



Payments on account / advance payments in the cantons of ZH, BE, JU and AG in the construction of national roads

Key facts

The Swiss Federal Audit Office (SFAO) was commissioned by the Finance Delegation to examine whether or not the cantons had carried out unauthorised payments on account and advance payments in the construction of national roads. The audit took place at the public works services in the cantons of Zurich, Bern, Jura and Aargau and covers the period from 2003 up to and including 2005. With these four cantons, audits were carried out retrospectively using spot checks on the invoicing system of two construction projects each, which overall represented a work contract volume of approximately CHF 260 million.

The **overall result** of the audit leaves a mixed impression.

Of positive note is that

- > **EDP solutions for the project bookkeeping overall are working reliably.**
- > **invoicing systems and terms of payment are agreed as is the norm for this sector.**

Furthermore, it should be mentioned that the audit took place between the period of time from 2003 – 2005 and some of the deficiencies detected by the SFAO had already been recognised and appropriate measures had been taken.

The following deficiencies have, nonetheless been identified which had also been pinpointed in part by the cantonal audit offices and the audit section of the Federal Roads Office within the scope of their audits:

An assessment of unauthorised advance payments is not possible in the case of one work contract

The result in the case of the canton of Zurich is good, in management terms there is clearly-structured project development and execution supported by processes and numerous specifications. The key question as to whether unauthorised payments on account and advance payments had been carried out in the case of the two work contracts could be answered with a clear "no".

With the canton of Jura, the result is not straightforward. The original documents from both construction sites to be archived by the commissioned local construction management, in particular the documents to do with the situation invoice were complete and extensively available at the time of the audit. In management terms, there is not enough structured business processing because there is neither sufficient documentation of processes, responsibilities and powers nor correspondingly coordinated controlling tools. The core issue as to whether unauthorised payments on account and advance payments have been made can, in the case of both work contracts, be answered with no. Specific deviations could not be detected. However, congruence between progress in construction and

the payments made for construction site installations and underground work appears to be implausible in part, which due to the lack of documentation cannot be verified subsequently.

In the canton of Bern, the result is not straightforward. The original documents from both construction sites to be archived by the commissioned local construction management, in particular the documents to do with the partial invoices were complete and extensively available at the time of the audit. Deficiencies can be found because neither sufficiently defined processes nor correspondingly coordinated controlling tools exist. The core issue as to whether unauthorised payments on account and advance payments have been made can, in the case of both work contracts, be answered with no.

In the case of the Canton of Aargau, the result is conflicting. Whereas one of the audited work contracts was well executed, the way the other contract was executed was unsatisfactory. The main reason for this was that considerable management deficiencies were revealed in the execution of the project by those commissioned and the project owners. Important service contract agreements were not implemented (standard changes to order not carried out in an orderly fashion and price adjustments not carried out in spite of huge order upgrade). To some extent there were also no safeguards in the safekeeping of construction site records.

The core issue as to whether unauthorised payments on account and advance payments were made can, in the case of the last-mentioned work contract, not be answered. The cantonal public works division does not share this opinion. It bases its assessment on idealised assumptions to do with the services provided; for the SFAO idealised assumptions cannot be the basis for a corresponding assessment.

The deficiencies detected in the case of the canton of Bern, Jura and Aargau are mainly attributed to management shortcomings in the corresponding public works offices.

The SFAO has detected other deficiencies:

In the cases of two cantons, payments ensued or were possible outside the work contracts

When the canton draws up the electronic construction invoicing in favour of the contractor, then these services are part of the overall invoicing for a project. They must either figure as a deduction in the final account of the contractor or must be credited to the canton by the contractor. In both cases these payments must lead to the overall invoicing being relieved, otherwise these charges will be reimbursed twice by the Confederation; the first time relating to the project and the second concerning separate financing of the personnel employed in national road construction.

Canton Aargau did not add these contractor payments to the overall invoicing and thus did not carry out correct charging for services for the purposes of the electronic construction invoicing.

In the case of the Canton of Bern, the way things are handled is not straightforward. In the case of one project, the deduction was waived because the invoicing system of the contractor was impeccable. In the case of the other project the corresponding deduction was not visible in the advance deduction to the final account; however, it should be carried out in the ultimate final account statement.

These payments were not carried out based entirely on verifiable documents

The majority of payments were activated by the public works services based on verifiable documents.

Whereas in the case of the canton of Zurich, all payments were carried out correctly, in the case of the cantons of Bern and Jura, there are certain vulnerabilities concerning the traceability of payments.

In the case of the canton of Aargau, payments for one of the work contracts were linked to documents which were in order whereas with the other work contract, the payment documents were partially incomprehensible which led to the non-adjusted unit prices, in accordance with the contractually agreed Art. 86 of the SIA (Swiss Engineering and Architectural Association) Norm 118, in the eyes of the SFAO, resulting in exorbitant prices. Individual items showed amounts being exceeded more than 100-fold. The cantonal public works division has a different approach to commitment to and pursuing the application of Art. 86 of SIA Norm 118. However, it points out that in the case of this work contract, a little more than half of all items showed quantities varying more than +/- 20%, additional resolution negotiations took an enormous amount of time and during the construction work, there was insufficient time and staff to deal with the magnitude of resolving the amendment.

The deficiencies detected point to immense management shortcomings.

The internal control system is still patchy

Without sufficiently-documented processes (such as core processes, management processes and support processes, which contains controlling) in the canton of Bern and the canton of Jura, no effective, internal control system can be imposed at all levels. This is significant to the extent that both these cantons will, together with the Confederation, invest large sums in the coming years in completing the national road network.

In the cantons of Aargau and Zurich there is a functioning internal control system at cantonal level. At the project level, there is insufficient material recognition in the documents indicating progress in the work carried out by means of a visa in due form for those commissioned; with the canton of Zurich this is just in certain points, with the canton of Aargau this is more widespread..

Payment clearance ensued based on financial authority

Payment clearances ensued based on financial authority. The payment deadlines laid down in the work contract were, however, in particular in the canton of Bern and the canton of Jura not met, very often by a matter of weeks. These should in principle be complied with which today with the help of technical aids is entirely feasible. Payment of the bills too early causes avoidable financing costs.

The controlling is not continuous / deficiencies in the management of those commissioned

In the case of the canton of Bern and the canton of Jura, in which inherent controlling is absent, the internal control system is also inadequate. Big infrastructure projects must be backed up by a functioning internal control system and effective controlling relating to costs / services / financing and deadlines. Today formally specified structures and structures independent of individuals for man-

aging big construction projects of this nature are a must because only in this way can projects be implemented in a cost-effective way.

Management of those commissioned is inadequate in the cantons of Bern, Jura and Aargau. In the canton of Zürich in this respect only slight deficiencies were able to be detected. It is vital that the companies entrusted with documenting performance receive specifications from the contractors so that in particular the rules of the game for "provisional measures" and the "replacement items for as yet unapproved services through supplements" are defined. "Provisional measures" are also a risk in particular in the case of unclear specifications, in supplementing the normally contract-compliant handling of payments in an isolated case with an unauthorised payment (in terms of an advance payment in violation of contract with subsequent provision of services).

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