



Internal Audit Report

Building Services

Recharges

Issued to:

Pete Leonard, Director of Communities, Housing and Infrastructure
Richard Ellis, Interim Director of Corporate Governance
John Quinn, Head of Land and Property Assets
Steven Whyte, Head of Finance
Graham Williamson, Operations Manager
Pamela Cruickshank, Performance and Resources Manager
Anne MacDonald, Audit Scotland

EXECUTIVE SUMMARY

Following a request from Building Services Management Internal Audit undertook a review to determine whether or not it was possible for incorrect charges for repairs undertaken to be levied through the use of current systems and procedures.

A review of the systems used was undertaken and a number of recommendations were made and agreed by the Service. These include improving the recording of employees' time coded to jobs, stock control, responding to invoice queries within an agreed timeframe, and introducing additional management reviews.

1. INTRODUCTION

- 1.1 Internal Audit were approached by Building Services management to assist with determining whether or not it was possible for incorrect charges to be levied through the use of current systems and procedures.
- 1.2 The objective of this review was to determine what current systems and practices were being used and the effectiveness of overall controls within the Service. This involved looking at job and time recording, stock control and any discrepancies between expected and actual billing.
- 1.3 The factual accuracy of this report and action to be taken with regard to the recommendations made have been agreed with John Quinn, Head of Land and Property Assets, Graham Williamson, Operations Manager, and Pamela Cruickshank, Performance and Resources Manager.

2. FINDINGS AND RECOMMENDATIONS

2.1 Recording Jobs

- 2.1.1 Following notification of the requirement for a repair to be effected, Team Leaders will determine the likely cost of a repair, taking into account labour and materials required. A 'ready reckoner' is used to assist in this process which is reviewed on a regular basis. Amendments are made where appropriate and in particular where there are changes to contracts or prices. The customer (which may be a tenant or the Housing Service) is then notified of the estimated costs of the repair.
- 2.1.2 The Service confirmed that the system is checked to determine whether or not any similar repairs have been performed recently. Where similar previous work has been performed this is investigated to determine if it is a recurrence of the same issue.
- 2.1.3 Jobs are then input to the Opti-Time system from where they are allocated to Tradesmen. Materials which are required are obtained from the Store (if applicable) and the materials and subsequent costs are automatically allocated against the job number on the Consillium Totalview System (TOTAL) which records all costs. Materials not required for a job and subsequently returned are automatically removed from the system. Costs for materials which have to be ordered specifically are not added to the system until such time as the invoices are received and paid.
- 2.1.4 Where a Tradesman arrives onsite and finds that the job is likely to take significantly longer than envisaged they inform their Team Leader in order that job times can be adjusted on Opti-Time. The Service has stated that it is responsible for the HRA budget from which the cost of repairs for tenants is covered therefore no notification for these types of properties is needed. However, an owner or tenant who is responsible for a repair may become liable for additional costs due to any additional labour or materials charges. Notification of the additional charges is not given until after the job has been completed thereby denying the owner the opportunity to challenge any potential charges. Whilst it could be argued that it is more cost effective to complete the job while the employee is onsite, this must be balanced against the rights of the owner to be informed of the potential increased costs of any work.

Recommendation

The Service should ensure that, where increases in job costs are identified, revised estimates (where appropriate) are issued to an owner / tenant prior to the work going ahead.

Service Response / Action

Agreed. Under our QMS we have a process to be implemented which is under development and will be implemented within the next 3 months.

Implementation Date

September 2016

Responsible Officer

Contract Manager CHI /
QA & Customer Service
Manager

Grading

Important within audited
area

2.2 Recording Time

- 2.2.1 Time spent against jobs can either be recorded via timesheets or via handheld units. In the case of the latter, a Tradesman will record on the handheld unit when they receive notification of a job, leave to attend the job, when they start the job and when they complete it. This should then record the travelling time and time spent on the job allowing for an accurate recharge of hours against the job. The Service has acknowledged that

there remain issues with Tradesmen failing to record time spent travelling and job start and finish times. This can be due to electronic equipment not functioning properly or employees simply forgetting to record their time.

2.2.2 The Service confirmed that processes and procedures are in place for work planning and supervision. This involves site visits which are part and parcel of routine management practice whereby line managers keep in touch with the workforce to see how they are getting on and to ensure staff:

- have the available allocation of time for each job,
- have the necessary material for their tasks,
- have the necessary equipment (tools and protective clothing) and understand the importance of using them appropriately, and
- follow safe working practices.

The service acknowledged that there are challenges involved in managing the availability of resources in order to ensure all of the processes and procedures are followed and are working towards a balanced approach.

2.2.3 The Service has stated that were employees to allocate time to jobs that they were not involved in, the system may not flag this up. Instead, the above process is relied upon. Whilst no evidence was identified during the review to suggest that such misallocation of time is occurring, it may be worthwhile for the Service to consider whether it would be possible to highlight such exceptions to provide an additional level of assurance.

Recommendation

The Service should investigate the possibility of introducing a mechanism which would highlight instances where time is allocated incorrectly to jobs.

Service Response / Action

Agreed. The Service has implemented changes in the Total system with the introduction of a check digit. Job number are no longer sequential, this improvement will reduce the amount of incorrect time allocated to jobs.

Implementation Date

Implemented

Responsible Officer

Systems Development
Officer

Grading

Important within audited
area

2.2.4 In addition to the above, the Service maintains a spreadsheet which records 'missing time'. Each employee's available hours (total standard hours for the week) is recorded on this sheet. This is then compared to the hours worked by the employee based on the handheld unit information and the job costing timesheets.

2.2.5 An initial report (shown as run 1 in appendix 1) is produced which shows the 'missing time' and Managers should query this with employees and input any missing time. When all time is input the report is then run again to identify any further missing time (shown as run 2 in appendix 1). No further action is taken after run 2. As each employees time should in the main be allocated against a repair job, missing or overstated time could result in inaccurate charging information.

2.2.6 As shown in appendix 1, there has been an improvement in the recording of time, however there still remains a significant amount of time unaccounted for. In addition, the Service's reported position shows a net rather than gross error percentage (i.e. under-recorded time has been netted off over-recorded time). As shown in the appendix, whilst still showing a reduction, the gross error rate remains significant.

- 2.2.7 Where time is not recorded at the point of tasks being undertaken (job time, travelling, other work) there is an increased risk of errors occurring, as time has to be retrospectively allocated. Where this occurs, for chargeable jobs there is a risk of over / undercharging occurring. The Service should therefore address this issue at source.

Recommendation

The Service should address the issue of 'missing time'.

Service Response / Action

Agreed. Whilst there has been improvements made within this area, the audit has highlighted that further work is required and a further check is required to address failures in the process.

Implementation Date

September 2016

Responsible Officer

Senior Work Planner

Grading

Significant within audited area

2.3 Stock Control

- 2.3.1 On receipt of a job number the Tradesman will obtain stock from one of four depots. The Store or Administrative Person will verify the request for materials against the materials shown as being required for the job on the system. Whilst all stock issued is recorded, it is accepted by the Service that it is possible for duplicate materials to be issued as staff do not always have the time to check whether the stock has been issued for the job previously.
- 2.3.2 Store persons have hand held Wi-Fi scanners which should record all stock which has been issued and that which has been returned. The Service advised that these scanners do not always work and if working, there are areas within the store in which the wifi functionality doesn't work. In these instances stock movements have to be input to the system manually. The Service acknowledged that were the scanners to work all the time this would free up time for stores staff to check all stock issued more thoroughly. The issue with scanners and their coverage within the stock room should be discussed with the supplier with the aim of ensuring that the systems are more reliable.

Recommendation

The Service should ensure that issues with the scanners are resolved.

Service Response / Action

Agreed.

1. The Service has improved the use of the scanners by installing new data cables and access points in the stores.
2. Further work is required by ICT at the Kincorth depot

Implementation Date

1. Implemented
2. September 2016

Responsible Officer

- System Manager
- Consillium

Grading

Important within audited area

- 2.3.3 The Service confirmed that where a job has been cancelled or closed that this will be flagged on the system and that if a Tradesman attempts to obtain stock against the job number, the request will be refused. The store system automatically links to the TOTAL system which records all expenditure against the job number and where stock has been returned this is removed from the cost of the job thereby ensuring that stock which is returned is not charged against the job.

- 2.3.4 It is important that stock takes are undertaken to ensure that levels of stock are accurately recorded and that any issues with either missing or excess stock are identified at an early stage. The Service has 4 depots: the main one at Kittybrewster plus 3 satellite depots. 100% stock checks are performed twice yearly with ad hoc stock checks performed throughout the year. Results from the year end stock takes were obtained for 2 of the 3 satellite depots. These are summarised in the tables below.

Kincorth Depot	
Number of stock lines	499
Number of stock lines in which there were anomalies	127
Total number of stock Items (from system)	13,064.34
Total variance in stock items counted (Service Figures)	121.94
Total gross variance in stock items counted (Internal Audit Figures)	849.56
Total value of stock items (from system)	£20,208.52
Total variance in value of stock items (Service Figures)	£21.08
Total gross variance in value of stock items (Internal Audit Figures)	£868.34

Hilton Depot	
Number of stock lines	561
Number of stock lines in which there were anomalies	134
Total number of stock Items	30,570.35
Total variance in stock items counted (Service Figures)	777.65
Total gross variance in stock items counted (Internal Audit Figures)	1,157.65
Total value of stock Items	£62,932.88
Total variance in value of stock items (Service Figures)	-£442.15
Total gross variance in value of stock items (Internal Audit Figures)	£2,255.37

- 2.3.5 As with the timesheets the Service's reported position shows a net rather than gross error percentage. Where stock present is less than that which is recorded on the system (negative figure) and where stock counted is more than that which is recorded on the system (positive figure) this is currently netted off, even though the specific items with positive or negative variances may be different. The gross error more effectively demonstrates the quality of stock control.

Recommendation

The Service should report on and take action in respect of gross stock errors.

Service Response / Action

Agreed the following action:

1. Increase stock balance checks – we currently run balance checks on high value items on a weekly basis, this will be extended to our whole range- with the intention of identifying any errors/ discrepancies quickly so that we can investigate and resolve – thus maintain a more accurate account of our stock.
2. Implement further staff training (Store Operatives) :-
 - Use of the scanners – scanning correct barcodes, entering correct quantities, etc. – reduce human error.
 - Returns process – note that since this audit we have now introduced Return slips to record all returns to the store and also held a team talk to ensure returns process is understood.
 - Conversion factors / Units of issue - Identify any discrepancies, i.e. paint purchased by tin, issued per litre.
3. Implement further staff training (Tradesmen):-
 - Van stocks (email has been sent out to team leaders to gain feedback on problems/ issues occurring – this will be used to develop further training).

- Returns process- i.e. no entry jobs – material must be returned to store not kept in van.
- Multiple use items – i.e. plasterers stock- 25kg bags, only small amounts used per job.

4. No entries – material that is not returned to store - we will run weekly report to identify material issued against no entry jobs, this will then be followed up with the specific team leaders.

5. Increase store security:-

- Those entering the store must be supervised by a member of the stores team (since the audit we have introduced fob only access to the stores, which allows only the stores team and team leaders to enter, we are also in the process of sourcing additional CCTV throughout the store).
- Compound security – tradesmen currently using stores compound for storage of mixers and for mixing cement (tap access available) – looking into the possibility of moving the tap out with the compound, thus limiting access to stock material stored within.

6. Call-out requisitions – develop stricter call-out procedure with team leaders (i.e. must accompany tradesman, sign of requisitions, etc.) / introduce call-out log to record those accessing stores out of hours.

<u>Implementation Date</u>	<u>Responsible Officer</u>	<u>Grading</u>
September 2016	Contract Manager / Assistant Contract Manager	Important within audited area

2.3.6 In both of these stores around 25% of the stock lines contains an error in the counted items. Whilst the figures relating to the total amount of items and value are not material, they do highlight the need for tighter stock control.

2.3.7 Figures were then obtained for the year end stock count for the Central (Kittybrewster) depot. The results of these are shown below.

Number of stock lines	1,670
Number of stock lines which didn't match system	1,088
Total number of stock items (across all stock lines)	227,212
Total number of stock items (across all stock lines) which didn't match system (Service Figures)	20,631
Total gross number of stock items (across all stock lines) which didn't match system (Internal Audit Figures)	57,022
Total Value of Stock (on system)	£358,707
Total gross value of variance items	£93,652

The above figures are cause for concern with 65% of stock lines showing a difference between the figures recorded on the system and that which was counted.

2.3.8 £39,154 worth of stock recorded in the system was not present whilst £54,498 worth of stock was present which was not recorded on the system resulting in a net difference of £15,344 too much physical stock. This could suggest that stock has been booked out and charged to jobs, but not physically removed from the store, or has been returned but not deducted from the job costing. The Service should establish the reason for the high levels of errors and put in place practices to prevent recurrence of the above issues.

Recommendation

The Service should identify the causes of the inaccuracies within all stores and ensure that procedures are enhanced to prevent recurrence.

Service Response / Action

Agreed. See response to 2.3.5

Implementation Date

September 2016

Responsible Officer

Contract Manager /
Assistant Contract Manager

Grading

Significant within audited
area

2.3.9

Items that are ordered for specific jobs are not counted during stock counts. Where these items are not used on the job for which they were ordered, they are either retained for use in another suitable job or if not required may be returned to the supplier, subject to a re-stocking charge. However, as any directly purchased goods are not included in stock counts, if these items were to go missing at any time, it would not be possible to determine.

Recommendation

The Service should ensure that non stock items are adequately recorded.

Service Response / Action

Agreed. A process whereby all incoming and outgoing non-stock items are recorded will be developed.

Implementation Date

December 2016

Responsible Officer

Contract Manager /
Assistant Contract Manager

Grading

Important within audited
area

2.4

Billing / Complaints

2.4.1

Since December 2015 the Service has confirmed that where a customer has been issued with an estimate and the cost of the job turns out to be higher, that only the estimated costs are charged. Where the cost of the job is lower than the estimate, the actual cost is charged.

2.4.2

The Service does not currently maintain a record or database showing all job estimates against costs actually charged. Maintaining such a database would allow Management to review whether or not the estimation process is sufficiently accurate. It would also highlight any specific areas where estimates do not match job costs and allow Management the opportunity to review options to address these areas.

Recommendation

The Service should consider developing a mechanism to allow for a regular management review of differences between expected and actual costs. This would highlight significant variances and would assist in the management scrutiny of Service performance.

Service Response / Action

Agreed. Monthly reports will be developed and used as a Management Performance tool. This will highlight improvements needed to practices currently used and ensure future accuracy to estimates provided to our customers.

Implementation Date

September 2016

Responsible Officer

Senior Admin Assistant

Grading

Important within audited
area

2.4.3

Guidance is provided to tenants and owners where they are issued with a quotation and this provides information with regards to the responsibilities and liabilities for each party. The guidance was examined and found to contain relevant information in addition to contact information.

- 2.4.4 Following a dispute between a liable party and the Service, the liable party can submit an invoice enquiry detailing the issues they have. Whilst the Quality Assurance and Customer Services Team use the Corporate Complaints Procedure for corporate complaints, it is not used for invoice enquiries, and the Service confirmed that there is no timeframe within which a reply has to be issued, rather they are done as quickly as possible. It may be useful were a protocol to be developed to give guidance (including timescales) for dealing with invoice enquiries.

Recommendation

The Service should ensure that a formal procedure is developed, to provide guidance to staff dealing with enquiries relating to invoices issued.

Service Response / Action

Agreed. The Corporate Complaints Procedure and timescales will be implemented for invoice enquiries.

Implementation Date

December 2016

Responsible Officer

Customer Services Officer

Grading

Important within audited area

- 2.4.5 A record of complaints is, however, maintained along with the outcomes following investigation. An examination of 156 complaints which had been resolved between January and March 2016 showed that in 55 cases the invoice amounts were amended. In 29 cases the invoices were cancelled altogether while in the remaining 72 cases the charges stood. The level of complaints which resulted in changes to the charge applied suggests that in more than half of the instances errors of some sort were discovered. It would be useful for the Service to monitor these figures to determine whether there are specific issues which require to be addressed.
- 2.4.6 It would also be worthwhile to monitor the number of complaints received per month against the number of invoices raised to determine whether or not tenant / owner satisfaction with the Service is improving as this in turn could be seen to be a reflection of the quality of the work performed. It is accepted, however, that there will always be illegitimate complaints.

Recommendation

The Service should investigate the reasons for the errors identified in the above paragraph and should ensure that any systematic errors are resolved to reduce future occurrences.

The Service should ensure that statistics relating to resolved complaints are reported to Management to determine if there are issues which require to be addressed.

Service Response / Action

Agreed. Statistics relating to corporate complaints are recorded and reported to management. Invoice enquiries are not. The service will implement the recording of all enquiries and report to management monthly.

Implementation Date

December 2016

Responsible Officer

Customer Services Officer

Grading

Important within audited area

AUDITORS: D Hughes
M Beattie
D Henderson

Appendix 1 – Analysis of ‘Missing Time’ Spreadsheet

Run 1	For Period 31/8/15 to 4/10/15					
	Wk 23	Wk 23 (Audit)	Wk24	Wk25	Wk26	Wk27
Total Missing Hours	4084.21	5630.47	4470.30	5118.88	3689.57	6139.22
Available Hours	18833	18833	19342	19186	18923	19138
% of hours missing against total time available	21.7%	29.9%	23.1%	26.7%	19.5%	32.1%
Average missing time (not including audit figures) 24.6%						

Run 2						
Total Missing Hours	-2761.63	n/a	-2821.83	-3228.05	-3345.32	-5505.47
Available Hours	18833	18833	19342	19186	18923	19138
% of hours missing against total time available	14.7%	n/a	14.6%	16.8%	17.7%	28.8%
Average missing time (not including audit figures) 18.5%						

Run 1	For period 1/2/16 to 6/3/16					
	Wk 45	Wk45 (Audit)	Wk 46	Wk 47	Wk 48	Wk 49
Total Missing Hours	-3245.58	4321.66	-3108.05	-1665.36	-1915.21	-2762.51
Available Hours	18397	18397	18619	18545	18341	18415
% of hours missing against total time available	17.6%	23.5%	17.7%	9%	10.4%	15%
Average missing time (not including audit figures) 13.9%						

Run 2						
Total Missing Hours	-2285.17	n/a	-1250.06	-1246.06	-1426.28	-1734.8
Available Hours	18397	18397	18619	18545	18341	18415
% of hours missing against total time available	12.4%	n/a	6.7%	6.7%	7.8%	9.4%
Average missing time (not including audit figures) 8.6%						

Appendix 2 – Grading of Recommendations

GRADE	DEFINITION
Major at a Corporate Level	The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss, or loss of reputation, to the Council.
Major at a Service Level	<p>The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss to the Service/area audited.</p> <p>Financial Regulations have been consistently breached.</p>
Significant within audited area	<p>Addressing this issue will enhance internal controls.</p> <p>An element of control is missing or only partial in nature.</p> <p>The existence of the weakness identified has an impact on a system's adequacy and effectiveness.</p> <p>Financial Regulations have been breached.</p>
Important within audited area	Although the element of internal control is satisfactory, a control weakness was identified, the existence of the weakness, taken independently or with other findings does not impair the overall system of internal control.