

Report No. 58 of the Director of Audit — Chapter 4

PROCUREMENT OF GOODS AND SERVICES FOR CORRECTIONAL INSTITUTIONS

Summary

1. The Correctional Services Department (CSD) is responsible for the custody of persons committed or sentenced by the courts and those detained under the Immigration Ordinance (Cap. 115). As at 30 September 2011, there were 9,498 inmates in 27 correctional institutions. The CSD manages the inmates in accordance with the Prisons Ordinance (Cap. 234). It provides them with food, basic necessities and a reasonable living environment. The Audit Commission (Audit) has recently conducted a review of the CSD's procurement of goods and services for correctional institutions.

Procurement of provisions

2. The CSD procures provisions for correctional institutions through open tenders, awarding separate three-year contracts for the supply of rice, food items and canteen items (e.g. snacks). The contractors supply rice and food items to the institutions for cooking by designated inmates, and canteen items for purchases by inmates using their earnings from work.

3. ***Planning and monitoring of tendering tasks.*** In the 2004, 2008 and 2011 tendering exercises, the CSD did not complete most of the tenders in good time. Audit analysis revealed delays in finalising the tender specifications. To maintain the supply of provisions to correctional institutions, the CSD extended the old contracts for 3 to 15 months. Such contract extensions, without open and fair competition, did not provide assurance that best value for money had been achieved. *Audit has recommended that the Commissioner of Correctional Services should, in future tendering, improve the CSD planning and monitoring of tendering tasks.*

4. ***Mandatory requirements on delivery locations.*** The CSD set mandatory requirements on delivery locations in the 2004, 2008 and 2011 tenders. Audit examination of the 2011 tender documents revealed that the CSD had specified more mandatory delivery locations than actually needed. Such over-specification of requirements may lead to unnecessarily high contract prices because tenderers would factor in a higher delivery cost

in their quotations. *Audit has recommended that the Commissioner of Correctional Services should: (a) critically review the mandatory service requirements in the tender documents to ensure that they conform to actual service needs; and (b) in future tendering, ascertain the locations where deliveries are actually needed before incorporating them as a mandatory requirement in the tender documents.*

5. ***Mandatory requirements on vehicles, vessel and warehouse.*** Since the 2008 tenders, the CSD has specified mandatory requirements on vehicles, vessel and warehouse. Audit is concerned about the limited number of tender offers, particularly that there was only one conforming offer (from the incumbent contractor) for the 2008 and 2011 food item and canteen item tenders. The audit findings on the requirements (including that the vehicle requirements were more than the actual need) suggest that they might have been overly demanding. Also, similar tenders conducted by the Social Welfare Department and the Hospital Authority did not include such requirements. *Audit has recommended that the Commissioner of Correctional Services should: (a) critically review the mandatory requirements on vehicles, vessel and warehouse; and (b) remove or revise the requirements in future tendering, with a view to enhancing competition and achieving best value for money.*

6. ***Mandatory experience requirement.*** For all the 2008 tenders, as a new mandatory requirement, tenderers were required to possess at least three years relevant experience. In February 2008, the Central Tender Board advised that the CSD should review whether the requirement could be relaxed to enhance competition. The CSD set the same requirement in the 2011 tenders. Both the 2011 food item and canteen item tenders had only one conforming offer (from the incumbent contractor). For the 2011 rice tender, the only offer (from the incumbent contractor) complying with the requirement did not comply with the vessel specifications. In the rice re-tender, the CSD reduced the requirement to two years and received two conforming offers. *Audit has recommended that the Commissioner of Correctional Services should: (a) critically review the mandatory experience requirement; and (b) remove or revise the requirement in future tendering, with a view to enhancing competition and achieving best value for money.*

7. ***Tendering strategy.*** Since the 2004 tenders, the CSD has adopted a three-contract approach for procuring rice, food items and canteen items separately. In considering the relevant tenders, the Central Tender Board has expressed concerns about the limited number of tender offers and suggested that the CSD should explore more sources of supply and enhance competition. Audit agrees with the Board's suggestions. Given that the contract prices for food items obtained under the current three-contract approach have been consistently higher than the pre-tender estimates by significant margins and have been on a steep increase, the CSD particularly needs to review its tendering strategy. *Audit has recommended that the Commissioner of Correctional Services should review and revise the tendering strategy where appropriate, with a view to maintaining open and fair competition and achieving best value for money.*

Procurement of goods through direct purchases

8. Under the Stores and Procurement Regulations (SPRs), the CSD can make direct purchases of goods not exceeding \$1 million by inviting the specified number of quotations. It is required to procure goods over \$1 million to \$1.43 million through the Government Logistics Department, and adopt tender procedures to procure goods exceeding \$1.43 million.

9. ***Repeated same-day direct purchases from the same supplier.*** Audit's sample check of the CSD's direct purchases of goods made between 2009 and 2011 revealed nine cases of repeated same-day direct purchases of items of a similar nature from the same supplier. According to the SPRs, for each of six cases, the CSD should have obtained the goods in a single direct purchase by inviting at least five quotations. For each of the remaining three cases, the CSD should have adopted tender procedures to procure the goods. *Audit has recommended that the Commissioner of Correctional Services should: (a) look into the cases to ascertain why the CSD officers concerned did not comply with the SPRs, and take appropriate follow-up actions; (b) improve the procedures and controls on the procurement of goods through direct purchases; and (c) regularly remind all CSD officers concerned about the department's commitment to strictly comply with the SPRs.*

10. ***Repeated direct purchases of goods used regularly.*** Audit's sample check revealed instances of repeated direct purchases of less than \$50,000 each for goods used regularly by correctional institutions (e.g. inmates' sandals). The SPRs only require inviting more than one quotation for direct purchases not exceeding \$50,000 each. It is inappropriate to repeatedly use such procedures for purchasing regularly used goods as the limited competition cannot assure that best value for money is achieved. Furthermore, for two consecutive years, the cumulative value of the CSD's repeated direct purchases of sandals exceeded its direct purchase authority limit of \$1 million, contrary to the SPRs. *Audit has recommended that the Commissioner of Correctional Services should: (a) procure goods regularly used by correctional institutions in bulk using tender or other more competitive procedures; (b) establish effective controls to ensure compliance with the financial limit for repeated direct purchases specified in the SPRs; and (c) purchase regularly used goods through the Government Logistics Department when their values exceed the CSD's direct purchase authority limit.*

Procurement of services

11. ***Maintenance services.*** The CSD has entered into a 10-year service level agreement (2008-09 to 2017-18) with the Electrical and Mechanical Services Trading Fund (EMSTF) for providing maintenance services for its systems, equipment and vehicle fleet. Under the agreement, the EMSTF will provide certain services (such as developing contingency plans) for the CSD's critical venues. However, Audit has found that "critical

venues” are not defined in the agreement and the CSD has not agreed with the EMSTF on what venues should be classified as critical venues. As a result, no such services have been provided. Also, according to the agreement, on request of the CSD, the EMSTF is required to submit an annual report on its actual performance as compared with the specified performance targets. However, Audit found that the CSD had not obtained such reports to monitor the EMSTF’s performance. *Audit has recommended that the Commissioner of Correctional Services should: (a) agree with the EMSTF without delay on what venues should be classified as critical venues and ensure that the EMSTF provides the specified services for such critical venues as soon as possible; (b) ensure that significant terms like “critical venues” are clearly defined in future service level agreements; and (c) monitor the performance of the EMSTF’s maintenance services and take appropriate follow-up action where the performance is not satisfactory.*

12. **Cleaning services.** Under the SPRs, the CSD can make direct procurement of services not exceeding \$1.43 million, and is required to adopt tender procedures to procure services exceeding \$1.43 million. The financial limit for tender procedures should not be evaded by dividing procurement requirements or reducing the durations of contracts. For cleaning services for correctional institutions, the CSD currently has 13 contracts awarded through direct procurement procedures, each covering one to six institutions for a duration of 12 to 24 months. Audit comparison of the current and the old contracts revealed that: (a) the CSD, without documented justifications, had awarded four current contracts of smaller scopes or shorter durations as compared with the old ones; and (b) without such changes, tender procedures would have been required. Overall, there are no documented justifications for awarding contracts of different durations (eight contracts with a duration of 12 or 18 months and five of 24 months). If all the eight contracts with a duration of 12 or 18 months had specified a duration of 24 months instead, six of them would have had a contract value exceeding \$1.43 million and would have required tender procedures. *Audit has recommended that the Commissioner of Correctional Services should: (a) review the cleaning service requirements on an overall basis and adopt an appropriate strategy to procure such services, including determining the optimal contract scopes and durations; (b) regularly remind CSD officers responsible for procuring cleaning services of the need to interpret the financial limits strictly; and (c) tighten control to guard against any non-compliance with the laid-down financial limits.*

Response from the Administration

13. The Administration agrees with the audit recommendations.

April 2012