



Purchasing Cards (Children's Services)

Middlesbrough Council

Internal Audit Report

Business Unit: Finance
Responsible Officer: Director of Finance
Service Manager: Head of Strategic commissioning and Procurement
Date Issued: 25 October 2023
Status: Final
Reference: D1060/002

	P1	P2	P3
Actions	4	8	2
Overall Audit Opinion	Limited Assurance		

Summary and Overall Conclusions

Introduction

Purchasing cards are a corporate credit card issued to employees who can then acquire goods and services. There are a number of benefits from using the cards both in relation to reducing the number of purchase orders raised and supplier invoices having to be processed, to offering a more flexible procurement route. Cards are generally intended to be used in areas where it is not possible, or effective, to use the standard purchasing system or for low level transactions where card purchases are more efficient.

Care must be taken to ensure cards are used correctly for their intended purpose and must not circumvent proper purchasing practice or contractual arrangements. A reconciliation process must take place to ensure the bank statement matches the payments that have been made on the card and to provide some retrospective and independent check on purchases made. VAT receipts or invoices must be obtained for all purchases, including online purchases. This is to ensure the council may claim back VAT from HMRC and also for HMRC VAT inspections.

The Council currently has 286 active purchasing cards, of which 80 are allocated within the Children's Services directorate. Between April 2022 and August 2023 total purchasing card expenditure across all directorates totalled £10,515,390.16, of which £801,880.58 was spent within Children's Services.

Objectives and Scope of the Audit

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

- Purchasing cards are being used correctly in line with policy and do not circumvent proper purchasing practice.
- Purchasing card usage is monitored, and expenditure is reviewed within the required timescales.
- Valid VAT receipts/invoices are obtained for all relevant purchases where VAT is reclaimed.

The audit reviewed purchasing card usage within Children's Services, excluding schools, for the period April 2022 to August 2023.

Key Findings

The main issue requiring management attention is that VAT is not being consistently recorded on the purchasing card system and therefore not subsequently reclaimed by the Council, resulting in a loss of income which we estimate at £125k for Children's Services between April 2022 and August 2023. We noted inconsistencies in the recording of VAT on card purchases, in terms of it being selectively recorded when comparing multiple transactions from the same provider and for the same categories of spend. We raised this issue with the Council's VAT officer, who confirmed that she shares the same concerns regarding cardholders not consistently recording VAT on the purchasing card system. We tested a number of transactions that contained a VAT element found that an itemised VAT invoice or receipt

was not always attached. This is not in line with the requirements of the purchasing card policy and could potentially put the Council in breach of its HMRC requirements.

We undertook a range of analysis on purchasing card transactions within Children's Services covering the period April 2022 to August 2023. Detailed results of this testing can be found in the findings section of this report, but in summary we identified various areas of non-compliance with the requirements of the Council's purchasing card policy. These included issues relating to the reviewing and approving of purchasing card transactions, the requirement to provide descriptions and supporting invoices or receipts for spend incurred, evidence of purchases being split into multiple transactions to avoid line manager approval requirements, and non-compliance with the Council's policy for procuring air travel using a purchasing card.

We obtained details of the spending limits on all cards currently issued within Children's Services. Our testing of these noted a number of issues including discrepancies between the information held by the purchasing team and that held on the RBS system, and also the fact that some cards had an increased limit that was not required. Cards with limits in excess of the default £1k would benefit from being periodically reviewed in order to establish if the increased limit continues to be appropriate.

Our work identified a small number of employees who, according to the evidence provided to us, have the ability to both review and approve their own spend, which creates a risk of fraudulent purchases going undetected. Although the identified instances were small and no indication of inappropriate purchases were noted, management should review how this situation was able to occur with a view to preventing any similar situations in future.

Children's homes are by far the biggest spending area within Children's Services, and we noted that this is the area that submit the most claims that do not contain a description of the spend incurred. We also noted that several refunded transactions have a description that they were fraudulent. It would be beneficial for management to review instances of refunds to identify instances where potentially fraudulent purchases have been attempted.

Purchasing card guidance documents are available on the Council's intranet site for both cardholders and line managers with responsibility for reviewing spend. Our review of these documents did not note any out-of-date information; however some documents have not been reviewed for almost 2 years, and some are undated meaning we were unable to confirm when they were produced. The available guidance would benefit from being subject to a review process in order to ensure that any future changes in process are reflected in the guidance available to staff.

Overall Conclusions

Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited. Our overall opinion of the controls within the system at the time of the audit was that they provided Limited Assurance.

1 recording and reclaiming of VAT

Issue/Control Weakness

VAT is not being recorded on the RBS system in all instances where it could be, in order to maximise the money that the Council can claim back.

Copies of VAT invoices/receipts are not always being provided to support the claiming of VAT.

Risk

The Council does not reclaim the full amount of VAT that it is entitled to, resulting in financial loss and increased budgetary pressures.

Not providing supporting VAT evidence also puts the Council in breach of its HMRC requirements.

Findings

VAT regulations allow for councils to reclaim VAT incurred on costs that relate to their non-business activities. The Council currently claims between £12m and £15m in VAT per year. The Council's purchasing card policy states that cardholders must review all transactions and upload a valid VAT invoice or receipt to the purchasing card system where appropriate, in order to comply with HMRC requirements for reclaiming VAT.

A review of Children's Services purchasing card transactions for between April 2022 and August 2023 highlighted that VAT is being recorded selectively for suppliers and purchasing categories where VAT can be claimed. For example:

- There are 599 transactions relating to Amazon purchases, of which 442 have VAT recorded against them whilst 157 do not
- There are 144 transactions relating to Booking.com, of which 48 have VAT recorded against them whilst 96 do not
- There are 80 transactions categorised as 'electronic sales', of which 40 have VAT recorded against them, whilst 40 do not
- There are 42 transactions categorised as 'Limousines and taxi's', of which ', of which 13 have VAT recorded against them, whilst 29 do not.

Although the above data does not constitute a comprehensive review of the whole population of purchasing card transactions for the period reviewed, it demonstrates that VAT is not being claimed for purchases where it should be. The data provided to us shows that there is approximately £629k of transactions with no VAT recorded within Children's Services, which would equate to roughly £125k in unclaimed VAT. This figure is an estimate but is indicative of the fact that the Council is likely to be missing out on a sizable amount of VAT that could be reclaimed. Discussions with the Council's VAT officer also confirmed that she has concerns about the issue of VAT not being claimed in all cases where it could be, and that there is an intention to discuss this issue with senior management.

In addition to the above, we reviewed a sample of 20 transactions where VAT has been claimed, and found that 9 did not have a

supporting invoice or receipt attached. This totalled £345.25 left unclaimed by the transactions included in the sample. From the purchasing card data provided to us for the period April 2022 to August 2023, there are 1,134 transactions where VAT has been claimed, but no receipt has been uploaded to the RBS system.

Agreed Action 1.1

The use of purchasing cards has been reviewed across the Council, as a result the number of cardholders will be reviewed by each Director for their Directorate. Cards no longer required will be cancelled.

Priority	1
Responsible Officer	Head of Strategic Commissioning & Procurement
Timescale	31st October 2023

Agreed Action 1.2

Individuals granted authorisation to hold a card will have 1-1 training with regard to the card process, including the essential element of VAT and the requirement to attach a receipt. The training will also include the how and when transactions should be reviewed, the need to include a full description of spend, and direction not to split transactions in order to avoid the need for transactions to be approved by a line manager.

Priority	1
Responsible Officer	Head of Strategic Commissioning & Procurement
Timescale	30 th November 2023

Agreed Action 1.3

In exceptional circumstances where a receipt is not available the purchase must be approved by a line manager, with a documented reason why no receipt is available.

Priority	1
Responsible Officer	Director of Children's Care
Timescale	30 th November 2023

Agreed Action 1.4

Arrangements will be implemented to ensure Chief Officer oversight of compliance with purchase card requirements.

Priority

1

Responsible Officer

Director of Children's Care

Timescale

30th November 2023

2 Compliance with Council policy relating to flight purchases

Issue/Control Weakness

No evidence is available to demonstrate that the purchasing of flights using a purchasing card provided better value than using the Council's centralised travel bureau.

Risk

Additional budgetary pressures incurred due to best value not being obtained.

Findings

The Council has a policy document detailing the procedure for paying for flights on a purchasing card. The policy details the requirement from cardholders to consider all methods of purchases and opt for the best-value option, and to obtain approval from an executive or assistant directorate level, regardless of the total spend. The transaction list of Children's services spend for 2022/23, contained the following:

- Three one-way tickets to Nigeria with British Airways, totalling £1,473.43

The payment consisted of 3 separate transactions:

- One-way ticket to Nigeria with British Airways, £437.81
- One-way ticket to Nigeria with British Airways, £597.81
- One-way ticket to Nigeria with British Airways, £437.81

Evidence was obtained to demonstrate that the appropriate authorisations had been obtained prior to the tickets being purchased; however there was no evidence that the use of the purchasing card provided best value, in terms of whether it would have been more cost-effective to make the purchases via the Council's centralised travel bureau.

Agreed Action 2.1

Travel bookings will be routed through the centralised travel bureau, purchasing cards will only be utilised for exceptional travel arrangements when the travel bureau is unable to support. In all circumstances, irrespective of spend, transactions related to travel will be authorised by the line manager.

Priority

2

Responsible Officer

Director of Children's Care

Timescale

31st October 2023

3 Review and approval of purchasing card spend

Issue/Control Weakness

There is evidence of non-compliance with the requirements to review and approve purchasing card spend.

Risk

Unreviewed and unapproved transactions enable inappropriate or fraudulent purchasing activity to go undetected.

Findings

The Council's purchasing card guidance states that cardholders must review all their transactions by the 28th of each month on the RBS site. Furthermore, it says that when transactions are not reviewed, this puts the Council at risk, not only in relation to potential fraudulent activity but also the potential loss of VAT which could be reclaimed. The purchasing card guidance requires line managers to approve any transactions in excess of £1k.

Using IDEA data analysis software, a review was undertaken of purchasing card transactions relating to Children's Services between April 2022 and August 2023. The following results were obtained:

- 791 transactions totalling £82,172.20 not reviewed out of a total of 12,223 transactions totalling £1,156,902.54. This equates to 6.5% not reviewed.
- The 2 highest areas in terms of unreviewed spend are Strategic Services (36.37%), and Children's homes (13.6%).
- There were 35 payments in excess of £1k in the period under review (out of a population of 105 payments) that had not been approved by a line manager, which equates to a non-approval rate of 33%.

We discussed the approval process with line managers in order to establish their awareness of the responsibility to approve such payments, and whether they challenge questionable or unclear spend. 18 out of 33 managers responded to our request for information and in general they provided satisfactory answers to the questions asked. However, there were differing approaches as to when they would approve purchasing card spend – one manager stated that they believed there was a previous requirement for approval of spend over £200, which they believed had since changed to every purchase requiring authorisation. Another manager stated that they approve any spend in excess of £500. Additionally, our review of all transactions identified that, out of 12,223 total transactions, 2,310 had been approved by a line manager even though they were below the £1k threshold which requires line manager approval.

The above finding demonstrates that the Council's review and approval process is not fully understood and not being fully complied with by cardholders and line managers.

Agreed Action 3.1

The use of purchasing cards has been reviewed across the Council, as a result the number of cardholders will be reviewed by each Director for their Directorate. Cards no longer required will be cancelled. As this issue is being addressed at agreed action 1.1, no further action needs to be agreed here.

Priority	N/A
Responsible Officer	N/A
Timescale	N/A

Agreed Action 3.2

Individuals granted authorisation to hold a card and their line manager, will have 1-1 training with regard to the card process, including when & how the transactions should be reviewed. As the requirement for training has been included at agreed action 1.2, no further action needs to be agreed here.

Priority	N/A
Responsible Officer	N/A
Timescale	N/A

Agreed Action 3.3

Arrangements will be implemented to ensure Chief Officer oversight of compliance with purchase card requirements. As this issue is being addressed at agreed action 1.4, no further action needs to be agreed here.

Priority	N/A
Responsible Officer	N/A
Timescale	N/A

4 The provision of descriptions and supporting evidence for purchasing card transactions

Issue/Control Weakness

The requirement to provide descriptions of purchasing card spend and supporting receipts are not being complied with.

Risk

Inadequate descriptions on transactions prevent items from becoming identifiable and justifying their benefit to the Council.

Findings

The Council's purchasing card guidance states that every transaction requires a brief description of the spend to identify what the item purchased is, indicating its purpose to the Council. This assists line managers (or anyone else reviewing purchasing card transactions) to identify the nature and suitability of the purchase. The guidance also states that there is a requirement to attach a receipt, invoice or other evidence, to support the spend.

Using IDEA data analysis software, a review was undertaken of purchasing card transactions relating to Children's Services for 2022/23. The following results were obtained:

- 3,475 transactions out of a total population of 12,223 have no description to support the purchase (28.4%). We undertook sample testing in specific areas of spend:
 1. Food purchases - 9 transactions out of 20 did not contain a supporting description
 2. Amazon purchases - 10 transactions out of 20 did not contain a supporting description.
 3. Spend on taxis - 18 transactions out of 20 did not contain a description as to the nature of the journey.
 4. Fir Tree children's home - £1,614.49 across 20 transactions, all with suitable descriptions describing item and purpose.

However, a further review of transactions relating to children's homes found that they submit the most claims that do not have a description of the spend that has been incurred.

In addition, 4,067 transactions out of 12,223 (33.3%) did not have a supporting invoice or receipt uploaded to the RBS system.

There are 773 transactions totalling £78,868.15 that contain no description, have no supporting receipt or invoice uploaded to the RBS system, and have not been reviewed by the cardholder or approved by the line manager (as all but 5 transactions are below the £1k approval threshold).

Agreed Action 4.1

The use of purchasing cards has been reviewed across the Council, as a result the number of cardholders will be reviewed by each Director for their Directorate. Cards no longer required will be cancelled. As this issue is being addressed at agreed action 1.1, no further action needs to be agreed here.

Priority	N/A
Responsible Officer	N/A
Timescale	N/A

Agreed Action 4.2

Individuals granted authorisation to hold a card will have 1-1 training with regard to the card process, including the requirement to include a full description of spend. As the requirement for training has been included at agreed action 1.2, no further action needs to be agreed here.

Priority	N/A
Responsible Officer	N/A
Timescale	N/A

Agreed Action 4.3

Work will be undertaken with the bank (RBS) to ascertain if the description can be made mandatory.

Priority	2
Responsible Officer	Head of Strategic Commissioning & Procurement
Timescale	31st October 2023

Agreed Action 4.4

Arrangements will be implemented to ensure Chief Officer oversight of compliance with purchase card requirements. As this issue is being addressed at agreed action 1.4, no further action needs to be agreed here.

Priority	N/A
Responsible Officer	N/A

5 Card spending limits

Issue/Control Weakness

Purchasing card spending limits are not being reviewed in order to establish if limits in excess of the default £1k limit are appropriate.

Risk

Excessive card spending limits increase the chance of fraudulent transactions taking place.

Findings

The standard spending limit for a Council purchasing card is £1k per individual transaction inclusive of VAT. This limit can be increased up to £5k with written approval from the Head of Service and over £5k with authorisation from the relevant Director.

A report was obtained detailing the current spending limits on all cards. A sample of 10 cards with a spending limit in excess of £1k was reviewed, in order to establish if the appropriate authorisation had been received. From the sample of 10 we found:

- 2 instances where records held by procurement did not reflect the actual card limit in place.
- 1 instance was found where it was felt by the Specialist Commissioning & Procurement Senior Manager that it would be appropriate for a £12k card limit to be moved back to down to the default £1k limit as the £12k limit was approved for a specific purchase, and is now no longer appropriate.
- 1 instance where a card has a limit of £35k but no record can be found in terms of the card limit being approved or reviewed since it was originally agreed.
- 1 instance where a card has a £50k but no evidence of who approved this or whether it has since been reviewed for appropriateness.
- 1 instance where a card had its limit temporarily increased to £15k but this had not been reduced back down to £1k. We have not been provided with details of when the temporary increase was supposed to end.

Currently there is no regular review of card spending limits undertaken, in order to identify and challenge excessive spending limits, or to ensure that temporary increases in spending limits have been reduced back down to the default £1k limit.

Agreed Action 5.1

The use of purchasing cards has been reviewed across the Council, as a result the number of cardholders will be reviewed by each Director for their Directorate. Cards no longer required will be cancelled. As this issue is being addressed at agreed action 1.1,

Priority

N/A

Responsible Officer

N/A

no further action needs to be agreed here.

Timescale

N/A

Agreed Action 5.2

Individual limits per transaction and total monthly spend limits will be set for each cardholder. Any deviation from this will be actioned on a temporary basis with documented approval for the Head of Service, and actioned for a maximum of 24 hours.

Priority

2

Responsible Officer

Director of Children's Care

Timescale

31st October 2023

Agreed Action 5.3

Where a permanent change is required then a business case evidencing the service need will be required signed off by the relevant Director and the S151 officer or their Deputy.

Priority

2

Responsible Officer

Head of Strategic Commissioning & Procurement

Timescale

31st October 2023

6 Separation of responsibilities for reviewing and approving spend

Issue/Control Weakness

There are instances where cardholders have reviewed and approved their own spend.

Risk

No oversight of an employee's purchasing card spend increases the chance of fraudulent purchases going undetected.

Findings

The Council's purchasing card processes should ensure that employees do not have the ability to both review and approve their own spend. Our review of the purchasing card data between April 2022 and August 2023 for Children's Services identified 2 employees who were recorded as being both the cardholder and the line manager, therefore potentially allowing them to both review and approve their own spend:

- Employee 1 - Line Manager and Approval on 154 transactions. Totalling £10,793.06. The Specialist Commissioning & Procurement Senior Manager stated that *the employee should not be approving her own spend, and she will email them and their line manager to advise that this must stop, and that only the line manager should be reviewing spend.*
- Employee 2 - Cardholder and Line Manager on 120 transactions totalling £9,506.83. The Specialist Commissioning & Procurement Senior Manager stated that *the employee has followed the correct process by the fact that she has reviewed the transactions but not approved as this would be for her line manager to undertake, however, it is clear from the extraction that this has not been done. This may need the system to be updated.* However the fact remains that the employee in question is listed as the line manager on the data we were provided with, which means that there is no independent oversight of the transactions that she incurs on her purchasing card.

Agreed Action 6.1

The use of purchasing cards has been reviewed across the Council, as a result the number of cardholders will be reviewed by each Director for their Directorate. As this issue is being addressed at agreed action 1.1, no further action needs to be agreed here.

Priority

N/A

Responsible Officer

N/A

Timescale

N/A

Agreed Action 6.2

Line Managers for each cardholder will be confirmed.

Priority	2
Responsible Officer	Director of Children's Care
Timescale	31st October 2023

Agreed Action 6.3

A quarterly review of all card holder information for accuracy will be undertaken to pick up instances where procurement have not been notified of staff changes.

Priority	2
Responsible Officer	Head Of Strategic Commissioning & Procurement
Timescale	31st October 2023

7 The splitting of payments to circumvent line manager approval

Issue/Control Weakness

Purchasing card payments have been split into several transactions in order to avoid the £1k threshold that requires line manager approval.

Risk

Unapproved transactions enable inappropriate or fraudulent purchasing activity to go undetected.

Findings

A review of the purchasing card transactions between April 2022 and August 2023 for Children’s Services identified 6 payments that appear to have been split into several transactions in order to avoid line manager approval that is required for any payments in excess of £1k.

There is no suggestion that the splitting of transactions has been done for fraudulent reasons; however no reasonable explanation has been provided by staff as to why this has been undertaken.

Agreed Action 7.1

The use of purchasing cards has been reviewed across the Council, as a result the number of cardholders will be reviewed by each Director for their Directorate. Cards no longer required will be cancelled. As this issue is being addressed at agreed action 1.1, no further action needs to be agreed here.

Priority

N/A

Responsible Officer

N/A

Timescale

N/A

Agreed Action 7.2

Individual limits per transaction and total monthly spend limits will be set for each cardholder.

Priority

2

Responsible Officer

Head of Strategic Commissioning & Procurement

Timescale

30th November 2023

Agreed Action 7.3

Cardholders will receive training on a 1-1 basis which will include the direction not to split transactions. As the requirement for training has been included at agreed action 1.2, no further action needs to be agreed here.

Priority	N/A
Responsible Officer	N/A
Timescale	N/A

Agreed Action 7.4

Procurement will provide monthly reports to Directors on Procurement Card spend, and will dip sample transactions for split transaction activity.

Priority	2
Responsible Officer	Head of Strategic Commissioning & Procurement
Timescale	30 th November 2023

Agreed Action 7.5

Arrangements will be implemented to ensure Chief Officer oversight of compliance with purchase card requirements. As this issue is being addressed at agreed action 1.4, no further action needs to be agreed here.

Priority

N/A

Responsible Officer

N/A

Timescale

N/A

8 Review of refunded card payments

Issue/Control Weakness

No evidence is available to confirm that refunded transactions classified as fraudulent have been investigated.

Risk

Attempts to use cards for fraudulent purposes are not identified, increasing the chance of future attempts being made.

Findings

Children's homes are the biggest area of spend within Children's Services, and are also the area with the highest number of card refunds. A review of these refunds highlighted that a small number of them have a description indicating that they were fraudulent.

The transactions identified were raised with the Head of Strategic Commissioning & Procurement, who confirmed that the cardholder had notified Procurement and the bank that there was fraudulent use on their card, and as a result the money was refunded and the card was cancelled. However, we were not provided with any evidence that the reason for these attempted transactions had been investigated, with a view to establish how they arose and how this situation could be prevented again in the future.

Agreed Action 8.1

Where fraudulent activity has been reported by a cardholder this will result in an investigation from procurement and a notification to internal audit. Details regarding this process will be included within the procurement card guidance.

Priority

3

Responsible Officer

Head of Strategic Commissioning & Procurement

Timescale

30th November 2023

9 Review of purchasing card policy and guidance documents

Issue/Control Weakness

Purchasing card guidance documents are not subject to a review process.

Risk

Changes to purchasing card best practise are not reflected in the available guidance documents, resulting in staff not following correct processes.

Findings

There are several guidance documents relating to purchasing card documentation for both card holders and line managers responsible for reviewing spend. These documents are available on the Council's intranet site. We reviewed these documents to confirm if they are subject to regular review, and noted the following:

- Purchasing card policy – dated November 2021
- Cardholder reviewing guidance – undated
- Cardholder Login guide - undated
- Line Manager guidance on viewing and approving transaction - undated
- Purchase card Flight booking policy – undated

Despite the fact that some policies had not been reviewed for almost 2 years and some polices were undated meaning we could not confirm when they were last reviewed, our review of these guidance documents did not note any obvious evidence of them containing outdated information. However, it would be beneficial for purchasing card guidance to be subject to periodic review in order to ensure that they remain up to date and reflect current practice.

Additionally, in light of the findings that this report has identified, management may wish to strengthen the requirements contained in the guidance in the areas of reviewing and approving spend, the requirement to provide supporting evidence for purchases that are made, and the recording of VAT where applicable.

Agreed Action 9.1

All associated policies for purchasing cards will be reviewed and updated, with clear dates and an indicated review period.

Priority

3

Responsible Officer

Head of Strategic Commissioning & Procurement

Timescale

30th November



Audit Opinions and Priorities for Actions

Audit Opinions

Our work is based on using a variety of audit techniques to test the operation of systems. This may include sampling and data analysis of wider populations. It cannot guarantee the elimination of fraud or error. Our opinion relates only to the objectives set out in the audit scope and is based on risks related to those objectives that we identify at the time of the audit.

Our overall audit opinion is based on 4 grades of opinion, as set out below.

Opinion Assessment of internal control

Substantial Assurance	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Reasonable Assurance	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Limited Assurance	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
No Assurance	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

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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