



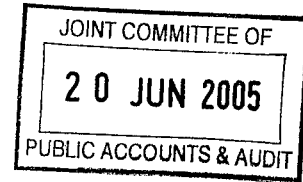
**Australian Government**  
**Department of Defence**  
Coordination & Public Affairs

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**Minute**

Ministerial and Executive Support Branch

ASMES 60/2005



Ms Bronwen Jagers  
Inquiry Secretary  
Joint Statutory Committee on Public Accounts and Audit  
Parliament House  
CANBERRA ACT 2600

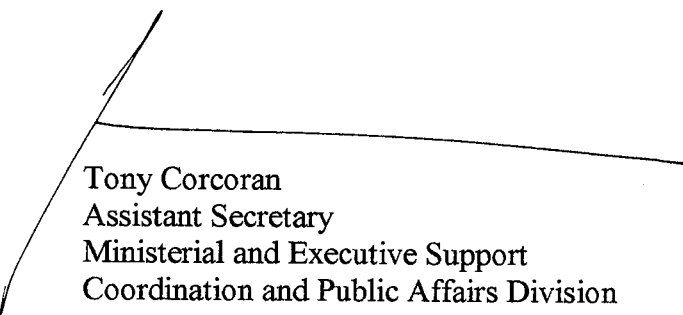
Dear Ms Jagers *Bronwen*

I am pleased to advise that Defence is able to submit responses to questions arising from the Joint Committee on Public Accounts and Audit hearings held on 28 April and 12 May 2005. Enclosed are responses to eight questions from the hearing and two received after the hearings. These responses have been approved by the Minister for Defence.

There are two remaining responses which are being finalised and will be provided to you next week. The first response relates to Ms Grierson's request for a copy of the progress report on the Get Well Program at the 28 April hearing. The second response relates to a written request from the Hon Jackie Kelly MP for copies of documents relating to the SDSS upgrade.

If you have any questions, please contact Alison West on (02) 6265 6277.

Yours sincerely

  
Tony Corcoran  
Assistant Secretary  
Ministerial and Executive Support  
Coordination and Public Affairs Division

17 June 2005

**Enclosure:**

Responses to questions taken on notice at the 28 April and 12 May JCPAA hearings.

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**QUESTION 1**

Ms Grierson

Hansard reference: p. 26 (28 April 2005)

What is the discrepancy rate at present at Moorebank in terms of the stocktake count?

**RESPONSE**

A 100 per cent stocktake was conducted at the Defence National Storage and Distribution Centre, Moorebank, between 7 October 2004 and 31 March 2005. The outcomes of the stocktake showed an error rate by value of 3.46 per cent and by stockcode of 10.19 per cent.

**QUESTION 2**

Mr Baldwin

Hansard reference: p. 63 (28 April 2005)

Please provide a brief on progress with implementation of the eight recommendations contained in Audit Report No. 5 of 2004-05.

**RESPONSE**

Listed below are the eight recommendations contained in Audit Report No. 5 of 2004-05 and Defence's progress on their implementation:

**1 – The ANAO recommends that Defence adopt approval processes for business information management systems that align with processes used for other major capital acquisitions.**

Defence has adopted the relevant approval processes for business information management systems.

**2 – The ANAO recommends that Defence review the Management Information Systems Division traffic light reporting methodology to ensure that, project progress is assessed in terms of both current and original baseline information.**

The Materiel Information Systems Branch is using this reporting methodology for all major and minor projects.

**3 – The ANAO recommends that Defence develop and promulgate a Standard Operating Environment upgrade plan. This plan would describe the technical, system, and operational standards to be adopted for management information systems over the short and medium term.**

The Defence Chief Information Officer is coordinating the development of the Defence Standards Management System. This will address the definition of the technical, system and operational standards to be adopted for management information systems. The solution is planned for deployment in June 2006.

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**4 – The ANAO recommends that Defence:**

- a) **develop specific policy to define, and manage effectively, actual and perceived conflicts of interest arising from the engagement of a Contractor to conduct the scoping phase of a project that provides the basis of a much larger tender; and**
  - b) **review the use of a time and materials style contract for the performance of management functions associated with high-risk software development projects dependent on Defence specific deliverables.**
- a) The Capability Development Group is now responsible for developing the requirements for any major software acquisition, and determining the scope of the project. Any subsequent acquisition is managed by a separate organisation. This ensures that there is not a direct relationship between the accountability for developing the requirements and the accountability for delivering the solution.
  - b) To ensure value for money, the acquisition strategy for any major software acquisition will focus on a contractual arrangement based on measurable outcomes.

**5 – The ANAO recommends that, where the use of an Earned Value Management System is stipulated by extant policy, Defence consider adopting Australian Standard 4817-2003, the Australian Standard for Project Management Using Earned Value, to provide robust performance assessment information to senior management.**

Defence complies with Defence Materiel Organisation-wide policy through the use of the standard project management methodology and the Improved Project Scheduling and Status Reporting toolset. These dictate that all projects follow a standard project life-cycle to ensure appropriate approvals and signoffs, quality assurance at key milestones along the way and early detection of problem areas.

Earned Value Performance Management is a method for measuring and reporting project performance, and forecasting future performance based on past performance. The Earned Value Performance Management method measures performance of the time and cost aspects of a project and enables effective project management. Defence has adopted the Australian Standard for Project Management Using Earned Value, and has amended periodic reporting accordingly. Defence Program Management Offices use monthly project reporting based on the Earned Value principles. This reporting has an emphasis on the measurement of progress against a baseline in the areas of schedule, cost and capability. This ensures projects are assessed using consistent metrics and standards, and enables early detection of problem areas.

**6 – The ANAO recommends that Defence:**

- a) **review the responsibility for SDSS system management and development in the ‘In Service’ domain, against the responsibility to fund the development and validation of training products for delivery to the user environment;**
- b) **review the requirement to establish a centralised Defence Training Authority to accept responsibility for the management and delivery of all required SDSS training;**
- c) **ensure that the chosen Training Authority has adequate and relevant experience in the delivery of information system training ware;**
- d) **review the regulation and suitability of the training at regular intervals; and**
- e) **ensure that training is included as a standing agenda item at a Senior User Group, or similar executive forum, where the authority to expend funds for training development activities can be endorsed for implementation.**

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- a) The Director General Materiel Information Systems has assumed the responsibility of Manager Joint Training, to provide a single point of accountability for the delivery of training to SDSS users. This ensures a consistency of training standards across the SDSS user base.
- b) See a) above.
- c) The Director General Materiel Information Systems now has responsibility both for the in-service support of SDSS and the development of appropriate training packages.
- d) A nominated contact within each Group across Defence is responsible to the Manager Joint Training for identifying annual training liability and requirements. Refined and additional courses, including an on-line assessment tool, are being developed through contracts with training developers.
- e) All aspects of SDSS training are reviewed regularly at a senior-level user group. SDSS training has been targeted for review and accelerated development in the G3 remediation plan.

**7 – The ANAO recommends that Defence regularly review user acceptance of, and compliance with, the Defence Supply Chain Manual and associated management directives.**

This activity is carried out regularly by the Strategic Logistics Branch. The Defence Supply Chain Manual has been subject to independent audit as part of the Business Process Compliance stream of the SDSS 'Get Well' program, with business process refinements being implemented as part of Defence's remediation strategy.

**8 – The ANAO recommends that Defence manage the recently developed SDSS Get Well Program within the framework of the Defence Information Environment, including wide end user involvement (with Joint Logistics Command representation) at Governance Board.**

The SDSS 'Get Well' program has been completed. The Project Management Steering Group for SDSS now includes representatives from the Chief Information Officer Group, the Joint Logistics Command and the Services. The Materiel Information Systems Project Management Governance Board has an external chair (Rear Admiral Peter Purcell Rtd) and external and internal representation. It reports to the Chief Executive Officer of the Defence Materiel Organisation and provides independent oversight of information systems projects.

**QUESTION 3**

Senator Hogg

Hansard reference: p. 65 (28 April 2005)

Please provide a copy of the revised Defence Instruction (General) on Stocktaking of Defence Assets.

**RESPONSE**

The current Defence Instruction (General) on Stocktaking of Defence Assets is attached. The DI(G) is currently undergoing revision and will be provided to the committee once it has been cleared and promulgated.

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**QUESTION 4**

Ms Grierson

Hansard reference: p. 70 (28 April 2005)

Please provide details of expenditure on SMS and KPMG contractors on the SDSS version 4 Get Well Program.

**RESPONSE**

The total expenditure on SMS/KPMG contractors for the SDSS 'Get Well' program was \$1,179,538. This expenditure covered the Program Management Office, including change and communications.

**QUESTION 5**

Ms Grierson

Hansard reference: p. 71

In relation to JP 2077, please provide details of expenditure to date and what elements have been outsourced, including which personnel are involved?

**RESPONSE**

JP 2077 Phase 1 was approved in 2001-02 with funding of \$38.9m. To date, \$37.1m of the total funding has been expended). The project upgraded parts of the logistics information system and addressed some deficiencies in financial reporting, business practices and data quality.

JP 2077 is currently in the requirements phase (Phase 2A). This phase has an approved budget of \$15.9m to undertake the preparatory and enabling work for future phases of the project. Phase 2A will provide the structures, mechanisms and initial plans necessary to adopt a whole-of-capability, whole-of-logistics, and system-of-systems approach to the improvement of logistics information systems over the remainder of the decade. Phase 2A will be completed on 30 June 2005.

**Elements Outsourced**

Phase 2A elements outsourced were for:

- Specialist skills to support the project, including project management skills, legal and accounting advice, contracting, communications and change management.
- Technical support including detailed technical assessment and costing of vendor products.
- Preparation of capability development documentation and the capability options document.

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Significant personnel were involved from the following organisations:

| <b>Company</b>       | <b>Prime Role</b>  | <b>Contracts Value (\$m)</b> |
|----------------------|--------------------|------------------------------|
| SMS/KPMG             | Project Management | 10.5                         |
| Mincom               | Technical          | 2.0                          |
| KBR                  | Technical          | 1.1                          |
| McPherson Associates | Technical          | 0.3                          |
| Phillip's Group      | Communications     | 0.2                          |
| Aperium              | Contracting        | 0.2                          |
| Philip Fox           | Legal              | 0.1                          |
| PWC                  | Accounting         | 0.1                          |
| JMW                  | Change Management  | 0.1                          |

**QUESTION 6**

Mr Baldwin

Hansard reference: p. 72 (28 April 2005)

Please provide details of expenditure to date on JP 2080.

**RESPONSE**

Expenditure for JP 2080 Phase 1 is \$40m. \$5m was spent in 2000-01 and \$35m carried over and spent in the following three financial years.

Expenditure for JP 2080 Phase 2 was \$1.259m. \$1.046m was spent in 2003-04 and \$0.213m was spent in 2004-05.

**QUESTION 7**

Ms Kelly

Hansard reference: p. 11 (12 May 2005)

Can Defence provide the percentage of discrepancies found in stocktakes over the last ten years?

**RESPONSE**

Defence is not able to devote the considerable time and resources required to provide this information.

**QUESTION 8**

Ms Kelly MP

Hansard reference: *in camera* evidence (12 May 2005)

How many people have been apprehended for/convicted of theft from Defence bases?

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**RESPONSE**

The number of fraud<sup>(1)(2)(3)</sup> convictions in Defence were:

|  | 2003-04   | 2002-03   | 2001-02   | 2000-01    |
|--|-----------|-----------|-----------|------------|
| Civil Criminal Court                     |           |           |           |            |
| Guilty                                   | 9         | 11        | 13        | 16         |
| <i>Defence Force Discipline Act 1982</i> |           |           |           |            |
| Guilty                                   | 47        | 42        | 39        | 90         |
| <b>Total Convictions</b>                 | <b>56</b> | <b>53</b> | <b>52</b> | <b>106</b> |

**Notes**

1. The current *Commonwealth Fraud Control Guidelines* define fraud as 'dishonestly obtaining a benefit by deception or by other means' and specifically include theft as a sub-set of fraud.
2. Based on the number of closed fraud investigations.
3. This excludes civil recovery action.

**QUESTION W1**

Ms Grierson

**SDSS Project**

- a) Who was the project director for the SDSS project? What were his/her qualifications for this project?
- b) Does he/she have any specific input, responsibilities or involvements in the Get Well Upgrade and/or the JP 2077 project?
- c) Throughout the SDSS project, was PricewaterhouseCoopers paid any bonuses? If so, at what stage/s of the project were they paid, what were they for, how much were they and who authorised these?

**RESPONSE**

- a) Mr Peter Priddle was the Project Director, SDSS Upgrade Project from July 2000 to October 2003. Since October 2003 he has carried out the role of Director Supply Chain Systems Program Office. Mr Priddle has worked in Defence supply chain operations for 19 years (1980 to 1999), as well as having experience with SDSS development in the version 3 environment (1988-90).
- b) Mr Priddle was responsible for the Get Well program. He is not involved with the JP 2077 project.
- c) Yes. On 17 October 2002, an incentive payment was made for an on-time/quality outcome of the Phase 1 task. The first phase was completed in April 2001. The value of the payment was \$179,000. No bonus or incentive payment was incorporated into the second and final phase of the project. Payment was approved by the Project Board for the SDSS Upgrade project and authorised by the SDSS Upgrade Project Director (Mr Priddle).

**QUESTION W2**

Ms Grierson

**Project JP 2077**

- a) Why is Mincom identified as the Defence Alliance partner to develop the Military Logistics Information Systems Solution? Who made this decision?

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- b) When was Mincom allocated this contract? What are the terms of this contract?
- c) What was the extent of Mincom's involvement in the SDSS project?
- d) Have Mr David Cochrane and Mr Rao Ayyalasomayajula had prior involvement in the SDSS project? If yes, please detail.
- e) Who appointed them as DMO's representatives on the JP 2077 project and when?

**RESPONSE**

- a) While Defence considered an alliance as a contracting strategy for JP 2077, this is not currently the preferred acquisition strategy. Therefore, Mincom is not identified as the Defence Alliance partner to develop the Military Logistics Information System.
- b) Not applicable.
- c) During the SDSS Upgrade project, Mincom was contracted to do the following:
  - i) convert SDSS version 3 code to version 4.3.12;
  - ii) develop additional functionality in version 4;
  - iii) provide the Project Management Office with technical input on the design of the new supply chain process and documentation; and
  - iv) assist in the design and execution of the data conversion.
- d) The Defence Materiel Organisation has no knowledge of Mr David Cochrane's involvement with the SDSS project. Mr Ayyalasomayajula has had no involvement with SDSS.
- e) The Defence Materiel Organisation has no knowledge of Mr David Cochrane's involvement with JP 2077. The Director General Materiel Systems Branch appointed Mr Ayyalasomayajula to the JP 2077 Project Office when it was established in late 2003.