Wenlock Terrace

City of York Council

Internal Audit Report 2018/19

Business Unit: Children, Education and Communities
Responsible Officer: Assistant Director, Children's Specialist Services
Service Manager: Group Manager – Achieving Permanence
Date Issued: 08/01/2019
Status: Final
Reference: 11570/003

	P1	P2	P3
Actions	**0**	**5**	**3**
Overall Audit Opinion	Reasonable Assurance		

Summary and Overall Conclusions

Introduction

In June 2013, the Council agreed a five-year contract for the provision of care services by Northern Care Ltd. This included residential care for four children at Wenlock Terrace Children's Home, two at another home run by the provider, as well as an option for additional services as required. The contract value was £2.8m, plus the costs of any additional services. Northern Care was later acquired by Hexagon Care Services Ltd and the contract novated to them under the same terms and conditions in March 2015. The contract has recently been extended to December 2019 while the council completes a procurement exercise.

Good contract management is important in ensuring that contracts provide value for money, that the Council and its contractors both meet their obligations, and that risks to contracts are effectively managed. The audit will therefore consider Hexagon's performance, value for money and the contract management arrangements in place.

Objectives and Scope of the Audit

The purpose of this audit was to provide assurance to management that procedures and controls within the system will ensure that:

- The contractor meets the service standards as set out in the contract and any issues are raised and resolved appropriately.
- Payments to the contractor are in line with contract arrangements and payments for additional services are suitably justified.
- The contract extension was agreed appropriately.
- The service area has plans in place to either re-tender or restructure the service provision at the end of the extension period.

Key Findings

Effective contract management is important to ensure that children placed in Hexagon's care are well looked after and the terms of the contract are met. It was found that the service provided by Hexagon was generally satisfactory and no concerns regarding care were identified. However, a number of issues were identified, predominantly regarding contract management arrangements.

Discussions with senior officers within the Children, Education and Communities directorate found that there is no nominated contract manager. The two officers originally responsible for the contract, who are named in the contract as key contacts, are no longer with the council. There was no handover of the contract when they left and it is unclear what arrangements they had in place for managing it. The lack of a single point of coordination and oversight for the contract may be an influencing factor on some of the issues discussed below (see finding 1).

Placements at two of Hexagon's facilities were paid at significantly higher weekly rates than those set out in the contract's schedule of costs. Review of the placements found that waivers or exemptions to contract procedure rules had not been sought, although officers confirmed that one facility has now closed (finding 2).

It was found that care quality is not assessed against the outcomes in the contract and the standard may vary between facilities. However, the council does receive some assurance on care quality through other means (finding 3).

Multiple key documents had not been provided by Hexagon and, in the absence of a contract manager, attempts had not been made to follow these up. For example, copies of DBS checks or qualifications for Hexagon's staff were not available. The council does not, therefore, have sufficient assurance that children are being placed into the care of appropriate staff members (finding 4).

Missing documents also included copies of Hexagon's business continuity plans and insurance certificates. There is a performance bond with Hexagon that can be used to fund emergency placements. However, this is an emergency measure and the council should be proactive in managing the risks to the contract (findings 5 & 6).

Officers also highlighted challenges in agreeing placements with Hexagon and this should be raised with Hexagon as required (finding 7).

Finally, it was found that contract extensions had been agreed appropriately and a procurement exercise was underway with support from the council's Commercial Procurement team.

Overall Conclusions

The arrangements for managing risk were satisfactory with a number of weaknesses identified. An acceptable control environment is in operation but there are a number of improvements that could be made. Our overall opinion of the controls within the system at the time of the audit was that they provided Reasonable Assurance.

1 Contract management arrangements

Issue/Control Weakness	Risk
There is no identified contract manager in place as per the council's Contract Procedure Rules.	Hexagon may not meet all its obligations and underperformance may not be identified or challenged.

Findings

The contract named two former officers as key contacts and, from discussions with current officers. It is understood that they had responsibility for managing the contract. Both officers had left the council prior to the start of the audit. Officers stated that there was no handover of responsibilities when they left and this was followed by a period of instability and turnover at senior management level, resulting in a lack of clarity as to where responsibility for managing the contract lay. Discussions with senior officers found that responsibility for managing the contract and meeting periodically with Hexagon's contract manager currently does not sit with a single identified officer.

Certain teams and officers carry out tasks that relate to the contract due to their particular job roles. The Placements Finding and Commissioning team arranges placements at Hexagon's properties. The Placements Finding and Commissioning Manager and Senior Social Work Practitioner meet periodically with the Registered Manager at Wenlock Terrace. The Independent Reviewing Officers (IROs) carry out inspections of Hexagon's properties to ensure care quality. However, as there is no contract manager, the lack of coordination of these activities may mean the contract is not effectively managed.

Agreed Action 1.1

The new Assistant Director, Children's Specialist Services has taken on responsibility for managing the contract.

The Assistant Director will have meetings periodically with Hexagon's contract manager to discuss any issues relating to the contract. These will be documented.

Priority	2
Responsible Officer	Assistant Director, Children's Specialist Services
Timescale	28 February 2019

2 Off-contract expenditure and breaches of contract procedure rules

Issue/Control Weakness	Risk
The service is not agreeing placements in line with the schedule of costs in the contract. It is agreeing placements and additional care without completing waivers or contract variations first.	The service is not always complying with the council's financial regulations. It may not be achieving best value for money when commissioning additional care.

Findings

Review of purchase orders for placements at certain facilities run by Hexagon Care Services and additional one-to-one support for particular children found that the service is not always agreeing placements or care in line with the schedule of costs set out in the contract. The service had also not sought waivers or contract variations in these instances and was thus breaching contract procedure rules.

Two placements at Hexagon's Cedar Lodge and Pinecroft facilities made since January 2018 were deemed by officers to be off-contract expenditure. For Pinecroft, officers stated this was because it was a new pilot facility for short-term emergency care. The single placement at Cedar Lodge was agreed because of the child's particular care and educational needs.

The purchase orders for placements at these facilities had total values of £244k (Cedar Lodge) and £79.5k (Pinecroft) respectively. The placements were at rates higher than those in the contract. For example, the placement at Cedar Lodge is nearly £1400 per week more than the highest weekly rate in the contract and is due to run until the end of the 2018/19 financial year. The council's Commercial Procurement team confirmed that they had not received waivers for these placements. However, officers stated that they ceased using Pinecroft at the end of July 2018.

It was also found that additional one-to-one care had been agreed for certain placements at Wenlock Terrace and elsewhere, with costs reaching £100k between May 2014 and September 2018. Hourly rates have also more than doubled over this period. The schedule of costs in the contract makes no allowance for one-to-one support. Officers stated that this care was deemed necessary due to the particular needs of the children. While this is not disputed, a contract variation should have been agreed to incorporate and control these costs.

Agreed Action 2.1

A waiver for the placement at Cedar Lodge will be arranged.

A contract variation will be agreed for hourly rates for one-to-one care to control costs. One-to-one care and hourly rates will be incorporated into any new contract agreed as part of the current procurement exercise.

Priority	2
Responsible Officer	Assistant Director, Children's Specialist Services
Timescale	28 February 2019

Agreed Action 2.2

A procedure document for arranging placements will be prepared and disseminated to staff responsible for arranging placements. This should include key documents that are required and reference to the contract procedure rules, especially in regard to waivers.

Priority	3
Responsible Officer	Assistant Director, Children's Specialist Services
Timescale	28 February 2019

3 Monitoring of care quality

Issue/Control Weakness	Risk
Hexagon's care provision is not assessed against contract outcomes and performance indicators have not been defined.	The council may not have a complete picture of Hexagon's performance against contract outcomes. Underperformance may not be identified and addressed.

Findings

Discussion with officers found that care quality and outcomes are not assessed against the outcomes set out in the contract. Furthermore, the contract requires quarterly statistical performance data to be provided by Hexagon, but performance indicators have not been defined. The council cannot be assured, therefore, that Hexagon is meeting the outcomes as defined in the contract.

For individual children, however, assurance on care quality is gained via Ofsted inspections, Hexagon's Regulation 44 reports, the work of the IROs and Looked After Children Reviews. Review of Ofsted and other reports for Wenlock Terrace found that care quality is satisfactory.

The contract outcomes were discussed and reviewed with the IRO (Placements), who considered them to be impractical as an assessment tool and too focused on what staff should be doing rather than on what children should be achieving. It is suggested that the service review contract outcomes and performance indicators as part of the re-procurement exercise to ensure that they are practical for use.

Agreed Action 3.1

Individual placement agreements will be provided to all IROs so that they can assess care quality against the IPA agreement.

Outcomes and performance indicators will be reviewed as part of the current procurement exercise to ensure they are practical for use and focus on the needs of individual children.

Priority	2
Responsible Officer	Assistant Director, Children's Specialist Services
Timescale	28 February 2019

4 Hexagon’s staffing

Issue/Control Weakness	Risk
The council has not identified key staff roles at Hexagon's homes. It is also not receiving adequate assurance that Hexagon’s staff members are appropriate and suitably qualified to look after the children placed in its care.	The council may be unable to assure itself that Hexagon is not appointing staff members who are unsuitable, inexperienced or unqualified.

Findings

Clause 12 of the contract states that the council will identify a list of key staff roles at Hexagon's properties. Hexagon shall then obtain prior written consent of the council before removing or replacing any member of key staff. It shall also ensure that any replacements are as qualified and experienced as the previous incumbent. Discussion with officers found that they did not know whether or not a key staff list had ever been defined and provided to Hexagon or what roles would be included on such a list.

The clause also requires Hexagon carry out Disclosure and Barring Service (DBS) checks on staff before appointment and then every 3 years. Any applicant who is found to have a conviction shall not be employed without the prior written and express consent of the council. Copies of DBS checks should be provided to the council. Furthermore, Hexagon's staff members are required to be suitably qualified. Registered Managers should hold Level 4 Diplomas in Health and Social Care Management, while other staff should hold Level 3 Diplomas in Health and Social Care. It was found during the audit that these items were not available and had not been requested from Hexagon.

Agreed Action 4.1

Copies of DBS checks and staff qualifications will be sought from Hexagon to confirm that staff members are appropriate.

Key staff positions at Hexagon's facilities will be identified and assurance sought regarding the suitability of the incumbents.

Priority	2
Responsible Officer	Assistant Director, Children's Specialist Services
Timescale	28 February 2019

5 Key contract documentation

Issue/Control Weakness	Risk
The council does not have oversight of Hexagon's risk management arrangements as key documents have not been provided.	Hexagon may not be managing risks to its business and its ability to meet its contractual obligations.

Findings

The contract includes multiple items that Hexagon should have in place or should provide periodically to the council as evidence that it is appropriately managing risks to its business or has made arrangements so it can continue operations in the event of a major incident.

These items include:
1. Insurance certificates for professional indemnity insurance, public liability insurance and employer's liability insurance.
2. A business resilience plan describing what actions Hexagon shall take should an incident occur that prevents it from continuing normal operations.
3. Data protection arrangements to prevent unlawful processing or accidental loss, damage or destruction of personal data provided to it by the council.
4. The maintenance of effective risk management and internal audit arrangements.
5. The provision of Hexagon's audited annual accounts to the council.

Discussion with officers found that none of the items listed above had been obtained from Hexagon. Hexagon has agreed to a performance bond that can be used by the council to fund emergency care arrangements should Hexagon be unable to continue providing care. However, this is intended as an emergency measure and is ending in June 2019. The council should therefore be proactive in ensuring that Hexagon is appropriately managing its risks.

Agreed Action 5.1

Copies of or assurance on the items listed above will be sought from Hexagon to confirm that it is suitably managing the risks to its business.

Priority	2
Responsible Officer	Assistant Director, Children's Specialist Services
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6 Transition arrangements

Issue/Control Weakness	Risk
The council does not have an up to date copy of Hexagon's transition plan for the end of the contract.	If there is no plan in place, then at the end of the contract and the service is transferred to a new provider, there could be disruption for the children in Hexagon's care at the time.

Findings

Clause 30 of the contract covers exit and termination assistance. It states that Hexagon will cooperate with the council and any successor in order to achieve a smooth transfer of services when the contract ends in December 2019.

Hexagon is required to prepare a plan detailing the assistance it will provide to the council. It shall also review and update this plan at least annually and make it available to the council upon request. Discussion found that officers did not have a copy of the plan and were unaware of this requirement in the contract.

Agreed Action 6.1

A copy of the transition plan will be sought from Hexagon. It will be reviewed to confirm it is suitable and up to date. If it is not, then officers will work with Hexagon to ensure it is suitable.

Priority	3
Responsible Officer	Assistant Director, Children's Specialist Services
Timescale	28 February 2019

7 Placement matching exercises

Issue/Control Weakness	Risk
The reasons for refusing placement requests are not reviewed such that themes or recurring issues are not identified and addressed with Hexagon.	The council may be financially disadvantaged if it has to find an alternative placement with a different provider and placements may not be arranged in a timely manner.

Findings

When a request to place a child is submitted to one of Hexagon's homes, Hexagon's Registered Manager at the home carries out a matching exercise to determine whether or not it is suitable to place the child. Under the Children's Homes Regulations 2015, it is the responsibility of the Registered Manager to ensure that children are accepted only if the home is able to meet their needs and after consideration of the impact on other children at the home.

It was found that Hexagon's reasons for refusing placements were not being recorded and reviewed. Doing so would allow the identification of any themes or recurring issues that could potentially be addressed in contract management meetings to facilitate the acceptance of placement requests.

Agreed Action 7.1

The Placements Commissioning Manager stated that officers are now requesting the full results of matching exercises.

A log of refusals will be kept and escalated to the Assistant Director, Children's Specialist Services for further action as needed should the number of refusals become excessive relative to the number of requests for placements.

Priority	3
Responsible Officer	Assistant Director, Children's Specialist Services
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Audit Opinions and Priorities for Actions

Audit Opinions
Audit work is based on sampling transactions to test the operation of systems. It cannot guarantee the elimination of fraud or error. Our opinion is based on the risks we identify at the time of the audit. Our overall audit opinion is based on 5 grades of opinion, as set out below.

Opinion	Assessment of internal control
High Assurance	Overall, very good management of risk. An effective control environment appears to be in operation.
Substantial Assurance	Overall, good management of risk with few weaknesses identified. An effective control environment is in operation but there is scope for further improvement in the areas identified.
Reasonable Assurance	Overall, satisfactory management of risk with a number of weaknesses identified. An acceptable control environment is in operation but there are a number of improvements that could be made.
Limited Assurance	Overall, poor management of risk with significant control weaknesses in key areas and major improvements required before an effective control environment will be in operation.
No Assurance	Overall, there is a fundamental failure in control and risks are not being effectively managed. A number of key areas require substantial improvement to protect the system from error and abuse.

Priorities for Actions	
Priority 1	A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management.
Priority 2	A significant system weakness, whose impact or frequency presents risks to the system objectives, which needs to be addressed by management.
Priority 3	The system objectives are not exposed to significant risk, but the issue merits attention by management.

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