

| Health and Safety Executive SMT Paper |                | SMT/08/37   |             |
|---------------------------------------|----------------|-------------|-------------|
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| Exemptions:                           | None           |             |             |

## HEALTH AND SAFETY EXECUTIVE

The Senior Management Team (SMT)

### Electronic Travel and Subsistence Claims – A/C 34 Form

A Paper by PFPD.

Cleared by Gordon MacDonald on 25<sup>th</sup> June 2008

#### Issue

1. To seek SMT agreement to the preferred option for processing electronic travel and subsistence claims.

#### Timing

2. Routine - for the meeting on 2 July.

#### Recommendation

3. The SMT are invited to :
  - a. support the recommendation to move to a full self certification electronic claims system with post payment checks carried out by PFPD; and
  - b. agree the actions to manage the risks associated with these new arrangements (at paragraph 13 and Annex C).

#### Background

4. The Business on line project was set up to convert paper forms associated with key internal and external business processes into electronic media. The Ac/s 34 was an early target, but over time, this project has grown to become a full review of how expenses are handled in HSE. The project has several aims: to make it easier for staff to claim their entitlements; streamline arrangements for (and the cost of) processing claims; reduce the room for error; and ensure that the use of travel and associated expenses is properly controlled.
5. The Business on-line Ac/s 34 project board has looked at a number of options for achieving these aims. Central to every option is a new electronic claims form which has been developed jointly by BEU, Refit and PFPD. The form has been tested by a small sample of staff in two, separate exercises and has received generally good reports. An automated, electronic process for claiming expenses offers a number of advantages, particularly in terms of speed and economy, but the one constraint is that one system has to apply to everyone equally. It is not possible to support the present arrangement whereby staff in different bands submit claims under different self certification rules.
6. The key challenge for the project has been how to strike the right balance between a slicker system for submitting and processing claims and the need to make sure that only those claims that are justifiable on business grounds and under the expenses rules are paid. This paper sets out a proposed way forward, which in summary, removes the certification of claims by the line manager prior to submission, emphasises the personal accountability of staff for the claims they

submit and relies on a regime of post payment checking for ensuring that the appropriate standards and proprieties are maintained.

7. There are a number of items of expenditure that staff can only claim for on production of a receipt. For post payment checking to work effectively and to satisfy the tax rules relating to expenses, the claims process must include robust arrangements for maintaining a record of receipts after a claim has been submitted. This is not an inconsiderable problem. PFPD would need to handle an estimated 40,000 receipts and match these to individual electronic claim forms. The project board looked at a range of options that broadly fell into two camps: keeping receipts locally, or maintaining a central record store. On balance and largely for logistical reasons, our proposals include a recommendation that receipts are kept locally.

### **Argument**

8. We reviewed a number of options for reconfiguring the process for claiming expenses. These are detailed in Annex A, along with the advantages, risks and costs associated with each option. In our judgement, Option A (all staff self certify their own claims, receipts are retained by the claimant and PFPD undertake percentage post payment checks) offers HSE the most efficient way forward, particularly in terms of process and resource savings. It is also an approach we have seen demonstrated in other Departments and which we know works. Previous discussions with SMT members have revealed a good level of support for this approach, but also a degree of nervousness about the risks of moving to full self certification.
9. An alternative would be to extend to all staff the present system whereby claims have to be approved by line managers prior to submission. While this solution would remove many of the concerns about propriety, it does present other challenges we would need to address. For one thing, staff at Band 2 and above who presently self certify could well see it as a sign that HSE does not trust them and is imposing an additional and unnecessary burden. For another, it will add to managerial workloads, particularly if the approval regime is to be effective.
10. We recommend the removal of line manager certification at the individual claim stage. There were a number of reasons for this recommendation:-
  - Line managers should approve travel before it takes place in either a paper or electronic based system, but the evidence suggests that this does not always happen. Many checks are perfunctory and do not involve a critical look at what is being claimed, that appropriate decisions have been taken on whether journeys are justified and that journey planning has due regard for efficiency
  - The new electronic system will authenticate the claimant, ensure the correct rates have been used and calculated, deliver prompt submission, record an explanation of expenditure claimed, require the claimant to confirm that receipts are held and oblige staff to confirm that the details of their claim are accurate;
  - Self certification was attractive on the grounds of automation and speed because creating a routing for line manager approval is likely to create bottlenecks leading to delays in payments.
11. That said, if you decide that you wish to preserve the line managers check of expenses claims, the system can be amended to deliver this. It would require

further development of – and more investment in - the electronic form and associated work flow to route claims to the claimant's line manager. Creating an electronic system that reflects the current policy that all claims are certified by both the claimant and line manager below band 3 whilst band 2s and above self certify would not be feasible.

12. In developing these options, PFPD have consulted NAO and HMRC on our potential proposal to introduce an electronic form which is based on self certification and post payment checks. No objections have been raised and Internal Audit has agreed to provide some detailed advice and guidance on the details of the proposed arrangements e.g. percentage checking regime for post-payment checks. HMRC have indicated that they would want to see more detail about our arrangements for the retention of records. We would seek HMRC endorsement to these arrangements before moving to implementation if SMT support this option.
13. The starting point for any change to the a/c 34 process will be the continuing need for a predetermined number of claims to be checked independently by PFPD for probity and accuracy. To manage the risks associated with the proposed arrangements, PFPD plan to:
  - Deliver high quality communication, during roll-out, of what personal responsibilities will be and the behaviours expected when submitting claims;
  - Revise the relevant sections of HSE's Expenses Policy to reflect the agreed process changes;
  - Sample, post payment checking by PFPD to start at a level not less than 50% of UK T&S claims submitted;
  - Manage down this percentage commensurate with the error/query rate monitored by PFPD to an eventual floor of 10% of claims checked (this will be over a period of 6-9 months); and
  - Use random sampling and variable criteria for checking claims based on factors such as any over a pre-determined (changeable) value; and/or involving mileage over a particular threshold etc.
14. A paper has been prepared for HMRC detailing the administration arrangements for the electronic a/c 34 form. SMT are welcome to see a copy of these arrangements if this helpful to discussions. Annex B provides a summary of the risks and assurances from this draft paper.
15. We have also contacted colleagues in other Government Departments to get some feedback on their experiences in implementing electronic claims systems. Annex C summarises the main themes from these discussions.

### **Next Steps**

16. If SMT support the recommendation to move to the new processes, PFPD will send the detailed administration arrangements to HMRC for their agreement.
17. A note will be sent to the HSE Audit Committee informing them of the decision to implement the electronic claims form and seeking their comments on our detail plans to manage the system.
18. A detailed implementation and communications plan will be prepared for the Business on Line electronic a/c 34 Project Board to sign off.

## **Consultation**

19. These proposals have been developed in consultation internally between PFPD, IA, BEU, SMT members and other selected managers in HSE. Externally, there have been discussions with HMRC to ensure that proposals comply with tax law and do not infringe HSE's delegations on expenses. All of these various discussions have resulted in broad endorsement for the proposed way forward.

## **Presentation**

20. Any changes to the present processes will give the organisation an opportunity to reinforce messages and increase awareness on choosing the most efficient means and patterns of travel consistent with meeting HSE's needs.

## **Costs and Benefits**

21. The benefits from the electronic Ac/s 34 forms part of the overall business case for the Business on line project. The main savings are through time saved in completing and processing claims. As part of the drive to increase efficiencies in the delivery of corporate services, PFPD have already made savings of £100k per annum in the payments, invoicing and cash management services.

22. For option A, the total benefits are estimated at £232k per annum. This includes cash benefits of £50k (further staff savings in PFPD) and non-cash benefits of £182k per annum across the rest of HSE (£102k for claimants and £80k for authorising officers)

23. For option B, the total benefits are estimated at £127k per annum. This includes cash benefits of £25k (further staff savings in PFPD) and non-cash benefits of £102K for claimants.

## **Financial Implications**

24. The costs for implementation are estimated at £100k for further testing and staff time for project management and delivery. These costs are already planned within existing budgets.

25. The one off IT costs for Option A are estimated at £25k and the one off costs for software reconfiguration for Option B are estimated at £55k.

## **Action**

26. As in paragraph 3.

## **Annexes**

Annex A: Advantages, Risks and Costs of Options

Annex B: Summary of risks and assurance in pre-payment model system

Annex C: Feedback from other Government Departments

## Comparison of Options

## Annex A

| OPTION  | ADVANTAGES  | RISKS/ISSUES   | COSTS/SAVINGS  |
|---|---|--|--|
| <p><b>Option A</b><br/>All staff self certify their own claims, receipts are retained by the claimant and PFPD undertake a percentage of post payment checks.</p> | <ul style="list-style-type: none"> <li>• Staff are paid expenses quicker – removes the Line Manager authorisation and FOS pre-payment checking delay;</li> <li>• Electronic system should provide efficiencies in time spent completing Acs 34s – form includes T&amp;S policy/checks to assist claimant;</li> <li>• Supports the move to electronic systems and Primary Finance indicator 5 (KPMG VFM indicators for public sector) – organisation demonstrate it has: ‘an on-line travel &amp; expense system used by claimants that is fully integrated with the accounting system’;</li> <li>• Similar to current HMRC system;</li> <li>• Fairer and more equitable than existing system (all staff treated the same).</li> </ul>   | <ul style="list-style-type: none"> <li>• Increased risk of incorrect claims as no checks undertaken prior to payment;</li> <li>• Staff will be responsible for retaining receipts;</li> <li>• May result in a higher number of overpayments;</li> <li>• PFPD resource needed to request a percentage of receipts from staff in order to carry out required post payment. Audit advise that checking levels of around 10% are acceptable with an established system. Based on current stats this would mean checking an average of 180 claims per month.</li> <li>• PFPD would need to establish a system to record overpayments and ensure recovery was made (sometimes of small amounts) through future claims, via payroll or by cheque.</li> </ul>  | <p>Additional Costs to delivery £125k</p> <p>(£25k request for change and £100k project delivery within existing budgets).</p> <p><b>Savings estimated at £232k per annum.</b></p>   |
| <p><b>Option B</b><br/>All claims are certified by line manager, receipts retained by claimant and PFPD undertake a percentage of post payment checks.</p>        | <ul style="list-style-type: none"> <li>• Staff are paid expenses marginally quicker – removes the FOS pre-payment checking delay;</li> <li>• Electronic system should provide efficiencies in time spent completing Acs 34s – form includes T&amp;S policy/checks to assist claimant;</li> <li>• Full certification should mean a higher percentage of claims are submitted correctly, given the LM check. However, effectiveness depends on the conscientiousness/scrutiny of managers;</li> <li>• Supports the move to electronic systems and Primary Finance indicator 5 (KPMG VFM indicators for public sector) – organisation demonstrate it has: ‘an on-line travel &amp; expense system used by claimants that is fully integrated with the accounting system’;</li> <li>• Fairer and more equitable than existing system (all staff treated the same).</li> </ul> | <ul style="list-style-type: none"> <li>• Increased risk of incorrect claims as no FOS checks undertaken prior to payment;</li> <li>• Possible delays at LM authorization stage could delay payment times;</li> <li>• Receipts still need to be posted to LMs for checking and returned to claimant if staff not at the same office;</li> <li>• Places additional checking responsibility onto LMs;</li> <li>• May lead to an increase in the number of queries to FOS as managers query policy or validity of specific claims</li> <li>• PFPD resource needed to request a percentage of receipts from staff in order to carry out post payment checking. Audit advise checking levels of between approx’ 10% are acceptable with an established system. Based on current stats this would mean checking an average of 180 claims per month.</li> <li>• PFPD would need to establish a system to record overpayments and ensure recovery was made (sometimes of small amounts) through future claims, via payroll or by cheque.</li> </ul> | <p><b>Additional Costs to delivery £155k</b><br/>(£25k request for change, £30k reconfiguration for authorisation and £100k project delivery within existing budgets).</p> <p><b>Savings estimated at £127k per annum.</b></p> |

| OPTION  | ADVANTAGES   | RISKS/ISSUES  | COSTS/SAVINGS         |
|---|--|---|-----------------------|
| <b>Option C</b><br>Staff below band 2 obtain line management certification of claim etc | BEU reportedly deemed this option too difficult to build at an early stage of the project so not fully analysed.   |   | <b>Not Applicable</b> |
| <b>Option D</b><br>Do Nothing and continue with the current paper system.               | <ul style="list-style-type: none"> <li>• Staff are familiar with the current system and no real current operational issues;</li> <li>• There are few complaints about current service standards in paying T&amp;S claims;</li> <li>• Prepayment checks by line management and FOS reduce the risk of incorrect claims and over/underpayments;</li> <li>• Receipts are retained centrally by PFPD reducing the audit risk.</li> </ul> | <ul style="list-style-type: none"> <li>• Doesn't support the move to electronic systems or the investment in the Business On-Line Project;</li> <li>• Doesn't release the envisaged efficiencies in PFPD and wider HSE;</li> <li>• Continued use of paper format and storage issues.</li> </ul> | <b>None</b>           |

## Annex B

### Summary of Risks & Assurance: Pre-Payment Model System

| Risk  | Probability                        | Assurance   | Outcome  |
|---|------------------------------------|---|--|
| e-system fails to meet HMRC/Audit standards.            | low                                | <ul style="list-style-type: none"> <li>HMRC, Internal Audit (IA)/NAO, and HSE/HSL Audit Committees invited to comment on proposals;</li> <li>Request to Internal Audit to include within annual programme of work</li> <li>HMRC/NAO inspections.</li> <li>Proactive anti fraud work within the Internal Audit Plan whereby IA undertake spot checks/reviews on areas of HSE subject to the greatest risk of fraud</li> </ul>  | Proposals and operation should be fit for purpose.   |
| T & S rates and/or arithmetic inaccurate                | low                                | <ul style="list-style-type: none"> <li>E-system pre-loaded with correct rates &amp; calculates totals;</li> <li>Rate changes will be uploaded as appropriate;</li> </ul>  | Incidence of simple errors significantly reduced   |
| Incorrect application of T & S policy/rules             | Medium                             | <ul style="list-style-type: none"> <li>On-line policy/rules accessible to all staff via HSE's Intranet;</li> <li>Variable criteria for selecting staff for post payment checks;</li> <li>PFPD post-payment sample checks – within 10 working days of payment of claim;</li> <li>Line management post- payment sample checks – within the month of payment;</li> <li>Variable sample size based on error rate</li> <li>Directorates (of HSE) Finance Managers check monthly reports on employee transactions;</li> <li>Use of 'at risk' listing. Staff that are of 'cause for concern' are logged &amp; all their claims checked until removed from list.</li> </ul> | Operation of various post payment checks should ensure claims outside current policy are maintained at acceptable levels (below 1%). |
| Serving staff fail to retain/submit receipts            | Initially medium/<br>moving to low | <ul style="list-style-type: none"> <li>Guidance on retention and production of receipts on HSE's Intranet</li> <li>Reminder of policy 'window' appears each time e-form opens up.</li> <li>Post-payment FOS &amp; line management sample checks.</li> <li>Warning system – including disallowance of claims and recovery of unsupported items.</li> <li>Move to possible disciplinary action if issues unresolved.</li> </ul>   | Operation should be fit for purpose. Receipts will be retained to agreed timescales.   |
| Failure to recover overpayments from serving staff      | low                                | <ul style="list-style-type: none"> <li>FOS to recover overpayments from salary/or subsequent claims within 2 months of confirming overpayment (amount could be spread if significant).</li> </ul>   | Balance/number of overpayments should be maintained at low level   |
| Failure to obtain receipts from staff who have left HSE | Medium                             | <p>(This is not checks on payments during a person's exit period; rather, a post payment check reveals an overpayment once an officer has actually left).</p> <ul style="list-style-type: none"> <li>Staff will be required to lodge original receipts with FOS before exit;</li> <li>Guidance will be provided in the expenses code and in proposed pop up window that such action is required.</li> </ul>   | Receipts will be available for inspection in accordance with HSE policy  |
| Failure to recover overpayments from                    | low                                | <ul style="list-style-type: none"> <li>Evidence re recovery of overpaid salary for leavers indicates that few staff (normally less than 10 a year) result in formal action being taken.</li> </ul>  | No increase in the number of outstanding debts or cases requiring  |

|   |     |   |  |
|---|-----|---|--|
| staff who have left HSE   |     |   | formal recovery action   |
| Fraud: incidence increases following introduction of the self-cert, post-payment system | low | <ul style="list-style-type: none"> <li>• Checks and balances in-built in the e-system will ensure unusual claims are picked up as part of sample checks – including an 'at risk list'.</li> <li>• Line managers will continue to be asked to verify a sample of claims – albeit post-payment</li> </ul> | No increase in the number of reported incidents of fraudulent claims |
| Efficiency & effectiveness of checks and balances in e-T & S system.                    | low | <ul style="list-style-type: none"> <li>• Request to Internal Audit to include within annual programme of work</li> <li>• Proactive anti fraud work within the Internal Audit Plan whereby IA undertake spot checks/reviews on areas of HSE subject to the greatest risk of fraud</li> </ul>             | Assurance that system is fit for purpose                             |

## ANNEX C – Sample of feedback from other Government Departments

**Treasury:** Chris Darlington 020-7270-5551

Electronic system introduced March 08. Too early for full lessons learned but design features include:

- T & S function delivered as a shared service;
- All claims approved by line manager pre-payment;
- Credit card based system: employees settle own bill & claim accordingly;
- All receipts sent to & retained at centre;
- Post-payment checks on all claims by 'centre': will be moving to 'sampling'.

**HMRC:** Marina Pegram – 01903-509719 marina.pegram@hmrc.gsi.gov.uk

Electronic system in place for approx' 18 months. Design features include:

- Self certification for all staff
- Line managers have the facility to check claims (optional) on-line (usually if concern about claims) – this facility is not really used by managers
- Staff retain own receipts – for 2 years;
- HMRC keep central record of all claims for 3 years;
- Post-payment checks on a sample basis
- At risk list – where claims causing concern are logged for mandatory checks

### **Dept for Children Schools & Families:**

Tracey Worrall 01928 – 794700

\*Jane Ditchfied 01928 – 794299

- e-system in place (inc' transaction direct into their payments system) for over 2 years;
- started with line management certification but problems with hold ups & routing. Moved to self-certification about 12 months ago – working well – with post payment checks;
- following above, initially undertook rigorous checks on claims' 'compliance with policy'. Found to be acceptable and therefore moved to reduced sampling.
- receipts – flexible approach - local arrangements apply. As a minimum, members of staff must retain receipts for stipulated period and/or budget holder hold.
- Lessons learned included reducing number of commands/screens users encountered to complete e-form.

\* Note: from next year, DCFS T & S function moving to be part of DWP shared service. DWP use ORACLE system (similar to SAP) and will involve line management approval. DCFS would prefer to continue with self-cert but too costly to turn off line management function.