

# Report No. 49 of the Director of Audit — Chapter 9

## OUTSOURCING OF SERVICES IN THE LEISURE AND CULTURAL SERVICES DEPARTMENT

### Summary

1. The Leisure and Cultural Services Department (LCSD) manages a wide range of leisure and cultural facilities. The four major types of LCSD outsourced services are cleansing, security, horticultural maintenance, and sports centre management. As at 31 July 2007, the LCSD had 104 outsourcing contracts with a total contract value of \$1.88 billion. These contracts involved 48 contractors and engaged 7,610 workers. The Audit Commission (Audit) has recently conducted a review of LCSD management of outsourcing contracts.

#### Protection of non-skilled workers engaged in outsourcing contracts

2. **Employment-related irregularities.** In the five financial years 2002-03 to 2006-07, the LCSD recorded 33 suspected cases and 11 substantiated cases of employment-related irregularities in its outsourcing contracts. Comparing with 2002-03, there was a small increase in the number of suspected/substantiated cases in 2006-07. This showed that employment-related irregularities in outsourcing contracts remained an issue to be addressed by the LCSD. *Audit has recommended that the Director of Leisure and Cultural Services should continue monitoring closely the incidence of employment-related irregularities in LCSD outsourcing contracts.*

3. **Need to adopt a risk management approach.** As at July 2007, three LCSD contracts were still undertaken by contractors with conviction records. Besides, 32 contracts were undertaken by contractors who had received one or more demerit points under the service-wide Demerit Point System. *Audit has recommended that the Director of Leisure and Cultural Services should adopt a risk management approach in LCSD labour protection enforcement work, focusing its efforts on monitoring the employment-related performance of the high-risk contractors.*

4. **Worker interviews.** LCSD staff adopted different practices in conducting worker interviews, e.g. in respect of the number of workers to be interviewed and the documentation required. *Audit has recommended that the Director of Leisure and Cultural Services should issue guidelines to LCSD staff to ensure that worker interviews are conducted in an effective and consistent manner.*

5. ***Certified Public Accountant (CPA) certification scheme.*** A contractor is required to submit each month a “Statement of Deployment and Wages of Workers” certified by a CPA. The certification is to substantiate that workers have been paid no less than the wages specified in the contracts, and Mandatory Provident Fund (MPF) contributions have been made. However, the certified statements submitted by contractors did not contain information about the MPF contributions. *Audit has recommended that the Director of Leisure and Cultural Services should revise the “Statement of Deployment and Wages of Workers” such that information about the MPF contributions is also certified by a CPA.*

## **Tender evaluation and contract administration**

6. ***Assessing tenderers’ past performance.*** The documents submitted by tenderers about their past performance took many forms and contained general comments only. The tender assessment panel mainly relied on such documents, while in-house performance information would be used only as supplementary information. *Audit has recommended that the Director of Leisure and Cultural Services should: (a) design forms for inviting tenderers’ other clients to provide information about tenderers’ past performance; and (b) ensure that, for tenderers who are LCSD existing or former contractors, their performance in contracts with the LCSD are taken into account in the tender evaluation.*

7. ***Contractors’ obligations.*** A successful tenderer is required to provide a contract deposit (e.g. in the form of bank guarantee) and submit copies of the public liability and employees’ compensation insurance policies to the LCSD. Audit examination of a sample of LCSD contracts revealed that in many cases, the bank guarantees and/or copies of insurance policies were not submitted on time. In some cases, the public liability insurance policies were not in the joint names of the Government and the contractor. *Audit has recommended that the Director of Leisure and Cultural Services should: (a) ensure that contractors provide contract deposits and submit copies of insurance policies on time; and (b) remind contractors to provide public liability insurance policies in the joint names of the Government and the contractor.*

8. ***Market interest in providing sports centre management services.*** In November 2003, the Central Tender Board approved LCSD proposal of imposing a maximum contracting-out price in the tenders for sports centre management services to meet the need of achieving cost savings. However, market interest appeared on the low side. Furthermore, the maximum contracting-out price may become a guiding factor for tenderers to set their bidding prices, thus preventing the LCSD from obtaining a fair market price. *Audit has recommended that the Director of Leisure and Cultural Services should: (a) take measures to make the contracts of sports centre management services more attractive; and (b) review the need for setting the maximum contracting-out price.*

9. ***Employing people with disabilities.*** For LCSD cleansing service tenders, marks are awarded to a tenderer who has proposed to employ people with disabilities (PWDs). Audit noted that some cleansing contractors did not fulfil their commitments to employ PWDs. *Audit has recommended that the Director of Leisure and Cultural Services should: (a) consider whether tenderers need to explain in their management plans about how they*

would recruit and retain the proposed workforce of PWDs, and how they would train and assist PWDs in carrying out their work; and (b) devise procedures to verify that the contractors' commitments to employ PWDs are fulfilled.

### **Monitoring the performance of contractors**

10. **Daily monitoring.** Amenities Assistants (AAs) are responsible for patrolling minor leisure facilities and horticultural sites. Audit found that the AAs did not obtain prior approval for their patrol routes, nor did they record the conditions of horticultural sites. Furthermore, no spot checks were conducted by the supervisors on the AAs' work. *Audit has recommended that the Director of Leisure and Cultural Services should: (a) require that the AAs' patrol routes are approved by their supervisors; (b) devise a standard form for the AAs to report on the conditions of horticultural sites; and (c) put in place a system of spot checking by supervisors.*

11. **Supervisory inspections.** In accordance with LCSD guidelines, supervisory staff should carry out inspections on leisure facilities. Audit found that most of the supervisory staff did not document on file that they had conducted the required number of inspections stipulated in LCSD guidelines. *Audit has recommended that the Director of Leisure and Cultural Services should ensure that supervisory inspections of both major and minor leisure facilities are carried out in accordance with LCSD guidelines.*

12. **Regulatory actions on unsatisfactory performance.** Audit noted that, in some instances, LCSD staff did not take regulatory actions, although such actions were warranted. In some other instances, they did not take regulatory actions in a timely manner. Furthermore, LCSD staff usually adopted relatively lenient measures in taking regulatory actions. *Audit has recommended that the Director of Leisure and Cultural Services should provide clear guidelines and training to user sections on how to use regulatory instruments properly.*

### **Contingency planning**

13. LCSD outsourcing contractors are required to prepare contingency plans. Such contingency plans mainly deal with the provision of services in emergency situations (e.g. when there is a typhoon). However, the LCSD does not have a departmental contingency plan to address the risks of service disruptions due to failure of outsourcing contractors to provide services (e.g. because of bankruptcy). *Audit has recommended that the Director of Leisure and Cultural Services should prepare a departmental contingency plan.*

### **Response from the Administration**

14. The Director of Leisure and Cultural Services has accepted all the audit recommendations.

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