

Government's use of Outsourced Services





To help the public
service spend wisely

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EXECUTIVE SUMMARY

Governments across the world contract out (or outsource) some of their services. Outsourcing is the contracting-out of a service that has traditionally been provided by a public service.¹ These services can range from back-office functions such as facilities management and Information Communication and Technology (ICT); transactional services such as processing vehicle licence payments; process and case management services such as pensions administration; and front-line services such as running prisons or delivering home care or residential care services for older people. Governments may outsource services for a number of reasons, but it is generally because they believe that it will help improve value for money, reduce costs and improve the quality of services. Outsourcing services can help governments focus on their core business and can also provide opportunities to develop the economy.

The Cayman Islands Government (the Government or CIG) is no different; it outsources some of its services to private sector contractors. It is essential that the Government receives value for money from these outsourced services. The Government remains responsible for the services that it outsources and therefore needs to have appropriate accountability arrangements in place. There needs to be, among other things, a clear link to the organisational strategy, proper procurement, a competitive market, effective contract management and monitoring of contractors' performance.

The objective of this audit is to determine how effectively the Government uses outsourced services and ensures that it is obtaining value for money. We aimed to answer the following audit questions:

- How well does the Government plan the use of outsourced services and decide which services are outsourced?
- How effective is the Government at procuring outsourced services to ensure that it receives value for money?
- How well does the Government manage outsourced contracts and engagements?

Our audit focused on core government only – that is, Ministries, Portfolios and Offices - and covered the five years 1 July 2012 to 30 June 2017. Our audit findings are based on our review of 23 contracts representing 70 per cent of the Government's total spending (\$32.2 million) on outsourced services over the five-year period. The period covered by our sample was prior to the reorganisation of the Government after the May 2017 election. We refer throughout this report to the Ministries in place

¹ *Outsourcing in the Public Sector*, The Institute for Public Procurement,

after July 2017.² The audit did not cover outsourcing in the Statutory Authorities and Government Companies.

Our 2018 report, *Government's Use of Consultants and Temporary Staff*, reported that the Government had made some progress in improving its procurement practices since 2011, when our Office found significant deficiencies in the Government's procurement arrangements.^{3,4} Between 2011 and 2017, the Government made some improvements to its procurement practices, including the adoption of procurement manuals by most Ministries in 2014 and the creation of the Central Procurement Office in 2015. The *Procurement Law, 2016* and *Procurement Regulations, 2018*, were also brought into force in May 2018, and during 2018 a number of civil servants were trained in writing business cases.

This report covers the same period as our 2018 report and the sample selected pre-dates the introduction of the *Procurement Law* and *Procurement Regulations* in May 2018. We would therefore not expect procurement for any of these services to comply with the requirements that are in place now. We therefore found many of the same weaknesses in the procurement of outsourced services that we found in the procurement of consultancy services.

KEY MESSAGES

The Government does not routinely monitor and report how much it spends on outsourced services. We estimate that for the five years to 30 June 2017, the Government spent \$47.7 million on services outsourced to 45 suppliers. Annual expenditure was fairly constant, ranging between \$9.0 million and \$10.1 million. Our analysis shows that the Government outsources four main types of service: janitorial and gardening; security; school buses; and IT-related services. Almost all entities within the Government contracted out services over the five-year period, with the Ministry of Education, Youth, Sports, Agriculture and Land (MEYSAL) outsourcing the most, spending \$28.8 million with 28 suppliers on the four types of services. The Government spends most on school buses (all of this is spent by MEYSAL); \$17.3 million, or 36 per cent of the total five-year spending.

Outsourcing of services needs to be integrated with the overall corporate strategy of the organisation. However, it is not clear how the Government plans or makes decisions about which services to outsource and how those services align with its overarching objectives. We were told that some services had been outsourced to help reduce costs and to reduce management oversight, allowing managers to focus on other things; however, there was no evidence to support this. Most services have been outsourced for a number of years without any consideration of whether they should be brought back in-house.

² We refer to the Ministry of Human Resources and Immigration (MHRI) throughout the report. This Ministry changed its name to the Ministry of Employment and Border Control with effect from 23 May 2019

³ *Government's Use of Consultants and Temporary Staff*, Office of the Auditor General, February 2018

⁴ *Management of Government Procurement*, Office of the Auditor General, July 2011

An essential element of effectively outsourcing services is robust procurement. We found some of the same weaknesses in relation to procurement as we noted in our report *Government's Use of Consultants and Temporary Staff*, including lack of business cases; lack of or poorly defined requests for proposals; sole-source contracts agreed without adequate justification; and a lack of procurement expertise.

However, we also found that ministries are independently buying the same services, often from the same suppliers, and the Government is using a large number of suppliers to provide some services. For example, 27 different suppliers provide janitorial and gardening services to 14 government entities. This may be reasonable if it is helping to achieve government policy to support small and medium-sized enterprises, but it is not clear whether this is the reason. We also found that the Government is not carrying out sufficient market testing or pre-tender estimates to ensure that prices quoted by potential suppliers are affordable and reasonable. There is scope for the Government to further improve its procurement practices, by making better use of its collective buying power to achieve greater benefits and efficiencies from its outsourced services.

It is good practice when outsourcing services to foster competition, in order to help achieve value for money. This involves keeping suppliers engaged to ensure that there is sufficient interest, and stimulating competition. The Cayman Islands is small, with only a few potential suppliers for some services, and we found limited competition in some areas. For example, MEYSAL tried to stimulate greater competition for school bus routes during the last procurement for these services in 2015-16, but most routes received single bids only.

Another factor in trying to encourage participation and stimulate competition is the scope and length of contracts. If the scope of work is too small or the contract too short, it may not stimulate enough interest; if the scope of work is too large or contracts are for too long a period, it may prevent small or medium-sized companies from bidding. We found that contracts awarded, often for the same type of service, varied in length. Although most contracts were for three years or longer, which is reasonable; some were for one year or less, and some were open-ended. We also found that contracts were not in place for some of the services we reviewed; and some contracts had expired although services were delivered and payments continued to be made to suppliers. Most were fixed-price contracts, providing assurances about the overall cost of the services. However, the few contracts that were based on rates per hour did not specify a maximum number of hours, posing risks to effective cost control.

Effective contract and performance management of outsourced service suppliers is essential to demonstrate that they are providing value for money. We found that the quality of contracts varied. Most included elements of good practice, including specifying the service to be provided, and clauses for poor or non-performance and for termination. However, none included success measures that adequately allowed the quality of service or performance to be monitored. Similar to the findings in our *Government's Use of Consultants and Temporary Staff*, we found that the Government is not routinely monitoring or evaluating suppliers' performance.

GLOSSARY OF ACRONYMS

Ministries, Portfolios and Offices

JudAdm	Judicial Administration
MCA	Ministry of Community Affairs
MCPI	Ministry of Commerce, Planning and Infrastructure
MEYSAL	Ministry of Education, Youth, Sports, Agriculture and Lands
MFSHA	Ministry of Financial Services and Home Affairs
MHECH	Ministry of Health, Environment, Culture and Housing
MHRI	Ministry of Human Resources and Immigration (now Ministry of Employment and Border Control)

Schools

BTPS	Bodden Town Primary School
CHHS	Clifton Hunter High School
CIFEC	Cayman Islands Further Education Centre
EEPS	East End Primary School
JGHS	John Gray High School
LHS	Lighthouse School
LSHS	Layman Scott High School
PPS	Prospect Primary School
RBPS	Red Bay Primary School
SPS	Savannah Primary School
GTPS	George Town Primary School

Others

CPO	Central Procurement Office
ICT	Information Communication and Technology
IRIS	Integrated Resource Information System
IT	Information Technology
ITT	Invitation to Tender
RFP	Request for Proposals
SIMS	Student Information Management System

INTRODUCTION

GOVERNMENTS ARE INCREASINGLY OUTSOURCING SERVICES

1. Over the past few decades, many governments and public sector bodies across the world have shifted their approach to service provision from most services being provided in-house to a number of services being contracted out (or outsourced) to non-government suppliers (in the private sector or charitable sector). Outsourced services range from back-office functions such as facilities management and ICT to transactional services such as processing vehicle licence payments, process and case management services such as pensions administration, and front-line services such as running prisons or delivering home care or residential care services for older people.
2. Outsourcing of services is used for a variety of reasons, but generally because the contracting authority believes it will help improve value for money, reduce costs and improve the quality of service. The UK National Audit Office identified the following three main benefits of contracting out services:⁵
 - Freeing up the government's time to focus on policy, strategy and stakeholders; to deliver economies of scale; and to provide access to skills that are difficult to retain in-house.
 - Doing things that are difficult to do within the public sector. Using a private sector contractor can encourage 'spend-to-save' investment; lead to innovation and performance improvements by aligning commercial incentives and performance; and result in operational flexibility by reducing the management chain involved in decision making.
 - Defining the requirements and performance regime through a contract. For example, writing a contract can focus attention on the resources required to do the work, and can establish a more rigorous monitoring regime over performance.
3. The achievement of these benefits relies upon competitive markets, aligned incentives and sound accountability regimes. While outsourcing services can be good value for money, if they are not well planned or managed, it can be an expensive solution. It may adversely impact day-to-day operations particularly if services are of low quality.
4. The success or failure of an outsourced service depends on the soundness of the commercial strategy – that is, the strategy for outsourcing and how it fits with the overarching corporate strategy and business objectives, the government's capability, the robustness of the procurements

⁵ *The role of major contractors in the delivery of public services*, UK National Audit Office, November 2013

and the management of the contracts. Research shows that to help ensure that governments achieve value for money from their use of outsourced services the following principles should be observed:⁶

- Contracting is integrated with the overall corporate strategy of the organisation.
- Service requirements are specific in terms of outcomes or outputs, not inputs.
- Monitoring of performance and fostering of relationships are ongoing. Outsourcing of services does not diminish the organisation's responsibility for performance. Commissioning authorities need to regularly and formally monitor the contractor's performance to ensure the standards set out in the contract are met. Contracts should include provisions regarding contractor non-performance, dispute resolution and hand-overs to new contractors.
- Valid comparisons are made. All alternatives should be considered, including in-house provision, and comprehensively evaluated in terms of cost, outcomes and outputs. The costs of the current activity should be established and used as a benchmark.
- Encouraging competition as competitive supplier markets are key to achieving benefits. The scope and length of contracts are also important drivers for competition.
- Contracts are managed effectively. Commissioning authorities may need new skills to do this; an ongoing knowledge of the market is also needed.

THE GOVERNMENT SPENT \$47.7 MILLION ON OUTSOURCED SERVICES IN THE FIVE YEARS TO JUNE 2017

5. Our analysis of the Government's financial information from IRIS shows that it spent a total of \$47.7 million on outsourced services over the five years to 30 June 2017. Exhibit 1 shows that this Government-wide annual spending was reasonably constant, largely due to the recurring nature of the outsourced services. Annual expenditure on outsourced services ranged from \$9.0 million (2013-14) to \$10.1 million (2015-16).

⁶ *Contracting out government services: best practice guidelines and case studies*, OECD, 1997

Exhibit 1 – Government annual spending on outsourced services (five years to 30 June 2017)



Source: OAG's analysis of data drawn from IRIS for 2012–13 to 2016–17 (12 months to 30 June 2017)

ABOUT THE AUDIT

6. We carried out this audit following our performance audit Government's Use of Consultants and Temporary Staff (February 2018). For the purposes of this audit, we gathered information from the Government's financial system (IRIS) from 1 July 2012 to 30 June 2017 to allow like-for-like comparison across five years.⁷ We analysed that information to identify how much was being spent on outsourced services. The findings in this report are based on our analysis of the information. In this report, we refer to the current names of the Ministries, following the reorganisation on 1 July 2017 after the 2017 general elections.
7. The objective of this audit is to determine how effectively the Government uses outsourced services and ensures that it is obtaining value for money. We aimed to answer the following audit questions:
 - How well does the Government plan the use of outsourced services and decide which services are outsourced?
 - How effective is the Government at procuring outsourced services to ensure that it receives value for money?
 - How well does the Government manage outsourced contracts and engagements?

⁷ Financial year 2016-17 was an 18-month period that ended on 31 December 2017. Financial information for 2016-17 used in this report is for the 12 months to 30 June 2017.

8. The report is structured into three sections:
 - Government’s use of outsourced services.
 - Procurement of outsourced services.
 - Contracting for and contract management of outsourced services.
9. In carrying out this work, we analysed financial data drawn from the Government’s financial system and we engaged with key officials in seven Ministries and Portfolios.⁸ We selected a sample of 23 outsourced services from the seven entities, valued at around \$32.2 million (70 per cent of the total outsourcing expenditure). For each sample, we reviewed a range of documents, including business cases, RFPs and contracts, and assessed them against government policies and procedures and other good practices. Appendix 1 provides more information about the audit, including the audit criteria, approach and methodology. Appendix 2 provides a summary of our assessment of the sample of 23 contracts against good practice criteria.⁹
10. Appendix 3 provides a summary of the recommendations we have made for improvement as a result of this audit and management’s response to these recommendations.

⁸ The seven Ministries, Portfolios and Offices included in the audit are the Ministry of Community Affairs (MCA); Ministry of Commerce, Planning and Infrastructure (MCPI); Ministry of Education, Youth, Sports, Agriculture and Lands (MEYSAL), Ministry of Financial Services and Home Affairs (MFSHA); Ministry of Human Resources and Immigration (MHRI); Ministry of Health, Environment, Culture and Housing (MHECH); and Judicial Administration (JudAdm).

⁹ Of the 23 services reviewed we were not provided with the contract for janitorial services between MCPI and Reliable Industries. We have assessed other aspects of the commissioning of this service in Appendix 2.

GOVERNMENT'S USE OF OUTSOURCED SERVICES

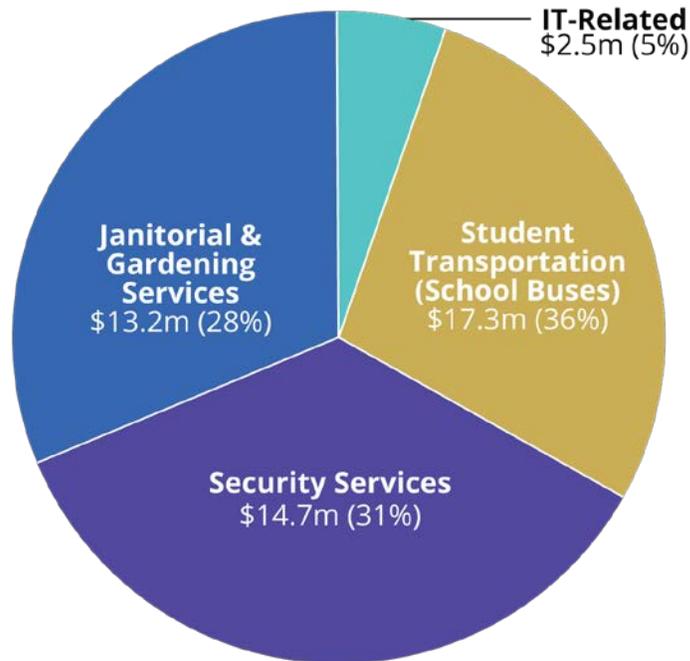
11. As part of our audit, we estimated how much the Government had spent on outsourced services over the five years to 30 June 2017; and we assessed how well the Government had planned its use of outsourced services.

GOVERNMENT OUTSOURCES FOUR TYPES OF SERVICE

12. Our analysis shows that the Government spent around \$47.7 million over the five years to 30 June 2017 on four types of outsourced services: school buses, janitorial and gardening, security, and IT-related services. Exhibit 2 shows that the Government spent most of this on three services: \$17.3 million on school bus services (36 per cent of total spending); \$14.7 million on security services (31 per cent); and \$13.2 million on janitorial and gardening services (28 per cent).
13. The Government also spent \$2.5 million (5 per cent) on outsourced IT-related services. The Government has its own in-house IT department (Computer Services Department) that provides most IT services to the civil service and is the largest IT organisation in the Cayman Islands. The Government therefore outsources only some specialist IT-related services, for example, the Student Information Management System (SIMS) used by the Department of Education Services. We reported in 2018 that the Government had also spent \$6.2 million on IT consultancy services from various providers over the same five-year period.¹⁰

¹⁰ *Government's Use of Consultants and Temporary Staff*, Office of the Auditor General, February 2018

Exhibit 2 - Total spend on types of outsourced service (five years to 30 June 2017)



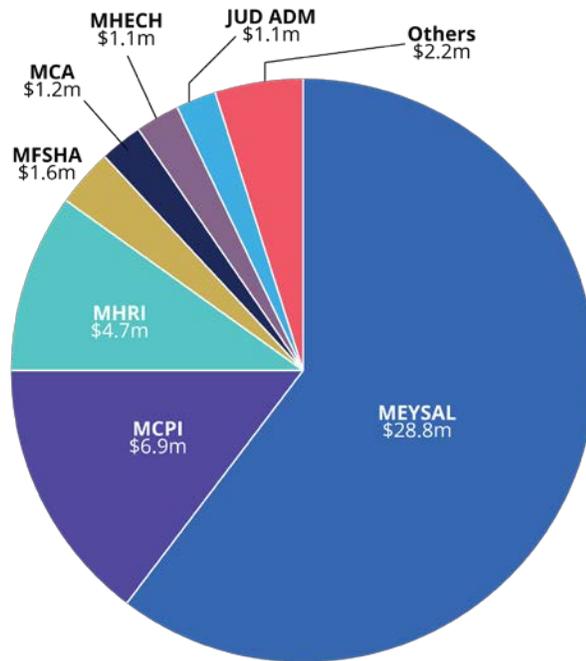
Source: OAG’s analysis of data drawn from IRIS for 2012–13 to 2016–17

ALL GOVERNMENT MINISTRIES OUTSOURCE SERVICES, AND THE MINISTRY OF EDUCATION OUTSOURCES THE MOST

THE MINISTRY OF EDUCATION SPENT \$28.8 MILLION ON OUTSOURCING FOUR TYPES OF SERVICES

14. All Ministries, Portfolios and Offices outsourced some services to private sector contractors over the five years we reviewed. Exhibit 3 shows that three ministries spent 85 per cent (\$40.4 million) of the total. The Ministry of Education, Youth, Sports, Agriculture and Lands (MEYSAL) spent significantly more than any other single ministry on outsourced services: \$28.8 million or 60 per cent of the total. The Ministry of Commerce, Planning and Infrastructure (MCPI) spent \$6.9 million and the Ministry of Human Resources and Immigration (MHRI) spent \$4.7 million. Each of the other Ministries, Portfolios and Offices spent \$1.6 million or less on outsourced services over the five-year period, with a combined spending of around \$7.3 million.

Exhibit 3 – Spending on outsourced services by Ministry, Portfolio and Office (five years to 30 June 2017)



Note: 'Others' includes 9 Ministries, Portfolios and Offices (including the Office of the Auditor General). It does not include the Office of the Premier (which was a separate entity in 2012-13).

Source: OAG's analysis of data drawn from IRIS for 2012–13 to 2016–17 (12 months to 30 June 2017)

15. Exhibit 4 shows that most entities outsourced security services (16) and janitorial and gardening services (14); and half (8) outsourced IT-related services.

Exhibit 4 – Top buyers of each type of outsourced service

Service Type	No. of Entities Who Bought Service	Top Buyer	5-Year Total of Ministry's Spend	% of Total CIG Buy
School Bus Services	1*	MEYSAL	\$17.2m	100%
Janitorial & Gardening Services	14	MEYSAL	\$7.2m	55%
Security Services	16	MEYSAL	\$4.0m	27%
IT-Related	8	MFSHA	\$1.6m	62%

Note: * Around \$20,000 was paid by ministries other than MEYSAL to school bus companies for purposes other than student transportation. These costs are included in Exhibit 2 but have not been included as school bus services in this exhibit.

Source: OAG's analysis of data drawn from IRIS for 2012–13 to 2016–17.

16. Exhibit 4 also shows that MEYSAL is the top spender in three of four types of outsourced services. Over the five years examined it spent \$17.2 million on school buses (MEYSAL is the sole buyer of these services), \$7.2 million on janitorial and gardening services and \$4.0 million on security services. MEYSAL also outsourced some IT-related services. The four types of services are provided to all government schools, and cost an average of \$1,200 a year per student.¹¹
17. The Ministry of Financial Services and Home Affairs (MFSHA) spent \$1.6 million on outsourced IT-related services, relating to the General Registry's electronic data management system. This accounts for 62 per cent of the Government's total expenditure on this type of service.

THE GOVERNMENT SPENT \$17.8 MILLION WITH THREE SUPPLIERS OF OUTSOURCED SERVICES

18. Over the five years to 30 June 2017, the Government procured outsourced services from 45 suppliers.¹² All of these suppliers are local and range from small, sole proprietorships to large companies that offer diverse services. Exhibit 5 shows the top ten suppliers of outsourced services

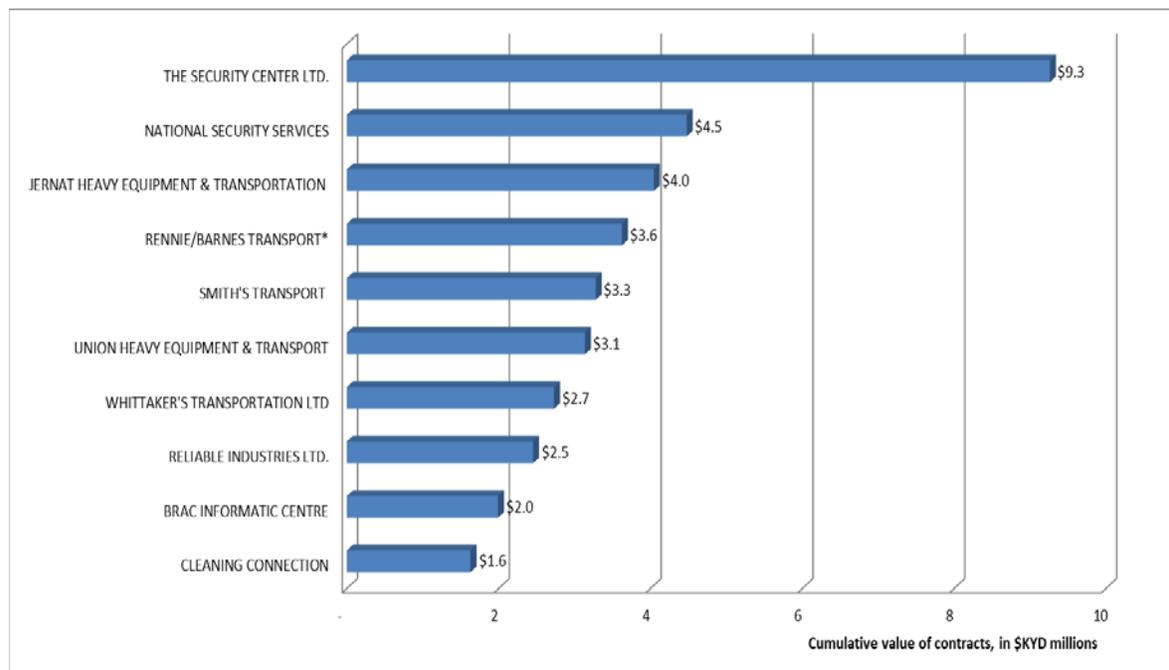
¹¹ Average cost per student is based on the total spending on outsourced services by MEYSAL of \$28.8 million divided by the average number of students per year in government schools. A more detailed explanation of the calculation is included in Appendix 1 – About the Audit.

¹² For the purposes of this audit we analysed financial information for outsourced services where spending was more than \$50,000 over five years. This analysis identified 45 suppliers.

to the Government. These account for \$36.6 million or 77 per cent of the total spent over the five years, with the top three suppliers accounting for \$17.8 million or 37 per cent.

- The top ten suppliers include four of the seven school bus companies, two security companies, three janitorial and gardening companies and one IT firm. The Government spent the most (\$9.3 million) with Security Centre Ltd., which provides the National CCTV Programme and the security services for the Government Administration Building.

Exhibit 5 – The top ten suppliers of outsourced services by value of Government’s spending (five years to 30 June 2017)



Note: * Rennie’s Bus Transport changed its name to Barnes Bus Transport.

Source: OAG’s analysis of data drawn from IRIS for 2012–13 to 2016–17

THE GOVERNMENT DOES NOT CONSIDER AS PART OF ITS STRATEGIC PLANNING THE NEED TO OUTSOURCE SERVICES

- It is important that an organisation consider how it might use outsourced services as part of its overall strategic planning. Contracting out services to the private or charitable sectors needs to fit with and be able to contribute to the overarching corporate objectives.

- As previously reported, there are various reasons why an organisation may wish to outsource services. The first decision that needs to be made is whether to deliver services in-house or outsource services to another supplier. To support this decision, organisations need to have good information about the current provision of services and about all potential options. This should include information on in-house provision - the cost and quality of services currently provided in-

house, or how much it would cost to bring back in-house the services currently outsourced. It should also include market research to identify the likely benefits of outsourcing the services, such as information on cost and service quality.

22. The Institute for Public Procurement set out the following key considerations that should inform the decision whether to provide services in-house or to outsource:¹³

- The organisation's sensitivity to risk.
- How outsourcing will contribute (or not) to the achievement of the strategy and objectives.
- The degree to which the service can be described and monitored in terms of clear performance measures.
- The degree to which the service that is being outsourced is, itself, critical or necessary to ensure that the function is effectively carried out (for example, professional services).
- The number of potential providers of the service.
- The economic costs and benefits of transitioning to an outside provider of service.
- The political and social costs and benefits of making the change.

23. We found that the Government does not consider the outsourcing of its services as part of its strategic decision making, and the rationale for outsourcing services is not always clear. The Government has outsourced the services we looked at for a number of years, and we were not able to establish when the decisions to outsource them were first made. We were told that some services had been outsourced because it was considered to be a cheaper option, helped reduce or maintain the number of civil servants, or reduced the extent of management oversight needed. But there were no business cases to support these reasons (we discuss business cases further in the next chapter – Procurement of Outsourced Services).

¹³ Adapted from *Outsourcing state and local government services: Decision-making strategies and management methods*, J. O'Looney, (1998).

PROCUREMENT OF OUTSOURCED SERVICES

24. Once a government has decided that it will outsource services, it needs to undertake proper procurement to help obtain value for money. Prior to any procurement, a number of elements need to be considered. These include being clear about the service requirements and the benefits expected, considering all alternatives (including in-house provision), developing cost benchmarks, and fostering competition.
25. As part of our audit we reviewed the Government's approach to procurement of its outsourced services, including the considerations above. We reviewed Ministries' procurement policies, procedures and practices and assessed a sample of 23 outsourced services against these and other recognised good practices set out in the UK National Audit Office toolkit for the use of consultants, as it provides a good benchmark to assess processes for planning, procuring and managing services.¹⁴ The toolkit also contains good practice procedures that governments can adopt and use to perform self-assessment of their practices.
26. As previously reported, MEYSAL (and particularly the Department of Education Services) is the biggest user of outsourced services across the Government, outsourcing all four types of service. Our sample of 23 outsourced services contracts included 11 from MEYSAL covering all four types of service. We have used MEYSAL's outsourcing of school buses as a case study to outline some elements of good practice and other lessons that can be learned across core government. The case study can be found at the end of this chapter.

THE GOVERNMENT NEEDS TO CONTINUE IMPROVING ITS PROCUREMENT PRACTICES

27. In July 2011, we published *Management of Government Procurement* (the 2011 report). That report concluded that the Government had not been managing procurement effectively. There had been a breakdown in controls to ensure fairness, efficiency and transparency in procurement, as well as compliance with laws and regulations. The report also stated there had been little regard to the consideration of value for money.
28. In February 2018, we published *Government's Use of Consultants and Temporary Staff* (the 2018 report). The report concluded that Government had improved its approach to procurement since 2011, including the introduction of new procurement manuals in 2014 and the establishment of the Central Procurement Office (CPO) in 2015. However, we reported that while most entities had

¹⁴ NAO web-based assessment toolkit for the use of consultants, UK National Audit Office

procurement manuals in place, they were not always being followed and more needed to be done to better demonstrate value for money. We also reported that the Government told us that the CPO would be issuing new procurement policies and templates that comply with the new legislative requirements for use across government.¹⁵ We are not aware that any new procurement manual was issued. Our 2018 report also highlighted the following:

- Most consultant contracts did not have business cases to justify the need.
- Although most contracts had been subject to competition the Requests for Proposals (RFPs) needed to improve.
- Some contracts that had been awarded should have been subject to open competition.
- There were no clear policies and procedures for extending contracts.
- Procurement specialists were rarely used.

29. As a result, we made a number of recommendations to the Government to further strengthen its approach to procurement.
30. This audit covers the same time period as our 2018 audit - the five years from 1 July 2012 to 30 June 2017. Our analysis of the procurement of outsourced services therefore found many of the same weaknesses as outlined above. We have highlighted some of these issues again, using the findings from this audit. We encourage the Government to implement the recommendations made in our 2018 report as soon as possible, and we have reiterated them where relevant.
31. The *Procurement Law* came into force on 1 May 2018 and the Procurement Regulations on 2 May 2018. Both of these have revised the thresholds for open tendering and have added thresholds to apply when business cases are needed. However, the OAG has identified inconsistencies between the Procurement Regulations and Financial Regulations (2018 Revision) in relation to the thresholds for public procurement and approvals processes for contracts valued at \$250,000 or more. In raising these inconsistencies with the Financial Secretary he confirmed that the Financial Regulations would need to be updated to bring them in line with the Procurement Regulations. At the time of this report, the Financial Regulations had not been updated.
32. The CPO has also developed a number of templates for certain elements of the tendering process such as local impact assessment, award letters, regret letter, and tender evaluation. These are available from the CPO website, www.cpo.gov.ky.

¹⁵ Paragraph 37 of *Government's Use of Consultants and Temporary Staff*, Office of the Auditor General, February 2018

Recommendation 1: The Government should develop a procurement manual, as a matter of urgency that is in line with the *Procurement Law* and Procurement Regulations. The manual should be supplemented with a complete set of well-designed templates for use across the entire civil service.

Recommendation 2: The Government should, as soon as possible, update the Financial Regulations to rectify any inconsistencies with the Procurement Regulations.

ONLY ONE OUTSOURCED CONTRACT HAD A BUSINESS CASE

33. A key step in considering whether services should be outsourced and how they should be procured is the development of a business case. As previously reported we were told that entities have outsourced services because it reduces management time or provides for delivery of the services on a larger scale and at lower cost. However, there were no business cases or other documents to demonstrate this.
34. Only one of the 23 samples we selected had a business case – the MEYSAL contract with IT Outsource Ltd. - and this was largely to justify single-source procurement rather than to provide the rationale for outsourcing the service or the value for money to be achieved. The business case lacked some essential elements, such as risk assessment and a cost-benefit analysis.
35. The Procurement Regulations, 2018 came into effect on 2 May 2018. These now require business cases for procurement projects in excess of \$100,000, and provide a good baseline for what needs to be included (Exhibit 6).

Exhibit 6 – Business case requirements under the Procurement Regulations, 2018

- Demonstrate the economic need for the project.
- Include a thorough risk and impact assessment that details costs and the socio-economic impact of the procurement project on small and medium-sized suppliers operating in the Islands.
- Provide a breakdown of all anticipated procurement projects within the larger project.
- Recommend the procurement method to be used.
- Specify the benefits that the project is expected to deliver.
- Demonstrate the options to be incorporated into the procurement process to promote positive economic development of the Islands in accordance with Regulation 20.
- Demonstrate that there is a basis on which a decision may be made whether to proceed to the procurement stage.

Source: Procurement Regulations, 2018, Cayman Islands, par. 3(2)

36. During 2018, the Government also provided training for civil servants in writing business cases and developed three business case templates for procurement projects that are assessed as: low value and low risk (up to \$250,000); medium value and risk (\$250,000 to \$2 million); and high value (over \$2 million) where full three-stage business cases are needed (that is Strategic Outline Case, Outline

Business Case and Final Business Case). At the time of this report these templates had not been formally launched across the public sector but were available, on request, from the Strategic Reforms Implementation Unit (SRIU).

Recommendation 3: The Government should ensure that strong business cases are prepared to justify the need for outsourced services and the value for money to be delivered.

MORE THAN HALF OF CONTRACTS FOR OUTSOURCED SERVICES WERE PROCURED AFTER OPEN COMPETITION BUT SOME REQUESTS FOR PROPOSALS WERE NOT SUFFICIENTLY CLEAR

37. To help achieve value for money, most procurement should be subject to open competition. Open competition allows a broad range of firms and individuals to apply and to compete in terms of price and service quality. It also allows for better and more informed negotiations with bidders, enhancing government's standing as an intelligent customer. Prior to this process, it is essential that government be clear about what the service should look like in terms of outcomes or outputs and have a good idea of the expected costs or price it is willing to pay for the service.
38. For the period covered by this audit, the laws and policies in place required open tendering, with three exemptions: single-source procurement; states of emergency; and exceptional circumstances.¹⁶ Generally, requests for proposals (RFP) or invitations to tender (ITT) were required for the procurement of all goods and services over \$10,000.
39. More than half (12 of 20) of the contracts we examined that required open tendering were opened to competition. MEYSAL subjected 10 out of 11 of its outsourced contracts to open competition. We also identified one MCPI contract and one MCA contract that we believe were tendered, although the RFPs were not available for either of them.¹⁷
40. The Central Procurement Office (CPO) issued a standard template for RFPs in late 2016, later than all of the samples that we reviewed as part of this audit. Although we would not necessarily expect that RFPs developed before the template was issued would meet all of the requirements, we compared the RFPs to the CPO guidance. We found that only one RFP (out of 21) was in line with the new guidance.¹⁸ We identified opportunities for improvement in the RFPs reviewed:
- The need for the project that drives the deliverables was not clearly stated.

¹⁶ Our audit pre-dated the introduction of the *Procurement Law* and Procurement Regulations. The legislation and regulations that therefore applied for the period 2012 to 2017 were the *Public Management and Finance Law* and the Financial Regulations.

¹⁷ We received the ESTARs for one MCPI and one MCA tender but were not provided with the RFPs.

¹⁸ Two Judicial Administration contracts did not follow the conventional procurement guidelines as the entity did not have a procurement manual in place.

- The timelines of the project were not clearly stated.¹⁹
- The evaluation criteria for the bids and the scoring method to be used were not stated.²⁰
- The methods of communication with bidders were not stipulated—for example, the contact person for the procuring team and the methods of informing the winning bidder.

41. The RFP lays the foundation for the terms of the contract and should provide a good description of the buyer’s needs and deliverables. Weaknesses in RFPs may affect the quality of the tenders received, the contract negotiations, and the quality of services or output. They may also limit the ability to manage and evaluate the suppliers’ quality and performance.

Recommendation 4: The Government should ensure that Requests for Proposals and Invitations to Tender are prepared for all open procurements and are in line with its policies and procedures.

A NUMBER OF CONTRACTS FOR OUTSOURCED SERVICES HAVE BEEN AWARDED THROUGH SINGLE-SOURCE PROCUREMENT

42. We identified eight contracts that had been awarded without open competition, although the contract values were above the threshold set in the Financial Regulations. Of those eight, only MEYSAL had prepared a business case justifying single-source procurement for one (IT Outsource Ltd) as there was only one supplier of the school-based IT system. From our review of the other seven we identified the following:

- Five of the eight contracts were for security services. Three were commissioned by MHRI, one by MHECH and one by JudAdm.
- One contract was for janitorial and gardening services, commissioned by MCPI.
- One contract was for IT-related services, commissioned by MFSHA (we discuss this further below).

In total, the Government spent \$5.7 million on seven contracts for outsourced services that were not tendered as required.

43. MFSHA initially appointed Brac Informatics in 2008 through single-source procurement to develop the General Registry’s electronic document management system. However, on completion of the system, Brac Informatics was then appointed for on-going hosting and other related services. The initial single-source appointment and subsequent change orders (including building additional

¹⁹ This should include the expected dates of submission of bids, rectification period, timeframe for adjudication of bids, the expected contract negotiating period and the anticipated execution of agreement with the winning bidder.

²⁰ This should set out the number of points to be awarded to bidders for the different evaluation criteria such as pricing, qualifications of the engagement team, prior experience with the government etc.

modules into the system) were not supported by any justification. In December 2017, nine years after the initial appointment, the Registrar General documented a justification for the continual single-source appointment of Brac Informatics, which was subsequently approved by the MFSHA Chief Officer. The justification for single-source procurement included the following: the request for quote (RFQ) process prior to the 2008 appointment stated that three other suppliers were approached with the RFQ, but two had no expertise and one other quoted a price that exceeded the project's budget; the General Registry and Brac Informatics had an ongoing relationship (although it is specified in the form that a past or existing relationship is not sufficient justification for single source procurement); and the rate for the recurring cost of hosting the service had not increased.

Recommendation 5: The Government should ensure that there is sufficient justification for single-source procurements and that it is properly documented and approved, and should secure the approvals before the supplier is appointed.

MEYSAL HAS PROCUREMENT SPECIALISTS BUT THESE SKILLS ARE NOT WIDELY AVAILABLE ACROSS GOVERNMENT

44. In our 2018 report, we recognised that it is generally good practice for procurement specialists to be involved in procurement decisions. They can add value to the process by providing supplier and market information; providing independent challenge to business cases; having access to knowledge about previous outsourcing experience and management information; and having knowledge of processes and procedures. The Central Procurement Office (CPO) was set up in 2015 but has only two staff (including the Director of Procurement). It therefore lacks sufficient resources to support all procurement across government. At the time of our report the CPO was in the process of hiring one additional staff member.
45. MEYSAL employs a business manager and a procurement officer who have specific responsibilities for procurement. They carry out all procurement for the Department of Education and sit on all the departmental tendering committees within the Ministry. These staff attempted to increase competition and negotiated with bidders during the bus service procurement in 2015-16. In addition to procurement responsibilities, they liaise with suppliers during the execution of contracts, particularly in relation to service quality and other delivery issues. However, most other ministries do not have designated procurement teams, specialists or champions, and rely on staff who have varying level of experience of procurement.

Recommendation 6: The Government should continue to develop procurement expertise across its staff to support effective procurement.

THE GOVERNMENT IS NOT MAKING BEST USE OF ITS COLLECTIVE BUYING POWER

46. The Government, individual entities and their departments need good management information on their use of outsourced services, to enable them to manage services effectively and to ensure that they are obtaining value for money. Similar to our finding in the 2018 report, we found that the Government does not monitor and report how much it is collectively spending on outsourced services, what services it is buying, or who is supplying them. This information could better inform decisions about what services to outsource and how to procure them to get the best collective value for money for the Government.

47. We found that each entity procures its own services. However, a large number are outsourcing the same type of services and often from the same suppliers. Our analysis of the data shows that 16 entities spent \$14.7 million on security services outsourced to five suppliers, and 14 entities spent \$13.2 million on janitorial and gardening services outsourced to 27 suppliers. Exhibit 7 shows the largest suppliers by service type. Our analysis shows the following:

- The Government spent \$9.3 million with one supplier, Security Centre Ltd., which accounts for 63 per cent of all spending on security services expenses and 19 per cent of the Government's total spending on outsourced services. In total, 16 entities outsourced security services to this supplier. The largest buyer of services from the Security Centre Ltd. was MHRI which paid \$2.5 million for the National CCTV Programme. This service was provided to the Emergency Communications Department (911), which sat within MHRI prior to the reorganisation of Government in 2017.²¹
- The largest supplier of janitorial and gardening services is Reliable Industries. A total of 14 entities outsourced services to this supplier, paying \$2.5 million over five years. The largest buyer was MCPI, which paid \$1.5 million to Reliable Industries for janitorial services at the Government Administration Building; representing 11 per cent of the Government's total spending on this type of service.

²¹ The Department of Public Safety Communications within MFSHA is now responsible for the National CCTV Programme

Exhibit 7 – Largest supplier per service type

Service Type	Largest Supplier	CIG-wide spend with this supplier	Largest buyer from supplier	No. of entities buying from this supplier
School Bus Service	Jernat Heavy Equipment & Transportation	\$4.0m	MEYSAL	1
Janitorial & Gardening Services	Reliable Industries	\$2.5m	MCPI	14
Security Services	The Security Centre Ltd.	\$9.3m	MHRI	16
IT-Related Services	Brac Informatics Centre	\$2.0m	MFSHA	6

Source: OAG’s analysis of data drawn from IRIS for 2012–13 to 2016–17

48. Proper procurement takes time to do well. There is scope for the Government to further improve its procurement of outsourced services across the civil service and potentially to obtain better value for money.
49. The *Procurement Law, 2016* requires that in the process of procuring goods and services, public sector entities “in assessing value for money.... consider the socio-economic impact and benefits that a procurement project may create, particularly as it relates to small and medium-sized suppliers that are operating in the Islands”.²² We were told that there are concerns about the possible adverse effects that the Government could cause to the local industry if it moves to single providers and does not use smaller suppliers. While the Government’s policy is to support small and medium-sized companies; it is not entirely clear how public bodies should do this. No guidance is provided on how to balance this policy with the need to achieve value for money. However, the *Procurement Law* also states that the Director of the Central Procurement Office is responsible for identifying opportunities and establishing government-wide contracts for commonly used goods and services.
50. Achieving better value for money through centralised procurement of the same outsourced services, while maintaining a good balance of business within the economy, are not mutually exclusive. In our 2018 report, we recommended that the Government extend its procurement guidance to include a wide range of procurement and contracting methods such as framework agreements. Using frameworks generally results in lower prices and reduces procurement costs for suppliers and

²² *Procurement Law, 2016, section 16(1)*.

customers as well as contract management costs. The use of framework agreements is one way the Government could continue to have a range of suppliers of outsourced services, small to large, while reducing the burden of procurement and potentially obtaining better value for money. However, to date only one framework agreement for office supplies has been agreed for the entire core government.

Recommendation 7: The Government should monitor and analyse how much it is spending on outsourced services, in order to provide management information that will help inform decision-making on the future outsourcing of services.

Recommendation 8: The Government should look at options to centrally procure and contract out similar types of services in order to make better use of its collective buying power, while meeting other policy objectives such as supporting small and medium-sized companies.

THE GOVERNMENT NEEDS TO IMPROVE ITS APPROACH TO MARKET TESTING AND FOSTERING COMPETITION

51. As a contracting authority, it is good practice when outsourcing services to be an attractive and intelligent client, effectively managing the market, developing pre-tender estimates and fostering as much competition as possible.

THE GOVERNMENT NEEDS TO IMPROVE ITS MARKET TESTING FOR OUTSOURCED SERVICES

52. An important step before deciding to procure outsourced services is market testing, to ensure that that there are sufficient suppliers in the market place that can deliver quality services at a competitive price.

53. We have previously reported that the Government does not have a clear rationale for outsourcing services. We also found that it does not do sufficient market testing before procuring outsourced services.

54. The Central Procurement Office has published one market research report from May 2017 by a United States-based firm that provides guidance for buyers of janitorial services.²³ The report provides useful information on the purchasing process, gives sample negotiation questions, includes a glossary of industry jargon and provides an analysis of price and quality indicators. The report provides good theoretical and practical know-how to civil servants involved in the procurement of janitorial services. However, the market research is based entirely on the market in the United States and the data is not relevant to the Cayman Islands.

²³ Published on the Central Procurement Office website www.procure.gov.ky

55. Exhibit 8 shows the number of suppliers of security services and janitorial and gardening services used across government, compared to the potential number of suppliers in the Cayman Islands. It shows that across government 14 Ministries, Portfolios and Offices have outsourced janitorial and gardening services to a total of 27 vendors. Our research shows that there are at least 45 suppliers of these services in the Cayman Islands. The Government has outsourced security services to five suppliers; we identified at least 22 potential suppliers of security services in the Cayman Islands. This may indicate that there are other potential suppliers of these services in the local economy. We were unable to determine from our review of documentation how many of these suppliers had previously bid for government contracts.

Exhibit 8 – Extent of supplier market penetration of Government in security and janitorial and gardening services

Service Type	Amount Spent	No. of Suppliers Engaged in CIG	Potential No. of Suppliers Within CI
Security Services	\$14.7m	5	22
Janitorial & Gardening Services	\$13.2m	27	45

Source: OAG analysis and research from the phone book

Recommendation 9: The Government should ensure that it carries out market research in advance of procuring outsourced services or deciding to outsource a particular service for the first time.

BETTER PRE-TENDER ESTIMATES ARE NEEDED

56. An important element of being an intelligent customer is knowing what the service is likely to cost, and understanding the cost drivers, before inviting tenders. *The Procurement Law, 2016*, which came into force in May 2018, now requires in advance of the procurement process an estimate of the total value of a project; the estimate should include delivery, installation, training and other fees integrally linked to the procurement.²⁴ However, there is no supporting guidance that sets out how pre-tender estimating should be carried out.

²⁴ *The Procurement Law, 2016*, section 14

57. Many other governments develop pre-tender estimates in advance of procuring services. For example, the United States' Department of Defense uses a set of five questions to evaluate the effectiveness of its cost estimates.²⁵ These questions include the following:

- How was the estimate made?
- What assumptions were made?
- What information or tools were used?
- Where was the information obtained from?
- How did the previous estimate compare with prices paid?

58. Prior to tendering for school bus services in 2015-16, MEYSAL used the cost of the previous contracts to calculate a pre-tender estimate of \$7.3 million. However, the bids received were much higher than expected. After receiving the initial bids, the Ministry asked all bidders to reduce their profit margins by 15 per cent and all agreed to this without negotiation. This resulted in an overall reduction in price of 3 per cent from the original bids and the contracts were awarded at a total price of \$8.5 million. Given the value of the school bus contracts awarded there is scope to improve the approach to preparing pre-tender estimates and using these more effectively during the procurement process.

Recommendation 10: The Government should ensure that it prepares robust pre-tender estimates to inform the procurement process for future outsourced services.

STRONGER COMPETITION IS NEEDED FOR OUTSOURCED SERVICES

59. Fostering competition is an essential part of outsourcing services. This needs to be done throughout the process to ensure that there are sufficient, credible bidders during procurement, and competitive tension should be maintained throughout the contracts. To do this, organisations should encourage competition at the following three stages:²⁶

- **Pre-bid.** Maximise engagement through early and ongoing discussion and listening. This provides an opportunity to inform the market about the services required and allows suppliers to influence, understand and prepare their bids. Engagement at this stage also provides opportunities to innovate. This may include competition between groups, formal benchmarking, and allocation of work among suppliers, depending on their performance.

²⁵ Independent Government Cost Estimate (IGCE) Handbook for Services Acquisition, US Department of Defence, February 2018

²⁶ *A short guide to commercial relationships*, UK National Audit Office, December 2017

- **Bid stage.** Try to keep all bidders in the game as long as possible; and agree all core contract terms prior to signing.
- **During contract.** Keep the market warm to help sustain a credible set of potential bidders for next time and to benchmark performance. Consider commercial trends and the impact that shifting markets and technology have on the relative power of suppliers and government. Benchmark changes to the model and market and understand thresholds for acceptable performance. Take strategic decisions that balance, alongside other factors, the need for competitive tension. Reward good performance, for example, by varying contract volume between suppliers.

60. Overall, we found limited competition in bidding for government contracts for outsourced services, with most open competitions attracting single bidders only. Our review found only a small number of contracts that had attracted multiple bidders:

- a. MCA's contract for the football field maintenance attracted five bidders; and
- b. MCPI's contract for the janitorial services at the Government Administration Building attracted two bidders.

61. We found that MEYSAL had attempted to increase the level of competition in the outsourcing of its school bus services in 2015-16. When procuring these services in 2012-13, MEYSAL received only a single bidder for most school bus routes. Contracts were awarded for three years (one year with an option to extend for two years) to seven providers for different routes. We were told that the companies providing school bus services had been doing so for more than 15 years, mostly providing single routes and historically not competing with each other. The contracts were due to expire in 2014-15 but MEYSAL decided to extend the contracts to allow more time for the next procurement. Contracts were initially extended for six months and then a further six months. As part of the 2015-16 procurement process, MEYSAL attempted to improve competition by changing the bidding method so that the RFP asked for bids on individual routes rather than groups of routes. However, the 2015-16 tendering process did not produce the intended result. Exactly the same suppliers bid to deliver the service and bidders chose to bid on the same routes, creating very limited competition. Seven suppliers were selected as a result of the procurement process, five for the Grand Cayman routes (all single bids in the procurement process) and two for Cayman Brac (two bids were received for each of the two routes).²⁷

²⁷ One winning bidder changed their company name between the two tendering cycles.

62. In March 2018, the Computer Service Department organised an IT Procurement Network Event that brought together government users and local and international suppliers.²⁸ It is too early to tell whether this will increase the number of potential bidders for future IT-related services.

Recommendation 11: The Government should develop new approaches, such as more and better engagement with the market, to encourage more competition among potential suppliers of outsourced services.

Case Study – MEYSAL Procurement of School Bus Services

The Ministry of Education, Youth, Sports, Agriculture and Lands (MEYSAL) through the Department of Education Services delivers public school education to children in the Cayman Islands, including the transportation of schoolchildren to and from the public schools every day. The school bus operations cover schools throughout the Islands, with the exception of North Side Primary School which provides an in-house school bus service. These are divided into routes and are outsourced to seven different firms. Each route is for a specific school and residential areas; schools do not share routes.

MEYSAL carried out two procurement processes within the period of our examination; the first related to school bus contracts for three years starting in the 2012-13 academic year (for one year with option to renew for further two years), to expire in 2014-15. However, MEYSAL postponed the procurement process, which was due to start in 2015-16, with the aim of enhancing competition by breaking down the bidding to the level of individual routes, rather than packages of those routes. The existing contracts were therefore extended for one year (two extensions of six months each) to allow this to happen. The second procurement was for two years (with the option to renew for one year) from the 2016-17 academic year.

MEYSAL did not prepare any pre-tender estimates for the 2012-13 procurement process but it did for 2015-16. The pre-tender estimate was \$7.3 million and was simply based on historical costs; no market testing or benchmarking was done to obtain better estimates. The 2015-16 procurement process also required bidders, for the first time, to submit a cost and profit breakdown.

Despite MEYSAL's attempts to create more competition and reduce prices, the procurement process did not deliver the expected outcome. After bids were received, MEYSAL approached all bidders and asked them to reduce their profit margins by 15 per cent. All bidders agreed to this reduction without negotiation, resulting in an overall reduction in contract prices of 3 per cent and final profit margins ranging from 7 per cent to 56 per cent.

²⁸ <http://www.ievenews.com/wordpress/cayman-islands-networking-event-focuses-on-finding-effective-it-solutions/>

Comparison of the 2012-13 and 2015-16 award values, broken down by winning bidders, shows that most were single bidders (unopposed) and that bids increased from previous contract prices. The 2015-16 contract award prices were after the negotiated reductions.

Supplier	School(s) covered by contract***	2012-13 Award value	2012-13 value x 2****	2015-16 Award value****	Difference
Rennie's Bus Transport *	EEPS, RBPS CIFEC, JGHS GTPS	\$0.60m	\$1.20m	\$2.00m	▲ \$0.80m
Jernat Heavy Equipment and Transportation *	CHHS, BTPS SPS, CIFEC	0.60m	1.20m	1.93m	▲ \$0.73m
Smith's Transport *	CIFEC, JGHS	0.57m	1.14m	1.60m	▲ \$0.46m
Union Heavy Equipment and Transport *	CHHS, CIFEC PPS, EEPS, LHS	0.47m	0.94m	1.22m	▲ \$0.28m
Whittaker's Transportation Ltd *	CHHS, CIFEC	0.43m	0.86m	1.20m	▲ \$0.34m
Tropicana Tours **	LSHS	0.08m	0.16m	0.14m	▼ \$0.02m
Selbourne Lazzari or Tonry Lazzari **	LSHS	0.04m	0.08m	0.17m	▲ \$0.09m
TOTAL		\$2.79m	\$5.58m	\$8.26m	▲ \$2.68m

* Single bidder/ ** Bid awardee out of two bidders.

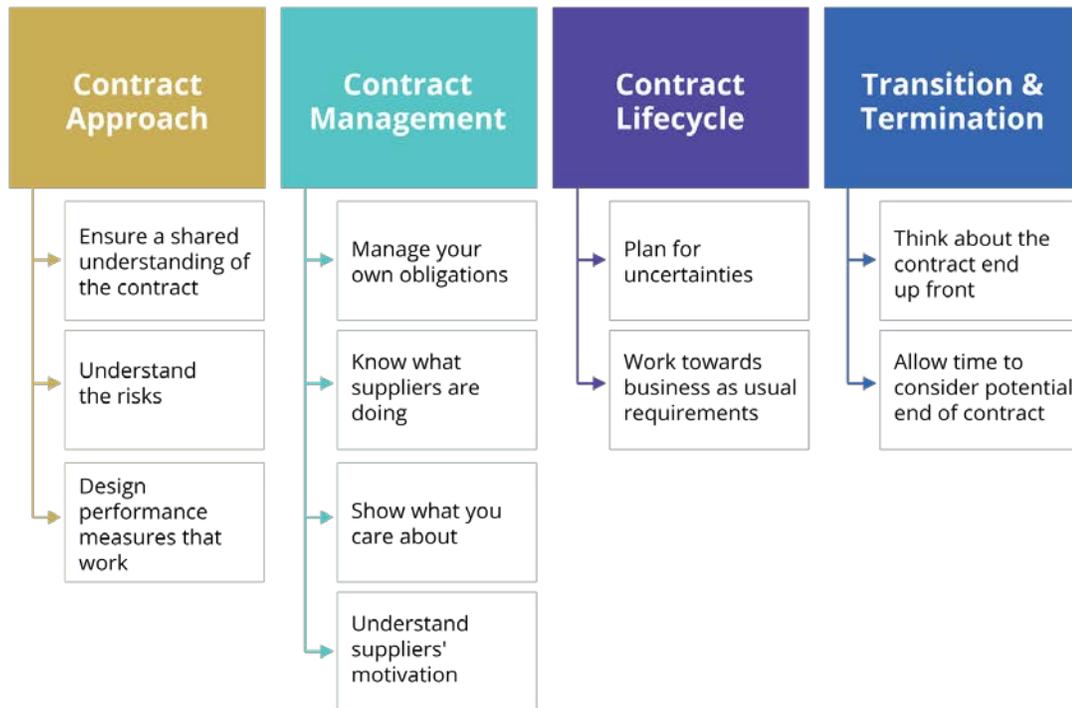
*** School acronyms are set out in Glossary on page 5 of this report.

**** To make the award amounts from the two tendering cycles comparable, we have presented the two-year equivalent value of the 2012-13 tendering cycle award, and compared this to the actual award amounts for the 2015-16 tendering cycle, which was for two years.

CONTRACTING AND CONTRACT MANAGEMENT FOR OUTSOURCED SERVICES

63. Effective contracting and contract management, including monitoring the performance of suppliers, are essential elements of outsourcing services. The UK National Audit Office (NAO) has developed guidance and self-assessment tools for contract management and managing commercial relationships.^{29,30} We have used this good practice guidance to assess the Government’s approach to managing its outsourced contracts and relationships with suppliers. Exhibit 9 summarises the NAO guidance on the contracting stage.

Exhibit 9 – Key stages in contract management and managing commercial relationships



Source: UK National Audit Office

²⁹ Good practice contract management framework, UK National Audit Office, December 2016

³⁰ Commercial and contract management: insights and emerging best practice, UK National Audit Office, November 2016

64. In our 2018 report, we identified a number of weaknesses in the Government's contracts with consultants, including a lack of standard contract terms and conditions, inconsistent legal vetting of contracts prior to signing, lack of policies and procedures in place for extending contracts, and inconsistent management of contracts or evaluation of performance. We made a number of recommendations to the Government to improve these areas. As previously stated, this audit covers the same time period as our 2018 report and we have therefore found similar weaknesses in contracting for outsourced services and managing the contracts.

THE GOVERNMENT NEEDS TO IMPROVE ITS CONTRACTS FOR OUTSOURCED SERVICES

65. The Government remains responsible for the services it delivers, whether it provides them in-house or outsources them to private firms. It is therefore essential that contracts for outsourced services be in the best interests of the Government, allowing it to receive the intended benefits and demonstrate value for money. Contracts should:

- Set out clear roles and responsibilities.
- Provide a clear expression of the spending commitments and objectives.
- Clearly set out the right measures and number of measures that will allow performance to be measured and monitored.
- Be clear about any sanctions for poor or non-performance and include termination clauses.

THE QUALITY OF CONTRACTS VARIED

66. Contracts provide the foundation for building effective relationships and need to be useable by people without legal training - they need to be simple, accessible and easy to read. Contracts should be clear about the risks, including how risks are allocated between the Government and the supplier, managed and quantified; contracts should be subject to a commercial risk assessment and regular risk reviews. Having the right terms and conditions in contracts is crucial to ensuring that both parties (the Government and the supplier) understand what is expected of them, including deliverables and payments.

67. In our 2018 report we concluded that the Government did not have standard terms and conditions of contracts for consultants. Our review of 22 contracts found that MEYSAL has similar contracts for most of its outsourced services, as it has used a template that aims to ensure that the terms and conditions are in the best interests of the Government.³¹ Exhibit 10 shows our analysis of the contracts, which can be summarised as follows:

³¹ The contract between MCPI and Reliable Industries for janitorial services was not provided.

- Just over half of the contracts (12) included clauses setting out consequences to the supplier for late or non-delivery of the main output; 10 of the contracts did not include this.
- Most of the contracts (19) specified in detail the services to be provided by the supplier. However, three contracts did not clearly specify the required quality of services, making it difficult to assess whether the vendors performed adequately and delivered value for money.
- None of the 22 contracts reviewed provided any success measures regarding the services being provided. Success measures are needed for performance and contract management, as they allow the contract manager to compare the services actually delivered to what was expected.
- Most of the contracts (18) included termination clauses; four contracts did not.

Exhibit 10 – Quality of outsourced services contracts

Ministry	Outsourced Service Type	Clearly defined consequences to the client for late or non-delivery-incentive for completion	Details of services to be provided	Specifies the quality of goods and services and success measures	Clearly defined termination clauses
MHRI	Security Services	X	X	X	X
MHRI	Security Services	X	✓	X	✓
MHRI	Security Services	X	✓	X	✓
MCPI	Janitorial/Gardening Services	X	X	X	X
MCPI	Janitorial/Gardening Services	✓	✓	X	✓
MCPI	Janitorial/Gardening Services	X	✓	X	X
MHECH	Security Services	X	X	X	✓
MFSHA	IT-Related Services	X	✓	X	✓
MCA	Janitorial/Gardening Services	✓	✓	X	✓
JUD ADMIN	Janitorial/Gardening Services	X	✓	X	✓
JUD ADMIN	Security Services	X	✓	X	✓
MEYSAL	Security Services	✓	✓	X	✓
MEYSAL	School Bus Services	✓	✓	X	✓
MEYSAL	School Bus Services	✓	✓	X	✓
MEYSAL	School Bus Services	✓	✓	X	✓
MEYSAL	School Bus Services	✓	✓	X	✓
MEYSAL	School Bus Services	✓	✓	X	✓
MEYSAL	School Bus Services	✓	✓	X	✓
MEYSAL	School Bus Services	✓	✓	X	✓
MEYSAL	Janitorial/Gardening Services	✓	✓	X	✓
MEYSAL	Janitorial/Gardening Services	✓	✓	X	✓
MEYSAL	IT-Related Services	X	✓	X	✓

Key: ✓ - Criteria satisfactorily addressed in contract; X - Criteria not satisfactorily addressed

Source: OAG analysis

Recommendation 12: The Government should ensure that contracts for outsourced services are in the best interests of the Government, including appropriate clauses such as consequences for poor or non-performance, and termination clauses. Contracts should set out success measures to allow ongoing monitoring and management of suppliers' performance.

THE GOVERNMENT NEEDS TO SET REASONABLE CONTRACT DURATIONS FOR OUTSOURCED SERVICES

68. The scope and duration of contracts can be both an incentive and disincentive to potential bidders. Setting the scope of the contracts too large may discourage small and medium-sized companies from bidding, as they do not have the capacity to deliver the service; while setting the scope too small may not encourage sufficient interest. The length of contracts is also an important factor. The procurement process can take a lot of time, for both civil servants and potential suppliers, and may be seen as too costly if done too frequently. If the duration of contracts is too short, it may not stimulate sufficient interest or discourage new potential suppliers from bidding, as the upfront investment costs (buying equipment or recruiting staff) may be too risky when the supplier may lose the contract in a year's time. Contracts for longer periods allow suppliers to reduce their costs and become more efficient. They can also increase the risk that may be transferred to suppliers, encourage investment and allow expensive bid costs to be recouped; but they can be a disincentive for smaller companies.
69. Our analysis of the 22 contracts found that the Government is awarding contracts for different durations, often for the same service. Exhibit 11 summarises the initial contract durations and shows that the majority were for three years or more, which is reasonable. However, it also shows that eight contracts were for 1 year or less and four were open ended, which may indicate that the Government is not achieving the right balance between testing the market periodically and minimising the cost of procurement.

Exhibit 11 – Length of original contracts by service types

Original Contract Length	School Buses	Janitorial & Gardening	Security	IT Related	Total
1 year or less		7	1		8
2 years		1	1		2
3 years	6		1		7
5 years			1		1
Open-ended			2	2	4
Total	6	8	6	2	22

**Note: We did not receive one contract for janitorial and gardening services (MCPI)
Source: OAG analysis of contracts*

70. We identified four open-ended contracts within our sample. From our review we have identified that one open-ended contract for IT-related services is reasonable. MEYSAL has a contract in place with IT Outsource Ltd. to deliver its school-based IT system (SIMS). The original business case to justify single-source procurement stated that there was only one supplier of this system. The contract which was signed in August 2010 and states that it was for an initial 12-month period and would be reviewed annually with an automatic renewal.

71. However, we have identified a further three open-ended contracts that we believe should have end dates specified to ensure that the Government is obtaining value for money from the outsourcing of these services. The three contracts include the following:

- MFSHA contracted with Brac Informatics for IT-related services in May 2008. The contract states “it is valid until the conclusion of the last to expire service exhibit”; the “service exhibits” refer to individual elements of the contract. MFSHA spent almost \$1.6 million on this contract between July 2012 and June 2017.³²
- MHRI engaged Caribbean Security to provide security services in 2011; the contract states “as long as the former contracts with the latter”. MHRI signed another open-ended contract with the same supplier in 2015 with exactly the same terms. MHRI spent over \$110,000 on this contract in the two years from 2015 to 2017.
- JudAdm contracted with National Security to provide security services in 2010 under a contract that renews “automatically”; at least \$680,000 has been spent on this contract.³³

72. We also identified that MCA conducted tendering of work for the upkeep of sports grounds twice in an 18-month period - in September 2015 and again in March 2017. In both instances, work was tendered for a period of one year only, awarded to the same suppliers, for the same contract price and pre-tender estimates.

Recommendation 13: The Government should ensure that the duration of contracts for outsourced services achieve value for money, balancing the need for regular market testing and the administrative costs of procurement.

³² Our analysis has identified that MFSHA spent \$1.6 million on this contract between 1 July 2012 and 30 June 2017. However, Brac Informatics has provided these services since May 2008 and continues to provide them. The total spend on this contract will therefore be more than \$1.6 million.

³³ JudAdm spent \$680,505 on this contract in the five years covered by our audit i.e. 1 July 2012 to 30 June 2017. Additional costs would have been incurred in the period between the contract being signed in 2010 and 30 June 2012.

73. We reported in 2018 that decisions to extend contracts should not be taken lightly, as repeatedly renewing contracts can severely compromise value for money. Any decisions to extend contracts should be scrutinised as carefully as the initial procurement. Changing contracts and adding requirements may allow contracts to evolve but may also increase costs more than fully tendering for the new requirements. Suppliers tend to make higher profit margins on changes made to contract.
74. Our analysis identified one contract that had been extended without further procurement and six contracts where the time period covered was not entirely clear (our findings relating to these contracts are set out in paragraphs 76 to 78). These pose risks to value for money.
75. The MHECH contract for security services with K9 Security Services had initially been awarded for two years from October 2012 to October 2014. The contract was then extended three times (for one year at a time) between October 2014 and October 2017 without any further tendering being carried out. MHECH spent \$182,200 with this supplier between October 2014 and June 2017.
76. MCPI outsourced janitorial services to Reliable Industries in 2011 but no contract was provided to us as part of the audit; it is not clear to us if a contract for these services existed. We found that the Central Tenders Committee reviewed the procurement in 2011 (as required by the Financial Regulations) but the services have not been subject to open procurement since then. MCPI spent almost \$1.5 million over the five years with Reliable Industries.
77. Three contracts, one for security and two for janitorial and gardening services, had expired but services continued to be provided and the Ministries continued to pay the supplier for these services. The three Ministries paid at least \$1.0 million to the three suppliers after the contracts had expired.³⁴ There were no justifications for the contract extensions, nor were the agreements put into writing. We found that:
- MHRI had contracted with The Security Centre for security services in October 2009. It agreed to a three-year contract, until October 2012. However, MHRI has not provided us with any written agreement for services provided after that date. MHRI has spent at least \$655,000 on this contract since October 2012.
 - MCPI contracted with Cutting Edge Landscaping Ltd for gardening services in October 2010; the contract was for one year, to October 2011. We were not shown any written agreement for

³⁴ The \$1,005,547 includes those costs paid to the suppliers after the contracts had expired in the five year period from 1 July 2012 to 30 June 2017. We have not estimated the costs paid after the contracts expired outside of this period.

services provided after that date. MCPI has spent at least \$213,000 on this contract since July 2012.

- JudAdm contracted with Eula's Janitorial Services Ltd for janitorial services in January 2010; the contract was for one year, to December 2010. We saw no written agreement for services provided after that date. JudAdm has spent at least \$137,500 on this contract since July 2012.

Recommendation 14: The Government should ensure that contracts have expiry dates and that written contracts are in place for all outsourced services.

MOST SUPPLIERS ARE PAID A FIXED PRICE FOR OUTSOURCED SERVICES

78. It is important to consider a range of pricing approaches when outsourcing services. Suppliers will make profits from the services that they provide, and the extent of profit should reflect the level of risk that they take on as part of the contract. However, ultimately it is the Government's responsibility to ensure that services are provided. It is not possible, therefore, to fully transfer risk to suppliers. Risks and incentives are often reflected in how the contract is priced. Organisations therefore need to consider the most appropriate pricing structure that allows for effective cost control and management and also ensures value for money.

79. The following four types of pricing are commonly used for outsourced services, and each has different benefits and risks:

- **Fixed price.** This provides certainty on the price to be paid. However, if fixed prices are too low they may result in reduced service quality. If the price is too high it may not provide value for money and allow suppliers to generate significant profits at the expense of government.
- **Cost plus margin.** This pays the contractor for inputs but provides less certainty for government about the price to be paid. If using this pricing approach, robust monitoring systems need to be in place to ensure that only necessary work is carried out.
- **Payment based on volume.** The contractor is paid for each activity. This type of pricing structure may encourage suppliers to increase demand for the service.
- **Payment by results.** Contracts are structured to incentivise the supplier to improve performance by linking payment to the achievement of outcomes.

80. Our review of 22 outsourcing contracts found that 19 were fixed-price contracts, which provides certainty about the final costs to be paid. Three contracts were based on rates per hour but none of these three contracts was capped in terms of the maximum number of hours. This creates a risk that the cost of the contracts could be significantly more than expected. Exhibit 12 provides a summary of the pricing structure of the 22 contracts.

Exhibit 12 – Pricing structure of contracts

Pricing Structure	No. of Suppliers	Type of Service	Aggregate Contract Value
Fixed price per contract term	9	School bus (6) Janitorial & Gardening (3)	\$21.3m
Fixed price per month	8	Janitorial & Gardening (5) IT-Related (2) Security (1)	\$5.7m
Fixed price per year	2	Security (2)	\$2.6m
Rate per hour	3	Security (3)	\$1.7m

Note: We did not receive one of the contracts for janitorial and gardening services

Source: OAG analysis

THE GOVERNMENT IS NOT CONSISTENTLY MANAGING OR EVALUATING THE PERFORMANCE OF ITS CONTRACTORS

81. Contract management is essential to ensuring that contractors are performing as expected, good quality services are delivered, and value for money is achieved. Properly formulated RFPs and contracts should set out the essential elements of the service quality expected. A robust performance management system also needs to be in place to ensure that suppliers are delivering what is expected of them and that the outsourced service is aligned with business objectives. This will allow contracting authorities to monitor and evaluate suppliers’ performance.
82. The UK National Audit Office has published a good practice contract management framework, which defines four blocks – structure and resources, delivery, development, and strategy – and comprises 11 areas. Exhibit 13 provides an overview of the framework.

Exhibit 13 – The good practice contract management framework



Source: UK National Audit Office, Good Practice Contract Management Framework, December 2016

83. We reported earlier that none of the contracts we reviewed had specified success measures. This makes it impossible to monitor or measure whether the performance is being delivered as expected.
84. Our review of the 22 contracts found that few had been managed formally or consistently. We found that MEYSAL carried out some contract management on an exception basis, usually in response to complaints received; and General Registry (MFSHA) had weekly meetings with the supplier to monitor progress.
85. The NAO's good practice framework sets out the need for a contract manager (or contract management team) responsible for overseeing contracts. To do this effectively, contract managers need to have the appropriate skills and experience. Four of the seven procurement manuals that we reviewed make reference to an appropriate officer being responsible for a range of functions

relating to the management of contracts.³⁵ However, there is no clear guidance on who should assume the role of contract manager and what responsibilities are entailed.

Recommendation 15: The Government should establish effective policies, criteria and processes for evaluating and managing contracts for outsourced services, including guidance on the options available to address poor performance and on carrying out post-contract evaluation.

³⁵ These manuals are from MCPI, MFSHA, MHECH and MHRI.

CONCLUSION

86. The Government outsources four types of service to private suppliers – janitorial and gardening, security, school buses and IT-related. However, it is not monitoring how much it spends on these services and the rationale for decision making about what services to outsource or how this helps achieve government objectives is not clear.
87. Many of our findings in this report are similar to those in our 2018 report on the *Government's use of consultants and temporary staff* such as a lack of business cases and poorly defined requests for proposal, because the period covered by the audit is the same. However, we have identified some additional areas where the Government should improve its practices to better demonstrate value for money from outsourced services.
88. Ministries are independently buying the same services, often from the same suppliers. Instead, the Government needs to make better use of its collective buying power to achieve greater benefits and efficiencies from its outsourced services. There is limited competition for many services and a lack of market testing. The Government needs to do more to encourage competition for its outsourced services and ensure that the prices it pays for these are best value.
89. Government needs to improve the contracts it agrees with suppliers to ensure that it can effectively monitor and manage their performance. Most of the contracts we looked at specified the services to be delivered. However, none of the contracts included clear success measures that would enable the Government to monitor and manage performance. We found only a few examples of ongoing contract management. The Government needs to embed effective contract management into its day-to-day operations for these outsourced services.
90. We gratefully acknowledge the cooperation and assistance we received from Government officials in all phases of our audit work.



Sue Winspear, CPFA
Auditor General
George Town, Grand Cayman
Cayman Islands

7 June 2019

APPENDIX 1 – ABOUT THE AUDIT

OBJECTIVE

1. The objective of this audit is to determine how effectively CIG use outsourced services and ensures that it is obtaining value for money. We aimed to answer the following audit questions:
 - How well does the Government plan the use of outsourced services and decide which services are outsourced?
 - How effective is the Government at procuring outsourced services to ensure that it receives value for money?
 - How well does the Government manage outsourced contracts/engagements?

CRITERIA

2. Audit criteria set out the expectations, or standards, against which an audit can assess observed performance in order to develop findings, make recommendations as appropriate, and conclude on audit objectives. We set the following criteria for this audit:
 - Government has a clear understanding of why and how it uses outsourced services.
 - There is a clear plan for using outsourced services that is integrated with other strategies.
 - There is a clear justification of need and clear specification to inform the procurement of outsourced services.
 - Clear and appropriate procurement guidelines that ensure value for money are in place.
 - There are appropriate oversight and governance arrangements in place.
 - Outsourcing contracts/engagements have clear mandates, delivery arrangements and success measures and are overseen by experienced and capable engagement teams.

AUDIT SCOPE AND APPROACH

3. The audit reviewed the Government's processes for planning, evaluation and projecting its needs for outsourced services, and its decision-making process for bringing in external services. The audit examined the policies, procedures and practices in procuring outsourced services and in evaluating and managing their performance.
4. The audit focused on core government, and did not cover outsourcing in the statutory authorities and government companies (SAGCs). As all Ministries, Portfolios and Offices use outsourced services to varying extent, we aimed to review how well this was being done across government. Our audit covered the following core government entities:
 - Ministry of Education, Youth, Sports, Agriculture and Lands

- Ministry of Health, Environment, Culture and Housing
- Ministry of Commerce, Planning and Infrastructure
- Ministry of Financial Services and Home Affairs
- Ministry of Human Resources and Immigration (now Ministry of Employment and Border Control)
- Ministry of Community Affairs
- Judicial Administration

5. The audit was conducted in accordance with International Standards on Assurance Engagements.

Our audit approach included:

- Obtaining the agreement of relevant government officials to the audit objective, questions and criteria.
- Researching processes and good practice to gain a full understanding of activities.
- Analysing financial information. As the Government did not have readily available management information on outsourced services we collated financial information from the Government's financial system (IRIS) and carried out our own analysis of the data. We calculated the cost of outsourced services per student in paragraph 17 as the \$28.8 million spent by MEYSAL divided by the average number of students per year i.e. 23,538 (4,836 + 4,739 + 4,708 + 4,699 + 4,556). Lighthouse School did not use this service for the period under review and was therefore excluded for the number of students' calculation. The number of students was obtained from the Economics and Statistics Office (ESO) of the Government of the Cayman Islands.
- Requesting and clarifying information with key individuals in each of the Ministries and Portfolios identified above.
- Reviewing relevant legislation, including the *Public Management and Finance Law (2018 Revision)*, *Financial Regulations 2018*, *The Procurement Law 2016* and *The Procurement Regulations 2018*, and assessed policies, procedures and practices for the outsourcing activities against these.
- Assessing policies, procedures and practices in procuring consultancies against recognized good practice. We used the UK National Audit Office web-based assessment toolkit for the use of consultants as the good practice benchmark.
- Selecting a sample of 23 suppliers engaged by core government over the five years ending 30 June 2017 and obtaining and reviewing all relevant documentation to assess whether they had been procured in line with Government's own policies and procedures.
- Providing a draft report to relevant government officials for review of factual accuracy, and obtaining responses to the report's recommendations set out in Appendix 3.
- Presenting a final report of the audit to the Legislative Assembly.

AUDIT STAFF

6. The audit was carried out under the direction of Angela Cullen, Director of Performance Audit and assisted by Julius Aurelio (Audit Manager) and Gabriel Ncube (Audit Project Leader).

APPENDIX 2 – ASSESSMENT OF 23 CONTRACTS FOR OUTSOURCED SERVICES AGAINST GOOD PRACTICE CRITERIA

Entity	MHRI	MHRI	MHRI	MCPI	MCPI	MCPI	MCPI	MHECH	MFSHA	MCA	JUD ADMIN	JUD ADMIN
Supplier	THE SECURITY CENTER LTD - IMM	CARIBBEAN SECURITY MONITORING & INSTALLATION LTD	THE SECURITY CENTER LTD - 911	RELIABLE INDUSTRIES LTD.	CUTTING EDGE LANDSCAPING LTD	PINNOCK, SAMUEL	BODDEN, CHARLES LAWRENCE A.	K9 SECURITY SERVICES	BRAC INFOMATIC CENTRE	ALL ISLAND GARDEN SERVICES	EULETTE HURLSTON FOR EULA HURLSTON	NATIONAL SECURITY SERVICES
Type of Outsourcing	Security Services	Security Services	Security Services	Janitorial/ Gardening Services	Janitorial/ Gardening Services	Janitorial/ Gardening Services	Janitorial/ Gardening Services	Security Services	IT Related Services	Janitorial/ Gardening Services	Janitorial/ Gardening Services	Security Services
Contract spend	723,479	110,362	2,501,337.60	1,488,601	174,609	165,305	54,290	274,880	1,245,888	398,750	137,050	680,585
Contract pricing	Fixed Rate (per hr)	Fixed Price (per annum)	Fixed Price (per annum)	No contact received	Fixed Rate (per month)	Fixed Rate (per month)	Fixed Rate (per month)	Fixed Rate (per hr)	Fixed Rate (per month)	Fixed Rate (per month)	Fixed Rate (per month)	Fixed Rate (per hr)

ASSESSING NEEDS AND SPECIFYING REQUIREMENTS

Needs analysis/Business Case Prepared	N	N	N	N	N	n/a	n/a	N	N	N	N	N
ITT/RFP Prepared	N	N	N	N	N	n/a	n/a	N	N	N	N	N
ITT/RFP includes Evaluation, Negotiation and Award	N	N	N	N	N	n/a	n/a	N	N	N	N	N

TENDERING AND CONTRACT AWARD

Bid Evaluated (Assessment reports available)	N	N	N	Y	N	n/a	n/a	N	N	Y	N	N
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PROJECT DELIVERY AND SKILLS TRANSFER

Provided or not provided	Old contract provided	Y	Y	N	Old contract provided	Y	Y	Y	Y	Y	Y	Y
Contract includes clearly defined goods and services	N	Y	Y	N	N	Y	Y	Y	Y	Y	Y	Y
Contract includes clearly defined timelines/deadlines	N	Y	Y	N	N	Y	Y	Y	Y	Y	Y	Y
Contract includes quality of goods and services	N	Y	Y	N	N	Y	Y	Y	Y	Y	Y	Y

CONTRACT MANAGEMENT

Evidence of progress reports, meetings etc.	N	N	N	N	N	N	N	N	Y	N	N	N
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PERFORMANCE/CONTRACT EVALUATION

Evidence of contract/performance evaluations, feedback etc.	N	N	N	N	N	N	N	N	N	N	N	N
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Entity	MEYSAL	MEYSAL	MEYSAL	MEYSAL	MEYSAL	MEYSAL	MEYSAL	MEYSAL	MEYSAL	MEYSAL	MEYSAL
Supplier	NATIONAL SECURITY SERVICES	JERNAT HEAVY EQUIPMENT & TRANSPORTATION	SMITH'S TRANSPORT	UNION HEAVY EQUIPMENT & TRANSPORT	WHITTAKER'S TRANSPORTATION LTD	RENNIE'S BUS TRANSPORT	CLEANING CONNECTION	BARNES BUS TRANSPORT	A1 JANITORIAL	VIGORO NURSERY LTD.	IT OUTSOURCE LTD
Type of Outsourcing	Security Services	School Bus Services	School Bus Services	School Bus Services	School Bus Services	School Bus Services	Janitorial/Gardening Services	School Bus Services	Janitorial/Gardening Services	Janitorial/Gardening Services	IT Related Services
Contract spend	3,162,295	4,041,486	3,272,845	3,130,256	2,728,130	2,060,072	1,605,638	1,557,863	1,545,445	1,324,923	391,034
Contract pricing	Fixed Rate (per month)	Fixed Price	Fixed Price	Fixed Price	Fixed Price	Fixed Price	Fixed Price	Fixed Price	Fixed Price Contact	Fixed Price	Fixed Rate (per month)

ASSESSING NEEDS AND SPECIFYING REQUIREMENTS											
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Needs analysis/Business Case Prepared	N	N	N	N	N	N	N	N	N	N	Y
ITT/RFP Prepared	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	n/a
ITT/RFP includes Evaluation, Negotiation and Award	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	n/a

TENDERING AND CONTRACT AWARD											
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Bid Evaluated (Assessment reports available)	N	Y	Y	Y	Y	Y	N	N	N	N	n/a
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PROJECT DELIVERY AND SKILLS TRANSFER											
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Provided or not provided	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Contract includes clearly defined goods and services	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Contract includes clearly defined timelines/deadlines	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Contract includes quality of goods and services	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y

CONTRACT MANAGEMENT											
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Evidence of progress reports, meetings etc.	N	Y	Y	Y	Y	Y	Y	Y	N	N	Y
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PERFORMANCE/CONTRACT EVALUATION											
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Evidence of contract/performance evaluations, feedback etc.	N	Y	Y	Y	Y	Y	Y	Y	N	N	Y
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APPENDIX 3 – RECOMMENDATIONS

Recommendation	Management Response	Responsibility	Date of planned implementation
<p>1. The Government should develop a procurement manual, as a matter of urgency, that is in line with the <i>Procurement Law</i> and Procurement Regulations. The manual should be supplemented with a complete set of well-designed templates for use across the entire civil service.</p>	<p>Management notes that, since the period of this audit (2012-2017), in addition to implementing a new Procurement Law and Regulations in May, 2018, the CPO has established a new Procurement Portal, which it has populated with a wealth of procurement templates and other resource and guidance materials (see details below).</p> <p>Management agrees that some additional guidance would be helpful, and proposes that CPO develop a Procurement Guidance Document. The purpose of this document would be to help public servants engaged in procurement to find a path through the templates and resources available on the https://www.procure.gov.ky/ website from the beginning to the conclusion of their procurements.</p> <p>Details of Procurement Resources and Materials developed since the audit period include:</p> <p>a. The Cayman Islands Government procurement website: https://www.procure.gov.ky/ contains all templates that can be used by the entire</p>	<p>Central Procurement Office (CPO) to develop a Procurement Guidance Document.</p>	<p>End of September, 2019</p>

Recommendation	Management Response	Responsibility	Date of planned implementation
	<p>public sector of the Cayman Islands which are in line with the procurement law and regulations.</p> <p>b. This link on the CI procurement website https://www.procure.gov.ky/procurement-legislation-policy-amp-guidance contains copies of the Procurement Law, Regulations, Reference guides, Code of Conduct for Procurement, Procurement Policy as well as other related laws and regulations.</p> <p>c. This link: https://www.procure.gov.ky/orbidder provides access to the automated drafting system (including training videos on its use) for tender documentation and includes a number of templates for the various procurement routes allowed in the procurement law.</p> <p>d. This link: https://www.procure.gov.ky/understanding-the-procurement-journey provides guidance on roles and responsibilities, strategic considerations, methods of supply, bid development, evaluation, solicitation, contract management and a tool list to guide people through the procurement process. This page also has detailed training including videos on the</p>		

Recommendation	Management Response	Responsibility	Date of planned implementation
	use of the CIG electronic procurement portal, Bonfire.		
2. The Government should, as soon as possible, update the Financial Regulations to rectify any inconsistencies with the Procurement Regulations.	While noting that the recommendation is outside the timeframe of the audit, Management agrees with recommendation. The Financial Secretary has already established a project team to undertake the legislative review.	1. Project Sponsor: Financial Secretary 2. Project team: staff of Ministry of Finance, Central Procurement Office, SRIU and other resources. 3. To develop Proposals for legislative changes.	End of Dec 2019
3. The Government should ensure that strong business cases are prepared to justify the need for outsourced services and the value for money to be delivered.	Management agrees with this recommendation. Since the timeframe of this audit, the Government has mandated the use of business cases in the Procurement Law and Regulations for procurements over CI\$100k. For example, Procurement Regulation 3(1) sets out the following requirements: <i>3. (1) A procurement process may be initiated by an entity only after the procurement project has been appraised and the results documented in an approved business case.</i> <i>(2) The business case shall -</i> <i>(a) demonstrate the economic need for the project;</i>	Chief Officers (COs) and Chief Executive Officers (CEOs). To ensure increasing levels of compliance with the requirements for business cases, as capabilities and capacities within the Cayman Islands public sector continue to be developed.	On-going

Recommendation	Management Response	Responsibility	Date of planned implementation
	<p><i>(b) include a thorough risk and impact assessment that details costs and the socio-economic impact of the procurement project on small and medium sized suppliers operating in the Islands;</i></p> <p><i>(c) provide a breakdown of all anticipated procurement projects within the larger project;</i></p> <p><i>(d) recommend the procurement method to be utilized;</i></p> <p><i>(e) specify the benefits that the project is expected to deliver;</i></p> <p><i>(f) demonstrate the options to be incorporated into the procurement process to promote positive economic development of the Islands in accordance with regulation 20; and</i></p> <p><i>(g) demonstrate that there is a basis on which a decision may be made on whether to proceed to the procurement stage.</i></p> <p>Compliance with the requirements for business cases in legislation should help Chief Officers and their teams to deliver strong business cases and value for money in decisions around outsourced services.</p> <p>At the same time, Management recognises</p>		

Recommendation	Management Response	Responsibility	Date of planned implementation
	<p>that implementation of this work is at an early stage and requires on-going support and capacity-building. A range of strategic support is already being provided, e.g.:</p> <ul style="list-style-type: none"> • Standard templates for CIG business cases (developed by the Strategic Reforms Implementation Unit-SRIU) have been approved by the Director, CPO, to justify and support all investment decisions and procurement spends. • Further, as part of a strategy to develop civil service capability in relation to the development and appraisal of business cases and project execution, the SRIU is in its second year of facilitating certification training from APMG, a global accreditation and examination institute, for business case development and project management, change management (new in 2019) and has held Master Classes for Business case reviewers. <p>In 2018:</p> <ul style="list-style-type: none"> • 34 civil servants gained Better Business Cases (BBC) Foundation certification from the Association for Project Managers (APM) in business cases development; 		

Recommendation	Management Response	Responsibility	Date of planned implementation
	<ul style="list-style-type: none"> • 87 gained APM PQF Foundation certification in project management; • 17 persons, including 2 MLAs, attended a master class for strategic leaders responsible for reviewing and approving business cases. <p>In 2019:</p> <ul style="list-style-type: none"> • 21 persons attended a master class for strategic leaders responsible for reviewing and approving business cases; • 60 persons are scheduled to take project management training (20 for PFQ-Foundation Level and 40 for PMQ-Practitioner level); • 40 persons are scheduled to attend better business case training (20 for BBC Foundation and 20 for BBC Practitioner); • 20 persons are scheduled to attend Practitioner level certification in change management; • 60 people are scheduled to attend a Benefit Management master class to ensure that managers are able to identify, define and test the business benefits for projects; • 40 Strategic leaders are scheduled 		

Recommendation	Management Response	Responsibility	Date of planned implementation
	to attend master class to be an effective sponsor for business case and project delivery.		
<p>4. The Government should ensure that Requests for Proposals and Invitations to Tender are prepared for all open procurements and are in line with policies and procedures.</p>	<p>Management agrees with this recommendation, and since the timeframe of this audit, the Government has established in the procurement legislation the requirements for the way tenders are to be prepared (for example, Procurement Regulation 7, which sets out the requirements pertaining to Competitive Procurement methods).</p> <p>In addition, the CPO provides guidance and other support for Chief Officers and their teams, in order for them to fulfil their responsibilities in this area under the Law and Regulations.</p> <p>For example, the CPO has provided a range of additional resources, including the automatic drafting system for developing RFPs identified in management response 1.c above.</p> <p>The CPO is also available to offer hands-on guidance and support, as requested.</p>	<p>Project Managers, Entity Procurement Committees, and staff with relevant procurement delegations/responsibilities- To comply with requirements for RFPs and Invitations to Tender.</p>	<p>On-going</p>
<p>5. The Government should ensure that there is sufficient justification for single-source procurements and that</p>	<p>Management agrees with this recommendation, and since the timeframe of this audit, the Government has set out in</p>	<p>Project Managers, Entity Procurement Committees, and staff with relevant</p>	<p>On-going</p>

Recommendation	Management Response	Responsibility	Date of planned implementation
<p>it is properly documented and approved, and should secure the approvals before the supplier is appointed.</p>	<p>procurement legislation (see Regulation 5) requirements for single-source procurements, including thresholds and approvals.</p> <p>The process is also set out on the CI procurement website including template forms for justification and approval. https://www.procure.gov.ky/direct-award-process</p> <p>Management anticipates compliance with the legal requirements, going forward.</p>	<p>procurement delegations/responsibilities- To comply with requirements to justify procurements, including single-source procurements, and secure approvals before the supplier is appointed.</p>	
<p>6. The Government should continue to develop procurement expertise across its staff to support effective procurement.</p>	<p>Management agrees with this recommendation. The Procurement Law states that the training and education of colleagues involved in procurement is the responsibility of the Chief Officer, Chief Executive Officer, and the Director of the CPO. Management acknowledges that the further development of procurement expertise needs to continue to be an ongoing priority and commitment for all concerned parties.</p> <p>Since the timeframe of this audit, and specifically since the implementation of the Procurement Law and Regulations, the CPO has facilitated training sessions for over 900 public servants, in procurement; the Law and Regulations; practical use of the</p>	<ol style="list-style-type: none"> 1. CPO, COs/CEOs to continue to develop procurement expertise across civil/public service staff. 2. COs to nominate Procurement Champions for the CPO to work with in continuing the development of procurement expertise across the Government. 3. CPO-To facilitate procurement 	<ol style="list-style-type: none"> 1. Ongoing 2. End of Aug, 2019 3. End of Dec, 2020

Recommendation	Management Response	Responsibility	Date of planned implementation
	<p>electronic procurement portal; and document generation.</p> <p>In addition, Management proposes the following additional activities to be undertaken:</p> <ul style="list-style-type: none"> • CPO to facilitate the establishment of Procurement Champions and a procurement forum and working group • CPO to facilitate procurement certification and training and development opportunities for the public sector <p>This is to pursue opportunities for membership, professional procurement certifications and ongoing training and development for civil/public servant from an internationally- recognised body such as Chartered Institute of Procurement and Supply.</p>	<p>certification training and development.</p>	
<p>7. The Government should monitor and analyse how much it is spending on outsourced services, in order to provide management information that will help inform decision-making on the future outsourcing of services.</p>	<p>Management agrees that the spend on outsourced services should be monitored by Ministries, but in a manner that is proportionate to the percentage of overall spend. Given the relatively small percentage of annual spend; management seeks additional clarification as to the nature/extent of any additional centralised monitoring anticipated by the OAG.</p>	<p>FS -To consult with CFOS to identify best-fit approaches to monitoring and analysing spend on outsourced services.</p>	<p>End of Dec, 2019</p>

Recommendation	Management Response	Responsibility	Date of planned implementation
	Management proposes, through the FS, to consult with CFOs to agree appropriate ways forward.		
8. The Government should look at options to centrally procure and contract out similar types of services in order to make better use of its collective buying power, while meeting other policy objectives such as supporting small and medium-sized companies.	<p>Management agrees with this recommendation. The Government should have a strategy to procure for services across entities where it is more efficient and cost effective to do so. Since the timeframe of this audit, the Government has already established a framework for the central procurement of stationery supplies. However, management notes that central procurement in areas where the specifications vary, such as security services, will be more difficult and require more collaboration and consultation across agencies.</p> <p>As a next step forward, Management proposes that the CPO, in consultation with the relevant Ministries, facilitate a review of the various outsourced services and identify any additional viable options for central procurement.</p>	CPO - To facilitate a review, in consultation with COs, to identify any viable additional options for central procurement.	Review by end of Dec, 2019 and proposal by Mar 2020
9. The Government should ensure that it carries out market research in advance of procuring outsourced services or deciding to outsource a	Management agrees with this recommendation, and since the timeframe of this audit, the Government has introduced into the Procurement Regulations (Regulation 10) provisions for	Project Managers, Entity Procurement Committees, and staff with relevant procurement delegations/responsibilities.	On-going

Recommendation	Management Response	Responsibility	Date of planned implementation
<p>particular service for the first time.</p>	<p>market research to be undertaken, where it is appropriate to do so. In addition, a Request for Information template is available within the document drafting system “Orbidder”.</p> <p>Management further advises that market research is currently being conducted within CIG, and notes that since the beginning of 2018, 12 Requests for Information (one approach to market research) have been conducted through the CI Government electronic procurement portal (Bonfire). In addition 33 market research reports have been requested and developed by the CI supply market research provider (Procurement QI), for various procurement projects.</p> <p>Management notes that the data provided by the OAG in its report suggests that the outsourced services within CIG have remained relatively static over the period of review for this audit.</p>		
<p>10. The Government should ensure that it prepares robust pre-tender estimates to inform the procurement process for future outsourced services.</p>	<p>Management agrees with this recommendation, and notes that, since the timeframe of this audit, standard CIG business case templates have been introduced, which provide a robust framework and structure for decision-making, including the development and</p>	<p>Project Managers, Entity Procurement Committees, and staff with relevant procurement delegations/responsibilities.</p>	<p>On-going</p>

Recommendation	Management Response	Responsibility	Date of planned implementation
	consideration of pre-tender estimates (e.g. The Financial Case section).		
11. The Government should develop new approaches, such as more and better engagement with the market, to foster competition among potential suppliers of outsourced services.	Management notes this recommendation, and agrees that, with the advice and guidance of the CPO, CIG should continue to explore a variety of market engagement approaches, such as those referenced within the OAG report, to foster competition among potential suppliers. This work will be complemented by the use of market research resources discussed in response to recommendation 9, above.	CPO - To share lessons learned and provides advice and guidance on approaches to foster competition amongst suppliers, with Project Managers, Entity Procurement Committees, and staff with relevant procurement delegations/responsibilities.	On-going
12. The Government should ensure that contracts for outsourced services are in the best interests of the Government, including appropriate clauses such as consequences for poor or non-performance, and termination clauses. Contracts should set out success measures that are clearly linked to the needs of the Government.	<p>Management agrees with this recommendation. Government should ensure that contracts are sent to the Solicitor General’s Office (SGO) for review.</p> <p>In addition to the above, the SGO will work to issue some basic contract terms/templates to Government.</p> <p>Response from General Registry: The success measures are documented from both a functionality standpoint and a service level. Functionality requirements are agreed upon at the onset of an enhancement request and updated on an iterative basis to meet the needs of the industry. General Registry tests the delivery of the functionality during a User</p>	<p>COs</p> <p>SGO</p>	<p>On-going</p> <p>End of July, 2019</p>

Recommendation	Management Response	Responsibility	Date of planned implementation
	<p>Acceptance Testing (UAT) cycle for each enhancement. This ensures the functionality measure is delivered as expected.</p> <p>Furthermore, each module is piloted by selected service providers prior to full implementation.</p> <p>The service level is specified in the Master Service Contract and monitored by a 24/7 automated application to ensure the availability of the online service used by both General Registry users and CSP users.</p>		
<p>13. The Government should ensure that the duration of contracts for outsourced services achieve value for money, balancing the need for regular market testing and the administrative costs of procurement.</p>	<p>Management agrees with this recommendation. The CPO is available to advise COs/CEOs on how to make decisions in relation to contract duration, to ensure the proper balance of considerations is achieved. In addition, the standard business case templates, in the sections dealing with Procurement and the Commercial Case for a project, prompt users to consider and document considerations and proposals relating to the specification and duration of contracts.</p>	<p>Project Managers, Entity Procurement Committees, and staff with relevant procurement delegations/responsibilities- To ensure duration of contracts for outsourced services achieve value for money.</p>	<p>On-going</p>
<p>14. The Government should ensure that contracts have expiry dates and that written contracts are in place for all outsourced services.</p>	<p>Management agrees with this recommendation, and expects compliance for any new contract awards, and further anticipates that this matter will be</p>	<p>CPO - To contact COs to discuss options for resolving any existing contracts without the expiry dates.</p>	<p>End of Dec, 2019</p>

Recommendation	Management Response	Responsibility	Date of planned implementation
	<p>addressed within the standard contracts proposed by the SGO.</p> <p>Management proposes, through the CPO, to provide guidance and support to COs to resolve examples cited by the OAG of existing contracts without expiry dates.</p>		
<p>15. The Government should establish effective policies, criteria and processes for evaluating and managing contracts for outsourced services, including guidance on the options available to address poor performance and on carrying out post-contract evaluation.</p>	<p>Management agrees with this recommendation, and proposes, through the CPO, to:</p> <ul style="list-style-type: none"> Review the contract management frameworks for the existing outsourced services contracts and to recommend contract management arrangements that are appropriate for each contract/service. <p>Response from General Registry: General Registry closely manages the Brac Informatics contracted service. Using an online Help Desk system any functionality issues identified by users of the service are documented. These are reviewed by GR/BIC staff and dispatched for resolution. Delivery of requested enhancements and the status of help desk tickets are reviewed on a weekly basis at a joint GR/BIC project team meeting. All issues are addressed and resolutions documented.</p>	<p>CPO - To review contract management frameworks for existing outsourced contracts audited and recommend appropriate contract management arrangements going forward.</p>	<p>Review by end of Dec 2019 and proposals for new contract management proposals by June, 2020.</p>

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