

CITY OF CORK VOCATIONAL EDUCATION COMMITTEE

Report of the Comptroller and Auditor General for presentation to the Houses of the Oireachtas

I have audited the accounts of City of Cork Vocational Education Committee for the year ended 31 December 2009 under Section 7 of the Comptroller and Auditor General (Amendment) Act 1993.

The accounts, which have been prepared under the accounting policies set out therein, comprise the Treasurer Bank Account, the Ordinary Account Receipts, the Ordinary Account Payments, the Analysis of Capital Account, the Statement of Cash Assets and Liabilities, and the related notes and schedules.

Respective Responsibilities of the Chief Executive Officer, the Committee and the Comptroller and Auditor General

The Chief Executive Officer is responsible for preparing the accounts in accordance with the Vocational Education Act 1930 and the directions of the Minister for Education and Skills. The accounts are prepared in accordance with accounting policies laid down by the Minister for Education and Skills. The Committee is responsible for ensuring the regularity of transactions.

My responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I certify my opinion as to whether the accounts properly present the income and expenditure of the Committee for the year, whether the statement of balances properly presents the state of affairs of the Committee at year-end and whether the accounts are in accordance with the accounting policies laid down by the Minister for Education and Skills. I also report whether in my opinion proper books of account have been kept. In addition, I state whether the accounts are in agreement with the books of account.

I report any material instance where moneys have not been applied for the purposes intended or where the transactions do not conform to the authorities governing them.

I also report if I have not obtained all the information and explanations necessary for the purposes of my audit.

I review whether the Statement on Internal Financial Control reflects the Committee's compliance with the Code of Practice for the Governance of Vocational Education Committees and report any material instance where it does not do so, or if the statement is misleading or inconsistent with other information of which I am aware from my audit of the accounts. I am not required to consider whether the Statement on Internal Financial Control covers all financial risks and controls, or to form an opinion on the effectiveness of the risk and control procedures.

Basis of Audit Opinion

In the exercise of my function as Comptroller and Auditor General, I conducted my audit of the accounts in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board and by reference to the special considerations which attach to State bodies in relation to their management and operation. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures and regularity of the financial transactions included in the accounts. It also includes an assessment of the significant estimates and judgments made in the preparation of the accounts, and of whether the accounting policies are appropriate to the Committee's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations that I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the accounts.

Opinion

In my opinion

- the accounts properly present the income and expenditure of the Committee for 2009;
- the statement of balances properly presents the state of affairs of the Committee at 31 December 2009;
- the accounts are in accordance with the accounting policies laid down by the Minister for Education and Skills.

In my opinion, proper books of account have been kept by the Committee. The accounts are in agreement with the books of account.

Attention is drawn to the attached report prepared by me pursuant to Section 7(4) of the Comptroller and Auditor General (Amendment) Act 1993 following the audit of the accounts of the Committee for the year ended 31 December 2009.



John Buckley

Comptroller and Auditor General

25 August 2011

CITY OF CORK VOCATIONAL EDUCATION COMMITTEE

Report under Section 7(4) of the Comptroller and Auditor General (Amendment) Act 1993

Funding Overclaims and Procurement Matters

Investigation by the City of Cork VEC (CCVEC) found that one Further Education College¹ administered by the Committee had incorrectly reported its student numbers in the annual return to the Department of Education and Skills for the years 2004/2005 to 2008/2009. This had implications for the amount of grant income due to the Committee because the allocation of staffing and financial resources was based on the return. In addition, an internal audit review drew attention to failure by the same college to apply appropriate procurement procedures in the acquisition of ICT equipment.

Focus of the Report

The report outlines the circumstances that gave rise to

- over funding of CCVEC due to overstatement of student numbers
- failure to conduct certain ICT procurement procedures in an open and competitive manner.

College Returns and Fund Allocation

All VEC colleges are required to submit annual returns to the Department of Education and Skills setting out the numbers of pupils enrolled and under regular instruction on 30 September. The returns are submitted by colleges² in October each year (October Returns). Only pupils enrolled up to and including 30 September and who have not left college should be included. Pupils enrolled afterwards are classified as late entrants and are required to be reported on a separate form which is also forwarded to the Department.

Information provided in the October Returns is used by the Department to determine

- per capita grants to colleges
- provisional teacher allocations
- payments in respect of European Social Fund - aided programmes³.

As part of the CCVEC investigation, the October Returns were compared with the student roll books and it was found that the numbers of students attending the school was inconsistent with the numbers reported to the Department.

The investigation in the college focused on the October Returns submitted for academic years 2004/2005 to 2007/2008. No copy of the October returns data for 2005/2006 could be located.

¹ Further Education Colleges provide a range of courses under the Post Leaving Certificate/Vocational Preparation and Training Programmes for students who are progressing from the post-primary sector as well as for mature learners returning to education after a significant period of time.

² Colleges submit the October returns directly to the Department via a computerized administration package - the Esinet system

³ European Social Fund aided programmes are (i) Literacy and Back to Education Initiative and (ii) Youthreach and Senior Traveller Training Centres for Border, Midlands and West areas only.

The CEO of CCVEC forwarded the report of the investigation to the Department in late 2009. It indicated that, for years in which data was available, the total student numbers misreported was 88. Taking account of all reviews to date and excluding the academic year 2005/2006 for which the return could not be located, the student numbers overstated is set out in Figure 1.

Figure 1 Student Number Returns 2004 - 2009

Academic Year ^a	2004/2005	2006/2007	2007/2008	2008/2009 ^b
Students identified by CCVEC as overstated (October Returns)	42	69	86	29
Late entrants (Form OL8) ^c	(13)	(47)	(46)	(4)
Others discounted by Department ^d	(10)	(11)	(6)	(1)
Net overstatement	19	11	34	24

- Notes:
- a The Department reviews returns made by schools and undertakes desk examinations of data submitted. After resolving any queries it issues its validated figures in January.
 - b While it did not constitute part of the investigation, the returns and rolls for 2008/2009 were examined in a similar manner to other years. Despite the fact that previous problems had been highlighted to Colleges in September 2008, a substantial number of ineligible students were once again returned to the Department.
 - c OL8 is the form used to record late entrants. It ensures that the Department's record of student numbers is up to date but does not have a bearing on funding of colleges.
 - d This is the number which the Department had already disallowed during the validation process and therefore reduces the total which CCVEC calculated as being overstated.

The Department conducted a review of the teacher staffing allocation based on the correct enrolment position and determined that there had been an over-allocation of teachers equating to 12.94 whole time equivalents over the period 2004 to 2009. This would equate to approximately €789,000 in teachers' payroll costs⁴ over this period. After discussions with CCVEC it agreed a recoupment arrangement over a five year period commencing in the 2011/2012 school year under which the teacher allocation for each year would be reduced by two posts. It also agreed with CCVEC that non-pay grants were over-allocated by €12,800 and this would be recovered through a reduction in the relevant non-pay grant to the VEC in 2011.

ICT Procurement Irregularities at the College

An internal audit by the Vocational Support Services Unit⁵ (VSSU) on procurement in CCVEC drew attention to irregularities at the college that involved non-compliance with VEC procurement procedures for IT purchases in relation to the obtaining and evaluating of quotes and non-declaration of conflict of interests.

Within the college, three individuals were involved in the procurement process - the Principal, a senior teacher with responsibility for IT (Head of IT) and an IT Technician. The purchasing process involved the IT Technician handling the ordering and purchasing for the IT department. The Head of IT was responsible for monitoring the process, ensuring that the purchases were within budget and analysing and making recommendations on tenders received which were then submitted to the Principal. The Principal was responsible for approving the purchases and issuing the orders. Invoices were submitted to the Principal for payment approval following which payments were made by CCVEC Head Office.

⁴ The calculation is based on average second level teacher salary including employer PRSI for the period 2004 to 2009.

⁵ The VSSU provides an internal audit service to VECs.

The internal audit report noted that the IT Technician owned an IT services company (Company A) which was a supplier to CCVEC from 1997 to 2009. The value of transactions between CCVEC and the company over the period was €162,000 as set out in Figure 2.

Figure 2 Annual Transaction Values with Company A

Year	Purchases €
1997	4,998
1998	10,123
1999	11,038
2000	6,628
2001	5,258
2002	5,593
2003	12,229
2004	18,341
2005	12,931
2006	21,627
2007	7,266
2008	29,354
2009	16,568
Total	161,954

CCVEC conducted its own investigations and has reported it is satisfied that prior to 2003, purchases made from the company were by way of competitive process and the IT technician had no function in the procurement process. In that period, transactions valued at €44,000 had occurred.

The internal audit examined a number of purchases made from Company A in 2008 and noted that the procurement process involved the IT Technician sourcing the goods and the Head of IT making recommendations to the Principal with regard to purchase. The internal auditor was informed that the IT Technician would make price comparisons from vendor catalogues and online vendor sites and that an administration fee was charged by Company A for sourcing the goods. The internal audit concluded that the college did not obtain competitive quotations in these cases.

In March 2006 the Head of IT and the IT Technician jointly⁶ set up another IT Services company (Company B). During the period 2007 to 2009 the college contracted with this company to which it paid a total of €25,410. One of the most significant transactions entered into related to the purchase in December 2007 of 17 laptops from the company for €12,563. There were deficiencies with the quality of quotes obtained since other quotes were for different specifications and did not take account of the quantity being purchased⁷. Overall, there was no analysis of quotations received nor a summary which would evidence the basis of the ordering decision.

⁶ In June 2008 the Head of IT took over the sole interest in the company. The IT Technician retired in June 2008 and was subsequently contracted as a technician in the school from August 2008 to June 2009 and was paid €28,000 in respect of this IT support contract.

⁷ One quote consisted of a flyer deal for student laptops and did not take account of the quantity being purchased. Two other quotes were printed from internet sites on the date of delivery of the computers to CCVEC and neither quote was for the same specification or took account of the quantity being purchased.

The internal audit report noted that Company B had purchased these laptops from an IT distributor for €10,265 prior to the purchase order being issued from the college but the delivery was split between Company A and Company B.

In his response to the internal audit report, the Principal stated that he became aware of the interest of the Head of IT in Company B at the time of the purchase of the laptops and he had allowed the order to be placed with the company in order to spend the money before the year end. He also advised the Head of IT of the conflict of interest situation and requested him to stop using Company B.

CCVEC's Code of Ethics, adopted by the Committee in December 2005 and issued to all staff, require the disclosure to be made where there may be a conflict of interest with the business of the VEC. Neither the Head of IT nor the IT Technician informed CCVEC of any conflict of interest. In response to the internal auditor's findings, the Head of IT acknowledged that there was a conflict of interest.

The Ethics in Public Office (Prescribed Public Bodies, Designated Directorships of and Positions in Public Bodies) Regulations 2005 (SI 672/2005) required that from 1 January 2006 all VEC officers, where the maximum salary was not less than the maximum of a Grade VII officer, involved in procurement must submit declarations of interest to the CEO in accordance with Ethics legislation. In response to my enquiries whether the conflict of interest pertaining to the Head of IT might have been identified earlier had he been asked to submit a declaration⁸ in accordance with the Regulations, the CEO of CCVEC stated that it had taken the view that the definition of an officer "involved in procurement" related to those officers who were actually signing off on purchase orders. Accordingly, only those officers with the power to commit expenditure on the CCVEC's behalf (e.g. Principals, Centre Directors, etc) were requested to submit declarations. The view of the CCVEC had been that the Purchasing Regulations were sufficiently robust that any discrepancies would be identified by the Principal prior to a purchase order being signed.

The CEO also stated that following on the advice of, and discussions with, the Internal Auditor, all staff with a salary not less than the maximum of a Grade VII and who could possibly be involved in procurement have been issued with Statements of Interest for completion in respect of 2010.

It is difficult to establish how much CCVEC overpaid as a result of these practices. Following a disciplinary process, the CCVEC accepted a payment of €4,877 from the Head of IT in respect of these overpayments.

Actions by the Committee

As a result of the level of misreporting of student enrolment numbers and the procurement issues, CCVEC instigated disciplinary proceedings against both the college Principal and the Head of IT. The CEO decided in relation to the Principal that the appropriate sanction in the circumstances was the withdrawal of salary increments and a review of his conduct over the following 24 months. In relation to the Head of IT, the CEO also decided to withdraw salary increments and to review his conduct for the following 12 months.

The CEO informed the Committee of CCVEC and the Audit Committee of the findings of two matters under investigation and of the outcome of disciplinary proceedings.

The CEO also submitted a file on these issues to An Garda Síochána who, after consideration, informed the CEO that there was no criminality disclosed in either report.

The CEO brought these matters to the attention of my staff at the commencement of the financial audit of the Committee's accounts for the year 2009.

⁸ As the salary of the Head of IT was not less than the maximum of a Grade VII officer the provisions of SI 672/2005 applied.

Audit Committee Recommendations

The CCVEC Audit Committee recommended that the VEC should reiterate to all Principals the necessity for the accurate completion and timely return of the October Returns and that the other recommended actions contained in the investigator's report should be implemented in a timely manner. The investigation report had recommended

- setting a common cut-off date for acceptance of student applications which would give sufficient time for processing and for completion of the October Returns
- implementing a common class commencement date for Further Education Colleges
- extending the October Return deadlines in Further Education Colleges to the end of October and reviewing the instructions applying to the further education sector to make them reflective of the sector.

The Audit Committee also proposed that a random check of a selection of roll books in CCVEC colleges against the October Returns should be carried out for the next three academic years and the results each year be provided to the Audit Committee for review.

In regard to the management of procurement the Audit Committee recommended that

- procedures should be put in place that all staff with procurement functions be required to complete Statements of Interest. Heretofore, Statements of Interest had only been sought from Principals
- CCVEC should, once again, draw the attention of all staff to the Code of Ethics
- CCVEC should ensure that all staff are aware that they must seek the permission of the CEO before engaging in outside commercial activities
- CCVEC should reiterate to all Principals that, where Framework Agreements⁹ or centralised procurements agreements are in place, these should always be used, unless there is a pressing reason to deviate from them and prior agreement has been obtained.

Views of CCVEC

In response to my enquiries regarding the adjustments that have been implemented to date or are proposed as a result to these events, the CEO stated that CCVEC has developed and implemented an online application and enrolment management system for the three colleges under its aegis over the past two years. This is designed to streamline the process for applicants and to assist with and reduce the associated administrative load. Further development of the management system is in train for the 2011-2012 academic year with the objective of addressing issues with data transfer to the Esinet system¹⁰, which should result in a timelier completion of the October Returns.

⁹ From May 2006, a national framework for the supply of PCs and associated products and services was available for all non-commercial public sector agencies, including VECs. While agencies were not obliged to participate, the framework was intended to maximise volume discounts and provide reductions in administrative and transaction costs. The framework involves agencies seeking quotes from each participating framework supplier.

¹⁰ The online application and enrolment management system operated by CCVEC is separate to the Esinet system.

He also stated that the colleges are operating a common class commencement date. While a common cut-off date has not been enforced, the three colleges and CCVEC monitor closely the enrolment patterns, application numbers, and acceptance of places and make decisions on individual courses throughout the months of August and September. Spot checks have been undertaken to compare roll books with the computerised data prior to the completion of the October returns and these will continue.

Views of the Department

The Department informed me that it does not prescribe a cut-off date for acceptance of student applications for PLC courses as it is a matter for the college authorities and the VECs to ensure that all applications are processed in time for students to be enrolled at the start of an academic year. It stated that PLC schools and colleges do not generally commence classes until the third week of September and this would still allow time for the completion of enrolment and arranging of timetables by that time or at the latest by 30 September. The Department requires that only those students enrolled by that date are included on the return. Colleges are not precluded from enrolling students after that date and there is a separate process for notifying late entrants to the Department. It, therefore, does not believe there is a requirement to extend the date of enrolment to the end of October.

The Department also informed me that

- it is considering amending the October Returns procedures from VEC schools to ensure that returns are countersigned by CEOs
- it understands that the VSSU¹¹ will undertake an audit of staff selection and utilisation in a sample of VECs later in 2011
- it supported the other recommendations of the Audit Committee with regard to the reiteration of the proper completion of the October returns and for spot checks on roll books.

In relation to procurement the Department agreed with the recommendations of the Audit Committee regarding procurement. It noted that all staff involved in procurement including teachers above a certain salary level and not just principals, are required to complete Statements of Interest. It also drew attention to the findings by the VSSU in procurement audits conducted in 2009 that the majority of VECs were not requiring teachers to make Statements of Interest and that this has been brought to the attention of individual VECs.

The Department expects that VECs will be fully compliant when procurement is audited again in 2012. In the meantime, the Department will remind VECs that teachers must make declarations of interest where they come within the requirements of Ethics regulations and will request that VECs draw the attention of staff to the VEC Code of Ethics which includes a requirement that staff disclose outside business interests which may be in conflict with VEC business. The Department has also requested VECs to reiterate to principals that where framework agreements or centralised procurement agreements are in place that they should be used, unless there is a pressing reason to deviate from them and prior agreement has been obtained.

¹¹ The VSSU provides an internal audit service to VECs.

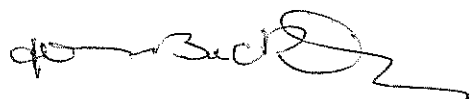
Conclusion

The experience in this case highlights the need to ensure that any non-competitive procurement is tracked in a State funded institution and subject to reporting along the lines of that which pertains under circular 40/2002 in the central government sector (see Chapter 8 of the Report on the Public Services 2009).

It also suggests a need to review, on a system wide basis, the grounding of returns that influence staff allocations and VEC budgets so as to ensure that resource levels are aligned with need.

There would be merit in periodic internal audit reviews of these matters and in audit committees adopting a practice of seeking assurance on them before finalisation of the annual statement on internal financial control by each VEC.

A positive feature of the events is that once the matters came to light the governance organ's of the CCVEC took appropriate steps to investigate and set in train a process to address the shortcomings.



John Buckley
Comptroller and Auditor General

25 August 2011

