



REPORT OF

THE CONTROLLER AND
AUDITOR-GENERAL

ON

EXPENDITURE ON THE
BASE COMMANDER'S RESIDENCE
AT RNZAF OHAKEA

March 1994

PREFACE

Because of the reported amount of expenditure on the Base Commander's residence at the Ohakea Air Force Base, and the alleged circumstances, I decided to conduct my own investigation of the project.

In taking this decision I was aware that the project had been the subject of an Air Force Court of Inquiry, and that the Police had made some investigation of allegations about the conduct of the project. However, the Court of Inquiry concentrated on establishing responsibility for the cost over-run, and the Police interest was in identifying any criminal activity that might warrant the laying of charges. The Police investigation has since been taken over by the Serious Fraud Office.

My purpose in conducting an investigation was two-fold. I believed that, given the level of public interest, it was important that an independent review and report of the project should be provided for Parliament and the public. More importantly, I was concerned to establish the adequacy of the systems of financial management and control being applied at Ohakea, and whether what I found there was indicative of a more widespread problem.

The content of this report reflects only the results to date of my investigation of the project for the Base Commander's residence and immediately related matters of administration. My enquiries into two particular issues are uncompleted. The wider issue of the quality of financial management and control systems in operation in the Air Force, and perhaps in the other branches of the New Zealand Defence Force, will be comprehensively addressed and reported on in due course.

In the last mentioned respect, my conclusions are that:

- i The people who were responsible for managing the expenditure on the Base Commander's residence displayed a serious lack of judgment in, and commitment to, discharging that responsibility.

ii Apart from the questionable performance of the individuals directly involved, the environment which allowed that to happen reflects little credit on the Air Force management and the systems which should have prevented the project from getting out of hand.

I hope that my wider review of management systems and controls operating in the Defence Forces will show that the Ohakea incident is not typical.

A handwritten signature in black ink, appearing to read 'J T Chapman', with a large, stylized initial 'J' on the left.

J T Chapman
Controller and Auditor-General
1 March 1994

CONTENTS

	<i>Page</i>
1 OBJECTIVES OF THE INVESTIGATION	6
2 BACKGROUND	7
3 CHRONOLOGY OF SIGNIFICANT EVENTS	8
4 THE RESIDENCE PROJECT	11
A COST	11
B GOODS AND SERVICES PURCHASED	12
5 MANAGEMENT SYSTEMS	14
A BUDGETING SYSTEMS	14
B PROJECT MANAGEMENT	16
C ACCOUNTS PAYABLE	18
D UNAUTHORISED STORE	18
E SYSTEMS OVERVIEW	19

6 OTHER MATTERS	20
A PURCHASES FROM CENTRAL POWER LTD	20
B MUSEUM	20
7 SUMMARY OF FINDINGS	21
8 CONCLUSIONS	23
APPENDICES	27

1. OBJECTIVES OF THE INVESTIGATION

The investigation set out to determine:

- a What was the cost of the project for the Base Commander's residence?
- b Were the goods and services paid for incorporated in the residence?
- c What do the answers to those two questions reveal about the Air Force management systems?
- d Whether there were any other matters warranting comment.

This review has primarily focused on the operating portion of the works maintenance budget. This is the area which provided the Base-controlled funding for the Base Commander's residence project. An overview of Base expenditure is provided in Appendix 1.

2. BACKGROUND

RNZAF Base Ohakea is one of four air bases operated by the Air Force. The Base operated on a 1992/93 budget of \$130 million which accounted for 26% of a total Air Force budget of \$508 million. Currently there are 700 staff employed at Ohakea of which 653 are Regular Force staff and 47 are civilian staff.

The main roles of the Base are to support the Fighter-Attack Force and to provide flying training.

The Base is divided into four divisions which carry out the following functions:

- **Strike/Operations Wing.** This division is responsible for flight training of Airtrainer, Skyhawk and Macchi aircraft;
- **Technical Wing.** This division provides ground equipment, aircraft maintenance, armament engineering and avionics maintenance to the Strike/Operations Wing and the Base;
- **Administrative Squadron.** This division provides the administrative and secretarial support to the other divisions at the base. This division includes the Works Flight; and
- **Supply Squadron.** This division is responsible for the procurement and distribution of flight, mechanical and catering inventory within the base.

The following organisation charts are included in the attached appendices.

Appendix 3 Royal New Zealand Air Force

Appendix 4 RNZAF Base Ohakea

3. CHRONOLOGY OF SIGNIFICANT EVENTS

September 1992: Headquarters Operations Group submitted a proposal to the Chief of Air Staff, Air Vice Marshal Hosie, to extend the Base Commander's house at Ohakea. The proposal was estimated at \$175,000. Air Staff rejected the proposal on the grounds that it was not economically justifiable.

25 September 1992: Air Staff directed Headquarters Operations Group that an alternative proposal to extend the Base Commander's house be planned. The cost of the extension was restricted to a minor new work budget of \$50,000.

9 December 1992: Headquarters Operations Group submitted a modified proposal. It was understood by both Air Staff and Headquarters Operations Group that some works maintenance funding would also be required for essential maintenance and other maintenance found to be necessary during the project. The additional funds were anticipated to be in the order of \$50,000, giving an effective total budget of \$100,000.

20 January 1993: Group Captain Sharp replaced Group Captain Bulger as Officer Commanding Base Ohakea.

17 February 1993: Air Staff formally advised Headquarters Operations Group of \$50,000 capital funding from minor new works budget for proposed additions and alterations to the Base Commander's married quarters.

18 February 1993: Three contractors:

Wells and Wadsworth Construction Limited
Peter Barnett Limited, and
SERCO

were requested to submit tenders and each did so. The plans used for tendering incorporated significantly more work than the plans approved by Air Staff.

10 March 1993: Wells and Wadsworth Construction Ltd were selected as the contractor. The tender price was \$135,987 exclusive of electrical, flooring, painting and kitchen work. Work was begun before the end of March 1993.

2 April 1993: The Base Commander and his staff identified that the likely project cost was \$200,000. This was to be funded \$50,000 from the minor new works budget and \$150,000 from the base operational maintenance budget.

Early May 1993: Air Officer Commanding Operations Group, Air Commodore Manttan, was informed orally by Senior Works Officer Cook of concerns about the amount of work being carried out on the Base Commander's residence.

6 May 1993: Air Commodore Manttan expressed concern to Group Captain Sharp about the work on the residence, drew his attention to the existing approvals, and directed him to make a report.

19 May 1993: The formal tender acceptance was signed by Group Captain Sharp.

28 May 1993: Commanding Officer Administrative Squadron Ohakea, Squadron Leader Crymble, replied to Air Commodore Manttan's queries on behalf of the Base Commander. Air Commodore Manttan asked his Works Officer and Administrative Staff Officer to review the contents of the letter.

11 June 1993: As a result of that review, Air Commodore Manttan advised Chief of Air Staff of his concerns regarding the expenditure on the project and wrote to the Base Commander.

5 July 1993: Squadron Leader Goyen took over as Commanding Officer Administrative Squadron Ohakea from Squadron Leader Crymble.

Mid-September 1993: Air Commodore Manttan was again orally advised that expenditure on the house was substantially more than that reported by the Base

Commander.

23 September 1993: Air Commodore Manttan directed the Base Commander to provide a report on the actual expenditure on the project plus any commitments.

28 September 1993: The Base Commander advised Air Commodore Manttan that the total amount charged to the house was \$190,756.19 plus costs to be attributed of \$3,400.00. A total of \$194,156.19.

7 October 1993: Air Commodore Manttan advised Chief of Air Staff of his concern and requested that staff be made available to audit the project.

The audit was carried out on **15 and 16 October 1993** by Mr P Smith (Financial Director for the Air Force) and Squadron Leader Doms (Works 4 Air Staff).

My auditors were told that, at about this time, Chief of Air Staff orally advised Chief of Defence Force, Vice Admiral Teagle, of concerns about the project. Chief of Defence Force in turn orally briefed the Minister of Defence, the Hon Warren Cooper.

22 October 1993: Group Captain Sharp sent his comments on the results of the internal audit to Air Commodore Manttan.

29 October 1993: A Court of Inquiry was convened by Air Commodore Manttan. The Chief of Defence Force and the Minister of Defence were advised of this in writing.

27 January 1994: Chief of Defence Force and the Minister of Defence were advised in writing of the outcome of the Court of Inquiry and the action to be taken.

Since the Court of Inquiry was completed the Air Force has instigated a full review of Works Flight Command at Ohakea. This review is not yet complete but has identified matters which require further investigation.

4. THE RESIDENCE PROJECT

A. COST

The Court of Inquiry identified an amount of \$562,181 as being spent on the project. This mainly comprised payments to nine contractors.

After ensuring the reliability of that figure my auditors reviewed the payments for reasonableness and checked them against the supporting documentation.

Teams of two auditors each, exercising powers delegated by me under section 27 of the Public Finance Act 1977, then visited the contractors and some sub-contractors with a view to externally verifying the validity of the payments made by the Air Force.

The results of this work identified a number of matters which required further inspection of the residence and further explanation. A site meeting followed between the main contractors, the audit teams and an independent Quantity Surveyor employed by me.

The Quantity Surveyor costed all of the work said to have been carried out by the contractors, using industry standards.

His analysis of the value of the work is:

	\$
Basic contract	294,100
Necessary additional work and rework	108,372
Discretionary extras	148,008
	<u>\$550,480</u>

This analysis is consistent with the findings of the Quantity Surveyor employed by the Air Force to give expert opinion to the Court of Inquiry that the value of the work for the basic contract and discretionary extras was \$465,000, and his assessment that an additional \$97,000 could be attributed to rework and the cost of poor site management.

On the basis of the Quantity Surveyors' work, the expenditure of \$562,181 can be considered as a reasonably reliable figure for total costs. Inclusive of GST, the total expenditure is \$632,454. That conclusion, however, relies on the assumption that all of the work claimed to have been carried out and supported by the documentation was in fact carried out.

B. GOODS AND SERVICES PURCHASED

OBSERVATIONS

Apart from those necessary to meet the requirements of the basic contract, goods and services were purchased because of:

- Additional work found necessary which could not be anticipated in the basic contract.
- Rework, brought about by changes to the work specified in the plans after it had been carried out. Alleged examples are given in Appendix 5.
- Discretionary extras; that is, items not required for the 'soundness' of the house or related to what the original scope of the project was assumed to be. Examples are included in Appendix 6.

The difficult items to verify are the necessary additional work and rework, because it is not possible to be satisfied completely about the value of the known and alleged work in the building without damaging the fabric of the building through physical confirmation. The analyses of the two Quantity Surveyors indicate that the value of this work is of the order of \$100,000, of which only a part can be substantiated.

The cause of the alleged rework is a matter of much dispute, most of which occurred in the areas of construction, plumbing, wiring and painting. There has been no evidence produced to indicate that this rework was needed as a result of poor workmanship. In discussing this matter with them we have been told by contractors and the Works Flight staff at Ohakea that this rework was principally needed to meet the requirements of the Base Commander and his wife. The Base Commander and his wife deny that this is so.

In considering the reasonableness of explanations provided by the contractors my auditors were originally hesitant to accept the degree of rework which was claimed. After extensive interviews, site visits, and analysis by my Quantity Surveyor, I am of the opinion that some rework did take place. However, this opinion is based on corroborative discussions only, as there was very little documentary evidence available from the Air Force. This was a result of the failure to apply site management procedures for documenting and approving contract variations.

Overall, I cannot be certain that the goods and services paid for, other than to meet the requirements of the basic contract, were all necessary, or represented value for money, or were even supplied.

STANDARD OF HOUSING

In enquiring into the reasonableness of the accommodation standard proposed for the Base Commander a request was made for particulars of any existing housing standards or guidelines. The Chief of Air Staff has stated that there are no approved standards or guidelines for senior officer housing within the New Zealand Defence Force.

In the absence of standards I am unable to come to a view on the appropriateness of the items that could be regarded as of a higher than normal standard. (Refer Appendix 6)

OTHER WORK

The total cost of \$632,454 is not solely for the house. This figure includes work on the garden and tennis court lighting, and some painting of the exterior sheds and garages.

In addition, some fixtures have been purchased as a charge to the project but not installed in the house. The whereabouts of these fixtures has been accounted for, but no satisfactory explanation has been given as to why these fixtures were not returned to the suppliers immediately the decision was made that they were not required for the residence.

The fixtures noted were:

	\$
Deluxe spa bath	4,640
Shower box	2,046
Vanity	1,778
Rational CC steam convection oven	14,400
	<u>\$22,864</u>

5. MANAGEMENT SYSTEMS

As noted in Section 1, my auditors looked principally at the operating portion of the works maintenance budget. Accordingly, this section of the report concentrates on the funds spent above the minor capital works budget allocation of \$50,000.

An overview of Ohakea Base budgeted expenditure is given in Appendix 1. This shows that the work on the project has been funded largely from the Operating Works Maintenance budget of \$2.8 million.

A. BUDGETING SYSTEMS

BUDGET-SETTING PROCESS

The budgeting system used for works maintenance requires Bases to internally justify their budgets using an activity list generated from OPUS (see page 17).

No detailed justification was prepared for the Ohakea Base operating works maintenance budget of \$2.8 million for 1992/93. This budget was the result of an allocation from Air Staff. The last time an exercise was carried out to justify the Ohakea Base budget was in 1991 when a zero-based-budgeting exercise was conducted. This exercise resulted in a total budget bid of \$5.6 million which was reduced to an approved budget of approximately \$3.1 million.

Once the budget had been allocated to the Ohakea Base a preliminary projects list was said to have been prepared to indicate where the funding could be targeted. In the discussions that have taken place on this matter a copy of this Ohakea list was requested, but to date it has not been provided. Furthermore, I understand that at the start of the financial year an allocation for unscheduled maintenance was contained within the original budget estimate. As the year progressed, and the need to draw on this unscheduled maintenance allocation reduced, I understand that the money was reallocated and other projects were commenced. From discussions and observations it is clear that steps were taken to ensure that all of the budget allocation was spent. However, this practice was not confined to maintenance expenditure. Surplus funds in the electricity budget were used to buy electrical appliances (see Section 6A).

In my opinion, the budget-setting process did not ensure that the funds allocated represented the amount required to meet the operational maintenance requirements of the Base. Based on my observations, there is evidence to suggest that the allocation was more than necessary. Furthermore, in the absence of the list referred to above, I find it difficult to understand how any effective system of control could be instituted.

REPORTING AGAINST BUDGET

As noted above, there was no list of agreed projects to support the allocation of the \$2.8 million. It follows that it was not possible to exercise proper budgetary control over individual projects.

The system of financial control was limited to allocating the \$2.8 million into equal monthly amounts which were reported against on a monthly basis. Therefore, if the total operating works maintenance expenditure at any time was below the year to date figure (calculated by the number of months x 1/12 of the \$2.8 million budget) there was no need for variance reporting. Reporting was required for cases where there were budget variations greater than 5%. From an individual project control perspective this system is not effective.

The nature of the budget-setting process, that is, the 'top down' approach, is at the core of the problems in this area. I am thus concerned to note that by the letter dated 20 January 1994 Air Staff has provisionally allocated an operating works maintenance budget of \$2.8 million to the Base for the 1994/95 year.

The budget-setting and monitoring procedures should be altered to ensure that budgeted funds are in fact needed and that expenditure against the budget allocations is properly monitored.

B. PROJECT MANAGEMENT

The procedures for project management in the Air Force are, in the main, contained in its draft "Manual of Works", NZAP32. The manual was published in April 1991. An analysis of procedures in the manual is contained in Appendix 7.

This manual is intended to be a replacement to reflect changes brought about by the 1989 financial management reforms. The changes encompassed not only those brought about by the move to Mode B appropriation for Vote Defence but also changes to the structure of the Defence Forces.

Despite the manual being a draft it is generally accepted that the procedures in it should be complied with. At Ohakea there appeared to be partial compliance with the manual. An analysis of the procedures followed is also contained in Appendix 7.

I understand that this partial compliance has been occurring for a number of years. From discussions it appears that the emphasis was on getting projects completed as opposed to complying with all Air Force procedures. In other words, the Base management was more concerned with outputs rather than processes. On that basis, I understand that the outputs of the Works Flight at Ohakea were considered by his superiors to be effective. The Chief of Air Staff has told me his information is that

senior commanders at Ohakea were unaware of the detailed non-compliance with the NZAP32 rules until November 1993.

OPUS SYSTEM

The OPUS system, or Routine Maintenance Management System, is integral to the procedures laid down in NZAP32. In discussing the non-compliance with some of the OPUS procedures, my auditors were told that the Works Flight at Ohakea had not received the training required to enable the staff to use OPUS effectively. Discussions indicate that some people had difficulty effectively operating the OPUS system at the conclusion of the formal training period. The Chief of Air Staff says that Ohakea staff have had the same training as staff at other Bases and that help in using OPUS is available whenever required.

The adequacy of OPUS training needs to be reviewed to ensure that all staff concerned are competent to use the system. Assurance should also be obtained that those staff are using the system.

SUPERVISION OF PROJECT MANAGEMENT

The non-compliance and system deficiencies identified raise the question of the adequacy of supervision of project management. My auditors had difficulty in ascertaining what practical control was exercised over project management to ensure that recognised procedures were complied with. Furthermore, they were given conflicting views as to who was actually in charge of the project.

The supervision of the Works Flight by the Base management and by Headquarters Operations Group and Air Staff must be made effective, particularly to ensure that responsibility for the management of individual projects is properly assigned and discharged.

C. ACCOUNTS PAYABLE

The situation described above, together with the fact that the invoices were paid with minimal description of the goods or services supplied, indicated that there was a weakness in the accounts payable system. On investigation, it became apparent that the system in operation in Ohakea enabled one person to certify and effectively approve payments for works-related expenditure.

Another practice which came to light from the review of expenditure was the arrangements the Works Flight Commander made with contractors to ensure that all invoices submitted were for amounts less than \$20,000. These arrangements were made so that delegations of authority were not exceeded.

These weaknesses, in particular the lack of description on invoices, the splitting of invoices, and only one person approving payments, facilitated the deliberate misallocation of expenditure to other projects. These features enabled the true cost of the project to be deliberately understated.

My findings indicate a serious weakness in the accounts payable system and steps should be taken to increase controls over it as a matter of urgency.

D. UNAUTHORISED STORE

During the investigation my auditors became aware that the Works Flight Commander was operating a maintenance store. This was an informal store which was able to be stocked because of the lack of an effective accounts payable system. There was

inadequate physical control and no system for recording incoming stock or subsequent issues.

A quantity of timber from the unauthorised store was said to have been utilised in the work on the Base Commander's house. Because of the lack of records I cannot be sure that no other stores were issued to the project.

All stores should be accounted for through the official inventory system and be kept in places where physical security can be assured.

E. SYSTEMS OVERVIEW

The number of matters noted in this section of the report raises a larger issue regarding the supervision of delegations within the Air Force.

My investigation at Ohakea indicates that there was no effective system to monitor how those delegations were being exercised. For example, reporting is in some cases only made when requested, and other reports are required to be made and reviewed only in aggregated terms disclosing major variances. This, in my view, provides an unsatisfactory basis on which those who confer power to act can judge how that power is being used, and those who exercise a delegated power can be held to account.

6. OTHER MATTERS

A. PURCHASES FROM CENTRAL POWER LTD

A review of the payments to the electricity supplier, Central Power Ltd, indicated some unusual business practices. Appliances which had been purchased were included in electricity accounts as "metering equipment" and "service charges". These charges were not supported by invoices or orders of any nature.

Some of these appliance purchases represented payments in advance and it was not until some time later that the appliances were actually received. I have, however, verified the existence of all equipment which relates to the Base Commander's house.

My enquiries in respect of these matters are not yet complete.

B. MUSEUM

The Museum at Ohakea is operated by a Trust Board in a building owned by the Air Force. Under an agreement between the two parties, the Air Force meets costs for the maintenance and repair of the building and all other costs of the Museum are the responsibility of the Trust Board. During the investigation, my auditors noted that some costs had been met by the Air Force which should have been paid by the Trust Board.

My enquiries in respect of this matter are not yet complete.

7. SUMMARY OF FINDINGS

My findings can be summarised as:

- A. The project for the Base Commander's residence cost \$632,454. This figure includes GST (Section 4A). The effective authorised budget for the project was \$100,000 plus GST.
- B. As a result of my investigation, I cannot confirm that \$632,454 worth of goods and services have been incorporated in the Base Commander's residence. The value of goods and services which can be satisfactorily accounted for is of the order of \$100,000-\$120,000 less than that sum.
- C.
- There has been no justification for budget allocations for works maintenance at Ohakea since 1991 (Section 5A).
 - There was no detailed budget prepared for works maintenance at Ohakea after the 1992/93 budget had been allocated (Section 5A).
 - There was no system to effectively monitor works maintenance expenditure against the budget (Section 5A).
 - Training in the Routine Maintenance Management System (OPUS) should be reviewed (Section 5B).
 - There was no effective supervision of the Works Flight Officer (Section 5B).
 - Control over works related expenditure is not adequate (Section 5C).
 - There were unauthorised stores on the Base and these were not effectively controlled (Section 5D).
 - The higher-level control exercised over works maintenance expenditure at Ohakea appears inadequate (Section 5E).

During the course of the investigation, varying accounts of some events were given to my auditors. Different views have also been expressed as to who was responsible for certain events. Many of these matters were traversed in the course of the Court of Inquiry. Unless the differences were directly relevant to the objectives of my investigation I have refrained from mentioning them.

8. CONCLUSIONS

My inquiry set out to determine the cost of the Ohakea Base Commander's residence; whether the goods and services paid for were, in fact, delivered or provided to the residence; what the findings on these matters revealed about the systems and procedures at Ohakea for the management of this type of project; and any other matters arising from the inquiry which warranted my comment.

A COST OF PROJECT

Expenditure on the project to extend the Base Commander's house at Ohakea is \$632,454, inclusive of GST. This is broadly comparable with the sum of \$562,000 (excluding GST) which was determined by the Air Force. In reaching this conclusion, my auditors reviewed invoices and records of payments held at Ohakea as well as contractors' records, including timesheets and invoices for materials purchased by them for the project.

However, without a thorough on-site investigation, which would involve damage to the fabric of the residence, it is not possible to verify that all work recorded by contractors, and for which they received payment, was actually carried out.

Even if \$632,454 of material, labour and fittings was supplied to this project, that does not indicate that the amount paid by the Air Force for the goods and services was reasonable or that the final product represents value for money.

Of greater concern to me is that the absence of budgeting, project management and financial control systems at Ohakea, some of which I referred to the Air Force following my annual audit in 1993, makes it very difficult for me to provide positive assurance on these matters. I have commented further below on the management and control environment at Ohakea.

The total amount spent on the project needs to be considered in light of the effective budget of \$100,000 (\$50,000 for new work and \$50,000 for maintenance expenditure) approved for the project on 17 February 1993 by Air Staff. I accept that the maintenance component of the budget was within the delegated authority of the Ohakea Base Commander. However, I believe that the \$50,000 from the minor new works budget was approved for the Ohakea Base Commander's residence on the understanding that a matching \$50,000 would be provided from the base maintenance budget. In my view, this constitutes an effective approval of \$100,000 for the project.

B ABSENCE OF CONTROLS

I have identified some shortcomings in the systems applied to the maintenance budget (\$2.8 million) at Ohakea. These include:

- An inadequate basis for determining the amount actually required each year;
- No robust schedule of maintenance projects for either the justification of an initial budget bid or for the management of the budget once approved; and
- Monitoring of expenditure on an aggregated rather than a project basis.

These shortcomings meant that no effective system of control could be put into place for ensuring that maintenance projects were completed within budget.

The Air Force has a "Manual of Works" which, although still a draft rather than an approved document, is generally accepted as setting out procedures which should be complied with. However, there appeared to be only partial compliance with the manual at Ohakea and no system for ensuring compliance, including use of the Routine Maintenance Management System which is integral to the procedures laid down in the Manual. For these reasons, there was no effective system of project management applied to projects at Ohakea.

Furthermore, the accounts payable system at Ohakea was inadequately controlled and allowed one person to certify and approve payment of invoices from contractors.

Within this environment, the cost of the project to extend the Base Commander's residence could be effectively concealed.

C MANAGEMENT SYSTEMS

In my view, the project was carried out in an environment in which the staff at Ohakea had no effective systems for managing such projects. Furthermore, in exercising delegated authority, they were subject to no effective monitoring procedures which would enable them to be held to account for their actions. I note that the level of expenditure on the house was revealed, not through formal reporting systems, but through informal communications between persons who observed the work being done and the staff of the Operations Group. I consider that this unsatisfactory management environment contributed to the problems with this particular project.

I am concerned about the extent to which the lack of management systems and financial controls revealed as a result of this inquiry, may be an indication of a wider problem within the Air Force or the New Zealand Defence Force. I intend to address this concern in my 1994 audit of the New Zealand Defence Force.

D OTHER MATTERS

The matters relating to the purchases from Central Power Ltd and to the Ohakea Museum are still to be resolved.

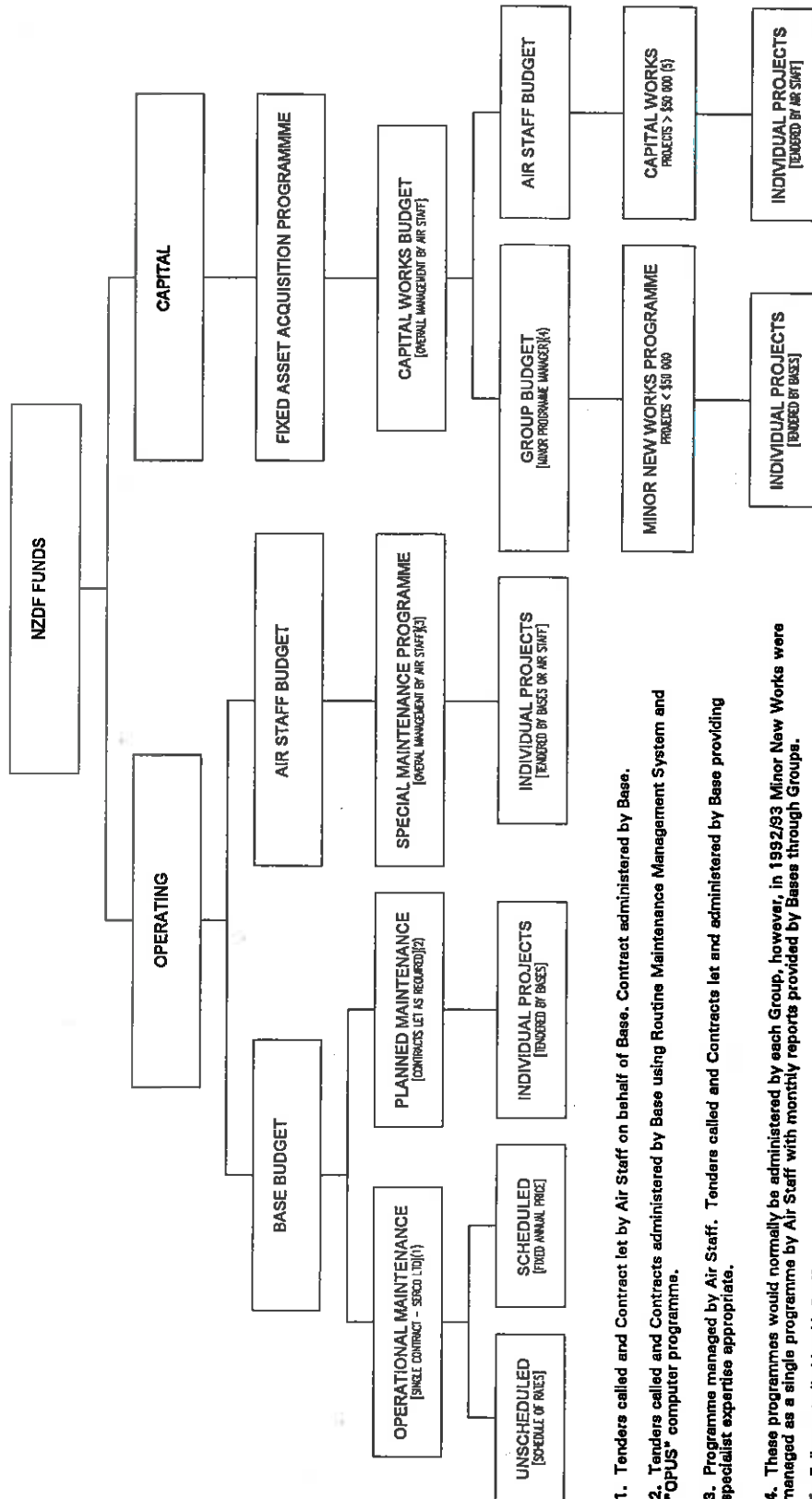
The Serious Fraud Office is pursuing its own investigation. My enquiries into the circumstances surrounding the project have been intended to provide an independent report for Parliament and the public and a view of the management and control environment at Ohakea. Although my focus differs from that of the Serious Fraud Office, there will be some overlap in the areas of investigation. To minimise duplication of effort, and associated cost, I will ensure that my Office co-operates fully with the Serious Fraud Office as that Office pursues its enquiries.

**APPENDIX 1: OVERVIEW OF OHAKEA BASE
BUDGETED EXPENDITURE**

Details of 1992/93 Budgeted Expenditure (Per original approved budget)

A	BUDGETED EXPENDITURE	\$000	Controlled By
	Personnel	23,133	Air Staff
	Operating Costs	17,906	Air Staff/Base
	Depreciation	36,109	Air Staff
	Capital Charge	53,086	Air Staff
		\$130,234	
B	OPERATING BUDGET		
i	<i>Controlled by Base management</i>		
	Education/Training	25	
	Travel	194	
	Repairs & Maintenance	201	
	Property Costs	5,007	
	Materials	3,877	
	Services	320	
	Purchase - Furniture & fittings	10	
		\$9,634	
ii	<i>Controlled by Air Staff</i>		
	Special Maintenance	439	
	Fuel	6,813	
	Munitions	1,020	
		\$8,272	
	Total Operating Expenses	\$17,906	
C	The overrun of expenditure on the renovation of Base Commander's House has been funded out of the Operating Works Maintenance Budget of \$2.8 million and the Electricity budget of \$760,000 both of which form part of Property Cost budget of \$5,007,000.		
D	The Operational Works Maintenance Budget forms part of a total Works Maintenance Budget which consist of both operating and capital expenditure. A breakdown of the works maintenance budget is shown in Appendix 2.		
	The nature of the various categories of works maintenance is defined in Appendix 7.		
E	The cost of minor capital works is funded by Air Staff and does not form part of the Ohakea Base budgeted expenditure.		

APPENDIX 2: BREAKDOWN OF WORKS MAINTENANCE BUDGET



1. Tenders called and Contract let by Air Staff on behalf of Base. Contract administered by Base.

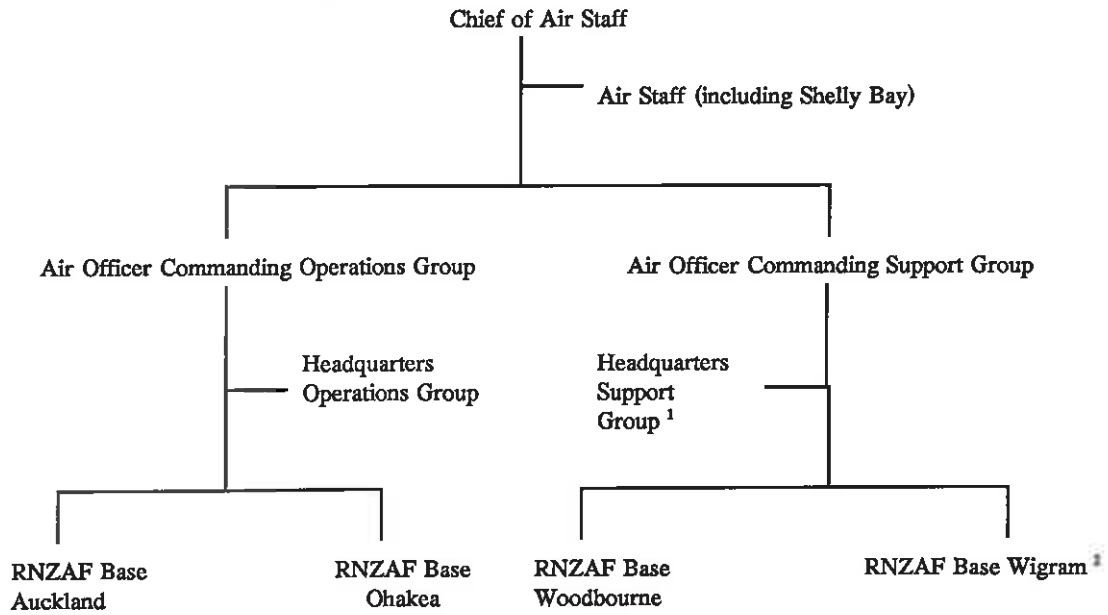
2. Tenders called and Contracts administered by Base using Routine Maintenance Management System and "Opus" computer programme.

3. Programmes managed by Air Staff. Tenders called and Contracts let and administered by Base providing specialist expertise appropriate.

4. These programmes would normally be administered by each Group, however, in 1992/93 Minor New Works were managed as a single programme by Air Staff with monthly reports provided by Bases through Groups.

5. Fully controlled by Air Staff.

APPENDIX 3: ROYAL NEW ZEALAND AIR FORCE

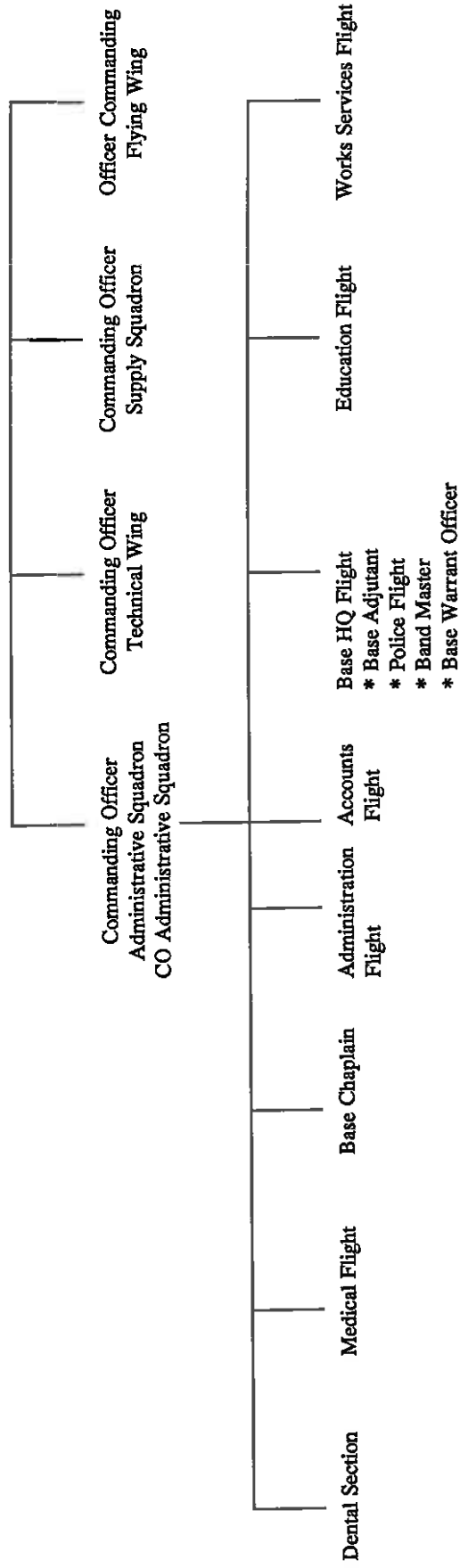


¹ Headquarters Support Group is being phased out and its operations will be transferred to Auckland.

² RNZAF Base Wigram is being phased out and its operations will be transferred to Woodbourne and Ohakea.

APPENDIX 4: ORGANISATION - RNZAF BASE OHAKEA

Officer Commanding RNZAF Base Ohakea



APPENDIX 5: EXAMPLES OF ALLEGED REWORK

- Extension of lounge by two metres after boxing to the original plan completed, with the concrete truck already on its way to the site. Exterior walls and fireplace boxing all needed demolition and rebuilding.
- The firebox chosen for the lounge resulted in the surround being rebuilt and relined.
- Two further fireplaces were installed in the dining room and family room.
- The front deck was altered several times.
- Walls in the hallway were replaced to eliminate unsightly distortion.
- Scotia throughout house replaced.
- Back bathroom rebuilt three times. Window in bathroom moved three times.
- Window by main fireplace moved three times.
- Mirrors above fireplaces changed from being flush with the wall to tilting outwards with architraving around them.
- One bathroom had three shower units and two vanity units fitted and removed before completion.
- A considerable amount of rework was required by the plumber, electrician, and the painter because of the items described above.

NOTE: These examples have been obtained from several sources and the Chief of Air Staff rejects some of them. The unreliability of this information demonstrates the difficulty of ascertaining the value of goods and services purchased for rework.

APPENDIX 6: STANDARD OF HOUSING

Items which might be regarded as of a higher than 'normal' standard:

- The house was increased in size from 175m² to 330m².
- Three of the four bedrooms have walk-in wardrobes with built in drawers.
- Ducted air conditioning/heating throughout the house as well as three large fireplaces.
- Expensive Australian carpet used (66 metres) at a cost of \$228 per metre. A similar quality New Zealand carpet would cost around \$170 per metre.
- Ducted vacuum cleaning system throughout the house.
- 17 telephone sockets.
- 60 power points.
- An elaborate lighting system using 50 switches and 11 dimmers.
- Expensive hardware for the doors and windows costing approximately \$21,000 and taking two weeks to fit.
- Tennis court lighting, garden lights and deck lighting provided.

APPENDIX 7: CONTROL OF WORKS MAINTENANCE

	Specific Procedures (per NZAP32)	Actual Procedures
Request for Maintenance	Personnel responsible for maintenance or base users make a written request which is vetted and approved by the Works Officer for unscheduled works or at the appropriate level for larger works.	A request for maintenance was not raised for the maintenance portion in this case. A bid for minor new works was raised with Air Staff, and \$50,000 was approved.
Works Requisition	The Works Officer produces a works requisition in the OPUS system which defines the project and details the work required.	Works requisitions were raised for all work to be carried out on the project.
Request for Quote	These are only issued where the Crown already has a contract with a contractor or the value of the work is less than \$1,500.	Variations requested by the Air Force did not include a request for a quote on cost as the 'contracts' were on a charge up basis. NZAP32 does not authorise charge up contracts.
Contract Definition	A written scope statement is required for all contracts to define the extent and nature of work covered by tender and is to be signed off by the Works Service Officer.	Pro forma project documentation was generated from OPUS, but the scope of the work had been extended from that approved by Air Staff.

	Specific Procedures (per NZAP32)	Actual Procedures
Tendering	<p>Formal tendering procedures are to be followed. After the tender evaluation process a written recommendation (Tender Evaluation Sheet) should be presented for approval by the Accepting Authority (either an individual or a Tenders Board). The delegated individual authorised to enter into the contract signs the Tender Acceptance Letter. This letter represents the authority for the successful tenderer to commence work.</p>	<p>Tender documents were issued and sent to three tenderers. No Tenders Board was convened. Submitted tenders were evaluated by the Works Flight Officer and he made an oral recommendation to the Base Commander.</p> <p>Apparently the contractor was orally instructed to begin work on 11 March 1993. A formal letter of acceptance was issued on 19 May 1993. There was no tender for additional contractors brought on to the site.</p>
Contract Administration	<p>A contract agreement is signed by the delegated authority with the successful tenderer. There are standard contract documents available. A contract file must be maintained.</p>	<p>There is no evidence of a formal contract document being assembled or signed by both parties. No formal contract file was maintained. Additional subtrades were orally briefed and accepted.</p>
Works Orders	<p>A Works Order is issued to instruct the contractor to proceed with the work and against which the contractor may claim payment.</p> <p>A Works Order may be issued to vary the quantity and nature of work but not the scope, and oral instructions must be confirmed in writing.</p>	<p>Works Orders were generated but did not contain adequate descriptions of the work to be performed. There was no written confirmation of oral site instructions and meetings held on site.</p>

	Specific Procedures (per NZAP32)	Actual Procedures
Inspection and Completion	<p>Regular inspection of the site is required and when the work is fully completed a practical completion certificate is issued. After the maintenance period an inspection is carried out and when all work is satisfactory a maintenance certificate is issued to release the contractor.</p>	<p>No formal site inspections were carried out. The required practical completion certificates and the maintenance certificates were not issued.</p> <p>No records were kept by the Works Officer of the time and materials used by the contractors who were on a charge up basis.</p>
Payment Certification	<p>Progress payments are permitted, and the certifying officer is required to issue a certificate within 10 days of receipt of claim and send it to the Base Accounts Flight for payment. The Base Accounts Flight is required to make payment within 10 days.</p> <p>Final payment will be made once the final certificate has been issued.</p>	<p>The formal payment procedures were not followed. Payments were certified without proof of any detailed reconciliation of materials used and time spent.</p> <p>Contractors were requested to break down invoices to ensure they were within the Works Officer's authority to approve. Some invoices were deliberately miscoded to other projects.</p> <p>Instances were noted where some invoices for the project were deliberately falsified to facilitate payment through the electricity account.</p>
Cost Recovery	<p>A cost recovery notice is issued where Defence Force personnel or companies employed by the Defence Force have damaged works.</p>	<p>Not applicable on this job.</p>

	Specific Procedures (per NZAP32)	Actual Procedures
Stores Issue	Where RNZAF stores have been issued for works maintenance an issue voucher is approved by a delegated officer and put through inventory.	<p>No stores were issued from the official RNZAF Stores.</p> <p>However, the Works Officer maintained an unauthorised store from which some supplies were issued. The Works Officer maintained insufficient records to ensure that all stores issued have been charged against the project.</p>