



November 2015

NZ TRANSPORT AGENCY INVESTMENT AUDIT REPORT

Monitoring Investment Performance

Report of the investment audit carried out under section 95(1)(e)(ii) of the Land Transport Management Act 2003.

Approved Organisation (AO):	Greater Wellington Regional Council
Programme Value (2012-15 NLTP – Transport Agency investment)	\$195,389,809
Date of investment audit:	16-20 February 2015 Follow-up 23 July 2015
Investment Auditors:	Glenn McGregor and Tony Pinn
Report No:	IAGMI - 1522

OBJECTIVE

The objective of this audit is to provide assurance that the NZ Transport Agency's (the Transport Agency) investment in Greater Wellington Regional Council's (GWRC) land transport programme is being well managed and delivering value for money. We also sought assurance that the Council is appropriately managing risk associated with the Transport Agency's investment. We recommend improvements where appropriate.

The audit programme is attached as Appendix A.

EXECUTIVE SUMMARY

Good systems are in place for the recording and reporting of public transport patronage, and revenue and SuperGold card transactions. There are excellent processes in place to effectively monitor and manage Total Mobility usage. Claims for funding assistance were successfully reconciled against GWRC's general ledger records for three financial years ending June 2014.

Three infrastructure contracts were reviewed for compliance with the Transport Agency's procurement procedures. Overall we found this area needed improvement as there were a number of departures from the Agency's requirements.

Following our initial fieldwork and draft findings, we were invited back to review a larger sample of contracts.

Whilst we found good examples of procurement processes we also found further issues with some tender evaluations and a lack of documentation on contract files. Overall our conclusions and findings from our initial visit did not change.

Council needs to implement measures to address quality assurance over the tender process and ensure that adequate records are held to support the procurement of NZ Transport Agency funded contracts.

There are ten independent road safety promotion programmes (including the Transport Agency’s Highways and Network Operations group) being delivered in the Wellington region. The lack of an integrated, co-ordinated approach is inhibiting the effective and efficient delivery of the Transport Agency’s road safety investment.

	Issue	Assessment	Risk^a
1	Previous Audit Issues	Green	
2	Financial Management	Green	
3	Procurement	Amber	medium
4	Passenger Transport Contract Management	Green	
5	Passenger Transport Patronage & Revenue	Green	
6	Total Mobility & SuperGold Schemes	Green	
7	Road Safety Promotion	Amber	medium

^a A risk rating is only included for ‘amber’ or ‘red’ assessments.

Before being finalised this report was referred to Greater Wellington Regional Council for comment. Council responses are included below the findings.

DISCLAIMER

While every effort has been made to ensure the accuracy of this report, the findings, opinions, and recommendations are based on an examination of a sample only and may not address all issues existing at the time of the audit. The report is made available strictly on the basis that anyone relying on it does so at their own risk, therefore readers are advised to seek advice on specific content.

FINDINGS

Question 1: What issues, if any, remain unresolved from the previous GWRC audit (May 2012)

Findings	There were no outstanding issues arising from the May 2012 audit. The one recommendation related to 'expired' contracts. This has been addressed.
GWRC response	Noted

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Question 2: Has GWRC good financial systems in place to effectively manage the Transport Agency's investment in the delivery of its land transport programme?

Findings	<p>Claims for funding assistance for the three financial years ending 30 June 2014 were successfully reconciled to Council's financial records.</p> <p>There were small anomalies with coding for SuperGold expenditure that should have been picked up through quality checking.</p> <p>Retentions for the rail infrastructure project were reviewed. We noted that retentions were only claimed as they were released. The Transport Agency allows this expenditure to be claimed at the time the retention is withheld from the progress payment. Council may wish to consider this option.</p>
Suggestion	Council may wish to consider claiming retentions as expenditure at the time they are recognised.
GWRC response	<p>Regarding the SuperGold Card anomalies - we are not sure what the issue identified was. We note that there will be a difference between the value in our accounts and the amount claimed from NZTA as the timing of our month end accounting process requires some estimates to be made.</p> <p>GWRC's practice is to accrue retentions when the work is completed and claim the full project cost including the retention. It is possible that there may be isolated instances where this does not happen - we would be very keen to get examples where this is not happening.</p>
Auditor's response	The Transport Agency allows for retentions to be claimed as they are incurred from progress payments to the supplier and should be claimed from the Agency within the financial year that they occur. In order for this to happen, approved organisations should maintain a separate auditable retentions account. This is different from treating retentions as an accrual.

Question 3: Has GWRC acted in accordance with its endorsed procurement strategy and the Transport Agency's procurement requirements?

Findings

No public transport service contracts have been let since the last audit. Three infrastructure contracts from a list of awarded contracts were selected for review (refer appendix B). Our findings were as follows:

Contract 356 Pedestrian Bridge and Subway Maintenance

All Transport Agency procurement requirements were met.

Contract 339 Tawa Station Upgrade

There were a number of departures from the approved procurement procedures:

- The tender was evaluated using a combination of different methods and the price was scored using the weighted attributes calculation, a non-approved evaluation method.
- The tender evaluation team (TET) did not include a qualified tender evaluator. Further disclosure revealed his withdrawal was due to a conflict of interest. Council should have engaged another qualified tender evaluator to actively participate in the process, and to notify prospective tenderers of the replacement.
- Tenderers were not informed how the non-price attributes were to be evaluated. Weightings for the non-price attributes were determined only after the tender closed. This did not provide tenderers the opportunity to submit their bids based on how Council intended to score these attributes.
- The Request for Tender document stated that the TET may have knowledge of the tenderers prices prior to the evaluation of non-price attributes. This could be seen to influence the scoring and could give rise to the process being challenged, given the tenderers did not know the non-price attribute weightings.

The departures appeared to be through the consultant using Kiwi Rail processes, and although the outcome of this tender was not affected, in certain circumstances it could have. Council could risk being challenged by an unsuccessful tenderer on the basis that the adopted methodology did not comply with an approved Transport Agency procurement procedure.

Contract 0310 - Provision of Bus Stop Asset Cleaning and Maintenance Services.

The tender evaluation report was missing from Council's records. Council contacted their consultant AECOM who managed this

process, but they were also unable provide any further information. We were able to reconstruct the tender based on the information available and concluded the result was correct. Council must ensure that all future tender evaluation records are kept in-house for audit purposes.

Whilst we were provided further information after the fieldwork to address the issues identified, overall there was a lack of quality assurance over the tender process and awareness of NZ Transport Agency requirements Council risk losing NZ Transport Agency funding assistance unless a greater level of scrutiny is applied to its procurement procedures.

There also appears to be no central repository for procurement documentation or a complete contracts list. We found that often contract files were incomplete or key documents were separated out across several staff.

Follow up visit to increase our procurement sample

Following our initial fieldwork and draft findings, we were invited back to review a larger sample of contracts. During our second visit (23 July 2015) we applied a greater level of scrutiny to the tender process i.e. looking through an unsuccessful tenderer's lens. We also checked in detail for any systemic procurement issues across Transport Agency funded contracts.

Findings from second visit:

Wellington PT Spine - PT 0227

This was a complicated tender using the purchaser nominated price method. It also included a short listing stage and the application of non-price weightings for quality attributes.

Overall we found these procedures excellent, with all documentation in order and all Transport Agency requirements met.

Upper Hutt Station upgrade - PT 0417

- The Request for Tender identified the three people who would make up the TET. The tender evaluation report however only refers to two members evaluating the tenders. We also could not confirm that either was a qualified tender evaluator.
- We also found the evaluation estimate figure as disclosed in the request for tender was incorrect (the provisional sums were excluded). However this did not affect the tender evaluation as the figure used in the calculations was correct.

Porirua Station upgrade - PT0436

- The qualified tender evaluator did not sign the tender evaluation calculation sheet or the tender evaluation report. Although his involvement was later confirmed, there was no

evidence on file at the time of the audit to support this.

- After the supplier quality premium was calculated according to approved formula it was adjusted by approximately \$30,000 for all but the lowest scoring tenderer. This had the effect of increasing the tenderers' quality premiums by different percentages ranging from 50% to 188%.

NZTA procurement guidelines state :

Confirming the Supplier Quality Premium

The review of each proposal's supplier quality premium (step 4) is intended to confirm that no supplier quality premium is too high or too low. If the review concludes that one or more supplier quality premium values should be adjusted, then the conclusion and its reasons must be recorded.

The NZTA expects that use of the permission (in step 4) to adjust one or more of the supplier quality premium values will only be rarely used and its use will be limited to those exceptional occasions when the proposal evaluation process reveals something that could not have been anticipated by a capable purchaser. Before using this permission, the purchaser should consider seeking specific legal advice.

Approved organisations should be mindful of the heightened possibility of a hostile response from proposal submitters if they choose to use this permission in a way that could not have been foreseen by those submitting proposals.

Supplier quality premium values must not be adjusted for an arbitrary or irrelevant reason. Adjustment will in most instances be viewed by suppliers as an admission by the purchaser that some aspect of the procurement procedure design was wrong.

For example, when a decision is made to adjust all values by a fixed percentage, this will be seen as an admission that the chosen price weight was wrong.

Approved organisations should state in the RFP that the supplier quality premium values calculated by the price quality method formula at step 3 may be adjusted in certain circumstances. Where the approved organisation can identify the circumstances under which such an adjustment may occur, then, in the interests of transparency, it should outline those circumstances in the RFP.

We found this adjustment unusual and the reasons for this were not evidenced on file. Council risks challenge to the fairness of the tender process if it alters the Supplier Quality Premium without good reason.

	<p><u>PT Marketing and information - PT 00373</u></p> <p>This contract was procured through direct appointment and was estimated to be approximately \$200,000.</p> <p>The reason for this direct appointment was given as “Competition may reduce value for money”. There was however no real evidence at the time to support this decision. Although justification for this was later provided we remind Council of the Transport Agency’s Procurement Manual rules regarding this procurement method:</p> <ol style="list-style-type: none"> 1. <i>Direct appointment of a supplier, using the direct appointment supplier selection method (see appendix C Supplier selection methods), is permitted where the approved organisation has determined that a competition between potential suppliers will not help obtain best value for money.</i> 2. <i>The reasons for the direct appointment of a supplier must be documented. Refer to section 10.6 Documentation and publication requirements.</i> 3. <i>The approved organisation must publish the direct appointment of a supplier where the estimated value of the work is greater than \$50,000.</i> <p><u>INIT Mobile Plan Contract - PT 0432</u></p> <p>Overall there was a good procurement process used and there was good supporting documentation on file to show how the direct appointment represented value for money.</p> <p><u>Overall findings from follow up visit</u></p> <p>Whilst we found good examples of procurement processes we also found issues with some tender evaluations and the documentation of decisions made. Contract files were again incomplete and documentation was again provided after the fieldwork. Overall our conclusions and initial recommendations stand.</p>
<p>Recommendations</p>	<p>That Greater Wellington Regional Council:</p> <ol style="list-style-type: none"> a) Ensures that all financially assisted contracts are let in accordance with NZ Transport Agency Procurement Manual requirements in future. b) Holds all records pertaining to tender evaluations for contracts attracting NZ Transport Agency funding assistance.

GWRC response	<p>GWRC intention is to follow the NZTA procedures 100% of the time and generally we achieve this. We are disappointed that in these instances we did not achieve the required standard and we have taken the following steps to ensure future compliance:</p> <ul style="list-style-type: none"> • Clearly communicated our expectations to managers and staff involved in procurement of NZTA funded contracts • Utilising the newly established procurement and legal function to put appropriate processes and procedures in place • Commenced implementation of our new document management system that will improve our ability to store and quickly retrieve records, with specific filing requirements for documents relating to contracts, including procurement process documents and the final contract itself. • Specified that for all future contracts where procurement related work is undertaken by consultants, GWRC be provided with and retain all records pertaining to the tender evaluations
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Question 4: Are GWRC's public transport contracts managed effectively?

Findings	<p>Contract monitoring has further improved since the last audit and the real time information systems has enhanced this area allowing desktop monitoring targeted at particular areas e.g. trip timeliness against the timetable. Overall Council's monitoring procedures as demonstrated provided good evidence that contracts were being managed effectively.</p>
GWRC response	Noted

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Question 5: Does GWRC have good public transport patronage and revenue collection validation processes in place?

Findings	<p>A sample of monthly bus operators' patronage reports were validated against Council's database and the annual totals were confirmed to the Transport Investment Online (TIO) annual achievement report for 2013/14.</p> <p>Good systems are in place for the recording and reporting of</p>
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	patronage and revenue.
GWRC response	Noted

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Question 6: Does GWRC have appropriate systems in place for the effective delivery of the Total Mobility and SuperGold Schemes?

Findings	<p>The Total Mobility Electronic System (TMES) has changed little since the previous audit but we did note enhancements to the management and reporting of this activity. Advanced exception reporting allows the co-ordinator to monitor a large number of individual trips each day based on qualifiers of price, users, driver etc. Overall excellent systems are in place to effectively monitor and manage Total Mobility usage.</p> <p>The process for recording and claiming revenue under the SuperGold scheme was reviewed. A sample of selected SuperGold patronage reports were validated and reconciled to Council's claims to the Transport Agency and Council's database.</p> <p>All services provided under the scheme were eligible and claimed under the correct fare reimbursement rates.</p> <p>Contracts are currently all net and all SuperGold trips are reimbursed to the operator on a monthly basis.</p>
GWRC response	Noted

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Question 7: Is GWRC's Road Safety Promotion programme providing value for money?

Findings	<p>Road safety promotion was examined to confirm Council's expenditure and programme focus. Expenditure was reconciled to Council's records with some difficulty.</p> <p>There are ten independent road safety promotion programmes (including the Transport Agency's Highways & Network Operations group) being delivered in the Wellington region. The lack of an integrated, co-ordinated approach for these programmes is impacting on the effective and efficient delivery of the Transport Agency's road safety investment. In some local authority areas there can be three agencies, all funded by the Transport Agency, delivering road safety promotion initiatives.</p> <p>GWRC has attempted to address this with the region's local</p>
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	<p>authorities with only limited success. A co-operative relationship with Wellington City Council, in particular, needs developing.</p> <p>GWRC has primarily focussed on delivering cycle safety and school travel plan programmes throughout the region independently of local authorities. These programmes are delivered to a high standard but appear to be more ad hoc rather than complementing other local authority and national road safety initiatives.</p> <p>The Transport Agency acknowledges that at times there have been mixed signals from the Agency as to its expectations for road safety promotion activities being delivered by Council. For 2015-18 the Transport Agency's expectation is for Councils to develop promotions which address the Transport Agency's priorities.</p>
<p>Recommendations</p>	<p>That Greater Wellington Regional Council:</p> <ul style="list-style-type: none"> a) Works with local authorities in the region to develop an integrated approach to delivering road safety programmes in the Wellington region; and b) Develops promotions that address the Transport Agency's priorities.
<p>GWRC response</p>	<p>GWRC is happy to work with local authorities to provide the degree of coordination that NZTA is seeking to and develop an integrated approach to delivering programmes.</p> <p>GWRC has re-aligned its road safety priorities to those of the Transport Agency's priorities in the 2015-18 years.</p>

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Audit Programme

1. Previous audit May 2012
2. Final claims for 2011/12, 2012/13, 2013/14
3. Reconciliation between ledgers supporting final claim and the audited financial statements
4. Transactions (accounts payable) -2013/14
5. Procurement Procedures
6. Contract Management
7. Contract administration
8. Patronage validation
9. Total Mobility Scheme
10. SuperGold Scheme
11. Passenger transport infrastructure – bus centres and shelters
12. Road safety promotion
13. Multi-Party Agreements (if applicable)
14. Transport Investment On-line (TIO) Reporting
15. Other issues that may be raised during the audit
16. Close out meeting (to be arranged)

CONTRACTS AUDITED

First Visit – 16th – 20th February 2015

Contract Number	Tenders Received	Date Let	Description	Contractor		
PT 0310	3	May 13	Provision of Bus Stop Asset Cleaning and Maintenance Services	Directionz Ltd	Estimate Let Price	\$625,000 \$646,178
PT 0339	3	Feb 14	Tawa Station Upgrade	Buildmaster Ltd	Estimate Let Price	\$2,100,000 \$1,714,409
PT 0356	3	Sept 13	Pedestrian Bridge and Subway Maintenance.	Service Resources Ltd	Estimate Let Price	\$1,579,000 \$1,413,680

Second Visit – 23rd July 2015

Contract Number	Tenders Received	Date Let	Description	Contractor		
PT0227	9 (shortlisted to 5)	July 11	Wellington PT Spine Study	Aecom	Price Nominated	\$775,000
PT0373	Direct Appoint	Aug 14	PT Marketing and information	Ideas Shop	Direct Appoint	\$200,000
PT0417	3	Mar 15	Upper Hutt Station Upgrade	Maycroft	Estimate Let Price	\$2,265,000 \$2,275,815
PT0432	Direct Appoint	Sept 13	Mobile PT plan	Init	Direct Appoint	\$437,301
PT0436	4	Feb 15	Porirua Station Upgrade	Downer	Estimate Let Price	\$753,694 \$764,495

Investment Audit of Greater Wellington Regional Council

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Prepared by:

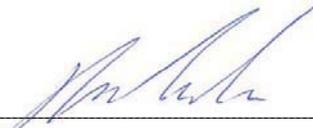


Tony Pinn, Senior Investment Auditor



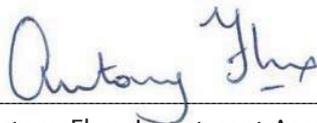
Glenn McGregor, Senior Investment Auditor

Reviewed by:



Ron Wheeler, Senior Investment Auditor

Approved by:



Antony Flux, Investment Assurance Manager (Acting)