



Victorian Life Sciences Computation Initiative



VICTORIA

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Auditor-General

Victorian Life Sciences Computation Initiative

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The Hon. Bruce Atkinson MLC
President
Legislative Council
Parliament House
Melbourne

The Hon. Ken Smith MP
Speaker
Legislative Assembly
Parliament House
Melbourne

Dear Presiding Officers

Under the provisions of section 16AB of the *Audit Act 1994*, I transmit my performance report on the *Victorian Life Sciences Computation Initiative*.

Yours faithfully



DR PETER FROST
Acting Auditor-General

15 June 2011

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Audit summary

Background

The Victorian Life Sciences Computation Initiative (VLSCI) is a \$100 million investment intended to provide Victorian life sciences researchers with a significant new supercomputing capability and a centre of expertise to support their use of the facility. This capability is expected to help researchers facilitate improvement in medical and health outcomes through the generation of new knowledge.

The aim of the VLSCI is to strengthen the capability and reputation of Victorian institutions and researchers working in life sciences by acquiring a peak computing facility (PCF) ranked in the top ten life sciences research facilities in the world. It aims to employ over 50 people in life sciences research across five programs.

When completed in 2013, the initiative is expected to establish:

- life sciences computation centres at Parkville, Clayton and Bundoora to provide computational life science expertise to institutions in Victoria
- a PCF accessible to life sciences researchers and staffed by technical experts to support users of the facility
- collaborative research programs supporting the effective use of the PCF
- a skills and training program to develop future computational life science expertise for research and industry
- a public, industry and government outreach program.

The state government is providing the University of Melbourne (the University) with a \$50 million grant for the initiative under the *Innovation: Victoria's Future* program with another \$50 million to come from the University, other public research organisations and a private company.

The Department of Business and Innovation (DBI) is overseeing the administration of the grant agreement between the state government and the University.

This audit's objective was to assess whether the VLSCI has been effectively planned, procured and managed. This was addressed by determining whether:

- the computational, research support and skills development needs of the life sciences research sector were effectively identified and analysed
- there was a robust options analysis and business case development to meet the identified needs and the initiative was aligned to the state's *Innovation: Victoria's Future Statement* (2008) and the *Victorian Innovation Strategy* (2008)
- a rigorous review and evaluation process was undertaken prior to the approval of the VLSCI
- due process was followed in the establishment and delivery of the initiative, including a focus on probity and value for money.

Conclusions

The VLSCI initiative is consistent with government policy and the University of Melbourne's strategic and business objectives.

Early indications are that the VLSCI program is achieving state government policy objectives by providing life science researchers with additional computational and research capability. This has driven changes in computational research with the potential to make important contributions to life sciences in Victoria.

However, notwithstanding these positive early signs, the absence of sufficient needs and options analysis and sound procurement processes, means the University cannot demonstrate that the PCF and associated life science computation centre represents the most effective use of the \$50 million provided by the state government for life science research.

The University identified the broad need for additional computational and research capability for life science researchers and the need to attract additional specialist life science resources to Victoria. However, it approached the market before it had adequately identified the specific needs of researchers and assessed the options available to meet them. As a result, the University is not able to demonstrate whether the goods and services acquired and the research partnership formed meet these needs.

The procurement was not well planned and the University is not able to demonstrate it represented value for money. The main reason for this was that it only attracted one company capable and willing to partner it in the initiative and opportunities to retest the market were not taken.

Furthermore, the University's project management and procurement processes did not demonstrate the level of transparency and accountability required for large public sector procurement.

While the audit found no impropriety, the procurement was not demonstrably impartial. Conflicts of interest and perceptions of bias created by the University's earlier involvement with the company subsequently chosen to partner it in the VLSCI were not adequately identified and managed.

DBI's use of the grant agreement to establish governance, monitoring and reporting frameworks was, however, generally sound.

Findings

The case to invest

Many Victorian life sciences researchers are interested in using the current and proposed VLSCI peak computing and support facilities.

The initiative is consistent with the University's strategic and business objectives and state government policy, as outlined in the then government's innovation policy *Innovation: Victoria's Future* and *Victoria's Life Sciences Strategy*.

However, the University went to market to seek a key partner to deliver the VLSCI before:

- identifying the specific computational and other needs of life science researchers
- critically evaluating the alternatives available to it to drive cutting edge life science research in Victoria
- clearly demonstrating how its proposed solution would specifically address these needs.

Governance and planning

DBI used the grant agreement with the University to establish governance, monitoring and reporting requirements for the initiative. The University's planning and project management documentation was not of a sufficient standard for a state government funded project of the size and complexity of the VLSCI.

The University's decision to start its procurement process before completing its detailed project planning, and addressing the risks and deficiencies identified, was poor project management practice. Specifically:

- a detailed procurement strategy was not prepared and there is no documentary evidence of the University identifying and evaluating alternative procurement options.
- the University's risk management plan did not identify, and have strategies to manage, a number of major risks associated with the procurement.

Implementing the procurement

Parts of the University's procurement were well managed, but there was insufficient documentation to support:

- major project management and procurement activities including supporting the proposed investment, planning the procurement, managing project risks, engaging the supply market, evaluating the request for proposal responses and negotiating the contract
- the rationale for some major decisions and approvals such as the University's decision to start contract negotiations with a company whose proposal did not meet the request for proposal requirements.

The University's procurement attracted only one capable party willing to partner it in the VLSCI. As a result, it did not create the competitive tension needed to achieve a value-for-money outcome.

The University also did not do enough to address the advantage this party had, from its earlier involvement with the University in planning and developing the initiative, thereby risking the integrity of the process.

Recommendations

Number	Recommendation	Page
1.	The Department of Business and Innovation should provide targeted guidance to agencies on how to identify and support proposals for government funding. In particular the Department of Business and Innovation could assist agencies: <ul style="list-style-type: none"> • identify the need for the proposed initiative • identify and evaluate the options to meet the need • adequately support the proposals with a detailed business case. 	14
2.	Where the Department of Business and Innovation provides significant grants to public agencies for projects that are significant in size, complex or high risk, it should require agencies to demonstrate: <ul style="list-style-type: none"> a. that grant proposals are adequately supported and include option and cost benefit analysis b. compliance with Victorian Government Purchasing Board guidelines and relevant government procurement policies c. they have sufficient and appropriate resources to manage the project. 	14 26 38
3.	For the remainder of the project, the University of Melbourne should: <ul style="list-style-type: none"> • adequately document all significant activities and major decisions • demonstrate its compliance with relevant government procurement and project management policies, procedures and guidelines. 	38

Submissions and comments received

In addition to progressive engagement during the course of the audit, in accordance with section 16(3) of the *Audit Act 1994* a copy of this report was provided to the Department of Business and Innovation and the University of Melbourne with a request for comments or submissions.

Agency views have been considered in reaching our audit conclusions and are represented to the extent relevant and warranted in preparing this report. Their full section 16(3) comments and submissions, however, are included in Appendix A.

1 Background

1.1 The Victorian Life Sciences Computation Initiative

The Victorian Life Sciences Computation Initiative (VLSCI) is a \$100 million investment intended to provide Victorian life sciences researchers with a significant new supercomputing capability and a centre of expertise to support their use of the facility. This capability is expected to help researchers facilitate improvement in medical and health outcomes by expanding their knowledge of the human body.

The aim of the VLSCI is to strengthen the reputation and capability of Victorian institutions and researchers working in life sciences by acquiring a peak computing facility (PCF) ranked in the top ten life sciences research facilities in the world. It aims to employ over 50 people in life sciences research across five programs.

When complete in 2013, the initiative is expected to establish:

- life sciences computation centres at Parkville, Clayton and Bundoora to provide computational life science expertise to institutions in Victoria
- a PCF accessible to life sciences researchers and staffed by technical experts to support users of the facility
- collaborative research programs supporting the effective use of the PCF
- a skills and training program to develop future computational life science expertise for research and industry
- a public, industry and government outreach program.

1.1.1 The peak computing facility

Stage 1 of PCF comprises two large computer cluster systems from separate vendors, and a specialised super computer. The second stage of the project is currently planned to involve an upgrade to at least one cluster, and to the specialised super computer in 2012. The funding period from the grant agreement runs to 2013.

The PCF will allow researchers to explore large databases of images and specimen information and create complex models to analyse, simulate and visualise scenarios. It is anticipated that this will lead to improvements in the detection and prevention of cancer, cardiovascular and neurological disease, diabetes and other conditions.

1.1.2 Funding the initiative

The VLSCI is being funded by a \$50 million state government grant under the *Innovation: Victoria's Future* program, and \$50 million in cash and 'in-kind' contributions from the University of Melbourne (the University), other public research organisations and a private sector company.

The agreement was executed in June 2008 and the grant paid prior to 30 June 2008.

1.1.3 Time line

Figure 1A provides a time line of the key events associated with the initiative.

Figure 1A
Key event associated with the initiative

Date	Key events
Early developments	
November 2007	The University writes to the Premier outlining proposed PCF initiative
February 2008	Minister for ICT approves \$75 000 funding for the University's development of business case and procurement strategy
Government approval	
March 2008	The University submits PCF and program Business Case to the Department of Business and Innovation (DBI)
April 2008	Government approved funds (\$50 million)
June 2008	Government executes \$100 million VLSCI grant agreement with the University
Public procurement – Key partner	
September 2008	The University puts an advertisement in daily newspaper notifying companies of its VLSCI industry briefing
October 2008	Industry briefing session held for Key Partner for the initiative
December 2008	Key Partner request for proposal (RFP) issued to registered entities
February 2009	The University receives one compliant response to the RFP
April 2009	Evaluation of response to RFP completed. Proposal to de-scope RFP and instigate separate procurement for cluster system
April 2009	First finalised Business Plan submitted to DBI
July 2009	Decision to enter direct negotiations for key partner and commence procurement of a cluster system
Public procurement – Cluster system	
August 2009	RFP issued
October 2009	Request for tender (RFT) issued
October 2009	Cluster RFT period closes
Procurement outcomes	
November 2009	Selection of supplier of VLSCI cluster system approved
February 2010	VLSCI Key Partner contracts executed
March 2010	Cluster system commences operation
August 2010	Stage 1 PCF operational

Source: Victorian Auditor-General's Office based on data from the University of Melbourne and the Department of Business and Innovation.

1.1.4 Progress to date

The project is not scheduled to be completed until 2013 and a decision will not be made on the second and most significant stage of the PCF until 30 June 2011. Consequently, an assessment of benefits realisation was not included in the scope of the audit.

Before a conclusion on the success of the VLSCI can be made:

- it needs to be completed and operational
- a framework to measure realised benefits needs to be developed.

However at the end of March 2011, the project was on time and budget and the demand for the current computer systems and associate research support established has been strong.

1.2 The audit

1.2.1 Objective and criteria

This audit's objective was to assess whether the VLSCI has been effectively planned, procured and managed. This was addressed by determining whether:

- the computational, research support and skills development needs of the life sciences research sector were effectively identified and analysed
- there was a robust options analysis and business case development to meet the identified needs, and the initiative was aligned to the state's *Innovation: Victoria's Future Statement* (2008) and the *Victorian Innovation Strategy* (2008)
- a rigorous review and evaluation process was undertaken prior to the approval of the VLSCI
- due process was followed in the establishment and delivery of the initiative including a focus on probity and value for money.

1.2.2 Method

The audit was conducted in accordance with Australian Auditing and Assurance Standards.

1.2.3 Cost

The total cost of the audit was \$450 000.

2 The case to invest

At a glance

Background

Before major investment decisions are made, agencies typically assess the public need for the investment, evaluate all options to meet that need, and select a solution that provides value for money. This approach is generally accepted public sector procurement practice, as exemplified in the Department of Treasury and Finance Investment guidelines.

Conclusion

The Victorian Life Science Computation Initiative is consistent with the University of Melbourne's (the University) objectives and state government innovation policy and will contribute to life science research in Victoria. However, the decision to proceed with this initiative was not informed by a rigorous analysis which demonstrated to the state that the benefits from the initiative justified the \$50 million investment.

Findings

The University established the broad need for additional life sciences computational and research capability, however there is insufficient documentation to show that:

- the detailed needs of life science researchers were identified
- options available to provide this capability were thoroughly assessed
- the initiative's proposed benefits justify the investment of public money.

Recommendations

- The Department of Business and Innovation (DBI) should provide targeted guidance to agencies on how to identify and support proposals for government funding. In particular DBI could assist agencies:
 - identify the need for the proposed initiative
 - identify and evaluate the options to meet the need
 - adequately support the proposals with a detailed business case.
- Where DBI provides significant grants to public agencies for projects that are significant in size, complex or high risk, it should require agencies to demonstrate that grant proposals are adequately supported and include option and cost benefit analysis.

2.1 Background

In November 2007, the University of Melbourne (the University) sought financial support from the Department of Premier and Cabinet (DPC) for a supercomputing initiative through a partnership between the University and a private sector computer manufacturer with extensive research expertise.

The then Premier announced at the June 2008 BIO2008 conference in California that the state government had provided the University with \$50 million towards the \$100 million initiative.

The Victorian Life Science Computation Initiative (VLSCI) represents a significant investment in establishing and operating the facility. However, before committing to such large outlays, prudent business planning and investment evaluation approaches adopted for such large projects typically:

- establish the need
- assess the options available
- adequately outline and support the preferred option through a business case
- determine potential funding support for the proposal.

2.2 Conclusion

The initiative is consistent with the University's strategic and business objectives and with state government policy, as outlined in the government's innovation policy *Innovation: Victoria's Future* and *Victoria's Life Sciences Strategy*. Many Victorian life sciences researchers are reportedly interested in using the current and proposed VLSCI peak computing and support facilities.

The University, however, was unable to demonstrate that the peak computing facility (PCF) and life sciences computation centre is the most cost-effective use of the public money granted to promote life sciences research. This is because it went to the market to seek a key partner to deliver the VLSCI without first:

- identifying the specific computational and other needs of life science researchers
- critically evaluating the alternatives available to it to drive cutting edge life science research in Victoria
- clearly demonstrating how its proposed solution would specifically address these needs.

2.3 Establishing the need for the VLSCI

Scientific research relies increasingly on the use of large computers, and the type of computational facility required depends on the research undertaken.

However, the University's 2007 and 2008 strategic and annual plans did not identify the need for supercomputer capability, and it is not evident that a detailed needs analysis was undertaken for the VLSCI prior to the University approaching the government for funding.

In preparing its proposal to the state government for funding, the University reviewed life science research around the world and the use of large computers in this research. This review:

- outlined Victoria's substantial investment in life sciences and biotechnology industries and the likely impact on these industries if the government decided not to invest in the VLSCI
- identified that the highest ranked research universities had their own PCF, or access to a facility, and almost all the higher ranked (and many lower ranked) universities had developed dedicated computational life science research programs (computational biology, biomedical and bio-informatic centres of expertise). None of these facilities were dedicated solely to life sciences research
- identified that the Parkville research precinct lacked specialist computational skills, the computational capability for emerging research needs and adequate data storage facilities.

While these are relevant factors to inform a decision to invest, they alone are not sufficient to establish need, nor do they inform how best to address need.

2.3.1 Demand survey

The University conducted a demand survey, using interviews and workshops with 71 scientists and researchers in areas likely to use the facility from within and outside its Parkville precinct. It found that 'nearly 90 per cent (of those surveyed) expressed interest in the establishment of a peak computing facility'.

While the University's demand survey showed researchers wanted access to a PCF, it provided no information on the specific computing capability they required.

It was not until 2009, when the University had already gone to the market and was negotiating with its preferred partner for the VLSCI, that it undertook a more detailed analysis of the computational requirements of life science researchers. This involved:

- identifying projects that could use the PCF proposed by the University's preferred supplier
- requiring the supplier to assess the demand for the specialised computing facility offered in its proposal.

This needs analysis was after the planning for the procurement, and was necessarily limited to establishing the need for a very specific type of a computer, rather than the demand for computing capability more generally.

2.4 Identifying and assessing options

After establishing that there is a need, the next logical step is to identify and assess the options available to meet the need.

The Department of Treasury and Finance (DTF) *Investment Evaluation Policy and Guidelines* reflect accepted better practice in this regard. These guidelines indicate that the selection of the preferred option should be clear and transparent. To achieve this, they recommend:

- a thorough whole-of-life cost-benefit analysis of each option, showing which option offers better value for money
- describing the assumptions and estimates of the cost and benefits over the life of the investment
- detailing alternatives and explaining the different cost-benefit results for them.

This can be achieved through a feasibility study, which can be a separate document or included as part of a business case. A feasibility study or other evaluation of the options available to deliver the VLSCI was not undertaken.

Other options that could have been considered and assessed by the University in meeting the needs of life science researchers include:

- educating and supporting researchers in computational research and paying for access to existing computing facilities
- the use of open source software and commodity products rather than proprietary platforms
- conducting a two-part procurement process—the first part involving selecting a partner for the University in the VLSCI and the second working with the selected partner to acquire the required computational facility
- establishing an alliance or a joint venture with a third party to deliver the initiative.

Once the options were identified, the costs and benefits of each option should have been compared to determine the best value-for-money option.

2.4.1 Making the VLSCI a statewide initiative

The VLSCI was promoted by the University as a statewide initiative that would include other educational institutions involved in life sciences research such as Monash and Latrobe Universities. While there were some early discussions on how these organisations could work together to further life science research, it is not evident there were discussions on the specifics of the VLSCI until after the grant funding was approved.

The VLSCI was effectively a University of Melbourne initiative prior to the government agreeing to fund it. However, under the grant agreement the VLSCI was required to be for the benefit of Victorian life science researchers across the state. Consequently, other universities and research organisations now have access to the PCF, life sciences computation centre and the research 'collaboratory'.

2.5 Supporting the proposal with a business case

Business cases support and justify investment proposals by:

- showing why the proposed investment is necessary and is the best option available
- demonstrating how the proposal represents value for money and will provide the benefits that the sponsor seeks.

The March 2008 business case prepared by the University proposed a partnership with a private sector company to deliver the VLSCI. The proposed partner was selected following work by the University to identify a partner that could provide it with research expertise and a high powered computing facility to extend and build the University's e-research capability.

In addition to the sector analysis of life sciences research, a list of potential users, and results of the University's demand survey; the business case also included a business model and the financial contributions envisaged from each party.

The business case envisaged a two staged acquisition of computing capability. The first stage, in late 2009, was intended to provide the University with an initial capability that would inform the acquisition of a larger supercomputing system to be established in 2012. This approach was designed to address demand risk associated with the project and give researchers time to learn how to use the facility prior to the University acquiring the full computing capability.

Given the speed with which computer technology is changing, a staged approach to acquiring computer capability was sound.

However, the University did not consider whether an open architecture solution would have better suited such a staged procurement process. This could have provided the University with greater flexibility in acquiring the larger supercomputing system in the second stage.

The University also did not:

- identify the amount and nature of research currently undertaken
- determine the specific computational needs of researchers in terms of the type of hardware required, what software they needed to run, the speed and capability of the computer equipment, or their data storage requirements
- identify and analyse the effect of limitations on researchers accessing computer facilities to undertake their research
- quantify the benefits to researchers of increasing computational capability as proposed in the business case
- define measurable outcomes that could be used later to evaluate the success of the initiative.

Without this information, the University was unable to articulate to the market the type of products and services it required or effectively assess proposals from the market. Consequently the University could not demonstrate that the acquired facility would be fit-for-purpose.

Benefits generated by dedicated and cutting edge research facilities are often diffuse or anticipate 'breakthrough' outcomes which are difficult to define and quantify. However, a number of qualitative tools could have been employed to provide additional support for the benefits claimed in the business case, such as case studies of the benefits from a range of other supercomputers internationally, establishing outcomes-based criteria for assessing alternative options, and conducting a risk assessment for the stated benefits.

The business case did not employ these tools, or any other methodology to establish, quantitatively or qualitatively, that the expected benefits outweighed the costs. The business case did not provide any information about the impact or the likely benefits if a smaller and cheaper computing facility was used, which effectively presented the particular PCF proposed as an 'all or nothing' proposition.

Experiences of other supercomputing centres could have been used to estimate the likelihood of achieving the objectives, and the expected timing of achieving benefits. This could also have indicated whether or not benefits were directly proportional to speed, capacity, or some other computational metric.

2.5.1 Business case approval

The VLSCI needed substantial financial and in-kind commitments from the partners. The University proposed to contribute \$60 million to the initiative over five years to 2013 and wanted \$60 million from the state government. The University's contribution comprised up to \$15 million in cash and provision of floor space, infrastructure, and staff to run the facility and the centre.

The Vice-Chancellor signed the letter sent with the business case to the Department of Business and Innovation (DBI) seeking government support for the initiative. However, there is:

- no documentation of his consideration and approval of the position taken in the business case
- no endorsement or recommendation by the University's council or any other person or body within the University to support the University's adoption of the business case.

2.6 Funding the initiative

Under the Victorian Innovation Strategy (VIS), an inter-departmental committee was established to identify and recommend initiatives to government for consideration and funding.

In September 2007, the inter-departmental committee established a three-stage process to identify and evaluate proposals to be funded under the strategy:

- **Stage 1**—expressions of interest (October 2007)
- **Stage 2**—full business case (late November 2007)
- **Stage 3**—whole-of-government submission (January 2008).

Under Stage 2 of the VIS evaluation framework, proposals were to be assessed against:

- a hurdle requirement that proposals align with government policies
- mandatory criteria relating to policy rationale, market need, relevance to VIS, priority markets, benefits, legacy, regional impacts, stakeholders, and budget scored between one and five
- desirable criteria consisting of cost benefit analysis, financial statements, sector analysis, technology analysis and policy analysis, also to be scored between one and five.

The framework required proposals for funding to include details on the funding strategy, project roles and responsibilities, implementation milestones, a risk management plan, a communications plan, monitoring and reporting, evaluation, and an exit strategy.

On 23 November 2007, the University approached DPC seeking support and funding for a supercomputing initiative. The proposal envisaged a state government contribution of \$60 million—\$50 million for capital costs and \$10 million over five years for operating costs.

As the proposal was not submitted as an application for funding from an existing government program, DPC referred it to DBI for consideration as part of the VIS.

Following discussions with the University, DBI asked the University to:

- outline the rationale for the initiative
- provide a procurement strategy
- provide greater detail on the project scope
- demonstrate how the initiative aligns with other state and national programs.

On 6 March 2008, DBI submitted a funding proposal to government for \$425 million to fund initiatives under the VIS. The submission included \$50 million to fund the PCF and program (later to become known as the VLSCI).

DTF and DPC briefed government in support of the VIS, but as is their normal practice did not provide specific information on the proposal for a PCF and program.

The government requested the Minister for Innovation to provide a business case for review before funding was provided.

On 27 March 2008, the University submitted the business case for the proposal to DBI. After reviewing it, DBI prepared a briefing for the Minister for ICT, dated 4 April 2008. The briefing indicated that, while there was a compelling and convincing case for the initiative, there were issues that should be addressed:

- **Funding**—the business case proposed a government contribution of \$60 million. DBI indicated that the government contribution should be limited to \$50 million, being the expected expenditure on capital equipment. After comparing the proposed capital expenditure to that incurred by another university, acquiring a similar facility, DBI assessed the proposed expenditure as reasonable.
- **Procurement**—DBI disagreed with the proposed preferred supplier approach and required the University to use a public procurement process to find a partner. DBI noted that the University had been led by its private sector partner and a desire for a partnership with that company.
- **Sustainability**—DBI expressed concern about how the future replacement of the PCF equipment would be funded and suggested using a sinking fund to set aside funding for its replacement.

The additional analysis performed by DBI in preparing their brief appropriately canvassed concerns about funding, procurement and sustainability. As DBI considered the proposal had potential and was consistent with the government's eResearch policy, it recommended that it be supported.

A submission supporting the VIS initiatives was presented to government in April 2008. The PCF and program was one of the initiatives included in the submission. A document, summarising the University's business case and incorporating changes to address a number of the shortcomings identified was prepared by DBI and included with the submission.

The submission was supported by the University, DBI, DPC and DTF, and identified stakeholders that had been consulted.

The grant was approved by the end of April and the agreement with the University was signed in June 2008.

The audit review of the grant process disclosed that:

- due to its late provision to government for funding, the proposal was not evaluated under all three stages of the evaluation framework established for the VIS
- the proposal was not supported with a cost benefit analysis, value-for-money assessment or a comparison of alternative proposals and the risks associated with each proposal. These were desirable rather than mandatory criteria under the framework. However, given the size and risk associated with the proposal, providing this additional support would have better informed the government's decision-making process.

The University's 2007 investment proposal convinced the state government that the proposal was worth considering further. The subsequent business case outlined the broad benefit for the state of establishing a world class life science research facility.

DBI supported the University proposal as it considered the initiative had potential and was consistent with government policies such as eResearch and VIS. DBI expected that before the University commenced its procurement process, it would develop more comprehensive project management documentation as contemplated in the subsequent \$50 million grant agreement between the state government and the University.

The University assumed that its support for the project as outlined in the business case was sufficient to obtain government funding, so no additional needs or options analysis was proposed.

The results of the needs and options analysis and the detailed support for the initiative are normally included in a business case supporting the agencies application for funding. While the results of this analysis do not need to be included in the business case it needs to be completed before preparing procurement documents. This was not done.

Recommendations

1. The Department of Business and Innovation should provide targeted guidance to agencies on how to identify and support proposals for government funding. In particular the Department of Business and Innovation could assist agencies:
 - identify the need for the proposed initiative
 - identify and evaluate the options to meet the need
 - adequately support the proposals with a detailed business case.
 - 2a. Where the Department of Business and Innovation provides significant grants to public agencies for projects that are significant in size, complex or high risk, it should require agencies to demonstrate that grant proposals are adequately supported and include option and cost benefit analysis.
-

3

Governance and planning

At a glance

Background

On receipt of the \$50 million state government funding, the University of Melbourne (the University) commenced a procurement process to select a research partner that would supply the computer facilities and support services for the Victorian Life Sciences Computation Initiative (VLSCI).

Conclusion

The procurement was not well planned.

The grant agreement established appropriate governance and reporting arrangements for the initiative. The Department of Business and Innovation's (DBI) administration of the grant agreement was generally sound.

Findings

- The University issued a request for proposal to the market before it had completed planning and designing the project.
- A detailed procurement strategy was not prepared and there is no documentary evidence of alternative procurement options being identified and evaluated.
- The University's risk management plan did not identify and develop strategies to comprehensively address the procurement risks.
- Project management was not of a standard expected of a public sector project of the size and complexity of the VLSCI.

Recommendation

Where DBI provides significant grants to public agencies for projects that are significant in size, complex or high risk, it should require agencies to demonstrate compliance with Victorian Government Purchasing Board guidelines and relevant government procurement policies.

3.1 Background

Having decided to establish the Victorian Life Sciences Computation Initiative (VLSCI), the University of Melbourne (the University) proceeded to select a research partner that would provide the computer facilities, research and support services sought.

In order for the initiative to succeed the University needed to establish appropriate governance arrangements and adequately plan for the procurement and establishment of the VLSCI.

Under the grant agreement with the Department of Business and Innovation (DBI), the University was required to use all best endeavours to:

- exercise due care, skill and judgement and at all times act in accordance with applicable professional standards, ethics and principles and ensure that all of its directors, officers, agents and employees involved in the project act to the highest standards of probity and integrity
- comply with all applicable and relevant Victorian Government and departmental policies published. In particular the University was required to adopt procedures which were consistent in principle with the competitive tendering policies and guidelines as published by the Victorian Government Purchasing Board.

3.2 Conclusion

The procurement was not well planned. The University:

- started its procurement before completing its detailed project planning and addressing risks and deficiencies identified
- did not prepare a detailed procurement strategy, and there is no documentation of it identifying and evaluating alternative procurement options.

The grant agreement established appropriate governance and reporting arrangements for the initiative.

The University established the arrangements outlined in the agreement.

In many respects the University's compliance with its obligations and responsibilities under the grant agreement was reasonable. However its inability to prepare information within the time frames set by DBI and lack of detail in key documentation at crucial stages of the procurement have undermined the effective management of the initiative.

DBI administration of the grant agreement was generally sound.

3.3 Governance arrangements

The University is a semi-autonomous public body, reliant on federal and state government funding. In accepting the \$50 million in state government funding, it was bound by the grant agreement.

The agreement outlined the governance arrangements for the administration of the grant that required the University to:

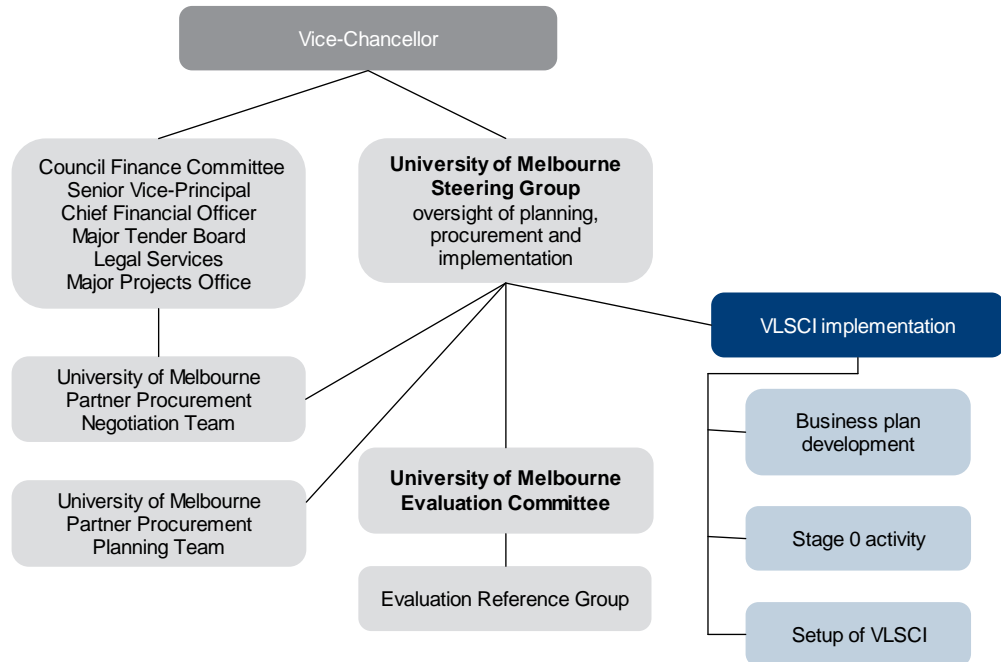
- deposit the \$50 million in a trust account and only use it on the VLSCI
- seek other contributions so that the total contributions to the VLSCI, during the grant period from 1 July 2008 to 30 June 2013, would be at least \$100 million
- submit annual business plans by 30 November each year. The plans were to include, as a minimum, identification of key milestones and key performance indicators and targets
- submit six monthly and annual reports that included at a minimum:
 - identification and reporting against key milestones and key performance indicators and targets as set out in the business plan
 - total contributions made to and expenditure on the VLSCI
- provide DBI with an annual audit report on the management of the VLSCI trust account.

DBI's approach to administering the grant represented sound practice in the following respects:

- the grant agreement was used to establish governance arrangements and reporting requirements for the project
- it engaged an independent assessor to review the University's compliance with the grant agreement
- it held regular meetings and briefings with VLSCI staff to assist the University plan the delivery of the initiative.

Once the grant was approved by the state government, the University established a governance structure as outlined in Figure 3A. While these governance arrangements were reasonable, an area for improvement would have been to outline the roles and responsibilities of the members of the various groups and committees involved in the project in a terms of reference or charter document.

Figure 3A
Key University committees specific to initial VLSCI planning



Source: University of Melbourne.

A further area for improvement early in the grant period, was the timely reporting on the operation of the trust account.

The University combined the VLSCI funding with its other cash assets. Although pooling of cash assets in this way is common practice, the University’s accounting for the funding needs to be sufficiently transparent to enable DBI to see where the VLSCI funding and associated interest is being used.

In part, requiring the University to provide annual audited trust account reports is designed to make the University’s use of VLSCI funding transparent. The University did not provide DBI with audited trust fund financial statements for 2008 and 2009, within three months after the end of the reporting period, as required in the grant agreement. These statements were supplied in November 2010.

3.4 Project planning

Under the grant agreement, the University was required to prepare an annual business plan. The first business plan for the 2008–09 financial year, due in November 2008, was provided to DBI in April 2009. The University sought, and was granted, an extension to the reporting date, and drafts of the plan were provided to DBI prior to it being finalised.

On 12 May 2009, the independent assessor provided the results of his review of the 2008–09 plan to DBI. His overall conclusion was that the plan ‘provides an acceptable basis for immediate actions under the initiative.’ The detailed report indicated that:

- governance arrangements for the VLSCI had been documented in broad terms and the project, resource and risk management plans outlined at a high level
- the University needed to provide more detail on its governance arrangements and prepare more detailed plans.

The assessor recommended that these issues be addressed in the 2009–10 business plan. His subsequent review of that plan indicated that the issues raised in his earlier report had been addressed.

In many respects the University’s compliance with its obligations and responsibilities under the grant agreement was reasonable. However, its inability to prepare information within the time frames set by DBI and lack of detail in key documentation at crucial stages of the procurement have undermined the effective management of the initiative.

The University was required to prepare a business plan to establish requirements for the conduct of the procurement and delivery of the VLSCI, and for the provision of information to DBI on the status of the project and its performance.

However, by the time the plan was first finalised in April 2009 the key partner procurement process was well advanced. The request for proposal (RFP) had been released in December 2008, five months earlier, and the evaluation of proposals received were complete. There was also no evidence that DBI considered requesting that the University defer issuing the RFP until the plan was finalised and reviewed by the independent assessor.

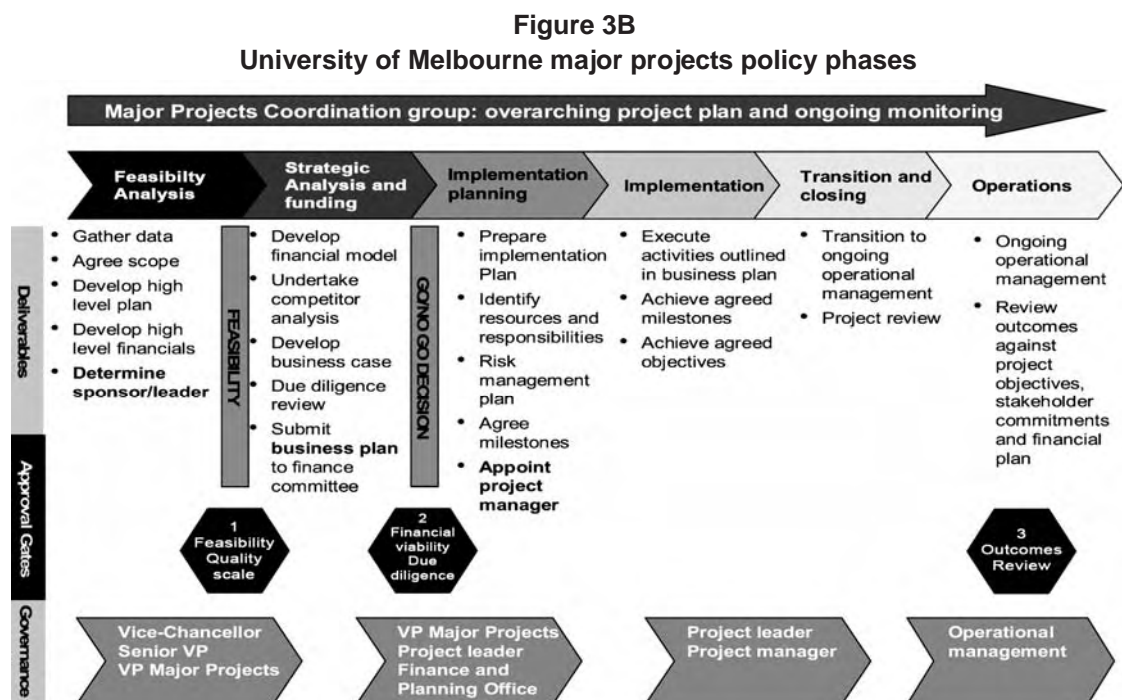
The University went to market, therefore, without sufficient detailed documentation to demonstrate it had adequately considered:

- the risks facing the project
- who was interested and capable of partnering the University in the initiative
- how to make the initiative sustainable over the longer term
- the procurement approach.

It was also not until June 2009 that a detailed risk management plan was endorsed by the University's finance committee.

In 2009, shortly after it finished the first business plan, the University revised its major projects policy, introducing a more structured approach to the management of major projects.

The revised policy required these projects to be managed in phases, and for the major projects control group to review progress against the plan at the end of each phase and approve it, before the project moved to the next phase. Figure 3B shows the project phases, main activities for each phase and the decision times.



Source: University of Melbourne.

While the University classified the VLSCI as a major project, it did not apply the new policy to the initiative as it was already under way. In addition, it did not use other generally accepted best practice project methodology such as *Prince2*—the endorsed project management methodology for significant information technology projects at the University.

Given the size and complexity of this project it would have been reasonable for the University to consider applying its new policy to the VLSCI. It is not evident this was considered.

Planning for project resources

A process chart and a draft resource plan for the VLSCI were prepared by the University. These documents did not contain all of the elements needed to manage the projects. They lacked:

- definition of the outputs required to deliver project components
- a work plan outlining each project activity and when it would occur, including dependencies between and within each project component
- details of the resources required by component, including who would be working on the project, for what period, and what their specific roles and responsibilities were.

The University's procurement team was largely made up of staff with differing levels of experience in procurement and managing multi-faceted projects.

The VLSCI Director appointed in 2009 had considerable experience in project management.

Given the size and complex nature of the project and availability of funding, it is not clear why the University did not engage external professional project management and procurement professionals to assist it.

There is no documentation of this being considered by the University or outlining why external assistance was not sought.

The University's external appointments consisted of a:

- **legal firm**—legal advice and support
- **consulting firm**—commercial advice and analysis
- **chartered accountant**—probity services.

The appointment of the commercial adviser occurred after the procurement had been planned. As a result, they had no input into the governance arrangements, project management or procurement planning.

The \$50 million grant from the state government included up to \$2.5 million to assist the University to undertake project benchmarking, establish procurement and partnering processes, evaluate proposals, and audit the procurement. At the end of June 2010, the University's records showed that only \$761 478 of these funds had been charged to the initiative.

3.5 Procurement planning

Under the grant agreement the University was obliged to adopt procedures which were consistent in principle with the competitive tendering policies and guidelines as published by the Victorian Government Purchasing Board (VGPB).

The relevant VGPB policy and guidance is contained in following three documents:

- Policy for the Conduct of Commercial Engagements
- Strategic Procurement Planning policy
- VGPB Good Practice Guidelines.

Policy for the conduct of commercial engagements

The policy for the conduct of commercial engagements highlights the need for agencies to maximise value for money in their purchases. It also expects the procurement process to be settled before the competitive process starts, and for the strategy and planning for the procurement process to reflect and manage the level of risk the project poses to the government.

Strategic procurement planning policy

The strategic procurement planning policy requires agencies to have a strategic procurement plan for projects acquiring products and services over \$10 million and/or where the project is high risk or complex.

The plan should be prepared and approved before procurement and would usually be approved by the accredited purchasing unit of the agency and/or the VGPB.

VGPB good practice guidelines

The good practice guidelines recommend that agencies prepare procurement conduct plans for projects that are high risk or complex, or more than \$10 million in value.

3.5.1 Procurement strategy

The University did not prepare a detailed and comprehensive procurement strategy as expected by the VGPB guidelines. In the absence of such a strategy, the University was unable to show that it had rigorously assessed the procurement options available to deliver the VLSCI. As a result, it cannot demonstrate that its chosen procurement approach represented the most effective use of public resources.

Procurement strategies identify and assess the options for acquiring the products and services required and outline the preferred method of market engagement.

A number of options were available to deliver the initiative. The University could have entered into a partnership, joint venture, alliance or consortium with other parties. The assets could have been 'purpose-built' or purchased 'off the shelf'. They could have been obtained through either a public or a selective procurement process using a traditional 'design and construct' contract or a Partnerships Victoria arrangement. The procurement could have been undertaken in stages or as a single process.

The March 2008 business case identified five potential partners for the VLSCI and proposed an arrangement between the University and a large computer manufacturer with research experience to deliver the initiative.

In reviewing the University's application for grant funding, DBI noted that the company named as the University's preferred partner had led the process to date. DBI suggested that the University now needed to 'take control of the process' and properly test the market for the best offer.

In response to this advice, the University commenced a public procurement process to find a suitable partner. The objective of the procurement was to select a research partner for the initiative that would also supply the computer equipment and support services required.

3.5.2 Risk management

Prior to approaching the market, procurement risks need to be identified and a plan developed to effectively manage them.

The University's VLSCI business case and 2008–09 business plan identified and classified risks associated with the project into nine categories, and assessed the likelihood and impact of each risk identified. However, these documents did not include the following procurement risks or the strategies developed by the University to mitigate them:

- the procurement not achieving value for money
- a poor market response to its RFP
- risks to the integrity of the procurement process
- a failure to understand and clearly articulate the requirements to the market
- the project team not having appropriate knowledge and experience.

The business plan also stated that a more detailed risk management plan would be prepared by mid-2009. This plan was finished in June 2009—seven months after the procurement had begun.

3.6 Probity planning

In acquiring products and services from external parties, the objective for public sector agencies is to achieve value for money while:

- meeting appropriate standards of fairness and integrity
- managing conflicts of interest.

This requires treating bids and potential proponents fairly by giving interested parties the same information at the same time, avoiding preferential treatment, and consistently applying approved procurement process and evaluation criteria.

The VLSCI grant agreement required the University to identify probity risks associated with the procurement and to establish processes to manage them.

3.6.1 VGPB requirements

The VGPB Policy for the Conduct of Commercial Engagements sets out the core probity principles for such engagements. It requires the procurement process to:

- outline how the agency will conduct the procurement and how it will maintain completeness, security and confidentiality of information and documentation
- develop ways to identify, analyse and manage conflicts of interest
- establish communication protocols with potential suppliers
- outline audit requirements and whether it will appoint a probity adviser.

The policy identifies that where the risk associated with a procurement process is considered high, the responsible officer has the option of appointing a designated probity adviser to provide one or more of the following:

- independent assessment and/or advice throughout the procurement process as to whether processes are:
 - developed according to relevant government policies (including this policy) and state and Commonwealth legislation
 - managed according to the procurement process and the procurement conduct plan
 - completed according to the tender requirements
- ongoing independent advice on probity issues
- an independent and appropriate sign-off, at designated milestones in the process, on probity requirements.

Where the procurement process is very large and/or involves highly complex risks, the guidelines recommend that agencies consider engaging more than one probity practitioner. This would enable the probity assurance role to be clearly separated from the advisory role and provide greater probity expertise to the project team.

3.6.2 Probity advisers and auditors

The University engaged a probity adviser in August 2008. The adviser was a member of the Department of Treasury and Finance Probity Practitioners Panel.

Neither the University nor DBI identified the need to appoint a separate probity auditor, relying instead on statements from both the probity adviser and the University's commercial adviser to provide assurance over the propriety of the procurement process.

However, these statements did not, and were not intended to provide assurance over the probity of the VLSCI procurement. The work undertaken:

- did not meet the requirements of the auditing standards
- was too limited in scope, as neither the probity nor commercial adviser had involvement in the entire procurement process.

The probity adviser was not present during any of the contract negotiation meetings and the commercial adviser's work was limited to assisting in the negotiation phase and commenting on the contract and value for money of the procurement, he was not involved in planning the procurement.

3.6.3 Probity plan

Probity plans are used to identify probity risks associated with procurements, outline the tasks required to address the risks and assign responsibility for completion of these tasks, including the role of the probity auditor/adviser. The probity adviser prepared a probity plan for the VLSCI that included the key information recommended in the VGPB guidelines.

These plans are only effective where the tasks outlined in the plans are completed. Before finalising the contract arrangements, agencies should check that all tasks in the plan have been completed and document how completion of the tasks has been demonstrated. This is often done by the project's probity manager.

Independent assurance over the project team's compliance with the probity plan is provided by a probity auditor.

The University did not get anyone to check whether the tasks outlined in the plan had been completed prior to it signing the contract with its preferred partner. In addition, no assurance that the plan had been adhered to was provided by the University's probity or commercial advisers prior to the contract being executed.

3.6.4 Managing conflicts of interest

Conflicts of interest arise when staff are influenced, or could be influenced, by a personal interest when doing their job. Such conflicts can create the perception of bias and result in poor procurement outcomes.

All staff involved in the key partner RFP signed conflict of interest declarations. The declarations were framed in such a way as to allow the person making the declaration to determine whether their position in the University, relationships or equity interests could create a potential conflict with their role on the VLSCI.

The co-chair of the VLSCI Steering Group, in his position at the University, had prior and ongoing dealings with the company chosen to partner the University in the VLSCI business case. The company was likely to submit a proposal for the VLSCI when it went to market.

This conflict of interest was identified by the University in September 2008 and addressed by removing him from all steering group meetings where the VLSCI procurement was discussed. However, University documentation states that he continued to be the owner of the VLSCI initiative.

The co-chair signed a conflict of interest declaration on 16 April 2009, six months after the conflict was identified. The declaration did not disclose the above conflict.

The non-disclosure of the conflict in his declaration indicates that the co-chair and others responsible for managing the integrity of the procurement did not fully appreciate the obligation of staff to disclose conflicts in their declarations.

Recommendation

- 2b. Where the Department of Business and Innovation provides significant grants to public agencies for projects that are significant in size, complex or high risk, it should require agencies to demonstrate compliance with Victorian Government Purchasing Board guidelines and relevant government procurement policies.
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4 Implementing the procurement

At a glance

Background

This chapter examines whether the University of Melbourne (the University), in conducting the procurement complied with government policy so that it can demonstrate that the process was transparent, fair and achieved value for money.

Conclusion

Due to the insufficient documentation of key decisions and activities, the procurement was not sufficiently transparent, did not demonstrate value for money and was not demonstrably fair. As a result, it did not have the level of accountability expected of a large, public sector procurement.

Findings

- The University's initial decision to negotiate directly with an external party was inconsistent with the intent of its own purchasing policy.
- The procurement process attracted only one proponent capable and willing to partner it in the initiative.
- The University did not recognise the risk to the integrity of the procurement arising from this proponent's prior involvement with the University, or do enough in planning and developing the initiative to address the advantage created by this involvement.
- A number of decisions made during the procurement were not adequately documented; particularly the University's decision to start contract negotiations when the proposal did not meet the request for proposals requirements.

Recommendations

- Where the Department of Business and Innovation provides significant grants to public agencies for projects that are significant in size, complex or high risk, it should require agencies to demonstrate they have sufficient and appropriate resources to manage the project.
- For the remainder of the project, the University should:
 - adequately document all significant activities and major decisions
 - demonstrate its compliance with relevant government procurement and project management policies, procedures and guidelines.

4.1 Background

This chapter examines whether the University of Melbourne (the University), in conducting the procurement, complied with government policy and practices and whether the procurement was transparent, seen to be fair, and achieved value for money.

The Victorian government and departmental procurement policies and procedures and the Victorian Government Purchasing Board's (VGPB) guidelines were used to assess how effectively the University managed the procurement.

4.2 Conclusion

The additional computational capacity and additional research capability provided by the proposed facility will make a valuable contribution to life science research in Victoria. However, because of weaknesses in the business case and the procurement process, assurance cannot be given that the initiative's peak computing facility (PCF) and associated life science computation centre represent the most effective use of the \$50 million provided by the state government to promote life science research in Victoria.

Due to the poor documentation of key decisions and activities, the procurement was not sufficiently transparent, did not demonstrate value for money, and was not demonstrably fair. As a result, it did not have the level of accountability expected of a large, public sector procurement.

As a result of this audit the University is undertaking a review of its procurement processes.

4.3 The key partner procurement

4.3.1 Procurement policies

University policy required purchases of computer hardware and software, including software licences, to be subject to evaluation by its Information Technology Acquisitions Advisory Group (ITAAG). For proposals in excess of \$60 000, ITAAG is required to make a recommendation to the major tender board about the procurement approach.

The Victorian Life Sciences Computation Initiative (VLSCI) was not evaluated by ITAAG. The University explained that this was because it was:

- an organisational-wide strategic initiative
- not a straight hardware/software purchase.

There was no documentation to support and approve the decision not to comply with the University's policy.

The University's purchasing policy required its tender board to become involved in purchases over \$400 000, and for this involvement to commence before quotations were sought. The board is required to evaluate the technical and financial components of each proposal to make sure competitive quotations are obtained, funding is adequate and the most appropriate supplier is selected.

The tender board's first consideration of the VLSCI was after the University signed the grant agreement with the Department of Business and Innovation (DBI) in June 2008, but before quotations were sought. This was in accordance with University policy.

The purchasing policy, while not explicitly precluding direct negotiation with suppliers, only specified that this could occur for purchases under \$60 000.

The University's action in negotiating directly with an external party to enter into a partnership involving the purchase of tens of millions of dollars of computer equipment from that party, is inconsistent with the intent of the policy, which is to use a public tender process for these purchases.

4.3.2 Market sounding

Engaging the supply market before requesting tenders or proposals allows better management of procurement risks by establishing:

- whether the market could meet its needs
- which entities are capable and likely to be willing to partner it, and supply the required facilities and services
- the extent of the supply competition
- other factors that may affect the proposed procurement.

While not an explicit VGPB requirement effective engagement of the supply market prior to issuing a request for proposal (RFP) is essential to an effective procurement process.

This information is gathered through market research, briefings and discussions with potential partners. The process normally involves preparation of a market engagement plan that outlines the proposed engagement process, including a mechanism to register and shortlist entities interested in the initiative, and is used to control communications with prospective partners. The information and analysis from the market engagement is then documented in a market engagement report and used in the development of the procurement strategy.

The University undertook a market engagement that consisted of:

- limited market research
- an open briefing and request for potential partners to register their interest
- an information day where registrants were provided with a presentation and briefing on the proposal and given the opportunity to ask questions
- informal discussions with potential partners.

Eleven companies registered their interest and attended the information day. These companies included computer hardware suppliers, a facility design studio, a business and technology consulting company, an internet service provider, and a bio-analytical equipment supplier.

The prospective partners were being asked to develop a proposal for a complicated arrangement that included a partnership arrangement that was difficult to define. In addition, almost all of them were computer manufacturers with limited research experience, and would have had to join with another organisation to form a consortium or joint venture in order to meet the University's requirements.

In these circumstances there was a real possibility that the University would not receive sufficient proposals to establish competitive tension in the bidding process. Therefore, it was very important for the University to use the market engagement processes to specifically seek feedback from prospective partners on:

- what they thought of the procurement approach
- their view on the reasonableness of the time period allowed by the University for them to prepare proposals
- what additional information they required to understand the initiative and to prepare a compliant response.

The University offered participants an opportunity to comment on the proposed arrangement and market approach. While there are emails from some participants providing feedback on the University's information session there is no documentation evidencing how the University considered the above issues and made the decision to continue with their proposed approach. One of the participants responded that the University should not have packaged the PCF with the research partner in the one procurement and indicated that such an approach could cause a conflict of interest.

The University did not prepare a market engagement plan or a report on the findings from its market engagement. The absence of these documents diminishes accountability and transparency, as there was no central record of:

- the information gathered and how it was collated and analysed
- what the University learnt from the market engagement process—such as, which companies had been assessed by the University as capable and willing to partner it in the initiative, and how the University used this information in developing its procurement strategy and market approach.

4.3.3 Request for proposal

In December 2008, the University issued a RFP to seven organisations that had registered their interest and signed a process deed. The University decided to use an RFP rather than a request for tender (RFT). This was appropriate as the:

- University wanted proponents to provide innovative suggestions about what they could bring to the partnership
- role of the research partner was difficult to define.

Proponents were asked to:

- submit a proposal or proposals to partner the University in the initiative
- supply and support a PCF.

Since few organisations had the capability to meet both these requirements, the University, by combining them in a single procurement effectively reduced the number of organisations capable of submitting a compliant proposal, and thus defeated its own intention.

To create the competitive tension required to achieve a value-for-money outcome, the University needed to receive proposals from at least two companies capable of meeting its requirements. The risk that this would not happen was noted in the evaluation committee minutes, but the University believed that it would receive at least two compliant responses. The basis for this belief however, was not documented.

There is also no documentary evidence of the University:

- assessing its proposed procurement approach against alternative options
- considering how this risk, created by the procurement approach, would be mitigated
- developing a strategy to address the situation in the case where only one proposal was received.

The RFP required the PCF to be delivered in two stages.

- **Stage 1**—a system costing up to \$4 million that would provide very fast computational capabilities of at least 100 teraflops. This system would enable researchers and University staff to gain experience in using the type of computer system acquired before Stage 2 was implemented.
- **Stage 2**—a system costing up to \$36 million with a capacity 30 times greater than the system proposed in Stage 1. This system would effectively be an upgraded version of the computer purchased in Stage 1.

The University indicated that this two-stage approach, together with a provision in the final contract that provided the option not to proceed with the second stage, gave it scope to:

- change its requirements for the larger computer to take advantage of technological advancements
- acquire a different solution from a different supplier in Stage 2.

However, a clause in the relationship agreement between the University and its chosen partner, provides for the automatic expiry of this agreement on the termination of the PCF fit out agreement. Therefore if the University decided not to proceed with Stage 2, the research partnership between the University and the company would also cease.

As a result, if the University wants to continue with its research partnership, it does not have the option to engage a different company to deliver Stage 2 of the PCF or any real leverage to change the solution originally agreed to.

In December 2008, prior to the Key Partner RFP closing, the University offered two workshops to the seven organisations interested in the partnership. The only company to attend the workshops was the company identified in the University's March 2008 VLSCI business case as its preferred partner.

When the RFP closed in February 2009 the University had two responses, only one of which was assessed by the University as a compliant proposal. Three of the other five recipients of the RFP informed the University they would not be submitting proposals.

The 30 April 2009 business plan notes that the RFP process had been aligned with VGPB guidelines and steps will be taken to ensure that all aspects of the process meet or exceed the University and state government guidelines. Evidence was not available to demonstrate how the process used was consistent with the guidelines.

4.3.4 Evaluation process

The University project steering group was responsible for the oversight of the evaluation process. An evaluation committee and four reference groups were established to conduct the RFP evaluations.

The process involved the four reference groups sending their RFP evaluations to the evaluation committee for discussion before the evaluation report was submitted to the steering group.

The steering group comprised representatives from the research collaboration, information technology, and finance and procurement sections of the University. It was responsible for reviewing and endorsing the recommendations from the evaluation committee before they were sent to the University's major tender board and the Vice-Chancellor for approval.

Response to the RFP and initial evaluation

Two responses were received. One from a computer hardware supplier, informing the University it could supply and support the peak computing facility, at a cost significantly less than proposed in the RFP, but not the research capability. The company proposed splitting the PCF from the research partner, with it providing the computer hardware and the University finding another company to provide the research support. As it did not meet the mandatory criteria the evaluation committee concluded it was not a compliant proposal.

The second proposal was from the company that the University had intended partnering with in the business case, and the only company that had attended the RFP workshop. The evaluation committee's report noted that the proposal had changed from the company's earlier commitment to partner it in the initiative and was now more like a purchaser/supplier arrangement. The evaluation committee found that this proposal complied with the mandatory selection criteria and warranted further detailed assessment—a decision endorsed by the major tender board and supported by advice from the probity adviser.

Detailed assessment of the compliant proposal

The evaluation committee obtained approval from the major tender board to do a detailed evaluation of the proposal.

The committee concluded at its 11 March 2009 meeting that:

- the proposal did not meet all of the University's requirements. Specifically, it did not deliver an acceptable cluster system or comply with the University's intellectual property ownership requirements
- the proposal did not indicate how it would meet the University's partnership needs at a detailed level
- the Stage 2 proposal did not appear to represent value for money. The RFP set an upper cost of \$36 million for Stage 2, while the proposal offered to deliver it for \$42.8 million.

The committee also noted that:

- 'our [the University's] research needs were not known and able to be fully expressed at the time of writing the RFP'
- before partnering with this company, the University should clarify the systems/architecture required to meet the needs of the research community.

These latter comments further demonstrate that a detailed needs analysis was not undertaken prior to going to the market. By not doing this, the evaluation of the proposal was made more difficult and the time required to finalise contract negotiations needed to be extended.

Following its assessment, the evaluation committee reconfirmed that the broad computational needs of life sciences researchers required a:

- computer system that researchers could use to develop their skills
- subsequent upgrade of that computer system
- a cluster system that would run the application packages outlined in the RFP.

However, it decided that a system different to the one proposed by the company was required to run the mandatory application packages. Consequently, the University did not have any proposal that fully met its requirements.

The University effectively had three options:

- continue to negotiate with the company to deliver all of the systems required in the RFP
- go back to the market to acquire the University's computational needs and a research partner
- continue to negotiate with the company using a reduced scope, that excluded the cluster system, and commence a separate procurement process for the system that would run the application packages outlined in the RFP.

The first two options were dismissed as they would seriously compromise the University's abilities to meet the grant agreement time frames. At this juncture, however, there is no evidence that the University sought advice from DBI about the possibility of extending the project completion date in the grant agreement; or that it critically evaluated and reconsidered the viability of its key partner strategy.

4.3.5 Contract negotiation

In July 2009, the evaluation committee recommended that the University:

- commence contract negotiations with the company that submitted the compliant proposal to be its research partner and substantively deliver the University's PCF requirements. These negotiations were to be based on a revised scope that excluded the cluster system.
- use a separate procurement process to acquire the cluster system.

The steering group endorsed the proposed approach.

This represented a significant change to the original RFP requirements. However probity advice was not sought on the impact of this on the fairness of the procurement process in terms of other proponents.

From April to July 2009, the project team:

- developed a new more detailed specification for the key partner RFP, that excluded the cluster system
- asked the company to assess the current and short-term demand for the specialised computing facility offered.

In July 2009 the company provided the demand analysis to the University for its review. Two months later, the company submitted its proposal to the revised RFP.

The University started negotiating with the company on the revised scope key partner RFP, while commencing a separate procurement process for a cluster system.

The University engaged an external commercial adviser to assist it negotiate with the company on the revised scope, and review the contracts proposed for the three components of the arrangement. The adviser recommended the University address financial, technical and relationship risks identified during the contract review.

An oral report was provided by the adviser two days before the contracts were signed, and a written report the next day. The University considered that:

- identified risks were manageable, in that most risks were in respect of Stage 2, and the University had the right to reconsider the procurement before that stage commenced
- proposed contracts were reasonable in the circumstances
- no further material amendments were required to the contracts.

The partnership agreements were signed on 4 February 2010. The University Council delegated authority to approve the signing to the chair of the finance committee, an external member of that committee and the Vice-Chancellor. These individuals approved the signing on 3 February 2010, before the evaluation committee and the probity adviser had finalised their reports on 19 February 2010 and 25 March 2010 respectively.

4.4 The cluster system

In July 2009 the University issued a separate RFP for a cluster system. The proposed system was to complement the computer systems being acquired under the key partner RFP and would form part of the broader PCF.

The RFP closed on 24 August 2009. Six responses were received, including one from the company negotiating with the University in the key partner RFP.

Following its initial evaluation of the proposals, the evaluation committee and the major tender board determined that two of the proposals were not compliant and would not be evaluated further. The remaining four proposals were evaluated in detail.

In September 2009, each of these four respondents received a set of questions to clarify their response and meetings were held with each. Following the clarification process, all four responses were considered acceptable. The company negotiating to become the University's partner in VLSCI was one of these companies.

While having four compliant proposals, the evaluation committee recommended that the University re-engage the market using a RFT. The committee considered that this process would allow tighter system specifications to be developed and make the evaluation of offers easier.

The committee recommended issuing the RFT to the four short-listed respondents in the former RFP process and the two organisations with non-compliant proposals.

The major tender board disagreed with this recommendation and directed that the cluster system RFT be offered to the open market.

The University received seven responses to the RFT, including the six that had responded to the earlier RFP. Two companies submitted one or more alternative proposals, making 10 proposals in total.

After an evaluation of the tenders was complete, the major tender board approved the appointment of the evaluation committee's recommended supplier. This was a different company from that partnering the University in the VLSCI.

The cost of this cluster computer was \$1.5 million.

4.5 Demonstrating probity

Private sector organisations will not spend significant time and resources on preparing tenders/proposals for government work if they have no confidence in the integrity of procurement processes. It is therefore important for procurement processes used by government agencies to be demonstrably fair.

The original business case for the VLSCI proposed a partnership between the University and the same company that subsequently became its partner after the key partner procurement process. This company worked with the University to prepare the VLSCI business case.

The key partner RFP issued to the market reflected the arrangement outlined in the business case.

Other prospective VLSCI partners were first engaged through the key partner registration of interest process and market briefings in October 2008. The University released the RFP to registrants in December 2008 and gave them two months to prepare a proposal.

In contrast, the company selected as the University's partner was involved in the initiative since 2007, when it assisted the University prepare its initial proposal to government and worked with the University to prepare the VLSCI business case. As a result, the company had:

- an intimate knowledge of the University's requirements and input into the design of the initiative
- time to determine how it could assist the University deliver the initiative
- extensive access to University staff and had started to build a relationship with them.

This early involvement gave this company a clear advantage over other applicants in the procurement process.

There was little recognition of this advantage in the University documents and it was not identified as a risk to the effectiveness of the project or to the perceived and actual integrity of the procurement. University staff involved could not provide evidence they had developed strategies to address this risk.

One way to help level the playing field would have been to give the VLSCI business case, or key parts of it, to all parties interested in partnering the University.

The key partner RFP

After seven months of negotiation, the University entered into a partnership arrangement with the company that was substantially different to that in the original RFP. Differences included price, the removal of the cluster system, changes to the partnership rights and obligations of the University and the company, and revisions to the intellectual property arrangements.

The University significantly amended the scope of the RFP but did not give all organisations registering an interest in the initiative, the opportunity to submit a proposal for the revised RFP. This compromised the fairness of the procurement process.

It was not evident that the probity risks associated with the University's decision to negotiate on a substantially revised RFP, with a company that had submitted a proposal in response to the University's original RFP, were considered.

In addition, negotiation meetings were not minuted and not attended by the probity adviser. Without sufficient documentation and probity oversight of the negotiation processes, the University is open to criticism regarding the fairness of its procurement.

The cluster system

While the probity practitioner oversaw the evaluation of the RFP and provided a probity report, the University did not prepare a separate procurement or probity plan for the purchase of the cluster computer.

As the decision to commence the cluster system procurement occurred while the University was negotiating an outcome to the key partner RFP, the company involved in the negotiations had a detailed knowledge of the University's requirements before the rest of the market.

The University identified a need to make some changes to what was being sought, and as a result decided to go back to open market with a re-scoped RFT. This approach is in direct contrast to that adopted in the key partner procurement where, when it did not have any proposals that met its requirements, it made significant amendments to the scope of that RFP. In this case it chose not to go back to the market.

4.6 Demonstrating value for money

The key partner procurement process did not create the competitive tension necessary to achieve value for money.

To assess whether the revised partnership offer proposed by the company in the key partner procurement provided value for money, the University engaged its commercial adviser to advise it on the financial and commercial aspects of the offer. In assessing the value for money of the computer systems purchased, the adviser's work involved comparing the costs of computer equipment to be supplied in the company's proposal with a component price list provided by the company to its customers.

The adviser concluded that in accepting the proposal, the University would not be paying more than if it were to buy the components directly from the company. This feedback, however, did not provide assurance that other suppliers could not:

- meet the University's requirements at a lower cost
- provide a better solution for the University than the proposed partner at the same price.

One potential supplier offered to provide the PCF for \$10 million less than the maximum price included in the RFP, and suggested that savings generated from purchasing its computer facility could be used to find a research partner.

The adviser also assessed whether the price to be paid for support personnel and the intellectual property and outreach arrangements in the contract provided value for money. However, in the absence of broader information needed by the adviser to make an informed decision, the adviser was only able to provide very qualified advice on the value for money of these parts of the initiative.

The University's RFP also included the maximum price it would pay for each of the two stages of the PCF. This had the potential to influence how the market priced their bids, and adversely impact on the achievement of value for money.

4.7 Other external advice

After the University received a series of issues papers from VAGO, it engaged a professional services firm and a legal firm to assist it respond to the report.

The professional services firm subsequently undertook a limited review of the VLSCI procurement and provided a report to the University on 4 April 2011. The report findings were very similar to those found by VAGO, however different conclusions were reached.

As the professional services firm was engaged to provide advice rather than undertake an audit under the auditing standards, the report does not provide the required level of independence or standard of evidence required to provide independent assurance over the procurement process.

Recommendations

- 2c. Where the Department of Business and Innovation provides significant grants to public agencies for projects that are significant in size, complex or high risk, it should require agencies to demonstrate they have sufficient and appropriate resources to manage the project.
3. For the remainder of the project, the University of Melbourne should:
 - adequately document all significant activities and major decisions
 - demonstrate its compliance with relevant government procurement and project management policies, procedures and guidelines.

Appendix A.

Audit Act 1994 section 16— submissions and comments

Introduction

In accordance with section 16(3) of the *Audit Act 1994* a copy of this report was provided to the Department of Business and Innovation and the University of Melbourne with a request for submissions or comments.

The submissions and comments provided are not subject to audit nor the evidentiary standards required to reach an audit conclusion. Responsibility for the accuracy, fairness and balance of those comments rests solely with the agency head.

Submissions and comments received

RESPONSE provided by the Secretary, Department of Business and Innovation



Department of Business and Innovation

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Melbourne, Victoria 3000
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Ref: HR328554

Mr Pearson
Auditor-General
Victorian Auditor-General's Office
Level 24, 35 Collins Street
MELBOURNE VIC 3000

Dear Mr Pearson

Performance Audit of Victorian Life Sciences Computation Initiative

Thank you for your letter of 26 May 2011 and the opportunity to comment on the proposed report on the Performance Audit of the Victorian Life Sciences Computation Initiative (VLSCI).

Victoria is home to a globally competitive life sciences industry supported by world leading biotechnology and medical research organisations and researchers. The industry contributes around \$1.7 billion in exports, turns over around \$10 billion per year and employs over 22,000 people in Victoria.

The VLSCI is a \$100 million initiative designed to provide our researchers with the latest computer based tools and advanced research techniques to maintain Victoria's competitive edge. The VLSCI has three major components:

- a Peak Computing Facility which hosts a number of powerful supercomputers, and which is on track to deliver the most advanced supercomputer in the world dedicated to life sciences and the study of human disease;
- a Life Sciences Computation Centre to provide researchers the expertise needed to use these advanced computing capabilities; and
- an outreach and communications program to engage researchers, students, industry and the public in the work of the VLSCI.

The University of Melbourne (the University) is hosting and overseeing the development of the VLSCI with the support and participation of other Victorian universities. The initiative is truly Victorian, with all Victorian life sciences researchers and organisations either using or eligible to use it. The VLSCI is supported by a \$50 million grant from the Victorian Government, administered by the



**RESPONSE provided by the Secretary, Department of Business and Innovation –
continued**

Department of Business and Innovation (the department). The VLSCI is three years into its five year staged implementation to be completed in 2013.

The VLSCI is already being used to do innovative research in areas such as eye disease, design of new drugs to fight viruses, and investigation into the origins in the brain of epilepsy and schizophrenia. The computer enabled research techniques being pioneered at VLSCI are expected to lead to personalised therapies for individuals.

The initiative is demonstrating the power of computers to transform research. For example, the complex modelling of a polio virus that would have taken weeks before the creation of VLSCI is being completed in ten minutes.

The VLSCI is attracting international attention and high calibre international research talent to Victoria including Professor Peter Taylor as VLSCI Director, world leading computation biology experts from the VLSCI's partner, and eminent international representatives participating on the VLSCI Scientific Advisory Committee.

The response from Victorian researchers to the VLSCI to date has been impressive with demand for the first stage super computers comfortably exceeding capacity (almost threefold). Feedback from researchers using the facility for the first time is that it is having a profound impact on their research.

There has also been important expansion of collaboration under the program's Life Sciences Computation Centre with the creation of centres of expertise at La Trobe University, Monash University and the University of Melbourne.

The University has played an important role in delivering the VLSCI in the broader interests of life sciences development in Victoria. The University has committed to delivering the \$100 million initiative and is directly contributing \$12.3 million cash and \$14 million in-kind to the project.

Importantly, the University has successfully delivered an extremely challenging, innovative and complex VLSCI program on time, on budget and in full compliance with its grant agreement with the Victorian Government (this has been independently verified).

It is a pity that the scope of the Audit Report does not enable the practical outcomes and achievements of the VLSCI to date to be fully factored into the Report's findings and conclusions. As you have advised the department, the Audit was limited to early stage planning and procurement processes and explicitly excludes the analysis of benefits realised to date and precludes any conclusions that might be drawn from the achievements of the initiative. However, the Report's limited acknowledgement of the progress achieved by the VLSCI to date (on page three of the Report and elsewhere) is appreciated.

As a result of limiting the Audit scope to early stage planning, project management and procurement, much of the Report's commentary and findings relate to the University as the responsible project planning and procuring agency. It is not appropriate for me to respond on matters that were primarily managed by the University. I understand that the University has acknowledged some potential for

**RESPONSE provided by the Secretary, Department of Business and Innovation –
continued**

improvement in some of its processes and has already responded with improvements. However, I also note that the University substantially disputes interpretations and presentation of conclusions in the Report.

I also note that you have advised the department that that the Report *does not* conclude that the VLSCI was not the most effective use of \$50 million provided by the State government. Rather, to paraphrase, the Report reflects your judgement that assurance cannot be provided from the processes observed within the scope of the Audit. I further note that we agree that the value for money of the initiative will only be conclusively known when the program is complete.

As a broad comment on the Audit Report conclusions, I would make the observation that the benefits from a science and innovation initiative like the VLSCI are notoriously difficult to predict and quantify in advance. However, in the department's assessment there was sufficient evidence of the demand for and benefits of the initiative identified by the VLSCI business case to support a funding decision, provided a prudent staged and risk managed approach to implementation was adopted. This judgement has been vindicated by the achievements of the program to date, particularly in stimulating new demand among researchers for use of computational research methods.

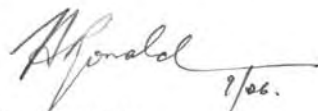
Again, I appreciate that the Audit Report concludes the department's approach to management of the initiative through the grant agreement was sound.

Concerning the Report's recommendations to the department, specific responses are provided in the attachment to this letter.

As a general comment, the relatively unique nature of the VLSCI means that in the future similar projects to which the Audit Report recommendations could be applied may not occur or may be infrequent. Further, the recommendations propose actions that were almost identical to the actions taken by the department in relation to the VLSCI, particularly regarding advice and guidance on business case development and procurement. The actions are in line with the department's normal practice.

In conclusion, I welcome the opportunity to comment. I trust that this response provides context to the presentation of matters in the Audit Report and contributes to a more thorough understanding of the public value of the VLSCI program.

Yours sincerely

A handwritten signature in black ink, appearing to read 'H. Ronaldson', with a date '7/06.' written below it.

HOWARD RONALDSON
Secretary

Enc

RESPONSE provided by the Secretary, Department of Business and Innovation – continued

Performance Audit of Victorian Life Sciences Computation Initiative Attachment

Recommendation	Department's Comment
<p>The Department of Business and Innovation should provide targeted guidance to agencies on how to identify and support proposals for government funding. In particular the Department of Business and Innovation could assist agencies:</p> <ul style="list-style-type: none"> • identify the need for the proposed initiative • identify and evaluate the options to meet the need • adequately support the proposals with a detailed business case. 	<p>DBI agrees with the intent of the recommendation. It is in line with current DBI practice and the three matters highlighted form a subset of the requirements that DBI would normally consider necessary to support proposals for funding.</p>
<p>Where DBI provides significant grants to public agencies for projects that are significant in size, complex or high risk it should require agencies to demonstrate:</p> <ul style="list-style-type: none"> • that grant proposals are adequately supported and include options and cost benefit analysis • compliance with VGPB guidelines and relevant government procurement policies • they have sufficient and appropriate resources to manage the project. 	<p>The provision of significant grants for large, complex or high risk public agency projects by DBI occurs rarely, and is generally for the development of industry infrastructure; including research and other science facilities. All proposals are subject to significant scrutiny on a case-by-case basis. This involves requiring options and cost benefit analysis as part of the business case supporting the proposal, and demonstration of capability to manage the project in business and project plans that is subject to appropriate due diligence scrutiny in developing grant agreements.</p> <p>As a general rule, agencies other than Departments and a small number of administrative offices are not bound by VGPB guidelines in their procurement activity, and DBI adopts the principle that agency procurement practices must be demonstrated to be of at least the standard required by the VGPB and associated government procurement policies.</p> <p>The engagement of probity practitioners by agencies as advisers and auditors in line with Probity Practitioners Services Panel guidelines is an expected norm for all major project activity.</p>

RESPONSE provided by the Vice-Chancellor, University of Melbourne

Glyn Davis AC
Vice-Chancellor
Professor of Political Science

9 June 2011

Mr Des Pearson
Auditor-General
Victorian Auditor-General's Office
Level 24
35 Collins Street
MELBOURNE VIC 3000

Dear Mr Pearson,

Response to Proposed Audit Report of the *Victorian Life Sciences Computation Initiative*

I write in response to your invitation to formally respond to the proposed Audit report (the Report) of the Victorian Life Sciences Computation Initiative (VLSCI).

Thank you for the opportunity to discuss by telephone on Monday 6 June a number of the issues that have been the subject of exchange between University and VAGO officers over the period of the audit.

It is clear from our telephone discussion that you and I have formed differing conclusions from the facts found in the course of the review. Our discussion did however provide the opportunity for me to make a number of key broader observations:

- it is unfortunate that what was purportedly an effectiveness audit has ended up being almost exclusively an audit of processes, with no comment on what the University or other stakeholders consider significant achievements;
- prior to the signing of the contracts with IBM, I became aware that VAGO was intending to use the VLSCI as a 'case study' audit. At that time, I sought advice from your office as to the process that the University was engaged in and was informed that any decision on process was a matter for the University and the predecessor department to the Department of Business and Innovation (DBI). We proceeded on that basis and as a result sought to rely on the expert advice of others, and
- the Report draws conclusions and makes findings that are significantly at variance to those provided in three independent advices commissioned by the University in accordance with best practice throughout this whole process.

Overall, the University welcomes the audit given the significance of the VLSCI project and its potential greatly to enhance Victoria's reputation in life science research.

In particular, the University welcomes the Report's conclusions that:

- the VLSCI will contribute to life sciences research in Victoria and nationally;
- the VLSCI is consistent with the University's strategic and business objectives and State Government innovation policy;

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**RESPONSE provided by the Vice-Chancellor, University of Melbourne –
continued**

- there was no impropriety throughout the procurement process;
- the grant agreement accountability framework adopted for the VLSCI is sound, and
- parts of the University's procurement for the VLSCI were well managed.

The University is reassured to have received advice during the course of the review to the effect that VAGO considers University procedures and guidelines now in place for managing major projects – and introduced part way through the period of the VLSCI procurement – are appropriate.

However, the University is concerned with the tenor of the Report in several key areas. In particular, the University contests a number of the conclusions drawn by VAGO and is of the view, supported by independent external advice, that more balanced findings on outcomes and process should have been drawn from the facts as presented.

In particular, the University is of the view that the Report gives insufficient weighting to:

- the strong performance of the project to date. The original audit specification states that this is “an opportunity to provide an independent view of the effectiveness... of the initiative at this early lifecycle stage”. The University's view is that the Report should have taken into account the significant outcomes of the project to date as the effectiveness of the VLSCI cannot be measured simply on process alone. An important opportunity to provide context for readers of the Report and its findings has been missed;
- the fact that the University has complied with all of its obligations and responsibilities, including those set out in the grant agreement with the DBI. This has been confirmed by DBI. In the University's view this is a material omission in the Conclusions reached in the Report;
- the fact that the University's adopted practice was consistent with principles embodied in VGPB guidelines;
- the fact that three independent expert advisers, engaged by the University at various stages throughout the VLSCI project, each reached very different conclusions to those contained in the Report,
 - Pitcher Partners concluded, as probity advisers, that “during the course of the evaluation no probity issues came to our attention”.
 - LEK Consulting concluded, as commercial advisers, that the University secured a reasonable commercial arrangement overall and that they “did not identify any issues that indicate that the process was not conducted in accordance with Victorian Government standards in regard to tenders”.
 - PricewaterhouseCoopers (PwC) which was provided with all the same documents as VAGO concluded that the procurement process was reasonable given the nature of the project and that, while there are a number of areas for improvement, these did not represent major failures in procurement or probity.

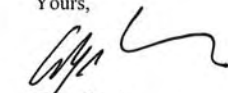
**RESPONSE provided by the Vice-Chancellor, University of Melbourne –
continued**

The University does not accept the view of VAGO that the advice of these consultants must be discounted because it was not offered in the form of “audit” advice;

- the fact that most of the issues identified in the report are process issues, most of which the University has already responded to through its Major Projects Policy. This has been acknowledged by your correspondence to me on 26 May 2011 which states that the updated Major Projects Policy and the PwC recommendations deal appropriately with process issues raised by VAGO, and
- the nature of the initiative being delivered. The report views the VLSCI as a typical IT procurement and fails to take account of the broader objective of the VLSCI, ie to establish an outstanding research facility for life sciences built on a collaborative partnership rather than constituting solely a standard purchase of computing equipment. This leads the Report to draw certain erroneous conclusions.

As indicated, the University’s Major Projects Policy incorporates practices that deal with many of the Report’s findings. The University will review and update this Policy and related practices to ensure that the University continues to improve its practices.

Yours,



Glyn Davis
Vice-Chancellor

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Report title	Date tabled
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