



Audit Conclusion

17/22

Implementation of ICT projects at the Ministry of Labour and Social Affairs

The audit was included in the audit plan of the Supreme Audit Office (the “SAO”) for 2017 under number 17/22. The audit was headed and the Audit Conclusion drawn up by the SAO member Ing. Jan Vedral.

The aim of the audit was to check whether the Ministry of Labour and Social Affairs spent the state budget funds on the acquisition, operation and development of selected information technologies, ensuring in particular the payment of non-insurance social benefits and the employment system, in an economic and efficient manner.

Audited entities:

Ministry of Labour and Social Affairs (hereinafter the “MoLSA”).

The audit was conducted with the audited entities between August 2017 and February 2018.

The **period audited** was January 2013 to February 2018 (until the completion of the audit) and, where relevant, the period preceding this.

Objections submitted against the audit protocol by the MoLSA were addressed by the head of the audit group by a decision on objections. The MoLSA’s appeal against decisions on objections were dealt with by a resolution of the Board of the SAO.

The **Board of the SAO** at its 8th session, which took place on 25 June 2018, **approved** by Resolution No. 9/VIII/2018 **the audit conclusion** in the following wording:

Key facts

CZK 3,727 million
MoLSA expenditure on ICT
(2013-2017)

The MoLSA's ICT expenditures amounted to CZK 382 million in 2013, and to more than four times that in 2017, i.e. CZK 1,604 million. For the period of 2013-2017, these expenditures totalled CZK 3,727 million.

CZK 899 million
audited volume of funds

The SAO audited the funds amounting to CZK 899 million, i.e. 24 % of the MoLSA's ICT expenditure for the period of 2013-2017.

4
agenda information systems
that ensure the payment of
benefits in the amount of
CZK 80 billion/year

The MoLSA is the administrator of nine public administration information systems. The audit examined the operation and development of four systems that ensure the agenda for the payment of non-insurance social benefits and benefits in the area of employment (almost CZK 80 billion/year) and constitute critical elements of the state's information infrastructure:

- *IS State social aid,*
- *IS for the area of material need and social services,*
- *IS OKslužby registr (OKservices register),*
- *IS Employment policy.*

2
tenders for the creation of
new agenda systems (2014)

The existing four agenda systems were intended to be replaced by the MoLSA with two new agenda systems, for which tenders were launched in 2014:

- *IS Social benefits,*
- *IS Employment.*

CZK 30.2 million
of uneconomically spent
monthly costs on the
operation of the existing
agenda systems

The new agenda systems were supposed to be in operation from 2016, then from 2017. According to the SAO's findings, they were not launched before the audit completion; the *IS Employment* was set to be launched on 2 July 2018 and the *IS Social benefits* should be ready by 1 January 2021. At the same time, the contractual prices for the operation of the existing systems are up to CZK 30.2 million per month higher than the contractual prices for the newly tendered but not yet running systems.

35%
vacancy rate in the ICT
section

In order to secure the ICT activities, the MoLSA reserved 80 service posts in the ICT section in 2017. In fact, only 52 were occupied, i.e. 65 %. The MoLSA addressed the lack of staff by purchasing external ICT services (system integration, project management etc.), for which, for example in 2017, it paid CZK 149 million.

I. Summary and evaluation

From 2011, the MoLSA repeatedly dealt with a change in the agenda system supplier. However, when changing suppliers and creating new agenda systems, the MoLSA was unsuccessful. Before the SAO audit was completed, these information systems (hereinafter the "IS") were still operated by their original supplier.

One of the reasons for the creation of new agenda systems was the effort to get rid of the dependence of the MoLSA on the original supplier, and thus achieve an overall stabilisation of the benefit pay-out agenda. The MoLSA repeatedly informed the government about the postponement of the launch of the new IS, while the expected date of launching the IS *Employment* was newly set by the MoLSA at 2 July 2018, and the IS *Social benefits* is planned to be launched no earlier than January 2021, i.e. four years late. By not completing and launching the new agenda systems, the MoLSA did not act in accordance with the procedure approved by Government Resolution No. 733 of 25 September 2013 and did not meet the objectives set in its own *Information and Communication Technology Strategy 2015+*. As a result, the MoLSA spent the funds for the creation of new agenda systems ineffectively.

The delay in the launch of the new IS constitutes an extension of the operation of the existing IS, whose monthly costs are up to CZK 30.2 million higher compared to the cost of the new IS. In 2017 alone, the operation of the existing audited IS was thus unnecessarily more expensive by up to CZK 362.5 million. The SAO assessed this situation as uneconomical spending of funds from the budget of the MoLSA chapter.

Additional funds were spent by the MoLSA uneconomically in connection with the operation of the system known as *Integrated operational and support data* in the amount of CZK 1.1 million, ICT consulting services in the amount of CZK 1.2 million, and the external preparation of the *MoLSA ICT Department Development Strategy 2010-2020* in the amount of CZK 8.0 million.

The diseconomies in these cases consisted in the payment of services that the MoLSA did not fully use, the payment of services beyond the financial limit set by the concluded order, and payments to an external contractor for an unfinished strategic document.

The total amount of uneconomically spent funds ascertained by the SAO thus reaches CZK 372.8 million.

ICT activities were provided by the MoLSA until the end of 2017 through the Information Technology Section, in which 80 systemised service posts were reserved. In 2017, only 52 of these posts were occupied, i.e. 65 %. The MoLSA has thus been struggling for a long time with insufficient staffing in the field of ICT, and dealt with this situation by outsourcing services in the period under review.

The audit also covered the implementation of corrective measures proposed in connection with the results of SAO Audit No. 12/35, which, among other things, addressed the unsuccessful transition to the new ICT solution of the MoLSA for the payment of benefits, which collapsed in 2012 and 2013. The MoLSA, in accordance with Government Resolution No. 766 of 16 October 2013, was to implement a total of six corrective measures. The SAO concluded that the MoLSA had responded adequately in only three measures. In 2014, one of the measures was to initiate an open tender for the provision of system integration services. However, the MoLSA did not carry out the tender procedure. The SAO assessed

this situation as a risk of inefficiency uneconomical spending of funds, which represents a negative impact on the MoLSA budget of up to CZK 185.2 million.

The MoLSA remained dependent on the providers of existing ICT services. This led to the transfer of control over IS projects from the MoLSA to external suppliers whose employees in the positions of project managers of *IS Social benefits, IS Employment, Integrated support and operational data* and *Operational integration environment* were responsible, for example, for finding candidates to occupy the roles in the projects, compliance with contractual obligations by contractors, acceptance of these obligations and the planning and drawing of project resources (financial, human).

The facts found during the audit show that the MoLSA did not ensure an economical and effective spending of funds for the acquisition, operation and development of ICT related to the benefit pay-out agenda. Based on these findings, the SAO recommends the MoLSA, in compliance with the *Public Administration ICT Service Development Strategy*, to:

- Implement measures to reduce the dependence on providers of ICT information systems and services,
- Adopt measures to use the institute of key service points for ICT in accordance with Government Regulation No. 327/2016 Coll. so as to gain substantial control over the preparation and implementation of its ICT projects,
- Adopt measures to minimise the time it will take to keep the existing agenda systems running, while ensuring a smooth transition to new technologies.

Note: All the laws and regulations cited in this Audit Conclusion apply as amended for the period under review.

II. Information on the audited area

The MoLSA is the guarantor of social policy, which ensures the agenda of the payment of non-insurance social benefits and benefits under the state employment policy (hereinafter the “benefits”). Examples include child allowance, parental allowance, subsistence allowance, foster care benefits, unemployment benefits and housing allowance. For instance, the last mentioned housing allowance is, according to the conclusions of SAO Audit No. 17/02, the dominant instrument by which the MoLSA contributes to addressing the impacts of housing shortage. The MoLSA manages agenda systems to secure the benefit pay-out agenda.

In 2011, the MoLSA decided to change the supplier of the agenda systems, which had previously been operated and developed by their original supplier. The supplier was changed as of 1 January 2012 for the agenda systems of *Social Services, Employment, Physically disabled, Public service* and *Material need*. The state social aid agenda system continued to be operated by its original supplier. The operation of the agenda systems by new suppliers was ensured by the MoLSA on the basis of amendments 5 and 6 to *Implementing Agreement No. 85/2011* concluded on 15 July 2011.

On 14 March 2013, the Office for the Protection of Competition (hereinafter the “OPC”) imposed a prohibition on the performance of these amendments, which had been concluded unlawfully. The decision of the OPC came into force as of 28 December 2013. As a

result of the unlawful conclusion of the amendments, the payment of non-insurance social benefits and benefits under the state employment policy was jeopardised.

In its Resolution No. 733 of 25 September 2013, the Government of the Czech Republic approved that the MoLSA should perform other acts necessary for the stabilisation of the system of payment of non-insurance social benefits and benefits under the state employment policy for a temporary period until 31 December 2015. The MoLSA thus used the option to return to the original supplier of the agenda systems and, from 2014, the operation and development of all the agenda systems were again provided by their original supplier.

Pursuant to the above-mentioned Resolution of the Government of the Czech Republic, the MoLSA should have implemented new agenda systems as of 1 January 2016, obtained in the form of an open tender pursuant to Act No. 137/2006 Coll. The open tender procedures for suppliers of the new systems for the payment of the said benefits were launched in November and December 2014, in the form of two public procurements (hereinafter the "PP") entitled:

- *Unified Information System of Labour and Social Affairs – IS SOCIAL BENEFITS,*
- *Unified Information System of Labour and Social Affairs – IS EMPLOYMENT.*

Contracts for the supply of the new agenda systems were concluded by the MoLSA in December 2015 (*IS Employment*) and November 2016 (*IS Social benefits*).

In the document submitted to the Government of the Czech Republic and considered on 1 October 2014 (Ref. No. 2014/29993-1/3), the MoLSA permitted an extension of the transitional period until the end of 2016. Subsequently, on 22 December 2016, it concluded, on the basis of a PP awarded in the form of a negotiated procedure without prior publication (hereinafter the "NPWPP"), *a contract for the provision of services of the support for the operation and development of OKapplications for the MoLSA* with the original agenda system supplier. The term of the contract was set by the MoLSA until 31 December 2018 at the latest, and the contractual value was CZK 1,070 million exclusive of VAT. In the concluded contract, the MoLSA negotiated an option right under which it may extend the provision of services from the supplier for a further maximum of 24 months, i.e. until 31 December 2020.

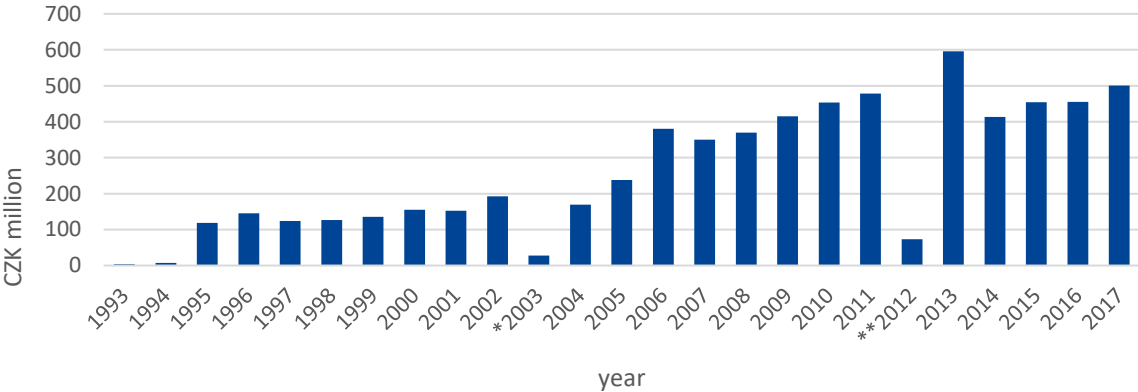
According to the original wording of the concluded contracts, the final launch of the new agenda systems in the production environment should have taken place by 1 January 2017 for the *IS Employment* and 3 June 2018 for the *IS Social benefits*. According to the updated schedule, the *IS Employment* should be implemented as of 2 July 2018.

The implementation of the *IS Social benefits* did not occur because, on 16 November 2017, during the development of this system, the MoLSA withdrew from the contract for its delivery due to failure to provide a reasonable assurance of the completion of the object of the contract by the new supplier. The expected date of implementation of the new *IS Social benefits* has been set by the MoLSA in the new tender documentation at 1 January 2021. The MoLSA will, at least until these dates for launching the new agenda systems, provide for the benefit pay-out agenda based on the outcome of the PP awarded through a NPWPP,

provided that the right of option on the part of the MoLSA for the provision of the object of performance of the contract for the provision of services of the support for the operation and development of OKapplications for the MoLSA dated 22 December 2016 is exercised.

The need to replace the existing agenda systems has resulted, among other things, from the need to reduce the MoLSA’s dependence on the supplier of these systems (i.e. the need to reduce the effect of the phenomenon known as vendor lock-in). The dependence reduction is based on the document entitled *Public Administration ICT Service Development Strategy and its measures to streamline ITC services*, which was approved by Government Resolution No. 889 of 2 November 2015. This key document for the development of the public administration ICT states, as one of the objectives: “From dependence on suppliers to our own competence to efficiently manage the development and operation of ICT in the Czech Republic.” This objective is to be achieved, in particular, by changing the remuneration of public administration staff working in the field of ICT and initiating the process of insourcing selected ICT services. At the same time, dependence on suppliers in the field of ICT services can have an impact on the economy and effectiveness of spending the state budget funds on which the audit was focused. Since 1993, the MoLSA has spent CZK 6,534 million on operating and developing the existing agenda systems, while these costs amounted to a total of CZK 2,419 million in the period under review in the years 2013-2017 – see Graph 1.

Graph 1: Expenditure on operation and development of the MoLSA agenda systems



Source: information and documents obtained during the audit; graphically prepared by the SAO.

* In 2003, the drawdown of funds on the basis of concluded contracts was significantly lower, taking into account the results of external assessments.

** In 2012, the MoLSA switched to a new ICT solution; however, at the end of 2013 it returned to the original agenda system supplier.