

Unknown

From: Patrick Gillingham [connell@midrand-estates.co.za]
Sent: 02 June 2006 22:21
To: angelo@bosasa.com
Subject: FW: MANAGEMENT LETTER - TENDERS 2005/06

FYI, This is the doc which I've discussed with the AG on Friday morning.

From: Mareka, Nandi [mailto:NandiVeronica.Mareka@dcs.gov.za]
Sent: 01 June 2006 06:04 PM
To: Gillingham, Patrick; Ngubo, Mollet; connell@midrand-estates.co.za
Subject: MANAGEMENT LETTER - TENDERS 2005/06

Attached please find management comments with regard to the management letter issued with regard to big bids awarded in 2005/06.

For your comments and information

Nandi Mareka

Any views expressed in this message are those of the individual sender, except where the message states otherwise and the sender is authorized to state them to be the views of any such entity.

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**DEPARTMENT: CORRECTIONAL SERVICES
REPUBLIC OF SOUTH AFRICA**

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The Auditor-General
P O Box 446
PRETORIA
0001

02 June 2006

MANAGEMENT LETTER: REGULARITY AUDIT ON TENDERS AND CONTRACT ADMINISTRATION (SONDOLO IT, PHEZULU AND BOSASA) PERFORMED AT THE DEPARTMENT OF CORRECTIONAL SERVICES: HEAD OFFICE FOR THE 2005-06 FINANCIAL YEAR

1. INTRODUCTION

During discussions with the CFO and DC Finance on 10 April 2006, it was explained that the regularity audit will be extended to include the media coverage regarding tenders and contract administration (Sondolo IT, Phezulu and Bosasa) of the Department of Correctional Services for the financial year ended 31 March 2006. The regularity audit has been completed and the purpose of this management letter is to bring to your attention the findings that were revealed during the audit.

2. SCOPE AND DETERMINATION OF RESPONSIBILITY

The audit was conducted in accordance with the International Standards on Auditing. These standards require that the audit is planned and performed so as to obtain reasonable assurance that, in all material respects, fair presentation is achieved in the annual financial statements.

An audit includes an:

- examination on a test basis of evidence supporting the amounts and disclosures in the financial statements;
- assessment of the accounting principles used and significant estimates made by management; and
- evaluation of the overall financial statement presentation.

The audit also included an examination, on a test basis, of evidence supporting compliance in all material respects with:

- Laws and regulations, the effect of which should be considered when determining the form, content or preparation of financial statements;
- Laws and regulations that may have a material effect on the purpose, operations or financial management of the Department of Correctional Services: Head Office;
- Other laws and regulations (on a relational basis) that may give rise to material financial, political or operational risk or exposure.

The matters mentioned in this letter are therefore those that were identified through tests considered necessary for the purpose of the audit and it is possible that there might be other matters and/or weaknesses that were not identified.

The financial statements, maintenance of effective control measures and compliance with laws and regulations are the responsibility of the accounting officer. Our responsibility is to express our opinion on these financial statements.

3. FINDINGS

The above mentioned tenders and contract management were subject to audit procedures and the following was revealed:

Audit Findings

3.1. TENDER HK 2/2005 : ACCESS CONTROL AND SURVEILLANCE AT 68 CORRECTIONAL FACILITIES : SONDOLO

- a. According to the Supply Chain Management User Manual, Chapter 1, paragraph 1.3.9, IT-requirements will be handled by the Branch : Government Information Technology Officer in accordance with their policies on procurement. The State Information Technology Agency (SITA) will continue to execute the procurement function in respect of IT-requirements within the framework of the applicable legislation and regulations.

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During the audit of Tender HK2/2005 "Supply, delivery, installation, commissioning, support and maintenance of a comprehensive access control and body scanning system with CCTV coverage of department of correctional services staff and inmates, at 66 maximum security facilities/centres of excellence", no evidence could be found on file that DCS IT staff members nor SITA were in any way involved in the tendering process. This contract has major IT implications.

DCS IT staff were only involved in the IT processes after the contract had been awarded to Sondolo IT. Refer minutes, 19 April 2005, 10:00 - 10:55, between the Department and Sondolo IT. At this meeting "the way forward" was discussed, indicating, IT will appoint a representative to attend all future meetings between DCS and Sondolo IT.

Management comments

From the compiler of the tender specifications, access control and surveillance are security systems. The focus was more on security rather than on information technology. It was not computer software but security hardware that was installed. DCS has access control at new facilities, that is, Kokstad and Empanjeni, and the said access control systems were taken into account and improvements on the said technology was considered during the drafting of the specifications and what is currently available in the market.

b. Having regard to tender HK2/2005, awarded to Sondolo IT, a condition in the Bid document, par 17 - Training - was that the contractor shall provide the full time services of qualified staff to train DCS personnel to manage and run the system.

A memorandum dated 13 July 2005, unreferenced, made a proposal that the staffing of the individual facility control rooms be outsourced to Sondolo IT. This was subsequently approved by the Commissioner on 4 August 2005. Furthermore, a memorandum dated 10 October 2005, unreferenced, indicates the additional cost at R4 695 000 per month. This additional service was not sent out on a separate tender but was regarded as an extension to the current contract, within 20% of the approved tender. The initial tender approved for Sondolo IT amounted to R 236 897 385. This was approved by the National Bid Adjudication Committee on 11 April 2005. (20% of R236,9 million = R47,4million). To man the control rooms will cost the department R56 340 000 per annum. This is outside the 20% deviation. The 20% deviation is provided for in the supply chain delegations, but not in the policy.

Management comments

In facilities where DCS has access control systems there has been in the past instances of collusion between members who man the control rooms and the perpetrators, which could be DCS members or members of the public and inmates, for example, Grootvlei incidents. In our analysis, an organization can have the best technology but the internal controls could easily be compromised by the human element, hence the outsourcing of the manning of the control rooms. A cost-benefit analysis was done to compare the cost of manning of the control rooms by DCS and outsourcing. And the Department is saving an average of R2 million per month by outsourcing this service. Effectively there is value for money by outsourcing the manning of these control rooms. It must be mentioned that overall the Department is having a supervisory and a monitoring role. The extension was found to be necessary for the Department and there was no need to invite another bid. The extension was done in accordance with paragraph 15.16.1.1.1 of the DCS Procurement Procedure Manual, Annexure A.

c. According to the Supply Chain Management User Manual, Chapter 3, paragraph 3.13, should private sector suppliers, if any, be involved in the drafting of the specifications of the bid, they should certify that the specifications were written in an unbiased manner to allow all potential bidders to offer goods/works/services. There is no certification to this effect by any official. Having gone through the bid documentation it could not be established from where and how the specifications originated.

Management comments

No bid specifications were drafted by private sector suppliers. Bid specifications were drafted by DCS. In the process of drafting specifications the Department looked at what was then installed in our facilities that have access control and what was available in the market. Specifications were broad and general. The whole exercise of installing access control system is part of a comprehensive security plan as indicated in our strategic plan and one of the pillars of the plan is access control. This was also an initiative to mitigate the risk of uncontrolled movement of staff as identified also by the Office of the Auditor-General.

d. In terms of the Supply Chain Management User Manual, Chapter 3, paragraph 3.7.2.iii, bid committee members should have the necessary technical knowledge to evaluate the bid, i.e. allocate points with regard to each criterion. In terms of the bid evaluation, no IT specialist was involved in the bidding process. IT specialists were only involved after the bid had been allocated to Sondolo IT. Thus it could not be verified whether the bid evaluation committee had the necessary technical knowledge to evaluate the bid.

Management comments

Director: System Development, Mr J Leithoba was appointed as member of the Bid Evaluation Committee which supported the recommendations as tabled before the Bid Adjudication Committee. The Bid Evaluation Committee sat on 16 March 2005. Annexures B and C.

- e. In terms of the Supply Chain Management User Manual, Chapter 4, paragraph 4.1.3, the department should maintain a list of prospective suppliers. During the audit of the suppliers list Sondolo IT could not be found on the department's prospective suppliers list.

Management comments

The Department maintains a suppliers database which is mainly used for procurement on quotation basis. Refer to paragraph 4.1 (Annexure C) of the DCS Procurement Manual. As for the open bidding processes, any supplier may bid regardless of whether his name appears in the DCS supplier database or not. For the bid of this magnitude it's essential to allow all role players to participate in the bidding process to prevent allegations or perceptions of corruption.

- f. Abnormal payment terms were noted in the specifications. Paragraph 13 of the bid documentation provides for payments of "80% of the price to be paid for equipment on completion of the installation and 10% after the installation has been successfully commissioned and running to the satisfaction of the project officer DCS, for three months". In our opinion, this is not a sound financial practice, in that consideration should have been given to reasonable progress payments based on certified performance over the contract period.

Management comments

In our opinion paragraph 13 of the bid documentation is reasonable because as DCS payment cannot be done in full up until the system is running satisfactorily for three months, to the satisfaction of the DCS project officer, which serves for the Department as a guarantee that the system actually works.

- g. In terms of the Sondolo IT contract, signed on 14 April 2005, (HK2/2005) bid paragraph 7, the period of contract, indicated that the contract will commence with the signing of the contract and the installation of the equipment must commence within 60 day thereafter. Thereafter five correctional centres must be completed per month. During our regional

visits in May 2006 to selected sites, we could not find evidence of any fully operational systems. It was also noted that some of the equipment was not operating effectively at most of the sites. We could not establish whether any 5 sites were actually completed per month, in terms of the contract.

Management comments

The finding is not clear in terms of what was not operational in each of the sites visited. Progress on the project implementation is monitored monthly by both the Project Management Committee and the Steering Committee. Sondolo IT reports to both committees.

It is noted that at certain sites the Telkom connectivity to Regional Control Rooms is not in place, this is however as a result of Telkom delays, and has been noted to project committee meetings on a regular basis, the delayed VPN however does not impact on each prisons effectiveness.

Hereunder is the progress report per management area:

1. PRETORIA CENTRAL – SYSTEM IS OPERATIONAL – TO BE LOCKED DOWN

- a. The system is fully installed, the proximity cards which were delayed by DCS project committee have been purchased by Sondolo IT and issued Member's enrollment has to take place prior to locking the turnstiles; the enrollment is dependant on DCS management at Pretoria.
- b. Pretoria Central is scheduled for enrollment and lockdown by Monday the 5th June 2006.
- c. Members must still be allocated to the search areas by DCS Security.
- d. Standard operating procedures that have been initiated and compiled by Sondolo IT and forwarded to Security Directorate and have not as yet been reviewed by DCS for final implementation, this process must be completed by DCS at all levels.
- e. All control rooms are staffed with trained officials.

2. LEEUWKOP – SYSTEM IS OPERATIONAL / LOCKED DOWN

- a. Both sites are locked down; enrollment has taken place, subsequent to a delay in the issuing of the proximity cards.
- b. Members must still be allocated to the search areas by the Department of Correctional Services.
- c. All control rooms are staffed with trained officials.

3. BAVIAANSPOORT – SYSTEM IS OPERATIONAL – TO BE LOCKED DOWN

- a. The system is fully installed, the proximity cards which were delayed by DCS project committee have been purchased by Sondolo IT and issued.
- b. Member's enrollment has taken place prior to locking the turnstiles; the enrollment is dependant on DCS management at Baviaanspoort.
- c. Baviaanspoort is scheduled for lockdown by Friday the 2nd June 2008.
- d. Members must still be allocated to the search areas by DCS Security.
- e. Standard operating procedures that have been initiated and compiled by Sondolo IT and forwarded to Security Directorate, and have not as yet been reviewed by DCS for final implementation, this process must be completed by DCS at all levels.
- f. All control rooms are staffed with trained officials.

4. ZONDERWATER – SYSTEM FULLY OPERATION – FULLY LOCKED DOWN

- a. The system is fully installed, the proximity cards which were delayed by DCS project committee have been purchased by Sondolo IT and issued.
- b. Member's enrollment has taken place prior to locking the turnstiles.
- c. Zonderwater is fully locked down.
- d. Members must still be allocated to the search areas by DCS Security.
- e. Standard operating procedures that have been initiated and compiled by Sondolo IT and forwarded to Security Directorate, and have not as yet been reviewed by DCS for final implementation, this process must be completed by DCS at all levels.
- f. All control rooms are staffed with trained officials.

5. MAKHADO – FULLY INSTALLED – FULLY LOCKED DOWN

- a. The system is fully installed; the proximity cards which were delayed by DCS steering committee have been purchased by Sondolo IT and issued.
- b. Member's enrollment has taken place.
- c. Makhado is fully locked down.
- d. Members must still be allocated to the search areas by DCS Security.
- e. Standard operating procedures that have been initiated and compiled by Sondolo IT and forwarded to Security Directorate, and have not as yet been reviewed by DCS for final implementation, this process must be completed by DCS at all levels.
- f. A concern with the VPN is being addressed.
- g. All control rooms are staffed with trained officials.

6. POLLSMOOR – FULLY INSTALLED – ENROLLMENT COMMENCED – TO BE LOCKED DOWN

- a. The system is fully installed, the proximity cards which were delayed by DCS steering committee have been purchased by Sondolo IT and issued.
- b. Sites have not been locked down as a result of delays in the card.
- c. According to the Regional Head of Security additional items are required that are extensions to the current scope for the hospital entrances.
- d. Enrollment must still take place; this is dependant on the Department of Correctional Services.
- e. All control rooms are staffed with trained officials, where shortages as a result of the strike take place; these are credited to the Department.

7. GOODWOOD – FULLY INSTALLED – DELAYED BY PUBLIC WORKS – FULLY INSTALLED – TO BE LOCKED DOWN

- a. The system is fully installed; the proximity cards which were delayed by DCS steering committee have been purchased by Sondolo IT and issued.
- b. Sites have not been locked down as a result of delays in the card.
- c. Enrollment must still take place; this is dependant on the Department of Correctional Services.
- d. Required additional entrances, not in contract scope.
- e. All control rooms are staffed with trained officials.

definition of Sondolo IT. The site, as a result of a newly installed "JFE" system that was not working, could not be integrated. Sondolo IT had to wait until the Department of Public Works de-installed the system, this took place early April, and Sondolo IT could only commence work mid-May.

It must be noted that Sondolo IT has not charged the Department of Correctional Services extra, and as has been the case, Sondolo IT has to pick up on previous in competencies from the Department of Public Works, leading to delays as a result of specification and scope changes required.

8. EAST LONDON – FULLY INSTALLED – ENROLLMENT COMMENCED – TO BE LOCKED DOWN

- a. The system is fully installed; the proximity cards which were delayed by DCS steering committee have been purchased by Sondolo IT and issued.
- b. Sites have not been locked down as a result of delays in the card.
- c. Enrollment must still take place; this is dependant on the Department of Correctional Services.
- d. Required additional entrances, not in contract scope.
- e. All control rooms are staffed with trained officials.
- f. According to the Regional Head Security additional paraplegic gates are required; this was not in original specifications and scope.

9. GROOTVLEI – FULLY INSTALLED – FULLY LOCKED DOWN

- a. The system is fully installed; the proximity cards which were delayed by DCS steering committee have been purchased by Sondolo IT and issued.
- b. Sites have been locked down.
- c. Required additional entrances, not in contract scope.
- d. All control rooms are staffed with trained officials.
- e. According to the Regional Head Security additional paraplegic gates are required; this was not in original specifications and scope.

10. FREE STATE REGIONAL OFFICE

The Regional control room has been installed, and is ready to work, however a delay was encountered with Telkom as a result of the strike. The control room is in the process of being staffed, and will be fully commissioned.

11. PIETERMARITZBURG – DELAYED DUE TO RAMP INSTALLATION – NOTED BY STEERCOM – OLD TECHNOLOGY TO BE REPLACED – TO COMMISSION

Installed – To Be Commissioned by June 2006

Recently the site was installed by a company appointed by the Department of Public Works, and was not identified in the project

12. RUSTENBURG – FULLY INSTALLED – FULLY LOCKED DOWN

- a. The system is fully installed; the proximity cards which were delayed by DCS project committee have been purchased by Sondolo IT and issued.
- b. Member's enrollment has taken place.
- c. Rustenburg is fully locked down.
- d. Members must still be allocated to the search areas by DCS Security.
- e. Standard operating procedures that have been initiated and compiled by Sondolo IT and forwarded to Security Directorate, and have not as yet been reviewed by DCS for final implementation, this process must be completed by DCS at all levels.
- f. All control rooms are staffed with trained officials.

13. MIDDELBURG – FULLY INSTALLED – FULLY LOCKED DOWN

- a. The system is fully installed; the proximity cards which were delayed by DCS project committee have been purchased by Sondolo IT and issued.
- b. Member's enrollment has taken place.
- c. Rustenburg is scheduled for full locked down on the 1st June 2006, and has been delayed as a result of the cards.
- d. Members must still be allocated to the search areas by DCS Security.
- e. Standard operating procedures that have been initiated and compiled by Sondolo IT and forwarded to Security Directorate, and have not as yet been reviewed by DCS for final implementation, this process must be completed by DCS at all levels.
- f. All control rooms are staffed with trained officials.

- a. In terms of the Supply Chain Management User Manual, Chapter 6, paragraph 6.8.1, the accepted bid price should be in line with other market prices. It was noted that only Phezulu met the technical specifications of 70% and above, thus only their financial proposal was accepted and opened. Phezulu had on various occasions, erected fences for Public Works (PW), but no evidence could be found that the department has enquired from PW whether the prices were reasonable.

Management comments

When the Department was estimating, before the bid was published, the cost of this project, DPW estimations were used in relation to the fencing itself. The most critical part of the bid was the functionality aspect hence the technical specifications played a fundamental role and the threshold was 70%. Installations by DPW are not always of the same magnitude as the said bid, as DPW excluded in their bids lighting, connectivity and cameras. DCS has enhanced on the DPW specifications to include surveillance technology and detection systems. Therefore benchmarking with DPW awarded bids would not have given DCS any assurance of reasonableness of the bid price, moreover that DPW in their bids do not include manufacturer's guarantee, maintenance and penalties which the Department included.

- b. Phezulu Invoice No. 1, dated 14 December 2005, (clearly marked "Prepayment of contract No HK24/2005"), for an amount of R56,4 million including VAT was paid in December 2005 by the Department. This is in contravention of the contract as paragraph 13 of the bid - terms of payment - requires "90% of the bid price on completion of the delivery of the full bill of materials on site." This invoice was certified by an administrative secretary in the office of the CFO, as "Correct in accordance with the contract. Not paid before." According to information obtained, the full bill of materials on site was only delivered by 17 March 2006, with minor equipment still outstanding.

Management comments

One of the conditions of the signed contract was that the supplier must submit a spending plan. In terms of the spending plan submitted, the first tranche was for a deposit for materials which is taut wire inclusive of inner and outer fence, inner and outer fencing inclusive of extra mesh, CCTV and lightning and UPS and connectivity. The supplier indicated in their spending plans that they needed to make substantial manufacturing deposits with various suppliers of material and equipment to ensure that their orders placed are met by specified delivery dates, so as to enable

- h. All invoices were not properly certified to the effect that the installations were made. Those that were certified were all certified by the same individual, which implied that all the applicable sites were visited. No other certifications by the regions could be obtained for audit purposes.

Management comments

Head Office member of the Directorate: Building and Maintenance (Assistant Director: Electrical) visited the sites for verification purposes where after the certification was done and invoices processed further for payments.

- i. During the audit it was noted that the process regarding the certification of invoices was insufficient. Furthermore, it was noted that there is no proper project management in place to ensure that Sondolo IT delivers according to the contract.

Management comments

The audit finding does not highlight what gaps were found in the certification process for DCS to respond specifically. There is a project management committee and a steering committee which manages and monitors the whole project. The chairpersons of the aforementioned committees have been appointed in writing by the Accounting Officer.

- j. Having regard the addition of the staffing of the control rooms by Sondolo IT (which did not form part of the original bid), it should be noted that these payments were made without any order being issued. These payments are made in terms of the motivation approved by the Commissioner.

Management comments

Proper proposal to the Accounting Officer to approve the outsourcing of control rooms based on the cost-benefit analysis was done. Payments for the manning of the control rooms by Sondolo IT are made against the original order number E110095 dated 2005 April 28.

3.2. TENDER HK 24/2005 : FENCING AND SURVEILLANCE : PHEZULU

them to meet the deadlines as required by the contract. It should be borne in mind that the project was financed from compensation of employees' savings and therefore funds had to be utilized before end of the financial year.

c. In terms of the contract, bid paragraph 7 - period of contract - it is indicated that the installation and commissioning at all sites must be completed by 17 March 2006. During site inspections at various regions around the country, it was noted that not all the fences had been erected. These visits by the auditors were conducted during May 2006. Thus the contract terms were not adhered to.

According to discussions with the CFO, there is a plan for the erection of the fences over a two year period. This plan could not be presented for audit purposes. Furthermore, it is not clear why the bid documentation stated that the installation and commissioning at all sites must be completed by 17 March 2006. By allowing the delivery date to be extended other bidders may have been unfairly discriminated against.

Management comments

During the compulsory briefing session, prospective bidders did raise the issue of delivery date and the Department in its response indicated that potential bidders could continue with the installation beyond 17 March 2006; however there would be penalties for unnecessary delays.

Below is the status per site, where implementation already started:

Baviaanspoort:

Hundred percent of all fences and trees are removed. A retaining wall was built to re-direct water. Twenty five percent of Bekaert sleeves are completed.

Drakenstein Medium B & Drakenstein Maximum:

Site clearance and removal of the internal fence are complete. The lights posts and trees are all removed. Fifteen percent of Bekaert sleeves are complete. Trenching for the taut wire are 55 % complete. Eighteen percent of the concrete plinth for the taut wire was done.

East London Med A, East London Med B and East London Med C:

Two hundred meters of the internal fence was removed. Two hundred and fifty meters of copper wire as well as Taut Wire pins were installed.

Ekuseni:

Fourteen percent of the existing fence was removed, whilst five percent of the earthworks are done.

Emthonjeni Juvenilles:

All the fences were removed and all the copper wire was installed. Fifty percent of the lights are removed.

Ermelo:

Stripping of the old fence is fourteen percent complete. Eight percent of earthworks are done.

Kirkwood:

All the trees are removed and started with the earthworks.

Kroonstad Med C:

The site clearance, installation of the copper wire and the Bekaert sleeves are hundred percent complete. Twenty five percent of the Taut Wire plinth is complete.

Leeuwkop Maximum:

The site clearance is done and forty five percent of the Bekaert sleeves are complete. Earthworks for the Taut Wire are twenty five percent complete and fifteen percent of the Taut Wire pins are installed.

Leeuwkop Juvenile:

Site clearance and the earthworks are done. Two hundred meters of the Taut Wire plinth is complete.

Makhado:

The site clearance and removal of all the trees are complete. The focus is now on the earthworks.

Rustenburg Juvenile:

All the fencing was removed. The copper wire is hundred percent installed, whilst the earthworks are fifty percent complete.

Rustenburg Medium A:

The trees are all removed. The copper wire is installed. The earthworks for both fences are done. The Bekaert sleeves and steps are hundred percent complete. The Taut Wire plinth is seventy five percent complete, whilst the Taut Wire installation is fifty percent complete.

Ventersburg:

The site clearance and earthworks are done. The Bekaert sleeves are seventy five percent complete. The blasting for the remainder will take place next week. The Taut Wire plinth is seventy five percent complete. The copper wire installation is the current focus.

Voorberg Medium B:

The existing fence is removed. Twenty five percent of the electrical wiring is removed. Fifty percent of the sleeves are installed and thirty percent of the Taut Wire plinth is complete.

Zonderwater Medium A & B:

Site clearance and the removal of the trees are done. One kilometer of the existing fence was removed and re-installed. The copper wire is installed. The lights requiring re-installation was all re erected. All Bekaert sleeves are done. The sleeves under the Taut Wire were done and fifty percent of the earthworks for the Taut Wire are complete.

Below is a summary of the starting dates, projected finishing dates and the actual dates the implementation started. Some dates will change as the Project Definition Reports get signed off by the Steering Committee. The priority of the sites/facilities may also change, which means that some sites/facilities may start earlier whilst others may start later. This will not affect the overall project plan.

Below is the status per site, where implementation already started:

Baviaanspoort:

Hundred percent of all fences and trees are removed. A retaining wall was built to re-direct water. Twenty five percent of Bekaert sleeves are completed.

Drakenstein Medium B & Drakenstein Maximum:

Site clearance and removal of the internal fence are complete. The lights posts and trees are all removed. Fifteen percent of Bekaert sleeves are complete. Trenching for the taut wire are 55 % complete. Eighteen percent of the concrete plinth for the taut wire was done.

East London Med A, East London Med B and East London Med C:

Two hundred meters of the internal fence was removed. Two hundred and fifty meters of copper wire as well as Taut Wire pins were installed.

Ekuseni:

Fourteen percent of the existing fence was removed, whilst five percent of the earthworks are done.

Emthonjeni Juveniles:

All the fences were removed and all the copper wire was installed. Fifty percent of the lights are removed.

Ermelo:

Stripping of the old fence is fourteen percent complete. Eight percent of earthworks are done.

Kirkwood:

All the trees are removed and started with the earthworks.

Kroonstad Med C:

The site clearance, installation of the copper wire and the Bekaert sleeves are hundred percent complete. Twenty five percent of the Taut Wire plinth is complete.

Leeuwkop Maximum:

The site clearance is done and forty five percent of the Bekaert sleeves are complete. Earthworks for the Taut Wire are twenty five percent complete and fifteen percent of the Taut Wire plinths are installed.

Leeuwkop Juvenile:

Site clearance and the earthworks are done. Two hundred meters of the Taut Wire plinth is complete.

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The site clearance and removal of all the trees are complete. The focus is now on the earthworks.

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All the fencing was removed. The copper wire is hundred percent installed, whilst the earthworks are fifty percent complete.

Rustenburg Medium A:

The trees are all removed. The copper wire is installed. The earthworks for both fences are done. The Bekaert sleeves and steps are hundred percent complete. The Taut Wire plinth is seventy five percent complete, whilst the Taut Wire installation is fifty percent complete.

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Voërberg Medium B:

The existing fence is removed. Twenty five percent of the electrical wiring is removed. Fifty percent of the sleeves are installed and thirty percent of the Taut Wire plinth is complete.

Zonderwater Medium A & B:

Site clearance and the removal of the trees are done. One kilometer of the existing fence was removed and re-installed. The copper wire is installed. The lights requiring re-installation was all re-erected. All Bekaert sleeves are done. The sleeves under the Taut Wire were done and fifty percent of the earthworks for the Taut Wire are complete.

Below is a summary of the starting dates, projected finishing dates and the actual dates the implementation started. Some dates will change as the Project Definition Reports get signed off by the Steering Committee. The priority of the sites/facilities may also change, which means that some sites/facilities may start earlier whilst others may start later. This will not affect the overall project plan.

- d. In terms of the Supply Chain Management User Manual, Chapter 4, paragraph 4.1.3, the department should maintain a list of prospective suppliers. During the audit of the suppliers list Phezulu could not be found on the department's prospective suppliers list.

Management comments

The Department maintains a suppliers' database which is mainly used for procurement on quotation basis. Refer to paragraph 4.1 (Annexure C) of the DCS Procurement Manual. As for the open bidding processes, any supplier may bid regardless of whether his name appears in the DCS supplier database or not. For the bid of this magnitude it's essential to allow all role players to participate in the bidding process to prevent allegations or perceptions of corruption.

3.3. TENDER HK 25/2005 : TV MONITORS : SONDOLO

- a. In terms of the specifications compiled for the Sondolo IT contract, it could not be determined who was responsible for the compilation of the specifications.

Management comments

The specifications were compiled in consultation with IT and CSIR to ensure that specifications are broad and have provision for later expansion to the video conferencing facility.

- b. Abnormal payment terms were noted in the specifications Paragraph 13 of the bid documentation provides for "90% of the bid price on completion of the delivery of the full bill of materials on site, 10% after the installation has been successfully commissioned and running to the satisfaction of DCS, for a period of three months". In our opinion, this is not a sound financial practice, in that consideration should have been given to reasonable progress payments based on certified performance over the contract period.

Management comments

In our opinion paragraph 13 of the bid documentation is reasonable because as DCS payment cannot be done in full up until the system is running satisfactorily for three months, to the satisfaction of the DCS project officer, which serves for the Department as a guarantee that the system actually works.

- c. According to the bid specifications, paragraph 7- period of contract- it states very clearly that the contract signed on 30 November 2005 will commence immediately after the signing of the contract. The installation and commissioning at all sites must be completed by 17 March 2006. During site inspections during April and May at various regions around the country, it was noted that not all the TVs had been installed.

Management comments

At the sites visited by Office of the Auditor-General, no TV monitors and other materials in relation to this bid have either been delivered or installed. With the exception of Krugersdorp Correctional Centre, all equipment to be installed is still bonded in the warehouses of the supplier(s). In terms of the project plan, the Department will first commission Krugersdorp Correctional Centre which is due to be completed on 09 June 2006 prior to installing in other sites.

- d. The statement from Sordolo IT, dated 31 March 2006, amounting to R106 277 296, was certified by an administrative secretary in the office of the CFO as follows: "Proof that material for installation is available is attached in accordance with the contract. Proceed with payment please." None of the invoices attached to the statement were certified. The statement was certified on 21 March 2006 and paid on 23 March 2006. The total contract value approved by the bid adjudication committee is R159 million, 90% of this amount is R143,1 million. It can thus be concluded that the R106 million can be a possible pre-payment. The contract was concluded on 10 March 2006 and the first invoice was dated 13 March 2006, (invoice No. 61-700-01 for R24 165 181) and invoice No. 61-700-02 for R24 629 336 dated 15 March 2006. This appears to be surprising as these monitors had to be delivered on site country wide.

Management comments

The payment of R106 277 296.00 was made for the materials for the installation of TV monitors. The material was held in bond by suppliers up until the Department was ready to receive, and in this instance the suppliers of material did in writing provide the guarantee. The amount paid was not 90% of the contract value but was for materials invoiced.

3.4. TENDER 2/2004 : OUTSOURCING OF KITCHENS : BOSASA

Management areas comprise of various correctional facilities. All the correctional facilities linked to Pretoria management area (eg. Altridgville and Odh) were not included in the original tender. Thus seven satellite correctional facilities were originally excluded. We noted that the department motivated the inclusion of the seven correctional facilities in terms of a "20% allowance clause" in their supply chain management policy. According to the departments "Department of Correctional Services Supply Chain Management User Manual: Directives in respect of Procurement", it was noted in paragraph 6.27.1 that if after closing of a bid but before an award has been made a need arises for additional quantities of 20% or less, the recommended bidder may with, prior approval of the relevant Adjudication committee be approached to determine whether he is prepared to deliver the additional quantities.

According to the department the 20% contract deviation was in terms of the approved delegations, however there is no mention made of the 20% in the supply chain policy on which the motivation was based. The contract was signed (awarded) on 27 July 2004 and the additional seven satellites were approved on 17 May 2005, based on a submission by the department.

Fedics Foods had at the time enquired about future outsourcing of additional correctional facilities to which the department responded that any additional outsourcing will go out on tender. The extension value of the additional seven (7) correctional facilities allocated to Bosasa amounts to R82 million for the rest of the contract period.

Management comments

It surprising to note that the contract that was signed in August 2004 is also brought to the equation, as this bid was subjected to the regularity audit of 2004/05 financial year. The bid publication indicated that the bid is for MANAGEMENT AREAS which includes satellite centres. Annexure D.

3.5 GENERAL

In all instances the department did not consider break-out. In terms of the Supply Chain Management User Manual, Chapter 2, paragraph 2.1.4, break-out procurement can be considered during the preparation of the bid documentation.

In our opinion break-out could have been considered so as to give other BEE companies a fair chance.

Root Cause

- Inadequate project and contract management.
- Inappropriate payment conditions.
- Contract delivery and payments coincide with the financial year-end (fiscal dumping).
- Technical IT skills not considered during bid evaluation process.

Risk

- Non compliance with own policies.
- IT specifications not to the best advantage of the department.

Recommendation

At all times, compliance with the department's policies should be adhered to.

Management comments

Breakdown procurement was applied in the bid for catering as per the tender specifications and the evaluation of the bid was done accordingly. Refer to Annexure D and E. All companies awarded the bids in terms of this management letter are all BEE companies.

Conclusion

The Department would have appreciated to see specific findings from the regularly audit conducted where procurement policies and procedures have been violated in the bidding process for the bids audited so as to take corrective measures where necessary.

For COMMISSIONER – CORRECTIONAL SERVICES
PO/C GILLINGHAM
CHIEF FINANCIAL OFFICER