

MINISTRY OF TRANSPORT RESPONSE TO THE REVIEWS OF THE MINISTRY'S INTERNAL CONTROL SYSTEMS

EXECUTIVE SUMMARY

On 21 July 2016, Peter Mersi, Chief Executive of the Ministry of Transport, announced that the Ministry had commissioned two independent reviews, one of the Ministry's internal financial controls, the other of the Ministry's employment screening practices. This followed an investigation into fraudulent activity by the former General Manager for Organisational Development, Joanne Harrison.

The objectives of the reviews were to establish the extent to which the Ministry's current policies, processes and practices represent good practice within the State sector, and/or mandatory requirements for State sector agencies.

Deloitte was commissioned to undertake the review of the Ministry's financial controls. EY was commissioned to undertake the review of employment screening practices.

It is important to clarify that these reviews were not an investigation into the issues relating specifically to Ms Harrison. Ms Harrison's case was subject to a Serious Fraud Office investigation, which led to charges being laid, and a subsequent guilty plea.

Deloitte and EY have both concluded their reviews, and their reports may be found on the Ministry of Transport's website www.transport.govt.nz. The Ministry would like to thank both Deloitte and EY for their reports.

This report is the Ministry of Transport's response to the recommendations provided by Deloitte and EY. The Ministry's detailed response to each recommendation and a timetable for implementation are provided in Appendices 1 and 2 respectively. These responses may be summarised as follows:

Deloitte Review of Contracting and Payments Controls

The review has identified that, in relation to contracting and payment controls, the Ministry takes compliance seriously. Its procurement policy is detailed and thorough. In addition, the control environment around the processing of invoices and payments has most of the elements of good practice. However there is an opportunity to further strengthen the control environment in respect of contract approvals to align with good practice and ensure effective compliance.

Deloitte has made a number of recommendations for improvements, categorised as high, medium and low priority.

The Ministry has made a number of improvements in contract and payment procedures in the past few months. The report, however, provides a more comprehensive set of recommendations that will help the Ministry to align itself with best practice across the State service.

The Ministry accepts all of the Deloitte recommendations, and is putting those in place that have not yet been implemented according to the timescales suggested by Deloitte. High priority measures are being implemented over the next 3 months; medium priority measures over 3-6 months, and low priority measures over the next 12 months.

EY Review of Employment Screening Practices

The review of employment screening practices has found that the Ministry's policy relating to the identity-checking of staff prior to employment contains some of the recommended base-level employment checks, but also contains some gaps that need to be addressed. For example, the policy has not been updated since 2013 to reflect changes to State sector requirements introduced in late 2014 (albeit a review of the policy was started in June 2014 but was never completed) and documentation management has been inconsistent.

The most significant difference between the Ministry's policies and the State sector recommended base-level employment checks is that whereas the latter requires vetting of all applicants for criminal convictions, the Ministry's policy requires self-declaration by the applicant, with vetting undertaken on a discretionary basis. In practice, since November 2015, the Ministry has undertaken criminal conviction vetting for all new staff, although documentation of such checks has not been consistently recorded on personnel/recruitment files.

EY has recommended a number of areas of improvement, including updating the Ministry's policy to reflect State sector requirements, undertaking a personnel security risk assessment, and improving the governance arrangements around recruitment controls.

The Ministry accepts EY's recommendations, and is already acting to implement most of these with immediate effect.

Appendix 1

The Ministry's response to the detailed recommendations from Deloitte's review of contracting and payments controls

	Deloitte priority	Deloitte recommendations	MOT response	Comment/implementation proposals
1.1	High	We recommend changes to the contracting process to help prevent the issues identified above from occurring. A suggested re-design of the process is presented in Figure 1 of the Deloitte report.	Agree	Complete
		Process steps be implemented to help ensure the contract sign-off process is not circumvented. Legal could watermark their draft contracts as "draft" and supply the draft version in PDF format to prevent tampering. Legal should not issue the final contract until the contract sign-off sheet has been satisfactorily signed by the required parties without outstanding conditions (refer to Phase 1 of Figure 1)	Agree	Complete
		Additional monitoring controls are implemented to ensure all contracts are only signed by an appropriate Ministry signatory (within delegations) and are then subsequently filed for safe keeping (further commented on in section 1.6)	Agree	Complete
		Where a contract or contract sign-off sheet is approved on behalf of another manager, the Ministry should retain all relevant documentation that supports the decision that was made	Agree	Complete
		The Ministry contract signatory should always be different to the contract manager to provide additional visibility of contracts being entered into (refer to Phases 2 and 3 of Figure 1	Agree	Complete
		Contracting policy and process expectations need to be reinforced to all relevant staff through regular and ongoing communications and / or training.	Agree	Ongoing programme underway
1.2	Medium	The Ministry documents (on the Ministry's Drafting Instructions document) the checks that were undertaken on new suppliers and also how conflicts of interests are identified and managed when selecting suppliers. The document should be submitted to Legal for review. Legal should ascertain the reasonableness of the checks undertaken for new suppliers	Agree	Complete
		Implement background checks for individual contractors and unincorporated businesses to ascertain their legitimacy and ability to deliver the goods and services	Agree	Complete

		<p>The Ministry develops some guidance on the nature and type of checking expected on new suppliers (refer to Phase 1 of Figure 1). This could be supported by a checklist of activities that include (for example):</p> <ul style="list-style-type: none"> – Matching the information supplied by the vendor to the information held by the Companies Office – Calling the vendor to verify the details provided – Performing an internet search on the vendor – Reviewing the vendor’s website – Obtaining evidence of the vendor’s physical address – Background and reference check, particularly for individuals – For tendered contracts, some form of verifying the details supplied by the tenderer before entering into a contract. <p>NB. Although each of these checks may not necessarily detect error or fraud, cumulatively these checks increase the likelihood of identifying such risks.</p>	Agree	Complete
1.3	Medium	The contracts database must be updated when the Drafting Instructions document has been completed by the contract manager, and issued with a contract number by Legal	Agree	Complete
		We recommend the responsibility for reviewing the contract and contract sign-off sheet should rest with a person (potentially a senior person in Legal) with the dedicated time and sufficient authority. That person would need to satisfy themselves that the sign-off is both appropriate and compliant with Ministry policy prior to issuing the final contract (refer to Phases 1 & 4 in Figure 1).	Agree	Complete
1.4	Medium	We recommend contract managers begin to report to senior management and the Ministry on their contracts and contract spend. This should include the vendor name, the contract/s and cumulative expenditure. To facilitate this, Finance could consider implementing a contract code or method for obtaining payment information at a contract level. For example, creating a separate field for entering contract numbers within the finance system would help.	Agree	In progress – interim arrangements in place
1.5	Low	Developing databases that would help streamline the contracting process and centralise information. For example, enabling contract managers / procurers to input contract information (e.g. the information contained in the Ministry’s Drafting Instructions) and submit this for review by Legal. Once reviewed by Legal, the contract status would be updated from “pending” to “draft”. It is not until the final contract has been created and signed off that the status would be marked as “final” in the database	Agree	Complete

		If the information contained in the register can be captured in the contracts database, the Ministry should consider whether the Contract Register is still needed to avoid information duplication and inefficiencies	Agree	Complete
1.6	Low	We recommend the Ministry consider implementing a monthly report generated by the contracts database that searches contracts with the status “draft” matched with the commencement date (either started or will start within two weeks for example). This report would present a view of draft contracts requiring attention and can be provided with the monthly project / contract expenditure report (discussed in section 1.4). By looking at the two reports together, the Ministry will be able to identify any payments made to suppliers where there is no final approved contract.	Agree	Complete
1.7	Low	Updating the contract process flow chart within the Procurement Policy so it helps users better navigate around the Policy and the specific activities required at different dollar thresholds of purchasing. The process flow should be placed at the beginning of the Procurement Policy with clear references to sections within the Policy	Agree	Complete
		Being explicit in the Procurement Policy that independent contractors are within the scope and draw a distinction between what is covered by HR and recruitment through recruitment agencies versus the Ministry directly sourcing an independent contractor	Agree	Complete
		Update the Financial Delegations Policy so it is clear what delegations apply in relation to hiring independent contractors	Agree	Complete
2.1	Medium	To support the manual separation of duties, the roles within the finance system (SUN) should be separated so that the system does not process a transaction without a second person’s approval	Agree	In progress
		The tasks of preparing payment transactions and preparing the payment file (i.e. extracting from the finance system and uploading to the banking platform) should be separated. As a suggestion, this task could be allocated to the Finance Accountant (see Figure 3), as the Finance Accountant administers Westpac Corporate Online.	Agree	Complete
2.2	Medium	The file permissions are reviewed and restricting access to only those responsible for uploading the payment file to the banking platform	Agree	Complete
		The ability to modify the payment file is disabled since any changes should only be made through the finance system (SUN), and never via the generated file.	Agree	Complete

2.3	Medium	When inputting or changing bank account details, the change should be supported by a bank deposit slip / statement and matched against the vendor's invoice. Finance could also call the supplier to confirm (in person) the information provided is accurate, particularly if there are any inconsistencies that need to be resolved. They should not rely on emails	Agree	Complete
		When setting up a new vendor, Finance to see the (digitally filed) signed contract and contract sign-off sheet in the contracts database to confirm that there is a valid contract	Agree	Complete
2.4	Medium	Invoice authorisers check the contracts database to ensure the contract is still current (or a valid contract exists) when approving invoices for payment. Authorisers should also be satisfied that the goods and services have been received by obtaining the necessary evidence if they are not working closely with the vendor. As the Ministry is in the process of implementing an automated invoicing process, we suggest covering this requirement during training to authorisers and those involved in the accounts payable process as part of the implementation	Agree	Complete
		Running fraud awareness training for all approvers, and preferably other staff (e.g. understanding what features to look out for on an invoice and ensuring it meets the criteria for approval). Not only does improved awareness enable staff to be more effective at identifying risks and concerns, it also reinforces the organisational culture that these issues are taken seriously.	Agree	Complete
2.5	Low	We recommend the Ministry consider enabling hash totals within SUN and Westpac Corporate Online. The two payment authorisers should check that the hash totals match between SUN and Westpac. If the hash totals do not match, Finance should investigate what change took place to the payment file, the reason for the change, and whether it was appropriate	Agree	Complete

Appendix 2

The Ministry's response to the detailed recommendations from EY's review of employment screening practices

	EY Recommendations	MOT response	Comment/implementation proposals
1	A personnel security risk assessment should be completed to allow the Ministry to identify and prioritise its personnel security risks, and identify and implement appropriate measures and monitoring activities to mitigate those risks. This should be completed at a Ministry, business unit and position level, and should take into account the guidance provided in the PERSEC management protocol 'Agency Personnel Security' and other good practice guidance.	Agree	Complete
2	A recruitment policy should be developed which addresses the Ministry's risk-based policy requirements for employment screening of employees and contracted/temporary staff, in addition to the mandatory requirements of the PSR. Comprehensive procedural expectations and guidance for pre-employment screening should also be developed. In particular: <ol style="list-style-type: none"> a. The pre-employment checks should be made consistent with PERSEC requirements. b. Other good practice pre-employment screening checks that should be considered, as informed by the risk assessment. c. The establishment of identity should be consistent with the requirements outlined in the DIA EOI standards 2.0. d. Formally documented procedures should be developed which outlines the recruitment process, when and how the pre-employment screening activities should occur in line with good practice. e. Guidance should be provided on specific job types and levels that may require further screening and a national security clearance, as informed by the risk assessment. It should detail what further screening activities are required, and why they are required. f. Guidance should be provided on the level of documentation that must be retained, and for how long, to evidence that such activities have taken place and results of the process. 	Agree	Complete
3	The review of the Security Policy should be completed and the Policy updated to address the requirements of the PSR, and the Ministry's own policy requirements.	Agree	In progress

4	<p>The Ministry's policies and procedures for assessing the ongoing suitability of staff for employment should be reviewed and updated to be in line with the PSR expectations and as informed by the risk assessment. In particular, the policies and procedures should include the following:</p> <p>a. The requirements and process for ongoing post-employment checks. The PERSEC management protocol for 'reporting changes in personal circumstances' can be used as guideline. Particular areas that could be considered include:</p> <ul style="list-style-type: none"> i. Changes in financial circumstances. ii. Changes in health or medical circumstances. iii. Involvement in criminal activity. iv. Any disciplinary procedures. v. Any other changes in circumstance that may be of concern to the Ministry. <p>b. For those with national security clearance, considerations of circumstances that must be reported should be made consistent with the 'reporting changes in personal circumstances' section of the PERSEC management protocol. This could be completed as part of an annual declaration and disclosure mechanism.</p> <p>c. Guidance on what level of documentation must be retained to evidence that such activities have taken place.</p> <p>d. The documentation of the process for obtaining national security clearance at all levels. This should be consistent with personnel security requirements in the PSR.</p>	Agree	Complete
5	<p>A communication and training programme should be developed and implemented to educate all staff about the Ministry's personnel security policy expectations, and their roles and responsibilities. The programme should be tailored to fit the particular needs of HR and recruitment staff, and hiring managers.</p>	Agree	In progress
6	<p>Governance and assurance processes should be reviewed, and changes made, to allow the Ministry to assess the ongoing effectiveness of the personnel security policies, procedures and controls, and their application in practice. These processes should allow the Ministry to conduct an annual security assessment against the PSR mandatory requirements, and report the assessment information as requested by the government's lead security agencies.</p>	Agree	Complete