



# **Tasmanian** Audit Office

**Investigation into procurement of goods and services  
from CT Management Group Pty Ltd  
by Glenorchy City Council**

Report of the Auditor-General

No. 1 of 2017-18

# Today's presentation

- Basis of investigation
- Who is CT Management Pty Ltd?
- Purpose of investigation
- Legislation and Council's policies and procedures
- Investigation approach
- Summary of transactions
- Conclusions
- Recommendations
- Responses received

# Basis of investigation

- Referral was received in December 2016
- Assessment made
  - further investigation considered necessary
- Investigation conducted pursuant to section 23(d) of the *Audit Act 2008* which allows an examination or investigation to:
  - *examine the compliance of a State entity or a subsidiary of a State entity with written laws or its own internal policies*

# Who is CT Management Pty Ltd?

CT Management, based in Geelong, describes itself as one of Australia's most trusted providers of Local Government professional services, including;

- Consultancy services and technology-driven products
- Asset management, service planning, organisation development, contract and project management, and financial management services
- Experts with diverse skills and senior management experience.

# Purpose of investigation

To determine whether procurement of goods and services from CT Management was undertaken in accordance with the:

- *Local Government Act 1993*
- *Local Government (General) Regulations 2005 and 2015*
- Council's Code for Tenders and Contracts 2009 and 2016 (procurement Codes)
- Council's internal policies, procedures and manuals.

# Local Government (General) Regulations 2005

## Section 23 (5):

- Annual Report to include details above prescribed amount:
  - a. a description of the contract;
  - b. the period of the contract;
  - c. the periods of any options for extending the contract;
  - d. the value of any tender awarded;
  - e. the business name of the successful contractor;
  - f. the business address of the successful contractor.

# Local Government (General) Regulations 2015

## Section 29:

- Prescribed amount increased from \$100 000 to \$250 000
- Same Annual Reporting requirements above prescribed amount (per previous slide)

### Increased disclosures for:

- Non-application of public tender process
- Contracts exceeding \$100 000 but less than \$250 000

# Council's Policies and Procedures

Codes and internal policies were fairly consistent requiring:

- under \$3 000 - single source without bids
- between \$3 000 to \$9 999 – at least one written quote
- between \$10 000 to \$109 999 – at least three written quotes with one from a local business. Where there are less than three suitable service providers available, records outlining this are to be kept.
- greater than \$110 000 - tender required.

(all totals are inclusive GST)

**Purchase order required >\$600)**

# Investigation approach

- Examination of documents
  - Payment information
  - Council minutes
  - Annual Reports
- Interviewed Council management
- Addressed matters specifically identified as detailed in the purpose of the investigation.

# Summary of transactions

Between 24 October 2012 and 30 April 2017, Council:

- Received 105 invoices totalling \$1 051 909
  - \$942 117 were under 25 separate purchase orders
  - \$109 792 without purchase orders
- Consultancy services comprised:
  - 13 improvement projects and reviews implemented over 3 stages
  - Other additional professional placements and support
  - Included \$142 139 in travel costs, reimbursements and administration fees.

# Summary of transactions

Project	GST Inclusive \$
<b>Stage One</b>	
Project 1 - Initial review	67 262
Project 3 - Information, communication and technology (ICT) review	22 381
Project 2 - Improvement plan project manager	76 240
Project 4 - Service review - Operations & Maintenance	5 583
<b>Stage One total</b>	<b>171 466</b>
<b>Stage Two</b>	
Project 5 - Roles, relationships and responsibilities programme	89 699

Multiple Projects were raised under the same Purchase Order demonstrating connectedness

Stages One and Two and Projects One to Five, totalled \$261 165.  
Our assessment is that they should have been subject to a public tender.

# Summary of transactions - example

Purchase order/Project/Invoice	Allocated Invoice Amount \$
<b>GMGR000102 Roles, Relationships and Responsibilities Program</b>	
<b>Project 1 - Initial review</b>	
Invoice 00003292	4 452
<b>Project 2 - Improvement plan project manager</b>	
Invoice 00003311	8 052
Invoice 00003387	15 421
<b>Project 3 - ICT review</b>	
Invoice 00003270	2 569
Invoice 00003401	1 540
<b>Project 5 - Roles, relationships and responsibilities programme</b>	
Invoice 00003288	12 407
Invoice 00003413	9 716
<b>Total invoices raised under Purchase Order GMGR000102</b>	<b>54 157</b>



# Summary of transactions

October 2014

February 2015

Project	GST Inclusive \$
<b>Stage Three</b>	
Project 6 - Update of the strategic and operational review	89 270
Project 7 - Management restructure	23 464
Project 8 – Service review - Works & Services	115 670
Project 9 - Service review scoping - Finance, Governance and Operations	6 932
Project 10 – Service review - Operations	75 854
Project 11 – Service review - Finance	47 677
Project 12 – Service review - Governance	59 653
Project 13 - Organisation structure and cultural change support	110 985
<b>Stage Three total</b>	<b>529 505</b>

Combine? Public Tender?

# Summary of transactions - Special Council Meeting

- **5 February 2015 - Special Council Meeting**

CT Management and the General Manager presentation to Councillors on the Strategic and Operational Review. Recommendations included:

- adoption of a new organisational structure with three key units: Community, Economic Development and Business (including Finance); City Services and Infrastructure (Operations) and Governance
- confirm the most appropriate operating and financial strategy going forward
- that certain key areas be supported to meet the required targets in the Improvement Plan (to be completed by June 2016)
- that a review of the Operations department including fleet and plant be undertaken to achieve the nominated savings and efficiencies in the report.

# Summary of transactions – Second Council Meeting

- Inquiry undertaken by the Director of Local Government
- Council was required to make a new resolution and subsequently resolved on **16 March 2015** to:
  - i. accept the presentation of the Strategic and Operational Review from CT Management made on 5 February 2015
  - ii. approve the recommendations made.

# Summary of transactions – Project 8

Following the Special Council Meeting - two proposals submitted:

- Service Review – Works & Services (classified by management as Project Eight), 27 February 2015
- Professional placement – Acting Manager Operations (also classified as Project Eight), 6 March 2015.

Observations:

- No project costings in proposals although estimated days & hours:
  - Works & Services - \$52 470 (Purchase Order issued \$45 000)
  - Acting Manager Operations - \$63 078 (PO \$50 000)
- Submission reference was as a “combined proposal”

# Summary of transactions

October 2014

February 2015

February / March

Project	GST Inclusive \$
<b>Stage Three</b>	
Project 6 - Update of the strategic and operational review	89 270
Project 7 - Management restructure	23 464
Project 8 – Service review - Works & Services	115 670
Project 9 - Service review scoping - Finance, Governance and Operations	6 932
Project 10 – Service review - Operations	75 854
Project 11 – Service review - Finance	47 677
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Project 13 - Organisation structure and cultural change support	110 985
<b>Stage Three total</b>	<b>529 505</b>

Combine? Public Tender?

Public Tender?

# Summary of transactions – Projects 9 - 12

February 2016, Council received three separate proposals for service reviews covering areas of Operations, Finance and Governance.

## Observations:

- all proposals dated 19 February 2016
- project scope in each proposal had a high degree of similarity
- each proposal had similar personnel
- internal e-mails to staff referred to 'a review in three departments'
- purchase orders issued were sequential
- invoices allocated across purchase orders (connectedness)
- single report produced.

# Summary of transactions

October 2014

February 2015

February / March

February 2016

August 2016 –  
April 2017

Project	GST Inclusive \$
<b>Stage Three</b>	
Project 6 - Update of the strategic and operational review	89 270
Project 7 - Management restructure	23 464
Project 8 – Service review - Works & Services	115 670
Project 9 - Service review scoping - Finance, Governance and Operations	6 932
Project 10 – Service review - Operations	75 854
Project 11 – Service review - Finance	47 677
Project 12 – Service review - Governance	59 653
Project 13 - Organisation structure and cultural change support	110 985
<b>Stage Three total</b>	<b>529 505</b>

Combine? Public Tender?

Public Tender?

Combine? Public Tender?

Quotes or Public Tender?

# Summary of transactions - Other

Project	GST Inclusive \$
<b>Human Resources (HR) project officer</b>	<b>113 606</b>
<b>Asset and financial management review</b>	<b>12 944</b>
<b>Long-term financial plan software package</b>	
Product purchase	14 850
Annual upgrade program	4 400
<b>Long -term financial plan software package total</b>	<b>19 250</b>
<b>Professional placements and other support</b>	
Operations	36 228
Finance support consultant	57 082
HR support	7 734
Technical support	10 748
<b>Professional placements and other support total</b>	<b>111 792</b>
<b>Unallocated</b>	<b>3 647</b>
<b>Total procurement</b>	<b>1 051 909</b>

3 Quotes?<sup>1</sup> (Not expected to exceed tender threshold)

3 Quotes?<sup>1</sup>

1. Council's quotation process (three separate quotes for greater than \$10 000, with one from a local business).

# Conclusions

- Council incorrectly treated each project with CT Management as a separate and individual project.
  - As a result, Council failed to comply with the *Local Government Act 1993* and its own procurement Codes.
- Failure to adequately document its assessment and decision not to follow its quotation process or seek tenders.
- Evidence indicated intentional splitting of procurement from a single procurement activity into two or more separate contracts/projects to avoid public tender.

# Conclusions

- Council breached its own 2016 Procurement Code, where purchase orders were not evidenced for services provided.
- Council did not adequately test the market, failing to meet its procurement principles of:
  - open and effective competition
  - value for money
  - enhancement of the capabilities of local business and industry.

# Conclusions

- No formal procedure for reporting by the General Manager to Council for purchases where a public tender or quotation process was not used.
- Annual Reporting requirements for contracts specified in the *Local Government (General) Regulations (2005 & 2015)* were not disclosed.
- Overall the process adopted in expending \$1 051 909 lacked transparency, independent review, reporting and good governance.

# Recommendations

## Council:

- Review its internal processes and procedures to ensure future compliance with all applicable legislation and its internal policies, procedures and manuals
- Ensure appropriate documentation is maintained to evidence procurement decisions and compliance with relevant requirements.

# Responses

A number of stakeholders were provided the opportunity to provide responses.

## **Treasurer/Minister - Hon Peter Gutwein MP**

- Noted the findings
- Considers that compliance with procurement rules is important to ensure the proper expenditure of public monies. That such expenditure must represent value for money, provide open and effective competition and should also provide opportunities for local business
- Supports the Recommendations that Council review its internal processes and procedures to ensure future compliance with all applicable procurement rules and to ensure appropriate documentary evidence.

# Responses

## General Manager - Glenorchy City Council - Mr Peter Brooks

- Disappointed not to be given access to full report<sup>1</sup>
- Met with a number of companies and discussed propose work (not evidenced)
- Considered Council endorsed his decision to appoint CT Management in March 2015
- Subsequently obtained independent legal advice that Act had not been breached.

*<sup>(1)</sup> Section 30(2) of the Audit Act 2008, requires the Auditor-General to give a summary of findings and invite submissions or comments to the Treasurer, the related entity and any other person who, in the Auditor-General's Opinion, has a special interest in the report.*

# Responses

## **Auditor-General's comment on General Manager's response**

In relation to additional documents provided by the General Manager and not held in Council's record systems, these did not persuade us to change our conclusions.

Proposals in attachments received did not align directly with work performed by CT Management and in some instances related to other additional procurement services for advisor and/or development programs.

# Current audits/Reports

- TasWater benefits of amalgamation
- Use of credit cards in local government
- Results of 2016-17 financial audits
- Tasmania prisons
- High school attendance
- Emergency Medicine

Questions?

Thank you