



**2014**

# **Annual Activity Report**

**Paymaster's Office**

**PMO**





## *Foreword*

*2014 saw the PMO confront and adapt to the main challenge ahead: an expanding activity, coupled with a reallocation of staff. To fulfil its vocation to become the settlement and payroll agency for the whole of the European Union Institutions and bodies, the Office reached out to the other institutions, delivering an increasing number of payroll related activities. After a new Service Level Agreement (SLA) for the delivery of additional services was signed with the Court of Auditors in June 2014, further agreements were concluded with other EU bodies: the Council (pensions), Parliament (unemployment benefits at the end of the legislature), Committee of the Regions (pensions) and nearly all EU agencies. While the addition of new activities was entirely rebased on real average costs, it required an increased focus on maintaining an efficient and effective functioning of activities within the Office. This translated in important IT investments and improvement of the PMO's operational structure. In 2014, this was successfully realised in several units, resulting in major IT developments and the restructuring of operational processes and internal control methodology. The PMO succeeded in achieving its objectives for 2014 but also laid the foundations for an increasingly lean, high-quality and efficient activity at the service of a growing number of clients.*

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# INTRODUCTION

## The PMO in Brief

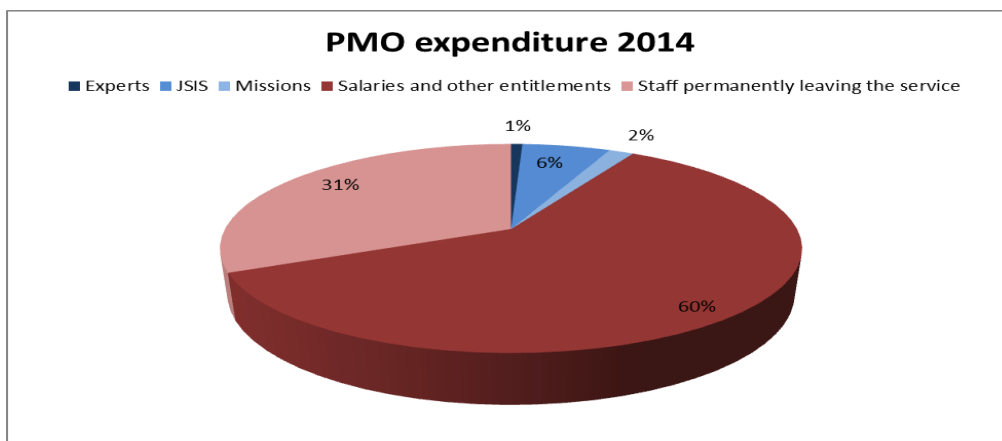
The PMO aims to be an organisation that is recognised across the Commission and other institutions, agencies and bodies for its commitment, quality and efficiency.

The administrative Offices' core business consists in providing administrative support to the Commission as well as other institutions and agencies. In this framework, the PMO (Paymaster Office) ensures the:

- establishment of individual financial rights for staff, pensioners and rights holders;
- payment of salaries and allowances;
- payment of pensions, transfers of pensions rights;
- reimbursement of sickness and accident insurance expenses;
- reimbursement of missions expenses and the emission of visas;
- reimbursement of experts' and candidates' expenses;
- payment of unemployment allowances.

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

| PMO expenditure 2014                   | Expenditure<br>(rounded figures) | Percentage<br>(rounded figures) |
|--|----------------------------------|---------------------------------|
| Experts                                | 36,200,000                       | 1 %                             |
| Joint Sickness Insurance Scheme (JSIS) | 281,500,000                      | 6 %                             |
| Missions                               | 79,120,604                       | 2 %                             |
| Salaries and other entitlements        | 2,890,770,263                    | 60 %                            |
| Staff permanently leaving the service  | 1,517,345,798                    | 31 %                            |
| <b>Total</b>                           | <b>4,804,936,666</b>             | <b>100 %</b>                    |



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

- extra-budgetary managed funds: JSIS and Unemployment Fund: EUR 281.5 million and EUR 25 million respectively;
- expenditure in areas where the PMO only manages payment appropriations:
  - 'Research expenditure' (salaries of officials, contract staff and SNEs) EUR 540 million;
  - 'Experts and missions' – 'contract staff in delegation': EUR 130 million and EUR 37 million respectively.

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 entity enjoys a certain degree of autonomy in the fields of financing and staff; among others through a flexible use of its operating budget due to its registration on only one budget line and a staffing table independent from that of the Commission;
- The PMO is attached to the Directorate General for Human Resources and Security (DG HR);  
The activities of the Office are supervised by a Management Board, chaired by the Director General of DG HR and composed of eight members representing the main stakeholders and clients of the Office. The annual activity report, management plan and certain important files (e.g. follow-up of the JSIS financial equilibrium) are submitted to this committee. The working arrangement between the Vice-President and the Office are regulated by the internal control standards, that stipulate a regular contact, and by an administrative agreement between the Vice-President's cabinet and the HR bodies.

## The Year in Brief

Building on the progress made towards this goal in previous years, the focus in 2014 was put on the following main challenges:

- to ensure a timely and effective implementation of any changes to the staff regulations;
- to maintain and improve overall quality of service, including through the deployment of user-oriented IT developments (such as the new business model of the PMO Contact service), and drive forward simplification;
- to maintain efforts to streamline procedures, enhance controls and improve internal organisation and IT, so as to optimise resources and improve productivity in the face of budgetary restrictions, increasing volumes and additional tasks and responsibilities;
- to enhance communication and team development within PMO so as to strengthen service culture and ethical awareness, boost employee engagement and motivation and promote internal mobility.

In this framework, the PMO has continued the effort building on improvements made in previous years: simplification of systems and procedures, reinforcement of the internal organisation, development and implementation of new information systems, increased level of control and integration of additional tasks and responsibilities. These improvements resulted in an increased overall level of performance.

The 2014 Management Plan was built around three **operational objectives** which encompass all of the PMO's operations:

- establish and manage rights and pay salaries and pensions fairly, accurately and promptly;
- reimburse expenses accurately and promptly, manage funds properly and set up implementing rules in an optimal fashion;
- provide good quality information and client services.

These objectives, and the key actions developed within them, provide an overview of what the PMO delivered in 2014. The three specific operational objectives are also driven by two more **horizontal themes**:

- efforts to simplify across the range of the PMO's work;
- the inter-institutional dimension of the PMO's work.

Underpinning the delivery of these operational objectives are three **management objectives** which bring together the full range of management activities required to deliver the operational objectives:

- management, engagement and communication;
- ensure sound financial management and effective controls, manage risks and business continuity, and report on performance;
- ensure the right IT systems.

The next page shows the evolution of activities over the years 2013-2014. The following section, the executive summary, gives further details on the accomplishment of the abovementioned objectives.

All data included in the annual activity report was extracted from the PMO's operational databases.

## Activities and resources 2013-2014

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

| Activities  | Short description  | 2013            |                          |                      | 2014            |                          |                | Evolution |          |
|---|--|-----------------|--------------------------|----------------------|-----------------|--------------------------|----------------|-----------|----------|
|   |  | Number of files | Human resources (31 DEC) | Total spent          | Number of files | Human resources (31 DEC) | Total spent    | Files     | HR       |
| Establish individual rights   | Establishment, management and payment of the financial entitlements of staff in activity.  | 103,342         | 69                       |                      | 138,734         | 68                       |                | 34.25 %   | -1.45 %  |
| Calculation and payment of salaries per month                       |  | 40,248          | 68                       | 2,775.0              | 41,183          | 67                       | 2,847.3        | 2.32 %    | -1.47 %  |
| 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.  | 20,779          | 39.5                     | 1,364.0              | 21,750          | 42                       | 1,458.4        | 4.67 %    | 6.33 %   |
| Manage transfers of pension rights                                  | Management of transfers of pension rights from external schemes towards the Pension Scheme of the European Union's Institutions.   | 3,030           | 31                       | -52.1 <sup>(1)</sup> | 3,504           | 28                       | -91.3          | 15.64 %   | -9.68 %  |
| Manage severance grants and transfers 'OUT' of pension rights       | 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. | 664             | 7.5                      | 33.2                 | 784             | 9                        | 34.7           | 18.07 %   | 20.00 %  |
| Calculation and payment of unemployment allowances                  | Establishment of rights and payment of unemployment benefits for former temporary and contract staff.  | 2,156           | 10                       | 21.0                 | 2,399           | 11                       | 24.3           | 11.27 %   | 10.00 %  |
| Calculation and reimbursement of sickness insurance expenses (JSIS) | Calculation and reimbursement of sickness / accident insurance expenses.   | 2,529,140       | 203                      | 281.1                | 2,581,835       | 203                      | 281.5          | 3.27 %    | 0.00 %   |
| Calculation and reimbursement of accident insurance expenses        |  | 1,749           | 18                       | <sup>(2)</sup>       | 1,765           | 22                       | <sup>(2)</sup> | 0.91 %    | 22.22 %  |
| Calculation and reimbursement of mission expenses                   | Calculation and reimbursement of mission expenses.   | 106,509         | 59                       | 79.4                 | 111,434         | 60                       | 79.1           | 4.62 %    | 1.69 %   |
| Emission of visas   | Issuing visa for staff going on mission or taking up duties in EU delegation.  | 4,593           | 6.5                      | 0.1                  | 4,218           | 5                        | 0.1            | -8.16 %   | -23.08 % |



| Activities   | Short description  | 2013            |                          |                | 2014            |                          |                | Evolution |         |
|--|--|-----------------|--------------------------|----------------|-----------------|--------------------------|----------------|-----------|---------|
|  |  | Number of files | Human resources (31 DEC) | Total spent    | Number of files | Human resources (31 DEC) | Total spent    | Files     | HR      |
| Calculation and reimbursement of experts' 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. | 68,310          | 17.5                     | 48.6           | 68,474          | 17                       | 36.2           | 0.24 %    | -2.86 % |
| Manage daily allowances for SNEs                   | Manage daily allowances for SNEs.  | 1,791           | 1                        | 44.4           | 1,764           | 1                        | 43.4           | -1.51 %   | 0.00 %  |
| Other  |  |                 |                          | 3.5            |                 |                          | 6.9            |           |         |
| Total operational activities                       |  |                 |                          | 4,650.3        |                 |                          | 4,811.9        | 3.48 %    | 0.57 %  |
| Total operating expenditure                        |  |                 |                          | 42.5           |                 |                          | 42.9           |           |         |
| Operational activities headcount                   |  |                 | 530                      |                |                 | 533                      |                |           |         |
| Horizontal activities headcount (overhead)         |  |                 | 36                       |                |                 | 36                       |                |           |         |
| <b>Total</b>                                       |  |                 | <b>566</b>               | <b>4,692.8</b> |                 | <b>569</b>               | <b>4,854.8</b> |           |         |

<sup>(1)</sup> Recovery orders for transfer IN, amount not included in the total operational expenditure of EUR 4,650.3 million.

<sup>(2)</sup> Amounts spent by the Commission, included in JSIS, the rest is paid by insurance companies and is not included in this table.

## Executive Summary

The Annual Activity Report is a management report of the Director of the PMO to the College of Commissioners. It is the main instrument of management accountability within the Commission and constitutes the basis on which the Commission takes its responsibility for the management of resources by reference to the objectives set in the management plan and the efficiency and effectiveness of internal control systems, including an overall assessment of the costs and benefits of controls..




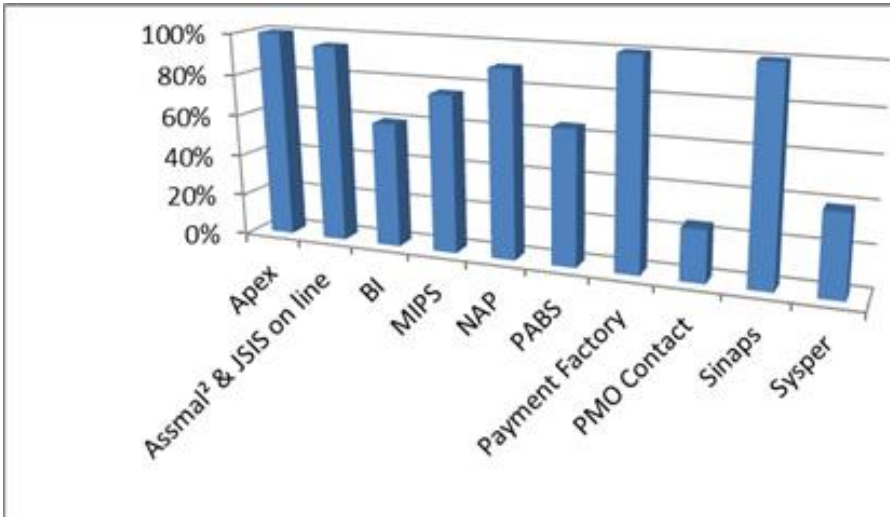
## Key Performance Indicators

This subsection presents the five most relevant key performance indicators for the policy (upper part of the table) and for the DG (lower part of the table).

| Result/Impact indicator (description) | Trend | Target (or milestones)   | Latest known results as per Annual Activity Report   |
|---------------------------------------|-------|--|--|
| Ultimate impact                       | ☺     | <ul style="list-style-type: none"> <li>Establish and manage rights and pay salaries and pensions fairly, accurately and promptly.</li> </ul>                             | Achieved   |
|                                       | ☺     | <ul style="list-style-type: none"> <li>Reimburse expenses accurately and promptly, manage funds properly and set up implementing rules in an optimal fashion.</li> </ul> | Achieved, with margin for improvement regarding the payment delay in the field of expert expenditure |



| 1. Timely and effective implementation of all changes to Staff Regulations   | ☺                    | 100 %: All material changes were implemented within a reasonable timeframe. |          |                      |                                  |                                   |    |     |                                   |    |      |                                   |     |     |
|--|----------------------|---|----------|----------------------|----------------------------------|-----------------------------------|----|-----|-----------------------------------|----|------|-----------------------------------|-----|-----|
| 2. Average time taken to treat claims  | ☺                    | Missions claims   |          |                      |                                  |                                   |    |     |                                   |    |      |                                   |     |     |
|  | ☹                    | Experts claims  |          |                      |                                  |                                   |    |     |                                   |    |      |                                   |     |     |
|  | ☺                    | Medical claims  |          |                      |                                  |                                   |    |     |                                   |    |      |                                   |     |     |
| <p><b>% of claims reimbursed later than 30 days</b></p> <table border="1"> <caption>% of claims reimbursed later than 30 days</caption> <thead> <tr> <th>Category</th> <th>Objectives less than</th> <th>Results : % greater than 30 days</th> </tr> </thead> <tbody> <tr> <td>reimbursement of mission expenses</td> <td>5%</td> <td>~2%</td> </tr> <tr> <td>reimbursement of experts expenses</td> <td>5%</td> <td>~25%</td> </tr> <tr> <td>reimbursement of medical expenses</td> <td>10%</td> <td>~5%</td> </tr> </tbody> </table>       |                      |   | Category | Objectives less than | Results : % greater than 30 days | reimbursement of mission expenses | 5% | ~2% | reimbursement of experts expenses | 5% | ~25% | reimbursement of medical expenses | 10% | ~5% |
| Category   | Objectives less than | Results : % greater than 30 days  |          |                      |                                  |                                   |    |     |                                   |    |      |                                   |     |     |
| reimbursement of mission expenses  | 5%                   | ~2%   |          |                      |                                  |                                   |    |     |                                   |    |      |                                   |     |     |
| reimbursement of experts expenses  | 5%                   | ~25%  |          |                      |                                  |                                   |    |     |                                   |    |      |                                   |     |     |
| reimbursement of medical expenses  | 10%                  | ~5%   |          |                      |                                  |                                   |    |     |                                   |    |      |                                   |     |     |
| <p><b>Claims reimbursed after no later than 15/20 days</b></p> <table border="1"> <caption>Claims reimbursed after no later than 15/20 days</caption> <thead> <tr> <th>Category</th> <th>Objectives less than</th> <th>Results : Average time in days</th> </tr> </thead> <tbody> <tr> <td>reimbursement of mission expenses</td> <td>15</td> <td>9</td> </tr> <tr> <td>reimbursement of experts expenses</td> <td>15</td> <td>22</td> </tr> <tr> <td>reimbursement of medical expenses</td> <td>20</td> <td>14</td> </tr> </tbody> </table> |                      |   | Category | Objectives less than | Results : Average time in days   | reimbursement of mission expenses | 15 | 9   | reimbursement of experts expenses | 15 | 22   | reimbursement of medical expenses | 20  | 14  |
| Category   | Objectives less than | Results : Average time in days  |          |                      |                                  |                                   |    |     |                                   |    |      |                                   |     |     |
| reimbursement of mission expenses  | 15                   | 9   |          |                      |                                  |                                   |    |     |                                   |    |      |                                   |     |     |
| reimbursement of experts expenses  | 15                   | 22  |          |                      |                                  |                                   |    |     |                                   |    |      |                                   |     |     |
| reimbursement of medical expenses  | 20                   | 14  |          |                      |                                  |                                   |    |     |                                   |    |      |                                   |     |     |

| <p>3. Control on establishment of entitlements, correct calculation and payment of pensions and salaries</p>  |  | <p>Ex-ante, a posteriori and ex-post control reveal that the establishment of salaries, pensions and related entitlements have been carried out without material errors. The payment of these entitlements has also been carried out without material errors, as indicated through ex-post verification.</p>   |        |                        |                        |      |      |      |    |      |      |      |     |      |      |      |                 |      |             |      |        |      |        |      |
|---|---|--|--------|------------------------|------------------------|------|------|------|----|------|------|------|-----|------|------|------|-----------------|------|-------------|------|--------|------|--------|------|
| <p>4. Value for money:<br/>I. Missions (Number of tariff agreements concluded)<br/>II. Medical services (Agreements with partners approved and/or signed)</p> |  | <p>Preliminary results: <b>EUR 1.5 million</b> saved over 12 month period due to negotiated tariffs, more specifically <b>14 tariff agreements</b> covering <b>23 airline companies</b>.</p> <p>Medical Services: Call for expression of interest was published in the Official Journal on 15/10/2014, calling for submissions from providers of medical and paramedical services in 16 Member States. Negotiation of agreements with providers in the Member States is ongoing. Certain agreements already concluded with Brussels-based hospitals.</p>   |        |                        |                        |      |      |      |    |      |      |      |     |      |      |      |                 |      |             |      |        |      |        |      |
| <p>5. IT rationalisation: launch of new modules</p>   |  | <p>78 % of modules operational. For further details: cf. reference in Heading 1.1.6.</p>  <table border="1"> <caption>IT Module Operational Status</caption> <thead> <tr> <th>Module</th> <th>Operational Status (%)</th> </tr> </thead> <tbody> <tr> <td>Assmal² &amp; JSIS on line</td> <td>100%</td> </tr> <tr> <td>Apex</td> <td>100%</td> </tr> <tr> <td>BI</td> <td>~55%</td> </tr> <tr> <td>MIPS</td> <td>~70%</td> </tr> <tr> <td>NAP</td> <td>~85%</td> </tr> <tr> <td>PABS</td> <td>~55%</td> </tr> <tr> <td>Payment Factory</td> <td>~90%</td> </tr> <tr> <td>PMO Contact</td> <td>~10%</td> </tr> <tr> <td>Sinaps</td> <td>~85%</td> </tr> <tr> <td>Sysper</td> <td>~15%</td> </tr> </tbody> </table> | Module | Operational Status (%) | Assmal² & JSIS on line | 100% | Apex | 100% | BI | ~55% | MIPS | ~70% | NAP | ~85% | PABS | ~55% | Payment Factory | ~90% | PMO Contact | ~10% | Sinaps | ~85% | Sysper | ~15% |
| Module  | Operational Status (%)  |  |        |                        |                        |      |      |      |    |      |      |      |     |      |      |      |                 |      |             |      |        |      |        |      |
| Assmal² & JSIS on line  | 100%  |  |        |                        |                        |      |      |      |    |      |      |      |     |      |      |      |                 |      |             |      |        |      |        |      |
| Apex  | 100%  |  |        |                        |                        |      |      |      |    |      |      |      |     |      |      |      |                 |      |             |      |        |      |        |      |
| BI  | ~55%  |  |        |                        |                        |      |      |      |    |      |      |      |     |      |      |      |                 |      |             |      |        |      |        |      |
| MIPS  | ~70%  |  |        |                        |                        |      |      |      |    |      |      |      |     |      |      |      |                 |      |             |      |        |      |        |      |
| NAP   | ~85%  |  |        |                        |                        |      |      |      |    |      |      |      |     |      |      |      |                 |      |             |      |        |      |        |      |
| PABS  | ~55%  |  |        |                        |                        |      |      |      |    |      |      |      |     |      |      |      |                 |      |             |      |        |      |        |      |
| Payment Factory   | ~90%  |  |        |                        |                        |      |      |      |    |      |      |      |     |      |      |      |                 |      |             |      |        |      |        |      |
| PMO Contact   | ~10%  |  |        |                        |                        |      |      |      |    |      |      |      |     |      |      |      |                 |      |             |      |        |      |        |      |
| Sinaps  | ~85%  |  |        |                        |                        |      |      |      |    |      |      |      |     |      |      |      |                 |      |             |      |        |      |        |      |
| Sysper  | ~15%  |  |        |                        |                        |      |      |      |    |      |      |      |     |      |      |      |                 |      |             |      |        |      |        |      |

## Policy highlights of the year (executive summary of part I)

In 2014, in spite of constrained resources<sup>2</sup> and a continued increase in workload (+ 3.48 % compared to 2013), the PMO has managed to maintain the high levels of service established in previous years. The following achievements are particularly worth highlighting:

- **Special focus remains on the modernisation of Information Systems (IS) for the PMO and its clients:** In 2014, successful launch of IS modules (front and back office) in main operational activities: PABS, SysPer, MiPS, Assmal2.
- The PMO endeavours to provide **best value for money** to those travelling on a mission through the negotiation of reduced rates with airlines that serve destinations travelled to by staff members. Preliminary results (report to be finalised by April 2015) show that this strategy is delivering results: EUR 1.5 million saved over a 12 month period thanks to 14 negotiated tariff agreements covering 23 airline companies.
- Equally in the framework of best value for money: an analysis carried out in 2014 revealed that the most recent framework contract covering accident insurance (covering the staff of multiple institutions) resulted in a material decrease in premiums paid producing **economies of approximately EUR 6.3 million**.
- **Effectiveness and efficiency of operational structure:** the implementation of an entirely revamped operational workflow in the unit dealing with the reimbursement of mission claims results in an operational structure that – in combination with the new MiPS Information System – allows for an effective and lean functioning. Equally, the new Information System (PABS) in the unit dealing with pensions, gradually being implemented over 2014-2015, starts to deliver results. This is a necessary process in the context of budgetary restrictions and continuously increasing volumes and additional tasks and responsibilities.
- **Increased focus on effectiveness, efficiency and economy of operations:** through the revision of control methodologies in three operational units completed in 2014, and a further planned review in the remaining operational units.
- The new guidelines issued by DG BUDG regarding the chargeback procedure have been integrated by the PMO through a **revision of the pricing mechanism in existing Service Level Agreements (SLA), both with the Institutions and with the agencies** (+/- 50 agreements). Pricing is now based on actual incurred average costs.
- The inter-institutional role of the PMO was confirmed by the conclusion of a **new SLA with the Court of Auditors** for the delivery of additional services. Further agencies (EDA, SRB, S2R and BBI) signed an agreement and other agencies extended their agreement from a limited service contract to a full service contract (e.g. EUROJUST). Further, new SLAs were signed with the European Parliament, the Committee of the Regions and the Council. Negotiations with the Court of Justice also have advanced in 2014, confirming the PMO's vocation to gradually become the settlement and payroll agency of the European Union;

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<sup>2</sup> The average workload is the weighted average of the increase in files processed per activity (cf. reference in 'The Year in Brief') versus the number of staff working in the respective activity (with exception of the number of establishment of entitlements', as these are based on estimated figure).

- **Implementation of the anti-fraud strategy:** The global PMO anti-fraud strategy was adopted in 2013 and up to 80 % of the related two year action plan has been implemented in 2014.

Less satisfactory has been the communication with the affiliates, which is an important objective for the PMO. The results for 2014 indicate that there is an urgent need for improvement. The 2015 Management Plan addresses this issue by integrating communication through PMO Contact (mail and telephone communication) within the five Key Indicators.

## **Key conclusions on resource management and internal control effectiveness (executive summary on part 2 and 3)**

In accordance with the governance statement of the European Commission, the PMO carries out 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. As required by the Financial Regulation, the Director 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 PMO has assessed the effectiveness of its key internal control systems during the reporting year and has concluded that the internal control standards are effectively implemented.

Furthermore, the PMO has taken measures to further improve the efficiency of its internal control systems in the area of "Staff allocation and mobility" (ICS 3), "Processes and procedures" (ICS 8) and "Operational structure" (ICS 7); these measures are thoroughly documented in Part 3 of the AAR.

In addition, the PMO has systematically examined the available control results and indicators, including those aimed at supervising 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. Further details can be found in part 2.

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 his capacity as Authorising Officer by Delegation has signed the Declaration of Assurance.

## **Information to the Commissioner**

The main elements of this report and assurance declaration have been brought to the attention of Vice-President GEORGIEVA, responsible for Budget and Human Resources.

# 1. POLICY ACHIEVEMENTS

*Harmonization and simplifications of the 2014 Management Plan (MP) was carried out during 2014, aiming at aligning it to the current Standing Instructions and increasing clarity and quality of reporting. As a result, there might be minor discrepancies in formulations between the 2014 MP and those presented in this report. The alignment of the MP to the current Standing Instructions has only been fully implemented for the 2015 exercise.*

## 1.1 Achievement of general and specific objectives

### 1.1.1 Correctly establish and manage individual rights and pay salaries, pensions and allowances on time

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 10, item 1.1.

| Specific objectives (all non-spending)   |   |   |
|--|---|---|
| 1 Establish and manage all rights and obligations related to the Staff Regulations accurately and within a reasonable delay at each event having an impact on an individual's rights (entry into service, departure, birth, marriage, pension transfer, etc.). |   |   |
| 2 Ensure the correct calculation of salaries for all EU institutions, agencies and other bodies, payment of salaries for the Commission, and payment of pensions and unemployment allowances for all EU institutions, agencies and other bodies.               |   |   |
| Result indicator   | 2014 Target   | Current situation (as achieved)   |
| 1 Entitlements: number of entitlements established correctly, correct calculation and payment of pensions and salaries.  | Error rate ex post controls < 1 % of the amount established annually.   | < 1 %   |
| 2 Controls including with partners: financial impact.  | Error rate of less than 1 % of the amount established annually.   | < 1 %   |
| 3 Time to execute the payment.   | Salaries: paid in due time<br><br>Unemployment: > 90 % of payments to the Accredited Parliamentary Assistants (APA) executed within 30 calendar days. | 100 %<br><br>> 90 %   |
| 4 Number of Article 90 complaints upheld.  | < 10 % of files treated.  | 9.5 % -> Figures for 2014: 486 received, 357 closed of which 34 upheld (9.5 %). |

### 1.1.2 Timely reimburse expenses and optimise management of funds, implementing rules and contracts

Apart from the average reimbursement time regarding the expert claims, all targets related to the specific objectives have been met. In the field of expert claims, a number of elements made it difficult to achieve the targets concerning payment delay. The main element relates to a reduction of staff with two persons, combined with an unexpected surge in received files at the start of 2014. In the process of drafting the 2015 MP targets, an evaluation of the current result indicators and related targets revealed that an increase of the payment delay target up to 20 days would strike a right balance in ensuring a prompt and accurate reimbursement of expert claims while making optimal use of the limited (decreased) resources available. The 2015 MP target for expert payment delays has therefore been adjusted accordingly. Further details regarding the main outputs related to this objective can be found in Annex 10, item 1.2.

| Specific objectives (all non-spending)  |   |  |
|---|---|--|
| 1 Ensure the prompt and accurate reimbursement of medical, mission and experts expenses.  |   |  |
| 2 Ensure the effective management of contracts, implementing rules and the Joint Sickness Insurance Scheme and the unemployment fund including their financial balance. |   |  |
| Result indicator  | 2014 Target   | Current situation (as achieved)  |
| 1 Average reimbursement time.   | Experts: 15 days<br>Missions: 15 days<br>Medical expenses: 20 days          | Experts: 22 days<br>Missions: 9 days<br>Medical expenses: 14 days  |
| Average reimbursements paid after 30 calendar days.   | Experts: < 5 %<br>Missions: < 5 %<br>Medical expenses < 10 %                | Experts: 28 %<br>Missions: 1 %<br>Medical expenses 6 %   |
| Average reimbursements paid within 20 calendar days.  | Unemployment: 100 % paid within 20 calendar days.                           | Unemployment: 100 % paid within 20 calendar days.  |
| 2 Financial transactions: Error rate.   | All reimbursements: financial error rate < 1 % of the amount paid annually. | All type of reimbursements: financial error rate < 1 % of the amount paid annually.  |
| 3 JSIS: financial balance.  | Operational deficit is monitored and controlled.                            | The operational deficit may not exceed 5 % of the JSIS global assets.<br>The JSIS global assets may not decrease by more than 5 % compared to the previous year. |
| 4 Unemployment fund: financial balance.   | Operational result is monitored closely.                                    | Immediate reporting to DG HR in case the unemployment fund falls below EUR 3 million.  |

### 1.1.3 Ensure a timely distribution of pertinent information and client services of high quality

Communication with the affiliates is an important objective for the PMO. The results for 2014 indicate that there is an urgent need for improvement. The 2015 Management Plan addresses this issue by integrating communication through PMO Contact (mail and telephone communication) within the five Key Indicators. Further details on the main outputs related to this objective can be found in Annex 10, item 1.3.

| <b>Specific objectives (non-spending)</b>   |   |   |
|---|---|---|
| 1 Provide prompt, good quality and relevant information and ensure high quality client services across the board. |   |   |
| <b>Result indicator</b>   | <b>2014 Target</b>  | <b>Current situation (as achieved)</b>  |
| 1 Volume of mails to PMO Contact handled within 15 working days - Feedback to management.                         | 90 % of answers given within 10 working days.<br>100 % of answers given within 15 working days. | 77.5 % were processed within 15 working days<br>Average answering time: 14 working days                                   |
| 2 Volume of calls to PMO Contact answered within 120 seconds.   | 50 % of calls answered within 120 seconds   | Between January and December 2014, PMO Contact answered 9,470 calls, 12.94 % were answered within the 120 seconds target. |
| 3 Visas: Continue to offer an excellent visa service to the mission performers.                                   | 100 % of visas delivered on time  | 100 % of visas delivered on time.   |

### 1.1.4 Management, engagement and communication

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 10, item 1.4.

| <b>Specific objectives (non-spending)</b>  |  |   |
|--|--|---|
| 1 Recruit, train, assess, motivate and retain highly qualified staff so that operations of the Office are conducted in an effective and efficient way and the promotion of equal opportunities is ensured. Continue to develop, implement, monitor and adapt an effective internal communication strategy. |  |   |
| <b>Result indicator</b>  | <b>2014 Target</b>   | <b>Current situation (as achieved)</b>  |
| 1 Rate of satisfaction with 'My PMO' website.  | At least 70 % satisfied with 'My PMO' website.   | At least 83 % are satisfied with 'My PMO' website (staff survey) and 10 % very satisfied.   |
| 2 Percentage of staff having valid objectives in SysPer.   | 100 % of deadlines for completion of the appraisal procedures have been respected.<br>100 % of relevant job descriptions and objectives validated in the system. | 100 %<br><br>100 % of relevant job descriptions and 89 % of objectives validated in SysPer. |



| <b>Specific objectives (non-spending)</b> |   |  |
|---|---|--|
| 3 Absenteeism rate                        | Absenteeism rate reduced by at least 0.25 % points in 2014 (6.26 % on 31/12/2013) | Absenteeism rate reduced by 0.29 % points in 2014 (5.97 % on 31/12/2014) |

### **1.1.5 Ensure sound financial management, effective internal control, risk management and business continuity; measure and report on performance**

All targets related to the specific objectives, with exception of the targets related to the implementation of audit recommendations, have been met. The growing number of recommendations oriented towards IT developments (up to 8 at the end of December) results in longer implementation delays and a growing dependence from DG DIGIT. As a result, it has not been possible to achieve the 80 % mark. The same issue resulted in the number of very important recommendations not being reduced to zero at year-end (one was closed early in 2015).

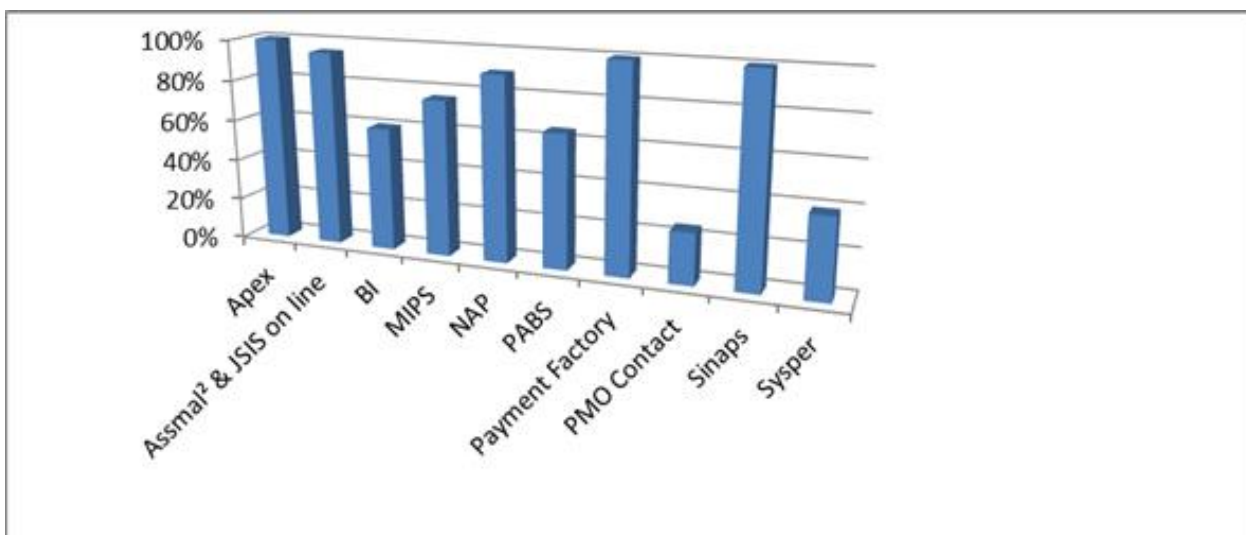
Further details on the main outputs related to this objective can be found in Annex 10, item 1.5.

| <b>Specific objectives (all non-spending)</b>  |   |   |
|--|---|---|
| 1 Manage the spending of financial resources in such a way that sound financial management is ensured throughout the Office's activities.  |   |   |
| 2 Maintain and report on an effective and reliable internal control system, manage and mitigate specific and critical risks, ensure the ability of the PMO to respond to critical events in order to assure continuity of service, and report on key performance indicators. |   |   |
| <b>Result indicator</b>  | <b>2014 Target</b>  | <b>Current situation (as achieved)</b>  |
| 1 Average delay to recover undue payment.  | 95 % of recovery orders established within 5 working days after pre-information deadline. | 95 % of recovery orders established within 5 working days after pre-information deadline.               |
| 2 Quality of AAR (Court of Auditors).  | A   | A   |
| 3 Financial transactions: Error rate.  | < 1 %   | < 1 %   |
| 4 Open discharge recommendations.  | 0   | 0   |
| 5 IAS/IAC recommendations due in 2014: Proportion reported closed.   | 80 %  | 66 % (19/29) of due recommendations closed on 31 December 2014. (cf. reference in <u>Heading 2.3.1.</u> |
| 6 Number of critical/very important IAC/IAS recommendations overdue for more than 12 months.   | IAC: 0<br>IAS: 1  | IAC: 3 (cf. reference in <u>Heading 2.3.1, item c)</u><br>IAS: 0  |
| 7 Number of critical risks identified and percentage of critical risks reported in the Management plan.<br>Source: PMO source of data.   | 3 critical risks and 100 % reported   | 3 critical risks and 100 % reported.  |

| Specific objectives (all non-spending)   |                               |                               |
|--|-------------------------------|-------------------------------|
| 8 Anti-fraud: percentage of OLAF and IDOC <sup>3</sup> final case reports (transmitted to PMO) for which follow-up has been established. | 100 %                         | 100 %                         |
| 9 Timely publication of monthly statistics and regular report to the Management board.   | Monthly, ≤ 15th of the month. | Monthly, ≤ 15th of the month. |

### 1.1.6 Ensure the development of the right IT systems that optimally assist PMO staff in the accomplishment of the objectives

| Specific objectives (non-spending)  |                      |                                 |
|---|----------------------|---------------------------------|
| Ensure the development and deployment of effective IT systems so as to ensure high levels of client service and adequate support for PMO staff in their daily work. |                      |                                 |
| Result indicator  | 2014 Target          | Current situation (as achieved) |
| Percentage of projects or programmed milestones of projects mentioned in the IT Strategy implemented on time.   | Full implementation. | 78 % (weighted average)         |



<sup>3</sup> Investigation and Disciplinary Office of the Commission.

This graph and table show the evolution of the number of tasks to be implemented (closed) in 2014. The results are mitigated, partly due to overambitious targets set and partly due to DG DIGIT not having had the capacity to deliver on all targets set forward by the PMO in its 2014 MP. Based on the conclusions from the results achieved in 2014, the priorities for the different Information Systems will be revised in 2015. Further details on the main outputs related to this objective can be found in Annex 10, item 1.6.

| Projects   | Percentages |
|--|-------------|
| JSIS on line/Assmal <sup>2</sup> : JSIS management                   | 95 %        |
| Corporate reporting & Business Intelligence                          | 60 %        |
| MiPS: Missions order and reimbursement management                    | 76 %        |
| NAP: Payroll System  | 90 %        |
| PABS & SysPer-Pensions: Pensions scheme and post activity management | 65 %        |
| Payment Factory: Streamlines payment processes and debts management  | 100 %       |
| Apex2: Reimbursement of Expert fees                                  | 100 %       |
| Sinaps: Legal Entity File and bank account management                | 100 %       |
| PMO Contact: Single Point of Contact                                 | 25 %        |
| SysPer-Rights: Pecuniary rights management                           | 39 %        |
| <b>Global rate</b>   | <b>78 %</b> |

### 1.1.7 Conclusion on the implementation of 2014 objectives

Assessing all objectives and achievement of related indicators, the PMO has implemented all activities planned in the 2014 management plan with satisfactory results.

## **1.2 Specific efforts to improve 'economy' and 'efficiency' of spending and non-spending activities.**

According to the financial regulation (art 30), the principle of economy requires that the resources used by the institution in the pursuit of its activities shall be made available in due time, in appropriate quantity and quality and at the best price. The principle of efficiency concerns the best relationship between resources employed and results achieved.

The respect of these principles is continuously pursued through the implementation of internal procedures and predefined practices. These procedures ensure that activities are executed in an efficient manner (e.g. the different workflows contribute to the efficient cooperation between staff, units, etc.) and according to the principle of economy (e.g. the procurement rules ensure procurement in optimal conditions).

The PMO is continuously fine-tuning its internal arrangements in order to improve the efficiency and economy of its operations. The following two initiatives show how these principles are implemented in our service:

### **1.2.1 New accident insurance contract**

An analysis carried out in 2014 revealed that the conclusion of the recent framework contract covering accident insurance (covering the staff of multiple institutions) resulted in a material decrease in premiums paid. The negotiation of the new framework contract hence benefited all institutions and their respective staff. Where the previous contract covering the period 2007-2011 resulted in a yearly premium of EUR 29 million in 2010 and EUR 30 million in 2011, the new contract showed a 22 % decrease (compared to 2011) down to EUR 23.5 million in 2012 and 23 % (compared to 2011) down to EUR 23 million in 2013, producing economies of approximately EUR 6.3 million. These results demonstrate the effect of the efforts made by the Office to improve value-for-money and will be used as a benchmark for the new procurement procedure in the field of insurances launched in 2015.

### **1.2.2 Overhaul of the workflow of the Missions unit**

Following an audit of the IAC on the 'mission activity' within PMO.2, an action plan was adopted in 2013. The gradual implementation of the action plan is starting to produce results with a considerable impact. One of the main results, the introduction of 'document scanning' in a new IT application combined with a revised control methodology, allowed for the reallocation of 8 Mission Officers to a different activity in 2014.

## 2. MANAGEMENT OF RESOURCES

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 the 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 on ex-ante/a posteriori/ex-post supervision;
- the reports by AOSDs;
- the registry of exceptions;
- the reporting on fraud prevention and detection (in the framework of the anti-fraud strategy);
- the opinion, observations and recommendations of the Internal Audit Capability (IAC), Internal Audit Service (IAS) and European Court of Auditors (ECA).

This section reports the control results and other relevant elements that support the management's assurance on the achievement of the internal control objectives<sup>4</sup>. It is structured in three separate sections: (1) the PMO's assessment of its own resource management; (2) the assessment of activities carried out by other entities to which the PMO has entrusted budget implementation tasks; and (3) the assessment of audit results, including the implementation of audit recommendations.

The administrative Offices' core business consists in providing support to the Commission as well as 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.

### 2.1 Management of human and financial resources by the PMO.

This section reports and assesses the elements identified by the management that support the assurance on the achievement of the internal control objectives. 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.

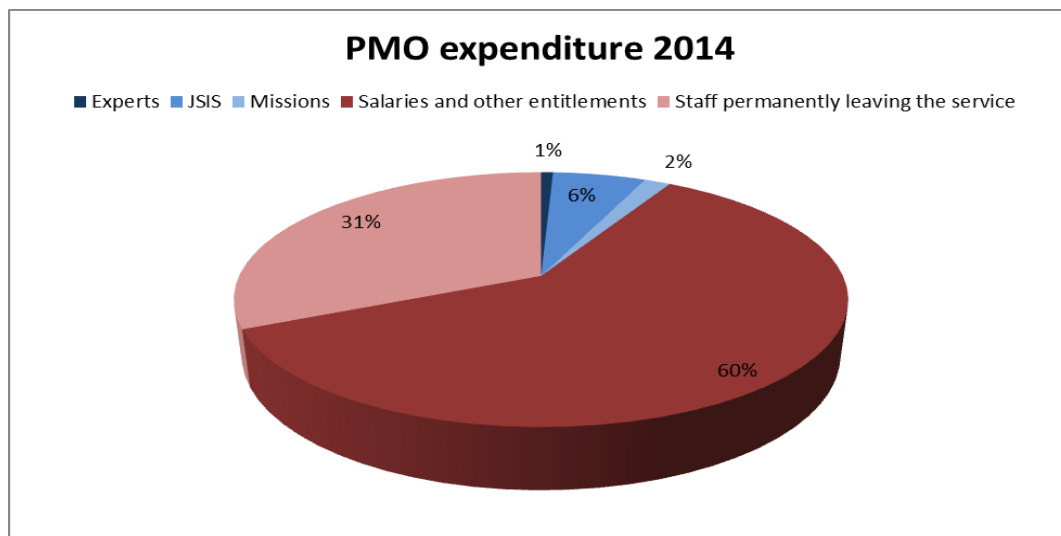
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<sup>4</sup> Effectiveness, efficiency and economy of operations; reliability of reporting; safeguarding of assets and information; prevention, detection, correction and follow-up of fraud and irregularities; and adequate management of the risks relating 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).

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).

To illustrate the weight of the different operational domains and related controls, this table and graph show the total payments<sup>5</sup> carried out per main type of PMO activity.

| PMO expenditure 2014                  | Expenditure (rounded figures) | Percentage (rounded figures) |
|---------------------------------------|-------------------------------|------------------------------|
| Experts                               | 36,200,000                    | 1 %                          |
| JSIS                                  | 281,500,000                   | 6 %                          |
| Missions                              | 79,120,604                    | 2 %                          |
| Salaries and other entitlements       | 2,890,770,263                 | 60 %                         |
| Staff permanently leaving the service | 1,517,345,798                 | 31 %                         |
| <b>Total</b>                          | <b>4,804,936,666</b>          | <b>100 %</b>                 |



<sup>5</sup> The total shown here is some EUR 1 billion higher than total commitment appropriations shown in Annex 3, due to:

- extra-budgetary managed funds: JSIS and Unemployment Fund: EUR 281.5 million and EUR 25 million respectively;
- expenditure in areas where the PMO only manages payment appropriations:
  - 'Research expenditure' (salaries of officials, contract staff and SNEs) EUR 540 million;
  - 'Experts and missions' – 'contract staff in delegation': EUR 130 million and EUR 37 million respectively.

## Control effectiveness as regards legality and regularity

### 2.1.1 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. 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 results of an ex-post control indicate a need to take further action, a detailed action plan is formulated.

#### 2.1.1.1 Ex-ante control in 'salaries, post-activity and associated entitlements'

##### Salaries and associated entitlements

In 2014, the ex-ante controls linked to entitlements were further improved and automated in line with recent IT management system developments.

To confirm a beneficiary's continued right to entitlements, granted on a provisional basis, the PMO must systematically receive and verify the validity of related supporting documents via *a posteriori controls*<sup>6</sup>. These checks complement the ex-ante controls. The PMO thus relies on up-to-date and accurate information provided. For different reasons, staff members do not always transmit the relevant information on time leading to possible inaccurate amounts being paid. The corrections carried out in previous years following the results of a posteriori checks, led to a strong increase of amounts recovered in 2014: EUR 1,154,920. A total of 275 days, or +/- 1.25 FTE, were invested in the checks, making this a cost-effective control.

Bearing in mind the conclusions of the Court of Auditors regarding the 'allowances of like nature received from other sources' and the situation of the spouse, the PMO has created the possibility to declare changes in family situation in SysPer. The possibility to send reminders to all staff to update their situation is not yet translated in an IT development. However, this has been listed in the top priorities for SysPer IT developments in 2015. This will further mitigate the risk.

##### Post-Activity (staff permanently leaving the service) and associated entitlements

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<sup>6</sup> A posteriori controls are associated with payments that were carried out on the basis of limited ex-ante controls i.e. before the documents attesting to a beneficiary's entitlement had been received. These controls may be considered as the 'finalisation' of ex-ante controls. The adjustments made, pursuant to the a posteriori controls are considered as 'regularisations' and not 'errors'.

Examples of three a posteriori controls carried out in 2014 can be found in annex 10.

Every pension file opened or closed is submitted to detailed ex-ante scrutiny organised on two levels. Firstly, each file is verified in detail (establishment of the entitlement) and secondly, a macroscopic financial cross-check is carried out by a separate team. The role of these controls cannot be underestimated, as they play a leading role in keeping the error rate down to a level below materiality level.

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

### 2.1.1.2 Ex-post control in 'salaries, post-activity and associated entitlements'

All ex-post control activities are risk-based to select areas most susceptible to material financial errors. As a result, it is not possible to extrapolate the financial error rate to all PMO expenditure and the results represent a pessimistic view of the situation.

| Scope ex-post control (expenditure areas)                               | Number of files verified | Total amount verified (euro) | % Value Total population checked | Financial error rate 2014 | Financial error rate 2013 |
|---|--------------------------|------------------------------|----------------------------------|---------------------------|---------------------------|
| Salaries and associated entitlements incl. specific anti-fraud controls | 357                      | 14,963,306                   | 0.52 %                           | 0.16 %                    | 1.52 %                    |
| Post-Activity   | 53                       | 507,500                      | 0.03 %                           | 0.11 %                    | 0.68 %                    |
| <b>Total (estimated %)</b>  | <b>410</b>               | <b>15,470,806</b>            | <b>0.35 %</b>                    | <b>0.16 % estimated</b>   | <b>1.08 % estimated</b>   |

**Conclusion for ex-post controls in 'salaries, post-activity and associated entitlements':** The table above provides an overview of the ex-post controls carried out in the riskier aspects of the main expenditure areas in 2014 and shows a total financial error rate estimated at 0.16 % (total financial error/total amount verified), confirming the accuracy and quality of transaction processing by the PMO and the effectiveness of the ex-ante controls. Annex 10 gives further insight in the ex-post controls carried out.

### 2.1.1.3 Ex-ante control in reimbursement of medical, expert and mission claims

**The ex-ante control in the area of reimbursement of claims is based on statistical random sampling, leading to a representative error rate that can be extrapolated to the entire population of claims.**

#### Medical claims

Starting in July 2014, the revised control strategy led to a decrease in ex-ante control from a daily sample of 5 % down to 3 %, drawn from the incoming reimbursement claims and invoices from the previous day. Half of the sample is selected randomly and half is risk-based. The risk-based component is drawn from the most error-prone types of transactions.



In 2014, a supplementary ex-ante control has been initiated on the claims processed 'on line' on the basis of scanned documents instead of paper originals. 10 % of all claims introduced electronically were subjected to ex-ante verification. The overall ex-ante control result, summarised in this table, allows for the sample on this type of claims to be reduced to 5 %.

| Scope ex-ante control           | Number of files verified | Total amount verified (euro) | % Value Total population checked | Financial error rate |
|---------------------------------|--------------------------|------------------------------|----------------------------------|----------------------|
| Medical Claims (Reimbursements) | 40,604                   | 37,140,147                   | 13.19 %                          | 0.57 %               |

One material error found in the ex-ante control has been excluded from the global financial error rate for the following reasons:

1. The error was traced in ex-ante verification and corrected.
2. After discovery of the erroneous transaction, all other processed claims with same characteristics were traced and verified in an ad hoc ex-post procedure. No further errors were found. Hence, the error is established to be one of a kind and not representative for the error rate on a global level.
3. The workflow in the JSIS on line IT application has been improved: personnel are alerted when processing a claim with the same characteristics as the erroneous medical claim encountered. This will mitigate the risk of such errors occurring in the near future.

#### Expert claims

Starting September 2014, with the introduction of a revised ex-ante and ex-post control methodology, a random ex-ante control has been introduced. Every day a random sample of 5 % of the expert claims received during the previous day is verified.

| Scope ex-ante control          | Number of files verified | Total amount verified (euro) | % Value Total population checked | Financial error rate |
|--------------------------------|--------------------------|------------------------------|----------------------------------|----------------------|
| Expert claims (Reimbursements) | 788                      | 771,152                      | 2.13 %                           | 1.76 %               |

#### Mission claims

The ex-ante control covered a total of 8.5 % of the mission claims processed in 2014. Given the very low financial error rate of 0.16 %, the revised ex-ante and ex-post control structure will only require a sample of 2,4 % of the processed claims. This will allow for an error rate representative for the entire population of mission claims and increases the cost-effectiveness of ex-ante control. The new control structure has already been decided and will be operational early in 2015.

| Scope ex-ante control           | Number of files verified | Total amount verified (euro) | % Value Total population checked | Financial error rate |
|---------------------------------|--------------------------|------------------------------|----------------------------------|----------------------|
| Mission claims (Reimbursements) | 117,207                  | 4,469,739                    | 5.65 %                           | 0.16 %               |

**Conclusion for ex-ante controls in the area of medical, expert and mission claims:** The results show that the total financial error rate of the ex-ante controls remains well below the materiality threshold of 2 %, set forward by the Court of Auditors.

### 2.1.1.4 Ex-post control in reimbursement of medical, expert and mission claims

All ex-post control activities are risk-based to serve two purposes: on the one hand, the production of a representative ex-ante error rate for the global population, allowing for resources to be dedicated to the few areas identified in the risk analysis as most susceptible to material financial errors. On the other hand, the risk-based ex-post control also focuses on quality of ex-ante control to provide feedback on their functioning and improve the internal control system as a whole. As these controls are meant to single out specific risks in often small subpopulations, it is not possible to extrapolate of the financial error rate to all PMO expenditure.

The table below provides an overview of the ex-post controls carried out in the riskier aspects of the main expenditure areas in 2014.

| Scope ex-post control (expenditure areas) | Number of files verified | Total amount verified (euro) | % Value Total population checked | Financial error rate 2014 | Financial error rate 2013 |
|---|--------------------------|------------------------------|----------------------------------|---------------------------|---------------------------|
| Missions                                  | 333                      | 175,828                      | 0.16 %                           | 0.76 %                    | 2.45 %                    |
| Experts                                   | 121                      | 182,225                      | 0.50 %                           | 1.16 %                    | 0.15 %                    |
| JSIS – Joint Sickness Insurance Scheme    | 1,579                    | 1,028,216                    | 0.37 %                           | 1.22 %                    | 1.53 %                    |
| <b>Total (estimated %)</b>                | <b>2,033</b>             | <b>1,386,270</b>             | <b>0.35 %</b>                    | <b>1.15 % estimated</b>   | <b>1.08 % estimated</b>   |

The results of the ex-post control are encouraging as the error rates even in these more error prone samples are consistently below 2 %. The only exception regards medical expenditure (representing 6 % of the overall payments carried out in 2014). The high error rate results from ex-post checks carried out in two niche areas, representing a minor part of the total JSIS expenditure (cf. Heading 2.2 in Annex 10 for further details). Without the results of the two non-representative ex-post results, the JSIS ex-post control error rate only amounts to 1.22 %. These two controls were neither taken into account to define the global error rate, resulting in a global 1.15 % error rate in ex-post control.

The increased focus on identifying populations with a high risk of errors resulted in successful ex-post checks and subsequently a correction of the errors found, feedback to the operational staff on how to avoid such errors in the future. As the concerned populations are small, the errors found are not material on global expenditure level. It should equally be borne in mind that the representative error rate defined in ex-ante control stands at 0.57 % for the whole of the JSIS.

**Conclusion for ex-post controls in reimbursement of medical, expert and mission claims:** The total financial error rate of all ex-post controls in the higher risk areas remains well below the materiality threshold of 2 %, with exception of two minor ex-post controls carried out in the JSIS area, confirming the accuracy and quality of transaction processing by the PMO and the effectiveness of the ex-ante controls. Further details regarding ex-post control results, conclusions and actions taken are documented in Annex 10, 2.2 Ex-post control in reimbursement of medical, expert and mission claims. The overall ex-post financial error rate, taking into consideration it was focused on high risk areas, remains at 1.15 %.

### 2.1.1.5 Ex-post control in financial transactions, validated by the Authorising Officers by Sub Delegation (AOSD)

The financial transactions<sup>7</sup> are managed by the PMO's Budget and internal control Unit in Brussels. All transactions are subject to ex-ante controls.

A wide-ranging ex-post control exercise was carried out covering 41 different types of transactions so as to cover (virtually) all activities managed by the budgetary sector. 66 transactions were selected and reviewed on the basis of a risk analysis. No financial errors were identified.

| Scope ex-post controls                       | N° of files verified | Total amount verified | % Value Total population checked | Financial error rate |
|--|----------------------|-----------------------|----------------------------------|----------------------|
| 41 different types of financial transactions | 66                   | 470.3 MEUR            | 10.52 %                          | 0.00 %               |

### 2.1.1.6 Overall conclusion

The overall conclusion on the basis of all controls carried out by the PMO units throughout 2014 confirms the high quality of internal control and the global financial error rate remaining largely below 2 % (cf. materiality criteria in Annex 4). Given that this error rate is calculated using risk based sampling and that all identified errors are corrected, the residual financial error rate can be considered as being significantly lower. Moreover, the beneficiaries of PMO payments (staff and their families) represent a population that remains stable over time. 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 results of cited ex-ante and ex-post controls carried out throughout the PMO in 2014 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 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.

In 2014, a total of five exception reports were issued, compared to thirteen in 2013. They can be classified in two distinct categories: four exceptions concern the reimbursement of removal expenditure where the formal requirements for reimbursement were not met. One regarded a non-compliance event. These correspond to procedural anomalies and they had no material financial impact.

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 2014, a sample of 71 payment transactions (mostly mass payments), was audited in order to verify the compliance of the transactions with legality & regularity criteria. No material errors were found.

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<sup>7</sup> Except for expert reimbursements - PMO.5 Luxembourg- and the medical claim reimbursements that fall under the responsibility of the settlements offices in Luxembourg, Ispra and Brussels.

## Control efficiency and cost-effectiveness.

### COST OF CONTROL

The principle of efficiency concerns the best relationship between resources employed and results achieved. The principle of economy requires that the resources used by the institution in the pursuit of its activities shall be made available in due time, in appropriate quantity and quality and at the best price. This section outlines the indicators used to monitor the efficiency of the control systems, including an overall assessment of the costs and benefits of controls.

The PMO has produced an estimation of the costs of the main control processes. However, 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 the 'establishment/modification of salaries, post-activity and related entitlements' (cf. Annex 5 – ICT 1), the operational activity representing close to 92 % 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 section 'The Year in Brief' (page 7-8) compares the global evolution of the workload (expressed in number of files) and the evolution in staff (expressed in Full Time Equivalents -FTE). The overall evolution of all operational activity (combining 'establishment of salaries, post-activity and related activities' and 'reimbursement of medical, mission and expert claims') is considered, as the 'reimbursement' activity only represents 8 % of global operational activity. The results show a 3.48 % – for all operational activity combined – increase in workload set against a 0.57 % increase in staff FTE. 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.

For financial circuits an estimated EUR 396,000 was invested in controlling over 29,444 financial transactions<sup>8</sup> (payment orders) worth EUR 4,469,900,000. Thus 0.01 % of the total amount paid was dedicated to control. Each financial transaction costs an estimated EUR 13.45.

For supervisory measures an estimated EUR 9,445 were invested in controlling 66 financial transactions worth EUR 470,300,000. 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 ex-post control on financial transactions documented under heading 4.1.1.5 Transactions validated by the Authorising Officers by Sub Delegation (AOSD) further details this measure. As in previous years, no errors were found. Thus 0.002 % of the total values of transactions checked ex-post were dedicated to control. Each transaction or procedure checked ex-post costs an estimated EUR 143.

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<sup>8</sup> Excluding expert reimbursements - PMO.5 Luxembourg- and the medical claim reimbursements that fall under the responsibility of the settlements offices in Luxembourg, Ispra and Brussels.

A second indicator shows the efficiency in payment processing through the total value of late interest paid. In 2014, no late interest has been paid, confirming the efficiency of the payment process.

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.

To reach a conclusion as of the relative efficiency of the controls, it is necessary to analyse the evolution of these efficiency indicators over time and/or to compare them with relevant benchmarks. This is not currently possible, as this is the first year in which these indicators are calculated and reported. However, the results of the efficiency indicators reveal a highly efficient control management.

See also internal control templates in annex 5.

### Fraud prevention and detection

The PMO has developed its anti-fraud strategy as foreseen in the Commission’s overall anti-fraud strategy<sup>9</sup>. The latest status update shows that the action plan for 2014-2015 has reached an 80 % degree of implementation, resulting in the completion of the following objectives:

- 1) Reinforcing fraud prevention by ensuring that the risk of fraud is duly taken into account in the design of the workflows and is integrated explicitly in procedures;
- 2) Further developing fraud detection capabilities;
- 3) Reinforcing the follow-up of sensitive files and cooperation with OLAF and IDOC;
- 4) Raising the level of fraud awareness inside and outside the PMO;
- 5) Enhancing the management of procurement procedures in the PMO.

In the regular ex-post supervision carried out, specific anti-fraud related checks are included. The anti-fraud related key indicators, as set out in the anti-fraud strategy, are:

| Objective  | Indicator  | Results 2014   |
|--|--|--|
| Awareness raising of potential fraud among staff and beneficiaries | Number of items published (MyPMO, My IntraComm, PMO Newsletter, ...) | A publication campaign was launched on the MyPMO site. |
| Detection of fraud   | Number of cases transmitted to OLAF and IDOC                         | 5 cases were transmitted: 3 to IDOC, 2 to OLAF         |
| Reporting of fraud   | Number (and amount) of recoveries following establishment of fraud   | EUR 132,731 has been recovered in 2014                 |

<sup>9</sup> COM(2011) 376 24.06.2011.

## Other control objectives: use of resources for their intended purpose, reliability of reporting, safeguarding of assets and information

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.
- Regarding the accuracy of data processing, a key performance indicator measures the number of article 90 complaints are upheld. The yearly number should not exceed 10 % of all complaints received. The percentage achieved in 2014 was 9.5 %.

In all related aspects, no material anomalies were detected in 2014.

## 2.2 Budget implementation tasks entrusted to other services and entities

This section reports and assesses the elements that support the assurance on the achievement of the internal control objectives as regards the results of the PMO's supervisory controls on the budget implementation tasks carried out by other Commission DGs and entrusted entities distinct from the Commission.

The tasks entrusted to other Commission DGs concern budget cross-sub-delegations. These DGs are managed under the same Commission rules, implying the PMO can rely on the other DG's control systems. No problems regarding the delegations were signalled to the PMO by the concerned entities.

As in previous years, the PMO has cross-sub-delegated and co-delegated:

|          |  |  |
|----------|--|--|
| DG DEVCO | EUR 6,573,000<br>(budget lines XX.010102 and<br>XX.010202) | Cross-subdelegation for salaries and related entitlements                              |
| DG ELARG | EUR 165,000<br>(budget line XX.010101.11.02)               | Cross-subdelegation for expenditure related to staff active in the Croatian delegation |
| DG DIGIT | EUR 3,960,000<br>(budget line 26.012100.010300)            | Co-delegation for IT systems, hardware, support  |
| OIL      | EUR 1,211,000<br>(budget line 26.012100.010300)            | Co-delegation for building related expenditure (water, gas, etc.)                      |
| OIB      | EUR 3,822,000<br>(budget line 26.012100.010300)            | Co-delegation for building related expenditure (water, gas, etc.)                      |
| DG HR    | EUR 491,000<br>(budget line 26.012100.010300)              | Co-delegation for building security  |

## 2.3 Assessment of audit results and follow up of audit recommendations

This section reports and assesses the observations and conclusions reported by auditors 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: its internal audit capability (IAC), the Commission internal audit service (IAS) and the European Court of Auditors (ECA).

### 2.3.1 Audits carried out by the IAS and IAC

In 2014, the IAS has launched and finalised two follow-up audits:

- A follow-up audit on the Joint Sickness Insurance Scheme

| Audits                      | Results   |
|-----------------------------|---|
| Follow-up audit on the JSIS | The follow-up audit confirmed all initial 9 recommendations have been adequately and effectively implemented. |

The IAC launched a consultancy assignment in the field of education allowances and carried out one follow-up audit in 2014:

- A follow-up audit on 'Mission contract' (initial audit dates back to 2012);

| Audits   | Results  |
|--|--|
| Follow-up audit on 'Effectiveness and efficiency of contracts related to the management of missions' | The follow-up of the original audit and the 9 related recommendations that were reported 'ready for review', resulted in 4 recommendations considered implemented. One recommendation was downgraded from 'very important' to 'important' and is considered partially implemented. A total of 5 recommendations, of which 3 very important and 2 important, still require further action from the PMO. |

Follow-up on recommendations from audits in previous years:

From the 34 recommendations outstanding as per 31 December 2013 (4 IAS, 30 IAC), a total of 19 or 56 % was reported closed (2 IAS, 17 IAC) and 5 new recommendations (ref. item b) were issued in 2014. From the 20 outstanding recommendations on 31 December 2014, the bulk of the recommendations relate to:

- a. Audit on 'Effectiveness and efficiency of the mission workflow': 8 of the outstanding recommendations have deadlines set in 2015-2016. The implementation of the recommendations requires an entire overhaul of the operational structures, processes and procedures. As such, the due dates for implementation were set in 2015/2016. The implementation of the action plan is on track.
- b. Follow-up audit on 'Effectiveness and efficiency of contracts related to the management of missions': 5 recommendations were assessed as not entirely implemented. The further actions require the further development of IT applications. Given the increasing importance of IT in the activities of the PMO to guarantee a swift handling of the large number of transactions with a decreasing workforce, the recommendations of the IAC

and IAS are increasingly oriented towards IT developments. Consequently, regarding the implementation of audit recommendations, the PMO is not entirely independent due to the majority of IT developments being carried out by DG DIGIT. Hence, the number of audit recommendations waiting further IT developments increases steadily – up to a number of 8 at 31 December 2014 - and will only be implemented over a longer period, explaining a higher outstanding number of audit recommendations than in previous years.

- c. On 31 December 2014, three recommendations classified Very Important have been outstanding for more than 12 months. One has been closed and reported 'ready for review' in February 2015. A second recommendation was reopened in 2014 in the follow-up audit detailed under point b, with as deadline 31 December 2015 decided by the IAC. Together with a third one, this recommendation depends from IT developments expected to be finalised in 2015.

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.

### 2.3.2 IAC opinion

Based on the results of our audits as described in the objectives and scope of the engagements carried out by the IAC of DG HR during 2014:

- Audit on "Effectiveness and efficiency of contracts related to the management of missions";

The internal control system in place in the PMO provides reasonable assurance regarding the achievement of the business objectives set up for the audited processes except for the following issues:

- Effectiveness and efficiency of contracts related to the management of missions: IT system providing for an automated, integrated and secured management of mission transactions; effective control measures to ensure the completeness of the imported mission transactions; statistics or indicators on the travel business delivered by the contractor.

As regards the adequacy of the internal control system in place, the following issues should be duly taken into account:

- The remaining implementation measures related to open recommendations from IAC and IAS audit engagements prior to 2014 and not yet reported as implemented by management as of 31 December 2014;
- Other outstanding issues not implemented yet from other audit bodies (European Court of Auditors...) and OLAF – if any - which could negatively impact the Internal Control System.

The IAC declares that they are not aware of anything not reported in their opinion which may lead to a potential reservation in the AAR.



### **2.3.3 Court of Auditors**

As in previous years, the European Court of Auditors concluded in Chapter 9 on Administrative Expenditure of the Institutions - of which 60 % of all payments are HR-related: payment of salaries , pensions and related entitlements (9.3 in the report) - of the 2013 annual report, that the supervisory and control systems are effective (9.11 and 9.17 in the report). The Court further estimated, based on the audit results, the most likely error rate to be 1 % (9.7 and 9.17 in the report). The overall administrative expenditure is not affected by a material level of error.

The Court clearly stipulates that no significant weaknesses were identified. However, the audit did note some persistent weaknesses in the management of social allowances, as it had in the previous year. The observation reissued by the Court in 2013, relates to the insufficient updating of family situations and declaration of 'allowances of like nature received from other sources', by staff members. The PMO acknowledged this weakness and has launched two IT modules: a module allowing the declaration of 'allowances of like nature received from other sources' and a module for the declaration of marriage.

### **2.3.4 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. There are two domains indicated by the IAC, where assurance depends on the implementation of the recommendations issued. The PMO has already drawn up action plans, accepted by the IAC, to address these matters. Closing the recommendations issued both in 2014 and in previous years, although progress in 2014 was lower than expected, remains an important indicator for management. In the 2015 management plan, the PMO aims to close 80 % of the outstanding recommendations.

### 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);
- 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's annual review of its implementation of the Internal Control Standards (ICS- 15) was based on an initial desk review by the ICC staff, followed by a thorough evaluation by the PMO's management, responsible for the implementation of the Internal Control Standards. This has led to a documented 'top-down' assessment of the office's internal control status at the end of the reporting year, with respect to both the ICS compliance and the effectiveness of the control arrangements in place.

The 'bottom-up' information on internal control issues received through the AOSDs' Management Reports has been checked for confirmation or any counter-indications. No material issues regarding the compliance with the internal control standards were detected. 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 help prioritise the Internal Control Standards for 2015. The risk analysis shows that the main risks are sufficiently managed by the Internal Control System.

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 2013, and shows a general improvement on the standards. In particular the prioritised standards have improved compared to 2013.

In 2014, two sensitive posts are occupied by the same staff member for a period surpassing the five year threshold due to resource constraints. Risk analysis revealed that the most cost-efficient solution was to not remove the persons but add a level of supplementary review by management.

In the 2014 Management plan, the management meeting dedicated to the evaluation of the Internal Control Standards decided to prioritise three Internal Control Standards. Throughout 2014, these prioritised standards were closely followed and activities monitored.

### **ICS 3 – "Staff allocation and mobility"**

This Internal Control Standard remained a priority in 2014, due to a number of both internal and external factors that had a major impact on the PMO staff: reform of the Staff Regulations, changes in working procedures in multiple PMO activities. The actions to further reduce the rate of absenteeism were equally continued in 2014.

### **ICS 8 – "Processes and procedures"**

The continuous optimisation and automation of the processes results in fundamental changes in working procedures, job descriptions and workload of staff. In 2014, there was an overhaul of the procedures to reimburse mission and medical expenditure. As a result, the existing procedures need to be analysed and adjusted.

Several procedures were structurally revised in 2014, on the level of internal control structure in the units dealing with reimbursement of medical, mission and expert claims, documentation of procedures in the units dealing with salaries and mission claims, a reengineering of the workflows related to the introduction of IT applications in the pensions unit.

### **ICS 7 – "Operational structure"**

The continuous optimisation and automation of the processes required the PMO's operational structure to be reviewed in 2014. Processes are changing considerably and will result in a new definition of several (sensitive) functions.

The analysis has been launched in 2014 but no particular modifications were deemed necessary at this moment. The situation will be reassessed after completion of the structural changes in the framework of the implementation of new IT applications.

In order to improve and develop the internal control standards, specific attention will be directed to two specific standards: ICS 3 – 'Staff allocation and mobility', remains prioritised, as a number of events in 2015 require continued focus on this standard: the reorganisation of several operational units, the continuous development of IT applications with a major potential impact on working procedures and career of PMO staff. ICS 8 – 'Processes and Procedures' as the continuous optimisation and automation of the processes results in fundamental changes in working procedures, job descriptions and workload of staff. Hence, further focus will be dedicated to assess the impact on processes and procedures.

In conclusion, the internal control standards are effectively implemented. In addition, the PMO has taken measures to further **improve the efficiency of its internal control** systems in the area of Processes and Procedures (ICS 8) where in the field of reimbursement of mission, expert and medical expenditure, the internal control methodology was reviewed entirely to improve efficiency and economy of control, while maintaining a high degree of effectiveness.

## **4. MANAGEMENT ASSURANCE**

This section reviews the assessment of the elements reported in Parts 2 and 3 and draw conclusions in support of the declaration of assurance and namely, whether it should be qualified with reservations.

### **4.1 Review of the elements supporting assurance**

The information reported in Parts 2 and 3 stems from the results of management and auditor monitoring contained in the reports listed:

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 the PMO.

### **4.2 Overall conclusion on assurance**

In view of the control results and all other relevant information available, the AOD's best estimation of the risks relating to the legality and regularity for the commitment appropriations authorised (Annex 3 – Table 1) during the reporting year (EUR 3,696.3 million) is set at a maximum of 0.81%<sup>10</sup>, which implies an amount at risk of below EUR 29.92 million.

The internal control strategy foresees the implementation of further controls during subsequent years aimed to detect and correct these errors. The corrective capacity of the PMO at 0.03 % (EUR 1.16 million) further reducing the maximum risk exposure - composed of ex-post and a posteriori errors found and corrected - is a sign of strength of the internal control. The low rate of errors found in ex-post and a posteriori verification 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.

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.

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<sup>10</sup> The average error rate calculated is based on the average error rate defined by the Court of Auditors in the Annual Reports of the previous years for the activities in the field of entitlements, and based on the ex-ante error rates representative for the entire population of reimbursement claims in the field of medical, mission and expert claims. The average error rate varies between 0 % and 1 % for entitlements and between 0.60 % and 0.61 % for reimbursements.

## DECLARATION OF ASSURANCE

*I, the undersigned,*

*Head of Service 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>11</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 work of the internal audit capability, the observations of the Internal Audit and the lessons learnt from the reports of the Court of Auditors for years prior to the year of this declaration.*

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

Brussels, 31/03/2015

[Signed]

Marc Lemaître

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<sup>11</sup> True and fair in this context means a reliable, complete and correct view on the state of affairs in the service.