

# Public statement in response to Operation Ord

Tuesday, 30 June 2015

## Introduction

Victorians have every right to expect public money to be spent well, and every right to be outraged when it is wasted, or worse, wilfully misused.

The Operation Ord public hearings have revealed that a small group of corrupt officials used so called 'banker schools' to hide cash, enrich themselves and undermine a system designed to support students.

This conduct is appalling and the Department has been swift to remove employees who have behaved in this way.

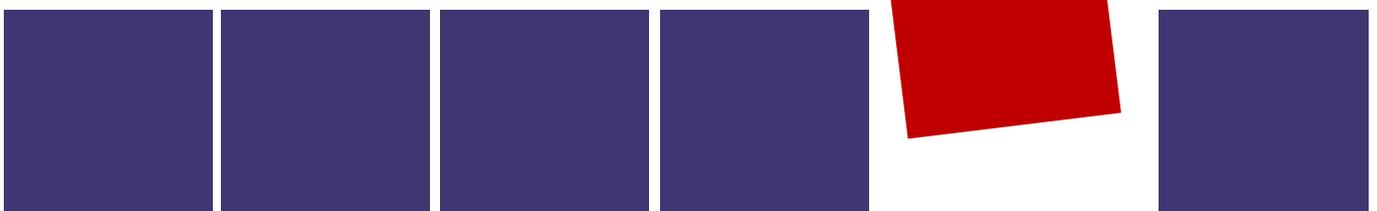
In exposing corruption, the hearings also exposed weaknesses in Department systems and problems with our culture, which allowed this conduct to occur.

With the support of external experts, including Deloitte and Protiviti, the Department has examined these issues closely and in addition to corruption, found practices and behaviours in our schools and offices that did not meet the standards the public expects of us as public sector employees.

I truly believe that our people want to meet these standards, and I am determined to make changes to ensure they consistently do.

There can be no single or simple response to the matters uncovered during Operation Ord. It is our task – and, more specifically, it is my task as Secretary – to ensure that:

- (a) any Departmental official or school office holder who abused their position for personal gain is identified and removed from the system;
- (b) the system failures and cultural problems that enabled corrupt officials to hide and misuse public moneys for so long are identified and eradicated;
- (c) an integrity culture, underpinned by clear accountability and compliance – in central office, in schools, across the system – becomes the norm; and
- (d) the monitoring, oversight and auditing of moneys spent on Victorian schools is stronger, more targeted and far more capable of detecting misuse, abuse or systemic weakness.



Through IBAC, the State ultimately uncovered the corruption and failures that took hold in the Department, and we commend IBAC's work. IBAC has laid the foundations for organisational reform and cultural change and its legacy will be a better public education system.

Now it is our turn to demonstrate what we can do to address these problems.

I am pleased to share this statement with you to outline what we are doing, and what we plan to do next to prevent this from happening again.

## **Abolishing the Program Coordination or 'Banker Schools' model**

### *The Problem*

The IBAC hearings demonstrated inadequate controls at central office, regional offices and schools to monitor program coordination funds and hold people to account for the misuse of these funds.

Most seriously, IBAC identified that program coordination schools (PCS) were used to disguise the passage of public funds to the pockets of a small group of senior Department officials.

IBAC also heard that the program coordination model was more widely misused; that the model was seen as a way to move money easily and avoid normal procurement and governance processes as well as public scrutiny of expenses, such as Christmas party costs.

The officials misusing the model ensured the passage of funds by providing supporters in schools with benefits, including travel grants, promotions and other benefits. For example, funding requests were approved for school principals on the proviso that certain invoices would be paid.

Principals and business managers said they 'trusted' the invoices going through their schools were bona fide simply because they came from senior Department executives.

In retrospect, we must accept that the Department could and should have done more to uncover the systemic abuses of the PCS arrangements.

The 2010 PCS audit identified many of the problems that compromised PCS. Looking back, we should have taken immediate action to take control of the model and investigate any potential fraud.

### *What we are doing about it*

I have decided to abolish the program coordination or 'banker school' model.

In conjunction with external consultants, we are developing a new, rigorous approach for delivering grants to schools.

The new approach will restrict joint purchasing arrangements and monitor them closely through a centralised register. Only key trained and authorised staff will be able to process grants, and will do so through a segregated payment process to increase oversight and accountability. The new approach will bring the way grants are managed in the Department in line with public sector best practice.

While this work is underway, strict, new compliance measures have been put in place. Central and regional arrangements have been ceased (existing binding contracts will be honoured) and schools have been required to return any funds not held under formal funding arrangements.

Pooling of resources for appropriate education purposes - and voluntary school-initiated coordination - will not stop. As part of our new approach, we will take steps to improve the accountability and oversight of these practices.

I will conduct a full-scale review of school governance at all 'banker schools' identified during the hearings to address issues and restore parent confidence in these schools.

## Strengthening financial controls and compliance

### *The Problem*

IBAC identified corrupt conduct as well as practices across the Department that clearly fail to withstand the test of public scrutiny. These practices – such as excessive and unapproved international travel – displayed a disregard for public expenditure and accountability standards.

A lack of compliance with financial policies across a range of areas and well as a disregard for prudent and appropriate expenditure featured prominently in the hearings.

### *What we are doing about it*

The public expects strong financial controls and compliance measures for the use of public education funding.

Whether funds come from central office or school budgets, the Department should be able to give the public confidence that those funds have been spent wisely.

Building on what we have learned from Operation Ord, I have engaged experts, including Deloitte and Protiviti, to independently review - and recommend enhancements to - the Department's financial control and audit frameworks.

The first step in meeting the standards of public accountability is to require schools and school councils to strictly comply with purchasing rules, which have to date been mere guidelines.

The next step is to apply financial controls and compliance measures to address the weaknesses identified by IBAC and by our own audits and reviews.

Stronger financial controls and compliance measures should not be viewed as a challenge to local decision making in schools. Schools continue to have the capacity and flexibility they need to do things differently and respond to their communities' needs.

Quite simply, these measures are about supporting all staff across the government school system to fulfil their duty to the public and ensure public money is fully accounted for.

### *Procurement*

IBAC identified many fraudulent payments from schools to both sham and legitimate companies for goods and services not provided. Schools directed payments without any checks on the legitimacy or integrity of companies or invoices.

The Department is developing a new detailed framework for school procurement as part of a wide ranging review of Department procurement policy and governance. Improved financial data analytics will be employed throughout the system to look for patterns and anomalies, such as repeated transactions to the same suppliers in similar low amounts, which may be potential indicators of fraud.

### *Low value transactions*

Many of the fraudulent transactions shown at IBAC were intentionally low value to minimise scrutiny and avoid procurement rules. To ensure better oversight of low value school purchases, the Department will, wherever possible, require all school transactions under \$5,000 to be made on Department credit cards. This will allow for easier auditing and prevent rorting through the reimbursement process.

## *Fraud detection*

The Department's ability to identify fraudulent transactions was clearly insufficient.

New resources will be allocated to bring increased forensic and analytical capacity as well as systems support into the financial services and audit divisions of the Department. This will include a more extensive and sophisticated use of computer assisted audit techniques.

## *Travel freeze*

The IBAC hearings identified inappropriate and excessive travel by some former executives, school staff, and in some cases, their spouses.

This included employees seeking Department approval for work-related travel after their return and failing to produce any reports about what they gained from their travel, let alone any business case for why they needed to go.

Temporary travel restrictions for staff travel have been in place while the Department is reviewing its travel guidelines for all corporate and school staff. The interim restrictions do not apply to trips with students.

Work-related travel, including to conferences, can be beneficial for staff professional development. The new policy will place more rigour on staff travel to ensure there is a strong business case for every trip and that public spending meets community expectations.

The ability for students to travel interstate or overseas with school is an important feature of a contemporary education.

## *Gifts, hospitality and other expenditure*

IBAC heard that some senior Departmental staff used statutory declarations for the majority of their expense reimbursements, instead of producing tax receipts.

Staff also indicated that they processed transactions, such as wine for staff events, outside the official processes to escape scrutiny through Freedom of Information laws.

Since these incidents occurred, the Department has significantly tightened the procurement processes to improve transparency on expenditure. The Department is nonetheless reviewing all integrity-related policies and ensuring expectations and requirements are clearly understood by staff.

## *Vehicle use*

IBAC identified concerns about the unauthorised or inappropriate use of Department cars. This included the unauthorised use of fleet cars and the use of 'banker schools' to purchase additional vehicles to meet inflated needs. The Department is conducting an audit of all vehicles in the fleet and associated fuel cards to strengthen accountability.

## *Conflicts of interest*

Directing funds to businesses owned by relatives and friends is a conflict – to benefit personally from those transactions is corruption. At IBAC, we heard evidence of both.

In 2013, my predecessor, Richard Bolt, who is now the Secretary of the Department of Economic Development, Jobs, Transport & Resources, introduced a strong framework for managing conflicts of interest. This included a requirement for all principals and staff with a delegation of over \$50,000 to complete an annual declaration of private interests.

Declarations will be processed through a new auditing system, in addition to manually, to strengthen our ability to identify risks and anomalies. Training and support to all relevant staff will improve understanding of the framework and how to comply.

## *Risk Management model*

IBAC demonstrated an over reliance on internal audit to identify non-compliance.

The Department needs to adopt a preventative approach to managing risk, underpinned by clear accountabilities and a strong integrity culture, to effectively mitigate non-compliance. In consultation with our external consultants, a new 'three lines of defence' risk management model is currently in development to meet this goal.

## Creating an integrity culture

### *The Problem*

IBAC raised serious concerns about the culture of the Department. Inappropriate and unprofessional conduct was permitted and even encouraged in some circles. Concerns about this conduct were not followed up and dishonest behaviour was not held to account.

This conduct has damaged the reputation of the Department and the staff who consistently conduct themselves with integrity and professionalism. We owe it to them, and the public, to redefine the culture as one with integrity at its core.

### *What we are doing about it*

Corruption is ultimately about conduct and how people choose to behave. Our best defence against corruption and the sort of conduct that leads to corruption is to reinforce appropriate behaviour and public sector values of integrity, accountability, respect, leadership, impartiality, responsiveness and a commitment to human rights across the organisation.

### *Department-wide integrity review*

The Department is working with the Public Sector Commissioner to engage an independent expert to conduct an in-depth review on adherence to public sector values and the Code of Conduct for Victorian Public Sector Employees.

The expert will look at the values and conduct in Department offices and schools across the state to identify systemic cultural and conduct issues. The expert will then advise us on opportunities to address these issues and build an integrity culture.

What we learn will be shared across government agencies to inform a stronger state-wide focus on public sector values.

### *New Integrity Division within the Department*

I will establish a new Integrity Division within the Department, which will oversee our focus on integrity.

This new Division will report directly to me and will work alongside our legal, human resources and audit divisions to investigate misconduct, improve the Department's capacity to detect fraud, and promote high standards of integrity across the organisation, starting from the top.

The Division will build a strong reporting culture by creating and socialising a new whistle-blower framework that will ensure staff can easily and confidently report inappropriate conduct and any concerns they may have about culture.

The complaints management process will be strengthened to support this work.

### *Making staff more accountable*

High levels of accountability will be enforced at all levels of the Department and staff will be held to account for non-compliance. As of the 2015-16 cycle, we will embed integrity into executive performance plans.

The Code of Conduct for Victorian Public Sector Employees is binding for staff, and decisive employment action will be taken against staff who breach the code.

The Department will examine legislative and regulatory change to ensure it can more effectively manage staff misconduct.

Being able to effectively remove and replace school staff for serious misconduct gives students and families certainty about who is teaching their children or leading their schools.

I can reassure staff that any changes to expedite misconduct matters will not be at the expense of due process, which is a central fixture of our employment framework.

### *Rotating executive officers*

Leaving senior staff in the same role for too long can lead to unhealthy networks, which can foster misconduct.

The Department is committed to rotating senior staff to different roles on a periodic basis, which will help prevent unhealthy networks from developing. It will also serve to extend the skills and networks of senior staff and encourage open, outward-looking work environments.

### *Career pathways for senior school staff*

Similarly, the Department intends to create structured pathways for senior school staff and principals into public policy and administrative roles. This is designed to strengthen and unify our education system across schools and policy areas. It will also build executive capability, and improve the understanding of public integrity, probity and accountability standards across Department workplaces.

### *Building the capability of decision makers*

- *Corporate staff*

Broadly, IBAC demonstrated an insufficient and inconsistent understanding of financial policies and responsibilities across the Department. To address this weakness, the Department will develop a comprehensive and mandatory training program for all employees with procurement responsibilities. This will include modules on probity and integrity.

- *Principals*

Some principals consistently claimed at IBAC that they followed executives' orders, and because of the executives' seniority, had no reason to question their instructions. This is despite being asked to make payments which, on their face, were clearly irregular.

The established financial training programs for principals will be renewed with a stronger focus on integrity and school procurement training. They will reflect changes made to the procurement framework and policy.

- *Business managers*

Evidence provided at IBAC suggested that primary schools were targeted by senior executives due to the relative inexperience of their business managers.

The Department is working with business managers and external experts to develop a new targeted professional development program to help business managers achieve appropriate professional standards. An online assessment tool will assist in identifying where support and training is needed most.

- *School council presidents*

School council members generously volunteer their time and expertise to Victorian schools. We have launched a new training program to support school council presidents to better fulfil their roles and discharge their responsibilities, including in relation to financial delegations. Relevant policies and guidelines will be strengthened to give school councils more clarity about their decision-making role.

## *Independent oversight*

I commit to keeping IBAC regularly updated on the progress of our work and to responding to any further issues raised in IBAC's final report on Operation Ord.

The Minister for Education has requested the changes I implement be scrutinised and monitored by the Victorian Public Sector Commissioner.

A handwritten signature in black ink, appearing to read 'Gill Callister', with a small dot above the 'i' in 'Callister'.

**Gill Callister**

Secretary

Department of Education and Training