



Comptroller and Auditor General

Special Report

Department of Education and Science

National Educational Welfare Board

Lapses in Internal Control

September 2007

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This report was prepared on the basis of information, documentation and explanations obtained from the public bodies referred to in the report. The draft report was sent to the Department of Education and Science and the National Educational Welfare Board. Where appropriate, the comments received from the Department and the National Educational Welfare Board were incorporated in the final version of the report.

Report of the Comptroller and Auditor General

National Educational Welfare Board – Lapses in Internal Control

I have, in accordance with the Comptroller and Auditor General (Amendment) Act, 1993, prepared a special report on lapses in internal control in the National Educational Welfare Board.

I hereby submit my report for presentation to Dáil Éireann pursuant to Section 11 of the said Act.

A handwritten signature in black ink, appearing to read 'John Purcell', with a stylized circular flourish in the middle.

John Purcell
Comptroller and Auditor General

13 September 2007

Table of Contents

	Page
Summary of Findings	9
1 Introduction	13
2 Internal Control Deficiencies	16
3 Information Technology Procurement	19
4 Views of the Board and the Department	23
 Appendices	
A Chronology of Events	29
B Transition and Ongoing Monitoring	33

Summary of Findings

Summary of Findings

All new State-sponsored bodies face the challenge of organising themselves so as to ensure that transaction processing is effected in a safe and regular fashion. Ultimately, organisations can only take reasonable steps to do so and cannot anticipate all possible exposures. In the case of the National Educational Welfare Board which was established in 2002, a control framework was drawn up and documented in a procedures manual by a firm of accountants in July 2003 soon after the Board had taken over responsibility for its own payments processing.

However, following the detection of a missing email in mid-2005, it was eventually established that

- the organisation had IT equipment costing almost €200,000 in excess of its needs
- estimated losses of up to €271,000 on foot of payment for IT services not provided to the Board had been racked up

The losses and the surplus equipment were attributable to internal control weaknesses which were exploited by a member of staff, apparently in collaboration with a supplier.

Professional fees of €228,000 have been incurred to date in investigating and dealing with the matter.

A review of internal control in December 2004 had earlier highlighted the exposure that arose from the fact that key administrative functions in the IT area were not separated – something which would effectively allow the same person to order goods, approve payments and sign cheques.

However, the Board says it drew assurance from the fact that the same report said that the supplier for much of the equipment upon which €600,000 had been spent up to mid-2004 was correctly sourced through a tendering process. In the event, approximately 64% of all information technology purchases were sourced from a single supplier and only one of 122 individual purchases were the subject of a tender process.

Legal proceedings seeking recovery of amounts irregularly paid have been taken against the member of staff and the supplier.

It is acknowledged that it is not always easy to prevent or detect situations where staff act collusively with suppliers or bypass controls. However, the experience of the Board appears to highlight the need for State-sponsored bodies to assure themselves through internal audit or by other means that procedures are being implemented especially in circumstances where the organisation is new and capacity is being developed – usually, over a period of time.

There may also be scope for supervising Departments to take a greater role in facilitating the smooth transition of the organisation to semi-state status. This is something that might be considered on a wider canvas – though, as the Accounting Officer of the Department of Education and Science points out, such transition monitoring could not be a substitute for the enforcement of a sound system of financial and corporate governance at the level of the organisation itself.

National Educational Welfare Board
Lapses in Internal Control

1 Introduction

1.1 The National Educational Welfare Board (NEWB) was established as a statutory body on 4 March 2002 under the provisions of the Education (Welfare) Act, 2000.

1.2 The primary function of the Board is to ensure that each child attends a recognised school or otherwise receives a certain minimum education.

1.3 There has been considerable delay in the finalisation of the accounts of the Board for the years 2003, 2004 and 2005. These delays were partly attributable to the subject matter of this report.

Arrangements for the Management of Board Activities

1.4 The legislation governing the Board provides for the position of Chief Executive Officer (CEO) and vests in him the duty of carrying out, managing and generally controlling the administration and business of the Board.

1.5 To assist the CEO in the performance of his duties the Board can appoint staff within the limits set by the Minister for Education and Science (the Minister).

Administrative Arrangements

1.6 Like most new State-sponsored bodies, it took some time to structure and resource the organisation. Between its establishment in March 2002 and June 2003, payments were processed by the Department of Education and Science (the Department). In June 2003, the Board took over responsibility for its own payments processing. To facilitate this, it engaged a firm of accountants to establish and document the necessary control procedures and draft a procedures manual. Payroll processing in respect of officers transferred from certain local authorities continued to be effected by their former employers. By July 2004, an external bureau had taken over payroll processing responsibilities in respect of all NEWB staff.

1.7 Shortly before its assumption of the administrative function the Board engaged additional staff including a Director of Corporate Services and an IT Manager. The IT Manager took up duty on 26 May 2003. The entire Head Office team of eleven personnel was in place by January 2004.

1.8 Notwithstanding the establishment of procedures certain deficiencies in internal control were found to exist. This report examines the implications and consequences of these deficiencies and their impact on the Board. The results are set out in the chapters that follow. Chapter 2 reviews internal control deficiencies in the Board, Chapter 3 examines information technology procurement deficiencies and Chapter 4 sets out the general views of the Board and the Accounting Officer of the Department of Education and Science on the issues arising.

1.9 The Board commissioned a number of reports which are referred to in subsequent chapters. These are set out in Figure 1.1. Key events relating to the subject matter of this report are set out in Figure 1.2 while a detailed chronology of events is set out at Appendix A.

Figure 1.1 Key Reports Commissioned by Board

Report	Date Delivered	Consultant	Reference in report ^a
Procedures Manual	July 2003	Mazars	Mazars 1
Internal Control Review and Recommendations	December 2004	PwC	PwC 1
Computer Security Audit	March 2005	Ernst & Young	E&Y 1
Forensic Review of Computer Devices	November 2005	Ernst & Young	E&Y 2
Update of Internal Control Review and Recommendations	January 2006	PwC	PwC 2
Detailed Review of Purchase Transactions with Three Specified IT Suppliers	November 2006	PwC	PwC 3

Note:

a For ease of reference this shorthand title is used to distinguish the various reports in the text that follows.

Figure 1.2 Key Events

Date	Event
July 2002	All sections of Act are commenced
August 2002	Interim CEO took up duty
March 2003	Director of Corporate Services took up duty
May 2003	IT Manager took up duty
July 2003	Mazars draws up Procedures Manual (Mazars 1)
January 2004	Finance Manager took up duty
June 2004	PwC engaged to review internal financial controls and the financial accounting system in operation
November 2004	PwC presents its review findings which are accepted by the Board (PwC 1)
February 2005	Director of Corporate Services resigns having been absent since April 2004
March 2005	Ernst & Young Computer Security Audit (E&Y 1)
June 2005	Email from Finance Manager to IT Manager and CEO disappears from the Finance Manager's email outbox; Copy of email cannot be found on CEO's laptop. PwC engaged to carry out an updated review of financial controls and procedures
July 2005	Ernst & Young IT forensic team commissioned by CEO to investigate missing email
August 2005	Ernst & Young discover evidence of an inappropriate business relationship between the IT Manager and a supplier PwC investigation extended to quantify implications of E&Y discovery IT Manager suspended. Board committee established to investigate disciplinary aspects New Director of Corporate Services takes up duty.
September 2005	IT Manager becomes ill and unable to co-operate with Board investigations
November 2005	Ernst & Young Forensic Review of Computer Devices delivered (E&Y 2). Report highlights the existence of an inappropriate business relationship between the IT Manager and an IT supplier.

January 2006	PwC present report on its review of internal controls and recommendations (PwC 2) Letter sent to IT Manager requesting repayment of monies including merit payment.
May 2006	IT supplier offers co-operation and supplies details of payments of €136,405 to IT Manager An Garda Síochána informed of the matter
September 2006	Letter of demand, outlining NEWB claim, issued to IT supplier
November 2006	PwC Detailed Review of Purchase Transactions with Three Specified IT Suppliers. Report is presented and concludes that the Board suffered losses (PwC 3)
March 2007	Legal proceedings for recovery of losses commenced against supplier and former IT Manager

2 Internal Control Deficiencies

2.1 In June 2004, the Board commissioned a review of its internal controls and of its financial accounting system. The purpose of the review was to provide assurance that the policies, procedures and controls in place conformed with best practice and to ascertain whether they were being followed as specified in a Procedures Manual which had been drawn up in July 2003 (Mazars 1) and to recommend any necessary improvements. The review covered the period from June 2003 to June 2004, representing the first year of the Board's direct responsibility for administering its payments function. The Internal Control Review and Recommendations Report (PwC 1) was delivered in December 2004¹.

2.2 The review of internal control (PwC 1) found that there were significant weaknesses in the operation of the payroll and purchase order systems. The report also noted that there was no formal approval process in place for capital expenditure projects and that each project was not reviewed and approved by the CEO. It recommended that these matters be addressed immediately.

Operation of the Payroll System

2.3 In regard to the authorisation of and basis for certain remuneration amounts that had been processed for payment the review of internal control (PwC 1) noted that

- merit awards were approved by the Director of Corporate Services in the sum of €10,000 each, net of tax (€19,230 gross), in respect of herself and the IT Manager. Only the amount in respect of the IT Manager was ultimately paid. The awards were not approved by the CEO or the Board.
- payments of overtime to members of staff in December 2003 were not supported by appropriate documentation. One payment of €13,720 and three payments of approximately €3,000 each were made. The CEO's approval for these payments had not been sought.

2.4 The CEO has informed me that there is no merit award scheme in place in the Board and that the Board is pursuing recovery of the amount of the award paid to the IT Manager. On the other hand, the payments of overtime had subsequently been investigated by a special committee of the Board. They were found to be justified and retrospectively ratified by the Board in 2005.

2.5 In regard to the current practices and procedures for payroll processing the CEO assured me that he was satisfied that the procedures and practices now in place are adequate to safeguard against the possibility of payment to staff in excess of authorised levels or entitlements. He informed me that overtime payments are made to staff only in exceptional circumstances. If such payments are warranted, the payments must be made in compliance with Department of Finance guidelines and NEWB policy. Overtime must be approved in advance by the staff member's manager and the HR Manager.

Appointment of Staff

2.6 A review in 2006 of the personnel file of the IT Manager who had been engaged in May 2003 produced no evidence to support all his claimed educational qualifications. Enquiries by the Board failed to substantiate the educational qualifications beyond primary degree level. The CEO informed me that the IT Manager had previously been employed by another State agency² and

¹ The full range of reports together with the associated shorthand references are set out in Figure 1.1.

² The Citizens Information Board (formerly known as Comhairle).

following contacts with that body the Board felt assured regarding his claimed qualifications and experience. The CEO stated that the recruitment policy now in place provides that all qualifications of staff are evidenced and substantiated. The policy provides for a procedure for communication with referees and other relevant parties. All candidates are required to submit original certificates of their qualifications, a copy of which is retained by the human resources function of the Board.

Procurement Procedures

Failure to Tender and Problems with the Tender Process

2.7 In general, a competitive process carried out in an open, objective and transparent manner gives the best prospect of achieving value for money in public procurement. In the case of the Board, only one out of 122 individual purchase transactions involving information technology hardware, services and consumables was subject to a tender process.

2.8 The only tender process engaged in by the Board was for a procurement involving the supply of 70 desktop computers. This process took place in June 2003 and eight companies provided quotations. The successful tender, while not being the lowest received, resulted in the award of a contract in the sum of €85,000 inclusive of VAT to a company whose relationship with the Board is the main subject matter of Chapter 3 of this report. Ultimately, business with this company between July 2003 and August 2005 amounted to €11,715. This accounted for 64% of the total information technology expenditure of the Board during the period.

2.9 The CEO informed me that the Board relied on the findings of the review of internal control (PwC 1) of December 2004, which reported that in the period June 2003 to June 2004 approximately €600,000 had been spent in the area of IT. It had reported that the supplier for much of this equipment was correctly sourced through a tendering process but each project was not reviewed and approved by the CEO. On this basis, the CEO and the Board concluded in December 2004 that proper tendering procedures were being applied in relation to IT purchases.

2.10 He further informed me that breaches of the system of internal control were brought about by the behaviour of key staff who had acted outside their role and authority and one member who actively colluded with a supplier resulting in losses being sustained by the Board. This activity was discovered in August 2005 and swiftly brought to an end. He assured me that following implementation of the recommendations contained in a follow-up report on the review of internal control delivered in January 2006 (PwC 2), he was satisfied that appropriate tendering procedures are followed in relation to purchases.

Failure of Purchase Authorisation System

2.11 The review of internal control (PwC 1) noted that there were cases of breaches of controls and procedures in the area of segregation of functions³. It noted that the IT Manager prepared purchase orders, authorised these orders, signed off on delivery dockets and approved invoices for payment. The IT Manager also co-signed cheques in payment for the goods and services ordered by him. The review noted that these types of breaches in the system of internal financial control exposed the Board to the risk of fraud.

³ Segregation of functions is an approach applied in transaction processing that divides key aspects of processing between different staff members usually separating the responsibility for some or all of the functions of transaction initiation, execution, payment and recording.

2.12 The CEO stated that the commencement of the legislation had presented a challenge for NEWB in taking on the full range of service and corporate obligations. However, the organisational capacity to meet these obligations has grown incrementally over time. At this point, he is satisfied that the current controls and procedures, which include segregation of duties, are adequate.

Failure of Banking Controls

2.13 Deficiencies were noted in the operation of these controls. Staff of NEWB routinely signed cheques for amounts greater than those provided for under the system of internal control. The system of internal financial control provided for the CEO and the Director of Corporate Services to sign for amounts greater than €10,000.

2.14 My examination found that, in a sample of 30 cheques issued to the main supplier of IT equipment, seven cheques exceeding the €10,000 limit and ranging in value from €20,663 to €61,523 did not have the signature of the CEO. All seven cheques were co-signed by the IT Manager. One cheque processed through the bank was in breach of the bank mandate.

- 2.15** The CEO stated that the cause of the failure to adhere to cheque signing limits was because
- the requirements of the internal controls and procedures manual (Mazars 1) were not carried through and reflected in the bank mandate and
 - key personnel failed to adhere to the internal controls and procedures.

Observations of the CEO on Internal Control Procedures

2.16 In regard to the breaches in internal control the CEO informed me that he and the Board relied on key personnel to adhere to internal controls and to bring departures from these to their attention. This bond of trust was broken by key personnel. The failure was that key personnel did not adhere to the internal controls and procedures in operation. Based on the result of the 2004 review of internal control (PwC 1), he and the Board had concluded that controls were developing. The Board had no other oversight procedure in place.

2.17 In response to my inquiry on the action taken or proposed to address the financial control weaknesses, the CEO informed me that the findings of the review of internal control (PwC 1) had been implemented, with the exception of an asset register which is in the process of being developed.

2.18 The internal controls and procedures manual (Mazars 1) has been updated and is kept up-to-date on an ongoing basis. The manual included detailed procedures for the operation of payroll, the purchasing and payments system and the implementation of capital expenditure projects. The internal controls and procedures manual (Mazars 1) has been disseminated to all members of the executive and management (both Regional and Head Office) and placed on NEWB's intranet site. The detailed procedures have been discussed with all relevant members of the executive, management and staff. All members of the executive and management have signed an acknowledgement letter that they have read and understood the internal controls and procedures manual (Mazars 1) and the Department of Finance's guidelines on public sector procurement.

2.19 An Audit Committee was established in February 2006. The Audit Committee which has defined terms of reference reports directly to the Board. It consists of Board members and an external adviser. On the recommendation of the Audit Committee, the Board has appointed an independent internal audit service. A three-year work plan for the internal audit service provider is currently being agreed.

3 Information Technology Procurement

3.1 In mid-2005 the Board became concerned about the security of internal electronic communications. The Finance Manager noticed that an email issued by her on 15 June 2005 to the IT Manager and the CEO had disappeared from her email outbox despite the fact that she had not deleted it from her computer. The CEO on being advised of this by the Finance Manager found that the same email was not to be found in his email inbox either. As all emails addressed to the CEO are automatically transferred to his Personal Digital Assistant (PDA), the existence of the email in question was verified through the PDA.

3.2 The missing email from the Finance Manager referred, inter alia, to queries relating to payments made to a supplier, the nature of the business of the supplier and an outstanding query from my Office in relation to the authorisation and installation of computer equipment.

3.3 The Board took a number of steps. Firstly, it commissioned a forensic review of computer devices. The review found no conclusive evidence to explain how the email disappeared from the email accounts assigned to the Finance Manager and the CEO. It also extended the engagement of PwC who, at that time, were conducting a review of the implementation of controls, to investigate the purchase transactions of three IT suppliers and to quantify the loss, if any, suffered by NEWB in the purchase of IT equipment, goods and services. The Forensic Review of Computer Devices (E&Y 2) was presented in November 2005 and PwC reported in November 2006 (PwC 3). These reports found evidence which suggested that

- The Board's tendering process had been undermined
- There was collusion in determining the prices of goods and services
- Goods which were in excess of the needs of the Board were purchased
- Services invoiced to the Board could not be proven to have been delivered
- Unexplained payments had been made by a supplier to the Board's IT Manager.

Non-Compliance with Tendering Process

3.4 The Board purchased goods and services amounting to €11,715 in the period between June 2003 and August 2005 from a supplier of IT equipment. The outlay was expended on hardware (€40,263), maintenance and software (€18,183) and consumables (€3,269). The only tendering process during this period for the supply of IT equipment was conducted in 2003.

3.5 Overall, between June 2003 and August 2005 NEWB conducted business with 17 IT suppliers. However, the business with the IT supplier in question from June 2003 to August 2005 represented 64% of its total IT expenditure during this period. Once the supplier was installed for an initial set of purchases no further tendering took place for the type of IT equipment and services that are within the supply range of this supplier. Even in instances where a number of quotations were received, most appear to have emanated from the same supplier. There appeared to be agreement between the Board's IT Manager and the supplier in arranging this. This became evident from a review of retrieved electronic communications that passed between the IT Manager and the supplier.

Examples of the emails from the IT Manager to the supplier

Date	Electronic Communication
5 June 2003	‘Will you get all post sent to me marked Private and Confidential’ ^a
16 October 2003	‘Can you get me quotes for these as well – higher than yours!’ ‘Two of these (actual spec to have 2 processors – include 2 extra processors in each in price as HJ). Can you invoice for each server separately (4 separate invoices)’
29 June 2005	‘Like the new system quote – one suggestion – might be good to include logo as it will look more official then.’
15 July 2005	‘Can you send me 3 separate quotes for each item – thanks.’

Note:

- a This email was sent within eight working days of the appointment of the IT Manager and one month before the commencement of the only tendering process entered into by the Board.

Apparent Collusion in Determining Prices

3.6 In the IT business volume users usually negotiate substantial discounts from list prices. A report by PwC delivered to the Board in November 2006 (PwC 3) stated that in most cases NEWB paid list prices for items and do not appear to have received a discount on list price. The emails show that the IT Manager appeared to be influencing the price at which quotes were to be submitted. In addition, the IT Manager appeared to have colluded with the supplier in determining the ultimate price to be charged to the Board.

Examples of emails from the IT Manager to the supplier relating to price

Date	Electronic Communication
28 October 2003	‘Can you add 500 to each of Laptops as HJ.’
6 June 2003	‘Hope the following will make sense – <ol style="list-style-type: none"> 1. Can you get a 4600N with 3 independent quotes and the final price at 3295 (hj 1000) 2. HP1300n*2 with 3 quotes at quoted price of 479 3. One scanner with 3 quotes at price of 335 4. ML370 5 disks 2 processor + smart controller + UPS 1500 (3 quotes) at price plus hj of 1500 5. ML370 with 3 disks with controller – no ups – at price plus hj of 1500 (3 quotes here also).’

3.7 On the basis of their review of a series of emails regarding the invoicing of maintenance cover Ernst and Young’s Forensic Review of Computer Devices Report (E&Y 2) concluded that the Board was to be charged for seven day around the clock cover while the supplier company would only purchase cover for Monday to Friday service. The remainder of the cost was referred to as “HJ”, a term the forensic review (E&Y 2) took to refer to additional sums added to the purchase price of goods and services.

3.8 The forensic review (E&Y 2) also refers to an email of 7 December 2004 in connection with the purchase of a Storage Area Network where the IT Manager wrote “I assume we can get better prices than list prices but can still use these list prices as indicative and include your cut and a HJ”. The forensic review (E&Y 2) took this to indicate that the parties would obtain reduced prices for equipment while passing on the full list price to NEWB and retaining the difference.

Purchasing Goods which were in Excess of Needs

3.9 In December 2004, the Board was invoiced for, and paid, €198,420 in respect of the purchase of a server and peripherals which had not been the subject of a tender process. The invoice included €15,125 for installation. The purchase was authorised by the Board, approved by the CEO and the invoice was paid on 10 February 2005. Up to November 2006 the equipment had not been installed as it was deemed to be greatly in excess of any short, medium or long-term requirement of the Board. In an effort to recoup the expenditure incurred, the Board approached the equipment manufacturer in 2006 with a view to having the manufacturer take back the goods. The manufacturer offered between €20,000 and €25,000 for the goods. Rather than take such a large loss on the equipment the Board is now using the server for system testing and development purposes. In effect, the Board has written off the equipment and this is reflected in the exclusion of the item from the assets of the Board for financial reporting purposes.

Services not Proven to have been Provided

3.10 No evidence has been found to show that computer support services purported to have been provided by the supplier were actually received by the Board. The Board has no evidence to show that any persons engaging in the provision of support services had entered the Board’s premises for the purpose of providing these services. The supplier submitted invoices for services purportedly supplied to the Board. These were certified by the IT Manager and processed for payment. On the basis of information provided by the supplier it appears that the IT Manager would then invoice the supplier for the same service, purportedly supplied by him to the Board on their behalf. In some instances, the amounts charged by the IT Manager to the IT supplier appeared to be similar to the amounts the IT supplier charged to NEWB. Initially, his invoices were issued without a charge for VAT but later invoices included VAT, although a VAT number was not quoted on his invoices.

Payments by Supplier to IT Manager

3.11 Following enquiries made of the supplier in May 2006 after the discovery of the apparent irregularities, the supplier provided a list of cheques totalling €136,405 which it claimed it had paid to the IT Manager in respect of personal invoices for services rendered by him to the Board. However, the first of these payments predated the commencement of the IT Manager’s employment with NEWB and no significant purchases were made before the payment of the second cheque. As a result, it is unlikely that the entire €136,405 pertained to transactions related to the Board. Prior to his appointment with the Board the IT Manager had been employed with another State agency⁴ that also used the services of the supplier. The relationship between that State agency and the supplier ceased around the same time as the IT Manager departed from the State agency.

⁴ The Citizens Information Board (formerly known as Comhairle).

Extent of Supply of Goods and Services

3.12 There is a risk that the Board did not receive all of the goods and services paid for. In the case of maintenance and software on which €218,183 was expended, NEWB did not keep a record of services provided and there is therefore no way to prove or disprove if services were provided. In the case of consumables costing €53,269, there were no delivery dockets in relation to the major portion of these items, and as consumables, they are no longer physically verifiable.

3.13 The Board has taken steps to verify the receipt of hardware for which it paid €640,263. This proved difficult due to deficiencies in the information included on invoices, particularly in the area of serial numbers. While a fixed asset register exists the lack of serial numbers limits the Board's capacity to associate the recorded assets with the purchases. It has, however, carried out a physical inventory which was matched to invoices at a high level. On this basis the CEO has assured me that hardware to the general specification of that invoiced has been received.

Extent of Losses

3.14 PwC concluded that it was not possible to assign an accurate value to the extent of the losses incurred by the Board. However, in its report entitled the Detailed Review of Purchase Transactions with Three Specified Suppliers (PwC 3), PwC advised the Board in November 2006 that the estimated loss could be as high as €271,452. This does not take account of the expenditure incurred by the Board through the purchase of hardware in excess of the Board's requirements including the server costing €98,420. Professional fees incurred to date in dealing with this matter have amounted to €228,529. Losses also arise through the time cost of Board staff engaged in the investigation, follow-up and reporting on the matter. These have not been quantified.

Views of the CEO

3.15 The CEO informed me that the procurement of IT equipment is now subject to formal cost benefit analysis. The current policy for the procurement of all capital assets including IT equipment is outlined in an internal controls and procedures manual. However, there have been no major IT equipment purchases since August 2005.

4 Views of the Board and the Department

4.1 As a result of the breaches of internal control and the exploitation of the system, I sought the views of the CEO on the steps taken to ensure that the business of the Board was conducted in a safe and regular fashion.

4.2 The CEO informed me that following the commencement of the Act there was pressure on the Board to respond immediately in a number of areas. The Board prioritised its affairs and addressed

- securing the necessary approvals for staffing and expenditures from the Department
- securing appropriate office accommodation for head office and for the former school attendance officers
- planning for the development of the new service on the basis of resources provided, the nature of service, areas of coverage, locations.
- management and educational welfare staff recruitment, training, development and support.
- the management of its budget, authorisation of its payments and governance
- the improvement of the level and quality of governance, financial controls and reporting
- steps to discharge its governance functions through the development of internal financial control procedures.
- arranging for regular independent reviews of its financial and governance functions to be undertaken.
- negotiation with the former school attendance officers and management of the transition including payroll matters
- management of litigation against the Board
- intervention in the most urgent child absence cases
- information to all schools about the new legislation and its impact on schools
- advising the Department on the implementation of the legislation

4.3 He assured me that the weaknesses in the system of internal control identified in the review of internal control (PwC 1) have been addressed by the introduction of updated control procedures and improved reporting to the Board and, arising from the various investigations and reports, there is now a robust system of internal check and governance in place at all levels of the organisation. These systems are regularly reviewed.

4.4 At the point where the Board took over responsibility for the making of payments (2003), consultants were engaged to establish and document the financial control procedures required and to provide a payroll and payments service for the Board. The operation of these procedures was reviewed in 2004 and again in 2005.

4.5 In addition, an independent evaluation of the functioning of the Board was carried out by the Institute of Public Administration in 2006 and its recommendations are being implemented. These addressed all aspects of the Board's governance and how it is discharging its accountability and stewardship functions. Considerable progress has been made in implementing corporate governance improvements as follows

- a code of conduct for members is in place
- the reserved functions of the Board have been defined

- standing orders for the Board have been developed
- a risk register is in the process of being developed
- an audit committee is now in place and a provider of internal audit services has been appointed
- there is compliance with Ethics in Public Office requirements.

4.6 Finance is a separate item on the agenda for each Board meeting and a list of payments and purchases is approved at each meeting in accordance with the Board's procedures. Management accounts are presented to each meeting.

4.7 Other governance measures in standard use by the Board include

- strategic planning
- monitoring of the annual work plan throughout the year
- structured and comprehensive reporting to the Board by the CEO on all aspects of the work of the Board at each Board meeting, with the report discussed and adopted by the Board
- performance management for all staff.

Response of the Board to Internal Control Breaches

4.8 In regard to matters reported in Chapter 3, the CEO informed me that following the detection of a breach of the Board's electronic mail security policy in June 2005, two independent investigations were commissioned – a review of internal control (PwC 2) and a forensic review of computer devices (E&Y 2). The matter was also brought to the attention of my Office.

4.9 Having examined emails sent and received by staff of NEWB since May 2003, the forensic review (E&Y 2) concluded that there was an inappropriate business relationship between the IT Manager and a supplier of IT goods and services, arising from which the Board suffered a loss.

4.10 As a result of the investigations and other enquiries carried out by the Board, some of which were constrained by the absence of co-operation from the main parties involved, the Board made the following findings

- It was unable to confirm if it received full value for payments amounting to €271,452 for intangible IT services.
- In regard to hardware purchased from the supplier which amounted to €640,263, it was possible to reconcile all hardware items purchased, albeit at a high level only.
- In most cases, NEWB paid list prices for items and do not appear to have received any discounts. It has not been possible to quantify the value of the discounts which might have been available.
- No evidence was found of an inappropriate relationship between the IT Manager and any other supplier.
- No evidence of the involvement of other employees in the inappropriate business relationship was discovered.

4.11 The IT Manager was suspended on full pay in August 2005 and all appropriate enquiries and specialist investigations were carried out expeditiously. The IT Manager resigned in March 2006, following a period of illness which commenced shortly after his suspension.

4.12 Following the initial results of the investigations, no further purchases have been made from the supplier in question. The matter has been referred to An Garda Síochána.

4.13 The findings and recommendations of the financial control and IT forensic reviews have been considered and are being comprehensively addressed.

4.14 Overall, the CEO concluded that the Board sustained a loss because key staff ignored procedures and engaged in arrangements designed to cause a loss to the Board. The CEO further informed me that the merit payment of €19,230, paid irregularly to the IT manager in March 2004 should also be added to the losses incurred by the Board arising from the inappropriate relationship that existed between the IT Manager and the supplier. The Board is seeking to recover all losses sustained through legal proceedings.

Views of the Accounting Officer of the Department

4.15 I explored with the Accounting Officer of the Department whether the vulnerability of new State-sponsored bodies in their start up phase could be addressed by enhanced transitional and ongoing monitoring. The possible shape of such monitoring is set out in Appendix B.

4.16 The Accounting Officer agreed that it might be useful to consider whether the experience of Departments and agencies could be drawn upon by bodies in their establishment phase. She stated that she appreciated that the Department has a role in its ongoing engagement with bodies under its aegis, particularly to those in the establishment phase, to discuss issues and systems, including financial systems. However, the transition arrangements suggested in Appendix B appeared to be recommending a more detailed involvement in the internal operation of a State body than she would consider appropriate given the responsibilities, including statutory responsibilities, of a Board and Chief Executive. She also felt that while my report highlighted a number of significant weaknesses in the corporate and financial governance arrangements in NEWB during the period under report, it is unclear that the transitional arrangements would have addressed those weaknesses. Many of the issues and events relate to the activities of one individual who allegedly took very significant steps to cover his tracks and hide any evidence of his activities.

4.17 The establishment process of the Board was guided closely by a Principal Officer within the Department. To assist with the development of its functions and progress the development of the educational welfare service, the Department seconded an experienced Principal Officer as interim Chief Executive Officer in August 2002 for the first year of the Board's existence. He was then appointed as Chief Executive Officer in October 2003 and currently holds that position. During this period regular progress meetings were held between the Board and the Department. The meetings involved discussion on all matters for which the Board had responsibility. The Department drew the Board's attention to various guidelines as appropriate, including public financial procedures, and arranged a presentation to the Board in June 2002 from the Department of Finance outlining responsibilities under that Department's Code of Practice for the Governance of State Bodies.

4.18 Throughout the initial stages of its development, the Board took steps to put corporate and financial procedures in place. Notwithstanding the steps taken by the Board, the events which are now the subject of my report remained undetected for some time.

4.19 Overall, she emphasised that the problems in relation to procedures seemed to relate to the day-to-day operations of the Board and non-compliance with documented procedures which are the responsibility of the CEO and the Board, rather than those to be addressed by actions appropriate to a parent Department through a monitoring system or otherwise.

Appendices

Appendix A Chronology of Events

Date	Event
July 2000	Education (Welfare) Act 2000 signed into law
June 2001	Board established on an administrative basis
September 2001	Consultant engaged to advise on staffing and organisational structures
March 2002	Board becomes a statutory body First Chief Executive Officer appointed
April 2002	Rochford Planning Report adopted by Board and submitted to Department of Finance First CEO fails to take up duty.
July 2002	All sections of the Act are commenced 37 school attendance officers previously employed by four local authorities become staff of the Board
August 2002	Interim Chief Executive Officer takes up duty Work begins on detailed planning of service and recruitment of staff Approval received for ten HQ staff including CEO and two Directors Negotiations commence with former school attendance officers on terms and conditions of employment
February 2003	Director of Corporate Services takes up duty
March 2003	Programme of Work for 2003 adopted by Board and submitted to Minister for Education and Science Outline agreement is reached with former attendance officers Information letter issues to all schools about new Act
April 2003	Director of Educational Welfare Services takes up duty Finance Manager declines position on basis of salary
May 2003	IT Manager takes up duty Board decides to engage Mazars to draw up a Procedures Manual; to establish and document the control procedures required for the financial management and control of the NEWB Meeting with DES concerning IT support requirements for legislation
June 2003	Human Resources Manager takes up duty Board requests briefing on IT Strategy and organisation's IT needs
July 2003	IT Manager makes a presentation on the IT strategy and on how IT can assist the Board in its work. It was agreed that the Board would return to the strategy at a future meeting Recruitment of 36 new educational welfare staff gets underway Board approves Bank and cheque signatories (CEO, two Directors, HR and IT Managers) Mazars draws up Procedures Manual

August 2003	<p>Advisory Group representing Education Partners established</p> <p>Three other administrative posts are filled between August 2003 and January 2004</p>
September 2003	<p>Department guidelines on education outside of recognised schools published</p> <p>Training begins for education assessors</p>
October 2003	CEO appointed following public competition
December 2003	<p>Service is launched by Minister of Education and Science to serve 18 locations with a total staff of 84 - 73 of which are service delivery</p> <p>Decentralisation of HQ team to Portarlinton is announced</p>
January 2004	<p>Finance Manager takes up duty</p> <p>Director of Corporate Services becomes ill</p>
March 2004	<p>Workplan for year adopted by Board</p> <p>Information leaflet sent to all homes with children of school going age</p> <p>National Lo Call Helpline for parents launched</p>
May 2004	First national survey of school attendance is launched
June 2004	<p>PwC consultants engaged to perform a review of the internal controls established by the NEWB and financial accounting system currently in operation. The purpose of the review was to establish if the policies, procedures and controls in place are adequate to comply with best practice and whether they are being followed as specified in the Procedures Manual and to recommend any improvements</p> <p>Letter issued by CEO to Director of Corporate Services querying the authorising of overtime and two merit pay awards</p>
September 2004	Board establishes a committee to investigate a number of matters concerning the actions of the Director of Corporate Services including the authorisation of overtime and two merit pay awards, one of which was paid
November 2004	<p>PwC present findings of its Internal Control Review and Recommendations to the Board and these are accepted. Report concluded that there were significant control weaknesses in payroll, purchasing and accounting procedures. In relation to much of the €600,000 IT investment, it concluded that the supplier was correctly sourced through a tendering process but each project was not reviewed and approved by the CEO</p> <p>Approval received for ten additional service staff</p>
January 2005	<p>Guidance issued to all schools about the reporting of student absences and new website launched</p> <p>The Board receives an update on the implementation of the IT strategy, specifically in relation to reporting school absences</p> <p>The Committee findings on unauthorised payments are accepted by the Board. It concluded that correct procedures were not followed</p>
February 2005	Director of Corporate Services resigns having been absent since April 2004

March 2005	E&Y Security Audit completed
May 2005	Three-Year Strategic Plan launched
June 2005	<p>Email from Finance Manager to IT Manager and CEO disappears from the Finance Managers email outbox despite the fact that the Finance Manager had not deleted it.</p> <p>PwC engaged to carry out an Update of Internal Control Review and Recommendations, 2004</p> <p>IT Manager asked by CEO to explain missing email</p> <p>Missing email is brought to the attention of C&AG staff</p> <p>Finance Manager resigns to take up new post and replacement appointed on contract</p>
July 2005	Ernst & Young IT forensic team commissioned by CEO to investigate missing email
August 2005	<p>E&Y report that it has discovered evidence of an inappropriate business relationship between the IT Manager and a supplier</p> <p>Terms of Reference of PwC finance investigation extended to quantify implications of E&Y discovery</p> <p>IT Manager suspended and a Board committee established to investigate disciplinary aspects</p> <p>New Director of Corporate Services takes up duty</p>
September 2005	<p>IT Manager becomes ill and unable to co-operate with Board investigations</p> <p>Corporate Governance Committee established to draw up and plan a code of corporate governance for the Board</p>
November 2005	<p>E&Y Forensic Review of Computer Devices Report is presented which highlights the existence of an inappropriate business relationship</p> <p>NEWB refers IT Manager for independent medical assessment due to his inability to attend scheduled meetings</p>
January 2006	PWC present Update of Internal Control Review and Recommendations Letter requesting repayment of all monies including merit payment sent to IT Manager
February 2006	Audit Committee established
March 2006	<p>IT Manager resigns</p> <p>NEWB refuses settlement offer by IT Manager</p> <p>NEWB meets with manufacturer of IT equipment</p>
April 2006	NEWB contacts IT supplier
May 2006	IT Supplier offers co-operation with enquiries and gives information about payments totalling €136,405 made directly to the IT Manager on foot of invoices submitted. The first of these payments, €5,000 was made before the IT Manager became an employee of the Board and a similar payment was made shortly after. The Garda Bureau of Fraud Investigation advised of issue under Section 59 of the Criminal Justice (Theft and Fraud Offences) Act, 2001

August 2006	NEWB inform Garda Bureau of Fraud Investigation that the internal investigation is ongoing
September 2006	IT supplier co-operation ceases Letter of demand, outlining NEWB claim, issued to IT Supplier
October 2006	Formal complaint made to An Garda Síochána
November 2006	PwC report on its investigations into Detailed Review of Purchase Transactions with Three Specified Suppliers is concluded and report is presented. The investigation concluded that there was an inappropriate business relationship between the IT Manager and the supplier, arising from which, the report suggested that the Board suffered a loss estimated to be in the range €136,405 and €271,452. The investigations were unable to establish how the relationship between the manager and the company operated The Audit Committee considered the outcome of the two special investigations and decided that the findings and recommendations would be incorporated into the work of the Internal Audit function No evidence was found suggesting the behaviour extended to other suppliers or staff of the Board NEWB meeting with Garda Bureau of Fraud Investigation
March 2007	Legal proceedings seeking recovery of amounts lost commenced against IT supplier and former IT Manager The Audit Committee reviews progress in the implementation of the findings of the internal control review reports
April 2007	Additional resources are approved by the Department for the finance and corporate services area. Finance Manager post is upgraded

Appendix B Transition and Ongoing Monitoring

When organisations are initially set up, there are special risks arising from the fact that they have not yet established a formal pattern of governance and management. In this vacuum, there are increased risks to probity and regularity.

Transition Monitoring

The establishment of new State-sponsored bodies often involves the assumption by a new organisation of functions previously administered within a government Department. Within the Department there is usually a well bedded-in system of internal control and management. That situation did not, however, pertain in the case of NEWB. The Department has pointed out that operational functions and responsibilities devolved to the Board on its establishment were not directly provided by the Department prior to the establishment of the Board. No internal expertise on the operation of the service existed within the Department.

Nonetheless, a new organisation faces challenges having to take direct charge of functions such as finance, personnel and procurement. It is acknowledged that because many bodies are small, they may lack the resources to establish a comprehensive system of internal control. In such circumstances, the key risks should be identified, mitigating or contingency actions outlined and residual risks being borne by the body transparently signalled.

The first two years are a crucial period in this transition. While recognising the independent corporate status of State-sponsored bodies, there may be merit in examining whether there can be enhanced central guidance on making this transition and on whether there is a role for the supervising Department in monitoring the transition.

Central Guidance

A transition plan to guide a new organisation should cover the arrangements for authorisation of transactions, the procurement of goods and services, internal reporting and review as well as the establishment of quality assurance.

Monitoring by Supervising Department

Using the transition plan as a guide, the supervising Department should, at least quarterly in the first year of operation, monitor progress in implementing the plan. The transition should be treated as a project with its own Project Manager and using a project management methodology. The transition plan should establish a framework which extends to

- The relationship between the agency and the Accounting Officer of the supervising Department
- The financial regime of the agency
- The machinery for accounting, monitoring and internal reporting as well as reporting to the supervising Department
- Account production and internal financial reporting arrangements
- The strategic and corporate planning framework
- The arrangements for recruitment, pay and personnel management
- The arrangements for initial procurement of assets

- The arrangements for risk management and internal control
- The establishment of arrangements sufficient to allow the CEO to sign the Annual Statement on Internal Financial Control.

In establishing the framework the supervising Department should seek to influence the adoption of arrangements which are

- Proportionate to the size and functions of the body
- Cost-justified on the basis of risk
- In line with governing legislation.

Ongoing Monitoring

Public Financial Procedures provide that supervising Departments should evaluate a State body's 'budgets and plans (including corporate plans) as well as monitoring their performance in meeting objectives and targets (including financial targets) and, where appropriate, returns on the State's investment set by legislation or by Ministers. Such tasks require proper information (including financial reporting) systems. It is essential, therefore, that a clear framework exists (whether administratively or legislatively or both) within which proper control and accountability mechanisms are working to ensure that public funds are used effectively, that they are accounted for properly and that reporting to the responsible Ministers and to the Oireachtas is timely, accurate, relevant and comprehensive.'