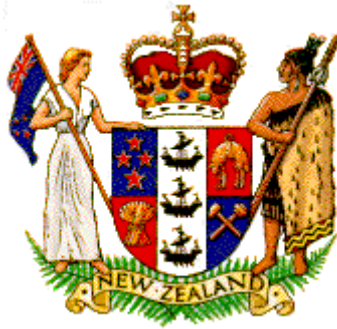


**INQUIRY INTO
EVENTS SURROUNDING
THE CHARTERING OF
AIRCRAFT BY
THE DEPARTMENT
OF WORK AND INCOME**

OCTOBER 1999

ISBN 0 477 02864 0



Hon Doug Kidd
Speaker
House of Representatives
WELLINGTON

Mr Speaker

I am pleased to forward this report to you for presentation to the House of Representatives pursuant to section 33 of the Public Finance Act 1977.

This report sets out the results of our inquiry into the circumstances surrounding the chartering of aircraft by the Department of Work and Income to enable its service centre managers to attend a course at Wairakei Resort on 3 and 4 June 1999.

The Chief Executive of the Department asked me to undertake this inquiry. However, the matter has attracted a high level of media attention and has been the subject of comment by Ministers and Members of Parliament. Accordingly, I considered that I should report the results of our inquiry to the House.

D J D Macdonald
Controller and Auditor-General

15 October 1999

Summary

Introduction

On 16 July 1999 I was approached by Mrs Christine Rankin, Chief Executive of the Department of Work and Income, concerning the chartering of aircraft by the Department. These aircraft had been chartered to enable the Department's service centre managers to attend a course at the Wairakei Resort Hotel on 3 and 4 June 1999. Mrs Rankin asked for an independent investigation to advise her what had happened.

Based on the information supplied, I determined that my officers would conduct an inquiry that would have as its objectives:

- ◆ Identifying and documenting the events surrounding the chartering of aircraft for service centre managers to attend a training programme on 3 and 4 June 1999.
- ◆ Determining whether or not the chartering of aircraft was an isolated instance.

To this end, my officers would:

- ◆ source and investigate all documentation relating to the event;
- ◆ interview key personnel associated with the event;
- ◆ identify delegations/authorities held by persons associated with the chartering and their use; and
- ◆ examine examples of other similar expenditure to establish its appropriateness and compliance with internal procedures and controls.

I also determined that, should any other matters be disclosed during the course of the inquiry, they too would be investigated.

Other Inquiries and Actions

My inquiry was carried out in my capacity as the auditor of public money, pursuant to section 25(1)(a) of the Public Finance Act 1977. Its purpose was:

- ◆ to examine particular transactions in order to ascertain whether the procedures of the Department, including its internal controls, were sufficient to ensure that there was effective control over expenditure and that all expenditure was properly authorised – section 25(2)(b)(iii); and
- ◆ to ascertain whether, in my opinion, resources of the Crown had been applied effectively and efficiently in a manner that was consistent with the applicable policy of the Government, while having due regard to the responsibilities of the State Services Commission – section 25(3).

I have the power under section 33 to report to the House of Representatives on such matters as I think fit relating to any transaction that is required to be audited by my Office. In making this report, however, I am conscious of two other matters:

- ◆ The State Services Commissioner’s review of Mrs Rankin’s own performance in relation to this matter; and
- ◆ Proceedings commenced in the Employment Court against the Department by the manager who organised the course. Those proceedings were commenced after Mrs Rankin invited me to conduct an inquiry. They are still before the court.

The Department also conducted its own internal inquiry into the actions of the manager who organised the course.

Some of the evidence which was taken in my inquiry will also be relevant to the Employment Court proceedings. Because of the circumstances I considered it necessary to use my powers under section 28 of the Public Finance Act 1977 to take evidence on oath. The evidence was obtained for the purpose of establishing the circumstances surrounding possible failures of administration, but not for determining whether there was any breach of a contract of employment. That is for the Employment Court to determine in accordance with such evidence as may be given to it.

In addition, the Employment Court has issued an interim order suppressing further publication of the name of the manager. The order does not directly affect this report, but we understand the Court’s reasons and have decided that it is not appropriate to use the manager’s name or her job title. For clarity and convenience we refer to her simply as “the Course Organiser”.

Notwithstanding that proceedings are still before the Employment Court, I am conscious of the level of Parliamentary and public interest in these events. My inquiries have disclosed that what happened and why it happened differ from what appears to be the general understanding to date. I have concluded therefore that it is in the overall public interest that I make this report now.

Considerations of Perspective

The events that are the subject of this report should be viewed from two important overarching perspectives.

First, within any organisation, the management information and control systems are put in place to achieve management objectives and minimise the risk of adverse outcomes. However, even very good systems will inevitably leave the organisation exposed to some residual risks. The fact that something goes wrong does not mean – *of itself* – that systems were deficient or that management efforts were misdirected. However, in this case we identified certain weaknesses in the Department’s systems that we believe contributed to the problem.

Secondly, when conducting this inquiry, we drew on documentary evidence and human recollection. Both sources carry some uncertainties, but human recollection is especially fallible. We took evidence from a number of people on oath, and there were some irreconcilable differences in their accounts of events. However, that does not necessarily mean that anyone giving evidence was not genuinely trying to offer their best recollection or was deliberately seeking to mislead us.

Our report has been prepared having regard to these considerations and to the fact that some matters are still *sub judice*. In cases of conflicting testimony, we have not sought to indicate which account of events we prefer – and indeed, in the absence of conclusive evidence, it would be inappropriate for us to do so. However, we have pointed to the differences and have drawn linkages to documentary evidence where we think that is useful.

Conclusions

Our conclusions are that:

- ◆ The expenses incurred in holding a course at the Wairakei Resort Hotel were excessive in comparison to the cost of holding the same course at another, more accessible, location, where the same organisational objectives could have been achieved.
- ◆ The chartering of aircraft appears to have been an isolated incident. We reviewed all the courses undertaken by the Department since its establishment on 1 October 1998 and found no other examples of such chartering.
- ◆ The chartering did not take place simply as a result of self-serving extravagance by staff of the Department. Rather, it appears to have been the final consequence of a series of miscommunications and mistakes. These miscommunications and mistakes, although arguably not enough individually to have caused serious problems, compounded into a significant overall error that has proved costly to the Department (both financially and in terms of its credibility with its stakeholders).
- ◆ The decision that initiated the overall error was not the selection of the mode of transport but the selection of the venue for the course. There were significant difficulties associated with arranging travel for that number of people to that venue. The difficulties were made worse by the short amount of time in which the course was organised and by the dates on which it was held (immediately prior to Queen's Birthday weekend). However, given the particular location used for the course, in our view it would not have been possible to transport in excess of 100 people to it from all over New Zealand using scheduled air services. It was possible for all but 44 staff to travel by road to the venue. However, many would have had to travel for several hours starting very early in the morning, possibly in inclement weather, and facing the risk that the Desert Road might be closed. Both alternatives were far from ideal.

- ◆ In the ensuing public debate, a comparison has been made between the cost of travel on scheduled flights and the costs actually incurred in chartering the aircraft. We believe that comparison is invalid. A valid comparison would need to take into account the costs of regular transport, additional accommodation and the cost of the additional time that the course attendees would have had to spend travelling.
- ◆ The initiating action appears to have resulted from a meeting between the Chief Executive and the Course Organiser. We received different accounts of what transpired. The Chief Executive stated in evidence that she gave instructions to the effect that the Course Organiser should explore the possibility of holding the course at Wairakei or some similar North Island venue, and she had suggested the dates of 3 and 4 June 1999 only as possibilities. The Course Organiser stated in evidence that she took the Chief Executive's words to be a direction to arrange a course at Wairakei on those dates.

It is apparent that there was a miscommunication. We express no view on which version of events is correct, nor on the cause of the miscommunication.

- ◆ Senior managers of the Department were subsequently involved on at least three occasions in the arrangements for the course. These were:
 - On 14 May 1999, when an initial deposit was paid to secure the chartered aircraft. This payment was authorised by the General Manager, Human Resources.
 - On 18 May 1999, when the Chief Executive was made aware of the fact that aircraft were being chartered through a question asked of her by the Minister's Private Secretary;
 - On 24 May 1999, when the Chief Executive approved the payment of the balance of the travel costs.

These three occasions did not result in the overall error being averted. We explore them further in the main text.

- ◆ Following the inquiry from the Minister's Office, the Chief Executive spoke to the Course Organiser. The Chief Executive has stated in evidence that she sought assurances at various times that the action taken to charter the aircraft was defensible and that the costs were justified. Other evidence supported the Chief Executive's evidence. However, the evidence we were able to obtain did not enable us to establish conclusively the nature of the assurances given, or to determine whether or not they were false assurances or merely miscommunications.
- ◆ The Course Organiser stated in evidence that she anticipated that the chartering of aircraft created risks in relation to public perception and therefore took steps to minimise any publicity about the fact that aircraft had been chartered. This resulted in the travel arrangements for the course taking on a secretive flavour that we found quite inappropriate. Unless circumstances are exceptional, the activities of government departments should be able to sustain public scrutiny.

- ◆ In a regime of robust financial controls, proposals that will commit an organisation to significant expenditure should, before final decisions are taken, be subjected to an independent assessment or review by staff who have specialist financial management skills. That did not happen in this case.
- ◆ In a regime of robust staff control, there should be a clear transfer of responsibility for the management of individual members of staff who are detached from their normal line management for particular purposes. In this case, there was evidence of confusion about who was overseeing the work of the Course Organiser. We express no view about what caused this confusion.

D J D Macdonald
Controller and Auditor-General
15 October 1999

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1 – Background

- 1.001 The Department of Work and Income (“the Department”) was established on 1 October 1998 to provide a better and more cost effective co-ordination of the delivery of services to people who are unemployed and/or in need of income support.
- 1.002 The Department combines the services previously offered by Income Support, New Zealand Employment Service, Community Employment Group and local employment co-ordinators. The integration of these organisations has required the management of the Department to establish a single departmental culture and a common skill base from the significantly different operations and cultures of the antecedent organisations.
- 1.003 The Department is the largest government department in New Zealand. It employs over 5,000 staff who are located in over 160 sites throughout New Zealand. In the 1998/99 financial year¹, the Department’s total expenditure was \$414 million (GST-exclusive) and it administered \$8,544 million (GST-inclusive) of benefits paid on behalf of the Crown.

Main Players

- 1.004 The following is a list of the persons and organisations that were involved in these events in some material way.

Organisations

The Department of Work and Income

Origin Pacific A New Zealand domestic airline company

Wairakei Resort A large hotel near Taupo

DestinationNZ A company that arranges travel within New Zealand. Daryl James, a director of *DestinationNZ*, was also employed as an agent of *Origin Pacific*.²

¹ Because the Department did not commence operations until 1 October 1998, its 1998/99 expenditure covers a period of 9 months rather than 12 months.

² A feature of the commercial arrangement between *Origin Pacific* and *DestinationNZ* was that, if *Origin Pacific* decided it could not supply transport services to a particular client, *DestinationNZ* was at liberty to broker other transport services to that client. That arrangement is relevant in this context. Mr James was first approached by the Course Organiser as an agent of *Origin Pacific*. However, *Origin Pacific* decided not to supply the transport services required by the Department. Mr James, acting then on behalf of *DestinationNZ*, sourced the services from other providers.

Staff of the Department

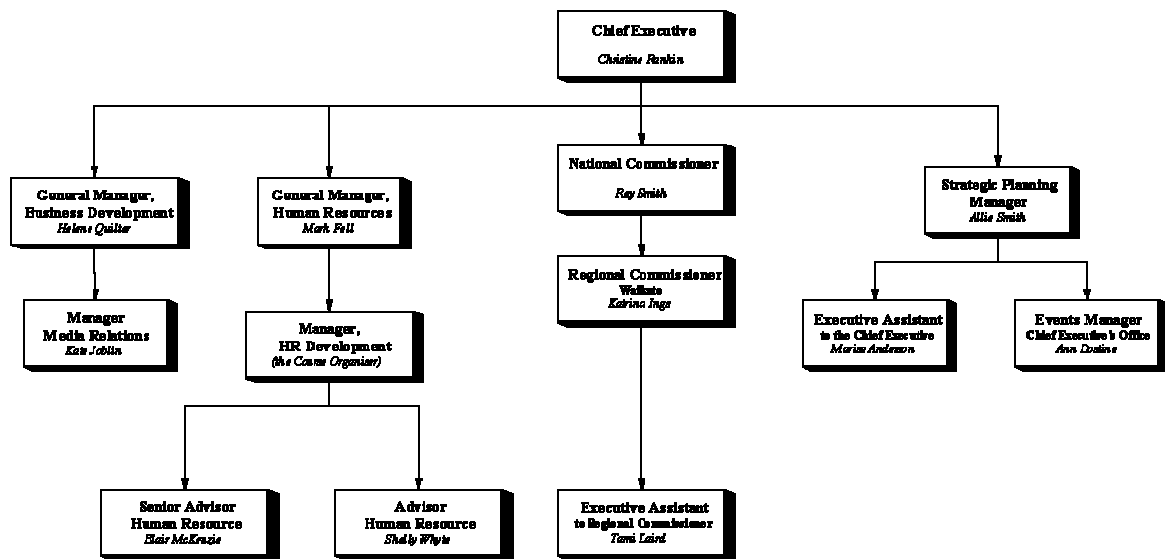
Christine Rankin	Chief Executive
Marise Anderson	Executive Assistant to the Chief Executive
Ray Smith	National Commissioner
Tami Laird	Executive Assistant to the Regional Commissioner, Waikato
Helene Quilter	General Manager, Business Development
Kate Joblin	National Media Manager
Robert Brewer	Acting Media Manager
Ann Dostine	Events Manager
Jane Green	Communications Manager
Karen Stewart	Government Relations Manager
Mark Fell	General Manager, Human Resources
Course Organiser	
Blair McKenzie	Senior Adviser, Human Resources
Shelly Whyte	Adviser, Human Resources

Other Individuals

Daryl James	Director, <i>DestinatioNZ</i>
Karen Juno	Director, <i>DestinatioNZ</i>

- 1.005 The diagram on page 11 sets out the formal reporting relationships between the staff of the Department named in the list above.
- 1.006 The reporting relationships in the diagram reflect the regime that applied in normal circumstances. However, staff of the Department gave different accounts about the reporting arrangements for the Course Organiser in relation to this course. The Chief Executive gave evidence that the Course Organiser reported to the General Manager, Human Resources. On the other hand, the General Manager, Human Resources, the Course Organiser and others gave evidence that, in relation to the arrangements for this course, the Course Organiser was understood to be working directly to the Chief Executive.

Department of Work and Income – Reporting Relationships



Change Management

- 1.007 The integration of a number of very different organisations into a single co-ordinated government department can only take place smoothly if the change processes are well managed. This requires good communication throughout all levels of the Department and a significant investment in training of staff.
- 1.008 Based on observations made in the course of our statutory audit work, we consider that the Department has generally managed the change process well. From evidence we obtained during this inquiry, we believe that the Chief Executive and her senior management team have acted to ensure that staff at all levels have been kept fully informed both of the reasons for changes and the Department's expectations for the future.
- 1.009 The Department's training budget for the 1998/99 year was \$4,087,434. It was structured to provide (among other things) technical skills for staff, and to enable the development of a suitable culture for the Department. Training for technical skills was the responsibility of the National Commissioner. Developmental training was the responsibility of the General Manager, Human Resources. The breakdown of this budget was:

	\$
Developmental Training	1,221,629
Service Delivery Training	1,741,165
Other	<u>1,124,640</u>
	<u>4,087,434</u>

Workbrokers

- 1.010 A consequence of the Department's new role and methods of working was a need to develop new staff positions. One of these new positions was that of *workbroker*.
- 1.011 The primary objective of workbroking is to place unemployed people into paid employment or, if not paid employment, then into community work or work experience that will assist them towards a placement into paid employment. Workbrokers undertake a pivotal role in the system. Their role is to identify opportunities for unemployed people and to match them to employers who are seeking staff.

Reach 2004

- 1.012 Because workbroking was a new role (and appointees had differing degrees of relevant experience), the Department identified the need to provide the appointees with training that would enable them to operate successfully. The programme developed for this purpose was known as *Reach 2004*.

- 1.013 *Reach 2004* was designed to improve the workbrokers' leadership skills and to provide the Department's management with the opportunity to communicate to the workbrokers management's expectations of how the role would contribute to the overall goals of the Department.
- 1.014 The Department has progressively put all its workbrokers through the *Reach 2004* programme. Core training courses (known jocularly within the Department as "boot camps") have been provided to groups of approximately 50 workbrokers and last for two days. Six such courses have been run at Okataina Lodge, near Rotorua and the programme has now been completed. Evaluations by the Department of those courses indicate that they have been successful in providing workbrokers with information and skills necessary to carry out their new roles.
- 1.015 When workbrokers who had completed the two earliest courses returned to their service centres, they attempted to put into practice the lessons learned. However, some reported to senior management that they were encountering difficulties that appeared to arise from a lack of understanding by their service centre managers about the nature of their role.
- 1.016 Senior management established that service centre managers and workbrokers often did not have a common understanding about how the workbroker role should operate. Since the workbroker role was seen as pivotal to the success of the new initiatives, senior management regarded this as a potentially serious problem that needed to be corrected as soon as possible. They decided that the best way to overcome the problem was to have all service centre managers attend a *Reach 2004* course at the earliest opportunity, to make sure that they understood the Department's expectations of the workbrokers' role.
- 1.017 Accordingly, a course for approximately 140 service centre managers was arranged and held at the Wairakei Resort Hotel on 3 and 4 June 1999.³ Travel arrangements were made jointly by staff of the Department and a private sector provider, *DestinatioNZ* (see paragraph 1.004 and footnote 2 at page 9). The course programme is included as an Appendix to this report at pages 30-31.

³ In the event, not all could attend. There were in fact 135 attendees.

2 – Sequence of Events

- 2.001 While we have been unable to ascertain with complete certainty the details of all the events that led up to, and followed, the service centre managers' course, the main features seem relatively clear. Although there have been significant differences in some recollections, we do not consider this unusual in itself. We were not surprised that staff did not have detailed recollections of matters which took place two months or more before our inquiry began and which may have seemed relatively routine at the time.
- 2.002 In what follows, we have set out what we believe to be the main sequence of events. Information that is "common ground" is shown in italics. Where recollections differ, we have cited the differences without further comment, except to draw attention to documentary or other ancillary evidence where it seems pertinent.

11 May 1999

- 2.003 *The Department's Leadership Team (the Chief Executive and Level 2 managers) identifies a potentially significant lack of clarity among at least some service centre managers about the nature of the workbroker role. A decision is taken to provide training promptly for all service centre managers to correct the problem.*
- 2.004 *The Chief Executive stated in evidence that discussions on the need for a course for service centre managers had begun after the second course for workbrokers had been held. A meeting of the Leadership Team took place on 11 May and the decision is recorded in the minutes of that meeting. The minutes confirm that discussions were held on that issue on that date.*

11-12 May 1999

- 2.005 *The Chief Executive informs the Course Organiser of the decision to mount a course for service centre managers, and discusses with her the issues of venue and timing.*
- 2.006 Recollections differ about the timing and content of the initial discussion and whether or not there was a subsequent discussion the following day to confirm arrangements. The timing of the first discussion is important, because the Chief Executive stated in evidence that she was absent from the National Office on 13 May. If the initial discussion took place on 11 May, it was possible for a follow-up discussion to have been held on 12 May. However, if the first discussion took place on 12 May, then apparently there could not have been a subsequent discussion on the following day.

- 2.007 The Chief Executive gave evidence, both orally and in a written statement, that the initial discussion was held on 12 May. The tenor of the discussion was that she suggested the dates of 3 and 4 June 1999 and a location somewhere in the central North Island – including that Wairakei Resort seemed to be a good idea – simply as possibilities to be explored.
- 2.008 The Course Organiser gave evidence of two early morning conversations with the Chief Executive, which she believed were on consecutive days. She believed – but was not certain – that the initial conversation took place on either 10 or 11 May. She took the Chief Executive’s statements about timing and venue as directions. After making initial inquiries and recognising the difficulties, she sought out the Chief Executive again the next day to seek confirmation as to the dates and venue – confirmation which she said she received. She then proceeded with the arrangements on the basis that she had been instructed to do so.
- 2.009 Ann Dostine, Events Manager, stated in evidence that she was present at a conversation between the Chief Executive and the Course Organiser, and her recollection of its content largely accords with that of the Chief Executive. However, Shelly Whyte, Adviser, Human Resources, stated in evidence that she inferred from the Course Organiser that the dates were firmly fixed from the outset. Daryl James of *DestinatioNZ* stated in evidence that, at his first meeting with the Course Organiser, he discussed the possibility of changing the dates and venue and was told it was not possible.
- 2.010 Other evidence bearing on the date of the initial conversation is less clear.
- ◆ Daryl James stated that he and a colleague, Karen Juno, first met with the Course Organiser at 2.00pm on 11 May to discuss arrangements.
 - ◆ The Course Organiser stated that she contacted Wairakei Resort by telephone and discussed bookings. She also stated that she contacted and met with Daryl James following discussions with Wairakei Resort.
 - ◆ A facsimile letter from Wairakei Resort confirming provisional bookings was received by the Course Organiser on the afternoon of 12 May. This letter suggested the air charter company *Origin Pacific* as a possibility for handling travel arrangements and invited the Course Organiser to contact *Origin Pacific*’s agent, Daryl James.
 - ◆ Shelly Whyte stated in evidence that she believed she recalled initial discussions on 11 May, but subsequently inferred from a copy of an e-mail message sent by the Course Organiser that the date had in fact been 12 May.

- ◆ Ray Smith, the National Commissioner, stated in evidence that he recalled a discussion among managers in either late-April or early-May, following which the Chief Executive was to have discussed the matter with the Course Organiser. He believed that the discussion between the Chief Executive and the Course Organiser would have taken place “around 10 May”.
- ◆ After we had completed taking evidence on oath and the Department was made aware of the significance of the dates, it was able to inform us of evidence that the Course Organiser had been in Palmerston North on 10 and 11 May and had not returned to Wellington until the afternoon of 11 May.

12 May 1999

- 2.011 *Wairakei Resort sent a facsimile letter to the Course Organiser, confirming the tentative booking of 75 rooms and providing an estimate of the costs. The letter suggested Origin Pacific as a possibility for handling travel arrangements and gave the name and contact number of Daryl James.*
- 2.012 *The Course Organiser advised the Chief Executive that Wairakei Resort was available and that she had booked that venue.*

14 May 1999

- 2.013 *Following an initial meeting with the Course Organiser at which he was given a brief and instructions to proceed, Daryl James had been making arrangements for travel to the course. On 14 May he sent a facsimile letter to the Course Organiser providing a quotation for the travel arrangements of \$165,055.91, and indicating that a 25% deposit of \$41,263.97 was required by 4.00pm that day. The letter made it clear that the deposit was not refundable.*
- 2.014 *The Course Organiser sent a facsimile letter to Daryl James (actually dated 12 May) which confirmed instructions about the arrangements and acknowledged the quoted deposit requirements.*
- 2.015 *The Course Organiser arranged the payment to DestinatioNZ of a 25% deposit for the travel costs — the deposit amounting to \$41,263.97. Mark Fell, General Manager, Human Resources, approved the payment of the travel deposit of \$41,263.97.*
- 2.016 *The Course Organiser stated in evidence that she had attempted to have the letter of instruction to DestinatioNZ signed by Christine Rankin and that she had asked Ann Dostine to review the draft letter to DestinatioNZ. Ann Dostine stated in evidence that she did not see the draft letter.*

2.017 Mark Fell stated in evidence that the Course Organiser did not inform him of the total amount she had formally accepted in writing. Mr Fell stated that he was reluctant to sign the payment and initially refused to do so. He only countersigned it on the basis that the Course Organiser had signed it as budget holder, and on the basis of representations made to him by the Course Organiser that:

- ◆ the payment was urgent and the Chief Executive was unavailable (which he confirmed);
- ◆ the Chief Executive approved of the payment; and
- ◆ the payment was for the pre-purchase of air travel and that any subsequent payments would be a “wash-up” based on the actual number who travelled.

In fact, Mr Fell’s signature constituted an approval of the payment.

2.018 The Course Organiser gave a different account of these events. She stated in evidence that she did not have a detailed conversation with Mr Fell; she simply approached him because she believed the amount to be approved was greater than her level of delegation. (This was in fact incorrect – the amount in question did not exceed her level of delegation.)

18 May 1999

2.019 *The Private Secretary to the Minister of Social Services, Work and Income asked the Chief Executive and National Commissioner about the chartering of aircraft for the course.*

18-21 May 1999

2.020 *Following the enquiry by the Minister’s Private Secretary, the Chief Executive asked the Course Organiser about the chartering of aircraft.*

2.021 The Chief Executive stated in evidence that the Course Organiser had confirmed flights had been chartered and that “the costs were no more than full and equivalent priced airfares”. The Chief Executive also stated that she sought assurance about the costs on two separate occasions during this period. Her evidence on this point is supported by the evidence of the National Commissioner.

2.022 The Course Organiser stated in evidence that she did not give the Chief Executive any such assurances on the costs. She told us that “It would have been impossible for me to give her assurances that it was cost effective and heaps cheaper and any of those things because it wasn’t so.” She also denied being asked on a second occasion about the chartering.

24 May 1999

- 2.023 *The Course Organiser dictated a memorandum to the Chief Executive (typed by Blair McKenzie, Senior Advisor, Human Resources) seeking her approval for payment of the balance of the travel costs (\$123,791.04) to DestinationNZ. Blair McKenzie compiled the memorandum together with other relevant documents and sought urgent approval by the Chief Executive. Later that day the Chief Executive approved the payment.*
- 2.024 The Chief Executive stated in evidence that she recalled seeing only the payment form that she had signed. She stated that she had not seen the supporting documentation.
- 2.025 Blair McKenzie stated in evidence that he had given to Marise Anderson, the Executive Assistant to the Chief Executive, a complete document set (which included an invoice citing the full costs of \$165,055.91), and that he had received the same complete document set back when the Chief Executive's signature had been obtained.
- 2.026 Marise Anderson told us she had no recollection of the documents being passed to her, of passing them to the Chief Executive, or of returning them to Blair McKenzie.
- 2.027 We examined the original document set and noted that it had been stapled together. One document had the appearance of having been stapled and unstapled at various times. However, the invoice from *DestinatioNZ* – which showed the full cost of air travel - appeared to have been stapled only once.
- 2.028 When we were first provided with a copy of the document set by the Department's staff, it contained a photocopy of a part of the invoice from *DestinatioNZ* (the remittance advice). This photocopy showed only the balance payable, not the full cost. We were unable to ascertain who had made this misleading photocopy, or why and when it had been used. However, it is possible that the remittance advice had been copied instead of the full invoice simply to enable accounts staff to reconcile the amount owing with the amount actually paid.

2 June 1999

- 2.029 *As a result of enquiries made by a manager at Taupo Airport about the identity of the travellers (see also paragraphs 2.032-2.034 below), Blair McKenzie alerted Robert Brewer, Acting Media Manager, of a potential media issue relating to the chartering of the aircraft.*

- 2.030 Mr Brewer prepared a file note dated 14 July in which he recorded that he had questioned the Course Organiser about the cost of chartering aircraft. He also recorded that the Course Organiser had stated that the chartering was cost effective and that a cost analysis had been done.
- 2.031 The Course Organiser stated in evidence that she had no recollection of this conversation.

3 and 4 June 1999

- 2.032 *The course was held at Wairakei Resort. The arrival of the chartered flights into Taupo Airport created interest in Taupo.*
- 2.033 Daryl James stated in evidence that he had been instructed not to disclose the name of his client. This included not using the expression “charter” on any documents. He stated that he believed that the “secrecy” surrounding the flights contributed to the interest at Taupo Airport.
- 2.034 The Course Organiser stated in evidence that she had judged that chartering aircraft created some risk to the Department of adverse publicity, and had sought to avoid publicity by avoiding the use of the word “charter”.

8 June 1999

- 2.035 *Minutes of the Leadership Team meeting record that the Wairakei Course could be a focus of future media attention.*
- 2.036 Meetings of the Department’s Leadership Team begin with an issues management report by the Communications Manager. Helene Quilter, General Manager, Business Development, stated in evidence that she recalled that the matter had arisen on this occasion as a result of interest expressed by a manager at Taupo Airport. Other staff interviewed on oath did not have a particularly clear recollection of what had caused the matter to be raised at the Leadership Team meeting.
- 2.037 In a subsequent letter, Helene Quilter provided additional information that Blair McKenzie had reported to Robert Brewer that the Taupo Airport manager potentially might go to the media. This was conveyed to Jane Green, Communications Manager, who reported the matter to the Leadership Team.

6 July 1999

2.038 *Steve Maharey MP lodges a Parliamentary Question for Written Answer in the following terms:*

Is it correct that on the 3 June 1999 the Work and Income Agency chartered a aeroplane; if so why, what was the total estimated cost, from where did they fly and what was the destination, how many staff were on board, and were they in uniform or clearly identifiable as WINZ staff; if not, why not?

12 July 1999

2.039 *The Course Organiser provided a draft written response to the Parliamentary Question to Karen Stewart, Government Relations Manager. In this draft response, the Course Organiser stated that aircraft chartering had occurred and that the cost had been \$120,000.*

2.040 The Course Organiser stated in evidence she knew that the figure of \$120,000 was not accurate but expected the draft to be returned to her for checking.

13 July 1999

2.041 *The Department's Issues Management Group met to discuss the issues raised in the Parliamentary Question. The Course Organiser was asked to attend the meeting.*

2.042 Helene Quilter stated in evidence that, at this meeting, the Course Organiser again advised management that the "all up cost" was \$120,000.

2.043 *The Issues Management Group asked Kate Joblin, National Media Manager, to prepare a comparative cost with normal airline fares. This exercise was completed by another officer in some haste and was not reviewed by a financial professional. It indicated that the comparative cost of full equivalent airfares was \$36,000. (This figure was later revised upwards to \$39,000, and then \$50,000.)*

2.044 Kate Joblin stated in evidence that the comparison had not taken into account the possibility that most staff would have been unable to travel using normal scheduled flights.

- 2.045 *Helene Quilter and Kate Joblin advised the Chief Executive of the assessed cost differential. The Chief Executive then summoned the Course Organiser and, in an emotionally charged meeting, questioned her in the presence of Helene Quilter and Kate Joblin about the costs.*
- 2.046 All accounts of this meeting, other than that of the Course Organiser, concur that the Chief Executive put it to the Course Organiser that she (the Chief Executive) had asked for and received assurances on at least three occasions about the costs of chartering the aircraft. The Course Organiser stated in evidence that this account was inaccurate.

14 July 1999

- 2.047 *Management of the Department retrieved documentation that showed the true costs of the chartered flights was \$165,055.99 (GST-inclusive). The Chief Executive commenced an internal investigation into the cost of the Wairakei Course.*
- 2.048 *On the evening of 14 July 1999, after a meeting with the Course Organiser, the Chief Executive suspended the Course Organiser pending a full investigation.*

3 – Costs

Cost of the Course

3.001 The costs of the Wairakei Course were:

	GST-inclusive \$
Air travel	168,429.91
Accommodation	11,030.71
Food and beverages	21,494.07
Conference room hire	2,949.99
Leadership development activities	27,013.50
Miscellaneous expenses	4,288.65
Total Expenditure	\$235,206.83

3.002 The goods and services were either purchased specifically for the course or supplied from stocks held by the Department.

3.003 We have detailed below the source of the supply of the goods and services.

	Supplier	Service Provided	Amount (GST-incl.) \$
a	DestinationNZ Limited	Air fares	165,055.91
b	Scheduled Airlines (booked through internal systems)	Air fares	3,374.00
c	Wairakei Resort		35,974.38
d	Footprint Expeditions	Leadership Development Activities	27,013.50
e	Pronto Group Limited	Printing	1,926.05
f	Internally Sourced Items	Office supplies, gift packs for staff	1,862.99
			\$235,206.83

- 3.004 We consider that the cost of \$235,207 (GST-inclusive) for the Wairakei course was excessive and did not represent value for money. However, we are satisfied that the costs we have identified are materially complete.
- 3.005 We have reviewed all other training courses and conferences organised by the Department since it began on 1 October 1998. We found no other examples of excessive spending on training.

Cost of Air Fares

- 3.006 The cost of transporting the course attendees to the course seems very high when compared to the cost of scheduled flights to Taupo. However, for reasons discussed below, we have concluded that such a comparison is not valid.
- 3.007 As previously stated, transport for the course attendees was arranged by *DestinatioNZ*, a company that specialises in organising travel for large groups.
- 3.008 Air New Zealand advised us that the cost of typical schedule airfares to Taupo were as follows:
- | | | |
|-----------------------------|---|------------------------|
| Whangarei-Taupo (Return) | — | \$600 (GST-inclusive) |
| Auckland-Taupo (Return) | — | \$428 (GST-inclusive). |
| Wellington-Taupo (Return) | — | \$482 (GST-inclusive) |
| Invercargill-Taupo (Return) | — | \$974 (GST-inclusive). |
- 3.009 The total number of staff travelling by air to the course (including both attendees and course “crew”) was 107. The total cost of air travel was \$150,147 (GST-exclusive). The average actual cost of air travel for the course attendees was therefore \$1,403 (GST-exclusive).
- 3.010 The higher average cost of air travel resulted from the decision to use a mixture of scheduled and chartered flights to transport the course attendees from their home airports to Taupo and to return them home at the end of the course.
- 3.011 We questioned the Course Organiser as to her reasons for using chartered aircraft. She stated in evidence that there was no alternative, since there were insufficient flights available to transport all the course attendees to the course within the timeframe required. Travel arrangements had to be made very quickly because of the short time between the decision to hold the course (on or around 11 May 1999) and the dates on which it was to be held (3 and 4 June 1999).
- 3.012 Her evidence was supported by Daryl James of *DestinatioNZ*. Mr James stated in evidence that the possibility of using road transport was considered at their first meeting. However, it was discounted because of the early starting time that this would entail for many attendees and because, given the time of year, it was possible that the Desert Road would be closed.

- 3.013 Under normal circumstances, the Department requires that course attendees arrive on the morning of a course and return home on the afternoon the course finishes. We believe that, in general, this is a sound policy, since it helps to minimise accommodation costs and time spent away from work.
- 3.014 The Course Organiser stated in evidence that she believed that, even under normal circumstances, it would be difficult to transport the course attendees into and out of Taupo in line with the Department's policy. The problem was exacerbated by the timing of the course – on the Thursday and Friday before Queen's Birthday weekend. The Course Organiser's evidence was supported by evidence given by Daryl James.
- 3.015 To establish that their conclusion was correct, we re-performed the exercise by asking a travel agent to arrange flights for 110 people to Taupo in circumstances that complied with the Department's general requirements. The agent reported that it was not possible to organise the transport of that number of people to Taupo under those requirements.
- 3.016 In a written communication, the Department told us of an unwritten "normal practice" concerning travel to and from course and conference venues. We were told that, when travelling to a central North Island venue, staff from Auckland and Wellington travel by road. Staff from the South Island are flown to Wellington and are then transported by bus.
- 3.017 We were told that application of the practice in this case would have meant that all but 44 service centre managers could have driven to Wairakei. In addition, we were told that the start and finish times of the Wairakei course (11.00am on 3 June and 2.30pm on 4 June) were consistent with this practice.
- 3.018 We confirmed that there had been a number of occasions when staff had travelled to courses and conferences at central North Island venues by road. These occasions included the "boot camps" held at Okataina Lodge that had been organised by the Course Organiser.
- 3.019 Through her solicitor, the Course Organiser disputed that there was any such "normal practice" – or, alternatively, stated that if there was indeed such a practice, it had never been communicated to her.
- 3.020 As indicated in paragraph 3.012, the possibility of using road travel was considered at the initial meeting between the Course Organiser and Daryl James and was rejected. We observe that, of the 12 people interviewed in detail, nobody mentioned that travel by road wherever possible was the "normal practice".
- 3.021 The Department's position about the "normal practice" of driving to courses wherever possible provides a contextual background against which other actions of senior managers should be viewed. For example, notwithstanding the "normal practice", the Chief Executive and General Manager, Human

Resources approved payments that enabled a large number of course attendees to travel by air.

- 3.022 We have concluded that, if the Department had not arranged chartered flights to transport its staff to Wairakei Resort for the course, its only realistic alternative would have been to commit large numbers of staff to beginning a road journey at a very early hour and driving long distances in potentially inclement weather.
- 3.023 We note that the Department has disputed this conclusion.
- 3.024 We regard both alternatives as being far from ideal. For this reason, we concluded that Wairakei Resort – for that number of staff and in those particular circumstances – was not a good choice as a venue.
- 3.025 We found no compelling reason why the course should have been held at Wairakei Resort. Had the course been held at a more accessible location, the transportation difficulties would have been more manageable.

Speculation about Possible Fraud

- 3.026 Initially, there was some speculation that the dealings between the Course Organiser and *DestinatioNZ* may have provided scope for fraud.
- 3.027 We found that:
- ◆ Wairakei Resort recommended Daryl James of *DestinatioNZ* to the Course Organiser at an early stage, when the venue was arranged.
 - ◆ Both parties stated that they had not had any prior acquaintance or dealings, and we found no evidence that they had.
 - ◆ We have reviewed all the costs and have identified the ultimate recipients of the money paid.
- 3.028 Daryl James stated in evidence that he had advised the Course Organiser that the travel arrangements would be expensive. He had explored the possibility of changing the dates and the venue. He had proceeded only after being told that the venue and date were fixed, and after the Department had indicated its acceptance of a detailed written quotation.
- 3.029 His evidence on these matters was supported by other evidence. We reviewed the relevant financial records of *DestinatioNZ*. The company appears to have discharged a difficult brief in a professional manner, and we are satisfied that its charges for the services provided were reasonable.
- 3.030 Given these findings, we believe that there is no evidence whatever of fraud.

4 – Systems and Control Issues

4.001 In the course of undertaking our inquiry, we identified some systems and control issues, some of which we believe contributed to the problem. These related to weaknesses in:

- ◆ the controls imposed by the Department's system of financial delegations then in place; and
- ◆ the controls imposed by line management supervision of staff.

Financial Controls and Instruments of Delegation

4.002 We believe that the financial controls imposed by the system of financial delegations contained three distinct weaknesses. Before describing these weaknesses, however, it will be useful to explain briefly the legal position relating to the authority to incur expenditure.

Legal Authority to Incur Expenditure

4.003 Authority to spend money in government departments is derived in two ways, and both sets of requirements must be satisfied.

- ◆ Parliament must have passed either an Appropriation Act that provides for the expenditure or an Imprest Supply Act that provides a general authority for the expenditure in advance of an Appropriation Act.
- ◆ The expenditure must accord with Cabinet's schedule of delegations, which sets limits on how much expenditure can be committed for particular purposes at different levels of delegation. The current schedule of delegations is contained in Cabinet Office Circular CO (99) 7, which took effect from 1 July 1999. The preceding schedule of delegations (relevant to these transactions) was contained in CO(96)11, issued on 11 October 1996.

4.004 The Public Finance Act 1989 and the State Sector Act 1988 both contain provisions relevant to the delegation by chief executives to departmental employees of the chief executive's financial authorities.

4.005 Section 33(2) of the Public Finance Act 1989 provides that:

The Chief Executive of a department shall be responsible to the Responsible Minister for the financial management and financial performance of the

department and shall comply with any lawful financial actions required by the Minister or the Responsible Minister.

4.006 Section 41(1) of the State Sector Act 1988 provides that:

The chief executive of a Department may from time to time, either generally or particularly, delegate to any other person (being a chief executive or a member of the senior executive service or an employee) any of the functions or powers of the chief executive under this Act or any other Act, including functions or powers delegated to the chief executive under this Act or any other Act.

System of Delegations

4.007 At the time, the Department had in place a system of delegated authorities for financial expenditure.⁴ The Instrument of Delegation identifies five levels, from chief executive (Level 1) to employees who are not budget managers but whose duties require them to commit Crown or departmental expenditure (Level 5). Departmental officers are authorised to approve expenditure in a single payment up to the limit shown for the relevant expenditure category, subject to an exclusion schedule for particular categories.

4.008 Apart from a qualification relating to capped programmes, the term “budget” means the annual budget approved for that expenditure type for that particular cost centre.

4.009 The Schedules to the Instrument of Delegation contain some definitions and specific rules. Among these are rules that:

2.1 Delegations will be generic to the specific level of the individual.

2.2 The person exercising a delegated function or power shall exercise it in accordance with:

- ◆ *The relevant legislative or legal authority;*
- ◆ *Any policies of [the] Government relating to the State Sector relevant to its exercise; and*
- ◆ *Any obligation contained in the Department’s business plan, any policy issued by the Chief Executive or the person’s performance agreement relevant to the exercise.*

2.3 The person exercising a delegated authority shall also have proper regard to any policies or standards of the Department relevant to its exercise, and shall obtain legal advice where appropriate before exercising it.

⁴ The Department told us that this system of delegations simply followed the system previously used in the Department of Social Welfare.

4.010 In terms of the Instrument of Delegation, expenditure on training falls into Category A1 - *Operating Expenditure, Departmental Controllable*. For this category of expenditure, a Level 3 delegate is authorised to approve expenditure up to the total of that person's annual budget.

Weaknesses in the System

4.011 As it was constituted, and unless there was some contrary requirement, a delegate could authorise expenditure of a large sum – potentially the entire annual budget for that cost centre – on a single item. We consider this to have been a weakness, although it did not impact on these events. The weakness could be overcome by imposing limits on the amount that could be approved for one particular purpose.

4.012 In addition, the system did not require the delegate to either:

- ◆ undertake or commission a robust cost benefit analysis for significant items of expenditure, or
- ◆ have that analysis reviewed by staff with specialist skills in financial management.

4.013 We consider both of these omissions to have been weaknesses, and believe that they contributed to the problem. Any such analysis would have alerted both the General Manager, Human Resources and the Chief Executive at the time when their respective approvals were given.

4.014 Since these events, the Department has made changes to its delegations and financial controls which, if observed diligently, should significantly reduce or eliminate these weaknesses.

Line Management Control

4.015 As indicated in paragraph 1.006 on page 10, the evidence we were given from a number of staff suggested that there was confusion about who was directing and overseeing the work of the Course Organiser.

4.016 In normal circumstances, the Course Organiser reported to the General Manager, Human Resources. However, we heard different accounts about the reporting arrangements for the Course Organiser in relation to this course and other previous courses for workbrokers.

4.017 It was generally accepted in evidence that the Chief Executive briefed the Course Organiser directly about this course. The General Manager, Human Resources stated that the Chief Executive and the National Commissioner were closely involved in the workbrokers' courses, and that direct communication between them and the Course Organiser had effectively been

the norm since February 1999. This evidence was supported by the Course Organiser. However, the Chief Executive stated that she believed that the General Manager, Human Resources was continuing to oversee the work of the Course Organiser.

- 4.018 Line management reporting and accountability arrangements are important operational controls. Chief Executives and senior managers are at liberty to divert staff to special projects as the occasion arises. However, when staff are diverted in this way, it needs to be clear to whom they are reporting and about what.
- 4.019 On the other hand, in the absence of a specific written direction to the contrary, line managers should be able to assume that line management reporting arrangements continue to apply. All parties should therefore act accordingly.
- 4.020 In this specific situation, when a Level 1 manager (i.e. the Chief Executive) gives a direction to a Level 3 manager, he or she should ensure that the supervising Level 2 manager is informed of the details of the direction.
- 4.021 The decision of the Leadership Team to hold a course for service centre managers was taken at a meeting on 11 May 1999, at which both the Chief Executive and the General Manager, Human Resources were present. We have noted (paragraphs 2.007-2.009 on page 15) that there is disagreement over what specifically the Chief Executive asked the Course Organiser to do when they first met about the course on 12 May 1999. As previously indicated, the Chief Executive gave evidence that she had merely asked the Course Organiser to investigate the possibility of holding a course at Wairakei on the dates in question.
- 4.022 However, from the evidence that we heard, it did not appear that the Chief Executive took other steps to ensure that the Course Organiser's line manager (the General Manager, Human Resources) was aware specifically of what she (the Chief Executive) had asked the Course Organiser to do. Had the Chief Executive done so, the General Manager, Human Resources would have had the benefit of that information when, on 14 May 1999, he was requested by the Course Organiser to approve the payment of the deposit for chartering the aircraft.
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APPENDIX

THE COURSE PROGRAMME

APPENDIX

THE COURSE PROGRAMME

REACH 2004 PROGRAMME



Work and Income NZ
Te Kaitiaki Takekōwhiri

Thursday 3rd June
DAY ONE

KAHORA AND WELCOME

8:00 am to 10:45 am	Registration Check into rooms Tea and Coffee	Foyer area Lounge area
11:00 am to 12:30 pm	Poshini Opening - Chief Executive Strategic Plan - National Commissioner	Waikato rooms
12:30 pm to 1:15 pm	Lunch	Karepiki room
1:45 pm	Assemble in the Waikato Room	
1:30 pm to 5:30 pm	Outdoor Activity <i>Tea breaks will be available during the outdoor activity</i>	
6:30 pm to 6:15 pm	Free Time	
6:15 pm to 7:00 pm	Happy Hour with the Chief Executive National Commissioner	
7:00 pm to 8:30 pm	Dinner	Karepiki room
8:30 pm to Midnight	Evening Activity	

GOODNIGHT!!!

REACH 2004 PROGRAMME



Work and Income NZ
te hirainga Karangata

Friday 4th June DAY TWO

7.00 am to 9.00 am	Breakfast Checking out	Pavilion
9.00 am	Start Up and Feedback Chief Executive	Waikato room
9.15 am to 10.45 am	Purpose Strategies Values Christine Rankin, Chief Executive Ray Smith, National Commissioner	
10.45 am to 11.15 am	Tea Break	Karapiti room
11.15 am to 12.15 pm	Leadership Christine Rankin, Chief Executive	Waikato room
12.15 pm to 1.00 pm	Lunch	Karapiti room
1.00 pm to 1.45 pm	Regional Teams	Break out area
1.45 pm to 2.30 pm	Questions	Waikato room
2.30 pm to 2.45 pm	Close	

TRAVEL SAFETY/HOME