



NSW RURAL FIRE SERVICE



Dr Iris Kirkpatrick
Acting Executive Director
Corruption Prevention Division
Independent Commission Against Corruption
GPO Box 500
SYDNEY NSW 2001

17 March 2017

Dear Dr Kirkpatrick

Introduction

I refer to your letter of 19 January 2017 and the NSW Rural Fire Service's (RFS) plan of action (**Plan**), which was provided to the Independent Commission Against Corruption (ICAC) on 17 March 2016.

Pursuant to the requirements of section 111E(3)(e) of the *Independent Commission Against Corruption Act 1988* (NSW) (**ICAC Act**), the RFS provides in this letter a 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 2015) was presented to the President of the Legislative Council on 17 December 2015 (**Final Report**) and published that day.

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 would be taken in the future.

Postal address

NSW Rural Fire Service
Locked Bag 17
GRANVILLE NSW 2142

Street address

NSW Rural Fire Service
15 Carter Street
LIDCOMBE NSW 2141

T (02) 8741 5555
F (02) 8741 5550
www.rfs.nsw.gov.au



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

1. where possible, the RFS strengthen its logistics capabilities and modify 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 inventory are expensed only when they leave inventory for a specific event 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 will involve the RFS going well beyond the recommendations in terms of strengthening its logistics capabilities and fraud protection controls.

The RFS is in the process of implementing the first three of these parts of the Plan and has not wavered from its intention to do so. The RFS has also completed the implementation of the WMS to the State Warehouse at Glendenning, and IM is in the process of being rolled out to other storage locations.

Progress in Implementing the Plan of Action

External review

The RFS engaged PricewaterhouseCoopers (**PwC**) to conduct a full review of the emergency procurement process, which was the central focus of the Final Report. PwC delivered two reports, as the review was divided into two phases.

The first phase identified immediate changes that could be made to the emergency procurement process. Several of those recommendations had been implemented by March 2016.

The RFS is continuing to implement the recommendations set out in the second report - delivered in January 2016 - to guide the changes in systems required to implement the ICAC's recommendations.

During 2016, the work of changing the emergency procurement system was scoped to ensure that it was appropriately resourced, both in terms of personnel and funding.

A programme team was recruited through Robert Walters Consulting in order to provide the human resources required to implement the new emergency procurement system and a series of other critical IT projects for the RFS. This consists of:

- (a) three project managers;
- (b) a business analyst;
- (c) a tester;
- (d) a lead developer;

- (e) a developer; and
- (f) a cloud specialist.

Owing to the need to integrate any emergency procurement solution with SAP and other systems, this team is working on a number of projects, one of which is the implementation of the emergency procurement solution.

The project team is currently consulting on the specific business needs in order to implement the electronic ordering system for emergency procurement. The overall logistics workflow has been process-mapped, as part of the RFS' effort to implement the recommendation to take an overall logistics focus to procurement. This includes process mapping for the emergency procurement element of the logistics workflow.

The emergency procurement process itself and the process mapping, which will inform the final design for the solution was trialled and validated during the 2016/17 fire season, with adjustments to process made where improvements were identified and agreed. The fire activity in February 2017, where fires burnt in extraordinary and catastrophic conditions, confirmed that the new processes are robust and strike an appropriate balance between speed and control.

Electronic form solution

The development of an electronic form solution is currently in the phase where the detailed business needs of users and relevant system interconnections are being reviewed to ensure that the software is fit for purpose. This has been partially informed by the business processes mapping exercise for emergency procurement.

The RFS currently uses a particular software solution for other parts of its operations. It is currently under active consideration as the software platform to be used in the transfer of the emergency procurement workflow from a manual to an electronic system. However, other software solutions are also being considered.

A number of factors complicate this process. First, the nature of the RFS' emergency operations that requires very rapid scale up when a major fire occurs, the extensive involvement of volunteers and staff from other agencies. Second, it is critical requirement that any new system or procedure not impede or introduce unacceptable delays in delivering the required resources to front line personnel.

It is proposed to complete implementation of the electronic emergency solution by the commencement of the 2018/19 fire season.

State Logistics Officer

In 2015, before the Final Report was delivered, the RFS appointed a State Logistics Officer (**SLO**), who is separated from the ordinary procurement team at RFS Headquarters. The SLO is supported by a Logistics Support Officer and Ground Support Officer in carrying out his or her tasks.

The SLO has a 'business as usual' role function in the RFS outside emergencies, although that role is unrelated to the RFS procurement function. This ensures that structural separation of roles has been achieved between the procurement function and the process for the approval of expenditure during emergencies.

As part of this change of process, the logistics request form, which John Hacking had been able to manipulate cynically to his own advantage, has been changed, so that every logistics request is allocated a unique number, to enable tracking through the logistics process. It also requires the logistics request to be tied to a purchase order number, and to identify the supplier of the goods. Crucially, the person initiating the request for goods cannot authorise the expenditure of moneys on the goods. The requester needs to have the approval of the local incident controller before it is sent to the SLO. The SLO then independently approves the request. If approval is granted, the goods are sourced from the State Warehouse or other storage location - if available from there - or from a third party vendor if that is required.

Additionally, during emergencies, the RFS has implemented a system whereby employees at or above the classification of Director (public service senior executive Band 1) or above move into the State Logistics Officer function. Taking leadership of the logistics team, these senior RFS employees are responsible for checking that logistics requests are being properly made and processed. This occurs when the level of fire activity is increasing and declarations are made by the Commissioner under section 44 of the *Rural Fires Act 1997* (NSW) (**RF Act**). This creates an additional level of oversight to ensure that emergency procurement is occurring soundly.

The RFS has also implemented mandatory goods receipting. That is, when goods are received - whether at the State Warehouse, another storage location, or on a fire ground, a goods receipt must be generated. Given the nature of the RFS' field operations, the person creating the goods receipt may not always be the person

receiving the goods and may, on some occasions (where for example a quantity of drinking water is delivered to a remote staging area), not physically see the goods when creating the goods receipt. Similarly, the person receiving the goods will on occasions not have access to SAP. Accordingly, where this occurs, the Incident Management Team (IMT) logistics officer will advise the relevant district manager, or the SLO, who will then create a goods receipt.

Warehouse management and valued stock

The RFS is continuing to work to implement a valued inventory system.

This system will ascribe a monetary value to all stock while it is held by the RFS, so that the RFS better understands the stock it has on hand. When the RFS receives stock it will be recorded as being held by the RFS at full value. When the stock leaves the control of the RFS - either through use, loss or being transferred to another agency - the stock will be expensed. In most cases, stock is initially received by the RFS at its State Warehouse. When stock is subsequently moved from the State Warehouse to another storage location (say, a district cache), this transfer will be recorded in SAP. However, that transferred stock will remain on the RFS inventory until it leaves the RFS' control from the subsequent storage location.

This project involves a number of business divisions within the RFS, including operational areas, logistics and district officer/fire control centres. It is also being complicated by the ongoing amalgamations of council on which rural fire districts are based. As a consequence, further work is being undertaken in this area.

The RFS proposes to complete the implementation of the valued inventory system by 1 July 2018.

Inventory management

The RFS has also created - or is in the process of creating - category management plans for 12 categories of expenditure. Taken together, these represent approximately 90 per cent of expenditure on all NSW RFS procurement activities, both business as usual and emergency procurement, other than grants to local government and salary and wages.

Each category management plan must be approved by the Procurement Strategy Steering Committee (PSSC). To date, the PSSC has approved seven category management plans for:

- (a) personal protective equipment (PPE);
- (b) fleet (i.e. fire fighting appliances and other vehicles);
- (c) ICT;
- (d) aviation;
- (e) base camps (utilised for long-term deployments on remote locations);
- (f) heavy plant; and
- (g) firefighting chemicals.

The advantage of category management plans is that they allow for oversight of the strategy for the procurement in each category, and then allow for the RFS to monitor whether the procurement is in fact occurring in accordance with the category management plan. Any deviation can then be appropriately addressed.

Contract management

The RFS, working collaboratively with NSW Department of Justice (**Justice**), has completed detailed scoping and requirements gathering for a software solution for contract management. The requirements identify a solution that can deliver workflows, manage and report procurement functions from planning to sourcing to contract, supplier and spend management and reporting.

The RFP will be in the market on 21 March 2017.

The objective of this RFP, based under the NSW Procure IT v3.1 framework, is to identify a single supplier which can successfully implement the solution with the aim to deliver the following benefits:

- a) Improved controls reducing risk of policy breaches and fraudulent activity;

- b) Streamlined processes reducing effort and improving productivity;
- c) Improved visibility and accuracy of data to support effective decision making and future commercial negotiations;
- d) Enhanced tools and systems providing consistency in practice, while supporting staff development and improving staff engagement/retention; and
- e) Improved engagement and operations with suppliers and the supply market, supporting market stewardship and improving the agencies competitive environments.

This will ultimately deliver electronic contracts register, which will record all contracts for the ongoing supply of bulk goods that are regularly required in emergencies.

The RFS has in place initial term contracts expiring in September 2017 for the following goods:

- (a) meal packs;
- (b) catering requirements;
- (c) base camps;
- (d) hire equipment; and
- (e) drinking water.

These contracts will be reviewed and renewed ahead of their expiry in 2017.

Procurement Board Accreditation

The RFS currently holds procurement accreditation with the NSW Procurement Board under the Public Works and Procurement Act 1912. Under this scheme, NSW Government agencies can undertake different levels of procurement based on their assessed procurement capability. NSW RFS holds an advanced accreditation, meaning that it is able to manage contract matters internally up to a maximum contract value of \$20 million per contract.

The RFS is currently scheduling a reaccreditation of this capability, which will, when complete, result in a grant of accreditation for up to five years. The assessment may be undertaken by an independent external consultant selected from the prequalification scheme or alternatively a team of at least three senior procurement staff employed by another NSW accredited agency.

This reaccreditation process will evaluate and, provided that evaluation is successful, reaffirm the NSW RFS' ability to manage large value contracts.

Financial delegations review

The RFS is undertaking a full review of the financial delegations made by the Minister for Emergency Services to particular individuals under the *Public Finance and Audit Act 1983* (NSW).

The purpose of the review is to ensure that appropriate personnel - including, where necessary, members of IMTs – have sufficient financial delegation to approve expenditure on emergency procurement.

Procure to Pay

RFS has also enhanced Procure to Pay system to identify and resolve any variances in the purchase to pay cycle.

When a three way match is undertaken between the approved purchase order, goods receipt and invoice two results can occur. Either a match is achieved in which case a payment is triggered, or there is no match as one or more of the documents contain different information.

A mismatch can be the result of:

- (a) quantity variances – where the number of goods receipted or invoiced differs from the order; or
- (b) price variances – where the price of goods or services receipted or invoiced differs from the order.

The procure to pay process creates work flows to prompt users to address the variances identified above. Mismatches will either be routed to the requisitioner or the procurement team to resolve.

This will mean that invoices that are blocked for payment will be more quickly actioned by the RFS either to ensure payment of the correct amount or reject the invoice.

The process will also identify instances where an invoice has been received for which no goods receipt has been processed and ensure that confirmation that the goods or services have been received before payment is authorised.

Training initiatives

The RFS has been implementing the 'lessons learnt' from Operation Vika since it commenced. The corruption uncovered during the investigation, and described in the Final Report, has resulted in significant changes to the way in which the RFS makes provision for emergencies. Given that the RFS' personnel are geographically dispersed and that emergency operations involving co-ordinated fire fighting involving staff from a variety of other agencies, the RFS has initiated a training programme to introduce and explain the new processes which are being implemented as a result of the Final Report.

The SLO conducted pre-fire-season logistics specific training between May and August 2016, comprising 12 separate sessions.

Sessions included managers forums, administrative officers workshops, one all staff meeting, four multi agency pre-season briefings as well as delivery as a component of each of the four incident management exercises (IMX), one in each of the four RFS regions. This program was targeted to ensure that NSW RFS district and regional staff, and those other agency personnel involved in significant fire fighting operations were aware of - and conformed to - the changes implemented in the logistics function. District managers are often appointed as Incident Controllers and the Commissioner's appointee under section 44 of the RF Act. Likewise, staff in district offices will form part of the IMT. Accordingly, their compliance with the new procedures is crucial.

In November 2016, a 'State Logistics Day' was held at RFS Headquarters where district and regional administrative staff with logistics specific responsibilities during fire operations were provided with further training in relation to the changes that are being implemented. This included the following topics:

- (c) logistics after the ICAC Investigation;
- (d) pre-season logistics preparation;
- (e) finance issues;
- (f) State Warehouse;
- (g) heavy plant procurement;
- (h) logistics documentation, workflow, role and responsibilities; and
- (i) the scrutiny which an IMT will face with respect to procurement.

Following these programs local RFS officers were required to identify potential local vendors in their areas of responsibility which might at some stage be used in emergency procurements. They were required to make contact with those businesses, confirm their details and complete a vendor management form, capturing the vendor's ABN, contact and banking details. This information was then passed to Finance, which then carried out basic checks in order to expedite vendor creation when and if required.

Recovery of funds stolen by Hacking and Homsey

Through a combination of litigation and negotiated settlements, the RFS has recovered \$1,280,267 or money's worth from John Hacking, Sandra Hacking and Scott Homsey. Due to the small benefits received by Paul Springett, the RFS decided that it was not economical to pursue him any further. This comprises the total amount which the Director of Public Prosecutions says was stolen by Hacking from the RFS, plus an amount representing a good portion of that which was retained by Mr Homsey.

Additionally, following negotiations with Telstra, the RFS was successful in having a fund from which new equipment may be purchased reinstated. This fund had been used by Hacking to purchase electronic devices for his own purpose.

Limitations on the pace of change

Fire season

The bush fire danger period for all of New South Wales runs from 1 October to 31 March in the following year: section 81 of the RF Act. This may be extended (and regularly is extended) by the Commissioner under section 82 of the RF Act, sometimes back into August and through into April. As such, the RFS can be dealing with significant bush fires for at least six, and possibly nine, months of the year. Due to the unpredictable nature of the timing of bush fires, the RFS has a policy of freezing the implementation of new IT and systems changes during the bush fire danger period. This policy is adopted so as to avoid new systems failing when they are needed most, i.e. during major firefighting operations.

The implementation of significant changes to the RFS's operational systems during the fire season is also complicated by the fact many of the RFS staff, particularly those based in its Headquarters have both a 'business as usual' and 'emergency operational' role.

Accordingly, the RFS only has a narrow window in which to implement changes to its systems, and then test those changes, to ensure that they are sufficiently robust to be used during a fire season. This reality of the RFS' statutory mission places an inherent limit on the pace at which changes may be made.

Financial accounting

Accounting principles also limit the timing of certain changes. Some changes - such as valuated warehouse management - can only be implemented at the beginning of a financial year (1 July) so as to avoid accounting confusion during the financial year. Therefore, if it is not possible to implement a change in one year, it is necessary to wait almost 12 months to implement it in the next.

IT changes

Many of the changes consequent on the ICAC Investigation and the Final Report require changes to IT systems and infrastructure. This is complicated by the fact that the RFS' IT systems and processes are not static and are regularly being updated. As at February 2017, there were 71 IT projects being undertaken by the RFS' IT team, of which only four are related to the implementation of the Plan. There are naturally limits to what the RFS is able to do given it has a limited budget and limited personnel to implement IT changes. Corruption prevention is obviously a high priority, but it must compete with other critical changes to IT systems. For example, the RFS is having to respond to:

- (a) a plan to move to a new Headquarters building in Homebush; and
- (b) the implications of local government amalgamations,

both of which were decisions which were outside the control of the RFS.

There are other IT changes which are critical to the RFS' mission to fight and suppress bush fires, for example:

- (a) enhancing public warning systems for bushfires;
- (b) smoke plume modelling systems;
- (c) hosting a national fire weather portal; and
- (d) a new bushfire risk environment modelling system.

Inter-agency cooperation

The RFS shares an instance of SAP, hosted by Fire and Rescue New South Wales with the NSW State Emergency Service under the auspices of the Department of Justice. As such, any changes to SAP need to be approved by the inter-agency steering committee responsible for SAP. This is done to ensure that any changes will not adversely affect another agency's operations. Obtaining these approvals can delay the implementation of change.

Conclusion

The RFS has made significant progress in implementing the recommendations made by the ICAC in its Final Report, all of which it had committed to implementing in full. Additionally, the RFS is making many other changes to its logistics processes as a result of the lessons learned from the ICAC Investigation and the public hearing. It is fair to say that Operation Vika is changing the way the RFS operates, for the better.

The RFS will provide a further report to the ICAC in March 2018, as required by of section 111E(3)(b) of the ICAC Act.

The RFS looks forward to working with the ICAC to reduce the prevalence of corruption, and implement systems to enable it to be more easily detected.

Should require any further information, please contact Ms Natalie Marsic, Director, Program, Audit and Inquiries on 8741 5582 or natalie.marsic@rfs.nsw.gov.au.

Yours sincerely



Brad Scutella
Executive Director
Executive Services

Your Ref:

E14/0418/02