

## **Vote 26. - Office of the Minister for Education and Science**

### **Vote 27. - First Level Education**

#### **29. Financial Controls at Schools**

Reference was made in Paragraph 29 of my 1995 Report to the accountability arrangements for primary and voluntary secondary schools generally. The Accounting Officer accepted that the Department could only obtain the required level of assurance regarding school financial management and internal control systems through a formal audit process. Relevant factors to be considered were cost, assessment of risk of loss to the Department, scope of audit and quality control.

The Department informed me that it undertook to carry out a consultancy risk analysis study to assist it in its consideration of the best initiative to take to ensure that public funds are safeguarded. The consultancy began in February 1997 and the consultants submitted the first draft report in June 1997. The submission coincided with the change of Government. The new Government made a fundamental change in policy by deciding that the previous policy to establish regional education boards would not proceed. As the draft report had a significant role for the education boards in the accountability controls for the schools, the consultants were requested to revisit the report and reconsider their approach in light of the new policy.

The consultants requested significant additional information on the evolution of school funding, together with relevant financial data and further analysis of school enrolments which was supplied. The consultants' request involved substantial research and manipulation of financial data in order to ensure that the information given was comparable to the current presentation of school expenditure. A further draft report was submitted to the Department in June 1998 and is now being considered.

#### **30. Financial Controls at Education Centres**

Teacher centres were initially established by the Department in 1972 and during 1994/95 developed into education centres incorporating resource and training centres for teachers, parents and school boards of management. The centres operate under guidelines from the Department and are supported financially from that source. There are currently nineteen full-time and nine part-time centres. The total amount of State funding received by education centres (both full-time and part-time) in 1997 was £3.42 million. This includes funding in respect of running costs and courses, national training and support programmes, other activities based in education centres (e.g. employee assistance), schemes funded by other departments and agencies (e.g. FÁS) and capital expenditure. The average total income of the centres in 1997 was approximately £196,500 in the case of full-time centres (ranging between £680,000 and £40,000) and £13,600 in the case of part-time centres (ranging between £23,000 and £5,000).

A management committee, composed mainly of local teachers, is responsible for the governance of a centre. The key administrative role is that of the Director, who has day-to-day management

responsibility. Each full-time centre has a full-time Director who is a teacher on secondment and whose salary is paid by the Department. Part-time Directors are generally full-time teachers who are paid an honorarium for operating the centre outside school hours. Grants are drawn down at quarterly intervals by the centres on submission of cash flow statements to the Department.

During 1997, my Office drew the Department's attention to a number of issues regarding inadequate financial control in relation to the education centres, including

- the submission of unaudited accounts
- the necessity to update the financial guidelines for the centres
- the lack of sanction for overdrafts and loans in some instances
- the lack of documented procedures for the Department's monitoring of the centres' financial returns.

In response to my Office's concerns the Department undertook to take action on these issues and advised that discussions were underway with the centres since June 1997 with a view to putting in place suitable systems to reflect the increased size of their financial operations.

During 1997 and 1998 the Department's internal audit unit undertook audits at four education centres. The audit report on one education centre, issued in April 1998, raised serious questions in relation to the adequacy, effectiveness and application of the internal control systems within the centre. The report noted instances where the Director, who was appointed in 1978, was in serious breach of administrative and financial regulations and where serious financial irregularities may have arisen.

The audit report also

- Noted that due to the inadequacies of the internal control mechanisms and the unorthodox manner in which accounting controls were maintained, it was not possible to audit the financial accounts and supporting records to the conventional auditing standards.
- Recommended that, in relation to the overall governance of the centre by the management committee, the committee engage in a strategic planning process and put in place effective financial management and control mechanisms, including the establishment of a finance subcommittee.

The Department withheld further payments to the centre after the initial audit findings became known and on being made aware of these findings, the management committee froze all existing bank accounts and opened fresh accounts with new signatory arrangements. The Director resigned in April 1998. The Department requested the management committee of the centre to refer the matter to the Gardaí and this has been done.

In the light of my Office's expressed concern in 1997 about the adequacy of financial controls in the education centres and the later findings of the internal audit unit, I sought details of the action being taken to remedy the situation.

The Accounting Officer informed me that:

- The management committees of the education centres which have been audited by the Department's internal audit unit have been provided with copies of the relevant internal audit reports. The management committees have carefully considered the reports and have taken appropriate steps, where necessary. The audit reports form part of an overall structured evaluation and development process for education centres, which was initiated by the Department during 1997.
- A special training seminar for Directors of education centres will be held in the 1998/99 school year to discuss the audit findings and recommendations and their implementation. The Department's internal audit unit will take a leading role in this seminar. The seminar is part of an overall training programme for Directors of education centres. Management committee members will also be provided with training in this and other areas.
- A detailed Administrative and Management Handbook for education centres is being prepared by a joint working party, comprising representatives of the Association of Teachers'/ Education centres in Ireland and the Department. This will include updated and much more detailed financial guidelines and procedures for education centres and will incorporate key recommendations from the internal audit unit. The work of this joint working party, which commenced in June 1997, is well advanced. The Department's internal audit unit will also visit centres to monitor compliance.
- The Department's view is that education centres, through their management committees and directors and staff, provide a very good return on State investment and are key agents in ensuring the success of the many changes and developments taking place in education. The Department considers that the structures in place are appropriate to achieving the objectives of the centres and generally work well. The management, administration and overall effectiveness of the centres will be significantly improved under the proposed structured evaluation and development process. As part of this process, all education centres will be audited by the Department's internal audit unit on a rolling basis.

In regard to the specific education centre he stated that due to unsatisfactory records, it was not feasible to reach a final figure in relation to the amounts involved, but internal audit established that £47,000 is unaccounted for while £70,000 approximately was either withdrawn, cashed or transferred from the centre's bank account to other accounts. The matter of the recovery of unsatisfactorily accounted for moneys and what steps might be appropriate in this regard will take account of legal advice and the actions, if any, which will follow from the matter having been referred to the Gardaí.

### 31. Control Weaknesses at Youth Encounter Projects

Youth Encounter Projects (YEPs) were established in the late 1970s to provide educational facilities for children who, for one reason or another, had become totally alienated from the conventional schools system and were involved in, or at risk of becoming involved in, minor crime and delinquency. The projects were intended to provide a caring educational environment for disadvantaged children, to foster a sense of identity and to provide a framework for co-operation between the educational system and the social support system. The YEPs enjoy a favourable level of teaching staff and place particular emphasis on personal and vocational development. Each YEP caters for approximately 25 pupils aged between 12 and 15 years and is 100% funded by the Department. Total annual expenditure on the five YEPs in operation in 1997 was £770,000 comprising teachers' salaries of £394,000 and operating costs of £376,000.

The YEPs operate as special schools under the Rules for National Schools and as such, the responsibility for their orderly running rests with the Board of Management, the members of which are appointed by the Patron. The Board is required to elect a Treasurer to be responsible for the school's accounts. The Treasurer is required to present, at each meeting of the Board, an up-to-date statement of the school accounts, giving details of income and expenditure. The Treasurer is required to retain vouchers of expenditure for inspection and audit by officials of the Department. Under the rules the YEPs are required to prepare annual accounts of income and expenditure for presentation to Board members. Subject to the authority of the Board, responsibility for the day-to-day activities of the school devolves on the Principal. The Department's capacity to ensure proper compliance with these requirements is based on the receipt of satisfactory written assurances from the school and on compliance audits carried out by the Department.

A compliance audit at a YEP commenced in December 1995 and the audit indicated that:

- Notwithstanding the regular certifications provided by the school's Treasurer to the effect that the accounts were in order and the transactions properly vouched a substantial proportion of the school's expenditure was unrecorded and unvouched and could not therefore be verified.
- Records and documentation were not available and it was suggested that these were stolen in the course of numerous break-ins at the school.
- Though the signatures of both the Principal and the Treasurer were required for transactions on the current account and on cheques, there were numerous instances of cheques presented to and honoured by the Bank bearing only one of the required two signatures.
- The officials were able to establish that an unauthorised credit card account had been used for expenditure of some £85,000 between 1990 and 1995 and that irregularities could have occurred.
- The Board of Management had become gradually inactive and ineffective over the years.
- The accounts could not be satisfactorily audited in the absence of supporting documentation of expenditure.

The audit findings were brought immediately to the attention of the Patron in December 1995. Departmental papers show that:

- Without advising the Department, the Patron immediately offered the Principal the option of going on sick leave or being suspended with pay. The Principal went on sick leave from December 1995.
- The Department was subsequently informed that the Principal was being replaced by an assistant teacher and it was understood by the Department from discussions with the Patron's representative that, in accordance with normal practice, the new appointee would assume the full responsibilities and duties of the Principal. However, during 1996 the Principal continued to hold all the financial records of the school and retained full financial control, including use of the school cheque books and credit cards. In effect, there was no Board of Management and the Principal continued to make all decisions on the management and administration of the school.
- When the Department became aware of the Principal's continued involvement with the school through a report from its Inspector in September 1996, the Patron was immediately contacted and steps were taken to ensure the Principal's complete removal from the affairs of the school, including the return in October 1996 of the school minibus which the Principal had retained for his own use since the previous December, but whose running costs had been charged to the school.
- In November 1996, the Patron took over the financial running of the YEP, closing all existing bank accounts, including the credit card account. He also began the process of repossessing all financial records and credit cards from the Principal. The Department was advised that the records had been eventually returned by the Principal in February 1997 and the Department approved his application for early retirement in June 1997, with effect from December 1996.

In response to my inquiries the Accounting Officer informed me that:

- Although the Treasurer certified the monthly accounts, she subsequently admitted to the Department that she never checked the supporting documentation - she simply signed the covering certificate.
- Original ledgers, cheque books and other available records were removed from the school to the Department to preserve the available records and to allow for more detailed analysis. This analysis of the school's financial records showed that a significant element of the non-pay expenditure was unvouched but uncovered no evidence of misappropriation.
- He accepted that the Department should have been more forceful in pressing the school authorities when evidence of the credit card account and the missing financial records first came to its attention in 1994.

- All the financial records of this YEP are now retained by the Patron and Chairperson of the Board of Management. Only the minimum documentation required for the daily operation of the project is retained at the project.
- The difficulties encountered in the extended audits of young offender centres delayed the Department's capacity to embark on the intended audits of YEPs.
- The monthly imprest returns and bank statements from all the YEPs are now monitored for evidence of any unauthorised accounts. Details of the authorised bank accounts of each YEP are held in the Department and no other accounts may be opened or operated without Departmental approval and subsequent receipt of the monthly bank statements.
- The Department is satisfied that effective Board of Management structures are now in place and operating in all YEPs as a result of compliance audits completed in three YEPs and from detailed meetings which the Department had with patrons and Boards of Management of the other two YEPs pending the carrying out of audits.