

**MIDLOTHIAN RISK AND AUDIT SERVICES**

**INTERNAL AUDIT REPORT**



**Subject:**           **Property Maintenance: Rechargeable Work**

**Issued to:**       John Blair, Director, Corporate Resources  
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## EXECUTIVE SUMMARY

### Objective of the Audit

The objective of the audit was to ensure that all rechargeable work carried out by the Property Maintenance service is identified, invoiced to debtors and paid promptly by the debtors.

### Remit and Scope

The following areas were included in the scope of the review:

- Policy over property maintenance recharges;
- Control of budgets and reporting;
- Procedures for staff to follow;
- Use of software to control processes and any manual aspects;
- Internal check within the processes; and
- Monitoring of income collection rates

### Background

Most, if not all, property maintenance jobs and commitments are controlled through software called Total Repairs (system administered by Business Services, Corporate Resources division) and within the software there are codes used to identify jobs that are rechargeable to other parties. Other parties are normally in the following categories: former housing tenants who have left Council houses in a poor state, insurers who may bear the cost of fire or water damage, other bodies that the Council has carried out work for, owner/occupiers that reside next door to Council houses and are affected by 'mutual repairs' or existing Council house tenants who may have been responsible for some property damage.

The responsibility for identifying rechargeable jobs lies with the Contact Centre, in taking calls from Council house tenants, and Property Maintenance personnel with the former being the main point of contact.

Rechargeable jobs are coded as they arise and there are 12 codes used. For example, if a former tenant is to be recharged, the code inserted into Total Repairs is 'FTNT'.

The vast majority of jobs are not rechargeable and are coded 'NA'.

Periodically a Total Repairs report is produced and staff in Business Services issue invoices to the debtors. Income is coded to housing services finance codes

Rechargeable repairs are covered by policy and procedures for staff involved to follow. The Contact Centre, on receiving calls, has adopted a diagnostic which asks a series of questions of the caller which leads to a decision to establish a recharge or not. The caller is notified that there will be a recharge and has the option to arrange the work themselves.

Regarding the amount of income received each year from Property Maintenance rechargeable work, it appears that around £112k was identified and invoiced in the financial year 2011/12 and this appears typical.

### Audit Conclusion

We have found strengths within the system, in particular:-





- The policy and procedures are robust, but require update;
- The diagnostics system adopted by the Contact Centre is very useful, being a part of the Total Repairs system;

- The Total Repairs software, system administered by Business Services and used by the Contact Centre and the Property Maintenance services, provides a robust means of controlling jobs and identifying recharges;
- Attempts are made to identify debtors where they have left the area; and
- The risk of fraud is low.

However, while the systems and processes have their strengths, our audit has found the following weaknesses:-

- External contractors carrying out works can sometimes be late in submitting their invoices which can lead to delays in completing jobs and issuing invoices to debtors. Invoices submitted by external contractors may also be queried and placed on dispute for good reasons
- Business Services are regularly unable to meet the deadline of four weeks after the completion of jobs, in raising invoices on debtors. This is because of other priorities.
- We found in the period 1-3 2012/13 recharging exercise that invoices totalling £559 had failed to be raised;
- An audit trail between the rechargeable repairs report and invoices raised was missing, therefore it wasn't clear at the time that invoices had been raised without discussion with the person responsible;
- Mutual repairs, where private properties are involved, are currently sometimes managed outside Total Repairs;
- Housing rechargeable work has an extremely low income collection performance rate, as low as 10% at times, which appears to be caused by debtors unwilling to pay but could be compounded by the delays in raising invoices; and
- The likely result of the bad debts is that these will have to be written off at some stage in the future.

Therefore our opinion is that overall the system is weak and management has agreed the recommendations found at the rear of the report. Using the grid below, on this occasion we have rated our opinion as **amber**.

Full Assurance	<b>BLUE</b> 	There is a <u>sound system of internal control</u> designed to achieve the system objectives and the controls are being consistently applied. Risk is managed to a high standard.
Reduced Assurance	<b>GREEN</b> 	Whilst there is <u>basically a sound system of internal control</u> there are some areas where it is viewed improvements can be made and risk controlled further.
Limited Assurance	<b>AMBER</b> 	There are <u>weaknesses in the system of internal control</u> which should be addressed within a reasonable timescale. Improvements are required in the way risks are managed.
No Assurance	<b>RED</b> 	There are <u>significant weaknesses</u> in the system of internal control which must be addressed as a matter of urgency. Unnecessary risks are being carried and the Council remains exposed.

## MANAGEMENT ACTION PLAN

### Policy

A policy for property maintenance recharges was developed in 2008 and this has been applied by Property Maintenance Services and the Contact Centre. The policy is clear, concise and has the potential to direct management actions.

However, the policy is now four years old and requires an update when time allows. For example, it makes mention of the post of General Manager, Facilities and Construction when the post is now Head of Property and Facilities Management. There may be other minor changes required.

### Procedures

At the same time as the policy was developed, procedures were developed. Again these have been adopted by relevant parties and they are clear and concise.

The Contact Centre is aware of the procedure but has developed a diagnostic to discuss repairs with callers, which leads to the identification of rechargeable work. Implementation of the diagnostic tool was carried out by Business Services following discussions with Contact Centre and Property Maintenance staff. The East Lothian Council contact centre deals with calls between 20:00 hours at night and 8:00 hours in the morning and the Contact Centre is currently ensuring the East Lothian staffing is properly identifying rechargeable income.

When time allows, the procedures are in need of a review and update, given that they are now four years old.

### Potential for Fraud or Error

It would seem low-risk that officers could make the incorrect charge to debtors because each typical recharge is based on a set of previously agreed schedule of rates which are reviewed every year. Generally officers do not need to individually calculate recharges as the system does it for them.

It also appears low-risk that after a job has been coded by an officer as a rechargeable one, the Total Repairs periodical report would fail to pick up all these jobs coded accordingly.

It is possible that a rechargeable job could be coded incorrectly (but still recharged) but this appears to be low risk.

It is possible that a rechargeable job could be missed, accidentally or on purpose, but our testing of this aspect has brought positive assurance. We reviewed 18,000 jobs over the past year that had been coded 'NA' meaning that they were not rechargeable jobs. We then looked for typical words attaching to rechargeable jobs like 'owner/occupier', 'former tenant', 'choked WC', 'rechargeable', 'mutual', 'TNT', 'void', 'forced entry', 'damage' and 'recharge' to test whether these should have been rechargeable. This showed that we had 75 jobs that potentially were rechargeable. Detailed discussions with relevant staff confirmed that these 75 jobs were in fact non-rechargeable.

If anything, the error is occasionally the other way; jobs are coded as rechargeable when in fact they are not. However, Business Services normally spot these and take action.

### Adequate resources and urgency given to raising income

In the case of the Contact Centre, identifying rechargeable income is built into the 'day-job' through regular contact with Council house tenants. The same applies to Property Maintenance personnel and the raising of income is part of the duties of Support personnel in Business Services, based at Dundas Buildings.

However, there are indications of some lack of urgency in identifying and collecting valuable income. These include:-

- Occasionally external contractors delay submitting invoices to property maintenance, there are subsequent delays in completing jobs and delays in making recharges. The incremental delays could be contributing to the poor collection performance mentioned below but this is not certain at this stage;
- Occasionally Support personnel in Dundas Buildings are often delayed in carrying out income-raising duties and again delays in issuing invoices occur. Accounts receivable is only part of their duties. The number of support staff has reduced in recent years but systems of work remain outdated and labour-intensive. Senior Management priority in past year or so has been payment of purchase ledger invoices, and complying with the Late Payments legislation, therefore resources have been prioritised accordingly.
- A Support Assistant had failed to invoice four debtors in the period 1-3 2012/13 recharging exercise which contributed to delays in collecting some £559. There was no apparent reason for the omission, which has now been rectified;
- There was also no audit trail between the rechargeable income report and invoices raised. Essentially, the Support Assistant should be marking the invoice numbers on the rechargeable report so as to create an audit trail;
- When a Mutual Repair is required this normally involves repairs to Council property but also neighbouring properties owned by private parties. Currently these are not always controlled through Total Repairs because the Council cannot hold repairs data on private houses. However, all the mutual repairs to other properties could be recorded under the Council's property and managed that way;
- The very poor collection rate on housing rechargeable work has been highlighted during previous audits of accounts receivable but a solution has not been achieved. It seems that several debtors have no intention of paying, others cannot be located to a forwarding address while others may have sensed that the Council is late with its billing and the debtors will then delay payment; and
- The period 11 2011/12 recharges report was reviewed and this showed that:-
  - 33 invoices totalling £5,118 were due to be raised;
  - For 5 of these (£1,200), there was no forwarding address for the debtor and therefore income opportunities were denied; there has to be an acceptance that on occasion tenants leave without providing a forwarding address
  - For 3, the debtors had all paid sums totalling £235;
  - For 13, the debtors still had not paid (£1,744);
  - For 8, the recharge should not have been identified as a recharge, they were erroneous (£1,380) and this may be typical in any periodic report; and
  - For 4, Business Services had omitted to invoice the debtors (£559) (referred to above).

Viewed another way:-

- 66% of raised income was not really converting into actual cash (5 + 13 + 4)
- There was a 24% error rate (8 invoices) in raising invoices.
- Only 10% of invoices had been paid by the debtors, which corroborates the analysis in previous audits of accounts receivable that property maintenance repairs has a very poor income collection rate. Other reviews in previous years confirmed that the collection rates were no better and therefore when invoices are raised, they are credited to the housing cost centre, brought into budgetary control but a lot of this income turns out to be 'false' as the cash has not been collected. It is not clear at this stage whether these debtors also have Council Tax and House Rents arrears but the feeling is that this is likely.

The Head of Housing and Community Safety is aware of these issues and has commented that a pre-payment system for rechargeable works to current tenants in a property is feasible. He has said in the case of former Council tenants that a Service Review project is taking place in the Housing Systems-Thinking assessment by Vanguard Consultants which has identified cross-service opportunities in Homelessness, Housing Allocations, Estate Management and in the tasks shared with Corporate Resources Division for rent recovery, arrears management, housing benefit, house repairs and void properties for re-let to the next tenant.

This project is due to deliver by the year-end and any service changes and potential savings will be realised in the years from 2013 onwards.

In other discussions within Property Maintenance services and Business Services, the opinion is that like other services that raise invoices, housing officers should be discussing (where possible) bad debts with housing tenants, at an early stage.

## Risk Management

The Head of Housing and Community Safety has agreed that this risk exposure (poor income collection performance) should be registered as a current risk in his operational risk register and this has been carried out and will remain in the spotlight until the risk appetite is achieved. He has also agreed to include 'income' as a standing agenda item for meetings with the property maintenance service.

## Conclusion

It seems that the main issues centre on:-

- Lack of urgency in raising invoices; however even with urgency, there could still be a poor income collection rate;
- Some errors in allocating rechargeable jobs;
- Audit trails;
- Risk management; and
- A very poor collection performance which has existed for some time.

Therefore the following recommendations are aimed at directly addressing these issues.

Finding/ Rec. No.	Recommendations	Priority	Manager	Target Date
1	When time allows, the policy and procedures for rechargeable work should be reviewed and updated	Medium	Property Maintenance Manager	31 December 2012
2	Business Services should attempt to avoid any delays in raising invoices and aim for invoices to be raised, at the latest six weeks after the job is completed.  (In due course, it can be judged whether or not this is having a positive impact on collection rates)	Medium	Business Services Manager	Immediate
3	Contractors (and their sub-contractors) should be reminded that it is not acceptable to delay the submission of invoices	Medium	Property Maintenance Manager	30 November 2012
4	To create an audit trail, the periodic rechargeable repairs report produced by Business Services should show against each charge the invoice number being produced	Medium	Business Services Manager	Immediate
5	Property maintenance rechargeable repairs should be a standing item on the joint meeting agenda between housing and property maintenance services until solutions to the poor income collection are identified/achieved  (This may take the form of housing officers taking the lead in discussing/managing bad debts with tenants. There may be other	High	Head of Housing and Community Safety	Immediate

	avenues of risk mitigation, like consulting the Council's debt collectors for advice)			
6	Property maintenance personnel should be alerted to the error rate in identifying rechargeable jobs that aren't rechargeable and instructed to improve	Medium	Property Maintenance Manager	30 November 2012
7	The poor income collection rate on housing recharges should be registered as a risk in the Housing and Community Safety risk register with the current risk score, target risk and a target date for low risk	High	Head of Housing and Community Safety	Completed
8	Mutual repairs should be included in Total Repairs under the account of the Council house property	Medium	Property Maintenance Manager	30 November 2012
9	The build-up of bad debts should be quantified and a solution found to the writing-off of very old debt and how this will impact on ongoing budgets	High	Head of Housing and Community Safety	30 November 2012

High priority recommendations are urgent and should make a significant difference to internal control

Medium priority recommendations are meant to be installed in a reasonable timescale and should add value.