



REPUBLIC OF SLOVENIA
COURT OF AUDIT

AUDIT REPORT

Efficiency of procurement processes of the Motorway Company of the Republic of Slovenia

Performance audit

Audited period: 1 January 2014 to 31 December 2017





Procurements in the Motorway Company (DARS)

(2014-2017)

€ 419 million

motorway construction, management and maintenance procurements

€ 22 million
other procurements

€ 5.6 billion

used for construction of a motorway cross-section in accordance with National Motorway Construction Programme in the Republic of Slovenia in the period 1994-2014

€ 4.7 billion

additional funds to be used in the period 2016-2030

WHAT WAS AUDITED?

Was DARS efficient in implementing procurements in the period 2014-2017 pertaining to:

- **assessing the needs and planning** purchases of goods, and implementing services and construction works
- **selection of providers** of goods, services and construction works
- **managing of contracts** for the supply of goods or implementation of services and construction works

STRATEGIC PLANNING

PERFORMANCE PLANNING



ANNUAL BUSINESS PLAN

includes financial plan and investment plan

AT NATIONAL LEVEL

Resolution on the National Motorway Construction Programme and Resolution on the National Programme for the Development of Transport of the Republic of Slovenia until 2030

Investments are defined in terms of content, financial frameworks and timetables for their implementation are set

Assessing the needs and procurement planning not precisely specified in internal documents

The list of public procurement procedures issued only along with annual business plan 2014

In some procedures of awarding a public contract the subject-matter of a public procurement was not clearly defined and did not include all works to be implemented



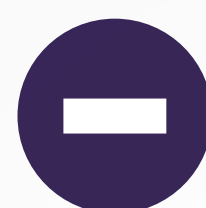
DARS

AT THE LEVEL OF DARS

Strategic plan Dars, d. d. 2012-2016 and Strategy Dars, d. d. 2017-2020

Procurement planning based on DARS strategic guidelines

SELECTION OF SUPPLIERS AND SERVICE PROVIDERS



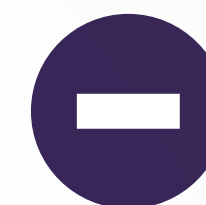
Managing of procurement procedures was not systematically regulated in internal rules, which resulted in conflicting provisions of different acts regarding the powers and responsibilities for the implementation thereof.



Responsibilities of organisational units for needs aggregation in joint purchases at the company level were not defined.



Preparation and implementation of PUBLIC PROCUREMENT PROCEDURE



By Service Business Rules DARS was enabled to implement procurement of certain services avoiding regular procurement procedures and without cooperation of competent departments that would ensure the procurement of services through joint procedures in accordance with the needs.



Procurement of goods and awarding of public service contracts and construction works contracts were not in all cases implemented in line with the public procurement rules:



INFORMATION SYSTEM

DARS failed to set up an IT system for the provision of a full support to public procurement procedure. The cost of purchase and maintenance of a system that is not being used amounted to **€ 36,837.**

GRITTING MATERIAL

Existing gritting material supply contract was extended for 12 months by concluding an annex without prior implementation of a public procurement procedure. Realisation on the basis of an annex amounted to **€ 902,000.**

OUTSOURCED ENGINEERING

A significant part of DARS activities regarding the procedures for the award of public contracts is outsourced to external contractors. There thus exists a risk that they make decisions beyond their powers which can lead to making additional financial commitments and can affect the legality of operations.

INSPECTION OF HEAVY GOODS VEHICLES

Person participating in the procedures of awarding a public contract for the security inspection of heavy goods vehicles is employed by the selected tenderer.

CONTRACT IMPLEMENTATION AND CONTROL



CONTROL

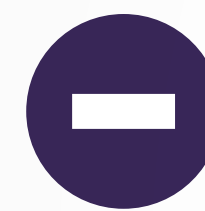
over the implementation of contracts and paying invoices



Adequate control over the contract implementation was not ensured in all cases:



IT support for monitoring the implementation of contracts and major construction projects was provided



Process of monitoring contract implementation was **not systematically regulated** in internal rules



It was not determined in which cases a new order form shall be used for the implementation of a new procurement of goods and services instead of an already existing procurement contract



General responsibilities and powers of all organisational units pertaining to procurement contract guarding were **not defined in internal rules**



It was not determined that internal transfer of goods from one warehouse to another was not only permitted but **mandatory** if the goods were located in other warehouses in sufficient amounts

MARKOVEC TUNNEL

Colour coating remediation procedures and scope of works were defined only during the public procurement implementation. Additional costs amounted to € 573,005 respectively 68.5% of initial contract value.

NOISE BARRIERS

When installing noise barriers on the Dramlje-Arja vas road section, there were **deficiencies in noise reduction within noise barriers** identified with 1 out of 6 service providers. DARS paid to the providers of works € 16,769,562.

ROAD WEATHER STATIONS

The selected supplier charged € 168,500 more than defined in the contract for the supply and maintenance of road weather stations.

OFFICE PREMISES IN CELJE

When renovating office premises, DARS already in the investment-planning phase **failed to clearly define the subject-matter of a public procurement** to include all the works required. Therefore, an **annex** with the provider of works in the amount of € 95,556, representing 29% of the initial contract value, was concluded.



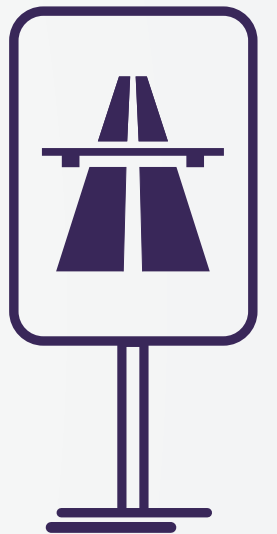
**MANAGING
FINANCIAL
GUARANTEES**

Procedure of managing financial guarantees was **not adequately regulated**

It was **not clearly defined which organisational units are responsible** for managing financial guarantees

Systemic monitoring and reporting on contractual relations, whereby the conditions for the realisation of a financial guarantee were met, **were not regulated**

Absence of general guidelines on realisation of guarantees poses a **risk of inconsistency in realisation of guarantees and a risk of unrealised guarantees** which can cause business damage



DARS was in most cases of actions found **liable for the payment of compensation due to an unrealised bank guarantee**, covering the claims of subcontractors against main contractors.

Although DARS repaid the main contractors, it also had to pay **additional compensation in the amount of € 8,109,819** due to judgements in favour of subcontractors.

On 31 December 2017, DARS had **30 similar unresolved claims** of subcontractors in the amount of **€ 13,464,694**. There exists a risk that DARS will have to **settle those claims**.

OPINION OF THE COURT OF AUDIT



The Court of Audit is of the opinion that **DARS operations pertaining to the implementation of public procurements** in the period from 2014 to 2017 were **efficient only to a limited extent.**

The Court of Audit demanded from DARS to implement corrective measures and issued recommendations to improve operations, namely:

● demands



to impose **internal controls** over the powers of **engineers**



to aggregate needs in **joint purchasing** at the company level



to define **powers** for the implementation of **procedures to award public contracts** and monitoring of contract implementation



to manage **financial guarantees** and to act in a timely manner

● recommendations



to consider the possibility of **integrating IT solution** Electronic public procurement in the Republic of Slovenia in the company's own system for procurement process management



to set up a system for **mandatory transfer of goods among warehouses** considering the needs of motorway maintenance bases