

Report No. 49 of the Director of Audit — Chapter 8

OUTSOURCING OF ENVIRONMENTAL HYGIENE SERVICES

Summary

1. The Food and Environmental Hygiene Department (FEHD) is responsible for the provision of environmental hygiene services in the territory. As at January 2007, the FEHD outsourced about 60% of its services under 126 contracts with a total contract value of some \$1,800 million. The Audit Commission (Audit) has recently conducted a value for money audit on the outsourcing of street cleansing, waste collection and pest control services, which accounted for 71% in value of FEHD outsourcing contracts.

Protection of non-skilled workers engaged in outsourcing contracts

2. *Employment-related irregularities.* With the implementation of labour protection measures by the Government, more cases of employment-related irregularities in FEHD outsourcing contracts have been reported in recent years. While this might partly be attributable to increasing awareness of employees' rights and FEHD enforcement work, it also showed that the problem of employment-related irregularities among FEHD contractors had remained unresolved. *Audit has recommended that the Director of Food and Environmental Hygiene should continue monitoring closely the incidence of employment-related irregularities in FEHD outsourcing contracts.*

3. *Need to adopt a risk management approach.* Of the 60 default notices (DNs) issued by the FEHD for employment-related irregularities during the period August 2002 to June 2005, 38 (63%) were issued to one contractor, while the remaining 22 were issued to 10 other contractors. Furthermore, as at July 2007, five contractors with conviction records were still undertaking 16 FEHD contracts. *Audit has recommended that the Director of Food and Environmental Hygiene should adopt a risk management approach in the FEHD's labour protection enforcement work, focusing its efforts on monitoring the employment-related performance of the high-risk contractors.*

Tender evaluation and contract administration

4. ***Evaluation of past performance of tenderers.*** For tenderers that are either existing or former contractors, the FEHD assesses their past performance based on the overall conclusions in the Monthly Assessment Reports submitted by the District Environmental Hygiene Offices (DEHOs). Audit notes that a satisfactory overall conclusion has always been given in all such reports. For new tenderers that have not undertaken any FEHD contracts, the FEHD requires them to furnish the names and telephone numbers of referees. Audit examination revealed that there was a lack of supporting documentation of references obtained. *Audit has recommended that the Director of Food and Environmental Hygiene should: (a) issue guidelines to help the DEHOs assess the overall conclusion on contractor performance in the Monthly Assessment Reports; and (b) review the FEHD's current practices of assessing the past performance of new tenderers and issue appropriate guidelines.*

5. ***Working hours of drivers.*** To safeguard the benefits of non-skilled workers, the FEHD has encouraged tenderers to set a maximum of not more than 10 working hours a day for their workers. This, however, does not apply to skilled workers such as drivers. Audit noted that it was quite common that the drivers of waste collection vehicles of FEHD contractors had long working hours (over 10 hours a day). This practice is not conducive to promoting occupational health and safety at work. *Audit has recommended that the Director of Food and Environmental Hygiene should consider taking into account the daily working hours of drivers in tender evaluation.*

6. ***Financial vetting of tenderers.*** The FEHD conducted financial vetting of tenderers only prior to the award of contracts. As some FEHD outsourcing contracts last for a few years, the financial positions of the contractors change over time and they may become financially incapable of fulfilling the contracts. *Audit has recommended that the Director of Food and Environmental Hygiene should, for long-term outsourcing contracts, consider including a clause in contracts whereby a contractor will be subject to periodic financial vetting.*

7. ***Contractors' obligations.*** A successful tenderer is required to provide a contract deposit (e.g. in the form of bank/insurance company guarantees) and submit a copy of the public liability insurance policy (PLIP) to the FEHD. Audit examination of 11 contracts revealed that in 9 cases, the guarantees and/or PLIPs were submitted after commencement of contracts. In some cases, the PLIPs were not in the joint names of the Government and the contractor. *Audit has recommended that the Director of Food and Environmental Hygiene should: (a) ensure that the contract deposits are settled and the PLIPs are taken out in a timely manner; and (b) remind tenderers the requirement of taking out PLIPs in the joint names of the Government and the contractor.*

8. ***Reliance on dominant contractors.*** For the period 1 April 2006 to 31 March 2007, the FEHD relied on one contractor for the provision of pest control services throughout the 19 districts in the territory. For the financial years 2007-08 and 2008-09, the provision of such services was dominated by another contractor that covered 15 districts. Reliance on a dominant contractor poses risks to the FEHD. If the dominant contractor fails to operate effectively, the services would be severely affected. *Audit has recommended that the Director of Food and Environmental Hygiene should: (a) monitor closely the work of the dominant contractors providing environmental hygiene services; and (b) examine the feasibility of limiting the number of outsourcing contracts that may be awarded to a tenderer.*

Monitoring the performance of contractors

9. ***Site inspections conducted by supervisors.*** Audit examination of the records of site inspections conducted by supervisors revealed that supervisory inspections of street cleansing and waste collection services were mainly conducted during normal office hours of the DEHOs, whereas the contractors provided services from early morning to late night. Furthermore, the three DEHOs visited by Audit did not keep formal records of supervisory inspections of pest control services, nor did they conduct any district-wide inspection. *Audit has recommended that the Director of Food and Environmental Hygiene should ensure that the supervisors of the DEHOs: (a) conduct supervisory inspections in accordance with FEHD Operational Manuals; (b) keep proper records of the supervisory inspections; and (c) conduct more supervisory inspections outside normal office hours.*

10. ***Assessing the performance of contractors.*** To assess the performance of a contractor, the DEHO concerned compiles a Monthly Assessment Report for each contract under the contractor. Audit analysis of all the Reports compiled by the three DEHOs showed that while the performance ratings of contractors varied widely, all contractors were given the “satisfactory” overall conclusion. Furthermore, no guidance is given to the DEHOs on the follow-up actions that need to be taken in cases of unsatisfactory performance. *Audit has recommended that the Director of Food and Environmental Hygiene should: (a) provide clearer guidelines to the DEHOs for compiling the Monthly Assessment Reports in a more objective and consistent manner; and (b) provide guidance on the follow-up actions that need to be taken for different levels of overall performance.*

11. ***Late-night bagged refuse collection service.*** The districts overseen by two DEHOs visited by Audit are provided with late-night bagged refuse collection service by FEHD contractors. During the period January 2006 to January 2007, one DEHO did not conduct any surprise inspection as required by the FEHD. A person who deposits any litter or waste on any street or public place shall be liable to a fine. However, during the period, only one person was fined for dumping bagged refuse. Furthermore, the FEHD does not keep track of the quantity of bagged refuse collected by contractors. *Audit has*

recommended that the Director of Food and Environmental Hygiene should: (a) ensure that all DEHOs conduct surprise inspections; (b) ask the DEHOs to step up enforcement action; and (c) consider recording the quantity of bagged refuse collected by the contractors in order to gauge the extent of the problem, and devise appropriate preventive measures.

Contingency planning

12. Audit examination of the contingency plans prepared by three DEHOs indicated that one DEHO had not prepared the contingency plan for the outsourced pest control services. Furthermore, in order to address the risks of territory-wide or large-scale service disruptions, the FEHD needs to prepare an overall contingency plan at the departmental level. *Audit has recommended that the Director of Food and Environmental Hygiene should: (a) ensure that all DEHOs properly prepare contingency plans for different types of outsourced environmental hygiene services; and (b) prepare an overall contingency plan at the departmental level.*

Response from the Administration

13. The Director of Food and Environmental Hygiene has accepted all the audit recommendations.

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