



Extract from the report to the
Public Accounts Committee on
the Danish Defence's management
of maintenance, building and
construction projects

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Introduction and Results

1. This report concerns the Defence's management of maintenance, building and construction projects in 2006 and 2007. The background for the report is a maintenance project in the residential area "Nyboder", involving incompetence and failure to comply with the regulations stipulated in the Public Procurement Act. The examination also follows up on the Public Accounts Committee's report no. 5/2005 on maintenance of the state's property. Rigsrevisionen has launched the examination on its own initiative.

2. Appropriations for small-scale maintenance work are not specified in the Budget, but funded through the Defence's operating budget. In 2006, expenditure for small-scale maintenance projects amounted to DKK 351.3 million and in 2007 to DKK 347.0 million. Expenditure in the building and construction area amounted to DKK 491.5 million in 2006 and DKK 649.2 million in 2007.

3. The Defence has been subjected to an extensive reorganisation process which has resulted in re-deployment of 80 percent of the workforce in the Defence. The reorganisation was implemented on the basis of the Defence Agreement 2005-2009. The Agreement calls for realignment, rationalisation and improvement of efficiency. Activities include centralised management of building, construction and building maintenance. In consequence, the Defence established a new organisation on 1 January 2007, i.e. "Forsvarets Bygnings- og Etablissementstjeneste" (service unit responsible for the Defence's buildings, including cleaning, waste disposal, canteens, etc.) including five regional building centres and eight local building centres.

4. The objective of this report is to assess whether the Defence is managing maintenance, building and construction projects in a satisfactory manner. The main objective of the examination is broken down into three sub-objectives:

- Is the Defence handling projects in a satisfactory manner?
- Is the financial management in the area satisfactory?
- Has the Ministry of Defence followed up on the information submitted to it?

Rigsrevisionen has reviewed a number of projects to determine whether the administrative case handling of the projects is in compliance with laws and regulations, including tendering provisions designed to ensure cost effective procurement. The Public Administration Act also includes regulations regarding incompetence designed to ensure that public officials make unbiased decisions on the basis of factual considerations.

The Defence should – taking into consideration the size of the costs related to maintenance of its property – as a minimum have financial control of the total internal appropriations and be able to estimate and follow up on expenditure in the area.

Rigsrevisionen has also examined whether the Defence has followed up on the Public Accounts Committee's report no 5/05 regarding maintenance of the state's property in a satisfactory manner, and whether the Ministry of Defence has ensured that efforts are made to catch up with the established maintenance backlog.

RESULTS OF THE EXAMINATION

According to Rigsrevisionen's overall assessment, the administrative case handling and the financial management of the major projects under examination is overall satisfactory. In some areas, the Defence must improve case handling and the financial management of small-scale maintenance projects. In future, the Ministry of Defence should more systematically follow up on information submitted by the Defence.

The comprehensive reorganisation of the Defence resulting from the Defence Agreement 2005-2009 has, in combination with the general manpower shortage, lead to understaffing in the area. This has made it difficult for the Defence to perform its tasks. In 2007, the Defence took initiatives to ensure that small-scale projects are being implemented in the most cost effective manner and at the same time, internal regulations were tightened.

Rigsrevisionen recommends the Defence to add structure to the administration and increase the transparency of small-scale maintenance projects, for instance by implementing a simple guideline and checklist.

This overall assessment is based on the following:

The administrative case handling of the examined major projects is overall satisfactory, but in future the Defence must improve its case handling of small-scale maintenance projects. In 2007, the Defence took initiatives to ensure that small-scale projects are implemented in the most cost effective manner and at the same time, internal regulations were tightened.

- Rigsrevisionen has reviewed 94 small-scale projects from 2006 and 2007. Tenders in writing were available for 75 of the projects. Rigsrevisionen did not come across any projects like Nyboder where both the tender and incompetence provisions were being violated. However, the projects under examination had not all been handled in compliance with the rules and regulations. The Defence was not in all instances able to provide documentation that procurement had been cost effective, as the Public Procurement Act had not been complied with in certain cases. Furthermore, the transparency of case handling was inadequate, i.e. missing clear written agreement concerning the concrete procurement, no written documentation of, for instance oversight of delivery or authorisation of project by immediate superior.
- In March 2007, the Defence tightened the internal regulations and instructions to personnel with responsibility for procurement of maintenance services. Rigsrevisionen finds this satisfactory.

- In September 2007, the Defence entered framework contracts for 11 crafts. The framework contracts will ensure that the majority of the small-scale maintenance projects are implemented in the most cost effective manner and that the tender provisions etc. are being complied with. The examination shows that the framework contracts were not used to their full potential in the 4th quarter of 2007. In future, the Defence will make sure that the framework contracts are being used.
- The Defence finds Rigsrevisionen's proposal to introduce a checklist appropriate. The checklist shall ensure the transparency of the administrative handling of the projects, provide documentation that procurement implemented by the project managers is cost effective, and ensure that the incompetence provisions are not violated. In 2007, the Defence implemented framework contracts and a new project management system, and in 2008, a maintenance manual will be developed. The Defence is of the opinion that these initiatives in combination will curb the need for a checklist. Rigsrevisionen agrees with the Defence on this point and therefore recommends that the checklist is used in a transitional period and then revised when the initiatives have been implemented.
- Rigsrevisionen has reviewed 14 major projects. The cheapest or economically most advantageous tenders have been selected in the instances where more quotations were obtained. The Defence has not in all cases followed the tender provisions and should focus more on complying with the provisions.
- The Defence has prepared building reports on all 14 major projects. Thus, the Defence meets the requirement to work out building reports, cf. Circular on the Implementation of Government Building and Construction Projects. The Defence should ensure regular updating of the reports.

The Defence should ensure improved financial management of small-scale maintenance projects. Overall, the Defence's follow-up on expenditure related to the major projects under examination is satisfactory.

- The Defence's financial management of small-scale projects in 2006 and 2007 was not satisfactory. The Defence has not had control of costs and is not able to account for expenditure related to the individual projects. The Defence has neither in 2006 nor in 2007, had a complete system for registration of small-scale maintenance projects. As a result, the Defence has recorded an unintended increase in costs of DKK 67.3 million in 2007. The Defence has recognised that the level of control with the economy of small-scale maintenance projects was not satisfactory in 2007. The Ministry of Defence has informed Rigsrevisionen, that in 2008 the Defence will implement an action plan which will rectify the situation.
- The Defence follows up on major projects on a monthly basis. Overall, the follow-up process is satisfactory.

In future, the Ministry of Defence should more systematically follow up on information relating to maintenance.

- In relation to the small-scale projects, the Ministry of Defence can, with advantage, ensure closer follow-up on total maintenance expenditure which is significant in this area.

- The Ministry of Defence has requested a briefing on the effect of the action plan which the Defence launched in June 2008 in order to realign the overall financial management of the small-scale maintenance projects.
- The Ministry's follow-up process relating to the major projects is, according to Rigsrevisionen's assessment, overall satisfactory.
- According to the appropriation provisions, the Ministry of Defence should have submitted the building and construction project "Kongsøre" – facilities for the Danish Navy Seals – to the Finance Committee. The Ministry of Defence has recognised that failing to do so was an error of judgment.
- In May 2008, the Defence prepared a detailed action plan to ensure that the maintenance backlog is being caught up with.
- The Ministry of Defence has informed Rigsrevisionen that the maintenance backlog will be caught up with in 2013. Rigsrevisionen has noted that the backlog, according to the Defence's estimates, has not been significantly reduced since 2006.
- The organisation of the maintenance, building and construction area has not been precise and unambiguous, neither in the transitional year 2006 nor in 2007. The comprehensive reorganisation of the Defence resulting from the Defence Agreement 2005-2009 has, in combination with the general manpower shortage, lead to understaffing in the area. This has made it difficult for the Defence to perform its tasks.