

## 8. Inspections

Section 8 of the Comptroller and Auditor General (Amendment) Act, 1993 enables me to carry out, at my discretion, inspection of books, accounts and other records of regional tourism organisations and other bodies which receive 50% or more of their annual income from the State. The purpose of an inspection is to check that public moneys have been spent for the purposes for which they were provided and in accordance with any conditions specified by the relevant Minister.

In 1997 I carried out inspections in the Olympic Council of Ireland, Dublin Tourism and the South West Regional Tourism Authority Ltd. with satisfactory results.

From January to August 2000 I carried out inspections in Western Care Castlebar, Western Regional Tourism Authority Ltd., Mercy Hospital Cork and Cope Foundation Cork with satisfactory results.

## 9. Foreign Travel Policy

The annual expenditure incurred by Government Departments on Air Travel is about £6.1m, of which an estimated £1.9m is recouped from third parties, mainly the EU.

In order to address concerns that Departments were obtaining value for money (VFM) in air transport, that the selection of Air Carriers was fair and reasonable and that there was an adequate level of expertise within Departments to manage their air travel requirements, the Department of Finance, in March 1998, issued a Travel Policy document to Departments, which laid down certain principles and guidelines which were to be followed in selecting Air Carriers. These related mainly to issues of VFM, use of economy fares where possible, and fair competition and lack of bias in the selection of Air Carriers. It was decided that each Department would appoint a travel agent who would provide agreed services in relation to foreign travel for agreed remuneration.

The contract for all Departments was awarded to one travel agent following a tender competition. The term of the contract was initially for one year with effect from February 1999, with provision for an extension of up to two years.

In order to monitor the success of the new arrangements and to deal with any difficulties which might be arising, the Department of Finance also decided to appoint consultants to carry out reviews of the operation of the new arrangements in the various departments. The first review covered the year ended August 1999 and was completed in October 1999, a second review covering the year ended August 2000 is currently underway and it is intended that a further review covering the year ended August 2001 will be carried out in 2001.

The consultants made a number of recommendations for action by the various parties involved in the agreements, *viz.* the Department of Finance, line Government Departments and the travel agent. My staff reviewed the recommendations and the action taken by the Department of Finance in relation to them. The chief findings and recommendations of the consultants and the action taken in relation to them are as follows:

- The contract with the travel agent as an incentive to minimise costs, provided for the payment to the travel agent of a proportion of the savings effected by him. The contract provided that the savings should be calculated by a comparison of fares obtained by the agent and certain



benchmark fares and routes to be agreed between each Department and the agent. The basis on which benchmark fares and shared savings were calculated had not been agreed between the Department of Finance and the travel agent and many departments had expressed strong reservations in relation to the amounts computed by the agent.

The consultants also noted that the benchmark fares applied by the agent included commission and so savings were being calculated by comparing a net fare to a gross benchmark fare, which resulted in higher savings being computed and a correspondingly higher payment to the agent being made than if net benchmark fares were taken.

The consultants recommended that the agent should put in place an arrangement whereby the Department of Finance or an independent body reviewed the benchmark fares in detail and approved these fares for circulation to Departments. They also recommended that the shared savings arrangements needed to be structured so that like-with-like comparisons of fares were made.

The Accounting Officer of the Department of Finance informed me that a detailed agreement on the setting of benchmark fares and the calculation of the ensuing savings was concluded with the travel agent on 8 June 2000, which provides that;

- benchmark fares should exclude commission
- benchmark fares should not exceed the fares which Government Departments could have expected to pay prior to, or outside of, the contract.
- the benchmark reference fare for the 'net negotiated fares' (i.e. fares negotiated by the travel agent for Government Departments) should be the lowest equivalent published fare less commission
- the savings sharing arrangement will only arise in the case of net negotiated fares for the ten top destinations, which on the basis of figures for the three month period March - May 1999 represent about 28% of total expenditure.
- the savings sharing will be calculated on a ticket basis comparing like with like. Thus the net negotiated fare will be compared to the published fare, less commission, for the same class of ticket, on the same airline, on the same date of travel, at the time of booking the flight.

He stated that the agreement also included conditions about the verification of fare levels and billing arrangements to be agreed with Departments.

- The consultants noted that the Department of Finance travel policy requires that VFM assessments be carried out on frequently travelled routes. None of the Departments had formally addressed this requirement and documented their findings. However, it was evident that VFM considerations were taken into account in arriving at non-recoupable travel decisions.

The consultants recommended that such VFM assessments be carried out and also expressed the view that Departments may not have sufficient guidance or expertise to carry out such assessments.

The Accounting Officer informed me that a workshop to assist Departments in carrying out VFM assessments of their foreign travel, on the basis of their most frequently travelled routes, was organised by his Department in June 2000. The workshop produced a template which can be used by Travel Officers in doing VFM assessments. It was agreed that the four central



VFM considerations were effectiveness, efficiency, economy and equity (to both carriers and travellers).

- The consultants noted that consolidated fares, which were purchased in bulk by the travel agent's wholesale division from the different Air Carriers, were cheaper than carriers' published fares but that these savings were not passed on to Departments, as contractual arrangements between the agent and the carriers prohibited this.

The consultants felt that the profit being generated by the travel agent on consolidated fares, and which were not being passed on to Departments, did not appear to be in compliance with the agreements between the travel agent and the Departments and that the matter should be taken up with the agent by the Department of Finance.

The Accounting Office informed me that the prices paid by Departments to the travel agent for these tickets were the minimum which the travel agent was allowed to charge under his agreement with the Air Carriers. This price would be higher than the price paid to the Air Carriers by the travel agent and he accepted that it was in breach of the agreements between the travel agent and the individual Government Departments. However, he pointed out that these fares only accounted for 5% of total expenditure and stated that in the light of the contractual position between the travel agent and Air Carriers, his Department had agreed to pay the travel agent the "minimum selling price" for these tickets excluding commission, but reserved the right to review the position following the next audit by the Department's consultants.

- The consultants noted that no Department had reported a decrease in administrative costs even though such a decrease might be expected as a result of routing all travel arrangements through a single travel agent. They also noted that travel insurance was not provided as standard by the travel agent and that where this was required it was an additional cost which was separately invoiced. This created additional administrative work for Departments and there was also some uncertainty among Departments as to whether or not they should avail of insurance cover.

The consultants recommended a single billing arrangement for insurance costs and shared savings, as a way of reducing much of the administrative burden and cost. However, they also expressed the view that both Departments and the travel agent had to go through a learning process in the early stages of the new arrangements which would give rise to higher administration costs.

The Accounting Officer stated that his department was arranging to obtain information from Departments in relation to administration costs. He pointed out that equity considerations (*i.e.* the need to be open and transparent in all dealings with suppliers) could diminish efficiency and that there would appear to be administration costs associated with the operation of the travel policy which may not have arisen previously. However, he felt that administration costs would decrease once certain initial teething difficulties had been resolved.

He also stated that his Department had with effect from July 2000 negotiated travel insurance cover for all Departments to cover such matters as medical and accident costs and loss of baggage, but excluding death gratuities as these were provided for in the Civil Service superannuation schemes.



- The consultants noted that departments were generally not aware of the quantity of frequent flyer points which may have accrued to individual flyers and in those instances where the flyer selected the carrier it was not clear whether or not the accumulation of flyer points had an influence on the selection of carrier.

The Accounting Officer informed me that the position on frequent flyer points was being considered in the context of a Code of Ethics currently being prepared for the civil service.

Enquiries made by my staff in the Department of Finance and a selection of other Departments indicated that a number of other issues also raised by the consultants were being satisfactorily addressed.

## **10. Services Contracts**

### **Background**

Traditionally, security and cleaning services in Civil Service establishments were provided directly, *i.e.* by unestablished Civil Servants, employed for these purposes. With the passing of time the practice of employing people to carry out these services directly was phased out in favour of contracting private companies. At present, while there still are a small number of people employed on cleaning and security duties, outside contractors now provide almost all these services.

The rules governing the awarding of contracts are laid down in "An Outline of Government Contracts Procedures" which were issued in 1986 and updated in 1994 in the booklet "Public Procurement". The Department of Finance have issued various circulars over the years clarifying the procedures laid down in the two publications. These rules and guidelines govern such matters as the advertising and awarding of tenders, the use of a restricted tendering process, tax clearance procedures *etc.*, with the objective of having equity and fair competition in the award of public contracts.

Reference was made in my report for 1995 to deficiencies noted on the audit of this area in the Office of the Revenue Commissioners.

### **Audit objectives and scope**

The audit was undertaken with the view to determining the level of compliance with the procedures laid down in "An Outline of Government Contracts Procedures" and "Public Procurement" and to ensure that once they had entered into contracts, the organisations had procedures in place to adequately monitor and manage the performance of the service providers. The examination also focused on compliance with tax clearance procedures and whether the contractors had adequate insurance cover in respect of employer's liability and public liability. Because of the amounts involved, the provisions in EU and GATT procurement regimes did not apply.

It was decided to examine the procedures and systems under which contracts for these services are awarded and to examine the procedures in place to ensure that the terms of these contracts were being fulfilled. The audit was carried out in four of the biggest organisations in the Civil Service.

- Department of Social, Community and Family Affairs