

SURREY COUNTY COUNCIL AUDIT REPORT

Highways Contracts

Lot 5 – Highway Flood Prevention Contract

2012/13

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Glossary:

SPN	Surrey Priority Network hierarchy for road classification
Divers	Remote monitoring and reporting device for water levels
RoadZone	Sharepoint repository for sharing documents with May Gurney
Trimbles	Handheld device to electronically record work/position
Maximo	May Gurney system for managing work orders

Audit opinions:

Effective	Controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met.
Some Improvement Needed	A few specific control weaknesses were noted; generally however, controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met.
Major Improvement Needed	Numerous specific control weaknesses were noted. Controls evaluated are unlikely to provide reasonable assurance that risks are being managed and objectives should be met.
Unsatisfactory	Controls evaluated are not adequate, appropriate, or effective to provide reasonable assurance that risks are being managed and objectives should be met.

1. INTRODUCTION

- 1.1 In November 2010 Cabinet approved the award of contracts for highway maintenance and construction within Surrey in seven discrete lots. Lot 5 covering highway flood prevention was awarded to May Gurney and commenced in April 2011. The service of cleansing and jetting over 159,000 drainage gullies and soakaways is provided by May Gurney's sub contractors ACL with minor works carried out by May Gurney's in-house gangs. A programme of works was produced for 2012/13 with an estimated cost of £2.172m.
- 1.2 The audit was undertaken in line with the agreed 'Terms of Reference' attached at Annex A and this report sets out the findings of the audit of lot 5. An audit report on lot 3 – highway construction and resurfacing was issued in May 2013 and a follow up audit on lot 1 – will be issued in June 2013. The agreed Management Action Plan is attached as Annex B.

2. WORK UNDERTAKEN

- 2.1 Discussions were held with officers and contractor representatives to understand and document the processes in place to meet the following control objectives for lot 5.
- Management processes in place to review quality and performance, and monitor the progress of work;
 - Adequate documentation to support all amounts invoiced;
 - Official orders exist for all work invoiced;
 - Adequate approval process to authorise payments; and
- 2.2 The auditor also checked to ascertain whether the controls in place are effective and working as expected.

3. OVERALL AUDIT OPINION AND RECOMMENDATIONS SUMMARY

- 3.1 **Some Improvement Needed** - A few specific control weaknesses were noted; generally however, controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met.

3.2 Recommendation analysis

Rating	Definition	No.	Para. Ref.
High	Major control weakness requiring immediate implementation of recommendation	3	5.11,5.12, 5.16
Medium	Existing procedures have a negative impact on internal control or the efficient use of resources	2	5.6,5.21
Low	Recommendation represents good practice but its implementation is not fundamental to internal control	2	5.17,5.26
Total number of audit recommendations		7	

4. MANAGEMENT SUMMARY

- 4.1 Overall the current monitoring of the contract is largely effective in ensuring that the service is being provided but Surrey County Council was slow to move to the issue of an early warning notice in September 2012, whereby the contract was placed under special measures with an agreed action plan. Contract performance has been an issue in the past with the sub-contractor given extra time to complete the scheduled cleaning for 2012/13. The sub-contractor on the contract is being replaced. The weekly inspections carried out by the Maintenance Engineers have highlighted some poor or delayed performance and is an area that would benefit from strengthening.
- 4.2 The retendering of the sub-contract and mobilisation of a new sub-contractor will need careful management in order to maintain the level of information and service currently being received.
- 4.3 The use of remote monitoring equipment in soakaways is an innovative approach by the Asset Planning team that could be improved further by better communication to the maintenance engineers.
- 4.4 In view of the above findings, set out in more detail in section 5 of this report, the Internal Audit opinion is therefore “**Some Improvement Needed**”.

5. FINDINGS AND RECOMMENDATIONS

Contract

- 5.1 The Highways Lot 5 contract is entitled “Flood Prevention” and was awarded to May Gurney following a joint presentation with their sub-contractor ACL. The contract began in April 2011.
- 5.2 The contract was set up without stipulating when drainage assets are cleaned but with the aim that all SPN1 and SPN2 routes do not contain more than 50% silt and SPN3 routes do not contain more than 75% silt at any time. May Gurney indicated that in year 1 the sub-contractor would clean all the gullies in order to validate the silt information provided under the previous East and West contracts. This would identify the frequency of cleaning that was needed to maintain the level of compliance agreed in the contract, thus providing a more focussed and effective service. This is necessary because there was a reduction in the annual lump sum payment for the contract after year 1.
- 5.3 The contract includes key performance indicators but does not include any financial penalties for finding higher than acceptable silt levels. The operational KPI’s are:

% of Gullies cleaned each month compared to the agreed programme	88%
% of working time compared to programmed time	95%
% of gullies free running after cleaning	97%
% of gullies cleaned at first visit	94%
Information provided to client on a weekly basis.	98%
% of data maintained correctly within information systems	98%

The key performance indicators for the contract are also being reported for the year to date in order to show progress against the backlog of work.

Operations

- 5.4 Throughout the contract there have been weekly operational meetings with the contractor and sub-contractor and monthly core group meetings with the contractor which have both been minuted. There are several elements to the service with lump sums to cover the normal cleansing of gullies and soakaways and the provision of a jetter, and specific orders for minor works; additional jetting; and, traffic management for high speed roads. The total budget for drainage maintenance for 2013/14 is £2.854m, and is an approximate 50% split between the lot 5 contract and drainage repairs and ditching works ordered through lots 1 and 8 respectively. Orders are placed via Maximo and payments are generated as part of the bill batch process. It was observed that traffic management for high speed roads was fully utilised by grass cutting, litter picking and road sweeping at the same time as gully emptying. The team was reduced to three with a vacancy in April 2012 but a review of staffing levels that took place in summer 2012 as part of Re-thinking Surrey Highways has increased the team to six.

Year 1 (2011/12)

- 5.5 In its first year of operation, the contractor was to provide a means of mapping the cleansing of gullies, soakaways and other drainage assets. ACL was using NAVMAN (vehicle tracking) to track/monitor progress; however the accuracy of the GPS was not sufficient to exactly pinpoint the asset cleaned or record the level of silt found. The overall number of assets cleansed for 2011/12 was recorded as 121,672 which were 94.8% of the number of assets scheduled to be cleaned.
- 5.6 The contract was required to introduce remote monitoring of wetspots so that early warning of issues could be achieved. The use of “divers” in soakaways has been introduced to remotely monitor the effectiveness of the soakaway. This innovation was introduced by the Asset Planning team to more accurately identify those soakaways in need of remedial works and thus save on costly investigations. It would, however, be helpful for the Maintenance Engineers and cleansing contractor to be made aware of the location and operation of the monitoring devices so that work can be programmed more effectively and the instruments are not inadvertently damaged.

Recommendation

It is recommended that the Asset Planning Team ensure the Maintenance Engineers are aware of the location and operation of “divers” so that work can be programmed more effectively and the instruments are not inadvertently damaged. (Medium)

Year 2 (2012/13)

- 5.7 The contractor agreed to use Trimble from April 2012 for recording the location of the asset and the level of silt found. Trimble are also used by May Gurney highway gangs to record the position of work completed or work required.
- 5.8 In the first half of the second year the sub-contractor was failing to meet targets due to a reduction in the number of vehicles used on the contract. May Gurney had requested a map to use for plotting the assets and this became a source of conflict between the parties as it was envisaged that the contractor would provide this facility. The data from the Trimble was being provided by the contractor but was not in a useable format for the Asset Planning Group and therefore could not initially be plotted as required by the contract.

Internal Audit

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5.9 In September 2012, an early warning notice was issued to May Gurney and the contract was placed under special measures with an action plan agreed. May Gurney, as a result, improved the management of its sub-contractor by bringing in new staff to focus on the issues and the contract started to catch up on the backlog of cleansing. Since September, there have been bi-monthly action plan meetings to monitor the contract performance. The sub-contract is currently being retendered by May Gurney.

Risk

5.10 The replacement sub-contractor may not provide a better service.

Recommendation

5.11 The sub-contract should be reviewed in the light of the lessons learned to ensure it meets Surrey's contract requirements. (High)

5.12 The new sub-contractor should be closely monitored to ensure that the service improvements over the past six months are not lost. (High)

Contract Monitoring

5.13 The sub-contractors are being monitored by the Highways Maintenance Team. The vehicles are stored at Merrow depot, and therefore CCTV can be viewed to see which vehicles are in use. Since September, there have been daily whereabouts sheets for the sub-contractors which can be checked against the NAVMAN vehicle tracking system, however, this system is not always available to the team. The vehicle driver maintains a daily manual log of the roads visited, gullies cleaned and any access issues. The log is scanned and loaded on to RoadZone. The weekly download from the Trimbles is being provided as an outcome report; providing information on assets cleansed or problems identified, such as blocked outfalls or jammed lids, to enable additional jetting to be scheduled or raise minor works orders to investigate blockages or free jammed lids. In a sample of five of the outcome reports provided on the assets cleansed it was noted that an average of 8.2% of the assets exceeded 75% silt levels, thus failing to meet the required standard under the contract.

5.14 There is a programme of weekly audit inspections carried out by the Highway Maintenance Team to check a sample of roads in an area, with different Boroughs and Districts targeted each week. A sample of the site visits were examined and included a detailed inspection of gullies selected from the daily whereabouts sheets as well as a Health and Safety review of working practices if a crew was observed at work. The sample had less than a 50% pass rate. The results of this testing is reported to the weekly operation meetings with the undertaking that the sub-contractor will make sure that the failed gullies are cleaned properly. There is, however, no follow up on the failures which is a significant weakness given that all other monitoring of the contract is provided by the contractor.

Risk

5.15 Drainage assets may not be cleansed as expected leading to localised flooding in heavy rain.

Recommendations

5.16 It is recommended that procedures to follow up cleansing failures are put in place to ensure they are not overlooked or ignored. (High)

5.17 It is recommended that consideration is given to using the results of the site visits to inform the KPI on the % of gullies cleaned at first visit. (Low)

Progress of programme

- 5.18 The sub-contractor had not completed the annual programme of work by the end of March and was therefore granted a one month's extension to finish this work. As a result contract payments are being retained until the work programme is up to date.

Asset Planning

- 5.19 The Asset Planning team have been able to plot the Trimble data on drainage assets on the county's GIS mapping system since December 2012. All drainage assets have been mapped and are being used for the public reporting of problems via the external website. It is possible to review the map for information on cleansing; however this data is not available to the operational side of the Highways Service. Wider access to this data would be beneficial.

Risk

- 5.20 There may be duplication of effort where operational requirements cannot be met from existing information

Recommendation

- 5.21 It is recommended that consideration is given to enabling wider access to Asset Planning data where it will support operational areas. (Medium)

Other contributors to flooding

- 5.22 There are other assets that contribute to localised flooding that do not belong to the county, such as ditches and structures. The vast majority of ditches are on private land and are therefore the responsibility of the land owners.
- 5.23 Under the Flood and Water Management Act 2010 the county has the responsibility for providing strategic management of local flood risks with Maintenance Engineers taking on the role of investigating significant flooding issues. The county is also responsible for a register of structures which can have an effect on flood risk management in Surrey. The Community Highways Officers are now working with the Maintenance Engineers to identify where private ditches are contributing to the risk of flooding. This approach is currently under development.

Disposal of waste materials

- 5.24 There is a KPI for the disposal of waste arising from gully cleansing relating to the percentage of waste diverted from landfill. As at December 2011 it was recorded that between 30-60% was able to be composted. The target was due to be jointly agreed during the first six months of the contract based on industry standards and an assessment of the actual waste generated. This has yet to be agreed and may need to be reconsidered as a KPI.

Risk

- 5.25 Lack of a minimum acceptable standard of performance could result in poor contract performance.

Recommendation

- 5.26 It is recommended that the KPI on the diversion of waste from landfill is reviewed and agreed with the contractor. (Low)

Conclusion

- 5.27 Overall, the review of contract management has shown that the contract has not achieved its aspirations; however, its management is now largely effective and is providing the data necessary to facilitate this.

6. ACKNOWLEDGEMENT

- 6.1 The assistance and co-operation of all the staff involved was greatly appreciated.

TERMS OF REFERENCE

Highway Contract Management 2012/13

BACKGROUND

In November 2010, Cabinet approval was given to award contracts for Surrey Highways maintenance and construction in seven lots. The new contracts were awarded to May Gurney Infrastructure Services, Tarmac, Wilson & Scott and Glendale Managed Services and began in April 2011.

The core maintenance contract awarded to May Gurney was reviewed in 2011/12, and this audit will follow up the progress on management actions. In addition this audit will review lot 5, the gully emptying contract awarded to May Gurney, and lot 3, the major maintenance contract awarded to Tarmac.

PURPOSE OF THE AUDIT

To ascertain whether controls are in place to ensure effective management of the contract, including the management of key performance indicators, ordering and approval of work, accruals, budgetary control and the adequacy of the management trail for payments.

WORK TO BE UNDERTAKEN

Follow up progress against management actions arising from audit of lot 1 core maintenance contract awarded to May Gurney. Discussions with officers and contractor representatives to understand and document the processes in place to meet the following control objectives for lots 3 and 5.

- Management processes in place to review quality and performance, and monitor the progress of work;
- Adequate documentation to support all amounts invoiced;
- Official orders exist for all work invoiced;
- Adequate approval process to authorise payments; and
- Scheme works are adequately communicated, monitored and documented in a timely manner.

Audit testing to ascertain if the controls in place are effective and working as expected.

OUTCOMES

The findings of this review will form a report to Surrey County Council management, with an overall audit opinion on the effectiveness of systems in place and recommendations for improvement if required. Subject to the availability of resources, and the agreement of the auditee, the audit will also seek to obtain an overview of arrangements in place for:

- Data quality and security;
- Equality and diversity;
- Value for Money;
- Business continuity, and
- Risk management.

The outcome of any work undertaken will be used to inform our future audit planning processes and also contribute to an overall opinion on the adequacy of arrangements across the Council in these areas.

REPORTING ARRANGEMENTS

Auditor: George Atkin
Supervisor: Diane Mackay
Reporting to: Jason Russell, Assistant Director, Highways
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