

QUEENSLAND PRISON INDUSTRIES:
A REVIEW OF CORRUPTION RISKS

August 2000

Research and Prevention Division

CJC Mission:
To promote integrity in the Queensland Public Sector and an effective, fair and accessible criminal justice system.

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Dear Sirs

In accordance with section 26 of the *Criminal Justice Act 1989*, the Commission hereby furnishes to each of you the report *Queensland Prison Industries: A Review of Corruption Risks*.

Yours faithfully

Brendan Butler sc
Chairperson

FOREWORD

This report presents the results of our recent review of corruption risks within Queensland prison industries. As part of this exercise, we were also able to obtain a valuable insight into the wider operations of the Department of Corrective Services (DCS).

The two case studies outlined in chapter 3 of this report were the catalyst for conducting the review, but its primary purpose was not to investigate past or present corruption. Rather, the aim was to ensure that preventative steps are being taken to limit the opportunity for any future corruption.

While there is no evidence that corruption of the type described in the case studies is rife within prison industries, allegations relating to prison industries have been made over the years with sufficient regularity to lead the CJC to take a proactive approach to reducing the incidence of such allegations.

Although the review revealed some corruption risks, these must be viewed in the context of a department that has undergone major upheavals within its recent history. Not only has its accounting system changed fundamentally with the introduction of the SAP/R3 model (as has happened in all public sector bodies), but it has recently been converted from a commission and government-owned corporation back to a department. In this regard, the DCS was required to adopt certain public service policies and procedures that are not required of the other organisational entities. The process of implementing relevant

and appropriate policies and procedures is continuing and it is hoped that recommendations contained in this report will assist in this task.

We hope that this report will be of general interest to senior management in the Queensland public sector, as well as to DCS managers. It addresses management, operational and corporate governance issues that are relevant to public sector bodies. Reducing corruption risk within any agency by the introduction of and adherence to best practice is in the long-term interest of the agency, its officers and ultimately the people of Queensland.

A review of corruption risks within an organisation can only be effective if it is driven by senior management. In this regard it is fortunate that within the DCS the necessary ethos is encouraged and promoted by senior management. The recommendations in this review have been embraced by the DCS, which had significant input in settling the final recommendations so that they were practical and workable within the corrections environment. The DCS has already commenced to implement the recommendations. The CJC will provide what assistance it can in this process and will monitor and report on progress as required.

Brendan Butler SC
Chairperson
Criminal Justice Commission

ACKNOWLEDGMENTS

The CJC received extensive assistance from senior management of the Department of Corrective Services, in particular:

- Mr Frank Peach, Director-General
- Mr Ian Stewart, Director of Internal Audit, and his staff
- Mr Steve Gray, Executive Director Custodial Corrections
- Mr Randall Wright, Director, Prison Industries.

Considerable assistance was also provided by the General Managers and industry staff at

Lotus Glen, Townsville, Rockhampton, Wolston, Brisbane Women's, Sir David Longland, Numinbah, Woodford, Palen Creek and Darling Downs Correctional Centres.

The project team who helped prepare this report comprised Ms D. de Graaff (project manager), Ms M. Burgess, Mr F. Richardson and Ms T. Stenzel (project administration officer).

The photographs that appear on the cover were supplied by the Department of Corrective Services.

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EXECUTIVE SUMMARY

What this report does

This report delivers the findings of a misconduct-risk review by CJC officers of state-operated correctional centres. The report focuses on identifying corruption risks in prison industries under the administration of the Department of Corrective Services (DCS) and on recommending ways to reduce those risks.

What this report does not do

This report does not deal with broader issues about the role and rationale of prison industries, except where these issues relate to corruption prevention. Industries have an important role to play in the correctional system. The aim of this exercise is to promote improvements in their administration, not to call their role into question.

As the CJC's jurisdiction is limited to state-operated correctional facilities, this report does not attempt to present a comprehensive overview of prison industries in Queensland, or to assess the extent to which the issues canvassed in this report are relevant to privately operated prisons. Community custody facilities are also excluded because few, if any, conduct activities that could be defined as industries within the definition adopted for this report (see below).

What is a prison industry?

Prison industries may be said to encompass any work performed by inmates of a correctional centre. However, this is too broad a definition for the purposes of this report. As our investigations indicate that official misconduct and corruption risks in prison industries are

greatest in those activities with a *commercial* element, we adopted the following definition:

A prison industry encompasses any activity that uses prisoner labour to produce a marketable product or service that is *not* owned by the prisoner/s.

This definition excludes many activities defined as work within the Queensland correctional system for which prisoners receive remuneration and activities such as art, handicrafts and hobbies, the products of which are usually the property of the prisoners who made them.

The Queensland correctional system operates a wide range of prison industries, from the traditional prison farms, tailor shops, print shops, laundries and bakeries to more recently introduced industries such as plant nurseries, metal fabricating and food services. In 1998–99, sales from prison industries totalled \$9.9 million.

Information sources used

We have drawn upon information from the CJC complaints database, CJC investigations, consultations and observations by CJC staff at various correctional centres, and written and oral advice from DCS officers.

Context of the review

Over the last 11 years, the Queensland correctional system has been subjected to major changes, including corporatisation and de-corporatisation, serious over-crowding in prisons, numerous organisational restructures and some spectacular escapes by prisoners. The findings of this review should be considered in

What is a misconduct-risk review?

A misconduct-risk review is a CJC initiative undertaken with the cooperation of the public sector agency concerned. It is designed to help an agency reduce or avoid corruption by enhancing its administrative performance, controls and accountability. These reviews normally follow on from cases where allegations of official misconduct have been investigated and procedural or administrative deficiencies have been identified.

The review undertaken for this project was not conducted in the manner of an investigation and was not aimed at eliciting evidence of misconduct or corruption. Where anecdotal information was provided, we did not seek corroborative evidence. We considered this approach was essential to ensure the flow of information and the cooperation of staff. Some of the information we were given has been included here only in anonymous and general terms in order to protect sources.

the context of this environment of change and on the consequent demands placed on the department.

Findings of the review

The review revealed numerous areas relevant to the operation of prison industries where the DCS is exposed to corruption risks. They may be grouped as follows:

- **Corporate governance issues**
See recommendations 1 and 3.

- **Management issues**
See recommendation 2.
- **Operational issues**
See recommendation 4.

Where to from here?

The DCS has already taken steps to deal with the risks and issues highlighted in this report. There is still much to do. The CJC is committed to enhancing public sector capabilities in the area of corruption prevention and will work with the DCS to develop suitable strategies.

RECOMMENDATIONS

- 1 That** the DCS develop and distribute a comprehensive and integrated policy on corruption prevention. This policy should explain the DCS position on corruption, set aims and objectives, and draw together existing policies and procedures that relate to corruption prevention. The policy must clearly define who is responsible for preventing and detecting corruption and who will implement different aspects of the corruption prevention plan.
- 2 That**, in relation to prison industries in particular, the DCS address the issues of role clarification (especially of the Director, Prison Industries), standardised business planning techniques, improved financial management reporting and improved direct supervision practices.
- 3 That** the DCS review and develop further the elements of its corporate governance framework, listed below, with the aim of improving its performance in this area and reducing its vulnerability to corruption:
 - code of conduct
 - conflicts of interest
 - risk management
 - internal reporting systems
 - the audit function
 - learning from corruption and investigation outcomes.
- 4 That** the DCS review each of the following operational areas, in line with best practice, with the aim of strengthening the internal control environment for each activity:
 - operational and financial reporting
 - contracts for the sale of prison industry goods and services
 - price setting
 - purchasing
 - asset and inventory management
 - accounts receivable
 - surplus, scrap and waste
 - staff purchases from industries
 - cash handling
 - inmates and industries.

ABBREVIATIONS

ANAO	Australian National Audit Office
CJC	Criminal Justice Commission
CSI	Correctional Service Industries, New South Wales
DCS	Department of Corrective Services, Queensland
ICAC	Independent Commission Against Corruption, New South Wales
Kennedy Inquiry	Commission of Review into Corrective Services in Queensland 1988 (J.J. Kennedy, Commissioner)
QAO	Queensland Audit Office
QCORR	Queensland Corrections, a government-owned corporation and provider of correctional services
QCSC	Queensland Corrective Services Commission (now the DCS)
Peach Review	Queensland Corrective Services Review 1999 (F.J. Peach, Chief Executive)
SAP/R3	a computerised integrated data system currently in use

INTRODUCTION

Prison industries play an important role in the management and operation of Queensland's correctional facilities — they provide activities for inmates, assist with rehabilitation by giving some prisoners the opportunity to acquire vocational skills, and help reduce the cost of running prisons. From a corruption-prevention perspective, however, prison industries present some major challenges for correctional administrators.

Substantial human and financial resources are tied up in the establishment and operation of prison industries, which often produce goods and services of considerable value. Hence, there are likely to be greater opportunities than elsewhere in the prison system for staff to engage in corrupt practices. The heavy demands placed on administrators and the priority given to security and prisoner management can lead to these risks being overlooked.

In addition, the nature of prison work means that staff depend upon one another for support and protection, especially in times of emergency. Prisoners too are reliant upon staff for their safety and security, access to services and communication with the outside. It is likely that these types of relationships discourage the reporting of improper practices to management or outside bodies such as the CJC, because of the obvious consequences for those who alienate their fellow workers or custodians.

INVOLVEMENT OF THE CJC

This report has been prepared as part of an initiative by the CJC to assist the Department of Corrective Services (DCS) to reduce its risk exposure in this area.

The original impetus for the report came from CJC investigations at two correctional centres in response to allegations of significant official misconduct in industries at those centres. It was believed that the alleged misconduct had been going on undetected for several years.

In conducting these investigations, it became apparent that industries in other correctional facilities in Queensland could be vulnerable to similar practices. A Project Team staffed by

officers of the Research and Prevention and Official Misconduct Divisions was constituted to assess the adequacy of existing controls over the operations of prison industries and, if necessary, make recommendations for change. This report presents the results of that exercise.

JURISDICTION OF THE CJC

Section 29(3)(d) of the *Criminal Justice Act 1989* invests the CJC's Official Misconduct Division with the authority to investigate cases of alleged or suspected official misconduct by persons holding appointments in units of public administration. Another important function of the division, exercised in conjunction with the Research and Prevention Division, is to offer and render advice or assistance, by way of education or liaison, to units of public administration concerning the detection and prevention of official misconduct (s. 29[3][e]).

This report is the product of the exercise of the two functions referred to above, with the primary focus being on the second — the offering and rendering of advice.

The CJC assumed jurisdiction over the Queensland Corrective Services Commission (QCSC) — the administrative body responsible for corrections in Queensland — on 8 December 1997 when the QCSC was included in the definition of the term 'unit of public administration' under section 3A(1) of the Criminal Justice Act. The CJC's jurisdiction over Queensland Corrections (QCORR) — the agency that operated the state-run correctional centres — dates from 1 September 1997 when it commenced operations as a government-owned corporation. Queensland Corrections was deemed to be a unit of public administration under a provision of the *Government Owned Corporations Act 1993*.

On 1 May 1999, the QCSC and QCORR ceased to exist as separate entities and their functions were transferred to the DCS where QCORR operates as a business unit. As the DCS is a unit of public administration, the CJC's jurisdiction in corrections has continued.

The CJC has no jurisdiction over officers working in privately operated correctional facilities.

What is official misconduct?

Official misconduct, defined in section 32 of the Criminal Justice Act, is corrupt or other serious misconduct by a public sector officer relating to the performance of the officer's duties. The conduct must:

- be dishonest or lack impartiality, or
- involve a breach of trust, or

- be a misuse of officially obtained information.

The conduct must also be serious enough to be a criminal offence or to justify dismissal.

Official misconduct includes conduct by anyone who seeks to corrupt a public officer.

SCOPE OF THE REPORT

The primary focus of this report is on identifying corruption risks in prison industries and on recommending ways of reducing those risks. The report does not deal with broader issues about the role and rationale of prison industries (such as their cost effectiveness, the efficiency of their operations, their role in the training and rehabilitation of prisoners) except insofar as these issues are relevant from a corruption prevention perspective.

The CJC recognises that industries have an important ongoing role to play in the correctional system. The aim of this exercise is to promote improvements in their administration, *not* to call their role into question.

What is a prison industry?

The DCS's Prison Industries Policy¹ defines 'prison industry' as:

prison maintenance work, the provision of services within the prison, the production of provisions and produce for use within the prison, community service work and the manufacture of products and provision of services for out of prison sale or use.

While this definition is suitable for the objects and functions of the DCS, we considered it to be too wide for the purposes of this report.

CJC investigations indicate that official misconduct and corruption risks in prison industries are greatest in those activities with a commercial element — that is, where the output from the activity has a monetary value — rather than in activities producing products or services solely for internal prison consumption.

Therefore, for this report we adopted the following definition of a prison industry:

A prison industry encompasses any activity that uses prisoner labour to produce a marketable product or service that is *not* owned by the prisoner/s.

This definition is similar to the definition of 'commercial industries' used in the DCS's business plan for 1999–2003 (p. 7):

Commercial industries are those programs run on a commercial, fee for service basis whether the sale of goods and services is to external clients or the correctional system.

The definition of a prison industry adopted for this report excludes many activities defined as work within the Queensland correctional system for which prisoners receive remuneration — such as maintenance, cleaning, clerical, laundry and kitchen/catering work performed by prisoners solely for internal prison consumption. The definition also excludes activities such as art, handicrafts and hobbies, the products of which are usually the property of the prisoners who made them.

Where information is provided regarding the numbers of prisoners employed in prison industries, only industries within the adopted definition will be included (unless otherwise stated).

What about privately operated correctional facilities?

As the CJC's jurisdiction is currently limited to state-operated correctional facilities, this report does not attempt to present a comprehensive overview of prison industries in Queensland.² Nor is the CJC in a position to assess the extent to which the issues canvassed in this report are also relevant to privately operated facilities. Any references in the report to the Queensland correctional system, therefore, apply only to the state-operated facilities within the system (unless specific reference is made to the privately operated facilities).

Note: The CJC has made submissions to the Parliamentary Criminal Justice Committee and the Government supporting the extension of its

1 This policy was enacted as a Corrective Services Rule under section 20 of the *Corrective Services (Administration) Act 1988* on 16 December 1998.

2 Community custody facilities are also excluded on the basis that few, if any, activities conducted in community correctional centres could be defined as industries within the definition adopted for this report.

jurisdiction to include officers of private entities that operate correctional facilities, on the understanding that the CJC receive adequate supplementary funding. In 1999, the Peach Review recommended the extension of the CJC's jurisdiction.³ This issue is currently under consideration by Cabinet.

SOURCES USED

This project has drawn upon information from three main sources:

- The CJC's complaints database and the CJC's investigations of alleged official misconduct by staff involved in the management of prison industries.
- Consultations and observations by CJC staff at Lotus Glen, Townsville, Rockhampton, Wolston, Brisbane Women's, Sir David Longland, Numinbah, Woodford, Palen Creek and Darling Downs Correctional Centres. With the help of officers and staff, we assessed the operational and administrative systems common to prison industries. Staff generally had a good awareness of risk exposures and were able to recommend steps to reduce or eliminate this risk.
- Documentary information and written and oral advice provided by officers of the DCS — in particular, the Executive Director, Custodial Corrections, the Director, Prison Industries, and Director, Internal Audit.

A literature search, including an Internet search, failed to produce much relevant material.

METHODOLOGY

This study is an example of a misconduct-risk review. These reviews are cooperative initiatives designed to help public sector agencies reduce or avoid corruption by enhancing their administrative performance, controls and accountability. They normally follow on from cases where allegations of official misconduct have been investigated and procedural or administrative deficiencies have been identified. They are an important corruption prevention function because official misconduct is more likely to flourish in organisations that have poor internal controls or inadequate reporting procedures, and where there is excessive secrecy that may conceal corrupt activities, protect wrongdoers from exposure and victimise or harass whistleblowers.

This type of review goes beyond financial audits to examine issues that could allow official misconduct to occur — such as misuse of power, neglect of duty, criminal acts or omissions, favouritism, harassment and victimisation, and disclosure of confidential information. The review methodology concentrates on areas of organisational risk or vulnerability and areas for potentially improving systems, such as administrative systems for asset management or purchasing and tendering, or policy and procedural systems, which may include ethical guidelines and policies.

The review was not conducted in the manner of an investigation and was not aimed at eliciting evidence of misconduct or corruption. Where anecdotal information was given, we did not seek corroborative evidence. We considered this approach was essential to ensure the flow of information and the cooperation of staff. Some of the information we were given has been included here only in anonymous and general terms in order to protect sources.

STRUCTURE OF THE REPORT

CHAPTER 2 provides some historical background for the report. It also gives a brief summary of the legislation and policy relevant to the operation of prison industries in Queensland and their accountability structure within the DCS.

CHAPTER 3 identifies the various elements required for an organisation to be at risk of corruption. Two case studies of CJC corruption investigations are presented and analysed to identify opportunities for risk reduction in the prison-industry environment.

CHAPTERS 4 AND 5 present the information obtained through our misconduct-risk review of prison industries in Queensland correctional centres. Particular reference is made to the regulatory requirements and standards of best practice where available. Chapter 4 focuses on corporate governance and management; chapter 5 on the operational areas where corruption risks have been noted.

CHAPTER 6 outlines the actions the DCS has already taken in response to identified corruption risks in prison industries and the information obtained through this review.

³ Queensland Corrective Services Review 1999: see recommendation 36.

HISTORY AND REGULATORY BACKGROUND

HISTORY OF PRISON WORK

Since the commencement of the use of imprisonment as a form of punishment, work for prisoners has served a variety of purposes depending upon the prevailing ideology regarding the functions of prisons and the purposes of imprisonment. Those purposes have included:

- inmate management — keeping prisoners occupied and ‘out of trouble’
- disciplinary punishment — part of the penalties of prison life
- deterrent punishment — hard, boring and monotonous work to deter future offences
- institutional operations — maintenance of infrastructure and routine services
- rehabilitation — provision of work experience and occupational skills
- commercial profit — competitive advantage in commodity production
- cost reduction — costs of housing and providing services to prisoners
- public interest — performing labour for community purposes (White 1999, p. 247).

It should be noted that not all of the purposes of prison work listed by White are supported by current DCS prison industries policy. In particular, the DCS does not support the suggestion that the use of prisoner labour gives it a competitive advantage in commodity production. The use of prisoner labour in the production of goods and services for commercial sale has been the subject of considerable debate and disagreement both in Australia and overseas. However, it is well established that there are significant costs and inefficiencies associated with the use of prisoner labour in commercial production that counterbalance the savings from low prisoner remuneration rates.

Work as punishment

Until the end of the 19th century, prison work was conceived and designed primarily as punishment. Hard physical labour was introduced as a punishment in England by an Act of Parliament in 1779. Prison work was

characterised by hard, repetitive labour and was often deliberately purposeless, as illustrated by the use of devices such as the crank and the treadmill. Work as punishment was officially abolished in England and Wales by the Prisons Act of 1898.

In 1899, the Queensland Parliament enacted the *Criminal Code*⁴ — a comprehensive statement of the law at that time on indictable offences in Queensland. Much of this law was ‘inherited’ English law.⁵ Section 18 of the Code provided a range of punishments on conviction of a criminal offence, including:

- imprisonment with hard labour
- imprisonment without hard labour
- solitary confinement
- whipping (males only).

‘Hard labour’ was subsequently variously defined by statute. Under section 30 of the *Prisons Act 1958* it was defined as:

any manual, industrial or trade labour of the type performed in the community.

This definition excluded the concept of meaningless work, which had previously been in favour in the English penal system. The section further provided:

Adequate means for enforcement of hard labour shall be provided in every prison.

The Act (s. 32 [b]) also created an offence against discipline where any prisoner:

is idle, careless, or negligent at work, refuses to work or wilfully mismanages his work.

It was not until 1988 with the passing of the *Corrective Services Act 1988*, which repealed the Prisons Act, that ‘hard labour’ as a punishment was abolished in Queensland. At the time, the change brought by the Corrective Services Act was heralded as a major reform of the Queensland prison system.

While work no longer formed part of the punishment of imprisonment, it was still a

⁴ A code is a statute that provides a complete statement of the law — both statute law and case law — on a subject at the time of its enactment (Morris et al. 1988).

⁵ Through the operation of the Australian Courts Act 1828 (UK).

required activity. To encourage prisoner participation in work, the QCSC's *Philosophy and Direction* document stated, 'Where offenders refuse to work, no rewards will be offered above basic entitlements' (QCSC n.d. p. 19).

This policy position was supported by section 59 of the Corrective Services Act, which is concerned with prison programs. The section defines 'approved compulsory programs' and 'approved voluntary programs' as meaning any work or other activity, whether within or outside of prison, prescribed under the corrective services rules as an approved program. Section 59(2) provides that prisoners may be ordered to participate in an approved compulsory program. It also provides the following:

- prisoners who participate in an approved program shall be paid
- prisoners who are not diligent or of good conduct while participating in an approved program may lose all or part of their remuneration entitlements
- some of a prisoner's remuneration may be withheld to give to the prisoner on release to assist with resettlement
- for deductions to be made from a prisoner's remuneration to pay compensation orders or any other purpose prescribed by regulation.

So, while work as punishment was officially abolished in Queensland in 1988, work remained compulsory for sentenced prisoners in Queensland prisons. This is also the case in all other Australian jurisdictions (White 1999).

The relationship between unemployment and offending

Studies have shown that it is difficult, if not impossible, to identify the personality traits that predispose a person to criminal behaviour. However, one personal characteristic that shows a high correlation with criminal offending is a poor employment history (Braithwaite 1980, p. 27).

Although information on the employment status of prisoners has not been routinely collected in any of the Australian jurisdictions, recent Victorian Department of Justice data recorded that 62 per cent of prisoners reported being unemployed at the time of incarceration.⁶ In Queensland, some data are collected on the employment status of prisoners, but owing to inconsistencies in the method of collection, its

reliability is in some doubt.

Numerous overseas studies consistently show that prisoners who find stable employment following their release from prison have about half the probability of being convicted of further offences compared with those who are unemployed (Braithwaite 1980, p. 12). The logical extension of these findings is that prison work can provide experience, training and the opportunity for prisoners to develop a work habit that will assist them to gain stable employment following their release, thereby reducing their risk of re-offending.

HISTORY OF PRISON INDUSTRIES

Until very recently, a variety of 'traditional prison industries' operated in Australian prisons — bookbinding, printing, mat making, brush making, metal/tin shops, clothing, laundries, leatherwork/bootmaking etc. Table 1 (next page) reproduces data from a 1978 survey of Queensland prison industries (Braithwaite 1980).

Braithwaite also observed (pp. 110–111):

While considerable numbers of prisoners are involved in non-industry work such as cooking, sweeping, construction, organising stores, and the like, most prisoners are doing nothing for most of the time ... The machines used in the tailor, metal and leather shops at Boggo Road are so outdated that it is doubtful whether many work skills are being taught which could be applied to the more advanced technologies used in outside industry ... By and large industries do not seem to have been established with an eye to the marketability of job skills learnt. In the case of the saddlery shop, for instance, the rationale seems to have been quite the opposite. It was established because of the difficulty of finding outside people to do the work required.

There do not appear to have been any further studies or reports into the operation of industries in Queensland correctional centres since Braithwaite's study in the late 1970s and the commencement of operations of the QCSC on 15 December 1988. The QCSC inherited a correctional system with essentially the same prison industries as had been noted by Braithwaite some 10 years before.

The Queensland Prison Service *Annual Report 1988* (page 38) reported the following activities under the heading 'Prison Industries':

⁶ Victorian Government submission to the Australian Government in response to questions raised by the Committee of Experts of the International Labour Organisation, unpublished draft as at 3.5.2000.

Table 1 — 1978 survey of Queensland prison industries

Manufacturing industries			Primary industries		
		\$			\$
Bakery	Wacol	135 393	Dairy (milk sales)	Wacol	166 793
	Boggo Road	52 020		Rockhampton	60 301
	Rockhampton	32 526		Numinbah	35 926
	Townsville	22 876		Palen Creek	30 413
Laundry	Townsville	130 437	Woodford	10 490	
	Boggo Road	53 091	Townsville	6 857	
	Rockhampton	50 831	Piggery	Rockhampton	49 406
Tailor Shop	Boggo Road	70 664		Wacol	41 330
	Townsville	56 786		Palen Creek	22 162
Boot shop	Boggo Road	50 606		Numinbah	20 321
	Townsville	349	Townsville	7 902	
Metal and tin shop	Boggo Road	9 139	Vegetables	Wacol	14 861
	Townsville	5 898		Townsville	4 262
	Wacol	7 198		Woodford	3 659
Carpenters shop	Boggo Road	15 220		Rockhampton	1 746
	Wacol	10 069	Numinbah	1 050	
	Townsville	4 510	Cattle sales (mainly dairy)	Rockhampton	6 794
Saddlery	Boggo Road	14 229		Numinbah	5 616
	Paint shop	Boggo Road		1 780	Wacol
Brick making		Wacol		60	Townsville
					Palen Creek
			Woodford	487	
			Dog sales	Wacol	330
			Sawmill	Numinbah	821
			Honey	Numinbah	41

Source: Braithwaite 1980.

- extension of the bookbinding industry to Wacol Prison and the construction of new premises
- construction of a large plant nursery at the rear of Brisbane Prison
- tailor shops at Brisbane (men's and women's divisions) and Wacol producing prisoner clothing and hospital linen
- metal shops producing steel ladders and 10 tonne trailer towing attachments for Telecom (now Telstra)
- Wacol prison securing a large contract with the Department of Harbours and Marine for the manufacture of a pontoon and aluminium work platforms
- Wacol and Woodford prisons manufacturing and installing log form playground equipment for schools and kindergartens and shelters and picnic tables for the Brisbane City Council
- laundries continuing to service local government departments and hospitals
- prison bakeries continuing to supply hospitals with bread and other speciality bakery products.

Prison farms also operated at the Wacol, Rockhampton, Numinbah, Palen Creek, Townsville, Woodford and Lotus Glen Correctional Centres (Queensland Prison Service 1988).

The first annual report of the QCSC reported income of \$343 955 generated from prison industries (QCSC 1989).

In 1989, the first year of operation, the new QCSC Board commissioned Management Consultants Touche Ross & Co. to assist in the preparation of a business strategy and development plan for prison industries. The resultant report (Touche Ross & Co. unpub.) contained recommendations relating to:

- a policy framework that would foster prison industries
- the organisational structure defining the roles of the Central Office Marketing Unit and of each production facility
- the investment philosophy required to optimise industry development
- the training and support needed to facilitate change within the organisation

- a marketing strategy
- an implementation strategy.⁷

Of particular relevance to the focus and findings of this report was the Touche Ross recommendation for the establishment of a head office prison industry marketing unit, which, among other things, was to be responsible for:

- identification of new industry opportunities and income-generating concepts
- tendering and selling of prison industries products and services
- the coordination, allocation and scheduling of product production and contracts
- administration and accounting for prison industries.

Each correctional (or production) centre was to be responsible for:

- internal programming of product production and contract works
- training and management of prisoners and resources to achieve quality standards and scheduled milestones
- delivery of finished product to customers.⁸

The QCSC commissioned further reports on prison industries in the following years. These included:

- a report from Coopers and Lybrand Consultants on the operations of prison farms (June 1990)
- an internally managed Industry Development Project (1991)
- the development of individual correctional centre plans, which included planning and development of prison industries at the micro level
- a report from KPMG (July 1998), which reviewed the profitability, systems and business development opportunities for the industries attached to Rockhampton Correctional Centre.

These reports and their recommendations did not deal with corruption prevention, which is the concern of this review.

Current industry models

There are various models that may be adopted for prison industry joint ventures with the private sector. For this discussion, it is useful to use the system of characterisation used by

Sexton (1995):

- *Manpower model* — the prisoners are employed by the prison, and their labour is charged out to the private sector joint venture partner
- *Employer model* — the private business directly supervises and employs the prisoners while the prison provides the labour force and the location for the operation
- *Customer model* — the company contracts the prison to provide a finished service or product at an agreed price. The correctional industry is fully owned and operated by the correctional authority, which is also the employer.

In Queensland, the predominant form of prison industry model is the customer model. However, there have been, and still are, some prison industries that operate on the manpower model or variations of the manpower and customer models. Current DCS prison industry policy recognises the options available for the structuring of prison industries:

It is envisaged that some prison industries will be financed, owned and operated by the prison operator while other industries will be conducted on a joint enterprise basis with private sector producers or on a supply of location and labour basis only to a private sector producer. (DCS Prison Industries Policy, p. 2)

Current industries

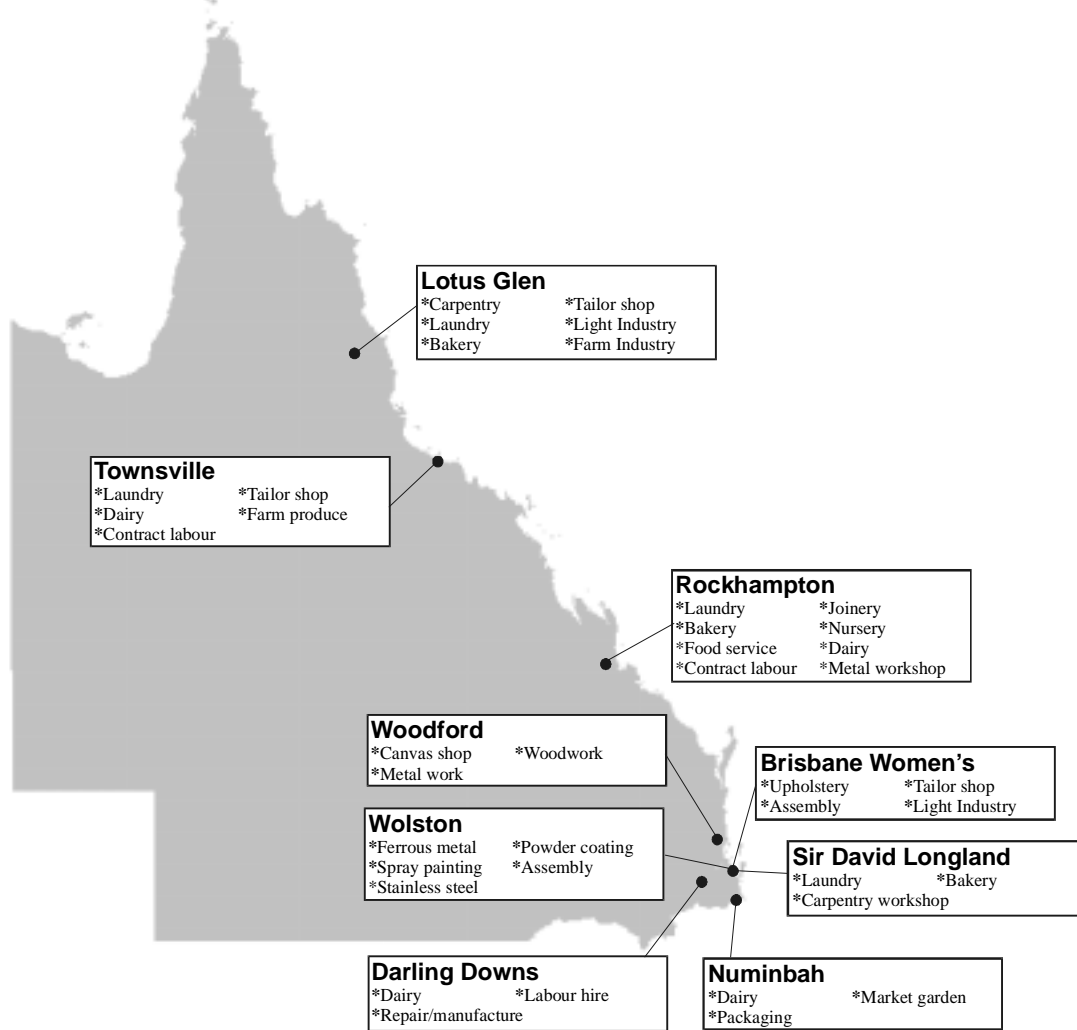
Figure 1 (next page) shows the various industries currently operating in the Queensland correctional system that were considered for this review. Figure 2 shows the budgeted gross revenue for prison industries in each of the correctional centres considered.

According to the 1998–99 DCS annual report, sales from prison industries totalled \$9.9 million — a 7 per cent increase over the previous year. Of this production, 26 per cent involved sales for internal prison needs (DCS 1999b, p. 25), which is consistent with the department's philosophy of operating 'industries within the prison system. This minimises the cost of operating and maintaining

⁷ See QCSC Board Paper, dated 10 November 1989, entitled 'Prison Industries Business Strategy and Developmental Plan — A Report by Touche Ross' and approved by the Commission Board on 22 November 1989.

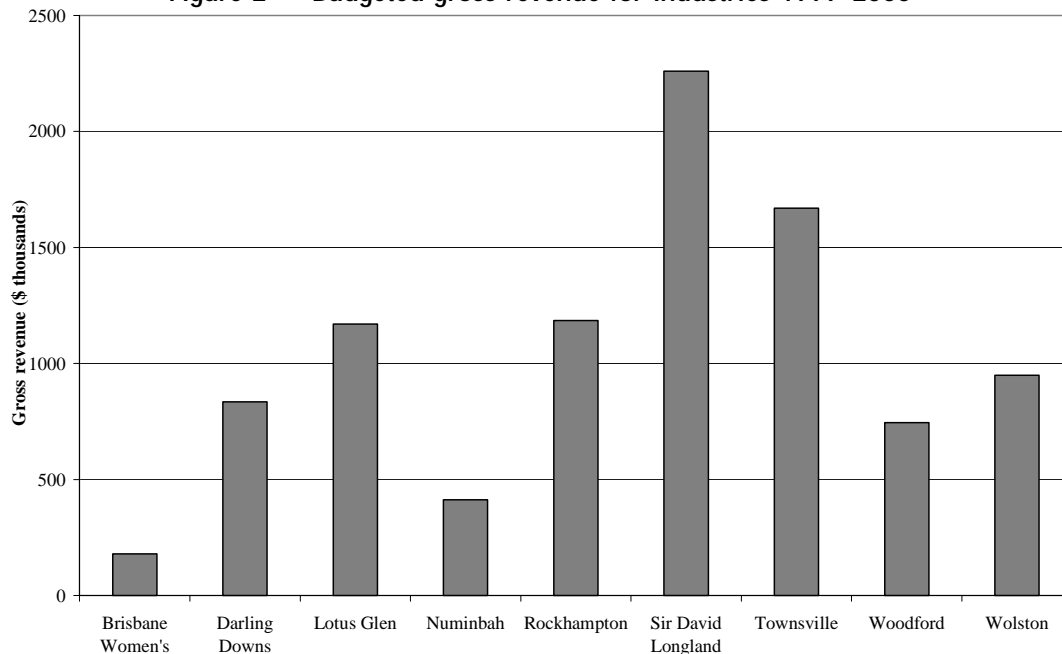
⁸ A copy of the executive summary of the Touche Ross report was attached to a QCSC Board Paper 10.11.89 and approved by the Commission Board 22.11.89

Figure 1 — Map of Queensland prison industries considered in the review



Source: personal communication from the DCS, 2000.

Figure 2 — Budgeted gross revenue for industries 1999–2000



Source: personal communications from the DCS, 2000.

the prison system (DCS Prison Industries Policy, p. 1).

The DCS also reports a total prisoner employment level of 68 per cent (DCS 2000 unpub.). This figure includes both general work activities as well as prison industry employment. Owing to inconsistent data collection by the department, it is not possible to present accurate statistics on prisoner employment at each centre.

POLICY FRAMEWORK FOR REGULATING INDUSTRIES

The current DCS Prison Industries Policy relating to prison industries came into operation in December 1998. The policy covers the following matters:

- the work and rehabilitation obligations of sentenced prisoners
- the duties of prison operators in the provision of work, corrective behaviour programs and education facilities to prisoners
- the function of industries within the prison system.

Paragraph 1 of the policy states:

All sentenced prisoners are expected to participate diligently in all corrective behaviour programs and activities as directed by their sentence management plan as and when such are offered. Every sentenced prisoner is expected to perform diligently all work assigned to that prisoner. Failure or refusal to participate diligently in any directed program, educational activity or assigned work may result in disciplinary action and/or loss of privileges.

The policy commits to the objective of having work available to all prisoners, but states an expectation that a minimum of 80 per cent of sentenced prisoners in any prison work at least 30 hours in each week. (It should be noted that the Australian corrections' benchmark for prisoner employment is 65 per cent.)

The policy also directs that literacy, numeracy, pre-vocational training, education to Year 12 standard and corrective behaviour programs shall be treated as equivalent to work time in a prison industry.⁹

A Consultative Committee is also proposed to be established under the policy with representatives from government, business and the community. The committee's function is to 'provide advice on prison industry generally and to advise on which prison industries are acceptable to the community'. The

requirement of the policy has not yet been acted upon.

The 1998–99 DCS annual report also says:

Where ever possible, correctional industries seek to replace goods and services that are imported into the country and to produce goods and services for use within the correctional system (DCS 1999b, p. 25).

Prisoner remuneration rates

Corrective Services Rule 124 *Prisoner Remuneration Payments* creates four position levels depending upon experience, responsibility, skill and supervision required. Prisoners are entitled to a 'base rate' and may, in certain circumstances, be paid an additional 'incentive bonus'.

Incentive bonuses are given at the absolute discretion of the General Manager of a centre or his or her delegate. 'Unemployment allowance' is paid to prisoners who are medically unfit for work or for whom a position is not available. Prisoners who refuse to work do not receive the unemployment allowance.

Corrective Services Rule 216 *Prisoner Remuneration Rates* sets the base rate for prisoner remuneration for the four position levels at between \$2.04 and \$3.99 a day. It also provides for incentive bonuses at up to 100 per cent of the base rate for each level. The rule specifies that the maximum remuneration that can be paid to a prisoner is \$55.86 a week. The rule also sets the unemployment allowance for prisoners at \$1.22 a day for a maximum of five days a week. The current rates of remuneration have been operative since 1 July 1998.

ACCOUNTABILITY STRUCTURE

The Director, Prison Industries, reports to the Executive Director, Custodial Corrections. Under the business plan, the Director, Prison Industries, is responsible for achieving the following goals:

- effective operation of the interface with the correctional centre management and regimes to achieve industry objectives
- increased vocational training

⁹ Prisoners are allowed up to six hours a week, unless they are required to attend a full-time program under a sentence management plan, such as the Sex Offenders Treatment Program, in which case the whole of the class time is treated as equivalent to work time in an industry.

- opportunities for inmates
- increased employment opportunities for prisoners
- reduced costs of operations
- effective management and development of staff
- consistent application of policy in QCORR industries
- facilitating improved performance by selecting appropriate prisoners for employment positions.

As figure 3 shows, all Industry Managers/Advisers in correctional centres are directly accountable to the Director, Prison Industries. In effect, this structure requires both the Industry Managers/Advisers and all industry staff to report directly to the Director, Prison Industries, on a day-to-day basis, rather than to the General Managers of their centres.

However, under the prison farm structure, the farm supervisor reports directly to the General Manager regardless of whether the farm is attached to a larger centre, such as is the case with Lotus Glen, Townsville or Rockhampton, or is a stand-alone farm facility, such as Palen Creek or Numinbah. In these cases, the Director, Prison Industries, has a consultative role with the General Manager in developing industries for the farms.

This organisational structure is designed to achieve the goal of 'effective operation of the interface with the correctional centre

management and regimes to achieve industry objectives' through the strategy of 'industry participation in centre management teams'.

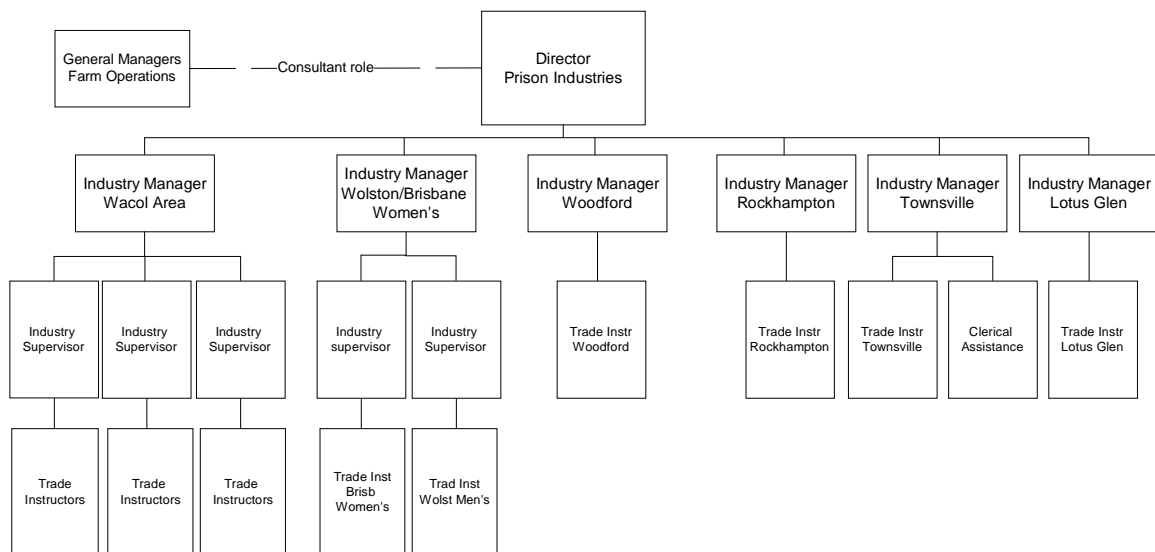
In theory, the Director, Prison Industries, has complete autonomy in determining what industries will be developed and where they will operate, and liaises with the General Managers of correctional centres through the Industry Managers/Advisers, who are often members of the correctional centre management teams.

However, in practice, it is essential that proposals for industries take account of the security and management regimes of the individual correctional centres. In addition, General Managers have complete autonomy over correctional centre budgets, control decisions about payment of staff overtime (including industry staff) and control the availability of prisoner labour for industries. So, in reality the Director, Prison Industries, requires the support and continuing cooperation of the General Manager of a centre for any proposed industry at that centre to proceed and to operate effectively.

The Director, Prison Industries, requires the Industry Managers/Advisers to provide monthly reports against each of five key indicators in the industry business plan:

- revenue — total earnings for industries and the current budget
- gross margin — sales revenue less direct production costs

Figure 3 — DCS's accountability structure for prison industries*



Source: DCS 1999a, p. 3.

Note: * In July 2000, this structure changed. See 'Role of Director, Prison Industries' in chapter 4.

- gross margin to sales ratio — compares the gross margin with sales volume
- formalising commercial arrangements — clearly defining the rights and obligations of parties in written contracts
- ratio of prisoner wages to revenue.
- cost reduction — costs of housing and providing services to prisoners
- public interest — performing labour for community purposes
- institutional operations — maintenance of infrastructure and routine services.

Outside of these reporting relationships, the Director, Prison Industries, has no dedicated professional or administrative staff support. Support exists within the Custodial Directorate in Central Office.

KEY POINTS

Work for prisoners has always been a feature of prison life. Initially, work was used as a form of discipline within the prison system or was considered to be one of the penalties of prison life. In recent times, prison work has assumed a less punitive function, with most Australian jurisdictions committed to prison work fulfilling objects such as:

- rehabilitation — provision of work experience and occupational skills

While the 'hard labour' provisions of the *Criminal Code* were abolished in 1988, work remains a required activity for prisoners in Queensland.

The Queensland correctional system operates a wide range of prison industries, from the traditional prison farms, tailor shops, print shops, laundries and bakeries to more recently introduced industries such as plant nurseries, metal fabricating and food services. In 1998–99, sales from prison industries totalled \$9.9 million.

The Director, Prison Industries, is the DCS officer responsible for the operation and development of industries in Queensland correctional facilities.

INDUSTRIES AT RISK

This chapter examines the factors required to be present in a workplace to increase the organisation's vulnerability to corruption. Two case studies based on CJC investigations of allegations of corruption in prison industries are also described.

THE CORRECTIONAL ENVIRONMENT

The development and operation of prison industries is a direct product of:

- legislation
- government policy
- corrections policy
- corrections culture
- political environment
- economic environment
- community attitudes.

These factors, at various times and in varying degrees and combinations, have shaped the types of prison industries that are established and their development. There are also many internal prison environmental factors that inhibit the evolution of successful, efficient prison industries, including:

- punitive attitudes of correctional administrators about what conditions and opportunities should be available to prisoners
- restrictive government policies preventing the development of prison industries that may compete with private commercial enterprises
- an unskilled and transient workforce
- prison routines that limit the out-of-cell time of prisoners and their movement within the prison
- low rates of pay for prisoners
- the conflict between technological innovation and maximising prisoner employment rates.

Inefficient prison industries, in turn, contribute to prisoner unemployment, because invariably inefficient or unprofitable prison industries are eventually closed down. This has been particularly so in recent years where there has been an increased emphasis on profitability,

viability, effectiveness and efficiency in all areas of government activity. However, the pressure upon correctional administrators to meet performance measures such as prisoner employment levels can contribute to inefficiency by forcing more people into workplaces than are required.

It is important to understand the influence and effect of these factors on the operation of prison industries in order to appreciate some of the difficulties under which correctional staff working in prison industries must operate. As will be seen in the discussions later in this chapter about the case studies and site visits, pressures on staff working in inefficient workplaces with an uncertain future increase the risk of corruption in the workplace.

A SYSTEM IN FLUX

Over the last 11 years the Queensland correctional system has been subjected to considerable change and has been affected by numerous critical incidents. In December 1988, the QCSC assumed responsibility for corrections in Queensland from the former Prisons Department. During its more than 10 years of operation, the QCSC and (more importantly for this discussion) its staff, experienced:

- corporatisation of corrections in 1997
- de-corporatisation and return to departmental status in 1999
- dramatic growth in prisoner numbers resulting in overcrowding in correctional facilities
- numerous organisational restructures
- one Public Sector Management Commission review
- a major CJC inquiry in 1991
- a number of spectacular escapes by prisoners resulting in internal investigations (in addition to police investigations) and the consequent sacking or release of officers
- numerous legislative reviews
- two five-yearly reviews.

When organisations are experiencing change at the pace of the Queensland correctional system over the past decade, they may become

more vulnerable to corruption. Staff, distracted by the process of implementation of organisational change, may not give sufficient time and attention to the development of adequate controls.

In the case of the DCS, these changes have involved substantial restructuring of internal processes and systems, due to the reversion of the QCSC and QCORR to a public service department as well as recent changes to public sector financial reporting requirements.

The findings of this review should be considered in the context of this environment of change. In particular, the CJC recognises the additional demands on the DCS during the change process and the DCS's need to give priority to particular issues and activities during this time.

THE CORRUPTION EQUATION

Corruption is the exploitation of public office for personal gain (Grabosky & Larmour 2000). As with many other crimes, the true level of corruption — in both the government and private sectors — is simply not known. It is often a low visibility phenomenon and is not easily measured.

Corruption can take many forms — bribery, extortion, embezzlement, fraud, conflicts of interest, abuse of power for institutional ends — and it can range in seriousness from merely 'cutting corners' to multi-million dollar fraud. In Queensland, lack of impartiality, breach of the community's trust, and improper dissemination of information are also encompassed by the definition of official misconduct (see page 2).

Literature on corruption often focuses on the factors that need to be present in a work environment to create the potential for corruption to occur. This analysis can be reduced to an equation — the corruption equation:

$$\text{Target} + \text{Access \& Opportunity} + \text{Motive} = \text{Corruption risk}$$

For corruption to occur, all of these elements need to be present and acted upon. Accordingly, it is essential that organisations understand, and can recognise, the elements of the corruption equation, so that prevention measures can be effected.

Targets

Prison industries are rich in property targets. As for any commercial enterprise, cash and payments, inventory, portable plant and equipment are available with varying forms of security protection. It is clear that the higher the security level of a correctional centre, the higher the security given to the assets and inventory associated with a prison industry in that centre.

Access and opportunity

Correctional industries provide the public sector correctional system with an entree to the environment of the private sector with its usual commercial benefits and risks. This is a unique area of the correctional system, as it offers the opportunity to acquire valued resources in an environment where managers have wide-ranging discretion. Corruption opportunities are not distributed evenly across industries or correctional centres, nor even within correctional centres.

The case studies and assessments on which this review is based reveal that, despite Queensland correctional authorities having knowledge about the availability of corruption opportunities — where risks were exposed through investigations and routine audits — insufficient action was taken to reduce them.

Motivation

Motive is the 'why' behind corruption. It is often the most uncomplicated element of the corruption equation. The motive may be greed, hate, revenge or special needs arising from the stress caused by personal problems, as can arise, for example, where people live beyond their means or are confronted with extra bills for medical treatment, or have incurred gambling debts.

Organisations need to be equipped to recognise work-related pressures and stresses on staff that can make them vulnerable to corruption — so called 'red flags'. It may not always be possible to eliminate pressures and stresses as they affect individuals, but it is important to have strategies that either:

- (a) minimise the effects on staff, or
- (b) minimise access by vulnerable staff to property or other targets.

CASE STUDIES

When all the elements of the corruption equation come together — that is, when an individual has motive and perhaps the power to influence criminal behaviour in others — an organisation becomes prone to corruption by its officers.

The following two cases, based on CJC investigation files, indicate how targets, access and opportunity, and motive can come together to create an environment where it is possible for serious official misconduct to go undetected for a long time.

CASE STUDY A

While investigating another matter related to a Queensland correctional centre, CJC investigators were told that certain correctional officers involved in running a prison industry may also have been involved in improper conduct and corruption.

The industry was a commercially operated enterprise doing work for other correctional centres, government agencies and private businesses. The purpose of the industry was to provide inmates with meaningful work and to develop some skills in a recognised trade, which could be used to gain employment on release.

The allegations related to the creation of false invoices, the maintenance of fictitious businesses, the misappropriation of payments intended for the DCS, price rigging, and the receipt of 'kickbacks' from a private business.

Setting the scene

The correctional centre at which Case A occurred had been the subject of numerous adverse reports and allegations since the formation of the QCSC. The centre was one of the older establishments and had several industries operating. At the end of 1990, an internal audit exposed the absence of any business plans for the industries, inadequate internal controls for financial management and the fact that purchasing was taking place outside the financial management guidelines.

Further complaints, mostly anonymous, were received by the then Director of Audit and Investigations regarding irregularities purportedly happening at the centre in various industries and at various times.

The Corrective Services Investigation Unit completed preliminary investigations on the

basis of complaints received. However, the prison industry involving Case A was not included in this investigation. In 1992, an external auditor was brought in to audit the industries and associated aspects of the correctional centre. The auditor found continuing deficiencies in the financial management of industries generally and in the internal controls being used. Again, there was no specific audit of the industry involved in Case A.

The internal audit section of the QCSC audited the centre again in January 1993, but the industry was not included in this audit either. It appears that a view was taken that the industry had been adequately reviewed a couple of months before by the external auditor. In a further audit in 1995, the Manager, Administration and Finance, was asked to explain deficiencies in the completion of the master register of purchase orders for the centre — numerous lines had no entries against order numbers, which meant that order numbers had been used with no description of the goods or the supplier involved in the transaction. This made it difficult to identify the source of, and the reasons for, incurring the expense, as required under section 39 of the *Financial Management Standard 1997*. Sales documentation was also deficient.

It appears obvious that follow-up on recommendations in each phase of investigation and audit was inadequate. No record appears to exist of any analysis of the results of the audits or of any action plans.

This centre also suffered a very high turnover of management staff in the three key positions of General Manager, Manager, Administration and Finance, and Manager, Industries. Discontinuity in key management positions is another factor that can allow officers predisposed to acting improperly to exploit corruption opportunities.

How the system worked

The prison industry in question was one of several in operation at the centre. A trade instructor managed each industry. Where there was shift work, some trade instructors shared the management role. Ultimate responsibility for the correctional centre was with the General Manager, who looked to the Manager, Industries, for day-to-day supervision of the various industries and workshops.

In the particular industry under investigation,

the trade instructors were approved cost centre managers within the centre, which meant that they had the authority to purchase items for their industry, and perhaps for the correctional centre generally, to a value of \$500. Orders over that amount and up to \$1000 could be authorised by the Manager, Industries. Orders over \$1000 required the authorisation of the General Manager. Delegations and guidelines were issued by Central Office.

When an item was to be purchased anywhere in the centre, as well as in the industry, the requesting officer was required to complete a requisition and forward it to the correctional centre store for processing. This requisition could only be processed if it had been signed by an officer with delegated authority for that level of expenditure. The delegation is intended to signify that it was an appropriate purchase for authorised purposes.

The Stores Supervisor at this particular correctional centre had seven years' experience in the role. He explained to CJC investigators that once a requisition was raised, the original form would be delivered to his office. He said that he or his assistant checked the requisition to ensure that it was completed and signed correctly and then raised a purchase order on the basis of it.

Once he had generated a purchase order, the Stores Supervisor would check the departmental computer system to determine whether the supplier was current. This check was not designed to verify whether the supplier was a real business or company. The supervisor explained that if the supplier was on the computer system it was assumed that it existed and had previously dealt with the department. If a supplier could not be found on the computer system, a 'Vendor Set Up Form' would be raised to advise Head Office that a new supplier was to be added to the system. No checks were made by the centre or by Central Office to ensure that these suppliers and companies were genuine.

The Stores Supervisor explained that if the purchase order required the delivery of goods, he would fax or post the order to the supplier. Once the goods were delivered, he would check the goods and the delivery docket against the purchase order. The supervisor would then send the goods to the relevant area, such as the industry workshop. The Stores Supervisor required the cost centre manager to certify on the remaining copies of the purchase order that the goods had been received.

The Stores Supervisor reported that in some industries, including the one relating to Case A, a practice had developed of cost centre managers contacting suppliers directly and having goods supplied or work performed prior to the raising of requisitions and purchase orders. He said that, while it was discouraged, some staff persisted in this practice.

According to the Stores Supervisor, further deficiencies in purchasing occurred where purchases were made by the cost centre managers in excess of their delegations. Moreover, cost centre managers were noting that goods were received as well as authorising the requisition.

The investigation

The CJC sent investigators to the correctional centre, who interviewed people, sought physical evidence and seized records for evidence. Financial analysts assisted in interpreting records seized. The investigation revealed that schemes were being operated involving the use of invoices for work charged at inflated prices, fictitious company names, and invoices for work that was never done. Those allegedly involved in the schemes included certain correctional officers, a private businessman and other people associated with one of the correctional officers.

It is alleged that over a period of five years, the schemes involved transactions totalling over \$50 000.

Outcome

The CJC report (written in accordance with section 33 of the Criminal Justice Act) recommended prosecution proceedings against three individuals. The Director of Public Prosecutions has commenced proceedings against these three people, involving a total of 72 charges for offences of false pretences, misappropriation and receiving and giving secret commissions.

CASE STUDY B

Between January and March 1998, at a different centre from that involved in Case A, the Manager of Offender Management and the General Manager became concerned about the operations of the prison workshop. Unsubstantiated information had been received that Officer H, who was the officer-in-charge of the mechanical workshop, had allowed inmates' vehicles to be repaired inside the facility. Such conduct is against the prison

rules and regulations and was also contrary to explicit directions given to Officer H by the General Manager on his appointment.

Officer H was challenged about the allegations when they first arose but denied any impropriety. Further similar information was received, to which the General Manager responded by ordering an inspection of the workshop. Of the five vehicles found in the workshop, three could not be properly accounted for – one car belonged to an inmate, another to a person who regularly attended the correctional centre as a hairdresser, and the third to the ex-wife of Inmate G (although it was booked-in under another name). A forensic examination revealed that the engine in this car was from a stolen vehicle. However, there was no evidence that any correctional officer knew it to be a stolen engine.

The three vehicles were impounded, the workshop closed and an inquiry instigated. The matter was duly reported to the CJC by the DCS.

Setting the scene

Officer H was transferred to the Centre in 1996 and took over as officer-in-charge of the mechanical workshop's operations in November or December 1996 when a new General Manager took over.

In early 1997 the General Manager damaged his Q Fleet vehicle and authorised Officer H to purchase \$1000 of panel beating/spray painting equipment so that the vehicle could be repaired by inmates in the prison workshop. Apparently, the work was successfully carried out, which led to two further Q Fleet vehicles being repaired and painted in the facility. Seemingly, these events prompted the idea of making better use of the workshop facilities.

At that time the prison authorities were fortunate in having at their disposal an inmate (Inmate G), who had 20 years' experience in the car repair industry. This prisoner had no official trade qualification but was competent to undertake and oversee the car repair work at the workshop.

Then, in late 1997, Inmate W, who had trade experience as a spray painter, was transferred to the prison. Together, these two prisoners virtually ran the workshop, Inmate G working as what might be described as workshop foreman with Inmate W acting as lead hand.

They carried out extensive work on a number of Officer H's vehicles and appeared to develop a relationship with him from which they all benefited.

Earlier (sometime in early 1997), Officer H, with the aid of Inmate G, had produced a rudimentary proposal for a 'Life Skills Course' in 'Panel Beating & Spray Painting', which ostensibly was designed to provide inmates with basic skills that might assist in their rehabilitation. A further course called 'Basic Auto Maintenance' was also developed to provide skills for inmates on their release.

These courses, run by Inmate G, were offered two hours a night, three nights a week over three-week periods for a length of time. In total, 27 inmates participated. The courses were not supervised and attendance sheets were not maintained. Officer H did say that students completed a one-and-a-half page 'Final Assessment Test' and that he signed a 'Certificate of Attendance'.

The Education Officer did not regard the courses as meaningful training, and so they were not recognised as an approved training program. No credit points were gained by inmates towards remissions. The courses were conducted in such an unsatisfactory manner that the Education Officer proposed they should be terminated.

How the system worked

In the initial stages of the course program, the then General Manager agreed to allow staff cars to be repaired and painted to provide project vehicles and hands-on experience for the participants. Staff wishing to have repairs carried out at the workshop were required to submit an application letter seeking the General Manager's approval before any work was carried out. The staff members concerned were required to supply all parts/materials at their own expense and disclaim any liability that might be incurred by the correctional centre. No labour charges or utility fees were required to be paid to the correctional centre. Officer H was responsible for all the workshop's operations and records.

A new General Manager was appointed to the correctional centre in July 1997. Eventually moves were made by this manager to place the activities of the mechanical workshop on a more business-oriented and revenue-producing footing. At that time, the prospect of revenue generation aligned with

departmental policy. The Administration and Finance Officer was charged with producing a discussion paper outlining what prison facilities had revenue-generating potential. The mechanical workshop was considered to be an area that could produce limited income as a car repair venture. Staff, including Officer H, were consulted. A General Manager's Rule enacted on the 16 January 1998 introduced a new fee system and record-keeping arrangements.

Part of the new procedures required that proper records be maintained of work approved and undertaken at the workshop. Furthermore, a sliding fee of up to \$250 was introduced to cover labour and utility costs. The sliding fee was applicable to members of the public and staff alike. In essence, the fee was determined by the number of days required to fix the vehicle based on a rate of \$50 per day, i.e.: two days = \$100, three = \$150 and so on. The amount charged was decided by Officer H.

Under the scheme it was proposed that the workshop should solicit work from outside sources, such as community groups and members of the public. Officer H was responsible for supplying 'outsiders' with quotes for repairs and recording the work undertaken. He also took payments from clients and passed on the payments to the Administration Section for the issuing of receipts.

The centre management produced a 'Quotation/Work Order' form, used to monitor work done for members of the public. This form did not require authorisation from the General Manager. It was complemented by an 'Industry Purchase' form to record work done for staff, which did require authorisation from the General Manager.

Officer H had full control of the workshop's activities.

The investigation

The CJC investigation commenced in April 1998. During the course of this investigation staff, inmates and civilians were interviewed and where necessary statements compiled and exhibits collected. The evidence revealed that:

- Between March 1997 and March 1998 some 34 vehicles had substantial panel repairs and respray carried out on them by inmates in the prison workshop.

- Significantly, 25 of these vehicles were owned by correctional centre staff.
- Seven of the 25 staff vehicles were owned by Officer H or his relatives; substantial improvements were made to these cars.
- Six cars were discovered to be either owned by inmates or their relatives.
- Three cars were owned by civilians and were legitimately accounted for (apart from no documentation existing for the hairdresser's car).
- Officer H did not conform to the established procedures and practices and the workshop records did not accurately account for the work done at the workshop nor the revenue due.
- Some correctional centre staff did not pay for work done on their vehicles even though they were aware of the General Manager's rule and knew that approval should have been sought and a fee paid. One officer who did pay for the repair of his vehicle said he was told that no payment was required.
- Much of the work done in the workshop, as arranged by Officer H, was undervalued. Inmate G said that one staff member's car:

... had major repairs carried out to the whole passenger side. It was fully resprayed and a reconditioned motor was fitted. Officer F told me that he had paid the govt \$100 for the repairs. I would estimate the cost outside would be in the region of \$2000-\$3000.
- In relation to a motorcycle belonging to that same staff member, Inmate W said:

It was a real wreck when it came in - rusted and did not run. We did motor work, panel repairs and painted it silver.
- Officer H admitted to having deliberately destroyed a 'Quotation/Work Order', which related to a vehicle owned by the sister of an inmate, and replacing it with a falsified form to cover the fact that a vehicle associated with an inmate had been repaired.
- On one occasion Officer H 'doctored' the Industry Purchase form so that it appeared that no labour/utility fee was due because the car was to be used as a 'project' or 'training' vehicle for a Basic Panel Beating course. In fact, no course was being conducted.

- Inmates were able to have work done on their vehicles as Officer H had been compromised by having many of his own vehicles repaired.

Outcome

The CJC recommended a charge of official misconduct be laid against Officer H, and he was so charged. However, the officer resigned from the department. This meant that the Misconduct Tribunal no longer had jurisdiction in the matter. No charges were brought nor disciplinary action taken against any other staff member.

KEY POINTS

These case studies illustrate the need for a comprehensive approach to corruption risk assessment.

The first case study demonstrates how staff who are at risk, if given access to goods and services without adequate segregation of duties or effective internal controls, may take the opportunity to act improperly. In the second case, poor management controls and the culture in which the industry was operating had 'blurred' the issues so that staff failed to act to prevent conflicts of interest arising.

Agencies need to design and develop corporate governance and internal control systems that best meet the specific circumstances of their individual programs.

The following chapters examine areas where the DCS may be at risk of corruption.

CORPORATE GOVERNANCE AND MANAGEMENT

This chapter discusses the corporate governance and management areas of the DCS. Weaknesses in these areas may increase the department's vulnerability to corruption. The chapter concludes with recommendations arising from our observations during the review.

Following the investigations of the matters reported in the case studies, we conducted an extended misconduct-risk review of prison industries encompassing most of the state-operated correctional centres. As stated in chapter 1, the methodology for reviewing risk-management systems concentrates on areas of vulnerability to official misconduct and corruption and focuses on improving administrative systems and policies.

The results of the review are presented as observations and discussion. Where available, best practice information has been included drawn from:

- the minimum statutory and regulatory requirements
- recommendations of authoritative agencies and organisations
- current literature in the corruption prevention area
- those practices which, through use over time, have become the standard in the particular area in terms of corruption prevention practice.

The review revealed numerous areas relevant to the operation of prison industries where the DCS was exposed to corruption risks. These risk areas can be generally categorised under the following groupings:

- **corporate governance issues**
 - risk management
 - code of conduct
 - conflicts of interest

What is corporate governance?

Corporate governance is the manner in which an organisation is controlled and governed in order to achieve its strategic goals and operational objectives (Queensland Auditor-General 1999, p. 13).

Current literature usually describes corporate governance as a framework made up of a number of elements, which are aimed at ensuring the goals and objectives of an organisation will be achieved.

The Queensland Auditor-General goes on to describe the elements of corporate governance as including:

- development of operational planning to achieve strategic goals and operational objectives
- development of an organisational structure and roles and responsibilities of staff
- establishment of delegations to ensure responsibilities are matched by necessary authority
- development of a code of conduct to provide employees with an expected standard of behaviour

- development of reporting and monitoring processes that ensure conformance with laws, policies, procedures and the code of conduct
- development of internal and external reporting to provide accountability
- development of an information plan that ensures:
 - all boards and committees receive quality information in a timely manner to assist in the stewardship of the organisation
 - staff continuously receive information that is designed to improve the daily operation of the organisation
 - all staff are provided with the necessary information for them to discharge their responsibilities and this information is communicated in a timely manner; and
 - a corporate and risk-management culture is developed and maintained within the organisation
- a systematic and coordinated risk-management system across all business activities.

- internal reporting systems
- the audit function
- learning from corruption and investigation outcomes
- **management issues**
 - role of Director, Prison Industries, in corruption prevention
 - supervision and management
 - business planning
- **operational issues** (see chapter 5)
 - business planning
 - operational and financial reporting
 - contracts for the sale of prison industry goods and services
 - price setting
 - purchasing
 - asset and inventory management
 - accounts receivable
 - surplus, scrap and waste
 - staff purchases from industries
 - cash handling
 - inmates and industries.

CORPORATE GOVERNANCE ISSUES

Risk management

Risk management is a process that supports better decision making by ensuring that risks are identified and precautions taken.

Risk management is recognised as an integral part of good management practice. To be most effective, risk management should become part of an organisation's culture. It should be integrated into the organisation's philosophy, practices and business plans rather than be viewed or practised as a separate program. When this is achieved, risk management becomes the business of everyone in the organisation. (Standards Association of Australia 1999, p. iii)

Observations

The DCS strategic planning initiatives show that there is senior management support for a risk-management framework. Clearly, risk-assessment tools have long been employed as part of the department's approach to security management — the primary function of the correctional system.

A business risk analysis was done in early 1999 to manage risk at an organisational level.

Despite this history, the DCS has no specific policy on risk management and assessment. Staff interviewed in administrative and industry roles employed various intuitive techniques for managing risk, but they have no knowledge of any formal requirements to employ risk-assessment techniques and there are no formal

risk-management processes at the activity level. Responsibility for risk management has been assigned to executive staff through their employment contracts.

BEST PRACTICE

The responsibilities of public sector agencies for policies and systems for risk management are set out in Division 5 of the Financial Management Standard. Section 84 requires that an agency's systems provide for:

- assessing the nature and extent of the risks associated with the agency's operations
- deciding an acceptable level of loss
- deciding the way to treat the risk
- monitoring and reporting the level of risk exposure
- evaluating the need for insurance.

Risk management can be applied to almost every type of activity, including policymaking, business decisions, purchasing methods, fraud control and contingency planning. A key aspect of risk management is reviewing existing and alternative control methods to determine how best to minimise the agency's risk exposure.

The Financial Management Standard also requires agencies to consider a range of documents when developing and implementing systems for risk management:

- Australia and New Zealand Standard on Risk Management
- Guidelines on Insurance, as published by the treasury department
- Guidelines on Risk Management and Insurance, as published by the treasury department
- Guidelines for Managing Risk in the Australian Public Service.

Discussion

Risk management should occur at all levels of the DCS. Activities such as prison industries require special attention because of their interaction with private enterprise. A wider focus and a balanced integration of risk management should occur across the department. In the area of prison industries, this would ensure that issues such as viability and efficiency are not the only risks to be managed, but vulnerability to corruption and fraud are also assessed and managed. The DCS could use the guidance offered in the Financial Management Standard and other publications on systems of risk management to develop a culture of responsible (or calculated) risk taking.

Code of conduct

It is now six years since all public sector agencies were required, by the provisions of the *Public Sector Ethics Act 1994*, to adopt a code of conduct for their employees.

The purpose of a code of conduct is to provide standards of conduct for public officials consistent with their ethical obligations. A code of conduct also has the potential to heighten staff awareness of ethical issues, positively shape the culture and reputation of an organisation and generate pride among employees.

Observations

Through its numerous incarnations — as the QCSC, its subsequent split into the QCSC and QCORR with corporatisation, and its return to a department — the authority responsible for corrections in Queensland has always had a code of conduct. Initially, the QCSC issued Corrective Services Rule No 35, which contained the code of conduct for its employees. When QCORR was created it developed its own separate code, which was widely disseminated to all staff and supported by the training of all corrective services officers.

Following the creation of the DCS, and QCORR's integration as one of its business units, both the QCSC and the QCORR codes of conduct were treated as current for the respective employees of each of the former entities. However, from a purely legal point of view the former QCSC code of conduct was the official code for the new DCS as it had been issued as a Corrective Services Rule and those rules remained in operation following reversion to a department.

Of the staff interviewed during the risk review about the code of conduct:

- some were well aware of the QCORR code and had received training
- some said they did not know of a code's existence, although our investigation showed that they had acknowledged receipt of the QCORR booklet in writing and had received training
- some said they knew there was a code of conduct, but were unsure of what activities, relevant to their own circumstances, might constitute a breach of the code, such as failure to notify of a conflict of interest
- central office staff seemed less likely to have received training in either code.

Recently a new code was developed and approved by the Board of Management of the DCS and was also approved under the provisions of the Public Sector Ethics Act. The new code has been released to staff and steps are being taken to rescind Rule No. 35.

On its release, every staff member received a copy of the new code, including permanent, part-time, casual and temporary staff. Potential applicants to DCS positions are not given a copy of the code, but are told that they will have to comply with it should they be successful in gaining a position.

Training in the code of conduct is provided as part of training for custodial correctional officers. Another training course, offered to staff who are not correctional officers but who work at correctional centres, also deals with the code of conduct. It is unclear what processes there are for the training of central office staff.

Other than on induction, there are no regular training, awareness-raising or information sessions provided for DCS staff on the code, nor is ethics training provided for departmental management and staff. At the time of writing, the DCS had not yet made a commitment to training staff on the release of the new code. Most staff queried on this issue indicated that they had not received training in this area since 1998.

In considering the draft of this report, the DCS commented that they were considering implementation of a strategy that would develop and deliver individual ethics-training packages. These packages could be tailored to meet the needs of target audiences.

We found the new code, produced in a useful booklet form, to contain valuable information on the DCS purpose, vision and values. Unusual terms are mostly defined; however, there are a number of general terms such as 'appropriate authority' and 'appropriate forums' that need clarification also.

The document could also benefit from examples that would assist staff in making decisions consistent with the department's values, especially where the wording of the code is difficult and slightly ambiguous. For instance, in the discussion on improper use of resources it is unclear whether 'borrowing' would fall into this category. There is no guidance in this section about which particular officers have authority to determine what constitutes an improper use of resources or

what procedures should be followed to ensure resources are used *properly*.

The previous code of conduct was complemented by a code of discipline, which included examples under the various sections, to assist in clarifying standards of behaviour that were acceptable. The DCS has expressed the view that examples would be of little value to the new code.

The DCS intends to monitor and review its code of conduct every three years as required under the Public Sector Ethics Act.

BEST PRACTICE

The CJC has issued guidelines to assist public sector organisations to develop useful and relevant codes of conduct, recommending nine topics for inclusion:

- the five ethics principles contained in the Public Sector Ethics Act
- a definition of what constitutes a conflict of interest (giving examples)
- procedures for the use of official information (giving examples)
- procedures for the use of departmental property and resources (giving examples)
- guidelines for the acceptance of gifts and benefits (giving examples)
- an internal reporting system (indicating whom to report to and what happens to a report)
- support systems (including protection for whistleblowers; confidentiality of disclosures)
- reference to other relevant policies and procedures of the department (e.g. rules regarding secondary employment)
- a review and monitoring system (CJC 1999).

Discussion

We found that the department's current and previous codes of conduct had some deficiencies.

To be effective, it is essential that the code of conduct be viewed as a learning and reference document for management and staff. It should be able to be used by staff to assist in decision making and to resolve conflicts of interest and other ethical dilemmas. Accordingly, the code should contain instructive examples and be easy for people of all backgrounds and levels of education to read and understand.

A code of conduct has a particularly important role to play in the area of prison industries because private enterprise influences may not

be consistent with public sector expectations. Industries are necessarily fundamentally different in the range of activities and circumstances they encounter. It is critical that officers dealing with commercial customers and suppliers are aware of their responsibilities as officers of a public sector organisation. Consideration should be given to special training for prison industry staff using scenarios illustrating the particular challenges facing officers working in a public sector commercial environment and the standards of conduct expected from them.

For a code of conduct to be effective, it is essential that it provide clear guidance on the standards of behaviour expected as it is against these standards that the actions of staff are measured. Ambiguity or a lack of specificity may result in problems in sustaining disciplinary proceedings against officers. Accordingly, any codes of conduct should be continually tested for effectiveness. This could be done as part of the review and monitoring process.

A code of conduct alone will not guarantee an honest, corruption-free environment. However, with proper education and leadership, an effective code will help promote staff integrity and encourage ethical behaviour.

Conflicts of interest

Conflicts of interest arise when private or personal interests run counter to the public interest. They, therefore, have the potential to affect the way public sector officers perform official duties.

Conflicts may stem from personal or family relationships or from involvement in sporting, social or cultural activities. They include any tendency toward favour or prejudice resulting from friendship, animosity, or other personal involvement that could affect a person's judgment.

While it is not always easy to decide when personal interests and public duty are in conflict, the test is that a fair and reasonable person may believe the officer to have been influenced by personal interests in the performance of his or her duties. The existence of a conflict of interest does not necessarily mean that there is corruption, but it can create the perception that an officer's independence has been compromised. Such a perception can damage public confidence in an organisation.

Observations

The DCS has no system for the routine notification of conflicts of interest. Its code of conduct requires that any conflict that may arise between personal interest and public duty is to be resolved in favour of the public duty. While this statement accurately reflects the Public Sector Ethics Act, it does not provide clear practical guidance for staff or managers about what would be considered to be a conflict of interest.

A frequent area of conflict occurs through secondary employment. For example, we found that some correctional centre staff had 'second jobs' owning and operating farms and small businesses that might have been suppliers to, or in competition with, a correctional centre. Corrective Services Rule 100, which deals with the issue of secondary employment, requires staff to provide information about secondary employment to the DCS and to update that information when their circumstances change.

It is unclear how complete the DCS's records of approval for secondary employment are. One centre had a practice of following up with staff to check that the information provided in their initial declarations remained current. Another General Manager told us that he was planning to have an amnesty for updating declarations about secondary employment, presumably based on doubts about the currency of that centre's records.

The move to 12-hour shifts means that most officers may now only work three days a week. As a result, some officers will have enough time off work to encourage them to acquire second jobs. When this occurs, the department should be notified and its approval sought.

There are also no guidelines for prison industry staff about whether and how they should conduct dealings with businesses to which they are directly or indirectly connected. A difficult issue to control is the perception of conflict and the effect a perceived conflict may have on how a workplace is managed and duties segregated. Two potential conflicts identified during visits and within the case studies were:

- a supervisor in a prison industry buys in considerable quantities of produce; he is also a partner in a family business that produces the same product for sale
- an officer in an industry area is connected to a family business that sells the same products as produced by that industry area.

Even if there is no actual conflict in these circumstances, the risks need to be identified and existing controls must be able to withstand public scrutiny. In these cases, segregation of duties may be sufficient to ensure accountability.

In Case Study B an actual conflict of interest developed where the officer in charge of the prison workshop was authorising prisoners to undertake repairs on his own vehicles and those of his family. Another authorising officer, unconnected with the workshop, may have been able to provide more objective scrutiny over the activities of the workshop and may have been able to detect irregularities at an earlier time.

BEST PRACTICE

Section 84 of the *Public Service Act 1996* makes clear the duty of all public service employees to disclose a real or potential conflict of interest to their Chief Executive Officer as soon as practical. No further action may be taken in relation to a matter affected by the conflict until authorised by the Chief Executive Officer.

To comply with these requirements, staff require access to information that assists them to identify the type of matter that needs to be disclosed to the Chief Executive Officer. Processes also need to be in place to assist in determining whether there is in fact a conflict and, if so, to resolve it.

Registration of personal interests by officials in sensitive positions with declarations of conflicts of interest, as and when they arise, are an effective means of protecting the integrity of an agency (PSMC 1995). Section 83 of the *Public Service Act* also makes provision for the Chief Executives of departments, in certain circumstances, to require declarations of interests from employees.

Discussion

A code of conduct would normally be an appropriate document to alert staff to the need to declare real and potential conflicts of interest, and should include procedures for notifying and resolving conflicts of interest. Because there is no guidance in the current DCS code, it is possible that staff may form the incorrect view that they are personally able to resolve a conflict in the public interest without reference to the Chief Executive Officer, as required under the *Public Service Act*.

A clear definition of 'conflict of interest', along with comprehensive guidelines about identifying, avoiding and reporting conflicts of interest, could be developed and included in

the DCS's code of conduct. In areas of special risk (such as prison industries, and purchasing and tendering), it may be advisable to require all staff to register relevant personal or immediate family interests. It would be useful if the categories of interest that should be declared were listed.

It would also enhance the system of reporting and recording secondary employment arrangements if guidance was provided to staff about how and when to make a declaration, and to managers about how to assess applications consistently. Where staff have sufficient information about what types of secondary employment may be permitted, they can avoid those occupations that are not considered appropriate. When managers are provided with criteria and guidelines for the assessment of secondary employment applications, staff can be confident that any application will be assessed consistently and predictably with proper regard to relevant issues (ICAC 2000). The code could complement these guidelines and provide officers with adequate information to guide their actions and support ethical decision making.

After taking into account our conclusions, the DCS is considering a separate procedure to provide guidance on conflicts of interest. This procedure would establish a way for individual staff members to clarify issues and seek help if unsure of what to do.

Internal reporting systems

One of the most frequent ways in which corruption in an organisation is exposed is through reporting by staff. In the case of prison industries, external parties (i.e. customers and suppliers) are also likely sources. For a department such as the DCS to maximise such disclosures, it requires a reporting system where the personnel through whom such disclosures are made and the procedures for recording and managing those reports are well known.

The reporting of various forms of unethical behaviour or misconduct is required and protected by legislation. Section 37 of the Criminal Justice Act requires the principal officers of units of public administration to report suspected official misconduct to the CJC. The *Whistleblowers Protection Act 1994* provides protection to those who make a public interest disclosure and requires departments to have 'reasonable procedures to protect officers from reprisals' (s. 44). The DCS's own code of conduct requires that staff report

maladministration to a supervisor or manager and fraud and corruption to appropriate authorities (s. 5.3 Integrity).

A recognised expert in the area of fraud prevention in the United States, W. Michael Kramer, has observed:

I am convinced, beyond a doubt, that the best way to increase the perception of detection and to catch offenders is to install a system to encourage and facilitate the prompt reporting of suspected fraudulent employees, vendors and customers. (Kramer 1999, p. 7)

This observation applies equally well to the reporting of corruption in the public sector.

Observations

The DCS has no formal internal system for reporting maladministration, fraud or corruption, or at least none that was apparent to CJC officers conducting the review. While the requirement to report is included in the code of conduct, there is no guidance on which officers constitute an 'appropriate authority'. There are no procedures outlining how a disclosure may be made or how the report will be handled. There are also no references to confidentiality or other protections for persons who make a disclosure.

In both case studies outlined in chapter 3, other staff, and possibly even people outside the department, knew of the conduct of officers that may have amounted to — at the very least — maladministration if not corruption. However, neither of these cases came to light until a considerable time after the start of the behaviour. In Case Study A, the activity was uncovered 'accidentally' during the investigation of another matter. In Case Study B, a large number of staff were directly involved in the activity.

It was suggested by staff during the centre visits conducted for this report that the fact that staff behaviour is constantly observed by prisoners is also a good mechanism for ensuring that staff behave ethically. However, Case Study B shows that the value of this control is diminished where there are close relationships between staff and prisoners.¹⁰

10 There are currently three privileged systems through which inmates can make disclosures about any matters, including correctional staff misconduct. They are: official visitors, the Ombudsman or their own legal counsel.

BEST PRACTICE

To gain the full benefit from disclosures about alleged corruption an organisation should have:

- documented procedures for receiving disclosures and complaints from either internal or external sources
- safeguards to preserve confidentiality
- trained investigators who can act impartially
- proper records of disclosures and actions taken in response
- procedures for protecting staff who may be the subject of reprisals
- a process for informing staff of their ethical obligation to report fraud, corruption and maladministration which comes to their knowledge.

The above practices and procedures can create an environment supportive of whistleblowers.

Discussion

The reporting of suspected corruption brings the matter to the attention of the people who are best placed to implement improvements in internal systems and controls. Prompt reporting assists in effective investigations.

It is important in the development of an effective internal reporting system that those issues and attitudes that might deter staff from reporting corruption are considered. Organisations need to provide alternative methods of reporting corruption to deal with these problems. The responsibility of managers for the welfare and protection of staff who have made disclosures should also be made clear. For example, the fears of reprisal expressed by staff who have made disclosures should be taken seriously by managers and they should be aware of their obligation to maintain strict confidentiality about disclosures and the staff who make them.

In short, organisations that aspire to low risk exposure need to develop a corporate culture of integrity and openness that encourages reporting. The organisational values of integrity, learning, social responsibility and accountability expressed in the DCS's corporate plan form the foundation of such a culture. The DCS should use this foundation to develop corporate structures for dealing effectively with staff complaints and disclosures. Consistent with its aspiration to be a learning organisation, the DCS also needs to ensure that the outcomes of investigations feed into its learning and development strategies to promote cultural change and continuous

improvement in the department.

Finally, mechanisms to solicit and receive complaints are unlikely to be successful if people do not believe that appropriate action will be taken on the information. Any internal reporting system should require follow-up on all reports and, where appropriate, corrective action must be taken to prevent a recurrence of the problem. Disciplinary measures must be initiated where staff have been found to be engaged in corrupt or fraudulent practices. When reports are acted upon and suitable outcomes achieved, the organisation sends a clear message that making a disclosure about corruption is worth while.

The audit function

The role and function of internal audit has been defined by the Institute of Internal Auditors (1999, p. 3):

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Historically, internal audit had a purely financial compliance focus. However, current corporate-management philosophy positions internal audit as a fundamental component of corporate governance. The audit function helps to give the Executive and any external stakeholders information about whether the organisation is fulfilling its objectives, and whether its internal controls are effective.

Observations

Within the organisational structure of the DCS, it is essentially the role of the audit function to identify the potential for corruption. Audit must be alert to the possibility of fraud, to advise management on how best to prevent it and to follow-up where weaknesses in controls have been noted. It is the responsibility of management to ensure that the risks are minimised.

We found that most correctional centre General Managers recognised the value of the audit function as a management tool and the benefits of its specialised resources. However, some General Managers expressed the view that the range of recommendations made by audit was often too great for them all to be effectively addressed.

BEST PRACTICE

Under section 36 of the *Financial Administration and Audit Act 1977*, every Chief Executive Officer of a department is required to establish an internal audit function.

The Australian National Audit Office (ANAO) research (1998) suggests that effective internal audit functions operate according to the following principles:

- internal audit enjoy the full support of executive and senior management
- internal audit seek to meet client needs through a focus on agreed business risks
- the resources applied to audit activities achieve a blend of relevant business expertise, audit skills and knowledge
- the internal audit unit includes a culture of continuous improvement.

To evaluate effectively and redesign the internal audit function of an agency, a systematic approach using the steps below should be employed:

- determine the organisational context in which internal audit operates
- establish a role for internal audit which complements other assurance mechanisms
- define the scope and focus of audit activity – in terms of key business processes and by reference to critical business risks
- obtain access to internal audit resources that can provide the skills and knowledge required to fulfil the role effectively
- create a monitoring and review process based on key performance indicators, which also deals with the timeliness, cost and quality of internal audit outputs.

Discussion

The focus of the audit function used to be on compliance and security issues. Resources have been allocated to financial auditing through staff and contractors used by both the QCSC and the DCS. While it is appropriate to rely on external auditors such as contractors and QAO for financial compliance matters, it appears that, in previous years, financial performance and issues such as fraud have had a lower priority for the audit function. This situation was recognised during the most recent review of corrective services (the Peach Review), which recommended that the scope of audit be increased and that the unit be suitably resourced and appropriately qualified officers employed.

Audits carried out between 1990 and 1995, as outlined in Case Study A, repeatedly recommended that proper financial management controls should be implemented. Failure to implement recommendations or to act on matters of concern raised by the audit section undermines its status and authority within the organisation. If the audit function does not have authority within an organisation, staff may form the view that the department is not committed to the concepts of transparency and accountability. An environment can then be created that is ripe for the type of activity as occurred in Case Study A.

The comments of General Managers about the number and range of recommendations in audit reports indicate that audit should consider prioritising recommendations and working with General Managers to ensure that, at the very least, the most critical and urgent recommendations are dealt with.

It is only through an effective internal audit process that the DCS can be assured that its risk exposures are identified and managed properly.

Learning from corruption and investigation outcomes

According to modern management thinking, staff need the opportunity to hear about the facts and circumstances surrounding any critical incident that has an impact on the workplace. Discovery of a crime such as fraud would constitute such a critical incident.

Observations

At one centre after a CJC investigation, fundamental changes were made to procedures to improve accountability for purchasing, to withdraw inappropriate delegations and to improve monitoring. Staff at that centre were of the view that it would be useful to staff at other centres to have information about their experience of the investigation and its outcomes.

At another centre, CJC officers were told that it was frustrating for staff not to know the outcome of a prosecution against a former member of staff. Staff were of the view that there may have been lessons to be learned for staff at the centre. One staff member suggested that a debrief with staff following a corruption investigation and/or prosecution would be a good way for them to 'let off some steam' and find out how other staff felt about what had occurred. It was suggested that ill feeling over

the investigation and its outcome had affected the motivation of some staff.

BEST PRACTICE

An agency that learns from past incidents of corruption and misconduct acknowledges that its ethical culture is affected by the shared assumptions, beliefs, values and attitudes held by its staff. Attitudes and values operate on a variety of levels and are used by individuals and groups to make decisions, justify those decisions and to evaluate outcomes (ICAC n.d.). Reviewing critical incidents involving corruption, provides opportunities to better understand those attitudes and values of staff that may have contributed to the incident, as well as to reinforce strategies designed to reduce the incidence of corruption and fraud.

In its report *Tips from the Top* (1999a), the ICAC recognised the challenges for managers wanting to act against corrupt conduct, suggesting a range of strategies for taking effective action:

- following correct procedure to reduce the likelihood of decisions being challenged or overturned
- publicising action and outcomes as it is important to set the tone of what is acceptable behaviour for the organisation and to inform staff of the repercussions of corrupt conduct
- using the fear of justice organisations, such as the ICAC (and CJC) as a deterrent.

Discussion

A system of debriefing after incidents may have an impact on the learning across the DCS about where corruption risks may exist. The benefit of a debriefing — however informal — is that staff can be invited to ‘unload’ or encouraged to access counselling services if required. Corruption prevention ideas also may be suggested in the course of the debrief.

In addition, the DCS could use newsletters and bulletins to inform staff about incidents of corrupt conduct within the agency and the outcomes of investigations and disciplinary proceedings or prosecutions arising from them.

MANAGEMENT ISSUES

Role of Director, Prison Industries, in corruption prevention

Prison industries are diverse and geographically scattered. Each centre has a General Manager who has overall responsibility for the security, good order and management of the centre.

Prison industries are on the periphery of this important role and require oversight and leadership skills of a different type in order to ensure transparent and accountable management and coordination of these important activities across the entire Queensland correctional system.

Observations

The creation of the position of Director, Prison Industries, provides for a system-wide approach to the establishment and monitoring of prison industries in correctional centres (see chapter 2 for a description of the role and function of the Director, Prison Industries, and the reporting mechanisms for staff). The corruption risks associated with prison industries could be reduced through the use of uniform business planning, contract management, setting of prices, and coordinated management of the manufacturing function.

The introduction of the position of Director, Prison Industries, has resulted in an increase in system controls such as segregation of duties, appropriate supervision and general accountability. Consequently, while the creation of the position had a primarily managerial purpose, a secondary benefit for the DCS has been its potential for corruption-risk reduction.

General Managers’ Rules in a number of centres require the Industry Manager/Adviser and trade instructors to liaise directly with external agencies, private enterprise and the local community to seek suitable industry projects. Under the prison industries organisational structure, oversight of the process of selection of industry projects has been assigned to the Director, Prison Industries. This arrangement provides for a system of segregation of duties that ensures the industry-selection process is subject to independent assessment and can stand up to scrutiny.

Discussion

General Managers of correctional centres are required to balance a wide range of competing priorities in the performance of their functions. Few, if any, have any business experience or training. Accordingly, they may not be the best personnel to be involved in the development and management of business relationships with the private sector. It is therefore fitting that the Director, Prison Industries, who is required to have these skills and experience, is responsible for overseeing the development of prison industries.

As observed in chapter 2, while the prison industries organisational structure imposes these oversight responsibilities on the Director, Prison Industries, General Managers have total control over correctional centre budgets, staff salaries and overtime and the availability of prisoner labour. Consequently, the support of General Managers is essential for any proposed industry to proceed at a centre.

The organisational structure also does not create a clear reporting relationship between General Managers and the Director, Prison Industries, in respect of the operation of prison industries at the individual correctional centres; nor are General Managers required to meet any prison industry performance measures (although they are required to meet certain performance measures in terms of prisoner employment levels). In these circumstances, there may be no incentive for General Managers to cooperate with or support the Director. It was also observed that the reporting arrangements created friction in some centres where the General Managers viewed the structure as challenging their authority and autonomy. As of July 2000, General Managers are now accountable for industry operations in their centres.

This structure effectively gives the Director all of the responsibility for, but no control over, the actual performance of prison industries. This structure makes the effectiveness of the position of Director vulnerable to being undermined by General Managers who are not supportive of the Director's position and/or industry proposals.

It is also essential to the effective operation of this centralised approach to the management and oversight of prison industries that the function of Director, Prison Industries, is adequately resourced. New South Wales has a similar centralised prison industry management structure operating under the entity Corrective Services Industries (known as CSI). While the projected revenue for the current year from prison industries in New South Wales is about double that for Queensland, the CSI has a staff establishment of 32.¹¹ Under the current Queensland structure, the same functions are required to be performed by the Director, Prison Industries, alone, although he may use the resources of the office of the Executive Director, Custodial Corrections, and other specialist units of the DCS.

Considering the potential role of the Director in corruption prevention, the position's level

of resourcing raises some concerns. This situation places the position at risk of being perceived as ineffective and redundant when it should be being supported and developed by the DCS as performing a key role in setting an anti-corruption ethos for the department.

Supervision and management

The quality of supervision and management within an organisation directly affects its ability to prevent corruption.

Official policies specify what management wants to happen. Corporate culture determines what actually happens — that is, which rules are obeyed, bent or ignored. A strong corporate ethical climate at all levels is vital to the well-being of the corporation, all its constituencies and the public at large. Such a climate contributes importantly to the effectiveness of company policies and control systems and helps influence behaviour that is not subject to even the most elaborate system of controls (Committee of Sponsoring Organisations for the Treadway Commission 1992, p. 20).

Under the principles of public service management outlined in section 23 of the Public Service Act:

management is to be directed towards ... managing public resources efficiently, responsibly and in a fully accountable way.

At its simplest, management accountability means that managers cannot avoid responsibility by pleading ignorance when corruption is discovered in their areas. Such ignorance would constitute a prima facie case of poor supervision (CJC 1993, p. 21).

Observations

One of the most important organisational issues arising out of an analysis of the case studies was the supervision of staff. It appears that the officers involved in those cases received minimal supervision from senior staff. Although supervision should not be so close and excessive as to interfere with the performance by staff of their duties, staff should also not have such autonomy that the risk of corruption is increased and made more difficult to detect. The ICAC (1999) recognised this problem in its report on the investigation into the Liverpool City Council:

Supervisors need to find a balance between trusting employees and placing reasonable limits on discretionary power. (ICAC 1999b)

11 The staff establishment of CSI provides management, administrative and financial support to correctional industries, as well as managing new construction projects for NSW Corrections.

The case studies used for this report and discussions with staff indicate that there are no formal systems for determining whether staff are carrying out their duties effectively. For instance, the officers in Case Study A were able to exceed their delegated financial authority routinely without challenge.

There were variously held opinions in centres on whether industries staff should account to the General Manager of the centre or directly to the Director, Prison Industries. The structure in the Prison Industries Business Plan approved by the Board of Management requires Industries Managers/Advisers to report directly to the Director, Prison Industries. Prison Farm staff are currently reporting directly to the centre's General Manager. The variable applicability of the policy has created some inconsistencies; for example, in some centres, Industry Managers/Advisers are part of the correctional centre management team while in others they are not. Whenever uncertainty exists in the supervision model, there is a greater risk that corrupt activity will go undetected. The DCS reports that the accountability structure at correctional centres changed on 1 July 2000 to ensure that General Managers are accountable for industry operations at their centres.

In the new Wolston and Brisbane Women's complex, the responsibilities of the Manager, Administration and Finance, and Manager, Industries, are split between the two centres, which operate on separate financial systems. Both officers are members of the two management teams and are responsible for two separate centres. There is a risk that effective supervision decreases when management resources are divided.

BEST PRACTICE

The Financial Administration and Audit Act incorporates the concept of 'accountable officer'. Managers should be held responsible for the actions and performance of staff under their supervision. Accountability requires that managers and their staff know:

- what their responsibilities are, how they are to perform them and the outcomes expected
- their legal and ethical obligations
- the controls with which they are expected to comply.

Managers and supervisors need to:

- develop and implement effective management systems

- ensure that the systems they oversee are not so slipshod that the temptation to root them becomes almost overwhelming
- ensure that the procedures to be followed by employees are not needlessly complex, because uncertainty and complexity can breed opportunities for corruption
- guard against the temptation to institute excessive numbers of controls into any system, since they can be counterproductive
- use education and training programs to motivate people to reduce the potential for corruption/fraud to occur
- maintain modern human resource management approaches geared to adequately reward staff who may otherwise feel alienated from the organisation and more inclined to offend. (Boyd 1995)

Discussion

Poor management controls and lax supervision practices can lower the ethical tone of an organisation and encourage the feeling among staff that certain corrupt activities will be tolerated since it is unlikely that they will be detected or that disciplinary action would be taken. As an example, in Case Study A, staff had cars repaired at no cost, despite knowing it was 'against the rules'. This suggests that they perceived that certain types of improper conduct were acceptable.

Managers and supervisors have a role in fostering a work environment that is resistant to corruption. There should be consistency in management actions and in the messages being communicated to staff. Managers should assess their areas of responsibility in order to identify those most vulnerable to corruption and concentrate their limited resources there. All managers should ensure that they model the values and behaviours that they expect from staff.

A recent article in *Correction News* (14 June 2000) by the Director-General, 'Principles to Guide Department's Leaders', provides operating principles for managers and staff on the role of leaders and management in the DCS.

Business planning

Business plans are part of the cycle of planning for the DCS that begins with the development of the strategic plan. Prison industries in particular need a process of business planning to identify customer needs and initiatives, so that the desired future position is considered

in the context of other strategic issues affecting the DCS. Establishing plans allows performance to be monitored and reviewed and helps ensure that any variances are noted and corrected.

By formalising business plans, management can use the opportunity to communicate objectives and standards to staff involved in the activity. Planning should allow staff to see 'the big picture' and assist in developing commitment to the department's objectives.

Observations

The DCS's 1999–2003 business plan for prison industries has been approved by its Board of Management. The Director, Prison Industries, has responsibility for the overall coordination of business plans for the individual correctional centres. This arrangement ensures that all centres are aware of, and comply with, the department's requirements regarding the development and operation of prison industries and their oversight. This approach should prevent the development and operation of industries outside of the supervision of the Director.

Almost all centres have some form of business planning. However, we found inconsistencies, such as:

- some industry activities were not included in business plans
- the format for the business plan varied from centre to centre and often between the different industries at a centre
- most business plans contained only the most superficial information about projected costs
- most business plans did not include items that would usually be included in business plans.

BEST PRACTICE

A basic tool of good management is planning. Plans ensure alignment of an activity's outcomes and outputs with strategic goals and strategies. Plans assist organisations to identify performance measures and targets for each output in terms of such things as quantity, quality, timeliness and cost. Subsequent evaluations which use those

measures can be used by accountable officers either to confirm that the activity is operating as expected or that corrective action should be taken where the desired outputs are not being achieved (Queensland Treasury 1997).

The extent to which an agency achieves its objectives depends importantly on how well it used available resources. Effective planning, budgeting and reporting processes are fundamental to business operations and to the overall robustness and credibility of the control structure. (ANAO 1997, p. 11)

Discussion

A standard format for planning processes would allow centres to comply with recognised planning requirements and performance targets. Plans would be able to be scrutinised for consistency with DCS policy to ensure that industries at different centres are not competing with one another, and that there is transparency in the conduct of their activities. The planning process would also ensure that dealings with outside organisations would not occur without appropriate documentation such as contracts (see later discussion).

A sound planning process would also ensure that there is appropriate authority for the conduct of industries through an approved operating plan that would include information about the labour required, products and output. Whatever mechanism is used to develop planning for industries, it should require forecasts of costs, revenues and outputs, so that significant deviations from plans can be detected and the reasons for those deviations monitored. The identification of variances from approved plans is an important tool in the detection of corruption.

One example of the benefits of a uniform and coordinated planning process is the coordinated manufacture of products across a number of centres. The Director, Prison Industries, has broken down the production process into discrete stages or units and assigned these units to individual correctional centres. This system reduces the risk associated with the total control of production and income being with a single centre.

Recommendation 1

That the DCS develop and distribute a comprehensive and integrated policy on corruption prevention. This policy would explain the DCS position on corruption, set aims and objectives, and draw together existing policies and procedures that relate to corruption prevention. The policy would clearly define who is responsible for preventing and detecting corruption and who will implement different aspects of the corruption prevention plan.

Recommendation 2

That, in relation to prison industries in particular, the DCS address the issues of role clarification (especially of the Director, Prison Industries), standardised business planning techniques, improved financial

management reporting and improved direct-supervision practices.

Recommendation 3

That the DCS review and develop further the elements of its corporate governance framework (listed below) with the aim of improving its performance in this area and reducing its vulnerability to corruption:

- code of conduct
- conflicts of interest
- risk management
- internal reporting systems
- the audit function
- learning from corruption and investigation outcomes.

OPERATIONAL ISSUES

This chapter reports on corruption risks specifically related to:

- operational and financial reporting
- contracts for the sale of goods and services
- price setting
- purchasing
- asset and inventory management
- accounts receivable
- surplus, scrap and waste
- staff purchases from industries
- cash handling
- inmates and industries.

OPERATIONAL AND FINANCIAL REPORTING

Internal reports, whether financial or operational, must provide timely, relevant and reliable information that helps managers make decisions. Fundamental to reporting is that there is a clear understanding of the information needs of users, how the information will be obtained and what use will be made of it. Financial information, in particular, is critical for reporting on the stewardship and accountability of public sector agencies (ANAO n.d., p. 20).

Observations

The DCS's system of operational and financial reporting for prison industries is not capable of reliably alerting managers to deficiencies and irregularities that might be indicators of corruption risk.

We observed the following:

- Reports on outputs, industry participation rates and financial performance varied significantly from centre to centre in format and content.
- Some reporting from centres was straight to the Director, Prison Industries, who reported quarterly on key performance indicators to the Board of Management.
- Some staff were required to report in writing on a scheduled basis while others had meetings to discuss results.
- Some managers found out about

performance issues by visiting workshop areas and talking with trade staff while some centres had regular cost-centre reviews with managers (for example, on a bimonthly cycle).

- Financial reports focused on transactions processed and not on overall performance. Key commercial indicators, such as profitability ratios and rate of return, were not understood or used; performance indicators need to be able to identify trends.
- The move to an accrual system of accounting was not well understood. Many Industry Managers/Advisers said that they could not interpret reports or understand the amounts that had been accrued each month.
- The SAP/R3 system was not operating well at many centres. Some centres said they had technical difficulties with getting the system to print reports or in getting a useful output, although staff in other centres were obviously very proficient at producing reports tailored to industry needs. Licensing arrangements for the software has limited its accessibility — usually to one operator/workstation per centre, though there have been some initiatives to improve this access.
- One Industry Manager/Adviser had designed a very useful spreadsheet system using another type of software, with facts gleaned from SAP/R3 reports so that he could get a picture of direct materials usage, revenue and expense trends and gross margins.
- Financial comparisons were not made between centres or industries.
- Some staff complained that they no longer received any information on financial performance against the budget, though they were responsible for purchasing goods for their cost centre.

BEST PRACTICE

Performance information is not an end in itself — it provides the basis for improving program management and is critical to accountability.
(ANAO 1996, p. 5)

WHAT ARE 'INTERNAL CONTROLS'?

The Financial Management Standard defines internal controls as:

... the methods adopted within an entity to safeguard its assets ... to check the accuracy and reliability of its accounting information; and ... to secure compliance with the prescribed requirements that apply to the entity.¹²

Essentially, internal controls are the mechanisms that an organisation may use to facilitate accountability. Effective and efficient internal controls can assure the organisation that:

- the activities of the agency are being conducted in a manner that facilitates the achievement of its objectives and the delivery of its outputs in an orderly and efficient manner, avoiding waste, extravagance and other potential sources of risk or loss
- error, fraud and other irregularities are prevented as far as possible and promptly detected if they occur

- assets are safeguarded from unauthorised use or disposal
- operational activities and individual transactions are complete and accurately reflected in the accounting records in the period to which they relate
- financial management information is timely relevant and reliable. (Queensland Treasury 1997, pp. 1–2)

Systems of internal control cannot provide absolute assurance that there will be no breakdowns in processes or losses incurred. However, an effective system of internal controls should reduce the occurrence of such incidents and ensure their early identification, thereby minimising disruption and loss.

Internal controls must be developed to address the risks that may affect an activity. However, the development of particular controls must be balanced against their cost effectiveness and the availability of alternatives.

The ANAO identifies reporting on program performance as the main vehicle for public accountability. Internal reports should relate to program objectives and strategies and should include information critical to local managers. Managers should be able to assess the progress towards and achievement of goals for their areas from the information reported. These reports could include information on the production of outputs, milestones, targets, budgets and so on. Managers should be able to use these reports to assess whether, given the circumstances, the strategies being used are the best for achieving their program objectives. Internal reports should be prepared in a time frame that allows managers to take timely action to improve performance, avoid potential difficulties and remedy problems.

Discussion

In re-establishing a department through the amalgamation of the QCSC and QCORR, the DCS has carried a large administrative burden. Financial systems had to be consolidated into a single system, new versions of SAP/R3 had to be implemented and new requirements from Queensland Treasury introduced, while all the time maintaining operational functionality. While the department has made great progress, any continuing risks in terms of properly identifying results and variances need to be assessed and managed.

Operational and financial reports must be useful and tailored for all users. Reports must be meaningful and include standard criteria so that performance can be scrutinised. The usefulness of reports needs to be regularly reviewed. Information collected that does not assist in improving performance or accountability is expensive and unlikely to have any value. Reports should also facilitate feedback and learning so that remedial action can be taken before major problems develop.

During our site visits, we observed that managers focused on only a few items and issues. Where attention is limited to a particular set of information, program performance overall can deteriorate, possibly allowing corruption and fraud opportunities to set in without detection. A balanced collection of information needs to be established to ensure management and accountability issues are adequately reported. From this information, factors likely to influence outcomes and accountability can be investigated.

While the SAP/R3 system is capable of being the basis of a meaningful financial information system, it is currently not being used effectively. Staff appear to have insufficient training in the operation of the system and managers appear

¹² See footnote to section 67(1) of the Financial Management Standard.

not to understand the outputs of the system. This suggests that personnel could benefit from training in this area. Systems that produce relevant information, in a timely manner, on financial aspects of prison industries allow for early detection of any fraud or corruption.

CONTRACTS FOR THE SALE OF GOODS AND SERVICES

A contract to supply should describe what is to be provided to the buyer, and record the agreed price and time frame. A well-drafted contract removes ambiguity from the process and is an accountable document against which the supplier can measure performance.

Observations

We found considerable inconsistency in the use of contracts for the sale or supply of goods and services produced in prison industries. It appears that there are no uniform rules about the form that contracts should take and the circumstances in which they should be used.

Some correctional centres had oral arrangements with customers despite the contracted work being worth a large amount of money. In some of these cases the oral arrangements extended formal written contracts that had expired. Other centres used formal written contracts for arrangements involving products of relatively low value. The absence of records of existing arrangements creates a risk that corrupt arrangements could be set up that would be difficult to detect.

Joint ventures and partnerships between correctional industries and external businesses or individuals pose a special risk. The DCS has partnerships in share farming and in manufacturing metal products. In these types of arrangements, there is the potential for the external agencies and/or individuals to forge special relationships with correctional centre staff, which might result in staff being compromised or unable to act independently and objectively in their dealings with the external joint venturer or partner. For example, private partners may be able to access and use departmental assets for private purposes. Business arrangements should be transparent and be able to stand up to scrutiny. To do this they must be properly documented.

Those responsible for the selection and development of prison industries also need to be aware of the circumstances in which

contractual relationships may arise. Under current DCS delegations, the value of the contract dictates who has the authority to purchase goods and services. Some manager and staff interpret delegations as providing them with authority to enter into contracts on behalf of the DCS, up to the value of the purchasing delegation, for the sale or supply of goods or services produced in prison industries.

When contracts to supply include time limits and perhaps penalty clauses, there is confusion about which DCS officers have authority to enter into contracts on behalf of the department. This situation needs to be resolved to ensure that the risks associated with contracts to supply goods and services can be managed.

Another matter for concern is the degree of commercial expertise among the officers involved. The staff who hold the delegations referred to above are usually at director level and above (this includes the Director, Prison Industries) and General Managers. However, some of these officers have no training or expertise in commercial or contractual matters and would benefit from technical and professional support.

BEST PRACTICE

All commercial transactions entered into by a public sector agency should be recorded in some way. While it may not be necessary for a formal written contract to be entered into for each transaction involving the sale or supply of goods or services produced by a public sector entity, it is essential that the details of each transaction is documented.

As in the case of purchasing, public sector agencies should develop guidelines or criteria (suitable to the particular circumstances of the agency) for determining the level of formality required for documenting particular contractual arrangements. This determination should involve an analysis of a range of issues bearing on the risk exposure of the agency, including:

- the customers and their contractual history with the agency
- the nature and complexity of the contractual obligations
- the nature and complexity of the processes involved in the production of the goods or services being sold or supplied
- the risk profile of the transaction, i.e. the risks to the agency and the customer.

Commercial transactions involving the sale or

supply of goods and services produced by a public sector agency also should be managed by a suitably experienced and/or qualified officer who is fully cognisant of the agency's policies and procedures for entering into these types of transactions.

Discussion

The contracting process — involving the sale or supply of goods and services produced in prison industries — exposes the DCS to legal, financial and corruption/fraud risks.

It would therefore seem essential that contractual relationships are recorded and managed by the DCS. While it is recognised that it may not be necessary, nor appropriate, for a formal written contract to be entered into for each transaction involving the sale or supply of goods or services produced in prison industries, nonetheless it is important that each transaction is documented.

It is clear that the process for entering into contracts would benefit from some clear rules or guidelines about the types of contractual arrangements that should be formally recorded in a written contract. These guidelines should also include a formal accountability or oversight process to ensure the probity of the processes of selection and contract negotiation.

Some of the contractual arrangements or conditions that would require formal documentation include:

- contracts for goods or services exceeding a specified amount
- contracts for goods or services that are products of a complex process
- contracts that may involve risk to the DCS; for example, contracts with penalty clauses for late completion or delivery.

Responsibility for the performance and oversight of these various functions would be best placed with someone with business training and experience, who could readily access the department's solicitor for legal advice. Based on the current DCS structure for prison industries, it would appear that the Director, Prison Industries, is in the best position to perform these functions.

PRICE SETTING

Decisions about costing and pricing of goods and services, while closely related, are not the same decisions. Costing is the process that

identifies the value of all inputs and resources used to produce goods or services. Pricing decisions, on the other hand, are usually based on:

- the return required for a product
- an estimate of the variable costs of producing the goods or service; for example, the raw materials used in the manufacture of a product
- the non-variable production costs; for example, the proportion of centre administration costs or perimeter security costs attributable to the industry.

In addition to considering the actual costs of production of goods or services, pricing decisions also need to take into account other external factors such as demand elasticity, market conditions and value adding. It is important also in the context of prison industries to note that the rehabilitative or social benefits of providing work skills and training to prisoners should also be taken into account when making pricing decisions.

Observations

The discretion to set prices for products produced in prison industries was a factor in both Case Studies A and B. The DCS has no uniform system of price setting for prison industry products, nor does it have any system for determining whether the prices set for products are reasonable.

One correctional centre had a system of calculating up to nine different product prices for any one quotation. This practice proved to be a laudable attempt to comply with complicated prison procedures. These procedures prescribed a method of determining a product price and then calculating it with 10 per cent, 20 per cent and 30 per cent mark-ups. A further range of three prices was to be determined using a method based on different indirect costs. These two ranges were then averaged to obtain a more standardised price. Depending on the quantity ordered and the identity of the customer, one of the nine prices was selected for the contract.

The prices of some garment items produced in an industry at another centre were regarded as representing a 'standard cost' that could not be adequately explained, except that it was calculated some time ago and 'looks right'.

The types of direct costs to be incorporated into a price or quote are left largely to the Industry

Managers/Advisers at the various centres. For instance, a standard labour cost can be calculated using the actual cost of the prisoner labour, or an hourly rate as if a qualified tradesperson had completed the task.

The types of indirect costs used to calculate prices and the way they are calculated are also arbitrary. Industry staff use their own discretion to determine these formulas. At interview, most were able to discuss their own price-setting system with authority and claimed that they had not been provided with any information that would assist them to develop a different system. All agreed that a uniform price-setting model would be useful.

Another example of discretionary pricing is where inmate labour is contracted to outside organisations. Inmates do community work but their labour is also used on commercial farms picking produce or cleaning up. Rates are sometimes set by reference to an amount allowed for the custodial officer who supervises the inmates while they are away from the centre. He/she is usually replaced at the centre by a casual employee. Ultimately though, the size of the inmate workforce provided, the price of their labour and the individual or organisation for whom they work are at the discretion of a correctional officer. Such wide-ranging discretion increases the corruption-risk exposure of an organisation.

Another noteworthy issue is the setting of transfer prices for products between centres and even within centres. At one centre, the prison farm bought in fresh produce to make up for shortfalls in its own production. This produce was then on-sold to the main centre at a price higher than the original purchase price. This manipulation of prices may not reflect the real value or cost of the produce to the centre.

Questions such as these need to be answered before setting transfer prices:

- Are opportunities created between industry staff and those people involved in the businesses providing the shortfall goods to corruptly fix prices?
- Is there scope for the transfer price to be artificially manipulated to create a margin to allow for the payment of a 'kickback'?
- Is there sufficient scrutiny of purchases made from internal providers and the prices set to ensure probity and accountability?
- Is the charging of a 'profit' appropriate

between various cost centres of the one correctional centre, or does this artificially manipulate financial results?

BEST PRACTICE

Section 34 of the Financial Management Standard prescribes the elements of a system for charging for goods and services:

- identifying the goods and services for which users must be charged
- regularly examining the level of charges for the goods and services
- ensuring the basis for charging complies with the information standards applicable to the goods and services
- recording information to collect accurate and reliable data about the goods and services.

In deciding what charge there will be on particular goods or services, an agency must have regard to the full cost of providing those goods or services. However, a decision may be made to charge less than the full cost for reasons such as:

- the lower charge reflects the commercial market rates that apply to comparable goods or services in the market in which the agency is operating
- the impact of the lower charge on achieving the social objectives implicit in delivering the goods or services.

(s. 36 Financial Management Standard)

Discussion

The range of methods used for pricing prison industry goods and services across the correctional system indicates that neither costing nor pricing decisions are made with reference to the actual costs of providing the goods or services. A cost benchmark or standard for determining the cost of goods and services manufactured in prison industries should be established that takes into account all expenditures or inputs associated with production.

The intended use of costing information needs to be considered to ensure that the information is sufficient to make rational decisions that support the strategic goals of the DCS and the correctional centre; for example, whether it is for use in making decisions about pricing products for sale, determining transfer pricing or for monitoring the ongoing performance of prison industries. The costing process should be consistent, transparent and accountable.

Because the process needs to be understood and applied by a wide range of staff at each correctional centre, the costing process should also be simple and use information that is available to and understood by those staff.

In addition to a costing benchmark or process, a pricing policy may need to be developed for officers who make pricing decisions about goods and services produced by prison industries. The development of quotes for particular items should provide for accountability and transparency. Quotes and pricing decisions should be documented and retained. The pricing policy should recognise the unique situation and characteristics of prison industries and their purpose within the DCS structure. The pricing policy may identify the issues to be taken into consideration in order to set a price.

PURCHASING

Purchasing is a high-risk activity for any organisation. All public sector agencies spend a large proportion of the budget on the purchasing process, as well as actual purchases. The amount spent requires an attendant level of probity.

Because of the nature of the work of officers who are involved in purchasing, there is the likelihood, that from time to time, officers will be confronted by questions of ethical practice. Indeed, perhaps no other group of Government staff is so directly involved with this issue. (Department of Public Works 2000)

The nature of prison industries ensures that there is a continual flow of materials in and out of a centre. The cost of raw materials purchased by a correctional centre can sometimes be worth more than 70 per cent of the revenue to be earned from the industry for which those materials are bound.

Observations

Purchasing guidelines exist in each centre and require the involvement of several staff. Notwithstanding this guidance, we observed certain control risks in prison industries:

- There was often little or no segregation of duties between officers responsible for placing orders and those receiving the goods upon arrival at the correctional centre. These roles were often performed by the same officer when they involved the purchase of materials for use in a prison industry.
- Case Study A showed that items

purchased could apparently be re-routed to a staff member's home without the practice being detected. In some centres, correctional staff told CJC officers that it was quicker to have items delivered to their homes or to 'pick things up on the way' to work, rather than organise delivery to the correctional centre.

- Correctional staff reported that locating a staff member with a purchasing delegation (that is, with the authority to purchase goods to a specified amount) was often time consuming. Often that person did not understand the significance of a particular order, nor was he/she in a position to test its reasonableness.
- Staff reported that they were aware of a practice of splitting orders, thereby reducing the cost of individual orders and avoiding the need to locate a person with the appropriate purchasing delegation to complete the purchasing documentation.
- Very little is done to ensure that a supplier is in fact a valid company operating a legitimate business, although central office staff do conduct some checks to determine whether the supplier is a legitimate business, such as whether the business has an ACN¹³ or uses letterhead.
- In most cases there was a stores function operating in the centres, which oversaw the purchasing of goods. But the segregation of purchasing functions between stores and prison industry officers did not appear to be well maintained. Case Study A illustrates how easy it is under the system currently in operation in some correctional centres to avoid the involvement of the stores function in a purchase.
- The selection of consultants is not always seen as a purchasing decision. Accordingly, these decisions are often not subject to even the limited accountability mechanisms that the department has for purchasing.
- As previously discussed, there was no system for monitoring, nor any requirement to notify, potential conflicts of interest.

¹³ An Australian Company Number as provided for under the corporations law.

BEST PRACTICE

Probity and accountability is one of the three objectives of the new State Purchasing Policy. Legislation such as the Public Sector Ethics Act as well as the DCS code of conduct and its purchasing procedures impose further obligations for probity and accountability. Through the operation of this regulatory framework, the expenditure of public funds is subject to public scrutiny.

Probity is achieved by officers who:

- perform their duty impartially, uninfluenced by the receipt or prospect of threats, reprimands or rewards
- do not accept or seek gifts or other favours
- do not entertain approaches by suppliers that might be interpreted as attempts to influence the evaluation process
- ensure that their private interests do not conflict with their public duties
- maintain confidentiality in all dealings
- maintain high standards of accountability
- develop consistent systems and procedures
- promote professional practices.

Accountability is the ability to justify actions. Public sector agencies must be able to account for decisions they have made and actions they have undertaken consistent with:

- the State Purchasing Policy
- the department's purchasing procedures and Code of Conduct
- legislative requirements such as those found in the:
 - *Financial Administration and Audit Act 1977*
 - *Financial Management Standard 1997*
 - *Public Sector Ethics Act 1994*
- the department's Corporate Procurement Plan
- significant purchasing plans
- other relevant policies and requirements.

Good record keeping is an essential tool. Records should provide enough information to enable audit and independent review functions to be carried out effectively. The type and detail of information that is recorded should depend on the complexity of the purchasing process (Department of Public Works 2000).

Discussion

A purchasing system needs to be based on considerations of fairness and impartiality as well as economy at all stages of the process. A properly conducted purchasing process should

allow minimal opportunity for corruption and unfair advantage.

The DCS needs to review and adjust its purchasing procedures in light of the control risks observed during this review. The department would benefit by committing to more than the minimum required under the State Purchasing Policy. Simple compliance is not a guarantee of probity or a process that is free of risk. The DCS needs to implement systems for checking that its officers are complying with the relevant policies, and management must be accountable for lapses and deficiencies that go undetected over a period.

ASSET AND INVENTORY MANAGEMENT

Most public sector agencies like the DCS hold considerable assets. Particularly in the area of prison industries, the DCS has large holdings of assets and inventory. Because of their value and moveability, assets and inventory are vulnerable to loss, damage and deterioration. Accordingly, this area is a potentially major site for corruption. It is important that assets purchased with public monies are properly managed and employed to an optimal level, and appropriately maintained, to maximise their value and benefit to the correctional system.

The corruption risks in the area of asset and inventory management include:

- officers taking equipment for their own use
- allowing others to remove equipment
- borrowing items and diminishing them in some way
- inappropriately writing off, selling or disposing of assets.

Observations

We observed the following asset and inventory management systems:

- Most correctional centre industries employed systems such as peg boards to monitor the location of tools; all centres reported occasional losses.
- Some centres had systems that required staff to 'sign out' borrowed tools in an effort to monitor their return.

However, we were informed of sufficient incidents involving potentially large losses to form the view that internal controls needed

strengthening. For example, some centres reported inmates leaving equipment in fields and elsewhere rather than returning it to sheds. The absence of controls makes it nearly impossible for the DCS to determine whether assets or inventory have been lost or stolen.

BEST PRACTICE

As soon as assets and inventory come into existence or into the ownership of an agency, they should be identified and recorded on an asset management system. This system should allow for monitoring and management of assets and inventory. The existence and location of assets should be routinely recorded and verified. How frequently this audit process should be conducted depends upon the risk profile and materiality (value) of the assets (Financial Management Standard, Division 5 Asset Management).

Discussion

The asset-management systems employed by the DCS are in compliance with the requirements of the Financial Management Standard. However, our observations and information from staff indicate that mere compliance is not sufficient to deal with the risks associated with the use and production of assets and inventory in the operation of prison industries.

Asset management should incorporate control over valuable as well as attractive items. The special risks to assets in prison industries may need to be assessed to ensure early registration of assets and periodic review to ensure continued accountability.

ACCOUNTS RECEIVABLE

An organisation can suffer major loss if it does not have an effective system of recording accounts receivable. Where goods are produced for sale or services performed, there must be a well-controlled and scrutinised process to ensure that payments can be collected in due course.

Normally where goods are produced in a prison industry, items are delivered to the customer with a delivery docket that describes the goods. The delivery docket is also used in some secure centres to ensure that only the goods described on the docket leave the centre. Delivery dockets are usually numbered, with a number of coloured copies. Another copy of the delivery docket is used by administrative staff at the correctional centre to prepare a request for

Central Office to raise an invoice. The invoice is eventually sent from Central Office to the customer who pays the amount shown.

Observations

Differing levels and types of controls are used in some centres. Some use delivery dockets, sequentially numbered, as a control to show that all items that leave the centre have a docket (checked at the gate); some use stand-alone computer systems to check that invoices were requested.

BEST PRACTICE

To ensure that invoices are raised for all goods or services produced, there must be regular identification of the products or services for which a charge can be made. The accuracy of accounts raised can be ensured by:

- pre-numbering invoices and requests for invoices, and periodic follow-up of requests not processed within a reasonable time
- accuracy checks of costing processes and the correctness of billing calculations
- matching delivery information with invoice details
- procedures for effective management of amounts received in advance of works or services provided
- procedures for effective management of amounts receivable for which invoices will not be raised. (Queensland Treasury 1997, p. B2)

Discussion

To ensure that invoices are raised and payments are arranged for all goods produced by a prison industry, there should be a reconciliation process. Over time the audit section has expressed concern (on the basis of audits of a number of correctional centres), about the apparent absence of any system for reconciling delivery dockets with requests for invoices raised at the centre and invoices actually raised in Central Office.

Probity and accountability are at serious risk where delivery shortfalls and other accountability problems cannot be adequately identified.

SURPLUS, SCRAP AND WASTE

No matter how small the quantity or value, removing goods or materials from any workplace without consent or approval is theft. Surplus, scrap and waste must be identified and controlled to ensure that it is properly

safeguarded right up to its eventual disposal.

Corruption risks increase when an organisation has a practice of differentially pricing goods depending on the circumstances in which they are produced or sold, such as excess production, production of seconds or when scrap material can be reused to make a saleable item. Some confusion can also occur for staff in determining the ownership of items deemed to be waste and/or scrap.

Observations

Prison industries produce many different types of waste and surplus materials of varying value, the sale or disposal of which can present a range of corruption risks for the DCS.

Some centres have recognised these problems. Staff at one centre reported that they were more careful about their pricing of products manufactured from off cuts and smaller pieces of raw materials, recognising that although the materials were scrap they and the product manufactured from them obviously had value. It is clearly inappropriate to label something as 'waste' or 'scrap' if it is of value and/or could be profitably used. In one of the industry workshops visited, all seconds are sold to one outside organisation; no individual sales are made to staff or other private individuals or businesses.

BEST PRACTICE

Brown (1988) has reported studies that found theft in the workplace was higher in organisations that did not have clearly defined and well-communicated policies concerning the disposal of surplus and scrap.

At a minimum, public sector agencies that produce surplus, scrap or waste materials need to have clearly defined policies concerning the handling of these materials and their accountable and cost-effective disposal. These policies must be communicated to staff working in these areas and should be included in induction programs for staff employed in these areas.

Discussion

Irrespective of the quantity or value of goods or materials, their removal from any workplace without consent or approval amounts to theft for which an officer may be liable to both disciplinary and criminal action. A marked number of complaints of theft by public sector employees are made each year to the CJC. Many of these complaints are about surplus or waste items.

Unauthorised disposal or removal of scrap and waste materials should be managed as for any other assets and inventory. Poor controls over small-value items may be interpreted by some staff as implicit approval by the agency for them to take the items for their own use. The DCS may need to implement policies and control systems for prison industries that provide accountable and cost-effective disposal procedures for dealing with surplus, scrap or waste materials.

STAFF PURCHASES FROM INDUSTRIES

In April 1989, the then QCSC issued Corrective Services Rule No 28, which states that all officers and employees of the DCS are prohibited from purchasing or accepting anything from a prisoner, either for their own personal use or for the use of anyone else. This rule, which still stands, was extended in 1990 to include a prohibition on staff having work performed in DCS workshops and on farms. Procedures were laid down to permit work to be done for staff at centres, subject to the approval of a supervisor. These procedures included requiring payment in advance, pricing services or products at competitive or industry rates and requiring that the General Manager give permission in writing in each case.

Observations

Some of the practices observed during site visits were:

- Inconsistency about whether, and in what circumstances, staff may buy goods or services from centres.
- One centre has made a distinction between a purchase and a repair, so that while staff are precluded from purchasing products from the centre they may still have repairs done.
- Where centres allowed staff purchases, there were variations in how they were to be paid for by staff. Some centres required cash up front, whereas others allowed credit.
- A number of documented investigations show that money paid for items produced in centres had not actually been received at the centre, although the products had been removed.
- In one centre, staff sales were crucial to the viability of some industries. The General Manager of that centre also

regarded the opportunity to purchase industry products as providing some compensation to staff for working at the centre.

- Staff at one centre may purchase goods and services, such as catering for a party or a kitchen refurbishment.
- Lax security and inventory-control measures allow staff to access workshops and collect the items they are purchasing. A number of staff recounted incidents of finding items that had been produced in the workshop in other parts of the correctional centre with no idea how or why they had been removed from the industry area.
- Some centres allow staff to purchase leftover food (e.g. bread). This practice may lead to manipulation of production so that excess product is available for purchase.
- Staff vehicles are still serviced in the workshops at two centres. One of these centres was the model used to set up the mechanical workshop that figured in Case Study B.

The collection of payments from staff for industry products purchased was reported to incur considerable delays. Some centres require payment of all monies up front, yet they still had to commence debt-recovery procedures against some staff using payroll deduction. This suggests that there is inconsistent compliance with the rule.

BEST PRACTICE

Public sector agencies should have rules regulating staff purchases of industry products at all correctional centres that have industries. These rules should be consistent across all centres.

These rules may range from prohibition of the practice to the provision of a range of procedures through which staff may make purchases. What is essential in the development of a system of controls over staff purchases from prison industries is that they are risk based. The nature and extent of the risks associated with staff purchasing should be identified and assessed to establish the level of threat to the agency (see s. 84 Financial Management Standard Commentary). The controls implemented should focus on exercising control at the points in the process where the risks are greatest.

Once a system of controls has been introduced

it needs to be monitored and reviewed continually by all tiers of management to ensure that it is operating as intended and that it is effectively dealing with the risks associated with the process. Staff should be encouraged to identify breakdowns, deficiencies, duplications or gaps in the process. Ideally, managers should be able to attest to the effectiveness of internal controls. (NSW Treasury 1997, p. 36)

Discussion

Staff purchases of items that are standard and are available to the public, at a preset price, may not pose any marked corruption risks for the DCS. However, where items are made on a one-off basis or services delivered that are not easy to value, such as external catering or vehicle repair, a situation is created where it is extremely difficult to ascertain whether the pricing was fair or special deals were done.

Case Study B demonstrated that the procedures at that centre were ineffective in preventing manipulation of prices for vehicle repairs. Observations of current practices across several centres suggest that prices charged to staff for work done, or for surplus products, may still be open to manipulation. The absence of procedures in some centres and inconsistent procedures in others indicate that the risks associated with the practice of staff purchases of industry products have not been clearly identified and dealt with across the correctional system.

When management develops rules about staff purchasing of industry products, it is essential that these rules are practical and enforceable. Once control systems are in place, management must also commit to the process of enforcing compliance by staff.

CASH HANDLING

While cash may represent a very small proportion of the revenue received for industries, nonetheless it is a very attractive target in any amount.

Observations

Most centres had single collection points for the receipt of cash. However, it was reported that where industry products were sold to staff it was common for cash to be paid directly to an industry staff member who was to deliver it to the office later. In the course of one CJC investigation, it was reported that a significant amount of cash from the sale of a prison industry

product was left on a desk for the attention of a supervisor. The cash went missing.

BEST PRACTICE

Responsibility for cash management is set out in the Financial Management Standard. Where cash payments are frequently received, they can be effectively controlled through the budget process, but only if there is some predictability in the amount of cash to be collected. In this way variances can be identified more easily.

Cash collection points throughout the department and in correctional centres should be formally designated and a member of staff given responsibility for collecting cash and accounting for it. Cash collection points should be kept to the minimum needed to provide effective service.

Procedures for receipting, securing and banking cash should be clearly set out and readily available. They must include any variations for commercial activities such as prison industries.

Discussion

Where staff, other than those designated, collect cash for prison industries or any other function, there is a risk that the cash will not be correctly accounted for, either by simple oversight or through corrupt intentions. By permitting a range of staff to collect cash without any apparent accountability, otherwise honest staff may be open to an accusation that some or all of the cash was not accounted for.

In the absence of a comprehensive system of reconciliation of delivery dockets and receipts, there is no systematic way of detecting shortfalls in cash receipts. To establish effective control over cash, each centre should be able to anticipate the amount of cash that will be collected. There should be systems to identify the risk for loss and fraud as well as to enable regular monitoring of the effectiveness of the cash-handling procedures.

Where cash receipts are a small proportion of the revenue for prison industries, some consideration may need to be given to the costs/benefits of continuing to provide products or services on a cash basis. The current trend towards fostering larger contracted customers should assist in limiting the amount of cash handling for prison industries.

INMATES AND INDUSTRIES

A focus purely on production outcomes in industries has led to the practice of paying incentive bonuses to prisoners over and above the standard remuneration. (See discussion of the relevant Corrective Services Rules for prisoner remuneration in chapter 2.) In the past, this also led to inmates being paid remuneration over and above the standard rates set out in Corrective Services Rules. These practices were adopted for many reasons, including to attract and retain good workers and to ensure industrial peace and limited disruptions in the workplace.

Observations

A General Manager from one correctional centre has described an unintended impact of paying bonuses above the approved rate. Sentence management requires that prisoners progress through the security classifications as they progress through their sentences. Theoretically, transfer to a farm is at the end of this progression and the last stop before release. However, the pay rates in industries are much higher than can be offered on farms. As a result, some inmates sent to farms, keen to accumulate a nest egg prior to release, engage in behaviour that they believe will result in them being sent back to a higher security prison.

These practices do not necessarily result in monetary benefits for staff, but can lead to manipulation of the system for the purpose of improving the performance outcomes of centres. This is often called 'noble cause' corruption. A number of centres are developing rules in accordance with the DCS Industries Policy to ensure that prisoners make themselves available for work.

The system of remuneration presents some corruption risks, because any arbitrariness in the allocation of bonuses or in the appointment of prisoners to classification levels — thereby increasing or decreasing their remuneration, as the case may be — poses an unacceptable risk of manipulation.

There is no consistency between centres regarding the circumstances in which bonuses are paid or the percentage of the base rate of remuneration that is paid as a bonus. However, centres were apparently internally consistent in their allocation of bonuses. Corrective Services Rule 124 gives absolute discretion to the General Manager to determine who receives a bonus and the amount of that bonus,

although it is only payable as 'a reward for achievement' of deadlines, additional productivity targets, quality requirements, and conscientious attitude and behaviour.

We observed that in most industry areas all of the prisoner workers were receiving a 100 per cent incentive bonus. While it is understandable why management has chosen to 'reward' all of the staff in an industry area to avoid ill feeling, this practice was obviously not intended at the time of formulation of the rule.

Corrective Services Rule 124 also requires detailed job descriptions to be available for all inmate employment. These were not available in all centres.

Discussion

Compliance with the requirements of Corrective Services Rule 124 would help to increase the transparency and accountability of decisions about prisoner employment and remuneration, and reduce the incidence of arbitrariness. In any event, the absolute discretion of General Managers over the payment of incentive bonuses may still present problems. It may be advisable to review the rules relating to prisoner remuneration and the incentive bonus scheme to determine whether they are appropriate and relevant to current prison industry issues.

A practice in one centre that should be considered for wider application is the requirement of approval from the Industry Manager/Adviser for all decisions about prisoner employment. This was to facilitate greater

participation by prisoners in work in prison industries, but has also helped to ensure the high profile of industries in that centre.

This structure would make the Industry Manager/Adviser the centre 'employment manager' who is responsible for the placement of prisoners in work as well as being responsible for meeting prisoner employment targets at the centre. Based on observations of the operation of the scheme, it should provide for a more efficient and coordinated use of prisoner labour than currently occurs. The industry area is not disadvantaged by the unavailability of workers because they have been placed in positions elsewhere in the centre. It should also reduce the perceived need to pay inmates a premium to attract them to industry work.

Recommendation 4

That the DCS review each of the following operational areas, in line with best practice, with the aim of strengthening the internal controls for each activity:

- operational and financial reporting
- contracts for the sale of prison industry goods and services
- price setting
- purchasing
- asset and inventory management
- accounts receivable
- surplus, scrap and waste
- staff purchases from industries
- cash handling
- inmates and industries.

ACTIONS TAKEN AND FUTURE MONITORING

ACTIONS TAKEN BY THE DCS

A number of issues raised in this report have been acknowledged and acted upon by the DCS since the commencement of this review. The changes and actions implemented by the DCS are listed below:¹⁴

- **Risk management:** The DCS Board of Management endorsed a risk management policy and framework in June 2000. The framework has two stages in a step-down implementation plan, which is to be fully actioned during the 2000–2001 financial year.
- **Fraud Prevention/Internal Reporting:** The Internal Audit plan for the 2000–2001 financial year includes the establishment of a position to progress these issues throughout the department.
- **Purchasing:** The DCS will be implementing a new purchasing policy in line with changes to the State Purchasing Policy. This process has already commenced with the reintroduction of requisitions and the abolition of phone orders.
- **Assets:** Asset management throughout the DCS has been reviewed and the control over valuable and attractive items has been upgraded to include accountability, registration and periodic review at Centre/Region level.
- **Contract (Business development):** New policies and procedures are nearing completion limiting a business centre's ability to negotiate with customers and placing restrictions on access to subcontractors.
- **Pricing of products:** New policies and procedures are nearing completion to provide for the pricing of goods and services across the organisation.
- **Material management:** New policies and procedures are nearing completion for the delivery of goods, both to and from correctional centres, stock control and management of surplus and waste.
- **Staff sales:** New policies and procedures are nearing completion for the stipulation of eligibility of staff to purchase goods and services and also for the terms of payment.

FUTURE MONITORING BY THE CJC

The CJC acknowledges the steps already taken by the DCS to deal with the risks and issues highlighted in this report. We will monitor the progress of the department in implementing the report's recommendations, providing assistance where possible.

¹⁴ Personal communication from the DCS, 17 July 2000.

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