



# **2016**

# **Annual Activity Report**

**Paymaster's Office  
(PMO)**

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## THE PMO IN BRIEF

The mission of the PMO is to provide a high quality and user friendly service to beneficiaries from the European Commission and many of the other EU institutions, agencies and other bodies, by promptly and accurately managing, establishing and paying individual entitlements and expenditure, providing clear and relevant information and ensuring efficient and effective controls. The PMO ensures the:

- establishment of individual financial rights for staff, pensioners and rights holders;
- payment of salaries, pensions and related entitlements;
- reimbursement of health insurance, mission and expert claims;
- delivery of EU laissez-passer and handling of third-country visas for staff.

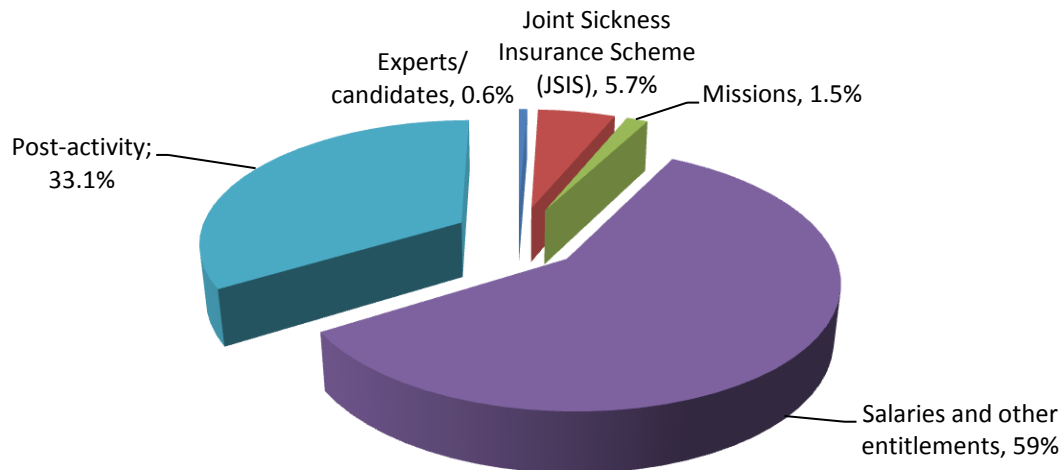
To illustrate the weight of the different operational domains and related controls, the following table and graph show the total payments<sup>1</sup> made per main type of PMO activity.

PMO operational activities 2016	Payments (EUR million)	Percentage
Salaries and other entitlements	3,027.7	59.0%
Post activity (pensions, unemployment and other entitlements)	1,699.9	33.1%
Joint Sickness Insurance Scheme (JSIS)	292.1	5.7%
Missions	80.6	1.5%
Experts and candidates	31.5	0.6%
Other	2.8	0.1%
<b>Total</b>	<b>5,134.6</b>	<b>100 %</b>

<sup>1</sup> The total shown here is some EUR 1 billion higher than total payment appropriations shown in Annex 3, due to:

- expenditure in areas where the PMO only manages payment appropriations;
- extra-budgetary managed funds: JSIS and Unemployment Fund: EUR 292 million and EUR 15.4 million respectively;
- PMO operating expenditure: EUR 43.6 million.

## PMO Expenditures 2016



In addition, PMO calculates contributions on salaries for taxes, pensions, medical insurance, insurance and unemployment. This applies, as appropriate, to Commission staff, pensioners, but also to other bodies which delegated to PMO, through Service Level Agreements, their management and collection. PMO charges back the services it provides to external services or bodies through a charge-back mechanism based on SLAs and other agreements. The table below shows the total revenues.

The revenues are collected through an invoicing procedure or retained directly on the salaries paid.

PMO revenues and income 2016	Revenues (EUR million)	Percentage
Contributions (taxes, pension)	974.3	73.3%
Contributions (JSIS, unemployment, insurance) – extra-budgetary managed	331.6 <sup>2</sup>	25.0%
Charge-back of services to other Institutions and bodies	9.3	0.7%
Other	13.0	1.0%
<b>Total</b>	<b>1,328.2</b>	<b>100%</b>

In order to achieve their respective goals, the Offices have a certain degree of autonomy for reasons of economy and quality of service.

The PMO has a specific management and supervision structure:

- The Director is the authorising officer by delegation and has the responsibility of producing a declaration of assurance and an Annual Activity Report;
- The activities of the PMO are supervised by a Management Board, chaired by the

<sup>2</sup> Extra-budgetary, not included in Annex 3, table 7

Director General of DG HR and composed of eight members representing the main stakeholders and clients of the Office;

- The entity enjoys a certain degree of autonomy in the fields of financing and staff, through a flexible use of its operating budget and a staffing table independent from the Commission.

The former Director of PMO, Marc Lemaître, was in office until 31 August 2016. Veronica Gaffey, the new Director of the PMO, took office on 1 October 2016.

Following a Commission decision<sup>3</sup> and a modification of the Commission's Internal Rules, the Director of the PMO became Authorising Officer by Delegation as of January 2016 for the budget line of the OLAF Supervisory Committee. This was to avoid any perception of interference of OLAF in the duties of the members of its Supervisory Committee.

The PMO operates a number of corporate IT systems for the management and calculations of rights, entitlements and expenses and is dependent on its single solution provider internal to the Commission, DG DIGIT, for their development and maintenance.

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<sup>3</sup> Commission Decision 2015/2418 of 18 December 2015 amending Decision 1999/352/EC, ECSC, Euratom establishing the European Anti-fraud Office (OLAF)

## EXECUTIVE SUMMARY

The Annual Activity Report is a management report of the Director of the PMO to the College of Commissioners. Annual Activity Reports are the main instrument of management accountability within the Commission and constitute the basis on which the College takes political responsibility for the decisions it takes as well as for the coordinating, executive and management functions it exercises, as laid down in the Treaties<sup>4</sup>.

### a) Key results and progress towards the achievement of general and specific objectives of the PMO

PMO aims to provide a high quality and user-friendly service by determining entitlements correctly, making payments promptly, providing clear and relevant information, and carrying out efficient and effective checks.

It determines and manages the entitlements of active and retired Commission staff and other rights holders in the Commission and many other EU institutions and agencies; it ensures that staff are paid accordingly and reimburses their expenses.

PMO has three operational objectives:

- To correctly establish, calculate and pay salaries and pensions;
- To ensure prompt and accurate reimbursement of medical, mission and expert expenses; and
- To provide swift, good quality and relevant information and ensure high quality client services.

PMO's **workload** is increasing constantly and the main challenge in 2016 remained to achieve greater efficiency and effectiveness in various processes with a view to offering a better service to all. In 2016, PMO established individual rights of more than 37,000 agents from the Commission, the European External Action Service, the European Court of Auditors and EU agencies. It paid approximately 43,000 salaries every month and about 23,000 pensions; it also reimbursed nearly 3 million medical claims, 133,000 missions claims and more than 60,000 expert reimbursement claims.

The following achievements are particularly worth highlighting:

- **Improvement in the handling time of requests.** A particularly notable progress was achieved in the reimbursement of medical expenses. Although the number of reimbursement claims increased by 3% compared to 2015, the average time needed for reimbursement dropped from an average of 27 days to 10 days, compared to a target of 20 days. The average time taken to reimburse expenses of experts attending Commission meetings has been reduced in 2016 to an average of 8 days, compared to 22 days in 2015 and to a target of 20 days for 2016.
- **Communication with current and former staff and affiliates.** The average time to reply to online queries fell from 11 to 8 days, reaching the target set for 2016. In addition, two helpdesks were launched this year, one in Brussels in March that deals with salaries and individual rights' issues, and another in Luxembourg in June dealing mainly with issues linked to the JSIS scheme. A new PMO Contact online service was launched in September to serve HR professionals in all EU Institutions, agencies and other bodies served by PMO. Communication with active and retired staff on matters relating to pay and benefits was improved in 2016, with five newsletters issued and information sessions

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<sup>4</sup> Article 17(1) of the Treaty on European Union.

(PMO Info Tours) organised in Brussels and Ispra. A helpdesk service for active and retired staff is organised in Brussels, Ispra and Luxembourg for questions regarding medical reimbursements. PMO also ran training sessions for the International Association of Former Officials of the European Union and other institutions, primarily on JSIS rights and obligations and on the online JSIS tool. The launch of the Online Booking Tool (OBT) was accompanied by on-site training for more than 1,000 colleagues in Brussels, Luxembourg and other places of employment.

- In line with the PMO's **inter-institutional role** and vocation to gradually become the settlement and payroll office of all European Institutions and bodies, PMO signed in 2016 a Service Level Agreement (SLA) with the Court of Justice concerning the payment of pensions and unemployment for staff members, the payment of pensions for Members and the handling of transfer of pension rights. An extension of the IT tool MiPS for the management of mission expenses has been under negotiation with the Court of Auditors and has successfully been implemented at the European Fisheries Control Agency.
- **Special focus on the modernisation of Information Systems for the PMO and its clients.** In June 2016, the Online Booking Tool (OBT), the web interface for hotel and travel bookings in compliance with the rules, was launched successfully across the European Commission. It reached an average adoption level of 10%, with some DGs reaching 30%, which are very positive results.
- **Effectiveness and efficiency of operational structure:** the efficiency of operations was a focal point in 2015, with an overall increase in efficiency as a result. Efforts continued in 2016, with redefinition of strategic and operational priorities and targeting more flexibility and quality of service to clients. For example, teams in the JSIS field and in Visa and Laissez-passer were modified. The introduction of a paperless process in dealing with pensions represents a major change and is expected to generate an increase in efficiency. More details are to be found in 2.2.5.

The next page shows the evolution of activities over the years 2015-2016. All data were extracted from PMO databases.

## Activities and resources 2015-2016

(Post and/or person excl. external personnel) / (Payment appropriations in EUR million)

Activities	Short description	2015			2016			Evolution	
		Number of files	Human resources <sup>(1)</sup>	Payments (EUR million)	Number of files	Human resources <sup>(1)</sup>	Payments (EUR million)	Files	HR
Establish individual rights	Establishment, management and payment of the financial entitlements of staff in activity.	148,796	66	2,892.8	150,000	65	2,988.8	0.8%	-1.5%
Calculation and payment of salaries per month		41,058	65		42,677	63		3.9%	-3.1%
Calculation and payment of pensions per month	Establishment of rights and payment of pensions and other indemnities to all former staff under Staff Regulations and CEOS.	21,978	43	1,529.1	22,854	45	1,638	4.0%	4.6%
Manage transfers of pension rights	Management of transfers of pension rights from external schemes towards the Pension Scheme of the European Union's Institutions.	3,672	24	- 93.4 <sup>(2)</sup>	4,037	23	-133.1 <sup>(2)</sup>	9.9%	-8.3%
Manage severance grants and transfers 'OUT' of pension rights	Management and payment of severance grants	519	7	33.9	378	7	46.5	-27.2%	0%
	Establishment of rights and payment of capitals representing acquired pension rights towards external pension schemes, and severance grants for all former staff linked to termination of service.	728			548			-24.7%	
Calculation and payment of unemployment allowances	Establishment of rights and payment of unemployment benefits for former temporary and contract staff.	1,742	10	24.3	1,522 (Closed & opened)	9	15.4	-12.6%	-10%
Calculation and reimbursement of sickness insurance expenses (JSIS)	Calculation and reimbursement of sickness / accident insurance expenses.	2,888,521	213.5	289.6	2,974,826	213	292.1	3.0%	-0.2%
Calculation and reimbursement of		1,922	15.5	<sup>(3)</sup>	2,011	13	<sup>(3)</sup>	4.6%	-16.1%



Activities	Short description	2015			2016			Evolution	
		Number of files	Human resources <sup>(1)</sup>	Payments (EUR million)	Number of files	Human resources <sup>(1)</sup>	Payments (EUR million)	Files	HR
accident insurance expenses									
Calculation and reimbursement of mission expenses	Calculation and reimbursement of mission expenses.	138,985	52	83.0	133,221	47	80.6	-4.2%	-9.6%
Emission of visas	Issuing visa for staff going on mission or taking up duties in EU delegation.	4,161	5	0.1	4,076	5	0.1	-2%	0%
Enrolment and Issuance of <i>Laissez-passer</i> (new activity)	Manage the full operational process of EU Laissez-passer (from the reception of applications and the registration of biometric and biographical data to the delivery of the Laissez-passer to applicants)	2,828	9		2,927	6		3.5%	-33.3%
Calculation and reimbursement of experts & candidates' expenses	Reimbursement of travel and / or residence expenses for government and private experts' called in the various working groups of the Commission, and the costs associated with the holding of these meetings, as well as costs for candidates.	67,199	17	35.7	61,843	17	31.5	-8.0%	0%
Manage daily allowances for SNEs	Manage daily allowances for SNEs.	1,880	1	39.8	1,730	1	38.8	-8.0%	0%
Other				3.2		1	2.8		
Total operational activities		3,323,470		4,931.6 <sup>(2)</sup>	3,402,650		5,134.6 <sup>(2)</sup>	2.4%	
Total PMO operating expenditure				43.6			43.6		
Operational activities headcount			528			515			-2.5%
Horizontal activities headcount (overhead)			35			33			-5.7%
<b>Total</b>			563	<b>4,975.2</b>		548	<b>5,178.2</b>		<b>-2.7%</b>

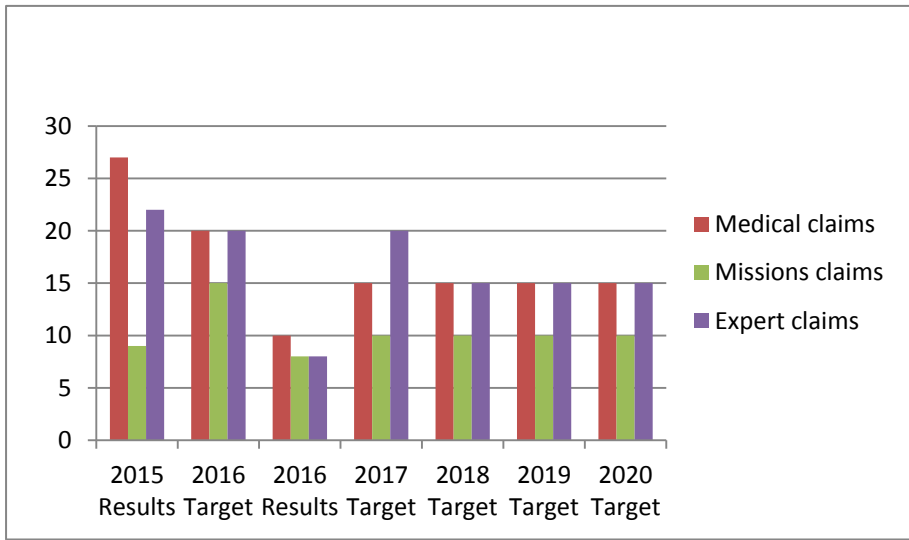
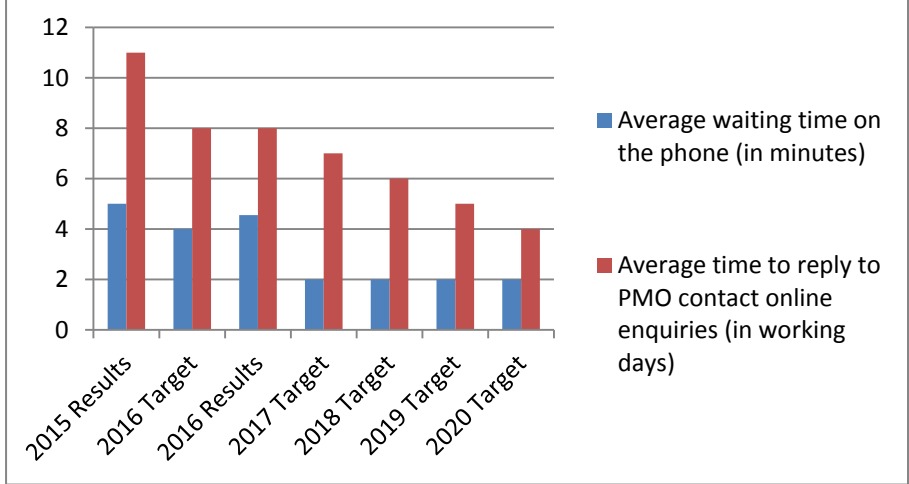
<sup>(1)</sup> Average number of full time equivalents during the year

<sup>(2)</sup> Transfer IN not included in the total for operational activities.

<sup>(3)</sup> Amounts spent by the Commission, included in JSIS, the rest is paid by insurance companies and is not included in this table.

## b) Key Performance Indicators (KPIs)

The most relevant key performance indicators are presented below:

		TARGET	RESULT																																																	
1. Average time taken to treat claims	😊	<b>Average time needed to handle reimbursement claims (in days)</b>  <table><caption>Average time needed to handle reimbursement claims (in days)</caption><thead><tr><th>Year</th><th>Medical claims (Results)</th><th>Missions claims (Results)</th><th>Expert claims (Results)</th><th>Medical claims (Target)</th><th>Missions claims (Target)</th><th>Expert claims (Target)</th></tr></thead><tbody><tr><td>2015</td><td>27</td><td>9</td><td>22</td><td>20</td><td>15</td><td>20</td></tr><tr><td>2016</td><td>20</td><td>15</td><td>20</td><td>10</td><td>8</td><td>8</td></tr><tr><td>2017</td><td>15</td><td>10</td><td>20</td><td>15</td><td>10</td><td>15</td></tr><tr><td>2018</td><td>15</td><td>10</td><td>15</td><td>15</td><td>10</td><td>15</td></tr><tr><td>2019</td><td>15</td><td>10</td><td>15</td><td>15</td><td>10</td><td>15</td></tr><tr><td>2020</td><td>15</td><td>10</td><td>15</td><td>15</td><td>10</td><td>15</td></tr></tbody></table>		Year	Medical claims (Results)	Missions claims (Results)	Expert claims (Results)	Medical claims (Target)	Missions claims (Target)	Expert claims (Target)	2015	27	9	22	20	15	20	2016	20	15	20	10	8	8	2017	15	10	20	15	10	15	2018	15	10	15	15	10	15	2019	15	10	15	15	10	15	2020	15	10	15	15	10	15
Year	Medical claims (Results)	Missions claims (Results)	Expert claims (Results)	Medical claims (Target)	Missions claims (Target)	Expert claims (Target)																																														
2015	27	9	22	20	15	20																																														
2016	20	15	20	10	8	8																																														
2017	15	10	20	15	10	15																																														
2018	15	10	15	15	10	15																																														
2019	15	10	15	15	10	15																																														
2020	15	10	15	15	10	15																																														
2. Correct establishment of entitlements, correct calculation and payment of salaries and pensions	😊	Error rate of < 1 % of the amount paid annually.	0.19 %																																																	
3. Achievement of the IT strategy - percentage of programmed project milestones implemented on time	😞	85 % of IT milestones timely implemented	71% of milestones planned for 2016 achieved. For further details: cf. reference in Heading Part I – 1.3 and Annex 12 §3.																																																	
4. Average time taken to reply to enquiries through the:  • 'PMO Contact Call Centre'  • 'PMO Contact Online'	😞  😊	 <table><caption>Average time taken to reply to enquiries (in minutes)</caption><thead><tr><th>Year</th><th>Average waiting time on the phone (Results)</th><th>Average time to reply to PMO contact online enquiries (Results)</th><th>Average waiting time on the phone (Target)</th><th>Average time to reply to PMO contact online enquiries (Target)</th></tr></thead><tbody><tr><td>2015</td><td>5</td><td>11</td><td>4</td><td>8</td></tr><tr><td>2016</td><td>4</td><td>8</td><td>4</td><td>8</td></tr><tr><td>2017</td><td>4.5</td><td>8</td><td>2</td><td>7</td></tr><tr><td>2018</td><td>2</td><td>7</td><td>2</td><td>6</td></tr><tr><td>2019</td><td>2</td><td>5</td><td>2</td><td>5</td></tr><tr><td>2020</td><td>2</td><td>4</td><td>2</td><td>4</td></tr></tbody></table>		Year	Average waiting time on the phone (Results)	Average time to reply to PMO contact online enquiries (Results)	Average waiting time on the phone (Target)	Average time to reply to PMO contact online enquiries (Target)	2015	5	11	4	8	2016	4	8	4	8	2017	4.5	8	2	7	2018	2	7	2	6	2019	2	5	2	5	2020	2	4	2	4														
Year	Average waiting time on the phone (Results)	Average time to reply to PMO contact online enquiries (Results)	Average waiting time on the phone (Target)	Average time to reply to PMO contact online enquiries (Target)																																																
2015	5	11	4	8																																																
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2018	2	7	2	6																																																
2019	2	5	2	5																																																
2020	2	4	2	4																																																
5. Staff engagement	😞	Increase from 2015 (58)	59																																																	

### **c) Key conclusions on Financial management and Internal control**

In accordance with the governance statement of the European Commission, the PMO conducts its operations in compliance with the applicable laws and regulations, working in an open and transparent manner and meeting the expected high level of professional and ethical standards.

The Commission has adopted a set of internal control standards, based on international good practice, aimed to ensure the achievement of policy and operational objectives. The financial regulation requires that the organisational structure and the internal control systems used for the implementation of the budget are set up in accordance with these standards. The PMO has assessed the internal control systems during the reporting year and has concluded that the internal control standards are implemented and function as intended. Please refer to AAR section 2.1.3 for further details.

In addition, the PMO has systematically examined the available control results and indicators, including those aimed to supervise entities to which it has entrusted budget implementation tasks, as well as the observations and recommendations issued by internal auditors and the European Court of Auditors. These elements have been assessed to determine their impact on the management's assurance as regards the achievement of control objectives. Please refer to Section 2.1.2 for further details.

In conclusion, management has reasonable assurance that, overall, suitable controls are in place and working as intended; risks are being appropriately monitored and mitigated; and necessary improvements and reinforcements are being implemented. The Director, in her capacity as Authorising Officer by Delegation has signed the Declaration of Assurance.

### **d) Information to the Commissioner**

In the context of the regular meetings during the year between the Director and the Commissioner on management matters, also the main elements of this report and assurance declaration, have been brought to the attention of former Vice-President Georgieva, Commissioner responsible for Budget and Human Resources and to Commissioner Oettinger, her successor in this portfolio as from January 2017.

# 1. KEY RESULTS AND PROGRESS TOWARDS THE ACHIEVEMENT OF GENERAL AND SPECIFIC OBJECTIVES OF THE PMO

The mission of the Office for the Administration and Payment of Individual Entitlements (PMO) is to provide a high quality and user-friendly service by determining entitlements correctly, making payments promptly, providing clear and relevant information, and carrying out efficient and effective checks.

It determines and manages the entitlements of active and retired Commission staff and other rights holders in the Commission and many other EU institutions and agencies; it ensures that staff are paid accordingly and reimburses their expenses.

PMO has three operational objectives:

- To correctly establish, calculate and pay salaries and pensions;
- To ensure prompt and accurate reimbursement of medical, mission and expert expenses; and
- To provide swift, good quality and relevant information and ensure high quality client services.

PMO's **workload** is increasing constantly and the main challenge in 2016 remained to achieve greater efficiency and effectiveness in various processes with a view to offering a better service to all. In 2016, PMO established individual rights of more than 37,000 agents from the Commission, the European External Action Service, the European Court of Auditors and EU agencies. It paid approximately 43,000 salaries and about 23,000 pensions every month; it also reimbursed nearly 3 million medical claims, 133,000 missions claims and treated more than 60 000 expert files.

While as an administrative support service the Paymaster's Office (PMO) is not in the frontline for delivering on the ten priorities of the Juncker Commission, it has a fundamental role to play to ensure that the institution is capable of mobilising all its strengths behind these priorities. In particular, PMO contributes to the following general objective of the Commission 11: "To help achieve the overall political objectives, the Commission will effectively and efficiently manage and safeguard assets and resources, and attract and develop the best talents."

Offering a correct and timely payment of salaries, pensions and other related entitlements, a swift reimbursement of health insurance, mission and expert claims, a smooth delivery of EU *laissez-passer* and visas, and more generally accessible and customer-friendly services, is essential to allow the Commission – and increasingly other – staff to carry out their duties unhindered.

The pursuit of the following specific objectives has contributed to achieving this objective:

## 1.1 Ensuring at all times the correct and timely handling of all types of transactions

All targets related to the specific objectives have been met. Further details on the main outputs related to this objective can be found in Annex 12, item 1.1.

Indicators linked to the correct establishment, calculation and payment of entitlements and reimbursements show a number of Article 90 complaints below the maximum set as a target of 10% and a financial error rate, detailed in Part 2 of the report, significantly below 1%.

A particularly notable progress was achieved in the **reimbursement of medical expenses**. Although the number of reimbursement claims increased by 3% compared to 2015, the average time needed for reimbursement dropped from an average of 27 days to 10 days, compared to a target of 20 days for 2016. The number of claims that were handled in less than 30 days increased from 64% in 2015 to 98% in 2016, of which 86% were reimbursed within 20 days.

The average time taken to reimburse Commission officials' **mission expenses** was reduced, despite an equivalent number of claims processed. The average reimbursement duration dropped from 9 calendar days in 2015 to 8 in 2016, with more than 95 % of claims being processed by the 15 day target deadline. The overall processing time for claims from staff in other institutions tends to be longer, depending on how long it takes for the relevant institution to make the final payment.

The average time taken to reimburse **expenses of experts** attending Commission meetings has been reduced in 2016 to an average of 8 days, compared to 22 days in 2015 and a target of 20 days for 2016.

Further details regarding the main outputs related to this objective can be found in Annex 12, § 1.

## 1.2 Offering better quality of customer service

Staff satisfaction with the quality of PMO's services can be improved. The PMO aimed in 2016 to improve satisfaction levels by focusing on quality of contacts between PMO and current and former staff and affiliates.

The **PMO Contact Call Centre** and **PMO Contact Online** answered around 3,100 phone calls and 8,700 online queries per month on average, which represents an increase of 55% and a decrease of 6% respectively. The increase of the number of incoming calls is partly attributable to the launch of two additional helpdesks in 2016, one in Brussels that deals with salaries and individual entitlements, and another in Luxembourg, dealing mainly with issues linked to the JSIS scheme. The average waiting time for callers remained stable at 4-5 minutes, while the average time taken to reply to online queries fell from 11 to 8 working days. In parallel the percentage of the tickets processed outside the deadline of 15 working days, which was 20% in 2015, decreased to 13% in 2016. A new PMO Contact online service was launched in September to serve HR professionals in all EU Institutions, agencies and other bodies served by PMO. The first service to benefit from this new portal (PMO Contact Pro) was the NAP support. The full roll-out will take place in the first semester of 2017.

The Commission improved **communication** with active and retired staff on matters relating to pay and benefits in 2016, sending out five newsletters and organising information sessions (PMO Info Tours) in Brussels and Ispra to answer staff's questions. A helpdesk service for active and retired staff is organised in Brussels, Ispra and Luxembourg to meet staff for any question regarding medical reimbursements. PMO also ran training for staff and for the International Association of Former Officials of the European Union and other institutions, primarily on JSIS rights and obligations, the online JSIS tool and on the Online Booking Tool.

The **Online Booking Tool** (OBT) is a web interface to search and book travel and accommodation for missions. It was launched successfully in June across the European Commission. The product is the result of cooperation between PMO and the agreed travel agency (Amex GBT). The tool is based on standard technology with a high level of customisation to suit the needs of the European Commission and it follows the travel policy set out in the Guide to Missions. It offers the possibility to search and book flights within Europe, the relevant train routes, car rental in all Member States plus Norway and Switzerland as well as hotel rooms around the world. The launch followed a successful pilot phase in DG CNECT. After 6 months, the tool has reached an average adoption level

of 10%, with some DG's reaching between 20% and 30% which can be considered very positive results. Since the launch, more than 1,000 colleagues followed training in Brussels, Luxembourg and other places of employment.

As from 2016, staff leaving on retirement receive the calculation of their pension rights two months before their departure, which is significantly earlier than in the past. This allows staff to plan better for their retirement.

The PMO always looks for **value for money** in the provision of mission and medical services. Through its calls for expressions of interest, it tries to secure better recognition for JSIS members and reduced hospital rates from medical providers, and high quality mission services at the best prices from airlines, hotels and car hire companies.

In 2016, as mentioned in 1.1 above, the reduction in time to reimburse expenses is a further indication of improved quality.

Further details on the main outputs related to this objective can be found in Annex 12, §2.

### 1.3 Deepening inter-institutional synergies

Inter-institutional service provision based on Service Level Agreements (SLA) offers many opportunities for overall improvements in administrative efficiency. The PMO extends its service to other institutions when there is a mutual understanding in favour of closer cooperation. In 2016, PMO signed a SLA with the Court of Justice concerning the payment of pensions and unemployment for staff members, the payment of pensions for Members and the handling of transfer of pension rights.

The deployment of the IT application for **mission expenses** MiPS to other institutions and agencies continued with an ongoing project to provide the application to the Court of Auditors and a successful implementation at the European Fisheries Control Agency.

PMO ran its annual two-day generic training session for all agencies and on-site training sessions for individual agencies.

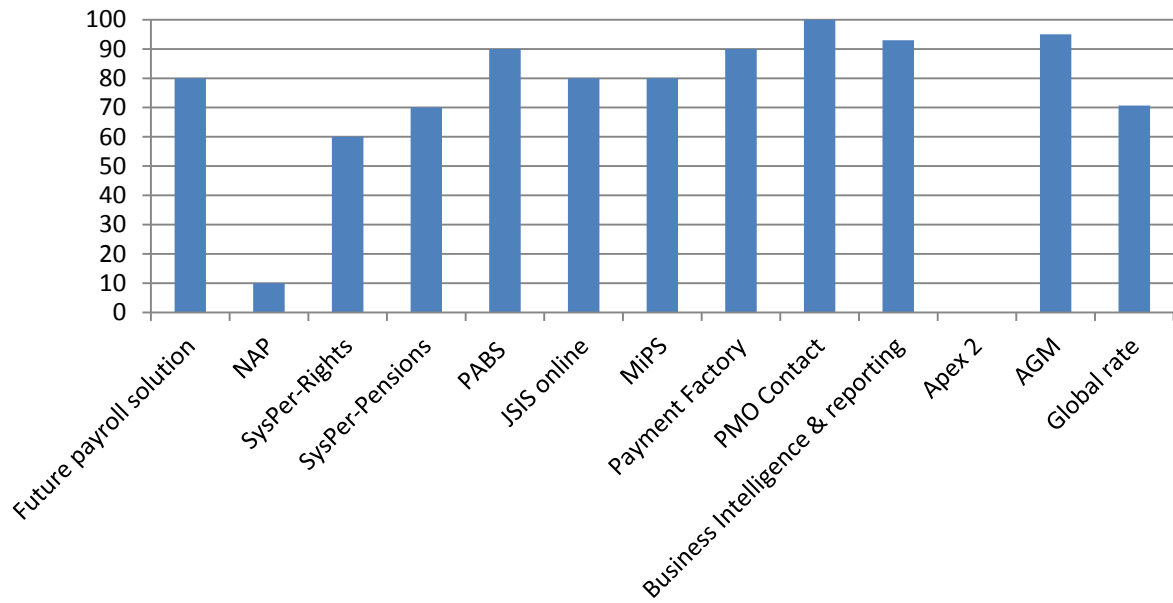
The extension of services to other institutions required all systems underpinning the functioning of the PMO activities to absorb new activities. **The IT systems** were further developed in the light of this objective. In 2016, efforts continued to (i) streamline procedures and business processes which underpin the organisation; (ii) extend the coverage of our information systems especially for individual pecuniary rights; (iii) roll-out new systems (Payment Factory and PMO Contact); (iv) analysing the possibility to replace ageing systems in a timely manner (New payroll application); (v) develop the inter-institutional dimension of eServices (Payment Factory, Sysper-rights).

PMO achieved 71% of the planned IT developments, below the expected target of 85%. This was mainly due to delays in two projects:

- As regards the NAP system which calculates the payment of salaries, the development of the security plan was delayed by DIGIT due to the complexity of the business impact.
- The phase-out of the APEX2 application was dropped at this stage as PMO got more involved in the new system AGM. AGM was developed by another Commission DG (EMPL) and, with adjustments, could be used to deal also with reimbursement of candidates' expenses.

The graph below shows the evolution of the number of tasks to be implemented (closed) in 2016. More details on each IT project is in Annex 12 (§3).

## Percentages of completion compared to planned developments for 2016



## 2. ORGANISATIONAL MANAGEMENT AND INTERNAL CONTROL

**This section answers the question *how* the achievements described in the previous section were delivered by the Service. This section is divided in two subsections.**

**The first subsection reports the control results and all other relevant information that support management's assurance on the achievement of the financial management and internal control objectives. It includes additional information necessary to establish that the available evidence is reliable, complete and comprehensive; appropriately covering all activities, programmes and management modes relevant for the Service.**

**The second subsection deals with the other components of organisational management: human resources, better regulation principles, information management and external communication.**

### 2.1 Financial management and internal control

**Assurance is an objective examination of evidence for the purpose of providing an assessment of the effectiveness of risk management, control and governance processes.**

**This examination is carried out by management, who monitors the functioning of the internal control systems on a continuous basis, and by internal and external auditors. Its results are explicitly documented and reported to the Director. The reports produced are:**

- the reports by AOSDs;
- the contribution of the Internal Control Coordinator, including the results of internal control monitoring at Service level;
- the reports on ex-ante/a posteriori<sup>5</sup>/ex-post controls;
- the register of exceptions;
- the limited conclusion of the internal auditor on the state of control, and the observations and recommendations reported by the Internal Audit Service (IAS);
- the observations and the recommendations reported by the European Court of Auditors (ECA).

These reports result from a systematic analysis of the evidence available. This approach provides sufficient guarantees as to the completeness and reliability of the information reported and results in a complete coverage of the budget delegated to the Director of PMO.

**This section reports the control results and other relevant elements that support management's assurance. It is structured into (a) Control results, (b) Audit observations and recommendations, (c) Effectiveness of the internal control system, and resulting in (d) Conclusions as regards assurance.**

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<sup>5</sup> Contrôle pour les droits ayant fait l'objet d'un paiement anticipé ou provisoire sur base d'événements futurs



### 2.1.1 Control results

**This section reports and assesses the elements identified by management that support the assurance on the achievement of the internal control objectives<sup>6</sup>. The PMO's assurance building and materiality criteria are outlined in the AAR Annex 4. Annex 5 outlines the main risks together with the control processes aimed to mitigate them and the indicators used to measure the performance of the control systems.**

The administrative Offices' core business consists in providing support to the Commission and other institutions and agencies. Hence, the PMO's expenditure is exclusively administrative in nature and it is implemented under centralised direct management.

The main activities of the PMO are the establishment and payment of salaries, pensions and associated entitlements, and the reimbursement of expense claims. Decisions taken on entitlements - linked for example to salaries & pensions - often have important and long term financial implications. The PMO's work is characterised by the variety and complexity of the legal and regulatory framework that underlies the payment conditions, by the large number of claims processed and by the shared responsibility with other services.

Some tasks are entrusted to other Commission DGs and Services<sup>7</sup> where they are managed under the same Commission rules, implying that the PMO can rely on the other DG's control systems. As per the specific rules of co-delegation of budget, these DGs and Services report on the implementation of the budget and the related internal control system in their own Annual Activity Report. No problems regarding the delegations were signalled to the PMO by the concerned entities.

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<sup>6</sup> Effectiveness, efficiency and economy of operations; reliability of reporting; safeguarding of assets and information; prevention, detection, correction and follow-up of fraud and irregularities; and adequate management of the risks relating to the legality and regularity of the underlying transactions, taking into account the multiannual character of programmes as well as the nature of the payments (FR Art 32).

<sup>7</sup> DG HR (Co-delegation for building security; EUR 491,000); DEVCO (Co-delegation for salaries and related entitlements for Commission staff in Delegations, EUR 5.8 million); DIGIT (Co-delegation for IT systems, hardware, support; EUR 1.4 million); OIB (Co-delegation for building related expenditure (water, gas, etc.); EUR 3.9 million); OIL (Co-delegation for building related expenditure (water, gas, etc.); EUR 1.2 million).

To illustrate the weight of the different operational domains and related controls, this table shows the total payments<sup>8</sup> made per main type of PMO activity.

<b>PMO operational activities 2016</b>	<b>Payments (EUR million)</b>	<b>Percentage</b>
Salaries and other entitlements	3,027.7	59.0%
Post activity (pensions, unemployment and other entitlements)	1,699.9	33.1%
<b><i>Total "salaries, post-activity and associated entitlements" (domain/ ICT 1)</i></b>	<b>4,727.6</b>	<b>92.1%</b>
Joint Sickness Insurance Scheme (JSIS)	292.1	5.7%
Missions	80.6	1.5%
Experts and candidates	31.5	0.6%
<b><i>Total of "reimbursement of medical, expert and mission claims" (domain/ ICT 2)</i></b>	<b>404.2</b>	<b>7.8%</b>
Other	2.8	0.1%
<b>Total</b>	<b>5,134.6</b>	<b>100 %</b>

In addition, PMO calculates contributions on salaries for taxes, pensions, medical insurance, insurance and unemployment. This applies, as appropriate, to Commission staff, pensioners, but also to other bodies which delegated to PMO, through Service Level Agreements, their management and collection. PMO charges back the services it provides to external services or bodies through a charge-back mechanism based on SLAs and other agreements. The table below shows the total revenues.

The revenues are collected through an invoicing procedure or retained directly on the salaries paid.

<b>PMO revenues and income 2016</b>	<b>Revenues (EUR million)</b>	<b>Percentage</b>
Contributions (taxes, pension)	974.3	73.3%
Contributions (JSIS, unemployment, insurance) – extra-budgetary managed	331.6 <sup>9</sup>	25.0%
<b><i>Total of contributions (ICT 3)</i></b>	<b>1,305.9</b>	<b>98.3%</b>
Charge-back of services to other Institutions and bodies ( <b>ICT 4</b> )	9.3	0.7%
Other	13.0	1.0%
<b>Total</b>	<b>1,328.2</b>	<b>100%</b>

<sup>8</sup> See footnote 1 to explain the difference with annex 3, table 2 (EUR 3,953 million)

<sup>9</sup> Extra-budgetary, not included in Annex 3, table 7

The presentation of the Internal Control Templates (ICT) for the areas listed above is provided in Annex 5.

### ***Coverage of the Internal Control Objectives and their related main indicators***

#### ***Control effectiveness as regards legality and regularity***

**The PMO has set up internal control processes aimed to ensure the adequate management of the risks relating to the legality and regularity of the underlying transactions, taking into account the multiannual character of commitments as well as the nature of the payments concerned.** The control objective is to ensure that the residual error rate does not exceed 2 % (cf. materiality criteria in annex 4).

#### **Ex-ante and ex-post control – key indicators**

The PMO control strategy – more details can be found in annex 5 – is based on the principle that the establishment of an entitlement or the request for reimbursement is examined by a case handler who compares the submitted documents to the relevant eligibility criteria. Every decision is taken under supervision of a verifying agent and/or head of sector, except for some allowances where the review of some lower risk and less complex files is performed by the verifying agent/head of sector on a sample basis, due to the high number of declarations received. Depending on the complexity of the claim, a more detailed analysis will be carried out to arrive at a sound decision.

Every error found is corrected. Given the repetitiveness of the main PMO activities, this leads to a continuous adjustment and improvement of the internal control system. Corrective measures are taken when an error is linked to a system weakness. Such measures might involve: training, reallocation of files, tighter verification or even focused ex-post checks.

The results of ex-post controls are analysed and they too may result in corrective measures. When the result of an ex-post control indicates a need to take further action, a detailed action plan is formulated.

Details on the results of controls are provided in Annex 10 and the conclusions are presented below.

Every transaction **in Salaries, Post Activity & Associated Entitlements** is subject to ex-ante verification (100 % control). All errors are corrected retroactively and the results of corrections influence the accuracy of future transactions. The ex-ante controls revealed no material errors.

The results **for ex-ante controls in the area of medical, expert and mission claims** show that the total financial error rate of the ex-ante controls remains well below the materiality threshold of 2 %, fixed by the Court of Auditors, as shown in the table below. As the samples taken are considered as representative of the total population, it is possible to extrapolate the error rate. Extrapolating to the overall population, minus the population controlled and corrected, the residual error rate is calculated at **0.26%** for this domain (2).

<b>Scope ex-ante control</b>	<b># files verified</b>	<b>Total amount verified (EUR)</b>	<b>% Value Total of population covered</b>	<b>Financial error rate 2016</b>	<b>Financial error rate 2015</b>
Reimbursement of medical, expert and mission claims - domain 2	17,776	28,237,649	7.11%	0.26%	0.56%

The table below gives an overview of the results of the ex-post controls carried out during the year.

<b>Scope ex-post control (expenditure areas)</b>	<b># files verified</b>	<b>Total amount verified (euro)</b>	<b>% Value Total of population covered</b>	<b>Financial error rate 2016</b>	<b>Financial error rate 2015</b>	<b>Financial error rate 2014</b>
Salaries, post-activity and associated entitlements - domain 1	90	21,727,006	0.46 %	0.17 %	0.09 % estimated	0.16 % estimated
Reimbursement of medical, expert and mission claims - domain 2	2,159	2,524,814	0.62 %	0.86 %	0.58 % estimated	1.15 % estimated

For **Salaries, Post Activity & Associated Entitlements**, the results of the ex-post controls show a total financial error rate estimated at 0.17% (total financial error/total amount verified), similar to past years. This figure excludes the ex-post controls performed on "salaries and associated entitlements" targeted on specific risks in small subpopulations. Moreover, the Court of Auditors estimated, based on the audit results, the most likely error rate related to ineligible and incorrectly calculated staff allowances and related benefits to be 0.18% (please refer to § 2.1.2.3).

For **reimbursement of medical, expert and mission claims**, the total financial error rate of all ex-post controls, of which many are targeted to the higher risk areas, remains well below the materiality threshold of 2 %; confirming the accuracy and quality of transactions processing by the PMO and the effectiveness of the ex-ante controls. The overall ex-post financial error rate remains at 0.86 %. As it was focused on high risk areas, it cannot be extrapolated to the overall population.

For **revenues and income**, an IAS audit, detailed in part 2.1.2.1, revealed an error on the calculation of the price of the basic service provided to agencies. The impact of the error as recalculated by PMO is EUR 150,000. This represents 1.6% of total revenues for the charge back.

## Overall conclusion

The overall conclusion on the basis of all controls carried out by the PMO units throughout 2016 confirms the high quality of internal control and the global financial error rate remaining largely below 2 % (cf. materiality criteria in Annex 4).

**In the context of the protection of the EU budget, at the Commission's corporate level, the PMO estimated overall amounts at risk and their estimated future corrections are consolidated.**

**For the PMO, the estimated overall amount at risk at payment for the 2016 payments made is EUR 7.4 million and the overall amount at risk for revenue and income is EUR 0.04 million (overcharge). This is the AOD's best, conservative estimation of the amount of relevant expenditure during the year (EUR 3,953 million) and revenue and income (EUR 996.6 million) not in conformity with the applicable contractual and regulatory provisions at the time the payment is made.**

**This expenditure will be subsequently subject to ex-post controls and a proportion of the underlying error will be detected and corrected in successive years (in line with the provisions in the Staff Regulations).** The nature of PMO activities, payment of salaries, post-activity and reimbursement of claims, makes for an easy recovery of found errors, as corrections can be deducted from monthly salary, pension payments, with a relatively stable population (staff and their families). This implies that corrections made following the identification of errors have a positive impact not only on the past but also in the future. The conservatively estimated future corrections for those 2016 payments made is not significant (0.002%). No historic information is available for revenue and income.

**Based on the above, the estimated overall amount at risk at closure is approximately equal to the overall amount at risk at payment, EUR 7.5 million, as detailed in the table below.**

Taking into account the conclusions of the review of the elements supporting assurance, it is possible to conclude that the internal controls systems implemented by the PMO provide sufficient assurance to adequately manage the risks relating to the legality and regularity of the underlying transactions. Furthermore, it is also possible to conclude that the internal control systems provide sufficient assurance with regards to the achievement of the other internal control objectives.

**Table - Estimated overall amount at risk at closure**

<b>PMO</b>	"payments made"/ "revenue and income" (FY; m€)	<i>minus</i> new <sup>a</sup> prefinancing [ <i>plus</i> retentions made <sup>b</sup> ] (in FY; m€)	<i>plus</i> cleared <sup>c</sup> prefinancing [ <i>minus</i> retentions (partially) released <sup>b</sup> and deductions of expenditure made by MS] (in FY; m€)	<b>= "relevant expenditure"<sup>d</sup> (for the FY; m€)</b>	Average Error Rate ( <i>weighted</i> <b>AER</b> ; %)	estimated overall amount at risk at <i>payment</i> (FY; m€)	Average Recoveries and Corrections ( <i>adjusted</i> <b>ARC</b> ; %)	estimated future corrections [and deductions] (for FY; €)	<b>estimated overall amount at risk at closure<sup>e</sup> (€)</b>
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Management of salaries, post-activity and related entitlements	4,727.6	N/A	N/A	4,727.6	0.18 %	8.5			
Management of medical, expert and mission claims	404.2	N/A	N/A	404.1	0.26 %	1.0			
<b>Overall payments, total as per Annex 3<sup>10</sup></b>	<b>3,953</b>				<b>0.19 %</b>	<b>EUR 7.5 million; and 0.19% of (5)</b>	<b>0.002%</b>		<b>EUR 7.4 million; and 0.19% of (5)</b>
Contributions	1,305.9				0.0%				
Charge back	9.3				1.6%	0.04			
<b>Overall revenue and income, total as per Annex 3<sup>11</sup></b>	<b>996,5</b>	<b>N/A</b>	<b>N/A</b>	<b>996,571</b>	<b>0.004%</b>	<b>EUR 0.04 million</b>			<b>EUR 0.04 million</b>

<sup>10</sup> See footnote 1 to explain the difference between operational activities and the total reported in annex 3, table 2

<sup>11</sup> See footnote 2

### ***Cost-effectiveness and efficiency***

**Based on an assessment of the most relevant key indicators and control results, the PMO has assessed the cost-effectiveness and the efficiency of the control system and reached a positive conclusion.**

The main benefits of control can be expressed in non-financial terms: an efficient and effective internal control system allows for accurate management of incoming claim and definition of entitlements at the source, avoiding errors with a long term impact. It also ensures compliance with regulatory provisions. Since a quantitative estimation of the volume of errors prevented and detected is not available, it is only possible to quantify a part of the related benefits, other than the amounts recovered as a result of these controls.

In consequence, it is not possible to determine the cost-effectiveness of controls by comparing costs with benefits; it is necessary to consider the efficiency indicators retained. To do so, the PMO has defined efficiency measures for the controls associated with the core processes.

For controls related to the 'establishment/modification of salaries, post-activity and related entitlements' (cf. Annex 5 – ICT 1), the operational activity of which represents 92.1 % of operational expenditure, the investment in control resources is difficult to determine as controls are embedded in day-to-day management of all files. Hence, the evaluation of control efficiency needs to be evaluated over time, through comparison of the efficiency in files managed per staff member. The table produced in the Executive Summary, § a, compares the overall evolution of the workload (expressed in number of files) and the evolution in staff (expressed in Full Time Equivalents - FTE). The overall evolution of operational activity shows an increase of 2.4% in the number of files as compared to last year, against a decrease in the average staff in FTE of 2.7%. This shows that over the course of one year, there is a significant increase in efficiency regarding the number of files handled per staff member.

The mission of PMO consists in a large part of control activities related to the regulatory requirements. Many controls are processed by the IT systems in place. An overall estimation of the cost of control for ex-ante controls, ex post controls carried out in PMO (including for JSIS) and for the financial verification is roughly estimated at EUR 3 million, which corresponds to 0.06% of total payments made by PMO (EUR 5,134 million). The unique nature of the PMO's activity, consisting mainly of recurrent mass payments of wages and pensions, explains why a limited number of transactions cover a vast amount of payments. The method of calculation of the cost of control was changed this year, to take into account the costs of ex ante controls in particular.

To reach an absolute conclusion as of the relative efficiency of the controls, it is preferable to analyse the evolution of these efficiency indicators over time. However, the results of the efficiency indicators from the previous and current year give the assurance that control management is highly efficient.

See also internal control templates in annex 5.

### ***Fraud prevention and detection***

**As programmed in the Commission's overall anti-fraud strategy<sup>12</sup>, the PMO has developed and implemented its own anti-fraud strategy since 2013, on the basis of the methodology provided by OLAF.** After analysis and pending the adoption of revised guidelines from OLAF, the strategy did not need to be updated in view of our recurrent operations but the risk typology has been updated. Additional controls to detect fraud were added in past years to the PMO control strategy and are applied.

The implementation of the strategy has been monitored twice a year, either in management

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<sup>12</sup> COM(2011) 376 24.06.2011.

meeting or on ad-hoc meeting on specific cases. The legal sector created in 2015 at the PMO, ascertains the appropriate treatment of all potential cases (transfer to OLAF and IDOC of cases and appropriate follow up of cases transferred by OLAF or IDOC to PMO). Appropriate recoveries were performed on the cases to follow up (two cases - 3,000 EUR offset with payments for entitlements, 387,000 EUR to be recovered and 311,000 EUR prevented from being unduly paid).

In addition, the regular ex-post supervision carried out, specific anti-fraud related checks are included. The authorising officers by sub-delegation (AOSD) report twice per year on their activities to the Director with the obligation to explicitly mention any anomalies that occurred. No material issues were reported.

The degree of implementation of the anti-fraud strategy, internal control results and the evaluation of the yearly risk analysis exercise covering also fraud-related risks, give reasonable assurance that the fraud risk is sufficiently managed and mitigated.

### ***Other control objectives: safeguarding of assets and information, reliability of reporting***

Due to the nature of the activities carried out by the PMO, management has a particular interest in the **management of information**. To obtain sufficient assurance that all data processed by the PMO is accurate and sufficiently protected, specific measures have been created and specific indicators are closely supervised.

- Granting of access to the Information Systems is centralised and a yearly verification of all persons being granted access is carried out.
- The exception registry is kept up to date on a day-to-day basis. Four exceptions were registered during the year, three relating to procurement procedures (e.g. extension, unsuccessful tender) and one to a reallocation of credits.
- Regarding the accuracy of data processing, a key performance indicator was created, based on the number of article 90 complaints that are upheld. The indicator for 2016 is 8.27% (against a target set below 10 %) of all complaints received. However, the decision to uphold an article 90 complaint does not necessarily indicate that an error was committed when taking the initial decision.

The reimbursement of medical claims in the framework of the Joint Sickness Insurance Scheme (JSIS) and the payment of unemployment benefits result in additional control objectives for the related JSIS fund and the Unemployment Fund. Hence, disregarding the fact that the PMO is not responsible for either fund, a number of control actions are carried out by the Office:

- JSIS: an independent audit is carried out every year by an external auditor, resulting in a clean audit opinion in the previous years, including the most recent audit report on financial year 2015;
- The evolution of the Unemployment Fund is carefully followed by the PMO with different services of the Commission (DG HR and DG BUDG). In 2015, the fund fell below EUR 3 million; in 2016 an inversion of the trend was registered. The fund increased to more than EUR 10 million at the end of 2016. The evolution of the fund is reported to all stakeholders and addressed in an inter-DG working group. The Commission issued a report on the unemployment scheme in 2016 (COM(2016)754), which is a preliminary assessment to mitigate the risk inherent to the low reserves of the fund.

In conclusion, both funds are submitted to follow-up controls set up by the PMO, revealing no material issues.

In all related aspects, no material anomalies were detected in 2016.



## 2.1.2 Audit observations and recommendations

**This section reports and assesses the observations, opinions and conclusions reported by auditors in their reports as well as the limited conclusion of the Internal Auditor on the state of control, which could have a material impact on the achievement of the internal control objectives, and therefore on assurance, together with any management measures taken in response to the audit recommendations.**

The PMO is audited by both internal and external independent auditors: the Commission Internal Audit Service (IAS) and the European Court of Auditors (ECA).

### 2.1.2.1 Audits carried out by the IAS

By 31 January 2017, the **IAS** had completed two audits:

- An audit on Charge-back Process in PMO, which resulted in three recommendations of which two are rated 'very important'. The IAS concluded that key areas needed to be strengthened, in particular as regards the revision of the SLAs signed before 2014, the development of a catalogue of services, the definition of KPIs for their delivery, the revision of the cost methodology and the correction of an error which overestimated the cost of some services provided to agencies and sound justification when granting discounts for the services offered. PMO accepted all the recommendations. The action plan has been assessed as satisfactory by the IAS. To address IAS' recommendations, PMO launched an in-depth review of the internal charge-back calculation method in January 2017. It will ensure proper documentation. It will develop a catalogue of services which will be made public and will define appropriate KPIs that will be reported to its clients. It will also provide information on the details of the costing methodology applied and on the prices and their annual revision. PMO will undertake a revision of the SLAs to further harmonise their conditions and to follow corporate guidelines once adopted. It will also seek to simplify the invoicing mechanism.

When these actions are finalised, a decision will be taken on any action to take as regards the error detected by the IAS relating to the agencies. The error is below the materiality criteria in annex 4 (calculated by PMO at EUR 150,000 for error in the calculation of the price of the basic service, which represents 1.6% of total revenues for the charge back).

- An audit on the implementation of the budget of the OLAF Supervisory Committee, which resulted in two recommendations for the PMO. The report was classified by its originator as confidential. PMO has accepted all the recommendations and the respective action plan was assessed as satisfactory by the IAS.

Out of the nine outstanding recommendations at 31 December 2015, 2 (22 %) were reported closed by the management. The closed recommendations concerned:

- "Effectiveness and efficiency of the mission management workflow" to enhance daily administration of mission processes for mission performers, authorizing officers and PMO including new IT reporting modules for ex-ante/ex-post controls;
- "Contracts related to the management of missions" for the contractor to make available a wide range of statistics or indicators on the travel business, in order to respond to any individual request from the DGs on missions, and to further help the DGs to improve the management of their mission budget).

The seven outstanding recommendations relate to:

- Audit (IAC) 'Management of accidents' insurance': one "very important" recommendation is still open, depending heavily on a long term IT application development. Implementation is expected end June 2017.

- Audit (IAC) 'Contracts related to the management of missions': the two outstanding recommendations (one "very important") have deadlines set in June 2017. They require further development of IT applications.
- Audit IAS 'HR IT Corporate Application – NAP': two recommendations remain open. Implementation is expected by June and December 2017.
- Audit IAS "Management of Absenteeism in the Offices": two recommendations remain outstanding. Implementation is expected by end December 2017.

Regarding the implementation of audit recommendations, and especially the two very important recommendations delayed, the PMO is not entirely independent due to the majority of IT developments being carried out by DG DIGIT. The impact of the delay observed in implementing the two very important recommendations on the management of missions and accident insurance files is not judged by management as impeding its assurance, as in the absence of IT developments current workflows are maintained with an appropriate level of control.

The overall conclusion of management is that the level of progress in all internal control related aspects is satisfactory and that the outstanding recommendations have no material impact on the global assurance.

### **2.1.2.2 IAS opinion**

The Internal Auditor concluded on the state of internal control in PMO.

Based on:

all work undertaken by the IAS in the period 2014-2016, namely,

- Audit on effectiveness of the management of absenteeism in the Offices (2015)
- Audit on the charge back process (2016)
- Audit on the governance, planning, monitoring and implementation of the budget line of the OLAF Supervisory Committee (2016)

and taking into account that:

- for the accepted recommendations made by the IAS in 2014-2016, management has adopted plans to implement them which the IAS considers adequate to address the residual risks identified by the auditors,
- the implementation of these plans is monitored through reports by management and through follow-up audits by the IAS,
- management has assessed a number of action plans not yet followed up by the IAS as implemented, and
- management has not rejected any critical and/or very important recommendations.

The Director of the IAS concluded that the internal control systems audited are overall working satisfactorily although a number of very important findings remain to be addressed, in line with the agreed action plans.

He also indicated that particular attention should be given to the impact of the delay observed in implementing two very important recommendations on the management of missions and accident insurance files.

### 2.1.2.3 Court of Auditors

As in previous years, the European Court of Auditors reported in Chapter 9 on Administrative Expenditure of the Institutions<sup>13</sup> of its 2015 Annual Report. They concluded that spending on "administration" was not affected by a material level of error and that they did not identify any serious weaknesses in the examined internal control systems of the institutions and bodies. The Court further estimated, based on the audit results, the most likely error rate related to ineligible and incorrectly calculated staff allowances and related benefits to be below 0.2 %<sup>14</sup>, at 0.18%.

However, the audit did note some persistent weaknesses in the management of family allowances and a small number of errors relating to the calculation of staff costs. The observation reissued by the Court, relates to the insufficient updating of family situations by staff members. The PMO acknowledged this weakness and reviewed its procedures. As from 2016, all household allowances granted on the basis of spouse's income are granted on a provisional basis, with an expiration date. A systematic follow-up of the family situation is ensured before expiry of the recovery period established under the Staff Regulations. Additionally, a proactive notification system in the IT tool system Sysper is being developed. Strengthening of the internal control system (e.g. through targeted training) and increased communication with agents (newsletters, info tours, intranet) have further mitigated the risk of weaknesses in staff cost calculations.

It is worth noting that every year, the European Court of Auditors audits a number of payment transactions in the framework of their DAS audit activities. In 2016, a sample of 21 payment transactions, was audited in order to verify the compliance of the transactions with legality & regularity criteria. The error rate was 0%.

### 2.1.2.4 Conclusion

The audit work and opinions by both internal and external auditors reveals that the internal control system in place at the PMO gives reasonable assurance regarding the achievement of the business objectives.

## 2.1.3 Assessment of the effectiveness of the internal control systems

**The Commission has adopted a set of internal control standards, based on international good practice, aimed to ensure the achievement of policy and operational objectives. In addition, as regards financial management, compliance with these standards is a compulsory requirement.**

**The PMO has put in place the organisational structure and the internal control systems suited to the achievement of the policy and control objectives, in accordance with the standards and having due regard to the risks associated with the environment in which it operates.**

The inherent risks to which the PMO is exposed are related to the main fields of activity:

- The establishment of entitlements requires profound knowledge and experience of the staff regulations and legality and regularity criteria. A decision on an entitlement has recurring material financial implications for a long period (depending on the nature of the entitlement);

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<sup>13</sup> 60 % of all administrative payments are expenditures on human resources

<sup>14</sup> 2015 ECA Annual Report - Figure 9.2 – Administration – breakdown of the estimated level of error

- A reimbursement claim can result from a decision made by another service (recruitment, mission, leave, etc.) or from an individual request from a staff member. The vast number of claims, the shared responsibility with other services and the varying complexity are also inherent risks to the achievement of PMO objectives.

The Internal Control Template and the related control indicators are attached in Annex 5.

**The PMO has assessed the internal control systems during the reporting year and has concluded that the internal control standards are implemented and functioning as intended.**

This assessment was based on the individual contributions received by all PMO's units, and consolidated globally for PMO as a whole. The evaluation of the internal control standards did not reveal material issues with regards to the reasonable assurance given by the Director. The implementation of the standards shows no deterioration compared to previous years.

Three times this year, the management held meetings to review the progress of the open audit recommendations, the status of the ex-post controls, the prioritised Internal Control Standards and the state of play of the contracts and procedures.

In the Management Plan 2016 PMO gave significant priority to the update of procedures and workflows. PMO has reviewed 58 % of its procedures, as detailed in Annex 12, and will continue in 2017, taking into account the changes due to PMO's removal, changes in IT tools and guides (e.g. Guide to Missions planned in 2017). Chapter 2.2.5 gives also more details on revisions of internal control strategies during the year. In the light of a recent IAS audit detailed in part 2.1.2.1, PMO will undertake a review of its charge back process which will be documented clearly to ensure transparency.

Twice a year, the AOSDs report on their financial validation. No material issues were detected.

PMO keeps an up-to-date register of all its exceptions and non-compliance events, which are dully notified to the Director, registered in Ares and published on MyIntracomm. During the past year, four exceptions and three non-compliance events were registered. The registry of exceptions did not register any internal control weaknesses.

Further to this, the yearly risk analysis exercise, carried out by the Internal Control Coordinator, enabled the Office to update its risk registry and helped to prioritise the Internal Control Standards for 2016. The risk analysis shows that the main risks are sufficiently managed by the Internal Control System. The exercise highlighted two critical risks regarding the high dependency of the PMO on IT applications and on its main provider DIGIT and on finding an adequate solution for replacing the mass salary payment system in the medium term.

In 2016, two sensitive posts are still occupied by the same staff member for a period surpassing the five year threshold due to resource constraints and following derogations granted in 2015. Risk analysis, performed in 2015, revealed that the most cost-efficient solution was to not remove the persons but add a level of supplementary review by management.

Finally, the results of ex-ante and ex-post controls carried out throughout the PMO in 2016 confirm that the total error rate remains consistently low. The ex-post results also provide assurance on the effectiveness of the ex-ante controls. The PMO continues to invest in improving its control strategy using the control results. The low rate of errors found in ex-post controls proves internal control is effective and results only in a relatively small number of errors to be corrected. This is supported by the low percentage of error established year after year by the Court of Auditors and the error rates found in both ex-ante and ex-post control at PMO.

In conclusion, the internal control standards are effectively implemented.

#### **2.1.4 Conclusions as regards assurance**

**This section reviews the assessment of the elements reported above (in Sections 2.1.1, 2.1.2 and 2.1.3) and draws conclusions supporting the declaration of assurance and whether it should be qualified with reservations.**

**In conclusion, management has reasonable assurance that, overall, suitable controls are in place and working as intended; risks are being appropriately monitored and mitigated; and necessary improvements and reinforcements are being implemented. The Director, in her capacity as Authorising Officer by Delegation has signed the Declaration of Assurance.**

#### **2.1.5 Declaration of Assurance**

## DECLARATION OF ASSURANCE

**I, the undersigned,**

**Director of the PMO**

**In my capacity as authorising officer by delegation**

**Declare that the information contained in this report gives a true and fair view<sup>15</sup>.**

**State that I have reasonable assurance that the resources assigned to the activities described in this report have been used for their intended purpose and in accordance with the principles of sound financial management, and that the control procedures put in place give the necessary guarantees concerning the legality and regularity of the underlying transactions.**

**This reasonable assurance is based on my own judgement and on the information at my disposal, such as the results of the self-assessment, ex-post controls, the limited conclusion of the Internal Auditor on the state of control.**

**Confirm that I am not aware of anything not reported here which could harm the interests of the institution.**

**Brussels, 27 April 2017**

***[signed]***

**Veronica Gaffey**

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<sup>15</sup> True and fair in this context means a reliable, complete and correct view on the state of affairs in the Service.

## 2.2 Other organisational management dimensions

### 2.2.1 Human resource management

During 2016, the Commission adopted the Communication "Synergies and Efficiencies in the Commission – New ways of working", which foresees the centralisation of several support functions, including the HR, mail clerk and 'gestionnaire des biens' functions. Throughout 2016, the PMO local HR function was closely involved in the preparatory work to support DG HR and OIB to put in place these new delivery models, while continuing to perform its role of providing support to PMO management and staff in the field of HR management.

The PMO pays particular attention to internal mobility, to ensure an adequate talent pool and to promote staff engagement. A significant number of experienced staff is expected to retire in the coming years, requiring adequate succession planning to ensure business continuity for key functions. Ensuring the right person in the right place at the right time, internal mobility, nurturing of a sufficiently deep talent pool and staff engagement are, therefore, the major pillars of the PMO's human resources and internal communication policies. As an illustration, during 2016, 53 internal staff moves took place.

Annex 2 gives detailed information on the achievements of PMO's objectives and output for 2016.

The following table shows the total human resources available within the Office at year-end:

*(Post and/or person)*

<b>ABB Activity</b>	<b>Officials and temporary staff</b>	<b>Contractual agents</b>	<b>Other external personnel</b>	<b>Total</b>
Administration	159 <sup>(1)</sup>	404 <sup>(2)</sup>	17	<b>580</b>

<sup>(1)</sup> 159 job quotas available in Sysper on 31/12/2016: 32 AD and 127 AST posts.

<sup>(2)</sup> 404 contractual agents on 31/12/2016. 219 paid on budgetary appropriations, 185 paid on earmarked revenues, including 22 paid by the JRC and the University of Florence.

### 2.2.2 Better regulation

Not applicable.

### 2.2.3 Information management aspects

The Commission adopted a new corporate strategy for data, knowledge and information management in October 2016. The new strategy establishes a corporate framework while leaving room for DGs to develop and implement their own approaches tailored to their unique needs.

PMO has always kept and will continue to keep the number of registered documents that are not filed to a strict minimum. To achieve this, reports are produced and sent to the DMO correspondents in the Units. In 2017, PMO will analyse the possibility to open files without personal data to all units and also to assess the feasibility to open access to other DG's.

## **2.2.4 External communication activities**

External communication for the Office relates to communication for the staff in general (from the Commission, other Institutions, retirees, etc.). There is no communication to EU citizens and as a result no indicator from the Eurobarometer metrics.

In terms of external communication to staff and pensioners, PMO aims to provide high-quality information, tailored to their specific needs. For example, PMO published information for retired people in 'VOX' and 'Info Senior', the newsletters of the associations of retired staff. Information published on the different media is regularly updated. Requests for information and questions asked via PMO contact were handled effectively (see part I on key results relating to specific objective 2 on "Offering better quality of customer service").

In terms of internal communication, PMO informed the staff of the Office about the subjects that concern them, aiming to promote within the office a strong team spirit and commitment to providing quality service. In 2016 PMO launched a communication campaign related to the move of the PMO's offices in Brussels: setting up of a collaborative space, publication of videos about new communication tools and new work practices in open space, etc.

Please refer to Annex 2 and 12 for further details.



## 2.2.5 Measuring efficiency, effectiveness and economy of management

To illustrate the commitment to continuously try to improve PMO's functioning, the following examples illustrate how adjustments to procedures and structures will help the PMO advance in terms of efficiency, effectiveness and economy.

### **Example 1: Dynamic Resource distribution: Reorganisation of teams**

Measures such as the increase in teams' sizes and redistribution of tasks have allowed improvements of back-up systems, simplification (the same file handler is now requested to carry out correlated activities previously split over different teams and colleagues, so moving towards single entry point for the "customer" and consistency of approach), efficiency gains in procedures and resource management, more flexibility in management, file handlers to get to know different domains and be more motivated.

In 2016, the team managing salaries and other entitlements continued to balance workloads and available resources, where necessary via re-deployment of relevant staff (e.g. centralisation of certain tasks by setting up an helpdesk and transferring some colleagues from different teams).

A reflexion process undertaken to redefine the strategic and operational priorities with focus on a better service to JSIS affiliates, resulted in a reorganization of the JSIS unit, with a creation of a new (third) sector, Services for the JSIS members, and the creation of a "simplification team" within the Central Office. Staff has been reallocated based on interest of the concerned colleagues for direct contact with affiliates. The programming and management of different trainings for JSIS members has been centralised in the central office. To optimise the use of resources and better allocate some important tasks which have an impact on the image of PMO, in Ispra a new team was created to deal with the management of pre-complaints files. Finally, with a view to improving efficiency while bearing in mind the need to uphold staff motivation, a different handling method of phone calls was put in place in the JSIS helpdesk call centre. This is leading to better than expected positive results, with a reduction of the calling waiting times, a more reachable service and, thus, more clients benefitted from JSIS assistance.

The Visa and the newly created Laissez-passer teams were co-located in order to increase flexibility and improve the quality of service to the clients (reinforced back-up system to handle peak volumes of visa or Laissez-Passer requests) and to rationalise/optimize the use of the available resources (human resources, equipment and buildings) for the two sectors. As of 2016, the Visa and Laissez-passer teams have taken the necessary measures towards increasing their level of cooperation and achieving major synergies in their work. These measures include training and participation in the activities of the other team, which allows for better management during periods of personnel shortage and workload peaks. In addition, the mission performers are offered an integrated service, since both travel documents issuance and visa requests are dealt with at the same location, during the same opening hours and by agents with expertise in both areas.

Finally, the introduction of a paperless workflow in the pension process, associated with a widespread use of Ares, is expected to generate an increase in efficiency.

## **Example 2: Continued improvements of internal control methodologies**

A first large exercise, concentrating mainly on the operational units involved in reimbursement of claims (medical, mission and expert claims), enhanced the performance of the internal control structures of the four units involved in all aspects of sound financial management (efficiency, effectiveness and economy). This was completed in 2014. However, changing operational environments meant that further improvements are now possible. Hence, renewed focus has been put on the areas where the IT tools are evolving, notably in the field of 'reimbursement of medical claims', 'settling individual entitlements and salaries' and 'establishment of pensions and related entitlements'. The internal control structures in these areas are being revised, adhering to the principles of sound financial management to deliver an increase in efficiency and effectiveness.

As regards salaries, the recommendations of the Court of Auditors were implemented as detailed in § 2.1.2.3, with end dates for some allowances allowing a verification by PMO before expiration of the recovery period established under the Staff Regulations. Further strengthening of the internal control system (targeted training of file handlers, exceptions reporting) was applied to reduce even further the risk of weaknesses in staff costs' calculation.

For pensions, the nature of ex ante operational controls was revised while the coverage was kept at 100%; the sampling method will be further reviewed in 2017.

In the field of medical claims, following a risk analysis and based on the results of previous controls, the control strategy regarding the invoices introduced in the framework of direct billing from hospitals was lightened to focus on the higher risk areas while putting in place random sampling in the other areas. Another gain in effectiveness was achieved by integrating the ex-ante controls in the Assmal2 IT module, ensuring a high degree of reliability in the application of the sampling method.