

## **Vote 10. - Office of Public Works**

### **18. Irregularity**

Paragraph 24 of my 1995 Report referred to the discovery of irregularities which involved the unauthorised increase of rents payable by the Office of Public Works (OPW) on certain properties and the payment of those rents to spurious payees. The total value of the irregular payments was calculated at £176,805 covering five cases over the period 1984 - 1995.

After an internal investigation, OPW commissioned a firm of accountants to carry out an in-depth examination of the rental payment system. The firm reported in June 1996 that it found no evidence to suggest that the irregularities went beyond the five cases already identified by OPW.

However, in May 1998, the Accounting Officer informed me that the Gardaí had since drawn OPW's attention to transactions to a value of £16,401 which had come to light during their investigation of the irregularities. These transactions suggested that further irregularities may have taken place. OPW's subsequent examination established that the transactions were payments purporting to be for settlement of claims by landlords for maintenance works on rented accommodation. There was no evidence of actual claims on OPW's records to support the payments and, as with the irregular rental payments, the relevant papers were missing from Divisional files.

OPW then initiated an examination of all available accounts branch records for the period from 1981 for all payments of claims for additional maintenance works on rental properties and service charges. This examination revealed irregular payments totalling £185,918 covering dilapidations, rents and service charges. The Gardaí were notified of these payments and they now form part of the criminal investigation. OPW is satisfied that the payments are part of the original suspected fraud. The estimated total value of the discovered irregularities is therefore £379,124 which OPW feels is the full extent of the suspected fraud. The Accounting Officer has informed me that the likelihood is that the amount will be recovered in full.

### **19. General Payments System**

Under a new payments system introduced by OPW in 1997 payments are made by the accounts branch on foot of instructions to pay from authorised officers (AOs). There are 247 AOs in the various divisions who are responsible for the validation and certification of payments and for completing a special instruction to pay form (ITP) which sets out details of payee, address, amount payable and the heading to charge the payment. The ITPs are checked by accounts staff for arithmetical accuracy and proper authority. The ITP is used as the exclusive basis for payment as no supporting documents are received from the AO.

An audit of the new general payments system by my staff revealed a number of weaknesses in the system of internal control.



- There were no effective compensating controls operated by accounts branch to counteract the non receipt of supporting documents from AOs.
- A creditors ledger and creditors control account are not maintained.
- In some cases an ITP sent to the accounts branch for processing contained multiple amounts which would appear to make it difficult to identify duplicate payments.
- The procedures for filing of invoices and supporting documentation vary between divisions. Whereas, in some divisions invoices are filed in alphabetical order, in other divisions they are filed on the main project files and this makes the audit trail more difficult to follow.

The associated control risks are:

- duplicate payments being made and remaining undetected
- payments being made for incorrect amounts
- credit notes received by AOs and not forwarded to accounts branch not being detected
- payments being made to incorrect suppliers
- irregular or fraudulent payments being made and remaining undetected

It was also noted in the course of audit that:

- In the first six months of operation of the new system 11 duplicate payments had been made with a total value of £17,639, one overpayment of £7,000 was made and one payment of £159 was paid to an incorrect supplier
- These duplicate and overpayments did not come to light as the result of effective internal controls but were brought to the attention of OPW either by the payees involved or by my staff.

I requested the Accounting Officer's observations on the audit findings and I inquired as to whether he was satisfied that all overpayments had been identified and recovered.

The Accounting Officer stated that:

- In OPW responsibility for ensuring that a proposed payment was in order had always rested in the appropriate line division and, ultimately with the certifying officer. Prior to the introduction of the new system, involving ITP, the accounts branch had a general and unspecified role in the examination of proposed payments. This was an unsatisfactory arrangement as it tended to blur the responsibility and accountability for the payment between line division and accounts branch.
- The method of authorising payments was reviewed in 1996/97. One of the principal aims of the review was to develop methodologies which would set out and explain explicitly the responsibility of the line divisions and certifying officers. Further considerations included the need to expedite the certification and payment procedures to ensure that OPW would be in



a position to comply with the Prompt Payments of Accounts Act and, also, to reduce the flow of paper between line divisions and the accounts branch.

- The review resulted in two important innovations - the simplification and dissemination to all staff of procurement procedures and the introduction of a new method of authorising payment based on ITP.
- A creditors ledger will form part of an integrated financial management system to be introduced into OPW.
- Line divisions are under clear instructions with regard to the need to retain and file in a retrievable format invoices, supporting documentation and copies of ITPs. There is no evidence to suggest that this is not being done. OPW would consider whether, and how, a uniform system of filing can be introduced throughout the office.
- In order to avoid the cost of issuing separate payments of small amounts to contractors, divisions were encouraged where practicable to group multiple invoices under one ITP form. This makes the identification of duplicate payments more difficult. OPW will examine the feasibility of extending the use of petty cash accounts to make small payments.

The Accounting Officer pointed out that

- The overpayments and duplicate payments were attributable to human error at a time when new and inexperienced staff had been recruited for the decentralisation of the accounts branch to Kilkenny and they were not fully familiar with the workings and requirements of the new system. The level of errors and irregularities can be reduced by ensuring that staff in the process are fully familiar with and accept their individual role and responsibility.
- The duplicate payments or overpayments had to be seen in the context of a total of some 26,000 ITP payments in the year. Nevertheless, OPW is introducing, from May 1998, computer software designed to identify all payments for the same amount to any payee. All payments made since the introduction of the ITP system would be examined and all future payments will be similarly vetted.
- The internal audit section was involved in the consultation process concerning the changes in the method of payment and an external firm of accountants was commissioned in December 1997 to assess whether the control procedures introduced are appropriate and conform with best practice and are operating properly. This report is awaited.

The Accounting Officer concluded that the ITP document in its present format and procedures can, and will be altered in the light of ongoing experience. He fully realises that this can only form part of a comprehensive, integrated accounting system which can track orders from the placing of contract through to payment stage. It is OPW's intention, when resources permit, to acquire a customised accounting and financial management system capable of meeting the requirements of the organisation. Regardless of the system which might ultimately be acquired he considered that as a basic requirement the line divisions would retain clear and full responsibility for the



authorisation of payments. This clarity of function was in line with the Strategic Management Initiative principles and he intended to retain it.

## 20. Payroll Deductions

Employers are obliged to pay to the Collector General of the Office of the Revenue Commissioners (Revenue) the net amount of PAYE and PRSI deducted within nine days of the end of each income tax month. In April each year employers are also required to send to Revenue a return (P35) for the previous tax year showing total PAYE/PRSI deductions from each employee for the tax year and amounts remitted during the year.

During the course of audit it was noted that:

- Monthly amounts paid over to Revenue during 1997 did not always correspond to the monthly deductions with the result that at the end of the financial year, 31 December 1997, the payroll deductions accounts showed that £875,203 in PAYE/PRSI remained to be paid over, whereas calculations carried out by my staff revealed that had deductions been paid over, as required, the amount would have been £648,649.
- The P35 returns for the tax years ending 5 April 1997 and 5 April 1998 disclosed that substantial balancing payments of £243,459 and £278,951 respectively had to be made to Revenue.
- A duplicate payment made to Revenue in December 1996 of £552,143 was discovered by Revenue in May 1997 when Revenue cross checked the P35 details in respect of the tax year to 5 April 1997 to its record of payments received from OPW. It transpired that payment for this amount was made on both 11 and 13 December 1996 and this escaped detection internally even when the year-end P35 exercise was completed by OPW at the end of April 1997. Revenue repaid this sum in June 1997.

As the system of internal control failed to detect incorrect payments, I communicated with the Accounting Officer regarding the adequacy of OPW's reconciliation of payroll deductions / payover and related management reviews.

The Accounting Officer stated that:

- An error in the computer programme that determines the PAYE/PRSI liability for pay over to Revenue meant that incorrect amounts have been paid over on occasions. This error did not affect the accuracy of amounts deducted from wages and salaries. This computer programme fault has now been rectified and fully correct and reconciled amounts are now being deducted and paid over.
- PAYE and PRSI details from salaries are now recorded in a spreadsheet on a weekly basis and are balanced against the monthly PAYE/PRSI report and is further balanced with the suspense account. This ensures that the correct monthly payments are made to Revenue and that the suspense account is balanced monthly.



- The duplicate payment did not lead to any loss of public funds and was made as the result of human error. The error occurred at the busiest time of year in salaries section and it came to light during normal discussions with Revenue on the end year P35 return. In the interim there had been 100% turnover of staff in salaries section. Control measures are now in place to ensure that a similar error will not occur.
- He is satisfied that measures now in place means that a reliable system exists for the reconciliation and management of the accounts.

## 21. Suspense Accounts

A suspense account is an account to which items are temporarily charged or credited. Public financial procedures state that where suspense accounts are necessary they should be kept under regular review and cleared as quickly as possible. Regular monitoring and reconciliations of suspense accounts are key elements in the system of internal control designed to prevent errors and irregularities or detect any which might occur.

At 31 December 1997 OPW had 2,605 suspense accounts. There were 1,609 accounts with debit balances totalling £37.2m, 332 accounts with credit balances totalling £44.4m and 664 with zero balances. In general, a debit balance represents moneys due to OPW while a credit balance represents moneys owed by OPW but, taking account of intra account transactions, a net £7.1m was owed by OPW. During 1997 more than 38,000 transactions were posted to these accounts. The large number of accounts is mainly due to the fact that OPW carries out work on a repayment basis on behalf of many Departments and other public offices.

An examination of suspense accounts by my staff revealed that:

- In many cases balances on the accounts were not being analysed to enable appropriate action to be taken.
- At the end of 1997 there were 23 accounts with balances of £10,000 or more and no movement for two years or more.
- During 1997 there were 513 dormant accounts, with zero balances and no transactions, live on the accounts system.

Up to 1998, the Government Supplies Agency (GSA), a division of OPW, arranged and paid for the majority of printing contracts and for bulk purchasing of stationery with recoupments subsequently sought from the relevant Departments or Agencies plus an agency fee of up to 5%. Each month GSA billed the Departments *etc.* in respect of the previous month's payments plus the appropriate agency fee.

From an examination of these accounts it appeared that at 31 December 1997 £5.2m in agency fees had not been transferred to the Exchequer while £2.2m was due from Departments which suggested that recoupments were up to three months in arrears.



In response to my general concern about the control over suspense accounts the Accounting Officer stated that:

- While all accounts within a particular type might not be reconciled, particular groups of suspense accounts are reviewed either by line divisions with responsibility for the account or by the accounts branch. In addition, the accounts branch reviews suspense accounts and refers issues arising to the appropriate division, particularly in cases of substantial debits. An annual statement of balances outstanding is issued to the Finance Officer of each Department. Reconciliation of suspense accounts and investigation of discrepancies is an on-going exercise.
- The decentralisation of accounts branch and the devolution of responsibility for managing accounts to line divisions resulted in certain disruption during 1997. The introduction of an integrated financial management system will ensure that problem accounts are highlighted to the appropriate division. This type of exception reporting will enable managers to anticipate and respond appropriately to emerging agency account issues. Furthermore, account balances will be highlighted at ordering stage and should facilitate immediate prompting of Departments for payment of outstanding liabilities.
- In 1997 OPW incurred expenditure of some £68m on behalf of other Departments. Efforts are concentrated on ensuring that there was sufficient non-voted cash available to meet payment demands by means of imprests or recoupments from Departments.
- In principle, all non-voted agency accounts should be in credit at all times in line with public financial procedures. In practice, however, while some Departments keep their accounts in credit, the majority only paid in arrear and on demand from OPW. The net effect is that non-voted balances reflect a combination of credits on some accounts and debits on others. While ensuring primarily that overall balances on accounts are kept in credit and while OPW strives to obtain payment in advance, there is a definite reluctance on the part of some Departments to keep accounts in credit.

In regard to my specific concern about transactions and balances on the GSA accounts the Accounting Officer stated that:

- OPW had been making phased changes in 1997 and 1998 in relation to the procurement activities of the GSA. In 1997 responsibility for invoicing Departments and collecting revenue was devolved from the accounts branch to the GSA. With effect from 1 January 1998 the system was changed further to one where the GSA places call off contracts for many of its supplies and Departments themselves place their orders and pay suppliers. Consequently the circular movement of funds between the OPW and customer Departments is now reduced with non-voted agency accounts no longer required for the supplies for which the new arrangements apply. Once these changes are fully implemented an examination of the suspense accounts concerned will be carried out resulting in final balances being drawn up and accounts closed. At 1997 levels of expenditure, this should result in reductions of some £24m annually on non-voted accounts.
- There is clearly a need for trading funds for many of the agency services provided by OPW, as the present accounting arrangements in relation to cash accounting is unwieldy and



unworkable together with the management of income. He intends taking this matter up with the Department of Finance.

- While he agreed that at 31 December 1997 the balance on the stationery suspense account in respect of agency fees was £5.2m, nevertheless, when balances on other agency accounts were taken into the calculations the overall amount on hand was £1.9m. As the bulk of this was received in late December 1997, a transfer to the Exchequer was not possible. These transfers are made when prudent and having regard to the cash balance on hands. The last such transfer, to an amount of £1m, was in 1995.
- Departmental bills relating to stationery accounts amount to approximately £0.8m per month and at any one time there could be up to 2 months outstanding (£1.6m).