

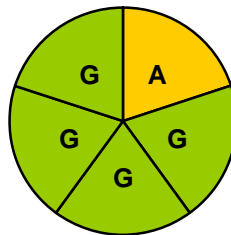
Internal Audit



Staff Lottery

April 2015

Report Assessment



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Introduction

The Objectives of the Health for Lothian Appeal Society (HfLAS) include promoting activities that benefit NHS staff in Lothian. The staff lottery is an income generating activity of HfLAS that helps it achieve these objectives.

The staff lottery currently has approximately 8,000 members. The annual income received each year from members is over £300,000 and annual prize money totals £166,000.

HfLAS is supported by three committees including the main HfLAS Committee which carries out and is responsible for the business of the Society as well as the allocation of remaining funds to a range of staff related projects including entry passes for clubs/societies (for example the Royal Zoological Society of Scotland, Dynamic Earth) and personal (non-work) training courses.

Scope

The objective of the audit was to evaluate the adequacy and effectiveness of internal controls associated with the NHS Lothian Staff Lottery. We reviewed governance processes for managing the staff lottery including deductions, results and funds.

Our review focussed on the control framework in place for NHS Lothian to manage and oversee the operation of the staff lottery.

Acknowledgements

We would like to thank all staff consulted during this review, for their assistance and cooperation.

Executive Summary

Conclusion

The controls NHS Lothian has in place over the staff lottery are adequate and operating effectively. However, this review has identified a small number of opportunities for improving processes and practices which will benefit future management of the staff lottery.

Summary of Findings

The table below summarises our assessment of the adequacy and effectiveness of the controls in place to meet each of the objectives agreed for this audit. Definitions of the ratings applied to each action are set out in Appendix 1.

No.	Control Objective	Control objective assessment	Number of actions by action rating			
			Critical	Significant	Important	Minor
1	The staff lottery governance framework and responsibilities are clear and understood.	Amber			2	1
2	Controls over staff joining or leaving the lottery are documented and followed by staff administering the lottery.	Green				
3	Lottery chances are processed completely, accurately and on time.	Green				
4	A documented and transparent process is followed for selecting winners.	Green				
5	Funds held by the lottery are held securely, with controlled access rights.	Green				

Control Objective Ratings

Action Ratings	Definition
Red	Fundamental absence or failure of controls requiring immediate attention. (60 points and above)
Amber	Control objective not achieved - controls in place are inadequate or ineffective (21 – 59 points)
Green	Control objective achieved – no major weaknesses in controls but may be scope for improvement (20 points or less)

Main Findings

We noted a number of areas of good practice during the review. HfLAS's governing document, Objectives and Rules, includes definitive lottery rules covering the payment of subscriptions, lottery chances, draws and prizes.

NHS Lothian uses its standard payroll controls to deduct payments for lottery chances from members. This includes the use of deduction authority forms to ensure contributions are processed in a controlled and timely way.

NHS Lothian has an informal agreement with an external provider, [REDACTED], to operate the monthly lottery draw. Controls are in place to ensure members included in the draw and the number of chances each member receives is complete and accurate.

A list of winners is reviewed and approved by the Deputy Director of Finance before payment of prizes is made. The HfLAS Treasurer also conducts a periodic analysis of winners to identify regular or unusual entries that may indicate the fraudulent selection of prize winners.

NHS Lothian uses existing Finance Department processes to ensure HfLAS funds are held securely. Regular reconciliations of the HfLAS exchequer account ensure balances are complete and accurate. Procedures are in place to ensure expenditure can only be distributed from HfLAS funds if payments are approved in accordance with NHS Lothian's delegated authority schedule.

We identified two important areas for improvement during the review:

- The roles and responsibilities of HfLAS Committee members; the HfLAS Treasurer (including their role as the Director of Finance's nominated appointee on the HfLAS Committee); and NHS Lothian's payroll and finance teams in the financial management of the staff lottery should be formally defined in procedure documents. The processes and practices employed specifically by the HfLAS Treasurer to determine whether administration of lottery contributions, selection of winners, and management of lottery funds are carried out in a structured, controlled and transparent way should also be captured in formal procedure documents.
- NHS Lothian should follow procurement guidelines and test the market for the lottery programme to identify and appoint the most suitable supplier. A formal service agreement or contract between NHS Lothian and the successful bidder should be developed. This should identify the parties to the agreement and should capture the scope and timing of the services provided by the lottery programme provider. It should also define record keeping requirements, termination processes, performance measures and reporting requirements. NHS Lothian should develop contract management processes to measure performance against the agreement.

We identified four further areas in which HfLAS controls could be improved. As these points were specific to HfLAS processes that do not involve NHS Lothian, we have reported them separately to the HfLAS Committee.

Further details of each of these findings and detailed recommendations are set out in the Management Action Plan.

Management Action Plan

Control objective 1: The staff lottery governance framework and responsibilities are clear and understood.	
1.1: Formalising financial governance arrangements	Important
<p><u>Observation and risk</u></p> <p>The Health for Lothian Appeal Society's (HfLAS) Objectives and Rules include the power '<i>to operate a lottery for members of the Society</i>'. The HfLAS Committee is required to have controls in place to confirm whether the staff lottery is delivered in accordance with the organisation's governing document.</p> <p>NHS Lothian delivers, or appoints third party providers to deliver, many of the processes involved in running the staff lottery, such as the deduction of payment for lottery chances, payment of prizes and other HfLAS expenditure, and the management of HfLAS reserves. To provide assurance that these processes are appropriately controlled, HfLAS's Objectives and Rules state that NHS Lothian's Director of Finance, or an appointed nominee, should sit on the HfLAS Committee and act as its Treasurer. The Treasurer's responsibilities include oversight of processes for the deduction and collection of payment for lottery chances, selection and reporting of prize winners and the management of HfLAS reserves.</p> <p>Although we did not identify any errors, inconsistencies or issues with financial records relating to the operation of the staff lottery the processes and practices employed by the Treasurer to provide assurance about the operation of controls used to manage it are not formally defined or documented. Similarly, the controls in place within NHS Lothian's payroll and finance functions that are specific to the operation of the staff lottery are not formally defined or documented.</p> <p>There is a risk that a change of Treasurer or other key staff member within NHS Lothian's payroll and finance teams could result in key controls being overlooked. This could result in the inappropriate payment of prize money, a lack of funding available to distribute prizes or the misappropriation of funds.</p>	
<p><u>Recommendation</u></p> <p>The roles and responsibilities of HfLAS Committee members, HfLAS Treasurer, NHS Lothian's payroll and finance teams in the financial governance of the staff lottery should be formally defined and documented. The processes and practices employed specifically by the Treasurer to ensure lottery contributions, selection of winners and the stewardship of lottery funds is managed in a structured, controlled and transparent way should be captured in formal lottery procedures.</p>	
<p><u>Management Response and Action</u></p> <p>Agreed.</p> <p>Treasurer will develop a suite of operational procedures to cover HfLAS's financial processes, in particular the staff lottery. Following approval of the procedures by the HfLAS Committee and the Director of Finance, the procedures will be implemented, with updates to current practice if required.</p>	
Responsibility: Treasurer, HfLAS	Target date: 30 June 2015

1.2: Formalising arrangements with third parties	Important
<p><u>Observation and risk</u></p> <p>██████████ was engaged by NHS Lothian to run the '<i>Staff Benefits and Lottery Programme for an initial period of 12 months</i>' in 2008. This agreement was made through correspondence between the Director of Finance for NHS Lothian at the time and the Director of ██████████</p> <p>The agreement with ██████████ is based on a contractual arrangement with a previous provider which was engaged to provide the staff benefits programme, including the staff lottery. The ██████████ arrangement has been informally extended since 2008 and there has been no formal contract or agreement in place to define the scope and timing, roles and responsibilities, record keeping and reporting, performance measurement and termination processes relating to the service since.</p> <p>Although the terms of the current agreement are such that the service is provided by ██████████ to NHS Lothian free of charge, NHS Lothian has never gone out to tender to determine if there is a more suitable provider in the market.</p> <p>There is a risk that prizes may not be allocated in accordance with HfLAS Objectives and Rules if the parties and scope of services are not formalised in a service agreement or contract. There is also a risk that unless NHS Lothian goes out tender for the provision of the lottery programme it may not identify other alternative suppliers that could provide a better service.</p>	
<p><u>Recommendation</u></p> <p>NHS Lothian should follow procurement guidelines and test the market for the lottery programme to identify and appoint the most suitable supplier. A formal service agreement or contract between NHS Lothian and the successful bidder should be developed. This should define all parties to the agreement as well as the scope and timing of the service, record keeping requirements and termination processes. The agreement or contract should also include performance measures and reporting requirements. NHS Lothian should use these to develop contract management processes to measure performance against the agreement.</p>	
<p><u>Management Response</u></p> <p>Agreed. While the arrangements were temporary when originally put in place in 2008, the HfLAS Committee had intended to arrange market testing. However, due to several years of uncertainty around the future of HfLAS and the staff lottery, market testing was not practicable. It has only been since the beginning of 2015 that the Committee has been in a position to consider such action. During the period of uncertainty, ██████████ has provided a satisfactory service and has always reacted positively to any requests made for a change in processes.</p> <p><u>Management Action</u></p> <p>The Treasurer will liaise with the Associate Director of Procurement to arrange a market testing exercise for the service. Also, advice will be sought from other health boards that operate similar staff benefits</p>	

and staff lottery activities.	
Responsibility: Treasurer, HfLAS	Target date: 30 September 2015

1.3 Risk Management	Minor
<p><u>Observation and Risk</u></p> <p>NHS Lothian's risk register does not currently include risks relating to the staff lottery.</p> <p>Risks relating to the operation of the staff lottery including the financial and reputational risks associated with the potential misappropriation of funds, the unfair distribution of prizes, grants or subsidies and inadequate cash flow management may not be managed effectively if they are not recognised, captured and monitored by the NHS Lothian risk management process.</p>	
<p><u>Recommendation</u></p> <p>Risks relating to the staff lottery should be considered through NHS Lothian's risk management framework. If it is determined that the staff lottery presents a reputational or financial risk to NHS Lothian this should be captured in risk registers and monitored in line with Risk Management Policy.</p>	
<p><u>Management Response and Action</u></p> <p>Agreed.</p> <p>The Treasurer will liaise with the Deputy Director of Finance to arrange consideration of potential risks to NHS Lothian from operation of a staff lottery.</p>	
Responsibility: Treasurer, HfLAS	Target date: 30 June 2015

Control Objective 2: Controls over staff joining or leaving the lottery are documented and followed by staff administering the lottery.

NHS Lothian uses its standard payroll controls to collect payment for lottery chances from members. This includes the use of deduction authority forms.

Processes are also in place to ensure members are automatically excluded from the draw if lottery contributions are not made. This ensures staff members leaving the lottery are excluded from all subsequent draws.

Control Objective 3: Lottery chances are processed completely, accurately and on time

We found no significant issues in relation to this control objective.

An electronic payroll deductions report is issued to [REDACTED] by the Deputy Payroll Manager on a weekly basis. [REDACTED] carry out initial checks on the data before the corrected file is input electronically into the lottery database, initiating the lottery draw process. After the draw is run the HfLAS treasurer receives an e-mail from [REDACTED] with an attached HTML file from the PSSB software showing the number of members, the number of chances and the prize winners. These processes ensure that the lottery is processed in a complete, accurate and timely manner.

Exception reporting is also run by [REDACTED] to highlight differences between information on the lottery database managed by [REDACTED] and the NHS Lothian payroll system to ensure that all members of staff who have joined the lottery are entered into each draw the correct number of times. Any differences between the two databases identified through this process are investigated and addressed before the lottery draw is made. This ensures the number of times a member is entered into a draw relates directly to the amount deducted from a member's pay.

Control Objective 4: A documented and transparent process is followed for selecting winners

We found no significant issues in relation to this control objective.

██████ runs the monthly draw using a bespoke computer software package to generate the required number of winning chance numbers at random. Each month, a list of winners is issued by ██████ to NHS Lothian Director of Finance, Deputy Director of Finance, Head of Financial Services, Payroll Manager, Deputy Payroll Manager and the HfLAS treasurer. Although NHS Lothian relies on the ██████ software to generate winners at random, the treasurer conducts a monthly review of the HTML file provided by ██████. This is automatically generated by the lottery software and shows prize winners and is reviewed to identify regular or unusual entries that may indicate the inappropriate or fraudulent selection of prize winners.

Control Objective 5: Funds are held securely with controlled access rights

We found no significant issues in relation to this control objective.

Administration of staff lottery receipts and payments is carried out by NHS Lothian's Finance Department. Procedures are in place to ensure expenditure can only be distributed from staff lottery funds where payments have been approved by members of staff with the delegated authority to do so and all payments for prizes are reviewed and approved by the Deputy Director of Finance.

Appendix 1 - Definition of Ratings

Management Action Ratings

Action Ratings	Definition
Critical	The issue has a material effect upon the wider organisation – 60 points
Significant	The issue is material for the subject under review – 20 points
Important	The issue is relevant for the subject under review – 10 points
Minor	This issue is a housekeeping point for the subject under review – 5 points

Control Objective Ratings

Action Ratings	Definition
Red	Fundamental absence or failure of controls requiring immediate attention. (60 points and above)
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Green	Control objective achieved – no major weaknesses in controls but may be scope for improvement (20 points or less)