

# Internal Audit and Corporate Anti-Fraud (CAFT)

## Passenger Transport Contracts

October 2014

**Distributed to:**

- Strategic Director for Growth & Environment
- Strategic Director for Communities
- Street Scene Director
- Interim Head of Business Improvement and Contracts
- Street Scene Service Manager – Transport
- Education and Skills Director, Children’s Service
- Interim Head of Service – Inclusion and Skills
- Consultant, Children's Service
- Director Adults and Communities
- Assistant Director Adult Social Care

	No	Limited	Satisfactory	Substantial
<b>Audit Opinion</b>				

## 1. Executive Summary

### Introduction

As part of the 2014/15 Internal Audit Plan, agreed by the Audit Committee in April 2014, we have undertaken an audit of Passenger Transport Contracts. The review was a joint Internal Audit and Corporate Anti-fraud (CAFT) review.

The audit focussed on driver vetting and safeguarding arrangements while the CAFT review focussed on the appropriate payment of related invoices. The review included specific checks of Disclosure and Barring Service (DBS) / Enhanced CRB and driver licencing documentation at transport contractors.

### Background & Context

Street Scene delivers passenger transport for other delivery units (DUs) within the Council as follows:

- Older People transport on behalf of Adults and Communities (Adults); and
- Special Educational Needs (SEN) transport on behalf of Children - Education and Skills (Children's).

A framework contract with a 4 year term drawing on 16 potential providers was established on 1 April 2013. At July 2014 external contractors delivered 270 of the 340 routes. The remaining routes were delivered in-house by the Street Scene Passenger Transport Service (PTS) which is out of scope for this review.

### Corporate objectives and risks

Passenger Transport Contracts support the following strategic objective in the Corporate Plan 2013-16:

1. Support families and individuals that need it – promoting independence, learning and well-being.

### Key Findings (informing Audit opinion)

There are two priority 1 and three priority 2 recommendations.

We identified the following areas of good practice:

- The use of a fit for purpose contract specification driving the tender process for the framework contract established 1 April 2013. It defined the Council's requirements of the contractor regarding Disclosure and Barring Service (DBS) checks, previously Criminal Records Bureau (CRB), the licencing of drivers and the training of drivers, against which bidder submissions were independently evaluated and scored. The final contracts provided for record retention and audit access to contractor records to facilitate the on-going monitoring of driver vetting and safeguarding arrangements.

We identified the following significant issues as part of the audit:

- Engagement, communication and information flows between the PTS and Adults/Children's delivery units were not robust; there is a lack of clear governance arrangements to facilitate the on-going scrutiny and challenge of passenger transport service delivery. Responsibility for oversight/scrutiny and challenge of passenger transport service delivery in Adults/Children for their respective service users was unclear. For Children's, a Service Level Agreement (SLA) governing service delivery had been drafted but had not been signed and implemented. Development of an up to date SLA in Children's was planned for December 2014. There are no such arrangements in place for Adults. (Priority 1)
- As part of the CAFT review, we noted that two contractors who were not secured as part of the Street Scene PTS framework contract were used by Children's DU for transporting children. Each contractor transported one child. Records of how the contractors were validated when secured and how they were validated subsequently on an on-going basis were not available for inspection. (Priority 1)

We noted the following other issues:

- As part of contract management, planned annual reviews had not been completed for all contractors used by PTS; of eight contractors used under the framework agreement, two reviews were still outstanding. For PTS checks that had been undertaken of transport contractor service delivery as part of annual reviews using the standard annual review template, DBS/CRB records and findings and details of the licencing tests for specific drivers had not been recorded within the template. Physical spot checks of vehicles and drivers actually delivering service users at schools and day centres were undertaken but not, in our view, at sufficiently regular intervals to ensure that the expected and appropriately vetted drivers were being used. (Priority 2)
- Potential overpayments totalling £1,400 in 2010 and 2012 were identified by CAFT for the two contractors who were not secured as part of the Street Scene PTS framework and at the date of the report the Children's DU were in the process of resolving these. (Priority 2)
- We reviewed the controls to ensure the valid and accurate payment of transport contractor invoices after the establishment of the framework agreement in April 2013. We noted one instance out of nine invoices tested where the purchase order was raised retrospectively after the invoice was received, contrary to the Council's Financial Regulations. There was no evidence of formal management certification of the transport contractor invoice prior to the release of the invoice for payment. (Priority 2)

Area of Scope	Adequacy of Controls	Effectiveness of Controls	Recommendations Raised		
			Priority 1	Priority 2	Priority 3
<b>Contract management – pre-award and contract award</b>			0	0	0
<b>Contract Management – post award</b>			0	1	0
<b>Internal Relationship management</b>			2	0	0
<b>Contract administration</b>			0	2	0

<b>Acknowledgement</b>	We would like to thank the Street Scene Passenger Transport Service (PTS), Children’s Service - Inclusion and Skills Delivery Unit (Children’s) and Adults and Communities (Adults) Delivery Unit for their time and co-operation during the course of the internal audit.
------------------------	--

## 2.1 PTS and Children’s and Adults and Communities engagement

P	Detailed finding	Risk	Recommendation
1	<p><u>Children’s Service – Education and Skills</u></p> <p>Management in the Children’s Service and Street Scene PTS confirmed that communication and information flows between the delivery units were not robust.</p> <p>A project, the Home to School Transport Project, was initiated in July 2014 to drive savings and improve relationship management structures between the delivery units by December/January 2015.</p> <p>An SLA, dated April 2013, between Children and PTS had been drafted but had not been signed and implemented owing to changes in Children’s management. An updated SLA was also a Home to School Transport Project deliverable, due December 2014.</p> <p>The unsigned SLA referred to the obligations of Passenger Transport Service for ensuring that contractor staff were trained, had the enhanced DBS checks and were appropriately licenced.</p> <p><u>Adults and Communities</u></p> <p>Management in Adults and Street Scene PTS confirmed a lack of engagement and communication between the delivery units in relation to transport service delivery. Responsibility in Adults for monitoring of the relationship was unclear following the exit,</p>	<p>If the responsible officers in the Children’s and Adults delivery units do not scrutinise and challenge PTS service delivery routinely and effectively or provide the relevant information timely, then transport contract delivery issues may not be identified and addressed at the earliest stage to ensure the safe transport of vulnerable people.</p>	<p><b>Recommendation 1</b></p> <p><u>Children’s Service – Education and Skills</u></p> <p>The draft SLA should be signed off and monitored by the Children’s Service, especially in relation to:</p> <ul style="list-style-type: none"> <li>• monitoring the quality of service,</li> <li>• regular review meetings between PTS and the Children’s Service representative,</li> <li>• reporting SLA KPIs as part of performance and quality monitoring clauses in the SLA.</li> </ul> <p>Monitoring should take place more routinely in the interim prior to the development, and approval of the final SLA and the introduction of more robust communication arrangements between SEN and Children established by the Project.</p> <p>Note: The quality of service clause of the draft SLA covered CRB checking and checks as to whether drivers held valid licences.</p> <p><u>Adults and Communities</u></p> <p>Responsibility for oversight of service delivery and communication between the PTS and Adults and Communities should be clarified and communicated to ensure that the service is delivered to expectations and that opportunities for improvement are identified and</p>

<p>towards the end of 2013, of the previous officer responsible for oversight of the transport service delivery. Management referred to an SLA but one had not been provided for review at the date of the report.</p> <p>We also established that a transport contractor was being used by Adults in terms of an open provision on SWIFT not specifically related to PTS delivery. However PTS Management confirmed that this contractor, also part of the current framework agreement, was no longer being used by PTS under their framework agreement. Improved communication between delivery units should ensure the escalation of any contractor issues and the taking of the necessary decisions, for instance, ceasing the use of contractors, where necessary.</p>		<p>communicated. Transport plans should be developed to formally communicate requirements to PTS. Monitoring should be undertaken in terms of an up to date and signed SLA.</p>	
<p><b>Management Response</b></p>		<p><b>Responsible Officer</b></p>	<p><b>Deadline</b></p>
<p><b><u>Education and Skills Response</u></b></p> <p>The draft SLA is being revised as part of the work of the consultant engaged to carry out a thorough review of home to school transport. The Project Initiation Document (PID) for this was signed off by the Director of Education and Skills in August and work commenced on 1<sup>st</sup> September.</p> <p>Regular Liaison and Review meetings between Education and Skills and Street Scene Passenger Transport Service have been established and the first took place on 18<sup>th</sup> September. These will monitor performance against the present SLA pending the completion of the revised agreement.</p> <p><b><u>Adults and Communities (A&amp;C)</u></b></p> <p>An SLA between A&amp;C and Street Scene Passenger Transport Service (PTS) will be developed and approved.</p>		<p>Transformation Projects Consultant – SEN on behalf of Education &amp; Skills Director</p> <p>Interim Head of Care Quality – A&amp;C</p>	<p>31 December 2014 (SLA completion and approval)</p> <p>Implemented (Review meetings)</p> <p>31 December 2014 (SLA completion and approval)</p>

<p>The Terms of Reference and liaison meetings for monitoring the SLA between A&amp;C and PTS will be established by the 30th September 2014.</p> <p>A&amp;C commissions care for service users from Your Choice Barnet (YCB) under a 5-year contract. PTS is used to transport service users to / from YCB establishments. The YCB contract is managed through regular contract monitoring meetings with a named relationship manager and dedicated contract manager. This forum will be used to monitor any issues relating to the transport of YCB service users, linking into the aforementioned liaison meeting which oversees the Transport SLA between A&amp;C and PTS plus also linking directly to YCB and A&amp;C operational management as appropriate in order to pro-actively manage or resolve issues particularly where these have safeguarding implications.</p>	<p>Head of Joint Commissioning, A&amp;C</p>	<p>approval); 30 September 2014 (monthly liaison meetings) Commencing October 2014 contract monitoring meeting</p>
<p><b><u>Street Scene Passenger Transport Service Response</u></b></p>		
<p>1. The 2014 / 15 Passenger Transport Service SLA to be reviewed by Children Services and Passenger Transport management based on the TAS (specialist public transport consultancy) review of commissioning through to delivery of PTS commencing 1<sup>st</sup> October 2014.</p>	<p>Environment Service Manager - Transport</p>	<p>31 December 2014 (SLA completion and approval)</p>
<p>2. The first Liaison and Review meeting between Children Services and Passenger Transport management took place on 18<sup>th</sup> September.</p>	<p>N/A</p>	<p>Implemented</p>
<p>3. At the meeting PTS presented the Street scene KPI report generated monthly by the PTS management. David Monger to provide Bernard McGreevy with comments on items to be included /excluded.</p>	<p>Transformation Projects Consultant – SEN on behalf of Education &amp; Skills Director</p>	<p>31 Oct 2014</p>
<p>4. The first Liaison and Review meeting between Adults &amp; Communities and Passenger Transport management to take place on 30th September.</p>	<p>Environment Service Manager - Transport</p>	<p>30 September 2014 (Adults Review meetings)</p>

## 2.2 Retention of records supporting contractor vetting

P	Detailed finding	Risk	Recommendation	
1	<p><u>Children’s Service – Education and Skills</u></p> <p>We noted, as part of the CAFT review, that two contractors who were <u>not</u> secured as part of the Street Scene PTS framework contract were used by Children’s DU for transporting children. Records of how the contractors were validated when secured and how they were validated subsequently on an on-going basis were not available for inspection and we were unable to resolve the issue as part of the audit.</p> <p>Officers in Children’s believed that they had been secured in the past prior to the completion of the current Street Scene PTS framework contract but were unable to provide evidence of this.</p>	<p>If passenger transport contractors use drivers with criminal records or without the appropriate drivers licences, then children transported by the Council may suffer harm or injury leading to damage to reputation and/or financial loss.</p> <p>If records of how transport contractors were vetted prior to securing their services are not retained for review where necessary, then related safeguarding processes may not survive scrutiny/challenge in the event of an incident damaging the Council’s reputation and potentially causing financial loss in the event of civil claims for damages.</p>	<p><b>Recommendation 2</b></p> <p>The Children’s DU should immediately confirm whether it still uses the two contractors and if so consider next steps as follows:</p> <ul style="list-style-type: none"> <li>- contact them to obtain assurance over their vetting procedures;</li> <li>- if this information is not made available consider ceasing using them.</li> </ul> <p>The Children’s DU should confirm if it uses other transport contractors outside the Street Scene PTS Passenger Transport framework contract. If so, confirm that they were validated prior to use.</p> <p>Records showing how transport contractors, which have not been secured as part of the Council’s PTS framework contract, were vetted, for example, in terms of CRB / DBS status, driver accreditation and driver training and capability, should be retained for review, where necessary, in line with the Council’s Records Retention &amp; Disposal Guidelines.</p> <p>The PTS framework contract should be used whenever possible. If there are necessary exceptions to this, delivery units should request advice and guidance from the Street Scene Passenger Transport Service prior to any decision to procure the services of a transport provider outside the prevailing framework contract. The necessary vetting procedures should be followed at all times.</p>	
<b>Management Response</b>			<b>Responsible Officer</b>	<b>Deadline</b>

<p><b><u>Education and Skills Response</u></b></p> <p>The only occasions that the SEN Team arrange transport outside the PTS contract is for Looked After Children who have been placed outside the borough, and for whom PTS cannot provide the service. The two cases involved were in Peterborough and Brighton. The Brighton service is no longer required. In the Peterborough case, it has come to our attention that the contractor was prosecuted on 17/8/2010 for operating a Private Hire Vehicle using an unlicensed driver. This led to Peterborough Council cancelling their contract with the provider. However, in September 2012, they became an approved operator with Peterborough again with a new owner/manager (the previous owner had died). In January 2013, they then wanted to sell the company that managed school contracts to another party: under Peterborough’s closed framework conditions this was prohibited and they made the decision to sell the company and terminated their routes. Peterborough has suggested that they will be able to apply to join a new framework if and when they have one.</p> <p>Nevertheless, we have determined that our policy in making such rare provision in the future will be to contact the Local Authority in whose area the service is to be provided and seek to use a contractor who has passed their vetting processes (provided that they match the standards to which Barnet PTS adhere). We have replaced the Peterborough contractor in this way.</p> <p>There are six instances where transport is commissioned through the school at which the child is placed. In four of these, transport is provided by staff employed and vehicles owned by the school. In the other two cases, transport is sub-contracted to commercial providers.</p> <p>We have contacted the schools to confirm that the arrangements meet the same standards as set out in the PTS contract, and they have all confirmed this is so. Our process has been updated to include this requirement in any future instances of transport commissioned through schools.</p> <p>Director approval will be required where external transport contractors are commissioned which are outside the Council’s PTS framework contract.</p>	<p>Transformation Projects Consultant – SEN on behalf of Education &amp; Skills Director</p>	<p>30 September 2014 (mostly implemented already)</p>
<p><b><u>Adults &amp; Communities Response</u></b></p> <p>Director approval will be required where external transport contractors are commissioned which are outside the Council’s PTS framework contract.</p>	<p>Education and Skills Director</p> <p>Director Adults and Communities</p>	<p>Immediately</p> <p>Immediately</p>

<p><b><u>Street Scene Passenger Transport Service Response</u></b></p> <p>PTS management will support the Education and Skills team to vet any external passenger transport providers in alignment with the Council’s passenger transport framework criteria.</p>	<p>Environment Service Manager - Transport</p>	<p>Immediately</p>
---	--	--------------------

### 2.3 Contract management

P	Detailed finding	Risk	Recommendation
<p>2</p>	<p>We reviewed the contract management process relating to the DBS/CRB with a view to identifying areas for improvement.</p> <p>Of the 16 contractors that were procured under the framework contract in April 2013, 8 were not compliant in relation to the requirement to undertake training specified in the contract specification, for example on manual handling of people, first aid, epilepsy awareness and the safeguarding of children and vulnerable adults. These 8 providers were therefore not used or invited to participate in the regular mini-tenders of transport routes.</p> <p><u>Annual reviews</u></p> <p>The contract provided for formal review meetings to assess satisfaction with the service. The</p>	<p>If drivers without the appropriate DBS/CRB checks or without the appropriate driver licences are used by contractors for transporting Council service users, or existing contractor drivers are replaced by unvetted drivers at short notice, then vulnerable Council service users may suffer harm/injury.</p>	<p><b>Recommendation 3</b></p> <p>All qualifying transport contractors should be subject to review at least once annually.</p> <p>The reviews should be planned and undertaken sufficiently in advance of mini-tender exercises to ensure that all contractors have sufficient time to rectify review issues properly so that they are fully compliant when they are invited to bid for or when they accept the mini-tender, for example not using unvetted drivers.</p> <p>For drivers and escorts, details and findings of DBS and licencing checks undertaken as part of reviews should be recorded and retained for review, where necessary.</p> <p>The frequency of school/day centre visits should</p>

<p>approach was to annually review delivery against stated criteria defined on a standard audit template which covered DBS/CRB status checks and the appropriateness and validity of driver licences.</p> <p>We noted that:</p> <ul style="list-style-type: none"><li>- Two of the eight annual reviews had not been completed at the date of the audit</li><li>- For PTS checks undertaken of transport contractor service delivery using the standard annual review template, DBS/CRB records and findings were not recorded and details of the licencing tests for specific drivers were not recorded for review.</li></ul> <p>We tested the CRB and driver licence status for drivers at a sample of three of the transport contractors used by the Council. All the contractors had a central system for recording and monitoring DBS/CRB checks as required by the contract specification. Of 22 drivers tested, 1 driver's DBS and driver licence had expired which had been noted in the contractor's records. We were informed that these would be requested and evidenced before allocating the driver to a route at the start of the school year in September 2014.</p> <p><u>Timing of reviews</u></p> <p>We tested whether the annual reviews had been done sufficiently in advance of the major mini-tender undertaken in May 2014 for a timely</p>		<p>be increased. A cyclical annual plan of school/establishment visits should be developed and implemented with flexibility to update it in line with any emerging risks, for example stemming from increases in reported incidents.</p>
---	--	--

Transport Contracts

<p>assessment of safeguarding compliance in advance of such tender. For the 6 annual reviews done by PTS, 4 had not been undertaken in advance of the mini-tender for such advance assessment.</p> <p><u>Physical spot checks</u></p> <p>Physical spot checks of vehicle and drivers actually delivering service users at schools and day centres were undertaken but not, in our view, at sufficiently regular intervals. We were informed by the responsible officer that 15 out of 120 establishments, schools and day centres had been visited so far at the date of the audit. This type of monitoring method is effective in that it allows an assessment of the standard of service delivery by the <u>expected</u> appropriately vetted drivers and the state of the vehicles being used to transport vulnerable service users. It would also allow DBS and licence testing to focus on drivers being used for transporting Council service users.</p>			
<p><b>Management Response</b></p>	<p><b>Responsible Officer</b></p>	<p><b>Deadline</b></p>	

<p><b><u>Street Scene Passenger Transport Service Response</u></b></p> <ol style="list-style-type: none"> <li>1. PTS management policy is to ensure all contractors' audits are completed at least annually.</li> <li>2. Discussions commenced with Education and Skills to release pupils' data in a timely manner that enables PTS management to complete operational activities and undertake transport optimisation and route planning on a phased basis.</li> <li>3. PTS to agree a service delivery schedule with Education and Skills to formalise timing and frequency of operational work plans, contract compliance and quality control audits so both service delivery teams can meet the demands of the service.</li> <li>4. PTS management restructuring PTS team to manage the PTS service delivery more effectively, from October 2014.</li> <li>5. Pending the TAS Review, PTS in conjunction with Education and Skills to procure replacement IT System to replace Mission IT, the Street Scene system for managing the transport routes.</li> </ol>	<p>Environment Service Manager - Transport</p>	<p>31 December 2014</p>
---	--	-------------------------

## 2.4 Potential overpayment of invoice

P	Detailed finding	Risk	Recommendation
2	<p><u>Children's Service – Education and Skills</u></p> <p>The CAFT review identified two identical payments to the above contractors in 2010 and 2012 for identical invoices for the same contractor B but also paid to contractor A, prior to the current framework contract signed in April 2013 (refer to paragraph 2.2). The invoices were received by the previous SEN Budget and Contract Team in Children's Services.</p> <p>The CAFT team notified the responsible officer in Children's Service – Education and Skills of</p>	<p>If payments are not made to the provider specifically referred to on the invoice, then payments to the correct provider may need to be made resulting in duplicate payments and financial loss if not recovered from the provider paid in error and the inefficient use of time in attempting to recover amounts.</p>	<p><b>Recommendation 4</b></p> <p>The potential overpayment should be resolved and recovered, if applicable.</p> <p>Payments should only be made once for services rendered to the provider stated on the invoice.</p>

	the issue which, at the date of the report, was subject to on-going enquiry.		
<b>Management Response</b>			<b>Responsible Officer</b>
<p><b><u>Education and Skills Response</u></b></p> <p>The company which received the payment in error has been asked to repay the amount. Their response is awaited. In future, payments will be authorised by the SEN Transport Officer (a new post appointed on 1<sup>st</sup> September) and part of the approval process will be to check that the right PO number has been used to ensure the payee is the contractor named on the invoice.</p>			<p>Transformation Projects Consultant – SEN on behalf of Education &amp; Skills Director</p> <p>31 October 2014</p>

## 2.5 Contract administration: Retrospective Purchase orders and invoice certification

P	Detailed finding	Risk	Recommendation
2	<p>We reviewed the controls to ensure the valid and accurate payment of transport contractor invoices.</p> <p>We noted one instance out of nine invoices tested where the purchase order was raised retrospectively after the invoice was received, contrary to the Council’s Financial Regulations. There was no evidence of formal management certification of the invoice, for example through sign-off and date, prior to the release of the invoice for payment.</p>	<p>Generally, if purchase orders are not raised and approved prior to service delivery, then the Council may be charged for work not required or at excessive rates.</p> <p>If evidence of independent scrutiny and challenge at management level of the transport contractor invoice is not recorded prior to its release for payment to embed accountability for such check, then instances where invoice validation processes are not properly undertaken at an officer level or actual invoice errors may not be detected leading to excessive payments and financial loss.</p>	<p><b>Recommendation 5</b></p> <p>Purchase orders should be raised and approved prior to the delivery of service and the receipt of the invoice in all instances.</p> <p>The service / contract manager should formally evidence the certification of the transport contractor invoice prior to its release for payment.</p>



## **Appendix A: Statement of Responsibility**

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

- The matters raised in this report are only those which came to our attention during the course of our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made.
- Recommendations for improvements should be assessed by you for their full impact before they are implemented.
- The performance of internal audit work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices. We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity.
- Auditors, in conducting their work, are required to have regards to the possibility of fraud or irregularities. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud.
- Internal audit procedures are designed to focus on areas as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purposes of our audit work and to ensure the authenticity of these documents.
- Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system.

## Appendix B: Guide to assurance and priority

The following is a guide to the assurance levels given:

	Substantial Assurance	<p>There is a sound system of internal control designed to achieve the system objectives.</p> <p>The control processes tested are being consistently applied.</p>
	Satisfactory Assurance	<p>While there is a basically sound system of internal control, there are weaknesses, which put some of the client's objectives at risk.</p> <p>There is evidence that the level of non-compliance with some of the control processes may put some of the system objectives at risk.</p>
	Limited Assurance	<p>Weaknesses in the system of internal controls are such as to put the client's objectives at risk.</p> <p>The level of non-compliance puts the system objectives at risk.</p>
	No Assurance	<p>Control processes are generally weak leaving the processes/systems open to significant error or abuse.</p> <p>Significant non-compliance with basic control processes leaves the processes/systems open to error or abuse.</p>

Priorities assigned to recommendations are based on the following criteria:

- 1** – Fundamental issue where action is considered imperative to ensure that the Council is not exposed to high risks; also covers breaches of legislation and policies and procedures. Action to be effected within 1 to 3 months.
- 2** – Significant issue where action is considered necessary to avoid exposure to significant risk. Action to be effected within 3 – 6 months.
- 3** – Issue that merits attention/where action is considered desirable. Action usually to be effected within 6 months to 1 year.