

Western Australian Auditor General's Report



Public Building Maintenance



Report 4: 2021-22
24 August 2021

Office of the Auditor General Western Australia

Audit team:

Jordan Langford-Smith
Mona Loo
Michelle Higgins
Chiara Galbraith
Dr Jacqui Richards
Kevin Ng
Cody Jecks
Ashley Sorbara
Ann George

National Relay Service TTY: 133 677
(to assist people with hearing and voice impairment)

We can deliver this report in an alternative format for those with visual impairment.

© 2021 Office of the Auditor General Western Australia.
All rights reserved. This material may be reproduced in whole or in part provided the source is acknowledged.

ISSN: 2200-1913 (print)
ISSN: 2200-1921 (online)

The Office of the Auditor General acknowledges the traditional custodians throughout Western Australia and their continuing connection to the land, waters and community. We pay our respects to all members of the Aboriginal communities and their cultures, and to Elders both past and present.

Public Building Maintenance

This page intentionally left blank



**THE PRESIDENT
LEGISLATIVE COUNCIL**

**THE SPEAKER
LEGISLATIVE ASSEMBLY**

PUBLIC BUILDING MAINTENANCE

This report has been prepared for submission to Parliament under the provisions of section 25 of the *Auditor General Act 2006*.

Performance audits are an integral part of my Office's overall program of audit and assurance for Parliament. They seek to provide Parliament and the people of WA with assessments of the effectiveness and efficiency of public sector programs and activities, and identify opportunities for improved performance.

This audit assessed if the Department of Finance effectively manages its contracted maintenance of public sector buildings.

I wish to acknowledge the Department's staff for their cooperation with this audit.

A handwritten signature in black ink, appearing to read 'C Spencer'.

CAROLINE SPENCER
AUDITOR GENERAL
24 August 2021

Contents

- Auditor General’s overview..... 2
- Executive summary 3
 - Introduction 3
 - Background..... 3
 - Conclusion 4
 - Key findings..... 4
 - Recommendations 7
 - Response from Department of Finance 9
 - Response from Programmed 9
- Audit focus and scope 10
- Audit findings 11
 - Finance generally manages public sector maintenance well but needs to clearly demonstrate that clients receive value for money 11
 - Finance does not measure the quality of maintenance services 13
 - Inadequate processes to manage conflicts of interest and gifts increases the risk of fraud..... 14
- Appendix 1: OAG data analytics procedures used to examine Finance and Programmed’s maintenance data 17

Auditor General's overview

State entities maintain billions of dollars of buildings including schools, hospitals, prisons, fire stations and office buildings. For many entities, the Department of Finance (Finance) organises maintenance services on their behalf. As each entity ultimately pays for this maintenance, it is important that services are delivered in an efficient and effective manner to maximise operational performance and value for money.



This audit assessed whether Finance effectively managed the contracted maintenance of public sector buildings. We examined Finance's 3 main maintenance arrangements for both metropolitan and regional areas, including its head contractor arrangement with Programmed Facility Management (Programmed).

We found that Finance was largely effective in managing building maintenance on behalf of other public sector entities. Finance and Programmed demonstrated good practice when procuring maintenance contractors and they were actively managing contractor performance. However, there are opportunities for Finance to improve its practices. For example, Finance was not checking the quality of maintenance work or whether it met safety standards. In addition, it has not reviewed whether the 3 arrangements remain appropriate, even after key contracts expired. Addressing these shortcomings will help to improve value for money for client entities.

Recent examinations, such as the Parliament's *Red Flags...Red Faces* report¹, have highlighted the procurement and corruption risks associated with conflicts of interest. Given this risk, we examined the effectiveness of Finance and Programmed's processes for managing conflicts of interest and gifts. My newly established forensic audit function also performed a series of data analytic procedures and a data matching exercise to try and identify undeclared conflicts of interest.

While Finance and Programmed had good practices to manage conflicts during the initial procurement of maintenance contractors, there were weaknesses in their processes which increase the risk of fraud. Our audit identified instances where declared conflicts were poorly managed, particularly in the regions. Finance has not clearly articulated its expectations to Programmed for managing conflicts of interest and gifts, which fell short of Finance's own requirements. Our data analytic procedures also identified a small number of transactions that have been referred to Finance for further investigation.

Regular monitoring of expenditure transactions is important to detect conflicts of interest and prevent fraud. It is pleasing to see that Finance and Programmed have agreed to enhance their analysis of maintenance data to strengthen their processes for identifying and detecting instances of fraud and corruption. In Appendix 1, I have included the data analytic procedures we performed in this audit and I encourage all entities to consider these procedures as appropriate to better analyse their own expenditure transactions.

¹ Joint Standing Committee on the Corruption and Crime Commission, Report 14, *Red Flags...Red Faces*, May 2020.

Executive summary

Introduction

This audit assessed if the Department of Finance (Finance) effectively manages its contracted maintenance of public sector buildings.

We focused on Finance's arrangements to support its contracted maintenance services and whether these services represented value for money. We looked at planning and procurement processes and the management of conflicts of interest and contractor performance. With the assistance of our Forensic Audit team, we also used extensive data analytics² to identify potential undisclosed conflicts of interest and gifts.

Finance engages Programmed Facility Management (Programmed) as a head contractor for its larger public sector clients, so we used our follow the dollar powers³ to examine key aspects of Programmed's management of maintenance services under this arrangement.

Background

Western Australia's (WA) public sector buildings are worth over \$26 billion and include schools, fire stations, prisons, courts and offices.

Some public sector entities (entities) organise and pay for their own property maintenance. But for many entities, including the Departments of Education, Justice and Fire and Emergency Services, Finance organises maintenance work on their behalf using private sector contractors, which the entities pay for. This is carried out in accordance with the WA Procurement Framework, including the *Procurement Act 2020* and the *Public Works Act 1902*.

Finance oversees around \$278 million of maintenance work each year. The maintenance services also include some non-building property maintenance, such as pest control and tree pruning.

There are 3 different procurement arrangements Finance uses to organise the bulk of maintenance work, depending on the location and size of client sites:

- Maintenance Services Arrangement (MSA) – Finance established a head contracting agreement with Programmed in 2016 to provide maintenance services for 6 large entities, mainly in the Perth and Peel regions. As the head contractor, Programmed is responsible for procuring and managing the contractors that do the maintenance work.
- Low Value Maintenance Panel (LVMP) – established in 2014 for building maintenance work less than \$250,000 in the metropolitan area. Finance organises the maintenance work through a panel contract with a variety of private maintenance contracting companies.
- Service Alliance 2012 (SA12) – for regional sites Finance established an alliance of pre-approved maintenance contractors in 2012. There is no standard pricing for labour and materials, and Finance can add or remove contractors from the list at any time.

² Data analytics involves searching large volumes of transactions and data for unusual items, patterns and events that could indicate fraud.

³ Section 18 (2)(c) of the *Auditor General Act 2006* allows the Auditor General to investigate any matter relating to public money. This includes examining records of private contractors who are provided public funds.

Conclusion

Finance's management of building maintenance on behalf of entities is generally effective but there are opportunities for it to improve its processes. Finance followed most key steps expected for large procurements in its establishment of arrangements. During the audit period, both Finance and Programmed actively managed the performance of maintenance contractors. However, Finance did not measure the quality of the work provided and during our audit, some clients raised concerns about the quality of maintenance services. Despite this, contractors are completing over 240,000 maintenance jobs across the State annually with few complaints from the public sector clients.

It is not clear if Finance achieves the best value for money⁴ for its maintenance clients. Finance did not cost its 3 chosen maintenance arrangements against alternatives and has not reviewed if each remains appropriate. It has not demonstrated to clients that the 3 arrangements are the best options and it is therefore unclear whether the public sector receives cost effective maintenance services.

Both Finance and Programmed had basic controls in place to help manage risks associated with conflicts of interest, such as inappropriate preferential allocation of work, but Finance had gaps that increase the risk of favouritism and fraud. Our audit procedures, which included extensive data analytics, identified a small number of instances where Finance managed declared conflicts of interest poorly, particularly in regional offices. Gift declaration procedures for both entities had weaknesses, increasing the risk that the entities do not appropriately detect and manage conflicts of interest. This further increases the risk of waste or misappropriation of public funds.

The forensic analysis part of our audit identified several specific transactions that we have referred to Finance for further investigation. While all but 1 of these transactions is individually immaterial by value, they relate to probity and therefore are material by nature. If wrongdoing is identified, it will be referred for further interrogation and reported as appropriate in the circumstances. In any case, the recommendations in this report will assist in further strengthening Finance's arrangements for deriving value for money and managing conflicts of interest.

Key findings

Finance generally manages its public sector maintenance well but needs to clearly demonstrate that its clients receive value for money

The procurement steps Finance followed to establish its 3 maintenance arrangements were sound. It met most requirements detailed in its Procurement Practice Guide and the *State Supply Commission Value for Money Policy*. For example, Finance's initial procurement process for the MSA in 2016 met expected standards, such as providing evaluation guidance, advertising widely and including complaint handling. Following procurement framework good practice requirements helps to ensure that the procurement of maintenance contractors is sound and transparent.

Finance has not shown clients that its 3 maintenance arrangements are the best options. Finance did not cost the arrangements or consider alternatives when it introduced the SA12 in 2012, LVMP in 2014 and MSA in 2016. It has not reviewed if those arrangements remain appropriate, even after key contracts expired. Three of Finance's large clients expressed concerns to us about whether they received value for money maintenance services. It

⁴ Value for money procurement includes cost and non-cost factors, including the Government's social economic objectives.

remains unclear if the 3 arrangements provide cost effective maintenance services to their public sector clients.

Finance did not comprehensively analyse their maintenance data to improve value for money and neither Finance nor Programmed analysed their data to detect potential conflicts of interest or fraud. While Finance uses Programmed's data to check fees charged, it does not verify whether the data is accurate. Additionally, Finance does not review its maintenance data to determine whether there are inefficiencies such as calling the wrong tradesperson out to complete maintenance work. Finance is using data analytics, but its current suite of procedures is unlikely to identify inefficiencies or indicators of potential fraud.

Our review of maintenance transactions using standard data analytics procedures identified a series of insights that can help improve value for money. Routine checks and data analytics can help identify inefficient practices and minimise the risk of incorrect or fraudulent payments, which will ultimately improve value for money and reduce the misappropriation of public funds.

Finance and Programmed also had different views about the classification of certain maintenance jobs during the first 2 years of the MSA contract. This has created uncertainty about the amount which Finance must pay Programmed for defect repairs. While Finance and Programmed have negotiated a position that ensures value for money for client entities, it is important to ensure that these issues are clarified in future contracts or negotiations.

Finance does not measure the quality of maintenance services

Finance designed sound systems to manage contractor performance but it does not check work quality or safety. While Finance regularly reviewed the cost and timeliness of contractor performance and rewarded good practice, it did not physically inspect maintenance jobs to ensure work met appropriate standards. In contrast, Programmed used a Vendor Management Plan that included key performance indicators (KPI) and on-site audits of subcontractor work quality. Finance should provide all clients under each of the 3 arrangements with assurance that contractors deliver maintenance services that meet acceptable standards of timeliness, quality and safety.

Finance's contractors generally complete day to day maintenance jobs in accordance with client expectations but some clients raised concerns about service quality. LVMP clients provided feedback to Finance indicating that they were, on average, 97% satisfied with the quality of maintenance services. However, our survey of 32 clients across 45 sites highlighted 18 concerns, of which 8 involved work quality. Regular communication and feedback from clients helps to identify problems with the quality of maintenance work.

Inadequate processes to manage conflicts of interest and gifts increases the risk of biased selection of contractors and fraud

Finance and Programmed use basic controls to manage the risk of conflicts of interest. Policies, guidance, staff training, independent approval processes, panels and groups to allocate jobs to contractors, and management plans, all help to minimise conflicts of interest. However, there were gaps in training, guidance and corporate oversight of declared conflicts of interest, particularly in the regions, where Finance did not require conflicts of interest declarations when registering new suppliers to the SA12 supplier listing. Inadequate controls can prevent staff from correctly identifying and managing conflicts of interest, putting public funds at risk through collusion and fraud.

Declared conflicts of interest are not always managed well by Finance. Again, this was particularly evident in its regional offices. For example, our audit identified instances where staff approved payments for a supplier they had a declared conflict of interest with. It also

found instances where staff engaged contractors to perform work at their home without needing to demonstrate that the work was conducted on normal commercial terms. Conflicts of interest declarations for both Finance and Programmed often lacked enough detail, and neither entity conducted an independent review of the declarations. Poor management of conflicts of interest significantly increases the risk of favouritism that is not related to improved service delivery.

Finance and Programmed's gift declaration procedures are inadequate. While Finance's gift declaration form asked staff to consider conflicts of interest, it did not prompt staff to consider whether accepting the gift created a perceived, potential or actual conflict of interest, nor if this created a need to review the gift register. Additionally, Programmed did not have a gift declaration form to encourage uniformly consistent disclosures. For the 23 contractors we contacted, 3 Programmed contractors advised us that they provided gifts, such as alcohol, calendars and a morning tea, but the entities did not record them in their gift register. Incomplete recording of gifts offered, declined or accepted increases the risk that any conflicts of interest that could impact value for money will go undetected.

Recommendations

Finance should:

1. carry out a broad scope review of its maintenance arrangements and services to ensure it can demonstrate that public sector entities receive value for money

Finance response:

Partially accepted. Finance confirms the three existing maintenance contracts which are the subject of this audit were established through competitive procurement processes. Individually, they take into account more than just lowest price and reflect value-for-money at a transactional level.

To address the intent of this recommendation, Finance will consult with the Strategic Service Contracts Steering Committee on the independent review of the efficiency and effectiveness of Finance's maintenance services and contracts.

Implementation timeframe: June 2022

2. introduce a quality assurance program to monitor the quality of contractor maintenance work

Finance response:

Accepted. While existing mechanisms manage the quality of maintenance performed, Finance will establish a quality assurance framework that brings together customer feedback, data analysis and on site audits of contractor works and procedural compliance to provide an overall view of contractor quality.

Implementation timeframe: June 2022

3. review and improve the way it manages conflicts of interest and gifts to meet better practice by providing clear guidance to all metropolitan and regional staff and its head contractor (Programmed)

Finance response:

Accepted. As part of Finance's existing continuous improvement program, significant progress has been made on developing and implementing sophisticated strategies for its management of conflicts of interest.

Finance commits to reiterating with Programmed during contract management meetings the conflict of interest and gifts obligations whilst providing services on behalf of Finance and will provide clear written guidance on the Department's expectations.

Implementation timeframe: June 2022

4. improve its contract management processes to ensure that contractors deliver all commitments in the contract on a timely basis and that information on which payment is made is independently checked prior to payment.

Finance response:

Accepted. Finance closely manages its contract with Programmed to ensure it meets its contractual obligations. Since the end of the audit period Finance can confirm that obligations identified in the audit have been met. As Finance independently undertakes

regular verification and reconciliation of Programmed data prior to payment, this recommendation has been implemented.

Implementation timeframe: Completed

Finance and Programmed should

5. periodically analyse maintenance data to identify and investigate indicators of fraud, inefficiencies and opportunities for process improvements.

Finance response:

Accepted. An additional suite of analytical reports will be implemented to identify and investigate indicators of fraud, inefficiencies and opportunities for process improvements. Finance also welcomes the opportunity to work with the Office of the Auditor General and learn from the data analytics undertaken as part of this audit.

Implementation timeframe: June 2022

Programmed response:

Accepted. PFM commits to periodically analyse maintenance data to identify and investigate indicators of fraud, inefficiencies and opportunities for process improvements in order to ensure confidence in PFM's service.

Implementation timeframe: June 2022

Response from Department of Finance

The Department of Finance (Finance) welcomes the observation that management of building maintenance is generally effective. Overall, Finance accepts the findings of this report and will implement the recommendations provided.

Finance is committed to the continual review and improvement of our management of contracted maintenance of non-residential public sector buildings on behalf of public sector entities. In the two years that have passed since the end of the audit period, Finance has made significant progress implementing many of the recommendations in this report.

Finance is highly aware of the need to strike the appropriate balance between time, cost and quality (as well as risk) when assessing value-for-money. The contractual frameworks established by Finance for the provision of low-value maintenance services were established through competitive procurement processes, take into account more than just lowest price, and reflect value for money at a transactional level.

Finance agrees with the Auditor General's view that a broad ranging review of maintenance services has not been undertaken. However, it is noted that this review would be specifically in relation to a comparison between insourcing and outsourcing. From an outsourcing perspective, Finance is confident that each of these contracts do in fact provide value for money at a transactional level for their intended purpose. This value is communicated to client agencies through contract review processes (Client Reference Groups) and client agencies regularly advise Finance on areas that need to be improved to achieve greater value.

Finance is committed to ensuring integrity in its maintenance processes and welcomes the Auditor General's use of data analytics to identify indicators of fraud, inefficiencies and opportunities for process improvements. The use of these analytics over maintenance data will strengthen Finance's ongoing fraud and corruption detection processes. Finance has recently implemented improvements to strengthen its conflict of interest management processes, particularly in the regions where managing conflicts can be more challenging. Finance will further strengthen its existing integrity processes by implementing the Auditor General's recommendations.

Response from Programmed

PFM is dedicated to providing a fully integrated maintenance service to our clients. Ensuring value for money, providing outstanding, timely and quality customer service, whilst demonstrating transparency and accountability, are at the core of what we do.

We are committed to working collaboratively with the Department of Finance to continually improve the maintenance service provided to all Government agencies that form part of the Maintenance Services Arrangement (MSA). This commitment includes continuing to conduct routine analysis of data to identify opportunities to improve and regular communication with clients to gather feedback, identify areas of concern and ensure all maintenance work conducted is of a high standard.

Since the commencement of the MSA contract, PFM have provided the Department of Finance, and the Government agencies that form part of the MSA contract, with 24/7 online access to a customer portal that provides MSA-related information, including work in progress reports and asset data.

Audit focus and scope

The audit objective was to determine whether the Department of Finance (Finance) effectively managed its contracted maintenance of public sector buildings.

We based our audit on the following criteria:

- Does Finance have sound arrangements in place to support its contracted maintenance services?
- Does Finance ensure its contracted maintenance services represent value for money?

Our audit focused on Finance's contracted maintenance services for the period 1 October 2018 to 30 September 2019. We examined Finance's 3 main maintenance arrangements in metropolitan and regional WA.

In undertaking the audit we:

- interviewed key staff from Finance and its head contractor Programmed Facility Management (Programmed)
- reviewed Finance and Programmed's policies and procedures, procurement records, contract documentation, contractor performance reports, and conflicts of interest and gift registers
- reviewed documentation for 57 maintenance jobs arranged under the Low Value Maintenance Panel (LVMP), Service Alliance 2012 (SA12) and Maintenance Services Arrangement (MSA) to ensure work was authorised and correct
- asked major contractors to confirm gifts provided to Finance and Programmed
- interviewed key stakeholders from the Department of Education (Education), Department of Justice (Justice) and Department of Fire and Emergency Services (DFES)
- sought feedback at 45 sites that received maintenance services from Finance and Programmed.

Our audit did not include maintenance work managed by other public sector entities, such as for health services or public housing.

As part of our audit, we also undertook a comprehensive suite of data analytic procedures to identify potential undisclosed conflicts of interest (Appendix 1). We also performed a data matching exercise to identify close associates of Finance or Programmed employees who may own a maintenance contractor used by Finance or Programmed. To perform the analytics, we sourced data sets from 9 different entities with some entities providing multiple data sets. All data sets required cleansing, transforming and merging to create workable data sets that could be used to produce meaningful results.

This was an independent performance audit, conducted under Section 18 of the *Auditor General Act 2006*, in accordance with Australian Standard on Assurance Engagements ASAE 3500 *Performance Engagements*. We complied with the independence and other ethical requirements related to assurance engagements. Performance audits focus primarily on the effective management and operations of entity programs and activities. The approximate cost of undertaking the audit and reporting was \$1,035,000, which includes \$475,000 for the forensic and data analytics component.

Audit findings

Finance generally manages public sector maintenance well but needs to clearly demonstrate that clients receive value for money

Finance shows good practice in procuring maintenance contractors but cannot demonstrate that its 3 arrangements are the best options for its clients

The procurement processes Finance used to plan and set up its 3 maintenance arrangements met the standards detailed in the *State Supply Commission Value for Money Policy*. Finance also met most of the requirements of its own Procurement Practice Guide, including understanding business needs, identifying risks, developing clear plans and guidance for tender evaluations, and documenting procurement plans. By following policy and better practice guidance, Finance's procurement decisions are more likely to be sound and justified.

However, Finance did not estimate the costs of its 3 chosen maintenance arrangements or consider alternative arrangements before it introduced them. The SA12 commenced in 2012, LVMP in 2014 and the MSA in 2016. While Finance reviewed each of the arrangements separately for different purposes, it did not document why it chose to establish these 3 arrangements.

Finance has not reviewed whether its 3 arrangements remain appropriate, even after key contracts expired. In 2012, Finance developed a Business and Procurement Plan that considered how best to deliver maintenance services in the metropolitan area. It did not include the regional SA12 arrangement. The plan recommended using a single head contractor arrangement in the metropolitan region, rather than 2 separate arrangements.

However, Finance chose not to proceed with some recommendations due to costs associated with early termination of an existing contract with a regional call centre and did not revisit the decision when key contracts expired in 2015 and 2016, respectively. While Finance allows entities to choose an appropriate arrangement for their circumstances, it does not know if the 3 arrangements achieve the best value for money for maintenance services.

Finance provided no measures or benchmarks for clients to use to understand value for money and how that might change over time. Three of Finance's large clients (Education, Justice and DFES) told us that they were concerned about whether they received value for money from Finance's maintenance services. The fact that clients are obliged to use Finance's services makes it important for Finance to demonstrate that it provides effective and economical maintenance services.

Finance and Programmed can use its maintenance data better to maintain value for money and prevent fraud

Finance does not check the accuracy of transaction data supplied by Programmed. Finance uses the data to calculate Programmed's fees according to work volumes and performance scores. This unverified data may contain errors, omissions or mistakes, which could result in incorrect payments to Programmed.

We checked Programmed's transaction data and did not identify any errors. A review of 19 work orders for breakdown repairs for DFES sites found that the hours and materials claimed by contractors appeared reasonable. All but 1 had a sign off by someone on site where the work took place. While this provides some assurance that the data submitted by

Programmed represents genuine work, routine checks minimise the risk of incorrect payments and fraud.

Finance did not comprehensively analyse their maintenance data to improve value for money and neither Finance nor Programmed analysed their data to detect potential conflicts of interest or fraud. Our data analytic procedures (Appendix 1) identified a number of important insights, which would help reduce the risk of fraud and improve value for money. Some of these insights included staff bypassing system controls that prevent duplicate payments and inefficient practices for processing work orders. Data analytics can be a powerful tool to help entities understand large volumes of information, and to identify unusual patterns, transactions or events that could indicate fraud or other inefficient practices.

The forensic analysis part of our audit identified several specific transactions for Finance that we have referred to Finance for further investigation. While all but 1 of these transactions is individually immaterial by value, they relate to probity and therefore are material by nature. If wrongdoing is identified, it will be referred and reported to the appropriate entities. In any case, the recommendations in this report will assist in further strengthening Finance's arrangements for deriving value for money and managing conflicts of interest.

Finance regularly reviews contractor performance in relation to timeliness and cost, which will identify if contractors are charging more than the trade averages. However, it does not analyse maintenance data to identify if the right tradesperson was sent to the site. Our survey of 32 clients at 45 sites identified that Finance and Programmed clients had experienced instances where the wrong tradesperson was allocated to the job. While Finance does use key performance metrics to monitor incorrect work allocations, regular data analytics, such as looking for multiple contractors to fix the same breakdown repair, combined with ongoing communication and feedback from clients, will help to identify inefficiencies which will improve value for money.

Some important contractual commitments were delayed and there were disagreements about the classification of jobs

There are 2 key products under the MSA contract which were not fully delivered until the end of the initial contract term. Programmed were required to provide entities with access to real time information on job status and to create asset registers. These were to help client entities monitor the progress of maintenance work and design routine maintenance plans. While Programmed and Finance have worked collaboratively to ensure that these commitments were delivered at an acceptable quality, the delays in the delivery of these items may have impacted how effectively entities managed their assets.

Finance and Programmed also had different views about the classification of certain maintenance jobs during the first 2 years of the MSA contract. This occurred because:

- Programmed classified some of these jobs as minor works, which increased the fees payable to Programmed
- Finance classified the jobs as routine maintenance, which attracted a lower fee.

Finance and Programmed now have a shared understanding of how to classify this work, which ensures value for money for client entities. However, it is important to ensure that these issues are clarified in future contracts or negotiations to avoid unnecessary payment disputes.

Finance does not measure the quality of maintenance services

Finance designed sound contractor performance management systems, yet does not check work quality and safety

Finance does not know if its maintenance contractors meet work quality and safety standards. Finance designed performance measures of cost, timeliness, quality and safety for all 3 arrangements. However, for the LVMP and SA12, it did not regularly check the quality of the work performed or whether it met safety standards. A client entity officer confirms that the contractor attended the site, but they are not qualified to assess the quality of work performed. By comparison, for the MSA, Finance uses 4 KPIs to monitor the quality of Programmed's maintenance contractors. Not checking quality increases the risk that Finance does not identify contractors who perform poor quality work.

Finance regularly reviewed the cost and timeliness of contractor performance. A sample of 20 performance assessments verified that all work was completed and conducted within required timeframes. Finance also:

- rewarded LVMP contractors for good practice by ensuring the highest performers were first in line for new work opportunities
- provided contractors opportunity for improvement if they fell below expected standards.

This regular performance assessment and follow up of contractor work ensures Finance routinely identifies and addresses problems and encourages good performance.

Programmed met most of its KPI targets most of the time. Finance monitored key aspects of Programmed's performance under the MSA through 12 KPIs covering key criteria including safety, quality, timeliness and stakeholder relationships. For example, Programmed met KPI targets 80% of the time for DFES in 2018-19. Because it did not meet targets all of the time, it missed out on a 5% performance fee. Measuring performance and providing incentive to meet targets increases the likelihood of positive client outcomes.

Programmed uses a comprehensive performance management framework for its MSA sub-contractors. Programmed's Vendor Management Plan sets out how it manages contractor performance. The plan includes KPIs, on-site auditing of work quality, operational performance reviews, an issues escalation process and reporting on outstanding work orders. We reviewed a sample of 40 quality audits and the registered results of 823 safety audits and contractors completed all within expected timeframes. Programmed's 6 clients⁵ can be confident that maintenance work meets acceptable standards of timeliness, quality and safety.

Clients are generally satisfied but have concerns about the quality of work

Client feedback on Finance's maintenance services was mostly positive, but some raised concerns about service quality. LVMP customers provided feedback to Finance indicating that they were, on average, 97% satisfied with the quality of maintenance services. We sought our own feedback from 32 clients across 45 sites. Twenty-four respondents were generally satisfied with the services received. However, the clients raised 18 concerns, of which 8 related to quality of work. Poor communication (5), inefficient processes (3), cost (1),

⁵ DFES, Education, Justice, Main Roads, Department of Training and Workforce Development and the Department of Local Government, Sport and Cultural Industries.

and timeliness (1) concerns were also raised. Without routine and regular quality assurance processes, Finance cannot guarantee that clients receive satisfactory maintenance work.

Inadequate processes to manage conflicts of interest and gifts increases the risk of fraud

Processes to manage conflicts of interest are missing some key protections

Both Finance and Programmed had basic controls in place to manage the risk of conflicts of interest in relation to delivering maintenance services. These processes included:

- policies for staff to manage conflicts of interest and gifts
- staff training about how to identify and report conflicts of interest
- requirements to declare, manage and record conflicts of interest
- independent approval of declared conflicts of interest and associated management plans.

Conflicts of interest arise when personal and professional interests clash. For example, a maintenance officer could face a conflict of interest if a family member's company applied to provide maintenance services to Finance or Programmed. Both Finance and Programmed had good processes to manage conflicts of interest during the procurement and allocation of contractors to panels. These processes reduce the risk of favouritism and promote transparency and accountability.

However, there were gaps in Finance's processes to manage conflicts of interest, particularly in the regions. Regional officers declare conflicts of interest in their annual declarations, but Finance does not require staff to complete conflicts of interest declarations at the time of endorsing the registration of new suppliers to the SA12. Additionally, there was no requirement for suppliers to declare any conflicts of interest they may have. These practices increase the risk of favouritism and fraud.

Finance has not provided clear guidance to Programmed on its expectations for managing conflicts of interest. Consequently, Programmed's processes fell short of Finance's own requirements. For example, Programmed did not have a standard form for staff to declare conflicts of interest outside of the initial procurement process and they did not provide comprehensive training to staff on conflicts of interest. Providing clear guidance to Programmed on its expectations to manage conflicts of interest will give Finance more comfort that its head contractor is declaring and managing conflicts of interest relating to public funds appropriately.

Declared conflicts of interest for Finance's regional staff are not always managed well

Finance did not always manage declared conflicts of interest appropriately, particularly in regional offices. These matters have been referred to Finance for further investigation. These weaknesses included:

- management plans that did not fully mitigate the risks posed by the conflict. For example, we found 2 instances where staff approved invoices for payment to a contractor they had a declared conflict of interest with. Another management plan correctly removed the conflicted employee from decision-making, but delegated this to a junior staff member working with the conflicted employee

- staff engaged contractors in a private capacity, such as performing work at their home, without needing to demonstrate that the transactions were conducted on commercial terms. Finance did not know if these contractors offered discounts to staff as an incentive for future work
- declarations made after the private transactions with contractors were completed
- inconsistent management plans for similar conflicts of interest. For example, some maintenance officers were prevented from making decisions about contractors they had used in a private capacity while others were not.

Poor management of conflicts of interest significantly increases the risk of fraud and favouritism.

Conflicts of interest declarations for Finance and Programmed staff often lacked enough information to assess the risks posed by the conflict. For example, staff incorrectly identified actual conflicts of interest as 'potential' or 'perceived' conflicts of interest and some declarations lacked information to help identify actual risks. This makes it difficult for both the employee and the employer to implement an appropriate management plan to address the risks.

Neither Finance nor Programmed could demonstrate that an independent or executive level officer reviewed declared conflicts of interest. While Finance required the employees' director to sign declared conflicts of interest, there was no independent review by another business area, such as internal audit or a member of the executive team. An independent review of declared conflicts of interest helps to ensure that management plans are appropriate.

We expected to see Finance and Programmed demonstrate better practice for conflicts of interest management. Public sector maintenance work involves high risk procurement activities, with hundreds of thousands of jobs performed across the state each year. Tailored guidance, strong oversight and reporting are essential to ensure that both entities manage conflicts of interest risks appropriately.

Finance advised that it has started to address some of the gaps in its approach to managing conflicts of interest, through initiatives such as:

- targeted training, information and reminders for staff in higher risk positions
- a new procedure for regional staff to complete conflicts of interest declarations when approving new contractors
- improved management and independent oversight through the introduction of a Regional Governance and Risk Coordinator position.

Neither Finance nor Programmed identify gifts as a conflict of interest on gift declaration forms

Gift declaration forms could be improved. While Finance's gift declaration form asked staff to consider conflicts of interest, it did not prompt staff to consider whether accepting the gift created a perceived, potential or actual conflict of interest, even though this is a requirement of its Gifts, Benefits, Hospitality and Conflict of Interest guideline. Programmed did not use a standard form for declaring gifts, instead relying on informal communication.

Finance and Programmed did not routinely comply with their own gift policies. For example:

- Finance staff accepted hospitality gifts as a professional courtesy. Finance's Gifts, Benefits, Hospitality and Conflict of Interest guideline states that staff can accept

hospitality gifts where it is essential to facilitate the conduct of public business. The lack of detail made it unclear whether the hospitality received was essential to conduct public business. We note that these gifts were not from maintenance contractors.

- Programmed staff accepted gift cards and vouchers from maintenance contractors up to a value of \$550, even though its Maintenance Division Giving and Receiving of Gifts guideline states that staff should avoid accepting gifts, such as money or other cash equivalents.
- Programmed's policy also states that staff should avoid hospitality gifts where a representative from the company making the gift will not accompany the recipient. Four employees accepted entertainment gifts but provided no information to determine whether a company representative attended the event.

As gifts can act as an incentive to influence decision-making, it is important that entities consider whether accepting gifts of any value could be an actual or perceived conflict of interest.

Finance did not provide Programmed with sufficient guidance on accepting gifts from maintenance contractors. Programmed's Maintenance Division Giving and Receiving of Gifts guideline lists certain gifts to avoid. But it does not expressly prohibit the acceptance of gifts, which could result in a perceived or actual conflict of interest. Programmed's gift registers also did not always clearly identify the nature of the gift. It is important that Programmed's employees understand their obligations regarding gifts, to minimise the risk of conflicts of interest.

Programmed generally recorded gifts from contractors in their respective gift registers. However, in a sample of 23 contractors, there were 3 Programmed contractors who advised us that they provided gifts to Programmed, but these were not recorded in the gift register. Programmed did not monitor their gift registers to look for suspicious trends, such as frequent low value gifts from contractors. Incomplete and inaccurate recording of gifts offered, declined or accepted, and inadequate analysis and timely monitoring of gifts increases the risk that conflicts of interest will go undetected.

Our sample of 23 contractors indicated that Finance was recording gifts appropriately in its gift register. During the audit period, there was evidence that gifts were appropriately reported to and reviewed by Finance's Executive. Following the implementation of a new process in October 2019, despite having access to information, there was no evidence of regular independent reviews by the Executive of accepted gifts.

Appendix 1: OAG data analytics procedures used to examine Finance and Programmed’s maintenance data

We used a suite of data analytics to analyse and identify potential anomalies within Finance and Programmed’s data that could indicate conflicts of interest. We are committed to sharing, where appropriate, the learnings and tools from our new forensic audit function. We have included the following list of procedures so that Finance and other public sector entities can adopt similar analysis of data in their functions as relevant.

Data analytics procedure	Results and insights
<p>Duplicate payments – identify invoices with identical or similar details.</p> <p>This may indicate a conflict of interest if the same employee approves payments for the same invoice multiple times.</p>	<p>There were 349 potential duplicate invoices. We selected a sample of 20 for testing.</p> <p>Finance staff were bypassing system controls designed to prevent duplicate payments. This resulted in an invoice being paid twice.</p> <p><i>We identified no conflict of interest matters from the sample tested.</i></p>
<p>Duplicate work orders – identify multiple work orders with similar details.</p> <p>May indicate that an employee with a conflict of interest is circumventing controls.</p> <p>It may also be a result of inefficient processes that can reduce value for money.</p>	<p>There were 6,436 potential duplicate work orders during the audit period. We selected 20 work orders to sample based on contractors with the highest number of duplicates.</p> <p>Finance processed multiple breakdown repair requests for the same site as separate work orders, rather than grouping them together as 1 work order.</p> <p><i>We identified no conflict of interest matters from the sample tested.</i></p>
<p>Unusual work patterns – analyse data to identify contractors that indicate unusual movements or patterns based on contractor, trade code and month.</p> <p>This could indicate a potential conflict of interest, especially if the same employee is approving invoices for the same supplier.</p>	<p>We selected 10 metropolitan and 10 regional contractors for testing from 1,762 transactions that had unusual patterns.</p> <p>Programmed provided appropriate and well researched responses to explain the unusual work patterns. Finance provided limited information to support its explanations for unusual work patterns.</p> <p><i>We identified no conflict of interest matters from the sample tested.</i></p>
<p>Data gaps – identify fields in the data that are missing necessary information.</p> <p>May indicate control weaknesses if fields are blank or may indicate an employee trying to hide an interest in a supplier.</p>	<p>No data gaps identified.</p> <p><i>We identified no conflict of interest matters.</i></p>
<p>Invoice sequencing – analyse the data to identify contractors where invoice numbers are consecutively numbered.</p> <p>Invoice sequencing is a common indicator of fraud and may indicate an employee has an interest in the business or that the contractor is fictitious.</p>	<p>There were 862 contractors with sequential invoicing during the audit period. We selected 10 samples for testing based on the highest number of consecutive invoices by volume and 10 samples based on the highest value of sequential invoices.</p> <p>Programmed provided valid reasons for the sequenced invoices, which we verified. Finance explained that the sequencing was because it is the contractor’s sole customer, but did not provide</p>

Data analytics procedure	Results and insights
	<p>sufficient evidence to confirm that fraud or wrongdoing did not cause the sequencing.</p> <p><i>We identified no conflict of interest matters from the sample tested.</i></p>
<p>Benford’s Law⁶ analysis of payment values – identify unusual payment amounts that are outside of the expected distribution.</p> <p>If invoice payments fall outside the expected pattern the discrepancies may indicate fraudulent activity.</p>	<p>We identified 261 contractors using Benford’s law for possible analysis.</p> <p><i>The results informed our sampling in other procedures.</i></p>
<p>Approval thresholds – analyse contractor invoices under approval limit thresholds.⁷</p> <p>A pattern of contractor payments just under approval thresholds may indicate a conflict of interest.</p> <p>In addition, excessive payments just under the approval threshold may indicate income smoothing. This is where contractors under charge some work and over charge other work, to avoid approval limits.</p>	<p>There were 1,507 invoices just under the approval thresholds. We sampled 20 contractors with the highest number of invoices below the approval threshold. Retrospective approvals are prohibited.</p> <p>One Finance contractor charged the same amount for different quantities. Finance has since initiated an investigation into the supplier.</p> <p>There was anecdotal evidence that Programmed and Finance contractors were discounting invoices to avoid approval limits.</p> <p><i>We identified no conflict of interest matters from the sample tested.</i></p>
<p>Physical address – identify contractors without a physical address.</p> <p>May indicate an employee or contractor is hiding a potential conflict of interest or fictitious supplier.</p>	<p>There were 89 contractors that did not have physical addresses in the contractor system. We sampled 20 contractors with the highest total dollar value for the audit period.</p> <p>Programmed changed its onboarding procedure during the audit to ensure that all contractors provide a physical address.</p> <p>Finance had no process to obtain physical addresses when onboarding a new contractor and only provided 1 physical address out of 10 samples. We undertook further testing to verify the remaining contractors.</p> <p><i>We identified no conflict of interest matters from the sample tested.</i></p>
<p>Related parties – value and volume of breakdown repair work allocated by Programmed to their related parties/controlled entities.</p> <p>The contract terms allow Programmed to allocate up to 20% for breakdown repairs to related entities. Excessive work awarded to related entities may reduce value for money for client entities.</p>	<p>Programmed awarded less than 1% of the total breakdown repair work orders to their related entities.</p> <p><i>Programmed complied with the requirements of the contract.</i></p>

⁶ Benford’s Law states that the first digit in a naturally occurring dataset is likely to be 1, followed by 2 and 3 in a decreasing distribution up to 9. Numbers which do not follow this distribution may be fictitious.

⁷ Finance’s approval threshold for breakdown repairs is \$1,500. Programmed has 2 thresholds for breakdown repairs: \$1,500 and \$5,000. Works that are above this amount must obtain prior approval from the entity prior to undertaking the work because retrospective approvals are prohibited.

Data analytics procedure	Results and insights
<p>High value deviations from preferred contractors – analyse data to look for high value of work directed to a non-preferred supplier. Preferred contractors are determined through a detailed procurement process.</p> <p>May indicate employee – contractor relationship.</p>	<p>Both entities generally awarded work to the preferred contractor.</p> <p><i>We identified no conflict of interest matters from the sample tested.</i></p>
<p>High volume deviations – identify excessive volume of work being directed to non-preferred panel contractors.</p> <p>May indicate employee – contractor relationship.</p>	<p>Both entities generally awarded work to the preferred contractor.</p> <p><i>We identified no conflict of interest matters from the sample tested.</i></p>
<p>Completeness of gift register – obtain external confirmation from contractors of gifts provided and compare to Finance’s gift register.</p> <p>Gifts from contractors, especially undeclared, can represent a conflict of interest.</p>	<p>We sent 27 contractors requests to confirm if they had given gifts to the entities during the audit period. We received 23 responses; 6 confirmed they had sent gifts to the entities.</p> <p>Analysis of the entities’ gift registers showed that 3 Programmed contractors provided gifts that were not recorded in its registers.</p>
<p>Banned contractors – check for purchases from the State Government’s banned contractor list.</p> <p>May indicate the employee who authorised the purchase has an interest in the supplier.</p>	<p>Neither of the entities awarded work to banned contractors during the audit period.</p> <p><i>We identified no conflict of interest matters from the sample tested.</i></p>

Source: OAG

Auditor General's 2021-22 reports

Number	Title	Date tabled
3	Staff Exit Controls	5 August 2021
2	SafeWA – Application Audit	2 August 2021
1	Opinion on Ministerial Notification – FPC Arbitration Outcome	29 July 2021

**Office of the Auditor General
Western Australia**

7th Floor Albert Facey House
469 Wellington Street, Perth

Perth BC, PO Box 8489
PERTH WA 6849

T: 08 6557 7500
E: info@audit.wa.gov.au
W: www.audit.wa.gov.au



@OAG_WA



Office of the Auditor General for
Western Australia