



Auditor-General of Victoria

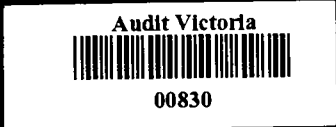
*Special Report No 5
comprising*

◆ Provision of Housing
to Government Employees

◆ Post-Project Appraisal
Procedures within the
Public Works Department

December 1986

VAGO
SPECIAL
REPORTS



VICTORIA

AUDIT VICTORIA
RESEARCH AND INFORMATION SERVICES

Report

of the

Auditor – General

SPECIAL REPORT No 5

comprising:

- Provision of Housing to Government Employees
- Post-Project Appraisal Procedures within the Public Works Department

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1 MACARTHUR STREET
MELBOURNE, VIC. 3002

The Honourable the Speaker,
Legislative Assembly,
Parliament House,
MELBOURNE. 3000.

November 1986

Sir,

Pursuant to the provisions of Section 48 of the Audit Act 1958, I hereby transmit a report concerning:

- (i) the provision of housing to government employees; and
- (ii) post-project appraisal procedures within the Public Works Department.

The primary purpose of conducting reviews of this nature is to provide an overview as to whether public funds in programs selected for examination are being spent in an economic and efficient manner consistent with government policies and objectives. Constructive suggestions are also provided in line with the ongoing process of modifying and improving financial management and accountability controls within the public sector.

I am pleased to advise that this report has already proven to be of benefit to the government departments and authorities involved, as evidenced by their positive replies detailing initiatives already undertaken or evolving.

The co-operation and assistance received by staff from the departments and authorities during the course of the review was appreciated. It is my view that there is a growing awareness by government agencies of the advantages to be gained from such studies, particularly the provision of independent advice on areas of concern.

Yours faithfully,

R.G. HUMPHRY
Auditor-General

**PREVIOUS SPECIAL REPORTS
OF THE
AUDITOR-GENERAL**

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1	. Works Contracts Overview - First Report	June 1982
2	. Works Contracts Overview	June 1983
3	. Government Stores Operations . Departmental Cash Management	October 1984
4	. Court Closures in Victoria	November 1986

SPECIAL REPORT NO. 5

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PART 1

**PROVISION OF HOUSING
TO GOVERNMENT EMPLOYEES**

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1. EXECUTIVE SUMMARY

Introduction

- 1.1 The provision of housing to government employees is widespread throughout the public sector. Housing is provided to various occupations which include teachers, water bailiffs, locomotive drivers, national park rangers and policemen located in country regions of the State.
- 1.2 An audit review group conducted a review during 1985/86 of the economy, efficiency and effectiveness of employee housing procedures utilised in the public sector. This area was selected for review due to the number of properties and magnitude of funds involved in the provision of public sector housing.
- 1.3 At 30 June 1986 the number of houses operated by public sector organisations which provide housing to their respective employees totalled 6 727 houses. Details of houses operated by individual organisations are listed in Schedule 1.

Objectives of the Review

- 1.4 The overall audit objective was to examine the extent to which the provision of housing was managed so as to ensure economic, efficient and effective use of resources.
- 1.5 Based on this objective, audit assessed the design and performance of management systems and controls involved in the acquisition, management, maintenance and disposal of houses.

Scope of the Review

- 1.6 A preliminary survey of organisations providing housing to government employees was conducted as the first step in the review. Based on the results of this survey and in order to obtain an adequate cross the board representation of public sector bodies, it was decided to review in detail the housing procedures operative in 4 of the largest housing operations. These were:

- Government Employee Housing Authority - Teacher Housing (GEHA)
- Rural Water Commission (RWC)
- Department of Conservation, Forests and Lands (CFL)
- State Transport Authority (STA)

- 1.7 In relation to the 4 organisations examined, the number and value of houses held by each ranged from approximately 451 (\$15.65 million) to 2 218 (\$62 million) at 30 June 1986.
- 1.8 At 30 June 1986 the number of houses operated by each organisation, expressed as a percentage of the total number of public sector houses, was as follows:

	<u>Percentage of Total Public Sector Housing</u>
Government Employee Housing Authority *	33
State Transport Authority	17
Rural Water Commission	10
Conservation Forests and Lands	7

* Refers to Teacher Housing Only

- 1.9 As the 4 organisations selected hold 67 per cent of public sector housing, the detailed comments in the report can be regarded as generally applicable to all housing operations in the Victorian public sector.

Conduct of the Review

- 1.10 A detailed plan was developed to gain an overview of the nature of each organisation's housing operation and the factors which influence the economy, efficiency and effectiveness of operation. Interviews were conducted with senior management responsible for housing operations as well as key personnel directly involved in functions relating to the acquisition, management, maintenance and disposal of houses.
- 1.11 Audit established a framework of desirable management procedures for housing operations to provide a comparative standard by which to evaluate the procedures in place at each organisation. Details of these procedures are listed in Schedule 2.
- 1.12 The review involved an analysis of management systems, an examination of available documentation and testing of controls and transactions to evaluate the adequacy of mechanisms set in place by management to monitor:
- (1) the economy of housing operations;
 - (2) the efficiency with which resources were used; and
 - (3) the effectiveness with which operational objectives were achieved.
- 1.13 Physical inspection of certain vacant houses was undertaken by audit to ascertain whether such houses were adequately secured and to investigate the possibility of occupancy by squatters. Audit also visited certain regional offices where the administration of housing operation was decentralized.
- 1.14 The study has been managed by an audit review group consisting of officers from my staff. An officer from the chartered accounting firm of Deloitte, Haskins and Sells was involved in the planning phase of the review.
- 1.15 I wish to record my appreciation for the full co-operation and assistance received by my staff from the organisations covered in the review.

Overall Audit Findings

- 1.16 Housing management procedures varied amongst public sector organisations. The extent of policy formulation and management systems was governed by the overall objectives and priorities of each organisation and was not centrally co-ordinated.

1.17 It is pleasing to note that certain organisations implemented positive measures designed to improve the efficiency and effectiveness of housing operations. For example, housing objectives, policies and procedures had been extensively documented by the RWC and STA and computerised system development had been undertaken by the GEHA, RWC and STA in an attempt to improve inventory records and housing management information systems. The STA also established performance indicators to evaluate the efficiency and effectiveness of its housing function.

1.18 However, the review identified many examples where housing management procedures could be improved. A summary of the broad issues drawn together under desirable management procedures are set out in paragraphs 1.25 to 1.36 and detailed comments follow in chapters 2 to 5.

1.19 Based on the findings of the review, audit concluded that the overall across the board issues requiring attention were:

- (1) the quantity of surplus houses throughout the public sector;
- (2) the need for public sector organisations to identify the extent of housing not required in order to facilitate the rationalisation of housing stock; and
- (3) the need for improvement in the standard of inventory records and management information systems.

1.20 In line with comments made in my First Report to Parliament concerning the need for improved financial management of the State, overcoming the abovementioned deficiencies will assist in:

- (1) decreasing the overall operating costs of public sector organisations;
- (2) providing further options to government in developing their budget strategy; and
- (3) improving asset management within the public sector.

Government Employee Housing Guidelines issued by the Department of Management and Budget

1.21 In September 1986 I received advice from the Director-General of the Department of Management and Budget of a number of positive measures designed to rationalise government employee housing stock.

1.22 One of the main initiatives introduced by the Department concerned the need for organisations to identify houses in the "required to occupy" category. This category was defined in terms of job requirement rather than as a means of attracting staff to the job. The categorisation of houses into the "required to occupy" definition was to be based on the following criteria:

- (1) housing was intrinsic to the operations or security of the Government facility;
- (2) geographical remoteness; or
- (3) high local market rents.

1.23 The guidelines issued by the Department included the requirement that:

- (1) no new residence, other than a "required to occupy" residence, was to be constructed or acquired without specific approval of the Treasurer;
- (2) all houses that could be sold, other than houses in the "required to occupy" category, were to be identified and sold; and
- (3) in cases where notice to vacate would create significant hardship on tenants, such situations should be treated strictly on a case by case basis with the discretion to continue tenancy.

1.24 I commend the initiatives taken by the Department of Management and Budget to rationalise employee housing. This policy will in time substantially reduce the level of surplus government housing within the State.

Summary of Audit Findings

Summary audit findings, drawn from detailed comments referred to in Chapters 2 to 5, are discussed under desirable management procedures.

1.25 *Objectives, policies and procedures should be formulated and documented into a Manual of Housing.*

The documentation of objectives, policies and procedures was considered to be deficient in 2 of the 4 organisations examined. Audit recommended that to enable housing practices to be consistently applied, an improvement in documentation was necessary.

1.26 *Housing should only be provided where a need arises based on rationale developed by the organisation.*

It was noted that in all organisations certain houses were rented to ineligible employees or long term private tenants. Audit recommended the number of houses required to effectively meet organisational objectives need to be clearly determined and measures be taken to dispose of surplus houses.

1.27 *An adequate inventory of housing should include:*

- . *all properties managed by the organisation;*
- . *the type, location and condition of each property;*
- . *occupant status;*
- . *rental details;*
- . *acquisition cost, market value and depreciation;*
- . *maintenance and modernisation expenditure - actual and estimates.*

Audit examination of inventory records revealed that there was scope for improvement in all organisations. In 2 organisations inventory records were out of date, one failed to establish a central consolidated inventory and the other maintained duplicate inventory records. Audit recommended appropriate measures be taken to establish and maintain adequate inventory records.

1.28 *Monitoring procedures should be in place to enable management to identify the extent of unoccupied houses and houses occupied by either ineligible employees or private tenants. The future use of each house should be reviewed by management when it becomes vacant.*

It was observed that monitoring procedures of tenancy details were inadequate in 3 of the 4 organisations resulting in the retention of surplus housing. Audit recommended the establishment of improved monitoring procedures to identify the extent of vacant houses and houses rented by ineligible employees and private tenants.

- 1.29 *Procedures employed in the rental of houses should include a requirement for private tenants to be charged market rent, rental rates to be regularly reviewed by management, formal agreements to be completed which specify terms of occupancy and management should ensure that agreements with private tenants are not renewed in instances where arrears of rent occur unless extenuating circumstances exist.*

Audit examination of rental procedures revealed a number of unsatisfactory features. For example, one organisation charged private tenants the same rental rate applicable to its employees rather than market rent. The same organisation renewed several private tenancy agreements despite the respective tenants possessing a history of rent arrears, and rights and obligations of the landlord and tenants were not properly established in accordance with the Residential Tenancies Act. Another organisation had not renewed the rental rate payable by its casual employees which was based on 1978 wage levels. Instances were noted in one organisation of certain houses being rented to private tenants for a considerable length of time and the rent had not been regularly reviewed. Audit recommended a range of management practices be employed to improve the economy of housing operations.

- 1.30 *Unoccupied houses should be locked.*

In one organisation audit observed that a number of vacant houses were not locked. Audit recommended the organisation concerned implement proper security measures to prevent the incidence of vandalism or occupation by unauthorised tenants.

- 1.31 *A control mechanism should be in place to enable the verification of rental income and identification of vacant houses.*

Control over the collection of rental income could be strengthened in 2 of the organisations examined by audit. Audit recommended that internal control mechanisms over the collection of rental income be strengthened.

- 1.32 *Housing loan interest rates should be regularly reviewed and be in line with current home mortgage rates.*

In one organisation which, as part of its housing sales policy, provided housing loans to its employees, spouses of deceased employees or retired employees, the commencing rate of interest of 7 per cent per annum had not been reviewed since March 1985. Audit recommended that interest rates be in line with current market rates.

- 1.33 *A cyclical maintenance program should be developed by management to provide a planned approach for the use of resources employed in the housing function.*

Audit noted that 2 organisations had yet to develop cyclical maintenance programs which would provide a more systematic process for maintaining housing stock.

- 1.34 *Procedures should be in place to ensure that a full list of disposal options is prepared and considered by management.*

Audit noted that the disposal method in one organisation did not include a requirement to notify other public sector organisations of its houses listed for disposal.

- 1.35 *The disposal of houses should be effected in a timely manner to avoid the uneconomic retention of houses surplus to the needs of the organisation or considered to be maintenance intensive.*

In one organisation delays of over 14 months occurred in the disposal program of 36 houses. Audit recommended that houses be disposed of in a timely manner to avoid the retention of surplus and unoccupied houses.

- 1.36 *Management should determine realistic bases for the measurement of performance of housing activities against objectives.*

Three organisations need to establish performance indicators to enable management to measure the effectiveness of housing operations.

- 1.37 Detailed audit observations and recommendations arising from the examination in the 4 organisations reviewed, together with management comments on the matters raised, follow in subsequent chapters.

2. GOVERNMENT EMPLOYEE HOUSING AUTHORITY (TEACHER HOUSING)

Overview

- 2.1 GEHA commenced operation on 24 March 1982 superseding the Teacher Housing Authority. GEHA's functions are to:
- (1) provide suitable houses for government employees in participating departments;
 - (2) establish and maintain a register of available houses for accommodation by government employees;
 - (3) give advice concerning the provision of housing accommodation for government employees; and
 - (4) keep under review and report on the practices associated with the provision of housing to government employees.
- 2.2 A participating department is a department of the public service or a public statutory authority which has been declared by the Governor in Council to be a participating department for the purposes of Part III of the GEHA Act 1981.
- 2.3 Part III of the GEHA Act 1981 authorises GEHA to perform a wide range of functions, associated with providing housing to government employees in participating departments, such as purchasing, building, maintaining, enlarging, managing and letting of houses.
- 2.4 At the date of audit the 3 participating departments were:
- (1) Ministry of Education (teaching service personnel);
 - (2) TAFE; and
 - (3) Law Department.
- 2.5 At 30 June 1985, out of the stock of government houses totalling 6724 houses, GEHA houses comprised:
- | | |
|---------------------------|-------------|
| (1) Ministry of Education | 2145 houses |
| (2) TAFE | 24 houses |
| (3) Law Department | 49 houses |
- 2.6 The total value of GEHA land and buildings at 30 June 1985 amounted to \$60 835 658. Maintenance expenditure for the year then ended totalled \$2 061 180.
- 2.7 Due to the extent of housing provided to teachers, audit examination focused on the evaluation of management procedures involved in the provision of housing to teachers.
- 2.8 The following 4 elements are involved in the process of providing housing to teachers:
- (1) An Advisory Committee, established by the Chief Administrator of the Ministry of Education, develops and administers policy on tenancy allocation and makes recommendations to GEHA concerning the need for new and replacement houses to be provided by GEHA.

- (2) The Ministry of Education's Teacher Housing Officer allocates houses on the basis of the needs criteria established by the Advisory Committee.
- (3) GEHA performs a variety of functions associated with providing suitable houses.
- (4) The Ministry of Housing construct and maintain houses on behalf of GEHA.

Audit Observations and Recommendations

Documentation of Policies and Procedures

Background Information

- 2.9 A General Policies Manual, prepared by the former Teacher Housing Authority prior to 1982, covers the following items: Accounts/Finance, Fencing, Maintenance, Modernisation, Rates, Rents, Sale of Property, Standards (including new construction, priorities for new housing, purchase of housing), Tenancies (including Teacher and Sundry 'Outsiders' Tenants) and Tenants' Responsibilities.

Audit Observations

- 2.10 Although a manual had been prepared by the former Teacher Housing Authority prior to 1982, a formal policy and procedures manual for GEHA had not been developed. Policies relating to the disposal and allocation of houses to teachers had been documented in various forms. Audit sighted policy decisions in the minutes of GEHA meetings relating to modernisation and maintenance of houses. However, there was a lack of policy documentation concerning the purchase and construction of houses, insurance on houses, rent of premises to private tenants and criteria for selecting private tenants.
- 2.11 In addition, procedures had not been documented in relation to:
- (1) the purchase and construction of houses;
 - (2) input of information into the computerised inventory system and the production of computerised reports;
 - (3) houses rented to private tenants and follow up procedures of rent arrears; and
 - (4) maintenance and modernisation of houses.
- 2.12 The absence of adequate documentation of policies and procedures could result in the incorrect application of policy. For example, the occurrence of private tenants not being charged market rent (refer para. 2.53) may have been prevented if the policy in this area had been documented and issued to all staff. In addition, considerable time and effort could be wasted by officers becoming familiar with the use of the computerised management information system if procedures are not sufficiently documented.
- 2.13 Audit was advised that the Authority had addressed the matter and all policies and procedures would be documented.

Authority Reply

- 2.14 *Limited staff resources have been instrumental in the suspension of policy and procedure development. The revised organisational structure and the subsequent recruitment of appropriate staff should begin to rectify this situation within the coming months.*

Establishment of Housing Needs

Background Information

- 2.15 GEHA identified in its 1984/85 Annual Report that one of its goals was to:

"rationalise housing stock so that housing provision policy is based on real need and is consistent across Administrative Units".

- 2.16 Pursuant to Section 12(6) of the Government Employee Housing Authority Act 1981 an Advisory Committee for teacher housing has been established to develop and administer policy regarding tenancy allocation and provide advice concerning requirements for additional and replacement accommodation.

- 2.17 The Advisory Committee consists of the following members:

- (1) Ministry of Education's Principal Industrial Relations Officer (Chairman);
- (2) one member from each of the 3 teacher unions;
- (3) a GEHA representative;
- (4) a representative from the Victorian Institute of School Councils; and
- (5) a general regional director from the Ministry.

- 2.18 The Advisory Committee's policy on needs criteria provides that the Teacher Housing Officer is to allocate houses on the basis of the greatest need and take into account the following criteria:

- (1) the applicant with the greatest number of dependents;
- (2) the welfare needs of the applicant's family;
- (3) the applicant who is not already resident in the area of reasonable accessibility to the school;
- (4) the applicant whose total family income is the lowest; and
- (5) other discriminatory information available at the time.

- 2.19 The following 2 sections of the GEHA Act prescribe the legislative basis upon which houses are to be provided:

- (1) Section 13(5) of the Act prescribes that:

"the Authority shall not let a home to a government employee in a participating department unless it is satisfied that the person is or will be unable to obtain privately housing accommodation, that is:

- (a) of a reasonable standard;
 - (b) in a reasonable location; and
 - (c) available at a reasonable rent.
- (2) Section 13(6) of the Act enables the Authority to provide a house to a government employee (notwithstanding that the employee would be able to privately obtain housing accommodation of a reasonable standard, in a reasonable location and at a reasonable rent) where the Chief Administrator of the participating department certifies that due to the special nature of an office it is necessary for the government employee to reside in a particular GEHA house.

Audit Observations

Purchase or Construction of Houses

2.20 Management procedures for establishing the need for the purchase or construction of additional houses were considered by audit to be satisfactory.

2.21 However, it appeared that in some cases the need to replace an existing GEHA house, by either purchase or construction, was not determined in accordance with the legislative requirements. There was no evidence to indicate that replacement houses were acquired according to the inability of the respective teachers to privately acquire housing accommodation of a reasonable standard, in a reasonable location and at a reasonable rent. It seemed that if a house to be replaced was occupied by a teacher, then a replacement house was provided without establishing that the occupant would be unable to privately obtain reasonable accommodation. For example, the report from the Ministry of Education's Teacher Housing Officer issued to the Advisory Committee meeting of 15 October 1985 included the following information concerning a proposal to provide 4 replacement houses at Numurkah:

"The GEHA advises of its intention to dispose of 4 houses listed above in Numurkah and seek advice on the need for replacements. There are thirteen houses available to teachers in Numurkah and all are occupied. There is one outstanding application on the books. Enrolment projections are declining slightly over the next few years. I recommend that replacements be provided for the Numurkah houses."

2.22 This recommendation was agreed to by the Advisory Committee, confirmed by the Director-General of Education and the Secretary of GEHA was duly advised.

Allocation of Houses

2.23 The Teacher Housing Officer allocates houses on the basis of the greatest need according to the needs criteria established by the Advisory Committee.

2.24 It appeared that in the allocation process, the available stock of unoccupied houses was allocated to teachers on the basis of criteria such as the applicant with the greatest number of dependants who reside with him/her, the welfare needs of the applicant's family and the applicant whose total family income is the lowest. Teachers did

not have to establish that they were unable to privately obtain housing accommodation of a reasonable standard, in a reasonable location and at a reasonable rent. As a consequence housing stock was not being rationalised.

Audit Recommendation

- 2.25 To ensure that houses are only provided in situations where a real need has been established pursuant to the enabling legislation, houses should only be provided to teachers who demonstrate that they are unable to privately obtain housing accommodation of a reasonable standard, in a reasonable location and at a reasonable cost.

Ministry Reply

- 2.26 *Emphasis will be placed on the availability of alternative accommodation rather than the demand for teacher accommodation. This will bring operations in line with Section 13(5) as prescribed under the Government Employee Housing Authority Act.*

Priorities for Housing in Country Towns

Background Information

- 2.27 Priorities for housing are assigned to country towns by a sub-committee of the Advisory Committee. The classification of priorities for teacher accommodation consist of the following categories:

- (1) Category A - immediate provision
- (2) Category B - urgent classification
- (3) Category C - to be dealt with in normal sequence
- (4) Category D - to be reviewed by the Committee.

- 2.28 A review of category rating for each priority is carried out yearly by the Committee. The priority listing, forwarded by the Committee to the Director-General of Education for confirmation, is then submitted to GEHA which arrange for the provision of suitable houses.

Audit Observation

- 2.29 An examination of the list of priorities as at July 1985 indicated the following locations with priorities dated prior to 1980:

Cobden	6/12/76	Category B - urgent classification
Kyneton	23/5/77	"
Leongatha	23/5/77	"
Colac	25/2/74	Category C - to be dealt with in normal sequence
Meerlieu	4/10/76	"
Wodonga West	19/9/79	"

- 2.30 As a need for a house to be acquired may be identified on a priority listing for a considerable length of time, audit questions the basis upon which a need for a house can remain in a location since 1974, given that the school would have been staffed and operated without a house being provided.

- 2.31 As a result, requests for housing may be listed as a priority although a real need may not exist.

Audit Recommendation

- 2.32 To improve the effectiveness of the acquisition process, long outstanding priorities should be reassessed each year to determine whether a real need still remains.

Ministry Reply

- 2.33 *All priorities for new and replacement accommodation will now be reviewed in detail annually having regard to the availability of alternative accommodation rather than teacher demand for housing.*

Government Housing Accommodation Register

Background Information

- 2.34 Section 14 of the GEHA Act 1981 requires that the Authority maintain and keep up to date a Government Housing Accommodation Register. Departments and public statutory authorities shall provide the Authority with house particulars concerning location, age, size, material of construction and occupancy of the house and such other particulars as are prescribed which are to be entered in the Register. Section 15 enables the Register to be searched to identify stock which may be available to officers in departments or public statutory authorities for accommodation.
- 2.35 In the Authority's 1984/85 Annual Report the following comments are made:

"The Register contains all relevant particulars of this stock, and it is possible for the chief administrator of any administrative unit to have the Register searched to identify stock which may be available for officers who require accommodation. A number of organisations have availed of this and successfully searched the Register for employee accommodation".

Audit Observations

- 2.36 An audit examination of the Register kept by GEHA and related reports produced by the computerised inventory system indicated the following deficiencies:
- (1) The Register had not been kept up to date.
 - (i) Although all administrative units and statutory authorities are required to complete and submit to GEHA a form titled "Notification of Property Details" in order for information recorded in the GEHA Register to be kept up to date, it appeared that this procedure was not being followed by all organisations. For example, a comparison of the houses acquired by the State Transport Authority during 1984/85 to the details recorded in the GEHA Register revealed that 6 of the 10 houses acquired were not recorded in the Register.
 - (ii) The Ministry of Education's Teacher Housing Officer is required to complete and submit to GEHA a copy of a form titled "GEHA Rent Adjustment Notice" which records details of occupancy, termination of tenancy and rental to be paid per fortnight. Audit was advised that from March 1985, no rent adjustment notices were input into GEHA data base

because the data initially input into the computerised inventory system was not accurate and it was not possible to verify that all notices were forwarded from the Teacher Housing Unit of the Ministry of Education. Apparently the Register was to be updated in early 1986 upon receipt of a complete list of occupancy details from the Ministry of Education, after all transfers of teachers have taken place and houses allocated by the Teacher Housing Unit.

- (2) The "Notification of Property Details" forms were not pre-numbered.
- (3) The GEHA Rental Advice Notices were not pre-numbered and were not signed.

2.37 The consequence of inaccurate and incomplete information being recorded in the Register was to limit the effectiveness by which the Register could be searched to identify stock available to officers who require accommodation.

Audit Recommendations

2.38 A more effective operation would be achieved by:

- (1) all government agencies advising GEHA of property transactions and tenancy details;
- (2) all Rent Adjustment Notices being correctly processed by GEHA into the Register; and
- (3) control being strengthened over all input documents.

Authority Reply

2.39 *The database on the computer system, while quite sophisticated, has not been maintained in a current manner, in many cases because data on the Register, as supplied by Departments, was inadequate. This situation is expected to be rectified once the introduction of market rents and installation of the new computer system (presently with the Tender Board) takes place.*

2.40 *The database is currently being checked for accuracy against departmental data and updated as necessary.*

Current Situation

2.41 The Register was not updated in early 1986 to reflect current occupancy details.

Unoccupied Houses

Background Information

2.42 Prior to July 1985 the Ministry of Education's Teacher Housing Unit provided GEHA with a computerised listing of unoccupied residences on a fortnightly basis. An officer of the Teacher Housing Unit recorded on this list the period that each house had been unoccupied, whether it was to be disposed of or whether it was rented to an outsider. In addition, a manual card system was maintained by the Teacher Housing Unit to record tenancy details.

2.43 Audit was advised that the abovementioned fortnightly procedure ceased in July 1985 due to the time involved in preparing this information and because GEHA was advised of vacancies on an individual basis via "Rent Adjustment Notices" issued by the Teacher Housing Unit. Apparently, the listing of unoccupied houses would be provided to GEHA when requested. A listing, supplied to GEHA in early 1986, identified houses which remained unoccupied after the January allocation of houses to teachers.

Audit Observations

2.44 Audit observed that:

- (1) In January 1986 the most recent computerised listing of unoccupied houses, supplied to GEHA, was dated 20 June 1985.
- (2) Vacancy details, recorded in a GEHA computerised listing of vacant residences produced for audit at 16 December 1985, were substantially different to information recorded on the manual card system kept at the Teacher Housing Unit.
- (3) The computerised report produced by the Ministry of Education was not completely accurate as 10 houses disposed of and 6 houses rented privately by GEHA, were listed on the computerised report of unoccupied residences.
- (4) GEHA had not monitored on a regular basis the extent of unoccupied houses. A review of the Ministry of Education's computerised Unoccupied Residence Register as at 8 January 1986 and associated records held at the Teacher Housing Unit revealed that 51 houses had been unoccupied for more than 6 months. 5 properties appeared to be vacant for more than 6 years.

2.45 The consequences of unoccupied houses were both the under utilisation of resources and the potential vandalism to such properties.

Audit Recommendations

2.46 It is essential that GEHA maintain a system to indicate which houses are vacant at any point of time, in order to be in a position to advise other government agencies of available houses for accommodation. Measures should be taken by GEHA to ensure that all advices from the Teacher Housing Unit, relating to tenancy details, are promptly processed so that accurate vacancy reports may be regularly produced and monitored by management.

2.47 Houses which remain unoccupied for a considerable length of time, for example 6 months, should be investigated by management with a view to disposal.

Authority Reply

2.48 *The Authority is dependent upon departmental notification of vacant properties. There are two elements to this issue:*

- (1) *disagreement between the Departments and GEHA concerning valuations lead to considerable delays in disposal of nominated stock. That matter is now resolved.*
- (2) *Departments will be billed for vacant properties from 6 July, 1986, and it will be in their interests to notify GEHA promptly. Once notified, GEHA will take steps to locate other tenants or dispose of the property.*

2.49 *The implementation of GEHA's new organisational structure, updated database and new computer system will enable appropriate new procedures to be developed.*

2.50 Current Situation

Government policy currently precludes Departments from being billed for vacant properties. Listings of unoccupied houses are forwarded from the Ministry of Education to GEHA on a frequent basis in order for such houses to be considered for disposal.

Rental of Houses to Private Tenants (Refer to para. 2.51-2.67)

Background Information

2.51 Section 13(3) of the Act empowers GEHA to let houses at such rent and conditions as it thinks fit if it is satisfied that any house is not immediately required for the purposes of the Act.

Loss of Revenue - Private Tenant Rentals

Audit Observations

2.52 An examination by audit of the Authority's debtors ledger on 12 January 1986 indicated that 146 houses were rented to private tenants. Apparently, the number of houses available for private rental in prior years fluctuated between 40 to 60. The dramatic increase in houses currently available for private rental was attributed to the delay in disposing of maintenance intensive houses and houses surplus to the needs of the Authority. (Refer to para. 2.77, 2.78, 2.79 and 2.80 for detailed comments.)

2.53 Audit examination disclosed that private tenants had been charged the same rent as teachers, which was based on a percentage of cost recovery. Rental income from private tenants for the period 1 January 1985 to 31 December 1985 amounted to approximately \$152 120. Assuming that the same number of houses could have been rented privately if market rent had been charged, audit estimated that, based on market rentals at 30 June 1985 obtained from the Valuer-General in December 1985, an additional \$72 000 could have been received in rental income.

Audit Recommendation

2.54 Private tenants should be charged market rent.

Residential Tenancy Agreements

Audit Observation

2.55 Five examples were noted where there was no evidence on house files to indicate whether GEHA had re-negotiated tenancy agreements with private tenants for continued occupancy.

2.56 Problems may be encountered in enforcing tenancy arrangements if residential tenancy agreements have not been entered into between GEHA and its private tenants.

Audit Recommendation

- 2.57 Private tenancy arrangements should be formalised.

Renewal of Tenancy Agreements

Audit Observation

- 2.58 GEHA notified private tenants in December 1985, prior to expiry of tenancy agreements in January 1986, that if houses currently occupied were not required for teacher accommodation, then GEHA would be willing to negotiate for an extension of their respective tenancy agreements.
- 2.59 This offer was made to all private tenants even though some were in arrears.
- 2.60 Four tenants with a history of rent arrears had their tenancy agreements renewed by GEHA.

Audit Recommendations

- 2.61 Provided extenuating circumstances are not present, tenancy agreements should not be renewed in situations where a history of rent arrears occur.

Statement of Rights and Duties

Audit Observation

- 2.62 Pursuant to Section 87(1) of the Residential Tenancies Act 1980 a landlord under a tenancy agreement shall give to the tenant, not later than the day on which it is agreed that the tenant is to enter into occupation of the rented premises, advice as to the rights and obligations of landlords and tenants under tenancy agreements.
- 2.63 A pamphlet recently issued by the Ministry of Consumer Affairs sets out the details of such a statement.
- 2.64 GEHA did not advise private tenants of the rights and obligations of landlords and tenants as prescribed by the Act.

Audit Recommendation

- 2.65 To effectively establish the rights and obligations of the landlord and private tenants, GEHA should comply with the requirements of the Act in future.

Authority Reply

- 2.66 *The implementation of the Cabinet decision of 28th April, 1986, requiring all Departments to remit, either to GEHA or to DMB, rental payments based on market rental figures, will ensure that subsidised rentals to private tenants no longer occurs.*
- 2.67 *A review of procedures relating to tenancy agreements with private tenants will be implemented.*

Maintenance of Houses

Background Information

- 2.68 Maintenance of GEHA houses is arranged by the Ministry of Housing. The Ministry of Housing operates 26 regional offices located in country centres. Each centre is regarded as a maintenance area. The maintenance budget for 1985-86 of \$1 670 000 is allocated amongst the 26 maintenance areas on the basis of the number of houses in each area, maintenance requests from each area and maintenance expenditure for 1984-85. Various personnel expenditure delegations have been set by GEHA.

Audit Observation

- 2.69 Maintenance was performed on a needs basis and a cyclical maintenance program had not been developed for each maintenance area.

Audit Recommendation

- 2.70 The development of a cyclical maintenance program would provide a more systematic process for maintaining GEHA houses.

Authority Reply

- 2.71 *The present dependence on the Ministry of Housing for this function has caused difficulties for the Authority. It is intended that GEHA develop its own maintenance section. A review is to be undertaken of this function in July 1986. It is recognised that maintenance allocation to regions has been somewhat arbitrary in the past, and that programs based on cyclical needs are required. A Life Cycle Costing model is being investigated by the Authority to improve housing stock control.*

Current Situation

- 2.72 A detailed draft report on a proposed GEHA maintenance network was finalised in October 1986 and recommends that GEHA establish Regional Maintenance Offices, responsible for the maintenance of all rental housing stock within pre-defined regions.

Disposal of Houses

Background Information

- 2.73 The alternative methods of disposal followed by GEHA are to:
- (1) offer the house to the client department;
 - (2) offer the house to the tenant;
 - (3) offer the house to the Ministry of Housing;
 - (4) offer the house to the Ministry of Education for sale by the Department of Conservation, Forests and Lands;
 - (5) sell by public auction,
 - (6) sell by private treaty;
 - (7) remove or demolish.

Audit Observation

- 2.74 GEHA's disposal policy did not provide for advising other public sector organisations of GEHA houses listed for disposal.
- 2.75 As a result, the situation could arise where GEHA disposes of a house required by another public sector organisation.

Audit Recommendation

- 2.76 The provision of housing to government employees could be improved if all public sector organisations were advised of GEHA houses listed for disposal.

Delays in Disposal of Houses

Background Information

- 2.77 GEHA disclosed in its 1984/85 Annual Report that:

"at 30 June 1985 173 units were listed for disposal. More than half of these have been listed for over two years. The disposal list represents 7.8% of GEHA's housing stock with an estimated market value of \$4 670 000".

- 2.78 The following comments were made in the report to explain the delays:

"Considerable difficulty is faced by the Authority in endeavouring to dispose of many of these properties where the housing is located on Crown or Education Department land to which GEHA does not hold title. Legal advice has been received which indicates that the Authority is entitled to freehold title to many of these properties. However, extensive delays are being encountered in the processing of these matters which hamper the rationalisation program".

Audit Observations

- 2.79 As at January 1986 audit observed 36 examples of houses retained by GEHA which had been earmarked for disposal prior to November 1984. Ten houses had been listed for disposal since November 1982.
- 2.80 Whilst awaiting disposal to be effected, GEHA temporarily rented some of these houses to private tenants. However, according to the Ministry of Education's Unoccupied Residence Register at 8 January 1986 and associated records, certain houses to be disposed of had been vacant for a considerable period of time. One house, earmarked for disposal in June 1982, had been vacant since May 1979.
- 2.81 As a consequence, the rationalisation of GEHA's housing stock was delayed and certain houses had not been fully utilised.

Audit Recommendation

- 2.82 Houses should be disposed of in a timely manner.

Authority Reply

- 2.83 *The timeliness of disposals is frequently dependent, for titles purposes, upon the Department of Conservation, Forests and Lands. At present delays are being experienced in providing clear titles. However further action is being taken to improve this situation.*

Current Situation

- 2.84 Audit was informed that approximately 1 000 houses are in the "not required to occupy" category and it is anticipated that, in the majority of these cases, disposal will be effected in the next 18 months.

Performance Indicators

Audit Observation

- 2.85 GEHA had not established performance indicators. Audit was advised, however, that this matter had been considered by the Authority and was currently under review.

Authority Reply

- 2.86 *This matter is under review.*

Statement of Account - Ministry of Housing

Background Information

- 2.87 The Ministry of Housing pay accounts on behalf of GEHA. A Statement of Account is forwarded by the Ministry of Housing to GEHA normally on a monthly basis, for reimbursement of costs incurred on behalf of the GEHA. The statement lists items which include costs relating to maintenance, modernisation and capital works in progress (building contracts).

Audit Observation

- 2.88 Amounts claimed by the Ministry of Housing were not supported by schedules, identifying sufficient information to enable GEHA to verify the accuracy of amounts claimed for reimbursement. Amounts claimed by the Ministry from 1 July 1985 to 30 November 1985 amounted to \$1 268 814.
- 2.89 Insufficient itemisation of an account could result in an overpayment to the Ministry.

Audit Recommendation

- 2.90 To improve control procedures over the payment of accounts, Statements of Accounts should be itemised and verified by GEHA prior to payment.

Authority Reply

- 2.91 *The Authority has been transferred from the Ministry of Housing to the Department of Property and Services but remains dependent upon the Ministry for its accounting, maintenance and modernisation functions. This lack of direct control has caused many operational problems which will be resolved by 1 July 1987 when the Authority takes over direct responsibility for all its functions, particularly those related to maintenance of housing stock.*
- 2.92 *Limited staff resources and some inter-departmental procedures have hindered the development of efficient accounting mechanisms. The increased resourcing of the accounting function will facilitate this matter. For example, it is intended that verification of accounts prior to payment will occur under the directly controlled operation.*

Other General Comments contained in the Authority Reply

2.93 *The Authority has had limited staff resources to perform the varied duties required in setting up systems and procedures. With the introduction of a new organisation structure and increased staff resources (presently in hand) this situation should be rectified.*

3. RURAL WATER COMMISSION

Overview

- 3.1 The Rural Water Commission provides employee housing to enable the efficient and effective staffing of country centres and place staff in the most appropriate locations.
- 3.2 At the date of audit the Commission operated approximately 660 houses (including 39 construction houses), 31 River Murray Commission houses and a small number of caravans and bungalows throughout 20 country districts.
- 3.3 Following an internal review by the Commission into the objectives, policies, procedures and standards for the provision of employee housing, detailed guidelines for housing management were incorporated into a Manual of Housing which was issued to all managers in February 1985.

Audit Observations and Recommendations

Inventory of Housing

Background Information

- 3.4 The Water (Central Management Restructuring) Act 1984 requires that the Board of the Commission shall ensure that adequate control is maintained over assets of, or in the custody of, the Rural Water Commission. The Commission's "Manual of Housing" requires that the Corporate Services Section of the Commission be responsible for maintaining an up-to-date housing inventory.
- 3.5 There are six separate inventory listings either compiled, or in the process of being compiled, to record various housing details in addition to separate records maintained by each district centre. Details of the listings follow:
- (1) Detailed inventory of housing prepared as at 1 January 1982 which includes all residential housing with the exception of construction houses and houses maintained on behalf of the River Murray Commission. The inventory is divided into 2 parts - residence description and financial data/residency.
 - (2) Inventory listing prepared for the Government Employee Housing Authority (GEHA) in August 1985.
 - (3) Construction Services section of the Commission maintain a copy of the listing at 1 January 1982 which it manually updates when a house is purchased, built or disposed of.
 - (4) Property and Legal Services section of the Commission maintain an extensive card system to record legal dealings associated with all property holdings of the Commission.
 - (5) Asset registers are in the process of being compiled by the Accounting Services section of the Commission.
 - (6) Listing of bungalows held by the Secretariat section of the Commission.

Audit Observations

3.6 The detailed inventory of housing compiled at 1 January 1982 was not maintained on an up-to-date basis; the accuracy of various other inventory listings was questionable; inventories were incomplete; and a consolidated inventory was not kept by the Commission.

3.7 Detailed audit comments follow:

- (1) Although a detailed inventory of housing was prepared as at 1 January 1982, the Commission had not maintained this inventory on a continuous basis. In response to a request of 20 June 1985 from the Chairman of GEHA for certain information regarding the Commission's housing stock, the inventory listing as at 1 January 1982 was used as a base in order for the Commission to compile a current list of houses. In supplying the information to GEHA on 13 August 1985, the Secretary of the Commission informed the Chairman of GEHA that "due to the magnitude of the task the deadline of 5 July 1985 could not be met".

The consequences of not maintaining the detailed inventory of housing on an up-to-date basis were that the effective monitoring by management of the Commission's housing activities and the capacity of management to provide current housing information on a timely basis were restricted. For example, the maintenance of an up-to-date inventory of housing would have enabled the Commission to provide the required information to GEHA within the prescribed deadline.

- (2) Audit was advised that the inventory listing supplied to GEHA was compiled in a short period of time and that in some instances, from verbal information supplied by various district centres. As this information was not supported by written confirmation, the accuracy of the listing is questionable.

In accordance with the requirements specified by GEHA, the listing recorded the location of each house, its occupant, classification of occupant and whether or not the occupant was required to occupy the house as a condition of employment. However, the listing should not be regarded by the Commission as a complete inventory of houses because it lacked a number of important features such as condition, historical cost and operating and capital costs for each house.

There was no official line of communication for information to be supplied to Construction Services in order for its inventory listing to be updated. As a result there must be some doubt as to the accuracy of this inventory listing.

As a consequence, incorrect information disclosed in inventory listings may have resulted in incorrect decisions being made by users of this information.

- (3) It was also brought to the notice of audit that the inventory of housing as at 1 January 1982 and the list supplied to GEHA did not include all housing property owned or managed by the Commission. Properties not recorded on the inventory included:
 - (a) construction houses and mobile homes located at construction projects;
 - (b) caravans;

(c) bungalows; and

(d) properties managed by the Commission on behalf of the River Murray Commission.

The non recording of all housing properties in the inventory of housing may have resulted in a lack of physical control over these assets.

(4) It was observed that a consolidated inventory of housing had not been established by the Commission.

The maintenance of a number of inventory listings, rather than one consolidated inventory of housing, resulted in an inefficient use of resources and a duplication of records.

Audit Recommendations

- 3.8
- (1) Although it is recognised that the Commission's activities are decentralised into various district centres and each centre is responsible for the administration of its housing through a District Housing Committee, it is nevertheless essential that a consolidated inventory of housing be compiled and regularly maintained in order for the Commission to effectively manage its resources associated with the provision of housing.
 - (2) It is also desirable that housing reports be prepared by Head Office on a district basis so that each Officer in Charge and each District Housing Committee will have sufficient information to effectively administer their respective housing resources.

Commission Reply

3.9 *The Commission reply included the following comments:*

- (1) *Specific criticism has been made of a Commission Housing Inventory and it is important that certain misconceptions be clarified.*
- (2) *It is stated that a consolidated inventory of housing had not been established and that instead, a number of separate inventory listings result in inefficient use of resources and duplication of records. This in fact is not the case as the Commission considers the January 1982 Inventory as its consolidated listing, although it is acknowledged that it has not been effectively updated. The other "listings" detailed by audit are not considered as inventory listings. These documents are produced for specific purposes irrespective of the consolidated inventory.*
- (3) *With regard to the current development of an asset register for all Commission assets, some housing details will of course be included in such a register and some duplication with the housing inventory is inevitable.*
- (4) *While there may be a case of bungalows to be included in the inventory, a separate listing is maintained to monitor the demand for, and potential mobility of bungalows, so they can be re-located when available. It is considered that a separate listing for this specific purpose is valid.*

- (5) *It should be clarified that construction houses, mobile homes and caravans located at construction projects are considered as part of those projects and may be disposed of or transferred to other sites on completion of projects. It is inappropriate for these properties to be included in the Inventory.*
- (6) *With regard to River Murray Commission houses, these are not Commission assets and maintenance is carried out only at the request of the River Murry Commission. Accordingly, it is inappropriate for these houses to be included in the Inventory.*

Current Situation

- 3.10 The consolidated inventory of housing was updated in May 1986.

Schedule of Official Residences either Vacant or Occupied by Ineligible Tenants or Occupied Privately

Background Information

- 3.11 According to the "Manual of Housing", the Schedule of Official Residences is to be submitted quarterly by District Engineers by 15 January, April, July and October each year. Nil returns are to be submitted if no houses are vacant. This schedule includes information concerning the date when the residence was vacated, expected date of reoccupation by an eligible tenant and whether there is a continuing need to retain the house for occupation by eligible personnel. The Commission's Corporate Services section is responsible for advising GEHA of vacant Commission residences available for tenanting by government employees.
- 3.12 Schedules when received are filed in Central Registry.
- 3.13 Commission policy prescribes a number of job classifications within the professional, administrative, technical and field staff categories in which the officer concerned is eligible for Commission residential housing. In addition, exempt employees performing duties in lieu of staff for extended periods and construction personnel are also eligible for housing.

Audit Observations

- 3.14 Audit observed that:
- (1) approximately 75 per cent of the required number of schedules had not been submitted by District Engineers;
 - (2) no control procedure had been developed at Head Office to verify that all returns had been forwarded regularly;
 - (3) the schedules were not filed in any logical order;
 - (4) there was no evidence to indicate that the schedules had been reviewed;
 - (5) it was not possible to determine whether information had been supplied to GEHA; and

(6) a large number of District Engineers were completing the former form which is now superseded titled "Return of Official Residences either Vacant or Rented Privately which did not disclose ineligible tenants.

3.15 The impact of the prescribed schedule not being submitted to the Commission was to limit the review by management of the extent of Commission residences either vacant or occupied by ineligible Commission employees or private tenants. Refer to Paragraphs 3.18 and 3.23 for detailed comments.

Audit Recommendations

3.16 It is essential that the occupancy of Commission residences be effectively monitored. Management should ensure that:

- (1) the prescribed schedule is regularly completed by District Engineers;
- (2) proper control procedures are established over these schedules; and
- (3) schedules are regularly reviewed by management.

3.17 The Commission should also record all instances of GEHA being advised of vacant houses in order to provide evidence of compliance with its documented policy in this area.

Vacant Houses

Audit Observations

3.18 Of the 604 houses listed on the inventory supplied to GEHA in August 1985, 35 houses were recorded as being vacant. 5 houses had been unoccupied since December 1984. A review by audit of the respective house files and the file containing Schedules of Vacant Official Residences indicated that, in most cases, it was not possible for audit to determine the reasons for the houses in question to be unoccupied and the future requirement for retaining these premises.

3.19 Vacant houses result in the under utilisation of resources under the Commission's control and the potential vandalism to such properties.

Audit Recommendation

3.20 Management should ascertain the reasons for houses being unoccupied and whether there is a continuing need to retain such houses for occupancy in time by eligible personnel. If a need does not exist, then measures should be taken to dispose of the vacant properties either by sale to the public or to another government organisation.

Houses occupied by Ineligible Commission Employees or Private Tenants

Background information

3.21 The Commission's housing objectives are:

- (1) to enable the efficient, effective staffing of country centres by ensuring that such staffing arrangements are not inhibited by the requirement of staff to provide their own private accommodation; and

(2) to place staff in the most appropriate location having regard to the operating requirements of the position they occupy.

3.22 In response to a letter of 20 June 1985 from the Chairman of GEHA requesting information regarding the Commission's housing stock, the Secretary of the Commission informed the Chairman on 13 August 1985 that:

"Although some residences are shown as not required to be occupied at present, most of these would normally be occupied by 'required to occupy' tenants should all vacancies be filled. It is Commission policy to have residences occupied rather than be left vacant and when it becomes evident that a position will not be filled for a longer than average time, arrangements are made for that residence to be occupied for a short term, either by an ineligible tenant or by a private individual."

Audit Observations

- 3.23 Audit noted 8 instances where ineligible Commission employees or private tenants appeared to reside in Commission houses for more than a year. There was only minimal information on files kept at the Commission to explain the future requirement for retaining these houses.
- 3.24 Rental income was foregone as a result of ineligible employees being charged the same reduced rental as eligible employees.

Audit Recommendation

- 3.25 To improve the economy and effectiveness of housing activities, procedures should be in place to enable management to review the need to retain houses which are occupied for long periods by either ineligible Commission employees or private tenants.

Commission Reply

- 3.26 *The Commission generally agrees with Audit recommendation in respect of conducting reviews when houses became vacant, the monitoring of occupancy of residences, eligibility and disposal of unwanted houses through appropriate management procedures. It is pointed out that such procedures are specifically detailed in the Commission's Housing Manual, although it is acknowledged that compliance by all Branches of the Commission has not occurred and the degree of monitoring has been less than desirable.*

Current Situation

- 3.27 Regions have been requested to identify houses in the "required to occupy" category so that measures can be taken to sell the remaining surplus houses.

Rental Computations for Casual Employees

Background Information

- 3.28 Rental for casual employees is determined by the Commission. Casual employees pay a standard rate of \$16.90 per week for a standard 3 bedroom house or a percentage of standard for other types of accommodation such as:

(1)	a 4-bedroom house	110% of standard
(2)	an Eildon flat (any type)	80% of standard
(3)	a family caravan	50% of standard
(4)	a mobile home (1965 model)	75% of standard
(5)	a mobile home (1975 model)	90% of standard

3.29 Tenants pay all charges in relation to electricity, gas and excess water. The Commission pays municipal and water rates.

Audit Observation

3.30 Audit was advised that the rental rate of \$16.90 per week was based on 1978 wage levels and had not been updated since that time. At the date of audit approximately 48 houses were rented to casual employees.

3.31 As a result rental income, generated from houses occupied by casual employees, had not been maximised.

Audit Recommendation

3.32 The Commission should undertake annual reviews of rental payable by casual employees to reflect the ongoing increases in salaries and costs.

Current Situation

3.33 Audit was informed that, in view of the current government policy concerning the eventual sale of houses in the "not required to occupy" category, the Commission does not see a need to review the rental payable by its casual employees.

Collection of Rent

Background Information

3.34 Revenue from house rentals amounted to \$830 400 in 1985/86. Audit was informed that rental deductions from permanent employees are performed at Head Office and rental deductions from temporary officers are undertaken by the various district centres. Private tenants pay their rent to the district centres and the respective centres forward the proceeds for rent to Head Office.

Audit Observations

3.35 (1) The Revenue Section at Head Office accepted rental collections in respect of rented houses without reconciling to control totals.

3.36 (2) A nominal rental base to identify the total potential income receivable if all houses had been rented was not established by the Commission.

3.37 As a consequence the total rental income due to the Commission, in respect of rented houses, may not have been collected. In addition, the extent of rental income foregone, as a result of houses remaining vacant, was not monitored or controlled.

Audit Recommendation

- 3.38 (1) Control over rental collections would be strengthened by establishing a control mechanism at Head Office to verify that rental collections are complete and accurate. The development of a suitable checking medium would provide for a more effective system for controlling the collection of rent.
- (2) The monitoring of rental collections against a nominal rental base would identify the extent of residences not being occupied and officers not paying rent.

Commission Reply

- 3.39 *The Commission agreed with the Audit recommendation for the establishment of a rental control mechanism at Head Office and it is intended that this be done as soon as the existing inventory has been updated.*

Current Situation

- 3.40 Audit was informed that a rental control mechanism has not yet been established although it is proposed that appropriate measures will be developed after other priorities are met by the Commission.

Performance Indicators

Audit Observations

- 3.41 Although the Commission had established performance indicators in relation to its legislative objectives and its major management requirements, no performance indicators had been developed for the housing function.
- 3.42 Audit was advised that it is intended that performance indicators will be established after other more urgent priorities are met by the Commission.

Audit Recommendation

- 3.43 Performance indicators should be developed so that information will be available for management to monitor actual performance against objectives set for housing activities.

Other General Comments Contained in the Commission Reply

- 3.44 *As a general comment, the Commission acknowledges that there are inadequacies in the management of its housing stock and while many of these matters have been addressed and strategies developed to overcome them, for a number of reasons implementation has been slower than desirable. Organisational restructuring, involving transfer of a number of housing management functions to the newly-formed Corporate Services Section, has contributed to this situation.*
- 3.45 *In conclusion the Commission acknowledges that much of the Audit groups comments and recommendations are valid but re-iterates that strategies have been formulated to overcome most of the deficiencies. The Commission's Corporate Services Section is currently addressing these problems and will institute an implementation program.*

4. DEPARTMENT OF CONSERVATION, FORESTS AND LANDS

Overview

- 4.1 An Order-in-Council, effective from 2 November 1983, required that the Ministry for Conservation, the Forests Commission and the Department of Crown Lands and Survey be amalgamated to form the Department of Conservation, Forests and Lands.
- 4.2 As at February 1986 the Department operated approximately 490 houses at a total value of approximately \$17 million. The structure of the Department comprises various divisions and regions. In general, the 18 regional offices are responsible for providing employee housing, however approximately 22 houses are administered by certain divisions of the Department. Audit was advised that no houses had been disposed of since the Department was created.
- 4.3 Due to the decentralised nature of the Department's housing activities, audit visited 6 regions, controlling 132 departmental houses, to obtain a representative overview of housing procedures.
- 4.4 Audit was informed by senior officers of the Department that housing was given a low priority because of the difficulties and complexities involved in the amalgamation of 3 organisations into one administrative unit. Audit is cognizant of the fact that certain audit observations may relate to practices which were initiated prior to the creation of the Department.

Audit Observations and Recommendations

Documentation of Objectives, Policies and Procedures

Audit Observations

- 4.5 Audit was advised that due to the complexities involved in the amalgamation of the 3 former organisations, the Department has had to meet other priorities of a more urgent nature than housing. As a result, the Department had not formulated and documented objectives, policies and procedures for its housing function. Audit noted a number of documents which disclosed various information concerning policy formulation, however no policies had been formally ratified.
- 4.6 The consequence of objectives, policies and procedures not being clearly formulated and documented is that housing practices may be inconsistently applied throughout the Department. Furthermore, the Department may be retaining houses which are not needed (Refer to para 4.24).

Audit Recommendation

- 4.7 The Department should take more positive action to formulate and document housing objectives, policies and procedures.

Departmental Reply

- 4.8 *The reply included the following comments:*

The audit recommendation to formulate objectives, policies and procedures and incorporate them into a manual of housing is noted. The responsibility for co-ordinating this task has been allocated to the Regional Support Branch in the Division of Regional Management. It is envisaged that a manual will be completed by 30 September 1986.

4.9 Many officers of former agencies of this Department occupy Departmental residences under circumstances which clearly can be interpreted as a direction to occupy. The changing requirements of this Department mean that these occupancies may not meet the "required to occupy" criteria currently being developed. This may develop into an industrial issue which will have to be resolved before the Department's "required to occupy" policy can be implemented.

4.10 Criteria recently adopted by the Department for "required to occupy" are:

(1) Houses where occupancy ensures a departmental presence for out of hours duties eg, National Parks, departmental nurseries, Snobs Creek hatchery, Royal Botanic Gardens, Department depots, etc.

(2) Houses in locations where provision of departmental housing is necessary to attract or retain a departmental presence eg, Bendoc, Speed, Toolangi, etc.

4.11 Approximately 125 of the Department's houses are covered by these criteria. These will all be positively identified in the course of transferring stock to GEHA. The identification process should be completed by 30 September 1986.

Current Situation

4.12 In October 1986 a document covering policies and procedures relating to tenancy, disposal or transfer of housing stock was issued to regional managers.

4.13 Regional managers have been requested to identify "required to occupy" houses by 28 November 1986 according to the criteria prescribed by the Department of Management and Budget in September 1986.

Inventory of Housing

Background Information

4.14 Each regional office maintains a list of houses under its control. Senior regional officers are responsible for the allocation of houses located in each region. Residence files are kept in various divisions at Head Office.

Audit Observations

4.15 Audit noted that:

(1) the Department did not maintain a central consolidated inventory of housing;

(2) tenancy details kept at regional offices varied between no records being maintained at some regional offices to comprehensive manual listings at others; and

(3) information recorded on residence files kept at Head Office was neither current nor complete.

- 4.16 As a consequence of inadequate inventory records, management did not have sufficient information from which to monitor the Department's housing activities.
- 4.17 Audit was advised that the Repair and Maintenance Section of the Department's Engineering and Technical Services Branch was in the process of compiling a listing of all departmental houses and introducing a new numbering system for all departmental buildings.

Audit Recommendations

- 4.18 (1) Management should compile a complete inventory of housing incorporating features such as house type, location, condition, occupancy and financial details concerning rent, house cost / valuation, depreciation, maintenance and modernisation expenditure; and
- (2) A standard approach for recording tenancy details and other relevant information should be adopted by each region.

Departmental Reply

- 4.19 *Preparation of a central consolidated inventory has now been completed. The inventory does not yet include the historical cost and depreciation of houses nor details of maintenance or upgrading expenditure. Other details can be added as necessary and maintenance of the inventory should now be relatively simple once instructions concerning this issue have been forwarded to regions.*
- 4.20 *Audit's point concerning tenancy details, or lack of them, is noted and steps will be taken to correct this situation.*
- 4.21 *Given that one of the main tenets of the departmental amalgamation is the devolution of power and delegation of authority from a central to a regional base, it is no longer considered necessary to maintain current or complete residence files at Head Office. However, the Engineering and Technical Services Branch's listing is complete.*

Retention of Surplus Houses

Background Information

- 4.22 In October 1984 operations managers were requested by the Director of the Regional Management Division to review the circumstances under which employees were "directed to occupy" departmental houses. The following guidelines were issued as the basis upon which to determine whether each officer was directed to occupy each respective house.

"An officer should be directed to occupy a specific residence whenever it is in the Department's interests that he do so. In general terms where it is desirable for the Department to maintain or establish a presence in a particular location, in such circumstances it would be acceptable to direct an officer to occupy a residence."

- 4.23 Audit was advised that no houses have been disposed of since the Department was established.

Audit Observations

4.24 Audit observed that a substantial number of houses were not required by the Department. Detailed comments follow:

- (1) Certain houses had not been disposed of even though the regions concerned considered that these houses were not needed, due to their poor condition and excessive costs required to upgrade them to an acceptable standard.
- (2) In audit opinion, the amalgamation of the 3 former organisations into the Department should have resulted in the rationalisation of housing stock.
- (3) On 17 October 1985 the Regional Manager of the Geelong region notified the Regional Support Manager that only 3 houses out of the region's 23 houses were in the "required to occupy" category.
- (4) On 25 October 1985 the Regional Manager of the Ballarat region notified the Regional Support Manager that of the 16 houses located in the Ballarat region, 4 were vacant, 3 were to be vacated in the near future by staff building their own homes or re-locating to other regions and 4 were substandard.
- (5) With regard to the Melbourne region, audit enquiries revealed that out of the 7 houses in the region only 2 were required for employee needs. The remaining 5 houses were on land which was purchased to extend the Warrandyte National Park. Audit was advised that these houses were utilised for employee housing as it had been convenient to do so, although it was perceived that the 5 houses would eventually be sold for removal or be demolished.
- (6) At 30 June 1985 GEHA's Government Housing Accommodation Register disclosed that 17 houses related to the Soil Conservation Authority, a branch of the former Ministry for Conservation.

Audit noted that in October 1984 the Chief Soil Conservationist advised the Director of the Regional Management Division that, given the guidelines outlined in his memorandum and the circumstances surrounding occupation of departmental housing by soil conservation staff, none of the staff had been directed to occupy houses. Furthermore, it is not considered that any staff should be so directed.

- (7) A residence located in the Warragul Region had been vacant for 3 years. Apparently, the Department planned to sell the house for removal as it lacked potential buyers due to it being located adjacent to a departmental depot.
- (8) Renovations to a house at Werribee, including painting and reblocking, were completed in 1983. Documentation on the house file revealed that despite the house being practically in a new condition, it had been vacant for 2 years. The Geelong region's Inspection Officer recommended that "if the Department does not see any future use for this residence it should be sold while it is in such good order".

To date audit understands no action has been taken by the Department on this recommendation.

- 4.25 Audit was informed that the identification of houses to be disposed of had not taken place because the Department had not formally approved a policy in this area.
- 4.26 The consequence of retaining substandard houses is that these houses continue to deteriorate, thereby reducing the potential selling price when they are sold. The consequence of retaining houses surplus to the needs of the Department is that government employees, occupying such houses, are paying a minimal rent when there is no requirement or need for government housing to be provided to the employees.

Audit Recommendations

- 4.27 (1) The Department should develop policies and institute procedures to identify and dispose of all substandard houses not needed by the Department.
- (2) Policies and procedures should be developed to lead to the identification and rationalisation of surplus houses.

Departmental Reply

- 4.28 *The reply from the Department's Director-General included the following comments:*
- (1) *I agree that procedures should be in place to identify and dispose of surplus houses. These procedures are now being developed and in the near future stock will be identified for handover to GEHA, retention, sale, or writing off.*
- (2) *I agree with audit opinion that the amalgamation should result in the rationalisation of stock. But this rationalisation is not immediate as it has taken time to redesignate and or redeploy staff. Also, the industrial issue of the protection of existing tenant's rights has not been resolved. In time, rationalisation will certainly occur.*
- (3) *The responses referred to by audit from Regional Managers at Geelong and Ballarat were in relation to a request for the identification by regions of "required to occupy" houses. One issue that became clear from that request was that there was little understanding in regions of the implications of "required to occupy". As a consequence more specific criteria are being developed and Regional recommendations will be subject to scrutiny by a co-ordinating body.*
- (4) *The land in question in Melbourne Region was purchased for National Parks purposes and as it is inappropriate that persons other than Park Rangers reside in Parks, these residences will be disposed of in due course. Their current occupation by Departmental employees is a short term measure only.*
- (5) *Former Soil Conservation Authority houses not identified as required to occupy will be reviewed as part of the stock likely to be transferred to GEHA. It should be noted that former agencies often used houses as a means of attracting staff to certain locations but did not restrain officers purchasing their own accommodation should they so desire. Houses vacated could be used by other staff.*

- (6) *This responsibility for provision of houses as a means of attracting staff or providing houses where it might otherwise be difficult to obtain them will now be transferred to GEHA. Provision of housing does not imply "requirement to occupy".*
- (7) *The vacant Warragul residence, identified by audit as being vacant, is used for housing summer fire fighting crew.*
- (8) *Action has been initiated to dispose of the residence at Werribee.*
- (9) *Audit's surmise that houses had not been identified for disposal because the Department had not formally approved a policy in this area is substantially correct. This inadequacy is now being addressed and all such houses should be identified by 30 September 1986 and action put in train to dispose of them.*
- (10) *I agree with audit concerning the development of policies and procedures to identify and rationalise surplus house and in their eventual disposal.*

Current Situation

- 4.29 The identification of houses for disposal is dependent on the identification of houses in the "required to occupy" category and houses with clear titles. This process is expected to be completed by 28 November 1986.

Rental of Departmental Houses

Background Information

- 4.30 With regard to departmental employees, determination 32.1 of the Public Service Determinations 1985 requires that where rental charges vary from the rate of 6 percent of salary plus \$234 per annum, the rental charge shall be authorised by the Chief Administrator of the Administrative Unit and be approved by the Public Service Board.
- 4.31 In relation to private tenancies the Department, with the approval of the Minister, has rented a small number of houses to the public. Houses are rented according to the Residential Tenancies Act 1980.

Audit Observations

- 4.32 (1) Some employees had been charged a reduced rental due to the substandard condition of the houses concerned. One such employee was charged a weekly rental of 75 cents. No evidence could be produced to audit to substantiate that the necessary authorisation and approval had been obtained.
- (2) Audit noted some instances where certain houses were rented to private tenants for a considerable length of time and the rent had not been regularly reviewed. One house had been rented for \$1.25 per week since 1973.

- (3) Pursuant to Section 87(1) of the Residential Tenancies Act 1980 a landlord under a tenancy agreement shall give to the tenant, not later than the day on which it is agreed that the tenant is to enter into occupation of the rented premises, advice as to the rights and obligations of landlords and tenants under tenancy agreements.

A pamphlet recently issued by the Ministry of Consumer Affairs sets out the details of such a statement.

Audit observed that the Department did not advise private tenants of the rights and obligations of landlords and tenants as prescribed by the Act.

Audit Recommendations

4.33 It is recommended that the Department:

- (1) conform with the prescribed Public Service determination when reduced rentals are charged to employees.
- (2) review the need to retain houses which are rented to the public;
- (3) review the rate payable by private tenants with a view to charging market rent; and
- (4) comply with the requirements of the Residential Tenancies Act.

Departmental Reply

4.34 *The following points were mentioned by the Director-General:*

- (1) *I agree with audit comments that houses should be rented to private tenants only on a short term basis and that rentals should be reviewed regularly. With the rationalisation of stock retained by the Department in light of transfer of stock to GEHA, most, if not all houses rented to private tenants will be identified as surplus and sold.*
- (2) *Administrative procedures will be initiated to ensure documentation of any instances where rental reductions are approved for substandard residences.*
- (3) *Steps will be taken to identify long term rental of houses to private tenants with a view to disposal.*
- (4) *In future, tenants rights under the Tenancy Act will be observed.*
- (5) *The Public Service determination relevant to reduced rentals will be complied with, where applicable, and the need to retain houses rented to the public will be reviewed.*
- (6) *Market rent for private tenants and compliance with the Residential Tenancies Act will be applied by the Department where applicable.*

Collection of Rent

Background Information

- 4.35 For the period 1 July 1985 to 28 February 1986 revenue from house rentals amounted to \$442 900. Rental deductions from permanent employees are collected at Head Office and rental deductions from exempt employees are collected by the various regions. Private tenants pay their rent to regions. Regions forward rentals received from exempt employees and private tenants to Head Office.

Audit Observations

- 4.36 (1) The Revenue Section at Head Office accepted rental collections in respect of rented houses without reconciling to control totals.
- (2) A nominal rental base to identify the total potential income receivable if all houses had been rented was not established by the Department.
- 4.37 As a consequence the total rental income due to the Department, in respect of rented houses, may not have been collected. 3 instances were noted of occupants not paying rent. In addition, the extent of rental income foregone, as a result of houses remaining vacant, was not monitored or controlled.

Audit Recommendations

- 4.38 (1) Control over rental collections would be strengthened by establishing a control mechanism at Head Office to verify that rental collections are complete. The development of a suitable checking medium would provide for a more effective system for controlling the collection of rent.
- (2) The monitoring of rental collections against a nominal rental base would identify the extent of houses not being occupied and instances of the non-payment of rent.

Departmental Reply

- 4.39 *The Director-General made the following comments:*
- (1) *The Department's Financial Management Branch has prescribed conditions needed to conform to audit requirements.*
- (2) *Whilst it is possible that some income has been foregone from rented properties, a check of records in respect to the 3 occupants identified as not paying rent shows them to be paying rent. However, the point is taken and measures will be taken to ensure improvement in the recording system.*

Maintenance of Houses

Background Information

- 4.40 Maintenance is carried out by either the Department's regional staff, officers of the Public Works Department or contractors. Maintenance appropriations are allocated to regions on a pro rata basis in accordance with the number and condition of houses within each region. Public Works Department maintenance works are carried out according to priorities submitted by each region.

Audit Observations

- 4.41 (1) Audit was informed that due to the lack of available funds, maintenance of houses was performed on an emergency or needs basis. As a result, a cyclical maintenance program had not been developed for each region.
- (2) Audit noted that approximately \$3 800 was expended on maintenance works of a house which had been previously recommended for demolition. Due to the poor condition of the house, the employee occupying this house has been charged 75 cents rent per week.

Audit Recommendations

- 4.42 (1) The development of a cyclical maintenance program would provide a more systematic process for maintaining departmental houses.
- (2) In order to prevent extensive maintenance expenditure in future and the occurrence of subsidised rentals, the Department should assess the extent of its maintenance intensive housing stock with a view to disposal.

Departmental Reply

- 4.43 *The Director-General responded by stating:*
- (1) *I agree that a cyclical maintenance program be used and maintenance intensive homes disposed of.*
- Disposal arrangements will be made prior to the handing over of stock to GEHA.*
- (2) *Proper planning and funding will be easier with less stock to control and when market rentals are attained ie, house maintenance should be self funding.*
- (3) *Audit refers to \$3 800 being expended on a house that had previously been recommended for demolition: this expenditure occurred prior to amalgamation. Every endeavour will be made to prevent a repetition of this type of action.*

Performance Indicators

Audit Observation

- 4.44 The Department had not established performance indicators.

Audit Recommendation

- 4.45 Performance indicators should be developed so that information will be available for management to monitor actual performance against objectives set for housing activities.

Departmental Reply

- 4.46 *Indicators will be developed that will include measurement of vacancy rate, adequacy of collection procedures and maintenance status.*

Notification of Housing Particulars to GEHA

Audit Observation

- 4.47 Audit observed instances where the Department did not advise GEHA of certain housing particulars. As a result, housing particulars recorded in GEHA's Accommodation Register were not current.

Audit Recommendation

- 4.48 Regions should be instructed to advise GEHA of all purchases of houses, disposals and changes in occupancy.

Departmental Reply

- 4.49 *Regions will be instructed in accordance with audit's recommendation to advise GEHA of all purchases and disposals of housing and changes in occupancy. This issue will be of lesser importance with the pending transfer of much of the housing stock to GEHA.*

Other General Comments Contained in the Departmental Reply

- 4.50 *The Department welcomes the audit as it has provided an objective insight into many management issues.*
- 4.51 *As has been noted in the audit, this Department has recently undergone considerable change through the amalgamation of three former departments whilst at the same time delegating much of the significant decision making to the 18 new regions.*
- 4.52 *The process of amalgamation and regionalisation, together with restructuring and redeploying of most occupational categories, has meant that extensive lead time has occurred during which staff have taken up their new positions. This has had an obvious impact on the provision of housing as the requirements of the new Department do not necessarily correspond to those of the former agencies and it is only now becoming apparent as to what the Department's housing needs are.*
- 4.53 *This analysis has been further complicated by the Government's concurrent intention to have housing stock transferred to the Government Employee Housing Authority.*
- 4.54 *Thus the Department's action, or in some cases lack of action, must be viewed in light of extensive and ongoing change.*
- 4.55 *As implied throughout this response, I am in agreement with the entire thrust of the audit report and every endeavour will be taken to improve the Department's procedures to ensure efficient, effective and accountable procedures relating to the purchase, deployment and maintenance of departmental housing.*

5. STATE TRANSPORT AUTHORITY

Overview

5.1 Section 14(4)(s) of the Transport Act 1982 requires the State Transport Authority to effectively manage its assets including real estate.

5.2 The Authority provides housing to its employees due to the constant transfer of officers from one locality to another and in certain circumstances the requirement for officers to be located in remote locations.

5.3 The Authority's housing objectives are:

- "(1) to own/lease as few houses as is practicable, having regard to the efficient operation of the system;
- (2) where possible and practicable additional houses are required to be leased rather than purchased;
- (3) to maintain those houses which are owned at reasonable community standards;
- (4) any new or replacement houses purchased will be equal to general community standards, and of materials and structure to be reasonably maintenance free preferably brick/brick veneer; and
- (5) in line with the expectations of the Government Employee Housing Authority, and subject to the operating grade subsidies, rental recovery in the short term at least to cover the cost of maintaining the houses; and in the longer term meet the cost of both the provision and operation of the houses."

5.4 Audit was advised by the Authority that at one stage it owned more than 2000 houses. The number of houses operated by the Authority had been reduced to approximately 1200 at 30 June 1985 of which approximately 150 were vacant. Occupants of houses may be categorised as follows:

(1) Eligible operating grade employees	850
(2) Ineligible occupants comprising ineligible employees, private tenants and retired employees	200

	1 050

5.5 According to the tenancy policy of the Authority, housing may be allocated to various positions within 57 operating grades. At the date of audit there were approximately 8 000 operating grade positions within the Authority. An eligible operating grade employee is entitled to a house on transfer to a new location if one is available in that location.

5.6 The total value of houses at 30 June 1985 amounted to approximately \$28.9 million. Maintenance expenditure for 1984/85 totalled \$1.98 million and the rental income amounted to \$1.35 million.

Audit Observations and Recommendations

Establishment of Housing Requirements

Background Information

- 5.7 The optimum number of houses is considered by the Authority to be the ideal number of houses needed to efficiently carry out its functions.

Audit Observations

- 5.8 (1) In order to determine the optimum number of houses required by the Authority, the Manager of Housing issued a questionnaire to each branch head in July 1985 requesting estimates of housing requirements over the next 5 to 10 years. Audit was advised that the survey did not provide satisfactory results as apparently a number of branches could not estimate their future housing requirements.

The consequence of not being able to determine the optimum number of houses via the survey was that the Authority took the current occupancy rate of houses occupied by eligible operating grade employees as the optimum number of houses required by the Authority. On this basis the optimum number was 850 houses.

- (2) In examining the housing policies established by the Authority, audit was unable to ascertain the rationale used by the Authority to determine whether an operating grade position should be advertised with a house being attached to the position. Audit enquiries revealed that the general procedure followed by the Authority was that if a vacancy arose in an operating grade position, defined as being eligible for subsidised rental accommodation, and a house was available, then the job was generally advertised with a house being attached to the position. In audit opinion, this process did not provide for an adequate assessment as to whether there was a genuine need in each case for a house to be provided with a position.

- 5.9 The consequence of allocating all houses that are available to eligible operating grade employees on transfer is that, in some cases, a need may not exist for a house to be supplied with the position or for the Authority to be retaining such houses.

Audit Recommendations

- 5.10 (1) In audit opinion, equating current occupancy with optimum number of houses required by the Authority, is inappropriate. A more appropriate method of determining the optimum number of houses may be to request regional personnel managers to forecast a 2 yearly projection of housing requirements based on existing and future strategies. This procedure, if adopted, would enable the Authority to:

- (i) plan for the provision of housing in a more systematic and timely manner; and
- (ii) ensure that the impact of policy decisions is reflected, if appropriate, in determining the optimum number of houses.

- (2) The Authority should develop policy for determining the circumstances which require a house to be supplied as part of a job position. The acquisition or allocation of houses should then be based on such rationale.

Authority Reply

- 5.11 *A survey of housing needs is currently being carried out within the S.T.A. regions.*

Duplication of Housing Records

Background Information

- 5.12 Certain housing particulars are maintained on the following recording mediums:

- (1) manual cards maintained by the Authority's housing department;
- (2) computerised records kept by the Authority's housing department; and
- (3) manual records maintained by the Authority's housing maintenance section located at Braybrook.

- 5.13 Manual cards maintained by the housing department include the following information:

- (1) the type and location of each property;
- (2) occupant - classified as eligible or ineligible;
- (3) rental particulars; and
- (4) municipal rates expenditure.

- 5.14 The mini computer is utilised to record the following computerised information:

- (1) all houses managed by the Authority;
- (2) the type, location and condition of each property;
- (3) occupant - classified as eligible or ineligible;
- (4) rental and debtors details;
- (5) historical cost of houses; and
- (6) maintenance and rates expenditure.

- 5.15 At Braybrook a file is kept on each house. Each file includes a manually kept progressive total of maintenance expenditure and other housing details, such as condition reports and tenants' requests for maintenance works to be undertaken.

- 5.16 Regional supervisors review this information and make recommendations to the Manager of Housing Operations as to maintenance intensive houses that should be considered for disposal.

Audit Observations

- 5.17 (1) Certain housing particulars such as the type and location of each property, the occupant, rental details and municipal rates expenditure were recorded manually as well as by the computerised system.

Audit was advised that the main reason for retaining the Housing Department's manual card system is that it is considered more accessible by staff than the computerised system. Access to the computerised system may be restricted at times due to only 3 terminals being located in the housing department and the incidence of computer breakdown or unavailability of updated data. However, audit was informed that the computerised system must be retained because it produces information not recorded on the manual system such as details relating to debtors and progressive maintenance expenditure.

- (2) Although the Authority's computerised system identified progressive maintenance expenditure, this information was also manually calculated and recorded at the Authority's housing maintenance section at Braybrook.

Audit was advised that, despite the production of a monthly computerised report (Agents Control Report) identifying year to date maintenance expenditure, very little use was made of the report by the housing maintenance section because of its untimely presentation and inadequate disclosure on the type of expenditure undertaken. On most occasions there was a delay of between 8 to 12 weeks in the production of the Report.

- (3) Audit examination of the housing records maintained by the computerised system revealed that:
- (a) as at 23 January 1986, the debtors records were current to 2 July 1985; and
 - (b) as at 4 February 1986, the maintenance expenditure records were current to 17 August 1985.

- 5.18 The consequence of maintaining duplicate records is that resources may be uneconomically and inefficiently utilised. Housing information recorded on the computerised system, which lacks sufficient detail and is not current, may not be useful to the users of such information.

Audit Recommendation

- 5.19 The Authority should review the functions, capabilities and costs of the 3 recording systems and design and implement a single replacement system.

Authority Reply

- 5.20 *The transfer of all records to a central locaton will overcome this problem. The matter is currently being addressed.*

Houses Rented to Ineligible Authority Employees, Retired Staff and Private Tenants

Background Information

- 5.21 The Housing Department's documented policy on month to month tenancies includes the following requirements:

"Houses not immediately required for operating grade employees on transfer or are vacant surplus houses which cannot be immediately sold, may be offered to employees for a month to month tenancy. The month to month tenant shall be advised that the premises shall be given up for vacant possession upon notice of 30 days in writing".

- 5.22 The Personnel policies and practices relating to retired staff vacating Authority housing includes the following requirements:

"It is the general policy of the State Transport Authority to require retired staff occupying Authority houses to vacate those residences upon retirement. The tenant is expected to vacate within three months. The future requirement for housing and the availability of other houses at specific locations determines whether retired tenants are requested to seek alternative accommodation as early as possible, but each case is handled on an individual basis by the Housing Officer of the Personnel and Employee Relations Division".

- 5.23 The recent guidelines issued by the Department of Management and Budget in September 1986 includes a requirement that in cases where notice to vacate would create significant hardship on tenants, such situations should be treated strictly on a case by case basis with the discretion to continue tenancy.

Audit Observations

- 5.24 Audit examination revealed that approximately 17 per cent (200 houses) of the Authority's housing stock of 1200 houses were occupied by tenants other than eligible operating grade employees. The consequence of houses being occupied by ineligible tenants is that the Authority is retaining houses which are not required to meet its housing objective of owning/leasing as few houses, as is practicable.
- 5.25 Audit noted that of the 200 houses only 35 were occupied by retired staff or widows of retired staff, although in some cases houses had been occupied for a considerable length of time.

Audit Recommendation

- 5.26 Audit recognises that certain positive measures have been taken by the Authority to lead to the rationalisation of its housing stock. However, in view of the matters referred to in paragraph 5.24 and 5.25, the Authority should continue with its efforts to meet its housing objectives. It is also recommended that the Minister of Transport approve future cases where Authority houses are occupied by retired staff.

Authority Response

- 5.27 *The majority of lease tenancies were arranged to prevent squatters and vandalism. All houses now becoming vacant which are not required for eligible tenants are being sold.*

Vacant Houses

Background Information

- 5.28 Maintenance supervisors are responsible for ensuring that vacant houses are securely locked. Vacant houses in the metropolitan area are inspected every alternate day whilst vacant houses in the country are subject to weekly inspection.

Audit Observation

- 5.29 During January 1986 audit visited 24 houses which were recorded as being vacant by the Authority. Audit observed that 5 of these houses were not locked.
- 5.30 Inadequate security measures may lead to houses being vandalised or occupied by unauthorised tenants.

Audit Recommendation

- 5.31 Vacant houses should be inspected on a regular and timely basis and be adequately maintained in a secure state.

Authority Response

- 5.32 *The need to improve current measures is being taken up with all relevant staff.*

Housing Loan Interest Rate

Background Information

- 5.33 The Housing Department's sales policy provides that:

"An Authority employee or his/her surviving spouse or a retired employee may apply to purchase a house property for sale."

- 5.34 Term loans for the purchase of a house property are provided by the Authority only on the condition that the Purchaser is an Authority employee or his/her surviving spouse or is a retired employee or is a retrenched employee who occupies the house property as their permanent place of abode.

- 5.35 "The commencing rate of interest to be charged upon a loan shall be 7% per annum, adjusted quarterly. The interest rate shall be adjusted annually, rising by .5% per annum until it coincides with the State Bank of Victoria Housing Loan Rate of Interest which varies from time to time."

- 5.36 At 29 April 1986, \$12.5 million was outstanding on 605 term loans made by the Authority.

Audit Observations

- 5.37 On 25 March 1985 the Authority approved an increase in the commencing rate of interest on housing loans from the 1980 rate of 5.5 per cent to 7 per cent per annum. As houses are now sold at valuation rather than the former procedure of selling houses at a 10 per cent premium on valuation, the Authority increased the commencing rate of interest on housing loans in order to achieve the same financial return.

- 5.38 Audit noted that in recent times housing loan interest rates, charged by banks, increased from 10.5 per cent to 15.5 per cent per annum. Despite this overall increase in interest rates in the economy, the Authority has not reviewed the commencing rate of interest on its housing loans.
- 5.39 As a consequence, the Authority was not maximising the return which it could earn on its housing loans.

Audit Recommendation

- 5.40 Interest rates on term loans should be regularly reviewed by the Authority in line with current home mortgage rates established by the industry.

Authority Response

- 5.41 *As a temporary measure the Authority is only selling on a cash basis. If the Authority reverts to selling on a term basis, interest rates will be set at market levels.*

Interaction with the Government Employee Housing Authority (GEHA)

Background Information

- 5.42 Section 14 of the GEHA Act 1981 requires that GEHA maintain and keep up to date a Government Housing Accommodation Register. Departments and public statutory authorities shall provide GEHA with housing particulars concerning location, age, size, material of construction and occupancy of the house and such other particulars as are prescribed and which are to be entered in the Register. Section 15 enables the Register to be searched to identify stock which may be available to officers in departments or public statutory authorities for accommodation.
- 5.43 There is no provision in the Transport Act requiring housing particulars to be conveyed to GEHA.

Audit Observations

- 5.44 (1) It appeared that the Authority did not, in all cases, provide relevant housing particulars to GEHA. For example, a comparison of the houses acquired by the Authority during 1984/85 to the details recorded in the GEHA Register revealed that 6 of the 10 houses acquired were not recorded in the Register.

The consequence of insufficient housing information being supplied to GEHA is to limit the effectiveness by which the Register may be searched to identify stock available to officers within the Public Sector who require accommodation.

- (2) It was also observed that the Authority did not request GEHA to search its Accommodation Register prior to the Authority purchasing or leasing houses.

As a consequence, the Authority may have purchased or leased houses irrespective of suitable houses being available within the public sector.

Audit Recommendations

- 5.45 The Authority should provide the relevant housing information to GEHA to enable the Government Housing Accommodation Register to be kept up to date.
- 5.46 There should also be a requirement for the GEHA Accommodation Register to be searched prior to purchasing or leasing houses.

Authority Reply

- 5.47 *This has been done and is continuing.*

Other General Comments Contained in the Authority Reply

- 5.48 *The matters raised in the Audit Report relating to the provision of housing to State Transport Authority employees are currently being addressed by the Authority. Generally, as a result of previous discussions with staff from your Office, recommendations are either already implemented or are in the process of implementation.*
- 5.49 *In addition to the above the Authority is presently consulting with the Government Employee Housing Authority in relation to that Authority taking over all this Authority's employee housing. It is also necessary to draw your attention to the report on Housing Maintenance prepared by our Chief Loss Assessor, a copy of which was forwarded to your Office on the 2 July 1986.*

Notification by STA of Potential Fraud

- 5.50 Following advice received by State Transport Authority that problems could exist in its housing maintenance area the Managing Director arranged for an appraisal to be carried out by the Authority's Chief Loss Assessor. This appraisal highlighted a number of irregularities, including potential fraud. The Victorian Police Fraud Squad was informed and is currently investigating the matter.

GOVERNMENT HOUSING ACCOMMODATION REGISTER AS AT 30 JUNE 1986

<u>PARTICIPATING ORGANISATIONS</u>	<u>NO OF RESIDENCES</u>
Agriculture & Rural Affairs	92
Arts	5
Community Services	106
Conservation Forests & Lands	451
Corrections	29
Country Fire Authority	68
Education	210
G.E.H.A. (Education Department)	2218
G.E.H.A. (Law Department)	49
G.E.H.A. (TAFE residences)	27
Gas & Fuel Corporation	23
Grain Elevators Board	8
Health	253
Housing	55
Industry, Technology & Resources	14
Labour	20
Melbourne Metropolitan Board of Works	145
Metropolitan Transit Authority	13
Planning & Environment	2
Police	387
Ports and Harbours	28
Premier & Cabinet	11
Public Works	45
Road Construction Authority	190
Road Traffic Authority	6
Rural Finance Commission	3
Rural Water Commission	672
Sport and Recreation	9
State Bank *	233
State Electricity Commission	217
State Transport Authority	1138

TOTAL	6727

* Not subject to my audit

DESIRABLE MANAGEMENT PROCEDURES

Desirable management procedures included the following:

- . Objectives, policies and procedures should be formulated and documented into a Manual of Housing.
- . Management procedures should be in place to enable the provision of housing to be systematically planned and assessed in line with existing and future strategies.
- . Housing should only be provided where a need arises based on rationale developed by the organisation.
- . An adequate inventory of housing should include:
 - all properties managed by the organisation;
 - the type, location and condition of each property;
 - occupant status;
 - rental details;
 - acquisition cost, market value and depreciation; and
 - maintenance and modernisation expenditure - actual and estimates.
- . Monitoring procedures should be in place to enable management to identify the extent of unoccupied houses and houses occupied by either ineligible employees or private tenants.
- . The future use of each house should be reviewed by management when it becomes vacant.
- . Private tenants should be charged market rent.
- . Rental rates charged to casual employees should be regularly reviewed by management.
- . Formal agreements should be completed which specify terms of occupancy.
- . Management should ensure that agreements with private tenants are not renewed in instances where arrears of rent occur unless extenuating circumstances exist.
- . A control mechanism should be in place to enable the verification of rental income and identification of the extent of vacant houses.
- . Housing loan interest rates should be regularly reviewed and be in line with current home mortgage rates.
- . A cyclical maintenance program should be developed by management to provide a planned approach for the use of resources employed in the housing function.
- . Procedures should be in place to identify maintenance intensive houses to be disposed of.

- Procedures should be in place to ensure that a full list of disposal options is prepared and considered by management.
- The disposal of houses should be effected in a timely manner to avoid the uneconomic retention of houses surplus to the needs of the organisation or considered to be maintenance intensive.
- Management should determine realistic bases for the measurement of performance against objectives.

PART 2

**POST-PROJECT APPRAISAL
PROCEDURES WITHIN THE
PUBLIC WORKS DEPARTMENT**

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1. Introduction

- 1.1 In previous Auditor-General's Reports to Parliament (June 1982 and June 1983), the results of an across-the-board review of works contract procedures were reported. The review concentrated on an assessment of the pre-construction and construction stages of the project management cycle and included an examination of various capital works projects undertaken by the Public Works Department.
- 1.2 This report discloses the findings of an examination of post-project review procedures, another key aspect of the project management cycle.
- 1.3 Current departmental objectives include the provision of effective management of client agencies' capital works programs and the provision of effective project management for major projects in the public sector. To ensure that these objectives are met, there is a need for systematic post project review to establish whether a project has achieved its goals and to determine the reasons for any discrepancies between anticipated and actual outcomes.
- 1.4 The Department operates through two major units, a Design and Construction Division and a Construction Group. The Design and Construction Division is responsible for providing the Government with a comprehensive service in the design and construction of new non-residential buildings and the restoration and maintenance of existing buildings.
- 1.5 Expenditure on capital works and maintenance by the Public Works Department on behalf of client agencies during 1985-86 totalled \$305 million (1984-85 \$270 million).

2. Audit Objective and Scope

- 2.1 The overall audit objective was to determine the extent to which the Department had effective post-project review systems and procedures in place to ensure that the benefits, problems, and/or weaknesses identified in individual building projects, are brought to the attention of staff on future projects to secure economy, efficiency and effectiveness in the use of resources.
- 2.2 Based on this objective, an assessment was made of the design and performance of management systems and procedures involved in the review of completed building projects. In particular, the examination was designed to assess whether management:
- (1) reviews completed projects to ascertain whether appropriate procedures are applied, economy and efficiency measures observed and objectives achieved;
 - (2) has established standard and clearly defined procedures for conducting post-project reviews;
 - (3) ensures that such reviews include an evaluation of the performance of project managers, consultants and contractors; and

(4) adequately utilises the results of such reviews to develop recommendations for planning and controlling similar projects in the future.

2.3 On 14 November 1985, my predecessor informed the Director-General of the objectives and scope of the audit review. Before the audit commenced, certain desirable management controls considered necessary for effective post project review were discussed with departmental officers.

3. **Summary of Audit Observations and Recommendations**

3.1 The audit observations and recommendations were communicated to the Department on 10 July 1986. It is pleasing to note the Departments acceptance of the audit recommendations and that areas of improvement are being developed and scheduled for adoption by the Department.

3.2 Specific departmental responses to the matters raised by audit are incorporated in the body of this report.

3.3 The co-operation and assistance extended by Departmental officers during the audit is appreciated and contributed towards the satisfactory completion of the audit.

3.4 The major observations and recommendations are summarised below:

Observations

- (1) Formal post-project review systems and procedures had not been developed. (refer para. 4.1.4)
- (2) Delays between the date of construction completion and the date of final payment for works contracts were excessive. (refer paras. 4.1.5 and 4.1.6)
- (3) Procedures to evaluate the performance of project managers were inadequate. (refer para. 4.2.5)
- (4) Project management was lacking in continuity. (refer paras. 4.2.6 - 4.2.9)
- (5) Prescribed departmental procedures for the assessment of consultants' and contractors' performance were generally not followed. (refer paras. 4.3.6, 4.3.7, 4.3.8, 4.4.6 and 4.4.7)
- (6) Post-project review information provided to management was inadequate. (refer para. 4.5.4)
- (7) External review by consultants of existing computerised management information systems is being undertaken. Although indicators have been developed to enable management to monitor divisional performance, implementation is pending completion of the information systems review. (refer paras. 4.6.2 - 4.6.5)

Recommendations

- (1) Formal across the board post project review systems and procedures be established.
- (2) Control over the finalisation of contracts be improved to enable timely post-evaluation analysis of final project cost data.

- (3) Consideration be given to establishing formal procedures and criteria to facilitate the assessment of project managers' performance.
- (4) Consideration be given to improving project management continuity, by allowing one officer or consultant to be responsible for individual building projects from client brief to completion of construction.
- (5) Prescribed departmental procedures for the assessment of consultants' and contractors' performance be complied with.
- (6) Data relating to post-project review results be stored and drawn upon for the development of proposals to improve future project management and performance.
- (7) A concerted effort be made to finalise suitable information systems and performance indicators to assess performance and facilitate accountability.

4. Audit Observations and Recommendations

4.1 Post-project Review Procedures

Specific audit objective

- 4.1.1 To determine the extent and adequacy of systems and procedures used to review completed building projects. In particular, to assess whether the Department reviews and compares actual outcomes/results in terms of:
- (1) the contribution of the building project towards satisfying the program need for which it was established; and
 - (2) the execution and performance of the project itself in terms of time, cost and quality goals.

Desirable management procedures

- 4.1.2 Systems and procedures should be in place to ensure that:
- (1) post-project reviews are carried out after completion of building projects;
 - (2) each review is based on standard and clearly defined procedures to assess the attainment of efficiency, effectiveness and economy; and
 - (3) post-project review teams include officers independent of project management/construction functions.
- 4.1.3 Such systems and procedures should allow management to:
- (1) establish whether a project has satisfied the program need for which it was established;
 - (2) review and analyse final project costs compared with original forecasts and determine the cause of any variances;

- (3) review actual construction time taken against construction programs so that the causes of any variations may be evaluated and appropriate action taken on future projects; and
- (4) assess construction quality.

Audit observations

4.1.4 Although some informal reviews may be undertaken after completion of projects, the Department has not developed formal post-project review procedures. As a consequence of not having formal procedures:

- (1) Pertinent factors such as the rate of construction progress and the causes of any delays are not formally reviewed by the Department after project completion to enable initiatives to be taken to prevent similar problems occurring on future projects. Conversely, time savings are not assessed and where necessary the factors giving rise to them, incorporated in future projects.
- (2) The causes of project cost variations are not fully identified and evaluated by the Department, thereby impairing the instigation of appropriate corrective action to eliminate cost overruns on future projects. During the audit it was noted that an internal review conducted by the Department revealed that 21% of the total number of contract variations examined arose from omissions and/or inaccurate documentation, which ideally should have been avoided or averted. Such variations generally result in increased capital works costs of a project which should be the subject of an overall review during the post-project evaluation phase.
- (3) The Department is not always able to determine:
 - . whether the completed facility in operation is meeting the client and user needs in the manner intended; and
 - . the quality of the completed facility.

It was noted that some informal review may be undertaken after completion of some projects in that:

- . actual results are compared to client brief (stipulated requirements) upon completion; and
- . two areas within the Design and Construction Division were performing ad-hoc "post-occupancy evaluations" (an assessment of design/building quality only).

There is a need for formal evaluation, incorporating client/user feed-back, of the building delivery process. At present, buildings are seldom formally evaluated after occupancy has been effected. In some overseas situations, post-occupancy evaluations are now mandatory, whilst in N.S.W., the Department of Public Works and the Department of Education jointly evaluate completed buildings for the purpose of assessing the utility and cost effectiveness of the buildings.

(4) Senior management of the Department are not provided with the necessary information and assurance regarding the quality of buildings and project management performance.

4.1.5 An examination of documentation relating to various building projects completed during the period 1 January 1984 to 31 December 1985 revealed excessive delays between the date of construction completion and the date of final payment. An acceptable time lag is normally a period ranging from 6 to 12 months, which allows for expiration of the defects liability period. However, a number of delays beyond 12 months were noted and departmental officers advised that it was possible for a variation as small as \$50 to lead to lengthy delays in financial completion of building projects. Common causes of delays beyond 12 months were:

- . disputes between the Department and contractors regarding variation pricings and/or prolongation costs;
- . excessive delays in the preparation of final cost statements by the Department; and
- . delays in the submission of final claims for payment by contractors.

4.1.6 It is apparent that such delays impair timely post-project evaluation and analysis of final project cost data against original forecasts.

Audit recommendations

4.1.7 Given the nature of the Department's organisational structure and functions, and the need to satisfy the dual demands of efficient project delivery and public accountability, audit recommended that consideration be given to:

- (1) Establishing formal across the board post-project review systems and procedures to:
 - . evaluate in conjunction with the client agency, the effectiveness of the project in meeting its program needs;
 - . detect significant variations from planned project benchmarks e.g. duration, cost and quality;
 - . determine and analyse the causes of such variations and to provide feedback with the aim of improving the planning, design and construction of future projects.
- (2) Conducting such reviews, within a period of 12-18 months or earlier as appropriate, after physical completion of selected building projects. It is acknowledged that it would be costly to review every completed capital project. In this regard, it is recommended that the Department develop suitable criteria to select projects for the review e.g. project value, random selection and/or troublesome projects.
- (3) Establishing project review teams which include officers independent of project management.

- (4) Developing a post-project review reporting system to provide senior management with the necessary information and assurance regarding the quality of buildings and project management performance.
- (5) Developing procedures for the systematic review and analysis of final project costs against original forecasts. The causes of cost variations should be determined. In this regard, it is suggested that consideration also be given to the collection of variations data for performance appraisal purposes.
- (6) The development of post occupancy evaluation procedures to assess building quality and performance. Such evaluations should be conducted in close consultation with clients and users and at a sufficient interval after the building has been completed to allow it to have operated through a full seasonal cycle. Evaluation results should include the identification of the following:
 - (i) corrective action, directly applicable to the building being evaluated (i.e. required repairs, maintenance, etc.);
 - (ii) the need for further investigation prior to being able to recommend corrective action;
 - (iii) the identification of problems caused by design or planning faults which should be avoided in future projects; and
 - (iv) the identification of successful applications which should be considered for use in future projects.
- (7) Improving control over the finalisation of contracts, to enable timely post-evaluation analysis of final project cost data by:
 - (i) formulating acceptable \$ limits on outstanding variations which prevent the establishment of final project cost data; and
 - (ii) developing an exception reporting mechanism to alert project managers to contracts overdue for finalisation.

Response by the Department

- 4.1.8 *The Department agreed that prior to the audit, post-occupancy evaluation processes had not been developed except for ad-hoc systems in some areas of the Department, and that with the recent restructure of the Department into client groups, it will be possible for such evaluations to be undertaken and assessed by management. This will necessitate the development of new management procedures to facilitate better monitoring of performance standards and staff skills.*
- 4.1.9 *The Department also acknowledged that the time taken to settle final payments needs to be reduced to minimise departmental resources involved in protracted negotiations. It stated that in some cases, a significant delay may be incurred for a relatively small amount due to contractual entitlements. Delays between the date of construction completion and the date of final payment for works contracts will be more closely monitored in future following the introduction of the claims tracking system.*

4.2 Performance of Project Managers

Specific audit objective

- 4.2.1 To review the adequacy of procedures employed by the Department to assess the performance of project managers/leaders (hereinafter referred to as project managers).

Background information

- 4.2.2 The major responsibility of the project manager is to plan and control the execution of the project in such a way that the project is completed in accordance with the specifications at minimum cost.
- 4.2.3 The project manager has ultimate responsibility for the co-ordination and delivery of the work of all team members to achieve the agreed project goals including time, cost and quality..

Desirable management procedures

- 4.2.4 Procedures should be in place to facilitate regular evaluations of project managers' performance.

Audit observations

- 4.2.5 Approved systems, procedures and criteria do not exist within the Department to evaluate the performance of project managers. Departmental officers advised that such assessments are conducted informally on a continual basis within each group in the Design and Construction Division. Allocation of the number and type of future projects handled by project managers is to some extent dependent on this type of informal performance feedback. However, if project managers are not formally assessed on all relevant aspects relating to their performance on individual projects, the efficiency, effectiveness and economy of subsequent projects may be affected.
- 4.2.6 To enable a more effective assessment of project manager performance it is desirable to have a project manager responsible and accountable for all aspects of project delivery.
- 4.2.7 The Department has frequently adopted the practice of having one project manager responsible for design with a different project manager supervising construction. In addition, detailed design development and contract documentation are often handled by external consultants.
- 4.2.8 This lack of continuity can result in:
- . reduced accountability and lower commitment of project managers;
 - . additional cost through misunderstanding of design plans, drawings and specifications;
 - . delays in project delivery, as each new person is required to become familiar with project documentation; and
 - . confusion to the client.

4.2.9 Audit was informed that due to the lack of available resources it is not always possible to have the same officer responsible for all delivery phases of a project. Departmental officers agreed that given sufficient resources, it would be better to have one project manager responsible for all aspects of project delivery.

Audit recommendations

4.2.10 Consideration should be given to:

(1) Establishing formal across the board procedures and criteria to facilitate the assessment of project managers' performance upon completion of projects. These may include the manager's:

- (i) technical knowledge;
- (ii) professional approach and management skills;
- (iii) understanding of the Department's resources, policies and plans; and
- (iv) communication skills such as:
 - . relationships and communication with other people involved in performing the project;
 - . the allocation of people to activities; and
 - . the motivation of people in their work.

The allocation and/or engagement of project managers to subsequent building projects should be influenced by such reviews.

(2) Allowing one officer or consultant to be responsible for individual building projects from client brief to completion of construction. Alternatively, consideration should be given to further developing a project control group concept which involves an interactive design and construction process.

To ensure that there is effective performance by either the project manager or the project control group it is important that their performance be independently assessed on a regular basis.

Response by the Department

4.2.11 *The Department recognised the need for the evaluation of Project Managers and Project Leaders by periodic staff assessments based on duty statements as well as the status of projects under their control which are monitored by their immediate superiors.*

4.2.12 *Systems are being developed to assist in monitoring projects which will indicate the Project Manager's/Leader's performance during the project.*

4.2.13 *The Department agreed with the audit observation relating to the continuity of project management. The lack of sufficient people skilled in both design and construction has resulted in the use of different officers for the design and construction phases. However, this lack of continuity is being addressed by the introduction of "Consultant Selection Panels" which determine projects to be completed totally in-house, where possible, or externally through consultants and a "Project Manager/Leader" assigned for the duration of the project.*

4.3 **Performance of Consultants**

Specific audit objective

4.3.1 To review the adequacy of systems and procedures employed by the Department to evaluate the performance of consultants.

Background information

4.3.2 The Department uses a mixture of in-house and private sector resources in executing its public works activities. Consultants, as well as temporary professional staff are engaged by the Design and Construction Division as supplementary resources, to provide professional services needed to assist with the delivery of programmed building works.

4.3.3 In recent years, the Department has gradually increased the use of private consultants as evidenced by the payments shown in the following table:

<u>Discipline</u>	<u>1985-86</u>	<u>1984-85</u>	<u>1983-84</u>	<u>1982-83</u>
	\$ M	\$ M	\$ M	\$ M
Architectural organisations	11.936	11.418	7.850	5.225
Engineering organisations	3.330	3.489	2.828	1.699
Quantity Surveyors	3.254	2.859	1.876	1.071
Other consultants	0.559	0.448	0.176	0.105
Casual staff	2.339	1.823	0.755	0.448
	<u>21.418</u>	<u>20.037</u>	<u>13.485</u>	<u>8.548</u>

4.3.4 Departmental procedures for the management of consultants' engagements were initially formulated in November 1983. These procedures were reinforced and expanded in August 1985 through the issue of a series of contractual documents, operating instructions and guide notes contained in the "Consultant Services Manual". The manual includes specific directions in relation to the assessment of consultants' performance and provides that:

- (i) the relevant project manager shall be responsible for ensuring that a performance report is submitted on all consultants at:
 - . practical completion of the works; and

- . any time when performance is considered to be unsatisfactory;
- (ii) performance reports shall be obtained from relevant project managers;
- (iii) adverse reports on the performance of consultants shall be discussed with the consultants before reports are submitted for review by the Directorate (consisting of senior officers of the Design and Construction Division), which may recommend that the consultant not be re-engaged on subsequent projects; and
- (iv) Directorate recommendations shall be submitted to the Director-General for approval.

Desirable management procedures

- 4.3.5 Procedures should be in place to ensure that the performance of consultants engaged by the Department is documented, evaluated and acted upon.

Audit observations

- 4.3.6 Prescribed departmental procedures in relation to the assessment of consultants were generally not being followed or complied with. A random sample of 72 consultants appointed to various building projects completed during the period 1 January 1984 to 31 December 1985 was selected. An examination of relevant departmental files disclosed only 4 cases where a performance report had been prepared upon completion of consultants' engagements. This represented an overall compliance rate of 5.6% with prescribed departmental procedures.
- 4.3.7 A review of consultant performance reports disclosed a case where an unsatisfactory performance report was prepared upon completion of the engagement. However, the same consultant was engaged on a later project by the Department. A subsequent performance report again criticised the consultant's performance. On both occasions the Department accepted the consultant's explanation for the unsatisfactory performance.
- 4.3.8 Discussions held with various departmental officers indicated that whilst most areas within the Department were aware of prescribed procedures for assessing consultant's performance, there was a general reluctance in preparing such reports due to:
- (i) the subjective nature of required comments and the potential problems associated with legal liability and subsequent access to information via Freedom of Information legislation; and
 - (ii) other higher priorities and the perception that it is very difficult to remove a consultant from the Consultants' Register (from which engagements are drawn), as there has been a lack of effective departmental action on unsatisfactory reports previously submitted.

Audit recommendations

- 4.3.9 In view of the increasing amounts expended on consultants and to ensure that the Department is obtaining value for money in respect of these engagements, it was recommended that:

- (1) action be taken by management to ensure that existing internal procedures for the assessment of consultants are performed by the responsible officers; and
- (2) a follow-up system be implemented to ensure that all performance reports are prepared and acted upon in a timely manner.

Response by the Department

- 4.3.10 *The Department indicated that staff have been reluctant to comment on a consultant's performance, except in extreme cases, due to the subjective nature of the comments and the problems associated with legal liability and Freedom of Information legislation. It was acknowledged that some unsatisfactory reports have not in the past resulted in removal of the consultant from the Consultants' Register.*
- 4.3.11 *Steps are being taken to resolve these problems with a closer monitoring of consultants' performance, during and after the completion of the project with reporting mechanisms that are reviewed in monthly reports by the Registrar of Supplementary Resources.*

4.4 Performance of Contractors

Specific audit objective

- 4.4.1 To review the adequacy of systems and procedures employed by the Department to evaluate the performance and quality of work carried out by contractors.

Background information

- 4.4.2 The majority of building works are contracted out to commercial contractors. The Department generally utilises a system of approved tendering. Under this approach, the construction industry is offered the opportunity to submit their credentials for consideration and registration as firms from which tenders will be accepted by the Department for the construction of building works.
- 4.4.3 To assess the performance of contractors engaged by the Department, procedures have been established requiring that contractor's performance reports be prepared at:
- (i) 3 monthly intervals; and
 - (ii) upon completion of works; and
 - (iii) any time when performance is considered to be unsatisfactory.
- 4.4.4 These procedures, initially developed in 1978, were reinforced and expanded in October 1985 to include a performance report on completion of work for works of less than 3 months duration. All reports are to be forwarded to the Construction Manager who is to consolidate the reports into a final report which is attached to the respective contractor's file. Unsatisfactory performance reports are required to be brought to the attention of the Assistant General Manager (Construction) for his consideration and necessary action.

Desirable management procedures

- 4.4.5 Systems and procedures should be in place to ensure that the performance and quality of work performed by contractors is evaluated and documented. Where performance is deemed unsatisfactory appropriate action should be initiated.

Audit observations

- 4.4.6 Although procedures in respect of assessing performance were considered adequate, these procedures were not being followed or complied with by departmental officers.
- 4.4.7 A random sample of 152 contractors engaged on various building projects completed during the period 1 January 1984 to 31 December 1985 was taken. Departmental records disclosed that the requirement to prepare contractor performance reports upon completion of works had not been undertaken in any of the cases examined by audit. Discussions held with various departmental officers indicated that due to similar reasons as those mentioned in paragraph 4.3.6 of this report, contractor performance reports were prepared on an ad-hoc exception basis only. It is apparent that non-compliance with prescribed procedures may result in contractors who have displayed poor performance being engaged to perform subsequent works.

Audit recommendations

- 4.4.8 To ensure that contractors engaged by the Department provide works and services that are consistent with the Department's aims of minimum resource consumption, both in terms of time and cost, and design quality, it was recommended that management take action to:
- (1) ensure that departmental policies and procedures relating to the assessment of contractor performance are complied with; and
 - (2) implement a follow-up system to ensure that all performance reports are prepared, submitted and acted upon in a timely manner.

Response by the Department

- 4.4.9 *The Department agreed with the audit observations and recommendations. Procedures have recently been introduced to monitor closely the performance of contractors through the Construction Managers assigned to each of the Client Groups. Monthly reporting systems are also in place to prompt and monitor contractor performance, however, similar staff reluctance as identified with consultants' performance reports applies here as well.*

4.5 **Feedback and Corrective Action**

Specific audit objective

- 4.5.1 To review the adequacy of systems and procedures used to ensure that:
- alternatives and recommendations for improvement in the future planning and control of similar projects are developed; and
 - appropriate corrective action is undertaken by management on unsatisfactory matters identified during post-project reviews.

- 4.5.2 It is important that all constructive ideas generated from post-project reviews are recorded and communicated for consideration on future projects.
- 4.5.3 There is a need to ensure that both satisfactory features and problems relating to individual projects are brought to the attention of relevant departmental officers so that these issues can be incorporated or avoided as appropriate on subsequent projects. In this respect, systems and procedures should exist for collecting and communicating data gained from the review of completed projects.

Audit observations

- 4.5.4 As a consequence of the findings reported in paragraph 4.1.4, audit noted that post-project review information feedback systems and procedures had not been developed.

Audit recommendations

- 4.5.5 To ensure the effective communication and utilisation of results of post-project reviews it was recommended that:
- (1) data relating to post-project review results be stored in an appropriate data base; and
 - (2) such data is drawn upon for the development of proposals for the improvement of existing methods, procedures and standards for future project management and control.

Response by the Department

- 4.5.6 *The Department agreed with the audit observations and recommendations and indicated that procedures and processes are being developed for implementation throughout the Department.*
- 4.5.7 *In addition, as part of the process of developing post-occupancy evaluation procedures, staff are being encouraged to highlight improvements to existing methods, procedures, standards, management control etc., by the creation of a "Scheme for recognition of innovative work and projects of excellence".*

4.6 Reporting - Information Systems and Performance Indicators

Background information

- 4.6.1 The Department's electronic data processing information systems comprise:
- (1) Works Recording Network (WREN)
WREN is an on-line computer system which was designed to provide project planning, tracking and accounting details of capital expenditure.
 - (2) Project Activity and Resource Cost Analysis (PARCAS)
PARCAS was designed to record costs of internal and external resources used in design, construction and related activities.

(3) Other

A number of IBM personal computers are utilised mainly for project report and cash flow forecasting.

Audit observations

- 4.6.2 In its 1984-85 Annual Operating Plan, the Department recognised the lack of sufficient, clear quantitative performance indicators and control reports. The absence of such indicators renders it difficult for management to monitor efficiency and effectiveness of both individual branches and the organisation as a whole and to take corrective action.
- 4.6.3 Performance indicators have been developed by the Department however, implementation of these measures, in terms of their quantification and monitoring against targets, is dependent upon the development of an appropriate data base/information system.
- 4.6.4 The potential of existing information systems (WREN/PARCAS) to meet management information requirements has not been fully utilised. The Department has identified operational and reporting inadequacies in both systems. These inadequacies have resulted in fragmented alternative information systems (both manual and computer based) being maintained by various resource centres. To overcome these difficulties, the Department appointed a consulting firm in 1985 to complete a study to develop the Public Works Department Information Systems Strategic Plan necessitating the evaluation of existing systems and the identification of immediate and future requirements for all sections of the Department.
- 4.6.5 During the course of the examination a manual monthly reporting system was being developed within the Design and Construction Division. The purpose of these reports is to provide the Directorate with regular and consistent summaries of performance data for each group within the Division.

Audit recommendations

- 4.6.6 It was recommended that a concerted effort be made to finalise suitable information systems and performance indicators to assess performance and facilitate accountability.
- 4.6.7 Development of such systems would assist in the establishment of post-project review procedures.

Response by the Department

- 4.6.8 *The Department agreed with the audit observations and recommendations. The Department has appointed a Project Manager to implement the Information Systems Strategic Plan, and an appropriate computer system is being selected from tenders received, which will supplement and/or replace existing information systems.*
- 4.6.9 *The introduction of personal computers to all Groups as a short term measure has remarkably improved the monitoring, tracking and reporting requirements of the Directorate, Executive, General Manager, Director General and the Minister.*

4.6.10 *With the development of appropriate data base/information systems, "post-project review" or "post-occupancy evaluation" or "project (building) evaluation" will be better serviced in order to assess performance and facilitate accountability.*