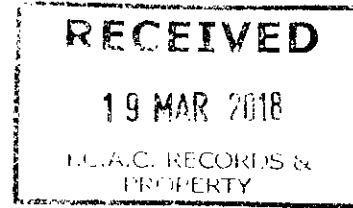




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NSW RURAL FIRE SERVICE



Mr Lewis Rangott
Executive Director, Corruption Prevention Division
Independent Commission Against Corruption
GPO Box 500
SYDNEY NSW 2001

14 March 2018

Dear Mr Rangott

RE: Operation Vika – Report on Progress of Implementation of the Plan of Action

I refer to the ICAC letter of 19 January 2017, the NSW Rural Fire Service's (RFS) plan of action (Plan) provided to the Independent Commission Against Corruption (ICAC) on 17 March 2016 and the RFS written report of its progress in implementing the Plan of 17 March 2017.

Pursuant to the requirements of section 111E(3)(b) of the *Independent Commission Against Corruption Act 1988* (NSW) (ICAC Act), the RFS provides in this letter a further written report of its progress in implementing the Plan.

ICAC Investigation and Hearing

The RFS first became aware of corruption in relation to emergency procurement and certain mobile telephony services on 14 February 2015 when officers of the ICAC executed a warrant to search the RFS' Headquarters. The RFS cooperated with the ICAC during the course of the investigation, providing information, documents and witness statements to the ICAC and its investigators. Meetings were also held between the ICAC and the RFS to discuss how the RFS would respond to any recommendations as a consequence of the investigation.

The RFS appeared at the public hearing conducted into the matter in June 2015.

The RFS made written submissions after that hearing in relation to proposed recommendations and findings more generally.

ICAC Final Report

The ICAC Report *Investigation into the Conduct of Officers of the NSW Rural Fire Service and Others* (December 2016) was presented to the President of the Legislative Council on 17 December 2015 (Final Report) and published that day.

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In the Final Report the ICAC made four recommendations as to how the RFS should change its operations in light of the findings of serious corruption made by the ICAC.

Even before the ICAC made those recommendations – indeed since 14 February 2015 – the RFS has been taking steps to make its processes and systems more robust so as to reduce and prevent corruption into the future.

RFS' Plan of Action – March 2016

On 17 March 2016, the RFS provided the Plan to the ICAC. The Plan both described the steps which had already been taken to implement the recommendations, and those steps that would be taken into the future.

The RFS accepted all four recommendations in full, namely that:

1. The RFS, where possible, strengthens its logistics capabilities and modifies its procurement practices to reflect an overall logistics focus;
2. The RFS continue to seek methods of integrating the Systems, Applications and Protocols (SAP) system and emergency manual controls in a way that does not impede speed and flexibility;
3. All inventory relating to consumables held by the RFS be recorded as assets with their full value; and
4. Consumables held in RFS inventory are expensed only when they leave inventory for a specific event or activity or because they have expired.

The Plan stated that the recommendations would be implemented as follows:

- Implement a software suite integrated with SAP for the electronic control and management of emergency ordering with three-way matching (Plan at [2.12]);
- Develop category management plans for a range of consumables and other plant and equipment (Plan at [2.18]);
- Adopt a valued inventory methodology for all goods procured for the RFS (Plan at [3.8]); and
- Implement a Warehouse Management System (WMS) in the State Warehouse and Inventory Management (IM) in other storage locations (Plan at [3.13]).

As a consequence, implementation of the Plan involves the RFS going well beyond the recommendations in terms of strengthening its logistics capabilities and fraud protection controls.

As set out in this letter, as well as in the Plan and progress report of March 2017, the RFS has implemented responses to recommendations 1 and 2, and inventory valuation is scheduled to go-live from 1 July 2018 that will address recommendations 3 and 4.

Progress in Implementing the Plan of Action

Rather than repeat detailed information previously reported in either the Plan or progress report of March 2017, this progress report focusses on a summary of the current status and activity since the previous progress report. Accordingly, this report should be read in conjunction with the Plan and March 2017 progress report.

The RFS has not wavered from its intention to address the ICAC recommendations in full, nor from the established Plan.

Recommendations 1 and 2

The RFS considers that its response to Recommendations 1 and 2 made by the ICAC is substantially complete and effective, however will continue to systematise some aspects of the solutions to provide a more streamlined and integrated electronic solution. In respect of these two recommendations, the RFS has:

- Appointed a State Logistics Officer separated from the procurement team at RFS Headquarters and implemented a State Logistics function;
- Improved segregation of duties in respect of goods procured in an emergency, ensuring separation of the request for goods from the approval.
- Established operational critical inventory with defined reorder points and caches;
- Introduced three way matching of goods procured in an emergency, resulting in greater control and effective reconciliation between the order, goods received and invoice. This includes having mandatory goods receipting of all goods, including those procured in an emergency;
- Implemented a Procurement Functional Strategy, and category management plans in respect of goods and services;
- Established and renewed critical contracts in respect of fire ground sustenance, catering, base camps, hire equipment and drinking water (which is being evaluated at present); and
- Retained procurement accreditation through the NSW Procurement Board, including receiving upgraded Category 2A accreditation, with an authorisation to manage contract values up to \$22m.

Since the last report back, specific achievements and areas of continued focus include:

1. Procurement Reaccreditation

RFS was reaccredited by the NSW Procurement Board to manage procurement processes in November 2017.

Through a robust external review process, the RFS was assessed as meeting the requirements for Category 2A accreditation (an increase from the previous Category 2B accreditation) with a maximum contract value of \$22m.

2. Contract Management

The RFS has continued to work with the NSW Department of Justice in a co-sourcing strategy for a contract life cycle management system. The RFS has selected the BravoSolution contract management system to provide a source-to-contract capability that will integrate with its existing SAP enterprise resource planning solution.

Phase 1 of the contract has been completed, representing the discovery and planning of the solution, with the contract for implementation currently being finalised. Assuming this progresses as expected, and subject to successful testing, the solution is expected to be deployed in the first half of the 2018-19 financial year.

When implemented, this solution will ensure systematised contract management, more effective maintenance of contract details and pricing, automated contract renewal notification, vendor self-management solutions, integrated catalogues and enhanced reporting.

3. Procurement Policy

The RFS finalised and published its Procurement Function Strategy for 2017-2020 in September 2017.

Twelve category management plans that represent over 90% of the expenditure on goods and services have now been finalised, and internal category managers that understand the RFS requirements and supply markets that exist both nationally and internationally have been appointed.

Category management plans are in place and approved by the Procurement Strategy Steering Committee for:

- › Information and communications technology;
- › Fleet;
- › Personal protective equipment;
- › Radios and communications;
- › Equipment (specialised fire fighting and operational equipment);
- › Heavy plant;
- › Aviation;
- › Fire fighting chemicals;
- › Building services;
- › Central corporate services including travel, internal audit and legal services;
- › Membership services including learning and development and corporate clothing; and
- › Corporate communications.

Two category management plans remain in development being:

- › Transport services; and
- › Operations response including base camps (awaiting approval).

4. Electronic Emergency Logistics Solution

While the RFS has implemented a robust emergency logistics solution in response to the ICAC findings and recommendations, it is not yet an integrated end-to-end electronic solution. Integration and mobility solutions will streamline this system and make it more able to meet the demands of a very large fire season.

During the year, the RFS has worked to establish the functional and non-functional requirements to systematise this solution from end-to-end. A Request for Quote has been released to the market during March 2018 in respect of this solution.

It is intended that the functional requirements identified are delivered over two phases, with the first phase specifically targeted at the systematisation of those aspects of the solution related to procurement and logistics; with other priorities delivered in a later phase.

The timing of implementation will depend on the response from the market, and as noted robust solutions are in place until that time.

5. Emergency Logistics Contracts

The RFS has renewed or established new contracts for bulk goods required in emergencies including meal packs, catering requirements, base camps and hire equipment.

A joint contract for supply of drinking water has been established with Fire and Rescue NSW following the expiry of the existing NSW Government contract, and evaluation is currently underway to award the tender.

Recommendations 3 and 4

The RFS remains committed to implementation of a valued inventory solution on 1 July 2018, as outlined in the March 2017 report on progress, and continues to work towards that target with an expectation of achieving the deadline.

Currently, amendments have been made to the Warehouse Management and Inventory Management modules within SAP in preparation for implementation, and technical solutions have been identified.

A SAP implementation partner has been selected through a competitive tender and is in place to assist with the balance of the project. Similarly, a project team has been established, along with an internal reference group and Steering Committee.

Activities underway, and to be completed prior to implementation, include:

- › Review and refresh of the SAP catalogue;
- › Selection of a valuation methodology;
- › Categorisation of goods held;
- › Stock counts for implementation;
- › Development of stocktake procedures and policy;
- › End user training; and
- › Documentation for audit and disclosure of accounting policy changes.

The RFS continues to discuss this project with the Audit Office of NSW, and is regularly reporting on progress to the independent Audit and Risk Committee as well as the internal Project Control Group.

Other Matters

The RFS notes that former employee and person of interest in Operation Vika, Mr Arthur John Hacking, was charged with 23 offences as a direct result of the ICAC investigation. Mr Hacking entered pleas of guilty in respect of 14 of these offences, and on 25 August 2017 was sentenced to an aggregate sentence of two years imprisonment to be served by way of an intensive corrections order.

Similarly, the RFS notes that the other persons of interest, Mr Scott Homsey and Mrs Gay Homsey have been charged with 19 offences and 5 offences respectively, and the matter is next listed at the Downing Centre Local Court on 1 May 2018.

The RFS is grateful that the ICAC investigation has led to these outcomes.

Conclusion

The RFS acknowledges the assistance provided by the ICAC through the findings and recommendations of Operation Vika.

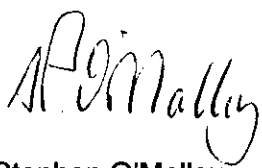
Since the commencement of the RFS involvement in the investigation on 14 February 2015, the RFS has proactively and diligently amended and reconfigured its logistics and procurement practices to change the way they operate for the better.

A significant investment of time, resources and finances has improved RFS capability and systems, and there remains a continued focus on training, internal control and business process improvement to ensure the RFS minimises opportunities for fraud and corruption, whilst still meeting our mandate to support volunteers in the protection of the community.

The RFS looks forward to continuing to work with the ICAC to reduce the prevalence of corruption.

Should you require additional information, please do not hesitate to contact me directly on 02 8741 5102 or at stephen.omalley@rfs.nsw.gov.au.

Yours sincerely



Stephen O'Malley
Executive Director, Finance and Executive Services

Your ref: E14/0418/02