



**CARANUA – Residential Institutions Statutory Fund
Internal Controls Review 2014
PAYMENTS PROCESS AND SYSTEMS**



October 2014

TABLE OF CONTENTS

1. EXECUTIVE SUMMARY	3
2. OBJECTIVES, SCOPE AND APPROACH	4
3. RATINGS CLASSIFICATIONS.....	5
4. CONCLUSION.....	6
5. DETAILED FINDINGS	7
6. USE OF REPORT	16
7. LIMITATION.....	16
8. ACKNOWLEDGEMENT	16

1. EXECUTIVE SUMMARY

Overview

This report contains our findings on our review of payments procedures at Caranua. We performed our audit fieldwork during August 2014.

The main findings from our review are:

- Caranua should ensure that appropriate supporting documentation is obtained to support all grant payments;
- Caranua's current payments' system is mostly manual based and is therefore prone to human errors. Caranua should consider automating its payments process and systems;
- Caranua should consider outsourcing its payments functions to allow in-house resources to concentrate on applications approval, checking of back up documentation and customer relations;
- Caranua should document its payment processing policies and procedures.

We have set these and other matters out in more detail in Section 5 together with our recommendations for addressing same.

2. OBJECTIVES, SCOPE AND APPROACH

The objective of this review is to provide Caranua's Audit Committee with assurance that:-

- a. Caranua has appropriate systems and procedures in respect of payments;
- b. Caranua is in compliance with those procedures;
- c. Caranua procedures for payments are operating effectively.

As agreed with the Audit Committee our audit focused on the following areas:

- Review of segregation of duties of payments
- Review payment process, set up and approval
- Review controls and procedures for set up liabilities
- Completeness and accuracy of back up documentation.

Our approach to this review was as follows:

- Discussed the systems and procedures with relevant staff
- Considered the adequacy of the documented systems and procedures
- Identified key controls.
- Tested a sample of key controls.
- Identified any gaps in procedures, non-compliance with procedure or general weaknesses in procedures.
- Made recommendations for improvement

3. RATINGS CLASSIFICATIONS

During the course of our audit we documented a number of recommendations. We have categorised these recommendations by reference to the level of importance that we believe should be attributed to each. The categories that we used to classify our recommendations are as follows:

Classification	Description
High	Serious control weakness that poses a major risk of a material financial loss or operational disruption to Caranua. Management should act upon these recommendations immediately.
Medium	Control weakness that may result in a financial loss, operational disruption, reduced business efficiencies or compliance issues. Management should implement these recommendations to improve the system of internal control within the next 6 to 12 months.
Low	Other matters such as system enhancements, procedural changes or minor control deficiencies that do not expose Caranua to significant risk but could result in improved efficiency. Management should implement these recommendations when practicable.

4. CONCLUSION

Our review noted one high risk finding for the immediate attention of management.

We have also identified a number of areas that requires further management attention.

We set out our detailed findings on these matters together with our recommendations for addressing same in Section 5 of this report.

5. DETAILED FINDINGS

No	Findings	Risk	Recommendation	Classification	Management comments
1	<p>Completeness and accuracy of back up documentation</p> <p>During our review we selected a sample of grant and suppliers' payments for substantive testing. For each payment we reviewed the supporting documentation received and analyse its adequacy and completeness.</p> <p><u>Suppliers' Payments</u></p> <p>We are satisfied that adequate controls are in place in respect of suppliers' payments. All payments selected for review were backed up by invoices detailing goods and services rendered.</p> <p><u>Grant Payments</u></p> <p>Our review on grant payments noted that only 24% of grant payments selected for testing were backed up by invoices.</p> <p>The remainder 76% of grant payments were made on foot of written quotes which were provided by applicants at the time of their grant applications.</p> <p>Authorising payments to quotations is not best practice. Quotations, by nature, are estimate of costs and</p>	<p>Risk of misappropriation of funds</p>	<p>We recommend that Caranua review its payments process to ensure that adequate and complete back up documentation are received prior to making payments.</p>	<p>High</p>	<p>It is accepted that making payments on foot of quotations rather than invoices or receipts is not good practice. There was so much pressure on us to get applications processed and payments made – we were told to “don't try to get it right, just get it done” that processes were compromised.</p> <p>It also took some time to establish in the minds of the service team that quotes were not sufficient but compliance has now improved.</p> <p>Our difficulties are compounded here because many suppliers such as dentists and opticians do not issue invoices. Most dentists expect payment for work undertaken on the day of the appointment. Similarly most opticians expect payment when the glasses are delivered.</p> <p>Our current practice is to issue a cheque to the applicant made out in the name of the service provider. The applicant can then present the payment to the service provider when the service has been completed. Where a dental quote lists several procedures to be carried out over a few appointments individual cheques are printed for each appointment to avoid the risk of an overpayment for work that may</p>

INTERNAL CONTROL REVIEW : PAYMENTS PROCESS AND SYSTEMS

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	<p>may change following services/goods rendered. Payments should only be made when furnished with an invoice from the supplier.</p> <p>Section 23 of Residential Institutions Statutory Fund Act 2012 prohibits unauthorised disclosure of resident related information to any 3rd party.</p> <p>As such we were unable to further our test to confirm if grant paid to applicants were used solely and exclusively for the purposes set out in the grant application.</p>				<p>not be undertaken.</p> <p>Similarly, it is common practice for contractors to provide quotes in advance of a job. They also require a deposit payment in advance, starting with further stage payments or a final settlement on completion of the work.</p> <p>It has always been our preference to pay suppliers and where this happens, we can be sure that payments actually reach the supplier. But this is not always possible largely because of the confidentiality that has been assured to applicants by the legislation. This means that if they do not want the supplier to know who is paying for the service, we are dependent on the applicant to supply us with the necessary paper work. We are compromised further in sending cheques to applicants to give to suppliers and dependent on them to supply us with receipts. These issues point to the need for contracts with preferred suppliers, with some guarantees of confidentiality.</p> <p>All payments in excess of €5,000 are automatically split into two cheques.</p>

INTERNAL CONTROL REVIEW : PAYMENTS PROCESS AND SYSTEMS

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2	<p>Review of payments control framework</p> <p>During our review of Caranua's payments framework we noted the following matters for management attention:</p> <p>(1) There is currently no internal procedures manual to document Caranua's payments process.</p> <p>(2) Caranua maintains all its grant and suppliers' payment records on Excel spreadsheets. Spreadsheets are notoriously prone to human error. We further note that said spreadsheets are accessible to all staff and are not password protected for restriction of access. From our discussion with the management we understand that Caranua is in process of procuring a financial administration system.</p> <p>(3) Department of Finance Circular 43/2006 'Tax Clearance Procedures Public Sector Contracts' requires Caranua to have a valid current tax clearance certificate (TCC) or a C2 certificate for a supplier where the value of the contract/ purchase is €10,000 (inclusive of VAT) or more in any 12 month period.</p>	<p>Risk of development of practice over time that may not be in accordance with approved policy.</p> <p>Risk of inconsistencies in practices when payment processes are operated by different individuals.</p> <p>Risk of loss of key knowledge when employees leave the organisation/ change position.</p> <p>Risk of loss/ manipulation of data.</p> <p>Risk of lack of audit trail.</p> <p>Risk of non-compliance with government regulations.</p>	<p>(1) Caranua should document its payments process. The written procedures should set out all aspects of the process to include ownership of responsibilities. The procedures should clearly identify who is responsible for completing each of the process and the review procedures to be followed. Management should further ensure that the written procedures are subject to periodic review.</p> <p>(2) Management should consider, as a matter of priority, to automate its payments system and to restrict access to non-relevant staff. The automated system will further provide an audit trail of payments made.</p>	Medium	<p>(1) All our processes are in a state of constant review and adaptation to new and changing information and while there was a system in place for payments, this was not adequately committed to paper. The addition of a staff member from Crowley's over the last few weeks has provided the expertise and time to develop and manual for the payments process will be completed shortly.</p> <p>(2) The design and building of our case management system has recently been further developed to include the receipt of application part 2s, decision making and approval. The system can now generate a report on approvals made. Supporting documentation will continue to be provided in original paper format. We have been working with Exchequer to develop a FMS and this will now be integrated with the case management system.</p> <p>(3) The issue of TCC was overlooked in the absence of a FMS to track this. Until Exchequer and Salesforce are fully operationally integrated, Crystal Decisions will be used to facilitate the tracking and flagging of payments nearing the €10,000 threshold.</p>

INTERNAL CONTROL REVIEW : PAYMENTS PROCESS AND SYSTEMS

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	<p>We reviewed a sample of 15 suppliers' payments. Our review noted that for 6 of these payments Caranua was required to have a valid TCC for the supplier at date of payment.</p>		<p>(3) Finance Unit must ensure that a valid TCC is on file for suppliers before invoices are paid. Where a valid TCC is required but not on file; Caranua should withhold invoice payment until the TCC is received from the creditor.</p> <p>Caranua should put in place procedures to track and ensure any supplier likely to exceed the €10,000 threshold is asked for their TCC at the start of the contract. Finance Unit should regularly review its list of creditors to ensure compliance to this regulation.</p>		

INTERNAL CONTROL REVIEW : PAYMENTS PROCESS AND SYSTEMS

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3	<p>Review of grant payments process</p> <p>The current payments process for grant applications is briefly described below”-</p> <p>The application advisors in Services Unit compile a list of all due grants payments on an Excel spreadsheet. The Excelspreadsheet, along with the submitted back up documentation for grant payments, is reviewed by the Director of Services. Director of Services then sends her approval for payments to Head of Finance and Administration via email.</p> <p>Head of Finance and Administration checks spreadsheet against the back up provided.</p> <p>He queries the Services Unit if and when the back up for an approved payment is deemed incomplete.</p> <p>He then removes these payments from the approved list of payments until sufficient level of evidence/ documentation is received from the applicants.</p> <p>Amended list of service payments is then processed for payment.</p> <p>We are satisfied that this process promotes segregation of duties.</p>	<p>Risk that un-authorized payments are made to grantees.</p> <p>Lack of audit trail in payment process.</p>	<p>We are satisfied that the current process promotes segregation of duties and process.</p> <p>We recommend that management considers alternative solutions which may assist in strengthening the current controls in place.</p> <p>These include automating its payment procedures to allow better tracking of payments approval and to prevent circumvention of controls.</p> <p>We also recommend that management consider outsourcing its payments function to a 3rd party. (See Finding 4)</p>	<p>Low</p>	<p>It is accepted that the explicit approval of the Director of Services is not evident on the emailed spreadsheet of approvals for payment. This has been addressed by modifications to the case management system whereby all approvals are recorded on the system and generated in a report from the person making the approval (in the case of payments up to €5,000 Advisors may approve themselves) to the Head of Finance.</p>

INTERNAL CONTROL REVIEW : PAYMENTS PROCESS AND SYSTEMS

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	<p>However, we recommend that the Director of Services evidence his/her approval on the list of grant payments approved.</p> <p>Furthermore our review indicates that as and when the Head of Finance amends the list of payments (due to incomplete back up received), the amendments are not communicated formally to the Director of Services. We receive no confirmation during the review that the Director of Services is always kept informed of amendments made to the payments list by the Head of Finance.</p>				

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4	<p>Volume of transactions</p> <p>Our review noted a substantial increase in the volume of grant applications received and processed in 2014 as compared to the same period last year.</p> <p>The current embargo on staff recruitment had meant that Caranua has to service this increase with no added resources.</p> <p>There are currently no specific standards in the industry in relation to setting targets for grant approval and payments.</p> <p>The idea of a “reasonable timeframe and the number of payments put through per day” has not been benchmarked against industry standards or examined in great detail in Caranua.</p> <p>We further note that some of the grant applications received may require subject matter specialists’ opinion for example applications on housing adaptations. There may not be adequate expertise in-house to process said applications.</p> <p>While the scope of this review does not cover the turnaround time for grant applications nor does it test for the accuracy of staff’s work on grant approval, we wish to bring to</p>	<p>Risk of professional negligence</p> <p>Risk of reputational damage</p>	<p>Management should review its business operations and consider alternative solutions to optimize outputs delivery.</p> <p>One good example is outsourcing.</p> <p>Caranua’s grant payments process can be outsource to a 3rd party.</p> <p>This leaves Caranua’s internal staff available to concentrate of checking eligibility of grant claims, customer relationship management and quality control</p>	<p>Medium</p>	<p>We are aware of the risks in processing the current volumes of payments and the nature of those payments, particularly in the context of staffing levels, the nature of the client group and the urgency of some of the payments.</p> <p>Crowleys have recommended the outsourcing of payments. This is an issue that we have already explored and have gone some way to putting in place (for instance through arrangements with Cluid, the hospitals and the HSE Dental Treatment Services Card). However, there needs to be a clear Board decision on whether we outsource as a matter of policy, or just where it is practical or possible.</p> <p>If the policy is to outsource payments, this changes the context for the payments system and obviously has implications for our internal sytems and the resources needed. If we are going to outsource for example, should we spend more energy on this and and less on establishing a perfect “do all” internal system. These may be issues that could usefully be considered in the context of the forthcoming external review.</p>

INTERNAL CONTROL REVIEW : PAYMENTS PROCESS AND SYSTEMS

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	<p>management's attention that the current workflow and resources management may not be sustainable in the long term if the volume of grant applications and payments continue to increase.</p> <p>All public sector agencies are required to conduct its business operations in a transparent and risk free manner. To continue operating status quo without examining the efficiency and output accuracy of its business operations, Caranua may be exposed to professional negligence and/or reputational risks.</p>				

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5	<p>Segregation of duties in payment process</p> <p>During the audit we performed review of adequate segregation of the duties exist in the following areas:</p> <ul style="list-style-type: none"> • Receipt and process of service payment requests. • Receipt of goods/ services • Approval of service payments • Approval of creditor invoices • Processing of payments • Cheque signatories/ approval of electronic funds transfer <p>We found that Caranua has adequate level of segregation of duties for both grant and creditor payments procedures.</p>	N/A	No recommendation considered necessary	N/A	N/A

6. USE OF REPORT

We take responsibility for this report, which is prepared on the basis of the limitations set out below.

Our review has been completed in accordance with the work plan presented and approved by the Audit Committee of Caranua. The scope and objectives of the review are set out in Section 2 of this report. The issues raised in this report are those that came to our attention during our review and are not necessarily a comprehensive statement of all weaknesses that exist, or all improvements that might be made. Recommendations for improvement should be assessed by management for their full commercial implications before they are implemented.

This report is intended solely for the information and use of Caranua and is not intended to be and should not be used by anyone other than Caranua. We accept no duty of care and deny all liability to any third party that places reliance on this report.

7. LIMITATION

As this review is based on self-assessment together with independent limited testing of controls, it should not be relied upon to identify all improvements in controls which a more exhaustive review might develop.

8. ACKNOWLEDGEMENT

We would like to thank all Caranua personnel who had assisted us in carrying out our review.

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