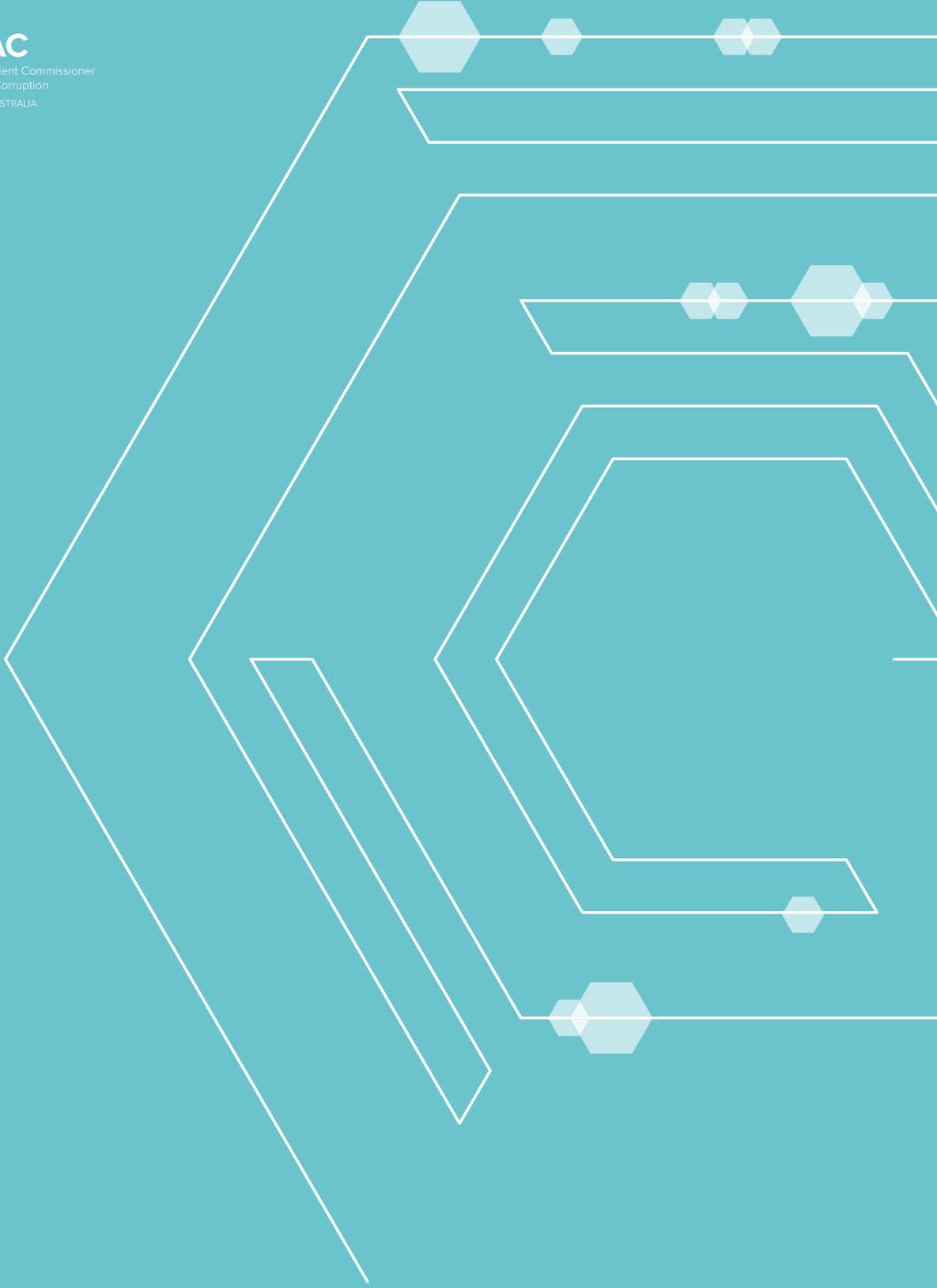




ICAC

Independent Commissioner
Against Corruption
SOUTH AUSTRALIA



THE TRUSTED INSIDER
AN EXAMINATION OF ISSUES FROM
TWO ICAC INVESTIGATIONS



The Trusted Insider

An Examination of Issues from
Two ICAC Investigations

June 2019

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Contents

LETTERS OF TRANSMITTAL	2
COMMISSIONER'S FOREWORD	4
CHAPTER ONE: AGGRAVATED THEFT AT YORKE PENINSULA COUNCIL	6
CHAPTER TWO: ABUSE OF PUBLIC OFFICE AT TAFE SA	10
CHAPTER THREE: THE DYNAMICS OF TRUST AND CORRUPTION	16
The human impact of the offending	16
The blind spot of reputation — The trust that blinds	18
Motivations and rationalisations for corruption	20
Reducing the opportunity for corruption — The control environment	23
CONCLUSION	26

Letters of transmittal

The Honourable Vincent Tarzia MP
Speaker of the House of Assembly

The Honourable Andrew McLachlan CSC MLC
President of the Legislative Council

In accordance with section 42 of the *Independent Commissioner Against Corruption Act 2012*, I present this report entitled 'The Trusted Insider: An Examination of Issues from Two ICAC Investigations'.

The report has been prepared for the purpose of informing public officers and the public more generally of observations made and corruption prevention issues identified in two corruption investigations conducted by my office.

Section 42(3) of the *Independent Commissioner Against Corruption Act 2012* requires that the President of the Legislative Council and the Speaker of the House of Assembly lay the report before their respective Houses on the first sitting day after 28 days (or such shorter number of days as the Attorney-General approves) have passed after receiving this report.

Yours Sincerely,



The Honourable Bruce Lander QC
Independent Commissioner Against Corruption
22 May 2019

The Honourable Vickie Chapman MP
Deputy Premier
Attorney-General

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The Honourable Bruce Lander QC
Independent Commissioner Against Corruption
22 May 2019

Commissioner's foreword



Most people engaged in public administration carry out their duties in an honest, diligent and ethical way. They are entrusted to exercise power and discretion appropriately and do so conscientiously.

Unfortunately some public officers choose to act dishonestly, improperly using their position or status to obtain a benefit for themselves or others. Such conduct is an egregious abuse of the trust invested in those public officers.

Corruption in public administration attacks the fundamental principles of proper public administration. Its consequences cannot be underestimated. Corruption can have significant adverse impacts not only on those directly impacted but on agencies within which the conduct occurs and the community more generally.

It is a scourge that ought to be regarded as disgraceful and intolerable.

It is also behaviour that needs to be understood so that individuals and agencies can protect themselves against corruption.

Following an investigation by my office a senior manager at the Yorke Peninsula Council admitted to dishonestly taking over \$200,000 from her employer. Another investigation of a senior manager at TAFE SA revealed that over \$150,000 had been dishonestly appropriated. In both cases the conduct took place over a lengthy period with both public officers breaching their positions of trust and betraying their colleagues and organisations.

The purpose of this report is to explain how the conduct occurred, the impact of the conduct and, importantly, to identify practices that might reduce the prospect of such conduct occurring in the future.

More generally this report explores the phenomenon of the trusted insider who abuses his or her authority.

As this report will explain the conduct of both public officers took a significant toll on the people employed at both agencies.

I acknowledge from the outset the outstanding manner in which staff of both the Yorke Peninsula Council and TAFE SA dealt with these matters once the conduct was detected, which included providing assistance to my investigators and taking proactive steps to reduce opportunities for such conduct to occur in the future.

THE POWER TO MAKE THIS REPORT

Section 42 of the *Independent Commissioner Against Corruption Act 2012* (ICAC Act) provides me with the power to prepare certain reports. Subsection 42(1) relevantly provides:

- (1) *The Commissioner may prepare a report setting out—*
 - (a)
 - (b) *findings or recommendations resulting from completed investigations by the Commissioner in respect of matters raising potential issues of corruption, misconduct or maladministration in public administration; or*
 - (c) *other matters arising in the course of the performance of the Commissioner's functions that the Commissioner considers to be in the public interest to disclose.*

I consider that it is in the public interest to prepare this report.

In doing so, I emphasise that the purpose of this report is not to further punish the public officers involved. Rather this report is intended to promote awareness amongst public officers regarding the nature of the conduct engaged in, how that conduct was able to occur, and what might be done to reduce the opportunity for such conduct to occur in the future.

I thank Dr Andrew Russ of my office for his invaluable assistance in the preparation of this report.

Chapter one: Aggravated theft at Yorke Peninsula Council

The Yorke Peninsula Council (Council) is one of 68 councils in South Australia. It is a regional council covering a geographical area of 5,900 km², servicing approximately 11,278 people.

In the 2015/16 financial year the Council was served by 12 elected members and 146 staff; approximately 60 in administration/management and 90 in works-related roles. Total expenditure for the year was \$29.82 million, and income was \$27.55 million.

The offending

DUTIES AT THE COUNCIL

Karen Maria Schulz (Council public officer) was at the time of her offending the Manager of Financial Services at the Council and had been employed at the Council for over ten years.

In 2004 the Council public officer commenced at the Council as an Accounting Officer.

In 2007 she became an Accounts Payable Officer and was responsible for the preparation and payment of accounts for goods and services received.

In 2011 she became a Management Accountant responsible for control and monitoring of the Council's financial performance and ensuring statutory compliant record keeping.

In 2013 she was promoted to the senior leadership role of Manager Financial Services, reporting directly to the Director of Corporate and Community Services and responsible for the effective and efficient financial management of the Council's operations. She led the Financial Services team and provided expert advice to the Council's Corporate Management team.

Having commenced in a relatively junior position, the Council public officer gradually advanced to senior management. Her steady progression suggests she was trusted by her colleagues and supervisors.

Having commenced in a relatively junior position, the Council public officer gradually advanced to senior management.

THE CONDUCT

The Council public officer's corrupt conduct spanned more than four years (July 2011 to November 2015) and occurred in two distinct periods using different methods.

From July 2011 to April 2013 she modified Council electronic payment records by editing the electronic payment system's masterfile to substitute a supplier's bank details with her own. She would do this after a batch of payments had been approved by herself and the Director of Corporate and Community Services. Once payment had been made to her account she would restore the original supplier bank details to the masterfile.

She would then make a copy of the original invoice and repeat the approval process between her and the Director, so the supplier would be paid. She would include these duplicate invoices within a large batch that needed processing, so that it would go unnoticed.

The Council's accounting software included a control that would generate a warning when invoices to the same supplier with repeat invoice numbers were processed. However, the Council public officer had authority to override the duplicate invoice warning so corrupt payments could proceed without raising alarm.

Her conduct required the unwitting involvement of other employees.

Her conduct required the unwitting involvement of other employees. She would create reasons to have other employees divulge their system log-in details to her. She also capitalised on the practice of staff logging onto a computer and leaving it unlocked while physically leaving the room.

The Council public officer admitted that she would wait until she was alone in the room before using a colleague's computer to manipulate accounts payable details, all the time ensuring the computer was logged on under another staff member's credentials.

In February 2013 internal audit staff identified a risk relating to the number of staff who had access to masterfiles and the ability to change those files. The audit team recommended changes to mitigate this risk and the Council public officer was assigned responsibility for implementing new controls.

She consequently ceased processing corrupt transactions between 2 February 2013 and 11 April 2013.

In April 2013 the Council changed banks. According to the Council public officer's subsequent admission, she discovered how to exploit a vulnerability in how the new bank interacted with the Council's accounting software.

This vulnerability related to the ability to edit bank text information before it was uploaded to the bank. Once payment was made she would then revert the bank text file to its original form to cover her tracks.

This new approach was used for a further 20 months, from 12 April 2013 to 12 November 2015, before it was detected.

HOW THE OFFENDING WAS UNCOVERED

On 7 December 2015 while the Council public officer was on leave, an Accounts Payable Officer was contacted by a supplier with an unpaid invoice.

Council records indicated the invoice had been paid so staff arranged for an electronic funds transfer (EFT) payment report to be run and discovered the invoice amount had been paid into an account operated by the Council public officer.

Council staff subsequently examined six months of transactions, discovering further suspicious transactions where money appeared to have been transferred into the account of the Council public officer.

THE ICAC INVESTIGATION

On 10 December 2015 the Office for Public Integrity received a report from the Council.

The report was assessed as raising a potential issue of corruption in public administration and the Commissioner determined to investigate the matter.

On 15 December 2015 an ICAC investigator attended the Council's offices and was provided full access to relevant documents. The Council public officer's banking records were obtained and they confirmed the receipt of Council money.

Her employment was terminated on 5 January 2016. On 1 February 2016 she wrote to the Council admitting her wrongful conduct and explaining how she had obtained the money.

On 9 February 2016 the Council public officer was arrested by an ICAC investigator. During her subsequent interview she admitted to the offending and confirmed the accuracy of the letter she had written to the Council. During her interview she also provided further insight into her conduct.

She recalled the catalyst for her conduct was outstanding bills. She alluded to credit card debts related to her children's schooling, her mother's funeral and some holidays.

The Council public officer's expressed initial intention was to borrow Council money and she claimed that she did repay the first (\$1,338.25) and second (\$415.60) stolen amounts via electronic transfers. She also claimed to have made other cash deposits into the Council's account, though was unsure of exactly how much was returned. Subsequent ICAC forensic accountant analysis confirmed the offender had paid back three amounts of money but was unable to verify some of the other alleged cash repayments.

As the interview continued it emerged that the proceeds of her offending were increasingly being used to fund her lifestyle, with funds being spent on cruises, interstate and overseas holidays and private school fees. She also stated that some of the funds were used to pay for ongoing medical treatment for members of her family.

When asked what would have happened if her offending had not been uncovered and addressed she replied, 'potentially I would have continued'.

THE COURT PROCEEDINGS

On 27 October 2016 the Council public officer pleaded guilty to 20 counts of Aggravated Theft, being charges that were representative of all of her conduct. She had no previous criminal history.

The prosecution alleged and the Council public officer admitted that she had taken \$218,877.35 from the Council over a period of four years and four months through 63 unauthorised transactions. The prosecution submitted this offending was aggravated because the Council public officer was in a position of trust. The maximum period of imprisonment imposed for a single offence of Aggravated Theft is 15 years imprisonment.

The prosecution submitted this offending was aggravated because the Council public officer was in a position of trust.

The offender was sentenced in the Magistrates Court on 2 November 2016. Though her defence argued for the suspension of any custodial sentence, the Magistrate said suspension was 'totally inappropriate', citing the gravity of the offending as 'serious, blatant, calculated, skilful dishonesty offending over a lengthy period of time' and that she behaved in a 'sophisticated, deliberate and calculated manner'. The Magistrate described the offending as 'a clear breach of trust with her employer... and that elements of her offending went beyond need'.¹

She was sentenced to 20 months imprisonment with a non-parole period of 12 months, to be served on home detention.

A Council insurance policy enabled all of the money stolen to be recovered. The Council public officer subsequently repaid the insurer.

1: Remarks on Penalty of Magistrate B. Harrap, Police v Schulz, Magistrates Court of South Australia (Criminal), 2 November 2016.

Chapter two: Abuse of public office at TAFE SA

Vocational education and training has been provided by the state government under various guises and legislation since 1889. It is currently regulated by the *TAFE SA Act 2012 (SA)*.

TAFE SA trains over 70,000 students per annum via an extensive network of metropolitan and regional campuses and sites. It maintains over 500 active qualifications.²

The offending

DUTIES AT TAFE SA

Josephine Cray (TAFE public officer) was at the time of her corrupt conduct, Education Manager in the Community Services, Health and Lifestyle Business Unit of TAFE SA.

The TAFE public officer had been in this role on temporary contracts from 2006 to 2010, before becoming a permanent employee in October 2010.

After a restructure in 2013 she was made responsible for both metropolitan and regional staff and programs, and managed approximately 30 full time staff and 30 instructors.

She had delegated expenditure authority up to \$30,000.

2: *Inquiry into TAFE SA*, 67th Report of the Statutory Authorities Review Committee, Parliament of South Australia, tabled in the Legislative Council on 8 August 2017.

THE CONDUCT

The TAFE public officer engaged in corruption over a four year period between July 2012 and July 2016. Over that period she dishonestly authorised the payment of invoices that falsely claimed mentoring and coaching services from a bogus company named Beaumont Consulting Services (BCS).

...she was able
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The TAFE public officer would receive fraudulent invoices from Richard Beaumont, the individual behind BCS, for amounts ranging from \$910 to \$5,600. These invoices would be approved and processed by the TAFE public officer and her staff through TAFE SA's electronic accounts payable system, Basware. By using various cost centres and finance codes she was able to distribute the expenses to make them less obvious. The invoices would be paid into Mr Beaumont's personal bank account.

Seventy four invoices totalling \$153,310 were paid in this manner.

HOW THE OFFENDING WAS UNCOVERED

In May 2016 a TAFE SA Program Support Officer (PSO) who worked for the TAFE public officer noticed that during the 2015/16 financial year, approximately \$60,000 had been spent on professional development with a business named BCS.

The PSO became suspicious when a supporting contract with BCS could not be located. In addition the PSO suspected that the TAFE public officer, who had approved the invoices, had not been in the country during some of the time that BCS was apparently providing services.

The PSO consulted a TAFE SA Financial Business Partner about the situation. They discussed the large amount of money spent with BCS as well as what possible professional development TAFE SA was receiving from BCS.

On seeking clarification the TAFE public officer stated the invoices related to her own professional development. The PSO accepted this and took no further action at the time. The Financial Business Partner also did not inquire further due to end of financial year pressures.

On 28 June 2016 TAFE SA's Director of Finance received an automated Basware alert for two BCS invoices which had not been processed and were overdue.

The Director of Finance examined the two invoices and noted that both invoices were for the same amount of \$1,200. On further examination, other red flags were noted:

- ▶ The invoices were formatted in a home produced style.
- ▶ Consulting is a recognised area of corruption risk.
- ▶ The transactions for phone and consultation coaching were considered excessive considering TAFE SA was a training organisation.
- ▶ The invoice address was a Post Office Box.
- ▶ The invoices were numbered 12173 and 12175, only two numbers apart despite being separated by three weeks. This suggested a business with only minor levels of activity.
- ▶ There was no tax/GST reference.

The Director of Finance raised his concerns with the Manager of Internal Audit and Risk, who conducted a Basware search revealing fourteen BCS invoices totalling \$23,200. Further enquiries also established that BCS was not an authorised vendor of TAFE SA and that the TAFE public officer's direct line manager had no knowledge of the invoices or any vendor relationship with BCS.

On enquiry, the TAFE public officer confirmed to her Manager that she was receiving personal coaching and mentoring from BCS. She offered that she knew the owner of BCS through professional and informal networks, having met him at the gym.

On further investigation by Human Resources it was revealed the ABN for BCS was registered to Mr Beaumont. However, the ABN was cancelled on 27 March 2015.

During an interview with the Manager of Workplace Relations, the TAFE public officer asserted she was suffering from workplace stress and felt the need to consult with someone external. She stated that she decided that TAFE SA should pay the \$150 per hour consulting fees because it related to a professional issue. She denied a personal relationship between herself and Mr Beaumont.

After the TAFE public officer was informed the matter would be reported to the Office for Public Integrity, she offered to resign and repay the \$23,000 from her accrued entitlements, providing TAFE SA enter into a settlement and release deed.

However, later that same day it became known that internal audit had now identified BCS invoices totalling \$60,000. The following day this amount was revised to \$153,310.

No settlement or release deed was entered into.

Further enquiries also established that BCS was not an authorised vendor of TAFE SA and that the TAFE public officer's direct line manager had no knowledge of the invoices or any vendor relationship with BCS.

THE ICAC INVESTIGATION

On 28 July 2016 the Office for Public Integrity received a report from TAFE SA. The report was assessed as raising a potential issue of corruption in public administration and the Acting Commissioner determined to investigate.

A review of the TAFE public officer's work emails showed correspondence between herself and Mr Beaumont, including the emailing of BCS invoices.

The TAFE public officer would split the BCS invoices between two cost centre codes:

- ▶ *Metropolitan Budget Aged Care Support*
- ▶ *Regional Budget Aged Care Support*

Within each cost centre code she further split the invoices between two different Object Codes:

- ▶ *Staff Development*
- ▶ *Contractors*

By dividing the invoices between these four areas, the TAFE public officer was able to make the payments more difficult to trace and detect. Thus, the full expenditure for BCS was less likely to be scrutinised and the budgets for each cost centre were less likely to be exceeded, minimising the risk of attracting the attention of financial officers.

Emails were also suggestive of a familiar relationship between Mr Beaumont and the TAFE public officer. Credit card expiry reminders from an internet provider were emailed to both parties. The TAFE public officer's TAFE SA work email was the registered contact address on Mr Beaumont's email account. The mobile phone number associated with the internet provider was once registered to both Mr Beaumont and the TAFE public officer.

Other evidence suggesting a pre-existing relationship between Mr Beaumont and the TAFE public officer included Mr Beaumont having a supplementary card for one of her bank accounts. Additionally, varying payments had been made from one of the TAFE public officer's bank accounts to one of Mr Beaumont's.

The electoral roll and the Vehicle Licensing Systems also suggested that Mr Beaumont and the TAFE public officer had lived together from January 1991 to March 1992, and been immediate neighbours from June 2007 to March 2012. They were also co-owners of a vehicle in 1996 and she had transferred ownership of two cars to Mr Beaumont in 2006 and 2007.

Emails were also suggestive of a familiar relationship between Mr Beaumont and the TAFE public officer.

This evidence supported the suspicion there was some form of personal relationship between the TAFE public officer and Mr Beaumont predating the corruption at TAFE SA.

On 8 September 2016, the last official day of the TAFE public officer's service at TAFE SA, she was advised by email that her long service leave entitlements would be withheld because the full extent of the suspected corruption had been ascertained.

On 12 September 2016 the TAFE public officer was arrested at her home. She declined to answer any questions.

On the same day investigators attended a storage unit leased by Mr Beaumont, recovering computers and documents which included banking records of TAFE SA payments to BCS. Mr Beaumont was arrested at the storage unit. He also declined to answer questions.

EVENTS AND CIRCUMSTANCES PRECEDING THE OFFENDING

The TAFE public officer had a limited criminal history before her offending at TAFE SA. In 1990 she was placed on a six month good behaviour bond for a minor offence of larceny.

In December 1992 she was convicted of seven counts of false pretences and one count of stating a false personal detail. The conduct involved opening a temporary credit card at a department store in another person's name. She received a two month suspended sentence and a 12 month good behaviour bond.

In 2001, whilst employed by the South Australian Housing Trust, she was disciplined for improper conduct in relation to various allegations that she had an undeclared conflict of interest by awarding printing contracts to her then de facto partner, Richard Beaumont.

It was found that she failed to declare this conflict, failed to utilise resources in a responsible and accountable manner and failed to give her best to meet organisation requirements.

THE COURT PROCEEDINGS

On 4 November 2016 both the TAFE public officer and Mr Beaumont were charged in the Magistrates Court. The TAFE public officer was charged with 74 counts of abuse of public office and Mr Beaumont with 74 counts of aiding, abetting, counselling or procuring her offences.

On 2 December 2016, following negotiations with the Office of the Director of Public Prosecutions, both parties pleaded guilty to 30 offences.

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The TAFE public officer read a letter of apology to the court acknowledging her dishonesty and the breach of trust placed in her by TAFE and her colleagues.

The TAFE public officer read a letter of apology to the court acknowledging her dishonesty and the breach of trust placed in her by TAFE and her colleagues. The Judge accepted that the TAFE public officer genuinely regretted her behaviour.³

Over a four year period 74 invoices were dishonestly authorised, falsely claiming mentoring and coaching services from BCS totalling \$153,310. Although both accused devised the scheme, the judge was satisfied the corruption was solely for Mr Beaumont's financial benefit, noting the TAFE public officer did not gain financially.

The two had lived in a de facto relationship for around ten years, ending sometime in 1999. They thereafter maintained a close friendship, with the TAFE public officer providing significant financial assistance to Mr Beaumont funded by her corrupt conduct, personal savings and a share of her mother's estate.

The Judge viewed the TAFE public officer using \$103,742 from her superannuation entitlements to help in repaying TAFE SA as an important mitigating factor. When combined with the long service leave entitlements withheld by TAFE SA, all misappropriated funds were reimbursed.

The TAFE public officer was sentenced to five years, six months imprisonment, reduced by 40% for her early guilty plea to three years, three months and 18 days. A non-parole period of 18 months was set due to her good prospects for rehabilitation.

Mr Beaumont was sentenced to five years, six months imprisonment, reduced by 40% for his early guilty plea to three years, three months and 18 days with a non-parole period of 25 months.

In both cases the Judge declined to permit the sentence to be served on home detention.

3: Sentencing Remarks of Judge Millsteed, R v James Richard Andrew Beaumont and Josephine Maria Cray, District Court, Adelaide (Criminal), 5 July 2017.

Chapter three: The dynamics of trust and corruption

The human impact of the offending

The conduct of both public officers highlighted in this report shocked their respective colleagues and communities. Both officers were trusted, senior and long term members of staff. Their criminal conduct was entirely unexpected.

There is a misconception that white-collar crime only harms an abstract entity or organisation. In reality organisations are comprised of people, who are often identified as victims of corruption of this type.

The Victim Impact Statement filed by the Yorke Peninsula Council was described by the Magistrate during sentencing as a 'powerful document' that personalised the impact upon this 'small, tight-knit rural community'. The Council public officers offending had a 'ripple effect and a significant impact on the council and those who worked in the council'. The Magistrate said:

Some might view the council as an entity, a corporation in some respects, but that Statement makes it very clear that there were people who worked closely with the defendant who were deeply and personally effected (sic) and negatively impacted by her offending.⁴

There is a misconception that white-collar crime only harms an abstract entity or organisation.

4: Remarks on Penalty of Magistrate B. Harrap, Police v Schulz, Magistrates Court of South Australia (Criminal), 2 November 2016.

The Council's Chief Executive Officer and some affected staff members described the conduct as 'devastating' and 'horrendous' and left people with feelings of 'guilt' and that they had all been 'tarnished'.

Research suggests that while people will often view white-collar crime as being as improper as most other crimes many regard it as less harmful.⁵

Those who engage in corruption will often rely (both consciously and unconsciously) upon the widespread notion that their offending does not cause harm in order to justify it to themselves.

In reality the potential impact of this kind of criminal conduct ought not be underestimated. Such impact can be extensive and should be understood for a number of reasons.

First, understanding the impact of this conduct reinforces the importance of investing in corruption prevention activities. Such activities can reduce the risks associated with corruption, including its adverse impact on staff morale and welfare.

Secondly, research suggests that potential offenders may more readily excuse and rationalise their offending because they regard themselves as only stealing a little from a lot of people, and that the harm caused is not 'up close and personal'.⁶ Public officers who may be tempted to offend in this way may find it more difficult knowing their colleagues are likely to experience significant personal harm as a result of their conduct.

Thirdly, knowing that corruption is inherently harmful because it involves an abuse of trust may influence others to become less tolerant to its existence and more likely to report suspicious conduct.

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Finally, attitudes that underestimate the emotional ramifications of corruption can cause staff to feel as if their responses to such corruption are unusual or unjustified. This may in turn discourage them from reporting corruption or accessing available supports.

In short, the breadth of harm caused by corruption is significant and agency leaders should bear in mind the significant consequences that might flow from such conduct.

5: Rosenmerkel, S. P. 'Wrongfulness and harmfulness as components of seriousness of white-collar offenses', *Contemporary Criminal Justice*, 2001, 17(4), p. 323, as cited in Larsson D and Alalehto T, 'The Reaction Towards White Collar Crime: When White Collar Crime Matters', *The Open Criminology Journal*, 2013, 6, p. 2.

6: Duffield G & Grabosky P. 2001. *The Psychology of Fraud*. Trends & issues in crime and criminal justice No. 199. Canberra: Australian Institute of Criminology. <https://aic.gov.au/publications/tandi/tandi199>.

The blind spot of reputation — The trust that blinds

The damaging repercussions of the criminal conduct of these two public officers is largely explained by the significant trust invested in them and their betrayal of that trust.

The Council public officer was highly regarded by her work colleagues and within the organisation generally. Comments made by the Council's Chief Executive Officer and various affected staff members confirmed that she was highly trusted, caring, kind and supportive.

Because of the seniority and considerable respect that both public officers had amassed, suspicions about their integrity were only raised after a long period of criminal behaviour.

The TAFE public officer was also regularly described as a highly experienced, diligent and reputable manager. Witness statements taken by ICAC investigators from her immediate colleagues consistently praised her knowledge, capabilities and professionalism, as well as her entrepreneurial dynamism. She was expected to advance through the organisation.

Because of the seniority and considerable respect that both public officers had amassed, suspicions about their integrity were only raised after a long period of criminal behaviour.

Studies show that for long term corruption of this kind (thefts that engage in a 'low and slow' approach to avoid detection), the criminal conduct occurs for an average of 32 months before detection.⁷ Both public officers the

subject of this report engaged in corruption for roughly four years before detection.

Trusted insiders who are found to have engaged in corruption are often noted to be amongst an organisation's hardest workers and are frequently regarded as the 'go-to' people.⁸ Often red flags, such as excessive control over processes, 'first in/last to leave' office routines, reluctance to take annual leave, refusal to train other staff or delegate responsibilities, and a general 'workaholic' demeanour, are seen differently once corrupt activity emerges. Prior to detection these traits are often considered as evidence of a trustworthy, reliable and conscientious employee. After the corruption is exposed questions of excessive trust and the over-reliance on the person often arise.

7: Cummings, Lewellen, McIntire, Moore, Trezeciak, *Insider Threat Study: Illicit Cyber Activity Involving Fraud in the U.S Financial Services Sector*, July 2012, Special Report Cert Program, Software Engineering Institute, Carnegie Mellon University, p. 12-15.

8: Couch, Tiffany, *The Thief in Your Company: Protect Your Organisation from the Financial and Emotional Impacts of Insider Fraud*, (Lioncrest Publishing, 2017), p. 33.

A key feature of corruption by a trusted insider is the ‘trust trap’.⁹ Trusted insiders who engage in corruption are often typified by long periods of loyal service (around five years¹⁰) which in turn generates organisational trust. The public officers the subject of this report had been employed in their agencies for approximately seven and six years respectively before they began their corrupt conduct.

Trusted insiders’ long tenancy within organisations is often accompanied by promotion and increased prominence within agency functions, and the growing confidence of colleagues in their ability and reliability. Predictably, controls and risk protections applicable to such individuals are lowered or relaxed and they are often granted greater access to business processes. This may coincide with a growing acquiescence and inattention of subordinates and supervisors to what might otherwise be suspect behaviour. This excessive trust blinds the organisation to potential impropriety.

Trusting employees is an institutional necessity. But the downside is that trust can be abused. Agencies must find a way to provide safeguards that reduce the risks of corruption while at the same time not unduly burdening or undermining trust in employees which is vital for good public administration.

Predictably, controls and risk protections applicable to such individuals are lowered or relaxed and they are often granted greater access to business processes.

9: Cummings, Lewellen, McIntire, Moore, Trezeciak, *Insider Threat Study: Illicit Cyber Activity Involving Fraud in the U.S Financial Services Sector*, July 2012, Special Report Cert Program, Software Engineering Institute, Carnegie Mellon University, p.37.

10: Cummings, Lewellen, McIntire, Moore, Trezeciak, *Insider Threat Study: Illicit Cyber Activity Involving Fraud in the U.S Financial Services Sector*, July 2012, Special Report Cert Program, Software Engineering Institute, Carnegie Mellon University, p. 12-15.

Motivations and rationalisations for corruption

Corruption often occurs because of three factors:

- ▶ the motivating incentives or pressures that prompt offending
- ▶ the opportunities that exist for offending
- ▶ the rationalisations offenders use to justify their offending

Public officers can have a substantial influence in reducing the opportunities that exist for offending within their organisations. This report contains a number of suggestions as to measures agencies can adopt to help limit and control those opportunities.

However, reducing the opportunity for wrongdoing is only part of enhancing a public agency's ability to resist corruption. Public agencies should be realistic about the ability of their systems, controls, policies and procedures to prevent all improper behaviour.

While the overwhelming majority of public officers act with integrity, there are some who might already be, or may become motivated to offend. If sufficiently motivated such individuals may engage in corruption irrespective of the control environment. And their ability to rationalise that offending will also contribute to the offending's duration and damage.

MOTIVATIONS

It is a common misconception that the primary reason for engaging in corruption is greed. In reality, the incentives and pressures to commit corruption are far more varied. Experience shows that prime motivators for offending can be:

- ▶ financial difficulty and debt
- ▶ social and work pressures
- ▶ personal, family or health concerns
- ▶ competing or conflicting loyalties
- ▶ mental health issues and substance dependencies
- ▶ feelings of disgruntlement or entitlement

There are also a range of underlying dispositions that can exacerbate the motivations behind corruption, such as:

- ▶ lack of self-esteem
- ▶ poor social control or social skills
- ▶ issues surrounding non-conformity to rules, norms and social expectations
- ▶ ethical flexibility, lack of risk perception
- ▶ lack of self-awareness
- ▶ poor decision making abilities

In both cases of offending explored in this report, motivators and pressures such as altruism, family loyalty, financial difficulties, mental health and self-esteem issues were all present; motivators not ordinarily acknowledged or understood by those who view corruption as primarily driven by greed.

Such pressures need not be intense to trigger criminal behaviour or misconduct. A broken down car, mounting credit card debt or a change in employment circumstances could all trigger an apparent crisis which incentivises improper conduct.

Research is increasing our awareness of the ‘slippery slope’ nature of dishonest behaviour.¹¹ A person’s first deception is often a threshold point, that once breached facilitates further dishonesty. This insight is corroborated by the ICAC’s corruption investigations described in this report. One of the public officers discussed in this report told ICAC investigators that her offending began from the need to pay a credit card debt. This initial theft was allegedly paid back the next day when the public officer’s tax return was refunded. This initial act would eventually escalate to the use of Council money to fund lavish holidays and private school fees.

Understanding that the potential motivators for corruption can come in many forms and be relatively minor is an essential first step in countering their potential influence. Public officers should be aware that their everyday, common ethical dilemmas may be enough to tempt them into corrupt conduct.

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RATIONALISATIONS

The rationalisations that people use to justify wrongdoing are also varied and remarkably common. Common rationalisations include:

- ▶ the conduct is temporary to alleviate a crisis
- ▶ corruption serves a ‘higher’ duty than the organisation’s needs, such as family issues or personal health
- ▶ money is being ‘borrowed’ and will be paid back
- ▶ the stolen money is for someone else, the corrupt individual not being the beneficiary
- ▶ no one is being hurt as the corruption affects the organisation generally
- ▶ perceived mistreatment by the organisation, or feeling ‘owed’
- ▶ misunderstanding, ignorance or apathy about the gravity of the conduct¹²

11: Hood, Michael, *Weathering Human Nature’s Storms: Is Your Internal Control System Intact?*, ACFE Anti-Fraud Resource Guide, First Quarter 2018, p. 4-5. See, https://www.acfe.com/uploadedFiles/ACFE_Website/Content/home/Q1-2018-RG-Web.pdf.

12: Cummings, Lewellen, McIntire, Moore, Trezeciak, *Insider Threat Study: Illicit Cyber Activity Involving Fraud in the U.S Financial Services Sector*, July 2012, Special Report Cert Program, Software Engineering Institute, Carnegie Mellon University, p.34.

Some of these rationalisations were perceptible in the conduct examined in this report, and such rationalisations often encourage the slippery slope towards long term and costly dishonest behaviour. Rationalisations for corruption can often begin benignly and then slowly snowball, and offenders often acclimatise to their behaviours, continuing their criminal conduct even as the original motivation fades.

Public officers should not expect their agencies to solely protect them from such ethical slippage. Public officers should also not resign themselves to the instinctive theory that dishonesty is just a question of ‘good people’ as opposed to ‘bad people’. This masks the real way dishonesty operates through emotional risks, social pressures, developing temptations, personal biases and dispositions that can rationalise wrongdoing, however small, and often without us being fully aware.

Small rationalisations for minor ethical lapses can quickly snowball into corruption. Integrity in public administration is greatly enhanced by public officers being aware of their own ordinary weaknesses and everyone’s capacity to disregard or ignore their own sense of integrity.

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ORGANISATIONAL STRATEGIES

While agencies will have less knowledge of the private motivations and rationalisations that may lead their staff to offend, they still have considerable means to influence these factors. Some of these are:

- ▶ providing assistance for staff who may be experiencing personal or work pressures
- ▶ providing training to staff about corruption and misconduct
- ▶ fostering ethical and supportive work cultures
- ▶ encouraging the reporting of inappropriate conduct
- ▶ clearly signalling the consequences of such conduct

All these measures are important. However, public officers themselves are far better placed to understand, consider and act upon the motivations or rationalisations behind corruption than their agencies.

Reducing the opportunity for corruption — The control environment

Government necessarily relies upon the appropriate discharge of powers by thousands of public officers every day. However, where power is invested, so too is the opportunity to abuse it. Hence, agency leaders must consider what controls and systems are required to reduce the likelihood of offending, whilst not being so burdensome as to paralyse decision making or render an organisation inefficient.

Finding this balance is challenging.

However, leaders in public administration ought to consider the following:

RISK ASSESSMENTS

Executives in every public authority should understand its functions and the responsibilities assigned to staff. Only then can the risks inherent in those functions and responsibilities be identified and controls implemented to minimise those risks.

Consideration should be given to *Australian Standard AS 8001-2008*¹³ and, for state government agencies, the *South Australian Public Sector Fraud and Corruption Control Policy*¹⁴.

Risk assessments should be regularly reviewed, particularly where there are new or amended practices, policies or procedures.

ONGOING EDUCATION

Every public authority should ensure staff receive continuous education about integrity in public administration, including policies concerning gifts and benefits, conflicts of interest, whistle-blower protections, reporting improper conduct and corruption prevention.

Staff should be continuously reminded of the perils of disclosing system passwords to other staff and the importance of ensuring a computer is locked when not in use.

Organisations should control and monitor user access to electronic payment systems, especially those with few inbuilt controls to restrict misuse. The level of access granted should match the user's role, and organisations should factor in how people interact with such electronic systems to mitigate the risk of their misuse. Staff also should be regularly trained in the appropriate use of such systems to avoid complacency and shortcuts. More than one staff member should have a role to play in transaction processing, in order to avoid one individual being able to manage the entire process.

Staff also should be regularly trained in the appropriate use of such systems to avoid complacency and shortcuts.

13: Standards Australia, *Australian Standard AS 8001-2008 Fraud and Corruption Control*, (Sydney, Australia, 2008), paragraphs 2.2, 2.3, 2.4, 3.5 and 3.6.

14: South Australian Public Sector Fraud and Corruption Control Policy, Date of Operation: 22 January 2016. See, <https://publicsector.sa.gov.au/wp-content/uploads/20160229-Fraud-and-Corruption-Control-Policy.pdf>.

REVIEW OF DELEGATIONS AND AUTHORISATIONS/SEGREGATION OF DUTIES

Such reviews also afford an opportunity to consider whether the delegations or authorisations might invest too much authority in one individual, risking the possibility of improper conduct if there are insufficient auditing and checking processes.

Every agency should have in place a process for the regular review of delegations and authorisations, particularly in relation to financial management and procurement. Such a review is critical to ensuring that those delegations and authorisations are current and appropriate.

Such reviews also afford an opportunity to consider whether the delegations or authorisations might invest too much authority in one individual, risking the possibility of improper conduct if there are insufficient auditing and checking processes. The NSW ICAC has recommended that the use of detailed process maps or flow charts is a good practice which can identify staff with excessive control over a key process.¹⁵

POLICIES AND PROCEDURES

Agencies typically have a suite of policies and procedures. However, unless they are reviewed regularly and are adhered to in practice, they lose relevance. Failure to follow policies and procedures leads to inconsistencies in approach and creates opportunities to act improperly.

Both the Yorke Peninsula Council and TAFE SA had a raft of policies and systems in place that were designed to detect, prevent and minimise corruption and maladministration in public administration. However, none of these controls managed to prevent either public officer from committing theft over an extended period of time.

It is critical that agencies regularly review their policies and procedures and make sure compliance is monitored and promoted. The regular promotion and checking of compliance is especially important for financial management and procurement processes.

Staff should also be well aware of any conflict of interest policies and how potential or actual conflicts of interest should be identified and managed. Approved vendor lists, contract registers and the monitoring of goods and services received are also key procurement controls.

Failure to follow policies and procedures leads to inconsistencies in approach and creates opportunities to act improperly.

15: NSW ICAC, *Corruption and Integrity in the NSW Public Sector: an assessment of current trends and events*, December 2018, p. 37. See, <http://www.icac.nsw.gov.au/docman/preventing-corruption/cp-publications-guidelines/5358-corruption-and-integrity-in-the-nsw-public-sector-an-assessment-of-current-trends-and-events/file>

SPOT CHECKS AND RANDOM AUDITS

Agencies should consider routine spot checks of compliance with key internal financial controls in order to provide an early indication of whether actual practice adheres to policy.¹⁶

Many organisations have internal audit and risk teams, typically providing an announced and anticipated range of routine checks and assessments. Such teams should also conduct periodic random audits on specific parts or work practices of an organisation that go beyond the typical spot check. Random audits ensure everyone is open to the possibility of unannounced scrutiny which may decrease the likelihood of offending.

All staff should be aware that random audits and spot checks are normal parts of an organisation's operation. This shared understanding can both promote awareness that offending will be identified, and assure staff that they are not being individually targeted but that such processes ensure an accountable and high performing organisation.

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RECRUITMENT

Agencies should ensure that their recruitment processes are comprehensive and robust and that all relevant and appropriate employment screenings are conducted.

Public sector agencies should comply with the Premier's Direction on Recruitment¹⁷, which directs the use of pre-employment declarations, the conduct of adequate referee checks (possibly beyond a candidate's preferred or suggested referees), consideration of National Police Certificate or other appropriate background screening, and requiring the searching of the Eligibility for Re-employment Register¹⁸ for any records of misconduct by candidates. All appropriate employment screening should be completed before any appointment is made.

It should also be remembered that recruiting for integrity does not finish upon appointment. Inductions and on-boarding are important processes for new employees, and should be used to clearly outline expectations around honesty and integrity, and the consequences of wrongdoing.

16: As recommended by the Local Government Association in its *Financial Sustainability Information Paper 21 Internal Financial Controls*, revised February 2015, p. 7.

17: See, <https://publicsector.sa.gov.au/wp-content/uploads/20181002-Direction-of-the-Premier-of-South-Australia-Recruitment.pdf>

18: See, <https://publicsector.sa.gov.au/people/one-government-one-employer/eligibility-for-re-employment-register/>

Conclusion

Local communities should expect that their council operates properly and that the officers charged to work for their benefit in local councils are trustworthy.

South Australians should also be rightly concerned about the misappropriation of funds by an individual that should have otherwise been directed towards the provision of high quality vocational education and training.

The two public officers examined in this report committed long, substantial and debilitating offences against their agencies, colleagues and the community at large.

While their conduct is not reflective of the vast majority of public officers, vigilance must be maintained.

Agencies should not underestimate the harm that arises from the improper conduct of a trusted insider. All agencies should review their integrity processes and controls.

While much can be done by agencies to reduce the opportunities for corruption, public officers also need to actively consider their own ethical standing and decision-making. The burden of protecting against corruption falls on agency and public officer alike.



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