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Military Veterans
REPUBLIC OF SOUTH AFRICA

**SCOPA REVIEW OF 2015 – 2016 IRREGULAR, FRUITLESS
AND WASTEFUL EXPENDITURE OF THE DEPARTMENT
OF MILITARY VETERANS
DATED 15 NOVEMBER 2016**

**PRESENTED BY ACTING DIRECTOR-GENERAL:
MAX OZINSKY**



PRESENTATION OUTLOOK

- AIM OF THE PRESENTATION**
- IRREGULAR EXPENDITURE**
- FRUITLESS AND WASTEFUL EXPENDITURE**
- STRATEGY TO IMPROVE TURN-AROUND TIME**



AIM OF THE PRESENTATION

The presentation aims to provide detailed information on Irregular, Fruitless and Wasteful expenditure of the Department of Military Veterans. The recovery strategy on addressing and finalising the outstanding cases will also be presented



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IRREGULAR EXPENDITURE

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- The Department of Military Veterans (DMV) derives its mandate from the Military Veterans Act, 2011 (Act No.18 of 2011).
- DMV expenditure is characterised as follows:
 - Cost of Employment (CoE): This relates to all employee related costs such as salaries, Medical Aid and Housing Allowance
 - Goods and Services: This relates to the procurement of services required to render the delivery of benefits to Military Veterans or the general goods and services required by the department
 - Transfers and Subsidies: Where DMV renders service delivery through other Government Department such Department of Human Settlement for the delivery of Housing Support
 - Payment for Capital Assets: This procurement of ICT equipment and Furniture required by the Department
- DMV Irregular Expenditure is prevalent in the procurement of goods and services and Capital Assets
 - Procurement of capital assets was done using bulk purchases where an opportunity may exist to deviate from procurement prescripts
 - Contract management is the key driver to irregularity of procurements
 - Lack of proper planning by DMV Officials leading to lack of adherence to procurement process

IRREGULAR EXPENDITURE

- Irregular expenditure (IE) related to 2013-2014 FY amounts to R22.7m of which R10.7m is related to MVHPA (medical health practitioners where procurement process were not properly followed)
 - R2.2m relates to travel agency called Travel with Flair (TWF). Service provider for travel and accommodation (Contract management being the issue)
 - R1.5m relates to Fetolo Mogopolo. Service provider engaged without adhering to Tender processes. Litigation in process.
 - R1.2m is related to Business Connexion. Service provider engaged without adhering to Tender processes
 - The balance is mainly related to non-compliance with SCM processes.

- IE for 2014-2015 of R27m of which R8.9m relates to payment to Vodacom for cell phones for a contract that was not formalised. DMV had attempted to participate on the contract held by Ministry.
 - R5.3m relates to travel agency called Travel with Flair (TWF). This is an accumulation from 2013-2014 FY
 - R4.2m relates to MVHPA (Medical Health Practitioners)
 - R1.8m relates to B&M Catering. Litigation in process
 - R934k relates to Red Alert. Security services where the tender was not advertised on the Department's website
 - The balance is miscellaneous matters relates to non-adherence to SCM processes

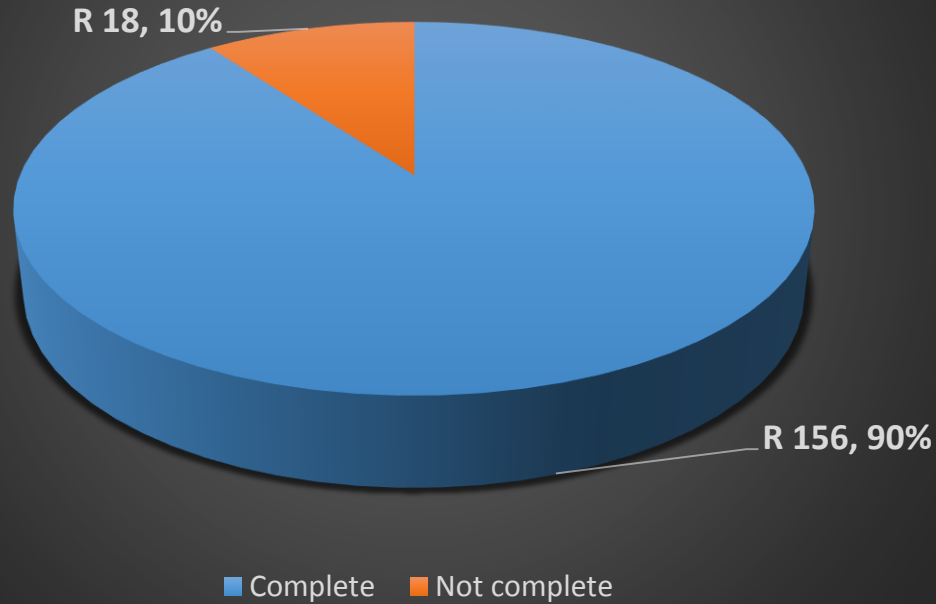


IRREGULAR EXPENDITURE

- IE for 2015-2016 of R123m of which R106m relates to lack of Financial Delegations. Delegations were centralised within Finance by the then CFO. Due to the CFO position being vacant for a long time, these were decentralised however, formal documents were not put in place and hence the finding.
 - R5.7m relates to Vodacom. This is irregular due to the shortfall on contract management within the Department
 - R3.6m relates to travel agency called Travel with Flair (TWF). This issue dates back to 2013-2014 FY
 - R757k relates to Price Waterhouse Coopers (PWC) for investigation done on contract management
 - The balance is miscellaneous matters relates to non-adherence to SCM processes

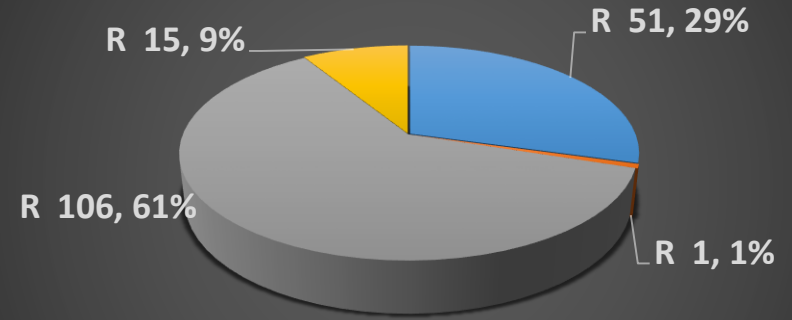
SUMMARY OF IRREGULAR EXPENDITURE

**INVESTIGATION STATUS BASED ON VALUE
 (R'Million & %)**



- Based on value, investigations are **89.9%** complete
- All completed matters already referred to the Accounting Officer(AO) for condonement, next step is for AO to seek approval of condonement by National Treasury

**BY REASON CODE
 (R'Million & %)**



- Contract Management
- Cost containment
- Financial delegations not in place
- Non adherence to SCM prescripts

- 61%** relates to financial delegations – this has been in existence since 2014. AGSA only raised this matter in the FY under review
- 29.3%** relates to contract management. The key driver being lack of synergy between Senior management and the CFO. This is now addressed
- The remaining items are due to lack of adherence to SCM prescripts. Capacitation SCM practitioners is being addressed through Training and development including close supervision and change management

SUMMARY OF IRREGULAR EXPENDITURE

Suppliers	Amount	%Contr	Reason for Irregularity	Investigation Status	Branch Responsible
Military Veterans Health Practitioners (MVPVHA)	14 883 532	8.6%	Contract Management	Complete	SES branch
Travel with Flair (TWF)	11 186 117	6.5%	Contract Management	Complete	Corporate Services
Vodacom	14 631 224	8.4%	Contract Management	Complete	Corporate Services
Delegations	106 011 425	61.1%	Financial delegations not in place	Complete	Various
MTN	165 029	0.1%	Contract Management	Complete	Corporate Services
Neotel	1 290 127	0.7%	Contract Management	Complete	Corporate Services
Red Alert	1 459 890	0.8%	Contract Management	Complete	Corporate Services
B&M Catering	1 800 000	1.0%	Contract Management	Complete	Corporate Services
Zwitto Cleaning Services	618 450	0.4%	Contract Management	Complete	Refer PWC Report
Fetolo Mogopolo	1 455 470	0.8%	Contract Management	Complete	Refer PWC Report
Destiny Catering	843 657	0.5%	Contract Management	Not complete	ESM branch
Business Connection	1 237 036	0.7%	Contract Management	Not complete	CS
TWF Travel Policy not updated to include cost containment	1 104 633	0.6%	Cost containment	Complete	Human Resources
RAIN Accountants	527 599	0.3%	Contract Management	Complete	Financial Management
PWC	757 399	0.4%	Contract Management	Complete	Internal Audit
Subtotal	157 971 589	91.1%			
Other	15 428 677	8.9%	Non adherence to SCM prescripts	Not complete	Various
Total Irregular Expenditure	173 400 265	100.0%			

- As noted in the previous slide, financial delegations contributed 61% (Already rectified by decentralisation of such)
- 29% is related to contract management. Contracts not formalised or signed by the Accounting Officer.
- The balance is various cases where SCM practices were not properly adhered to by various DMV Officials (The SCM policy has been revised and circulated to DMV Officials for Input. This has also been referred to National Treasury for ratification)



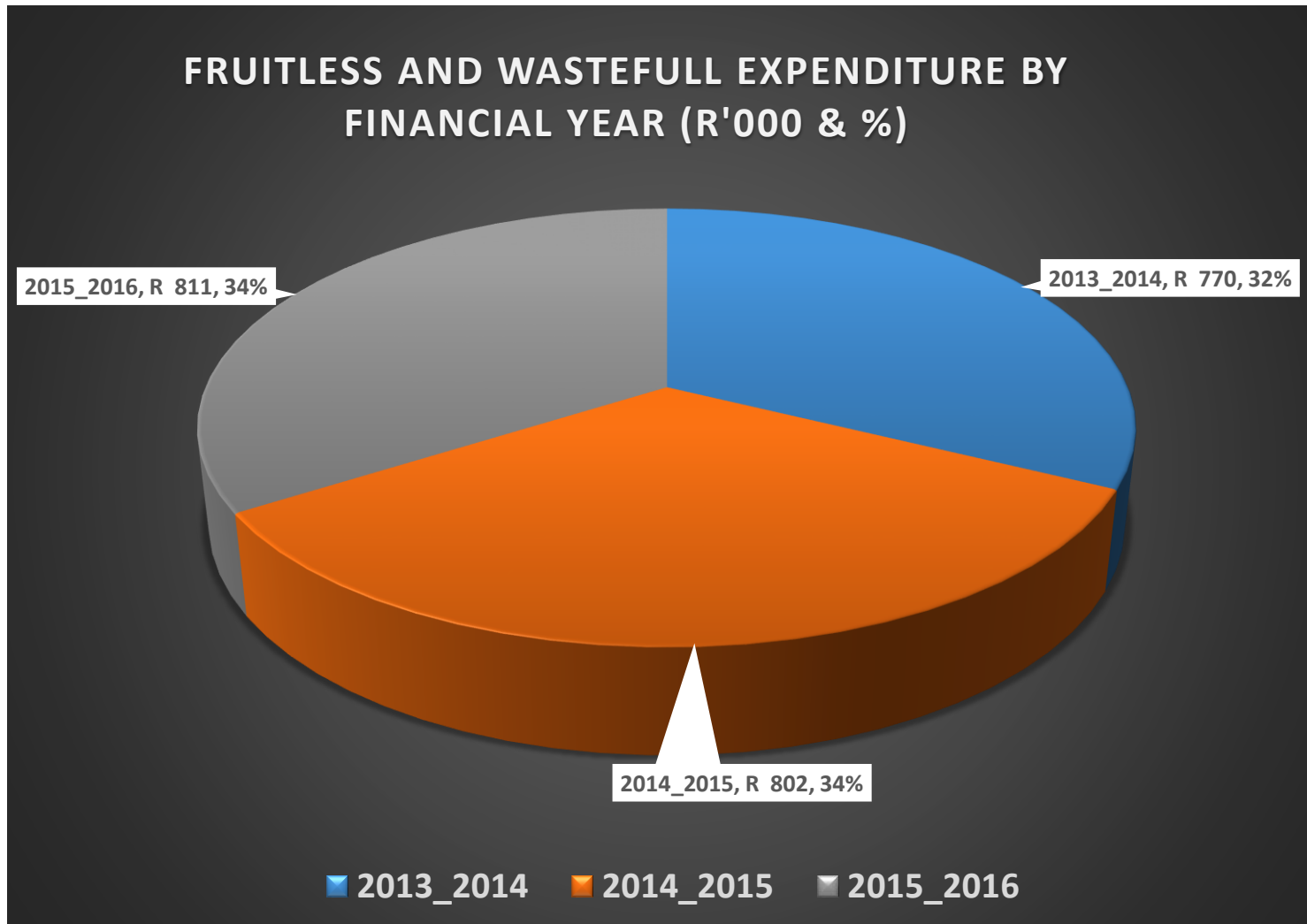
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FRUITLESS AND WASTEFUL EXPENDITURE



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- ✓ Fruitless and Wasteful Expenditure (F&W) Averages R800k each year.
- ✓ In 2013-2014 F&W mainly related to uncapped Cell Phone usage
- ✓ In 2014-2015, F&W mainly driven by procurement of expensive items, LOGIS subscriptions with the system not in use and T&S not inline with National Treasury prescribed rates
- ✓ In 2015-2016, F&W mainly driven by payment of interest on overdue invoices, T&S not inline with National Treasury prescribed rates and medical expenses for beneficiaries deemed not to be on the MV Database

FRUITLESS AND WASTEFUL EXPENDITURE Cont...

- Fruitless and Wasteful expenditure is mainly driven by the follow:
 - Damages of hired vehicles by DMV Officials or Stakeholders
 - DMV officials are dealt with using the debt recovery policy
 - However, external stakeholders will need some intervention
 - DG will assist by engaging with external stakeholders
 - Traffic Fines related for to DMV Officials and external stakeholders
 - Debt recovery policy is immediately applied
 - The challenge remains with external stakeholders
 - DG will assist by engaging with external stakeholders
 - No Shows for travels, accommodation and training
 - As indicated above, the debt recovery policy is applied where DMV Officials are involved
 - The challenge of external stakeholders to be addressed with the assistance by the DG
 - Suppliers who charge prices above market price
 - Few cases of prices that seems to be above the going rates in the market
 - SCM official/s who engaged in the procurement will be engaged and corrective action taken upon finalisation of the investigation
 - Debt recovery policy will be applied



FRUITLESS AND WASTEFUL EXPENDITURE Cont.....

- Payment for LOGIS subscription but the system is not being used by DMV
 - The system was implemented but database not properly managed.
 - The above led to glitches with the outcome of the results or usage. Decision was taken to switch off the system but payment for subscription continued
 - The system re-implementation is underway with the intervention of National Treasury and SITA
 - Targeted Go live date is 01 April 2017
- Interest paid on overdue account



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STRATEGY TO IMPROVE TURN-AROUND TIME ON CASE CLOSURE

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- The policy on financial misconduct has been developed and authorised by the Accounting Officer
 - Risk Policy and Register now formalised
 - Key risk areas identified and mitigating actions identified and monitored
 - Debt policy has been updated
- DMV has also formalised the Financial Misconduct Panel
 - The panel meets once a month
 - Panel members consist of CFO, Risk Manager, Compliance Officer and the Director Financial Services:DoD (**This is to bring in an element of independence**)
 - Irregular Expenditure investigations have been prioritised in accordance to value
 - Ageing will be used as the second priority i.e. starting with 2013-2014 by addressing all the related cases
 - There may be a need to also consider outside help to speed up the process. This will ensure that the process becomes independent and free from BIAS.
 - The panel reviews each case and recommends appropriate sanction/s and corrective action/s
- Consequence management has commenced on Fruitless and Wasteful Expenditure (R361k is being recovered). This will also be strictly applied on completed IE cases
- DMV is now using CSD. Proper usage of CSD will eliminate usage of non-complying suppliers



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THANK YOU