

5. AUDIT - EXPENDITURE CONTROL

General Manager responsible:	General Manager Corporate Services, DDI 941-8540
Officer responsible:	G Nicholas
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PURPOSE OF REPORT

1. To respond to expenditure control concerns raised in a staff email and presented by Councillor Cox at a previous Audit and Risk Management Subcommittee meeting:
 - The avoidance of purchase orders for some payments,
 - Use of One time vendors.

EXECUTIVE SUMMARY

2. The email presented expressed some valid concerns over the controls associated with certain “non-purchasing” payments made by the Council. The particular payments raised were supported by valid documentation, but there is an opportunity to ensure that there is improved consistency in the supporting documentation.

FINANCIAL AND LEGAL CONSIDERATIONS

3. There is likely to be little financial impact.

STAFF RECOMMENDATIONS

It is recommended that the Committee receive the report.

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4. The email, the author of which is unknown, states that \$1,796,095 was paid to "one time vendors" in the month of November 2005. It asserts that "payments in this way negate the Council's system of control around the set up of vendors and avoid the system of delegated authorities offered by SAP".
5. "One time Vendors" are generic vendor accounts set up with in SAP to allow a payment to be made where no vendor exists on the system and where it is not considered efficient to carry out the process to set up a vendor account which may never be used again. Normal vendor accounts are only set up after a series of checks to ensure that the vendor is legitimate (white pages, Register of companies, procurement team). Several staff are involved in the set up process and duties are segregated so that staff setting up vendor accounts cannot also raise or initiate payments.
6. Most payments for goods and services require a purchase order to be raised. Although a recent audit identified a number of weaknesses in this area, orders are generally subject to a degree of control in requiring "release" by a senior staff member for larger amounts- i.e. there are usually two people involved with larger transactions. By their contractual nature, issuing purchase orders only makes sense when the Council is requiring another party to perform a future function or for the delivery of future goods.
7. The payments referred to in the email were not for the supply of goods or services directly and were to people or organisations that the Council does not deal with regularly or have a trade relationship with. Examples for November 2005 were:
 - Jacobs Floretine lawyers - \$1,481,659 - purchase of land for the Western Belfast bypass.
 - Skipo & Englefield Ltd - \$150,000 - refund of resource consent fees.
 - Parkside Family Trust - \$20,097 - refund of a building consent.
 - Dunlops Developments Ltd - \$19,688 - compensation for a sewer easement
 - Anderson Knightly - \$19,688 - compensation for a sewer easement
 - Corson group - \$24,935 - share of cost for piping Fendalton stream.
 - Other lesser payments tend to be for share of fencing costs, refund of consent fees or payment to householders who have paid for blocked sewer laterals to be remedied.
8. The author of the email appears concerned that these "non-trade" payments are not subject to a similar control vigour as routine payments for goods or services.
9. The payments sampled above were supported by either a statement from the party requesting payment or a memo from a staff member requesting that the party be paid a certain amount. Some such as the land purchase and cost share had limited documentation attached, but were supported by comprehensive documentation and process (including a Council resolution in the land case) contained on file.

RISKS ASSOCIATED WITH THIS ISSUE

10. The potential risk factors to the Council concerning these payments are:
 - The payables clerk processing these and the supervisor releasing payment are reliant on the limited documentation before them to justify the payment.
 - The person or organisation being paid could be bogus as no background verification checks are done.
 - The staff member creating the payment voucher may also be the authoriser resulting in a payment to a personally held organisation or an accomplice.
 - These risks are higher than with normal payments made to approved vendors and made on a purchase order requiring release by a second person.

RECOMMENDATIONS

11. The recommendation is that the existing delegations for payments (as applying to purchase orders) be enforced for non-order payments. Depending on the amount, this may require a second higher level approval for some payments.

PREFERRED OPTIONS

12. Adopt the recommended measures above.