

Teagasc - 2003

Supplement to Audit Report

Governance Shortcomings

In the course of the 2003 audit of Teagasc the following matters came to my attention, during a review of internal audit reports, which gave rise to concern about the governance of the Authority. I raised these matters with the Director of the Authority and his responses have been incorporated in this supplement.

1. False Travel and Subsistence Claims

In June 2001, the Authority received an anonymous letter stating that certain staff at a Teagasc Research Centre were receiving “additional free mileage and subsistence payments”. This letter was referred to the Director of the Centre who replied to the Director of the Authority the same month to the effect that he was satisfied that all was in order in respect of expense claims at the Centre.

In July 2002 the Administrative Officer at the Centre fortuitously became aware of information that suggested that certain travel claims made by a staff member were not bona fide. He challenged the staff member who accepted that the claims were false and promised that there would be no recurrence. The staff member’s Head of Department was informed. He met the staff member and concluded that the false claims did not go back over a long period and that the amount at issue was small. On this basis he decided that no further action was warranted and he did not report the matter to the Director of the Centre.

Another anonymous letter alleging failure to deal with false expense claims by an unnamed staff member at the Centre was received by the Director of the Authority in May 2003. This resulted in the Internal Auditor being asked to carry out an investigation into the allegations.

The Internal Audit investigation revealed that a staff member had been submitting spurious claims, apparently since 1988. The claims fell into two categories

- claims for journeys which had not been undertaken
- inflated claims relating to the daily collection of material by the staff member on his way to work. Such claims ought to have been limited to the cost of additional travel occasioned by the need to collect material over and above the normal travel from home to work. They were not so limited. Instead, the claims were calculated on the basis of a notional return trip from the Centre to the collection point. This resulted in an overclaim, on a weekly basis, in respect of 112 miles.

All the claims had been duly certified by the then Head of Department. The amount calculated as having been paid in respect of claims for journeys not undertaken was €77,636 while no amount was attributed to the inflated claims.

Disciplinary action has been taken against the officer concerned by demoting him within his grading structure and by requiring him to repay the amount claimed for journeys not undertaken plus interest of €52,420 giving a total of €130,056.

In October 2003, the Director of Teagasc instructed Head Office staff to investigate the roles played by the Administrative Officer and the Head of Department at the Centre in relation to the false claims. This investigation took place in May 2004. Subsequently the Director recommended that the Administrative Officer and the Head of the Department be subjected to disciplinary action. Both the Administrative Officer and the Head of Department are contesting the disciplinary action.

I was concerned that there had been a serious failure in governance in this instance in that

- an effective system of monitoring, controlling and authorising travel and subsistence expenditure had not been maintained
- managers certifying claims seemed in many instances to have had little knowledge of claimants' travel requirements and so were not in a position to approve such claims in good faith
- the control environment was deficient in that management did not react promptly and appropriately to the original indication of a possible fraud
- management did not deal appropriately with the discovery of the fraud in 2002.

I asked the Director of the Authority:

1. how the control environment at the Centre failed, over a period of almost sixteen years, to detect travel claims for journeys not undertaken.
2. whether Teagasc has written procedures for dealing with the discovery of frauds and irregularities and whether these were followed.
3. whether the anonymous letters were brought to the attention of the Internal Auditor and the Audit Committee promptly, and if so, with what result.
4. why no recovery had been required in respect of the inflated claims.
5. what further action is proposed in terms of
 - strengthening the Authority's reporting of, and reaction to, control failures.
 - ensuring that managers are clear as to their responsibilities in relation to dealing with cases of fraud or suspected fraud.

Director's Response

The Director informed me that the failure in the control environment was attributable to a culture of unwarranted trust in the integrity of some staff by certain key members of management at the Centre. The focus of management was on operations with inadequate attention to financial controls.

The Director stated that Teagasc does not have written procedures for dealing with the discovery of fraud and hitherto relied on local management to initiate appropriate action where fraud was discovered or suspected. In the incident of July 2002, the normal expected procedures were not followed.

The Director informed me that the first anonymous letter was not brought to the attention of Internal Audit in 2001 but was dealt with by the Director through the Personnel Department and the Centre management. The second anonymous letter of May 2003 was promptly brought to the attention of the Internal Auditor who initiated an immediate investigation and issued a preliminary report to management on 8 July 2003. The Audit Committee was informed at the subsequent meeting in October 2003 that the investigation was ongoing and in November 2003 the Internal Auditor issued a report quantifying the false claims. The Audit Committee discussed the issue at the May 2004 meeting and the Director and Director of Administration set out the disciplinary procedures that were being instituted against the officer and two members of management at the Centre.

In relation to the decision not to pursue recovery of overpaid amounts in the case of inflated claims, the Director stated that both the staff member and the Head of Department had acted in the mistaken belief that they were in compliance with the regulation in regard to the amounts claimed. In the circumstances of managerial agreement, it was considered that it would not be possible to pursue the matter.

In relation to further action proposed, the Director stated that

- During the course of the investigation at the Centre, an audit had been carried out of other officers' claims. Head Office had also requested the Head of Centre to carry out a review of all travel claims at the Centre. This review did not detect any further false claims at the Centre. All internal audit assignments include a comprehensive examination of travel and subsistence claims. The audit plan for 2004, approved by the Audit Committee in February 2004, includes provision for a specific audit of travel and subsistence expenditure.
- Control failures identified in the normal course of the Internal Auditor's work are initially reported to local management who are afforded the opportunity to respond to the points raised on audit before publication of the Internal Audit report and its subsequent distribution to the Audit Committee. The Internal Auditor carries out follow up work after a period of 6 months to ensure that identified weaknesses in the system of control have been acted upon. Teagasc considers this process to be effective.
- Procedures to deal with control failures identified outside of the Internal Audit process will be strengthened.
- Written procedures for dealing with fraud and irregularities will be promulgated and enforced vigorously.

2. Employee conflict of interest

An Authority research centre had outsourced work associated with computerised on-farm data capture, recording, validation and reporting since 1995. The service provider was, until 1999, a partnership in which an employee of the Centre had an interest amounting to at least 50%. From 1999 the service provider was a company in which the employee is a 50% shareholder. The contract for this work was awarded without a tender. An Internal Audit report notes that:

- the employee agreed that he did not declare his interest in the company to the Director of Teagasc but asserts that the Director of Operations and the Head of Centre were aware of his connection with the company/partnership and this has not been denied.
- the employee requisitioned services from and certified payments to the company in 2003.
- the employee carried out quality control work on behalf of the company and was involved in the data analysis.

The amount paid to the company since 1999 was €233,610. The amount paid between 1995 and 1999 was €102,605.

With effect from 30 June 2004, Teagasc has discontinued using the services of this company and it is expected that alternative arrangements will be made. There was no evidence that any disciplinary action had been taken or considered in relation to this matter.

I was concerned that these arrangements appeared

- to represent a breach of the employee's conditions of employment which require that he devote his time fully to his duties as an employee and not to engage in outside employment or business.
- to be incompatible with the Code of Practice for the Governance of State Bodies which requires State Bodies to adopt a code of conduct which, inter alia, will prevent employees being involved in outside employment/business interests in conflict or potential conflict with the business of the body.

I asked the Director of the Authority:

1. Why local management:

- allowed the employee to requisition services from the company and certify payments to it.
- did not seek quotations or engage in a competitive tendering process in relation to the services.
- did not advise the Authority of the conflict of interest arising from the employee's engagement by Teagasc and his connection with the company.

2. What steps the Authority has taken to implement a Code of Business Conduct as required by the Code of Practice.

3. What action has been taken to identify other possible conflicts and to deal with them.

Director's response

In relation to the actions of local management the Director stated that:

- requisitions raised by an individual have no status in Teagasc unless authorised by the Head of Department or Head of Centre. Following the authorisation of a requisition the purchase order is raised. Payments cannot be certified unless the above procedure is followed in relation to procurement of service. In this case the employee had certified some of the payments because of the nature of the service provided. This should not have been allowed to happen in a situation where management was aware of the involvement of the employee in the provision of the service.
- A quotation was sought initially and a detailed description of the service to be provided was given by the employee's business. Local management at that time considered it to be good value for money. The cost of this service did not go up in line with inflation over the years. It proved very difficult to contemplate involvement in a more broad ranging competitive process because of the very specialised and local nature of the service provided. The service provider was required to have very specialised knowledge of research animal recording systems and needed to use very specialised computer software.
- Management embarked on a number of initiatives to eliminate dependence on the above approach to the capture and validation of farm records. It was not until a system that facilitated the recording and transfer of data over telephone lines to the central database was developed that Teagasc was in a position to discontinue using the services of the employee's business. The services were no longer required as of July 2004.
- The Director of Operations who was initially responsible for this work has retired from Teagasc. There is no record of him advising the then Director or Authority of the conflict of interest between the employee's engagement by Teagasc and his connection with this business. Subsequent managers assumed that this issue had been dealt with in the past and they focussed on removing the dependence of Teagasc for this type of service.

The Director indicated that the Authority plans to prepare and implement a Code of Business Conduct in 2004. He also informed me that a disciplinary process in relation to the staff member concerned, the Head of Centre and the Director of Operations has been initiated.

As regards identifying and dealing with other possible conflicts of interest, the Director stated that in compliance with the Ethics in Public Office Acts 1995 and 2001 specified officers are required each year to furnish a declaration (Statement of Interest) of any interests which could be interpreted to be in conflict with the interests of Teagasc.

All employees on commencement of their assignment with Teagasc are asked to sign a contract of employment. Each contract of employment contains an exclusivity clause in which it is made clear that the officer should not engage in any employment or business

other than their employment with Teagasc.

The Teagasc Purchasing and Building Works Regulations (May 2003) cover ethical considerations in dealing with suppliers. Staff who have any connection with actual or potential suppliers to the Teagasc programme are required to declare their interest to the Director and to the Director of Operations concerned and to ensure that they do not influence in any way the placing of Teagasc business with such suppliers.

Internal Audit investigations seek to uncover any potential conflict of interest situations which may exist.

A handwritten signature in black ink, appearing to read 'John Purcell', with a large loop at the start and a long horizontal stroke extending to the right.

John Purcell

Comptroller and Auditor General

21 September 2004