



Performance Audit Report on Government Office Accommodation and Rental Payments 2020-2023



Auditor General's Office of Papua New Guinea

OFFICE OF THE AUDITOR-GENERAL

8 November 2024

The Honourable Job Pomat, MP

Speaker of the National Parliament

Parliament House

WAIGANI

National Capital District

Dear Mr. Speaker,

In accordance with the provisions of Section 214 of the Constitution of the Independent State of Papua New Guinea, and the Audit Act 1989 (as amended), I have undertaken an audit examining and assessing the effectiveness of the Management and Payment of Government Office Rentals for the period 2020 to 2023.

I submit the report of this audit and the report is titled "***Performance Audit Report on Government Office Accommodation and Rental payments 2020-2023.***"

Following its tabling in Parliament, the report will be placed on the Auditor-General's Office homepage <http://www.ago.gov.pg>

Thank you



GORDON KEGA

Auditor-General, MBA, CPA

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Acronyms and Definitions

AGO	Auditor-General's Office
DoF	Department of Finance
DPM	Department of Personnel Management
EFT	Electronic Fund Transfer
GO19	General Order 19
GOAC	Government Office Allocation Committee
GOADD	Government Office Accommodation & Development Division
IFMS	Integrated Financial Management System
LMS	Lease Management System
NEC	National Executive Council
PFM Act	Public Finance (Management) Act (as amended)

Executive Summary and Recommendations

Background

1 The Government Office Allocation Committee (GOAC) is responsible for managing government office accommodations and rental payments. The GOAC is made up of the Secretary for Department of Finance as the Chairman (since 2021), and the Secretaries for Departments of Personnel Management, Treasury, Lands and Physical Planning, Justice and Attorney General, and Works and Highway as the committee members.

2 The GOAC was established in 2012 by the National Executive Council (NEC). Consistent with the NEC decision, General Order 19 was also issued in 2012 by the Department of Personnel Management specifying the roles and responsibility of the GOAC – which is to secure suitable office accommodation to meet the establishment and operational needs of all Government agencies throughout the country. The GOAC determines the standards relating to office space per public servant and the rental price to be charged based upon market considerations and budgetary implications. The Committee ensures that the welfare of public servants is considered and that the offices comply with the building and occupational standards set by the Government.

3 The Government Office Accommodation & Development Division (GOADD) established within the Department of Finance performs the role of the Secretariat by carrying out administrative duties on leases and payments, and monitoring and reporting on the rental payments to the GOAC and Government.

4 From the period 2020-2023, there were a total of 155 government office locations that have been accommodated under Government Office Allocation Committee (GOAC). The Government appropriates K257 million on average annually in the national budget to pay for these government office rental payments. The untimely payments of rentals is a major concern for landlords, and reports of government departments and workers being locked out of office building or floors they occupy, has attracted a great deal of public interest.

5 In order to address public interest and concerns raised by landlords on the management of government office rental payments, a performance audit was carried out on government office accommodation and rental payments covering the period 2020-2023. The objective of the audit was to assess the effectiveness of the management and payments of government office rentals with a particular focus on if:

- there is a clear legal and governance framework for the management and payment of government office rentals?
- the budgeting and management of rental payments is appropriate and undertaken in a timely manner? and
- the monitoring and reporting of rental payments and expenditure is effective?

Overall Audit Conclusion

6 Overall, the AGO concluded that the management of government office accommodation and rental payments for the period under review 2020-2023 was largely ineffective. While the GOAC was lawfully established with roles and responsibility to manage government offices and rental payments, there was no policy guidelines/Terms of Reference in place to guide GOAC in the deliberation of their duties and business conduct. Furthermore, the management of lease agreements was poor and exposed the Department of Finance to a high threat of fraud and collusion. The lack of a proper accounting system and records management as well as weaknesses

in monitoring and reporting arrangements exposes the program to the risk of mismanagement and not achieving “value for money”.

Key Findings

Chapter 2: Legal and Governance Framework

7 During the period 2012-2023, the position of the chairman of GOAC was held by three different departmental secretaries within the PNG Government. At the time of this audit, the Chairman was the Secretary for the Department of Finance (DoF), who has been appointed by the NEC to the position in 2021. The General Order was not updated to recognise the appointment of the Secretary for the Department of Finance as the chairman of GOAC.

8 The Secretariat role for GOAC was not clearly identified in the General Orders and there is no Terms of Reference for GOADD to assist the work of the GOAC in providing appropriate administrative oversight.

9 Further, there are no clear policy guidelines and/or Terms of References developed to guide GOAC in the deliberation of their duties and conduct of business activities such as meeting schedules and monitoring and reporting requirements. This has resulted in the GOAC conducting meetings on an ad hoc basis and not maintaining proper records of meetings and decisions. There is also lack of monitoring of the lease agreements, with 61 percent of leases provided to the AGO being expired. The process for securing government office accommodation is not documented in a standard procedural manual or guidelines, which creates room for the abuse of the process and mismanagement of the rental accommodation program.

Chapter 3: Budgeting and Management of Rental Payments

10 Funds allocated in the budget annually to pay rentals were inadequate, and delays in the payment of rentals had resulted in accumulation of rental arrears over the years. The delays in the payment of rentals were caused by broader factors such as cash flow issues.

11 There is also no proper accounting system in place to capture records and manage rental payments and arrears. The Finance Manager at GOADD is the only officer using the computer excel spreadsheet to record lease information and payment records which could be subject to accidental or intentional data manipulation, omission, alteration and loss and theft of records. As a result of not having proper accounting system, there were discrepancies in the rental amounts and records maintained on excel spreadsheet against amounts and lease rates stated in the signed lease agreements.

Chapter 4: Monitoring and Reporting Framework

12 There is lack of regular monitoring and inspections of office buildings carried out during the years to ensure that the office locations being leased, and paid for, are being used by Government agencies as expected. GOADD has also not carried out regular building inspection to ensure that minimum building standards for the safety and health of Government employees are adhered to. The monitoring and inspection reports were not properly maintained or recorded.

Recommendations

Set out below are the recommendations identified during the course of this audit.

Recommendation #1

The AGO recommend that Department of Finance (DoF) consult with the Department of Personnel Management (DPM) to amend the General Order to reflect the current NEC position on who should be the GOAC chairman, and the establishment and role of a Secretariat for the Committee.

Department of Finance response:

Agree. Department of Finance (DoF) to consult with DPM and amend the General Order to reflect the current NEC position on the overall role of the GOAC.

Recommendation #2

AGO recommend that the Department of Finance develop clear policy guidelines and terms of references to guide GOAC in the conduct of their duties and business activities such as meeting and reporting requirements, and outline the records necessary to substantiate GOAC meetings and decisions.

Department of Finance response:

Disagree. Although the DoF agree with the AGO concern on not seeing all record-keeping and in particular meeting minutes, there were factors that contributed to record keeping at these mentioned periods. There were meeting minutes within 2020-2023. And a lot of scheduled meetings were deferred due to lack of quorum. Another reason is due to DoF shifting from Vulupindi Haus to the Twin Tower, documents were packed and stored away in a storage facility in Gordons. Retrieving them has not been easy given the timing of the Audits. Covid19 also affected meetings in the years 2019-2020, no meetings were held. But GOAC and DoF do take note of the recommendations.

AGO rejoinder to Department of Finance response to Recommendation #2: Despite disagreeing to the recommendation, the response from the Department of Finance seems to support the need for greater guidance and better record-keeping practices. The department's acknowledgement that no meetings were held in 2019–2020, and a lot of meetings were deferred in 2020–2023 due to lack of a quorum, highlight the ad-hoc approach adopted by GOAC.

Recommendation #3

AGO recommend that the Department of Finance develop a standard procedural manual and guidelines for the process of securing office accommodation, to promote consistency, transparency and accountability on the manner in which rental accommodations are acquired.

Department of Finance response:

Agree. Department of Finance and GOAC agrees with the AGO's recommendations on this issue.

Recommendation #4

AGO recommend that the Department of Finance and GOAC install the new Lease Management System as a matter of priority, and review the lease records to ascertain those that have expired and those signed by individuals who are not Secretaries/Heads of agencies.

Department of Finance response:

Agree. A Lease Management System (LMS) is currently being developed and will address these matters as highlighted by AGO.

Recommendation #5

To address the issues of inadequate and late payments of rentals as well as outstanding arrears, the AGO recommends that the Department of Finance develop a clear action plan in consultation with the Department of Treasury to seek funding to address and reduce the total of rental arrears.

Department of Finance response:

Agree. The warrant being released by Department of Treasury is not enough to cover for annual rentals thus there is a lot of arrears being carried into following year and eats into the current year budget. Diversion of funds by people in authority does not help as it affects the budget, and there is this threat of office lockups by landlords when we pay them less of what is due.

Recommendation #6

AGO recommend that the Department of Finance immediately implement controls to segregate the duties of the GOADD Finance team, and not rely on one individual.

Department of Finance response:

Agree with the recommendation from AGO.

Recommendation #7

AGO recommend that the Department of Finance undertake a review on all the rental financial records maintained by GOADD to ensure that the total annual rental figure/rates are consistent and matched with the rates/figures stated in the signed lease agreements.

Department of Finance response:

Agree with the recommendation.

Recommendation #8

AGO recommend that the Department of Finance work closely with the Department of Treasury to make sure that rental funds allocated in the budget is given priority and released on time with adequate amount to pay rentals as and when fall due.

Department of Finance response:

Agree. State Agencies have been locked out of offices by landlords due to delay in payments of what the state owes them. Right now, warrants have been sent on an ad hoc basis and even the amounts of the warrants are not enough to settle monthly or quarterly rentals that are due.

Recommendation #9

AGO recommends that the Department of Finance undertake the required monitoring and inspection reports to ensure the appropriateness of the lease agreements and office locations secured.

Department of Finance response:

The Department agrees to this recommendation and management has already tasked the FAID (Financial Accountability and Investigation Division) to carry out this monitoring exercise to ensure the appropriateness of the lease agreements and office locations secured amongst their ToR (terms of reference).

Recommendation #10

AGO recommend that the Department of Finance establish a compliance and regular monitoring and inspection program to confirm the physical existence of government agencies in the rented office buildings as per lease agreements records signed, and ensure that the building standards are sufficient for the health and safety of government employees.

Department of Finance response:

The response to this recommendation is the same as in recommendation 9 above. The FAID will commence their monitoring and report to management on its finding. In addition, we agree with the AGO for the recommendation.

1. Introduction

This chapter provides an overview of the Government Office Allocation Committee and its rental payments on behalf of the PNG Government and the Audit.

1.1. The role of the Government Office Allocation Committee (GOAC, or Committee) is to manage government office allocations and rental payments. The chairman of the Committee is the Secretary for Department of Finance. The Secretaries of the Departments of Personnel Management, Treasury, Lands and Physical Planning, Justice and Attorney General, and Works and Highway form the committee.

1.2. The Government Office Accommodation & Development Division (GOADD) established within the Department of Finance performs the role of the Secretariat by performing administrative duties on payments, and monitoring and reporting on the rental payments to the Committee and the Government.

1.3. The PNG Government General Order 19 issued by the Department of Personnel Management in 2012 specifies that it is the responsibility of GOAC to secure suitable office accommodation to meet the establishment and operational needs of all Government agencies throughout the country. The Committee determines the standards relating to office space per public servant and the rental price to be charged based upon market considerations and budgetary implications. The Committee ensures that the welfare of public servants is considered and that the offices comply with the building and occupational standards set by the Government.

1.4. There was a total of 155 government office locations that have been accommodated under GOAC for the period 2020–2023. The Government appropriates K257 million on average annually in the national budget to pay for these government offices rental payments.

The Audit

Audit Rationale

1.5. An audit on government office allocations and rental payments was selected based on the frequent reports of the non-payment of bills for government occupied office buildings and accumulated rental payments amounting to millions of kinas owed by Government to the office building owners (Landlords). In extreme cases, reports of government department workers being locked out of office buildings or floors they occupy have appeared in print media, raising concerns from affected agencies for government interventions and as well as audit to give some level of assurance on the rental management program.

Audit Objective and Criteria

1.6. The objective of the audit is to assess the effectiveness of the management and payments of government office rentals for the years 2020-2023. To form a conclusion against the audit objective, the AGO set the following key criteria to determine if:

- there is a clear legal and governance framework for the management and payment of government office rentals?
- the budgeting and management of rental payments is appropriate and undertaken in a timely manner? and
- the monitoring and reporting of rental payments and expenditure is effective?

Scope

1.7. The audit covers the Department of Finance and GOAC with their roles and responsibilities in managing the Government office rentals and payments for the years 2020 – 2023.

Audit Methodology

1.8. In order to address the audit objective, the audit team employed a number of methods and techniques to gather information and data required for the audit including the:

- Review of documentation such as lease agreements, General Orders, legislation and financial reports;
- Analysis and examinations of budget and payments records;
- Recalculation and confirmation of payment records;
- Assessment and verification of payment process and systems;
- Interview with key responsible officers and survey questionnaires to landlords; and
- Inspection of government offices rental buildings in Port Moresby, Lae, Kokopo and Mt Hagen to ascertain and confirm the existence of government offices accommodated in the rented buildings.

2. Legal and Governance Framework

This chapter discusses the legal framework that established the Government Office Allocation Committee (GOAC) and governance arrangement put in place to provide oversight in the management of the rental payments.

Background

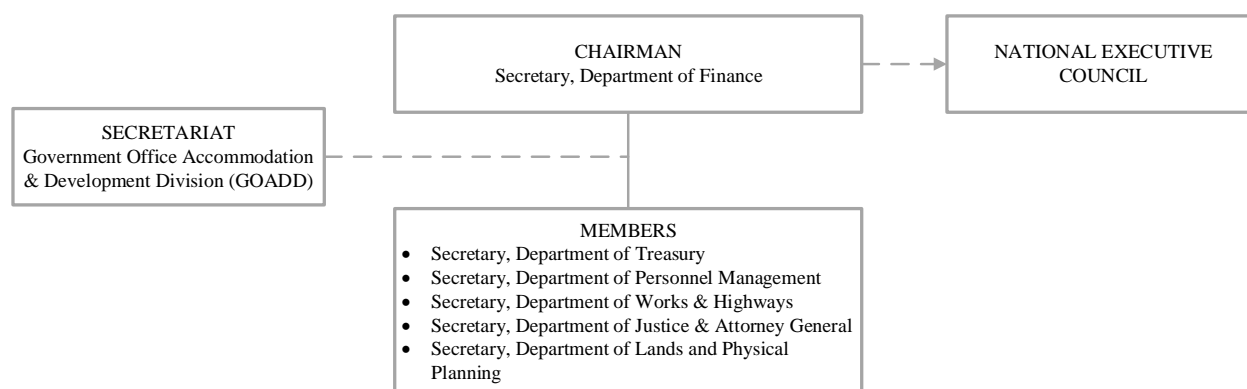
2.1. With an average annual budget of K257 million appropriated for Government office rental costs, the administration and management oversight of the rental payments constitutes core business and a substantial commitment for the Government of PNG. It is therefore expected that the responsible agencies and authorities will have established and maintained a sound policy framework and system of governance that will enable the effective and accountable administration of funds adhering to the requirements of the governing legislation and policies.

Establishment of the Government Office Allocation Committee (GOAC)

2.2. The Government Office Allocation Committee (GOAC) was established by the National Executive Council (NEC) in 2012 to carry out office accommodation functions provided for by the Public Finance (Management) Act 1995 (PFM Act). Consistent with the PFM Act and the NEC direction, in 2012 the then Secretary, Department of Personnel Management (DPM) issued General Order 19 as an official advice to all heads of departments of the role and functions of the Secretary, DPM, and named themselves as the Chairman of GOAC.

2.3. In the period between 2013 and 2020 the NEC reallocated the role of GOAC chairman to the then Chief Secretary of the Government. In 2021 when the Chief Secretary position was abolished, the NEC transferred the GOAC Chairmanship to the Secretary for Department of Finance. This means, between 2012 and 2023, three different agency Heads had been appointed to the position of chairman for GOAC. At the time of this audit, the Secretary for the Department of Finance is the chairman of the Committee. Figure 1 depicts the current management arrangement of the GOAC.

Figure 1. Composition and reporting structure of the Government Office Allocation Committee (GOAC).



Source: AGO analysis

2.4. AGO review found that the General Order 19 had not been updated to reflect subsequent NEC directions. The General Order 19 still recognized the Secretary for DPM as the Chairman of GOAC. This indicated a lack of review undertaken on the General Order 19 to reflect the changes made on the position of the chairman of GOAC.

Roles and Responsibilities of the GOAC

2.5. The GOAC was established as the body responsible to provide necessary oversight and management for office accommodation for all Government Departments and agencies nationwide. The General Order 19 provides the roles and responsibilities of the Chairman of the Committee. Among other roles, the chairman is responsible for the approval of:

- leasing & allocation of office space;
- monitoring and regulating rental charges within an approved ceiling;
- administering lease payments;
- ensuring proper tendering procedures have been followed;
- determining office layouts and requirements; and
- resolving disputes between owners/landlords and Government tenants.

2.6. Following the NEC decision in 2021 to appoint the Secretary of the Department of Finance as the Chairman of the GOAC, all roles, functions and operations of the Committee provided under the General Order 19 has now been centralized within the Department of Finance. A unit known as the Government Office Accommodation & Development Division (GOADD) was established within the Department of Finance to perform the role of the Secretariat of GOAC. The General Order does not mention establishing a GOAC secretariat.

2.7. The GOADD assists the committee to carry out administrative functions aimed at meeting the conditions and requirements of the GOAC roles and responsibilities provided in the General Order and to advance other government housing aspirations. To deliver on these roles and responsibilities, the GOADD should have a detailed annual activity and management plan with clear objectives and outcomes to guide its activity in an effective and efficient manner.

2.8. AGO review found that the roles and responsibilities of the GOAC and GOADD were clearly outlined in the General Order and annual plans respectively. However, some of these roles and responsibilities were not adhered to especially regarding the monitoring and review of existing leases from time to time to ensure continuity of lease after expiry date. This has resulted in a number of lease agreements that were expired and pending renewals which is discussed in the next chapter.

Recommendation #1

The AGO recommend that Department of Finance (DoF) consult with the Department of Personnel Management (DPM) to amend the General Order to reflect the current NEC position on who should be the GOAC chairman, and the establishment and role of a Secretariat for the Committee.

Department of Finance response:

Agree. Department of Finance (DoF) to consult with DPM and amend the General Order to reflect the current NEC position on the overall role of the GOAC.

GOAC Guidelines, Terms of References and Meetings

2.9. Clear policy guidelines and terms of references, consistent with the General Order 19 and the PFM Act, is needed for the efficient management and operation of the Committee in discharging its roles and responsibilities. The policy guidelines should set out such requirements and qualification for appointing committee members, quorum of the members' meetings as well as the reporting requirements and meeting schedules.

2.10. The AGO review found that there was no clear policy guidelines and terms of reference in place for the GOAC to guide its business conduct and activities in the execution of their roles and responsibilities in order to function effectively and efficiently. The GOAC Secretariat would

coordinate meetings on an ad hoc basis when needed, often during “office lock out” situations. Despite there being no guidelines on what would constitute a quorum for the meetings, the Secretariat advised through a meeting minutes that where it was believed that a quorum was not formed, meetings would be adjourned to other dates or circular resolutions prepared and approval sought out of session. GOADD advised that there were 16 GOAC meetings held from 2020 to 2023. However, GOADD could only provide meeting minutes for four of these meetings. This reflects a lack of proper record-keeping by the Secretariat.

Recommendation #2

AGO recommend that the Department of Finance develop clear policy guidelines and terms of references to guide GOAC in the conduct of their duties and business activities such as meeting and reporting requirements, and outline the records necessary to substantiate GOAC meetings and decisions.

Department of Finance response:

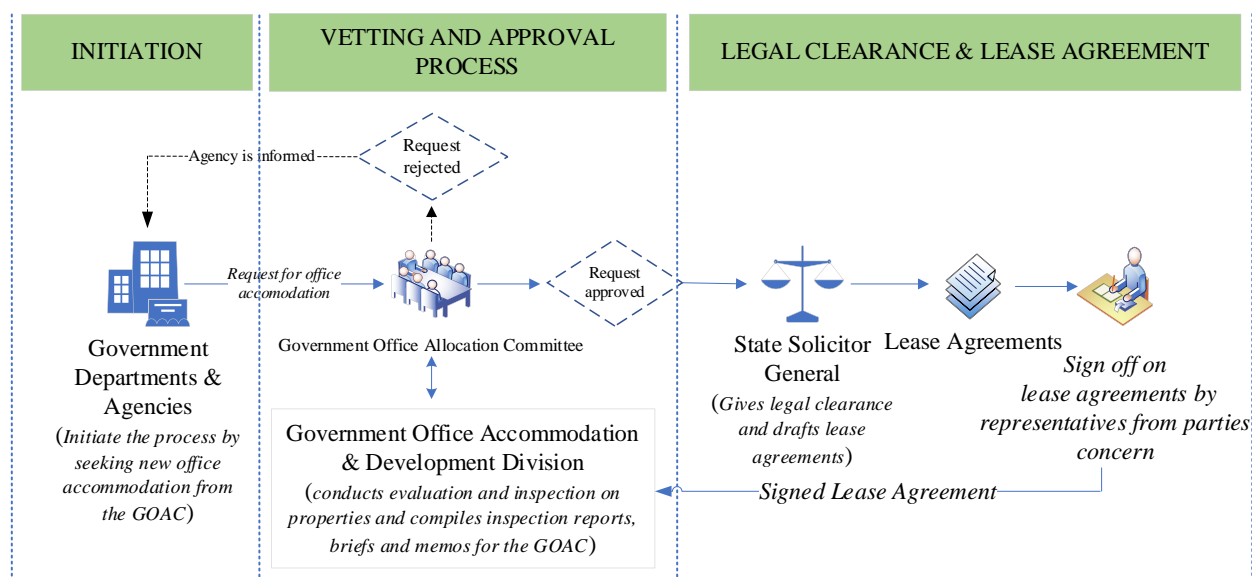
Disagree. Although the DoF agree with the AGO concern on not seeing all record-keeping and in particular meeting minutes, there were factors that contributed to record keeping at these mentioned periods. There were meeting minutes within 2020-2023. And a lot of scheduled meetings were deferred due to lack of quorum. Another reason is due to DoF shifting from Vulupindi Haus to the Twin Tower, documents were packed and stored away in a storage facility in Gordons. Retrieving them has not been easy given the timing of the Audits. Covid19 also affected meetings in the years 2019-2020, no meetings were held. But GOAC and DoF do take note of the recommendations.

AGO rejoinder to Department of Finance response to Recommendation #2: Despite disagreeing to the recommendation, the response from the Department of Finance seems to support the need for greater guidance and better record-keeping practices. The department’s acknowledgement that no meetings were held in 2019–2020, and a lot of meetings were deferred in 2020–2023 due to lack of a quorum, highlight the ad-hoc approach adopted by GOAC.

Processes for Securing Office Accommodations

2.11. The process for securing office accommodation is initiated by agencies in need of new office accommodation. Agency requests for office accommodation go through a vetting process until it is approved or rejected by GOAC and a lease agreement is signed for the department or agency to move into the office building. Figure 2 depicts the process for securing office accommodation from the initiation to the signing of the lease agreement.

Figure 2. Process for securing office accommodation



Source: AGO representation of the process described through interviews with GOADD staff

2.12. The AGO review found that the process for securing office accommodation was not documented in a standard procedural manual or guidelines. In the absence of such guidelines, agencies can make deals outside of the set procedures to acquire rental accommodations, as well as creating room for the abuse of the process and mismanagement of the program. Ethical principles and standards of conducting business can be also violated by authorities in charge of managing the program without proper guidelines in place to guide the decision-making process and promote consistency, transparency and accountability.

Recommendation #3

AGO recommend that the Department of Finance develop a standard procedural manual and guidelines for the process of securing office accommodation, to promote consistency, transparency and accountability on the manner in which rental accommodations are acquired.

Department of Finance response:

Agree. Department of Finance and GOAC agrees with the AGO's recommendations on this issue.

Lease Agreements and Contract Management

2.13. Lease agreement and/or contract management is the final step of the lease agreement processes, and proper records of all lease agreements need to be maintained and regularly reviewed to make sure lease contract terms and conditions are adhered to, rental payments are correctly calculated and timely, and expired leases do not continue to operate.

2.14. The AGO review found that lease agreements were not centrally managed. There was no proper system in place to centrally manage the lease agreements and related information such as: annual rates; expiry dates; and the timeliness of payments and CPI increases. The records were poorly maintained. GOADD advised that 155 lease agreements were current, but could not provide 79 of these to the AGO for review, which indicates a lack of proper records keeping. The AGO analysis of the 76 leases provided found that 47 of these lease agreements were expired, and those landlords were still being paid by GOADD.

2.15. The AGO also noted five instances where lease agreements were signed by Ministers and not the Heads/Secretaries of the departments representing the State. The inconsistency in the way lease agreements are approved and signed, demonstrates the impact that not having clear

guidelines and requirements established that guides the process of securing office accommodation. The involvement of Ministers/Politicians representing the State in the signing of lease agreements could be seen as political interference in the administration of the government office accommodation and rental management program of the public service.

2.16. Table 1 summarizes the findings for the lease agreements provided for AGO review.

Table 1. AGO analysis of the lease agreements that were provided to the audit.

Total number of Leases (advised by GOADD)		155
Lease agreements provided to the AGO	76	49% of total leases
Lease agreements provided to the AGO that were expired	47	61% of leases provided to AGO
Lease Agreements signed by Minister	5	6% of leases provided to AGO

Source: AGO Analysis

2.17. At the time of the audit in August 2023, the Department of Finance advised the AGO that it was working on installing a new Lease Management System (LMS) which will help to manage leases and contracts once it is completed.

Recommendation #4

AGO recommend that the Department of Finance and GOAC install the new Lease Management System as a matter of priority, and review the lease records to ascertain those that have expired and those signed by individuals who are not Secretaries/Heads of agencies.

Department of Finance response:

Agree. A Lease Management System (LMS) is currently being developed and will address these matters as highlighted by AGO.

Conclusion

2.18. The GOAC was legally established through the 2012 NEC Decision which was then translated into General Orders requirements of the public service. Specifically, General Order 19 clearly identified the Chairman (then the Secretary for the Department of Personnel Management (DPM)) and members of the GOAC, and outlined their functions, roles and responsibilities. During the period 2012 - 2023 the position of the chairman of GOAC was held by three different departmental secretaries. The current Chairman, the Secretary for the Department of Finance, was named by the NEC to the position in 2021. Despite this change, the General Order was not updated to recognise the new chairman.

2.19. The Government Office Accommodation and Development Division (GOADD) was established within the Department of Finance to carry out administrative duties and a secretariat role for GOAC. The GOAC Secretariat role is not clearly identified in the General Orders and a review of the General Order 19 is required to incorporate changes taken place over the years for better governance and oversight in the management of government offices accommodation and rental programs.

2.20. Furthermore, the governance framework in place to govern the operations of GOAC are ineffective. There are no clear policy guidelines and/or Terms of References developed to guide GOAC in the deliberation of their duties and conduct of business activities such as meeting schedules and monitoring and reporting requirements. This has resulted in the GOAC

conducting meetings on an ad hoc basis and not maintaining proper records of meetings and decisions. The GOAC is ineffective at monitoring the currency of the lease agreements with 61 percent of the leases provided to the AGO having expired. The process for securing government office accommodation is not documented in a standard procedural manual or guidelines, which creates room for the abuse of the process and mismanagement of the rental accommodation program.

3. Budgeting and Management of Rental Payments

This chapter examines the budget appropriations and payments, rental payments in arrears and the financial approval process, accounting systems and records.

Annual Budget Appropriations and Rental Payments

3.1. Between 2020 and 2023 a total of K1.028 billion was appropriated in the National Budget to pay for government offices rentals. However, this was K61.9 million less than the records maintained by GOADD indicating the total lease agreements were valued at K1.09 billion. Over the four years, the total payments made were **K95.96 million** less than the budget appropriation for the period, which was still **K157.89 million** less than the required amounts in the lease agreements. In 2022, spending more than the budgeted amount was a breach of the annual Budget Appropriations Act.

3.2. Table 2 shows the amounts of annual appropriation, rentals lease agreements and payments made to landlords over the years 2020-2023.

Table 2. Appropriations, Lease Agreement amounts and Rental Payments 2020-2023.

Year	Appropriation in the National Budget (K)	GOADD record of Total Annual Lease Agreements (K)	Total Amount paid according to IFMS Payment Records (K)
2020	268,900,000	250,167,414	121,292,594
2021	245,600,000	253,725,442	228,916,486
2022	205,100,000	275,920,205	280,582,136
2023	308,600,000	310,324,215	301,451,816
Total	1,028,200,000	1,090,137,276	932,243,032

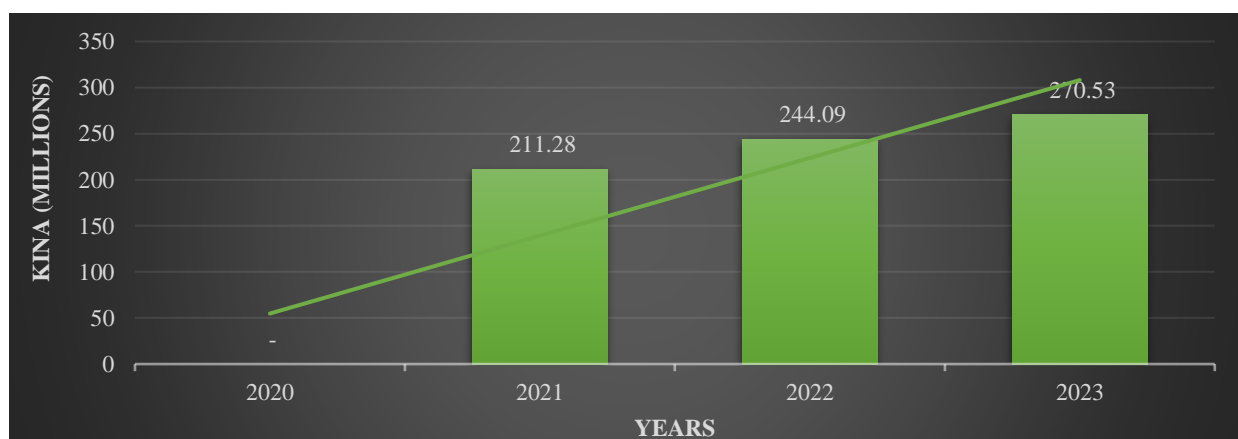
Source: AGO analysis using National Budget figures, rental management records provided by GOADD finance team and IFMS expenditure records.

3.3. The AGO analysis found that the amounts appropriated in the annual budget to pay for government offices rentals were not sufficient. The appropriations were at an annual average of K257 million despite the annual lease agreement totals being higher.

Rental in Arrears and Action Plan to address Arrears

3.4. Due to under budgeting, the rental arrears have grown every year. The GOADD supplied data on the growth in total rental arrears each year between 2020 to 2023 is shown in Figure 3.

Figure 3. Amount of rental arrears for 2020-2023.



Source: AGO analysis using figure provided by GOADD.

3.5. GOADD records indicate that there were no outstanding amounts owed for 2019 and earlier, which is why the figure in the graph above shows the rental arrears in 2020 as K0. For the years 2021 to 2023, the analysis shows a growth in the total outstanding rental payments. As at the end of 2023, the total outstanding arrears was K270.5 million (which is more than the K257 million on average that is normally appropriated each year).

3.6. AGO review found that the accumulation in rental arrears over the years was caused by delays in the payment of rentals as well as non-priority given by authorities to allocate adequate funding to settle rentals during the period it was incurred. There is no clear action plan in place to address the arrears. The Department of Finance has only requested funds from the Department of Treasury through the warranting process to try and settle the arrears. But this has not been sufficient to clear the rental arrears.

Recommendation # 5

To address the issues of inadequate and late payments of rentals as well as outstanding arrears, the AGO recommends that the Department of Finance develop a clear action plan in consultation with the Department of Treasury to seek funding to address and reduce the total of rental arrears.

Department of Finance response:

Agree. The warrant being released by Department of Treasury is not enough to cover for annual rentals thus there is a lot of arrears being carried into following year and eats into the current year budget. Diversion of funds by people in authority does not help as it affects the budget, and there is this threat of office lockups by landlords when we pay them less of what is due.

Financial Approval Process and Compliance Checks

3.7. Rental payments are made through electronic funds transfer (EFT) from the Department of Finance to the landlord's accounts. The GOADD finance team are intended to play a coordinating and monitoring role to ensure that rental payments are paid to the landlords as per monthly and/or quarterly requirements of the lease agreements.

3.8. In the vetting and approval process of payments, the Finance Manager in charge of rental payments liaises and check with Department of Treasury on the release of monthly warrants and availability of funds to pay rentals. Once the warrants/funds are released and confirmed, the GOADD Finance Manager verifies and confirms with the records of rentals that are due and/or outstanding that needs to be paid. The GOADD Finance Manager prepares a payment endorsement listing for the Secretary of the Department of Finance to approve and sign before the payments are processed and paid to landlords. In the process, if the Secretary of the Department of Finance requests any changes to the payment listing, this is communicated to the GOADD Finance Manager and adjustment is made before a revised listing is prepared for approval and sign off by the Secretary for payment processing.

3.9. The AGO review found that many of the decisions about rental payments and amounts allocated to each landlord were done solely by the GOADD Finance Manager, with final approval given by the Secretary for Finance as the Chairman of GOAC using his Section 32 power provided under the PFM Act. There was no clear guidelines or criteria in place to use when the funds made available by the Department of Treasury to pay rentals each month and/or quarter are less than required.

3.10. GOADD has not implemented any segregation of duties for the handling of government rental payments including in the area of data input and records management, invoicing and verification process, payment amounts and allocations. The whole process is single-handedly managed by the Finance Manager (with limited oversight by the Director of GOADD). This

exposes the Department of Finance to a very high risk of fraud and collusion with landlords trying to defraud the State on the payment of rentals.

Recommendation #6

AGO recommend that the Department of Finance immediately implement controls to segregate the duties of the GOADD Finance team, and not rely on one individual.

Department of Finance response:

Agree with the recommendation from AGO.

Accounting Systems and Payment Records

3.11. Dealing with huge number of landlords and related rental expenditure requires proper record and accounting systems to capture data and records pertaining to rental payments. Document management and accounting systems and procedures are important for an organization because they provide a way to track and record financial transactions and information, which is essential for accurate financial reporting and management decision making. A well-designed database and accounting systems will help an organization to:

- Keep accurate records of financial transactions and records;
- Prepare financial reports, which are used by management, investors, and other stakeholders to evaluate the financial performance of the business;
- Comply with legal and statutory requirements; and
- Identify and manage financial and business risks.

3.12. The AGO review found that the accounting and management of rental records for 2020-2023 were maintained in a Microsoft Excel spreadsheet which is susceptible to a high risk of data manipulation, omission, alteration, loss and theft of records. No payment records were included in this Excel spreadsheet. During field audit the AGO was advised that there were ledgers maintained containing records of landlords' payments, however, the Department of Finance did not provide copies of the ledgers to the AGO for audit. The Department of Finance's Integrated Financial Management System (IFMS) captured only the output records of payments done for expenditure trail and visibility purposes.

3.13. As a result of no proper accounting system in place to account for and manage rental payments and records, AGO noted that there were mismatches and significant discrepancies in the records and amounts of annual lease rates maintained by GOADD in the excel spreadsheet and the amounts/rates stated in the lease agreements. The AGO selected on a sample basis, 7 and 9 agreements for 2020 and 2021 respectively for analysis and testing and found that all these agreements were incorrectly recorded in GOADD's excel spreadsheet (approximately 21% of the lease agreements provided to the AGO in those years), six of these incorrect agreements were present in both 2020 and 2021. There was no evidence that GOADD had reconciled the rental payment records held by GOADD with the lease agreements.

3.14. Table 3 and 4 below shows the sample of mismatches and discrepancies noted for the 2020 and 2021 annual lease amounts recorded in the GOADD excel spreadsheet against rates/amounts stated in the lease agreements.

Table 3. Examples of inconsistencies between the GOADD rental payment records and the lease agreements, for 2020 as at 28 July 2023

No	Deidentified lease name	A Annual Rental figures as per lease (K)	B Annual Rental figures recorded by GOADD (K)	Difference (K) (B - A)
1	Office A*	3,950,535.92	6,330,524.20	2,379,988.28
2	Office B*	1,219,200.00	2,027,520.00	808,320.00
3	Office C*	1,677,312.00	2,135,868.12	458,556.12
4	Office D*	3,519,241.80	3,909,877.64	390,635.84
5	Office E*	3,156,035.80	3,537,106.68	381,070.88
6	Office F*	850,300.00	949,628.68	99,328.68
7	Office G	670,500.00	398,679.60	-271,820.40
Total		19,289,204.92	15,043,125.52	K4,246,079.40

Note: * denotes leases that were incorrectly recorded in both 2020 and 2021.

Source: AGO Analysis

Table 4. Examples of inconsistencies between the GOAD rental payment records and the lease agreements, for 2021 as at 28 July 2023

No	Deidentified lease name	A Annual Rental figures as per lease (K)	B Annual Rental figures recorded by GOADD (K)	Difference (K) (B - A)
1	Office A*	4,069,052.00	6,330,524.20	2,261,472.20
2	Office H	3,013,819.50	4,065,600.00	1,051,780.50
3	Office B*	1,219,200.00	2,027,520.00	808,320.00
4	Office C*	1,677,312.00	2,135,868.12	458,556.12
5	Office D*	3,519,241.80	3,909,877.64	390,635.84
6	Office E*	3,250,716.80	3,537,106.68	286,389.88
7	Office F*	875,809.00	949,628.68	73,819.68
8	Office I	3,497,000.00	2,561,328.00	-935,672.00
9	Office J	6,767,800.00	4,724,445.00	-2,043,355.00
Total		30,241,898.32	27,889,951.10	K2,351,947.22

Note: * denotes leases that were incorrectly recorded in both 2020 and 2021.

Source: AGO Analysis

3.15. AGO analysis on the figures provided in table 3 and 4 above noted that the annual rental figures maintained by GOADD for the selected landlords and tenants for the years 2020 and 2021 respectively were usually higher compared to the annual rental figures/rates stated in the lease agreements. In 2020, the Department of Finance (GOADD) recorded K4.2 million above the annual rental amounts listed in the sampled lease agreements and in 2021 it was an excess of K2.4 million.

3.16. The rental figures recorded by GOADD in the Microsoft Excel spreadsheet does not consider the annual and bi-annual Consumer Price Index (CPI) increases as per lease contracts. As discussed above, the single officer managing the rental payments in an Excel spreadsheet exposes GOADD to the risk of data manipulation, omissions, alternations, loss and theft of records both accidental and intentional. The large errors in the records of these years (which may still be owed to the landlord) highlight the need for GOADD to review their records management processes and strengthen the controls around these payments.

Recommendation #7

AGO recommend that the Department of Finance undertake a review on all the rental financial records maintained by GOADD to ensure that the total annual rental figure/rates are consistent and matched with the rates/figures stated in the signed lease agreements.

Department of Finance response:

Agree with the recommendation.

Timely Payments of Rentals to Landlords

3.17. The timely payment of rent to landlords is important to ensure the smooth running and operation of Government offices and to avoid disruptions and office lock outs by landlords. As per lease agreements the rental payments are required to be paid on a monthly and/or quarterly basis to all the landlords.

3.18. The AGO review found that the rental payments to landlords were not regularly paid on time as per lease agreements schedules. The Department of Finance has advised that warrants and funds allocated for rental payments were delayed by the Department of the Treasury, impacting on the amount given in a month trying to accommodate both current rentals and accumulated arrears. In January 2023, the Department of Finance allocated K30 million to reduce some of the rental arrears, including some payments that were owing from 2021. The trend of late payment of rentals has led to accumulation of arrears owed by State to the Landlords over the years.

3.19. The issue of untimely payment of rentals has been continuously experienced by landlords over the years which has caused some situations whereby landlords locked the tenants out of the office buildings due to non-payment and/or delayed in the payment of rentals.

Recommendation #8

AGO recommend that the Department of Finance work closely with the Department of Treasury to make sure that rental funds allocated in the budget is given priority and released on time with adequate amount to pay rentals as and when fall due.

Department of Finance response:

Agree. State Agencies have been locked out of offices by landlords due to delay in payments of what the state owes them. Right now, warrants have been sent on an ad hoc basis and even the amounts of the warrants are not enough to settle monthly or quarterly rentals that are due.

Conclusion

3.20. The AGO review concluded that the budgeting and management of rental payments was ineffective. Funds allocated in the budget annually to pay rentals were inadequate, and delays in the payment of rentals has resulted in accumulation of rental arrears. AGO notes that the delay in the payment of rentals is a symptom of broader cash flow issues.

3.21. The AGO found that there was no proper accounting system in place to capture complete and accurate records of data and information on landlords and rental payments for the period under review 2020 - 2023. Instead, the Finance Manager is using a Microsoft Excel spreadsheet to record the lease information and payments by herself, which poses a very high possibility of both accidental or intentional data manipulation, omission, alteration and loss and theft of records. With no segregation of duties and poor record keeping practices, the Department of Finance is at high risk of fraud and collusion in the payment of government office leases.

3.22. The audit found large discrepancies between the lease amounts figures maintained by Department of Finance in the Excel spreadsheet and the lease rates stated in the signed lease agreements. In 2020 and 2021, two landlords were recorded by GOADD as having more than K2 million above the lease agreement rate owed to them (and records maintained for a different two landlords were over K2 million less than their lease agreement amount). This requires immediate management attention to review all lease records against the rates stated in the lease agreements, ascertain if any overpayments have been made, and establish better controls and segregation of duties for the management and payment of office rentals.

4. Monitoring and Reporting Framework

This chapter examines the monitoring and reporting requirements and activities of the Government Office Allocation Committee and the rental payments made on behalf of the PNG Government.

Background

4.1 With a substantial amount of funding allocated under the national budget to pay for government offices rental payments, there is an increased opportunity for fraudulent activity and mismanagement of funds by authorities in charge of managing the rental funding requirements. For sound corporate governance and accountability, there needs to be high levels of cooperation amongst authorities concerned (GOAC, Department of Finance and Treasury Department) in the implementation of the rental management program and governance strategies. These strategies must clearly identify possible fraud and program management risks and how these risks will be managed and minimized. One way to minimize the risk of fraud and mismanagement is to regularly monitor and report on the rental management program, and conduct reviews to address any shortcomings that emerge.

4.2 The Government Office Allocation Development Division (GOADD) established within the Department of Finance, is headed by a director who has assumed the role of Secretariat for the Government Office Allocation Committee (GOAC). GOADD is responsible for administering the government office accommodation and rental payments management program through the directives and approval given by GOAC. They also provide monitoring and reporting on the performance and achievement of the government office allocation and rental payments to the Government through the GOAC.

Monitoring and Reporting Arrangement

4.3 The General Order 19 requires the chairman of GOAC to give approval for the leasing of office space and to monitor and regulate rental charges within approved ceilings. The General Order also requires GOAC to approve all new leases and to review all existing leases from time to time to ensure currency and pricing and efficiency of allocation according to establishment office size. These requirements have been translated and developed into two guidelines/criteria known as the “Government Standardized Office Floor Rates” and “Building Inspection Requirements” which are used as requirements for monitoring and inspection of office buildings for leasing.

4.4 The inspection of office buildings prior to GOAC approval and signing of lease agreements is a requirement and GOADD is responsible for performing this role to ensure efficiency in the management of government offices accommodations. The AGO requested samples of monitoring and inspection reports carried out from 2020 – 2023 to be provided for audit review. Only 4 office buildings inspection reports were provided, all relating to 2023. These four reports were undertaken by GOADD prior to the agencies moving into the office buildings, and did use the guidelines for inspection. However, 27 new leases were signed in 2023, meaning that either not all office locations were subject to this inspection process before agreements were signed, or that GOADD did not keep sufficient records.

4.5 The AGO also found that rental payments were monitored by tracking expenditure records in the Microsoft Excel spreadsheet that was maintained by the GOADD Finance Manager. There was no regular reporting on rental payments and arrears provided to the Chairman of GOAC, except when requested by GOAC. To assist GOAC to undertake its responsibilities, regular reports on the status of rental payments, overdue amounts, outcomes of inspection

reports, leases that are nearing expiry and difficulties with landlords should be provided to enable effective decision making by GOAC.

Recommendation #9

AGO recommends that the Department of Finance undertake monitoring and inspections and report regularly to GOAC to ensure the appropriateness of the lease agreements and office locations secured.

Department of Finance response:

Agree. *The Department agrees to this recommendation and management has already tasked the FAID (Financial Accountability and Investigation Division) to carry out this monitoring exercise to ensure the appropriateness of the lease agreements and office locations secured amongst their ToR (terms of reference).*

Field Audit Inspection- Landlords Feedback

4.6 During the review, AGO visited 8 landlords with a total of 27 office buildings accommodating Government Offices located in four towns (Port Moresby, Lae, Mt Hagen and Kokopo). The visit to landlords was to inspect office buildings and confirm the existence of government departments and agencies in those lease office buildings as well as to get the views of landlords on their experiences regarding timely payments of rentals. The key observations and findings of the landlords' visits are outlined below.

Audit observations/findings

4.7 The AGO inspection of the 27 government leased offices visited found that 26 agencies were physically occupying the leased office buildings. Only one government department was not occupying the leased office building despite the landlord receiving rentals for this department. This issue was discovered in one of the government rental offices in Lae. The landlord advised AGO that they had signed the lease agreements for the department along with other tenants (departments) to move into their property but there was some disagreement with them and they did not move into the office building. Because of the signed lease agreement, the Government was paying rent for an office that the department was not actually occupying. GOADD and GOAC had no knowledge of this dispute or vacancy. This issue needs to be investigated and resolved as a matter of urgency.

4.8 All eight (8) landlords visited shared a common concern that rental payments were not paid on time. Some landlords stated that the rental amount paid was insufficient, as it did not equate to their monthly and/or quarterly required amounts. If this is the case, the Government may find it hard to lease office space in the future, as it will not be commercially viable to the landlord.

Recommendation #10

AGO recommend that the Department of Finance establish a compliance and regular monitoring and inspection program to confirm the physical existence of government agencies in the rented office buildings as per lease agreements records signed, and ensure that the building standards are sufficient for the health and safety of government employees.

Department of Finance response:

Agree. *The response to this recommendation is the same as in recommendation 9 above. The FAID will commence their monitoring and report to management on its finding. In addition, we agree with the AGO for the recommendation.*

Conclusion

4.9 The monitoring and inspection of office buildings is a requirement of GOADD to ensure the efficiency of the management of government office accommodations and rental payments. However, monitoring and inspection reports were not properly undertaken or recorded. GOADD has not regularly performed compliance and inspections to ensure that the office locations being leased, and paid for, are being used by Government agencies as expected. GOADD has also not carried out regular building inspection to ensure that minimum building standards for the safety and health of Government employees are adhered to.