

EAST SUSSEX FIRE AUTHORITY

Panel Scrutiny & Audit Panel

Date 5 June 2019

Title of Report On Call Pay Review – Internal Audit Report

By Vicki Law, HR Operations Manager

Lead Officer *Hannah Scott-Youldon, Assistant Director People Services*

Background Papers None

Appendices Internal Audit Report – Retained Duty Pay Review

Implications

CORPORATE RISK		LEGAL	
ENVIRONMENTAL		POLICY	
FINANCIAL	x	POLITICAL	
HEALTH & SAFETY		OTHER (please specify)	
HUMAN RESOURCES		CORE BRIEF	

PURPOSE OF REPORT To report audit outcome and provide assurance that work has commenced to address the areas of concern identified.

EXECUTIVE SUMMARY In March 2018 the interface between the 4i and MIS computer systems stopped working which meant that pay claims for On Call staff could not be processed and paid until end of May 2018. As a result, a manual workaround using a spreadsheet template was implemented by the Payroll Team to ensure that staff continued to be paid.

The Fire Authority requested an independent review of the manual procedures in force during the period when the interface was not working to provide assurance that the correct payments were made.

The audit reported that partial assurance could be provided and made recommendations for management actions to address the areas of weakness.

RECOMMENDATION

Scrutiny and Audit Panel are asked to note the outcome of the audit and the actions that have been put in place to address the learning outcomes.

1. **INTRODUCTION**

- 1.1 On the 20 March 2018, the interface between the 4i and MIS computer systems stopped working which meant that pay claims for On Call staff could not be processed and paid.
- 1.2 In order to ensure staff were paid, a manual work around was put in place. The payroll team transferred the data from the paper claim forms to a spreadsheet that was then uploaded to SAP.
- 1.3 Additionally, to ensure the staff received a payment in April, January's pay-file was re-run to provide the basis for April's pay. This was then reversed, once the actual claims for March had been manually loaded and paid.
- 1.4 The length of the outage for MIS meant that the automatic controls in the system for entitlements to sick on drill nights and leave on drill nights ceased to operate effectively for the remainder of 2018.
- 1.5 Internal Audit conducted a review of the manual procedures and concluded that partial assurance could be provided for the payment process.

2. **Audit Findings and Recommended Actions**

- 2.1 Due to time constraints, the manual entry of claims data described at 1.2 was not checked for accuracy. Stations were asked to check their claims and payments but the majority did not do so. The auditors checked sample claims and identified errors (under- and overpayments) which although were small amounts suggest all claims need checking.
- 2.2 The HR Operations Manager and AD Safer Communities will be asking the On-Call Watch Managers to reconcile their claims and payments for the period and the Payroll team will investigate and correct any errors. The communication will go out to the Watch Managers by the end of May 2019 with a requested return date of end of June 2019.
- 2.3 The automatic controls for leave and sick on drill nights did not operate reliably in MIS for the rest of 2018, potentially allowing claims in excess of entitlement. The Payroll team will make checks to identify any claims in excess of entitlement and correct them. The HR Operations Manager has asked the auditor to correct the description of the entitlements in the report to accurately reflect Grey Book entitlements.
- 2.4 Two overpayments that were identified by the auditor have been investigated by the Payroll team and arrangements to recover the overpayments have been put in place.

3. **Conclusions**

- 3.1 This incident was linked to the implementation of the 4i system and is unlikely to happen again.

- 3.2 There will be a repeat audit in 12 months to ensure the above actions have been addressed and that appropriate controls are in place to ensure accuracy of On Call pay.
- 3.2 Additional roles are being recruited to the Payroll to team to support the completion of the work and to create additional resilience in the team, in order that any future system failures can be managed more effectively,
- 3.3 Scrutiny & Audit Panel are asked to note the outcome of the Audit.
- 3.4 Scrutiny & Audit Panel are asked to note the recommended actions and the steps being taken to address the learning outcomes.



Internal Audit Report

Retained Duty Pay Review

FINAL

Assignment Lead: Gary Neal, Senior Auditor
Assignment Manager: Nigel Chilcott, Audit Manager
Prepared for: East Sussex Fire & Rescue Service
Date: APRIL 2019

Internal Audit Report – Retained Duty Pay Review

Report Distribution List

Draft and Final Report

Duncan Savage, Assistant Director – Resources & Treasurer

Hannah Scott-Youlton, Assistant Director – Training and Assurance

This audit report is written for the officers named in the distribution list. If you would like to share it with anyone else, please consult the Chief Internal Auditor.

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Internal Audit Report – Retained Duty Pay Review

1. Introduction

- 1.1. On the 20 March 2018, the interface between the 4i and MIS computer systems stopped working which meant that pay claims for Retained Duty Staff (RDS) could no longer be processed and paid. As a result, a manual workaround using a spreadsheet template was implemented by the Payroll Team to ensure that staff continued to be paid. The manual workaround remained in place until the interface was repaired at the end of May 2018.
- 1.2. The Fire Authority has requested an independent review of the manual procedures in force during the period when the interface was not working to provide assurance that the correct payments were made.
- 1.3. This report has been issued on an exception basis whereby only weaknesses in the control environment have been highlighted within the main body of the report.

2. Scope

- 2.1. The purpose of the audit was to provide assurance that controls are in place to meet the following objective:
 - The RDS payments made during the interim payment process were for the correct amount and made to the right people.
- 2.2. As part of the audit, we set out to reconcile the claim data from the payroll spreadsheets to the payment data held in SAP. However, whilst we have been able to reconcile the data for some firefighters, where the claim data includes payments relating to prior periods, reconciliation has proved to be more complex than envisaged and we have not therefore been able to isolate those payments in SAP in order to perform a full reconciliation within the time available.

3. Audit Opinion

Partial Assurance is provided in respect of the **Retained Duty Pay Review**. This opinion means that there are weaknesses in the system of control and/or the level of non-compliance is such as to put the achievement of the system or service objectives at risk.

Appendix A provides a summary of the opinions and what they mean and sets out management responsibilities.

4. Basis of Opinion

We have been able to provide Partial Assurance over the controls operating within the area under review because:

- 4.1. During the period when the 4i to MIS interface stopped working, the Payroll Team processed 3,229 ¹retained duty claims. The Payroll and Pensions Manager advised that due to time constraints, none of the data entered onto the spreadsheets by the Payroll Team was checked for accuracy. This increases the risk of input errors and overpayment.
- 4.2. To mitigate this risk, stations were asked to check their claims back to the payments received and to confirm whether the payments were accurate, but this has not happened at the majority of retained stations.
- 4.3. Our testing of a sample of 90 claim forms processed during the period when the interface stopped working, which represents 3% of total claims, identified 5 claims that had been input incorrectly into the Payroll spreadsheets, involving 6 retained duty employees. This represents an error rate of 5.5%. In some cases, these input errors had resulted in overpayment and in other cases, the errors had resulted in underpayment. Across the 5 claims, there was a net underpayment of £6.49. Whilst individually, the amounts involved are small, if our findings are representative of all claims processed, a further 172 claims could have been input incorrectly involving net underpayments of £223.26.
- 4.4. When the interface initially stopped working at the end of March, in order to ensure that firefighters received a payment in April, a decision was taken to re-run the payment file for January 2018. This file was reversed immediately after payments had been made. As part of our review, we checked that all of the payments and reversals matched. Two cases were identified where the employee reversals were for less than the amounts originally paid, resulting in overpayments of £220.14 and £117.41. The Payroll and Pensions Manager was not able to offer an explanation for these discrepancies.
- 4.5. Due to the absence of claim data in MIS for April and May 2018, the controls to prevent RDS staff from receiving more than four payments for sick or leave on a drill night have stopped working and will no longer work correctly for the remainder of the calendar year. Whilst no examples were found during testing, there is a risk of invalid payment where staff have taken more than four leave or sickness absences on a drill night during April or May 2018.

¹ Based upon April and May spreadsheets provided by the Payroll and Pensions Manager.

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5. Action Summary

Risk Priority	Definition	No	Ref
High	Major control weakness requiring immediate implementation	0	
Medium	Existing procedures have a negative impact on internal control or the efficient use of resources	3	1, 2, 3
Low	Represents good practice but its implementation is not fundamental to internal control	2	4, 5
Total number of agreed actions		5	

6. Acknowledgements

We would like to thank all staff that provided assistance during the course of this audit.

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Ref	Finding	Potential Risk Implication	Priority	Agreed Action
1	<p>Manually Entered Claim Data 1</p> <p>In order to ensure that fire fighters continued to be paid during the period when the interface stopped working, the claim forms received from stations were manually input onto a spreadsheet that could be used to upload the data into SAP. The Payroll Team entered 3,229 claim forms onto spreadsheets during this period.</p> <p>We understand that the Payroll Team did not have sufficient resources to complete this exercise and that it was necessary to seek help from members of staff within Business Services who had no previous experience in entering payroll claims.</p> <p>We also understand that due to the volume of claim forms received, it was not possible to check the accuracy of the data entered, before the payroll deadline. Therefore, in order to mitigate this risk, stations were asked to check the payments received against their claim forms. However, at the date of this review, only 4</p>	<p>Unless the retained claim data is checked for accuracy and completeness, there is a risk that overpayments made to employees will not be identified and corrected.</p>	<p>Medium</p>	<p>We will ensure that all retained stations carry out a full review of payments made during the period when the interface stopped working and report any under or overpayments to the Payroll Team so that the necessary corrections can be made.</p>

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Ref	Finding	Potential Risk Implication	Priority	Agreed Action
	<p>of 19 stations had confirmed the accuracy of their claims. We tested 90 claim forms (3% of total claims) from across 18 retained stations, covering 214 Retained Duty System employees. Testing consisted of checking each claim to the spreadsheets created by Payroll.</p> <p>5 claims were found to have been input incorrectly into the Payroll spreadsheets, which equates to an error rate of 5.5%. These errors affected 6 employees. In 3 cases, the errors resulted in overpayment, in 2 cases the errors resulted in underpayment and in 1 case where the employee did not receive payment, we found that the employee was not entitled to receive payment because he had already been paid the maximum number of sick leave events on a Drill Night.</p> <p>In 2 instances, we found that the input errors had been corrected by the Payroll Team.</p>			
Responsible Officer:		Mark Matthews, Assistant Director, Safer Communities.	Target Implementation Date:	31 May 2019

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Ref	Finding	Potential Risk Implication	Priority	Agreed Action
2	<p>Manually Entered Claim Data 2</p> <p>See 1 above.</p>	Unless the retained claim data is checked for accuracy and completeness, there is a risk that overpayments made to employees will not be identified and corrected.	Medium	The errors identified during this review will be investigated and corrected.
Responsible Officer:		HR Manager & Payroll team	Target Implementation Date:	31 May 2019

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Ref	Finding	Potential Risk Implication	Priority	Agreed Action
3	<p>Leave and Sickness on a Drill Night</p> <p>Retained firefighters can only claim up to four leave or sickness events on a drill night during a calendar year and there is a control within MIS that prevents more than four payments from being made. However, due to the absence of any claim data in MIS for April and May 2018, this control failed to operate and will no longer operate reliably for the remainder of 2018.</p>	<p>Firefighters may have received payment during April or May for more than four leave or sickness events on a drill night, resulting in financial loss.</p> <p>Any firefighters who took sick leave or were on leave on a drill night during April or May 2018 could receive payment for more than four events during the remainder of the calendar year.</p>	Medium	<p>Checks will be made to ensure that firefighters were not paid for more than four leave or sick events on a drill night during April or May 2018.</p> <p>An end of year reconciliation of leave and sickness on a drill night will be undertaken to ensure that fire fighters have not been overpaid.</p>
Responsible Officer:		HR Manager & Payroll Team	Target Implementation Date:	31 May 2019

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Ref	Finding	Potential Risk Implication	Priority	Agreed Action
4	<p>Reversal of January Payments</p> <p>Testing of the temporary payments and reversals for April 2018 identified that two employee reversals were for less than the amounts originally paid resulting in overpayments of £220.14 and £117.41 respectively.</p> <p>The Payroll and Pensions Manager could not offer any explanation and has agreed to investigate these transactions.</p>	Firefighters may have been overpaid.	Low	The two potential overpayments will be investigated and adjusted if found to be incorrect.
Responsible Officer:		HR Manager & Payroll Team	Target Implementation Date:	31 March 2019

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Ref	Finding	Potential Risk Implication	Priority	Agreed Action
5	<p>Potential Duplicate Claims</p> <p>Testing of the spreadsheets created by the Payroll Team identified 37 claims involving 185 payments that had potentially been entered twice.</p> <p>The Payroll and Pensions Manager checked 5 of these claims and found the following:</p> <ul style="list-style-type: none"> • 1 employee was paid £3.25 twice for the same event. • 1 employee was paid the correct amounts (2 separate claims) but against the wrong wage types as a result of coding errors by payroll. • 3 other employee claims had been paid correctly. 	Firefighters may have been overpaid as a result of receiving duplicate payments.	Low	All the claims identified with potential duplicate payments will be investigated and adjusted if found to be incorrect.
Responsible Officer:		HR Manager & Payroll Team	Target Implementation Date:	31 May 2019

Appendix A

Audit Opinions and Definitions

Opinion	Definition
Substantial Assurance	Controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
Reasonable Assurance	Most controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
Partial Assurance	There are weaknesses in the system of control and/or the level of non-compliance is such as to put the achievement of the system or service objectives at risk.
Minimal Assurance	Controls are generally weak or non-existent, leaving the system open to the risk of significant error or fraud. There is a high risk to the ability of the system/service to meet its objectives.

Management Responsibilities

The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

This report, and our work, should not be taken as a substitute for management’s responsibilities for the application of sound business practices. We emphasise that it is management’s responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal Audit work should not be seen as a substitute for management’s responsibilities for the design and operation of these systems.