

THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

JOINT COMMITTEE OF PUBLIC ACCOUNTS

REPORT 252

JOB SEEKER COMPUTER ACQUISITION

by the

DEPARTMENT OF EMPLOYMENT AND INDUSTRIAL RELATIONS

Australian Government Publishing Service  
CANBERRA 1986



**JOB SEEKER—**  
Computer Acquisition  
by the Department  
of Employment and  
Industrial Relations

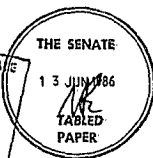
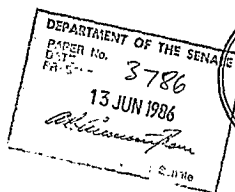
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Report

**252**

Joint Committee of  
Public Accounts

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R E TICKNER, MP

#### DUTIES OF THE COMMITTEE

Section 8.(1) of the Public Accounts Committee Act 1951 reads as follows:

Subject to sub-section (2), the duties of the Committee are:

- (a) to examine the accounts of the receipts and expenditure of the Commonwealth including the financial statements transmitted to the Auditor-General under sub-section (4) of section 50 of the Audit Act 1901;
- (aa) to examine the financial affairs of authorities of the Commonwealth to which this Act applies and of intergovernmental bodies to which this Act applies;
- (ab) to examine all reports of the Auditor-General (including reports of the results of efficiency audits) copies of which have been laid before the Houses of the Parliament;
- (b) to report to both Houses of the Parliament, with such comment as it thinks fit, any items or matters in those accounts, statements and reports, or any circumstances connected with them, to which the Committee is of the opinion that the attention of the Parliament should be directed;
- (c) to report to both Houses of the Parliament any alteration which the Committee thinks desirable in the form of the public accounts or in the method of keeping them, or in the mode of receipt, control, issue or payment of public moneys; and
- (d) to inquire into any question in connexion with the public accounts which is referred to it by either House of the Parliament, and to report to that House upon that question,

and include such other duties as are assigned to the Committee by Joint Standing Orders approved by both Houses of the Parliament.

## PREFACE

This report contains the findings of the Committee's inquiry into the Job Seeker computer acquisition and related aspects of the ADP operations of the Department of Employment and Industrial Relations. This inquiry resulted from advice to the Committee of an unusual level of disquiet in the computer vendor industry about the conduct of the Job Seeker tender and, from serious criticisms made by the Auditor-General in his September 1985 Report about the adequacy of planning, cost/benefit justification and management supporting a previous ADP project in the Department, Job Bank.

The Committee wishes to emphasise that this inquiry's findings do not imply any dispute with the priority the Government has given to provision of services to the unemployed. Nor does the Committee dispute the potential that information technology offers for improving the efficiency and effectiveness of the assistance which the Department of Employment and Industrial Relations provides to its clients.

The Parliament is aware that the Public Accounts Committee has been given a standing reference to examine and report on major ADP acquisition proposals which exceed \$5 million, before they proceed to Cabinet for funding approval. When examining these proposals the Committee aims to ensure that they are properly planned and justified. However, the Committee also recognises that if a cost effective outcome is to result from these proposals, subsequent procurement action must also proceed in line with approved procedures.

The Commonwealth's procurement procedures are intended to ensure that public tendering is conducted in a thorough and impartial fashion. If these procedures and their purpose are not respected, the reputation of the Commonwealth in the market place for fair and responsible purchasing practices will be at risk. Responsibility for the proper observance of these procedures rests primarily with individual departments and authorities although the Department of Local Government and Administrative Services, as the Commonwealth's Contracting Authority, also has a clear responsibility for ensuring that Government ADP procurement procedures are followed.

The Committee's principal concerns about the Job Seeker computer acquisition were reported to the Parliament in a statement by the Chairman on 24 December 1985. The Committee took the unusual step of making such a statement, prior to the completion of its inquiry and the tabling of its full report, because of the Committee's concern not to unnecessarily delay the implementation of the Job Seeker project and several other computer-based projects in the Department of Employment and Industrial Relations.

The Committee's principal concerns stated at that time were that:

- proper planning and evaluation had not been undertaken to support the particular implementation strategy chosen for the Job Seeker project;
- proper tendering procedures were not followed during the tender evaluation;
- in consequence, the impartiality of the tender result could not be guaranteed; and
- certain features of the original contract with the successful tenderer, WANG Computer Pty Ltd, were improper.

The Committee, having given careful consideration to the costs resulting from the cancellation of the Job Seeker tender, recommended that the Job Seeker purchase proceed, subject to certain amendments being made to the proposed contract with the recommended supplier, WANG Computer Pty Ltd. Subsequent advice from the Minister for Employment and Industrial Relations and the Minister for Local Government and Administrative Services indicated that most of these amendments were made before the contract was signed with WANG on 31 January 1986. The Committee does have some outstanding concerns about the contract which are detailed in Chapter 3 of this report.

Notwithstanding the Committee's recommendation to proceed with the contract, the Committee's subsequent inquiries have fully confirmed the concerns stated by the Chairman on 3 December 1985 to the Parliament. The Committee has concluded that the Department of Employment and Industrial Relations and in particular, the Secretary of that Department, must carry principal responsibility for the improper manner in which this tender was conducted.

The Department of Local Government and Administrative Services and its Secretary, given the clear responsibilities of that Department for ensuring that procurement proceeds in line with government purchasing practices and policies, must also carry major responsibility in this matter.

The Committee's principal outstanding concern about the contract with WANG Computer Pty Ltd remains the inadequate level of compensation provided for in the contract in the event that WANG is unable to deliver certain important outstanding functionality requirements of the Request for Tender by 30 June 1986. This was viewed by the Committee to be of paramount importance because WANG's commitment to deliver this functionality by 30 June 1986 had been a deciding factor in its winning the contract. Additionally this functionality was a mandatory requirement of the tender specification and crucial to the successful implementation of the Job Seeker system.



There have been some disturbing new developments with the Job Seeker acquisition since the Committee finalised the conclusions and recommendations contained in this report. Recent advice to the Committee from the Department of Employment and Industrial Relations and the Department of Local Government and Administrative Services, has indicated that WANG will not now be able to deliver the outstanding functionality by 30 June 1986, as it contracted. The relevant correspondence is at Appendices 10 and 11 of this report. This development has confirmed the Committee's concerns, as stated by the Chairman at the public hearing on 28 November 1985, that the Department of Employment and Industrial Relations appeared to be buying 'futures' in this contract.

WANG has now lodged a claim for excusable delay with the Department of Local Government and Administrative Services and has requested that the completion date for supply of the outstanding functionality be extended by 12 months to 30 June 1987. The basis of WANG's claim for excusable delay appears to be that a 'sub-contractor' to WANG, Microsoft Corporation, is now unable to provide WANG with the software necessary to provide the outstanding functionality.

In the light of these developments the Committee strongly recommends that, unless WANG can demonstrate to the satisfaction of the Department of Local Government and Administrative Services that it had a firm contractual commitment for the supply of this software from Microsoft Corporation and that this commitment will not now be met for reasons outside WANG's and Microsoft's control, the Commonwealth should seek liquidated damages from WANG for any delay in delivery beyond 30 June 1986.

The Committee is also of the view that any amendments made to the contract with WANG to allow for an extension of the delivery date and/or the supply of alternative software after 30 June 1986, should also include clear provisions, in the event of non-delivery of the outstanding functionality by 1 January 1987, for the cancellation of the contract and for full compensation to be provided to the Commonwealth for the major delay and dislocation which the non-delivery of the outstanding functionality will cause to the Commonwealth's employment and labour force programs. The Department of Local Government and Administrative Services should obtain the advice of the Attorney-General's Department on the adequacy of these contractual provisions.

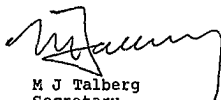
In the interim, the Committee endorses the stand taken by the Department of Local Government and Administrative Services in not approving any further acquisitions from WANG for the Job Seeker project or other projects in the Department of Employment and Industrial Relations which require standardisation on WANG equipment, pending a satisfactory resolution of the uncertainties about WANG'S contractual commitments.

The Committee believes that, notwithstanding the urgency of the Job Seeker project and other projects in that Department, it would be indefensible for the Department to purchase further equipment and consequently make a greater de facto commitment to standardising on WANG equipment, while there remains uncertainty about WANG's ability to provide the full functionality required for the Job Seeker system.

For and on behalf of the Committee.



Senator G. Georges  
Chairman



M J Talberg  
Secretary  
Public Accounts Committee  
Parliament House  
CANBERRA ACT  
11 June 1986

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#### ABBREVIATIONS & EXPLANATION OF TERMS

- ADP - Automatic Data Processing  
(also now commonly described as 'information technology')
- APC - Advanced Personal Computer, a micro computer marketed by WANG Computer Pty Ltd
- MSDOS 4.0 - Operating system software currently under development for WANG Computer Pty Ltd
- CES - Commonwealth Employment Service
- DEIR - Department of Employment and Industrial Relations
- DOLGAS - Department of Local Government and Administrative Services
- RFT - Request for Tender

## LIST OF CONCLUSIONS AND RECOMMENDATIONS

### Planning and Approvals for the Job Seeker Project

The Committee concludes that:

- . it was unwise, if not deliberately deceptive, to have not included in each of the proposals the full cost of implementing the individual projects without the presumption that the other would also be implemented. Additional cost savings and benefits which could have resulted from their joint implementation should have been separately identified.
- . the decision to pursue a dual mainframe/micro computer strategy where applications would be developed in parallel on both the mainframe computer and on micro computers was over ambitious in terms of the time and development resources its successful implementation would require.
- . the decision to adopt this strategy and proceed to tender was taken without proper consideration of its implications for the Department's overall computing strategy and the need for Job Seeker's integration with Job Bank and other proposed computer-based systems.
- . the subsequent decision to proceed to tender within three months of the decision to pursue a mainframe/micro computer strategy was not supported by proper planning and justification, including a comprehensive user requirements analysis and system specification and the application of a sound planning and project implementation methodology.
- . given this very significant change in not only the implementation strategy for the Job Seeker project but also its implications for the Department's overall hardware and applications development strategy, a more considered pace should have been adopted to ensure Job Seeker and other office automation systems were developed and implemented in a realistic time frame.
- . the Request for Tender which was issued in November 1984 was prepared with unjustifiable haste and was over ambitious in its technological requirements. It specified a set of over 100 'major' mandatory requirements which could not all be met by any tenderer using currently available technology. This included the successful tenderer which, if it was able to meet all requirements only did so using an 'interim configuration', which was unacceptable as a permanent working arrangement.

- the Department's 1984 ADP Strategic Plan did not provide an adequate basis for ensuring that the Job Seeker project and other computer-based systems were developed with due consideration to the availability of adequate development resources and mainframe capacity and, to the need for the integration of these systems.
- given the problems which were emerging with the Job Bank project and the Department's over-extended ADP resources, the Department should have deferred the Job Seeker tender and consolidated its existing achievements with the Job Bank project. It should then have ensured that a decision to proceed with Job Seeker and other projects was based on a thorough and comprehensive assessment of the Department's total information needs and a fully integrated information technology strategy.
- given the technological uncertainties which the Department recognised were associated with the mainframe/micro computer strategy, a two stage tendering process should have been adopted. A Request for Proposals should have been issued to permit a preliminary assessment of the ability of vendors to meet the Department's requirements.
- the speed with which procurement action proceeded appears to have been motivated by the Department's concern to spend available funds by the end of the 1984/85 financial year. This placed extreme and unacceptable time constraints on the public tendering process.
- the desire to spend funds by the end of the 1984/85 financial year and the consequent haste with which requirements were specified and the whole tendering process undertaken have resulted ultimately in greater delay and cost than would have occurred had the planning and procurement proceeded at a more considered and responsible pace.

The Committee recommends that a more cautious, properly planned and phased strategy be employed by DEIR in the future development and implementation of computer-based systems. Such a strategy should: (paragraph 2.26)

- 1 ensure these new systems are planned, developed and implemented in a realistic time frame.
- 2 allow for the progressive refinement and consolidation of systems, avoiding overcommitment of human and other resources because of concurrent systems development.

- 3 apply a satisfactory planning and project implementation methodology, including provision for:
- user requirements analysis
  - feasibility study and market appraisal
  - strategic design study
  - conceptual system design
  - cost/effectiveness analysis of alternatives
  - organisational and job impact study
  - training and user support strategy
  - specification of requirements
  - definition and quantification of benefits
  - development of performance monitoring system
  - issue of Request for Proposals if necessary
  - issue of Request for Tender
  - evaluation and letting of tenders
  - installation and acceptance testing
  - detailed design of applications
  - development of applications
  - user education and training, and
  - implementation and performance monitoring of applications

The Committee also recommends that before the Department of Employment and Industrial Relations purchases or leases any additional equipment, including any additional micro computers from WANG Computer, and additional mainframe capacity as currently proposed, it should first: (paragraph 2.27)

- 4 produce a current and comprehensive ADP Strategic Plan.
- 5 specify a development program over the next three years which is achievable without resort to the practices of which the Auditor-General and this Committee have been critical.
- 6 demonstrate that full consideration has been, and will continue to be given to the need for the integration of current and proposed systems.
- 7 complete a full survey and specification of user requirements in relation to currently planned applications including Industrial Relations, Apprenticeship Training Program, Youth Services and other office automation applications.
- 8 demonstrate that project and financial management systems have been put in place to answer the criticisms made by the Auditor-General in his September 1985 Report.



- 9 demonstrate that appropriate output indicators and performance monitoring systems have been developed to permit an assessment to be made of the success of these projects in relation to initially asserted benefits.
- 10 demonstrate that the Job Seeker micro computers already acquired are being used fully and effectively, that staff training and user support services are operating effectively, and that predicted benefits have been achieved to date.
- 11 provide evidence (viz., benchmark results) that the additional functionality promised by WANG by 30 June 1986 does meet all mandatory requirements of the Request for Tender and in particular the mandatory multitasking requirements.

#### **Conduct of the Tender**

The Committee concludes that:

#### **Major Conclusions**

- the conduct of the tender evaluation was characterised by unprofessional conduct and abuse of proper procedures. In consequence the Committee does not believe that the impartiality of the tender result can be guaranteed or publicly defended.
- certain features of the originally recommended tender and proposed contractual arrangements with WANG Computer Pty Ltd were improper, and were in part a consequence of the improper manner in which the tender evaluation and contract negotiations were conducted.
- senior management of the Department of Employment and Industrial Relations must carry principal responsibility for the manner in which this tender was conducted.
- because the Department of Local Government and Administrative Services has been given clear responsibilities for ensuring that ADP procurement proceeds in line with Government purchasing practices and policies, it must also carry major responsibility in this matter.

#### **The WANG Contract**

- The Department of Employment and Industrial Relations gave WANG Computer Pty Ltd a strong oral commitment (but admittedly no legal commitment) that the Department would subsequently purchase the 600 'slave' micros and 300 printers loaned by WANG free of cost on an interim basis to meet the mandatory requirements of the Request for Tender.

- . WANG's expectation that this equipment would be subsequently purchased after the loan period was reinforced by the Department of Employment and Industrial Relations' decision to purchase memory upgrades for these 'slave' micros so that they could be used as fully functional micro computers.
- . the arrangements for the lease of memory upgrades for the 'slave' micro computers were improper and call into doubt the grounds on which the 600 'slave' micro computers were to be loaned to the Department of Employment and Industrial Relations.
- . the additional income (approximately \$1.7 million) resulting from the lease of the memory upgrades constituted a considerable incentive for WANG to loan the 600 'slave' micro computers free of cost (ie without an increase in the tendered price).
- . the Department of Employment and Industrial Relations had little or no intention of configuring the 600 additional 'slave' micros to provide the communications functionality required by the Request for Tender until well into 1986. In the interim it viewed their loan from WANG in conjunction with the lease of memory upgrades, as an opportunity to obtain without proper funding approval, 600 fully functional workstations which might then be used for office automation and other purposes .
- . the interim configuration involving three micro computers and two printers was clearly untenable as a permanent working configuration and would not have been offered as such by WANG because of the unacceptable financial consequences (over \$5 million in forgone income if the initially tendered price was to be maintained).
- . the arrangements for the loan of these 600 micro computers and the lease of memory upgrades were viewed by both the Department of Employment and Industrial Relations and WANG as a deferred purchase of 600 fully functional micro computers to the value of over \$5 million.
- . in the absence of the \$1.7 million income resulting from the lease of memory upgrades and a strong expectation of the future sale of the 600 'slave' micro computers to the Department of Employment and Industrial Relations, WANG would not have incurred the considerable cost penalty associated with the free loan of these 'slave' micros. It could not therefore have met the mandatory communications requirements of the Request for Tender even on an interim basis.

- the motivation of the Department of Employment and Industrial Relations in negotiating these arrangements was apparently to extract the 'best offer possible' from WANG. However, in doing so the Department did not observe proper tendering procedures, did not ensure the fair and equal treatment of other tenderers, attempted to circumvent proper approval processes for the acquisition of additional equipment and to precommit the Department to future equipment purchases.

The Committee recommends that: (paragraph 3.61)

- the contract with WANG Computer should clearly identify the 600 computers, 300 printers and other equipment being loaned free of cost, and the purpose for which it is being supplied.
- the contract also include a specific undertaking that the loaned equipment is returned to WANG when the APC and MSDOS 4.0 software is available, and not later than 30 June 1986. The Committee would expect a commitment from the Department of Employment and Industrial Relations that this equipment is actually returned and not subsequently purchased by the Department under this or another contract.
- the memory upgrades for the 600 loaned micro computers be deleted from the contract, and the 241 upgrades already supplied be returned immediately. The Committee notes that correspondence of 15 and 21 November 1985 between the Department of Employment and Industrial Relations and WANG indicates agreement on this action, although no indication has been given as to when the upgrades will be returned.
- the contract with WANG include a commitment from WANG to supply the APC and MSDOS 4.0 software by 30 June 1986 and also include effective 'penalty provisions' to ensure that this commitment is met.
- if a contract incorporating these provisions is not successfully negotiated with WANG by 30 January 1986 the contract should be cancelled and all equipment returned to WANG.

The Committee has reviewed that contract documentation and is satisfied on all matters except:

- it has received no advice from DEIR on progress on the return of the 241 memory upgrades already supplied to DEIR and which the Committee recommended be returned to WANG.

- . it is yet to receive a commitment from DEIR that the 600 loaned micro computers will be physically returned to WANG by 30 June 1986 and not otherwise purchased by DEIR.
- . it is not fully satisfied that the contract signed with WANG provides adequate compensation in the event that the commitment by WANG to supply the additional functionality by 30 June 1986 is not met.
- . the level of liquidated damages provided for in the contract with WANG does not provide adequate compensation in the event of late delivery of all or part of the equipment and software WANG has contracted to supply.

The Committee recommends that: (paragraph 3.68)

- 17 the Department of Local Government and Administrative Services ensure in future contracts of this type that the liquidated damages specified fully reflect the costs which would be incurred by client departments and agencies in the event of late delivery.

The Committee recommends that:(paragraph 3.72)

- 18 a permanent officer of the purchasing department always be in charge of a tender evaluation team and that consultants only be involved in a clearly subordinate and advisory capacity.

The Committee recommends that: (paragraph 3.80)

- 19 all departments and authorities staffed under the Public Service Act 1922 submit their ADP Strategic Plans to the Department of Local Government and Administrative Services by February each year.
- 20 the Department of Local Government and Administrative Services (DOLGAS) publish a summary of those ADP Strategic Plans by April each year to provide Australian industry with adequate advance notice of proposed ADP acquisitions.
- 21 where a purchasing Department does not provide DOLGAS with an ADP Strategic Plan by February and subsequently requests DOLGAS to take purchasing action later in the same year, DOLGAS should ensure that provision is made to ensure adequate opportunity is given to Australian firms to respond to any Request for Tender issued. This may require

insistence on a two stage tendering process or the postponement of the close of tenders by several months to permit local Australian firms adequate time to prepare tender responses.

#### The Request for Tender

- the Request for Tender issued by the Department of Local Government and Administrative Services specified an unjustifiably large number (over 100) of mandatory requirements.
- the Department of Local Government and Administrative Services should have requested that these mandatory requirements be reduced to include only essential, rather than many highly desirable, features of the tender.
- the Request for Tender was technologically over-ambitious in that it specified a set of mandatory requirements that no tenderer could meet using currently available technology. Indeed no tenderer, including the successful tenderer, could meet even the major mandatory requirements of the Request for Tender.
- before issuing the Request for Tender the Department of Local Government and Administrative Services should have verified that the Department of Employment and Industrial Relations had undertaken a proper appraisal of vendor product offerings to ensure that the proposed tender specification was achievable using existing technology.
- the Department of Local Government and Administrative Services should have declined to issue the Job Seeker Request for Tender until the Department of Employment and Industrial Relations had reduced the number of mandatory requirements in the Request for Tender and had demonstrated that the specified requirements were achievable using existing technology.

The Committee recommends that: (paragraph 4.9)

- 22 the Department of Local Government and Administrative Services critically review all tender specifications to ensure that mandatory requirements are minimised and represent only essential requirements.

- 23 the Department of Local Government and Administrative Services reassures itself that departments have taken proper measures to establish that tender specifications are achievable using existing technology.
- 24 if there remains any doubt on this matter then the Department of Local Government and Administrative Services insist that a two stage tendering process be used, involving an initial Request for Proposals to test vendors' ability to meet proposed requirements.
- 25 the Department of Local Government and Administrative Services ensures that it has at all times the in-house technical expertise to enable it to perform these tasks.

#### The Evaluation Methodology

The Committee concludes that:

- an evaluation methodology which fully prescribed the scoring technique for evaluating tenders and which was acceptable to both the Department of Local Government and Administrative Services and the Department of Employment and Industrial Relations, was not agreed until after the tender evaluation had commenced and a shortlist of tenderers had been prepared.
- the Department of Local Government and Administrative Services should have insisted on the satisfactory resolution of this matter before releasing tenders to the Department of Employment and Industrial Relations.

The Committee recommends that: (paragraph 4.17)

- 26 the Department of Local Government and Administrative Services undertake a review of tender evaluation procedures and methodologies with a view to ensuring that provision is made for the objective comparison and scoring of tenders in circumstances where no tenderer can meet all mandatory requirements.

#### Oversight of the Tender Evaluation

The Committee concludes that:

- the Department of Local Government and Administrative Services should have ensured it was represented at all the Department of Employment and Industrial Relations' Evaluation Steering Committee meetings and all meetings with the final shortlisted tenderers during the tender evaluation.

- . officers of the Department of Local Government and Administrative Services should have briefed the Secretary of the Department on the nature of their concerns about the Job Seeker tender.
- . the Secretary of the Department of Local Government and Administrative Services should have communicated these concerns to the Secretary of the Department of Employment and Industrial Relations.
- . if this did not result in a satisfactory resolution of the matter, it should have been referred to the responsible Ministers for resolution.

#### **Complaints by Unsuccessful Tenderers**

The Committee concludes that:

- . in view of the persistent complaints by a major vendor about the conduct of the tender evaluation and the documented instances of proper tender procedures not being followed, the Department of Local Government and Administrative Services should have commissioned an independent review of the tender process and outcome.

#### **Advance Payment for Equipment**

The Committee concludes that:

- . a formal written contract should have been signed with WANG Computer Pty Ltd before any payments were made or equipment was delivered for the Job Seeker project.
- . the purported urgency of spending funds in the 1984-85 financial year provided no justification for payment for equipment in advance of formal contracts being signed.
- . the delay of six months between payment for the equipment and the signing of contracts is unacceptable and indicative of the highly unorthodox circumstances surrounding this tender.

The Committee recommends that: (paragraph 4.47)

- 27 in circumstances where a successful tenderer is unable to demonstrate and immediately supply all functionality required in a tender, no payments should be made in advance of the signing of written contracts with that tenderer.

## **Funding Approvals**

The Committee concludes that:

- . the decision to change the implementation strategy for the Job Seeker project in August 1984 did have significant additional funding implications. It also had major implications for the Department of Employment and Industrial Relations' overall information technology strategy. In consequence the Department should have sought Cabinet approval for the change in strategy and the additional funds required before proceeding to tender.
- . this Cabinet submission should have sought approval for the full funding necessary to complete the Job Seeker project (ie funds to acquire workstations, additional mainframe capacity and to permit interconnection with the Job Bank network) and to support office automation applications over at least three years.
- . the incrementalist and compartmentalised approach adopted by the Department in seeking separate funding approval for individual but often closely related computer-based projects and, in seeking funding approval only for the initial hardware component of what would clearly become much larger computer networks has:
  - masked and confused the full forward funding implications of these proposals.
  - made any confident appraisal and monitoring of costs and benefits of these systems very difficult.
  - resulted in too little emphasis being given to the need for the integration of these computer-based systems into a Departmental information system.
  - permitted poor planning practices and inadequate definition of the objectives and implementation schedules for these systems.

## **Source of Funds**

The Committee concludes that:

- . the device used by the Department of Employment and Industrial Relations to make funds available to purchase its third mainframe computer was improper and contravened Finance Directions.



- . the Department of Employment and Industrial Relations did not observe proper practice as indicated by Finance Directions in the use of funds to purchase micro computers for the Job Seeker project.
- . in view of the above, full disclosure to the Parliament of the use of funds for the purchase of computer equipment by the Department of Employment and Industrial Relations did not occur.
- . the intentions of the 1965 Compact between the Senate and the Government of the day on the nature of items to be included in Appropriation Bills No 1 and 2 has in this instance been circumvented.
- . accurate information on the costs and use of computer equipment, including office automation equipment, in the Department of Employment and Industrial Relations is not available to the Department of Finance or to the Parliament.
- . there is doubt as to the accuracy of information about the cost and use of computer equipment including office automation equipment in Commonwealth departments and agencies generally.
- . consequently the proper scrutiny of purchasing activities and the assessment and monitoring of the cost effectiveness of computer-based systems may not be possible.
- . there is an urgent need for a review to establish what computer and office automation equipment should be included in the respective financial appropriations and votes. This may require the involvement of the Senate in reviewing the operation of the 1965 Compact.

The Committee recommends that: (paragraph 5.24)

- 28 the Department of Finance complete its review of funding appropriations for computer equipment as a matter of urgency and provide a report to this Committee and the Senate. The report should canvass the options available to deal with these concerns and an indication of the Department of Finance's recommended option.

## CHAPTER 1

### INTRODUCTION

- . The Reasons for the Committee's Inquiry
- . The Committee's Concerns
- . Growth in ADP Functions in DEIR
- . The Job Seeker Project
- . Documentation

#### The Reasons for the Committee's Inquiry

1.1 The Committee's principal current interest in Automatic Data Processing (ADP) arises from its standing reference to examine and report on major ADP acquisition proposals (those greater than \$5 million in value) by the Commonwealth before they proceed to Cabinet for funding approval and before any procurement action is taken. The Committee recognises that, if proper procurement procedures are not followed and seen to be followed, all the planning and evaluation that should precede approval for funding and procurement action (e.g. strategic planning, cost/benefit analysis, feasibility study, user requirements specification, job impact study), will not suffice to ensure a cost effective outcome for the Commonwealth in its computer acquisitions. Additionally, the reputation of the Commonwealth in the market place for fair and responsible purchasing practices will be at risk.

1.2 The Committee's inquiry into the Job Seeker computer acquisition resulted from advice to the Committee of an unusual level of disquiet in the computer vendor industry about the conduct and outcome of the Job Seeker tender. The Committee's concerns were subsequently reinforced by the criticisms made in the Auditor-General's September 1985 Report about the Job Bank project and related aspects of the Department of Employment and Industrial Relations' (DEIR) ADP operations.

1.3 The Committee initiated preliminary enquiries to ascertain the nature of industry concerns about the tender. It also requested submissions and documentation concerning the Job Seeker tender from DEIR and the Department of Local Government and Administrative Services (DOLGAS), the Commonwealth's Contracting Authority with responsibility for major ADP acquisitions. These preliminary enquiries raised levels of concern such that the Chairman wrote to the Minister for Employment and Industrial Relations and the Minister for Finance on 26 September 1985 advising them that the Committee was proposing to undertake more detailed investigations of the Job Seeker project and suggesting that no contract be finalised with the recommended tenderer or further equipment be delivered until the Committee had considered and reported on the matter.

1.4 The Committee also requested a submission from DEIR on the Job Bank project and the matters raised in the Auditor-General's September 1985 Report. However, the Committee decided to focus its inquiries on the Job Seeker tender in view of its concern not to unduly delay this acquisition. The Committee has in consequence only examined the findings contained in the Auditor-General's report in so far as they relate to the Job Seeker acquisition and the Department's general conduct of its ADP operations. However, in recognition of the seriousness of some of the Auditor-General's findings about deficiencies in the planning and management of the Department's ADP acquisitions and operations, the Committee may choose to examine these findings and the Department's response to them in greater detail at a later date.

1.5 During this inquiry the Committee took evidence at a public hearing on 28 November 1985 from officers of the Department of Employment and Industrial Relations and the Department of Local Government and Administrative Services.<sup>1</sup> It also took evidence at a public hearing on 10 March 1986 from Mr D Dunlop of Computer Manufacture and Design Pty Ltd (CMAD), one of the unsuccessful tenderers in the Job Seeker tender.<sup>2</sup>

1.6 In view of the wish expressed by other tenderers not to be publicly associated with criticisms of the conduct of the Job Seeker tender, the Committee chose not to take public evidence from these tenderers.

#### The Committee's Concerns

1.7 The Committee is conscious of the substantial benefits which may be forgone as a result of delays in a major computer acquisition of this type. In addition, the Committee is aware that there is a range of other projects in DEIR, the progress of which is to some degree dependent on the Job Seeker contract. Computer acquisitions proposed for several of these projects may be made under Certificates of Exemption from public tender, issued by DOLGAS, on the basis of a standardisation clause in the Job Seeker contract which states the Department's intention to standardise on WANG equipment for the next 5 years.

1.8 In recognition of the above, the Committee, through its Chairman, made a statement to Parliament on 13 December 1985 indicating its principal findings about the Job Seeker tender.<sup>3</sup> In this statement the Chairman reported that the Committee had two areas of concern.

1.9 Firstly, the Committee had serious concerns about several documented instances during the evaluation of tenders, where proper procedures were not followed. The Committee also noted some unusual and, in its view, unacceptable features of the recommended tender and proposed contractual arrangements with the recommended tenderer.

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1. PAC Minutes of Evidence, Job Seeker Computer Acquisition, 28 November 1985.
  2. PAC Minutes of Evidence, Job Seeker Computer Acquisition, 10 March 1985.
  3. Appendix 2.

1.10 Secondly, the Committee was not satisfied that adequate planning and evaluation was undertaken to support the particular implementation strategy chosen for the Job Seeker project. It has also noted the serious criticisms made by the Auditor-General of the Department's past performance in the conduct of proper planning and evaluation for the Job Bank project.

1.11 The Chairman stated that the Committee would be providing a full report to Parliament on these matters in due course.

1.12 The Committee also concluded that the tendering procedures may have compromised the impartiality of the tender recommendation, but that it had also given careful consideration to the considerable costs resulting from tender cancellation and the consequent delay in the implementation of the Job Seeker project. Reluctantly it concluded that these costs would outweigh the benefits resulting from the conduct of a new tender.

1.13 The Committee therefore recommended that the Job Seeker purchase proceed, subject to certain amendments being made to the proposed contract with the recommended supplier.

1.14 The Committee also recommended that before any further ADP procurement action was taken by the Department, it should undertake a comprehensive re-evaluation of its future ADP needs and represent the outcome in a revised ADP Strategic Plan. This should be supported by full documentation of the planning and justification for all proposed ADP acquisitions over the next three years. The Committee also indicated that it expected any further ADP acquisition proposals from the Department of Employment and Industrial Relations, costing more than \$5 million, to be referred to the Committee for examination and report under its standing reference.

1.15 Subsequent to this statement the Chairman wrote to the Minister for Employment and Industrial Relations and the Minister for Local Government and Administrative Services on 20 December 1985 informing them in greater detail of the Committee's principal conclusions and recommendations.<sup>4</sup>

1.16 The Minister for Local Government and Administrative Services replied to the Chairman's letter on 10 February 1986<sup>5</sup> and the Minister for Employment and Industrial Relations replied on 28 February 1986.<sup>6</sup>

#### The Growth in ADP Functions in DEIR

1.17 ADP applications have grown rapidly in the Department of Employment and Industrial Relations (DEIR) over the past 2-3 years as a direct consequence of a decision to upgrade significantly DEIR's capacity to service the needs of the

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4. Appendices 6 and 7.

5. Appendix 8.

6. Appendix 9.

unemployed and to deliver Government labour force programs. This has required among other things a rapid expansion in ADP staffing levels (more than a 300% increase in the past 3 years) and rapid growth in the computer-based information systems and support services.

1.18 One of the major ADP projects undertaken during this period was the Job Bank project. The purpose of the Job Bank system is to provide Commonwealth Employment Service (CES) offices with job vacancy information through a national network of computer terminals accessing a central data base on the Department's mainframe computer in Melbourne. The Job Bank project was initially expected to be fully operational in April 1984. The system is now fully operational in four states. Victoria and Western Australia have still to obtain the full range of functions because mainframe capacity has not been available to support them.

1.19 The Job Bank project was the subject of a project audit by the Australian Audit Office completed in June 1985. The Auditor-General's subsequent report of September 1985 was strongly critical of the management of the project and of other aspects of the Department's ADP operations. The Auditor-General's conclusions and the Department's response are included at Appendix 1.

1.20 Some of the Auditor-General's major criticisms were:

- the Job Bank project was 18 months behind schedule, due in part to DEIR's failure to prepare a comprehensive statement of user requirements until after the project had commenced;
- the cost implications of this slippage were not recognised as, prior to February 1984, there was not an adequate reporting system for progressive project costs;
- initial planning for Job Bank envisaged 24 man-years of development and operations staff. At the end of 1984 actual use of staff had exceeded 50 man-years;
- funding requirements for consultants were initially estimated at \$1.24 million, but actual expenditure exceeded this by 135%;
- the Department did not maintain a register of all ADP equipment or ensure that such equipment was registered and regularly accounted for;
- three mainframe computers were purchased in a period of three years. Audit could find no evidence that in making one or all of these purchases that:

- the technical feasibility of handling the predicted Job Bank work load had been fully considered;
  - the overall (as opposed to Job Bank) mainframe requirements of the Department had been considered at all;
  - alternative methods of acquiring mainframe capacity had been considered; and
  - proposals and alternatives had been subject to proper cost benefit analysis.
- that if the second mainframe purchase had taken account of all relevant costs, the acquisition would have exceeded \$2 million and required Cabinet approval.

1.21 The Auditor-General reached the general conclusion that:

Inadequate documentation supporting major computer acquisition proposals is a matter of concern. Justification for purchasing actions and the corresponding management accountability for those decisions has been obscured. As a result, evaluation of departmental performance against management plans and strategies is precluded. Audit cannot be assured that evaluation of ADP investment decisions took account of all relevant factors, that acquisitions were in fact properly justified, or that full disclosure to Parliament was made.<sup>7</sup>

1.22 DEIR in its response to the audit report rejected some of these criticisms and indicated remedial action on others. In the Department's letter of 4 October 1985 to this Committee it stated that:

- the planning function has been strengthened through the development and publication of the Department's five year ADP Strategic Plan. A copy of that plan will be provided separately as it is currently in the process of final production;
- adequate documentation for all projects is required as an integral component of the project plan and approval process;
- a separate ADP administration area has been established to co-ordinate and oversight funding and procurement; and

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7. Report of the Auditor-General, September 1985, p. 41.

- a capacity planning exercise has been undertaken to ensure that acquisition of any further ADP equipment adequately takes into account known future needs of the Department.<sup>8</sup>

#### The Job Seeker Project

1.23 In July 1984 Cabinet gave approval to a proposal for the 'Further Provision of Computer Assistance to Job Seeker Services in the Commonwealth Employment Service (CES)'. The Committee understands that Cabinet approved a sum of \$5.02 million (including \$3.3 million for the 1984/85 financial year) for the acquisition of equipment and software to support Job Seeker Services in CES offices.

1.24 The proposal put to Cabinet at this time envisaged a national network of computer terminals in CES offices which would provide access to a central data base of job seeker records on the Department's mainframe computer. This would improve the CES's ability to match job seekers against job vacancies (held on the Job Bank data base) and to improve the information available to management about the characteristics of CES clients.

1.25 On 16 November 1984 DEIR issued a Request For Tender (RFT) for the 'Supply of Micro Computers and Office Software for DEIR'. Tenders closed on 15 January 1985. The successful tenderer, WANG Computer Pty Ltd, was notified on 16 April 1985 and unsuccessful tenderers were notified on 18 April 1985. Contract negotiations with WANG continued over the next 9 months. A contract with WANG was signed on 31 January 1986.

1.26 Early delivery of the major part of the equipment and software tendered was arranged over the period June to September 1985, prior to the conclusion of a formal written contract. Payment was made for 80% of the equipment in June 1985 under a bank guarantee provided by WANG. However as a result of a decision by DEIR management to review its 'deployment strategy' for WANG's micro computers, further equipment deliveries were suspended in September 1985.

1.27 This Committee first communicated its interest in the Job Seeker tender to DEIR on 26 August 1985.

#### Documentation

1.28 During the course of the Committee's inquiries, DEIR and DOLGAS provided the Committee with considerable documentation concerning this tender and related aspects of DEIR's ADP activities. Some of this documentation and other information obtained from a review of departmental files is commercially sensitive.

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8. Appendix 5.2.

1.29 The Committee has taken the position in deciding which of this documentation should be incorporated in the public record of evidence and the Committee's report, that as far as possible no information which would not otherwise be publicly available should be included. In the case of the successful tenderer, WANG Computer Pty Ltd, this position has not been sustainable. The Committee has been obliged, in representing its conclusions about the manner in which this tender has been conducted, to place on the public record information about the WANG contract and how the Committee believes it was concluded.

1.30 The Committee has endeavoured during the course of this inquiry to develop an accurate record and understanding of the conduct of the Job Seeker acquisition. To that end the Committee has found it necessary to draw on documentation tendered as evidence, on the oral testimony given by DEIR, DOLGAS officers and other witnesses at Committee hearings, and on the relevant Departmental files to which the Committee has had access.

1.31 The Committee has found that the documentation held by the Department of Employment and Industrial Relations on the tender to be inadequate as a record of decisions and actions taken during the tender, and of their justification. The files to which the Committee was given access were in a state of some disarray, with critical documentation sometimes being held in loose leaf folders and in other instances unlocatable. Some of this correspondence was unsigned and undated, making it difficult to establish when and if the correspondence was sent. However, the Committee does acknowledge that the Department has generally been co-operative in responding promptly to the Committee's requests for information and access to documentation, when it could be located.

1.32 Documentation on the corresponding files held by DOLGAS was in comparison well organised if not in all respects complete, testimony at least to the professionalism of the project officer responsible for the tender.

1.33 In consequence of these deficiencies in documentation, the Committee has not been able to establish a complete record of events. However, the Committee is confident that the record it has established provides ample evidence to support its conclusions.



## CHAPTER 2

### PLANNING AND APPROVALS FOR THE JOB SEEKER PROJECT

- The History of Job Seeker Project
- Conclusions and Recommendations

#### The History of Job Seeker Project

##### Consultancy Studies

2.1 In 1983 DEIR commissioned a consultancy study by Logica Aust Pty Ltd to examine the feasibility of developing further applications on the Job Bank (job vacancy) system to hold job seeker and training program records, and to provide related operational facilities and management information services. The consultant's report received in August 1983 concluded that the computerisation of job seeker records would give an attractive return on funds invested and would provide other intangible benefits in the area of management information. It recommended, and indeed the cost/benefit analysis undertaken by the consultant presumed, that the Job Seeker system would be implemented on a dumb terminal/mainframe network of the same type as Job Bank and that the new application would establish a single, national data base of job seekers. The Report did not examine office automation requirements though it did indicate that at the time the full Job Seeker strategy was being established, consideration should be given to using micro computers (for office automation functions) in CES offices.

2.2 The consultant also undertook a supplementary study to examine the costs and benefits of extending the existing Job Bank services to country CES offices which were not currently on-line. It reported in September 1983 that this would have a favourable cost/benefit if other management information systems including Job Seeker services were implemented simultaneously.

2.3 The Department subsequently undertook a further cost/benefit analysis study of the Job Seeker project because it was not fully satisfied with the analysis in the consultant's report.

2.4 All of these studies presumed a mainframe/dumb terminal network and not the mainframe/micro computer strategy ultimately adopted.

##### New Policy Proposals

2.5 Two new policy proposals were developed based on the outcome of these studies and their consideration by the Department's Information Technology Policy Committee (ITPC) and

the CES Management Board over the period October 1983 to April 1984. These were:

- 'Provision of Computer Assistance for Job Seeker Services in the CES', whereby a computer system was to be developed directed at improving the provision of services to job seekers using the CES, at an estimated cost of \$5.02 million over 3 years (\$3.3 million in 1984/85); and
- 'Extension of Job Bank Computer System to Country CES offices', whereby off-line country CES offices were to be provided with on-line access to the Job Bank data base, at an estimated cost of \$6.8 million over 3 years (\$4.7 million in 1984/85).

2.6 In its submission of 26 November 1985 to the Public Accounts Committee, DEIR emphasised the close inter-relationship between these two proposals.<sup>1</sup> Each proposal involved accessing the relevant central data bases through a common network of terminals. In addition, capital equipment requirements were distributed between the two proposals such that funds for terminals for both proposals were predominately reflected in the Job Seeker proposal, and funds for terminal controllers for both proposals were predominately reflected in the Job Bank proposal.

2.7 There was considerable discussion and testing of these two proposals by DEIR and CES management before a decision was taken to proceed with both. In particular, the Secretary of DEIR questioned on several occasions the justification for, and risks consequent upon, proceeding with both the Job Bank and the Job Seeker proposal at the same time.<sup>2</sup> In March 1984, prior to a final decision being made to proceed with both proposals, the acting project manager, in indicating his wish to withdraw from the project, strongly recommended against proceeding with the proposals in the 1984/85 financial year because of a range of unresolved problems.<sup>3</sup> One of these problems was the uncertainty as to whether the Department could provide sufficient capacity on its existing mainframe computer for both the new Job Seeker and the existing Job Bank applications.

2.8 The Committee also notes that one of the many arguments put by the General Manager, Planning and ADP Division for proceeding with both proposals immediately was that:

1984/85 is the last year in which new computer projects of this size will not be subject to examination and any consequent delays, by the Public Accounts Committee.<sup>4</sup>

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1. PAC Minutes of Evidence, Department of Employment and Industrial Relations Submission, 26 November 1985.

2. CES Management Board, 51st meeting, Friday 24 February 1984.

3. Minute to General Manager, CES Planning and ADP Division, 21 March 1984.

4. Minute to Secretary, DEIR, 27 February 1984.

## Cabinet Decisions

2.9 In July 1984 Cabinet approved the Job Seeker proposal but not the Job Bank extension proposal. The Committee has not been able to determine to what extent the close relationship between these two proposals, indeed their mutual dependence, was brought to the Cabinet's attention in bringing them forward as separate proposals. However, the Committee notes that these proposals were given very different priorities in the Department's list of new policy proposals.

2.10 A consequence of the failure of the Job Bank extension proposal to gain Cabinet endorsement was, according to DEIR's submissions to this Committee, that the \$5.02 million initially approved and subsequently used to purchase 300 micro computers was insufficient to 'complete' the Job Seeker project.

2.11 This situation arose in part because of the manner in which the costs for the terminals and terminal controllers were distributed between the Job Bank and Job Seeker proposals (refer paragraph 2.6).

2.12 The Committee concludes that:

- it was unwise, if not deliberately deceptive, to have not included in each of the proposals the full cost of implementing the individual projects without the presumption that the other would also be implemented. Additional cost savings and benefits which could have resulted from their joint implementation should have been separately identified.

2.13 DEIR subsequently informed the Committee in a letter of 4 December 1985 that it would be seeking approximately \$2 million in the 1985/86 financial year additional to the funds initially requested. These funds were to be used for the purchase of an additional 290 terminals necessary to allow the viable implementation of the Job Seeker system.<sup>5</sup>

### Decision to Change Implementation Strategy

2.14 At a meeting of DEIR's Information Technology Policy Steering Committee on 27 August 1984, shortly after the Cabinet decision approving funds for the Job Seeker project, a new implementation strategy for the Job Seeker system was proposed by the General Manager, Planning and ADP Division and endorsed by the Steering Committee. This strategy proposed the concurrent development of the Job Seeker applications on both micro computers and the mainframe computer. This effectively meant abandoning the original mainframe/dumb terminal approach, the basis of the recent Cabinet submission, for a network of micro computers which could operate in both stand-alone mode and also communicate with the mainframe computer.

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5. Appendix 5.5.

2.15 This fundamental change in the implementation strategy for Job Seeker was based on a seven page 'discussion paper' put to the Information Technology Policy Committee<sup>6</sup> which argued, inter alia:

- . that this was a lower risk strategy which would allow rapid development of Job Seeker and office automation applications on stand-alone and locally networked micro computers. These could subsequently be linked to the mainframe computer when mainframe applications were developed;
- . that a re-examination of the Job Seeker system indicated a substantially greater need to provide for local requirements;
- . that other needs had been identified in CES offices including office automation functions;
- . that there had been significant developments in distributing processing technologies since the consultant's report of August 1983<sup>7</sup>; and
- . that the failure of the 'Job Bank Extension' proposal to gain Cabinet support, imposed 'limitations on the existing terminal network'.

2.16 This discussion paper also stated that:

- . the costs of implementing this strategy would be approximately the same as the previous proposal;
- . it would be feasible to develop and implement the micro computer system within the current, 1984/85 financial year;
- . aspects of the proposal involved applications of technology as yet unproven in Australia; and
- . it was unlikely that a specialist in all relevant aspects of distributed micro computing systems would be found in Australia.

2.17 What this paper apparently failed to mention was that the manufacturer of the terminals and controllers previously used by the Department in the Job Bank project went out of business in May 1984. This precluded the purchase of the same terminals and controllers for the Job Seeker project. This has been presented by DEIR in its submissions to this Committee as a major reason for rejecting the mainframe/dumb terminal strategy.<sup>8</sup>

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6. Minutes of Information Technology Policy Steering Committee Meeting, DEIR, 27 August 1984, attached discussion paper.

7. Committee's comment: these 'developments' must presumably also have occurred since the Job Seeker new policy proposal was lodged in March 1984.

8. PAC Minutes of Evidence, Department of Employment and Industrial Relations' Submission, 26 November 1985.

2.18 The same meeting of the Information Technology Policy Committee also agreed that an envisaged \$2 million shortfall in capital funds in 1984/85, for the implementation of the Job Seeker project, should be sourced from other ADP related votes. The Committee has noted that, in the event, of the \$3.7 million spent in 1984/85 on the Job Seeker acquisition, \$1.8 million was obtained from the Office Requisite and Equipment item in the Administrative Services vote (refer paragraph 5.15).

2.19 A final draft of the Department's 1984/87 Information Technology Strategic Plan was also considered and approved at this ITPC meeting. The plan was subsequently released in October 1984.

#### Preparation of a Request for Tender (RFT)

2.20 Subsequent to this decision of the Information Technology Policy Committee, the Department established a new Job Seeker project management team and the services of a consultant were retained to assist in the development of a Request for Tender. The RFT was apparently prepared in one month, an achievement quoted on several occasions during the public briefing of potential tenderers held in December 1984. The RFT was issued on 16 November 1984.

2.21 The Committee has noted the following features of the Request for Tender:

- . it comprehended not only requirements for the Job Seeker project but also for office automation functions. These were given approximately equivalent emphasis;
- . it specified (what could be loosely described as) functional and performance requirements rather than specific equipment and software requirements;
- . it indicated the need for workstations (units of functionality) in certain configurations allied to the size and number of CES regional and zone offices;
- . these workstations were, in their minimum configuration, to permit data entry, document printing and communication with the Department's mainframe computer and other offices in a multitasking (concurrent) mode;
- . it indicated an initial requirement of 300 workstations in the 1984/85 financial year;
- . it indicated expandability requirements for hardware and software to cope with future growth, including an expected increase of '300 terminals

per annum in the network to cope with increased office applications such as word processing, electronic mail, spread sheets and other office applications which are developed<sup>9</sup>;

- . it included a statement that the Department may standardise on the equipment purchased from the successful tenderer for a period of five years, and that equipment so purchased would be tied by an indexation formula to the originally tendered price;
- . it did not indicate a requirement for mainframe capacity to support the Job Seeker mainframe applications but it did require that the network of workstations be able to communicate with the Department's mainframe; and
- . it specified over 100 'major' mandatory requirements and a large number of desirable requirements. It stated that these requirements must be met by proven hardware and software products demonstrably working in independent customer installations.

2.22 The Committee has also noted that at the public briefing of potential tenderers on 12 December 1984, the General Manager, Planning and ADP Division stated (according to the transcript of the audiotape of that briefing):

- . We are after people who can meet all the mandatory requirements. If you can't meet the mandatory requirements don't waste our time and your time..
- . We emphasise that the machinery has to exist, it has to be able to be benchmarked in the time parameters we want...
- . We are basically wanting to pay rock bottom prices on this particular product. We want volume discounts...

#### Conclusions and Recommendations

2.23 The Committee recognises that considerable planning and evaluation did occur over the period August 1983 to March 1984 prior to the submission of the Job Seeker new policy proposal. This included the two reports prepared by consultants, extensive discussion and testing of the consultant's recommendations by the Department's Information Technology Policy Committee and the CES Board of Management. However, subsequent to the decision to change from a mainframe/dumb terminal to a mainframe/micro computer implementation strategy in August 1984, the project's 'progress' appeared to accelerate rapidly to the detriment of proper planning processes.

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9. Request for Tender for 'Micro Computers and Office Software', Department of Employment and Industrial Relations, 59/07281S, Section 3.7.

2.24 The Committee does not dispute that there may have been good reasons for a change in the implementation strategy for Job Seeker and that some preliminary feasibility and costing studies on a micro computer strategy were undertaken prior to, and also subsequent to, that decision. The Committee also notes that a distributed processing strategy based on micro computers was probably an attractive and potentially cost effective solution for a Department with a decentralised management system and a perceived need to introduce office automation systems.

2.25 However, the Committee concludes that:

- the decision to pursue a dual mainframe/micro computer strategy where applications would be developed in parallel on both the mainframe computer and on micro computers was over ambitious in terms of the time and development resources its successful implementation would require;
- the decision to adopt this strategy and proceed to tender was taken without proper consideration of its implications for the Department's overall computing strategy and the need for Job Seeker's integration with Job Bank and other proposed computer-based systems;
- the subsequent decision to proceed to tender within three months of the decision to pursue a mainframe/micro computer strategy was not supported by proper planning and justification, including a comprehensive user requirements analysis and system specification and the application of a sound planning and project implementation methodology;
- given this very significant change in not only the implementation strategy for the Job Seeker project but also its implications for the Department's overall hardware and applications development strategy, a more considered pace should have been adopted to ensure Job Seeker and other office automation systems were developed and implemented in a realistic time frame;
- the Request for Tender which was issued in November 1984 was prepared with unjustifiable haste and was over ambitious in its technological requirements. It specified a set of over 100 'major' mandatory requirements which could not all be met by any tenderer using currently available technology. This included the successful tenderer which, if it was able to meet all requirements only did so using an 'interim configuration', which was unacceptable as a permanent working arrangement;

- the Department's 1984 ADP Strategic Plan did not provide an adequate basis for ensuring that the Job Seeker project and other computer-based systems were developed with due consideration to the availability of adequate development resources and mainframe capacity and, to the need for the integration of these systems;
- given the problems which were emerging with the Job Bank project and the Department's over-extended ADP resources, the Department should have deferred the Job Seeker tender and consolidated its existing achievements with the Job Bank project. It should then have ensured that a decision to proceed with Job Seeker and other projects was based on a thorough and comprehensive assessment of the Department's total information needs and a fully integrated information technology strategy;
- given the technological uncertainties which the Department recognised were associated with the mainframe/micro computer strategy, a two stage tendering process should have been adopted. A Request for Proposals should have been issued to permit a preliminary assessment of the ability of vendors to meet the Department's requirements;
- the speed with which procurement action proceeded appears to have been motivated by the Department's concern to spend available funds by the end of the 1984/85 financial year. This placed extreme and unacceptable time constraints on the public tendering process; and
- the desire to spend funds by the end of the 1984/85 financial year and the consequent haste with which requirements were specified and the whole tendering process undertaken have resulted ultimately in greater delay and cost than would have occurred had the planning and procurement proceeded at a more considered and responsible pace.

2.26

The Committee recommends that a more cautious, properly planned and phased strategy be employed by DEIR in the future development and implementation of computer-based systems. Such a strategy should:

- 1 ensure these new systems are planned, developed and implemented in a realistic time frame;
- 2 allow for the progressive refinement and consolidation of systems, avoiding overcommitment of human and other resources because of concurrent systems development; and



- 3 apply a satisfactory planning and project implementation methodology, including provision for:
- user requirements analysis
  - feasibility study and market appraisal
  - strategic design study
  - conceptual system design
  - cost/effectiveness analysis of alternatives
  - organisational and job impact study
  - training and user support strategy
  - specification of requirements
  - definition and quantification of benefits
  - development of performance monitoring system
  - issue of Request for Proposals if necessary
  - issue of Request for Tender
  - evaluation and letting of tenders
  - installation and acceptance testing
  - detailed design of applications
  - development of applications
  - user education and training, and
  - implementation and performance monitoring of applications

2.27 The Committee also recommends that before the Department of Employment and Industrial Relations purchases or leases any additional equipment, including any additional micro computers from WANG Computer, and additional mainframe capacity as currently proposed, it should first:

- 4 produce a current and comprehensive ADP Strategic Plan;
- 5 specify a development program over the next three years which is achievable without resort to the practices of which the Auditor-General and this Committee have been critical;
- 6 demonstrate that full consideration has been, and will continue to be given to the need for the integration of current and proposed systems;
- 7 complete a full survey and specification of user requirements in relation to currently planned applications including Industrial Relations, Apprenticeship Training Program, Youth Services and other office automation applications;
- 8 demonstrate that project and financial management systems have been put in place to answer the criticisms made by the Auditor-General in his September 1985 Report;

- 9 demonstrate that appropriate output indicators and performance monitoring systems have been developed to permit an assessment to be made of the success of these projects in relation to initially asserted benefits;
- 10 demonstrate that the Job Seeker micro computers already acquired are being used fully and effectively, that staff training and user support services are operating effectively, and that predicted benefits have been achieved to date; and
- 11 provide evidence (viz., benchmark results) that the additional functionality promised by WANG by 30 June 1986 does meet all mandatory requirements of the Request for Tender and in particular the mandatory multitasking requirements.

2.28 The Committee communicated the most important of these recommendations to the Minister for Employment and Industrial Relations in a letter of 20 December 1985.<sup>10</sup> In particular the Committee indicated to the Minister that it would expect to receive a request from the Minister to review a proposed \$8 million mainframe computer acquisition by his Department under the Committee's standing reference to examine and report on major computer acquisition proposals (ie those over \$5 million) before they are submitted to Cabinet for funding approval.

2.29 The Committee indicated to the Minister that it had been briefed by his Department on the 'perilous state' of the Department's existing mainframe which was apparently unable to meet peak demands imposed by existing Job Bank applications. The Committee also indicated that it believed this situation was in part a consequence of the serious deficiencies in the Department's past conduct of proper planning and evaluation to support the Job Bank project, of which the Auditor-General was so critical in his September 1985 Report. The Committee stated that its inquiry into the Job Seeker acquisition had provided little grounds for confidence that the current mainframe proposal was free of the same planning and management deficiencies which had been identified in the Job Bank and Job Seeker projects.

2.30 The Minister for Employment and Industrial Relations, in his reply of 28 February 1986, acknowledged some of his Department's 'administrative shortcomings' to which the Committee had drawn his attention and outlined some of the actions he had taken to remedy these.<sup>11</sup> However he indicated that in view of the urgency of the mainframe acquisition proposal, he intended to submit the proposal to Cabinet before getting final endorsement by the Public Accounts Committee. In the interim, documentation supporting the proposal had been sent to the Committee for its information.

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10. Appendix 6.

11. Appendix 9.

2.31 The Committee received that documentation on 4 December 1985 but without any formal reference from the Minister.<sup>12</sup> The Committee has not subsequently received a reference from the Minister nor any further advice from him or his Department on the progress of the mainframe acquisition proposal. The Committee did review the documentation provided to it and subsequently communicated its preliminary comments on the proposal to the Department.<sup>13</sup> It has received no further advice from the Minister or the Department on the matter.

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12. Appendix 5.5.

13. Letter from Committee to General Manager, Planning and ADP Division, DEIR, 18 March 1986.

## CHAPTER 3

### CONDUCT OF THE TENDER

- . Evidence
- . The Tender Evaluation
- . The Tender Outcome
- . Advance Delivery of Equipment
- . Conclusions and Recommendations

#### Evidence

3.1 The Committee's conclusions about the conduct and outcome of the Job Seeker tender evaluation are based on the evidence submitted by DEIR and DOLGAS, and the Committee's review of departmental files. The deficiencies in documentation, particularly that held by DEIR, where for example the audiotapes of some important meetings between DEIR officers and tenderers were of such poor quality that intelligible transcripts could not be provided, have meant that a complete record of all events during the evaluation could not be obtained. However the Committee believes the record that does exist provides ample evidence to support its conclusions.

#### The Tender Evaluation

3.2 The Committee's understanding of the principal sequence of events during the tender evaluation is as follows.

#### Close of Tenders

3.3 Tenders closed on 15 January 1985. Twenty four tenders were received. At this time DEIR had a large evaluation team of approximately 20 people established in Melbourne ready to commence work.

3.4 However, DOLGAS declined to release the tenders to DEIR because it was not satisfied with certain aspects of the evaluation methodology, and in particular, the method to be used for costing desirables (ie those requirements of tenders which are not mandatory) and the nature and use of information sought in the questionnaire attached to the RFT.

3.5 On 17 January 1985 the Evaluation Steering Committee, established to oversight the tender evaluation, met. It was chaired by the General Manager, Planning and ADP Division and included among others the Evaluation Team Leader, the consultant who had assisted in the preparation of the RFT and a DOLGAS representative. At this first meeting ostensibly strict arrangements for the tender evaluation were outlined including the following:

- only the Chairman and one other member of the Steering Committee were to have access to tender documents;

- all phone calls with tenderers were to be documented and all meetings with tenderers tape recorded; and
- impartiality and confidentiality were to be stressed at all times.

3.6 DOLGAS, on advice from its Technical Consultancy Section, had requested further documentation to explain and justify fully the evaluation methodology proposed so that it could be vetted for bias. It is a basic requirement of the tendering process as specified in the 'Guidelines for ADP Acquisition', that the evaluation methodology which the purchasing department proposes to employ during the evaluation, be fully specified and documented before the tender evaluation begins (refer paragraph 4.11). This is to ensure that any subjective judgements, which may be required in specifying the evaluation methodology, are made before tenders are sighted and hence are not influenced by the content of those tenders.

3.7 The tender evaluation team was apparently kept 'on hold' at Jensen House for a week. DOLGAS finally agreed to release the tenders after being given an undertaking (apparently only orally) that DEIR would provide the required documentation on the evaluation methodology before it proceeded to 'benchmark' tenders. DOLGAS released the tenders on 21 January 1985.

3.8 The letter of release emphasised among other things that:

- . all questions relating to price or other contractual conditions should be referred to DOLGAS for consideration and appropriate action;
- . a drop copy of all correspondence with tenderers should be forwarded to DOLGAS for information;
- . DOLGAS should be informed of progress and be given advance notice of all meetings with tenderers and Evaluation Steering Committee meetings; and
- . a copy of the 'shortlist report' should be provided to DOLGAS as soon as it was complete.

3.9 This letter also referred to the 'Guidelines for ADP Acquisition' and recommended reference be made to these prior to and during the evaluation (refer paragraph 4.2).

3.10 DEIR then proceeded to 'shortlist', a process whereby clearly unsuitable tenders are eliminated based on an evaluation of the tender documents. A 'shortlisting report', giving reasons for eliminating tenders would normally be prepared and submitted to DEIR management and DOLGAS before 'benchmarking' of shortlisted tenders commenced. DOLGAS specifically requested a

copy of the 'shortlist report' when it released tenders to DEIR. A report was provided to DOLGAS on 12 March 1985, after the commencement of the 'benchmark' process.

3.11 During the initial shortlisting period prior to benchmarking, the Evaluation Team Leader (a DEIR officer at that stage) forwarded letters dated 31 January, 1 and 4 February 1985 to five tenderers requesting further information on their offerings. On receipt of copies of these letters DOLGAS sent a strongly worded telex to DEIR on 11 February 1985 stating that:

- . . . the letters appeared to be soliciting late amendments to tenders (and therefore contravened government purchasing procedures);
- . . . the letters referred to a shortlist of tenders, which DOLGAS had neither received nor approved;
- . . . the letters could have compromised the rules of tendering to the extent that re-invitation of tenders would be required; and
- . . . the promised documentation on the proposed evaluation methodology was still outstanding and that until DOLGAS had received it, DEIR should not proceed beyond shortlisting.

3.12 On 15 February 1985 one of the tenderers, Computer Manufacture and Design Pty Ltd (CMAD) wrote to DOLGAS registering a complaint about its exclusion from further tender evaluation. Further details of correspondence and actions on the CMAD complaint are contained in the CMAD submission of 10 March 1986 and DOLGAS submission of 26 November 1985 to the Committee.<sup>1</sup>

#### 'Benchmarking' of 5 Shortlisted Tenderers

3.13 Benchmarking of five shortlisted tenderers commenced on 18 February and appears to have continued until 1 March 1985. Benchmarking is a process by which selected tenderers are asked to provide technical demonstrations of the extent to which their tendered equipment and software meets the requirements of the RFT. DEIR conducted benchmarks at Jensen House in Melbourne. Some further benchmarking did occur off site at vendor premises subsequent to this formal benchmarking period.

3.14 As a result of a strongly worded letter from DEIR of 18 February 1985, and possibly a meeting between DOLGAS and DEIR subsequent to that, DOLGAS wrote to DEIR on 25 February stating it had received additional documentation from DEIR about the evaluation methodology and although this was still being examined, DOLGAS envisaged no further problems. The letter also indicated that DOLGAS had raised its previous concerns about the evaluation 'in good faith', that it did not wish to delay the evaluation and was looking forward to receiving DEIR's shortlisting report.

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1. PAC Minutes of Evidence, Public Hearing, 28 November 1985 and 10 March 1986 .

3.15 On 11 March 1985 a briefing was given to DEIR's Executive on the preliminary recommendations of the Evaluation Team and Evaluation Steering Committee. This briefing provided a resume of the tender evaluation process to date, stating among other things that an 'evaluation team was established under the leadership of an independent consultant' and that a 'short list of 3 tenderers was developed and together with a draft report was forwarded to the Department of Administrative Services'. It recommended that negotiations commence with WANG Computer Pty Ltd for the supply of micro computers subject to its meeting outstanding mandatory requirements.

3.16 On 12 March 1985 a copy of the draft evaluation report was forwarded to DOLGAS under cover letter. It recommended a short list of three tenderers: WANG Computer Pty Ltd, and Tenderers 2 and 3. It indicated that all three shortlisted tenderers failed at least one major mandatory requirement of the tender, but all claimed they could overcome these problems.

3.17 On 13 March 1985 a meeting was held between DEIR and DOLGAS at which DOLGAS pointed out that tenderers had been shortlisted which did not meet all mandatory requirements of the RFT. DEIR stated that they had been forced to shortlist on the basis of those tenders which met the majority of mandatories. DOLGAS agreed that DEIR should proceed on this basis.

Request to Shortlisted Tenderers to meet Outstanding Mandatory Requirements.

3.18 At an Evaluation Steering Committee meeting on 20 March (DOLGAS was not represented) a negotiation project team was established and options were considered for overcoming the inadequate tender responses. WANG was confirmed to be the preferred tenderer. However, it was decided to write to the three shortlisted tenderers requesting written advice by 27 March on how they proposed to overcome the deficiencies in their tenders.

3.19 Between the date of this meeting and the subsequent notification of the tender outcome on 16 April, six recorded meetings were held with WANG, one meeting with Tenderer 2 and none with Tenderer 3.<sup>2</sup>

3.20 Letters were sent on 21 March with an attached list of outstanding mandatory requirements. The letter to WANG identified eleven outstanding mandatories including the capacity to communicate with the mainframe over an SNA<sup>3</sup> network in a multitasking fashion. The letter to Tenderer 2 identified three outstanding mandatory requirements and the letter to Tenderer 3 identified six. Both Tenderers 2 and 3 were unable to demonstrate the ability to operate DBMS<sup>4</sup> software in a multitasking fashion.

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2. Appendix 5.2, attached documentation

3. SNA - Standard Network Architecture (IBM's proprietary network architecture).

4. DBMS - Data Base Management System (a generic term for software to manage data bases).

3.21 An Evaluation Steering Committee meeting on 28 March (DOLGAS was represented but the Chairman did not attend) considered the responses from WANG and Tenderer 2, noting that WANG had again failed the communications mandatory and Tenderer 2 had again failed the database mandatory. Tenderer 3 apparently had not responded to the Department's letter of 21 March 1985. It was resolved to send further letters to WANG and Tenderer 2 requesting further advice on their capacity and commitment to meet outstanding mandatory requirements. The letter to WANG was sent on 31 March 1985 and the Committee believes a parallel letter was sent to Tenderer 2. The Committee noted that copies of much of this correspondence were held in loose leaf 'files' in DEIR, were undated and unsigned. It is therefore difficult to verify when and sometimes if, they were forwarded.

3.22 The 28 March 1985 was also the date on which the Tender Evaluation Report states that the tender evaluation was completed.

3.23 On 1 April 1985 DOLGAS telexed DEIR providing clearance of the 'draft letter of 31 March' to WANG. However DOLGAS stated its concerns that DEIR's 'apparent discussion of contractual issues without an officer from my branch present could have eroded our position in future negotiations'. DEIR replied by telex on 2 April stating that its discussions with WANG had only canvassed technical issues, and reaffirming 'our previous offer that you would be welcome to provide an officer full-time to participate in all discussions with tenderers'.

3.24 A final Evaluation Steering Committee Meeting was held on 10 April 1985 (no DOLGAS representation). The Chairman of that committee emphasised the considerable price advantage that WANG enjoyed over Tenderer 2. Another member of the committee reminded him that WANG's failure to meet the mandatory communications requirement should not be overlooked regardless of price. The Chairman indicated that a reply had been received from Tenderer 2 making a further offer and that a reply was expected from WANG. It was reported that both WANG and Tenderer 2 were still unable to meet outstanding mandatory requirements but that WANG was proposing to offer new combinations of equipment which would do so.

3.25 The Public Accounts Committee surmises, but has not been able to obtain any confirming documentation that, between 10 and 16 April WANG made a further offer and DEIR considered that it satisfied all outstanding mandatory requirements. A final copy of the Evaluation Report was then referred to DOLGAS apparently without any covering letter or record of the date of referral.

#### Notification of Tender Outcome

3.26 On 16 April 1985 WANG was advised by DOLGAS by telex that its tender had been successful. On 17 April DOLGAS telexed DEIR stating that 'a number of suppliers have contacted us to advise that they have been unsuccessful in tendering in this



project. This office is concerned that unsuccessful tenderers have been advised prior to official notification'. On 18 April DOLGAS notified unsuccessful tenderers. On 19 April DEIR telexed a denial of premature disclosure of tender.

3.27 On 18 April Tenderer 2 contacted the Deputy Secretary of DOLGAS (subsequently followed by a telex) claiming an error in the tender evaluation due to a miscalculation of exchange rate variation and Australian content. Subsequent extensive correspondence and actions over the next two months on this and other complaints by Tenderer 2 are detailed in the submission from DOLGAS to the Committee of 26 November 1985.<sup>5</sup>

#### The Tender Outcome

3.28 During the period between 21 March 1985 when letters were sent to three shortlisted tenderers inviting them to indicate how they proposed to meet outstanding mandatory requirements, and the notification of the tender outcome on 16 April 1985, intensive negotiations were conducted between DEIR and WANG. At least six (the Committee has reason to believe there were more which DEIR inadvertently or otherwise have not reported) meetings were held between DEIR and WANG's negotiators during this period.<sup>6</sup>

3.29 The transcripts of the audiotapes of only some of these meetings are available and intelligible. On the basis of those that are, and the nature of the arrangements described in early drafts of the proposed contract with WANG, the Committee has the following comments to make about the successful tender and the manner in which it was arrived at.

3.30 Although there were eleven mandatory requirements which WANG was initially unable to meet, the main focus of negotiations during the period mentioned was as to how WANG could meet the major mandatory communications requirement of the RFT.<sup>7</sup> WANG was prepared to commit itself to meeting this requirement at some date in the future by providing an advanced version of their personal computer (APC) and new communications capability, to be provided by a new operating system, MSDOS 4.0.

3.31 However DEIR, and in particular its chief negotiator, the General Manager of Planning and ADP Division, wished to achieve an arrangement with WANG, whereby not only would WANG commit itself to meeting the mandatory communications requirement of the RFT by some specified date (30 June 1986 was finally agreed upon), but WANG would also provide an 'interim arrangement' which would meet these requirements until such time as the APC and MSDOS 4.0 became available.

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5. PAC Minutes of Evidence, DOLGAS Submission, 26 November 1985.
6. Appendix 5.2, attached documentation
7. Request for Tender for 'Micro Computers and Office Software', Department of Employment and Industrial Relations, (Request No. 59/07281S), Section 2.1.2(a).

3.32 The prime motivation of DEIR's chief negotiator appears to have been to obtain as much functionality and equipment as possible for his Department within the original price tendered by WANG. He appears to have been very successful in that the initial arrangement negotiated with WANG included equipment and functionality not in fact required by the RFT.

3.33 The tender provided for 300 units of functionality (essentially 300 workstations) to be installed in CES offices to support the Job Seeker system. WANG committed itself to provide this functionality by June 1986 in the form of 300 advanced micro computers (APC's), 300 printers and the new MSDOS 4.0 operating software.

3.34 In the interim it proposed, with considerable encouragement from DEIR, to provide the same functionality in the form of 900 micro computers and 600 printers. These would be configured in clusters of three micro computers and two printers, with one micro computer performing as a controller. The other two less powerful 'slave' micro computers and two printers would be dedicated to the printing and communications function. In summary, WANG would provide at no additional cost, three micro computers and two printers to perform functions that it guaranteed could subsequently be performed by one micro computer and one printer supported by improved operating software, MSDOS 4.0.

3.35 This complex and costly arrangement was necessary to permit data entry, document printing and communication with the mainframe and other offices in a multitasking or concurrent mode. The Committee understands WANG provided a demonstration of the configuration shortly after it was notified of the tender outcome. However the Committee has yet to be provided with evidence of formal benchmarking of this configuration. The Committee has doubts as to whether the proposed interim configuration could in fact fully meet the functionality requirement of the RFT. In addition DEIR has indicated that, in the event, none of the equipment supplied has been or will be configured to provide this functionality. The loaned equipment has instead been deployed for stand-alone or locally configured office automation functions.

3.36 The 600 additional 'slave' micro computers and 300 additional printers provided as part of this interim configuration were to be loaned to DEIR without cost until the APC and MSDOS 4.0 operating software became available. The cost of this arrangement in terms of the lease income forgone by WANG over the period 30 June 1985 to 30 June 1986 is conservatively estimated at \$2.5 million. This does not include two VS mini computers which WANG also agreed to lend free of cost.

3.37 WANG was obliged to offer this equipment free of cost so that its original tendered price remained unchanged. However the initially negotiated arrangement (as represented in a draft

contract of 25 September 1985) provided for the Department to pay half the normal maintenance charge for this loaned equipment. WANG was to pay a furniture allowance of \$25 for each loaned micro computer in view of the considerable additional cost (certainly much greater than \$25) to DEIR of having to provide desks and other mounting equipment for the loaned micro computers and printers.

3.38 A critical feature of the arrangement initially negotiated with WANG was the provision of memory upgrades for each of the 600 'slave' micro computers. These memory upgrades were not necessary to meet the requirements of the RFT. However they did allow the additional 600 micro computers to operate as fully functional, rather than 'slave', micro computers performing the full range of office automation functions.

3.39 The Department proposed to lease these memory upgrades at a cost conservatively estimated by the Committee to be \$1.7 million over one year. It is not clear to the Committee where DEIR intended to source these funds but it is clear that the additional income to WANG would provide some compensation for the \$2.5 million income loss it would incur by the free loan of 600 'slave' micros, 300 printers and two mini computers to DEIR. The lease of the memory upgrades also provided a strong indication to WANG that DEIR did not intend to return the 600 'slave' micros after June 1986 when they became redundant. Instead it suggested DEIR would purchase or continue to lease them to be used as fully functional micro computers. This is consistent with the indication in the RFT of DEIR's future requirements of about 300 additional units each year to perform office automation functions. However delivery of 600 units with memory upgrades at least 12 months in advance of when they would otherwise be required would seem to represent more of a commitment to purchase than does a 'statement of likely requirements in an RFT.'

3.40 These proposed arrangements were set out in a draft contract dated 25 September 1985. The Committee has noted that, subsequent to that date and subsequent to the Committee's initiation of its inquiry into the Job Seeker acquisition, some of these arrangements have, quite significantly, been abandoned. In particular, the Committee was informed at the public hearing on 28 November 1985 that DEIR had advised WANG Computer that it no longer wished to lease memory upgrades for the 600 loaned 'slave' micro computers.<sup>8</sup> WANG indicated its agreement to the return of the upgrades while registering in strong terms the considerable expense and dislocation to WANG resulting from this 'change in requirements'.

#### Advance Delivery of Equipment

3.41 Payment and delivery of this equipment and associated software occurred over the period June to September 1985. This occurred under advance delivery arrangements whereby, in the

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8. PAC Minutes of Evidence, 28 November 1985, p. 44.

absence of a contract with WANG (a contract was not successfully negotiated and signed until 31 January 1986, nine months after notification of tenderers) a bank guarantee was obtained from WANG covering advance payments. DOLGAS has advised that this arrangement was not exceptional in that advance deliveries are often made under bank guarantees where the Commonwealth's requirements are urgent and the equipment list is known.

3.42 However, the Committee has been unable to locate any record of a request from DEIR to DOLGAS for approval to have equipment delivered in advance of contracts being signed, prior or subsequent to the initial request for delivery to WANG by DEIR by telex on 8 May 1985.

3.43 In the event all 300 'controlling' micro computers and 241 of the 600 'slave' micro computers including memory upgrades were delivered to DEIR between June and September 1985. It must be presumed quite coincidental that on 24 September 1985, shortly after this Committee's first communication with DEIR about the Job Seeker tender, DEIR stopped all further deliveries of equipment in order to reassess its strategy regarding the deployment of terminals.

3.44 The advice provided to the Committee by DEIR in its submission of 26 November 1985 indicates that the equipment that was delivered has never been configured in the three unit clusters necessary to permit its multitasking operation as required by the RFT. DEIR has since indicated that it does not intend to attempt to use the equipment to communicate with the mainframe or other CES offices until later in 1986. As of November 1985 most of the units were operating as stand-alone micro computers. The Committee understands that this is still the situation.

3.45 Furthermore, the manner in which the units delivered up until September 1985 were distributed throughout the Department does not appear to be consistent with an intention to use them in three unit multitasking clusters. The Committee was advised by DEIR in correspondence of 16 October 1985 that the decision to suspend equipment deliveries in September 1985 was in part precipitated by concern in regional and state offices about the number and distribution of micro computers.<sup>9</sup>

#### Conclusions and Recommendations

3.46 There were six documented instances during the tender evaluation when DEIR officers did not follow proper procedures and which subsequently came to the attention of DOLGAS.<sup>10</sup> These instances precipitated expressions of serious concern by DOLGAS about the tender, its public defensibility and the possible erosion of the Commonwealth's negotiating position.

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9. Appendix 5.3.

10. PAC Minutes of Evidence, DOLGAS Submission, 26 November 1985.

3.47 The Committee has noted DOLGAS's statements in its submission and at the public hearing on 28 November 1985 that, subsequent to DOLGAS expressing its concerns about abuse of procedures during the early stages of the evaluation, DEIR stood corrected and the evaluation subsequently proceeded according to proper procedures.

3.48 The Committee is unable to reconcile this portrayal of events with those documented instances during the latter stages of the evaluation and early stages of contract negotiation (these two activities overlapped considerably during the conduct of this tender) when DOLGAS communicated further concerns to DEIR on 1 and 18 April and 16 May 1985. These were:

- . that improper contractual discussions with tenderers appeared to have occurred (1 April 1985);
- . that there had been premature disclosure of the result of the tender (18 April 1985); and
- . that, in the latter instance, a demand (for an unspecified reason) that all written and oral communication with any tenderer, vendor or contractor regarding the Job Seeker Project be cleared through DOLGAS (16 May 1985).

3.49 The Committee also notes that, in spite of DOLGAS's repeated requests, neither the documentation requested by DOLGAS on the evaluation methodology nor a shortlisting report justifying the selection of tenderers for benchmarking was provided to DOLGAS prior to the commencement of benchmarks. Although these particular actions may not, in the event, have resulted in any demonstrable bias in the tender evaluation, they are indicative of the pattern of behaviour displayed by DEIR and DOLGAS during the whole tender process. This pattern of behaviour typically commenced when DEIR ignored proper procedures including the requirement for DOLGAS's involvement and approval. DOLGAS was then usually presented with a 'fait accompli' and was consequently obliged to accept, under protest, DEIR's actions after the event.

3.50 This pattern of behaviour persisted in the latter part of the tender evaluation where the transcripts of audiotapes of discussions with vendors and in particular with the recommended tenderer clearly indicate that contractual matters were being discussed by DEIR officers with WANG. The 'Guidelines for ADP Acquisition' require DOLGAS's attendance and involvement in any discussions of contractual matters. It is clear from the telex of 1 April 1985 from DOLGAS to DEIR (refer paragraph 3.23) that DOLGAS had a strong indication of the nature of the discussions DEIR's chief negotiator was having with WANG. However, in spite of DOLGAS's admonitions, these discussions continued without DOLGAS involvement up until the time that tenderers were notified of the tender outcome. Only then, after the event once again, did DOLGAS become involved.

3.51 From the point in time when it became clear that no tenderer could meet all the mandatory requirements of the RFT and it was decided to invite further offers from selected tenderers, the opportunity for bias in the further evaluation of tenders increased significantly. As discussed in more detail in Chapter 4, this was because the evaluation methodology provided no guidance in such circumstances and particularly, in circumstances where different tenderers failed different mandatory requirements.

3.52 In consequence, the selection of WANG as the preferred tenderer on the basis of its very competitive price could not be justified in terms of the evaluation methodology or indeed on any other equitable basis, when it failed to meet a major mandatory requirement of the RFT. In the absence of any predetermined weighting of mandatory requirements, it may well have been that another tenderer which tendered at a higher price but which failed a less important mandatory requirement (and consequently should have incurred a lesser cost penalty) than WANG, should have been preferred.

3.53 In the event the Committee has little doubt that WANG, by virtue of its selection as the preferred tenderer at this stage of the tender evaluation<sup>11</sup>, was given special opportunities and incentives to upgrade its tender offer to meet all mandatory requirements of the RFT. Other tenderers were, to the Committee's knowledge, not given such opportunities or incentives.

3.54 However, at least the appearance of equal treatment of all shortlisted tenderers was maintained by written requests being sent on two occasions to other shortlisted tenderers inviting them to upgrade their offers. The reality however appears to have been that, concurrent with this process of formal invitation supervised by the Evaluation Steering Committee, WANG was being given exclusive attention through a series of meetings with DEIR's chief negotiator. These meetings occurred over the period 21 March to 16 April 1985. DEIR asserts that the tender evaluation was completed on 28 March 1985.

3.55 The transcripts of the audiotapes of these meetings and the very nature of the contractual arrangement negotiated with WANG (and renegotiated subsequent to the initiation of the Public Accounts Committee's inquiry) provide a clear indication of the nature of the special incentives provided to WANG to upgrade its tender offer. These were in the form of a commitment to purchase memory upgrades conservatively valued at \$1.7 million and, a strong expectation (above and beyond that indicated in the RFT) of the sale of a further 600 micro computers conservatively estimated at \$5 million in value. To quote from the transcripts of the audiotape of a meeting between DEIR's chief negotiator and WANG on 11 April 1985:

... we will be asking for upgraded machines on a fairly massive scale which will mean that we will

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11. 20 March 1985, DEIR Evaluation Steering Committee Meeting.

be locking ourselves into buying those things from you fairly early into the 1985/86 financial year... it is hardly likely that if we have had 300 users that we are going to take the things away from them.

3.56 These and other transcripts also indicate that the nature of these negotiations with WANG clearly extended beyond discussions of a technical nature to comprehend contractual arrangements including additional memory purchases, discounts on maintenance charges and a special furniture allowance for loaned equipment. Discussion of any of these contractual and pricing matters prior to the completion of the tender evaluation and without DOLGAS involvement was clearly improper and contravened the 'Guidelines for ADP Acquisition'.

3.57 These transcripts also strongly suggest that the Department's chief negotiator and the officer with overall responsibility for the tender evaluation, contrary to his assertions at the public hearing on 28 November 1985, did not respect the independence of the Evaluation Team and its recommendations. Specifically on the question of WANG's continuing failure to meet the communications requirement of the RFT and its interim '3 in 1' solution, he overrode technical advice recommending against accepting the WANG proposal. The Committee specifically draws attention to the following:

- A report of 26 March 1985, shortly before the completion of the tender evaluation, from one of the communication specialists on the Evaluation Team which stated: 'the uncertainties and risks associated with the WANG solution are such that Tenderer 2 should be chosen ... If WANG are chosen we are unlikely to see satisfactory results for 18 months to 2 years.'
- The transcript of an audiotape of a telephone conversation of 26 March 1985 involving the Department's chief negotiator, the Evaluation Team Leader (at that time a consultant) and a representative of WANG, where the Department's chief negotiator stated: '... as I said to you earlier today, I've got 25 technical people who have voted unanimously not to have WANG. Whereas I am not taking that view ...'
- The transcript of the audiotape of a meeting with WANG of 11 April 1985 where the same officer stated: 'Now I will be overruling my technical people who think the communications solution is a real b----- of a solution and in order to do that I have got to have some tangible benefit which has to be that we are getting a reasonable deal on upgrading these machines earlier than we would otherwise have done.'

3.58 The Committee has also noted that the same officer while using the Evaluation Steering Committee which he chaired to progress the formal evaluation process whereby all short listed tenderers were invited to make further offers, was concurrently engaged in negotiations with WANG and provided WANG with special encouragement to upgrade its offer. This concurrent activity appears to have prevented him from attending and chairing a critical Evaluation Steering Committee meeting on 28 March 1985 in Melbourne. This was the date when it was reported that the shortlisted tenderers still failed major mandatory requirements of the RFT and it was therefore resolved to send further letters to both again inviting further offers. It is also the date on which the Evaluation Report asserts that the tender evaluation was completed. The Chairman of the Evaluation Committee was apparently at that time interstate holding discussions with WANG.

#### Major Conclusions

3.59 The Committee concludes that:

- the conduct of the tender evaluation was characterised by unprofessional conduct and abuse of proper procedures. In consequence the Committee does not believe that the impartiality of the tender result can be guaranteed or publicly defended;
- certain features of the originally recommended tender and proposed contractual arrangements with WANG Computer Pty Ltd were improper, and were in part a consequence of the improper manner in which the tender evaluation and contract negotiations were conducted;
- senior management of the Department of Employment and Industrial Relations must carry principal responsibility for the manner in which this tender was conducted; and
- because the Department of Local Government and Administrative Services has been given clear responsibilities for ensuring that ADP procurement proceeds in line with Government purchasing practices and policies, it must also carry major responsibility in this matter.

#### The WANG Contract

3.60 The Committee concludes that:

- The Department of Employment and Industrial Relations gave WANG Computer Pty Ltd a strong oral commitment (but admittedly no legal commitment) that the Department would subsequently purchase the 600 'slave' micros and 300 printers loaned by WANG



free of cost on an interim basis to meet the mandatory requirements of the Request for Tender;

- WANG's expectation that this equipment would be subsequently purchased after the loan period was reinforced by the Department of Employment and Industrial Relations' decision to purchase memory upgrades for these 'slave' micros so that they could be used as fully functional micro computers;
- the arrangements for the lease of memory upgrades for the 'slave' micro computers were improper and call into doubt the grounds on which the 600 'slave' micro computers were to be loaned to the Department of Employment and Industrial Relations;
- the additional income (approximately \$1.7 million) resulting from the lease of the memory upgrades constituted a considerable incentive for WANG to loan the 600 'slave' micro computers free of cost (ie without an increase in the tendered price);
- the Department of Employment and Industrial Relations had little or no intention of configuring the 600 additional 'slave' micros to provide the communications functionality required by the Request for Tender until well into 1986. In the interim it viewed their loan from WANG in conjunction with the lease of memory upgrades, as an opportunity to obtain without proper funding approval, 600 fully functional workstations which might then be used for office automation and other purposes ;
- the interim configuration involving three micro computers and two printers was clearly untenable as a permanent working configuration and would not have been offered as such by WANG because of the unacceptable financial consequences (over \$5 million in forgone income if the initially tendered price was to be maintained);
- the arrangements for the loan of these 600 micro computers and the lease of memory upgrades were viewed by both the Department of Employment and Industrial Relations and WANG as a deferred purchase of 600 fully functional micro computers to the value of over \$5 million;
- in the absence of the \$1.7 million income resulting from the lease of memory upgrades and a strong expectation of the future sale of the 600 'slave' micro computers to the Department of Employment and Industrial Relations, WANG would not have incurred the considerable cost penalty associated with the

free loan of these 'slave' micros. It could not therefore have met the mandatory communications requirements of the Request for Tender even on an interim basis; and

the motivation of the Department of Employment and Industrial Relations in negotiating these arrangements was apparently to extract the 'best offer possible' from WANG. However, in doing so the Department did not observe proper tendering procedures, did not ensure the fair and equal treatment of other tenderers, attempted to circumvent proper approval processes for the acquisition of additional equipment and to precommit the Department to future equipment purchases.

3.61 The Committee recommends that:

- 12 the contract with WANG Computer should clearly identify the 600 computers, 300 printers and other equipment being loaned free of cost, and the purpose for which it is being supplied;
- 13 the contract also include a specific undertaking that the loaned equipment is returned to WANG when the APC and MSDOS 4.0 software is available, and not later than 30 June 1986. The Committee would expect a commitment from the Department of Employment and Industrial Relations that this equipment is actually returned and not subsequently purchased by the Department under this or another contract;
- 14 the memory upgrades for the 600 loaned micro computers be deleted from the contract, and the 241 upgrades already supplied be returned immediately. The Committee notes that correspondence of 15 and 21 November 1985 between the Department of Employment and Industrial Relations and WANG indicates agreement on this action, although no indication has been given as to when the upgrades will be returned;<sup>12</sup>
- 15 the contract with WANG include a commitment from WANG to supply the APC and MSDOS 4.0 software by 30 June 1986 and also include effective 'penalty provisions' to ensure that this commitment is met; and
- 16 if a contract incorporating these provisions is not successfully negotiated with WANG by 30 January 1986 the contract should be cancelled and all equipment returned to WANG.

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12. PAC Minutes of Evidence, 28 November 1985, p. 44.

3.62 The Committee communicated these recommendations by letter to the Minister for Employment and Industrial Relations and the Minister for Local Government and Administrative Services on 20 December 1985. Both Ministers have since indicated that a contract which incorporated these recommendations was signed with WANG Computer on 31 January 1986.<sup>13</sup>

3.63 The Committee has reviewed that contract documentation and is satisfied on all matters except:

- . it has received no advice from DEIR on progress on the return of the 241 memory upgrades already supplied to DEIR and which the Committee recommended be returned to WANG;
- . it is yet to receive a commitment from DEIR that the 600 loaned micro computers will be physically returned to WANG by 30 June 1986 and not otherwise purchased by DEIR; and
- . it is not fully satisfied that the contract signed with WANG provides adequate compensation in the event that the commitment by WANG to supply the additional functionality by 30 June 1986 is not met.

3.64 DOLGAS has provided the Committee with a copy of the final contract signed on 31 January 1986. The Committee notes that the contract does make provision for liquidated damages in the event that the additional functionality is not provided by 30 June 1986. However the compensation provided, according to a formula prescribed in Clause 35 of the contract, is modest to say the least.

3.65 In view of the extreme urgency and the implied substantial costs of any delay in the acquisition of the Job Seeker equipment, in the Committee's view, the liquidated damages provided for in the contract do not represent adequate compensation for the delayed delivery of equipment and delayed implementation of this project.

3.66 With reference to the promised multitasking functionality, the level of liquidated damages would appear difficult to quantify since the application of the formula at Clause 35 requires knowledge of the list price of that software. Since the product is yet to be developed and marketed that price is yet to be determined. Hence the liquidated damages payable cannot be determined at this time but it is probable that they would also be inadequate.

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13. Appendices 8 and 9.

3.67 The Committee concludes that:

- the level of liquidated damages provided for in the contract with WANG does not provide adequate compensation in the event of late delivery of all or part of the equipment and software WANG has contracted to supply.

3.68 The Committee recommends that:

- 17 the Department of Local Government and Administrative Services ensure in future contracts of this type that the liquidated damages specified fully reflect the costs which would be incurred by client departments and agencies in the event of late delivery.

3.69 The Committee has also noted several other matters which do not reflect favourably on the conduct of the tender evaluation and are consistent with the pattern of behaviour described above.

#### The Use of Consultants

3.70 The Evaluation Team Leader during the early stages of the tender evaluation was a Departmental officer. However, some time after benchmarking was completed, a consultant on the team assumed this role. This consultant, who had also assisted the Department in the preparation of the RFT, signed correspondence in this capacity and was also prominently involved in negotiations with the recommended tenderer while the evaluation was still, formally at least, in train.

3.71 The use of a consultant to supervise a tender evaluation contravenes section 17.10.3 of the RFT which states, and the Public Accounts Committee believes with good reason, that 'the leader of the team should be a permanent member of staff'.<sup>14</sup> The Committee considers it unacceptable that any person other than a permanent officer of a Department should carry this responsibility. It notes the widespread use of consultants to provide expert advice which would otherwise be unavailable to Departments from their own ADP resources. However, the Committee believes that it remains the responsibility of the Department and its officers to evaluate that advice before acting on it. The involvement of a consultant in anything other than an advisory capacity in a tender evaluation constitutes an abrogation of this responsibility.

3.72 The Committee recommends that:

- 18 a permanent officer of the purchasing department always be in charge of a tender evaluation team and that consultants only be involved in a clearly subordinate and advisory capacity.

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14. Request for Tender for 'Micro Computers and Office Software', Department of Employment and Industrial Relations, (Request No 59/07281S), Section 17.10.3.

3.73 The Committee has also noted that formal complaints were received by DOLGAS from two unsuccessful tenderers during this tender. This may not be unusual in any tender in which there is keen competition and inevitably disappointment for unsuccessful tenderers. However, given the background of other complaints received by this Committee from other tenderers, these formal complaints must be given some weight (refer paragraph 4.29).

#### Australian Industry Participation

3.74 The Committee held a public hearing on 10 March 1986 and received submissions from Mr D. Dunlop, Managing Director of Computer Manufacture and Design Pty Ltd (CMAD), who made one of these complaints. The Committee notes that an important letter from DOLGAS explaining the reasons for the rejection of CMAD's tender appears inexplicably to have never reached Mr Dunlop. The Committee has also noted Mr Dunlop's statements on the difficulties facing Australian firms in tendering for major computer acquisitions.

3.75 The Committee does believe that the opportunities for Australian industry participation in major government computer contracts are considerably reduced where tenders are conducted under the sort of time constraints imposed by DEIR management for the Job Seeker tender. No firm, other than a very large computer vendor, could have responded adequately to such a complex and demanding RFT within the eight weeks allowed.

3.76 In December 1983 the Minister for Industry and Commerce announced several new measures under the Commonwealth Government's Australian purchasing preference policy.<sup>15</sup> These included a new planning process to be implemented initially on a trial basis for Commonwealth Government computer acquisitions, whereby up to three years advance notice would be given to Australian industry of planned computer acquisitions. To date the major means of doing this has been the publication of relevant parts of Departments' and Authorities' ADP Strategic Plans by DOLGAS.

3.77 The Committee notes that in the case of the Job Seeker acquisition no advance notice was given to industry of DEIR's likely requirements in the summary of ADP Strategic Plans published by DOLGAS in June 1984. This appears to have been a simple consequence of the fact that DEIR's ADP Strategic Plan for that year was not finalised until October, one month before the issue of the RFT.

3.78 Clearly the trial program under which up to three years advance warning is to be given to the industry of impending Government computer acquisitions, is not as yet working satisfactorily. An initial requirement must be that all departments and agencies provide DOLGAS with a summary of their ADP Strategic Plan by no later than the end of February each year. The next requirement is that DOLGAS publish relevant

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15. Joint Statement by Minister for Industry and Commerce and Minister for Administrative Services, 11 December 1983 'Government Preference for Australian-Made Goods'.

extracts of those Strategic Plans by no later than April each year. This would provide industry with adequate advance notice before a Request for Tender is issued in the following financial year.

3.79 The Committee notes that the first summary of ADP Strategic Plans was published in June 1984 and the second was not published until October 1985.<sup>16</sup> The Committee would hope that in future years the summary will be available by April at the latest.

3.80 The Committee recommends that:

19 all departments and authorities staffed under the Public Service Act 1922 submit their ADP Strategic Plans to the Department of Local Government and Administrative Services by February each year;

20 the Department of Local Government and Administrative Services (DOLGAS) publish a summary of those ADP Strategic Plans by April each year to provide Australian industry with adequate advance notice of proposed ADP acquisitions; and

21 where a purchasing Department does not provide DOLGAS with an ADP Strategic Plan by February and subsequently requests DOLGAS to take purchasing action later in the same year, DOLGAS should ensure that provision is made to ensure adequate opportunity is given to Australian firms to respond to any Request for Tender issued. This may require insistence on a two stage tendering process or the postponement of the close of tenders by several months to permit local Australian firms adequate time to prepare tender responses.

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16. Department of Local Government and Administrative Services, 'ADP Strategic Plans, Forward Planning Information' No 1 and 2.

## CHAPTER 4

### THE ROLE OF THE DEPARTMENT OF LOCAL GOVERNMENT AND ADMINISTRATIVE SERVICES

- . The Request for Tender
- . The Evaluation Methodology
- . Oversight of the Tender Evaluation
- . Complaints by Unsuccessful Tenderers
- . Advance Payment for Equipment

4.1 As stated in Chapter 3 (refer paragraph 3.59) the Committee believes that prime responsibility for the manner in which the Job Seeker tender was conducted must be carried by the senior management of the Department of Employment and Industrial Relations (DEIR). There are clearly stated guidelines for the acquisition of ADP facilities and for tendering procedures, which resulted from a Cabinet decision and which have Ministerial endorsement. It is the responsibility of heads of organisations to ensure that their staff are fully informed about these procedures and follow them.

4.2 However the Department of Local Government and Administrative Services (DOLGAS), as a result of a Cabinet decision in 1981, was given clearly defined responsibilities for:

- . providing tendering and contracting services;
- . ensuring that propriety and probity are observed in purchasing action; and
- . ensuring that procurement proceeds in line with Government purchasing and policies

for all acquisitions above the public tender threshold (\$20,000) of ADP facilities for all departments and authorities staffed under the Public Service Act. Government procurement procedures and practices for ADP facilities are set out in the Commonwealth Government's 'Guidelines for ADP Acquisition'<sup>1</sup> and the Commonwealth Purchasing Manual.<sup>2</sup>

4.3 The Committee has concluded that DOLGAS did not exercise its responsibilities with respect to the following specific matters.

#### The Request for Tender

4.4 The Committee concludes that:

- . the Request for Tender issued by the Department of Local Government and Administrative Services specified an unjustifiably large number (over 100) of mandatory requirements; and

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1. 'Guidelines for ADP Acquisition', Purchasing Division of Department of Administrative Services, May 1981.

2. Commonwealth Purchasing Manual, Department of Administrative Services, 1984.

- the Department of Local Government and Administrative Services should have requested that these mandatory requirements be reduced to include only essential, rather than many highly desirable, features of the tender.

4.5 The Committee also concludes that:

- the Request for Tender was technologically over-ambitious in that it specified a set of mandatory requirements that no tenderer could meet using currently available technology. Indeed no tenderer, including the successful tenderer, could meet even the major mandatory requirements of the Request for Tender; and
- before issuing the Request for Tender the Department of Local Government and Administrative Services should have verified that the Department of Employment and Industrial Relations had undertaken a proper appraisal of vendor product offerings to ensure that the proposed tender specification was achievable using existing technology.

4.6 If there was uncertainty about the technological feasibility of the RFT's requirements, then DOLGAS should have insisted that a Request for Proposals be issued and a two stage tendering process adopted. The Committee notes that, although DOLGAS did establish a Technical Consultancy Section shortly before the RFT was received from DEIR, it was not fully staffed at the time the RFT was issued.

4.7 The Committee recognises that DOLGAS was under considerable pressure from certain officers in DEIR to issue the RFT without delay. This was because of the high policy priority the government accorded to improving services to the unemployed and the importance of the Job Seeker computer system in achieving this. However, the Committee does not accept that, under such circumstances, DOLGAS's powers are restricted to recommending a revision of the RFT specification. DOLGAS quite clearly has the power to refuse to proceed with tendering action and the issue of an RFT if it believes the specification is unsatisfactory in form and/or content.

4.8 The Committee concludes that:

- the Department of Local Government and Administrative Services should have declined to issue the Job Seeker Request for Tender until the Department of Employment and Industrial Relations had reduced the number of mandatory requirements in the Request for Tender and had demonstrated that the specified requirements were achievable using existing technology.



4.9 The Committee recommends that:

- 22 the Department of Local Government and Administrative Services critically review all tender specifications to ensure that mandatory requirements are minimized and represent only essential requirements;
- 23 the Department of Local Government and Administrative Services reassures itself that departments have taken proper measures to establish that tender specifications are achievable using existing technology;
- 24 if there remains any doubt on this matter then the Department of Local Government and Administrative Services insist that a two stage tendering process be used, involving an initial Request for Proposals to test vendors' ability to meet proposed requirements; and
- 25 the Department of Local Government and Administrative Services ensures that it has at all times the in-house technical expertise to enable it to perform these tasks.

#### The Evaluation Methodology

4.10 The 'Guidelines for ADP Acquisition' nominates several evaluation methodologies of which DEIR chose one for the evaluation of the Job Seeker tenders. DOLGAS endorsed the choice by DEIR of the 'Requirements Costing Technique' but, on the advice of its Technical Consultancy Section, queried certain aspects of the proposed technique for scoring desirable features of the tender. DOLGAS remained dissatisfied with this aspect of the evaluation methodology at the time tenders closed, but apparently agreed to release the tenders to DEIR on an oral undertaking by DEIR to provide additional explanatory documentation (refer paragraph 3.7). This documentation was not supplied till almost five weeks after the close of tenders and after benchmarking of shortlisted vendors had commenced. In the event this aspect of the evaluation methodology did not influence the tender outcome.

4.11 However, a cardinal requirement for ensuring the objective application of an evaluation methodology is that the methodology be fully defined and agreed before tenders are released. This requirement, which is unequivocally stated in the 'Guidelines for ADP Acquisition'<sup>3</sup>, is intended to minimize any influence the actual content of the tenders may have on the way they are evaluated. This requirement was not met in the Job Seeker tender. This is the important matter, independent of whether or not, in the event, the particular matter at issue subsequently did or did not affect the tender outcome.

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3. 'Guidelines for ADP Acquisition', Purchasing Division of Department of Administrative Services, May 1981, Chapter 5, paragraph 10.

4.12 The Committee concludes that:

- an evaluation methodology which fully prescribed the scoring technique for evaluating tenders and which was acceptable to both the Department of Local Government and Administrative Services and the Department of Employment and Industrial Relations, was not agreed until after the tender evaluation had commenced and a shortlist of tenderers had been prepared; and
- the Department of Local Government and Administrative Services should have insisted on the satisfactory resolution of this matter before releasing tenders to the Department of Employment and Industrial Relations.

4.13 After benchmarking was completed, it became clear to the DEIR evaluation team that no tenderer could meet all the mandatory requirements, and indeed even all the 'major' mandatory requirements of the RFT (refer paragraph 3.17). The Committee's understanding of the evaluation methodology employed by DEIR is that it presumes that all mandatory requirements of the RFT are mandatory and must therefore be met. The methodology therefore places equal weighting on all mandatory requirements. In contrast predetermined weightings or values are assigned to desirable requirements. Given that a tenderer meets all the mandatory requirements, the tenderer is then scored according to the predetermined values for desirable requirements.

4.14 Under circumstances where no tenderer could meet the mandatory requirements of the RFT, the evaluation methodology could not be applied except by presuming equal weightings for all mandatory requirements. The presumption of equal weightings for over 100 major mandatory requirements in the Job Seeker tender is untenable. In consequence, the evaluation methodology provided no guidance as to how to proceed to score tenders under such circumstances and particularly where different tenderers failed different mandatory requirements.

4.15 The Committee has noted DOLGAS's comments on this matter in its submission of 26 November 1985.<sup>4</sup> In particular DOLGAS stated:

Just because all companies failed to meet mandatories the Commonwealth is not automatically obliged to recall tenders. Such a reinvention can be a costly and time consuming exercise and as such needs to be considered in the light of probity and overall cost effectiveness.<sup>5</sup>

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4. PAC Minutes of Evidence, DOLGAS Submission,  
26 November 1985.  
5. *ibid.*, Section 13.

4.16 The Committee accepts that a reinvitation of tenders may be prohibitively costly under such circumstances. It considers that these circumstances should not arise if a proper assessment is made of currently available technology in preparing an RFT. However, the evaluation methodology used should provide for this contingency so that a fair assessment of tenders can still be made in these circumstances.

4.17 The Committee recommends that:

- 26 the Department of Local Government and Administrative Services undertake a review of tender evaluation procedures and methodologies with a view to ensuring that provision is made for the objective comparison and scoring of tenders in circumstances where no tenderer can meet all mandatory requirements.

#### Oversight of the Tender Evaluation

4.18 The Committee has the following concerns about DOLGAS's involvement in the conduct of the tender evaluation and contract negotiations.

4.19 DOLGAS was clearly aware of repeated instances in which DEIR did not observe proper procedures during this tender. These irregularities were brought to DEIR's attention but, according to DOLGAS's own records, continued until the latter stages of tender evaluation (refer paragraph 3.48). Although DOLGAS's earlier admonitions did have some effect on DEIR's actions (eg correspondence with tenderers was generally copied to, and cleared with DOLGAS), they did not preclude further irregularities and the necessity for DOLGAS to bring these to DEIR's attention. DOLGAS should have, under such circumstances, instituted tighter monitoring of the tender evaluation. In particular, DOLGAS should have ensured it was present at all DEIR Evaluation Steering Committee meetings and at all meetings between DEIR and shortlisted tenderers during the latter stages of the tender evaluation.

4.20 The Committee cannot conclude with confidence to what extent DOLGAS was aware of the nature of the oral communications and negotiations which DEIR, and in particular its chief negotiator, was having with WANG Computer Pty Ltd (refer paragraph 3.50). It notes, however, that DOLGAS formally communicated its concerns to DEIR about apparent discussions of contractual matters with vendors without DOLGAS's involvement (refer paragraph 3.23).

4.21 The Committee also notes that DOLGAS, which was represented on the DEIR Evaluation Steering Committee, was only present at three of that Committee's meetings. Most of these were held in Melbourne where DEIR's Evaluation Team and ADP Branch were based. Given the documented concerns DOLGAS had about the conduct of the tender evaluation and the particular difficulties which arose when no tenderer could meet all mandatory requirements, DOLGAS's failure to attend all Steering Committee meetings is unacceptable. DOLGAS should have, under such circumstances, maintained close involvement in the supervision of the tender evaluation by attending those meetings.

4.22 Furthermore, given DOLGAS's documented concerns about the nature of the discussions DEIR's chief negotiator was having with WANG during the latter stages of the tender evaluation, it should have insisted that a DOLGAS officer was present at all such discussions. In view of the concerns DOLGAS had communicated to DEIR, DEIR invited DOLGAS to attend these discussions (refer paragraph 3.23). DOLGAS did not attend and in fact only became involved in negotiations with WANG after tenderers had been notified of the outcome of the tender.

4.23 DOLGAS indicated in its submission to the Committee of 26 November 1985 that due to the geographic separation of the relevant areas of DEIR (Melbourne) and DOLGAS (Camberra) it was not considered financially justifiable to attend meetings with vendors during the tender evaluation.<sup>6</sup>

4.24 The Committee believes that it was not only justifiable, but obligatory for DOLGAS to attend these meetings, knowing, as its telex of 1 April indicates (refer paragraph 3.23), that contractual matters were probably being discussed in its absence at these meetings. If DOLGAS did not consider this action to be financially justifiable it should review its priorities and/or seek additional resources to permit adequate surveillance of non-Camberra based ADP acquisitions.

4.25 The Committee concludes that:

the Department of Local Government and Administrative Services should have ensured it was represented at all the Department of Employment and Industrial Relations' Evaluation Steering Committee meetings and all meetings with the final shortlisted tenderers during the tender evaluation.

4.26 The Committee notes DOLGAS's comments in its submission of 26 November 1985 that its officers are used to dealing with the pressures that may be applied by departments making large acquisitions under the tight time constraints imposed by the budget cycle and government policy priorities.<sup>7</sup> The Committee notes that DOLGAS did in fact resist these pressures when DEIR requested an early closing date for the Job Seeker tender.

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6. PAC Minutes of Evidence, DOLGAS Submission,  
26 November 1985, Section 7.

7. PAC Minutes of Evidence, DOLGAS Submission,  
26 November 1985, Section 8.

4.27 The Committee also gives DOLGAS credit for initially communicating in strong terms to DEIR's Manager, Planning and ADP Division its concerns about irregularities in the conduct of the tender evaluation. However, when DEIR continued to abuse proper procedures and these came to the attention of DOLGAS, the matter should have been referred to the Secretary of the Department of Local Government and Administrative Services, who should have informed the Secretary of the Department of Employment and Industrial Relations about DOLGAS's concerns. The Committee has received no evidence that this occurred. If DOLGAS's concerns were not resolved at this level, the matter should have been referred to the Ministers concerned for determination.

4.28 The Committee concludes that:

- . officers of the Department of Local Government and Administrative Services should have briefed the Secretary of the Department on the nature of their concerns about the Job Seeker tender;
- . the Secretary of the Department of Local Government and Administrative Services should have communicated these concerns to the Secretary of the Department of Employment and Industrial Relations;
- . if this did not result in a satisfactory resolution of the matter, it should have been referred to the responsible Ministers for resolution.

#### Complaints by Unsuccessful Tenderers

4.29 The Committee notes that two unsuccessful tenderers lodged formal complaints with DOLGAS during the tender. The first of these was by Computer Manufacture and Design Pty Ltd (CMAD) and the second by Tenderer 2, one of the two final shortlisted tenderers.<sup>8</sup> The CMAD complaint has been referred to briefly in Chapter 3 (refer paragraph 3.73).

4.30 Tenderer 2 lodged a complaint with DOLGAS on 18 April 1985, the day after tenderers were informed by telex of the tender outcome. Extensive correspondence subsequently ensued between DOLGAS and Tenderer 2 over the period up to 7 June 1985 when a meeting was convened between Tenderer 2, DOLGAS and DEIR. At this meeting reasons were given to Tenderer 2 as to why it was unsuccessful.

4.31 This meeting was followed by a letter from DOLGAS on 9 August 1985 which provided further comment on the issues Tenderer 2 had raised at this meeting. The Committee notes that Tenderer 2, a large and reputable computer vendor, remained dissatisfied with this response and in particular, with DEIR's claims about statements Tenderer 2 had made at meetings with the tender evaluation team. DOLGAS undertook to provide transcripts of the audiotapes of these meetings. However, it eventuated that the particular audiotapes at issue were of such poor quality that they could not be transcribed.

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8. PAC Minutes of Evidence, DOLGAS Submission, 26 November 1985, Section 9.

4.32 At this stage the Committee surmises Tenderer 2 decided to 'cut its losses' and not pursue the matter further. Without attempting to make any judgement about the validity or otherwise of Tenderer 2's complaints, the Committee believes that such a protracted series of complaints by a large and reputable tenderer demands serious consideration. Given the background of DOLGAS's documented concerns about the actions of DEIR officers during the tender evaluation and the formal and persistent complaints by this major vendor about the tender evaluation, DOLGAS should have given serious consideration to initiating an independent review of the tender evaluation to ensure that the outcome was publicly defensible.

4.33 The Committee notes that, on the basis of Tenderer 2's complaints, the Director, Technical Consultancy in DOLGAS strongly recommended an independent review of the tender process and outcome. His recommendation was not accepted by his superiors.<sup>9</sup>

4.34 The Committee concludes that:

- in view of the persistent complaints by a major vendor about the conduct of the tender evaluation and the documented instances of proper tender procedures not being followed, the Department of Local Government and Administrative Services should have commissioned an independent review of the tender process and outcome.

4.35 The likely consequence of such a review was that DEIR would have been unable to spend 'available funds' on Job Seeker equipment before the end of the 1984-85 financial year. The Committee does not consider that this should have had any bearing on DOLGAS's consideration of whether such a review was justified.

#### Advance Payment for Equipment

4.36 The Committee notes that, subsequent to the notification of the outcome of the tender on 18 April 1985, payment for 80% of the Job Seeker equipment and software occurred before 30 June 1985. This was effected in the absence of a formal written contract. DEIR retained 20% of the contract price until such time as the full 'contracted' functionality was delivered by WANG. In addition, DOLGAS requested a bank guarantee for \$3.5 million as security against this advance payment and the finalisation of a written contract with WANG.

4.37 The Committee has little doubt that the reason for arranging early delivery of equipment under these arrangements was to permit DEIR to spend 'available' funds in the 1984-85 financial year.

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9. PAC Minutes of Evidence, DOLGAS Submission, 26 November 1985, Section 9.

4.38 DOLGAS stated in its submission of 26 November 1985 that early delivery of equipment and payment in this manner is by no means exceptional where the equipment list is known and is required to meet an urgent government requirement.<sup>10</sup> In the case of the Job Seeker tender, regard was also given to the fact that a 'viable cost effective solution' had been received from a company which was a successful contractor to the Commonwealth.

4.39 The Committee has the following comments on these arrangements.

4.40 There is no doubt that a contract existed between WANG and the Commonwealth from the day WANG was notified it was the successful tenderer. However, there is considerable doubt as to what that contract comprehended. In particular, the equipment list was not finalised at the time early deliveries commenced and indeed, the list contained in various draft versions of the contract went through a process of considerable modification after that time.

4.41 The Committee rejects DOLGAS's assertion that a viable cost effective solution had been received from WANG at the time early delivery was arranged. The interim configuration proposed by WANG was certainly not cost effective as a permanent configuration and its viability has never been demonstrated to the Committee's satisfaction. The permanent configuration proposed may have been cost effective, but was not and still is not viable, until such time as the outstanding multitasking functionality is provided by WANG.

4.42 The Committee accepts that under normal circumstances the use of bank guarantees as security when advance payments are made should provide adequate protection of the Commonwealth's interest. The Committee does not accept that these were normal circumstances.

4.43 Nor does the Committee accept that a desire to commit funds in a particular financial year provides justification for early payment for equipment in the absence of a formal written contract. It also considers the 6 month delay after equipment deliveries commenced and payment was made, before a contract was signed with WANG as extreme and unacceptable.

4.44 The Committee notes that, although 80% payment for Job Seeker equipment was made in June 1985, equipment was still being delivered in September 1985. The urgency of payment appears to have had priority over the urgency of equipment delivery.

4.45 The Committee understands that, in circumstances where a formal written contract is entered into after the principal actions stipulated in that contract have occurred, the standing of that retrospective written contract vis-a-vis previous oral undertakings may be in doubt. It is hence highly desirable that formal written contracts be entered into prior to equipment

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10. PAC Minutes of Evidence, DOLGAS Submission, 26 November 1985, Attachment D.

delivery and payment. Because of the 'peculiar' nature of the successful Job Seeker tender, where WANG could not demonstrate the full functionality required, formal written contracts should have been signed before payment or delivery of equipment.

4.46 The Committee concludes that:

- . a formal written contract should have been signed with WANG Computer Pty Ltd before any payments were made or equipment was delivered for the Job Seeker project;
- . the purported urgency of spending funds in the 1984-85 financial year provided no justification for payment for equipment in advance of formal contracts being signed; and
- . the delay of six months between payment for the equipment and the signing of contracts is unacceptable and indicative of the highly unorthodox circumstances surrounding this tender.

4.47 The Committee recommends that:

- 27 in circumstances where a successful tenderer is unable to demonstrate and immediately supply all functionality required in a tender, no payments should be made in advance of the signing of written contracts with that tenderer.



## CHAPTER 5

### FUNDING

- . Funding Approvals
- . Source of Funds

#### Funding Approvals

5.1 The Committee has taken evidence from officers of the Department of Employment and Industrial Relations and the Department of Finance about the question of funding approvals for the Job Seeker project and the relationship between funds expended and the authority for that expenditure.<sup>1</sup>

5.2 The Committee remains in some doubt about the relationship between the \$5.02 million originally approved by Cabinet for the Job Seeker project, and the expenditure DEIR now states is necessary to 'complete' the project. It has noted statements at the public hearings from DEIR officers that the change in implementation strategy from a terminal based network to a micro computer network, after the original Cabinet approval, had no additional cost implications. This is consistent with the assertion made in the 'discussion paper' presented to the Information Technology Policy Committee (ITPC) in August 1983 by the General Manager, Planning and ADP Division (refer paragraph 2.16).

5.3 However, the Committee finds this assertion difficult to reconcile with the facts that:

- . \$5.22 million has been committed (and 80% payment made) as at 25 October 1985 under the WANG contract for the purchase of 300 micro computers and associated software;
- . DEIR is now proposing to purchase a further 290 micro computers at a cost of \$2.07 million to allow the Job Seeker system to be implemented in an 'operationally viable sense'<sup>2</sup>; and
- . substantial additional funds (\$7.08 million) are also being sought to upgrade the Department's mainframe computer to allow, among other things, the implementation of the Job Seeker mainframe applications.<sup>3</sup>

5.4 The initial Logica study and the Job Seeker Cabinet submission envisaged the need for a network of 469 terminals at a cost of \$5.02 million. In the event 300 workstations have been purchased at a cost of \$5.22 million.

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1. PAC Minutes of Evidence, 28 November 1985.  
2. Appendix 5.5  
3. Ibid.

5.5 The Department now argues that 590 micro computer workstations are necessary for the effective implementation of the project in 'an operationally viable sense', ie to achieve the benefits, including staff savings, which provided the original justification for the project.

5.6 The \$2.07 million funds now being sought for the 290 additional micro computers represents a significant increase in funding requirements over the additional Cabinet approval for the Job Seeker project. Several reasons have been given for this additional requirement. These include adverse exchange rate variations (which apparently have added \$0.7 million to the cost) and the growth in the number of CES offices since Cabinet approval was originally given. These reasons are not disputed by the Committee.

5.7 Other reasons given relate to the demise of the Department's previous supplier of terminals, Raytheon, and the failure of the Job Bank extension proposal to gain Cabinet approval in 1985 (refer paragraph 2.9). DEIR has asserted that the consequences of the former were that existing terminal controllers in the Job Bank network could no longer be used and would need to be replaced. The consequence of the latter was that the funds for additional terminal controllers needed for Job Seeker as well as the extended Job Bank project were not provided (refer paragraph 2.6). These consequences and the concomitant requirement for additional equipment and funds were known at the time the decision was made to change to a mainframe/micro computer strategy in August 1984.

5.8 This would indicate that the Department of Finance, based on its statements at the Committee's hearing on 28 November 1985, would have expected that a further approach would have been made to Cabinet by DEIR at that time seeking approval for the revised strategy because there were significant additional funding requirements. Yet DEIR has advised the Committee at its public hearing that the change in strategy had no implication for additional funds.

5.9 The Committee also notes that the revised strategy also extended the scope of the proposed acquisition from a Job Seeker computer system to include a wide range of additional office automation functions. This significant change in emphasis from the original Cabinet decision would also have required a resubmission to Cabinet. In consequence of the extended scope of this initial acquisition, the Job Seeker contract was in fact setting the basic development path for the Department's ADP hardware acquisitions and its office automation systems for many years to come.

5.10 The Committee concludes that:

- the decision to change the implementation strategy for the Job Seeker project in August 1984 did have significant additional funding implications. It also had major implications for the Department of Employment and Industrial Relations' overall information technology strategy. In consequence the Department should have sought Cabinet approval for the change in strategy and the additional funds required before proceeding to tender;
- this Cabinet submission should have sought approval for the full funding necessary to complete the Job Seeker project (ie funds to acquire workstations, additional mainframe capacity and to permit interconnection with the Job Bank network) and to support office automation applications over at least three years; and
- the incrementalist and compartmentalised approach adopted by the Department in seeking separate funding approval for individual but often closely related computer-based projects and, in seeking funding approval only for the initial hardware component of what would clearly become much larger computer networks has:
  - masked and confused the full forward funding implications of these proposals;
  - made any confident appraisal and monitoring of costs and benefits of these systems very difficult;
  - resulted in too little emphasis being given to the need for the integration of these computer-based systems into a Departmental information system; and
  - permitted poor planning practices and inadequate definition of the objectives and implementation schedules for these systems.

Source of Funds

5.11 The Committee has noted the criticisms made by the Auditor-General in his September 1985 Report about the source of funds which were employed by DEIR for the acquisition of a third mainframe computer in 1984/85. The Committee sought advice from the Department of Finance on its attitude to the device employed by DEIR to make funds available for this acquisition and has

reviewed relevant correspondence between DEIR, Finance and the Australian Audit Office. The Committee has also noted DEIR'S response to the Auditor-General's criticisms and its statements at the Committee's public hearing on 28 November 1985. The Committee has continuing concerns about the source of funds used to purchase a third mainframe computer by DEIR in 1984/85. It also has related concerns about the source of funds for the Job Seeker purchases made in 1984/85.

5.12 In summary, shortly after the purchase of the Department's second mainframe computer and indeed before that machine was commissioned, the Department proposed the purchase of a third mainframe computer. No provision had been made in the Capital Works and Services vote for this purchase. However provision had been made in that vote for the purchase of what was described as 'office automation' equipment. In the event these funds were used to purchase the third mainframe computer.

5.13 In order to make available funds from the Capital Works and Services vote (Appropriation Bill No 2) for the mainframe purchase, the Department purchased part of the Job Seeker ('office automation') equipment from the Office Requisites and Equipment item in the Administrative Expenses vote (Appropriation Bill No 1).

5.14 The Department of Finance has advised the Committee that if DEIR had inquired about the matter it would have been advised that the proper procedure would have been to make provision for the third mainframe computer in the Capital Works and Services vote at additional estimates while offering up surplus funds in the Administrative Expenses vote. Correspondence of 30 November 1984 from the Department of Finance to DEIR appears to have volunteered this advice as a result of an oral inquiry from DEIR.<sup>4</sup> DEIR disregarded this advice and used an alternative and, the Committee considers, improper arrangement.

5.15 In its submission of 26 November 1985 to this Committee DEIR indicated that, of the \$3.7 million expended in 1984/85 on the Job Seeker acquisition, only \$1.7 million was obtained from the Capital Works and Services vote.<sup>5</sup> The balance was obtained from the Office Requisites and Equipment item (\$1.83 million) and Occupational Information/Employment Services item (\$0.15 million), both of which are funded through Appropriation Bill No 1. The Committee considers this arrangement to be improper and that all funds for the micro computer equipment should have come from the Capital Works and Services vote (Appropriation Bill No 2) in which funds were initially appropriated.

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4. Letter from FAS, Education and Employment Division, Department of Finance to Mr T Hilsberg, Department of Employment and Industrial Relations, 30 November 1984.

5. DEIR Submission to Committee, 26 November 1985, Attachment 'Source of Funds' (not incorporated in Minutes of Evidence).

5.16 The definitional vagaries which may exist between what constitutes an item of office equipment to be purchased from funds in the Administrative Services vote (Appropriation Bill No 1) and computers which should be purchased, under current finance guidelines, from the Capital Works and Services vote (Appropriation Bill No 2) does not excuse or permit the arrangement employed by DEIR. Funds were initially appropriated under Appropriation Bill No 2 for the purchase of the Job Seeker and office automation equipment and those funds should have been used for that purpose.

5.17. The Committee concludes that:

- the device used by the Department of Employment and Industrial Relations to make funds available to purchase its third mainframe computer was improper and contravened Finance Directions;
- the Department of Employment and Industrial Relations did not observe proper practice as indicated by Finance Directions in the use of funds to purchase micro computers for the Job Seeker project;
- in view of the above, full disclosure to the Parliament of the use of funds for the purchase of computer equipment by the Department of Employment and Industrial Relations did not occur;
- the intentions of the 1965 Compact between the Senate and the Government of the day on the nature of items to be included in Appropriation Bills No 1 and 2 has in this instance been circumvented; and
- accurate information on the costs and use of computer equipment, including office automation equipment, in the Department of Employment and Industrial Relations is not available to the Department of Finance or to the Parliament.

5.18 The Committee requested advice from the Department of Finance on the incidence of the practice of purchasing computer equipment from the Administrative Expenses vote. The response from the Department of Finance was less than reassuring and suggests to the Committee that the incidence of this practice is unknown.<sup>6</sup>

5.19 The Committee has already found in the course of its previous ADP inquiries that it is very difficult to obtain reliable, let alone quantitative information about the initially asserted and subsequently realised benefits of computer systems. However, in the absence of accurate information on the total costs of these systems including so called 'office automation' equipment, the task of assessing the justification for these systems on cost effectiveness grounds and subsequently monitoring their progress in the same terms is doubly difficult.

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6. Letter from FAS, Financial Management and Accounting Policy Division, Department of Finance to Committee, 8 October 1985.

5.20 The history of the Job Bank and Job Seeker projects and indeed of computerisation generally in DEIR exemplifies this difficulty. The incrementalist approach employed by the Department in the acquisition of computer and office automation equipment, in the subsequent upgrading and expansion of this equipment and the different sources of funds used to purchase the equipment makes it exceedingly difficult to make any evaluations of the cost effectiveness of DEIR's ADP systems.

5.21 The Committee concludes that:

- . there is doubt as to the accuracy of information about the cost and use of computer equipment including office automation equipment in Commonwealth departments and agencies generally; and
- . consequently the proper scrutiny of purchasing activities and the assessment and monitoring of the cost effectiveness of computer-based systems may not be possible.

5.22 The Department of Finance has advised that it has the questions of the definition of computing equipment and the best arrangement for the appropriation of funds for the purchase of computer equipment under review. There are arguments for permitting the purchase of micro computers and word processors from administrative items (Appropriation Bill No 1) as they become more and more an item of common use and an ordinary annual expense of the Commonwealth. However as micro computing and office automation equipment are also becoming more easily and commonly integrated into large computer networks communicating with both one another and mainframe computers, there are also good arguments for their inclusion with major computer acquisitions to be purchased as capital and extraordinary expenses (Appropriation Bill No 2).

5.23 The Committee concludes that:

- . there is an urgent need for a review to establish what computer and office automation equipment should be included in the respective financial appropriations and votes. This may require the involvement of the Senate in reviewing the operation of the 1965 Compact.

5.24 The Committee recommends that:

- 28 the Department of Finance complete its review of funding appropriations for computer equipment as a matter of urgency and provide a report to this Committee and the Senate. The report should canvass the options available to deal with these concerns and an indication of the Department of Finance's recommended option.

APPENDIX 1

EXTRACT FROM AUDITOR-GENERAL'S SEPTEMBER 1985 REPORT

## 6. DEPARTMENT OF EMPLOYMENT AND INDUSTRIAL RELATIONS

### 6.1 Job Bank and Related ADP Issues

#### *Introduction*

The Job Bank application within the Department of Employment and Industrial Relations is a real-time computer system from which a central installation in Melbourne links offices of the Commonwealth Employment Service (CES) in metropolitan and large provincial areas. The purpose of the system is to provide the offices with immediate access to job vacancy information including placement action.

Introduction of the system followed investigations of overseas computerised employment service operations as recommended by the Norgard Review in 1977. Implementation on a national basis, including the use of consultants and contractors in the development, was endorsed by the Government in 1981. Approval was based on expected cost savings of significance, including that arising from less staff, and substantial increases in the efficiency and effectiveness of the CES. The system was expected to be fully operational throughout Australia by April 1984.

The Department proceeded with the development and implementation of Job Bank in 2 parts:

- Initial Application to replace telex and facsimile methods of vacancy circulation and allow staff to become familiar with the computer equipment, and
- Balance Application to introduce the remaining full range of functions.

The first part of the implementation was completed in late 1983 as planned. However, final implementation is currently running 18 months behind the planned schedule. Only South Australia and Queensland were fully operational at the time of audit.

Computer mainframe acquisitions to date have been:

- 1982-83 Facom M200 upgraded in 1983-84 and again in 1984-85, and
- 1984-85 Facom M200 (second hand) upgraded later that year, and Facom M180 (second hand).

#### *Audit objectives*

An audit of the Job Bank system and a number of related ADP issues within the Department was completed in May 1985. It focused on the adequacy of relevant internal controls as set down in the Public Service Board guidelines on internal controls for computer based systems, and compliance with provisions of the *Audit Act 1901* and Finance Regulations. The audit included a review of development and implementation of the system, the operational environment, acquisition practices, risk management and contingency planning.

#### *Audit findings*

The more important findings represented to the Department together with the responses are shown below.



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**Audit findings.****Departmental response**

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**Implementation**

Slippage in Job Bank implementation is considered to be due in part to the Department's failure to prepare a comprehensive statement of user requirements until after the first computer was purchased and development of the system commenced.

Delay in preparation of a comprehensive user statement of requirements was not the cause of slippage. It is to be expected that some slippage and change in direction will occur as the Department's functions and requirements change. An incremental project approach, linking plan, development, implementation and review, is being used to ensure periodic reassessment in the light of changed functionality or availability of technology.

Deficiencies in basic system software were later recognised and essential user requirements identified.

There were no deficiencies in basic system software. It was first proposed that components of the software used for the Initial Application would be used in total Job Bank. However, due to changing functions, a decision was taken not to include any Initial Application based environment issues in the total application.

*Audit comment*—Departmental records show that during the development of the Balance Application it became evident that the basic system software used for the Initial Application was insufficiently flexible, lacked security and backup facilities, and required significant modification for the much more complex requirements of the Balance Application.

The cost implications of the slippage were not recognised as the Department did not have an adequate system of reporting progressive project costs prior to February 1984.

The lack of an adequate reporting system to monitor project costs prior to February 1984 is acknowledged. To some extent the Department did not control the extensions to the functions of the system and the relationship between the requirements and costs for 2 years.

**Estimates of costs and savings**

Approval for the engagement of consultants was based on an estimated cost of \$1,236 million which included the cost of system maintenance for 2 years after implementation. Expenditure to June 1985 was \$2.9 million representing a cost increase of approximately 115% at that time.

The increased costs relate to a number of factors:

- An error (now rectified) in accounting for the costs of consultants when working on other approved projects associated with Job Bank
- Engagement of contractors to prevent further project slippage when specialist staff could not be recruited due to supply shortages, and
- Dramatic increases in consultancy rates over the period.

Other items of material and associated expenditure were not recognised in the cost studies for the Job Bank project. For example, furniture for approximately \$1.8 million and siteworks in excess of \$1.3 million were not included.

These costs do not relate wholly to Job Bank and include costs of approved upgrading of CES accommodation to meet departmental standards.

Initial planning called for 24 man-years of development and operational staff. Audit notes that actual manpower used to the end of 1984 in respect of Job Bank Balance Application exceeded 50 man-years.

Agreed.

Although the initial functions of the project were implemented in all regions by the end of 1983 and the full application was operational in 2 States at the time of audit, it was noted that limited savings only had been achieved as a result of Job Bank, for example, in staff numbers. Reduction of staff costs in the period 1983-85 equivalent to 274 positions had been expected. Further, savings expected from service bureau charges for the processing and maintenance of an associated computerised statistical system (SAMIN) had not been achieved.

Full savings were expected to be made only with the full Job Bank application. The slippage in the project has to some extent resulted in the slippage of expected savings. A saving of 108 full-time positions and 40 part-time positions had been achieved to the end of 1984-85. Job Bank was not intended to entirely replace SAMIN. The savings are relevant to both Job Bank and a separate project (Job Seeker) under development.

Audit findings

Departmental response

*Acquisitions*

Documentation supporting the proposal for the first computer upgrade in 1983-84, including cost benefit considerations, was inadequate in that:

- There was no evidence that the technical feasibility of handling the anticipated increased load or the possible alternatives had been fully considered.

- Although the purchase of the second mainframe computer was being considered at the same time, there was no evidence of an overall consideration of the computing requirements of the Department.

In addition, Audit observed that part of the equipment acquired for the upgrade was not used for that purpose but was ultimately attached to the second computer.

Documentation supporting the proposal for the second mainframe computer acquisition was inadequate in that there was no consideration of alternative methods for acquiring the required capacity and the cost benefit considerations failed to take account of the limited remaining service life of the second hand computer. Having regard to industry practice and technology trends, a presumption of an overall economic service life of 10 years would appear reasonable.

Subsequent upgrading costs of approximately \$500 000 and application software costs of \$466 000 were not included in the cost benefit analysis. Additionally, costs of equipment and systems software were understated by \$284 000.

*Audit comment*—It is considered that, had there been a comprehensive study of all relevant costs, the acquisition would have been recognised as exceeding \$2 million and, in accordance with Government guidelines, Cabinet approval would have been necessary.

The advantages and cost savings which the Department claimed for acquisition of the third mainframe computer were the same as those for the second computer, namely the avoidance of the costs of operating applications at computer service bureaux. The purchase of the third computer appears to have been effected, in part, to remedy limitations in the second computer and to acquire additional capacity for Job Seeker development and processing requirements.

It is acknowledged that formal documentation outlining the management decision process is less than adequate.

Consultants advised that the upgrade was necessary to handle a 30% increase in CES business. Additional capacity was also required for other planned information systems. Alternatives were not considered since that would require abandonment of investment in the current machine and purchase of another.

The purchase of another computer was under consideration but no decision had been taken to proceed in that direction. The requirement to upgrade the first machine was considered urgent.

The disposition of computer equipment is a management decision. It was not planned originally to attach this equipment to the second computer.

The purchase was influenced by need for compatibility and occurred at a time when the Department was upgrading its use of information technology in order to improve productivity and reduce expenditure. Decisions taken by management were on the basis of full briefings although it is acknowledged that formal documentation in this case is also less than adequate.

The fact that the central processing unit of the computer was 5 years old at purchase is not relevant since its technical service life is considered to be upwards of 20 years. The Department said it intends to use equipment for as long as it provides the required functionality.

As the need to upgrade the computer was evident at the time of purchase, the upgrade costs were not taken into account in the original cost benefit study. Further, as the application software was purchased after the second computer, and referred to the entire system, it was not included in the study for the reason that regulatory guidelines require the initial cost only of software relevant to a specific purchase to be included in a cost benefit analysis.

Administrative arrangements have now been made to ensure that full economic evaluation of projects is carried out.

The M180 computer was acquired for new applications in the Bureau of Labour Market Research and labour market areas and to convert existing service bureau applications resulting from the management decision to upgrade the Department's use of modern technology.

Although the second M200 had adequate capacity when acquired, the capacity had been allocated or utilised for conversions of existing systems and new applications by the time the M180 purchase decision was made.

The Job Seeker system was proposed for the first M200, in addition to the Job Bank system, and the formal position remains unchanged. However, this will be reconsidered in the light of current capacity planning exercises.

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**Audit findings****Departmental response**

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*Audit comment*—Audit observed that the proposal to purchase the M180 computer was advanced before the second M200 was commissioned and that proposal did not demonstrate the need for such action.

Audit was unable to sight evidence as to the justification for purchase of the software packages totalling \$466,000. Specifically, Audit could not find any proposals for the acquisition of these packages.

The formal documents outlining the decision making process are less than adequate. However, decisions taken at this time were considered by management.

**Office automation computers**

During 1984-85 the Department upgraded its existing word processing equipment at a cost of \$121,000. In addition equipment for 2 separate pilot projects in word processing and office automation was purchased.

This equipment included a minicomputer and 57 work station microcomputers (Office Automation Pilot System) costing \$783,000 against an original estimate of between \$250,000 and \$300,000 advised to the then Department of Administrative Services when exemption from the requirement to call public tenders was sought and obtained.

The actual expenditure was discussed with the Department of Administrative Services and the initial estimate was revised in the light of experience and a reassessment of the Department's needs.

There was no cost benefit study regarding the acquisition of the Office Automation Pilot System. Further, the proposal for the acquisition did not include specific plans and objectives which might be explicated for pilot applications in the area of office automation.

A consultant was engaged to recommend an approach to the office automation project. Similar equipment was recently purchased for the Office of the Industrial Registrar whose needs closely paralleled those of the Department. Consequently, it was not seen necessary to duplicate the cost benefit analysis.

It is of concern, particularly in view of the departmental experience claimed, that expenditure of this order detracts from the notion of a pilot study and could compromise future options in the introduction of office automation.

The cost evaluation in respect of a later proposed acquisition of microcomputers and office automation software (Job Seeker) took into account aspects of the Office Automation Pilot System and allowed for its replacement or parallel use.

Documents relating to the acquisition of additional microcomputers (at a cost of \$289,000) for the second automation pilot study included no reference in support of the management decision to increase the number of computers purchased from the original quantity of 9 to 29. There was no formal proposal for the acquisition of these computers.

The Department of Administrative Services advised that it was preparing a large contract and requested immediate notification of any need to increase the Department's requirement. At that time there was a number of outstanding user requests, fully justified, and thus an increase was made.

Audit could not find any evidence of a proposal in support of the progressive purchase in 1984 of 23 portable desk top computers at a total cost of \$32,669.

Management agreed to use these computers to enable officers to input text for the office automation system both at home and office.

**Funding of the third computer**

Provision for the purchase of the office automation equipment from the Computer Equipment item within the Capital Works and Services vote was included in the 1984-85 appropriation for the Department. There was no similar provision for the purchase of the third mainframe computer.

At the time of preparation of the draft estimates for 1984-85, it was not known that additional computer capacity would be required and no provision was made for purchase of the third mainframe computer. The M180 became available without prior notice and the subsequent decisions taken by the Department were in line with its responsibilities and within its 'global' funding allocation.

The Department deemed the office automation computer and work stations to be office equipment that could be purchased as administrative expenses. The minicomputer was then purchased from the Administrative Expenses vote due to a surplus in the Computer Services component of that vote and other savings. The Capital Works and Services appropriation was used to fund the purchase of the third mainframe computer.

The accuracy of the arrangements stated by Audit is confirmed. Savings in administrative expenses were employed, with Department of Finance approval, to purchase office machines and to offset increases in other costs. The Department stated that it has been operating under current Finance Directions in determining the appropriate source of funds for the purchase of office machines and the definition of what constitutes an office machine, vis-a-vis a computer, is unclear.

Audit findings

Departmental response

**Audit comment**—Audit is of the opinion that the office automation computer equipment should have been purchased from the Computer Equipment item within the Capital Works and Services vote, as appropriated, and in accordance with Finance Directions (Appendix A to Section 6) regarding the purchase of computers. Additional capital appropriation should have been sought to fund the purchase of the third mainframe computer and any over-provision for Computer Services or other savings within the Administrative Expenses vote should have remained unexpended or have been applied to offset any increases in other elements of administrative expenses.

If that procedure had been followed, a requirement for an additional appropriation for administrative expenses, to the extent of the value of the office automation equipment, would not have been necessary. Furthermore, the funding practices used in this case and any other similar cases can negate full disclosure of capital equipment growth within the Department. Audit has referred this case to the Department of Finance for confirmation of these circumstances and for the purpose of ensuring that proper funding arrangements for the purchase of computers are followed.

**Advance purchase**

A significant purchase (\$718 600) of computer terminals was made at the end of the financial year 1983-84. The bulk of the payment was made on 27 June 1984. A large number of the terminals was not delivered to the Department's premises but remained in the supplier's store. Since the purchase was made using a period contract which allows purchasing of supplies in small quantities as required, Audit considers that this purchase was unnecessarily advanced.

**Engagement of consultants**

Departmental documentation of consultancy engagements was incomplete. In some instances engagements were not supported by a formal proposal which justified the need and cost.

Consultancy engagements for development of the Job Bank Balance Application were extended on a number of occasions. As a consequence, expenditure on these engagements increased from the originally approved figure of \$0.6 million to \$1.6 million. Related increases in the scope of the system functions caused delays in the implementation timetable and occurred without full consideration of the costs.

**Risk management and contingency planning**

Audit could find no evidence that comprehensive risk analysis was being undertaken within the computing environment of the Department. Specific concerns were expressed by Audit, relating to:

- the lack of training in emergency procedures
- divided and uncoordinated responsibilities for system security, and
- the absence of a departmental contingency plan dealing with the consequences of disaster affecting critical facilities.

**Audit comment**—The contingency plan provided to Audit does not identify specific tasks and assign responsibility for their execution.

**Register of assets**

The Department did not maintain a register of all ADP equipment or ensure that all such equipment was recorded and regularly accounted for.

**Computer operations environment**

The audit examined the ADP operations and support environment for Job Bank and other systems. This review encompassed computer operations, production control, data base administration and the physical environment.

Bulk purchases can be regarded as necessary given period contracts or not. The Department has a secure storage area in the supplier's store but acknowledges that there is no formal agreement with the supplier regarding such storage.

It is agreed that formal records are less than adequate.

Functions were extended and systems modified in line with changing management perceptions. The savings anticipated for the Job Bank system will be realised although it is recognised that some slippage has occurred.

Formal risk analysis commenced in July 1984. It is recognised that some earlier analyses may have been inadequate. The Department has taken steps to improve risk management and is acting on an Audit recommendation that a comprehensive risk analysis be performed.

This has been remedied.

An officer now has responsibility for co-ordination of system security.

The Department believes that it has a contingency plan for dealing with all disasters barring a complete catastrophe.

It is agreed that the current form of register requires improvement. A computerised assets register for ADP equipment will be finalised by March 1986.

Audit findings	Departmental response
<p>Audit raised with the Department a number of issues of particular concern. These related to:</p> <ul style="list-style-type: none"> <li>• centralised or co-ordinated management of computer operations</li> <li>• computer access control and security</li> <li>• user registration</li> <li>• production control, and</li> <li>• data base administration.</li> </ul>	<p>These matters are being addressed as necessary.</p>

### *Conclusion*

Audit observed that the level of computerisation within the Department is undergoing significant expansion and that ADP staffing levels have grown considerably (300%) over the past 2 years. Of primary concern to Audit is that the infrastructure to support this level of activity is being established after the expansion and as a consequence many of the support functions were undeveloped at the time of audit and are not adequate for the current requirements.

The demands imposed by Job Bank upon the computing environment have been significantly greater than those envisaged and there appears to be no reserve capacity for the additional major project of Job Seeker and other information processing systems originally planned to operate on the Job Bank computer.

Inadequate documentation supporting major computer acquisition proposals is a matter of concern. Justification for purchasing actions and the corresponding management accountability for those decisions has been obscured. As a result, evaluation of departmental performance against management plans and strategies is precluded. Audit cannot be assured that evaluation of ADP investment decisions took account of all relevant factors, that acquisitions were in fact properly justified, or that full disclosure to Parliament was made.

APPENDIX 2

CHAIRMAN'S STATEMENT TO PARLIAMENT ON THE JOB SEEKER  
INQUIRY, 4 DECEMBER 1985  
3



COMMONWEALTH OF AUSTRALIA  
JOINT PARLIAMENTARY COMMITTEE OF PUBLIC ACCOUNTS

PARLIAMENT HOUSE  
CANBERRA, A.C.T.  
TEL. 72 7455  
TELEX AAG1689  
FAX 727689

FOR THE MEDIA

Statement Made by Senator George Georges to the Senate on  
Tuesday 3 December 1985.

INQUIRY INTO JOBSEEKER COMPUTER ACQUISITION

The Parliament is aware that the Joint Parliamentary Committee of Public Accounts has been given a standing reference to examine and report on major ADP acquisition proposals which exceed \$5 million before they proceed to Cabinet for funding approval. When examining these proposals the Committee aims to ensure that they are properly planned and justified. However, it also recognises that if the Commonwealth is to get 'value for money' from these proposals, subsequent purchasing action must also proceed in line with approved procedures.

The Committee has been conducting an inquiry into the Job Seeker Computer Acquisition and related aspects of the ADP operations of the Department of Employment and Industrial Relations. The Job Seeker project is intended to provide storage and update facilities for job seeker registration records through a network of computers located in Commonwealth Employment Service offices throughout Australia.

This inquiry resulted from advice to the Committee of an unusual level of disquiet in the computer vendor industry about the conduct of this tender and, from serious criticisms made by the Auditor-General in his September 1985 Report about the adequacy of planning, cost/benefit justification and financial management supporting a previous ADP project in the Department, Job Bank.

The Commonwealth's purchasing procedures are there to ensure, among other things, that public tendering is conducted in a thorough and impartial fashion. If these procedures and their purpose are not respected, the reputation of the Commonwealth in the market place for fair and responsible purchasing practices will be at risk. Responsibility for the proper observance of these procedures rests primarily with the purchasing Department although the Department of Local Government and Administrative Services, as the Commonwealth's Contracting Authority, also has a clear responsibility for ensuring that Government purchasing procedures are followed.

The Committee has been concerned to avoid unnecessary delay in its examination of the Job Seeker acquisition. It has therefore expedited its inquiries and is now in a position to provide a statement to the Parliament about its conclusions.

The Committee's concerns about the Job Seeker Computer Acquisition are twofold.

Firstly, the Committee has serious concerns about several documented instances during the evaluation of tenders, where proper procedures were not followed. The Committee has also noted some unusual and, in its view, unacceptable features of the recommended tender and proposed contractual arrangements with the recommended tenderer.

Secondly, the Committee is not satisfied that adequate planning and evaluation was undertaken to support the particular implementation strategy chosen for the Job Seeker project. It has also noted the serious criticisms made by the Auditor-General of the Department's past performance in the conduct of proper planning and evaluation for the Job Bank project.

The Committee will be providing a full report to Parliament on these matters in due course.

The Committee has concluded that the tendering procedures may have compromised the impartiality of the tender recommendation, but it has also given careful consideration to the considerable costs resulting from tender cancellation and the consequent delay in the implementation of the Job Seeker project. Reluctantly it has concluded that these costs would outweigh the benefits resulting from the conduct of a new tender.

The Committee is therefore recommending that the Job Seeker purchase proceed, subject to certain amendments being made to the proposed contract with the recommended supplier.

The Committee is also recommending that before any further ADP procurement action is taken by the Department, it undertake a comprehensive re-evaluation of its future ADP needs and represent the outcome in a revised ADP Strategic Plan. This should be supported by full documentation of the planning and justification for all proposed ADP acquisitions over the next three years. Of course, the Committee would expect that any ADP acquisition proposal costing more than \$5 million will be referred to the Committee for examination and report under its standing reference.

The Committee will be communicating its recommendations on these matters in greater detail to the Minister for Employment and Industrial Relations and the Minister for Local Government and Administrative Services.

For further information telephone Canberra (062) 727455.

Canberra  
3 December 1985



APPENDIX 3

LIST OF HEARINGS AND WITNESSES

Thursday 28 November 1985, Canberra

Department of Employment  
and Industrial Relations

Mr P J Dunlop  
Mr T P Hilsberg  
Mr P M Jenkins  
Mr A J Kaspura  
Dr M S Keating

Department of Local Government  
and Administrative Services

Mr A P Butler  
Mr P D Davies  
Mr K N Jones  
Mr B J Robinson  
Mr R D Rubie

Observers

Mr P Cooper  
Mr K Kuhlman  
Mr J Louttit  
Mr L Milkovits  
Mr J O'Neill  
Mr A Podger  
Mr D Sobell  
Mr D Wallace  
Mr M Watson  
Mr K Whalley

Monday 10 March 1986, Canberra

Computer Manufacture and  
Design Pty Limited

Mr D J Dunlop

Department of Employment  
and Industrial Relations

Mr A J Kaspura

Department of Local Government  
and Administrative Services

Mr R D Rubie

Observers

Mr P Cooper  
Ms P Gaughwin  
Mr K Kuhlman  
Mr L Milkovits

APPENDIX 4

LIST OF PUBLIC SUBMISSIONS

- . Department of Employment and Industrial Relations
  - Submission of 26 November 1985  
(refer Minutes of Evidence, PAC Public Hearing, Thursday  
28 November 1985)
  
- . Department of Local Government and Administrative Services
  - Submission of 26 November 1985  
(refer Minutes of Evidence, PAC Public Hearing, Thursday  
28 November 1985)
  
- . Computer Manufacture and Design (CMAD) P/L
  - Letter from Mr D Dunlop, Managing Director, CMAD, to  
Committee, 11 February 1986  
(refer Minutes of Evidence, PAC Public Hearing, Monday  
10 March 1986)
  
  - Submission from Mr D Dunlop, Managing Director, CMAD, to  
Committee, 10 March 1986  
(refer Minutes of Evidence, PAC Public Hearing, Monday  
10 March 1986)
  
  - Letter from Mr D Dunlop, Managing Director, CMAD to  
Committee  
(refer Minutes of Evidence, PAC Public Hearing, Monday  
10 March 1986)

APPENDIX 5

LIST OF CORRESPONDENCE WITH DEIR AND DOLGAS

- . Department of Employment and Industrial Relations (DEIR)
  - 5.1 - Letter from Acting General Manager, Planning and ADP Division, DEIR, to Committee, 23 September 1985
  - 5.2 - Letter from Secretary DEIR, to Committee, 4 October 1985
  - 5.3 - Letter from Secretary DEIR, to Committee, 16 October 1985
  - 5.4 - Letter from Secretary DEIR, to Committee, 25 October 1985
  - 5.5 - Letter from General Manager, Planning and ADP Division, DEIR, to Committee, 4 December 1985
  - 5.6 - Letter from Minister for Employment and Industrial Relations to Committee, 28 February 1986
  - 5.7 - Letter from General Manager, Planning and ADP Division, to Committee, 28 April 1986
  
- . Department of Local Government and Administrative Services (DOLGAS)
  - 5.11 - Letter from FAS, Purchasing and Disposals Division, DOLGAS, to Committee, 20 August 1985
  - 5.12 - Letter from FAS, Purchasing and Disposals Division, DOLGAS, to Committee, 4 October 1985
  - 5.13 - Letter from Minister for Local Government and Administrative Services, 10 February 1986
  - 5.14 - Letter from FAS, Purchasing and Disposal Division, to Committee, 5 May 1986.

APPENDIX 6

LETTER FROM COMMITTEE TO MINISTER FOR EMPLOYMENT AND  
INDUSTRIAL RELATIONS, 20 DECEMBER 1985



COMMONWEALTH OF AUSTRALIA  
JOINT PARLIAMENTARY COMMITTEE OF PUBLIC ACCOUNTS

PARLIAMENT HOUSE  
CANBERRA, A.C.T.  
TEL. 72 7455  
TELEX AA61689

The Hon Ralph Willis, MP  
Minister for Employment and  
Industrial Relations  
Parliament House  
CANBERRA ACT 2600

Dear Minister

JOB SEEKER COMPUTER ACQUISITION  
AND RELATED MATTERS

I have enclosed a copy of a statement which I made to the Senate on 3 December concerning the Committee's Inquiry into the Job Seeker Computer Acquisition by your Department. I am now writing to provide you with further details about some of the Committee's conclusions and recommendations which were outlined in this statement. The Committee will be providing a full report to Parliament on all these matters in due course.

The Committee's major concerns about this acquisition have been communicated directly to your Department in the Committee's request for submissions in advance of the public hearings which it held on Thursday 28 November 1985. Dr Keating and other senior officers of your Department appeared as witnesses at these hearings. Mr K Jones, Secretary of the Department of Local Government and Administrative Services and other officers of his Department also gave evidence.

The Committee is not fully satisfied with many of the responses provided by your Department in its submission or at these hearings. It continues to have serious concerns about your Department's conduct of the tender evaluation and believes that consequently the impartiality of the tender recommendation may have been compromised. However it has given careful consideration to the considerable costs resulting from tender cancellation and the consequent delay in the implementation of the Job Seeker system in the Commonwealth Employment Service.

Given the Committee's concern to ensure fair treatment for all tenderers in this particular tender and to protect the reputation of the Commonwealth generally for fair and responsible purchasing practices, it is with some reluctance that the Committee has concluded that the costs resulting from the cancellation of the tender would outweigh the benefits resulting from the conduct of a new tender.

The Committee is therefore recommending that the acquisition proceed, subject to certain amendments being made to the proposed contract with the recommended supplier, WANG. The amendments which the Committee is recommending and the reasons for them are detailed at Attachment A.

The Committee is also not satisfied that adequate planning and evaluation was undertaken to support the particular technical implementation strategy chosen for the Job Seeker project. The fact that, contrary to the assertions made by your Department, no tenderer could meet all major mandatory requirements of the Request for Tender using currently available technology provides strong support for the Committee's continuing concerns in this area. In other words, the Department specified a requirement which could not be met with currently available technology. Had proper planning and assessment of the technological capabilities of the industry been undertaken, this situation and some of the resultant problems during the tender evaluation, could have been avoided.

You will also be aware that the Auditor-General in his September 1985 Report, made serious criticisms about your Department's past performance in the conduct of proper planning and evaluation to support the Job Bank project. The fact that the Department does not now have sufficient mainframe capacity to run the Job Seeker mainframe applications or indeed, to complete the implementation of the Job Bank project in Victoria and Western Australia, provides further support for the Auditor-General's findings.

The Auditor-General has also expressed serious concerns about the adequacy of basic financial and management controls in the ADP area of your Department. I quote from p.41 of this report:

"Audit cannot be assured that evaluation of ADP investment decisions took account of all relevant factors, that acquisitions were in fact properly justified, or that full disclosure to Parliament was made"

The Committee's findings to date about the Job Seeker project can only reinforce the Auditor-General's stated concerns.

The Committee is aware that Cabinet has given approval for industrial relations, youth services and traineeships projects in your Department. All of these require the purchase of additional computing equipment. It is also aware that a major proposal is expected to be put to Cabinet shortly for an \$8 million acquisition including a mainframe computer and additional micro computers to support Job Seeker services. In aggregate these proposals represent an additional investment in computing equipment of more than twice the value of the initial Job Seeker acquisition. They will place major demands on your Department's resources including planning, programming, training and project management resources. Given the Committee's conclusions about deficiencies in the planning and justification for the Job Seeker

acquisition and the Auditor-General's finding about similar deficiencies in the Job Bank project, the Committee recommends that you give close attention to verifying the adequacy of the planning and evaluation supporting these projects.

I would also wish to draw your attention to your Department's ADP Strategic Plan which is intended to provide the strategic framework for your Department's future development of ADP and information technology systems over the next three to five years. A current and comprehensive ADP Strategic Plan is a basic prerequisite for ensuring that ADP projects are developed, and that equipment acquisitions are made, in an integrated, forward thinking and cost effective fashion.

Your Department's most recent ADP Strategic Plan was issued in October 1984. Apart from now being over 12 months out of date, it did not in the Committee's view, provide a satisfactory basis for the future development of information technology in the Department. For example although this plan was issued one month before the Request for Tender for equipment and software to support Job Seeker and office automation services in the CES, the plan provides little or no evidence of the technical evaluation and cost benefit justification for the particular implementation strategy adopted for the Job Seeker project.

Some of the Plan's deficiencies were recognised by your Department at the time. I quote from page 10 of the Plan "pressure of time and circumstances somewhat limited the completeness of the planning process". The Committee finds this assertion something of an understatement.

The Department's performance in the area of strategic planning is particularly disappointing in view of the guidelines issued by the Public Service Board in 1981 for the production and management consideration of ADP Strategic Plans.

The Board's guidelines also deal with the documentation which should support ADP proposals. The Committee found that the additional documentation provided to it which was asserted to provide evidence of cost/benefit and risk evaluation undertaken for the micro/mainframe implementation strategy chosen for the Job Seeker project, was inadequate.

In view of these deficiencies in planning and evaluation for the Department's two previous major ADP systems, the Committee is yet to be persuaded that the new systems referred to above have been properly planned and justified. It also is in doubt, given the quality of your Department's previous ADP Strategic Plan, as to whether the revised Plan will adequately address the need for integration of the growing number of information systems planned for the Department.

The Committee is therefore recommending that before any further ADP procurement action is taken for any of the planned systems referred to above, the Department should undertake a comprehensive re-evaluation of its future ADP needs and represent the outcome in a revised ADP Strategic Plan. This Plan should be supported by full documentation of the planning and justification for all proposed ADP acquisitions.

The Committee would expect that the proposed \$8 million acquisition of a mainframe computer and additional micro computers for the Job Seeker system will be referred to the Committee under its standing reference for major ADP acquisition proposals. This proposal will of course be fully comprehended in the Department's revised ADP Strategic Plan and will be demonstrated to be the outcome of thorough planning and evaluation processes. The Committee has been briefed by your Department on the extreme urgency of the mainframe acquisition because of the 'perilous state' of the existing mainframe which is unable to meet the demand imposed by existing Job Bank applications.

The Committee currently has other proposals under consideration but will do its best to deal with the proposal promptly. Understandably, its major concern will be to reassure itself that the proposal is free of those past planning and project management deficiencies which have in part led to the current mainframe situation. It will also wish to ensure that the additional micro computers sought for the Job Seeker system are properly justified.

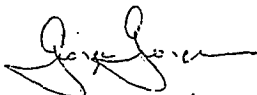
In conclusion I emphasise that in making these requests the Committee does not have any dispute with the priority the Government has given to the provision of services to the unemployed. Nor does it dispute the priority which your Department has given to enhancing the efficiency and effectiveness with which these services are delivered through the utilisation of advanced information technology.

The Committee does, however, question the speed with which information systems are being implemented without the necessary infrastructure, and management and financial controls to ensure the initially asserted costs and benefits are in fact realised. Further, the Committee does not believe that the accelerated implementation of these systems and consequent earlier realisation of benefits, can justify the abuse of proper procurement procedures as appears to have occurred during the Job Seeker acquisition. The consequent costs of these malpractices must be measured in terms of the reputation for fair and responsible purchasing practices of your Department, and the Commonwealth as a whole.



In view of the responsibilities of the Department of Local Government and Administrative Services for Commonwealth procurement, I have also written to the Minister for Local Government and Administrative Services about some of these matters including the contractual matters raised in Attachment A.

Yours faithfully



Senator George Georges  
Chairman

20 December 1985

ATTACHMENT A  
RECOMMENDED TENDER AND PROPOSED CONTRACT  
WITH WANG COMPUTER

1. The Committee is aware of the considerable price advantage that WANG's tender had over other tenders. However, this price advantage is of doubtful significance if the tender from WANG could not meet the mandatory requirements of the Request for Tender (RFT). The Committee has concluded that no tenderer, including WANG could meet all the mandatory requirements, or indeed the major mandatory requirements of the RFT, using currently available technology.
2. In particular WANG's tender was demonstrated at benchmarks to fail 13 mandatory requirements of the RFT, and in particular the communications mandatory 7.1.7(a) which is a fundamental requirement for the network of micro computers in the CES to communicate with the Department's mainframe computer in Melbourne, and access the national Job Seeker data base. Other tenders failed other, and arguably equally important, mandatory requirements. The Committee has concluded that this situation was a consequence of the speed (1 month) with which the RFT was prepared, and the inadequate evaluation and justification processes preceding its issue. In consequence the RFT presumed technology which wasn't in fact available.
3. WANG were only able to meet the RFT's mandatory requirements by undertaking to develop and supply additional technology (principally, additional communication software, called MSDOS4) at some time in the future. While this technology was being developed, WANG offered to supply an interim configuration of equipment which it asserted could meet the mandatory requirements. This configuration involved supplementing every originally tendered work station of 1 micro computer and 1 printer, with an additional 2 'slave' micros and 1 printer to perform printing and communications functions. This additional equipment was to be loaned free of cost until MSDOS4 and other promised technology was available. The Committee estimates the cost of leasing this equipment were it not loaned free of cost to be more than \$3 million.
4. This interim configuration is what the Committee would describe as 'band-aid' technology. It is clearly untenable as a permanent working arrangement because:
  - 3 micros and 2 printers at every work station would be an extremely cumbersome arrangement requiring a large amount of additional space and furniture in CES offices; and

the financial consequences for WANG would be unacceptable except on a short term basis.

5. The Committee also notes that the proposed contract with WANG included provision for the Department to lease upgrades for the 600 'slave' micros to give them equivalent functionality to the 300 micros being purchased outright. The leasing costs over a year for this additional equipment is estimated at approximately \$2m.

Your Department has advised the Committee that to date 541 of the 900 micros have already been delivered to the Department. All have memory upgrades to provide full functionality and all are currently deployed and being used in a 'standalone' configuration. None have been configured in the clusters of three micros required to meet the communication functionality of the RFT and apparently it is not now intended to do so until March 1986.

6. The Committee can only conclude from this that:

- the 241 of the 600 additional 'slave' micros already delivered in an upgraded form are not being used for the purpose for which they were loaned by the supplier ie. to meet the mandatory communication requirements of the RFT;
- it is doubtful whether the Department ever intended to use the balance of 359 'slave' micros for this purpose at all;
- instead the records of discussions between the Manager Planning and ADP Division and WANG indicate that the Department intended that all the additional micros be used in an upgraded form as standalones and that the Department would purchase them in the 1985/86 FY. Earlier drafts of the proposed contract with WANG confirm this. The relevant clause has been deleted in more recent drafts;
- in short the 600 'slave' micros and 300 printers, ostensibly on loan to the Department as an 'interim' arrangement, were in fact a deferred purchase.
- the upgrades to be supplied for the 600 'slave' micros were not required by the Request for Tender. Their inclusion in the proposed contract strongly suggests that they were to be leased and subsequently purchased from WANG as an offset for the considerable cost penalty incurred by WANG in loaning the Department \$3 million of equipment free of cost.

7. The Committee considers these arrangements unacceptable. It also notes that these arrangements were negotiated with WANG before the final tender evaluation report was lodged with the Department of Local Government and Administrative Services (ie while tenders were still being evaluated). To the extent that other tenderers were not given equivalent opportunities to enter into arrangements of this type, the Committee believes the impartiality of the tender evaluation and recommendation may have been compromised.
8. The Committee notes that WANG have undertaken to supply an advanced version of their micro computer (APC) and additional communication software (MSDOS4) which would allow it to meet all major mandatory requirements of the RFT including the communications requirement using a single micro computer configuration. In short WANG have been recommended for the tender on the basis of a commitment to develop and supply additional and currently unavailable technology.
9. In consequence the Committee believes that this commitment to supply this additional technology which is cardinal to the requirements of the Request for Tender, should be enforced by effective contractual conditions and penalties.
10. The Committee therefore recommends:
  - i) that the contract with WANG should clearly identify the 600 micro computers, 300 printers and other equipment being loaned free of cost, and the purpose for which it is being supplied;
  - ii) that the contract include a specific undertaking that the loaned equipment be returned to WANG when the APC and MSDOS4 software is available, and not later than 30 June 1986. The Committee would expect a commitment from your Department that this equipment is actually returned and not subsequently purchased by the Department under another contract;
  - iii) that the upgrades for the 600 loaned micro computers be deleted from this contract, and that the 241 upgrades already supplied be returned immediately. The Committee notes that the Department and WANG have recently agreed on this action, although no indication has been given when the upgrades will be returned (the relevant correspondence is at Attachment B). Your advice on progress in returning these upgrades would be appreciated;
  - iv) that the contract include a commitment from WANG to supply the APC and MSDOS4 communication software by 30 June 1986 and also include effective penalty provisions to ensure that commitment is met. The Committee is

seeking advice from DOLGAS on what contractual conditions are proposed in this respect and their effectiveness; and

- v) that if a contract incorporating these provisions is not successfully negotiated with WANG by 30 January 1986 the contract should be cancelled and all equipment returned to WANG.



DEPARTMENT OF EMPLOYMENT AND INDUSTRIAL RELATIONS  
CENTRAL OFFICE

Our Reference :

Your Reference :

*11/10/85*

Mr P Burrett  
Wang Computer Pty Ltd  
Northside Gardens  
166 Walker St  
MORRIS SYDNEY NSW 2060

Dear Mr Burrett

Following on from our discussions, I would like to formalise with you the Department's position regarding the configuration of the 600 additional boxes to be delivered in our initial order.

The Department's position is that the initial order was for 300 units of functionality as specified in the Request for Tender. We understand that Wang would provide this in the form of 900 boxes at no additional cost to the Department. In view of this situation the configuration of the 600 additional boxes should be determined by Wang in accordance with the technical considerations necessary to achieve the Department's desired level of functionality.

Consequently it is inappropriate for the Department to upgrade the additional boxes to a higher configuration as has been discussed on previous occasions. Therefore I advise you that the Department no longer wishes to upgrade the additional 600 boxes.

This decision is complicated by the fact that 241 of the 600 had in fact been delivered prior to my letter freezing further deliveries. I believe it is appropriate for us to discuss the return of these devices to you in the context of our broader requirements.

Yours sincerely

ANDRE J KASPURA  
GENERAL MANAGER  
PLANNING AND ADP DIVISION

15 November 1985

WANG COMPUTER PTY LTD.  
(INC. IN NEW SOUTH WALES)  
Huntville Gardens, 11th Walker Street, North Sydney 2060  
Phone: 925 5878

**WANG**

21st November, 1985

Mr. Andre Kaspura  
General Manager  
Planning and ADP Division  
Department of Employment and  
Industrial Relations  
239 Bourke Street  
Melbourne 3000

Dear Mr Kaspura,

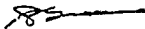
I refer to your letter of 15 November 1985, in which you asked Wang to revert the configurations of the 600 PCs, being supplied to meet RFT functionality, to their minimum consistent with that objective; that is, to accept that the Department no longer wishes to upgrade from this minimum level in order to use the PCs for additional purposes.

Wang will agree with this proposal, but wishes to register in strong terms, that a considerable expense and effort has been incurred by Wang. This expense arose from Wang's determination to meet the Department's requirements, as expressed by Mr Hilsberg, both here and in the U.S.A. Significant additional dislocation and planning will now be required in order to comply with the objectives now expressed in your letter.

Wang will commit the necessary resources to conduct this planning in concert with the Department forthwith. Mr Adam Russell will continue his full time assignment to the Department for this purpose. Wang stands ready to execute the replacement of the upgraded PCs with those required for the RFT functionality as soon as this plan dictates.

We look forward to resolving these current problems and moving to an agreed contract at the earliest opportunity.

Yours sincerely



Peter Burrett  
National Support Manager  
Wang Computer Pty. Ltd.

APPENDIX 7

LETTER FROM COMMITTEE TO MINISTER FOR LOCAL GOVERNMENT  
AND ADMINISTRATIVE SERVICES, 20 DECEMBER 1985





COMMONWEALTH OF AUSTRALIA

JOINT PARLIAMENTARY COMMITTEE OF PUBLIC ACCOUNTS

PARLIAMENT HOUSE  
CANBERRA, A.C.T.  
TEL. 72 7455  
TELEX AAG1689

The Hon Tom Uren, MP  
Minister for Local Government  
and Administrative Services  
Parliament House  
CANBERRA ACT 2600

Dear Minister

JOB SEEKER COMPUTER ACQUISITION  
AND RELATED MATTERS

I have enclosed a copy of a statement which I made to the Senate on 3 December concerning the Committee's Inquiry into the Job Seeker Computer Acquisition by the Department of Employment and Industrial Relations (DEIR). I am now writing to provide you with further details about some of the Committee's conclusions and recommendations which were outlined in this statement.

You will be aware that the Committee held hearings on this matter on Thursday 28 November at which Mr Ken Jones and other officers of your Department gave evidence. The Committee is not fully satisfied with many of the responses provided by your Department in its submission and at these hearings.

It continues to have serious concerns about the conduct of the tender evaluation and believes that consequently the impartiality of the tender recommendation may have been compromised. Although DEIR management must carry principal responsibility for the conduct of the tender, your Department as the Commonwealth's Contracting Authority has been given definite responsibilities for ensuring that Government purchasing practices are observed. It therefore must also be held responsible for any abuses of proper procedures. The Committee will be reporting to Parliament in detail on its conclusions on these matters in due course.

The Committee has given careful consideration to the considerable costs resulting from tender cancellation and the consequent delay in the implementation of the Job Seeker system in the Commonwealth Employment Service. The Committee is also concerned to ensure fair treatment for all tenderers in this particular tender and to protect the reputation of the Commonwealth generally for fair and responsible purchasing practices. It is therefore with some reluctance that the Committee has concluded that the costs resulting from the cancellation of the tender would outweigh the benefits resulting from the conduct of a new tender.

The Committee is therefore recommending that the acquisition proceed, subject to certain amendments being made to the proposed contract with the recommended supplier, WANG. The amendments which the Committee is recommending and the reasons for them are detailed at Attachment A.

With reference to paragraph 9 of Attachment A, the Committee would appreciate your advice on the proposed conditions and penalties which your Department would normally recommend in a case such as this.

The Committee understands that the enforcement of these penalties relies on the Law of Liquidated Damages and are invoked with considerable reluctance and possibly therefore limited effectiveness by the Commonwealth. It has also been advised that the Commonwealth rarely returns unsatisfactory ADP equipment and software. This is unlike the situation in private enterprise where contracts do provide for the return of goods, and financial reimbursement, where equipment and software does not pass acceptability tests.

Could you also advise, and if possible support your advice with appropriate documentation, as to how often in circumstances where suppliers default on the promised delivery of functionality at a specified future date, the Commonwealth has cancelled the contract, returned equipment or imposed financial penalties.

I have also written to the Minister for Employment and Industrial Relations informing him of the Committee's recommendations.

Yours faithfully



Senator George Georges  
Chairman  
20 December 1985

## ATTACHMENT A

RECOMMENDED TENDER AND PROPOSED CONTRACT  
WITH WANG COMPUTER

1. The Committee is aware of the considerable price advantage that WANG's tender had over other tenders. However, this price advantage is of doubtful significance if the tender from WANG could not meet the mandatory requirements of the Request for Tender (RFT). The Committee has concluded that no tenderer, including WANG could meet all the mandatory requirements, or indeed the major mandatory requirements of the RFT, using currently available technology.
2. In particular WANG's tender was demonstrated at benchmarks to fail 13 mandatory requirements of the RFT, and in particular the communications mandatory 7.1.7(a) which is a fundamental requirement for the network of micro computers in the CES to communicate with the Department's mainframe computer in Melbourne, and access the national Job Seeker data base. Other tenders failed other, and arguably equally important, mandatory requirements. The Committee has concluded that this situation was a consequence of the speed (1 month) with which the RFT was prepared, and the inadequate evaluation and justification processes preceding its issue. In consequence the RFT presumed technology which wasn't in fact available.
3. WANG were only able to meet the RFT's mandatory requirements by undertaking to develop and supply additional technology (principally, additional communication software, called MSDOS4) at some time in the future. While this technology was being developed, WANG offered to supply an interim configuration of equipment which it asserted could meet the mandatory requirements. This configuration involved supplementing every originally tendered work station of 1 micro computer and 1 printer, with an additional 2 'slave' micros and 1 printer to perform printing and communications functions. This additional equipment was to be loaned free of cost until MSDOS4 and other promised technology was available. The Committee estimates the cost of leasing this equipment were it not loaned free of cost to be more than \$3 million.
4. This interim configuration is what the Committee would describe as 'band-aid' technology. It is clearly untenable as a permanent working arrangement because:
  - 3 micros and 2 printers at every work station would be an extremely cumbersome arrangement requiring a large amount of additional space and furniture in CES offices; and

the financial consequences for WANG would be unacceptable except on a short term basis.

5. The Committee also notes that the proposed contract with WANG included provision for the Department to lease upgrades for the 600 'slave' micros to give them equivalent functionality to the 300 micros being purchased outright. The leasing costs over a year for this additional equipment is estimated at approximately \$2m.

Your Department has advised the Committee that to date 541 of the 900 micros have already been delivered to the Department. All have memory upgrades to provide full functionality and all are currently deployed and being used in a 'standalone' configuration. None have been configured in the clusters of three micros required to meet the communication functionality of the RFT and apparently it is not now intended to do so until March 1986.

6. The Committee can only conclude from this that:

- the 241 of the 600 additional 'slave' micros already delivered in an upgraded form are not being used for the purpose for which they were loaned by the supplier ie. to meet the mandatory communication requirements of the RFT;
- it is doubtful whether the Department ever intended to use the balance of 359 'slave' micros for this purpose at all;
- instead the records of discussions between the Manager Planning and ADP Division and WANG indicate that the Department intended that all the additional micros be used in an upgraded form as standalones and that the Department would purchase them in the 1985/86 FY. Earlier drafts of the proposed contract with WANG confirm this. The relevant clause has been deleted in more recent drafts;
- in short the 600 'slave' micros and 300 printers, ostensibly on loan to the Department as an 'interim' arrangement, were in fact a deferred purchase.
- the upgrades to be supplied for the 600 'slave' micros were not required by the Request for Tender. Their inclusion in the proposed contract strongly suggests that they were to be leased and subsequently purchased from WANG as an offset for the considerable cost penalty incurred by WANG in loaning the Department \$3 million of equipment free of cost.

7. The Committee considers these arrangements unacceptable. It also notes that these arrangements were negotiated with WANG before the final tender evaluation report was lodged with the Department of Local Government and Administrative Services (ie while tenders were still being evaluated). To the extent that other tenderers were not given equivalent opportunities to enter into arrangements of this type, the Committee believes the impartiality of the tender evaluation and recommendation may have been compromised.
8. The Committee notes that WANG have undertaken to supply an advanced version of their micro computer (APC) and additional communication software (MSDOS4) which would allow it to meet all major mandatory requirements of the RFT including the communications requirement using a single micro computer configuration. In short WANG have been recommended for the tender on the basis of a commitment to develop and supply additional and currently unavailable technology.
9. In consequence the Committee believes that this commitment to supply this additional technology which is cardinal to the requirements of the Request for Tender, should be enforced by effective contractual conditions and penalties.
10. The Committee therefore recommends:
  - i) that the contract with WANG should clearly identify the 600 micro computers, 300 printers and other equipment being loaned free of cost, and the purpose for which it is being supplied;
  - ii) that the contract include a specific undertaking that the loaned equipment be returned to WANG when the APC and MSDOS4 software is available, and not later than 30 June 1986. The Committee would expect a commitment from your Department that this equipment is actually returned and not subsequently purchased by the Department under another contract;
  - iii) that the upgrades for the 600 loaned micro computers be deleted from this contract, and that the 241 upgrades already supplied be returned immediately. The Committee notes that the Department and WANG have recently agreed on this action, although no indication has been given when the upgrades will be returned (the relevant correspondence is at Attachment B). Your advice on progress in returning these upgrades would be appreciated;
  - iv) that the contract include a commitment from WANG to supply the APC and MSDOS4 communication software by 30 June 1986 and also include effective penalty provisions to ensure that commitment is met. The Committee is

seeking advice from DOLGAS on what contractual conditions are proposed in this respect and their effectiveness; and

- v) that if a contract incorporating these provisions is not successfully negotiated with WANG by 30 January 1986 the contract should be cancelled and all equipment returned to WANG.

APPENDIX 8

LETTER FROM MINISTER FOR LOCAL GOVERNMENT AND  
ADMINISTRATIVE SERVICES TO COMMITTEE, 10 FEBRUARY 1986



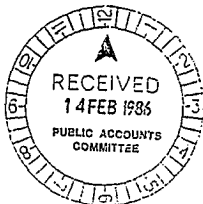
MINISTER FOR LOCAL GOVERNMENT  
AND ADMINISTRATIVE SERVICES

Parliament House  
Canberra, A.C.T. 2600

10 FEB 1986

2/17/2

Senator George Georges  
Chairman  
Joint Parliamentary Committee  
of Public Accounts  
Parliament House  
CANBERRA ACT 2601



Dear Senator

I refer to your letter concerning the Committee's Inquiry into the Job Seeker Computer Acquisition and related matters which I received on 23 December 1985.

I note that the attachment deals with a number of issues that are the responsibility of the Minister for Employment and Industrial Relations. I presume that he will be responding on those issues.

I would request some elaboration of your statement that the Committee is not fully satisfied with many of the responses provided by my Department in its submission and at the hearings on Thursday 28 November 1985. In particular, I would appreciate clarification of your reference to serious concerns about the conduct of the tender evaluation, the impartiality of the tender recommendations and allegations of abuse of proper procedures as this reflects upon the integrity of Departmental officers.

I am advised by the Department that while it has cooperated with the Committee and provided extensive material and information to the Secretariat, the exact nature of your concerns and the substance of your conclusions about abuse of procedures has not been made known to it and that the officers involved have thus had no opportunity to respond directly to them.



My Department is also most concerned by the statement in Attachment A to your letter that there is an "unusual level of disquiet" in the computer vendor industry about the conduct of this tender. I am advised that the Purchasing and Disposals Division of my Department, which is in constant contact with the industry and industry associations, has seen no evidence to justify this assertion.

I am informed that the Division has always operated with the utmost integrity and impartiality, and has enjoyed the confidence and respect of the business sector on this score.

The Department is concerned that any suggestions of impropriety on its part can only serve to damage its well earned reputation for fair dealing and in doing so diminish the level of confidence and sound reputation it has earned. It is therefore most important from the Commonwealth's point of view that the Department should have the opportunity to rebut any allegations made against it.

It concerns me that there would be a denial of natural justice if the Committee were to report on the lines foreshadowed without the Department being in a position to respond to the criticisms in detail and have its position recorded.

I note that in Attachment A to your letter the inclusion of a number of provisions in the WANG contract has been recommended. The Department advises that these provisions accord with normal practice in ADP contracts and in fact were already included in the draft contract. Negotiations with WANG were completed, and the contract including these provisions was signed on 31 January 1986.

You have requested advice on the proposed conditions and penalties which my Department would normally recommend for a contract of this nature.

On legal advice the Department does not use the word "penalties" in its contracts as penalties would be unenforceable. The main remedy which the Commonwealth seeks is the payment of liquidated damages for failure to deliver on time and in accordance with the technical standards contained in the contract. Contrary to your contention there is no reluctance on the part of the Commonwealth to invoke liquidated damages provisions where circumstances warrant this action.

The Department assures me that instances of the need to return unsatisfactory ADP equipment are rare. This is due mainly to the Commonwealth undertaking exhaustive evaluation of tenders for ADP equipment, including bench marking and demonstrations where necessary, to ensure the solutions it purchases meet fully the requirements of tender specifications. These practices minimise the risk of failure in passing acceptance tests.

It would appear that this thoroughness during evaluations has sometimes attracted criticism from industry as being too onerous but has nevertheless been in part responsible for the Commonwealth's achieving a very high level of success with major ADP installations.

Your letter also compares in a somewhat unfavourable light the Commonwealth's contract documentation with that of private enterprise. The Department points out that its contracts do in fact provide for return of goods and financial reimbursement where the equipment does not pass acceptance tests.

Moreover, I am informed that the Department's contract documentation is held in high regard by various Commonwealth Statutory Bodies, State Government Authorities and elements of the private sector as is evidenced by its use in these areas.

In Attachment A, paragraph 7 of your letter you refer to the possibility of the impartiality of the tender evaluation having been compromised through other tenderers not being given the same opportunity as Wang to reconfigure their bids in order to make themselves more competitive.

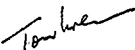
I am assured that this point was addressed by officers of my Department on a number of occasions during the hearing.

For the benefit of the Committee I will restate my Department's general position as it applies in all tenders with functional specifications. In this case all shortlisted tenderers were given the same opportunity to reconfigure their bids in order to comply more fully with the tender requirements. In doing so tenderers were at liberty to offer additional functionality by way of reconfiguring equipment already tendered so long as that reconfiguration did not involve a change to the cost of achieving the overall functionality. The fact that such a reconfiguration might involve supplying for a short period at no cost, equipment that was already included in the tender at a specific cost is not regarded as a change to the scope of the functional solution tendered and all tenderers were free to do this if they wished. Wang chose this course and other tenderers did not on their own commercial judgement. I am advised that a clear distinction needs to be made between a functional solution based on tendered equipment, and an attempt to improve a tendered solution by offering an alternative after tenders close. I understand that the Committee is aware the Department rejected such an offer from another tenderer. The Department points out that Wang's method of achieving the required functionality was not a matter that could have been advised to other tenderers in view of the commercial confidentiality associated with these evaluations.

My Department would appreciate clarification of your request for advice on instances of contract termination by the Commonwealth because of failure to achieve functionality. Is the request limited to contracts arranged as a result of tenders which contained only functional specifications, or should contracts which were based on detailed performance criteria also be included. Also does the request refer only to contracts arranged by my Department, or should, for example, Defence non-administrative computer acquisitions be included? Although the number of instances is not expected to be large, the information is not consolidated and its supply will involve considerable effort on my Department's behalf, it would appreciate more specific guidance before initiating research. In particular you might consider the period involved being limited to the past three years.

Should the Committee's Secretariat wish to pursue these matters the contact is Mr R.D. Rubie, Assistant Secretary, Major Purchasing Branch who can be contacted by telephone on 61-3468 Canberra.

Yours fraternally



TOM UREN

APPENDIX 9

LETTER FROM MINISTER FOR EMPLOYMENT AND INDUSTRIAL  
RELATIONS TO COMMITTEE, 28 FEBRUARY 1986



MINISTER FOR  
EMPLOYMENT AND INDUSTRIAL RELATIONS

PARLIAMENT HOUSE  
CANBERRA ACT 2600

FEB 1986

Senator George Georges  
Chairman  
Joint Parliamentary Committee on  
Public Accounts  
Parliament House  
CANBERRA ACT 2600

Dear Senator

Thank you for your letter dated December 1985 concerning the inquiry conducted by the Joint Parliamentary Committee on Public Accounts into the Job Seeker computer acquisition by my Department. I know your Committee has much before it and I appreciate the expeditious consideration given to this matter.

The Department's information technology activities have grown rapidly over recent years in response to the implementation of major new labour market programs and a deliberate decision to significantly improve service delivery to the Department's clients. As recently as 1982 the Department had no ADP capacity. The progress achieved has considerably enhanced services to job seekers and employers with jobs being filled more rapidly, less disappointment for unsuccessful applicants and a consequent reduction in frictional and structural unemployment. Many of the improvements in employment and training programs initiated by the Government would not have been possible without the ADP groundwork which has been laid. It is also important to remember that considerable staff savings have been achieved and significantly more savings are planned for the next two years.

The Department acknowledges that the speed of these achievements has been accompanied by administrative shortcomings to which your Committee has drawn attention. In particular, the documentation of some of the Department's decisions has been unsatisfactory and computer capacity planning has clearly been inadequate, notwithstanding the reliance on expert external advice. I share your Committee's concern about this state of affairs and I have had my Department take prompt action to ensure that these problems do not recur.

The Planning and ADP Division in my Department has been restructured and new arrangements have been put in place to ensure that acquisition and financial management processes are overhauled and to ensure strategic planning occurs in accordance with Public Service Board guidelines. As recommended by your Committee, the Department's ADP strategic plan has been revised and action is in hand to further tighten the plan in conjunction with external consultants. The revised Plan accepts the need for a greater focus upon the inter-relationship between systems. I understand that copies of the revised plan have been forwarded to your Committee. Furthermore, the Department is now planning for a period of stability and consolidation to bring the development of systems already approved to conclusion.

In relation to the Job Seeker project, there were good reasons for choosing a decentralised processing solution. It is generally accepted that a decentralised approach is more cost effective in a highly geographically dispersed management environment (my Department is located in over 300 centres throughout Australia). The unavailability of Raytheon terminals and the enhanced and broader functionality available in more recently developed microcomputer systems were important complementary considerations. Most importantly, this approach is entirely consistent with my Department's policy to devolve greater responsibility to local management to ensure that its services and programs are better adapted to local circumstances as recommended in the Kirby Report. A mainframe solution was seen as a high risk course of action given the shortage of computing specialists compared to the numbers needed to develop two major mainframe systems at the one time. On the other hand, a microcomputer solution was seen as low risk requiring entirely different staff resources which are more readily available to the Department without compromising the Job Bank project.

I have had my Department investigate the circumstances you raise in relation to the tender evaluation process and I have asked that future processes of this kind be conducted in more conventional ways. I am advised that WANG are able to demonstrate the functionality required in the Department's request for tender by reconfiguring equipment already tendered with no change to the original tender cost. WANG also tendered by far the lowest price. A contract between WANG Computers and the Department of Local Government and Administrative Services (DOLGAS) was signed on 31 January 1986. This document incorporated the recommendations made by your Committee.

Your Committee is aware that I am in the process of making a submission to Cabinet to upgrade my Department's mainframe computer capacity and to acquire the balance of the terminals required to implement the Job Seeker project. I understand that my Department has forwarded the necessary documentation to your committee in line with its standing reference for major ADP acquisitions. Under normal circumstances I would expect to follow through the Committee's review process in conjunction with

Cabinet's consideration of my proposals. However, I find myself in a position where if Cabinet approval is not obtained quickly the Department is likely to experience serious problems with its major systems and the opportunity to utilise available appropriations in 1985/86 may be lost. Consequently, in line with the provision in the guidelines for such an approach, I need to go directly to Cabinet before getting final JPCPA endorsement.

I trust that the steps I have taken in prompt response to your recommendations is sufficient indication of the seriousness with which I view this matter and that the revised Strategic Plan and other documents forwarded to your Committee satisfy your concerns. If necessary, I would be happy to discuss this matter with you to obtain your views before Cabinet considers my Submission. With this in mind, I have asked my Department to provide you with further information within the limits of Cabinet confidentiality to assist you.

Finally, I note with some concern the allegation of impropriety you have made in relation to my Department's conduct of the tender evaluation process for the Job Seeker contract. Unfortunately, your letter does not provide me with sufficient information to form a view on this issue, and I would prefer to reserve judgement until I have had an opportunity to see your further statement. I would, however, endorse the views of my colleague, the Minister for Local Government and Administrative Services, that having regard to the seriousness of the allegation and in all fairness to the officer(s) concerned, the Committee would need to document the exact nature of its concerns and provide me with the opportunity to respond as soon as possible.

Yours sincerely



Ralph Willis

APPENDIX 10

LETTER FROM GENERAL MANAGER, PLANNING AND ADP DIVISION  
DEPARTMENT OF EMPLOYMENT AND INDUSTRIAL RELATIONS TO  
COMMITTEE, 28 APRIL 1986





## DEPARTMENT OF EMPLOYMENT AND INDUSTRIAL RELATIONS

CENTRAL OFFICE

Our Reference :

Your Reference:

*29/4*

The Secretary  
Joint Parliamentary Committee  
of Public Accounts  
Parliament House  
CANBERRA ACT 2600



Dear Mr Talberg

### JOB SEEKER COMPUTER ACQUISITION AND RELATED MATTERS

I am writing to you on a matter associated with the current contract between this Department and the WANG Computer Pty Ltd.

The actual contract was executed with WANG Computer Pty Ltd in January 1986. The contract contained provision and, penalties to ensure that the WANG Computer Company Pty Ltd provided multitasking software by 30 June 1986 in order to fully meet the RFT functionality requirements. This multi-tasking software, was to be employed on micro computers. In discussion with the WANG Computer Pty Ltd, WANG proposed a yet unreleased product called MSDOS4.0 to meet this requirement. WANG have now advised the Department that Microsoft, proprietary owners of the product MSDOS4.0, have signed a contract in the United States with IBM and subsequently MSDOS4.0 is being developed for IBM equipment. The MSDOS, WANG, version will follow this development. WANG have thus advised the Department that they cannot meet the 30/6/86 deadline to provide the multitasking functionality requirements on micro computers.

WANG have proposed to the Department that the full functionality required in the RFT can be provided by WANG providing each OCE's with a minicomputer, a VS6 and that would be linked to PC's. The Department is presently evaluating and testing a VS6 machine to establish the veracity of WANG's claims as to the technical properties of their proposal and that full functionality can be provided as required in the RFT.

In view of the circumstances the Department's tests are based against the functional requirements specified in the RFT. My position is that unless all these requirements can be met unambiguously, then no further consideration should be given to the WANG proposal.

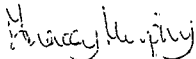
GPO Box 9880, CANBERRA CITY ACT 2601.

CANBERRA, Farrell Place. Telephone: 437333. Telex: 'DEIR' 62944. 14 Mort Street. Telephone: 458111. Telex: 'DEIR' 62210

At this stage, the Department has serious reservations regarding the inbuilt costs of the WANG proposal in terms of additional site works, training, and, the possibility that staff associations may insist on specialist staff being located at all sites for support. The Department's position remains that its functional requirements are specified in the contract with WANG. The proposal which I refer to above arose from events beyond this Department's control and I am concerned to ensure that this is understood given the nature of your Committee's inquiry into the Job Seeker acquisition.

Officers of the Department of Local Government and Administrative Services are being fully briefed on these developments, and will continue to be briefed in terms of the contractual liability of both the Commonwealth and WANG. I will write again when these matters are closer to resolution. In the meantime, should you require further information, it may be appropriate to meet to give you a fuller briefing.

Yours sincerely



*for*  
ANDRE J KASPURA  
GENERAL MANAGER  
PLANNING AND ADP DIVISION

28 April 1986

APPENDIX '11

LETTER FROM FAS, PURCHASING AND DISPOSALS DIVISION,  
DEPARTMENT OF LOCAL GOVERNMENT AND ADMINISTRATIVE  
SERVICES TO COMMITTEE, 5 MAY 1986



DEPARTMENT OF LOCAL GOVERNMENT AND ADMINISTRATIVE SERVICES

Purchasing and Disposals  
Division  
84/4706

GPO Box 1920  
CANNBERRA ACT 2601

5 May 1986



*6/6/86*

Mr M. Talberg  
Secretary  
Joint Parliamentary Committee  
on Public Accounts  
Parliament House  
CANNBERRA ACT 2600

Dear Mr Talberg

**JOBSEEKER CONTRACT WITH WANG COMPUTER**

Attached for your information is a letter to Department of Employment and Industrial Relations expressing concern at Wang's apparent inability to achieve contracted functionality.

A telex to Wang in similar terms is also attached.

We will advise you of developments.

*R.D. Rubie*  
(R.D. Rubie)  
for First Assistant Secretary

PURCHASING AND DISPOSALS  
DIVISION  
PUR 84/4706 (12)

GPO Box 1920  
CANBERRA ACT 2601

May 1986

Andre Kaspura  
General Manager  
Information Technology Division  
Department of Employment and Industrial  
Relations  
GPO Box 2817 AA  
MELBOURNE VICTORIA 3001

**JOBSEEKER CONTRACT: E630174 - WANG COMPUTER PTY LTD**

Reference is made to your request of 21 April 1986 seeking a Certificate of Exemption to include additional items of hardware and software in the above contract.

Your letter makes reference to the matter of standardisation on the Wang product for the next 5 years and the fact that acquisition of the subject additional equipment is in accordance with that standardisation plan.

I would point out that the decision to standardise on Wang equipment is dependent on the company's successful implementation of the final stage of the Job Seeker project which in turn very much depends on the successful achievement of functionality requirements of the original RFT as reflected in the contract with the company.

Your letter to the PAC of 28 April casts serious doubts on the company's ability to achieve this implementation especially within the constraints of the equipment originally forming part of the Wang tender.

In this respect the Department also has serious reservations about any proposal to substitute VS6 equipment for the originally tendered PC equipment in an attempt to achieve the required functionality. The reasons for this are twofold in that the equipment was not originally tendered and that any proposal of this kind would most likely involve considerably increased project costs including inter alia retraining and site works.

Acceptance of such a proposal on the Commonwealth's part could quite justifiably attract severe criticism from the industry since the grounds for retendering in such a situation are quite substantial.

*Mr Kaspura*

Accordingly, until the crucial issue of functionality is resolved this Department is not in a position to approve any further acquisitions from Wang for the Job Seeker project.

This Department has also communicated its concern at the progress of the Contract to Wang and has requested an urgent full status report. When this has been received we will be in a position to review the matter further in conjunction with yourselves.

  
(A.P. Butler)  
A/g First Assistant Secretary

**OUTWARD  
TELEX MESSAGE**

DEIR AA6221D  
24569 OCC  
86-05-01 1632 ST  
CALL CONN GA

MESSAGE 023/01

P R I O R I T Y 010623Z MAY 86 RRR

FM PURDIV CANBERRA

TO WANG

INFO WANG  
DEIR

UNCLAS  
FILE REF 85/4706(12)

FOR MR CLARKIN, WANG  
INFO MR CALLAGHAN, WANG  
MR PEEBLES, DEIR  
FROM MR R. RUBIE, ASSISTANT SEC., MAJOR PURCHASING DIVISION

RE:- JOBSEEKER PROJECT FOR DEIR CONTRACT E.630174 REFERS.

THIS OFFICE HAS RECENTLY BEEN DISTURBED TO LEARN THAT WANG IS EXPERIENCING PROBLEMS IN ACHIEVING CONTRACT FUNCTIONALITY BY THE DUE DATE OF 30/4/86.

I UNDERSTAND THAT THIS PROBLEM HAS BEEN EVIDENT FOR SOME TIME, AND WE HAVE NOT BEEN FORMALLY ADVISED BY YOUR COY.

A FULL SUMMARY IS REQUIRED URGENTLY REGARDING YOUR INTENTIONS SO THAT WE MAY REVIEW THE CONTRACT POSITION.

AAAA  
DEIR AA6221D

DURATION 1 : 59

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