



NOTTINGHAM CITY HOMES

REVIEW OF THE PURCHASING CARD ARRANGEMENTS

Report issued:	July 2010
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Audit Plan:	2009/10
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The matters raised in this report are only those that came to the attention of the auditor during the course of the internal audit review and are not necessarily a comprehensive statement of all the weaknesses that exist or all the improvements that might be made. This report has been prepared solely for management's use and must not be recited or referred to in whole or in part to third parties without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any other purpose. TIAA neither owes nor accepts any duty of care to any other party who may receive this report and specifically disclaims any liability for loss, damage or expense of whatsoever nature, which is caused by their reliance on our report.

Business Assurance

Review of the Purchasing Card Arrangements

- EXECUTIVE SUMMARY -

INTRODUCTION

1. We have reviewed the Purchasing Card arrangements at Nottingham City Homes. The review was carried out in January 2010 as part of the planned internal audit work for 2009/10.

SUMMARY

2. Two Key Risk Control Objectives were identified and tested and based on the findings from this work an overall evaluation of the overall adequacy of the internal controls was established. (figure 1 below).

Figure 1 - Evaluations of the Effectiveness of the Internal Controls

Evaluation
Limited Assurance

KEY FINDINGS

3. The key control and operational practice findings that need to be addressed in order to strengthen the control environment are set out in the Management and Operational Effectiveness Action Plans. The prioritisation of the findings are summarised below (figure 2):

Figure 2 - Summary of Priorities of Findings

Urgent	Important	Routine	Operational
1	8	4	1

MANAGEMENT RESPONSES

4. Recommendations for improvements should be assessed by the Company for their full impact before they are implemented.

RELEASE OF REPORT

5. The table below sets out the history of this report.

Date draft report issued:	25 th February 2010
Date revised draft report issued:	30 th March 2010
Date 2 nd revised draft report issued:	28 th April 2010
Date management responses recd:	29 th July 2010
Date final report issued:	30 th July 2010



MANAGEMENT ACTION PLAN
PRIORITY 1, 2 AND 3 RECOMMENDATIONS

Risk	Finding	Recommendation	Priority	Management Comments	Implementation Timetable	Responsible Officer
Failure to control the allocation of purchasing cards leading to fraudulent misuse and/or loss.	There are some inappropriate categories that are not blocked on a number of purchase cards.	Recommendation 3: A review be undertaken of the supplier categories that are not blocked on all purchase cards.	1	<i>A review of all Purchase Cards is to be undertaken by the Procurement Team which is envisaged will vastly reduce the number of Cards in existence across the Company.</i> <i>As part of this review the categories allocated to each card will be reviewed. Controls will be implemented to ensure that retained cards and all cards authorised in the future allow access to only required and approved supply categories.</i>	<i>End of October 2010</i>	<i>Pete Smith – Procurement Manager</i>

PRIORITY GRADINGS

1	URGENT	fundamental control issue on which action should be taken immediately.
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2	IMPORTANT	control issue on which action should be taken at the earliest opportunity.
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3	ROUTINE	control issue on which action should be taken.
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Risk	Finding	Recommendation	Priority	Management Comments	Implementation Timetable	Responsible Officer
Failure to control the allocation of purchasing cards leading to fraudulent misuse and/or loss.	There is no documented authority held regarding the justification of need for the card and authorisation for ordering the card.	Recommendation 2: A documented procedure be developed for the justification of the need for a Purchase Card and the requirement for authorisation by the Line Manager and Head of Finance before the ordering of a card. The form should include why the purchase card is required, why the purchase order system cannot be used, are other cards available for use in the department/office.	2	<i>Format of a new documented procedure to be agreed by Head of Finance and Head of Procurement following completion of the review of existing purchase cards.</i>	<i>End of November 2010</i>	<i>Pete Smith – Procurement Manager</i> <i>Supported by Darren Phillips – Head of Finance (Company)</i>
Failure to control the allocation of purchasing cards leading to fraudulent misuse and/or loss.	Two members of staff issued with purchase cards had moved jobs to roles that no longer required the use of the card and had not returned their cards to the Procurement Manager.	Recommendation 4: All cardholders be reminded of the need to inform the Procurement Manager of a change of job role or section and return purchase cards where necessary.	2	<i>All employees who retain a purchase card will be reminded of the need to inform Procurement of any changes in their job role.</i> <i>Controls to ensure that this is adhered to and that purchase cards are returned where necessary are to be considered as part of the compilation of new purchase card procedures.</i>	<i>End of November 2010</i>	<i>Pete Smith – Procurement Manager</i>

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Risk	Finding	Recommendation	Priority	Management Comments	Implementation Timetable	Responsible Officer
Failure to control the allocation of purchasing cards leading to fraudulent misuse and/or loss.	Two members of staff issued with purchase cards had moved jobs to roles that no longer required the use of the card and had not returned their cards to the Procurement Manager.	Recommendation 5: Human Resources be informed of all members of staff who hold a purchase card and it be ensured that the card is returned prior to the employee leaving.	2	<i>All employees who retain a purchase card will be reminded of the need to return cards as and when they leave the employment of the Company. Controls to ensure that this is adhered to (including information held by HR) and that purchase cards are returned where necessary are to be considered as part of the compilation of new purchase card procedures.</i>	<i>End of November 2010</i>	<i>Pete Smith – Procurement Manager</i>
Failure by staff with purchasing cards to use them appropriately and in line with agreed processes.	A number receipts reviewed were not initially held by the cardholder or the Finance Assistant and copy invoices were obtained from the supplier/retailer. This would indicate that the receipts were not attached to the Purchase Card Reconciliation Confirmation form at the time of authorisation by the line manager.	Recommendation 6: Management be reminded of the need to ensure that all items are supported by receipts at the point of signing the Purchase Card Reconciliation Confirmation form.	2	<i>Will be implemented following completion of the purchase card review and the reduction in number of purchase cards used against the Company.</i>	<i>End of November 2010</i>	<i>Pete Smith – Procurement Manager</i> <i>Supported by Darren Phillips – Head of Finance (Company)</i>

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Failure by staff with purchasing cards to use them appropriately and in line with agreed processes.	Two Purchase Card Reconciliation Confirmation forms have not been signed off in line with the Financial Authorisation Matrix contained within the Financial Regulations. One cardholder has signed off their own Reconciliation Confirmation form.	Recommendation 7: Purchase Card Reconciliation Confirmations (PCRC) be signed off in line with the Financial Authorisation Matrix.	2	<i>Following completion of the purchase card review and reduction in the number of purchase cards used across the Company, a memo will be sent to all newly approved card holders, approvers and finance staff (who process reconciliations sheets) detailing their responsibilities in relation to ensuring that authorisations required for PCRCs are obtained without exception.</i>	End of November 2010	Pete Smith – Procurement Manager Supported by Darren Phillips – Head of Finance (Company)
Failure by staff with purchasing cards to use them appropriately and in line with agreed processes.	A commercial shredder with a value of £829 was obtained through a purchase card.	Recommendation 9: The Company's Tender and Contract Procedure Rules be followed in relation to purchases made over the threshold for competitive quotations. Documentation be retained relating to quotes obtained and reviewed by the budget holder as part of a separate authorisation process prior to the purchase being made.	2	<i>Following completion of the purchase card review and reduction in the number of purchase cards used across the Company, a memo will be sent to all newly approved card holders, approvers and finance staff (who process reconciliations sheets) detailing their responsibilities in relation to ensuring that Standing Orders are adhered to, without exception, when using purchase cards.</i>	End of November 2010	Pete Smith – Procurement Manager Supported by Darren Phillips – Head of Finance (Company)

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Risk	Finding	Recommendation	Priority	Management Comments	Implementation Timetable	Responsible Officer
Failure by staff with purchasing cards to use them appropriately and in line with agreed processes.	At the time of the audit there were 96 Company purchase cards held. Of these 13 have not been used for the months April to December 2009.	Recommendation 12: The allocation of purchase cards currently issued to office staff and management be reviewed with a view to re-assessing the need for all cards held by staff, reducing the number issued and obtaining items through supply agreements.	2	<i>A review of all Purchase Cards is to be undertaken by the Procurement Team which is envisaged will vastly reduce the number of Cards in existence across the Company.</i>	<i>End of October 2010</i>	<i>Pete Smith – Procurement Manager</i>
Failure by staff with purchasing cards to use them appropriately and in line with agreed processes.	At the time of the audit there were 96 Company purchase cards held. Of these 13 have not been used for the months April to December 2009.	Recommendation 13: The need for what is considered a high number of credit/purchase cards be reviewed with a view to reducing the number to be used for emergency use only or where the item or service needed cannot be ordered and paid for by use of the authorised purchase order system.	2	<i>A review of all Purchase Cards is to be undertaken by the Procurement Team which is envisaged will vastly reduce the number of Cards in existence across the Company.</i>	<i>End of October 2010</i>	<i>Pete Smith – Procurement Manager</i>

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Risk	Finding	Recommendation	Priority	Management Comments	Implementation Timetable	Responsible Officer
Failure to direct the process through approved policy & procedures.	No indication is made in the Procurement Strategy as to who Purchase Cards should be issued to and the goods to be obtained or suppliers to be used.	Recommendation 1: The Procurement Strategy be amended to include reference to who Purchase Cards may be issued to, the goods to be obtained and suppliers to be used.	3	<i>To be considered as part of the next review of the Procurement Strategy. To be incorporated into the new purchase card procedures or supporting protocol for issuing cards.</i>	End of November 2010	Pete Smith – Procurement Manager
Failure by staff with purchasing cards to use them appropriately and in line with agreed processes.	A commercial shredder with a value of £829 was obtained through a purchase card.	Recommendation 8: A system be devised to ensure that any large value items of office equipment are recorded on an inventory/asset register.	3	<i>Number of any such items with be limited, but controls will be introduced within finance to ensure large value items are brought to the attention of the Head of Finance. Purchase card holders will also be reminded of the need to highlight such items (consideration will be given to changing controlled stationary to highlight such items).</i>	End of November 2010	Darren Phillips – Head of Finance (Company)
Failure by staff with purchasing cards to use them appropriately and in line with agreed processes.	Discussions with the Procurement Manager identified that an account has been set up with Office World, however, the majority of purchases by Head Office and Area Office based staff are through the purchase card.	Recommendation 10: Office World supplies be ordered through the account set up rather than using purchase cards.	3	<i>Following the review of purchase card users and establishment of additional controls, mechanisms will be put in place to ensure stationary items are not obtained using several purchase cards.</i>	End of November 2010	Pete Smith – Procurement Manager

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Risk	Finding	Recommendation	Priority	Management Comments	Implementation Timetable	Responsible Officer
Failure by staff with purchasing cards to use them appropriately and in line with agreed processes.	At the time of the audit there were 96 Company purchase cards held. Of these 13 have not been used for the months April to December 2009.	Recommendation 11: The allocation of purchase cards currently issued to craft operatives be reviewed to establish whether materials could be procured by means of an account set up at plumbing merchants.	3	<i>A review of all Purchase Cards is to be undertaken by the Procurement Team which is envisaged will vastly reduce the number of Cards in existence across the Company. Consideration will be given to setting up new supplier accounts to facilitate the reduction in the number of purchase cards used by operatives.</i>	<i>End of October 2010</i>	<i>Pete Smith – Procurement Manager</i>

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OPERATIONAL EFFECTIVENESS MATTERS

Item	Management Comments
<p><u>Para 13.7</u> Consideration be given to the Gas Section Finance Assistant rotating the operatives reviewed in the sense check of invoices received from the supplier, matching the items on the invoice against the description recorded on the maintenance system.</p>	<p><i>To be reviewed as part of the rationalisation of purchase cards.</i></p>

ADVISORY NOTE

Operational Effectiveness Matters need to be considered as part of management review of procedures, rather than on a one-by-one basis

- DETAILED REPORT -

SCOPE AND LIMITATIONS OF THE REVIEW

6. The review considered the use of purchase cards by Support Services, Housing staff and repairs operatives. The review considered the criteria for the issue of purchase cards to staff and the extent to which they are used, individual expenditure limits and the appropriateness of the method of purchase (rather than using that set out in the Financial Regulations and the subsequent authorisation of transactions). The review also considered the outlets at which the cards may be used, whether these have been reviewed and to what extent this accords with the approved list of suppliers.
7. The limitations and the responsibilities of management in regard to this review are set out in the Annual Plan.

ASSESSMENTS OF THE KEY RISK CONTROL OBJECTIVES

8. This review identified and tested the controls that are being operated by the Company and an assessment of the combined effectiveness of the controls in mitigating the key control risks is provided. The assessments are:

Substantial Assurance	robust series of internal controls in place which should ensure continuous and effective achievement of the control objective.
Reasonable Assurance	reasonable number of internal controls in place, however may not be operated all the time.
Limited Assurance	the controls in place are not sufficient to ensure the continuous and effective achievement of the control objective.
No Assurance	fundamental breakdown or absence of core internal controls.

MATERIALITY

9. At the time of the audit there were 96 purchase cards in circulation.

AUDIT FINDINGS

10. Risk	Failure to direct the process through approved policy & procedures.
Risk Control Objective	Arrangements in place provide for compliance with established policies, procedures, laws and regulations.
Evaluation	From the review of the documentation and tests carried out the Control Evaluation is: <u>Substantial Assurance</u>

11. The following matters were identified in reviewing the Key Risk Control Objective:

11.1 Reference is made to the use of Purchase Cards by Property Services as a way of reducing the cost of invoice administration in the Procurement Strategy dated October 2008 and that these will be extended to other areas of the business. No indication is made as to who Purchase Cards should be issued to and the goods to be obtained or suppliers to be used. These could be included in the Procurement Strategy or in a separate Purchase Card Policy.

Recommendation 1: The Procurement Strategy be amended to include reference to who Purchase Cards may be issued to, the goods to be obtained and suppliers to be used.

11.2 The Financial Regulations, dated May 2009, make reference to the use of Purchase Cards and state that the card is limited to business use, for specific products and services and within spending limits. They also state that “due to the nature and operation of purchase cards approval of expenditure as per required by the Financial Authorisation Matrix is done retrospectively.”

11.3 A Purchase Card procedure document is provided to all cardholders on issue of their card. This includes the management of cards, security of the card and PIN, purchase limits, approved suppliers and the reconciliation process.

12. Risk	Losses arising from unauthorised action by staff.
Risk Control Objective	Arrangements in place provide for safeguarding the organisation’s assets and interests from avoidable losses.
Evaluation	From the review of the documentation and tests carried out the Control Evaluation is: <u>Limited Assurance</u>

13. The following matters were identified in reviewing the Key Risk Control Objective:

Risk: Failure to control the allocation of purchasing cards leading to fraudulent misuse and/or loss.

13.1 The prospective cardholder requests a purchase card via their line manager who grants authority verbally to the Procurement Manager. The cardholder completes a

Natwest Cardholder Application form, which is authorised by the Procurement Manager prior to sending to Natwest Commercial Cards Division.

- 13.2 There is no documented authority held regarding the justification of need for the card and the authorisation for ordering the card.

Recommendation 2: A documented procedure be developed for the justification of the need for a Purchase Card and the requirement for authorisation by the Line Manager and Head of Finance before the ordering of a card. The form should include why the purchase card is required, why the purchase order system cannot be used, are other cards available for use in the department/office.

- 13.3 The cardholders are required to sign a Purchase Card Employee Agreement on issue of the card by the Procurement Manager. Signed agreements were held for all cardholders at the time of the audit.

- 13.4 Natwest Commercial Card Division can restrict the use of the card to certain supplier categories as required. A "block form" is completed detailing which type of supplier/retailer the cardholder needs.

The categories of building services, building materials, office stationary equipment and books & periodicals are open for use on all operatives, housing and office based staff cards.

There are some inappropriate categories unblocked on other cards: -

- Employee 7121419A (Craft Operative), several categories unblocked;
- Employee 1105740A (Mechanical and Electrical section), financial services unblocked;
- Employee 3050232A (Decent Homes and Capital Program), all categories unblocked;
- Employee 3050367A (Secretariat and Facilities Management), several categories unblocked;
- Members of the Procurement Team all categories unblocked;
- The Director of Housing and the two Assistant Directors of Housing, all categories unblocked.

Recommendation 3: A review be undertaken of the supplier categories that are not blocked on all purchase cards.

- 13.5 A purchase card was issued to Phayre Clewes in August 2008 when she was employed in the UPVC windows section. She moved to the role of Mobile Support Officer in September 2009 but the purchase card remained in the windows section and was used by another member of staff in November 2009.

Terry Waldron was issued a purchase card for his role in the mechanical and electrical section but now works in the Decent Homes Team.

The Purchase Card Procedures include a requirement that the cardholder must notify the Procurement Manager of a job or section change.

Subsequent to the audit, both of these cards were cancelled by the Procurement Manager.

Recommendation 4: All cardholders be reminded of the need to inform the Procurement Manager of a change of job role or section and return purchase cards where necessary.

Recommendation 5: Human Resources be informed of all members of staff who hold a purchase card and it be ensured that the card is returned prior to the employee leaving.

Risk: Failure by staff with purchasing cards to use them appropriately and in line with agreed processes.

- 13.6 A spreadsheet detailing the items purchased on the card is sent by the Finance Assistant to the cardholders on a weekly basis. Cardholders are required to attach all receipts to a Purchase Card Reconciliation Confirmation form that is authorised by their line manager in line with the Financial Regulations. This includes confirmation that all advice notes are checked and match the Excel spreadsheet.
- 13.7 This reconciliation is completed by the Gas Section Finance Assistant for all gas operatives. She also completes a sense check of the invoices received from the supplier, matching the items on the invoice against the description recorded on the maintenance system. This is done on five invoices from each of the three plumbing suppliers. (Operational Effectiveness Matter refers).
- 13.8 The Gas Repairs Area Controller holds a purchase card. Discussions with the Area Controller identified that this card is used on occasions where contractors have been used to complete repairs, where the engineer has not taken their own purchase card with them or the monthly limit has been exceeded. The Area Controller maintains a spreadsheet of their purchases and who the transaction was for and the property involved.
- 13.9 A sample of 10 non-craft workers' purchase cardholder's statements was reviewed. Valid receipts or invoices supported all items. The cardholder or the Finance Assistant did not initially hold a number of these and copy invoices were obtained from the supplier/retailer. This would indicate that the receipts were not attached to the Purchase Card Reconciliation Confirmation form at the time of authorisation by the line manager.

Recommendation 6: Management be reminded of the need to ensure that all items are supported by receipts at the point of signing the Purchase Card Reconciliation Confirmation form.

- 13.10 Purchase Card Reconciliation Confirmation forms for A. Dale and H. Raval (both in the Decent Homes and Capital Program) have been authorised by A. Dale. The Store Manager signs off the Procurement Assistant's Purchase Card Reconciliation Confirmation form. These are not in line with the Financial Authorisation Matrix contained within the Financial Regulations, as they do not have the financial authorisation level for this. Also A. Dale cannot sign off their own reconciliation.

Recommendation 7: Purchase Card Reconciliation Confirmations be signed off in line with the Financial Authorisation Matrix.

- 13.11 A member of the Secretariat and Facilities Management purchased a commercial shredder in October 2009 with a value of £829. There is currently no inventory or asset register in place for non-IT equipment.

Recommendation 8: An inventory/asset register be put in place for non-IT equipment and a system be devised to ensure that any large value items of office equipment acquired through purchase cards are entered onto this register.

- 13.12 It was not established at the time of the audit whether quotes were obtained, and from where, prior to the purchase of the shredder. The Company's current Tender and Contract Procedure Rules state that purchases of £100 or more but less than £5,000 may be made after seeking at least three written quotations and obtaining at least two.

Recommendation 9: The Company's Tender and Contract Procedure Rules be followed in relation to purchases made over the threshold for competitive quotations. Documentation be retained relating to quotes obtained and reviewed by the budget holder as part of a separate authorisation process prior to the purchase being made.

13.13 The majority of purchases by Head Office and Area Office based staff are for stationary through Office World. Discussions with the Procurement Manager identified that an account has been set up with Office World.

Recommendation 10: Office World supplies be ordered through the account set up rather than using purchase cards.

13.14 At the time of the audit there were 96 Company purchase cards held, 51 by craft operatives, 8 in the Company's area offices and a further 37 in the head office and Property Services/Asset Management offices. Of these cards 13 have not been used for the months April to December 2009. This is considered to be a high amount of cards issued and is not common practice at other organisations.

Recommendation 11: The allocation of purchase cards currently issued to craft operatives be reviewed to establish whether materials could be procured by means of an account set up at plumbing merchants.

Recommendation 12: The allocation of purchase cards currently issued to office staff and management be reviewed with a view to re-assessing the need for all cards held by staff, reducing the number issued and obtaining items through supply agreements.

Recommendation 13: The need for what is considered a high number of credit/purchase cards be reviewed with a view to reducing the number to be used for emergency use only or where the item or service needed cannot be ordered and paid for by use of the authorised purchase order system.

Risk: Failure to authorise the purchase card invoices correctly leading to inappropriate expenditure and incorrect coding of expenditure.

13.15 The purchase card statement is checked by the Procurement Manager for inappropriate suppliers and signed off as authorised. Nottingham City Council then pays this on behalf of Nottingham City Homes.
