" quarterly; monitoring of quarterly's publication cycle,
- development and updating of information to be used on KRUS web site,
- editing of Public Information Bulletin of KRUS.

Quality Management and Information Safety

Implementation, maintenance and upgrade of Quality Management and Information Safety System in KRUS, including:

- furnishing to the President reviews of Quality Management and Information Safety System,
- initiation of streamlining activities (correctional and preventive),
- furnishing to the President reports on Quality Management and Information Safety System functionality in regional offices,
- co-ordination of quality improvement activities in Head Office and regional offices,
- development and assessment of Quality Management and Information Safety System documentation,
- development and monitoring of Quality Management and Information Safety System internal audits,
- verification of processes indicators and collection of proposals of improvement thereof,
- training of KRUS staff in Quality Management and Information Safety System,
- management of Quality Management and Information Safety System team in Department of Human Resources, Training and Information.

KRUS HQ and a regional office in Konin have already implemented ISO 9000:2001 procedures. KRUS is planning to implement ISO 9000:2001 in all remaining regional offices and their subordinate local offices. KRUS is also preparing to implement

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Information Security Management System based on the ISO 17799:2000 international standard in HQ and Konin regional office and BS 7799-2 Information Security Management System in the remaining regional and local offices.

Staffing (24): 1 Director of Department, 1 Deputy Director responsible for HR and Training area, 16 staff in HR and Training area, 1 Fund's Spokesperson, 3 staff in mass media and public relation area, 1 Deputy Director responsible for Quality Management and Information Safety System and 1 staff in Quality Management and Information Safety area.

Department of Administration and Investments

The functions performed by this department can be grouped into 3 main areas: investments and central purchases; administration and economic affairs; and financial accounting and material-financial planning for KRUS HQ. The following detailed functions are performed by Department of Administration and Investments and are specified in the rulebook:

- material-financial planning of KRUS Head Office administration fund,
- development of periodical analytical reports on execution of material-financial plan,
- submitting to KRUS President motions relating to accomplishment of Department's tasks in the area, among others, of earmarked funds Investments (project documentation, construction investments, investment supervision, purchase of buildings, facilities, land), earmarked funds' investment purchases made centrally, central purchases of office materials, equipment, etc.,
- preparation of motions to initiate public procurement procedures to commission for Public Procurement,
- development and legal evaluation of public procurement contracts' projects,
- calling meetings of Investment Project Assessment Commission, which is responsible for evaluation and documentation of projects,
- permanent supervision of implementation of investment processes,
- maintenance of KRUS Head Office facilities (own and leased),
- maintenance of facilities and offices of regional offices and local offices (including purchase of land, buildings, lease of offices and buildings and major rehabilitation of facilities owned),
- material-financial planning of central purchases, central investment and non-investment purchases, management of purchases,
- securing warranty and post-warranty servicing of office equipment in KRUS Head Office,
- administration of KRUS assets and insurance thereof,
- transport services for KRUS Head Office and supervision of regional offices in respect of these (purchase of vehicles, their allocation and definition of principles of vehicles usage and sales),
- periodical analysis of business vehicles used by KRUS organizational units,

- archival and office services for KRUS Head Office and supervision of regional offices in respect to these services,
- securing stock of office materials and equipment of KRUS Head Office,
- implementation of KRUS President's Directive on establishment of civil defence structures in HEAD Office by way of organization of trainings for civil defence members and trainings for Head Office staff in the area of common self-defence,
- delivery of periodical financial and statistical reporting and Head Office balance,
- income and lump-sum tax returns, annual tax return of employees, contractors and members of Farmers' Council,
- calculation of salaries of KRUS Head Office staff, preparation of registers of salaries paid from non-personal fund of Head Office and external staff, payment of ZUS social insurance contributions, settlement and payment of ZUS health insurance contributions,
- raising VAT invoices against services delivered,
- maintenance of records of VAT tax settlement documents furnished to regional offices,
- settlement of costs of domestic and foreign business trips,
- making bank transfers from Administration Fund, Prevention and Rehabilitation Fund and Social Benefits Fund accounts to bank accounts of contractors or regional offices (on previous formal and financial review),
- calculation and payment of Farmers' Council meeting participation fees to Council's members,
- inputting initial balances of aggregated and analytical accounts into FMR system (F-K computer system),
- day-to-day maintenance of FMR reporting in FA, FP, R and FS funds split,
- monthly settlements of VAT amounts due to Tax Office, making bank transfers,
- keeping accounting records related to public procurement and bid bonds and contractual securities (transfer of the above financial resources to sub-accounts or long-term deposits in accordance with provisions of Law on Public Procurement),
- return of bid bonds and contractual securities to bank accounts of suppliers or contractors,
- analysis of balances with external contractors, employees, KRUS regional offices, Tax Office, ZUS and other institutions,
- development of monthly analytical reports on execution of financial plan in reference to individual provisions.

Staffing (36): 1 Director of Department, 1 Deputy Director responsible for investments and central purchases and 10 staff; 1 Deputy Director responsible for administration and economic affairs section and 13 staff; 1 Deputy Director responsible for financial accounting of HQ and 9 staff.

Classified Information Protection Office

It is a legal requirement for each organisation to have classified information protection officer. The following detailed functions are performed by classified information protection office and are specified in the rulebook. Precise scopes of activities of Representative of KRUS President for Classified Information Protection and of secret office are defined by separate provisions:

- securing protection of classified information, control of classified information and supervision of following classified information protection regulations,
- periodical control of records, materials and documents flow in the area of classified information,
- training of Head Office staff in the area of classified information protection,
- co-operation with competent organisational units of state security services (e.g. ABW – Internal Security Agency) and delivering to the President information on this co-operation,
- in effect of President's written order – carrying out A-level clearance procedures in reference to directors of Head Office departments and KRUS organisational units,
- development of a plan of conduct in reference to classified information materials (state secret) in case of state of emergency,
- carrying out activities aimed at clearing circumstances of violation of classified information protection rules, notifying the President of such instance; in case of violation of regulations of protection of information of higher protection class (secret, etc.) notifying state secret services,
- maintenance of register of positions and works commissioned and persons eligible to work or deliver services in positions requiring classified information clearance.

Staffing (1): 1 responsible officer.

Internal Audit Office

The following detailed functions are performed by Internal Audit Office and are specified in the rulebook:

- preparation, in co-operation with KRUS President, of annual internal audit plan and presentation thereof to the President and Chief Internal Audit Inspector,
- based on annual plan, carrying out internal audit in KRUS and funds managed by KRUS; in justified cases carrying out thereof on short-term basis,
- development of report on internal audit annual plan execution and presentation thereof to the President and Chief Internal Audit Inspector,
- remaining in touch with Chief Internal Audit Inspector.

Staffing (4): 1 Head of Internal Audit, 3 staff.

Regional Offices

There are 49 regional offices in KRUS. Each regional office determines its own organisational structure, though each regional office has the following similarities in organisational structure, which reflect the organisational structure at Head Quarters:

- the director of the regional office with the deputy director and the chief accountant;
- the following organisational teams:
 - team for general issues,
 - team for insurance,
 - team for allowances and benefits,
 - team for budget and bookkeeping issues, and
 - team for prevention, rehabilitation and medical decisions.

During the mission two regional offices were visited. The organisational structure of these offices differed very slightly. Staffing numbers of regional offices (together with their local offices) and a comparison between staffing levels and customers (number of insured and beneficiaries) and the organisational structure of one regional office (provided as an example) are included in Annex A and B.

The regional office performs all tasks related to the social insurance of farmers, granting as well as payment of allowances within the territory of its activities and monitors local offices belonging to the regional office. Regional offices also perform the following main functions:

- application registration,
- allocation and payments of pensions and disability pensions;
- medical certification;
- reviewing and issuing decisions regarding appeals and participating in courts in respect of appeals;
- financial accounting;
- human resource management; and
- procurement.

The following detailed functions related to core KRUS operations are performed by regional offices and are specified in the rulebook:

- receiving applications for social and health insurance of farmers,
- establishing an obligation regarding social insurance of farmers and members of their households,
- establishing entitlement to social insurance of farmers and members of their households and to health insurance of farmers, members of their households, pensioners, disabled pensioners and their family members,
- determining the amounts and collecting social insurance contributions of farmers and determining the amounts of health insurance contributions of farmers and members of their households as well as collection of contributions of farmers obliged to pay health insurance contributions individually,
- pursuing outstanding contributions under duress,
- applying reductions and depreciations in the repayment of liabilities within the powers vested by the President,

- laying down rights to financial allowances and the exercising thereof on daily basis,
- deducting from payable allowances advances for income tax and settling of income tax of pensioners and disabled pensioners,
- pursuing the return of overpayments of allowances,
- determining circumstances and causes of accidents at agricultural work,
- undertaking actions in respect of preventing of accidents at agricultural work and agricultural professional diseases,
- actions related to medical rehabilitation of farmers authorised to receive allowances from the Fund,
- representing the Fund in court proceedings concerning appeals against the issued decisions,
- examining complaints and requests concerning activities of the regional office and local offices under their supervision,
- performing tasks in respect of medical decisions issued,
- maintaining records of persons entitled to health insurance and their family members,
- receiving applications, on daily basis, for social insurance and preliminary verification of those applications with regard to their complete filling and in order to ascertain whether they correspond to the documents of the insurer,
- maintaining records of payment of health insurance contributions for each insured person, pensioner and disabled pensioner,
- maintaining records of social and health insurance periods,
- forwarding data on farmers, members of their households and their family members entitled to health insurance and on contributions transferred for those persons to a competent health insurance institution,
- exacting payments for outstanding social insurance contributions and payments for health insurance from farmers operating within the special section of agricultural production,
- issuing decisions in disputable issues in respect of determining and collecting health insurance contributions,
- laying down rights to family allowances payable from the state budget in favour of pensioners, disabled pensioners and the insured,
- laying down rights to maternity allowances, sick pay benefits, sick pay benefits for the long-term periods as well as funeral allowances after the deceased pensioners, disabled pensioners or their family members or those insured, and the payment of such allowances,
- paying war veterans allowances,
- executing the provisions of the Act – Public Contract law within the framework of functioning of the regional office and the local offices under its supervision,
- issuing insurance cards and those of the pensioner and the disabled pensioner,
- paying allowances ordered by other pension bodies,
- issuing decisions on depreciation of unduly taken allowances in the cases not reserved for the President.

In addition regional offices perform the following support functions for the whole region including subordinate local offices:

- financial accounting,
- human resource management and training,
- procurement (unless the items should be purchases by the HQ to keep consistency across all regional offices) and asset management.

Warsaw regional office – Poligraphy Unit

Warsaw regional office has a separate printing unit – poligraphy. Main tasks performed by the poligraphy are printing contribution forms, various information leaflets, prevention materials, brochures, etc. This Unit has a dual reporting to both the 2nd Deputy President at Headquarters of KRUS and the Warsaw regional office Director.

Local Offices

There are 220 local offices in KRUS, which are supervised by regional offices. The number of local offices supervised by a regional office depends on the size of the region. They are generally located within a radius of 75km of farming communities. Local offices are principally the contact points for the customers; they perform such main functions as allocation and payment of short-term benefits, collection of contributions, prevention activities, etc. The following detailed functions are performed by local offices and are specified in the rulebook:

- receiving applications for social and health insurance of farmers,
- establishing entitlement to social insurance of farmers and members of their households and to health insurance of farmers, members of their households, pensioners, disabled pensioners and their family members,
- establishing an obligation regarding insurance and issuing decisions on the entitlement and cessation of the insurance as well as amounts of insurance contributions,
- determining the amounts and collecting social insurance contributions of farmers and determining the amount of health insurance contributions of farmers and members of their households as well as collection contributions of farmers obliged to pay health insurance contributions individually,
- maintaining records on periods of insurance and contributions payment,
- pursuing outstanding contributions under duress,
- applying reductions and depreciations in the repayment of social insurance contributions within the powers vested by the President or writing off barred liabilities resulting from such payments,
- issuing decisions in disputable cases in respect of determining and collecting health insurance contributions,
- issuing insurance cards,
- conducting post accident proceedings,
- receiving applications for allowances,
- providing information to interested parties, including informing the farmers on the possibility to receive a free of charge rehabilitation executed through ASIF,

- cooperation with other organisations and institutions in respect of social insurance of farmers,
- laying down rights to family allowances payable from the budget and the payment thereof to the persons insured in the Fund,
- laying down rights to maternity allowances, sick pay benefits, sick pay benefits for the long-term periods as well as funeral allowances and the payment of such allowances,
- performance of tasks regarding medical decisions issued,
- maintaining records of social and health insurance persons,
- maintaining records of health insurance contributions payments of farmers, members of their households and of their families,
- exacting payments for outstanding social insurance contributions and payments for health insurance from farmers operating within the special sections of the agricultural production,
- performing actions in respect of preventing accidents at agricultural work and agricultural professional diseases,
- forwarding data on farmers, members of their households and of their families entitled to health insurance and on contributions transferred for those persons to a competent health insurance institution,
- maintaining records of social and health insurance periods.

Rehabilitation Centres

There are 7 rehabilitation centres managed by KRUS. Four of them are owned by the Contribution Fund and 3 are owned by State Treasury and managed by KRUS.

Rehabilitation centres are economically self-sustained entities. Annually agreements are signed between KRUS and rehabilitation centres for rehabilitation services. The rates applied for KRUS are below cost therefore rehabilitation centres also perform commercial activities. About 70% of all rehabilitation centres' capacity is devoted to KRUS. The main responsibility of rehabilitation centres is to perform tasks of the Fund in respect of medical rehabilitation by way of granting health allowances to persons who are currently unable to work in the holding. The rehabilitation centre promises only to treat those customers who as a result of medical treatment can retain their ability to work. The rehabilitation centre will also treat those customers facing danger of an absolute inability to work in the holding.

Rehabilitation centres are supervised by the HQ Department of Prevention and Rehabilitation. Control of rehabilitation centres is performed by the HQ Department of Controls, usually with participation of KRUS chief doctor, deputy director in the Department of Benefits.

Insured at KRUS can receive rehabilitation procedures in the following ways: during disability pension medical assessment or medical assessment after accident medical commission refers the person for rehabilitation (referral from medical commission is considered automatically an application for rehabilitation centre) or insured at KRUS receives certificate from his/her family doctor, suggesting rehabilitation, and then submits the application for rehabilitation. Unless more frequent rehabilitation is needed due to health conditions, a person can receive rehabilitation every 2 years and

generally for a period of 21 days at a time. Main focus of rehabilitation is to enable a person to work again, therefore pension age KRUS customers are not entitled to rehabilitation. Rehabilitation centres also provide holidays for farmers' children.

KRUS has agreements with external (National Health Insurance Fund's) rehabilitation centres for treating certain medical problems. In addition there are 400 day-care rehabilitation units for KRUS customers, which KRUS supports by buying medical equipment for rehabilitation.

Information Technology

The current KRUS Information Systems are not integrated. There is no central database - HQ and each regional office and for certain systems each local office use separate databases. The different information systems are not compatible with each other, e.g. run on different hardware platforms, developed in different software. KRUS HQ, regional and local offices are not connected into a wide area network, though KRUS are currently implementing a WAN.

Main information systems used by KRUS:

- FARMER – a system for long-term and disability pensions. The system is used by regional offices only. Every regional office has a separate database running on their own mainframe. There is no central database combining the data from all regional offices' databases. Operation and maintenance of the system is outsourced to 20 different companies (ZETO). At the moment KRUS is in process of negotiating a contract to outsource the systems to a single company (it is planned to complete negotiations by 1 August 2005).
- KRUSNAL – a system for recording data of insured, contributions data and short-term benefits. The system is used by both regional and local offices. Every regional and local office has its own separate database running on Windows servers. There is no integration of this system with the FARMER system, therefore the contributions data cannot be transferred automatically and used while allocating pension or benefit.
- KACHNA – system for recording health insurance contributions. The system is used by both regional and local offices. Every regional and local office has a separate database.
- Systems used by regional and local offices for servicing rehabilitation records and for accident records.
- Financial accounting system - is used by regional offices and HQ. There are separate databases for each regional office and HQ. Data from regional offices to HQ is transferred with the help of email, cds, floppies, etc. Financial accounting system is not integrated with Farmer, KRUSNAL, salaries accounting system or banking system. KRUS are currently implementing a unified accounting system using Oracle to develop a single database and plans to have it completed by 1 January 2006.

- Banking system is used for bank operations by HQ and by regional offices.
- HRM and salaries accounting system is used by regional offices and HQ. There is no single complete database for all KRUS HR records. Centrally data for HQ personnel and regional offices management personnel is stored as well as limited data on other KRUS personnel working in regional and local offices. Full data about all KRUS personnel working in regional and local offices is stored in the regional offices.

ZUS and KRUS IT systems are totally separate. There is no electronic data exchange between the two systems.

Structure of Funds managed by KRUS

Financial resources managed by KRUS are divided into the following main funds:

- Pension and Disability Fund,
- Prevention and Rehabilitation Fund,
- Administration Fund,
- Contribution Fund (separate legal entity).

Pension and Disability Fund is financed from pensions' contributions and from a subsidy from the national budget. The subsidy from the national budget is approximately 90% (gross) of the pension and disability fund expenditure or 86% Net when taxes returned from pensions and health contributions transfers to the national Health Insurance Fund etc are taken into account. The following benefits are paid out of this fund:

- Old age pensions,
- Disability pensions,
- Family pensions,
- Funeral benefits, and
- Supplements to pensions.

Pensions and Disability Fund expenses for 2004 were 16 billion PLN.

Prevention and Rehabilitation Fund is financed from deductions from Contribution Fund (which were equal to 5% of the Contribution Fund in 2005) and from state budget allocations. This fund finances prevention of work injuries related to agricultural work and agricultural professional diseases and assists the insured and those who have a right to insurance benefits who are persistently unable to work on the farm, or threatened with such incapacity, with different forms of rehabilitation or with a possibility of qualifying for a new job.

Prevention and Rehabilitation Fund expenses for 2004 were 34 mln. PLN.

Administration Fund is financed from deductions from the Contribution Fund (9% for 2005), deductions from Pensions and Disability Fund (maximum defined deduction is 3.5%) and from state allocations. Deduction from the Contribution Fund is decided by the President of Contribution Fund approved by the Council of Farmers.

Administration Fund finances costs of KRUS operations. Administration Fund expenses for 2004 were 481 mln. PLN.

Contribution Fund is self-financed fund and is financed from farmer's contributions for accident, sickness and maternity insurance. Council of Farmers' decide annually on the size of contribution for accident, sickness and maternity insurance. The following payments are made from this fund:

- Lump-sum compensation for permanent or protracted impairment of health or death due to the work injury while a person was engaged in farms duties or to agricultural professional illness,
- Sickness benefit in case of illness that lasts longer than 30 days,
- Maternity benefit.

Contribution Fund surplus can be invested e.g. government securities, assets, etc. Contribution fund owns 4 rehabilitation centres.

Revenue into Contribution Fund in 2004 was 408 mln. PLN.

Bank Accounts held for the Funds

The following bank account structure is used by KRUS for managing cash flows:

For **Contribution Fund** – KRUS has 1 bank account of the Contribution Fund Board, 49 separate bank accounts (at different banks contracted through public procurement procedures) for each regional office. Each regional office account has sub-accounts for every local office. Contributions for accident, sickness and maternity benefits are collected into local office sub-accounts and short term benefits are paid out of these sub-accounts. On a weekly basis regional office transfer the surplus funds to the Contribution Fund Board bank account. The President issued an order in June 2005, during our visit, to change the process of contributions collection, as well as the process of payment of benefits from 1 September 2005. As a result all contributions will be collected into the 49 regional offices' sub-accounts in the National Bank of Poland. Local offices will not have sub-accounts of Contribution fund.

For **Pensions and Disability Fund** – KRUS has 1 HQ bank account in the National Bank of Poland and 49 sub-accounts for each regional office. Contributions for pensions are collected into regional office sub-accounts and pension and disability benefits are paid out of these sub-accounts.

For Administration Fund – KRUS has 1 HQ bank account in the National Bank of Poland and 49 sub-accounts for each regional office.

For Rehabilitation Fund – KRUS has 1 bank account in the National Bank of Poland at HQ.

In addition according to the legislation every organisation is required to hold Social Benefit Fund at separate bank accounts. KRUS has 1 HQ bank account and 49 regional offices bank accounts for Social Benefit Fund, which are held at different banks contracted through public procurement procedures.

Human Resource Management

The Human Resource Management policy that is currently implemented within the fund could be broadly divided into the following areas:

- Personnel planning and hiring,
- Employee training and development,
- Motivation and compensation, and
- Employee evaluation.

Department of Human Resources, Training and Information in HQ is responsible for HRM for HQ personnel and for regional offices management personnel. Regional offices are responsible for hiring staff, performing training, evaluation and salary accounting for that regional office and subordinate local offices employees.

There are approximately 6,500 employees working in the whole organisation. Staff turnover in KRUS is very low. If needed, hiring of employees is performed at every level. The need for personnel is advertised in newspapers as well as internally. Recruitment is performed by KRUS.

Training is performed internally or outsourced. Department of Human Resources, Training and Information in HQ is responsible for planning training for all KRUS organisation, however, there is no data stored about trainings completed by employees' in the HR database. KRUS also provides possibilities for employees with 'high potential' to obtain 3rd level education.

KRUS has established a **Motivational Fund** and at the end of every quarter rewards are paid out. Motivational Fund is financed from a portion of total deduction from Contribution Fund into Administration fund. In 2005 the Motivational Fund amounted to 18 mln. PLN net of tax. This constituted 43.7% of deductions from Contribution Fund into Administration Fund.

The President of KRUS in cooperation with the chairman of the Council of Farmers manages the Motivational Fund. In addition there is a commission for performance evaluation of regional offices.

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In order to decide the Motivational Fund performance evaluation of Regional offices their performed is based on a set of confirmed criteria. Motivational Fund for HQ departments is split equally per number of employees working for departments. Further each regional office manager and head of HQ department performs evaluation of employees to assess the motivational payment amount. However, evaluation results are not formally documented nor stored in HR database. There is no employee development plan constructed.

Human resources management data is stored in HRM IT system. There is no single complete database for all KRUS HR records. Centrally data for HQ personnel and regional offices management persons is stored as well as limited data on other KRUS personnel working in regional and local offices. The full data about all KRUS personnel working in regional and local offices is stored in the regional offices. Main data stored currently by KRUS in IT database is: personal data, educational experience, CV, languages, etc.

Core Business Processes

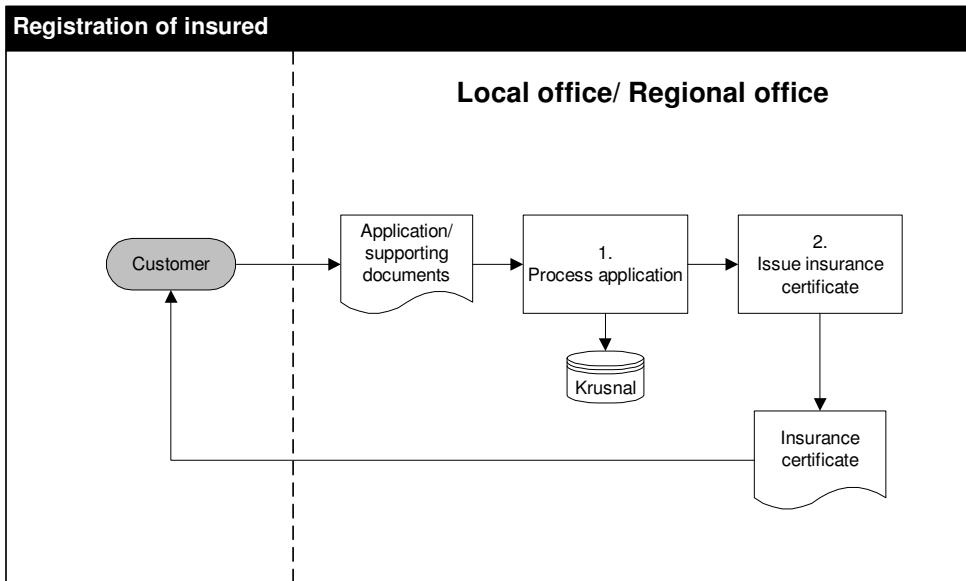
While there are many support processes performed by KRUS and they are mentioned in the functions of the departments, only the core business processes are presented here as these are the most important for revealing KRUS operations. These core business processes have been identified during interviews with KRUS representatives.

The following core business processes have been identified:

- Registration of insured,
- Collection of contributions,
- Application for benefits, and
- Payment of benefits.

Each process is described by dividing the activities between local offices, regional offices and HQ.

Registration of insured



The law on the farmers' social insurance provides two forms of coverage by insurance: obligatory and voluntarily. The following persons must register obligatorily for the farmers' social insurance:

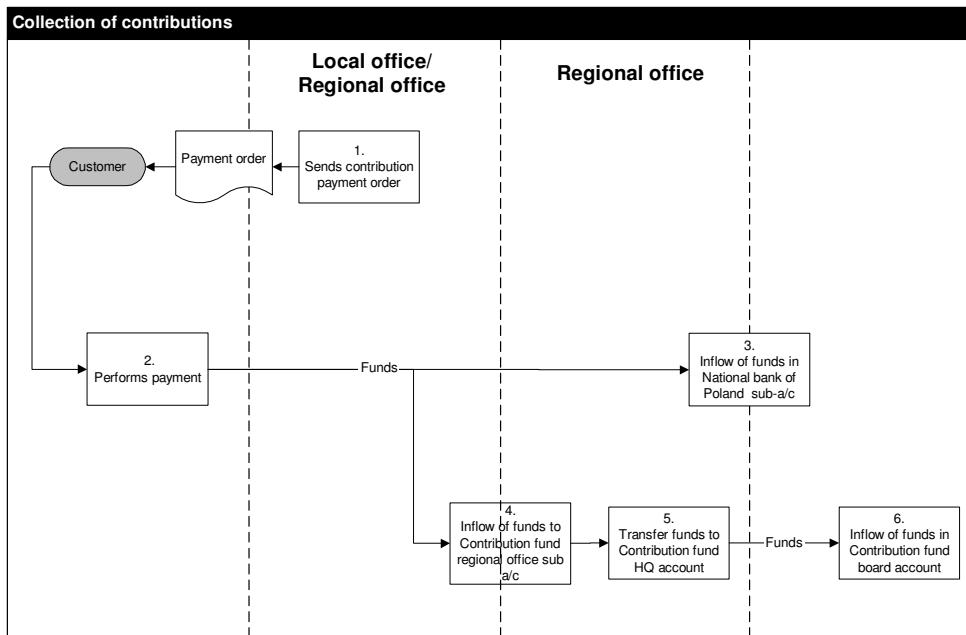
- a farmer who conducts the agricultural activity on his own account as the owner (independent or dependent) of the farm situated in the Republic of Poland and possessing above 1 hectare of arable land or a special section of agricultural production, according to the interpretation of tax regulations,
- a farmer's spouse who works constantly on the farm, in the special section of agricultural production or keeps the house which is directly connected with a farm,
- a member of the household, i.e. a person close to a farmer who
 - is at least 16 years old,
 - remains in the common household or lives on the farm or in the neighbourhood,
 - works constantly on the farm and is not employed by a farmer as a worker, if those persons are not covered by other social insurance and do not have right to old-age pension or disability pension from the farmers' social insurance or other social insurance.

The exception to this rule are those who conduct agricultural activity or work on the farm and at the same time conduct non-agricultural economic activity or cooperate in conducting such activity. According to the Law of 1 January 1997, these persons may choose the system by which they want to be covered.

It is the responsibility of the farmer to register with KRUS and to register the household members which have to be insured. KRUS does not receive information from external organisations about, e.g. purchase of land, conducting agricultural activity, etc.

The farmer and household members can be registered at local office or regional office depending where a person submits the application and supporting documents. The data is registered into the local database for that local or regional office (KRUSNAL IT system). Farmer and household members are also registered in a separate system as insured with health insurance. Social insurance certificate is mailed to registered person.

Collection of contributions



Contribution rate is flat rate and is paid quarterly. Pension contribution amounts to 168.8 PLN per quarter and contributions covering accidents, sickness and maternity amount to 60.0 PLN per quarter. Contributions covering accidents, sickness and maternity are approved annually by the Council of Farmers. Collection of contributions is currently amounts to about 97%, which is very high in comparison with other social insurance funds in other countries.

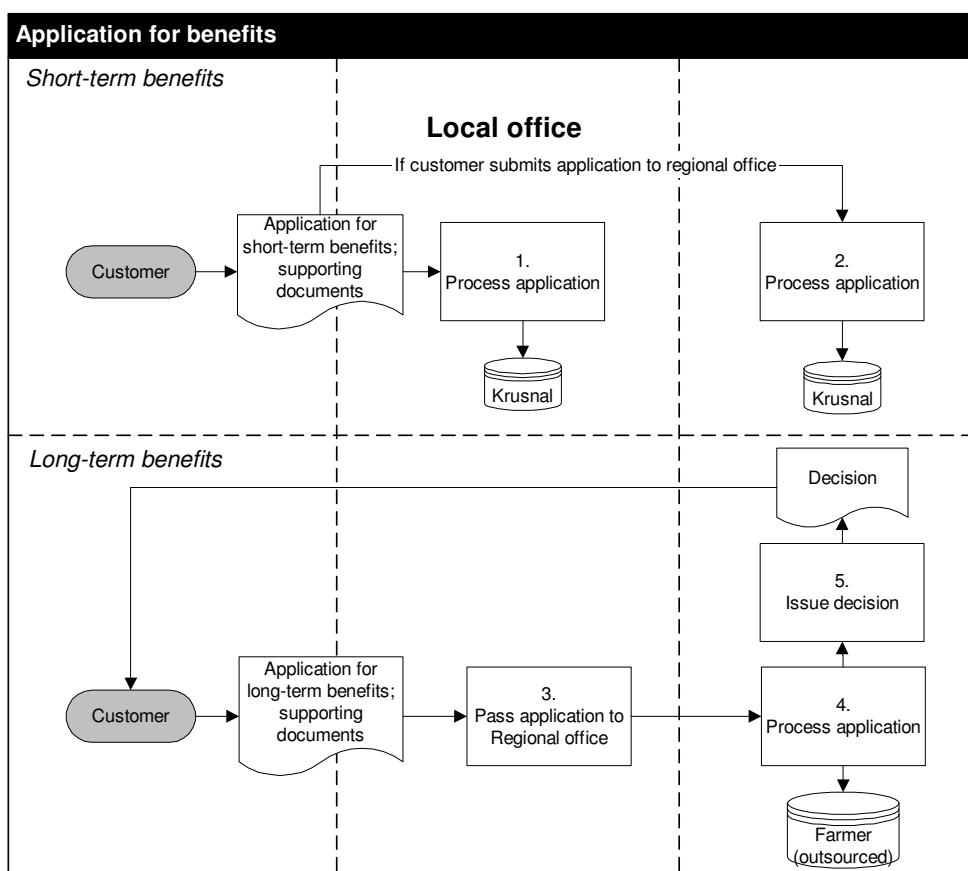
Local & regional offices on a quarterly basis (depending where insured person is registered) send out to the insured person contribution payment orders. Standard payment order forms are printed in Warsaw Regional Office Poligraphy and are distributed to regional and local offices. Personal details of insured are printed on the payment forms by each local/ regional office.

Insured person can make a payment of contributions at any bank or post office. According to the bank account information which is printed on payment forms pension contributions are transferred into regional office sub-account at the National Bank of Poland, and accidents, sickness and maternity contribution is transferred to the Contribution sub-account at local office. On a weekly basis funds from Contribution account are transferred to the account of Contribution Fund Board by regional office. Collected contributions are recorded manually into contributions system (KRUSNAL). There is no possibility for data transfer from the banking system, though KRUS is considering implementing this facility.

KRUS specialists also perform follow-up in terms of unpaid contributions, periodically visit the farms to monitor the debt situation. In case of difficulties a deferral schedule can be agreed.

President's order has been issued to change the process of contributions collection, as well as the process of payment of benefits from 1 September 2005. As a result all contributions will be collected into the 49 regional offices' sub-accounts in the National Bank of Poland. Local offices will not have sub-accounts of Contribution Fund. The payments of all benefits will be performed at regional office level.

Application for benefits



Applications for short term benefits are registered at local office or regional office (depending where the person applies) after all relevant documentation has been submitted. For sickness benefits a certificate is issued by the family doctor, confirming that the sickness period is more than 30 days. KRUS does not have the possibility to perform control of the medical doctors issuing certificates.

For accident benefit, the benefit is paid out after inspection of the accident situation is completed by KRUS. It is the responsibility of the farmer to inform KRUS about the accident. There are no defined time limits when the information about an accident should be delivered to KRUS. As a result delays in informing KRUS about an accident can make it difficult for KRUS to investigate the circumstances of the accident.

Application for short-term benefits is registered in KRUSNAL information system, which has separate databases for each local and regional office.

The application for long-term benefits and respective documents can be submitted at any local office however the application is processed in the regional office. For disability benefit KRUS' own medical certification is performed. Depending on the medical circumstances KRUS priority is to refer a person to rehabilitation if it is possible as a result of rehabilitation to avoid disability.

The law of 12 September 1996 on the change of Law on the social insurance for farmers created a legal basis for KRUS to establish its own system of medical certification.

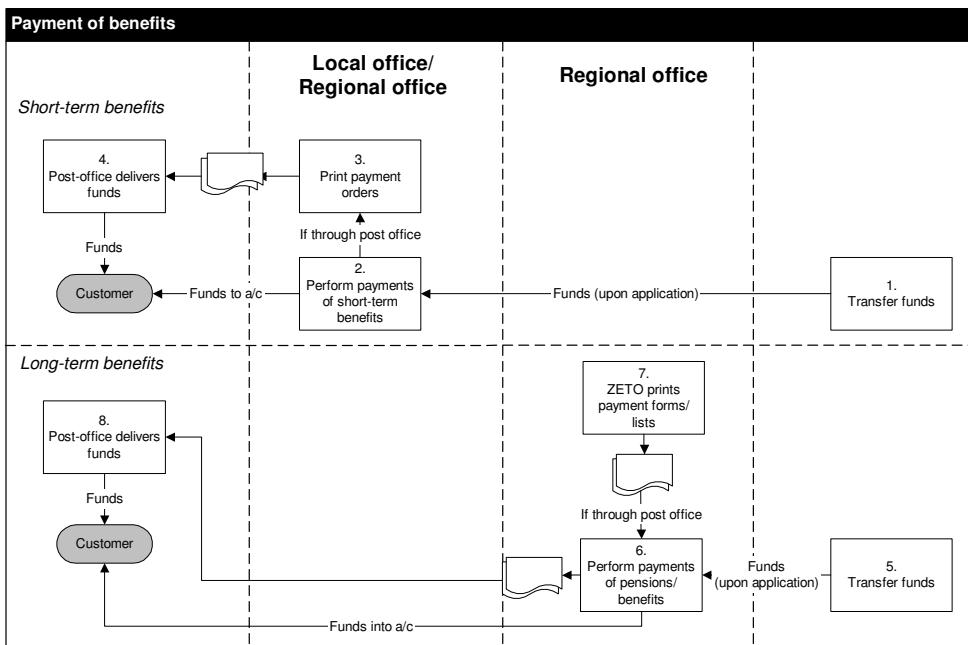
The tasks of the specialist physician/ medical board include giving certificates concerning:

- Permanent or long-term inability to work at an agricultural farm,
- Permanent or long-term damage to health and its causes,
- Inability of independent existence,
- Recommendations to medical rehabilitation,
- Other conditions of the right to use agricultural social insurance services.

If the decision is positive then the application for long-term benefits is processed in the Farmer's IT system (outsourced with ZETO companies), which is not integrated with contributions system. The benefit data is entered into Farmer's IT system only for positive decisions. For positive decisions ZETO delivers printed decision information (e.g. decision form, calculation details, etc.), which is verified in the regional office and mailed by registered mail to the customer. Negative decisions are printed in regional office and mailed to the customer.

Decisions include information about appealing against the decision. A customer has the possibility to appeal a decision to KRUS regional office and the regional court.

Payment of benefits



About 50% of payments are paid out through banks and about 50% of payments are delivered by post-office or other delivery agency. Each regional office signs a contract with delivery agencies through public procurement procedures.

Payments of short-term benefits are performed by local office or regional office depending where the application was processed. If needed, money for payment of short-term benefits (regional office application) is transferred to regional office account from contribution fund board account, where it is distributed to local office sub-accounts as needed.

Local or regional office transfer money straight into the bank account of the customer or print payment forms for post-office and transfer money to the post office/ delivery agency. Post-office/ delivery agency delivers money in cash to the customer's home.

Payments of long-term benefits are performed only by the regional office on the 1st, 5th, 10th, 15th, 20th, 25th, 30th of the month. If needed, money for payment of long-term benefits (regional office application) is transferred to regional office sub-account by HQ Economical and Financial department.

Regional office transfers money for payment of long-term benefits straight into the bank account of the customer. If payment is delivered by post office or delivery agency, the company which services Farmer's IT system prints the payment forms and regional office, after verification transfers forms and funds to the post office/ delivery agency. Post-office/ delivery agency delivers money to the customer's home.

For long-term beneficiaries (pensioners and disability pensioners) KRUS pays income tax on a monthly basis and files annual tax returns, unless the customer is willing to file tax return personally. Tax returns are prepared both in paper form and electronically and passed to the Tax office and to the insured person.

Health insurance for farmers

KRUS is also responsible for keeping health insurance records. Persons insured with the social insurance scheme at KRUS are automatically insured for health insurance. In addition, KRUS registers farmer's family members who are not covered by KRUS or other social insurance for health insurance. Farmers performing certain farming activity have to pay health insurance contribution on a monthly basis to regional office, which is then transferred to National Health Insurance Fund.

Health insurance data is transferred by regional offices to a single outsourced ZETO centre, where it is accumulated and transferred to National Health Fund.

Financial accounting

KRUS prepares annual financial accounts in accordance with the regulations issued by the Ministry of Finance. KRUS annual financial statements consist of:

- the balance sheet;
- RB 33 – annual report on execution of financial plans of state funds which are not legal entities – this report is prepared separately for Pensions and Disability, Administration and Rehabilitation & Prevention funds;
- RB 40 – annual report on execution of financial plan defined in budget law of current year – this report is prepared separately for Pensions and Disability, Administration and Rehabilitation & Prevention funds.

Each regional office prepares their own financial accounts to include financial accounts for their subordinate local offices. Department of Administration and Investments prepares financial accounts for KRUS HQ. Financial accounts for all KRUS are consolidated by Economical and Financial Department.

Financial accounting is performed in Financial/Accounting system which uses separate databases for each regional office and HQ. Data to HQ Economical and Financial Department is passed by email or cds, etc.

KRUS financial reports are presented to the Ministry of Finance and the Ministry of Social Policy. Periodically KRUS is reviewed by the state control (NIK).

The Contribution Fund prepares separate financial accounts, which are audited by the independent auditor annually. Financial information about Contribution Fund revenues and expenditures are accounted by regional offices, consolidated by Economical and Financial Department and communicated to Contribution Fund accounting unit.

PART 2: FINDINGS AND EVALUATION OF CURRENT ENVIRONMENT WITH SPECIFIC RECOMMENDATIONS

A number of weaknesses and areas for possible improvement have been identified as a result of this current environment analysis. The purpose of highlighting these weaknesses is not to be critical but more to identify areas for possible improvement by KRUS and to enable management to focus on potential improvements identified by external consultants in order to increase the efficiency of the organisation. These observations/ weaknesses are grouped below into the following three categories:

- Organisational structure;
- IT; and
- Business procedures/processes.

Organisation structure

There are 2 departments in KRUS HQ which are responsible for totally different functions within each of the departments. These functions are supervised by separate deputy directors. The Deputy Directors of these departments are not accountable to the Directors of the Departments, but are directly accountable to the President:

- In Organisational and Legal Department – Public procurement is supervised by deputy director of the department, directly accountable to the President; IT is supervised by the deputy director of the department, directly accountable to the President, while Director of the Department is responsible for organisational and legal functions;
- In Department of Human Resources, Training and Information – communication with mass media and public relations is managed by Fund's Spokesperson who is directly accountable to the President; and Quality Management and Safety of Information System area is supervised by Representative of the President for Quality Management and Safety of Information System and reports direct to the President, while director of the Department is responsible for Human Resources and Training.

Recommendation 1: It would be beneficial to establish separate departments for Information Technology; Public Procurement; Information (mass media and public relations) and Quality Management and Safety of Information systems. Each of these areas will be subject for development in the future as greater demand arises. It is strongly recommended that these areas be set up as separate departments and new reporting arrangements defined. The rule book should be updated to reflect the allocation of the new resources, creation of new departments and associated roles and responsibilities.

Organisational and Legal Department performs public procurement functions and the Department of Administration and Investments combines together several areas among which is investments and central purchases area supervised by Deputy Director. There seems to be a duplication of functions of public procurement performed by both departments.

Recommendation 2: As those are similar functions it would be beneficial to group them separately within one department, e.g. Department of Public Procurement and allocate resources accordingly, thus bringing the expertise together and co-ordinating all activities within one Department.

Currently the **Department of Benefits** performs medical assessment functions, which are under supervision of the deputy director – KRUS chief medical doctor. However, **Department of Rehabilitation and Prevention** is responsible for supervision of rehabilitation centres and day-care centres, which are medical care institutions, as well as for supervision of referring insured persons to rehabilitation centres.

Recommendation 3: It would be beneficial to group the medical assessment functions and functions related to rehabilitation within one department. Consideration should be given to setting up a new **Department for Medical Supervision** that would bring together the functions mentioned here. Development of an overall strategy for medical supervision should be considered that would also examine areas for greater medical supervision and maximise the knowledge available on accidents and diseases. The medical supervision would combine analyses, monitoring and practical implementation of services throughout KRUS, including the Rehabilitation Centres and services contracted and used.

According to the draft statute prepared by KRUS, it is planned to reorganise the departments. The following are main structural changes suggested in the draft statute: establishment of separate departments – Information and Communication Department, Department of Information, Procurement Department and Department for Quality management and information.. Such structural changes would be highly supportive and correspond with the findings made during the mission. However, there are no plans to appoint a new Deputy President to manage these new structural units and they will report directly to the President.

Recommendation 4: The direct reporting arrangements currently existing in KRUS puts a great deal of pressure on the President to be available for day to day business matters. While the regulations provide for the President to be personally accountable for all activities in KRUS it is unreasonable to expect the President to operate on this basis and we recommend therefore that an additional deputy president should be appointed to manage these new structural units or alternatively the President should consider a new breakdown of functions between 3 deputy Presidents.

Recommendation 5: Within the new structure the President could consider setting up a Board at KRUS, comprising Directors of Departments, that would meet weekly to discuss issues arising and help the President deal with day to day business and assign tasks as required. While it is acknowledged that the ultimate responsibility within any social insurance fund lies with the President, this does not negate the international best practice approach of involving senior management in the communication and the decision making process.

The **Control Function** of regional offices is currently performed by each respective HQ department by inspecting the relevant functions, e.g. Department of Insurances, Department of Benefits, Department of Prevention and Rehabilitation, etc. In addition Gerry Fitzpatrick,
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to their work the Department of Controls performs thorough reviews and controls of all functions of regional offices and subordinate local offices. Each has a plan of inspections each year and a timeframe during which all offices are visited. As has been noted during the interviews, Department of Control does not find many weaknesses, breaches, or inefficiencies during these controls.

Over and above these controls there is an independence assurance of KRUS operations through the Internal Audit Office which performs internal audit of KRUS, especially in respect of funds usage, and reports direct to the President. This department consists only of 4 persons. As has been noted during the interviews neither department of Control, nor Internal Audit office perform audit of Information systems while Control Department and the HQ Departments mentioned above repeat inspections for control purposes annually though their findings are minimal. This is not a criticism but in fact a complement to KRUS that their management and staff follow procedures. As a result risks to the social insurance system within KRUS are minimal. The fact that KRUS has managed to keep its staff and has very low turnover means that experience gained is retained and error rates are low. The use of control resources should therefore be re-examined in the context of results and findings.

Recommendation 6: It is recommended that **Internal Audit Department (IAD)** be increased to include IT Audits and expand the scope of activities to include review of controls in Regional Offices. Modern audit techniques which focus on value for money audits and recommendations for improved use of resources should be encouraged for the Internal Audit Department for the future. Off the shelf software is available to facilitate independent examination of IT systems databases which could be used by the IAD to determine their inspections based on risks identified.

Recommendation 7: It is recommended to review the current operations of the Department of Control. The current system of reviews could be changed by the introduction of a risk management approach whereby the actual reviews undertaken would be based on a risk assessment. The control work of the HQ Departments mentioned should also be examined to determine if their involvement in control work is still required.

Currently KRUS owns the **Poligraphy Unit**, which is in the structure of Warsaw Regional Office. The Director of Warsaw Regional Office has an additional responsibility to manage the unit which is not a core activity of KRUS. As has been noted during the mission, equipment used is rather old; KRUS does not have legal authorisation to sell poligraphy services to outside customers; therefore having KRUS own poligraphy unit may not be financially justifiable.

Recommendation 8: Poligraphy is not a core activity of KRUS; there will be a cost arising to modernise poligraphy taking into account the latest technology, which needs to be examined to see if it is cheaper to outsource this work in the future. KRUS should determine costs for modernisation and when they are known KRUS should consider outsourcing poligraphy services through public tender.

Information Technology Systems

Current **IT systems** are not integrated and incompatible, different databases are used by separate organisational units, e.g. Farmer's system runs on mainframe, while Gerry Fitzpatrick,
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KRUSNAL system runs on Windows servers. WAN implementation is still in progress in KRUS. Due to the lack of an integrated IT system and absence of a single database, several inefficiencies can be noted in the organisation and the business processes and procedures:

- Lack of immediately available management information, which could be extracted from the single database and cover all KRUS operations. As a result currently management information for overall KRUS operations can be available only after all the data is partly manually consolidated from all regional offices;
- Inefficiencies due to the need of manual transfer of data from one information system to another;
- Financial information is not automated and must be secured from many sources;
- Currently there is a lack of IT support in certain areas, e.g.:
 - HRM only holds partial information on KRUS employees;
 - there is no document management system to support documents flow used in KRUS..

Recommendation 9: A modern integrated IT System that meets the needs of KRUS, would be highly beneficial. A “mixed bag of solutions” which have been developed on an ad-hoc basis, rather than an integrated system should be avoided if at all possible. An integrated IT system would deliver significant benefits and would also allow for significant improvements to current business processes e.g. it would be possible to integrate pensions system and short-term benefits and contributions system with financial accounting system; for allocation of long-term benefits – it would be possible to integrate contributions system with the pensions system. The IT system could also be integrated with external systems such as the banking system, facilitate electronic data exchange with ZUS and more.

Recommendation 10: A new HRM system/or upgraded HRM system to include training information, employee evaluation and development information; and a single database containing the records of all KRUS employees would be beneficial. This should also be a part of the overall integrated IT System.

Recommendation 11: A new Management Information System (MIS) that would obtain information from the Integrated IT System and produce accurate, meaningful and timely reports on business operations for decision makers should be considered. The management information system could also be available for external institutions, such as Ministry of Agriculture, Finance, Ministry of Social Policy etc.

Recommendation 12: Once a decision on the implementation of an Integrated IT System has been made then the current business processes should be reviewed to identify the opportunity for improvements based on new IT and the recommended (target) business processes/improvements should be defined. These new/target business processes would then form part of the requirements specification for the new Integrated IT System. Possible business process improvements could include: centralising of certain functions, e.g. having centralised financial accounting, instead

of every regional office and HQ performing own accounting, considering that all data would be available in the central databases, etc.

Business processes/procedures

The following inefficiencies of KRUS business procedures have been noted. Some of them relate to the situation that KRUS currently does not have right to perform certain activities according to the legislation, however, these activities would be beneficial and improve efficiency of KRUS.

KRUS currently does not have the right to inspect doctors who issue sick leave certificates as these are appointed by ZUS. Abuse of the Sick leave benefits scheme is very common problem in many countries and KRUS inspects farms only after accidents are made known. The condition for entitlement to sickness payments (after 30 days) provides an opportunity for abuse, having collusion with local doctors.

Recommendation 13: KRUS should have the right to perform inspections of medical doctors and farmers without having to wait for accidents and sicknesses to be reported. Detection should be an integrated part of the control system. Spot checks by KRUS should be arranged to ensure that abuse is not taking place.

Prevention of accidents performed by KRUS concentrates mainly on education, training, providing information, etc. however, KRUS inspectors do not have the legal right to inspect the farms before any accidents happen, which might allow for the detection of breaches in work safety.

Recommendation 14: KRUS inspectors should have the right to inspect farms in order to detect such breaches. This could prevent certain accidents from occurring. Detection of bad work practices may help prevent accidents and professional illnesses and ultimately save KRUS from future claims arising.

Currently it is the obligation of farmers to inform about occurrence of an accident. There are no strictly defined time limits within which the information should be provided. As a result it has been noticed that KRUS inspectors experience difficulties in determining all circumstances of the accident.

Recommendation 15: A time limit for providing information/reporting an accident should be set and this should be common knowledge through training and information campaigns.

At the moment it is the responsibility of a farmer to register with KRUS if the farmer or the household members qualify for compulsory social insurance according to legislation. KRUS does not receive any information from external institutions, e.g. about the changes in ownership of the land, performance of agricultural activities, members of farmer's family turning 16, etc. The Agency for Restructuring and Modernisation of Agriculture (ARMR) is involved in development of farming in Poland and allocating EU subsidies for farmers. The data held by that Agency may be very useful for KRUS in the event of earnings becoming a feature for calculation of contributions or even pensions in the future. It is best practice among EU member state to share information rather than require separate requests for such information that is readily available within the State administration.

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Recommendation 16: Responsible institutions should provide information to KRUS that is useful for its efficient administration of services under the social insurance system. Likewise, KRUS where possible should have data available for other institutions such as ZUS for cases where migrant workers overlap and become ZUS clients in the future and vice versa. IT systems development in KRUS in the future should consider these issues and make provisions for them where possible. Sharing of information may be by direct access via online access or by transfer of data. Data Protection rules must however be observed in all such cases.

In HRM area currently employee evaluation process is not formalised – evaluation is not documented, there are no unified criteria for evaluating employees, development plans for employees are not defined, and the data about evaluations or development plans is not stored by HR department, which would be considered best practice in terms of HRM management.

Recommendation 17: This information should be held by KRUS at HQ. This recommendation could be implemented as part of the implementation of a new or updated HRM IT system.

International accounting standards are not applied for KRUS financial accounting. KRUS prepares accounts in accordance to the guidelines by the Ministry of Finance.

Recommendation 18: KRUS should seek approval from Ministry of Finance for implementation of International Accounting Standards. International Accounting Standards are more commonly used now in social insurance funds, using double entry book-keeping, accrual accounting principles and formal set of accounts produced each year. This helps to bring about greater transparency and accountability in organisation, such as KRUS, which is responsible for managing public finances. This would also facilitate KRUS producing an annual set of accounts bringing together the activities of all the Funds into one set of accounts. Contribution Fund is a separate legal entity and has its own set of accounts which are published and audited each year. Accounting for all other KRUS activities are covered by Ministry of Finance rules, are contained in State Budget estimates and financial returns each year and are subject to audit by the State Control.

KRUS has too many bank accounts for contributions collection and for payment of benefits, which makes the process more inefficient and complicated.

Recommendation 19: KRUS should implement the recent President's order to reduce the number of bank accounts held and the number of banks used as quickly as possible.

PART 3: FURTHER RECOMMENDATIONS ON CHANGES AT KRUS

Introduction:

The Terms of reference seeks to define “Recommendations on required changes at KRUS, including description of spheres critical for proper functioning of KRUS in terms of functionality and effectiveness and proposition of solution for problems identified”.

The review of KRUS undertaken between 10th and 22nd June 2005 has provided a good insight into how KRUS is structured and how functions or tasks are carried out. It also afforded the consultant the opportunity to examine and comment on both strategic and more detailed activities which are currently taking place or being planned.

KRUS like other agricultural funds, such as those in France, Finland and others exists to ensure that farmers' rights are protected and developed. In most countries, bringing farmers into the social insurance system has been one of the most challenging aspects of the social insurance system, not least because of the inability of many farmers to contribute to the system due to the lack of resources. Since the social insurance system is generally obligatory it is important that farmers are included and provided for. Poland has made such a provision for farmers and KRUS is the organisation designated to protect and develop the rights of farmers.

What KRUS provides is a social insurance system that includes rights to old age and disability pensions (long-term liabilities) and sickness, maternity and accidents benefits (short-term benefits). Approximately 1.6 mln. farmers contribute to the social insurance system by paying a flat rate contribution of to the Contribution Fund which covers in full the obligations of the State for short-term benefits. 1.6 mln. old age (75%) and disability pensions are paid mainly from State intervention amounting to almost 90% of pension costs with the remaining 10% from contributions.

A number of strategic issues arise which require comment, namely:

- Do farmers contribute adequately to the social insurance system?
- Should farmers be provided for by KRUS or should they be included like other workers in the social insurance system managed by ZUS? KRUS or ZUS which is best for farmers and the State?
- What about the immediate future and what are the next steps for KRUS?

Do farmers contribute adequately to the social insurance system?

First it should be stated that 1.554 mln. farmers currently contribute to the social insurance system in Poland and as a direct consequence the National Health Insurance Fund (NHIF) receives health contributions from KRUS on their behalf. These transfers to the NHIF are done monthly by KRUS from the State budget allocation received. Tax is deducted at source by KRUS, amounting to 660 mln. PLN, and this

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amount is transferred to the State Tax Administration on behalf of farmers receiving old age pensions and disability pensions. This is an inclusive approach by KRUS that secures maximum compliance for the National Health Insurance Fund and the State Tax Administration. This approach is an excellent example of maximising resources to the advantage of all interested parties, farmers, KRUS, National Health Insurance Fund and the State Tax Administration.

The level of compliance is at 96/97% which would be considered to be very high and more than satisfactory. Compliance levels in Ireland where economic conditions are considered very favourable are at a high of 93/94% for the country. Compliance levels in neighbouring Ukraine, is much lower, in the region of 60%. When we examine compliance levels we must take into account economic climate prevailing and the approach taken in collection systems. Social insurance contributions are paid by employers on behalf of employees. As a general rule contribution collection levels are dependent on employers complying with legislative requirements of the social insurance system. The ability of farmers to contribute and their sense of obligation to contribute are the main reasons why compliance in other countries is much lower. Within Poland the system in operation by KRUS is customer and compliance orientated and appears to be very successful.

The rate of contribution currently payable by farmers is a flat-rate contribution that is set at 30% of minimum farmers' pension and this amount (168.80 PLN) is payable 4 times a year by 1.554m insured farmers. The insurance contribution payable for short-term benefits is 60 PLN quarterly and this goes directly to the Contribution Fund (72PLN from July 2005). Whether these amounts are adequate or sufficient is another question. The Contribution Fund is self financing and covers its commitments to short-term beneficiaries so one can argue that the contribution rate set currently at 60 PLN is adequate for short-term benefits at present. This obviously has to be reviewed annually to maintain certain levels of increases as required, as is the case at present.

Many would agree that those farmers who can contribute more should and the additional revenue generated should be used to benefit all insured. The important task here is to maintain the minimum collection levels currently prevailing and to improve on this. This suggests that the current flat rate contribution should be the minimum contribution payable by farmers and thereafter income related contributions should be payable by farmers based on their ability to pay. We understand that a draft law to bring an income related contribution into force based mainly on farm sizes and other proposed changes to KRUS organisation has not made any progress this year. This suggests that this approach is not acceptable or workable. What is required is a formula that clearly identifies not simply farmers potential earning but more importantly their capacity to pay. The agricultural sector is very important to Poland and one which will develop more now that Poland is a big member of the EU. That means that more subsidies will be available to farmers and income levels will change. In addition to this the realisation of higher earning must be supported so that agriculture is developed and those living on the land have adequate incomes and improve their live styles. Infrastructure plays a big part in this whole process as does the capacity of farmers to sell their produce. A meeting with a group of farmers during our visit highlighted the fact that many have produce to sell but cannot get their goods to the market place and as a result products have to be destroyed. To tax Gerry Fitzpatrick,
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this activity and expect contributions to be deducted on such activities will hardly lead to improvements in the system, likewise to attract levies such as contributions and taxes in such situations will only lead to indebtedness by farmers that ultimately serve no purpose, other than to worsen a situation. The ability and capacity to pay are therefore crucial to a successful collection system. Farm size on its own is not the answer, it may be a consideration. A formula which takes into account earnings from activities is the basis for an income related contribution for social insurance and indeed taxation. How this income is assessed is the key.

In parallel with this contribution condition one must consider the role of the state within the social insurance system for farmers. At present historical entitlements such as pensions must be maintained, as this is the basis of the system which has been honoured for many years and the withdrawal of established rights cannot be seen as a solution. The European Court of Justice (ECJ) has made it clear that rights built up must be honoured in full, the same as any private assurance policy. The state role to date has been to subvent the pension system for farmers and to safeguard the short-term benefits through the social insurance system operated by KRUS. The consideration here is what role the State takes in the future. The Contribution Fund which provides for short-term obligations is self financing. This by itself is a successful approach to date in that the CF is able to meet its commitments and remain in credit. The Pension Fund on the other hand required major intervention by the State in the form of a contribution of 90% (or 86% net) of pension costs. One could safely argue that this subvention is too high and the level of contribution required for pensions in the future should be higher, thus helping to reduce the State contribution. The level of acceptable contribution by the State is purely a decision of the Polish Government to make, knowing its commitments from State revenues.

Farmers are treated differently in most countries so no direct comparison or acceptable rate of contribution can be made. It is a matter of deciding what is reasonable and affordable. There is no point in levying amounts which cannot be met, as this creates indebtedness and leads to other problems such as lower compliance generally and greater dissatisfaction with the system. Social insurance systems operate best when there is a strong belief in the system as a whole, both in terms of contributing and receiving entitlements.

The contribution therefore should be set at the minimum contribution, the flat rate currently set, as this will maintain current revenue levels thus safeguarding the current revenue and payment commitments of KRUS and thereafter a level of contribution payable on earnings over an agreed minimum earning levels currently suited to the flat rate contribution. All earning above the currently accepted level of earning suited to the flat rate contribution should attract the additional levy based on an appropriate deduction which is affordable from the additional income. The best expertise capable of identifying the best suited formula is suggested to be KRUS, the Ministry for Social Policy, the Ministry for Agriculture, GUS, the State Tax Administration, the Agency for Restructuring and Modernisation of Agriculture (ARMR) and any research institutions that can contribute. Any earnings related contribution should be affordable and collectable and suited to social insurance and tax purposes. It should also take account of policy for development of farming and the future of the industry in the overall development of the Polish economy. It is an important issue that requires considerable examination and consideration to arrive at the most suitable

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solution that is both implementable and enforceable, whilst maintaining the current levels of compliance.

The income generated from the earnings related contribution, over and above the current collection levels from the flat rate contribution should then be assigned to the Pension Fund so as to enable the State contribution to be either reduced or pension rates to be improved or a combination of both depending on what is appropriate and suited to Government policy. The income to the Contribution Fund must continue to be made secure in the same manner as at present which uses an annual review to identify the flat rate required to meet its obligations of short-term benefits.

Whether income related contributions should attract income related pensions is also an issue for debate. Many automatically assume that one justifies the other but in reality this is not something to be assumed but rather considered in the overall context of the social insurance system. Income related pensions and benefits are expensive and costly to administer. In most instances the income related element is not significant and cannot be justified in terms of the cost of administration and the amount of benefit accruing to the beneficiary. If one looks at the overall pension system available in Poland one can argue that (i) farmers appear reasonably happy with what is currently available to them in terms of contributions payable and benefits and pensions receivable; and (ii) farmers with the capacity to save for pensions higher than the State basic pension (1st Pillar) can avail of pension fund opportunities the same as others. The contribution to the 1st Pillar should be seen as a solidarity contribution payable to support all farmers of the social insurance system. Solidarity between generations is part of the overall principles of social insurance but solidarity within generations is also necessary to ensure that all who contribute do so to maintain support for the community it provides for. Consideration should therefore be given to continuing the current flat rate pension system for farmers and directing additional revenue from contributions collected from the earning related element over and above the flat rate to the pension fund as a mechanism for safeguarding pensions in the future. Better off farmers should be encouraged to seek additional pension cover through the selection of pension funds scheme currently available.

Ireland is an example of a country that does not pay earnings related pensions or benefits, even though an income related contribution applies to the social insurance system. At the same time we can acknowledge that the UK which has an income related contribution and income related pensions in place for over 20 years. The UK has now realised that pension for the future is inadequate and have to review their approach to try to encourage individual savings to improve the situation in the future. Income related pensions are not therefore the straightforward answer or solution. The wider consideration of adequate pensions payable under the first pillar is the main consideration and that can be achieved as it is in Ireland with a flat rate pension paid for by an income related contribution subject to an income ceiling that is slightly above the average earnings level for the country. Thereafter those who can afford it and wish to secure additional pensions can do so through the available assurance pension schemes available from international insurance companies and private pension funds already in existence.

Another matter for consideration within Poland is the principles of public and employer liability and what farmers contribute. At present farmers are covered by Gerry Fitzpatrick,
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KRUS for accidents at work and KRUS works hard to get farmers to improve their workplace. In many countries employers, whether they are farmers or non-farming employers, are required to protect themselves against risks at the workplace. Employers have responsibilities to maintain safe and health workplaces and where they directly contribute by neglect or by bad practice can be sued for causing the accident. Employers generally pay to private insurance companies to protect themselves against litigation and when cases arise where accidents are directly caused by employer neglect or inaction liabilities are charged to the employer and amounts recovered from insurance companies are often offset against disability compensation paid out by the State. Such a system balances responsibilities and liabilities and contributes to employers being more responsive to ensuring safer workplaces. In many farming cases such additional cover may be a problem for those farmers who have minimal existence, however, in the better off farms such a requirements may be worth consideration and implementation. While this may not be an issue in Poland at present it is worth consideration as in the future public liability laws become more commonly used and applied even within the household unit.

KRUS or ZUS, which is better for farmers and the State?

A social insurance system which is best for farmers and the State is not mutually exclusive. Likewise KRUS and ZUS whilst working for the social insurance system are not necessarily the same nor are they structured the same or using the same procedure or processes to deliver their respective services. Suggestions have been made that KRUS should be abolished or that the social insurance system for farmers should be integrated into the ZUS operated system of social insurance.

While there may be some merit in greater integration and improvement in services provided one must be sure of the aims of such moves. Greater harm or damage can be achieved if all factors are not considered, addressed before any such conclusions are reached. Better administration at less cost is an aim that everyone will support however moves to abolish or integrate with ZUS may not necessarily achieve this.

At the present time KRUS provides what can be considered to be an inclusive service, which embraces, collection, payments, prevention and rehabilitation for a large community that is important to the Polish economy. KRUS has an overall staffing level of 6,500 with around 200 working in Head Quarters and the remainder working at 49 regional offices and 220 local offices. The network of offices is therefore considerable and their placement is determined to meet the requirements of the population it serves.

ZUS has a similar structure to that of KRUS but not necessarily the same. KRUS offices are within a maximum of 75km radius of client bases and are orientated towards meeting the needs of the population it serves. This is as much to meet its obligations towards contribution collection and pension and benefit payments but also to support the valued work it carries out in relation to prevention of accidents and rehabilitation of farmers suffering from accidents and diseases at work. This work entails working closely with farming communities and helping to introduce more safe

work environments and reduce the incidents of accidents and diseases. This work carried out by KRUS is a worthwhile development one that is being carried out in all EU countries to meet commitments under Health and Safety legislation. In addition the work in other EU countries is focused with the State Labour Inspectorates which tends to cover all workplaces whereas in Poland the fact that KRUS carries out this work supplements and complements the work of the State Labour Inspectorate which has more time to concentrate on other employers. ZUS does not involve itself in this activity and any suggestions of abolishing KRUS or integration with ZUS would see this valuable work by KRUS reduced, eliminated or transferred to the State Labour Inspectorate that is already overworked covering the remaining population.

Collection levels in KRUS are much higher than in ZUS. If this function were to be integrated in ZUS one must ask would ZUS be as successful as KRUS? Success by KRUS has been achieved through dedicated work with farmers over a number of years. KRUS knows its customers and its customers see KRUS as a friendly organisation working for them. This is not something a State institution can claim so readily and not something that should be dismissed. A sense of ownership for contributors is something all social insurance systems strive for but find it difficult to achieve. Once achieved collection levels and trust in the system is at its highest and peace of mind for those depending on the State is greatest. To interfere with this, once it has been achieved can do untold damage to the social insurance system, which could include reduced collections and increased abuse of the system. Monitoring the system is a key part of the success of the system that KRUS manages. It has a record of its customers and it manages this data to enable it to bill employers quarterly for contributions and enforce high levels of compliance through its network of offices. If KRUS was to be abolished or its functions integrated within ZUS would ZUS continue to carry out this function? ZUS does not carry out this function at present for its customers so why would they wish to do so in the future. Integration does not arise as this function cannot be integrated with anything that exists in ZUS, since ZUS does not use this approach for its population. In this scenario therefore there is a risk that damage to the social insurance system can arise when farmers feel the loss of ownership of the scheme and a risk to collection levels can arise very quickly. Such a move away from the current system which KRUS operates so successfully should not be lightly undertaken.

The population of ZUS and KRUS is different and in many respects this is why services between ZUS and KRUS are different and have a different focus. This is correct if we are to achieve a focus on farmers. Different locations, rural versus urban, educational backgrounds are different, economic activities and way of life is different, opportunity for work deployment is different; and expectations are different. To manage all these factors successfully is very difficult and what Poland via KRUS has achieved for the farming community should not be underestimated. It is akin with policies that Governments throughout Europe and indeed the world which focus on issues less successfully like unemployment and rural development where specific activities are undertaken to improve conditions locally. Other Governments concentrate on ethnic issues by targeting limited resources as they do also for communities such as fishermen, transport and agri-tourism through State subvention. The services that KRUS provide at present is considered to be good practise in this context, as it meets the needs of the community and is a targeted approach using limited resources and gaining maximum contribution from those covered. To remove

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such services that KRUS provides locally would be contrary to good practice of meeting the needs of the population within a safe environment with limited resources.

Integration of KRUS with ZUS would require similar administrative practices, including at a minimum compatible IT systems. KRUS IT system is segmented at present and is in need of improvement. This is required to support better administration and allow for greater integration of work practices within KRUS. ZUS has been developing its IT system over the past few years and whether this work has been successful and complete is subject to question. Whether ZUS can integrate the data which is necessary to carry out the work which KRUS currently undertakes would require very careful examination before anyone could voice an opinion on this. There are mixed views expressed on this during our visit, however, integration of IT systems is not something which can be entertained lightly. Administrative procedures and processes need careful examination and updated to be supported by new technology systems which are available on the market. IT architecture and software in KRUS is outdated and in need of improvement and development over the next few years based on up to date business processes. Integration of IT systems is also a requirement for KRUS if it is to get the best from investments in IT. Integration via the development of centralised databases which facilitate contributions due and paid, pensions and benefits paid, feeding both financial management systems and management information systems, linked to HR management systems and document management systems. Such integration would provide maximum efficiencies for KRUS and enable a new strategy for administration to be developed within KRUS. Such developments would require provision which will support income related contributions which will happen at some stage in the near future.

To achieve maximum benefits from the investment in IT for KRUS, business processes would have to be examined in detail to arrive at business processes for the future environment, thereafter a new target environment that reflects the type of organisation KRUS should be in the future and thereafter a transition plan that will show the way to reaching the new target environment. Such a process would require in-depth commitment from KRUS management and external assistance to enable the future environment to be determined and agreed and facilitate implementation. The over-reliance on a piece meal or ad-hoc approach to IT development will not achieve maximum results and will only consolidate weaknesses within the current system. Information technology must support the future environment rather than dictate the new environment.

Having achieved improvements in KRUS with investment in IT one then must ask is ZUS capable of integrating KRUS activities and improving on them. If this is not possible then integration will only worsen the situation and should not be undertaken. If on the other hand ZUS can undertake all activities a full examination of what is required for integration to be successful. Is the ZUS IT system compatible and capable of such integration? Will integration achieve the desired results? What are the desired results?

What about the immediate future and what the next steps for KRUS?

Our review of KRUS has provided us with an insight into the structure of KRUS and how it is managed and how it operates, the procedures and processes in place. We visited Head Quarters, two Regional Offices and two local offices in addition to one Rehabilitation Centre. We were afforded the opportunity of meeting with senior management and managers of departments within KRUS. Much of our opinion is based on the information received during this visit and on international experience gained whilst working with organisations within the social sector in 9 other countries.

The initial view is that KRUS is a well defined State Institution which has legislation clearly setting out its roles and responsibilities. KRUS is managed by a President who fully understands the importance of the role that KRUS performs and is interested in developing KRUS in the future to meet the demands placed on it while protecting and maintaining the rights of and obligations towards farmers insured under the social insurance system. Management are well focused on their work both at Head Quarters and at regional and local offices. Regional managers manage their own and their respective local offices well. So what is wrong with KRUS or more correctly where are the weaknesses in KRUS?

Areas of weaknesses have been identified in Part 2 of this Report and they are listed under three headings:

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- Organisational;
- Information technology; and
- Business processes and procedures.

There are 19 recommendations made in Part 2 of this Report and these can be summarised under the following:

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- Improved IT Strategy and systems;
- Too many functions which are unrelated are mixed;
- Too many functions are directly reporting to the President;
- HR policy for KRUS could be improved to be more inclusive of regional and local offices;
- Information flows are incomplete, better MIS is required;
- Cash flow is dispersed among several banks, Presidents new order will address this;
- International Accounting Standards should be considered for KRUS and the Contribution Fund;
- Control and Internal Audit should be re-examined and re-focused and resources accordingly;

These recommendations should be seriously considered by KRUS. We would also like to take the opportunity to mention a number of other areas that may benefit from further examination by KRUS and possible changes in the future, namely:

Regional and Local Office managers' role in the community:

Regional and Local Office managers play a key role locally with the farming community and are a key link between the realities on the ground and the development of policy centrally. During a visit to the regional office in Lublin we were made aware of the voluntary role which the regional manager has in helping to develop community links at that level, co-operating with sponsors locally to bring together the farming community in areas such as improved access to information and training. This is a two way street and one which KRUS can also learn from and help with policy developments locally and centrally. Community development has become a key component in addressing problems locally and very often central policy makers have insufficient information on problems locally based and maybe specific to certain localities. Workshops and feedback can be invaluable within this process of community development and whilst the activities of KRUS are formally designated under law these are extra activities that could help both the Ministry of Social Policy and the Ministry of Agriculture in developing rural policy in the future. Community projects have been exploited throughout the EU as a means of tackling poverty and gaining maximum benefits from investments by central and local Government.

Staffing levels at KRUS:

Within our review of KRUS it was not possible to examine staffing levels at any length as our focus was more high level. However, we are aware that while additional tasks assigned to KRUS over the years have been undertaken and without additional resources being assigned. We are also conscious of the fact that HR Department in Head Quarters does not scrutinise staffing levels locally as they are managed under the administration budget secured by each Regional Manager. While this system operates well and maybe to the advantage of the regional and local office managers we have no evidence to say that they are overstaffed.

Straight comparisons with other institutions might suggest that staffing levels are comfortable:

1. State Social Insurance Fund (SoDra) Lithuania
Client base of 1m pensioners and over 1m insured – staffing under 3,000

2. Ministry of Social and Family Affairs, Ireland which covers social insurance and assistance:
Client base of 1m pensioners and over 1m insured – staffing 4,400

Having said this the comparisons are unfair in that the degree of IT support and centralisation is very different in KRUS and staffing levels are determined in both SoDra and the Ministry of Social and Family Affairs using the APT methodology which measure comparative work loads, outputs and time factors. To carry out such an exercise in KRUS may be beneficial, however, the investment in information technology should be viewed as an opportunity to reform business processes and maximise benefits of possible centralisation of certain functions. These will have an impact on staffing levels and these should be assessed in that context. It is recommended therefore that staffing levels be monitored more by Head Quarters with Gerry Fitzpatrick,
Consultant

a view to determining in the future the actual staffing requirements needed to provide a good service locally at the right cost.

Network of Regional and Local Offices:

At present KRUS has a network of 49 Regional Offices and 220 Local Offices spread throughout Poland. Services are locally based and feedback from a group of pensioners we met was extremely favourable and our understanding from KRUS management is that they are recognised by the farming community as being their organisation that is looking after their interests very well. This is some achievement and one not to be taken lightly as most state institutions would be envious of such a status. With investment in IT, it is possible to centralise certain functions at Head Quarters once the Wide Area Network is in place and new systems are developed. Many organisations take advantage of IT systems development to adopt a front-office back-office approach that provides only those services locally that require a local presence such as counter services provided at local offices. Many administration activities can be considered for centralisation and supported to an integrated IT system. Such a development within KRUS could result in smaller offices and maybe more locations, with administration backup carried out elsewhere, probably centrally. Centrally does not necessarily mean Warsaw as many backup administration centres are located in areas outside the capital cities of countries due to cost saving which can accrue from relocation. Decentralisation of state services has taken place in many EU countries for both political and economic reasons. Bringing civil servants from the capital and locating them in other cities or towns has been used by politicians to introduce more opportunities in urban and rural areas away from the centre and in the process providing additional income in the local economy, while saving on the cost of buildings etc used in the capital. During the next few years KRUS must invest in improvements to their IT infrastructure and analysis of the functions carried out locally at regional and local offices may lead KRUS to reconsider the presence held throughout Poland. It is recommended therefore that such consideration be given by KRUS to the network of local and regional offices currently held and take the opportunity of improved technology to develop its strategy for the future in relation to services provided locally and where it is supported and managed from.

Centralisation of functions, including IT

IT systems development as mentioned above will provide greater capacity within KRUS for improvements. Typical functions which are centralised by organisations are pensions and benefits determination and payment. Also centralised by many organisations is the development, management and support for IT systems. Again centralisation does not necessarily mean in the capital but in a centre that is easily accessible to all internal and external services. The whole process of centralisation of functions is done, following a full examination of current business processes and the determination of improvements thereto and the impact of centralisation of many of them, whilst maintaining and improving local services. Above we mentioned the staffing levels, the network of offices held by KRUS and now centralisation of certain functions. All these are very much influenced and dependent on the degree of IT support available in KRUS. We strongly recommend therefore that full consideration be given to developing an overall strategy for KRUS for the future that will take into

account all these matters with a view ultimately of reducing administration costs of KRUS while provided better services locally at a better cost.

Motivation Fund and Performance Indicators

Under the Motivation Fund we can see in place a system of reward for efforts of managers and staff of KRUS. We are in no way critical of such a scheme as they are invaluable and not very common within public service organisations in the EU, much to the regret of top management which finds it difficult to continue motivating staff year after year. Unfortunately we find that the Fund appears to spend a relatively high sum each year, 18mln PLN in 2004, covering all 6,500 workers in KRUS, an average of 2,770 PLN per employee. Our concern is that while the Motivation Fund decisions are made at a high level and this is good, the criteria and selection process are made by managers without being scrutinised by the HR Department at headquarters. This comment is made following the fact that head quarters do not have the data readily available and it appears that decisions are reached more locally than centrally.

Performance related measures are widely supported in modern organisations, however during our visit we did not see a great deal of evidence to suggest that performance indicators for KRUS as an organisation were in use and as a result performance indicators at regional and local level may be subjective in nature rather than objectively arrived at based on standards or service set annually by KRUS as an organisation. We recommend therefore that KRUS look again at the development of annual plans for the organisation as a whole and for managers and staff locally and ensure that standards of service are set that push managers and staff to meet targets that are realistic and achievable but also ones that push for improved performances. We did not see any evidence or the use of standards of service of performance indicators that one could say are demanding and applied throughout the organisation. We support the use of a Motivational Fund and recommend updating the approach used and ensure that monies allocated meet the purpose for which they were intended rather than ending up as a fund for compensating for low pay.

Final Conclusions:

For all modern organisations a modern IT system is critical. A complete review of the IT systems and the development of an IT strategy that will provide for an integrated IT system for KRUS is strongly recommended and should be supported. Care should be taken to improve business processes, not consolidate old ones, and to ensure that improved processes support improves services and shorter processing time. KRUS has built up a strong and positive image and one which should be protected by putting in place the appropriate structure and business planning that moved it forward to meet the demands of the future which will include additional services, such as implementing and enforcing income related contributions and maintaining earning related data on farmers. The reputation achieved by KRUS to date should be supplemented with a greater level of satisfaction at Government and Parliamentary levels but putting in place the most efficient organisational structure than manages up to date business processes supported by a modern integrated IT system. These ingredients will enable management of KRUS to identify the resources needed for implementing services at the right cost in the right locations, which satisfies all stakeholders, including Government and Parliament.

Integration of KRUS with ZUS is an unrealistic proposal if services provided are to be maintained as ZUS has already a high workload to contend with and must prepare for additional workloads for 2009. Even if ZUS was willing to take on such work improvements to the IT systems in KRUS would be necessary before integration could take place and systems were made compatible. Investment in KRUS IT development is necessary to enable KRUS to perform more efficiently and to maintain a good service for farmers and the State. Investment in IT ultimately should free up resources to enable KRUS to prepare for earnings related data required to implement income related contributions in the future and to make information available to the Ministry of Social Policy and Ministry of Agriculture for improved and informed decision making process.

Next Step:

Business Strategy:

Investment in IT development in KRUS should proceed, only after KRUS reviews its current business environment with the assistance of external consultants who will provide independent and useful advice on the potential future business environment that will be appropriate. This will require the development of a future business strategy for KRUS, including identification of the business requirements of other stakeholders such as MSP and MoA. This process which can take up to 4 months to achieve will provide a future Target Environment for KRUS that will be known and approved by MSP and in this way all major stakeholders will know what the IT Strategy for the future will be required to support. Only then can the IT Strategy be correctly developed and a Terms of Reference for an Integrated IT System (IITS) Project be agreed and tendered.

Monitoring Unit

It is strongly recommended that consideration be given to setting up an independent Monitoring Unit reporting to the KRUS senior management and MSP which will assist with the monitoring and quality assurance of all outputs from the IT contractor that will provide the technical assistance to develop the IITS. This is extremely important as it will help top management address all technical and administrative matters that arise in connection with the systems development and provide assistance at a time when expertise within KRUS and MSP may not be so readily available to monitor and control the IITS project. This helps to provide comfort to senior management, who may not have expertise in this area and provide experts advice towards maximising the benefits from the work of the IT contractor.

PART 4: COMMENTS ON “KRUS IT STRATEGY DOCUMENT”

General Comments

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The strategy document does contain some valid information, however, from the contents it appears that the development of this document did not follow a strategic method, which could be referred to as being in line with good international practice. In general we can say that the document as it stands today could be used as the starting point for building a proper IT strategy for KRUS, but care should be taken before it is used for investment planning as it stands today. Possibly parts missing from the translation provides additional information that may be useful? It is unclear from that which is translated whether the requisite analysis work has been completed or not.

The further sections of this document will present a series of specific comments on each section of the strategy and recommendations for additional content, which should be included. The final section of this document presents views on how a possible future integrated information systems environment could be structured in KRUS. This view has been formulated based on experience in the design and implementation of social security information systems both in the European Union and in third countries, and, reflects current good international practice in this area.

Strategic Method

A key concept to understand in developing an IT strategy is that information technologies are powerful tools, which can help implement positive business changes in KRUS. The goals of an IT strategy should be oriented towards achieving those business goals, and the strategy itself should be closely linked to KRUS' overall Strategic Business Plan. The implementation of new technologies and new information systems should not be a goal in and of itself. Rather, those technologies and systems should be viewed as facilitators in achieving overall business goals.

We believe that the document being reviewed, while at a high-level addressing a few key issues, does not meet the goals of IT strategy. In its most simple form, IT strategy development is the process of providing advice regarding the use of technology to support achieving business goals. Information technology and information systems are valuable and important only to the extent that they help achieve those goals.

For IT strategies to be useful, they must guide and direct specific actions that provide value and should include action plans, responsible parties, clear identification of tasks, definition of expected benefits to be achieved, clear linkages to overall business goals, and even medium-level specifications to support implementation work. To be able to define a proper and effective IT strategy, the business side of KRUS' operations must be analysed in detail – including not only its business strategy, but also the current business environment, process architecture and ways of working.

In the document being reviewed it is difficult to see any linkages or evidence of completed business analysis. Rather, it appears that the entity producing the report reviewed only the current IT operations in attempting to find ways to improve the technological environment. Whilst knowing the current IT environment in some detail we fully agree that there is much room for improvement and that only an IT strategy grounded in the business side of KRUS stands a chance to be a good guide for IT investment in the future.

It is recommended therefore that a full IT Strategy Development project be run in the near future to prepare a comprehensive IT strategy document, which could be used by KRUS in planning the development of its information systems and related infrastructure based on the updated business needs and strategy of KRUS. Without this KRUS could end up with a new IT system which satisfies current needs by consolidating current business practices without improving the business processes to meet the future needs of KRUS or improving efficiencies which should be an integral part of the investment.

Specific Comments

Section 1 “The goal of development of KRUS IT Strategy”

The basic premises upon which the strategy is based according to this paragraph shows no linkages to an overall business strategy for KRUS and as such are not in line with good international practice. The statement that those premises are the “requirements” for the development of a strategy is subject to question. The true requirement would be ensuring that information technologies and information systems provide adequate levels of support for achieving overall KRUS business objectives with maximum possible efficiency.

The closing paragraphs of this section are declaratory in nature and should either be rephrased or removed.

Section 2 “Draft proposal of ICT mission in KRUS”

From the text of section 2 we believe that parts of this section were omitted by the translator of this document. As a result, the comments presented below deal only with the text that was provided.

In general this section does present some valid points in the listing of ‘premises’ for IT systems. However, the mission statement itself needs to be reworked and that the list of key premises, or more appropriately, goals should be supplemented.

The mission statement that “ICT is a natural work environment for all KRUS employees” is inappropriate (maybe it is simply a translation matter). ICT gives value only if employees really need IT tools to accomplish their work more efficiently or effectively, and, if they have proper skills and training to use those systems. KRUS

has many categories of employees for whom ICT tools are not relevant, starting with support staff and ending with maintenance personnel.

An alternative wording for the mission statement should be similar to:

"ICT will provide safe, secure and properly managed information technologies and information systems needed for appropriately trained KRUS employees to deliver their work with maximum efficiency and effectiveness."

In terms of what is listed as 'premises', we believe that, at a minimum, the list should be edited as follows:

- must be aligned with current general and specific statutory regulations binding for KRUS,
- must constitute a tool for daily, effective control of total of Fund's activities and for making optimum management decisions,
- should facilitate, on top of statutory reporting and analysis, an inflow of information needed for strategic decision making within the scope of accomplishment of government's policy towards Polish farmers and its flexible implementation,
- should facilitate co-operation with other IT systems operating in state administration (Restructuring and Modernisation of Agriculture Agency [ARiMR], Agricultural Market Agency [ARR], Central Statistical Office [GUS] systems), ZUS and in EU systems; Thus, technologies applied in final KRUS IT systems should be open and flexible to secure communication with any external system (based on technologies like XML, Web Services, etc.),
- should, in their final stage, facilitate accomplishment of information access services for all interested parties, including full IT and Internet client services. Currently, we witness transformation in a direction of IT society and, though reaching its mature shape will - especially in case of Polish farmer – still take some time, right now adequate mechanisms catering for implementation of Polish Government policy and EU directives should be designed;
- ensure that a holistic, integrated and comprehensive IT system supports all business processes in KRUS;
- support and as much as possible automate information interchange with payers, beneficiaries, and other Government agencies;
- ensure the security, integrity and reliability of information stored in the KRUS databases;
- ensure transparency of KRUS operations by supporting EU and international data protection, accounting and financial management standards;
- ensure full transaction traceability and auditability;
- implement decision support and management information systems to support KRUS managers and Government policy makers; and
- enable business process re-engineering to eliminate manual operations as much as possible in the interest of making KRUS' business operations more efficient and effective.

Section 3

Section 3 is missing from the translated text.

Section 4 – “Current resources and organisation of IT systems”

This section of the document being reviewed appears to be documentation of the results of a limited current IT environment analysis undertaken by the entity, which authored the document. In accordance with internationally accepted IT strategy development practice, the current environment analysis findings should be presented in a separate document, which could be used to support the need for the development of a strategy and identify important areas that must be addressed in that strategy.

Section 5

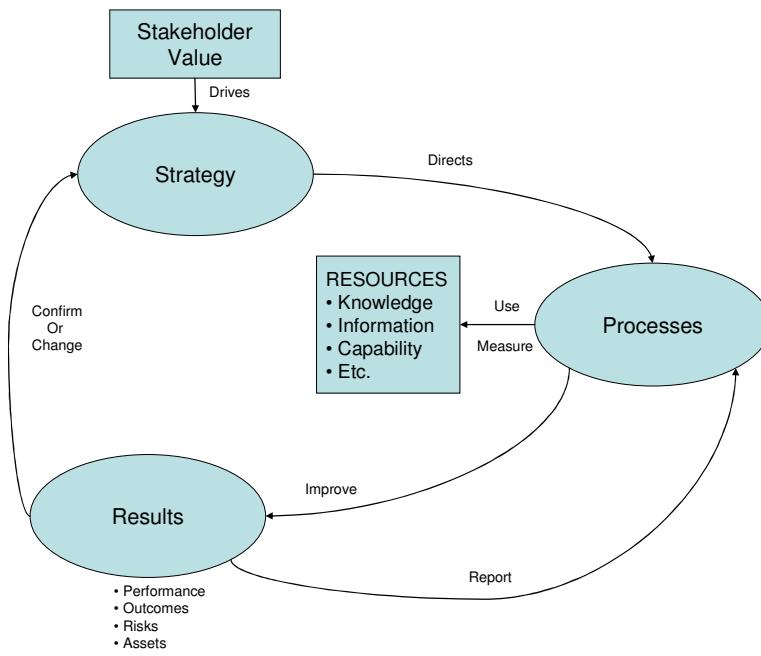
Section 5 is missing from the translated text.

Section 6 – “Modification of IT organisation in KRUS”

It is highly recommend that this section be supplemented to include the basic principles for IT Governance, including the roles and responsibilities of business managers in the guiding and controlling of what types of information technologies and information systems are used in KRUS, and how they are managed.

IT governance is not a separate discipline. It should be a component of overall KRUS governance, with the main responsibilities of (see figure below):

- Taking stakeholder values into account when setting strategy
- Giving direction to the processes that implement the strategy
- Ensuring that processes provide measurable results
- Being informed about the results and challenging them
- Ensuring that the results are acted upon



IT governance involves applying the principles of overall governance strategically to directing and controlling IT.

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Specifically, it should emphasise:

- The potential of IT to leverage and influence intangible assets (information, knowledge, trust, etc.)
- The alignment of IT and business strategies
- The review and approval of IT investments
- The assurance of IT-related risk transparency
- The measurement of IT performance

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IT governance is the responsibility of the President of KRUS. The President exercises that responsibility by providing leadership and by ensuring IT sustains and extends the organisation's strategies and objectives.

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In terms of the organisational structures for IT-specific management, the principles listed in the translated strategy document are, for the most part, valid.

Section 7 – “Vision of KRUS IT systems”

This section of the document being reviewed presents a vision for the KRUS IT system. Although parts of this ‘vision’ are valid, this section of the document lacks substance. Using accepted international terminology, the vision statement should guide the development of the strategy itself. In this sense, the vision should only be a short one- or two-sentence statement, similar to a mission statement.

From that vision, it would be possible to derive a series of strategic goals, and then a series of strategic tasks through which those goals should be met. The current document being reviewed does not include a clear-cut vision statement for the IT services in KRUS. The mission statement identified in Section 2 could be used as a vision, since that mission, to the best of our understanding, is not yet being delivered by the current ICT services.

This section of the report should be the ‘meat’ of the report itself. That is, it should provide a list of strategic goals, define strategic tasks to be completed in reaching those goals, assign responsibilities for accomplishing those tasks, allocate, or at least estimate, needed resources (human, material and financial) and set deadlines for implementation.

In addition to the above, if we re-visit the purpose of IT strategy, i.e., that is to provide a roadmap for development of the information technologies and information systems needed to support attaining KRUS’ business goals, this section of the report should address all of the elements described in the following paragraphs.

- **Information** - The information portion of the IT architecture deals with identifying and analysing the major subject data areas of the business. It is important to understand and portray the content, structure, location, source, and containers of this information.
- **Applications** - An application architecture shows where critical information is created, referenced, updated, deleted, transported or exchanged, and it shows this in terms of a body of business rules. The application architecture also determines the degree to which integration is a primary design objective for a collection of business systems. Integrated information systems are a critical success factor for integrated business processes across the enterprise.
- **Technology** - The technology architecture consists of a framework which details how technologies plug and play with one another in a series of platform layers. These include processors, operating systems, networking and communications, middleware, databases, programming languages and application programming interfaces, and application packages. It is important to prudently manage the diversity of technology so that it only occurs when there is a specific, justified business process requirement. The enterprise should not be indistinguishable from an IT trade show. Diversity management stems from sharing values regarding the selection and deployment of IT resources as business resources.
- **Organisation/Governance** – How IT management will learn the needs of business management, and how business management will ensure that those needs are being met through exercising its governance role, and, how IT management services will be organised in KRUS.
- **Sourcing** -Sourcing is an investment-driven issue that involves determining where components of architecture and governance are obtained. This is a critical issue that impacts a company's short and long-term ability to react to competitive threat. Sourcing must also be considered for strategic reasons, including improving business focus, gaining access to world-class capabilities, accelerating reengineering benefits, sharing risks, or realigning resources. In addition to these strategic drivers, there are tactical drivers to consider, including reducing operating costs, making capital funds available, providing

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cash infusions, obtaining resources, and improving inefficient business functions. One or more of these issues typically drives an analysis of sourcing opportunities.

- **Topology** - The components of information technology architecture have to be considered in terms of how they will be deployed. A map must be created that places architectural components across the enterprise's landscape. The issues of centralisation, decentralisation, distribution and consolidation are important concerns that impact information, applications, technology and organisation/governance. The mapping of where information is acquired, stored, and disseminated is an important consideration for eventual information system design (as is the location of information technology assets and application solutions). This is particularly important as various client/server options and distributed architectures are analysed for their inherent benefits and drawbacks. It is especially important as network-centric architectures emerge as leading IT alternatives. Finally, the organisation of IT human resources and their location in the enterprise, as well as the sources of authority, accountability and responsibility, are major points of contention in settling the matters of governance.

In general, we do agree with the principles of using three-tier architecture with a thin client as a strategic architecture choice. This has been used successfully in social security administrations in many European countries and has helped reach operating efficiencies *if proper telecommunications infrastructure is present and allows for acceptable response times*. Our understanding is that a wide area network linking all KRUS locations is underway and due for completion shortly and that being the case a move to three-tier architecture is appropriate.

The key element in this type of architecture is establishing a central database for all KRUS offices with a master set of data about all KRUS transactions, contributors, beneficiaries and potential beneficiaries. This data is accessed online via a web-browser over a wide area network.

Another key element to consider is the need to have all information systems in KRUS as integrated as possible, ideally using the same set of master data. This would help ensure transaction processing reliability and reduce the risks of duplicate data, including, for example, multiple registrations for one insured person as a beneficiary of the system.

Section 8 – “Model of development and maintenance of KRUS IT Services”

The final section of the document being reviewed deals mostly with the decision to outsource IT and IS services. While, in principle, outsourcing may be a valid option, this section of the document does not present a business case to truly justify the recommendations to outsource all development, maintenance and support services.

We know that KRUS currently outsource the Farmers Pension System and have experience of outsourcing IT. We also recognise that many State institutions, not only in Poland, have difficulty recruiting and keeping IT specialists within the service

due to wage limits which tend to be lower than in the private sector. Outsourcing is often used by State institutions to compensate for this however it does not remove the need for IT specialists within KRUS. Throughout the EU outsourcing for IT systems development is common.

We recommend that KRUS consider future outsourcing carefully and take account of the general principles on outsourcing decision making listed in the following paragraphs,

Outsourcing is turning over work, in whole or in part, to a third-party contractor. If an outside party can do the work more efficiently and effectively than the enterprise itself, then the work ought to be assigned to the outside party.

An enterprise may look at outsourcing work because that work is:

- **An overhead or support activity:** Some enterprises specialise in overhead and support activities, and can do this work more efficiently and effectively because they are under competitive pressure to do so. An internal resource with captive, internal customers is not under this same competitive pressure, and likely is not as efficient or effective. Competitive pressure can lead to increased service levels at lower costs, in comparison with services delivered by internal providers.
- **Not mission-critical:** Outsourcing can make sense when skills and capabilities required are so common that investing in the work activity can be seen as diverting attention from other, more vital skills on whose development the business should focus. Some network-structured enterprises are founded on the principle of outsourcing all but the core competencies: the things the enterprise does exceptionally well and that create competitive advantage. All other activities are candidates for outsourcing. For example, companies like Reebok and Benetton provide strategic management for a network of independent firms, concentrating instead on marketing and product management issues such as product line positioning, new product development, advertising, price, promotion, and the brand.
- **Mission-critical:** A skill may be so rare or impossible to retain in state-of-the-art form internally that outsourcing is the only way to acquire it. In some cases, the enterprise may outsource an activity to a superior provider for a period of time, learn the relevant best practices, then bring some or all of the work back inside.

Outsourcing is not a quick fix, and it is dangerous to approach it as such. Outsourcing's success requires careful choices about what needs to be done internally and what is appropriate to do outside the enterprise. In addition, moving work outside does not eliminate management attention from that work. Oversight of service providers and management of relationships with them are incremental management activities that accompany the outsourcing of work.

Outsourcing of services or components should not be considered as the outsourcing of responsibility. Organisations must have sufficient management in place to monitor,
Gerry Fitzpatrick,
Consultant

control, review, and update outsourcer responsibilities and provide sufficient planning to ensure that adequate capacity and capabilities are available when needed. They must also take appropriate actions to ensure that well-defined and measurable service levels and service activities are documented and agreed to, along with corresponding processes for reporting and review. The progress of these activities should be continually monitored and the scope of activities should be regularly addressed.

Deciding whether to outsource any part of an enterprise's work requires a careful analysis of the operational and financial implications of such a decision. The following decision approach is useful:

1. Select business processes or functions inside the enterprise that are candidates for outsourcing. Activities within those candidates are defined so that equal comparisons can be made with proposals ultimately to be received from vendors.
2. Estimate (or use activity-based costing for a more exact figure) activity costs and performance levels to set a baseline for assessing potential benefits of outsourcing. Costs can often be hidden, but should include at least direct labour and overhead, direct non-labour, and any contract costs associated with the current activities. In addition, it is important to identify costs that will not be eliminated by outsourcing, such as long-term leases on facilities that will no longer be needed.
3. Identify incremental costs associated with managing the outsourced activity, such as management resources to manage the new relationship, increased use of legal services, or increased costs associated with tax related issues.
4. Develop and release an RFP to solicit bids for outsourcing the work.
5. Compare proposals and their expected cost savings and service improvements to determine whether to outsource, and if so, to which vendor.
6. Enter into outsourcing contracts with caution; select partners not just on the basis of cost and service criteria, but also on whether the service provider is likely to be a good business partner. Contracts must be flexible enough to grow with the relationship, and with changing business needs.

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IS outsourcing can be used on a project by project basis or for ongoing operations across the enterprise. The types of activities which can be outsourced range from a specific expertise within a given project, such as client/server development, to providing the full suite of information systems services.

All or part of information systems services may be outsourced. A single vendor may be used for all services or multiple vendors may be used each for their specific area of expertise. Examples of outsourcing activities include:

- Business planning and consulting services, such as management consulting, strategic planning, and information technology strategy
- Systems and application planning and development, such as requirements definition, functional specifications, applications design, program development, and testing
- Integration and implementation activities, such as procurement and supply, integration and installation, documentation, and training

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- Operations and facilities management, such as system administration, network management, data centre management and operations, maintenance, and back-up and recovery

In general, the most common driver for a decision to outsource is cost. The cost of providing services or components internally may be greater than outsourcing them. Outsourcing providers are often able to leverage economies of scale far beyond those of a given organisation and thus provide the services or components at a lower cost. However, outsourcing may also result in an increase in cost over internal means and still represent a sound business decision. This is generally the case when one or more of the following considerations take precedence over strictly cost factors:

- **Skill Availability.**

The organisation may not possess the skill sets necessary to perform a particular set of IS activities or provide adequate service levels to the organisation. Outsourcing may provide an alternative to hiring these skill sets internally. Specific skill sets may be provided by outsourcing on an ongoing basis if desired or they may be provided for a set period of time while the organisation acquires the needed skill sets internally.

- **Service Levels.**

An outsourcer can often provide greater service levels than are able to be provided internally or can be held contractually liable for specific service levels. An example of this is if there is a requirement for 24 hour system operations and/or availability and the organisation's staffing availability, costs or policies prohibit 24 hour support. An outsourcing organisation may also be able to provide more functionality or more responsiveness in areas such as customer service.

- **Volatility.**

Depending on the type of business, information system service or component needs may vary dramatically (e.g., if the business is cyclical or seasonal). Use of an outsourcer may enable an organisation to incur costs based on usage of resources rather than maintaining sufficient processing capacity (and incurring related maintenance and support costs) to manage seasonal peaks, with resources being under-utilised during periods of low demand.

- **Transition.**

An organisation may experience periods of transition such as when migrating applications to a new hardware platform or developing a new system with different technology. During these periods of time, the organisation may need additional help in staffing the new environment, while retaining the ability to keep the existing systems running. An outsourcer can provide the needed help for either maintenance of the old environment or building and supporting the new environment. The scope of this service could range from staffing support for operations to actually migrating the existing applications to the outsourcer's facility.

- **Core Competency.**

A philosophical question that must be asked is whether an organisation

requires or desires information systems as a core competency. In some industries, information systems are not used as a competitive tool and there may not be interest in developing and maintaining all aspects of an information systems environment. There may be more interest in deploying the personnel resources at hand to product research and development or other business development activities. In these cases, the organisation may choose to outsource, even though the services could be provided internally at a lower cost.

- **Geography.**

An organisation may be expanding business operations in areas where it is difficult to hire the needed expertise. Outsources can often fill this void by relocating personnel to the location. Additionally, an outsourcer can usually provide the needed incremental systems capacity with much less effort which can be extremely useful if the organisation is rapidly expanding its business.

- **New Technologies.**

In the fast-pace arena of new technologies, outsourcers can often provide the needed expertise and technologies more quickly and at a lower cost than an organisation may be able to on its own.

Closing Recommendations

It is recommended that KRUS fully rework the reviewed document in light of the comments and recommendations contained in the preceding pages. It is recommended that KRUS consider retaining professional services of an IT strategy consultant, familiar with social security business environments, to run a complete IT strategy development project based on business objectives of KRUS that meet its future needs. In this way, KRUS' future investments into IT and IS could be guided in the most appropriate manner.

Annex A: Number of positions per regional office

According to data on 31 March 2005:

No	Regional Office	Beneficiaries (pensions and disability)	Insured persons	Number of positions at KRUS
1	Augustów	31,627	30,511	124
2	Białystok	57,466	51,179	188
3	Bielsko-Biała	20,513	21,977	92
4	Biłgoraj	61,578	52,465	203
5	Bydgoszcz	37,362	39,714	152
6	Chełm	24,116	16,326	85
7	Ciechanów	45,662	36,230	150
8	Częstochowa	34,513	31,724	131
9	Gdańsk	27,614	29,601	121
10	Grudziądz	32,149	30,974	121
11	Jasło	23,226	19,520	87
12	Jelenia Góra	11,814	10,613	49
13	Katowice	32,323	21,361	116
14	Kielce	70,683	57,699	221
15	Konin	41,551	36,260	142
16	Koszalin	13,240	11,543	55
17	Kraków	34,232	41,312	143
18	Legnica	16,107	13,694	61
19	Lublin	79,144	64,716	259
20	Łódź	12,063	10,111	50
21	Nowy Sącz	36,676	58,407	161
22	Olsztyn	30,091	24,892	116
23	Opatów	48,543	46,876	181
24	Opole	33,202	39,240	143
25	Ostrołęka	37,183	34,193	133
26	Ostrów Wlkp	39,206	43,803	163
27	Piła	19,587	18,170	78
28	Płock	44,158	38,403	156
29	Poznań	29,740	32,782	123
30	Przeworsk	31,668	25,557	122
31	Radom	49,103	53,312	186

No	Regional Office	Beneficiaries (pensions and disability)	Insured persons	Number of positions at KRUS
32	Radzyń Podl	38,687	30,699	137
33	Rawicz	23,031	22,858	99
34	Rzeszów	41,328	33,925	141
35	Siedlce	65,615	53,850	210
36	Słupsk	12,033	11,703	53
37	Sulecin	17,648	12,814	69
38	Szczecin	19,354	17,246	87
39	Sztum	17,661	16,155	72
40	Tarnów	41,705	49,693	163
41	Tomaszów Maz.	40,350	35,144	155
42	Wałbrzych	14,633	12,779	64
43	Warszawa	22,142	20,178	125
44	Włocławek	38,001	31,282	129
45	Wrocław	26,346	25,317	107
46	Zambrów	44,278	45,521	166
47	Zduńska Wola	45,161	43,852	168
48	Zielona Góra	20,516	15,601	79
49	Żyrtardów	32,636	30,716	129
Total		1,667,265	1,552,498	6,261

Annex B: Organisational structure of Lublin Regional office

