

The Auditor-General  
Audit Report No.46 2001-02  
Performance Audit

# **Management of an IT Outsourcing Contract**

**Department of Veterans' Affairs**

Australian National Audit Office

© Commonwealth  
of Australia 2002

ISSN 1036-7632

ISBN 0 642 80632 2

**COPYRIGHT INFORMATION**

This work is copyright. Apart from any use as permitted under the *Copyright Act 1968*, no part may be reproduced by any process without prior written permission from the Commonwealth, available from AusInfo. Requests and inquiries concerning reproduction and rights should be addressed to:

The Manager,  
Legislative Services,  
AusInfo  
GPO Box 1920  
Canberra ACT 2601

or by email:  
[Cwealthcopyright@finance.gov.au](mailto:Cwealthcopyright@finance.gov.au)



Canberra ACT  
6 May 2002

Dear Madam President  
Dear Mr Speaker

The Australian National Audit Office has undertaken a performance audit in the Department of Veterans' Affairs in accordance with the authority contained in the *Auditor-General Act 1997*. I present this report of this audit, and the accompanying brochure, to the Parliament. The report is titled *Management of an IT Outsourcing Contract*.

Following its tabling in Parliament, the report will be placed on the Australian National Audit Office's Homepage—<http://www.anao.gov.au>.

Yours sincerely

A handwritten signature in black ink, appearing to read 'P. J. Barrett'.

P. J. Barrett  
Auditor-General

The Honourable the President of the Senate  
The Honourable the Speaker of the House of Representatives  
Parliament House  
Canberra ACT

## AUDITING FOR AUSTRALIA

The Auditor-General is head of the Australian National Audit Office. The ANAO assists the Auditor-General to carry out his duties under the *Auditor-General Act 1997* to undertake performance audits and financial statement audits of Commonwealth public sector bodies and to provide independent reports and advice for the Parliament, the Government and the community. The aim is to improve Commonwealth public sector administration and accountability.

Auditor-General reports are available from Government Info Shops. Recent titles are shown at the back of this report.

For further information contact:  
**The Publications Manager**  
**Australian National Audit Office**  
**GPO Box 707**  
**Canberra ACT 2601**

**Telephone:** (02) 6203 7505  
**Fax:** (02) 6203 7519  
**Email:** [webmaster@anao.gov.au](mailto:webmaster@anao.gov.au)

ANAO audit reports and information about the ANAO are available at our internet address:

<http://www.anao.gov.au>

---

### Audit Team

Julie Cronin  
Norman Newton  
Azhar Basra (for the preliminary study)  
Alan Greenslade  
Paul Nicoll

# Contents

---

Abbreviations/Glossary	6
<b>Summary and Recommendations</b>	<b>9</b>
Summary	11
Key Findings	16
Recommendations	23
<b>Audit Findings and Conclusions</b>	<b>25</b>
<b>1. Introduction and Context</b>	<b>27</b>
Background	27
The Department	29
Contracted services	31
Accountability in procurement	33
The audit	35
<b>2. Meeting Strategic IT Needs</b>	<b>37</b>
Introduction	37
Business case	37
Alignment with planned needs	42
Adapting to changing needs	46
<b>3. The Contract</b>	<b>50</b>
Introduction	50
Deliverables and service standards	51
Contractual issues	57
<b>4. Administration</b>	<b>63</b>
Introduction	63
Risk management	63
Administration and monitoring	67
Contract changes	74
Payments	75
Price review	78
<b>5. Outcomes and Evaluation</b>	<b>80</b>
Outcomes	80
Evaluation	83
<b>Appendices</b>	<b>87</b>
Appendix 1: DVA's IT Responsibilities	89
Appendix 2: Good Practice in Contract Management—References	90
Appendix 3: Information Technology Acquisition Council on Asset Replacement: Recommendations for Outsourcing	91
Appendix 4: Procurement Models	94
Appendix 5: DVA's Review of the Contract	95
Index	96
Series Titles	98
Better Practice Guides	102

# Abbreviations/Glossary

---

Agreement	Strategic Information Management Agreement, the IT contract
ANAO	Australian National Audit Office
CEI	Chief Executive Instructions
Contractor	the supplier of services on contract to DVA
CPU	central processing unit
CPU minute	measure of usage of mainframe services
DASD	direct access storage device: a data storage device
deliverable	goods are in a 'deliverable state' when they are in such a state that the buyer would be bound under a contract to take delivery of them
DVA	The Department of Veterans' Affairs, also 'the department'
FMA Act	<i>Financial Management and Accountability Act 1997</i>
IBMA	IBM Australia
IBM GSA	IBM Global Services Australia, the corporate successor of Integrated Systems Solutions Corporation Australia Ltd, the selected supplier of IT services following tender
IMU	Information Management Unit of DVA
IT	information technology
ITAC	Information Technology Acquisition Council
operating system	low-level software that handles the interface to peripheral hardware, schedules tasks, allocates storage and presents a default interface to a user when no application program is running
Outsourced IT	services provided to DVA under its contract with its supplier. Outsourcing IT involves an external organisation taking responsibility for performing all or part of a body's IT functions
PC	personal computer
prime contractor	a lead contractor in a consortium of service providers
Repatriation Commission	The Commission is responsible for administering the <i>Veterans' Entitlement Act 1986</i> . DVA provides administrative support to it.
RFT	request for tender
SALAAM	Services and Linked Activities Adjusted Measurement system

SISA	Strategic Information Services Agreement, the IT outsourcing contract, also referred to as the Agreement
SLA	service level agreement
SME	small to medium enterprise
WOG IT	whole-of-government IT consolidation and outsourcing



# **Summary and Recommendations**



# Summary

---

## Background

### IT outsourcing in the Department of Veterans' Affairs

1. The mission of the Department of Veterans' Affairs (DVA) is to serve members of Australia's veteran and defence force communities, their widows/widowers and eligible dependants through programs of care, compensation, commemoration and defence support services. Currently, DVA has over 500 000 clients who are veterans or dependants; and a further 60 000 clients through the Military Compensation and Rehabilitation Service. For 2001–02, the Parliament appropriated \$8.75 billion for budget measures for veterans' affairs compared to \$6.4 billion in 1996–97, the year in which DVA outsourced its IT services. New measures for veterans and increased levels of support under existing measures contributed to the increased appropriation.
2. DVA was one of the first Commonwealth agencies to outsource its information technology (IT). DVA contracted out its mainframe computing services in 1992, a contract that expired in 1997. In February 1997, DVA extended its outsourcing to all its computing infrastructure, covering mainframe computer processing, network and desktop infrastructure, voice communication services, office automation training and associated support services. DVA retained responsibility for a range of IT functions including the development and maintenance of in-house IT applications used to support DVA's business processes.
3. The announcement of DVA's outsourcing contract acknowledged that DVA was heavily dependent on high quality and responsive computing infrastructure for its provision of income support, compensation and health services for veterans.
4. The selected supplier of outsourced IT infrastructure services was Integrated Systems Solutions Corporation Australia Ltd, an IBM company. The contract value, when it was announced, was \$65 million and its period was to be five years from its signature in February 1997, with potential for two extensions of the contract, each of two years duration. Prices were to be reviewed twice during the contract, while other terms and conditions, including service levels, were expected to remain unchanged. The contract provided that it should operate in accordance with the concept of 'partnering' as agreed by the parties.<sup>1</sup> Under

---

<sup>1</sup> The contract did not define the parties' understanding of the term, 'partnering'. However, partnering is generally understood to involve interdependence and long-term commitment of parties to a contract working for mutual advantage, sometimes through mutual investment.

the contract, DVA sold its IT assets to its supplier for an amount of \$5.5 million.<sup>2</sup> DVA now procures IT and telecommunications goods and services from the contractor. The contract provides that the contractor will, at the end of the lease arrangements supporting the delivery of services to DVA, make equipment available to ex-service organisations at a price to be determined and with the agreement of the leasing company.<sup>3</sup>

5. The Minister for Veterans' Affairs announced in 1997 that the expected benefits of the outsourced arrangement were:

- savings of around \$20 million in running costs over the five years of the contract;
- modernisation of infrastructure, improved support services and allowing business units to maintain standards and improve performance;
- better services for the veteran community; and
- job creation and small business growth in regional Australia, including through the supply of components of personal computers to IBM, for supply under the contract.

6. The contract signed in February 1997 was replaced by an expanded contract in September 1997. DVA was joined in the expanded contract by two other Commonwealth agencies—the Department of Finance and Administration (Finance) and Comsuper. The Commonwealth entities came together for the purposes of achieving economies of scale in the procurement of IT services and products. DVA expected to benefit from this 'cluster' of agencies through discounts on prices for mainframe and desktop services. The gazetted value of the expanded contract, covering the three agencies, was \$90 million. The two signatories for the supplier were the newly formed IBM Global Services Australia (IBM GSA), which was the corporate successor of Integrated Systems Solutions Corporation Australia Ltd, and IBM Australia (IBMA).

7. When DVA's contractor provides items of IT infrastructure, its service and price cover delivery, installation, on-site support, replacement and repair, maintenance and warranty over an extended period, operating environment, modification and installation, and end of life management. Essentially, the contractor is responsible for ensuring that DVA has reliable and appropriate IT networks and services, using technologies owned and maintained by it, to meet DVA's business needs as identified in the contract and for handling DVA data with appropriate security protocols. DVA is responsible for strategic planning;

---

<sup>2</sup> An independent firm employed by DVA valued the equipment at \$10.6 million. The vendor valued the same equipment at \$5.5 million. DVA sold the equipment to the vendor at the latter price.

<sup>3</sup> DVA advised ANAO that on-selling of redundant equipment had not been done extensively because of DVA concerns about its potential liability for such equipment.

the interface between IT and the general business of DVA; IT architecture (although involving IBM on some projects); in-house IT applications development, maintenance and support; prime responsibility for the security of DVA data; data management; desktop applications support; infrastructure support services; and Internet and Intranet services.

8. The contract does not confer on the contractor the exclusive right to provide IT services or any other services to DVA. DVA may acquire IT services from third parties or from within DVA during the term of the agreement.

## The Audit

### Audit objective

9. The audit objective was to form an opinion on DVA's management of its IT outsourcing contract, otherwise known as the Strategic Information Services Agreement (SISA). The audit considered DVA's planning to meet its strategic IT needs through the IT outsourcing contract, the provisions of the contract, contract administration, management of the impacts of the outsourced services on DVA's business and the outcomes of DVA's approach to the contract.

### Audit methodology and scope

10. ANAO's audit approach included a review of relevant governance and management processes, through file examination, interviews with managers and key personnel in the department and in one of the portfolio bodies that uses IT services provided by the department, analysis of payment processes and data, and analysis of the contract.

11. The audit did not include the development and administration of the tender process that led to the contracts; other than to compare the original specifications with the services ultimately provided by the supplier.

12. Specialist IT and legal consultants assisted the audit.

13. This audit also enabled ANAO to consider the extent to which DVA had implemented recommendations made in ANAO's Audit Report No.21 of 1996–97, *Management of IT Outsourcing: Department of Veterans Affairs*. Another relevant ANAO report was Audit Report No.44 of 2000–2001, *Information Technology in the Department of Veterans' Affairs*. The latter report concluded that, overall, DVA's management of its IT systems was satisfactory.

14. Fieldwork for the audit was conducted in DVA's national office and in selected state offices. The fieldwork gathered information about DVA's planning to meet its strategic IT needs, the contract, management processes to ensure

that DVA knew whether it had paid the right amount for IT services appropriate to its business needs and had managed the effect on its business of the IT outsourced services.

## **Audit conclusion**

15. Moving to an outsourced IT environment creates a range of significant administrative challenges that need to be addressed so that the transition and ongoing management of the contract is successful. Overall, DVA has managed the outsourcing contract with the aim of ensuring the ongoing delivery of its program services. However, the audit identified some strategic and operational issues that, if addressed, would lead to improvement in the department's contract management.

16. There was insufficient alignment between DVA's IT strategic plan and the contract, particularly given that the department had expanded its use of client server technology after the contract was signed. This made it difficult for the department to obtain assurance that it was achieving best value from the contract in the context of its strategic direction. There was limited information by which to assess whether the department received value for money from its IT services after the contract was signed, and limited application of risk management. Broadly speaking, DVA had monitored the expected benefits of IT outsourcing, with the exception of the expected benefit from the contract of job creation and small business growth in Australia.

17. DVA generally agreed that a stronger linkage between the contract and the strategic outlook of the department is needed. However, it emphasised that there were uncertainties at the time the contract was negotiated. Recognising that strategic alignment of the outsourced IT services needed strengthening, DVA advised that it is currently taking steps to improve the strategic management of its IT business. In the past twelve months, the departmental Secretary has chaired the Information Management Steering Committee. Its terms of reference have been re-oriented to give more emphasis to strategic management issues. DVA advised that its approach to contract specification was to frame the contract around current requirements, with specification of mechanisms for the contract to adapt to future changes in requirements.

18. The contract lacked clarity in some significant areas. Specification of some services and service levels was unclear; service standards in the contract were not linked to DVA's business outputs; and contract variation procedures did not require assessment of the impact of major changes on the department's risk profile and IT budget. Hundreds of tasks required under the contract made performance monitoring time consuming. As well, the absence of specific

linkages of IT service standards to business outputs complicated assessment of the impact on DVA's business of the levels of IT service delivered under the contract.

19. DVA had a positive approach to managing its contract through regular meetings with the principal supplier, suitable processes to monitor service difficulties, and through working with the contractor to achieve a substantial increase in the volume of IT services and significant change in the technology used to deliver those services.

20. DVA's management of its IT outsourcing contract was directed to ensuring continuity of its IT services on a day to day basis. DVA has, as a performance target, that 80 per cent of calls to the help desk are resolved within specified periods, ranging from four hours for priority (Severity 1) category matters to 10 working days for the lowest priority matters. These standards were met, or exceeded, for all types of hardware and software calls throughout 1999–2000 and 2000–01, with resolution rates ranging from 80 to 100 per cent. Generally speaking, DVA has appropriate and effective contingency arrangements to ensure that services are delivered to external clients even in circumstances where there are IT service interruptions. Where the reliability and responsiveness of the IT services used by DVA's personnel occasionally posed difficulties, DVA's operational managers implemented approaches to maintain services to DVA's clients.

21. ANAO's Audit Report No.21 of 1996–97, *Management of IT Outsourcing: Department of Veterans' Affairs*, recommended that DVA evaluate its achievement of the expected outcomes early in the life of any future outsourcing arrangement. DVA had reviewed twice the contract's prices and deliverables. As well, it was reviewing the contract's structure and provisions in preparation for contract succession. In addition, DVA commissioned in 2000 an internal review of project management costs. DVA had not reviewed the IT outsourcing arrangements as a whole. Responding to the draft report, DVA stated that, although it did not implement Audit Report No.21 of 1996–97 as a whole, the findings and recommendations were used to develop the new outsourced arrangement in 1996.

## Key Findings

---

22. Key findings are reported under the following headings, paralleling the chapters:

- meeting strategic IT needs;
- the contract;
- administration; and
- outcomes and evaluation.

### Meeting strategic IT needs

23. DVA identified a business case for IT outsourcing to support rapid development of business systems, reliable operations and the effective exchange of information.

24. Tenders were required to address three scenarios, involving either reduced use of services, growth in services and the present level of services. The 'increased workload' scenario reflected the maximum anticipated increase in staffing and workload over the ensuing five years. In evaluating tenders, DVA considered a costing model to determine DVA's existing costs for 'in scope' services under current service levels and to consider tenders against that base. DVA's comparison of potential vendors was made on the basis of the contemporary work characteristics and current technologies. It did not include the estimated cost of the increased use of client server technologies foreshadowed in DVA's strategic planning documents.

25. DVA had an IT Strategic Plan in place before it tendered for outsourced IT services. Although DVA's IT Strategic Plan foreshadowed the increased adoption of applications using client-server technology,<sup>4</sup> DVA's outsourcing contract focused on the operations and activities of the traditional mainframe. Within 12 months of the contract's signature, the department required additional client-server technology to replace some of its existing mainframe-based services and to deliver other initiatives.<sup>5</sup> The ANAO considers that DVA's management of the procurement of additional services would have been strengthened by a

---

<sup>4</sup> In client-server technology, the 'client' is typically an application that runs on a personal computer or workstation and relies on a server to perform some operations. For example, an e-mail client is an application that enables sending and receiving e-mails. The term 'server' may refer to either hardware or software involving architecture to receive requests from a third party and respond to those requests by delivering a particular type of information. Available: <<http://pcwebopedia.com/term/c/client.html> > Viewed: 21 February 2002.

<sup>5</sup> Services using client-server technologies or Internet-delivery implemented during the contract period have been treated as new requirements.

holistic review of needs and the contract requirements, rather than recourse to 'add-on' arrangements. Such an approach had been recommended in an internal review conducted by DVA.

26. When DVA introduced new financial management and human resource management systems after it signed the contract with IBM, there was an opportunity to renegotiate significant parts of the contract or even to issue a new RFT, rather than rely on the flexibility of the 1997 contract. The first two of these options could have given the department greater control over the costs of the introduction of the new systems. The benefits of greater cost control would have had to be balanced against the additional time necessary for contract renegotiation or issue of a new request for tender (RFT).

27. DVA advised that the architects of the contract took account of DVA's future needs and accompanying technologies wherever they could be identified. DVA acknowledged that, in an industry that can be subject to rapid obsolescence, this could present difficulties for a fixed price, long-term, single provider contract as was adopted at the time. Consequently, a critical adjunct to the contract has been scheduled price reviews, through which DVA negotiated new technologies and prices to satisfy its business needs. Because DVA's expansion of client server and other technologies was not recognised in the contract, significant additional expenditure on outsourced IT services became subject to pricing and service levels separate from the baseline provisions of the contract.

28. Consistent with anticipation of large-scale business process re-engineering, DVA's tender called for a 'partnering approach'. However, DVA advised ANAO that its procurement of services from the contractor had been treated as essentially a fee for service arrangement and 'partnering' had not been pursued between the parties, even though the latter was provided for in the contract. This largely reflected DVA's view that true partnering was difficult to achieve.

## The contract

29. DVA advised that significant administrative effort was required to monitor the contractor's performance. This reflected the fact that the contract includes lists of many hundreds of tasks and scores of deliverables required of the supplier. DVA further advised that lack of clarity of the wording of some deliverables had made it difficult to confirm that some deliverables were received. This contributed to the complexity of a protracted Year 2 review of outstanding deliverables conducted by the parties to the contract and completed in April 2001. DVA advised that the Year 2 price review was also protracted because of extensive negotiations with the vendor to ensure value for money. In 2000, DVA reviewed the status of contract services and identified a significant number

of undelivered or partially delivered items, including disaster planning, industry development obligations, IT training for DVA personnel using the contracted products and services, performance tracking and annual reports acquitting the account management plan.

30. The contract provided for financial and other benefits to DVA flowing from benchmarking. DVA advised the ANAO that it sought information about market prices each time an additional service requirement is raised by a business area. DVA further advised that all new 'out of scope' work was accepted by the department's business areas as representing value for money. The department stated that it had not formally benchmarked the outsourced IT services purchased under the contract because it is extremely difficult to obtain benchmarking data that is strictly comparable across businesses or in sufficient detail to enable meaningful business decisions. DVA is now conducting a benchmarking study, but it advised that it was proving difficult to make valid and meaningful comparisons.

## Administration

31. DVA has adequate contract administration processes to support day-to-day management of the contract, ranging from a joint management committee comprising representatives of DVA and its contractor (along with other Commonwealth agencies that are parties to the contract), to monitoring of service provision and invoice management systems.

## Monitoring

32. DVA maintains data on a range of performance measures addressing system failures, monitoring critical response times, acquittal of individual response requirements of business areas and compliance with a quality management plan. The general tool for monitoring performance across DVA is the Operational Performance Measurement Report, known as the Balanced Scorecard, which reports performance on a quarterly basis and time series trends, by State, for consideration by DVA's managers and Executive. The Balanced Scorecard measures cannot be used for direct assessment of contractor performance since matters for which DVA is responsible, not the contractor, may influence them. The Balanced Scorecard does not provide for separate monitoring of the performance of services supplied to DVA under the contract.

33. The absence of Balanced Scorecard measures directly focussed on the performance of the contractor means that there is incomplete monitoring nationally of the impact of contract-related service failures and responsiveness. Processes for tracking the operational effects of disruptions to IT services had

not been implemented nationally. Nevertheless, a few of the business areas had instituted such processes locally.

### **Staff views**

34. DVA personnel were not satisfied with the effectiveness of the IT services they used. For example, a 1999 IT satisfaction survey found that only 31 per cent of those surveyed were satisfied with system availability. A general staff attitude survey in 2000 identified that only 43 per cent of personnel were satisfied with IT services. However, these surveys did not require staff to distinguish between service problems attributable to the outsourced services and those related to DVA's management of IT services.

### **Business continuity**

35. DVA's management of its IT outsourcing contract was directed to ensuring continuity of its IT services on a day-to-day basis. The contract specified critical performance requirements related to application availability, network availability and disaster recovery. These included on-line response times of up to three seconds for most applications 80 per cent of the time, no more than two interruptions of more than 30 minutes to application availability, and likewise for network availability. The contract provides that if the contractor failed to meet critical performance requirements set out in the contract, DVA would be entitled to receive service credits against the contractor's monthly charges. These were set out in the contract and could be applied to up to 20 per cent of the contractor's total monthly charges in any one month. DVA advised that it had applied \$1.8 million in service credits from its contractor over the term of the contract to July 2001. DVA varied the methodology from that set down in the contract for the calculation of a service credit related to some outages.

36. DVA's processes for managing operational risks include business continuity planning. DVA's Business Continuity Plan has established a priority list of essential business activities. The planned maximum times for recovery of IT application systems range from three to 21 days. At the time of audit fieldwork DVA had not tested its action plans and recovery/restoration procedures.

### **Contract change documentation**

37. DVA's IT purchases from its principal contractor are expected to be worth at least \$140 million over the term of the contract to November 2002. Thus, expenditure with the contractor is estimated to more than double the original announced value of the contract for outsourced IT services (\$65 million) in 1997. This indicates the magnitude of changes to DVA's IT services over the period of

the contract. There were two main factors driving escalating costs: the first was increased mainframe-based processing, and the second was increased use of client-server technologies.

38. ANAO found that there was non-compliance with the contract change procedures established by DVA and its contractor. Instances included lack of indication as to whether some requests had been accepted, rejected or withdrawn; lack of identity of signatories to variations; absence of signatures for one or other of the parties; and absence of acknowledgment in contract change documentation of the impact of the proposed change on DVA's risk profile, costs/ pricing, service credits, and contractual provisions. Despite the non-compliance, DVA considered that its contract change procedures were adequate.

39. DVA has in place appropriate controls to ensure accurate and timely payment of accounts for the outsourced IT services and, moreover, DVA was making improvements to its processes during the period of the audit. However, DVA does not use processes, such as systems audit, to verify the basis of the contractor's charges. DVA does not test whether the volumes of computer processing and data storage services, as invoiced, have been actually delivered. Sound risk-based financial management would seek to address such risks and provide greater management assurance that services have actually been received.

40. Quarterly reports of asset use were among the outstanding deliverables of the contract identified by DVA in 2000. DVA advised that, during the period of ANAO's audit, it had assisted its contractor to audit the equipment used by DVA personnel and established processes for verification of use of the contractor's assets by DVA personnel on a monthly basis. This will support improved billing management by the contractor.

## **Price reviews**

41. The contract provided for scheduled price reviews using a specified methodology. The first formal price review and associated review of services, due in early 1999, was not completed, in fact, until 20 March 2001. The second formal price review, due in 2001, was conducted during the period of the audit. In addition to baseline services, desktop equipment and other support services were purchased as additional service requests.

## **Training**

42. Higher levels of compliance with contract management protocols can be achieved by placing greater emphasis on training with the resulting effect of improving staff skills. DVA advised that it has introduced training initiatives to improve the contract management capability of its staff.

## Outcomes and evaluation

43. DVA advised that it believes that the value of the contract has been demonstrated through adherence to contract prices for baseline services and new 'out of scope' work accepted by the relevant business areas. DVA advised that, given the foregoing, it had no reason to doubt that the anticipated savings of \$20 million would be achieved over the term of the contract. Notwithstanding, DVA has not determined the actual savings made.

44. In order to support business units, DVA has a performance target requiring 80 per cent of calls to the help desk to be resolved within specified periods, ranging from four hours for priority (Severity 1) category matters to 10 working days for the lowest priority matters. These standards were met, or exceeded, for all types of call throughout 1999–2000 and 2000–01, with quarterly resolution rates ranging from 80 to 100 per cent.

45. DVA has appropriate and effective contingency arrangements to ensure that services are delivered to external clients even in circumstances where there are IT service interruptions. Where the reliability and responsiveness of the IT services used by DVA's personnel occasionally posed difficulties, DVA's operational managers implemented approaches to maintain services to DVA's clients.

46. The contract specified industry development obligations of the contractor. These included using best endeavours to award sub-contracts with a value in the range \$0.7–\$1 million to Australian 'small to medium enterprises' and annual reporting of the contract details to the relevant Commonwealth body. The contract did not specify targets for either the number of contracts to be awarded nor the total value of those contracts. In June 2001, DVA's contractor presented its first report to a Commonwealth agency concerning implementation of the contract's industry development provisions. It advised the Department of Communications, Information Technology and the Arts that it had awarded nine contracts to Australian 'small to medium enterprises' since the contract commenced in 1997. The contractor estimated the combined value of these contracts at \$3.5 million. The Department of Communications, Information Technology and the Arts advised in January 2002 that, despite repeated requests during 2001, the contractor had not provided a revised report to the department clarifying a number of issues including the nature and value of its 'small to medium enterprises' subcontractors for the DVA IT outsourcing contract.

47. ANAO's Audit Report No.21 of 1996–97, *Management of IT Outsourcing: Department of Veterans' Affairs*, recommended that DVA:

- give priority to conducting an evaluation of the achievement of expected outcomes early in the life of the next outsourcing arrangement;

- document the management arrangements for the next outsourcing contract and communicate this to relevant staff; such documentation to include the allocation of responsibilities between DVA and the supplier, the management structure within DVA and operational procedures including any undertaken jointly with the supplier; and
  - in the preparation of the contract for the next outsourcing arrangement, ensure that the documents reflect developments in the outsourcing industry and the outsourcing experience gained by the department.
48. DVA had accepted the first recommendation and notified that the department had already taken action to address the matters raised.
49. In the context of the current audit, ANAO found that:
- although DVA had accepted ANAO's recommendation, it had not reviewed the IT outsourcing arrangement as a whole, although prices and deliverables had been reviewed. An evaluation of the outsourcing arrangement would have presented an opportunity to review its approaches to contract management; identify additional service requirements; consider procurement options to meet new requirements; and, perhaps, to re-negotiate key provisions of the existing contract;
  - DVA documented the management arrangements for the present outsourcing contract and communicated this to relevant staff, although some personnel needed better information about those arrangements; and
  - outsourcing documentation reflected the developments in the outsourcing industry generally, although the adequacy of the treatment of additional client server technology under the contract has been identified in the present audit as an issue for management attention.

# Recommendations

---

*The more important recommendations are No.2 and No.4.*

**Recommendation No.1  
Para 2.31** ANAO recommends that, in either the renewed or a new contract, DVA ensure that the provisions give appropriate effect to DVA's IT strategic planning, and are based on robust estimates of the expected demand for IT services in the agency.

*DVA's response:* Agree.

**Recommendation No.2  
Para 3.19** ANAO recommends that, in preparing for contract extension or succession, DVA strengthen the role of IT for business enablement by:

- a) reviewing its approach to specification of required services in order to manage contract deliverables efficiently and effectively; and
- b) identifying clearly key service requirements and service standards that give effect to the department's business objectives.

*DVA's response:*

- a) Agree;
- b) Agree.

**Recommendation No.3  
Para 3.27** ANAO recommends that DVA benchmark its IT services, so as to have a sound basis for securing potential financial and service benefits specified in the current contract as being contingent on benchmarking, and to better prepare for any future market testing initiatives.

*DVA's response:* Agree in principle.

**Recommendation No.4  
Para 4.39** ANAO recommends that DVA collect and review relevant performance data to enable it to effectively monitor contract performance. This should include impacts on DVA's outputs of interruptions to its IT services, and associated business costs.

*DVA's response:* Agree.

**Recommendation  
No.5  
Para 4.50**

ANAO recommends that DVA maintain an up to date, consolidated contract, including variations, to facilitate ongoing management of changing requirements and ensure compliance with contract change procedures.

*DVA's response:* Agree.

# **Audit Findings and Conclusions**



# 1. Introduction and Context

---

*This chapter provides an overview of the Department of Veterans' Affairs' management of its contract for outsourced IT services and the origins and main features of the contract. The chapter also describes the audit objective and methodology, and the structure of the report.*

## Background

**1.1** The Department of Veterans' Affairs (DVA) was one of the first Commonwealth agencies to outsource its information technology (IT). DVA contracted out its mainframe computing services in 1992, a contract that expired in 1997. In February 1997, DVA extended its outsourcing to all its computing infrastructure, covering mainframe computer processing, network and desktop infrastructure, voice communication services, office automation training and associated support services. DVA retained responsibility for a range of IT functions including the development and maintenance of in-house IT applications used to support DVA's business processes.

**1.2** The selected supplier of outsourced IT infrastructure services was a prime contractor, Integrated Systems Solutions Corporation Australia Ltd, an IBM company. The contract value was announced as \$65 million and its period was five years from its signature in February 1997, with potential for two extensions of the contract, each of two years duration. Prices were to be reviewed twice during the contract, while other terms and conditions, including service levels were expected to remain unchanged. The contract provided that it should operate in accordance with the concept of 'partnering' as agreed by the parties.<sup>6</sup> Under the contract, DVA sold its IT assets to its supplier for an amount of \$5.5 million.<sup>7</sup> DVA now procures IT and telecommunications goods and services from the contractor. The contract provides that the contractor will, at the end of the lease arrangements supporting the delivery of services to DVA, make equipment available to ex-service organisations at a price to be determined and with the agreement of the leasing company.<sup>8</sup>

**1.3** The Minister for Veterans' Affairs announced in 1997 that the expected benefits of the outsourced arrangement were:

---

<sup>6</sup> The contract did not define the parties' understanding of the term, 'partnering'. However, partnering is generally understood to involve interdependence and long-term commitment of parties to a contract working for mutual advantage, sometimes through mutual investment.

<sup>7</sup> An independent firm employed by DVA valued the equipment at \$10.6 million. The vendor valued the same equipment at \$5.5 million. DVA sold the equipment to the vendor at the latter price.

<sup>8</sup> DVA advised ANAO that on-selling of redundant equipment had not been done extensively because of DVA concerns about its potential liability for such equipment.

- savings of around \$20 million in running costs over the five years of the contract;
- modernisation of infrastructure, improved support services and allowing business units to maintain standards and improve performance;
- better services for the veteran community; and
- job creation and small business growth in regional Australia, including through the supply of components of personal computers to IBM, for supply under the contract.

1.4 The contract signed in February 1997 was replaced by an expanded contract in September 1997. DVA was joined in the expanded contract by two other Commonwealth agencies—the Department of Finance and Administration (Finance) and Comsuper. The Commonwealth entities came together for the purposes of achieving economies of scale in the procurement of IT services and products. DVA expected to benefit from this ‘cluster’ of agencies through discounts on prices for mainframe and desktop services. The gazetted value of the expanded contract, covering the three agencies, was \$90 million. The two signatories for the supplier were the newly formed IBM Global Services Australia (IBM GSA), which was the corporate successor of Integrated Systems Solutions Corporation Australia Ltd, and IBM Australia (IBMA).

1.5 The Information Manager in DVA is the nominated contract manager from the Commonwealth’s side, with responsibility for contract administration. Each of the Commonwealth parties to the contract communicates with the supplier separately, as if there were three separate contracts. Although a Joint Management Committee was established to deal with matters of common interest, the Commonwealth parties did not form a single bargaining entity. Subsequently, one of the other Commonwealth entities has signalled its intent to withdraw from the contract.

1.6 The term of the contract signed by the three Commonwealth entities was stated as five years. Thus, DVA’s IT infrastructure has been outsourced for five and a half years through the present contractor and its (short-term) predecessor. The contract provides for review of prices twice<sup>9</sup> during the term of the contract and for extension of the agreement at the end of the first five years, at the option of the contract manager, for one or two further periods each of two years. Such extensions would be on the terms and conditions, including pricing, set out in the contract.

---

<sup>9</sup> DVA advised February 2002 that the two price reviews covered respectively the periods August 2000 to April 2001 and May 2001 to November 2002 respectively.

## The Department

1.7 The mission of the Department of Veterans' Affairs is to serve members of Australia's veteran and defence force communities, their widows/widowers and eligible dependants through programs of care, compensation, commemoration and defence support services. Currently, DVA has over 500 000 clients who are veterans or dependants and a further 60 000 clients through the Military Compensation and Rehabilitation Service. For 2001–02, the Parliament appropriated \$8.75 billion for budget measures for veterans' affairs compared to \$6.4 billion in 1996–97. New measures for veterans and increased levels of support under existing measures contributed to the increased appropriation.

1.8 Departmental officers in national, state and regional offices use computers in order, for example, to process veterans' claims for war compensation and to analyse and review data on payments for veterans' hospital and health services. The announcement of the contract acknowledged that DVA was heavily dependent on high quality and responsive computing infrastructure for its provision of income support, compensation and health services for veterans.

1.9 DVA provides IT to entities within the Veterans' Affairs portfolio that are located with DVA and share its IT infrastructure. DVA does not have formal agreements with entities within its portfolio for the provision of IT services. They pay for desktop services on the basis of numbers required by operational areas and for mainframe and voice services on the basis of usage.

1.10 The period of the contract has seen change in DVA's operations flowing from policy changes such as the transfer to DVA in 1999–2000 of administration of the Military Compensation and Rehabilitation Service. Legislative amendments over the period<sup>10</sup> have required changes to the way DVA calculated, notified and paid entitlements to eligible clients. There have also been substantial changes in IT support for administrative procedures, including:

- new expert systems to support pension administration;
- introduction of client-server technologies;
- introduction of new financial management and human resource management systems;
- internet and intranet operations;
- Year 2000 compliance remediation; and
- upgrade of the mainframe computer used to support DVA's services.

---

<sup>10</sup> DVA advised ANAO that, in 1999–2000, there were ten pieces of amending legislation to the Veterans' Entitlements Act 1986 that involved consequential changes to DVA's IT systems. Two of those legislative amendments involved significant change to payment processing and their associated IT systems. DVA advised ANAO that various factors dictate the volume and complexity of legislative change.

## DVA's management structures

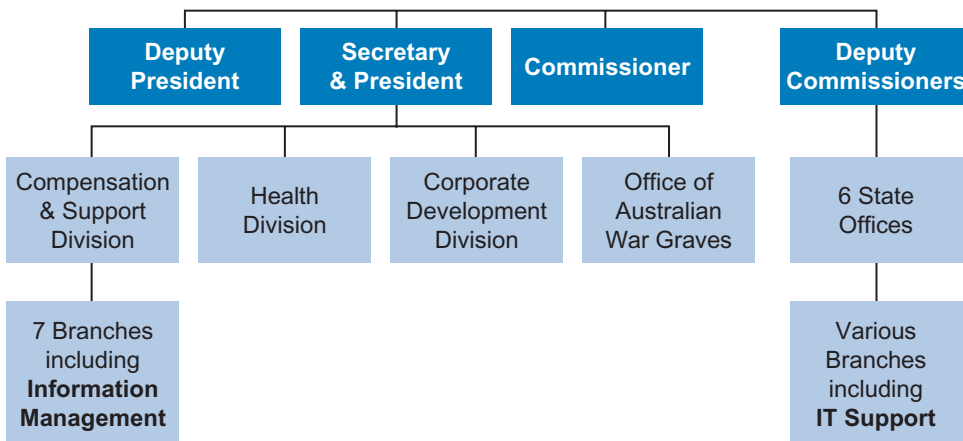
1.11 DVA's Information Management Unit (IMU), headed by the Information Manager, manages IT functions. This Unit is located within DVA's Compensation and Support Division.<sup>11</sup>

1.12 The IMU performs functions of three main types:<sup>12</sup> planning, in-house IT applications development, and the procurement and management of IT services under a number of contractual arrangements, including the major outsourcing contract.

1.13 DVA's organisational structure is represented in Figure 1.

**Figure 1**

**DVA's Organisational Chart**



Source: DVA's Intranet 14 September 2000, modified by ANAO to include state offices.

1.14 In late 2001, DVA employed around 206 staff in its IMU, 68 of whom were contractors employed in developing and modifying software applications. The IMU has seven component groups, one of which is involved with relationship management of the contractor. In the current IT Strategic Plan, one person was identified as engaged in contractor relationship management and two were allocated to IT strategic planning.<sup>13</sup> In addition to the staff of IMU, staff in state

<sup>11</sup> DVA's Annual Reports represent IMU's activities as part of DVA's corporate support, the remainder of which are managed in the Corporate Development Division.

<sup>12</sup> The IMU's functions include: IT strategic planning; in-house IT applications development, maintenance and support; IT security; infrastructure support services; data management; desktop applications support; Internet and Intranet services; quality management and measurement of IMU activities; contract financial management including procurement of IT services; contract compliance and performance; and client relationship management.

<sup>13</sup> Staff allocations reported in DVA's Strategic Plan 2000-05 were to Business and Infrastructure Services (48 people); Corporate Applications (68.5 people); Veterans' Services Applications (140.5 people); Quality Measurement and Metrics (5 people); and Client Relationships Management (2 people).

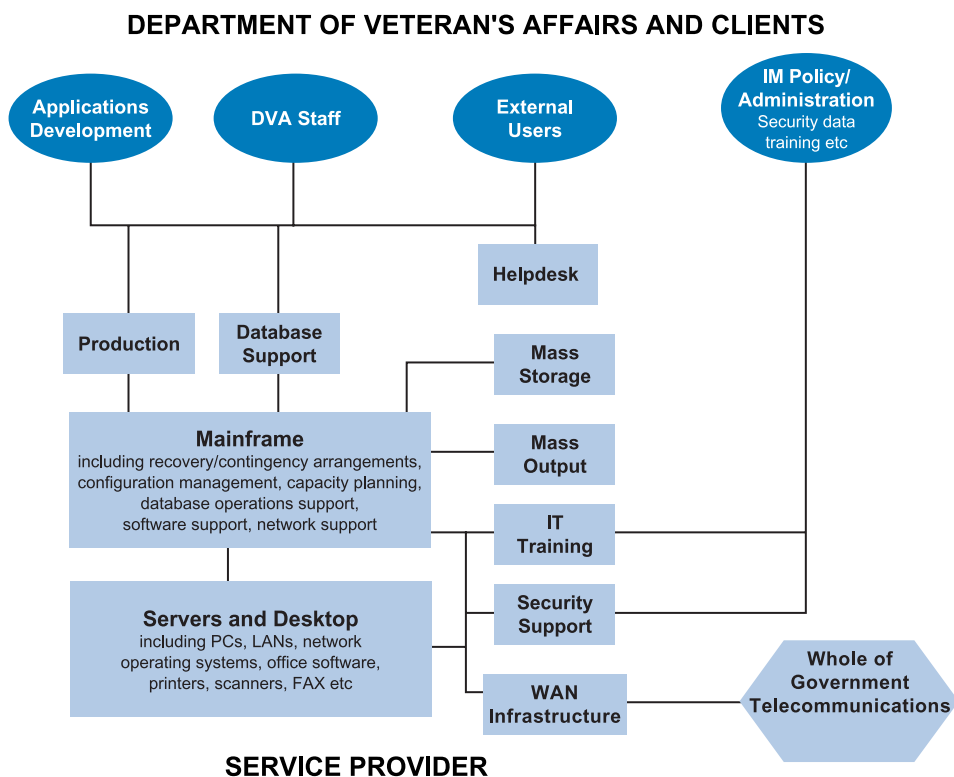
offices and business units of DVA liaise with IMU about the contracted services, documenting system failures, and procuring additional services to those covered by the contract, either from the contractor or another supplier.

## Contracted services

1.15 A diagrammatic representation of the outsourcing arrangement, as recommended by DVA's Information Technology Advisory Council in 1996, is shown in Figure 2.

**Figure 2**

### DVA's Outsource Requirement, 1996



Source: DVA's IT Acquisition Council, 1996

1.16 Present arrangements follow those in Figure 2 except that:

- help desk functions were entirely outsourced, rather than working as a joint function as depicted; and
- it had been envisaged that the contractor would transfer and retain all existing voice services and manage, maintain, audit and support a range of voice communications including voice mail and a telephone information

management system.<sup>14</sup> However, DVA advised that it had continued to deal direct with telecommunications suppliers. Although from late 2000 DVA forwarded telephone accounts to its IT outsource contractor for processing.

**1.17** Through its contract, DVA purchased:

- mainframe services and its operational support;
- serviced work stations for DVA employees covering desktop computer and telecommunications hardware and the services they deliver; and
- an IT operating environment for hardware and communications services.

**1.18** These services are delivered to desktops through the contractor's facilities that include:

- the contractor's site in Ballarat, which performs mainframe data processing and storage;
- local area networks which use servers and software programs to connect and support mainframe and mid-range systems to the desktop,<sup>15</sup> and
- wide-area networks, which link local area networks.

**1.19** Applications implemented by DVA in recent years have typically been client-server based,<sup>16</sup> rather than mainframe based. The main components of client-server technology typically include servers, personal computers/workstations and networks linking servers to personal computers. However, other infrastructure can also be necessary: for instance, client-server technology can increase the demand for bandwidth to run applications.<sup>17</sup>

---

<sup>14</sup> The contract provided that the prime contractor would manage DVA's telecommunications services and invoices and serve as a single point of contact for third party providers of telecommunications products and services. If the Commonwealth negotiated whole-of-government arrangements, the prime contractor was obliged to offer equivalent terms and conditions, including pricing, for similar IT services supplied to DVA.

<sup>15</sup> DVA personnel may access client data held in mainframe-based databases via a number of mechanisms including an electronic Veterans Information Enquiry Window ('VIEW') application. VIEW uses advanced software to link mainframe, intermediate client-servers and the desktop. It consolidates at desktop level all client data related to a single application, to enable desktop access to information, data update and initiation of consequential processing. This application was developed by DVA and has been operational since 1998. It operates on the network that is supplied and maintained by the contractor.

<sup>16</sup> In client-server technology, the 'client' is typically an application that runs on a personal computer or workstation and relies on a server to perform some operations. For example, an e-mail client is an application that enables sending and receiving e-mails. The term 'server' may refer to either hardware or software involving architecture to receive requests from a third party and respond to those requests by delivering a particular type of information. Available: <<http://pcwebopedia.com/term/c/client.html>> Viewed: 21 February 2002.

<sup>17</sup> For example, the VIEW application has increased pressure on DVA's bandwidth as well as increasing flows from the mainframe.

**1.20** In addition to the services specified in 1997 in the contract, DVA procures IT services from the contractor through business areas and state offices initiating additional service requests for items that are treated as discretionary purchases. These range from simple equipment requests (for example, a scanner or an extra printer beyond the agreed allocation, to implementation and support of complex systems for financial and human resource management<sup>18</sup>). Periodic fluctuation in workstation numbers is also addressed through contract change processes associated with additional service requests.

## **Contractual provisions**

**1.21** When DVA's contractor provides IT infrastructure services, its prices cover delivery, installation, on-site support, replacement and fixing, maintenance and warranty over an extended period, operating environment image, modification and installation, and end of life management.

**1.22** The responsibilities of the contractor and DVA in relation to the contract are summarised in Appendix 1. Essentially, the contractor is responsible for ensuring that DVA has reliable and appropriate IT networks and services, using current technologies owned and maintained by it, to meet DVA's business needs as identified in the contract and for handling DVA data with appropriate security protocols. DVA is responsible for strategic planning; the interface between IT and the general business of DVA; IT architecture (although involving IBM on some projects); in-house IT applications development, maintenance and support; prime responsibility for the security of DVA data; data management; desktop applications support; infrastructure support services; and Internet and Intranet services.

**1.23** The contract does not confer on the contractor the exclusive right to provide IT services or any other services to DVA. DVA may acquire IT services from third parties or from within DVA during the term of the agreement.

## **Accountability in procurement**

**1.24** The Commonwealth's procurement approaches include obtaining value for money, open and effective competition; ethics and fair dealing; accountability and reporting; national competitiveness and industry development; and supporting other Commonwealth policies, for example, equal employment opportunity. In October 2001, a new procurement framework was provided to all agencies governed by the *Financial Management and Accountability Act 1997*. In the new framework, value for money is the core principle governing Commonwealth procurement and is underpinned by four supporting principles:

---

<sup>18</sup> These additional service requirements have covered the development of, and server support for, a new data management information system and additional memory capacity for personal computers.

efficiency and effectiveness; accountability and transparency; ethics; and industry development. These Procurement Principles form part of DVA's Chief Executive Instructions (CEI).

**1.25** Whole-of-government arrangements for telecommunications were announced in the 1996–97 Budget. In the 1997–98 Budget the Government announced measures directed at achieving long-term improvements in the structuring and sourcing of IT services across agencies, to facilitate greater integration in the delivery of programs and realise significant cost savings. ANAO audited implementation of these initiatives through:

- Audit Report No.9, 1997–98, *Management of Telecommunications Services in Selected Agencies*; and
- Audit Report No.9, 2000–01, *Implementation of Whole-of-Government Information Technology Outsourcing Consolidation and Outsourcing Initiative*.

**1.26** In late 2000, the Government commissioned Richard Humphry AO, Managing Director of the Australian Stock Exchange as independent reviewer, to consider the whole-of-government IT initiative. The ensuing Humphry Report<sup>19</sup> identified significant risks to the transition and implementation processes of outsourcing and made recommendations to assist in overcoming sources of risk.

**1.27** In October 2000, the Australian Parliament's Joint Committee on Public Accounts and Audit presented a report, *Contract Management in the Australian Public Service*. It made five recommendations aimed at enhancing the quality of contract accountability and administration.

**1.28** In August 2001, the Senate's Finance and Public Administration References Committee issued a report, *Re-booting the IT agenda in the Australian Public Service—Final Report on the Government's Information Technology Outsourcing Initiative*.<sup>20</sup> This report recommended a number of initiatives that were designed to strengthen accountability through strengthened contract management. It also acknowledged that ANAO's recommendations in Audit Report No.21 1996–97: *Management of IT Outsourcing: Department of Veterans Affairs* were highly prescient for future development of whole-of-government policy on IT outsourcing, responding to particular lessons arising during the outsourcing process as a whole, from tender stage to post-contract management.

---

<sup>19</sup> Richard Humphry AO, *Review of the Whole of Government Information Technology Outsourcing Initiative*, December 2000, CanPrint Communications, Canberra.

<sup>20</sup> Senate Finance and Public Administration References Committee, *Re-booting the IT agenda in the Australian Public Service—Final Report on the Government's Information Technology Outsourcing Initiative*, Commonwealth of Australia, Available: <[http://www.aph.gov.au/senate/committee/fapa\\_ctte/IToutsourcing/report/final\\_report/index.htm](http://www.aph.gov.au/senate/committee/fapa_ctte/IToutsourcing/report/final_report/index.htm)> Viewed: 30 August 2001.

## The audit

### Audit objective

1.29 The audit objective was to form an opinion on DVA's management of its IT outsourcing contract, otherwise known as the Strategic Information Services Agreement (SISA). The audit considered DVA's planning to meet its strategic IT needs through the IT outsourcing contract, the provisions of the contract, contract administration, management of the impacts of the outsourced services on DVA's business and the outcomes of DVA's approach to the contract.

### Audit approach, methodology and scope

1.30 ANAO's audit approach included a review of relevant governance and management processes, file examination, interviews with managers and key personnel in the department and in one of the portfolio bodies that uses IT services provided by the department, analysis of payment processes and data, and analysis of the contract.

1.31 ANAO engaged Minter Ellison, a firm of lawyers experienced in IT contract management, to examine the contract and advise on how well it protected the Commonwealth's interests. Sigma Management Science Pty Ltd provided specialist IT advice.

1.32 ANAO considered DVA's management of its IT contract in terms of a contract management model, depicted in Appendix 2. Guidance about the elements of good practice in contract management was derived from various sources. These included research journals; official reports related to contract management; official reports related to IT procurement in Australia and overseas (including a significant recent OECD study<sup>21</sup>); and benchmarking data for Australian and overseas IT procurement and management. Some basic references are included in Appendix 2.

1.33 The audit did not include the development and administration of the tender process that led to the contracts; other than to compare the original specifications with the services ultimately provided by the supplier. The audit also did not review the management of the contract by the other Commonwealth parties, although the audit team benefited from discussions with managers in Finance and Comsuper about their involvement in contract management.

1.34 Audit Report No.44 of 2000–2001, *Information Technology in the Department of Veterans' Affairs*, has reported separately on DVA's management of its IT systems.

---

<sup>21</sup> OECD Public Management Policy Brief, *The Hidden Threat to E-Government. Avoiding large government IT failures*, PUMA Policy Brief No.8, March 2001, OECD, Paris.

**1.35** The present audit of DVA's management of its present IT outsourcing contract enabled ANAO to consider the extent to which DVA had implemented recommendations made in Audit Report No.21 of 1996–97, *Management of IT Outsourcing: Department of Veterans Affairs*.

**1.36** Fieldwork for the audit was conducted in DVA's national office and in selected state offices. Some significant developments since that date have been included in this report, on the basis of supplementary information provided to ANAO.

**1.37** ANAO appreciates the assistance it received in the course of the audit from personnel in DVA's national and state offices and from its contractor.

**1.38** The audit was conducted in compliance with ANAO Auditing Standards. Its estimated cost to ANAO was \$455 000.

## 2. Meeting Strategic IT Needs

---

*This chapter considers the alignment of DVA's contract with the business case and planned needs and the capacity for the contract to meet changing needs in a cost-effective manner. It also considers the effects of DVA's approach to the contract on DVA's expenditure on the contract and other IT services.*

### Introduction

2.1 The delivery of services to veterans is highly dependent on IT. DVA's Corporate Plan for 1999–2000 stated:

All the (corporate) outcomes depend on effective management and delivery of services to the whole veteran community achieved through (among other things) ...reliable and innovative technology.

2.2 Implementing a major IT initiative, such as outsourcing IT services and infrastructure, should be supported by sound change management arrangements that require, among other things:

- a sound business case for outsourcing;
- alignment of contracted services with planned needs; and
- ability to meet and adapt to changing needs in a cost effective manner.

2.3 These matters are discussed below, as is the actual expenditure by DVA under the contract arrangements for outsourcing.

### Business case

#### Strategic alignment

2.4 Since 1987, all departments and agencies under the *Public Service Act 1999* have been encouraged to produce information technology plans. In 1995, the Report of the Minister for Finance's Information Technology Review Group identified principles for the development of IT strategic plans.<sup>22</sup> Essentially, the principles advocated accessible plans that took account of the range of legacy, present and planned services, improved accountability and strengthened linkages between business planning and IT planning. The principles included:

- show resource commitments—funds, staff, hardware, software, cost statements/outlays; and

---

<sup>22</sup> The Report of the Minister for Finance's Information Technology Review Group, *Clients First, The Challenge for Government Information Technology*, Commonwealth Department of Finance, Canberra, 1995.

- show method of delivery of services over the period.

2.5 A major IT initiative affecting the capability of an agency to deliver the programs for which it is administering funds should be supported by a business case prior to the outsourcing transaction. The business case should state:

- the intended business outcomes of the project;
- the anticipated risks, based on information from competent advisers;
- realistic resource implications; and
- quality assurance mechanisms for the delivery of outcomes.

2.6 The Humphry Report identified that a contract supporting IT outsourcing should:

- be consistent with, and contribute towards realising the entity's strategic plans in place for the period of the contract; and
- result from a strategic consideration of the future of IT within the organisation. That consideration should canvass the rationale, anticipated costs and benefits, opportunities, implications for service, management and organisational strategy, risks and their proposed mitigation and impacts on the organisation.

2.7 At the time that DVA issued its RFT for outsourced IT services, a corporate plan and a *Strategic Information Management Plan* were in place.<sup>23</sup> The subsequent *Strategic Information Management Plan for 1998 to 2001* was a short document that identified issues for implementation of the Plan, major strategies and business processes and the principal information management issues. It identified, among issues for implementation of the Plan, the need for resources to enable IMU to undertake contract management and it articulated the strategy for contract management to 'ensure best outcomes for best price from service providers'. The Plan assigned responsibility for implementing and reporting the achievements and costs of this Plan to DVA's Information Management Steering Committee. A number of the objectives in the *Strategic Information Management Plan* supported a substantial amount of change in business processes.

2.8 DVA's accrual budgeting and reporting frameworks, introduced in 1998–99, identified IT as an enabling activity for the achievement of several outcomes. The *Strategic Information Management Plan for 1998 to 2001* identified key strategies to achieve management by output and outcomes as ensuring

---

<sup>23</sup> Another document, *Strategic Information Management Framework*, was provided to tenderers as part of the due diligence process. DVA advised ANAO that the *Strategic Information Management Plan* and the *Strategic Information Management Framework* were later subsumed within DVA's IT Strategic Plan.

appropriate data, functionality, responsiveness and support of the Departmental Management Information System, improving contract management and project management skills and systems. The *Strategic Information Management Plan for 1998 to 2001* did not outline the delivery of IT services through the outsourced contract which had been signed in 1997. The above Plan would have been more complete if it had done so, since the latter was central to achievement of DVA's strategic IT objectives.

**2.9** DVA has established a number of committees that assist in managing the delivery of DVA's business outcomes, and the role of IT in supporting that delivery. Membership is at senior levels. In this way, DVA has sought to integrate the planning, management and delivery of IT services with its core business. Mechanisms for managing IT in DVA include:

- meetings of the Executive and fortnightly briefs to the Secretary;
- annual strategic reviews of DVA's operations and future directions;
- the Information Management Steering Committee which is responsible for a 'cohesive, corporate overview and direction for information management';
- the Information Management Projects Steering Committee which manages the development and implementation of IT projects;
- the Joint Management Committee for the management of outsourced IT services comprises representatives of the Commonwealth parties and the contractor;
- planning processes to integrate the vision for business outcomes with information technology capability;
- internal audits of supplier performance and related internal management processes; and
- the Contract Advisory Unit which provides legal support as appropriate.

**2.10** DVA's Information Management Steering Committee and the Information Management Projects Steering Committee approve and manage departmental IT expenditure. DVA's *Strategic Information Management Plan for 1998 to 2001* identified monthly reports on the performance of the IT outsourcing contractor to the Information Management Steering Committee as a key strategy to management by output and outcome. Recognising that strategic alignment of the outsourced IT services needed strengthening, DVA advised that it is currently making changes to improve the strategic management of its IT business. In the past 12 months, the departmental Secretary has chaired the Information Management Steering Committee and its terms of reference had been re-oriented

to give more emphasis to strategic management issues. A new senior management position has recently been established in the department's Information Management Unit to support the work.

### *The business case for outsourcing IT*

**2.11** Early in 1996, the Secretary of DVA agreed to a recommendation of DVA's Information Technology Acquisition Council on Asset Replacement<sup>24</sup> (ITAC) to test the market not only in relation to mainframe services that had been outsourced since 1992 but also in relation to the viability of outsourcing further IT services. A history of DVA's processes for determining its business case for outsourcing IT is presented in Appendix 3.

**2.12** In May 1996, the Chairman of the IT Acquisition Council (ITAC) reported to the Secretary of DVA on the relevance of outsourcing to corporate objectives; the adequacy/'prodigality' of the statement of requirements including the intended asset replacement strategy; and the suggested procurement framework. Noting some equivocation about whether outsourcing would necessarily lead to cost savings, ITAC recommended that:

- an outsource decision should be approached by looking not only at costs and benefits but also at potential beneficial changes in the range and nature of the services provided or performed: for example, that outsourcing the more routine processes can provide agencies with the capacity to focus management on moving to new technologies and better use of resources; and
- industrial issues and privacy issues associated with outsourcing were major areas for concern and attention.

**2.13** The report acknowledged a business case for IT outsourcing to support rapid development of business systems, reliable operations and the effective interchange of information.<sup>25</sup> It noted that its recommendations might be affected by future Budget deliberations on the provision of IT services on a whole-of-government basis.

---

<sup>24</sup> Membership of the DVA IT Acquisition Council on Asset Replacement comprised representatives of Commonwealth departments which at that time had responsibilities for resource management, procurement, information technology and industry development across the Commonwealth, as well as the IT Tender Project Team and relevant managers within DVA. Input to the committee on DVA's business objectives and processes was provided through the participation of a senior operational manager.

<sup>25</sup> Sitting alongside the announced outcomes, DVA's RFT advised desired outcomes to be:

- a management approach emphasising the synergy between business and technology;
- optimal and cost-effective use of information technology to support delivery of services and products;
- processes which are designed to support and anticipate business requirements;
- information needed for policy, planning and evaluation purposes that are readily available and effectively used; and
- an applications development environment and communications network in place to support business improvement initiatives.

**2.14** Following a tender process, DVA's ITAC recommended in January 1997 that the Secretary of DVA approve in principle the outsourcing of the IT functions covered by a tender issued by DVA in late 1996. In recommending to the Secretary of DVA the outsourcing of IT services, DVA considered a project team evaluation report.<sup>26</sup> Tenders were required to address three scenarios, involving either reduced use of services, growth in services and the present level of services. The 'increased workload' scenario reflected the maximum anticipated increase in staffing and workload over the ensuing five years. In evaluating tenders, DVA considered a costing model to determine DVA's existing costs for 'in scope' services under current service levels and to consider tenders against that base. DVA's comparison of potential vendors was made on the basis of the contemporary work characteristics and did not include the expanded use of client server technologies foreshadowed in DVA's strategic planning documents.

**2.15** Responding to the draft report, DVA agreed that there needed to be stronger linkage between the contract and the strategic outlook of the department. At the same time, DVA advised that the architects of the contract took account of DVA's future needs and accompanying technologies wherever they could be identified. It acknowledged that, in an industry that can be subject to rapid obsolescence, there could be difficulties consequent on use of a fixed price, long-term, single provider contract as had been adopted by DVA. Consequently, a critical adjunct to the contract has been scheduled price reviews, which have enabled DVA to negotiate new technologies and prices to satisfy their business needs.

### *Procurement approach*

**2.16** The appropriate IT procurement model for an organisation will depend on many factors, including the goals for the outsourcing, the relevance of IT within the organisation and the attitudes towards control and management.<sup>27</sup>

---

<sup>26</sup> The project team reported to its Acquisition Council that its tender evaluation report had been prepared according to an evaluation process that ensures that bids are compared consistently, with full probity, according to the extent that they meet the DVA's business needs for the future at minimum cost to all parties. The comparison of the bidders was categorised as quoted price; expected cost-risk adjustment; general comment; corporate; managerial; financial and technical. The report stated that the costs were compared for three scenarios: the baseline which reflects the existing conditions in terms of staffing and workload; the increase load scenario where the conditions reflect the maximum anticipated increase in staffing and workload in the next five years; and the decreased load scenario where the conditions reflect all of the anticipated reductions in staffing and workload.

<sup>27</sup> Richard Humphry, *Review of the Whole-of-Government Information Technology Outsourcing Initiative*, [Canberra, Department of Finance and Administration] 2000, pp. 56 and 73. The Humphry Report identified a range of outsourcing models including full outsourcing to a single service provider, selective outsourcing of selected functions, consortia of providers which may operate either with one service provider selecting the sub-contractors or with the purchaser appointing the sub-contractors to the prime contractor, insourcing from an internal business unit operating as a pseudo-commercial entity, and a joint venture company oriented to serve the partner.

Summary information about IT procurement models and their risks is presented in Appendix 4.

**2.17** DVA's request for tender notified bidders that the Repatriation Commission wished to contract with a single vendor.<sup>28</sup> During the audit, DVA advised that its selection of a consortium of service providers under a prime contract achieved the advantages to DVA of multiple suppliers, while avoiding the administrative burden and associated transaction costs of managing multiple vendor arrangements.

**2.18** DVA's tender called for 'partnering' and this procurement approach was consistent with anticipation of large-scale business process re-engineering. The contract provided that it should operate in accordance with the concept of 'partnering' as agreed by the parties. The contract did not define the parties' understanding of the term. Partnering may involve long-term commitment of parties to a contract working for mutual advantage, sometimes through mutual investment. In establishing a 'partnering' arrangement, it would have been appropriate for the parties to establish appropriate partnering protocols for implementation of DVA's IT strategic plan.

**2.19** DVA advised ANAO that its procurement of services from the contractor had been treated as essentially a fee for service arrangement and 'partnering' had not been pursued between the parties, even though it was provided for in the contract.<sup>29</sup> In a fee for service arrangement, it would have been appropriate for DVA, as the purchaser, to contractually require its provider to facilitate implementation of its IT strategic plan, including the transition to new technologies. However, DVA did not link its contract for outsourced IT services with its strategic planning documents for the period in question.

## Alignment with planned needs

### Planning

**2.20** The IT environment is one of rapid development with regular improvements to both hardware and software. A number of the objectives in DVA's *Strategic Information Management Plan* supported a substantial amount of change in business processes. For example, the Plan included objectives of simplifying business processes; simplifying and reducing data capture workloads; and using emerging technologies for electronic capture of data at its

---

<sup>28</sup> The RFT stated: 'While consortia bids involving one or more invited panellists or an invited panellist and another supplier will be eligible for acceptance, it is a mandatory requirement that such bids are arranged so that the Commission contracts with a single legal entity'.

<sup>29</sup> Partnering could involve development of a jointly signed charter, as anticipated in the contract, and protocols and procedures. These were not developed.

source by providers or cooperating agencies. The Plan included, in general terms, provision for new technologies and alternative platforms for corporate support systems. These provisions were also reflected in DVA's tender for outsourced IT services.

**2.21** DVA's accrual budgeting and reporting frameworks, introduced in 1998–99, identified IT as an enabling activity for the achievement of several outcomes. As mentioned earlier, the *Strategic Information Management Plan for 1998 to 2001* identified key strategies to achieve management by output and outcomes as ensuring appropriate data, functionality, responsiveness and support of the Departmental Management Information System, improving contract management and project management skills and systems. The *Strategic Information Management Plan for 1998 to 2001* did not outline the delivery of IT services through the outsourced contract which had been signed in 1997. Given the Plan's central role to achievement of DVA's business objectives, ANAO would have expected that Plan would have referred to the contract for outsourced IT services.

**2.22** DVA's IT Strategic Plan in place at the time of the tender and DVA's RFT foreshadowed the increased adoption of applications using client-server technology.<sup>30</sup> However, DVA's outsourcing contract focused on the operations and activities of the traditional mainframe, and improved server capacity was to be the financial responsibility of DVA. The contract provided scope for contract variations and 'out of scope' services priced under separately negotiated statements of work. DVA advised ANAO that, because of its difficulty in predicting what new IT would appear and be useful, it relied on the contractual requirement for the use of current technology rather than specifying 'future' technologies.

**2.23** DVA stated that one of the major reasons for entering the IT outsourcing arrangement with a multi-national company was an expectation that the contractor would provide DVA with information on the application and usefulness of future technologies.

**2.24** DVA emphasised that there were uncertainties at the time the contract was negotiated as to the potential of IT to reduce IT processing requirements. It advised that the subsequent need to increase IT processing following policy changes and significant innovation to veteran processing systems was unforeseeable at the time the contract was negotiated. DVA advised that, during 1999–2000, there had been eight pieces of amending legislation that caused

---

<sup>30</sup> The RFT advised: 'As DVA continues to migrate applications from a mainframe environment to a server environment, and also looks to acquire a new FMIS, DVA's requirement for server capacity may increase. Please note that that it is not expected that there will be any corresponding drop in mainframe usage'.

changes to existing applications and systems and two pieces of amending legislation that caused significant changes, particularly to payment processing and their associated applications and systems. It advised that usually three pieces of amending legislation with significant implications for change to applications and systems are more typical of DVA's business environment each year.

### *Demands of new technology*

2.25 Within 12 months of the contract's signature, the department required additional client-server technology to replace some of its existing mainframe-based services and to deliver other initiatives.<sup>31</sup> By 2001, the number of IT servers had increased from 34 to around 130 and were handling four times the original workload.

2.26 DVA advised ANAO that:

A challenge that faced the department shortly after transition was that the SISA (the contract) did not reflect the technology now being used in the design and functionality of new systems. The SISA was crafted on the operations and activities of the traditional mainframe systems, and not on the use and support of client-server and Internet services. As a result, requests for new infrastructure or changes to existing infrastructure for traditional applications lay outside the scope of the existing service level agreements (SLAs) and bundled service charges.<sup>32</sup>

2.27 Services, using client-server technologies or Internet-delivery,<sup>33</sup> implemented during the contract period, have been treated as new requirements. The contract requires that changes outside the contract's scope will be priced in a formal proposal. Some additional service requirements were treated as contract changes. Contract changes covered: inclusion of servers to support expert systems (CCPS and Unix); revised sites for coverage; revised PABX configurations; upgraded cabling; satisfaction surveys; CPU usage baseline for charges; additional software related to mainframe upgrade; alteration to the service measures, critical performance requirements and service credits applicable to procurement; and release from the SLA in relation to use of third party product. Some additional requirements have been handled as separate projects. In some cases, implementation of new work as additional service requests has required the use of additional local servers, and some of these servers

---

<sup>31</sup> Client-server technology supports new financial, human resource and data management systems that were introduced in DVA over the term of the contract.

<sup>32</sup> In 'bundled' charges, a price is set for a package of items. DVA's outsourcing contract provides that, unless otherwise specified in the contract, charges include all services required for the performance of the contractor's obligations.

<sup>33</sup> *Investing In Growth. The Howard Government's Plan for Australian Industry*, Commonwealth of Australia, Canberra 1997 announced the Government's policy was to have all appropriate government services Internet-deliverable by 2001. Available: <<http://www.disr.gov.au.growth>>.

were outside the service level arrangements applicable to the infrastructure covered in the contract.

**2.28** An internal review of project management costs by DVA in 2000 identified that treatment of some IT service requirements as separate from the contract involved additional cost to DVA. The review recommended that the contract be reviewed to enable treatment of DVA's additional service requirements the same as base requirements under the contract. In 2000, DVA reviewed the costs associated with developing its new management information systems, and found that DVA's contract had not been maintained and varied to reflect the technology then being used in the new systems. Management responded at the time by advising that the matter would be addressed best in the context of the first price review, which under the terms of the contract had been due in 1999. The treatment of additional services had not been resolved up to the time of ANAO's audit, although the first formal price review was completed in 2001.

**2.29** Generally, DVA arranged for provision of the client-server infrastructure through the outsourced contractor. In one instance DVA used a contractor other than the principal contractor to supply data storage. This entailed an impact on DVA's IT infrastructure, a material change to the roles and responsibilities of the contract parties and the third party provider/s. Consequently it required a contract variation releasing DVA's outsource contractor from obligations related to response times and service credits for servers and the LAN infrastructure where the storage device was active.

**2.30** Although there were sound reasons for DVA to purchase additional IT services from its main outsource supplier, there is little doubt that DVA's management of the procurement of additional services would have been strengthened by a holistic review of needs and the contract requirements, rather than recourse to 'add-on' arrangements. Such an approach had been recommended in an internal review conducted by DVA. An evaluation of the outsourcing arrangement would have presented an opportunity to review the department's approaches to contract management, identify additional service requirements, consider procurement options to meet new requirements and perhaps to re-negotiate key provisions of the existing contract. By not doing so, DVA lacked assurance that it was achieving best possible value from the contract in the context of its strategic directions.

## Recommendation No.1

2.31 ANAO recommends that, in either the renewed or a new contract, DVA ensure that the provisions give appropriate effect to DVA's IT strategic planning, and are based on robust estimates of the expected demand for IT services in the agency.

### *DVA's response*

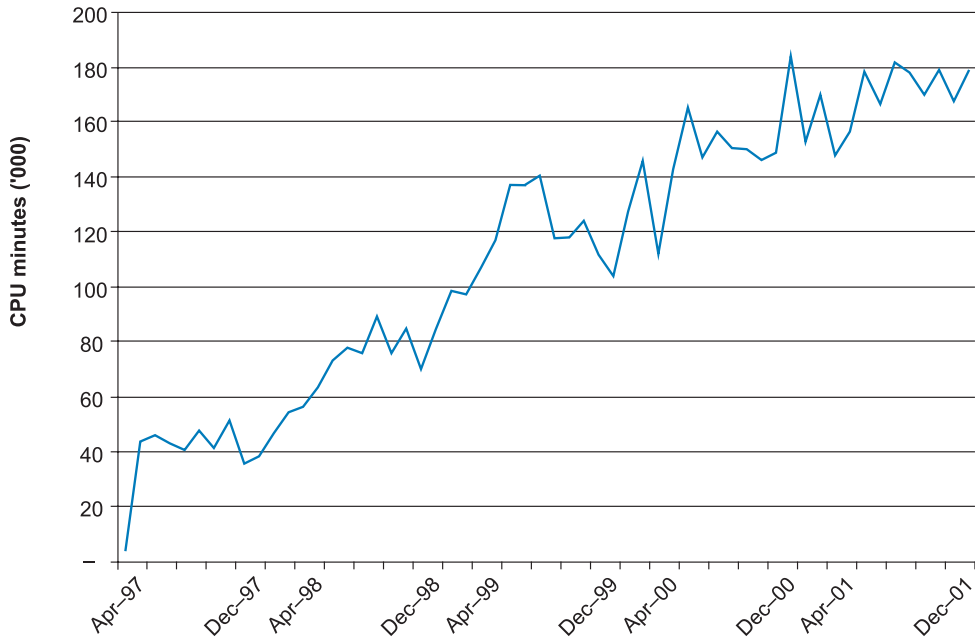
2.32 Agree. DVA is currently seeking to strengthen its IT strategic management, but notes that the current contract was signed at a time of uncertainty about the impact of outsourcing of administration functions such as account payments on IT processing demands within the department. In this context, the contract was framed around the existing processing requirements with specification of mechanisms to adapt to future changes in requirements.

## Adapting to changing needs

2.33 Over the period of the contract, DVA experienced demand for IT services far greater than anticipated, and of a different kind from those provided at the beginning of the contract period.

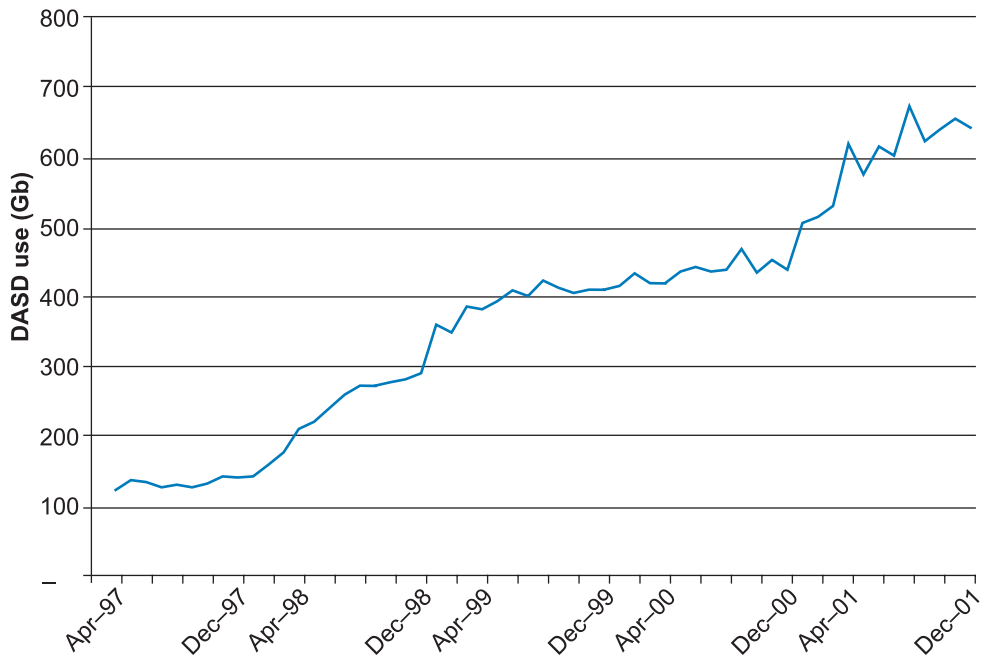
2.34 As illustrated in Figure 3 and Figure 4, DVA's use of computing processing (measured as 'CPU minutes') and data storage (measured as gigabytes (Gb) of 'DASD') grew over the period of the contract to mid 2001. The periods are marked to denote the years dated from the inception of outsourced services and calendar years.

**Figure 3**  
**Computer processing [CPU minutes]**



Source: ANAO based on DVA data

**Figure 4**  
**Data storage (DASD) use**



Notes: DASD is a direct access storage device, with use measured in gigabytes

Source: ANAO based on DVA data

**2.35** As outlined in Chapter 1, DVA advised that the growth in IT services was due to the combined effects of new policies for the calculation of veterans' benefits and to the impetus for new technologies associated with Year 2000 compliance in technology. As a consequence, it needed approaches to ensure that the Commonwealth was not exposed by this growth in demand to either financial risk or risk to the quality of services purchased under the contract. DVA's approaches are discussed below.

**2.36** The contract included prices that were to apply within a band of volumes of use. The parties were required to renegotiate prices if those bounds were breached. The upper bound of growth at the original prices was 200 per cent. In contrast, mainframe use actually increased by 400 per cent between 1997 and 2001. When the estimated mainframe usage exceeded the upper bound specified in the contract, DVA implemented a contract change in December 1998 to reflect higher use. It negotiated another change six months later associated with a mainframe upgrade to cope with additional volume of use. DVA was negotiating with its contractor in relation to a further upgrade during the period of the audit.

**2.37** By 2001, servers supporting services provided to DVA by its contractor grew from 34 to around 130.

### **Expenditure with the outsourcing contractor**

**2.38** Expenditure on outsourced IT services accounted for 60 per cent of DVA's expenditure on IT in 2000–01. Outsourced IT expenditure is in two categories: the first category comprises base expenditure on infrastructure, desktop and voice services; the second category comprises items purchased from the outsourced supplier as additional service requests under the contract. Table 1 presents DVA's IT expenditure with the outsourced contractor. As an indicator of the scale of that expenditure, DVA's total IT expenditure on its outsourced IT services is also presented in Table 1.

**Table 1****DVA's Total IT Expenditure, including on IT Outsourcing Contract, 1996–1997 to 2000–2001.**

Year	Base Expenditure with Contractor	Additional Service Requests from Contractor	Total Outsourced Contractor Expenditure	Total IT Expenditure
	\$ million	\$ million	\$ million	\$ million
1996–1997	1.3	0.5	1.9	29.6
1997–1998	15.9	3.0	18.9	36.7
1998–1999	17.1	2.3	19.3	43.2
1999–2000	16.2	10.6	26.8	50.7
2000–2001	22.3	8.4	30.7	51.0
Total	72.8	24.8	97.7	211.2

Notes: Figures have been rounded. Individual lines might not sum to the totals because of the rounding effect. For 1996–97 to 1998–99, operating expenditure covers Appropriation Bills 1 and 3. For 1999–2000 and later years, operating expenditure covers Appropriation Bills 1 and 3 and Appropriation Bills 2 and 4. 'Total IT Expenditure' data presented in Table 1 exclude some IT-related items. As an example, some cabling costs were funded as IT expenditure while some other cabling costs has been funded as fit-out costs. The latter are not captured in the above figures.

Source: DVA Resources Branch, August 2001.

**2.39** To the end of 2000–01, DVA had purchased IT services from the provider worth \$97.7 million of which \$72.8 million was for core services specified in the contract and \$24.9 million (25.5 per cent) was for other items. Extrapolating from the data in Table 1 at the current rate of expenditure, DVA will purchase IT services from its principal contractor worth at least \$140 million over the term of the contract to November 2002. Thus, expenditure with the contractor is estimated to more than double the original announced value of the contract for outsourced IT services (\$65 million) in 1997.

# 3. The Contract

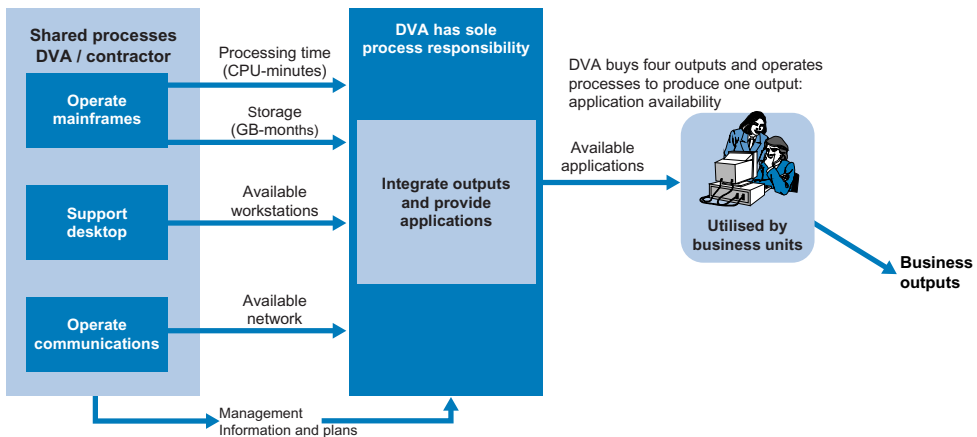
This chapter considers some features of the contract that affected DVA's approaches to contract management and selected legal issues.

## Introduction

3.1 A contract provides a legal framework for the provision of services at an agreed price and to an agreed quality consistent with financial management and accountability standards.<sup>34</sup> An outsourcing contract seeks to define and regulate the relationships between purchaser and service provider in operational terms.

3.2 The contract (SISA) is a large document, comprising core terms and conditions applicable to the three Commonwealth parties and a series of schedules tailored to each Commonwealth party's arrangements.<sup>35</sup> Under the contract, DVA purchases mainframe processing (charged on a basis of volume and time), data storage capacity and workstations. DVA's business applications use the IT processing and storage services to produce business outputs. DVA's procurement of IT outputs is represented in Figure 5.

**Figure 5**  
DVA's Purchase of IT Outputs



Source: ANAO /Sigma Management Science, based on DVA data

<sup>34</sup> 'A contract is an agreement made between two or more parties which is intended to be enforceable at law and is constituted by the acceptance by one party of an offer made to him by the other party to do or abstain from doing some act.' John B Saunders, *Words and Phrases Legally Defined*, Vol 1, A-C, London, Butterworths, 1969.

<sup>35</sup> The contract covers three Commonwealth parties. In respect of DVA, the contract spans the services to be provided to DVA and the Repatriation Commission; the account management plan; the technical plan; the implementation plan; pricing and payment arrangements; unconditional financial undertaking; relevant insurance policies; confidentiality; access to personal information; and escrow.

## Deliverables and service standards

### Specification of contract deliverables

3.3 The contract includes lists of many hundreds of tasks and scores of deliverables<sup>36</sup> required of the supplier. The document treats the deliverables from various contracting perspectives—such as scope, price, timing of delivery, and invoice arrangements. This approach to the contract’s layout requires the reader to gather layers of information related to a service from several parts of the document. The document is highly complex and technical; and there are inconsistencies between provisions in schedules and those in the body of the contract: for example, as to dates for notifying intent to renew the contract or otherwise.

3.4 DVA advised that, because of the size and complexity of the contract, significant administrative effort was required to monitor the contractor’s performance. DVA further advised that lack of clarity of the wording of some deliverables had made it difficult for DVA to confirm that these deliverables were provided. This contributed to the complexity of a review of deliverables yet to be delivered under the contract (‘outstanding deliverables’) conducted by the parties to the contract and completed in April 2001.

3.5 Expert IT advice to ANAO suggested that specifying and costing contract deliverables would be easier to manage if they were expressed as high-level ‘end-to-end’ outputs—such as hours that designated business applications are available for use—in combination with some measures of actual use.<sup>37</sup> ANAO considered this approach better able to capture the intent of outsourcing than buying mainframe processing time, which was akin to ‘contracting in’ resources. Because the requirements to support designated applications are not specific in ‘end to end’ procurement arrangements, these arrangements are less prescriptive of particular IT infrastructure solutions and offer more flexibility to the IT contractor as to how the IT solution will be delivered. Specification of end-use outputs would usually be supported by identification of a small core of essential processes that would be fundamental to achievement of the required business outcomes.

3.6 DVA’s contract management would be facilitated if the contract specified a small number of key deliverables expressed as higher-level services, such as hours of access to business applications. Specification of high level deliverables

---

<sup>36</sup> The term ‘deliverable’ was not defined in the contract. However, goods are in a ‘deliverable state’ when they are in such a state that the buyer would under a contract be bound to take delivery of them. John B Saunders, *Words and Phrases Legally Defined*, Vol 1, D-H, London, Butterworths, 1969.

<sup>37</sup> Under ‘end to end’ specification of need, the prime contractor is responsible for the whole service being provided, to the point of use by the purchaser.

would not preclude detailed statements of requirement. This approach would not alter the pricing basis of the services, nor would it inhibit bundling of prices.

3.7 DVA advised that it has identified approaches that it intends to apply in a future contract. These are structural changes to make the document simpler and easier for all parties to work with, as well as to clarify some drafting matters.<sup>38</sup> DVA's advice is presented in Appendix 5. DVA stated that its approach to contract specification was to frame the contract around the then current requirements, with specification of mechanisms for the contract to adapt to future changes in requirements. DVA further advised that it considered that the relevance of its strategic view of future possibilities and uncertainties was to inform the specification of appropriate mechanisms for change.

## **Undelivered services**

3.8 In 2000 (Year 4 of the contract), DVA reviewed the status of contract services and identified a significant number of undelivered or partially delivered items, including disaster planning, industry development obligations, IT training for DVA personnel using the contracted products and services, performance tracking and annual reports acquitting the account management plan. Some of the deliverables had been dependent on DVA's performance, for example, DVA's finalisation of its business continuity plan as a prerequisite to disaster prevention plans from the contractor.

3.9 DVA's negotiations of the settlement of the outstanding deliverables identified three categories of outstanding deliverables, those that:

- a) had not been delivered but which did not disadvantage DVA;
- b) had not been delivered and which involved financial settlement; and
- c) were outstanding and would be delivered under revised timeframes.

3.10 Outstanding deliverables in group a) above included a requirement for the contractor to survey the service satisfaction of DVA personnel on a monthly basis. At DVA's request this deliverable had been replaced by a requirement for a six-monthly survey, combined with a review of satisfaction with IT applications for which DVA is responsible. Relief from provision of deliverables involves a financial benefit to a contractor. As discussed previously, a holistic review of the

---

<sup>38</sup> DVA advised ANAO that its approach to contract re-drafting would be to:

- emphasise the purpose of requirements, ie focus on outcomes;
- list specific requirements as ways to meet these outcomes, not necessarily prescribing how the task must be done (other than aspects that are critical); and
- try to prioritise issues, with emphasis on the most important aspects affecting different phases or elements of the services. This can encourage greater productivity and simplify contract monitoring if the most important requirements are being met.

contract early in its term would have reviewed and updated requirements and considered the price implications of altered deliverables.

**3.11** In seeking to settle some of the outstanding deliverables in group b) above, DVA sought to establish the value of the services in question. DVA's estimates of value varied from initial, in-house estimates of around \$12 million to a final agreed figure of \$1.5 million. DVA advised that the large difference between these figures was attributable to lack of clarity in the way deliverables were specified in the contract. For example, DVA initially calculated the cost of undelivered training on the basis of productivity impacts rather than the cost of training inputs, but subsequently adopted the latter approach. When negotiation of the value of the group of outstanding deliverables had been completed, DVA traded the \$1.5 million value of these outstanding deliverables for some retrospective price rises that otherwise would have occurred from Year 2 of the contract.

**3.12** With regard to group c) above, DVA and the contractor agreed that scores of contract services were outstanding at the commencement of Year 5 of the contract. They negotiated the delivery of 17 outstanding services by the end of June 2001. These items included annual reporting on the contractor's activities, a change management process, continuous improvement to lever benefits from the contract, configuration management and provision of asset lists on a quarterly basis.

**3.13** In early August 2001, DVA considered that, overall, the contractor had made satisfactory progress in its delivery of outstanding requirements, although disaster prevention and disaster recovery planning had not been satisfactorily resolved at that time. DVA advised, in late 2001, that it was still seeking to ensure that the plans would be developed so as to meet the requirements of each of the contract parties and that achieving the best possible outcome was taking longer than originally anticipated.

## **Service standards**

**3.14** Good practice involves a clear linkage between the measures of IT performance and business outcomes to enable contract managers to assess the impact of the contractor's performance.

**3.15** DVA was responsible for ensuring that that the contract was capable of meeting its business needs, even as those needs changed. One way to achieve this is by clear linkages between business needs and specification of IT requirements to meet those needs. ANAO's audit, *Information Technology in the Department of Veterans' Affairs*, Report No.44 of 2000–01, found that DVA could not identify a clear linkage between all internal IT measures included in DVA's

performance monitoring tool, the Balanced Scorecard<sup>39</sup> and related client performance reporting requirements. ANAO also found, in this audit, that this limitation also applied to service standards set out in the contract through SLAs.

**3.16** The absence of a clear linkage between the measures of IT performance and the department's business outcomes reduces assurance that contract performance measures support business outcomes appropriately. Furthermore, as business needs grow and change, as they have for DVA, there is increasing risk that measures of contractor performance diverge from alignment with business needs, making it difficult to assess the impact of the contractor's performance on business delivery. For example, DVA has a timeliness target of 32 days to process a new claim for an income support pension. The contract would be easier to manage if there were a clearer relationship between the computer processing performance requirements for IT outputs necessary to facilitate the department's timeliness target for business outputs. The difficulty of relating slow response times experienced by DVA to contract performance is discussed further in Chapter 4.

**3.17** As well as the nature of service standards, ANAO found that lack of clarity about the service level coverage was an issue. DVA advised that the contracted service levels applied to all IT infrastructure on which the various applications reside, irrespective of whether the application existed at the commencement of the contract or whether they were introduced at a later time. However, the contractor advised a different understanding, that is, that its obligations related to meeting the needs of DVA, as defined in the contract. Therefore, on this latter understanding, some additional servers supporting new work since the contract was signed could require separate service level specification. DVA advised that it considers that its contractor must afford service level assurance to all servers in use in DVA over the term of the contract, unless specifically identified for different treatment: for example, business applications developed and maintained by DVA. Nonetheless, DVA acknowledged that there might be some servers that were not supported by service level agreements.

**3.18** At the request of ANAO, the contractor identified service level coverage for servers in use in DVA during the course of the audit. To improve clarity of service requirements, ANAO suggests that DVA and its contractor operate a joint register that summarises the service levels applicable to technology used to support the services that the department purchases from its contractor.

---

<sup>39</sup> DVA records operational performance in a National Balanced Scorecard and local Balanced Scorecards. Local scorecards align with the National Balanced Scorecard to monitor performance at local levels.

## Recommendation No.2

3.19 ANAO recommends that, in preparing for contract extension or succession, DVA strengthen the role of IT for business enablement by:

- a) reviewing its approach to specification of required services in order to manage contract deliverables efficiently and effectively; and
- b) identifying clearly key service requirements and service standards that give effect to the department's business objectives.

### *DVA's response*

3.20 a) Agree; b) Agree.

## Price and performance benchmarks

3.21 Benchmarking is a process of systematic comparison of operational performance with a view to stimulating performance improvement. DVA's IT outsourcing contract envisaged a comprehensive approach to benchmarking.<sup>40</sup> The approach included:

- IT trends to be benchmarked at the commencement of the contract;
- benchmarking to be conducted annually;
- a benchmarking plan, methodology and analysis to be completed by the parties after specified periods of the contract;
- benchmarking to be a key input into a pricing review under the Agreement; and
- DVA was to meet the costs of benchmarking while the contractor was required under the contract to bear the costs of its cooperation for the purpose of benchmarking.<sup>41</sup>

3.22 The contract provided for financial and other benefits to DVA flowing from benchmarking. It stated that improvement evident from benchmarking must be incorporated into the contract at the request of DVA; and that full

---

<sup>40</sup> The main part of the contract envisaged external benchmarking of the services provided under the contract against best industry practice. In a Schedule, the contract required internal comparison of the prime contractor's operations performance and unit prices with those performed for organisations of similar size and rate of growth as DVA. DVA advised that it was unique, and so incapable of being benchmarked. In contrast, the *International Encyclopedia of Business and Management* has identified that generally, benchmarking may involve groups internal to an organisation; external operations of direct competitors; equivalent functional operations of non-competitors; generic process benchmarks; and product benchmarks. *International Encyclopedia of Business and Management*, London, Routledge, 1996, pp. 359–360.

<sup>41</sup> Some other outsourcing agreements have provided that the parties share the costs of any benchmarking undertaken by a third party.

financial and other benefits flowing from such improvements would accrue to the Commonwealth only and not be shared with the contractor.

**3.23** Notwithstanding the contract provisions, DVA advised that it had not benchmarked the outsourced IT services purchased under the contract, considering that 'it is extremely difficult to obtain benchmarking data that is strictly compatible across businesses or with a fine enough grain to enable meaningful business decisions'. DVA also considered that the contract required benchmarking of like agencies only, and not benchmarking of like services or functions within agencies against best industry practice. Benchmarking may be undertaken between parts of organisations and may involve comparable processes undertaken by entities with dissimilar objectives.

**3.24** DVA advised that, instead of formal benchmarking, it had access to broad price and performance information through an informal network of IT contract managers.<sup>42</sup> However, DVA was unable to provide documentation of its resultant price information or comparisons. Lack of documentation of benchmark information contradicts the intent of benchmarks to enable durable and empirical comparisons over periods of time. Documentation of benchmark information also supports progress reports to managers over time. DVA agreed that its benchmarking procedures could become more formalised. It emphasised that informal benchmarking activities are performed by its business areas and contract management staff each time a quotation request or additional service request was submitted to the contractor. In addition, contract staff monitor Commonwealth and industry trends. DVA also advised that, as a part of its current considerations on the exercise of the option to extend the contract, it was attempting to conduct a comprehensive benchmark review of the services provided under that contract. This was proving to be a difficult exercise because of problems in obtaining valid and meaningful comparisons.

**3.25** While informal approaches to benchmarking can be useful, especially if documented, ANAO considers that, while acknowledging the methodological difficulties, a systematic and formal approach to benchmarking maximises opportunities for improving efficiency and savings.

**3.26** DVA advised that it is currently reviewing available methodologies to determine whether market testing will be required in a decision to extend or replace its current contract.

---

<sup>42</sup> DVA advised ANAO that 'benchmarking is performed by its business areas and contract management staff each time a quotation request or Additional Service Request is submitted to the contractor. In addition, IMU staff continuously conduct informal benchmarking of mainframe, data communications and voice charges including the monitoring of Commonwealth and industry trends, practices and prices for the provision of IT services'.

## Recommendation No.3

3.27 ANAO recommends that DVA benchmark its IT services, so as to have a sound basis for securing potential financial and service benefits specified in the current contract as being contingent on benchmarking, and to better prepare for any future market testing initiatives.

### *DVA's response*

3.28 Agree in principle. DVA is reviewing its approach to benchmarking in conjunction with its comprehensive review of its current contract. There is scope to formalise existing benchmarking practice undertaken in conjunction with day-to-day management of new project development. In DVA's experience, benchmarking of substantial components of IT business poses more methodological difficulties if results are to be useful to management decision-making. These exercises may be more usefully conducted periodically including in conjunction with contract review.

## Contractual issues

### **Licensed software**

3.29 Under the contract, the contractor is able to obtain and supply to DVA third party software for the provision of IT services. The contract does not include provisions to ensure that the price at which the software is supplied is a fair price for the licensee. There would be merit in addressing this in future contractual arrangements through, for example, requiring the contractor to supply software at no greater than the price that the contractor supplies that software to comparable parties, or at which DVA may be able to acquire it from the market place.

### **Responsibilities of Commonwealth parties to the contract**

3.30 The contract does not clearly distinguish the responsibility of each of the three Commonwealth agencies in managing the Commonwealth's rights and obligations under the contract. This is addressed through a Memorandum of Understanding between the Commonwealth agencies, which seeks to coordinate the management of the contract by the Commonwealth. However, this arrangement leaves some uncertainty as to how the parties should address the withdrawal of one or more of the Commonwealth agencies during the term, and in particular, how such withdrawal would affect the services provided or fees charged to the remaining agencies.

## Privacy

**3.31** The IT outsourcing contract requires the contractor's employees, agents and subcontractors to sign a deed of confidentiality and to abide by the Commonwealth's IT security legislation and practices. The contractor is prohibited from using equipment to provide IT services to another person or organisation unless the security requirements specified in the contract are met.

**3.32** There is a risk that in a large multi-client mainframe facility, data belonging to one organisation could be made available accidentally to another user of the facility. To address this risk, DVA had required that data cassettes containing data related to DVA clients be handled manually by the contractor in its central processing site at Ballarat. Revised arrangements, involving automatic loading of disks containing client data onto the contractor's mainframe, were negotiated during the period of the audit. DVA advised ANAO that it was satisfied that the privacy of client data was assured by its contractor's approach to data handling. However, DVA had not reviewed the contractor's processes; and it did not monitor data movements on the IT infrastructure, which would have provided assurance that controls and systems were operating effectively.

## Confidentiality of contractor information

**3.33** The contract requires protection of confidential information obtained from the contractor, where confidentiality is clearly marked or inferred.<sup>43</sup> The ANAO observed that the confidentiality of contract provisions is tightly observed in DVA. DVA personnel do not access contract provisions applying to the other Commonwealth parties (which are handled in separate contract schedules); and, within DVA, only directly relevant staff access the contract via the distribution of 'accountable' copies. An overview of the contract, including selected extracts, was published on DVA's Intranet. Material related to price was excluded.

**3.34** Some personnel in DVA's operational areas advised that the confidential nature of the contract prevented their access to, and understanding of, the terms of the contract. They believed that this lack of access constrained their management of the procured services. ANAO considers operational managers need better understanding of performance and resource management issues related to the contract, rather than access to the terms of the contract itself.

---

<sup>43</sup> The contract requires that:

- Subject to this Agreement expressly allowing DVA to disclose certain information, DVA must
- (a) treat as confidential all information obtained from the Contractor which is clearly marked as being confidential or obtained in circumstances inferring confidentiality; and
  - (b) not disclose confidential information to any person without the consent of the Contractor (which consent must not be unreasonable or unlawfully withheld).

**3.35** In 2000, the Senate Finance and Administration References Committee reiterated the general principle it had stated in previous reports on government contracting that information should be made public unless there are good grounds for withholding it.

**3.36** Parliament has wide powers of access to information. On this basis, ANAO, in a separate audit,<sup>44</sup> identified that contractual provisions should be disclosed to Parliament and its committees unless there is a sound basis for their confidentiality. ANAO identified that agencies' approach to contracts should provide for contractors to indicate what information they consider should be classified as confidential and for agencies to explicitly consider these. Where confidentiality of certain information is considered to be appropriate in either, or both, parties' interests, agencies should, as a matter of course, seek to include a provision which provides an exception with respect to disclosure to a Parliamentary committee, if only on a confidential basis.

**3.37** In the light of the Senate Finance and Administration References Committee's general principle and ANAO's recommendations related to disclosure of contract information, DVA may need to review the confidentiality provisions of its present contract before entering into any new contract.

## **Access**

**3.38** It is important for a purchaser to be able to verify information provided by an IT supplier. That is so the purchaser can appropriately fulfil its contract management responsibilities and access information related to its broader responsibilities in program delivery. The contract anticipated this need by including clauses that provided DVA's contract manager, or persons nominated by the contract manager, with access to relevant records and personnel. The contract also provided access for auditors appointed by DVA to all records of operations management and to the contractor's staff, premises and management information. In addition, the contractor offered to participate in audits of all systems and facilities upon receipt of a request from DVA. DVA had not sought such audits.

**3.39** Although the contract does not specifically provide for access by the Auditor-General and his staff, DVA advised ANAO that, in any future contract, it would incorporate model provisions promulgated by the Auditor-General to

---

<sup>44</sup> ANAO Report No.38 2000–2001, *The Use of Confidentiality Provisions in Commonwealth Contracts*. In that audit, ANAO developed comprehensive criteria to assist agencies in addressing confidentiality provisions in contracts. These criteria form part of a preventative approach that relies on agencies agreeing to the use of confidentiality clauses in contracts only when they can be justified against the criteria. The criteria drew on broad principles expressed in existing legislation and on what courts and tribunals have held to be confidential information. The criteria could be applied equally in cases where the Commonwealth has a particular commercial interest it wishes to protect.

ensure public scrutiny of its management of outsourced functions. This would also assist DVA management with its accountability requirements.

## **Renewal, succession and transfer of obligations**

**3.40** During the audit, DVA advised ANAO that it was considering options for either renewal of the contract or testing the market anew.

**3.41** The contract provides that any renewal is to be on the same terms and conditions (including prices) as in the contract. In practice, maintenance of existing prices may depend upon how recently a price review has been completed by the parties before the renewal of the contract.

**3.42** ANAO received legal advice that there was some drafting complexity and resulting ambiguity in the contract as to dates on which DVA would indicate its intent to renew the contract: on one interpretation 14 August 2001 and on another it is 12 May 2002.<sup>45</sup> DVA advised ANAO that it had resolved this matter by being a signatory in September 2001 to an amending deed to the contract between the Department of Finance and Administration and the contractor. Under that amending deed, the parties agreed with its contractor that the term of the agreement expires 'at the end of the first five years on 12 November 2002'. DVA advised that it would indicate to its contractor its intent to renew, or otherwise, twelve months before the end of the present contract. This date was different to the period of notice required by the contract. DVA considered that this was the amount of time necessary to address the administrative aspects of its decision to either renew the contract or test the market.

**3.43** Alongside DVA's right to advise its contractor as to whether it wishes to terminate or extend the contract, the contract provides for the contractor to advise DVA as to whether it wishes to pursue extension of the contract. This advice is to be contained in the annual report for the 'fourth year'<sup>46</sup>. The contract requires

---

<sup>45</sup> ANAO obtained legal advice that the contract may be extended at the end of 'the first 5 years' upon the contract manager giving 6 months 'prior notice'. Accordingly, DVA, through the contract manager, has a unilateral right to renew the contract. The meaning of this right to renew is ambiguous. On one view, the phrase 'the first 5 years' implies that the reference date is 14 February 1997. If this view is correct then the contract manager must exercise the right before 14 August 2001. Alternatively, the reference date may be 12 November 2002 in which case the contract manager must exercise the right to renew before 12 May 2002. Consequently there is a nine month discrepancy that affects the timetable for renewing the Agreement. Flowing from this ambiguity, there is an ambiguity concerning the starting date for the renewed term. The contract provides that 'the Agreement may be extended at the end of the first 5 years...'. On one view the extended term would commence from 14 February 2002 rather than 12 November 2002. DVA advised that it had resolved this latter ambiguity through an amending deed signed by all contract parties agreeing that the contract would end 'at the end of the first five years on 12 November 2002'.

<sup>46</sup> The contract provides that annual reports are due to be provided by the end of May each year. The parties signed a deed of settlement in April 2001 that required the Year 4 annual report to be provided by the end of June 2001. DVA advised that the parties subsequently agreed that future annual reports would be provided in July, covering the period to the preceding 30 June. This timetable would mean that IBM was to advise of its wish for the contract to be renewed by the end of June 2001 and DVA was to respond by late July 2001. DVA has contractual rights to issue a notice to renew by 14 August 2001 (at the earliest) or 12 May 2002 (at the latest).

that DVA would respond in principle to a renewal proposal within 4 weeks. DVA's legal right to renew is theoretically not affected if the contractor advised that it did not wish to have the contract renewed. However, in practical terms, DVA may not wish to renew the contract if the contractor is not committed to providing the services. If both the parties wish to have the contract renewed but the timetable set out in the schedules is not met, that will not affect DVA's right to unilaterally renew the contract. DVA advised of its intention to test the market nine months before the end of the contract, and to advise the contractor of its intentions in relation to the existing contract six months before the contract's scheduled termination in November 2002. Early in 2002, DVA was considering a short extension to the original term of the contract, to enable it to better manage market testing and, if necessary, transition issues.

**3.44** The option to renew does not give DVA a unilateral right to extend the agreement for a period of less than two years. If DVA preferred to renew for a period of less than two years to enable it to prepare for market testing of services or to benchmark, this would require reaching agreement between DVA and its contractor. DVA advised ANAO that the contract's provision of a set period for an extended contract did not constrain DVA in its consideration of contract extension. At the time of the audit, neither party had given notice to the other of its intent to extend the contract.

**3.45** DVA did not have a documented plan covering use of key contractor personnel during transition-out of the contract; this had not been required under the contract. DVA believed that, should a transition-out period be required, adequate lead-time will be available to the department to ensure a smooth process. A risk arises from the contract not requiring from the supplier a procedures manual setting out procedures and methodologies to enable another contractor to perform the services in a manner that is appropriate to DVA's environment. In preparation for contract extension or succession and in any future IT outsourcing contract, ANAO suggests that DVA:

- establish, with the contractor, arrangements to address the risk during transition that system knowledge of key personnel is lost; and
- request the contractor to develop and comply with a procedures manual.

**3.46** DVA advised that it was reviewing the status of contracts transferred to the contractor in preparation for contract succession. During the course of the audit the ANAO was provided with legal advice on the risks of incomplete transfer of liability associated with some approaches to transfer of contracts.<sup>47</sup>

<sup>47</sup> ANAO noted legal advice that the law, in general, makes a distinction that an assignment may result in the transfer of rights but not the obligations of a party under a contract. A transfer of obligations would usually entail a novation of the contract. It is unclear whether the contractor would have a contractual obligation to take a novation of DVA's obligations under DVA's contracts, for instance, DVA's software licences. An indemnity applies to liability as 'a result of the transfer' of the contract rather than the liability arising from the failure to perform DVA's obligations under the agreement.

In the light of this advice DVA advised that it would review the manner in which contractual obligations were transferred to any future IT outsourcing contractor.

### **Asset use-transition implications**

**3.47** Given the risk to DVA's business of interruption to outsourced IT service delivery, DVA needs information about the level and type of resources and equipment needed to perform the contracted IT services, in case another contractor is used after this present contract.

**3.48** The contract does not require the contractor to provide details of all equipment, software and service contracts used to perform the contracted services. Without this information, upon transition to a new contractor it will not be possible for DVA to identify all relevant equipment and software necessary for the new contractor to continue to perform the services. ANAO suggests that this matter be addressed in any future contract.

## 4. Administration

---

*This chapter discusses aspects of DVA's contract management related to risk, administration and monitoring of the contract, contract changes, payments to the contractor and reviews of prices paid under the terms of the contract.*

### Introduction

**4.1** DVA's Chief Executive Instructions provide comprehensive guidance to personnel about the principles of business administration, including risk management, compliance with Commonwealth procurement principles and other relevant policies; resource management and control; lawful actions on behalf of the Commonwealth; and obligations to maintain records of administration. Some aspects of DVA's compliance with those principles of sound administration are discussed in this chapter.

**4.2** The Humphry review of IT outsourcing<sup>48</sup> identified significant risks to the transition and implementation processes of outsourcing and made recommendations to assist in overcoming sources of risk. The acceptance by the Government of the recommendations of the Humphry Report has emphasised expectations that agencies will actively manage IT outsourcing.

### Risk management

**4.3** DVA's Corporate Plan 2000–2001 addresses Risk Management Policy objectives, including:

- the development of a department-wide understanding of risk management;
- management awareness of risk concepts;
- ensuring that the significant risks faced by the department are understood and managed; and
- material risks are appropriately monitored through documented review processes and their key mitigating actions are reported to management on a regular and controlled basis.

**4.4** ANAO identified three types of risks related to DVA's outsourced IT services:

- operational risk (for example, risk of failure to make payments to veterans);

---

<sup>48</sup> Richard Humphry AO, *Review of the Whole of Government Information Technology Outsourcing Initiative*, December 2000, CanPrint Communications, Canberra.

- contract risks related to its contractor's operations such as network failure; and
- risks to the viability of IT projects in which the contractor is involved with DVA—such as the development of business applications.

4.5 DVA's management of these risks is discussed below.

## **Operational risk**

4.6 DVA's processes for managing operational risks include business continuity planning that acknowledge that its business activities are highly dependent on IT services. DVA's Business Continuity Plan has established a priority list of essential business activities. The Plan provides that, in the event of any disaster, DVA's business activities will be recovered in order of importance.<sup>49</sup> The planned maximum times for recovery of IT application systems range from three to 21 days.

4.7 National plans are complemented by state office plans. ANAO reviewed the business continuity plans for two of DVA's state offices and found they specifically addressed operational risks associated with potential failures in IT services. Their plans presuppose effective disaster prevention and disaster recovery planning on the part of the contractor.

4.8 ANAO concluded that, generally speaking, DVA has appropriate and effective contingency arrangements to ensure that services are delivered to external clients even in circumstances where there are IT service interruptions. Where the reliability and responsiveness of the IT services used by DVA's personnel occasionally posed difficulties, DVA's operational managers implemented approaches to maintain services to DVA's clients.

## **Infrastructure and contract risk**

4.9 The contract recorded an initial risk assessment checklist for the contract. This risk assessment is shown in Figure 6.

---

<sup>49</sup> Priorities in DVA's activities, established 1999, identified income support, compensation, health care delivery and client contact services as having very high priority.

**Figure 6**

**Risk assessment checklist in contract**

Risk Factor	Very High	High	Medium	Low
Implementation schedule slippage			x	
'DVA skills' in contractor			x	
Resources			x	
Implementation resource evaluation				x
External dependencies				x
Customer involvement				x
System level of detail				x
Culture misalignment				x
Industrial action				x

Source: SISA

**4.10** The contract required the contractor to modify the checklist on the basis of a customised questionnaire and workshop and to finalise a risk management plan within 90 days of the commencement of the contract. It also provided that DVA would make available its business continuity plan as a prerequisite for completion of the Disaster Prevention Plan.

**4.11** Although DVA's draft of the business continuity plan was available in mid 1998, the plan was not finalised until early 2001.<sup>50</sup> DVA advised ANAO that 'the plan was not completed because DVA considered its development to be ongoing, and a living document designed to cope with the constant changes that occur'. This approach does not accord with the contractual requirement that DVA would provide its business continuity plan to the contractor to enable the development of disaster recovery and disaster prevention plans.

**4.12** DVA's business continuity plan identified that there needs to be clear communications between DVA and its contractor in terms of lines of responsibility and action taken in disaster and recovery situations. As a consequence, Escalation and Notification Procedures were devised to address both DVA's actions and the contractor's responsibilities.

<sup>50</sup> ANAO reviewed two DVA State business continuity plans: NSW state office draft business continuity plan dated August 2000; and Queensland state office draft business continuity plan, not dated. Both these State plans complement DVA's national plan and cover contingency planning and procedures by business activity area.

**4.13** DVA's business continuity plan states that the validity, accuracy and workability of the action plans and recovery / restoration procedures should be tested 'at least annually'. The minimum testing areas are:

- global contingency procedures;
- the contractor's disaster recovery procedures; and
- contingency procedures for essential services.

**4.14** At the time of the audit fieldwork, DVA had not tested its action plans and recovery / restoration procedures.

**4.15** The contractor advised that it had provided many drafts of its disaster recovery and prevention plans to DVA. These had remained unacceptable to DVA as at early 2002. However, the contractor indicated that, as an interim measure, it would treat these drafts as a framework for action in the event of any disaster.<sup>51</sup> Responding to the draft report, the contractor advised that disaster recovery plans were being developed in partnership with DVA.

**4.16** DVA advised that its approach to disaster recovery and disaster prevention plans was considered, and was based on cost, the level of risk imposed on DVA and the constantly changing nature of the services to be provided. It also advised that the development, implementation and testing of disaster recovery plans is the responsibility of the contractor, with the IT contract specifying service levels including service penalties, which are applied irrespective of the existence of a disaster recovery plan. The absence of agreed disaster prevention and disaster recovery plans were included in negotiations between DVA and the contractor in relation to undelivered services.

**4.17** ANAO considers that DVA is responsible to ensure that these plans are provided to a satisfactory standard and that DVA bears the responsibility in the event that disaster prevention and disaster recovery contingencies were tested and found to be deficient. Moreover, finalisation of these plans signals a valuable message to personnel that plans have official status and management support. Responding to the draft report, DVA reiterated that it is the responsibility of the contractor to prepare and test disaster prevention and disaster recovery plans although DVA 'continues to take appropriate action to sure that the contractor meets those obligations'. The contractor advised that, during contract negotiations, DVA had elected to not subscribe to the contractor's business recovery services, which provide for full disaster recovery services rather than

---

<sup>51</sup> In April 2001, the mainframe failed for around three days, resulting in late processing of cheques to some of DVA's clients. This event was managed without invoking contingency arrangements. There were two PABX failures following strikes by lightning, in 1998 and 2000. DVA advised that these events were managed within the contract's provisions that the contractor should take reasonable precautions to mitigate the effects of 'forces majeure'.

rely on the contracted service levels. ANAO considers that the responsibilities of DVA and its contractor in relation to disaster prevention and recovery need to be clarified by the parties.

**4.18** During the period of the audit, DVA was conducting a risk analysis of the services it procured under the IT outsourcing contract.

## **Risks to IT projects**

**4.19** DVA advised that the risk associated with new work was considered by business areas of the department during project proposals' development, and, in its view, this consideration was adequate. DVA's Information Management Projects Steering Committee monitors progress of projects. It has identified a need for better information to enable this.

**4.20** DVA undertook regular internal reviews of IT projects and had dialogue with its contractor in relation to aspects of their implementation. Coverage over the period of the contract included:

- introduction of new desktop equipment;
- Year 2000 compliance in IT equipment;
- project management conformance with the division of responsibilities between DVA and the contractor;
- infrastructure changes made during development and enhancements of DVA's business systems; and
- costs of developing new IT systems.

**4.21** Responding to the draft report, DVA endorsed the need for risk assessments of IT operations and new IT initiatives. DVA advised that risk assessment is a formal part of its contract management and has continued with the same vigour as was evident in the assessment of the initial contract.

## **Administration and monitoring**

### **Administration**

**4.22** DVA has contract administration processes in place to support day-to-day management of the contract. These include regular meetings with the supplier and processes to monitor service difficulties and mitigate the impact of any service difficulties on DVA's business operations. They also include management information systems which capture information directly

relevant to the baseline services and additional service requests coordinated by IMU.<sup>52</sup>

**4.23** ANAO found some issues related to the relationship between IMU and state office responsibility for some IT funds and for expenditure on fit-out related to IT services. Under current arrangements, IMU may draw on state office funds to meet some of the contractor's charges and to make other related financial adjustments. Operational managers in state offices have not always had full and timely information about use of the funds for which they were accountable. There had been instances of managers in several state offices only becoming aware of use of their IT budgets after deductions had been made. This was so even though managers have access to a monthly data base which lists their PC assets, and which is directly aligned with the number of PCs billed monthly to each cost centre. In these circumstances, there would be merit in ensuring that communication, negotiation and information management processes to facilitate monitoring and management by business units of the impact on their local IT budgets of price increases and other financial adjustments related to the contract.

**4.24** DVA would benefit from a comprehensive monitoring of data held in its financial management system on expenditure across the range of IT-related services related to the contract. It would also be assisted by closer integration of the approaches used by IMU to record expenditure with the contractor with the department's financial management information system. This would enable improved budget monitoring by contract administration staff of the range of expenditure associated with the outsourcing arrangement, not only the expenditure controlled by those staff.

## *Documentation*

**4.25** The *Archives Act 1983* and DVA's CEI outline what constitutes a Commonwealth record and appropriate approaches to maintaining electronic and paper records as required by legislation.<sup>53</sup> ANAO found instances of inadequate record keeping and storage of key documents in personal, informal,

---

<sup>52</sup> The main systems and information sources supporting administration of the contract are:

- the departmental financial management system, DOLARS, which may be interrogated using another technology, COGNOS;
- a spreadsheet of expenditure with the prime contractor covering both expenditure on contract items and additional service requests that are coordinated by IMU. The spreadsheet is maintained in IMU;
- asset lists maintained by operational areas, which advise IMU of the number of work stations in use each month;
- monitoring of service difficulties that may result in service credits;
- spreadsheets of potential and actual service credits applicable under SISA; and
- invoices and service reports provided by the prime contractor.

<sup>53</sup> See also Australian National Audit Office, 2002, *Recordkeeping*, Audit Report No.45, 2001–02, Canberra.

record systems, risking loss of knowledge as personnel change jobs. There were also a few significant instances in which required documentation could not be provided. For example, DVA has been unable to provide adequate documentation recording the negotiations that led to contract development and for the transition from the original to the replacement contract in 1997.<sup>54</sup> In particular, DVA could not locate documented reasons for the omission from the contract of provision for client-server technology foreshadowed in DVA's RFT. This omission represented a departure from the tender and thus a significant management decision that warranted a record of the decision in the context of the procurement principles. As discussed elsewhere in the report, the provision of this technology as 'out of scope' services has involved additional cost.

**4.26** Following discussions with ANAO, contract management documentation and records improved during the course of the audit. Although these difficulties were compliance issues rather than systemic deficiencies, DVA responded positively to ensure that contract management documentation and records are well maintained.

**4.27** ANAO also found that some of the work instructions for contract financial management were informal; while other written instructions were not fully complied with. DVA advised that non-compliance was due to written instructions not reflecting actual requirements; and that written instructions were being updated at the time of the audit. In cases where actual requirements for processing of the contractor's invoices differ from written procedures, personnel actioned either incomplete or contradictory instructions as to correct procedures for processing the accounts. Reliance on supplementary, oral or informal advice gives rise to risk that invoices are not processed in accordance with either the contract or DVA's CEI. ANAO supports updating written instructions related to the financial management of the contract, to ensure consistency between written and oral instructions; and thus to provide assurance that appropriate approaches have been used for financial management of the contract.

### *Gazettal*

**4.28** In accordance with the Commonwealth Procurement Guidelines of 1997, Finance Regulation 43B then in force<sup>55</sup> and DVA's Chief Executive Instructions, DVA gazetted the value of the contract in September 1997 as \$90 million, covering the three agencies using the contract. Of this gazettal cover, \$65 million related

---

<sup>54</sup> At the request of the audit team, registry staff undertook a key word search of all departmental files in an attempt to locate all relevant administrative records.

<sup>55</sup> Finance Regulation 43B required agencies to notify in the (Purchasing and Disposals) Gazette details of any contract arranged for supplies to be procured or used in Australia where the total estimated liability was \$2000 or more. Contracts arranged could cover any commitment for supplies including oral or written contract, lease, corporate credit card transaction or purchase order.

to DVA's anticipated expenditure under the contract. In addition to the gazetted amount, DVA has spent \$32.7 million on 'additional' services from its outsourced IT supplier. DVA did not publish information about these procurement opportunities and expenditures in the Commonwealth Gazette, as required by DVA's Chief Executive Instructions.

**4.29** Responding to the draft report, DVA advised that it had acted on legal advice to the effect that if, at the end of the five years of the contract's term, the value is greater or less than the estimated amount gazetted (at December 1997), the revised value should be gazetted at that time (November 2002). Since the estimated value of the contract is greater than the gazetted amount, this should lead to details of the estimated expenditure being gazetted in November 2002.

## **Contract administration**

**4.30** DVA incurs cost in administering its outsourcing contract and in providing accommodation for the contractor's account team located in DVA's premises, in accordance with contractual provisions. DVA advised that the salary cost of administration of the procurement of goods and service from the contractor was around \$0.8 million in 2000–01, some 2.6 per cent of the \$30.7 million value of its outsourcing contract that year. When additional contract administration costs other than the direct salary costs and some payments for legal advice from outside DVA are included, total contract administration costs were likely to be comparable with similar organisations.<sup>56</sup>

**4.31** Sound contract administration skills are fundamental to effective contract management.<sup>57,58</sup> DVA advised that:

there are extant questions regarding the right mix of resources and funding to

---

<sup>56</sup> Academic research involving 250 case studies identified that the management overhead cost of IT outsourcing typically represented between four and eight per cent of total outsourcing costs. (Leslie Willcocks and Mary Lacity, *Information Technology Outsourcing—Practices, Lessons and Prospects*, Templeton College, Oxford Institute of Information Management, 2000, p. 7.) An international benchmarking study indicated that spending by federal government agencies on contract administration was generally lower than spending by commercial organisations. (Gartner Group, *2000 IT Spending and Staffing Survey Results*, October 2000)

<sup>57</sup> For effective management of procurement, the then Management Advisory Board/ Management Improvement Advisory Committee (MAB/ MIAC) identified that the skills of a contract manager should span: Procurement processes; Accountability requirements; Contract law; Financial management; Human resource management; Knowledge of the relevant industry; Project management; and Interpersonal skills. MAB/MIAC, Report No.23, *Before you sign the dotted line: ensuring contracts can be managed*, 1997.

<sup>58</sup> Athol Yates, *Quantifying the cost and frequency of inadequate information technology practices by government: a survey into government contracting practices of information technology by the Institution of Engineers*, found that an informed buyer of IT requires two distinct skills sets: Contracting expertise; and Subject matter expertise. The Institution of Engineers Australia, 17 January 2001 Available: <<http://www.ieaust.org.au>>.

manage complex outsourcing arrangement that includes the provision of IT support services. There are also questions regarding the degree to which the department needs to retain its own expertise in order to understand products and services sold by our partner.

The department also advised that it has sufficient and appropriate resources for managing its IT outsourcing contract. However, the findings presented in this chapter of the report, particularly in relation to documentation and contract change processes (see below), indicate that there are weaknesses in contract administrative practices. Higher levels of compliance can be achieved by placing greater emphasis on training with the resulting effect of improving staff skills. DVA advised that it has introduced training initiatives to improve the contract management capability of its staff.

## Monitoring performance

**4.32** DVA monitors its contractor's services on a daily basis, using data captured by the contractor's systems.<sup>59</sup> DVA negotiates with its contractor, on a case by case basis, as to whether the cause of any service difficulty reported to the help desk lies with the infrastructure for which the contractor is responsible or with DVA's business applications that are supported by DVA. Although DVA has not implemented a capability to assure itself that the data through which it monitors the contractor's performance is complete and accurate, daily monitoring of service difficulties was well administered.

**4.33** DVA maintains data on a range of performance measures addressing system failures, monitoring critical response times, acquittal of individual response requirements of business areas, benchmarking, and compliance with a quality management plan. The general tool for monitoring performance across DVA is the Operational Performance Measurement Report, known as the Balanced Scorecard, which reports quarterly performance and time series trends, by State. Within that framework, the IT Balanced Scorecard monitors IT operational performance generally over time and across business areas, in terms of standard scorecard measure, as follows:

quantity -	Hours of system availability for nominated applications as indicated by major problems reported to the help desk
cost -	Budget compared to actual costs of DVA's internally

---

<sup>59</sup> DVA established four categories for calls logged with the help desk. The critical category, Severity 1 comprises calls that affect DVA's ability to meet its commitment to the veteran community or affects five or more users. Performance targets were established for each of the five categories. The target requires 80 per cent of Severity 1 matters to be resolved within four hours. For issues that have no direct impact on staff and no inconvenience to staff, the target requires 80 per cent of matters are to be resolved within 10 days.

	developed software
timeliness -	IT system availability during ‘core’ work hours as reflected in reports to the help desk
quality -	Target resolution of problems resolved immediately upon report to the helpdesk

**4.34** The Balanced Scorecard does not separately monitor the performance of services supplied under the contract. However, the ‘timeliness’ measure is substantially influenced by the contractor’s responsiveness in ensuring availability of the principal applications and in resolving problems reported to the helpdesk. This is also true of the ‘quantity’ and ‘quality’ measures.

**4.35** The Balanced Scorecard measures cannot be used for direct assessment of contractor performance as they may be influenced by matters for which DVA is responsible. For example, some operational managers in DVA advised that slow response times in data access frequently result in ‘frozen’ computer screens severely affecting client services.<sup>60</sup> This occurred more frequently in remote offices such as Veteran Area Network Offices. The contractor advised that numerous application changes and additions have been implemented by DVA since the contract was signed; some of which have affected the desktop environment, requiring additional desktop capacity. The contractor also advised that DVA’s IMU liaises with DVA’s business units and has the responsibility to manage the impact on DVA’s business delivery of these aspects of the outsourced IT services. The issue is one for DVA to manage, whether as a contract management issue or in acquitting its in-house responsibilities for the provision of IT support to business units.

**4.36** The absence of measures directly focussed on the performance of the contractor means that there is limited monitoring of the impact of service failures and responsiveness. For example, the productivity costs of service failures can be considerable with DVA advising the cost of down-time to include:

- overtime in order to catch up on work, as a result of IT services being unavailable—for days at a time in the case of major failure;
- application of contingency arrangements; and
- re-scheduling work routines, in order to meet service commitments.

**4.37** Processes for tracking the operational effects of disruptions to IT services had not been implemented nationally, although a few of the business areas had instituted such processes. DVA has not had the technical capability to monitor

---

<sup>60</sup> Areas of DVA that are particularly affected are counter staff, and staff accessing client data during telephone discussions.

actual usage of IT services by its business applications. Such a capability would enable DVA to relate its performance monitoring for core business targets with IT performance.

4.38 The contract provided for regular surveys of staff satisfaction with the contractor's performance, with potential for financial benefit to the contractor in the event that there was a high degree of satisfaction with the services. The benchmark of satisfaction was not expressed in the contract. Surveys have been undertaken to measure satisfaction with IT services. They have indicated that DVA personnel were not satisfied with the effectiveness of the IT services they used. For example a 1999 IT satisfaction survey found that only 31 per cent were satisfied with system availability. A general staff attitude survey in 2000 identified that only 43 per cent of personnel were satisfied with IT services. However, these surveys do not require staff to distinguish between service problems attributable to the outsourced services and those related to DVA's management of IT services.

## **Recommendation No.4**

4.39 ANAO recommends that DVA collect and review relevant performance data to enable it to effectively monitor contract performance. This should include impacts on DVA's outputs of interruptions to its IT services, and associated business costs.

### *DVA's response*

4.40 Agree. DVA is reviewing the collection of contract performance data in order to make this information more relevant to DVA's business areas.

## **Cost allocation**

4.41 The contract does not require the supplier to provide DVA with disaggregated data on individual applications' use of processing and storage capacities. Nor does DVA, itself, capture data on applications' use of processing and storage capacities. Consequently, DVA does not have sufficient data to support accurate cost allocation across business units for their respective use of IT services and to fully implement the pricing of its business outputs. Such information would support funds allocation and management and could indicate areas in need of management attention.

4.42 DVA has developed IT software, 'Services And Linked Activities Adjustment Measurement' (SALAAM) to provide for the use of business-based service levels; report to business entities on the cost of services provided and down time; and facilitate the payment of service to DVA's contractor, based on

the level of service provided. In its first phase, SALAAM has provided business managers with indicative costs of the major systems, together with information about downtime.

## Contract changes

**4.43** Sound processes for managing contract variations are essential, particularly in large contracts such as DVA's IT contract, in order to protect the Commonwealth position and provide ongoing application of the 'value for money' principle as new procurement opportunities present. Moreover, inadequacy in change control increases the risk of dispute between the parties as to whether a variation was in effect.

**4.44** DVA has processed around 45 such changes over the term of the contract.<sup>61</sup> The contract outlines the process for changes to the provisions of the contract.

**4.45** Contract changes should be consistent with the processes established in accordance with the contract. ANAO found that contract change documentation did not always record whether DVA had assessed whether variations would affect the risk profile reflected in the original contract. DVA advised that it endorsed the need for regular risk assessments of its IT operations, and that risk assessment was a formal part of contract management.

**4.46** DVA advised that it considered its contract change procedures adequate. DVA's IT purchase IT from its principal contractor worth at least \$140 million over the term of the contract to November 2002. Thus, expenditure with the contractor is estimated to more than double the original announced value of the contract for outsourced IT services (\$65 million). This indicates the magnitude of changes to DVA's IT services over the period of the contract.

**4.47** Form documents, used to process changes, require signatures by the parties and identification of risk associated with each change proposal. ANAO found non-compliance with these established contract change procedures. Instances included lack of indication of whether some requests had been accepted, rejected or withdrawn; lack of identity of signatories to variations; absence of signatures for one or other of the parties; and absence of acknowledgment in contract change

---

<sup>61</sup> Up until October 2000, 43 changes had been listed in a register of contract changes provided to ANAO. The register also included an unnumbered entry, an agreement considered by DVA to have the same effect as a contract change proposal. There were documents missing from the series. DVA advised that gaps reflected proposals that had not been implemented; and documentation had been discarded. Contract changes for which documentation was retained have covered: inclusion of servers to support expert systems; revised sites for coverage; revised PABX configurations; upgraded cabling; satisfaction surveys; CPU usage baseline for charges; additional software related to mainframe upgrade; alteration to the service measures, critical performance requirements and service credits applicable to procurement; and release from service level agreement in relation to use of third party products. In addition, informal changes were effected in relation to the application of service credits.

documentation of the impact of the proposed change on DVA's risk profile, costs/ pricing, service credits, and contractual provisions.

4.48 DVA advised that its contract change documentation was not comprehensive because some proposals had been discarded when they had not been accepted. ANAO suggested that efforts to ensure that change registers are complete and up-to-date would strengthen DVA's management of the contracted services. This could be achieved through quality assurance of compliance with established procedures. DVA stated that action was underway to improve documentation before the start of the audit, with DVA taking further action to improve compliance in the light of ANAO advice during the audit. The risk for the Commonwealth arising from the failure to comply with variation procedures set out in the contract is that a variation may not in fact have been effective, which in turn may lead the parties into dispute. DVA should ensure that its quality control is sufficiently robust to ensure compliance with established procedures.

4.49 ANAO received legal advice that, in cases of numerous changes to the contract, it is prudent to have a consolidated version of the contract, incorporating contract changes. DVA did not have a consolidated version of the contract at the commencement of the audit but advised that it was taking steps to develop one.

## Recommendation No.5

4.50 ANAO recommends that DVA maintain an up to date, consolidated contract, including variations, to facilitate ongoing management of changing requirements and ensure compliance with contract change procedures.

### *DVA's response*

4.51 Agree.

## Payments

4.52 Invoices related to the outsourced IT services have been handled in a combination of central and decentralised processes in DVA. Charges for mainframe use across the department are paid by IMU in central office. State offices and business units advise IMU of variations in the number of workstations in use from the previous month, as workstation numbers underpin charges for desktop services. DVA's business units meet the cost of serviced work stations on the basis of numbers used, and telephone services and 'additional services' on the basis of supplier charges. In 2000, the centralised processing of all telephone accounts was instituted. State offices and business units receive copies of the accounts to confirm use of services.

4.53 A finance officer located in IMU processes each invoice, including:

- splitting the invoice amounts into amounts payable by each division/state (cost attribution), including seat verification;
- obtaining the appropriate delegation signoffs;
- gathering required information; and
- applying service credits.

4.54 Given the nature of the invoices and complex processes for managing processes and arranging payments by entities within the portfolio for their share of the bills, the process for managing invoices and arranging payment is time consuming. ANAO suggests that efficiency could be improved if DVA used electronic funds transfer mechanisms resulting in direct deposits into the contractor's account/s. Other business entities within the portfolio that use services under the contract could do likewise.

4.55 During the period of the audit, DVA had in place appropriate controls to ensure accurate and timely payment of accounts for the outsourced IT services. Moreover, DVA was making improvements to its processes for payment of accounts. ANAO found that, while invoice handling was generally satisfactory, DVA does not use processes, such as systems audit, to verify the basis of the contractor's charges.

### **Asset use—the basis of billing**

4.56 DVA does not test whether the volumes of computer processing and data storage services, as invoiced, have been actually delivered. Sound risk-based financial management would seek to address such risks as a matter of course.

4.57 DVA advised that, during the period of ANAO's audit, it had provided personnel to assist its contractor to audit the equipment used by DVA and established processes for verification of usage of the contractor's assets by DVA on a monthly basis. In the absence of an agreed database of assets early in the contract period, DVA negotiated with its supplier about the number of assets used. This involved considerable administrative effort and associated adjustment of payments to the contractor.

4.58 Quarterly reports of asset use were identified among the outstanding deliverables of the contract in 2000. In June 2001, DVA accepted the contractor's proposal to provide data from its asset management system, provided that monthly reports on workstation use by DVA personnel continued to be provided.

## Service credits

4.59 The contract provides that if the contractor failed to meet critical performance requirements set out in the contract, DVA would be entitled to receive service credits against the contractor's monthly charges. These were set out in the contract and could be applied up to 20 per cent of the contractor's total monthly charges in any one month. The contract outlines a framework for monitoring unscheduled service interruptions and for reflecting under-performance in service credits.<sup>62</sup> Staff in DVA's IMU track system performance and may treat service failures as service credits according to procedures in the contract.

4.60 DVA advised that it had applied \$1.8 million in service credits from its contractor over the term of the contract to July 2001. Credits were offset against other invoices processed by DVA. The application of credits by DVA did not alter the budgets of business areas affected by the underlying performance issues that gave rise to those credits. In other words, there were no direct financial compensation to business areas which had borne the productivity costs associated with the situation that gave rise to the service credits.

4.61 ANAO found that some aspects of the management of the service credits departed from the contract change procedures. For example, DVA varied the methodology from that set down in the contract for the calculation of a service credit related to some outages. DVA applied a reduced credit, proportionate to the number of DVA officers affected, rather than the full amount provided for under the contract. It also advised that a potential credit would be waived if a service interruption occurred on a weekend. In effect, DVA varied the contract through these approaches. ANAO also found that DVA applied a moratorium on service credits in relation to procurement of additional items of equipment, during a period of re-negotiation of the required service levels for procurement. The parties subsequently varied the service levels related to procurement in 2001.

4.62 Guidance on the administration of service credits has been provided in ANAO's Audit Report No.9 of 2000–2001, *Implementation of Whole-of-Government Information Technology Infrastructure Consolidation and Outsourcing Initiative*, pages 218–220. That report included a recommendation that agencies develop

---

<sup>62</sup> The contract provides that if the contractor fails to supply IT services in accordance with the contract, the charges will be reduced to cover the loss and damage suffered by DVA because of that failure in accordance with formulas set out in the contract. The contract specifies 'critical performance requirements' and provides for 'service credits' which may not exceed 20 per cent of the contractor's monthly charges in any one month. For example, a credit of up to 10 per cent of the monthly charge for the default month would apply if application availability for each mainframe server fell below 99.5 per cent. The maximum permissible interruption to applications availability is 30 minutes on no more than two occasions in a month.

procedures for the conduct and documentation of the processes followed in evaluating options for the use of contractually-available service credits to facilitate effective delivery by the external service provider of contracted services. This is an issue that DVA may wish to consider in the context of the findings of this audit.

## Price review

**4.63** The contract provided for price reviews at the end of the second year of the contract and each two years thereafter.<sup>63</sup> The first 'formal' price review and associated review of services, due in early 1999, was not completed until 20 March 2001. The price review was handled in tandem with a review of contract deliverables, which led to the parties signing a Deed of Settlement which partly offset the value of some undelivered services against part of the price increases due to the contractor. In addition, the parties agreed to price increases, applicable to services supplied from 1 August 2000 to 30 April 2001. In accordance with the contract,<sup>64</sup> DVA implemented the increased prices from August 2000 in anticipation of final agreement. DVA advised that it had reached agreement on the quantum of charges that were to occur in the two years before August 2000, and that the ongoing negotiations were in respect of other matters.

**4.64** ANAO found that, for those 'base' services assigned prices in Year 1, the overall cost of those services would increase by around one per cent by the application of a range of agreed price increases. Other increases, equivalent to a further 17 per cent of billing, came from the costs of items for which no price was listed in Year 1. These items were 'expert' [specialised] PCs, printers, server on-line storage, disk and memory. Taking account of component volume and price together, ANAO calculated that the net effect of these increases on the total value of the invoices baseline, amounted to around two per cent of billing.

**4.65** In the first formal price review, the parties took into account a number of factors including salary trends in the IT sector, considering this a relevant benchmark in industry prices, although it had not been specifically articulated in the contract. It had been considered by DVA as 'other relevant information'

---

<sup>63</sup> The contract requires the pricing review to consider: the quantum and direction of industry price changes as evidenced by recognised industry benchmarks and other applicable sources; deviations in workload from the projected DVA baseline; and the effects of any changes including, but not necessarily limited to, new services and technology refreshments; with a view to agreeing about prices for the following two years, which in relation to the initial charges, will be consistent with industry trends; and CPI movement.

<sup>64</sup> The contract provided that amendments to charges agreed as a result of review of charges would apply 'at the time of the review'. In March 2001, DVA and its contractor signed a Deed of Settlement which included agreement that amendments to charges for the first biennial pricing review would apply from 1 August 2000 until 30 April 2001; and that price changes for the second biennial price review were to apply from 1 May 2001 until 11 November 2002.

permitted under the contract. DVA's contractor advised ANAO that the first formal price review completed in March 2001 reflected salary increases in the IT sector of the order of five per cent. This factor resulted in additional costs to the contractor that outweighed the anticipated efficiencies in technology.

**4.66** The second formal price review was being conducted during the period of the audit. Under the terms of the Deed of Settlement signed by the parties in March 2001, amended charges from the second formal price review will apply for the period 1 May 2001 to 11 November 2002.

## 5. Outcomes and Evaluation

---

*This chapter discusses DVA's approaches to the management and evaluation of its outsourced IT contract.*

### Outcomes

5.1 ANAO considered the extent to which DVA had instituted processes to monitor, evaluate and report the extent to which it had achieved the broader expected outcomes of the IT outsourcing process. The expected benefits were:

savings; modernisation of infrastructure; improved support services and business units to maintain standards and improve performance; better services for the veteran community; and job creation and small business growth in regional Australia.

### Savings

5.2 As outlined previously, DVA had expected to make savings of \$20 million from outsourcing its IT infrastructure. DVA advised that the savings were demonstrable and tangible and would be achieved at the end of the five years from the inception of the contract, that is, by early 2002. Responding to the draft report, DVA advised that it believes that value from the procurement had been demonstrated through adherence to prices established in the tender process, apart from increases applied in conformance with the contract.

### Modern infrastructure

5.3 The contract between the parties requires the contractor to provide DVA with personal computers and computer notebooks that comply with an industry standard; which will operate current technology; and which will effectively run the current generation of software that best meets DVA business requirements.

5.4 The contract required a technology 'refreshment' program so that all computer facilities included in the IT services were replaced and upgraded to new equipment operating current technology and capable of running the generation of software best meeting DVA's business requirements. 'Refreshment' was scheduled in the contract, with years 1 and 4 being identified as the year for major 'refreshment' activity. The contractor 'refreshed' over 1100 desktop machines in September 1999, thereby replacing machines that then were older than three years.

5.5 DVA's IT Strategic Plan 2000–05 states DVA's strategy to migrate to another operating system,<sup>65</sup> with expected benefits of enhanced security and an improved

---

<sup>65</sup> DVA's current operating system ceased being supported by its manufacturer at the end of 2001.

facility. During the audit, DVA was negotiating with its contractor on this matter. The scheduled Year 4 'refreshment' activity was due in 2000 but has been linked to the introduction of a new operating system and had therefore been substantially delayed. Both matters were still progressing during the period of the audit.

5.6 DVA's contractor advised that delays in a 'refreshment' of the desktop environment may have contributed to some lack of functional capacity for users of the outsourced services. Consistent with this view, DVA advised that any delays had been as a result of a conscious decision by DVA as part of its financial planning process, taking account of any risk or loss of productivity; and DVA considered these to be low. The contractor advised that any delays were to take advantage of functions offered in later releases of software, and resulted in significantly greater functional capacity than would have been realised if the refresh was on time.

5.7 In its business case for outsourcing, DVA expected the present arrangement to offer advantages of currency of technology and savings, compared to a base case. That base case assumed replacement of assets each three years. Although there may be sound reasons for the delays in refreshment of technology, delays in 'refreshment' of the computers affect the achievement of value for money from the contract, and diminish the benefits of the present arrangement compared to the base case.

5.8 Servers and printers were not identified as items for the 'refresh' program. Servers that DVA sold to the contractor in 1997 are still in use, supplemented by a large number of additional servers.

## **Support to business units and veterans**

5.9 DVA conducts general staff attitude surveys covering a range of work environment and corporate issues (not only information technology). In its general survey of staff attitudes conducted in December 2000, only a minority of staff was satisfied with the department's IT services, which include those procured from the outsourced contractor. This survey result confirmed information provided by DVA staff and managers under IT effectiveness surveys, that have been conducted periodically.

5.10 The contract specified critical performance requirements related to application availability, network availability and disaster recovery. These included on-line response times of up to three seconds for most applications 80 per cent of the time, no more than two interruptions of more than 30 minutes to application availability, and likewise for network availability. Therefore, DVA's management of its IT outsourcing contract was directed to ensuring continuity of its IT services on a day-to-day basis.

**5.11** A key effectiveness measure related to these calls is that DVA has as a performance target that 80 per cent of calls to the help desk are resolved within specified periods, ranging from four hours for priority (Severity 1<sup>66</sup>) category matters to 10 working days for the lowest priority matters.<sup>67</sup> These standards were met or exceeded for all types of call throughout 1999–2000 and 2000–01, with quarterly resolution rates ranging from 80 to 100 per cent.

**5.12** Resolution of calls to the helpdesk was the only performance measure relevant to the contracted services reported publicly by DVA. However, other information is available to illustrate indirectly whether there was support to business units and veterans. For instance, ANAO's Report No.44 of 2000–2001, *Information Technology in the Department of Veterans' Affairs*, concluded that, overall, DVA's management of its IT systems was satisfactory. In regard to specific audit objectives, the ANAO concluded that:

- the results of testing indicated that reliance could be placed on DVA's IT systems and controls, and accuracy of the accounts and records, to the extent necessary to form an opinion on the department's financial statements; and
- the outputs of the three systems used to support DVA's income support and compensation responsibilities met DVA's quality and service delivery performance parameters.

**5.13** The department's support for veterans relies on IT but includes other aspects of the department's work. The department regularly surveys veterans' satisfaction with departmental services. DVA's Annual Report for 2000–01 reported that overall veterans' satisfaction with DVA's services remains high, with only three per cent of survey respondents expressing dissatisfaction. This suggests that DVA has implemented its IT contract while maintaining a standard of customer service satisfactory to a very high proportion of veterans.

## **Industry development**

**5.14** One of the procurement principles with which Commonwealth agencies must conform is support for development of local industry. The contract requires that the contractor must comply with specified industry development obligations, including:

- maintaining a record of Australian 'small to medium enterprises' (SME) contractors used in relation to the contract;

---

<sup>66</sup> Severity 1 matters are categorised as having an impact on DVA's ability to meet its commitments to the veteran community or having an impact on five or more users.

<sup>67</sup> Severity 4 matters are lowest priority, and are categorised as having no direct impact on DVA's business and no inconvenience to staff.

- using best endeavours to award sub-contracts with a value in the range \$0.7–1 million;
- offering DVA choices in the selection of cabling suppliers in cases where an Australian SME would not offer best value for money; and
- reporting annually to the relevant government agency (presently the Department of Information Technology, Communications and the Arts) on its engagement of SME contractors.

5.15 The contract did not specify targets for either the number of contracts to be awarded or the total value of those contracts. In June 2001, DVA's contractor presented its first report to a Commonwealth agency concerning implementation of the contract's industry development provisions. It advised the Department of Communications, Information Technology and the Arts that it had awarded nine contracts to Australian 'small to medium enterprises' since the contract commenced in 1997. The contractor estimated the combined value of these contracts at \$3.5 million. The Department of Communications, Information Technology and the Arts advised in January 2002 that, despite repeated requests during 2001, the contractor had not provided a revised report to it clarifying a number of issues including the nature and value of its 'small to medium enterprises' subcontractors for the DVA IT outsourcing contract.

## Evaluation

5.16 ANAO's Audit Report No.21 of 1996–97, *Management of IT Outsourcing: Department of Veterans Affairs*, recommended that DVA:

- give priority to conducting an evaluation of the achievement of expected outcomes early in the life of the next outsourcing arrangement;
- document the management arrangements for the next outsourcing contract and communicate this to relevant staff; such documentation to include the allocation of responsibilities between DVA and the supplier, the management structure within DVA and operational procedures including any undertaken jointly with the supplier; and
- in the preparation of the contract for the next outsourcing arrangement, ensure that the documents reflect the development in the outsourcing industry and the outsourcing experience gained by the department.

5.17 Subsequently, ANAO's Audit Report No.9 of 2000–2001, *Implementation of Whole-of-Government Information Technology Infrastructure Consolidation and Outsourcing Initiative*, recommended the formulation and implementation of an independent review and evaluation program as soon as practicable in the terms

of an IT outsourcing arrangement as an aid to effective contract and resource management. This approach is recognised as better practice.<sup>68</sup>

**5.18** DVA had twice reviewed the contract's prices and deliverables and it was reviewing the contract's structure and provisions in preparation for contract succession. In addition, DVA commissioned in 2000 an internal review of project management costs. However, DVA had not formally reviewed the IT outsourcing arrangement as a whole. That was because DVA believed that a formal review of the SISA in the early years would not have provided any real benefits since the SISA was not crafted in a format that encouraged regular revisions without significant additional costs.

**5.19** While contract evaluation might be difficult to undertake very early in the life of a contract because of limited data availability, reviews of longer-term contracts are essential. Such evaluations present opportunities to identify additional service requirements, consider procurement options to meet new requirements and perhaps to re-negotiate key provisions of current contracts and review their approaches to contract management. The Organisation for Economic Co-operation and Development<sup>69</sup> recommends that, for large IT projects, it is desirable to establish short-term contracts, to provide flexibility and contestability of service.

**5.20** In the absence of an evaluation of the contract and its implementation, DVA advised ANAO that it considered the main advantages realised through its IT outsourcing arrangement to be:

- outsourcing had freed DVA from the need to secure funding for the acquisition, maintenance and disposal of IT infrastructure;
- DVA had access to the expertise of a large IT company with world-wide experience;
- prices achieved under the contract were considered to be competitive; and
- former DVA staff who transferred to the outsourced supplier gained careers in a premier IT company.

**5.21** DVA had largely implemented the other two recommendations of Audit Report No.21 of 1996–97, *Management of IT Outsourcing: Department of Veterans Affairs*. It had documented the management arrangements for the present

---

<sup>68</sup> New Zealand's Controller and Auditor-General has advocated post-implementation review and consideration of progress in terms of pre-established criteria to indicate when a project should be terminated. Report of the Controller and Auditor-General Tumuaki o te Mana Arotake, *Governance and Oversight of Large Information Technology Projects*, April 2000.

<sup>69</sup> OECD Public Management Policy Brief, *The Hidden Threat to E-Government. Avoiding large government IT failures*, PUMA Policy Brief No.8, March 2001, OECD, Paris.

outsourcing contract and communicated this to relevant staff, although some personnel needed better information about those arrangements. Documentation supporting the current contract reflected the developments in the outsourcing industry. Responding to the draft report, DVA stated that, although it did not implement Audit Report No.21 of 1996–97, *Management of IT Outsourcing: Department of Veterans Affairs*, as a whole, the findings and recommendations were used to develop the new outsourced arrangement in 1996.

---

Canberra ACT  
6 May 2002



P. J. Barrett  
Auditor-General



# Appendices



## Appendix 1

### DVA's IT Responsibilities

DVA's IT Responsibilities	Outsourced IT services
<ul style="list-style-type: none"> <li>• Coordination &amp; liaison with DVA's business units, other Commonwealth agencies &amp; the supplier(s) business needs, as follows:</li> <li>• Applications development &amp; support for:</li> <li>• Health Systems &amp; support for Applications Projects including DSH &amp; VVCS</li> <li>• Income Support &amp; Compensation</li> <li>• Corporate, state offices, IMU, OAWG, VRB &amp; e-Business</li> <li>• Decision Support Systems</li> <li>• Integrated &amp; Office Systems</li>   <li>• IT strategic planning</li>   <li>• IT Infrastructure management &amp; support including ADE, Security and Change Control</li> <li>• Data management including database design, administration &amp; support</li> <li>• Administration &amp; Coordination support</li>   <li>• Contract management for outsourced IT services</li> <li>• IT Financial management</li>   <li>• Quality management &amp; metrics services</li> </ul>	<ul style="list-style-type: none"> <li>• Supply of IT services as defined in the SISA including the procurement &amp; installation of equipment to meet DVA's</li>   <li>• provision of mainframe processing equipment and services including data storage</li> <li>• planning &amp; managing resource usage to ensure asset management &amp; supply of IT services including software &amp; equipment</li> <li>• management &amp; design of the network including connectivity &amp; support to meet performance requirements including secure Internet services</li> <li>• provision of backup &amp; recovery services including disaster recovery &amp; business continuity planning</li> <li>• provision and management of equipment and services to support local and the wide area network and mid-range applications &amp; services</li> <li>• provision &amp; management of data communication infrastructure including remote access services to support DVA sites around Australia</li> <li>• provision of capacity planning for all operational IT platforms</li> <li>• provision of desk top equipment &amp; support services</li> <li>• provision of Help Desk services including user support services</li> <li>• provision of change control services &amp; scheduling for mainframe and distributed functions</li> <li>• provision of systems architecture &amp; coordinate configuration management</li> <li>• provision of data storage, tape &amp; cartridge management to protect &amp; ensure the integrity of all DVA data on the necessary platforms</li> <li>• manage &amp; coordinate printing services</li> <li>• provide on site technical support including server support at all DVA sites</li> <li>• provision of voice services &amp; facilities at all DVA sites</li> <li>• provision of mobile telephones</li> <li>• implement technology refreshment programs</li> <li>• coordinate training programs for DVA staff to enable use of new or changing technologies and new products</li> <li>• provision of consulting &amp; technical advisory services</li> <li>• provision of billing services</li> </ul>

Source: DVA's IMU

## Appendix 2

### Good Practice in Contract Management—References

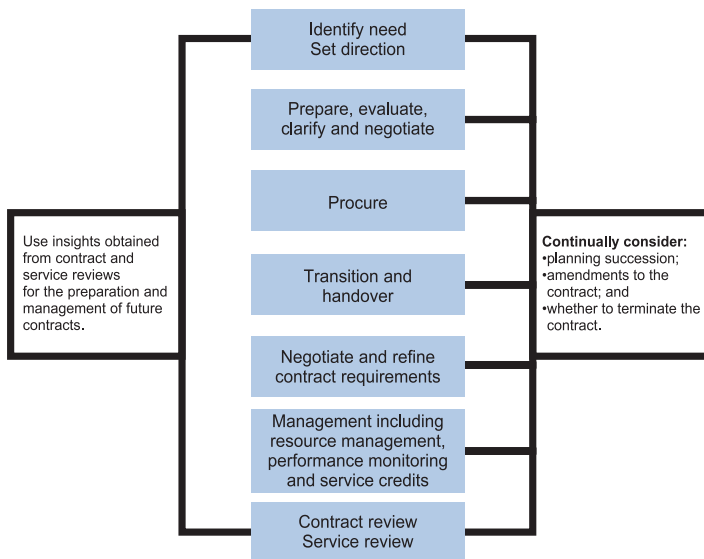
1. Guidance about the elements of good practice in contract management was derived from research journals; course material; official reports related to contract management; official reports related to IT procurement in Australia and overseas; and benchmarking data for Australian and overseas IT procurement and management. Some references are provided below.

- ANAO's Better Practice Guide, *Contract Management*, February 2001;
- ANAO Better Practice Guide, *Selecting the Supplier*;
- ANAO's Better Practice Guide, *Controlling Performance and Outcomes*, 1996;
- Public Service and Merit Protection Commission training materials, *Before You Get to Contract Stage*, May 1999;
- Management Advisory Board/ Management Improvement Advisory Committee guidance on contract management;
- UK National Audit Office guidance on contract management; and
- NZ Controller and Auditor-General, *Governance and Oversight of Large Information Technology Projects*, April 2000.

2. ANAO considered DVA's administrative processes in the context of a model presented below.

**Figure 9**

#### The contract management process



Source: ANAO derived from UK Contract Management Guidelines No 61 and several ANAO Better Practice Guides

## Appendix 3

### Information Technology Acquisition Council on Asset Replacement: Recommendations for Outsourcing

1. Early in 1996, the Secretary of DVA agreed to a recommendation of DVA's Information Technology Acquisition Council on Asset Replacement<sup>70</sup> (ITAC) to test the market, not only in relation to mainframe services that had been outsourced since 1992, but also in relation to the viability of outsourcing further IT services. A project team was charged with advising the Secretary on whether the existing IT infrastructure and services of the department should be outsourced. In May 1996 the Chairman of the IT Acquisition Council presented to the Secretary of DVA a report related to the relevance of outsourcing to corporate objectives; the adequacy / 'prodigality' of the statement of requirements including the intended asset replacement strategy; and the suggested procurement framework. The report noted:

- some equivocation about whether outsourcing would necessarily lead to cost savings;
- an outsource decision should not be approached only by looking at cost benefit but also at potential beneficial changes in the range and nature of the services provided or performed (for example, that outsourcing the more routine processes can provide agencies with the capacity to focus management on moving to new technologies and better use of resources); and
- industrial issues and privacy issues associated with outsourcing were major areas for concern and attention.

2. DVA's ITAC recommended a restricted tendering approach involving selected members of the Government's information technology services panel, with prior industry participation and involvement in finalising the tender documentation.<sup>71</sup> The ITAC noted that 'should value for money considerations so dictate, a wider market will be approached. Joint bids between invited panellists or between an invited panellist and another supplier will be accepted'.

---

<sup>70</sup> Membership of the DVA IT Acquisition Council on Asset Replacement comprised representatives of Commonwealth departments which at that time had responsibilities for resource management, procurement, information technology and industry development across the Commonwealth, as well as the IT Tender Project Team and relevant managers within DVA. Input to the committee on DVA's business objectives and processes was provided through the participation of a senior operational manager.

<sup>71</sup> The Report by DVA's ITAC noted that the intention to issue an RFT to industry in draft form to allow comment before finalisation, and an intention to publish evaluation criteria for the RFT in accord with current IT purchasing policies.

It indicated that tenderers would be required to offer against the whole requirement, while identifying separately costs relating to the requirement for mainframe services and the remainder of the stated requirement. The report acknowledged a business case for IT outsourcing in DVA to support rapid development of business systems, reliable operations and the effective interchange of information. It noted that its recommendations might be affected by future Budget deliberations on the provision of IT services on a whole-of-government basis.

3. In January 1997, DVA's ITAC recommended that the Secretary of DVA approve in principle the outsourcing of the IT functions covered by a tender issued by DVA in late 1996. DVA's tender<sup>72</sup> notified bidders that the Repatriation Commission wished to contract with a single vendor.

4. In recommending to the Secretary of DVA the outsourcing of IT services, DVA considered a project team evaluation report<sup>73</sup> that covered three costing scenarios including an 'increased workload' scenario reflecting the maximum anticipated increase in staffing and workload in the next five years. It also considered an expert report on the corporate viability of bidders; and a costing model to determine DVA's existing costs<sup>74</sup> for 'in scope' services under current service levels.

5. That model used as its 'base' against which tenders were compared, the cost of continuing the existing arrangement of outsourced mainframe services, and with existing service level costs benchmarked to the average of those costs over the years 1993–94 to 1995–96. The model assumed that:

- technology standards would be maintained; and
- the relative cost of various categories of IT assets would remain consistent over the tender period.

6. Asset replenishment was to maintain an approximately equivalent value of assets at the beginning and the end of the period. In particular, it assumed

---

<sup>72</sup> The RFT stated: 'While consortia bids involving one or more invited panellists or an invited panellist and another supplier will be eligible for acceptance, it is a mandatory requirement that such bids are arranged so that the Commission contracts with a single legal entity'.

<sup>73</sup> The project team reported to its Acquisition Council that its tender evaluation report had been prepared according to an evaluation process that ensures that bids are compared consistently, with full probity, according to the extent that they meet the DVA's business needs for the future at minimum cost to all parties. The comparison of the bidders was categorised as quoted price; expected cost-risk adjustment; general comment; corporate; managerial; financial and technical. The report stated that the costs were compared for three scenarios: the baseline which reflects the existing conditions in terms of staffing and workload; the increase load scenario where the conditions reflect the maximum anticipated increase in staffing and workload in the next five years; and the decreased load scenario where the conditions reflect all of the anticipated reductions in staffing and workload.

<sup>74</sup> The model determined the contemporary position and did not reflect changes in costs resulting from changes in services or outsourcing of services.

replacement of mainstream and expert personal computers (PCs) and laptops every three years; replacement of servers, hubs and network printers every three years; and replacement of PABX equipment over a five year cycle.

7. An expert consultant advised DVA prior to commencement of the contract that there were limitations in the costing model's assumptions that assets would be replaced and refreshed.

8. Despite the limitations identified, the expert consultant considered that DVA's financial evaluation followed a fair and reasonable process, which allowed for the differences in the initial offering of the vendors.

9. The expert consultant expressed an opinion that DVA's financial evaluation supported the strategy of outsourcing DVA's IT infrastructure and, provided effective contract management and adherence to agreed roles and responsibilities, that it would sustain significant cost savings.

## Appendix 4

### Procurement Models

1. A study of outsourcing identified the range and features of various procurement approaches, as shown in Table 2 below.

**Table 2**

#### Range and features of procurement approaches

Style	Features	Risks and costs
In-house		Needs continual market testing to ensure it is efficient and responsive
Mixed source	15–25% of IT budget under third party management with other IT needs met through buying in resources and in-house management ('insourcing') and internal staff	Involves cost of management, typically between 4–8% of total outsourcing costs
Total outsource	>80% of IT services under third part management of either single or multiple suppliers	Can achieve cost reduction; but possibly at expense of It operational and business strategic inflexibilities; Incomplete contracts and low profit margins can promote hidden costs and opportunistic vendor behaviour
Strategic partnering	Successful partnering is characterised by interdependence and mutual investment, involving <ul style="list-style-type: none"> <li>• agreed mutual objectives to take account of all the interests involved</li> <li>• making decisions openly and resolving problems in ways that were jointly agreed at the start of a project</li> <li>• aiming at targets that provide continuous measurable improvements in performance from project to project</li> </ul>	Considered high risk Many require restructuring in the first two years Contract often needs more detail; more service performance measures Innovation from vendor might not materialise Risk-reward element is too marginal to affect behaviours and is effectively replaced at operational level by traditional fee-for service arrangements

Source: Leslie Willcocks and Mary Lacity, *Information Technology Outsourcing—Practices, Lessons and Prospects*, Templeton College, Oxford Institute of Information Management, 2000, p. 7

## Appendix 5

### DVA's Review of the Contract

1. DVA advised ANAO during the audit that it was reviewing the contract's structure and provisions in preparation for contract succession. DVA's Contract Administration Unit has developed principles for contract drafting which it intends to apply in a future IT outsourcing contract.

2. DVA advised ANAO that:

The ANAO review has been an extremely useful catalyst for analysing the better aspects of the outsourcing arrangements and areas for improvement. For example, the importance of contract document design is an issue that DVA has been working on in great depth through reviewing its standard services agreement, and the ANAO work has helped in considering how the design of major and complex documentation could be improved for future IT contracting. During the time of the audit, work was occurring within DVA on ways to consider document improvements, such as the use of a draft request for tenders process, as used by DVA for some of its other major procurement in recent years.

One of the key issues for plain language is for the documentation to group 'like issues with like', and to place the most important matters first. This can assist with ensuring that there is a business outcome clearly explained early in the document. Indeed, the standard DVA services agreement, which is also being used for other major procurement generally, begins with a purpose and outcomes statement. This is part of the Schedules that precede the standard clauses that have been reduced to their most efficient length at the back of the Agreement. DVA is considering whether issues about document design would be worth raising with industry generally, through a process seeking comment on a Draft Request for Tenders.

These comments do not, of course, deny the substantive usefulness of the current outsourcing agreement. In particular, DVA is at least able to rely on the many protections for the Commonwealth under the current agreement, such as indemnities and insurance clauses and other guarantees. Those protections would not necessarily be possible through other IT procurement, without the backing of the current outsourcing agreement. The existence of that protection also adds to the value for money of the Commonwealth generally.

Finally, DVA understands that no contract document can be entirely comprehensive, and as a matter of practice, and of law, the relationship between their parties and their conduct generally can have an important impact of the contract's success. The continuing task, of course, is to attempt to keep the documentation as closely reflecting the relationship as possible. DVA is considering ways for future IT contracts to be able to more easily achieve this, as that might itself also add to maintaining a strong contract relationship.

# Index

---

## A

assets 12, 20, 27, 68, 76, 81, 92, 93

## B

Balanced Scorecard 18, 54, 71, 72

benchmark 18, 23, 35, 55, 56, 57, 61, 70, 71, 73, 78, 90, 92, 98, 99

business continuity 19, 52, 64, 65, 66, 89, 102

## C

client-server 14, 16, 17, 20, 22, 29, 32, 41, 43, 44, 45, 69

Comsuper 12, 28, 35

contract change 5, 19, 20, 24, 33, 44, 48, 63, 71, 74, 75, 77

## D

deliverables 5, 15, 17, 20, 22, 23, 51, 52, 53, 55, 76, 78, 84

desktop 11, 12, 13, 20, 27, 28, 29, 30, 31, 32, 33, 48, 50, 67, 72, 75, 80, 81

disaster 18, 19, 52, 53, 64, 65, 66, 67, 81, 89,

## F

Finance (Department of Finance and Administration) 12, 28, 37, 41, 60, 100

## I

IBM (IBMA, IBM GSA) 6, 11, 12, 13, 17, 27, 28, 33, 60

Information Management Steering Committee 14, 38, 39

IT infrastructure 11, 12, 27, 28, 29, 33, 45, 51, 54, 58, 80, 84, 89, 91, 93

## M

mainframe computing services 11, 27

monitor 5, 14, 15, 17, 18, 23, 51, 52, 54, 56, 58, 63, 67, 68, 71, 72, 73, 77, 80

## O

outcomes 5, 13, 15, 16, 21, 35, 37, 38, 39, 40, 43, 51, 52, 53, 54, 80, 83, 90, 95, 99, 100, 102

outputs 14, 15, 23, 50, 51, 54, 73, 82

## P

partnering 11, 17, 27, 42, 94

price review 5, 17, 20, 28, 41, 45, 60, 78, 79

## R

RFT 6, 17, 38, 40, 42, 43, 69, 91, 92

risk 14, 19, 20, 34, 38, 41, 42, 48, 54, 58, 61, 62, 63, 64, 65, 66, 67, 69, 74, 75, 76, 81, 92, 94, 102

## **S**

savings 12, 21, 28, 34, 40, 56, 80, 81,  
91, 93

security 12, 13, 30, 31, 33, 58, 80, 89,  
99, 100, 102

service level 7, 11, 14, 16, 17, 27, 41,  
44, 45, 54, 66, 67, 73, 74, 77, 92

SME (Small to Medium Business  
Enterprise) 7, 82, 83

strategic plan 12, 14, 16, 23, 30, 33, 37,  
38, 41, 42, 43, 46, 80, 89

## **T**

telecommunications 12, 27, 31, 32, 34

# Series Titles

---

Audit Report No.45 Assurance and Control Assessment Audit  
*Recordkeeping*

Audit Report No.44 Performance Audit  
*Australian Defence Force Fuel Management*  
Department of Defence

Audit Report No.43 Performance Audit  
*Indigenous Education Strategies*  
Department of Education, Science and Training

Audit Report No.42 Performance Audit  
*Integrity of the Electoral Roll*  
Australian Electoral Commission

Audit Report No.41 Performance Audit  
*Transactional Banking Practices in Selected Agencies*

Audit Report No.40 Performance Audit  
*Corporate Governance in the Australian Broadcasting Corporation*  
Australian Broadcasting Corporation

Audit Report No.39 Performance Audit  
*Management of the Provision of Information to Job Seekers*  
Department of Employment and Workplace Relations

Audit Report No.38 Performance Audit  
*Management of Australian Defence Force Deployments to East Timor*  
Department of Defence

Audit Report No.37 Performance Audit  
*Purchase of Hospital Services from State Governments—Follow Up Audit*  
Department of Veterans' Affairs

Audit Report No.36 Benchmarking Study  
*Benchmarking Implementation and Production Costs of Financial Management Information Systems*

Audit Report No.35 Performance Audit  
*ATO Progress in Addressing the Cash Economy*  
Australian Taxation Office

Audit Report No.34 Assurance and Control Assessment Audit  
*Management of Travel—Use of Taxis*

Audit Report No.33 Assurance and Control Assessment Audit  
*Senate Order of 20 June 2001 (February 2002)*

Audit Report No.32 Performance Audit  
*Home and Community Care Follow-up Audit*  
Department of Health and Ageing

Audit Report No.31 Performance Audit  
*Audit Activity Report: July to December 2001*  
Summary of Outcomes

Audit Report No. 30 Performance Audit  
*Test and Evaluation of Major Defence Equipment Acquisitions*  
Department of Defence

Audit Report No.29 Financial Statement Audit  
*Audits of the Financial Statements of Commonwealth Entities for the Period Ended 30 June 2001*

Audit Report No.28 Information Support Services  
*An Analysis of the Chief Financial Officer Function in Commonwealth Organisations*  
Benchmark Study

Audit Report No.27 Assurance and Control Assessment Audit  
*Agency Management of Software Licensing*

Audit Report No.26 Performance Audit  
*Management of Fraud and Incorrect Payment in Centrelink*

Audit Report No.25 Assurance and Control Assessment Audit  
*Accounts Receivable*

Audit Report No.24 Performance Audit  
*Status Reporting of Major Defence Acquisition Projects*  
Department of Defence

Audit Report No.23 Performance Audit  
*Broadcasting Planning and Licensing*  
The Australian Broadcasting Authority

Audit Report No.22 Protective Security Audit  
*Personnel Security—Management of Security Clearances*

Audit Report No.21 Performance Audit  
*Developing Policy Advice*  
Department of Education, Training and Youth Affairs, Department of Employment, Work-  
place Relations and Small Business, Department of Family and Community Services

Audit Report No.20 Performance Audit  
*Fraud Control Arrangements in the Department of Agriculture, Fisheries and Forestry—  
Australia (AFFA)*  
Department of Agriculture, Fisheries and Forestry—Australia

Audit Report No.19 Assurance and Control Assessment Audit  
*Payroll Management*

Audit Report No.18 Performance Audit  
*Performance Information in Portfolio Budget Statements*

Audit Report No.17 Performance Audit  
*Administration of Petroleum Excise Collections*  
Australian Taxation Office

Audit Report No.16 Performance Audit  
*Defence Reform Program Management and Outcomes*  
Department of Defence

Audit Report No.15 Performance Audit  
*Agencies' Oversight of Works Australia Client Advances*

Audit Report No.14 Performance Audit  
*Client Service Initiatives Follow-up Audit*  
Australian Trade Commission (Austrade)

Audit Report No.13 Performance Audit  
*Internet Security within Commonwealth Government Agencies*

Audit Report No.12 Financial Control and Administration Audit  
*Selection, Implementation and Management of Financial Management Information Systems in Commonwealth Agencies*

Audit Report No.11 Performance Audit  
*Administration of the Federation Fund Programme*

Audit Report No.10 Assurance and Control Assessment Audit  
*Management of Bank Accounts by Agencies*

Audit Report No.9 Performance Audit  
*Learning for Skills and Knowledge—Customer Service Officers*  
Centrelink

Audit Report No.8 Assurance and Control Assessment Audit  
*Disposal of Infrastructure, Plant and Equipment*

Audit Report No.7 Audit Activity Report  
*Audit Activity Report: January to June 2001*  
Summary of Outcomes

Audit Report No.6 Performance Audit  
*Commonwealth Fisheries Management: Follow-up Audit*  
Australian Fisheries Management Authority

Audit Report No.5 Performance Audit  
*Parliamentarians' Entitlements: 1999–2000*

Audit Report No.4 Performance Audit  
*Commonwealth Estate Property Sales*  
Department of Finance and Administration

Audit Report No.3 Performance Audit  
*The Australian Taxation Office's Administration of Taxation Rulings*  
Australian Taxation Office

Audit Report No.2 Performance Audit  
*Examination of Allegations Relating to Sales Tax Fraud*  
Australian Taxation Office

Audit Report No.1 Financial Statement Audit  
*Control Structures as part of the Audits of the Financial Statements of Major Commonwealth Entities for the Year Ended 30 June 2001*

## Better Practice Guides

---

Life-Cycle Costing	Dec 2001
Some Better Practice Principles for Developing Policy Advice	Nov 2001
Rehabilitation: Managing Return to Work	Jun 2001
Internet Delivery Decisions	Apr 2001
Planning for the Workforce of the Future	Mar 2001
Contract Management	Feb 2001
AMODEL Illustrative Financial Statements 2001	May 2001
Business Continuity Management	Jan 2000
Building a Better Financial Management Framework	Nov 1999
Building Better Financial Management Support	Nov 1999
Managing APS Staff Reductions (in Audit Report No.49 1998–99)	Jun 1999
Commonwealth Agency Energy Management	Jun 1999
Corporate Governance in Commonwealth Authorities and Companies–Principles and Better Practices	Jun 1999
Managing Parliamentary Workflow	Jun 1999
Cash Management	Mar 1999
Management of Occupational Stress in Commonwealth Agencies	Dec 1998
Security and Control for SAP R/3	Oct 1998
Selecting Suppliers: Managing the Risk	Oct 1998
New Directions in Internal Audit	Jul 1998
Controlling Performance and Outcomes	Dec 1997
Management of Accounts Receivable	Dec 1997
Protective Security Principles (in Audit Report No.21 1997–98)	Dec 1997
Public Sector Travel	Dec 1997

Audit Committees	Jul 1997
Core Public Sector Corporate Governance (includes Applying Principles and Practice of Corporate Governance in Budget Funded Agencies)	Jun 1997
Administration of Grants	May 1997
Management of Corporate Sponsorship	Apr 1997
Telephone Call Centres	Dec 1996
Telephone Call Centres Handbook	Dec 1996
Paying Accounts	Nov 1996
Performance Information Principles	Nov 1996
Asset Management	Jun 1996
Asset Management Handbook	Jun 1996
Managing APS Staff Reductions	Jun 1996