**Annexure B:**

**Summary of Findings with regard to the Leasing of Accommodation**

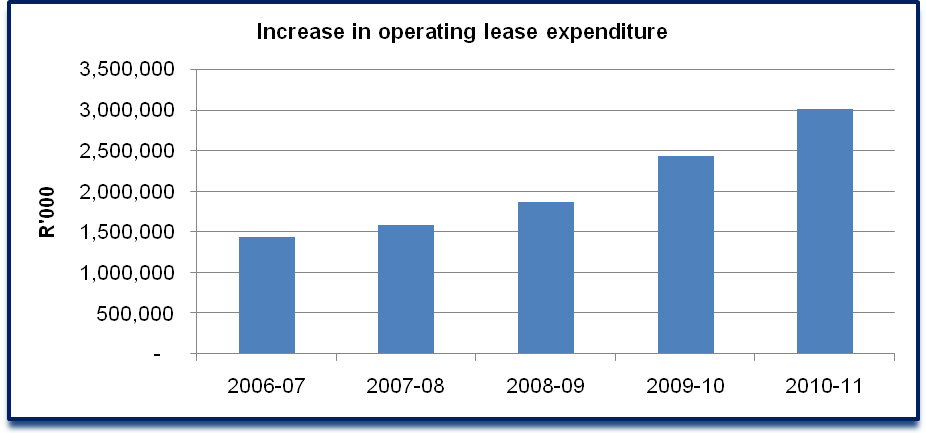
**1. Background**

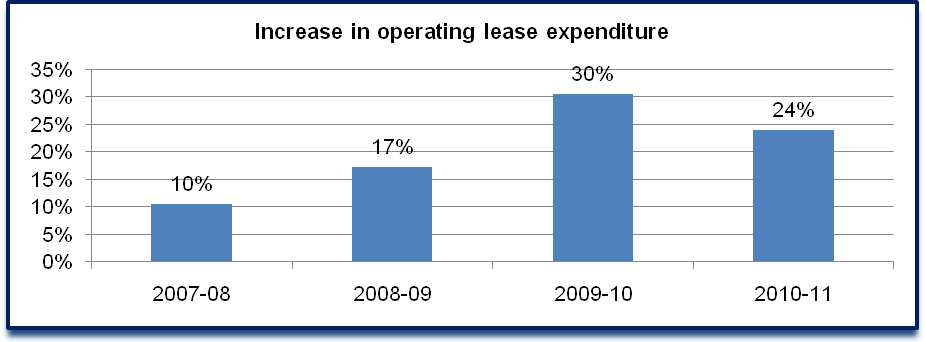
1.1 In terms of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996) (the Constitution) and other relevant legislation, the custodianship and management of national government’s immovable assets is within the mandate of the Department of Public Works (DPW). This mandate includes the provision of accommodation; the rendering of expert built environment services to user departments and the acquisition, management, maintenance and disposal of such assets.

1.2 As the custodian of the Government Immovable Asset Management Act, 2007 (Act No. 19 of 2007) (GIAMA), DPW has to ensure that Accounting Officers of various national departments, account for assets properly and utilise immovable assets under their jurisdiction optimally. The Property Management Trading Entity was created within DPW to fulfill the role of property manager.

1.3 The PMTE’s purpose is to ensure the long term sustainability of DPW and of the immovable assets it manages. It operates within the requirements of the Public Finance Management Act, 1999 (Act No. 29 of 1999) and its aim is to reflect the full cost of its service under the budget of its clients. Although the business case for establishing PMTE was submitted on 28 November 2005, and has still not been finalised, National Treasury granted approval on 14 March 2006 that it be established in the interim subject to certain conditions. It enters into leases on behalf of its client’s and recovers the cost from them.

1.4 In the budget vote speech of 2012, the Minister of Public Works stated the department’s long term infrastructure plan, includes the rehabilitation and renovation of the state’s buildings and re-considering the basis of occupation. DPW has set itself the strategic goal of shifting occupation from leased properties to state-owned properties. However, the increase in operating lease expenditure illustrated in the graph below, shows that the intention of changing the basis of occupation is not changing.





**2. Needs assessment**

2.1 The GIAMA requires client departments to compile a user asset management plan (U-AMP). These U-AMPs must be consolidated by DPW into a custodial asset management plan (C-AMP). The client departments however, did not submit comprehensive U-AMPs to allow DPW to compile a comprehensive C-AMP and PMTE did not always update the C-AMP with the client department’s information. This impacted negatively on DPW’s ability to proactively address the accommodation needs of client departments. Client departments identified needs which DPW had to address as a matter of urgency.

2.2 The Middestad Sanlam Centre building is an example where the client department, Department of Police, identified the need to house the unit responsible for the 2010 World Cup although it was not included in their U-AMP. The Department of Police also identified a building that they could lease and according to the report of the Public Protector, the client adjusted the need for accommodation not according to its real requirements but to fit the specification of a single supplier in respect of the Middestad Sanlam Centre building in Pretoria. Furthermore, Department of Police identified the Transnet building in Durban although this need was also not included in the U-AMP. According to the report of the Public Protector, the building was identified prior to the determination of the specific nature and extent of the need for accommodation by the client department.

2.3 The PFMA indicates that accounting officers must ensure that budgeted funds are available before entering into procurement agreements. Due to incomplete U-AMP’s however, client departments did not always include sufficient funds for leases in their budgets. For example, the Department of Police did not have sufficient funds for the Middestad Sanlam Centre building and the Transnet building and funds had to be reallocated from other parts of the budget.

2.4 The following route causes were identified:

* Poor coordination by PMTE to obtain accurate accommodation needs from client departments to enable them to plan strategically for their accommodation needs.
* Client departments overstated their needs when compiling needs assessments.
* Client departments do not inform PMTE timeously of changes in their circumstances with regard to accommodation, this contributed to fruitless and wasteful expenditure as indicated in the utilisation paragraph.

**3. Procurement**

3.1 Based on the needs of client departments, PMTE must source accommodation to fill these needs. In most instances the PMTE did not follow proper supply chain management processes and did not always request bids on an open tender to address these needs. The most common method used by PMTE was to negotiate leases and according to the Public Works management information system (PMIS), 2 179 leases were negotiated compared to the 260 leases where the department requested open tenders. It must be noted that only the last information entered onto PMIS was visible and where the lease was continued month to month after expiry it could not be determined how the original lease was awarded. In a limited number of instances, PMTE requested quotations for accommodation but in certain instances the amount of the lease exceeded the threshold of R500 000.

3.2 To deviate from the prescribed supply chain management process and not go out on tender, PMTE must have proper justification to do so. In a number of instances it was indicated that it was impractical to go out on tender as it was urgent to procure the accommodation. However, the SCM guide for accounting officers/authorities states that a lack of proper planning should not constitute an urgent case. The Public Protector concluded that there was no legitimate justification for a deviation from the prescribed tender process for the Middestad Sanlam Centre building and Transnet building and that the procurement process did not comply with the requirement of fairness, equitability and transparency.

3.3 The following are examples of instances where PMTE negotiated leases in contravention with the applicable procurement rules and regulations:

Table 1: Examples of negotiated leases

|  |  |  |
| --- | --- | --- |
| **Name of building** | **Client department** | **Value of lease**  **(R million)** |
| Middestad Sanlam Centre | Department of Police | 614 |
| Transnet Building | Department of Police | 1160 |
| Voortrekker Gedink building | South African National Defence Force | 11 |
| 140 Byrons Place building | Department of Home Affairs | 31 |

3.4 A special national bid adjudication committee (SNBAC) was established at DPW to inter alia, adjudicate leases. This committee accepted the practice of negotiating leases and the Public Protector indicated in her report that the failure of SNBAC to properly interrogate the procurement strategy amounted to maladministration.

3.5 Leases were also entered into without the approval of the SNBAC. For example the internal memorandums requesting approval for the procurement of residential accommodation for Cuban professionals were not approved by the SNBAC during 2008. However expenditure incurred in relation to the above totalled R18 million.

3.6 Other contraventions of the supply chain laws and regulations were also identified such as the tender for the procurement of the Landbank Buildingwas advertised from 14 February 2011 to 22 February 2011, thus for a period of eight days which is less than the  21 days as required by the Treasury Regulations. The Infotech Building was leased withouta valid tax clearance certificateon file.

3.7 As PMTE did not test the market by obtaining bids from prospective service providers, it could not be determined if PMTE was renting at the lowest possible cost. For example, the Public Protector indicated in her report that the Transnet building was leased at a cost of R125,30 per m2 although a market related rent for a similar building amounted to R40,00 per m2.

3.8 During the audit it was also identified that PMTE entered into lease agreements for the different client departments in the same building at approximately the same time at considerably different rates per m2. The following serve as examples:

Table 2: Different rates per m² in the same building

|  |  |  |  |
| --- | --- | --- | --- |
| **Name of building** | **Property number** | **Client department** | **Rate/m2**  **(R)** |
| Nedbank building | 155822 | National: Correctional Services | 99,05 |
| 299390 | Justice and Constitutional Development | 83,79 |
| 299475 | National: Public Works | 102,39 |
| 299476 | Police | 72,05 |
| 301324 | Police | 104,75 |
| 316941 | Independent Complaints Directorate | 105,21 |

The highest rental of R105,21 is 46% more than the lowest rental of R72,05.

3.9 The percentage escalation provided for in the different lease agreements varied between 1% and 12% according to PMIS. The percentage escalation provided for could be identified for 1 636 leases on PMIS. For most of these leases, the escalation percentage exceeded the current inflation rate of 6,1% as at April 2012. For 1 578 leases it exceeded 7% per annum. The effect of escalation is significant on the rental being paid to landlords. If the escalation percentage is 7%, the amount of rent per m2 will double over a period of 12 years and if the escalation is 12%, the rent will double over a period of only 8 years.

3.10 The floor space required by client departments in their needs assessment were not always in line with the DPW norm and the Public Protector calculated a difference of 4 058,87m2 for the Transnet building with an additional cost implication of R77,7 million for the duration of the lease.

3.11 The following route causes were identified:

* Management not implementing the necessary monitoring measures and exercising sufficient oversight to ensure compliance with relevant laws and regulations and that contracts awarded to landlords for leases are in terms of the principles of SCM i.e. ensuring that the processes are fair, transparent, cost effective and equitable before allowing deviations.
* PMTE did not always ensured that rental was market related and that escalation was inline with inflation rate.

**4. Lease agreements**

4.1 After PMTE negotiates a lease with a landlord, a lease agreement is entered into by PMTE and the landlord. The Public Protector however indicated in her reports that the leases were not valid as the procurement of the lease was done in a manner that did not comply with the requirements of the Constitution, the PFMA and the Treasury Regulations for departments, trading entities, constitutional institutions and public entities Issued in terms of the PFMA.

4.2 In the course of the audit instances were noted where lease agreements were not signed by lessors due to a lack of monitoring. Agreements by PMTE with Redefine Properties (222123) and JHI Properties (59114) in Cape Town are two examples where contracts were not signed at the time of the audit. An unsigned undated addendum to the existing lease agreement for the Ndinaye Building was also identified.

4.3 It also came to the attention of the auditors that it is common for PMTE to continue with the lease on a month-to-month basis after the expiry of the contract. This places PMTE at risk as the contract can be terminated by the landlord with one month’s notice. From the available information from PMIS, 28% of the leases were running on a month-to-month basis.

4.4 Once a lease expires, PMTE don’t agree new contractual arrangements timeously with the landlord. The landlords expect a new long term lease including escalation to be in place, once a lease has expired. However, PMTE revert to a month to month arrangement, without any guarantee of business, the landlord then refuses to sign the lease agreement. This leads to buildings being occupied and leases paid without signed lease agreements in place. The practice of granting extensions on leases up for renewal is accordance with an internal policy promulgated by the DG: Public Works. The internal policy allows extensions for one to twelve months at existing terms and conditions when the inability to renew is beyond the control of the department. For examples refer to the table below.

Table 3: Example as buildings leased month to month after the end of the lease period

|  |  |  |  |
| --- | --- | --- | --- |
| **Name of building** | **Client department** | **Lease period end** | **Period on month-to-month (months)** |
| Waltloo building | Home Affairs | 31/8/2011 | 11 |
| Sedibeng building | National: Water Affairs | 30/6/2008 | 49 |
| Sanlam Plaza West | SA Police Services | 30/6/2007 | 20 |
| CBS Property Group (lessor) | Mthatha Regional PMTE: EC Water Affairs & Forestry | 31/3/2010 | 24 |

4.5 When the PMTE continue with the lease on a month-to-month basis the landlord can terminate the lease by giving one month notice. For example, the SA Law Commission (Department of Justice) and the Department of Home Affairs were given notice to vacate the Sanlam Middestad premises by 31 August 2010, as per letter dated 1 July 2010 from the landlord. According to the letter the lease had continued on a month to month basis since 31 May 2006. The request for approval of the procurement strategy dated 22 September 2010 indicated that the SA Law Commission moved to temporary accommodation but was unable to work due to the lack of infrastructure.

4.6 The following route causes were identified:

* The property management officials did not take sufficient action and perform sufficient follow up to ensure that the new lease agreement was signed by both parties subsequent to the letter of acceptance being issued.
* The PMTE does not have proper controls and processes in place for filing of procurement and lease documentation

**5. Accounting**

5.1 The PMIS plays a pivotal role in the management of leases at PMTE. PMIS does not only serve as a database of leases but it also triggers the payment to the landlords on the Basic Accounting System (BAS). Although PMTE indicated in 2009-10 that they are planning to migrate to a new management information system (iEWorks), they are still using PMIS.

5.2 During the general control audit conducted on PMIS major shortcomings were identified for example:

5.2.1 User access control:

* Inadequate implementation of user access controls at UNIX operating system level, for example 16 user accounts with “root” access defined. This type of access allows the users unlimited access to the operating system resources and utilities which can indirectly be used to gain access to PMIS.
* Inadequate implementation of user access controls on PMIS, i.e. user account created and never used, user accounts created but not linked to the login names, old profiles confirmed to be no longer in use, etc

5.2.2 Aging PMIS infrastructure that is no longer supported by the manufacturer, listed below are the infrastructure issues the department experienced:

* + Most of the system files are 90% utilised
  + The UNIX 11operating system is no longer supported by Hewlett Packard
  + The Processor Dependent Code (PDC) firmware is no longer accessible as the master processor password cannot be reset
  + The current version of the operating system (UNIX 11) is outdated and renders the applied patches ineffective

5.2.3 Delays in migrating PMIS application to new infrastructure/platform:

* + The new server required a printing spooler that took the department over a year to procure. The latest update from management is that the spooler has since been installed. This will be confirmed during the week.
  + The current license for the database (DB2/Universe) is not active and the department is in the process of resolving matter with the software vendor.

The department indicated that they are in the process to address the above issues as PMIS is in the process of being migrated to a new hosting environment with adequate system resources and processing capacity.

5.2.4 Inadequate backup solution for PMIS, for example the following are issues that the department is facing:

* + Backups are not verified due to the volumes of data being backed up and the media used which is no longer practical to use, i.e. there is approximately 130GB of data to be backed up using 24GB DDS tapes which translate to approximately 6 tapes being used for one set of backup.
  + Data backup restores are not performed due to the insufficient system resources and
  + Therefore no assurance can be given that the department will be able to recover or successfully restore lost data from the backup media.

5.2.5 Change control could not be evaluated as the department did not make any changes to the PMIS application for the past two years due to the fact that IE Works will replace PMIS.

5.2.6 Three sets of audit trails were submitted for audit purposes for the following PMIS processes:

* Capturing and amendments of basic property details
* Capturing and amendments of basic lease details
* Capturing and Amendments of basic service charges details

The audit trails reflected what changes were affected, by who and the field where the changes happened. However, no record indicating that such changes were approved at the appropriate level of management existed or formed part of the submitted audit trails. Furthermore, the audit trail did not adequately capture the required information and it was observed that some of the entries in the audit trail did not always capture all the required information, i.e. changes would be reflected to have taken place but no information was captured to indicate the field where the change was made. Furthermore, the old value and new value are not always captured and if captured they sometime reflect information that is not readable or making sense to the reader.

Some of the entries in the basic lease details audit trail were captured using the PMIS profile, i.e. “Data”. This is a weakness as this practice is not linking system activities to a specific individual and it would not be possible to apportion accountability if an unauthorised transaction is processed using the profile. According to the explanation from the department, this profile was used during the times when capturing and updating of information was centralised. There was a staff member at the data capturing unit that was assigned this profile to make data changes and amendments according to the forms that he/she was receiving from the portfolio managers.

5.3 A decision was taken by the department around 2007-08 that a more up to date and robust system is required to drive and support the core business processes of the department which will replace PMIS and the Works Control system (WCS). To date, PMIS processes were built and ready for use in the new system and the municipal rates and taxes module of IE works was rolled out to provinces.

5.4 During the audit, the information on the contracts was compared to that on PMIS and the following differences were identified:

Table 4: Amounts paid not included in the contract

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Name of building** | **Client department** | **Amount per contract**  **R** | **Actual amount paid**  **R** | **Difference**  **R** |
| Nedpark building (Pretoria) | Trade & Industry (CIPRO) | 0 | 2,641,037 (duplicate payments) | 2,641,037 (15 mths) |
| SALU | Justice | 0 | 13,440,098  (payment before the contract commenced) | 13,440,098 (2009) |

Table 5: Differences in number of parking bays between the contracted and those available to the client department

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Name of building** | **Client department** | **Number per contract** | **Number used** | **Value**  **R** |
| Continental building (Pretoria) | Water Affairs | 61 | 52 | 206,073 |
| Nedpark building (Pretoria) | Trade & Industry (CIPRO) | 270 | 212 | 26,117 |

5.5 The auditors detected an error in the formula used to calculate lease commitments. The Regional Office reported the error to the Head Office for corrective action.

Table 6: Differences in amounts calculated and disclosed for lease commitments

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Property code** | **Client department Region** | **Disclosed**  **R** | **Auditors Recalculation**  **R** | **Difference**  **R** |
| 313243 | Port Elizabeth Regional PMTE | 9,112,772 | 8,426,600 | 686,172 |

5.6 During the audit it was identified that the payments to landlords did not always agree to the amount specified in the contract.

Table 7: Difference in amount per contract and amount paid

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Name of building** | **Client department** | **Amount per contract (pm)**  **R** | **Actual amount paid (pm)**  **R** | **Difference (total)**  **R** |
| Oranje-Nassau building (Pretoria) | National: Public Works | 1,285,187 | 1,598,305 | 939,354 (3 mths) |

5.7 The following route causes were identified:

* PMTE did not ensure that all the information captured on PMIS is 100% correct in accordance with the lease agreement and other source documentation.
* The property management regional support directorate is not conducting regular reviews and assessment of the state of controls on PMIS with the intension of improving them.
* Controls on PMIS were not included in a consistent manner. Look-up tables were not always used for all the fields on PMIS to ensure that only applicable alternatives are selected when entering data onto the system. In other instances look-up tables included alternatives for selection not applicable to leases.
* User access to PMIS was not strictly controlled and the user that made changes on PMIS could not always be identified as a profile, for example “Data”, was utilised not a user. Also it will not be possible to apportion accountability of system activities to individuals making use of generic user names, i.e. “Data”.
* The information that must be captured on the audit trail was not defined for example the field name where the changes was effected is not always indicated only the before and after data. The correctness of the changes made to the data was not always confirmed by the relevant supervisor. Lack of detailed audit trails that do not reflect key systems activities by all users could result in unauthorised or fraudulent entries going undetected for extended period of time.
* PMTE did not conduct reconciliations to ensure that the correct amounts are paid and the duplicate payments are eliminated. In addition it did not reconcile the payments to the accommodation rented.

**6. Utilisation**

6.1 During the audit, buildings were identified that were not optimally utilised as client departments did not occupy and utilized buildings from the agreed date. For example the Department of Water Affairs did not take occupation after completion of the improvements but only took occupation of the building on the 6 April 2009 after receiving a letter from PTME informing it that wasteful expenditure had been incurred because the building was not occupied. The Portfolio Manager was of the view that the building is ready for occupation and a certificate of occupation was issued by City of Tshwane. The rental payment of R5,3 million when the building was not occupied is fruitless and wasteful expenditure. A total payment of R5,7 was made from 1 December 2007 to 9 April 2009 this includes rental as agreed, overrun installation cost but also includes four month’s rental which should have been free as agreed with the lessor.

6.2 In addition the team also identified payments of R73,8 million to Phomella, despite the SALU building, that was leased for the Department of Justice, was standing empty since the commencement of the lease until occupation, a period of twenty-two months. The audit team confirmed with the Deputy Director: Property Management of the Department of Justice that Justice took occupation of the SALU building at the beginning of November 2011. In addition PMTE paid Phomella R13,4 on 15 June 2010. Acccording to the Department the payment related to 2009. The reasoning for this payment was not clear to the audit team as the lease commenced on 1 January 2010. According to a letter dated 9 April 2010, the landlord stated it had had a commitment from PMTE since April 2009 that the premises would be occupied by the Department of Justice and that PMTE was liable from that date.

6.3 The communication of needs between PMTE and client departments were also not always effective and client departments did not communicate the changes in the needs to PMTE in time to ensure the effective utilisation of leased accommodation. For example during a site visit conducted at the Metro Park building, the audit team noted that approximately 50% of the office space was not utilised by the Department of Human Settlements (DHS). According to Portfolio Manager: PMTE, on expiry of initial lease agreement on 30 November 2009, the DHS had not indicated their position on the extension of the lease agreement or had submitted its revised needs assessments, thus the audit team was unable to establish the DHS motivation for the continued utilisation of the said building. The audit team has requested the correspondence with the DHS relating to the DHS position on the extension of the lease agreement and revised need assessments however this information was not provided to the audit team. The period of underutilisation is unknown therefore an amount for fruitless and wasteful expenditure could not be calculated at this time. As PMTE did not conduct inspections at buildings they were not aware of the underutilisation.

6.4 Furthermore PMTE did not conduct inspection at the end of the lease to ensure that client departments vacate the buildings in full to avoid fruitless and wasteful expenditure. PMTE entered into a three year lease agreement on 9 March 2007 with Superbia Four (Pty) Ltd for the leasing of the Ndinaye Building previously known as Oranje Nassau building. Although the department indicated that the lease agreement would be terminated on 31 December 2011, according to the payment documentation obtained from departments customer billing directorate, rental of R1 598 305 was paid for the period 1February 2012 to 29 February 2012. The Portfolio Manager: PMTE confirmed to the audit team that the payment was made as all documentation and equipment were not removed from the building.

6.5 In addition The PMTE entered into a lease agreement with New Heights 326 (Proprietary) Limited for the Sinodale building on behalf of the Department of Minerals and Energy. The term of the lease was from 1 March 2004 until 2008 The PMTE has on numerous occasions advised the tenant to renew the lease but in vain. The Department of Minerals and Energy vacated the building on 31March 2010. As at 27 June 2012,two years after vacating the building, PMTE has not restored the building into a fit state as required by the contract. PMTE reported that the department only removed shelving from the premises in October 2011. Although the department vacated the premises in March 2010, PMTE has continued to pay the landlord the monthly rental. Payments of R14,3 million to the landlord reflected on the BAS system for the period up to 30 June 2012.

6.6 The following serve as examples of under utilized or under utilized buildings where the payments was fruitless and wasteful expenditure and should be reflected in the financial statements of PMTE or the client department:

Table 8: Examples of under utilized or under utilized buildings

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Name of building / lessor** | **Client department** | **m2 leased** | **m2 unutilised** | **Amount per m2** | **Amount**  **R** |
| [[1]](#footnote-1)AC Sigcawu (lessor) | Mthatha Regional PMTE: SASSA |  |  |  | 308,51 (8 mths) |
| Continental building (Pretoria) | Water Affairs | 4,113 | 4,113 (100%) | 75.31 | 5,265,677 (17 mths) |
| John Ross House (Durban) | Durban Regional PMTE: KZN Agriculture, Forest & Fisheries | 1,149 | 1,149 (100%) | 138.75 | 1,115,919 (7 mths) |
| Metropark building (Pretoria) | National: Human Settlements | 2,468 | 1,234 (50%) | 43.79 | 3,241,878  (60 mths) |
| Nedpark building (Pretoria) | Trade & Industry (CIPRO) | 12,878 | 12,878 (100%) | 198.22 | 48,500,000 (19 mths) |
| Oranje-Nassau building (Pretoria) | National: Public Works | 15,400 | 15,400 (100%) | 103.75 | 1,598,305 (1 mth) |
| SALU building (Pretoria) | Justice | 27,782 | 27,782 (100%) | 120.81 | 73,834,651 (22 mths) |
| Sinodale building (Pretoria) | Minerals & Energy | 16,358 | 16,358 (100%) | 71.63 | 14,353,225 (28 mths) |
| Waltloo building (Pretoria) | Home Affairs | 30,858 | 26,858 (81%) | 61.34 | 11,532,309 (7 mths) |

6.7 PMTE did not always follow up to ensure that shortcomings identified in buildings before moving in are adequately addressed by the landlord or that buildings are maintained to a satisfactory state. For example City Forum building was leased for the Independent Complaints Directorate and all the lifts in the building do not work. Although this was identified before the client department moved in, the situation existed two years later.

6.8 The following route causes were identified:

* PMTE does not regularly visit leased buildings to confirm the utilisation and maintenance of these buildings;
* Client departments overstate their needs when compiling needs assessments; and
* Client departments do not inform PMTE timeously of changes in their circumstances, for example, client departments do not inform PMTE when they vacate a lease building.
* Poor planning and coordination with regards to the termination and commencement of the leases, thus resulting in fruitless and wasteful expenditure being incurred.
* PMTE did not always follow up to ensure that shortcomings identified in buildings before moving in are adequately addressed by the landlord or that buildings are maintained to a satisfactory state.

7. Recommendations

Management should ensure that comprehensive accurate U-AMP’s are compiled by client departments as required by GIAMA and where necessary provide training and support to the client departments.

Management should ensure that all needs are included in the C-AMP to provide accurate information on the current and future needs for accommodation to facilitate strategic planning with regard to the building, buying or leasing of accommodation.

The PMTE/DPW should in each instance compile a cost - benefit calculation and should consider utilising state owned buildings before leasing.  These considerations should be comprehensively documented and filed in conjunction with procurement documentation.

Management should make sure the need determinations for client departments agree to the accommodation norms by providing training to key staff at client departments.

Management should ensure that the needs of the client department are adequately addressed and aligned to the building for which the lease is to be entered into before the PMTE commits to the lease with the landlord, for example the lease term as well as the area (office, storage space, parking bays etc.).

Property Management officials should develop a standard checklist indicating the minimum documents to be included on the lease files. This will assist in ensuring that the relevant documentation is indeed included on the lease file and available for record keeping purposes.

Management must before the commencement of a SCM process ensure that the correct procurement system, for example quotations or competitive bids are selected based on the threshold values set by the National Treasury.

The PMTE should consider the cost per square meter for accommodation and compare it to other similar accommodation before entering in to contracts.

Document management should be improved and the relevant SCM documentation supporting the decisions to select a supplier must be kept on file or attached to the contract.

In approving deviations from the normal SCM process, management should ensure that the deviations are based on valid reasons, properly documented and approved on the appropriate level in line with the approved delegation of powers.Management should ensure that all deviations approved by the entity are reported to the AGSA and National Treasury within 10 working days.

Management should ensure that payments made to the landlord are in terms of a valid signed lease agreement.

The accounting officer must in terms of section 38(1)(h) of the PFMA, investigate and take effective and appropriate disciplinary steps against any official in the service of the client department or the PMTE who made or permitted the irregular expenditure.

Management should identify contracts nearing their termination date well in advance (more than six months) to ensure that sufficient time is available to apply the correct SCM processes, thus ensuring that market related rentals are obtained and that new lease agreements are entered into timeously to prevent ongoing month to month leases.

The PMTE should ensure adequate measures, including site inspections, are in place to ensure that the area leased agrees to the contract and implement controls to ensure that payments are reconciled lease agreement amounts on a monthly basis.

The PMTE should implement controls to ensure leased buildings are inspected to determine if buildings are utilised optimally and implement processes obligating tenants to inform them when buildings are under-utlised.

The PMTE should ensure that the client vacate the building fully when the lease is terminated by inspecting the building. Payment should be stopped when the leased building is vacated. Contractual requirements to hand back the building at the end of the lease should be compiled timely to eliminate fruitless and wasteful expenditure.

All fruitless and wasteful expenditure should be investigated and effective and appropriate disciplinary steps must be taken against any official in the service of the client department or trading entity as per the requirements of the PFMA section 38(1)(h). The amount of fruitless and wasteful expenditure should be determined and should be reflected in the financial statements of the PMTE or client department.

The Chief Director: Regional Coordination should engage with the regional management of the department to initiate processes to align PMIS with the current work practices. Part of the initiative should focus on the current functioning and the state of in-built controls on PMIS, whereby a list of improvements required is compiled and confirmed with the director IT applications for implementation by following the established change control process of the department. The effected changes should always have the supporting documentation that should be kept for audit purposes.

The property management regional support directorate should engage with the Director IT applications and the PMIS database administrator to define controls that will ensure that system activities captured in the audit trails are complete and usable. Also the audit trails should also reflect the details of the designated staff that authorises the changes effected by the capturers/portfolio managers.

To ensure accountability, users on PMIS should be assigned a user name, user code and must be linked to a profile that is in line with their job responsibilities. The user name that uniquely identifies users should always be linked to the changes affected by the users in the audit trails.

1. Landlord took DPW to court after it cancelled the lease as the client department had not occupied the building. Court ruled in favour of the landlord. [↑](#footnote-ref-1)