

## VOTE 31 - AGRICULTURE AND FOOD

### 28. FEOGA Operations

The EU makes monthly advances to the Department of Agriculture and Food, refunding payments made to farmers and others who are eligible to receive support under the Common Agricultural Policy. The accounting year for FEOGA operations ends on 15 October. By the following 10 February, the Department submits a detailed claim to the EU itemising all expenditure incurred and amounts received on behalf of the FEOGA Guarantee Fund. The claim is certified by a private firm of accountants (certifying accountants) appointed by the Department in accordance with EU regulations.

During 1998, £1,350m was incurred on FEOGA expenditure comprising:

	£m
Export Refunds	308.9
Intervention Costs	71.7
Production Aid	73.5
Premia Schemes	584.2
Other support measures	311.2

In addition to the certifying accountants and normal management controls, the control procedures in the Department include an internal audit unit. The unit also reports on the results of its audits to an audit committee, appointed by the Minister to advise on the development of internal audit within the Department. During my audit of Departmental FEOGA operations I examine the reports of both the internal auditors and the certifying accountants and rely on their work, where appropriate, to enable me to fulfil my audit mandate.

In the following paragraphs 29 to 31 reference is made to matters noted during my audit and to other matters noted by the internal audit or the certifying accountants.

### 29. New Accounts System

In my 1996 Report, in response to concerns raised by me, it was indicated that a new computerised accounting system was being developed to be in place by late 1998 which would help to improve procedures to prevent duplicate payments and to provide more effective controls. As the system did not materialise during 1998 I reviewed the position in detail and the following outlines the progress of the project and the difficulties that have arisen.

#### *Tender Process*

Since 1994, the Department has been planning to introduce a new accounts system. Following tendering, an external consultancy firm was appointed to produce a tender document, specifying the requirements of this system. Work commenced in January 1996 and the tender document was issued in July 1996. The evaluation of tenders was completed in February 1997. Based on the technical assessment of the tenders, including demonstrations/assurances from the suppliers, the Department and the consultants concluded that one product provided the best fit to the Department's requirements. The proposal was rated significantly ahead of both of the other main proposals and was rated highly for coping with the Department's requirements for cash and accrual accounting.



The tender evaluation report listed one of the product's risks as a lack of experience with cash and commitment accounting. The conclusion was that there was no risk-free approach to implementing a new computerised accounting system but, in this instance, the product appeared to carry the least risk in both the short and medium term. The contract for the implementation of the system was awarded in June 1997 at a cost of £1.128m.

### *Project Implementation*

The project implementation was overseen by a Project Board, chaired by the Secretary General and comprising representatives from the Department, the Department of Finance, the consultants and the contractor. Phase 1 to cover the core accounting system (general ledger, payments systems), a central client database and aspects of a debtors ledger/cash receipts system was initially due for implementation by March 1998. Phase 2 providing for the implementation of a fixed asset system, a purchasing system and the full debtors ledger/cash receipts system was due by October 1998. During the Autumn of 1997, there were certain delays in project implementation. The Project Board noted the main reasons why the project had slipped were insufficient resources, lack of clear methodology and a lack of effectiveness and cohesion between the Department/contractor management teams, and under-scoping of change management. Following a project review, a revised project plan was approved by the Project Board in December 1997. Phase 1 was re-scheduled for implementation by August 1998, later changed to September 1998. The revised plan included a change in the implementation methodology. The Department's detailed requirements were to be specified through 'process scripts', for which the software would then be configured. The revised project plan also envisaged a substantial input of external consultancy resources, which were put in place in early 1998. The additional costs of the new revised project plan would be of the order of £1-£1.1m or more.

In the June/July 1998 period, it became clear that it would not be possible for the contractor to deliver the full range of the envisaged configured software. The software which was delivered did not meet the Department's requirements, especially in relation to government cash accounting. This requirement had been specified in the tender document and the contractor had provided assurances that the system could meet the requirement. In light of the conclusion reached following testing, concerning the delivered software, the Project Board concluded, in early August 1998, that it would not be safe to proceed with project implementation in September and this decision was communicated to the EU Commission and the contractor.

In October 1998, the contractor indicated that it believed that an upgrade of the product could address all of the Department's requirements, including the ability to cater for cash accounting. It was agreed that this would be formally assessed through a feasibility study. On 1 February 1999, the contractor delivered a presentation to the Department on the proposed solution to the problems encountered. The proposed solution was examined by a Departmental Evaluation Group who, in February 1999, stated that the contractor's report, presentation and demonstration only reflected an outline of the proposed solution and that the solution was not yet built. Thus, the recommendation was based on an outline solution that could not be demonstrated fully. The group recommended that the technical solution should be pursued as it appeared to provide a solution to the Department's requirements, including cash accounting. However, the project should only be restarted when the expressed reservations had been satisfactorily addressed.

The Department sent its detailed conclusion to the contractor in March 1999. This noted that the major risks to the restart of the project appeared to be (a) lack of agreement on contract/cost issues, and (b) lack of agreement on the implementation plan and project structure. The new implementation date would be in the year 2000.



## *Project Costs*

By July 1999 the following costs of £3.2m\* were incurred:

	£
Payments under the contract	790,000
Fee to contractor for additional services under separate contracts	177,000
Further costs by contractor (under dispute)	485,000
4 separate projects by the external consultant firm including £110,000 for necessary consultancy services to support the project while on hold from September 1998/February 1999	814,000
Estimated Departmental staff costs for project work	930,000

\* VAT exclusive

Once the decision to postpone the implementation date was taken, the Department commenced an urgent programme to ensure that the existing accounts system was appropriately amended for compliance with Year 2000. The estimate of total staff costs in connection with this work from August 1998 to January 2000 is £318,000.

## *General*

The principal findings in the certifying accountants' report of 31 January 1999 on the 1998 FEOGA Accounts recognised the new accounts system as a major strategic issue.

The EU Commission had indicated that it would be obliged to reconsider the accreditation status of the Department, in the event of the project not proceeding satisfactorily.

As the project was not on target, I sought the views of the Accounting Officer who informed me that:

- The current situation regarding the main contract is that outline agreement has been reached with the supplier for the completion of the project. This outline agreement has focused on the time frame within which the project should be completed, the project plan, the resources required and the cost. Discussions on the contractual arrangements to give effect to the outline agreement reached are taking place and it is hoped that they will be concluded soon. Assuming these discussions are brought to a successful conclusion, the intention is to re-start the project as soon as possible thereafter.
- The proposed implementation for the re-start project has been the subject of detailed planning arrangements. The upgrade proposed has functionality which deals with government cash accounting and assurances have been received that should meet the Department's requirements. The detailed work plan agreed with the contractor for delivery of the system software includes milestones for key deliverables, which will be reviewed during project implementation. Plans for the necessary testing, training and change management within the Department are also in hand. Subject to a rapid resolution of current contract discussions and project re-start shortly



afterwards, it is envisaged that the system will be functioning in the second half of 2000.

- In regard to resources, particular attention has been paid to ensuring that the resources allocated to the project, from both the contractor and the Department, are adequate in terms of skills and numbers. Resources allocation will be kept under close review during implementation, taking account of the deliverables/milestones necessary to meet the target delivery dates. Where specialised skill deficits exist within the Department team, it is intended to use additional consultancy resources. Use of these resources will be kept to the necessary minimum.
- The Department has increased the number of its management staff allocated to the project. The project will continue to be monitored by a Project Board, chaired by the Secretary General, which meets on a monthly basis. The Board consists of senior users within the Department, representatives of the Department of Finance and the contractor. Below the Project Board level, review meetings between the Department and contractor Project teams are scheduled on a weekly basis.
- The additional consultancy costs were, to a large degree, due to the fact that the Department did not have the specialised resources required.
- The estimated final cost to the completion of the project will be determined by the outcome of the current discussions.
- In the absence of a figure for an estimated final cost of completion, it is not currently possible to provide an estimate of the cost which resulted from the failure to implement on time the contract as originally contracted for.
- The Department is satisfied that it maintained adequate control over the project. The tender process, and the resulting evaluation of offers, was rigorous and exhaustive. Following appointment of the contractors, the Department was not satisfied with the implementation methodology and requested a review which led to some changes in approach. In addition to the Project Board, three sub-project boards, chaired by an Assistant Secretary, also met on a monthly basis. From the Department's perspective, the major reason for the failure to implement on time was that the version of the software delivered by the contractor did not meet the Department's requirements, especially in the area of government cash accounting. This only became evident late in the project implementation, given that the software was delivered on a phased basis and that the earlier delivery of software appeared to meet the Department's transaction processing requirements.

### **30. Overpayments**

The Department administers a number of headage/premia schemes which provide grants (£834m in 1998) to farmers producing livestock, mainly cattle and sheep. Most of the schemes are available to farmers throughout the country (the premium schemes) but a few (the headage schemes) are restricted to qualifying farmers in the EU-designated disadvantaged areas.

The Department's Headage Division has an Overpayments Section that is responsible for monitoring, controlling, recording and recovering overpayments of grants under livestock headage and premium schemes. Overpayments are established either manually or are automatically generated by the payments system. All manually established debts are discovered in the local livestock offices



and are submitted to the Overpayments Section for recording on the overpayments file. Written requests are sent to the herdowners for a refund within 14 days. The herdowner can pay by cheque or agree to have the amount offset against a future payment. More than 90% of all debts on the overpayments file are, however identified by the system. Recoupment is by means of automatic offset against future payments.

Over a number of years, weaknesses in the control systems leading to overpayments on schemes have been the subject of concerns regarding the associated risks of non recovery and bad debts. These concerns have been expressed in my previous reports; legal advice received by the Department; a 1998 Internal Audit report and the Certifying Accountants' 1998 Report.

In response to these concerns, I have been informed that the Department:

- Conducted a review of its Debt Recording System in September 1998
- Initiated a series of organisational and procedural changes which are set out later in the paragraph as part of the Accounting Officer's response to my inquiries.

### *Department's 1998 Review of its Debt Recording System*

Under EU Regulations, the Department is responsible for holding a ledger of all debtors in relation to FEOGA expenditure and taking the necessary steps to recover the amounts in a timely manner. The Department's review of its Debt Recording System, carried out in September 1998 with the assistance of a professional accountant, found that there was no central function for co-ordinating and monitoring the management of debt across divisions. As a result there was some degree of variation between the methods of debt establishment, recording and recovery used by different sections within the Department. The Department also needed to be aware of its legal requirement to establish the existence of the debt at the earliest opportunity. The review recommended that standard procedures in relation to debt establishment, recording and recovery be introduced across the Department.

The review also noted that Headage Division had no satisfactory system in place to instigate follow-up procedures on debtor balances. Furthermore, there was no ongoing detailed monitoring of balances to establish the level of irrecoverable debts. As a result debts may have been included in accounts submitted to the EU which were no longer recoverable and therefore do not constitute valid receivables to the Department.

The review observed that legal opinion sought by the Department had indicated that in order to claim a right to offset a debt due to the Department against a debt payable by the Department, there is a responsibility upon the Department to establish the debt with the client by means of written communication. On this basis therefore, the review recommended that each section provide its clients with a statement of affairs detailing the amounts owing to the Department on a quarterly or half-yearly basis.

The review noted that a full and complete debtors ledger system capable of meeting fully with the requirements of the EU will not be installed until after the completion of phase 2 of the new accounts system project which has been delayed (see paragraph 29).

As a result of the review an interim Debtors Ledger Unit was set up within the Finance Division in September 1998 to co-ordinate and monitor the management of debt across divisions. A report from



Finance Division on the debtor situation is made to the monthly meeting of the Accreditation Review Group, which is chaired by the Secretary General.

### *Overpayments Position*

The combined headage and premia overpayments outstanding at June 1999 were as follows:

	£
BSE 1995/1996 Cases	558,487
Clients with a Flock Number only	53,928
Premia - Pre 1992	12,146
Other premia/agri-monetary scheme (1992-1998)	823,855
Headage Schemes	<u>303,206</u>
	<u><b>1,751,622</b></u>

According to the Department, £832,594 (47.5%) of these overpayments related to dormant herd or flock numbers and these dormant herd numbers represent debtors who are no longer in receipt of premia/headage payment. Some £374,542 or 45% of the total involves BSE cases.

I requested the Accounting Officer's views as to whether he was satisfied that the measures taken by the Department would ensure that overpayments are prevented and that any which may occur would be promptly identified and recovered. I also inquired as to the steps taken and proposed, to recover overpayments, and when it was expected that the amounts of irrecoverable overpayments would be established so that formal write off could be sought.

On a general level the Accounting Officer stated that:

- The Premium Headage schemes involve large numbers of applicants and even larger numbers of individual applications and payment transactions. Applications are received at different times of the year and payment time-frames differ from scheme to scheme. There are considerable interlinkages between schemes. These can result in overpayment situations arising even in the tightest control environment. The Department's objective is to keep overpayments to the minimum, promptly identify where they occur and ensure the adequacy and timeliness of recovery arrangements.
- In the six year period 1993-1998 the level of overpayments arising under the main Integrated Administration and Control System (IACS) schemes (Suckler Cow Premium, Special Beef Premium, Ewe Premium and Extensification Premium) represented about 0.2% of scheme expenditure. Overpayments under these schemes for the 1998 scheme operations represent 0.075% of scheme payments.

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

- As regards prevention, the following measures were undertaken:

### *Department's Clients*

- The provision of clear and concise guidelines including help sheets and check lists to the Department's clients to ensure that they are fully aware of how to make the necessary scheme applications.

### *Department's Staff*

- The provision of Procedures Manuals to all members of staff involved in scheme processing to ensure all staff are familiar with the rules of the schemes and the necessary control checks prior to payment approval.
- An initial briefing of staff at scheme launch.
- The provision of scheme specific staff at central locations to advise and assist staff throughout the scheme campaigns.
- The establishment of a Financial Control unit in the Headage/Premia area to monitor scheme implementation.
- The establishment of an enhanced overpayments unit to monitor and control registration and recovery of overpayments. An additional function of this Unit is to analyse the Overpayments Register in order to focus attention at specific areas which could lead to avoidance of error in the future.
- The installation of the new accounts system will add further enhancement to controls in this area particularly insofar as the operation of the Debtors ledger and client database systems are involved.
- As regards recovery, the following measures were undertaken:
  - Overpayments are either automatically written to the central Headage/Premium Debtors register or input manually. Once on the Debtors register, automatic recoupments occur (*i.e.* before a payment under any Headage/Premium Scheme issues there is a systematic check against this register and if there is an amount entered against a client then a recoupment is made).
  - In cases of BSE overpayments and flock number problems in particular, farmers have been written to on two separate occasions by the Department setting out the amount of the overpayment and with a request to make a refund.
  - The Department is arranging to write to all farmers on the Debtors register notifying them of their overpayment position and indicating how recovery is to be achieved *viz* immediate refund or offset against future payment where the debtor continues to be a participant in Premium/Headage Schemes.
  - Given the special nature of the BSE overpayments (they should be defined as "adjustments" rather than overpayments and are a direct consequence of the implementation arrangements laid down by the EU Commission), the Department is writing to the Commission to establish the extent to which recovery has to be pursued.



- Legal advice will be sought in appropriate cases.

Regarding potential write-off, the Accounting Officer informed me that the dormant herd or flock number cases are proving the most problematic to recover and it is expected that, ultimately, consideration will have to be given to writing-off some of these debts. The recovery procedures will enable the Department to establish the level of recoverability of the overpayments. It is hoped that this work will be completed by the end of 1999.

### **31. Disallowances by the EU Commission**

The EU Commission, having carried out selected audits of the expenditure and receipts declared in the annual FEOGA claim, takes a decision on the correctness and validity of the transactions and, arising from this, determines what adjustments should be made. If these adjustments involve disallowances of expenditure they give rise to a charge to the Vote, although where the amounts disallowed are recovered from individual traders, any resultant receipts are brought to the credit of the Vote. Claims up to and including the 1995 FEOGA financial year<sup>1</sup> will be cleared by this procedure. The 1994 claim was cleared in this way during 1998.

Commencing with the 1996 claim, new account clearance arrangements introduced by the EU Commission involve the annual claim being cleared in two stages. The first stage involves the independently certified annual claim account of the Member State being submitted to the EU Commission by 10 February following the end of the FEOGA financial year. Any accounting adjustments arising from the reconciliation of the annual claim to the monthly advances made by the EU to the Department in the previous year, are charged or credited to the Vote as appropriate. The second clearance stage is based on the Commission's audits of selected measures and disallowances arising therein are also chargeable to the Vote. The first stage clearance of the 1997 claim was carried out in 1998.

Penalties for late payments are also imposed by the EU Commission for non-adherence to the payment deadlines and are implemented by making quarterly deductions from advances to the Department. Deductions in respect of late payments for the final quarter are implemented in the first stage clearance of the annual claim. In 1998, a total of £1.2m in late penalties for the years 1997 and 1998 was charged to the Vote.

A total of £5.28m in disallowances and losses were charged to the Vote in 1998, as outlined in Table 5.



Table - 5 Feoga Disallowances

	£	£
<b>Amounts charged following the 1994 Clearance of Account</b>		
Premia Schemes	2,512,626	
Intervention Beef - financial penalty for rejected beef not declared, delay in payments, losses at cold store in the Netherlands plus various adjustments	418,625	
Milk Products	<u>61,058</u>	2,992,309
<b>Penalty for late payments</b>		
1997	34,106	
1998	<u>1,137,149</u>	1,171,255
<b>Other Adjustments and Charges</b>		
Loss on damaged Intervention Beef	666,161	
Court Award	450,596	
Other adjustments	<u>4,546</u>	<u>1,121,303</u>
		<b>5,284,867</b>

<sup>1</sup> The financial year for FEOGA purposes ends on 15 October.

## 32. Overtime

In 1998, some £7.8m was paid in overtime and extra attendance to 2,932 staff. The highest amount paid to an individual officer was £33,229. Technical Agricultural Officers (TAOs) are employed by the Department, *inter alia*, on meat inspection duties at meat plants and cold stores (including poultry plants). These inspection staff are required to work overtime to facilitate factory operations.

During 1998, my Office drew the Department's attention to the fact that the top TAO overtime earner working at a meat plant was paid £34,843 overtime in 1997 in addition to a year's basic salary (£20,000 approx.). His working week was 41 hours and he alternated one week of days with one week of nights commencing work at 6am and 6pm respectively. However, he was being paid overtime for all of the time worked outside of the period 8am - 6pm. Other TAOs who were rostered to work outside normal hours were remunerated by way of shift allowance. In response, the Department explained that this officer was paid overtime under an agreement made with a trade union on overtime working. Under the overtime arrangement five other members of the Department's staff were remunerated in this manner, at three meat plants, as the trade union had been reluctant and unwilling to enter into a shift allowance agreement and indeed appeared to opt



out of earlier shift arrangements. The arrangements were not ideal but an alternative shift system would involve the assignment of at least one or two extra staff in each of the plants involved. The Department also noted that the restructuring agreement for TAO grades provides for discussions on the introduction of more flexible attendance arrangements. The Department would arrange such discussions during 1998.

During audit in May 1999, I noted that £536,000 was paid under the arrangement in the period 1995 - 1998 inclusive to these six officers. Five of them are included in the top ten recipients of overtime in 1998 ranging from £25,595 to £33,229. The actual hours worked between 8am and 6pm as a percentage of overall hours claimed and paid in 1998 to these five officers in respect of work carried out from Monday to Friday was 34%, 39%, 39%, 44% and 42% respectively. A further £33,000 was paid under this arrangement to seven TAOs at another meat plant in the period October 1998-April 1999.

The Accounting Officer informed me that:

- The overtime arrangements for the four meat plants concerned apply when these plants carry on production after 6pm and continue production until the early hours of the following day. Not all meat premises operate in this manner. The Department is obliged under EU Regulations and National Legislation to provide certain services in meat plants and aims to do so, at least cost to the Exchequer. One plant commenced an overnight deboning operation beginning in October 1998. The company agreed in advance to pay the extra cost involved for the additional hours worked. The other three companies pay £10 per hour for each hour of overtime worked by TAOs.
- The question of introducing a shift system was raised with the trade union in the past but no agreement was reached. In the Restructuring Agreement for Technical Agricultural Officer Grades there is a provision for the introduction of more flexible working arrangements for all technical staff. In addition, the enactment of the Working Time Act, 1997, means that the working arrangements of the technical staff in meat premises will have to be examined to ensure compliance with the terms of the Act.
- The introduction of more flexible working arrangements and the need to comply with the terms of the Working Time Act will have an impact on the income of staff assigned to meat premises and as such will involve difficult and slow negotiations before agreement is reached.