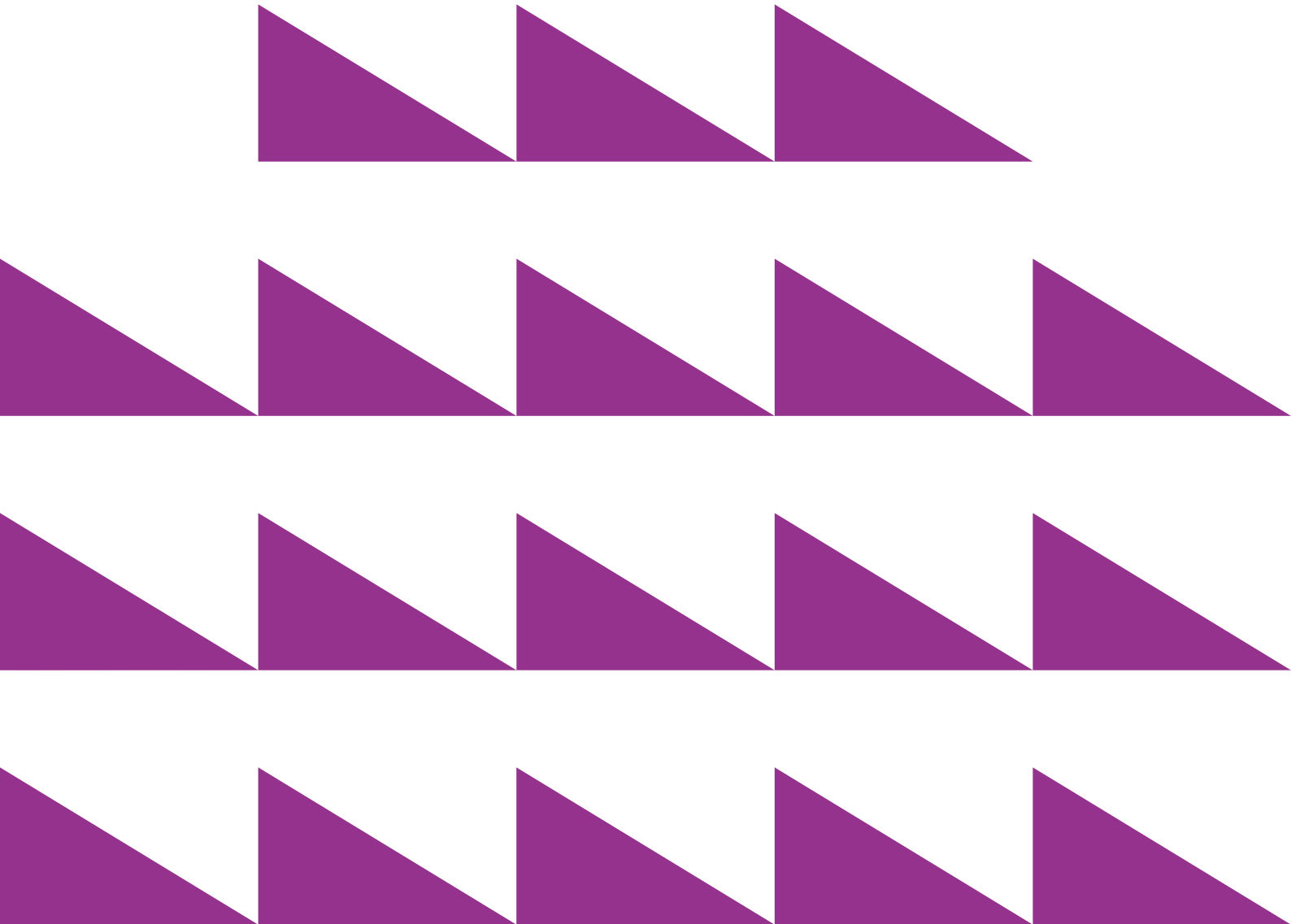
ibac independent broad-based anti-corruption commission
Victoria

Operation Ord

An investigation into the conduct of officers of the Department of Education and Training, in connection with the use of 'banker schools' and related activities

April 2016



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April 2016

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Letter of transmittal

To

The Honourable President of the Legislative Council

and

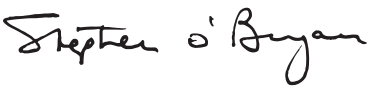
The Honourable Speaker of the Legislative Assembly

In accordance with section 162(1) of the *Independent Broad-based Anti-corruption Commission Act 2011* I present IBAC's report on its Operation Ord investigation arising from the conduct of former senior Victorian public servants including Jeffrey Rosewarne and Nino Napoli.

I presided at the compulsory examinations, both private and public, that were held in aid of this investigation.

IBAC's findings and recommendations to date are contained in the report.

Yours sincerely



Stephen O'Bryan QC
Commissioner

List of abbreviations

DEECD	(Former) Department of Education and Early Childhood Development
DET	Department of Education and Training
OGSE	Office of Government School Education
PAC	Portfolio Audit Committee
PARC	Portfolio Audit and Risk Committee
PCS	Program coordinator school
SRP	State Resource Package
VAGO	Victorian Auditor-General's Office
VSB	Victorian Secretaries Board

Glossary of names

DEECD/DET

Allman, John	Former Regional Director, South East Region
Britchford, Claire	Former Chief Financial Officer
Brown, Stephen	Former Regional Director, Hume and Executive Director
Callister, Gill	Current Secretary, Department of Education and Training
Carmody, Wayne	Manager of Finance for South East Victoria
Cestinucci, Franca	Former departmental employee
Craig, Wayne	Former Regional Director, Northern Metropolitan region
Dawkins, Peter	Former Secretary, Department of Education and Early Childhood Development
Fraser, Darrell	Former Deputy Secretary, Office of Government School Education
Griffiths, Eleanor	Former Manager, Capital Budgeting
Hart, Gail	Former General Manager, Shared Services and Chair of the Accredited Purchasing Unit
Hehir, Grant	Former Secretary, Department of Education and Training
Kelly, James	Former General Manager, Portfolio Governance and Improvement
Lake, Ron	Former Regional Director, Loddon Mallee region
Lane, Graeme	Former principal and now Managing Director, School Governance Australia
Larmer, Susan	Former Senior Auditor, Audit and Risk Branch
Leslie, Stewart	Former Independent Chair, Portfolio Audit Committee
Linossier, Paul	Former Deputy Secretary
Loveless, Neil	Internal Auditor
Rau, Grant	Former Regional Director, Barwon South Western Region
Rosewarne, Jeffrey	Acting Secretary (December 2010 – August 2011); Former Deputy Secretary, Resources and Infrastructure
Sullivan, Stephen	Former departmental employee
Wardlaw, Chris	Former Acting Secretary
Zahara, Jenny	Former Manager, Schools Resource Allocation Branch

SCHOOLS

Arnold, Jane	Business manager, Norwood Secondary College
Bryant, Anthony	Principal, Silverton Primary School
Carroll, Robert	Assistant principal, Maribyrnong Secondary College
Conway, Douglas	Former principal, Kings Park Primary School
Cummins, John	Assistant principal, Silverton Primary School
Gamble, Gavin	Former principal, Laburnum Primary School
Giulieri, Michael	Former principal, Keilor Heights Primary School (and formerly principal, Essendon North Primary School)
Hannett, Mary	Business manager, Chandler Park Primary School
Hilton, Tony	Former principal, Moonee Ponds West Primary School
Jackson, Anne	Business manager, Sale Secondary College
Kearney, Peter	Principal, Carranballac P–9 College
Mourant, Sue	Business manager, Silverton Primary School
Napoli, Gus	Principal, John Fawkner Secondary College
Paul, Peter	Principal, Chandler Park Primary School
Pratt, Gordon	Former principal, Brighton Primary School
Ryan, Jana	Business manager, Brighton Primary School
Virtue, Vincent	Former principal, Norwood Secondary College

Position titles correct at time of public examinations.

Glossary of names

NINO NAPOLI FAMILY AND ASSOCIATES

Barba, Ralph	Nino Napoli's brother-in-law; Director, The 4 Diego's Pty Ltd
Barba, Dominic	Nino Napoli's brother-in-law; original Director, On the Ball Personnel Australiasia Pty Ltd
Calleja, Daniel	Distant relative of Nino Napoli; Ran RS Media Productions before becoming Director, Innovating Visuals Pty Ltd
Napoli, Domenica	Nino Napoli's sister-in-law (married to Robert Napoli)
Napoli, Gus	Nino Napoli's brother and principal, John Fawkner Secondary College
Napoli, Josephine	Nino Napoli's wife; Director, Bammington Pty Ltd
Napoli, Matthew	Nino Napoli's son
Napoli, Nino	Former Director, School Resource Allocation Branch; Director Bammington Pty Ltd
Napoli, Raffaele (Ralph)	Nino Napoli's son
Napoli, Robert	Nino Napoli's younger brother; owner and Director R&D Diamond Nominees Pty Ltd that operates R&D Personalised Printing
Squillacioti, Carlo	Nino Napoli's cousin and brother to Luigi; involved with several companies including C & L Printing, Quill Investments Pty Ltd, Encino Pty Ltd, Customer Training and Consulting Pty Ltd, Cobra Motors
Squillacioti, Luigi	Nino Napoli's cousin and brother to Carlo; involved with several companies including C & L Printing, Quill Investments Pty Ltd, Encino Pty Ltd, Customer Training and Consulting Pty Ltd, Cobra Motors
Vandermeer, Sharon	Former wife of Josephine Napoli's brother, Dominic Barba Director, On the Ball Personnel Australiasia Pty Ltd

PRIVATE SECTOR

Bell, Richard	Owner, Premier Office National (furniture supplier)
Dingley, Steven	Owner, SD Design & Print and employee of R&D Personalised Printing (owned by Robert Napoli)
Foley, Peter	Owner, Arteriors Décor Installations
Maddison, Ian	TigerTurf Australia Pty Ltd, former DET employee
Papas, Alex	Ex soccer coach of Maribyrnong Secondary College Sports Academy
Paul, Matthew	Director, Trembath & Taylor Pty Ltd (wine merchants) and son of Peter Paul
Stecher, Mark	CEO Dycom Business Systems Pty Ltd (IT firm)

1 Summary of investigation and outcomes

1 Summary of investigation and outcomes

1.1 Introduction

Education is one of the most critical areas of government service delivery for the community. The provision of quality education services is fundamental to providing all children with the best possible start in life to enable them to fulfil their potential, and to help build productive, cohesive communities.

To this end, the Department of Education and Training (the Department) in Victoria was allocated $11 billion in 2014-15, of which approximately half was distributed to government schools. Last year's State Budget provided additional funding of $4 billion over four years, reflecting the Government's commitment to establishing Victoria as the 'Education State' – a world leader in education and training.

Even with such enhancements, the budgets centrally allocated by the Department to schools are tight and often insufficient to meet all the costs associated with delivering quality education services. Government schools commonly seek contributions from parents to help meet costs and engage in various fundraising activities to supplement their funding base. The Victorian Auditor-General's Office (VAGO) estimated that in 2013-14, Victorian schools supplemented their funding allocation with $626 million comprised of parent payments and other locally generated funds. It is also not uncommon for teachers in government schools to pitch in and contribute their own resources to assist in the classroom.

The Victorian community vests considerable trust in the public sector employees who are responsible for running the state's education system and ensuring quality school education services for Victorian children. The community should be able to feel confident that senior officers within the Department will uphold the public sector values enshrined in the *Public Administration Act 2004* – performing their duties with integrity, impartiality and respect – and ensure sound financial management of the state's vital education budget.

Except where the context suggests otherwise, references in this report to corruption, or corrupt conduct, mean conduct of a public officer or body that is found to have knowingly or recklessly breached, or contributed to a breach of, the public trust or that adversely affects the honest performance of their functions.

Such breaches are ordinarily through misuse of power or position, or information for private gain, or advantage of oneself, or others. (Section 162(6)(a) of the IBAC Act provides that IBAC may not include in a report such as this any finding or statement that a specified person is guilty or has committed any criminal offence).

In this context, it is understandable that IBAC's exposure of serious and entrenched corruption at the most senior levels of the Department has generated significant community concern. Initiated by IBAC in 2013, the Operation Ord investigation focused on allegations that senior departmental officers corruptly misappropriated funds from the Department's budget, including funds allocated to state primary and secondary schools, through false and inflated invoicing as well as by arranging payment of inappropriate expenses such as excessive hospitality, travel and personal items.

IBAC considered the allegations would, if proven, amount to serious corrupt conduct under the *Independent Broad-based Anti-corruption Act 2011* (IBAC Act). The complaint was determined to be an assessable disclosure within the meaning of the *Protected Disclosure Act 2012*.

The investigation exposed the exploitation of so-called 'banker schools'. Used legitimately, the purpose of banker schools was to facilitate the payment of invoices on behalf of a region or a cluster of schools for a proper purpose, such as an area-based student program. However, Operation Ord exposed the practice of certain senior departmental officers using schools to pay both illegitimate invoices (namely, invoices for goods and services either not delivered or significantly inflated, as well as invoices for goods and services completely unrelated to departmental activities) and inappropriate expenses (such as alcohol, lavish hospitality and expensive retreats).

The investigation found the improper use of schools to pay illegitimate or inappropriate invoices was facilitated by a number of principals and business managers, who are considered to have failed in their financial management duty by not questioning the invoices. The reasons for this varied but included close relationships between principals and senior departmental officers initiating the payment of invoices, and benefits that flowed to the school and some school officers.

Nino Napoli, a former senior departmental executive, was identified as the principal player in the corrupt conduct uncovered during Operation Ord. Mr Napoli was a director responsible for overseeing the administration of the $5.5 billion budget allocated to schools. It is estimated that Mr Napoli used his position and his network of influence to corruptly obtain at least $1.9 million for his own benefit or for the benefit of his relatives and associates, through the payment of invoices between 2007 and 2014.

IBAC believes that the benefit obtained is likely to exceed $1.9 million, however is unable to substantiate this as it was unable to access financial records prior to 2007 (for this reason, Operation Ord focused on the period 2007 to 2014). Despite this constraint, IBAC identified a further $1.094 million of suspicious transactions involving entities associated with Mr Napoli prior to 2007, and $3.293 million of suspicious contracts. There was also an unknown amount of public funds spent on inappropriate expenditure, facilitated through banker schools.

As part of its investigation, IBAC held public examinations into the allegations of serious corrupt conduct involving Mr Napoli and others. There was significant public interest in the conduct revealed in the examinations, no doubt reflecting the concern of Victorian parents and the wider community that scarce financial resources allocated to the state education sector had been misapplied or wasted by senior departmental officers.

By exposing serious and systemic corruption within the Department of Education and Training, IBAC's Operation Ord highlights the detrimental effect of public sector corruption more broadly, and actions that need to be taken by public sector bodies to prevent it. As a result, during the public examinations, more Victorians were encouraged to report possible corruption relating to the Department and other parts of the Victorian public sector to IBAC.

The impact of Operation Ord is also reflected in the commitment of the Secretaries of all seven Victorian government departments to work together to strengthen integrity and prevent corruption across the Victorian public service.

This report outlines the conduct of Operation Ord, which has been complex and protracted due to the considerable subterfuge involved, as well as constraints on the availability of financial data. The report also outlines departmental practices, organisational culture and the failure of systems and controls which contributed to the corrupt conduct going undetected for so long.

The report concludes with six recommendations made pursuant to section 159(1) of the IBAC Act, four of which are directed to the Department, one to VAGO and one to the Department of Premier and Cabinet (DPC). The recommendations acknowledge the work underway by the Department to strengthen its controls and systems, improve accountability and build an integrity culture.

IBAC is also aware that Operation Ord has prompted the Secretaries of Victorian government departments to coordinate the development of a whole of government action plan concerned with strengthening integrity and preventing corruption. IBAC has recommended that the Secretary DPC provide a report on the implementation of this plan.

The terms banker schools and program coordinator schools were used interchangeably by departmental employees. This reflects the confusion about the process and purpose of schools used to administer funds on behalf of a cluster of schools or a regional office, which Nino Napoli and others exploited for their own benefit.

'Program coordinator schools' refers to schools formally designated to administer funds for specific purposes (related to a particular student program or for professional development) on behalf of a cluster of schools and/or a regional office.

'Banker schools' generally refers to schools informally used to administer funds for a variety of purposes including handling funds on behalf of a cluster of schools, or at the direction of a regional or central office employee.

Banker schools includes the use of schools by individuals such as Mr Napoli to pay invoices unrelated to the operation of the school or any cluster it may have been part of. In many cases, these arrangements were completely informal and could be described as schools being used as ad hoc banks.

Except when referring to official program coordinator schools, the term 'banker schools' is used throughout this report.

1.2 Outcomes of the investigation into allegedly corrupt payments

During Operation Ord, IBAC found evidence that funds earmarked for particular programs in state schools were instead paid to the benefit of Department officers and their relatives, or were extensively used to pay for personal expenses, goods, lavish lunches, conferences and excessive travel. Evidence suggests this practice to be pervasive and of long standing.

1.2.1 Extent of banker schools

Victoria has more than 1500 state schools. Approximately 30 Victorian state primary and secondary schools in both metropolitan and regional areas appear to have acted as ad hoc banker schools to varying degrees, to hold funds never intended for expenditure on individual school needs and to pay invoices from those funds for activities completely unrelated to the school. These funds were effectively hidden from central office audit and general oversight. Operation Ord has found that tens of millions of dollars were expended in this way.

The evidence suggests that in many cases those funds were originally earmarked for particular programs, including programs for disadvantaged students or schools.

It appears the concept of banker schools developed over time out of an officially sanctioned program whereby a program coordinator school held funds for legitimate school programs or other shared purpose (such as a regional conference). A program coordinator school would participate in the funded school program as would other schools within the same region. From an official departmental policy perspective, program coordinator schools should have been formally designated and allocated funds from regional budgets.

But Operation Ord has established that particular schools were allocated funds for inappropriate or illegitimate purposes by a small number of individuals controlling them. In effect, those schools became unofficial banker schools. Funds from central office, and sometimes a regional office, would come into the accounts of targeted schools on an ad hoc basis, purportedly for vaguely described programs of often dubious validity. Payments out of those funds were often made against invoices falsely issued to the banker schools, where the goods or services described in them were either different to those that were supplied – or were not supplied at all.

There may have been some merit to the rationale behind the program coordinator school concept. However, the conduct revealed in the course of IBAC's investigation as well as the difficulties in implementing reforms since 2012, suggest it is a concept inherently vulnerable to abuse.

It is understood that, following Operation Ord, the Department has abolished the program coordinator school model. However, the Department has indicated its commitment to developing a new model of shared purchasing arrangements at the school level. The findings of Operation Ord demonstrate careful consideration will need to be given by the Department to potential fraud and corruption risks in developing such new arrangements.

1.2.2 Involvement of senior departmental staff with banker schools

The process of allocating funds to the banker schools and then invoicing those schools was principally orchestrated by senior department executive Nino Napoli. Mr Napoli did so with the knowledge and involvement of other senior departmental officers including Jeffrey Rosewarne and John Allman (who were called as witnesses).

From 1992 Mr Napoli was Director of School Resources with the Department. In recent years he was primarily responsible for about $5.5 billion (the schools funding budget) of the Department's approximate $11 billion annual budget. Part of his responsibility was the allocation of about $1 million annually, being his branch budget. Mr Napoli had unfettered discretion over this allocation (in his own words, 'absolute authority'). He also had significant influence over the spending of up to a further $10 million by way of general grants to schools. These grants were monetary amounts retained from the schools funding budget for contingencies late in each financial year.

Mr Napoli was sacked from his position in the Department shortly before IBAC's public hearings began in late-April 2015.

All references within this report to **Mr Napoli** refer to Nino Napoli. All other members of the Napoli family are referred to by first names or both first and surname to avoid confusion.

The manipulation of the Department's procurement processes for private gain since at least 2007 was made possible by Mr Napoli's understanding of the vulnerabilities of the Department's systems and controls, his exploitation of the confusion around how banker schools should be properly used, coupled with his considerable authority as a senior departmental executive with responsibility for a multi-billion dollar schools budget. He was aware that it was accepted practice for banker schools to approve invoices for goods and services they did not necessarily receive, as they were accustomed to paying invoices on behalf of a cluster of schools. Mr Napoli could forward invoices to particular schools, confident that payment would be made with little or no scrutiny of their veracity.

As described later in this report, Nino Napoli also exploited his network of relationships with a number of school principals, relationships he built over his career of more than 40 years with the Department. He was confident the principals he asked to pay invoices would not refuse the requests or ask difficult questions. Daniel Calleja, a distant relative of Mr Napoli, gave evidence that at the direction of Mr Napoli, he invoiced Chandler Park Primary School more frequently than other schools. The principal of that school, Peter Paul, had a long relationship with Mr Napoli, having first met him in 1993 or 1994. There is no indication that Mr Paul questioned any of the invoices sent to Chandler Park Primary School for payment, including those for alcohol purchased through his son's company.

By carefully selecting and grooming principals and business managers, offering incentives and rewards for their assistance, explaining that the arrangements were required to avoid bureaucratic red tape (and therefore were not entirely above board) and spreading grants and invoices among a number of schools for 15 years or more, Mr Napoli was able to corrupt the banker school system to his own ends.

Evidence obtained through Operation Ord, including admissions from a number of individuals involved in the apparently false invoicing, suggests that the vast majority of relevant invoices were from obscure companies or businesses controlled by Mr Napoli's relatives or associates. The funds were ultimately paid for the benefit of Mr Napoli or members of his family, or were used to pay for expenses of other departmental employees.

The investigation identified 20 companies and businesses and nine relatives of Mr Napoli (both near and distant) potentially involved in the invoicing.

Similarly, Jeffrey Rosewarne used his position as Deputy Secretary and his understanding of the weaknesses of the banker school model to arrange for payment of inappropriate invoices. The $4824 invoice issued by Arteriors Décor Installations and paid for by Brighton Primary School (detailed in section 4.3.1) is an example. The invoice was described as 'goods and services' but in fact covered costs associated with a Christmas party hosted by Mr Rosewarne for senior departmental officers. The principal of Brighton Primary School, Gordon Pratt, gave evidence that he thought the request was unusual but 'because of [Mr Rosewarne's] position as Deputy Secretary, in charge of finance and administration, even if I had any query about it, I thought "who would I go to?"'.

1.2.3 Determining the quantum of suspicious transactions

At the commencement of IBAC's public examinations as part of Operation Ord, IBAC believed the total value of suspicious transactions involving entities and individuals associated with Mr Napoli was at least $2.5 million. However, IBAC's forensic investigators now believe the amount of Department funds used to make corrupt payments is likely to be considerably higher.

Figure 1: Nino Napoli's abuse of banker schools



~$1.9million
Profits to relatives and associates of Nino Napoli
2007 - 2014

~$1.1million
Suspicious transactions to relatives and associates of Nino Napoli
<2007

~$3.3million
71 tainted or suspicious contracts awarded by Nino Napoli
2007 - 2014

IBAC's forensic investigators now believe the amount of Department funds used to make ***corrupt payments is likely to be considerably higher****.*

Detailed financial analysis is continuing.

While IBAC's detailed financial analysis is continuing, at this stage it is known that:

- Between them, Mr Napoli and his relatives and associates obtained at least **$1.9 million** in monetary profits through their corrupt conduct between 2007 and 2014. This amount has been traced in payments on invoices to relatives and associates of Mr Napoli, which banking records confirm has been either retained by them or passed directly, or through other entities, to Mr Napoli.
- An additional **$1.094 million** of suspicious transactions involving entities associated with Mr Napoli have been identified prior to 2007.
- A further **$3.293 million** worth of tainted contracts have been identified. This figure comprises 71 contracts awarded by Mr Napoli. These transactions are suspicious because they were awarded to entities with whom Mr Napoli had close relationships and/or the process of awarding the contract was dubious. While IBAC considers that some departmental work would have been conducted under a number of these contracts, the process of awarding the contract was corrupted. An example of one of these contracts is provided in section 8.2.1.

Investigations have also revealed that Department funds obtained directly, or through the invoicing of banker schools, have been used illegitimately to pay for things such as:

- personal expenses of senior Department officers (such as office furniture, computer equipment and private functions)
- bulk wine purchases (for functions, gifts or personal consumption)
- lunches and other functions
- conferences at expensive resorts
- overseas and domestic travel

In some cases, those payments appear to have been entirely unrelated to Department activities or otherwise excessive and unjustified. In other cases, the position is less clear. There was also evidence, including admissions, that the level of honesty and integrity of the senior departmental officers involved was considerably less than would be expected of public servants in the positions they held.

1.2.4 Involvement of principals and business managers at banker schools

There was mixed evidence of the involvement of principals and business managers in the conduct under investigation. Some principals and business managers knew or suspected that the invoices they paid at Mr Napoli's direction were questionable. Others claimed to have been ignorant or were willing to turn a blind eye to anything obviously untoward or suspicious in the transactions.

There is evidence that certain principals and business managers at some banker schools received tangible benefits that at least by inference may reasonably be thought to have been related to their school's participation in the banker school practices. These benefits included bonuses, invitations to conferences or functions, overseas travel and promotion to more lucrative positions.

The investigation obtained evidence that not only deputy secretaries but also regional directors used between one and five schools each as banker schools.

1.3 Flawed systems and culture breed corruption

IBAC's investigation also considered the adequacy of the Department's systems and controls, particularly in relation to procurement, financial management and auditing practices.

1.3.1 Failure of controls around procurement and financial management

Operation Ord identified that there was a general failure of controls around procurement that contributed to the corrupt conduct. Deficiencies included business managers failing to check that goods and services were delivered or performed before processing payment, purchase orders either not being raised or being raised after a purchase had been made, invoices with insufficient information being approved for payment, and lack of documentation to support payments.

Similarly, the investigation uncovered a widespread lack of accountability for public money within the Department. Banker schools were used to pay for goods that were contrary to Department policy, such as generous hospitality, alcohol and gifts. Invoices were paid without question at the direction of senior officers, although the payments were totally unrelated to the business of the school or established clusters of schools.

There was a significant lack of transparency in relation to funds transferred into and out of schools for these purposes. The lack of accountability and transparency clearly suited the purposes of certain senior officers, who were using banker schools either corruptly or inappropriately.

1.3.2 Concerns with auditing practices

Concerns were also identified with the Department's auditing practices. The process of auditing school finances clearly failed to detect the conduct identified during Operation Ord. In part, this can be attributed to the steps taken by certain officers to conceal their false transactions.

An audit undertaken in 2010 of program coordinator schools did not identify any fraudulent conduct but did highlight the inadequate governance and controls around banker schools. That audit was obstructed by Mr Napoli and Mr Rosewarne who, it can be surmised, understood the potential impact of the audit's findings and recommendations on their nefarious conduct.

1.3.3 A culture of non-compliance and entitlement

The conduct uncovered during IBAC's investigation was underpinned by a malevolent culture of non-compliance and entitlement. This culture left the Department highly vulnerable to the unscrupulous actions of a corrupt core of senior officers.

Operation Ord found there was a culture of non-compliance with departmental policies and procedures not only in relation to procurement and financial management but also in areas such as travel authorisations, the use of vehicles and conflict of interest management.

There was also a sense of entitlement among senior officers, illustrated by the use of public funds to pay for private functions, excessive hospitality, overseas trips and the like. There was evidence of a core group of senior officers who acted as an unofficial 'boys club' that engaged in drinking, lunching and endowing preferential treatment when it suited their purposes.

People who tried to challenge elements of this culture were sometimes subject to significant adverse consequences such as their positions being made redundant, being sidelined or being denied salary increments.

1.4 Rationale for public hearings

During the investigation IBAC considered that various matters combined to make the circumstances exceptional such as to warrant public hearings. Those matters included the high value of the impugned transactions, the lengthy duration of the conduct and the apparently pervasive operation and effect of the conduct.

IBAC also considered there to be an acute public interest in the allocation of the limited funding and other resources available to the state education sector. All Victorian parents of school age children have a direct stake in how the Department allocates funds to schools. Many are heavily involved in activities and events intended to supplement that funding or to assist school programs where funding is lacking.

Many parents and other school community members are also members of school councils. It appeared likely that school councils of certain banker schools had approved expenditure that included payments of false invoices. Many cheques or approvals for those payments were countersigned by a school council member who was not a Department employee (usually a parent).

There was thus considered to be substantial interest among a wide cross-section of the Victorian community in exposing any misapplication or waste of those limited resources and the weaknesses in the processes and systems that allowed that misapplication to occur over an extended period of time. In particular, members of school councils who may have unwittingly facilitated the misapplication of Department funds have a compelling interest in understanding fully how their trust in the system may have been misplaced.

Accordingly, public hearings took place between late April and late June 2015.

IBAC is satisfied based on the evidence obtained to date that some individuals have given a full and frank account of their involvement in the conduct, including by admitting issuing false invoices or otherwise being paid for goods and services they never supplied; however, others have been more reticent or given incomplete or false information or explanations.

The impact of public examinations

Public examinations are an invaluable investigative tool in corruption cases, and also inform the public sector and the community on the risks and impacts of corruption more broadly. The following indicators from Operation Ord show the contribution public examinations make to fulfilling IBAC's legislative objectives of exposing and preventing corruption:

Exposing

With continued appeals for information relating to Operation Ord, IBAC experienced a significant spike in the number of enquiries during the examinations. Following announcement of the public hearings in March 2015, more than 100 fresh allegations were made to IBAC about corrupt or improper conduct in the education sector. A considerable number of those were considered sufficiently credible to warrant referral to the Department or other agencies for investigation.

Preventing

By focusing attention on weaknesses in systems and practices, public examinations can provide the impetus for public sector leaders to act quickly to prevent corruption. The Department developed a reform program designed to address the vulnerabilities identified in its systems through Operation Ord, and to promote a culture of integrity. In addition, the Victorian Secretaries Board issued a statement highlighting the commitment of all departmental Secretaries to work together to prevent corruption.

Raising awareness and engagement

Information about Operation Ord was highly sought after. IBAC's Twitter following more than tripled in the course of the hearings. Our tweets were seen around 408,000 times, our profile was visited more than 30,000 times and transcript links were clicked through on more than 5000 times. Website visits doubled during Operation Ord, with almost 40,000 visits in each month. Operation Ord also featured in almost 900 mainstream media articles online.

1.5 Recommendations

Recommendation 1

The Secretary of the Department to provide IBAC with a detailed progress report by **30 December 2016** on the implementation of its reform program to address the issues identified during Operation Ord and a final report demonstrating the effectiveness of these reforms by **30 September 2017**. These reports will be published on IBAC's website.

Recommendation 2

The Secretary's reports are to advise on actions to strengthen integrity and corruption prevention across the Department (including schools) in relation to the following issues, inter alia:

a. All employees' understanding of and compliance with public sector values and the code of conduct, and departmental policies and procedures related to conflicts of interest, declarable associations, and gifts and benefits

b. Employment policies and practices, including pre-employment vetting of prospective employees and regular revalidation for employees in identified positions, the potential for rotation of employees in identified positions and executive roles, and any steps taken to improve disciplinary and dismissal processes for employees found to have engaged in serious misconduct or corruption

c. Financial management, procurement and contracting systems and controls, and associated employee training and compliance measures

d. School governance and financial management arrangements, including the proposed new model to deliver 'shared services' to schools (i.e. any new approach to program coordinator schools) and relevant policies, procedures and other controls

e. Audit and risk management programs to provide assurance in areas of identified risk

f. Mechanisms to encourage and support employees to speak up and report suspected misconduct or corruption, and to ensure appropriate assessment, escalation and investigation of such matters

g. Leadership and management programs to ensure executives are accountable for modelling integrity and public sector values, and to set the right tone at the top.

Recommendation 3

The Department to undertake a review to identify and audit any schools in addition to those identified by Operation Ord that may have been used inappropriately as banker schools to expend funds on behalf of either regional or central office.

Recommendation 4

The Department to take appropriate steps to exclude people and entities whose behaviour has been found to be improper or corrupt from obtaining work with the Department (including schools) in future.

Recommendation 5

The Victorian Auditor-General's Office to consider undertaking an audit of the Department to assess whether the issues identified in Operation Ord, specifically in relation to false payments made by schools, have been effectively addressed by the Department.

Recommendation 6

The Secretary of the Department of Premier and Cabinet to provide a report to IBAC by **30 December 2016** on implementation of the VSB's corruption prevention and integrity action plan. This report will be published on IBAC's website.

2 The investigation

Table 1: The investigation at a glance – September 2013 to June 2015

September 2013	IBAC commenced its investigation known as Operation Ord under the IBAC Act.
November 2013	IBAC asked the Department to provide data about Chandler Park Primary School and Brighton Primary School from its financial systems. The data was provided by the Department in February 2014.
January 2014	IBAC investigators executed two search warrants on premises linked to businesses known to have raised invoices for Mr Rosewarne's private purchases of wine and furniture.
January 2014	Search warrants were executed on three primary schools: Chandler Park Primary School, Brighton Primary School and Moonee Ponds West Primary School.
February 2014	IBAC requested further financial data from the Department on all schools.
April 2014	Six warrants were simultaneously executed at the residences of Mr Rosewarne, Mr Napoli, Mr Carlo Squillacioti, Mr Luigi Squillacioti, Mr Robert and Ms Domenica Napoli, and Mr Steven Dingley. Search warrants were also executed on the business premises of R&D Personalised Printing Pty Ltd and Cobra Motors.
April 2014	Search warrant was executed at Nino Napoli's departmental office. Computer disks and documentation were seized.
May and June 2014	Search warrants were executed at the holiday home of Luigi Squillacioti and the business premises of Innovating Visuals Pty Ltd and On the Ball Personnel Pty Ltd. Electronic and hard copy evidence was seized.
June 2014	Search warrant was executed on John Fawkner Secondary College.
July 2014	First round of private examinations was conducted, with four witnesses called.
July 2014	Search warrant was executed on the home of Nino Napoli's mother and evidence seized from the roof cavity.
July 2014	Search warrant was executed on the residence and business premises of Ralph Barba and items seized.
August 2014	A further search warrant was conducted at the home of Nino Napoli.
November 2014	Second round of private examinations was conducted, with eight witnesses called.
April – June 2015	Public examinations held.

2.1 The early stages of the investigation

In September 2013, IBAC commenced the investigation known as Operation Ord under section 60(1)(a) of the IBAC Act. This followed the referral of a complaint from the Victorian Ombudsman under section 16E of the *Ombudsman Act 1973*, which was determined to be a protected disclosure complaint.

The complaint involved a number of allegations that were approved for investigation.

2.1.1 The allegations

The complaint included allegations that senior officers of the Department had requested false invoices to pay for unofficial and non-departmental expenses.

In addition to the information contained in the complaint, the Victorian Ombudsman provided IBAC with information obtained as a result of its preliminary enquiries prior to referring the matter.

In the initial stages of the investigation, IBAC became aware that Mr Rosewarne had purchased two coffee machines totalling $5099 using a Brighton Primary School credit card. It appeared that one of these coffee machines had been retained by Mr Rosewarne at his home. This was IBAC investigators' first indication that departmental executives were using Victorian state schools to pay for what appeared to be personal items.

IBAC also had reason to believe that Mr Rosewarne had used Chandler Park Primary School to pay for office furniture.

2.1.2 Request for departmental data

To obtain the most reliable data regarding payments of money by the Department and primary schools, IBAC formally sought the Department's assistance to provide data from its financial systems, Oracle and Finance Mirror. The Oracle finance system is the main procurement system for the Department; Finance Mirror was a relatively new system that allowed the Department to access data on financial transactions at Victorian schools back to 2011.

Initially, IBAC only sought data related to the two schools alleged to have assisted Mr Rosewarne in the payment of false invoices: Chandler Park Primary School and Brighton Primary School.

2.1.3 Execution of search warrants

Following a number of other preliminary enquiries, IBAC investigators executed two search warrants on premises linked to businesses known to have raised invoices for Mr Rosewarne's private purchases of furniture and wine: Premier Office National and Trembath & Taylor Pty Ltd.

- At the business premises of office furniture and stationery supplier Premier Office National, IBAC investigators seized documents relating to Mr Rosewarne's purchase of office furniture for his home. Among these documents were emails showing Mr Rosewarne instructing Richard Bell, a Director of Premier Office National, to invoice Moonee Ponds West Primary School for the cost of the furniture and (when the account was not paid) instructing Mr Bell to invoice Chandler Park Primary School, attention to principal, Peter Paul. Records later obtained from Mr Paul show that the school paid that invoice.
- IBAC investigators also executed a search warrant on the business premises of Trembath & Taylor Pty Ltd, a wholesale wine supplier of whom Matthew Paul (the son of Peter Paul) is a partner. At those premises, investigators seized documents relating to sales of Italian wine worth more than $25,000 to Chandler Park Primary School. Also found on those premises were communications between Matthew Paul and Mr Napoli regarding the purchases of wine for Mr Rosewarne and requests by Mr Napoli that his personal details be removed from the Trembath & Taylor Pty Ltd computer system. Mr Napoli also requested that Trembath & Taylor Pty Ltd invoice a company known as Innovating Visuals Pty Ltd for the purchase of wine.

It was apparent from these early enquiries that payments of money were being made by Victorian primary schools for goods which they never received, nor for school purposes from which they could obtain any benefit.

2.2 The investigation expands

2.2.1 Further request for departmental data

In February 2014, following further requests from IBAC that the Department interrogate its financial systems, the Department provided IBAC investigators with information revealing that Chandler Park Primary School had made payments totalling $95,406 to various companies with an order reference of 'Nino Napoli'. Given that Mr Napoli was a departmental executive and not employed at Chandler Park Primary School, these payments immediately raised concerns. Further searches revealed a number of company names that were repeatedly associated with Mr Napoli.

The companies identified included Trembath & Taylor Pty Ltd and Premier Office National as well as SD Design & Print Pty Ltd, Encino Pty Ltd, Customer Training and Consulting Pty Ltd and On the Ball Personnel Pty Ltd.

Background checks of these companies and others including Quill Investments Pty Ltd, Cobra Motors and R&D Personalised Printing revealed that key company personnel had a personal connection to Mr Napoli. For instance, a number of the companies allegedly operated from factories located in Sunshine and were jointly owned by Mr Napoli's company Bammington Pty Ltd and his first cousins Carlo and Luigi Squillacioti. Another company, On the Ball Personnel was owned and operated by Mr Napoli's former sister-in-law.

IBAC's compliance with the *Protected Disclosure Act 2012* throughout the investigation and hearings is outlined in Appendix A.

IBAC's compliance with the natural justice requirements of the IBAC Act is detailed in Appendix B.

This appendix includes responses from people named in this report in relation to content that is, or may be, adverse to them.

2.2.2 Execution of search warrants

With cooperation from the Department, IBAC investigators executed a search warrant at Chandler Park Primary School. They seized further documents relating to the purchase of wine from Trembath & Taylor Pty Ltd and payments to companies now known to be connected to Mr Napoli. Among those documents was an invoice from Premier Office National to Chandler Park Primary School purportedly for 'design & graphic of school publication' and 'printing of school publication as per specs'. The invoice amount of $4587 was identical to the cost of the office furniture purchased by Mr Rosewarne. This suggested the invoice was false and an attempt to mask the misuse of Department funds.

To obtain further documentation with respect to the alleged false invoicing, IBAC executed a further two search warrants on Brighton Primary School and Moonee Ponds West Primary School respectively. Documents seized from those schools showed Mr Napoli had given principals clear instructions to pay invoices made out to companies with which he was known to be associated. Given this arrangement, investigators suspected that the payments were somehow benefitting Mr Napoli and/or his associates.

In March 2014 investigators confirmed that Steven Dingley, the owner of business SD Design & Print, was also an employee of R&D Personalised Printing, a printing business owned and operated by Mr Napoli's brother, Robert Napoli. Investigators suspected that SD Design & Print was being used as a 'front' for R&D Personalised Printing, to disguise the link between the Napoli brothers, and to circumvent departmental procurement and conflict of interest policies. They suspected that hundreds of thousands of dollars paid by the Department and primary schools to SD Design & Print for printing work was being passed on to Robert Napoli and his wife Domenica Napoli.

2.2.3 Investigation extends to Mr Napoli's conduct, with further warrants executed

Around this time, information obtained from the Department showed that since 2005 payments totalling $1,537,130 had been made by schools and centrally by the Department to seven companies suspected of being connected to Mr Napoli through family and/or associates. The scope of Operation Ord was therefore expanded to include investigation of Mr Napoli's conduct, separate to that of Mr Rosewarne's. The focus of Operation Ord was shifting to Mr Napoli and his relationships with school principals and what is now known to be the banker school scheme.

In late April 2014 a further eight search warrants were executed. Six warrants were simultaneously executed at the residences of Mr Rosewarne, Mr Nino Napoli[1], Mr Carlo Squillacioti, Mr Luigi Squillacioti, Mr Robert Napoli and Ms Domenica Napoli, and Mr Dingley. Search warrants were also executed on the business premises of R&D Personalised Printing Pty Ltd and Cobra Motors.

At each of the premises investigators obtained evidence of false invoicing and companies that appeared to have been set up for the purpose of concealing false transactions. For instance, no printing or scanning equipment or supplies were located at the Cobra Motors vehicle repair business of Carlo and Luigi Squillacioti despite this being the registered business address for Encino Pty Ltd, Customer Training and Consulting Pty Ltd and Quill Investments Pty Ltd – all companies that had invoiced schools and/or the Department for printing and/or scanning services.

In late April 2014 investigators executed a search warrant at Nino Napoli's departmental office. Computer disks and documentation were seized.

In May and June 2014 further search warrants were executed at homes and businesses connected to Operation Ord persons of interest[2] including the employment agency On the Ball Personnel Pty Ltd, a company which investigators believed had been involved in the payment of Nino Napoli's two sons for work purportedly performed at the Department and schools. Electronic and hard copy evidence was seized.

As a result of the information provided to IBAC by the Department, investigators also became aware that another company of interest, The 4 Diego's Pty Ltd owned by Ralph Barba (Nino Napoli's brother-in-law), had invoiced John Fawkner Secondary College, the principal of which was Gus Napoli (Nino Napoli's brother). As a result, a search warrant was executed on that school and the business premises of The 4 Diego's, where investigators seized evidence of the payments made by the school to that company.

A crucial point in the investigation came when a search warrant was executed on the home of Nino Napoli's mother. Numerous items were located, including documents that appeared to have been hidden in the roof cavity of the house. The items seized contained details of years of invoicing to the Department and Victorian primary schools by the Squillacioti brothers, Mr Dingley, Mr Daniel Calleja (a distant relative of Mr Napoli) and various other companies.

In July 2014 the investigation led to the execution of a search warrant on the residence and business premises of Ralph Barba. Items seized during this warrant were found to be relevant to the allegation that Mr Rosewarne and Mr Napoli had fraudulently used Department funds for their own private overseas travel.

[1] In late August 2015 a second search warrant was executed at Mr Napoli's home.

[2] The holiday home of Luigi Squillacioti and the business premises of Innovating Visuals Pty Ltd and On the Ball Personnel Pty Ltd.

2.3 Private examinations

IBAC carried out 12 examinations of witnesses in private. These examinations provided investigators with valuable information regarding the connections between various individuals, businesses and companies as well as providing context and explanations for key documents seized by IBAC.

Information obtained under summons also gave investigators new leads such as the identity of other individuals able to assist with IBAC's inquiries and new locations in which to search for relevant documents.

2.3.1 Private examinations challenged

In the latter half of 2014, two significant people of interest in Operation Ord were served summonses for private examination before IBAC. Both challenged the validity of their respective summonses on the basis that the IBAC Act did not sufficiently indicate an intention to abrogate the common law privilege against self-incrimination for examinees suspected of committing one or more criminal offences.

After ruling against these challenges, the Commissioner agreed to defer these examinations pending the outcome of a Supreme Court challenge to them proceeding. Following preliminary argument before the Court the proceeding was dismissed by consent with a costs order in favour of IBAC.

In late 2014 these examinations were completed in private.

2.4 Public examinations

2.4.1 Legal basis for holding public examinations

The Commissioner determined that it was in the public interest to hold public examinations following a review of material obtained under warrant, evidence from interviews and private examinations, and consideration of the criteria in section 117(1) of the IBAC Act:

- The Commissioner determined that **exceptional circumstances** existed, including the high value of the impugned transactions identified to that point in time, the lengthy duration of the conduct and the apparently pervasive operation and effect of the conduct within the Department and among state schools.
- The Commissioner considered there to be an acute **public interest** in exposing any misapplication or waste surrounding the allocation of the limited funding and other resources available to the state education sector, particularly for state schools. Although the evidence suggested the impugned conduct was orchestrated primarily by Mr Napoli, there was ample evidence that other senior departmental officers (notably Mr Rosewarne) were aware of the conduct. As well, there was evidence of varying levels of involvement and complicity of other Department employees, including school business managers and principals. IBAC also considered there was strong public interest in exposing the systemic weaknesses in the processes and systems that allowed the misapplication of school funding to occur.
- Finally, and taking into account the seriousness of the matters described above, the Commissioner considered that public examinations could be held **without causing unreasonable damage** to the reputations, safety or wellbeing of persons of interest to this investigation. In particular, while it was considered likely that certain individuals to be publicly examined would suffer damage to their reputation, IBAC was satisfied that the evidence that would be put to them (much of which was documentary) was credible and required examination and explanation.

The scope and purpose of the public examinations is outlined in Appendix C.

2.4.2 Overview of the conduct of the public hearings

Public examinations took place over a 10-week period commencing in late-April 2015, with most parties involved (including the Department) legally represented. IBAC Commissioner Stephen O'Bryan QC presided over the examinations. Ian Hill QC acted as Counsel Assisting with Ted Woodward SC and IBAC Senior Lawyer, Amber Harris.

IBAC heard oral evidence from 47 witnesses in public, three of whom were recalled, totalling 50 public examinations. More than 300 exhibits were tendered, many of which were made available publicly.

Some represented parties unsuccessfully applied in camera to have their examinations held in private. The main basis for these applications involved a challenge to threshold issues of whether the circumstances were exceptional and whether or not there might be unreasonable reputational damage pursuant to sections 117(1)(a) and (c) respectively of the IBAC Act.

2.4.3 Benefits derived from the public hearings

Public examinations are a critical tool in corruption investigations. Following announcement of the Operation Ord public hearings, over 100 fresh allegations were made to IBAC about corrupt or improper conduct in the education sector, with a considerable number being considered sufficiently credible to warrant referral to the Department or elsewhere for investigation.

Indeed, each of IBAC's public hearing announcements to date (in Operations Fitzroy, Ross, Ord and Dunham) have generated complaints from the public both in relation to the subject matter in question and more broadly. This confirms that public hearings give the public confidence in IBAC's preparedness and ability to thoroughly and fairly investigate credible allegations of public sector corruption and serious police misconduct.

Public examinations are also a highly effective means of focusing attention on public sector corruption and the systems and practices required to help to prevent corruption. The community interest in public examinations often provides the impetus for public sector leaders to act quickly to address the issues exposed.

In Operation Ord, the Department responded through the development of a program of reforms designed to rectify deficiencies in its processes and systems, and to develop a culture of integrity. It also prompted the Victorian Secretaries Board to issue a statement highlighting all departmental Secretaries' commitment to work together to eradicate corruption. The public attention generated by the examinations was unquestionably a factor in encouraging the Department and the wider public service to respond quickly to the corrupt conduct exposed in the examinations and the broader risk of corruption.

It is doubtful that such a speedy and comprehensive response would have occurred solely on the back of a public report such as this.

2.5 Particular banker schools investigated

IBAC selected schools for investigation by looking for any school that had made payments since the beginning of 2007 to any of the entities associated with relatives of Mr Napoli, or had been involved in any of the payments made for the benefit of Mr Rosewarne.

The schools that particularly stood out for payments to Napoli family entities were (see Figure 2):

- Chandler Park Primary School
- Kings Park Primary School
- Moonee Ponds West Primary School
- Norwood Secondary College

Silverton Primary School was a late addition to the list once its role as a banker school for Mr Allman and Mr Fraser became known.

The following principals and business managers were publicly examined:

- Peter Paul, principal, Chandler Park Primary School
- Mary Hannett, business manager, Chandler Park Primary School
- Tony Hilton, former principal, Moonee Ponds West Primary School
- Douglas Conway, former principal, Kings Park Primary School
- Vincent Virtue, former principal, Norwood Secondary College
- Jane Arnold, business manager, Norwood Secondary College
- Gordon Pratt, former principal, Brighton Primary School
- Jana Ryan, business manager, Brighton Primary School
- Michael Giulieri, principal, Keilor Heights Primary School
- Gavin Gamble, former principal, Laburnum Primary School
- Peter Kearney, principal, Carranballac P–9 College
- Anne Jackson, business manager, Sale Secondary College
- Gus Napoli, principal, John Fawkner Secondary College; assistant principal, Taylors Lakes Secondary College

The evidence of each of these witnesses concerning their involvement in the banker school system and particular transactions that have come under scrutiny in the course of IBAC's investigation, is referred to elsewhere in this report.

2.6 Surveillance and telephone interception systems

During the course of the investigation, IBAC deployed a number of surveillance devices under the *Surveillance Devices Act 1999* in various locations. For instance, information obtained from listening devices in Nino Napoli's home and played during the public examinations indicated that Mr Napoli was instrumental in constructing false records and information in an apparent attempt to conceal his conduct.

Similarly, IBAC made use of telephone interceptions to progress the investigation including to assist in establishing the extent of the corrupt conduct.

Figure 2: Particular banker schools investigated



1. Chandler Park Primary School – Keysborough
2. Kings Park Primary School – Kings Park
3. Moonee Ponds West Primary School – Moonee Ponds
4. Norwood Secondary College – Ringwood
5. Silverton Primary School – Noble Park

3 Banker schools

3.1 Origins of banker schools

3.1.1 The School Global Budget and evolution of the banker school concept

Around 1995, the Department implemented the School Global Budget across all government schools. This meant schools could make their own resource decisions instead of having resources determined and allocated entirely by the central bureaucracy.

Each school had its own bank accounts, accounts staff and procedures to manage the funds allocated under the School Global Budget. This meant it was relatively easy to allocate an additional sum of money and account for it as a discrete 'bucket' of money within the school's financial management system.

At this time (mid-1990s), the concept of banker schools developed. Banker schools enabled funds for programs or activities intended to benefit a group, cluster or network of schools, to be held by a single school within that group. The single school would then disburse funds over time to meet the costs of the program or activity.

For the most part, funds held by banker schools came out of budgets managed at central office. Those funds could be allocated directly by central office or via regional offices. Banker schools might also hold funds from Commonwealth Government or local government programs, or from parent payments (such as for music tuition programs).

According to the Department, the term 'program coordinator school' was introduced in 2006 in an attempt to better define the role and activities of those schools.

When did the banker school model start?

The exact year that the banker school model commenced is not known, as confirmed by Department Secretary Gill Callister in her statement.

Many Department witnesses commented that banker schools had existed 'forever'. Peter Paul (principal of Chandler Park Primary School), said 'I'd been a banker school since the mid '80s'.

Eleanor Griffiths, who held the position of Manager of Capital Budgeting within the Department for most of the relevant period, gave evidence that banker schools first came into existence soon after the implementation of the 'Schools of the Future' program in the early to mid-1990s. Her evidence was that the Department had implemented a highly decentralised decision-making process at this time, with a big emphasis on the regions having the power to control budgets and make decisions that were appropriate for the local area.

3.1.2 Legitimate reasons for the use of banker schools

The concept of banker schools was consistent with the broader policy objective at the time to devolve more responsibility to individual schools and to encourage schools to form clusters or networks to jointly develop and implement programs of mutual benefit. For example, a cluster of regional schools might benefit from different local programs than those suited to inner-metropolitan schools. As these arrangements evolved, an opportunity emerged for central and regional offices to provide funding and expand the use of these groups of schools for legitimate purposes.

Dr Stephen Brown was the Regional Director of the Department's Hume Region between 2006 and 2009 and then Executive Director of Literacy and Numeracy in 2009 and 2010. Dr Brown made the important observation in his evidence that, properly managed, the banker school system was consistent with Victoria's long history of school-based management and schools coming together (especially in rural areas) to collaborate on specific programs, including for welfare type services and specialists like psychologists.

Evidence was also given that regional offices did not operate bank accounts, causing them to rely on schools to administer funds.

A rational case can therefore be made for the use of banker schools to support and promote self-governing schools. The question is whether it is a system inherently vulnerable to mismanagement and abuse. As is now apparent, the Department's lack of appropriate governance and accountability structures around the use of banker schools created an opportunity for individuals to exploit the arrangements for illegitimate purposes.

3.1.3 Banker school or program coordinator school?

The evidence establishes that, for the most part, Department employees treated the terms banker school and program coordinator school as synonymous. The term 'banker school' was probably more widely used, but it was generally understood to be a colloquial expression and that the Department preferred the term 'program coordinator schools'. For example, Tony Bryant, principal of Silverton Primary School, gave evidence that he had heard the term banker school but 'we were always referred to as a program coordinator school'.

3.1.4 Policies and procedures governing banker schools

Given the consistent evidence of Department witnesses that banker schools had existed 'forever', there appears to have been a surprising dearth of policies and procedures governing their establishment or operation. In fact, when Mr Allman was questioned about how a school might become a banker school, he confirmed what other witnesses said, namely that the processes simply involved someone from central office approaching a school principal and asking whether the principal would be prepared to receive and pay monies in and out of the school's bank account as requested, with the school able to keep any interest earned.

The following are the only departmental documents the investigation identified that related to banker schools and their governance:

- The Department's School Finance Manual for Victorian Government Schools included references to schools managing funds on behalf of clusters/groups as coordinator schools.
- The Department's CASES21 Guidelines for Schools explained the administrative practices for schools in managing funds on behalf of clusters/groups, along with the *Draft GST Issues Arising from Banker/ Coordinating/Cluster School Arrangements Policy October 2005*.

- An October 2005 draft departmental document referred to the GST implications of a dozen different situations relating to banker/coordinating/cluster school arrangements; however, the document did not cover the depositing of regional or central funds into a school's bank account that might then be claimed back by the region or centre.
- In 2006, a new policy on program coordinator schools was introduced to better describe their purpose, which (at least in theory) was to facilitate collaboration between schools.
- In late 2012, a new Program Coordinator School Governance Framework was introduced, in an attempt to address the shortcomings identified in the 2010 audit (detailed later in this report). Awareness of, and compliance with, this framework was poor.

As the years went on, there appeared to be a recognition of the need for more policies and procedures to govern banker schools, but much less commitment to ensuring compliance with those procedures.

3.1.5 How did banker schools operate?

Not surprisingly given such informality, the evidence showed that the term banker school was used to cover a variety of arrangements:

- Vincent Virtue, former principal first of Parkwood and then Norwood Secondary College, said the expression 'banker school' covered a range of things. His evidence was that money from many sources would go into schools, including from both Commonwealth and State governments. Some money would be allocated to a network of schools and the networks themselves would decide which school they would use as a banker school.
- Tony Hilton, former principal at Moonee Ponds West Primary School also gave an example of a banker school arrangement where funds did not come from either the central or regional offices. The Ascot Vale/Moonee Ponds area had an arrangement where four local schools ran a music program, with the chair of the program rotated every three years. The school that provided the chair was also the banker school for the program. The funds came from payments made by the parents in each of the schools.
- Gavin Gamble, former principal of Laburnum Primary School gave evidence that the school had managed the funds for the Whitehorse Principals' Network Conference. The funds were arranged through the regional network.
- Mr Bryant said Silverton Primary School had effectively been 'two coordinator schools'. One was as program coordinator school for the 'technical support program' for the Dandenong cluster of schools until 2013 when they merged with Springvale. And the second was for the Community Partnerships and Regeneration Program established by John Allman that was set up in conjunction with Silverton's assistant principal John Cummins, who was a friend of Mr Allman.
- Although Mr Paul's evidence was primarily concerned with his role as a banker school for Mr Napoli, he agreed that when he had acted as a banker school in the past, it was so a project being done by his school and other schools in the region could be centrally financed by one of the schools or by an organisation: 'It could have [been] the union account, it could have been a sports account, it could have been a conference account'.

Some schools had all the hallmarks of a banker school, in that they held funds from central office and used those funds to pay for invoices for goods and services not supplied to the school (or to a neighbouring school), but did not consider themselves to be an official banker school:

- Mr Virtue said that Parkwood Secondary College was not a banker school; however, Parkwood received funds arranged by Mr Napoli 'to make some payments through the school for a program that he was running centrally'. Mr Virtue's claim that Parkwood was not a banker school appears to have been because the school was not coordinating a program for a cluster of schools, but merely paying bills for central office.
- Anne Jackson, business manager at Sale Secondary College, described her school as 'unofficially to semi-officially a banker school'.

There were also 'one-off' arrangements that seemed to fall outside the banker school arrangement as generally understood. These seemed to pass unremarked, apparently because they were akin to the type of transactions conducted through official banker schools. For example, Jana Ryan, the business manager at Brighton Primary School, gave evidence that a payment by Brighton Primary to Arteriors Décor – arranged by Mr Rosewarne directly with the Brighton Primary School principal Gordon Pratt – was first paid out of school funds and Mr Rosewarne later put the funds into the school's account to cover the payment.

Given the apparent lack of regulation or protocols for the establishment and operation of banker schools, it is not surprising that departmental employees expressed a range of perceptions or views about their origin, terminology and role.

This confusion coupled with the lack of clarity around procedures governing the operation of banker schools helped create an environment in which Mr Napoli and others could exploit their relationships with certain principals to arrange payment of false or inappropriate invoices ostensibly under the guise of a banker school arrangement.

3.2 The role of the regions

Governance concerns at a glance

- Confusion about the **different roles** of banker schools.
- **Lack of clarity** around formal processes applying to banker schools.
- Banker schools were **used to 'park' or 'warehouse'** unexpended departmental funds towards the end of a financial year.
- There was **no consolidated list** of banker schools and insufficient central or regional oversight of them.

3.2.1 Concerns at the warehousing of funds

The regions contributed to the perception of banker schools as a mechanism for circumventing the strict application of Department processes by 'warehousing' funds in schools. In her evidence, Ms Griffiths (former Manager Capital Budgets) referred to funds being paid to schools' bank accounts, generally towards the end of the financial year, when regions or central office were underspent. Mr Hilton gave evidence that money would drop into the school's account near the end of the financial year and that this started happening in the period 1993 to 1995 when he was first made principal of Moonee Ponds West Primary School.

Claire Britchford joined the Department in 2002 as Assistant General Manager, Budget and Reporting. She was appointed Chief Financial Officer in late 2004 and held that position for about 10 years. Ms Britchford came to learn that regions were using banker schools to 'hide' funds, particularly towards the end of the financial year. The money in the banker schools was then used to fund regional expenditures. She agreed that this 'troubled' her as Chief Financial Officer and made it difficult for her to account for where the money was.

3.2.2 Concern at lack of regional oversight

Evidence was given that banker schools were required because regional offices did not have the administrative capacity nor the authority to open and operate bank accounts to hold the funds. The region had a budget, but the money provided to meet that budget was allocated to between two or three schools in the region who would then fulfil the banking and administrative function for the region. Usually the school holding the funds would be a beneficiary of the relevant program.

Dr Brown (Regional Director, Hume Region 2006–09) gave evidence that there was no central, system-wide, transparent list of official banker schools. However, based on discussions among regional directors, he understood that each region had a series of schools that were nominally titled banker schools. Mr Napoli said that every regional director had one to five banker schools.

The level of oversight and the manner in which regional offices used the banker school system seemed to be at the discretion of each regional director. Dr Brown's evidence was that he reviewed banker schools and asked for regular reports on what was being processed through them during his time as Regional Director, Hume Region; however, as he understood it, there was a general lack of regional or central office oversight.

3.3 The corruption of the banker school system

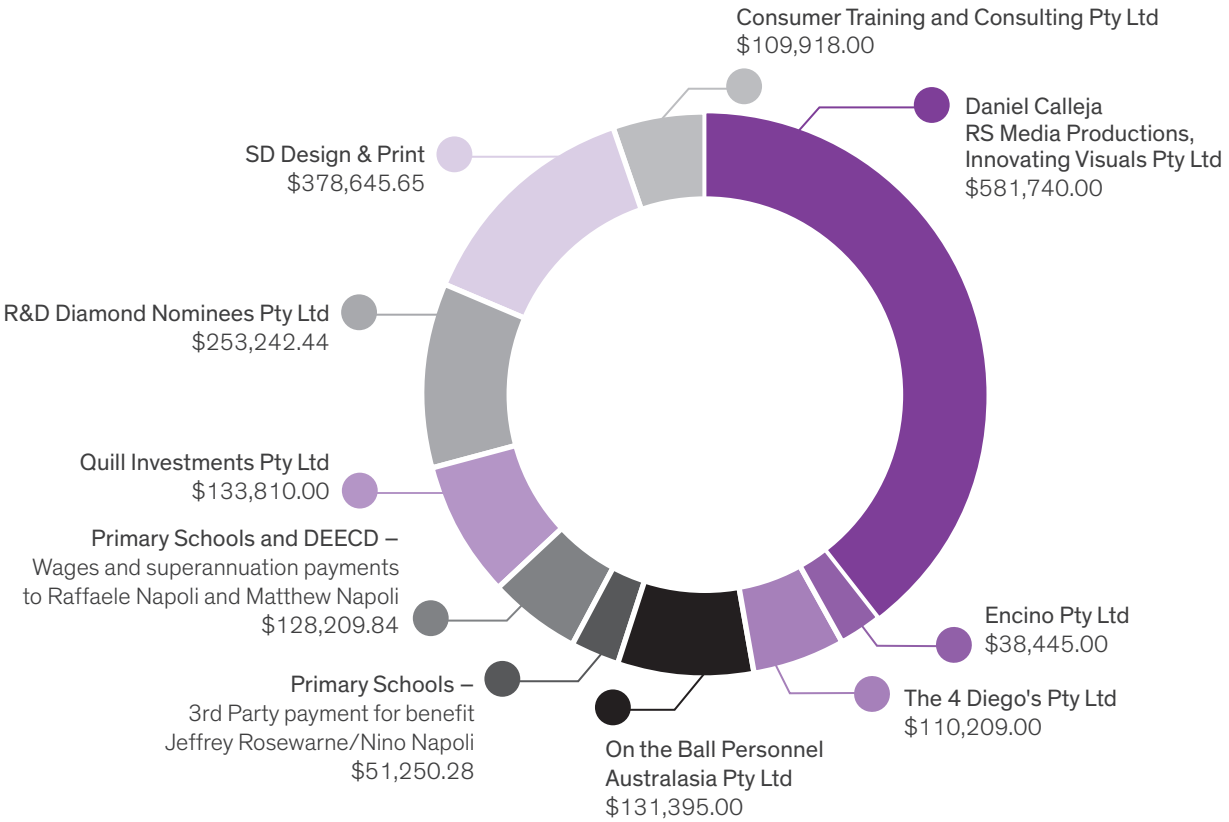
The banker school system was seen to be corrupted at the very highest level once Mr Rosewarne was exposed as an active participant in its abuse.

Later in this report (Chapter 8), we look at a structural flaw in the Department's finance system that contributed to this abuse. However, while this structural flaw allowed the abuses to occur and to continue undetected for a considerable period, it was not the cause of the abuse. The cause was subtle and operated at two levels.

3.3.1 First level of abuse: circumventing or subverting rules and procedures

The first level of abuse was the circumventing or subverting of rules and procedures that many in the Department appeared to consider bureaucratic, time consuming and unduly restrictive. For example, channelling funds through banker schools enabled regional offices to organise conferences interstate (notwithstanding a rule that required such conferences to be held in Victoria), to purchase extra vehicles in excess of the region's fleet allowances and to warehouse underspent funds close to the end of the financial year. Senior staff at central office used banker schools to fund a range of expenses that would not have passed scrutiny if subjected to the Department's purchasing procedures.

Figure 3: The corruption of the banker school system (2007 - 2014)



Total **$1,916,865.21**

Figure 4: The corruption of the banker school system
Sale Secondary College • 1 January 2007 - 31 March 2014

Sale Secondary College

Encino Pty Ltd
Innovating Visuals Pty Ltd
Customer Training and Consulting Pty Ltd
7 Invoices

Total **$26,400.00**

Abuse in the form of circumventing or subverting rules and procedures – two examples

Gail Hart joined the Department in 2000 and in January 2004 was appointed chair of the Accredited Purchasing Unit. Ms Hart first came to know about banker schools when she was asked to enquire into fleet problems at the regional offices in Gippsland and Bendigo. It seemed that both regions had acquired vehicles in excess of their fleet allocation. Her enquiries established that the additional vehicles had been purchased using funds held in banker schools.

Ms Hart came to learn that the use of banker schools was more widespread when someone from Eastern Region mentioned that regional office staff were travelling to Tasmania for a regional conference. The policy at the time was that all internal conferences had to be held in Victoria. Ms Hart made some enquiries but could find no record of the Department paying airfares or accommodation. She surmised that money was again being taken by regional offices via banker schools to bypass Department policy strictures.

Wayne Carmody is the Manager of Finance for South East Victoria. Mr Carmody knew Mr Napoli for about 20 years and considered him a friend. For six months in 2009-10, Mr Napoli was Mr Carmody's direct manager. Mr Carmody's evidence primarily concerned the arrangements he made at Mr Napoli's request to identify a school in his region to receive funds and then pay some invoices from central office from those funds. He nominated Sale Secondary College, because he knew its business manager Ms Jackson would pay the invoices if he asked her.

Mr Napoli paid the funds directly to Sale Secondary College, but the invoices came through Mr Carmody. Mr Carmody agreed that Sale Secondary College was not one of his region's banker schools, but said that at various times it would have fulfilled those functions for things such as paying expenses associated with business manager or principal conferences.

However, Mr Napoli was seeking the payment of printing invoices. Mr Carmody said that Mr Napoli gave the impression that this was a one-off urgent request. This was not the case. Mr Carmody accepted that in arranging for these invoices to be paid via Sale Secondary College, he was subverting the procurement process, which required the engagement of the Department's preferred supplier. However, Mr Napoli said that the preferred supplier could not carry out the printing in time, and Mr Carmody believed him.

3.3.2 Second level of abuse: using funds for personal use or non-departmental activities

The second level of abuse was more blatant. It involved the use of departmental funds to purchase items exclusively for personal use or consumption or unrelated to Department activities. Examples are Mr Rosewarne's arrangements through banker schools to pay for his wife's travel expenses, his home office furniture and private 50th birthday party (discussed further in section 4.3). At its worst, this abuse involved wholly false or inflated invoices arranged by Mr Napoli, which resulted in funds being paid to the benefit of Mr Napoli and his family members.

It is clear that the second level of abuse is deserving of significantly greater opprobrium than the first. However, the first should not be dismissed as unimportant for two reasons. First, the conduct was in breach of clear Department rules and guidelines and should not have been tolerated, particularly by those in senior management positions. Second, it was a symptom of and (at the same time) promoted, a culture in which flouting rules and guidelines was almost *de rigueur*.

Indeed, it is likely that because it was generally understood that many of these payments were being made contrary to Department rules and guidelines, that those involved tended to be surreptitious in the way they handled the payments. This, in turn, probably explains (at least in part) how Mr Napoli in particular was able to keep his more flagrant abuse of the banker school system hidden for so long.

Chapters 5 and 7, detail how Mr Napoli took advantage of the structural flaws in the system and a culture in which circumventing Department rules and guidelines was openly tolerated, to advance his own personal interests and those of his family members. Chapter 8 looks more closely at those flawed systems, controls and culture to identify how such abuses can be prevented in future.

3.3.3 Banker schools also enabled low-level abuse of the system

Mr Napoli agreed that it was not difficult for any officer in the Department to divert funds into banker schools and that the potential was there for anyone to abuse the process. His evidence was that every regional director had banker schools and 'I would dare say that – and I don't know this, but probably half the executives would have had their own banker schools because it was the way business was done and the way business is currently being done. I mean...it's just the way it is'.

The example proffered by Mr Napoli was Silverton Primary School, which was used as a banker school by both Mr Allman and Mr Fraser.

Mr Allman described his and Mr Fraser's use of a banker school as part of what was 'common practice' within the Department. He said that when he was a principal at Carlton Primary School between 1990 and 1995 it operated as a banker school, coordinating funds for student support services (including for Carlton Primary School). He also had banker schools when he worked in regional offices. However, Mr Allman agreed that Carlton Primary School's legitimate role as a banker school was quite different from his use of Silverton.

Mr Allman would arrange with Mr Napoli (usually by email) to allocate funds to Silverton using descriptions such as 'Partnership Regeneration Grant to Silverton PS'. The funds were used for various projects Mr Allman had on foot and for future projects, which may or may not have had anything to do with 'partnership regeneration'. Mr Allman said that banker schools like Silverton were 'very much about giving flexibility to the person requesting the expenditure of those funds, and that flexibility went around compliance guidelines of the Department'. Money was taken out of central funds 'to hide it from government processes'.

Silverton Primary School: 'flexibility...around compliance guidelines'

Mr Allman recalled one specific request from Mr Fraser to use funds at Silverton Primary School for a newly-employed regional director to remain living at Quest Apartments beyond the period that would normally be permitted by the Department. Mr Allman agreed that the method employed to pay the costs of the accommodation was 'to short-circuit the legitimate processes that would have been required if the payment was to be made from central funds'.

According to Mr Allman, Mr Fraser also asked him to arrange payment out of Silverton Primary School to cover the cost of supplying refreshments for staff who had volunteered to help pack up after a major conference in late 2010. These costs were again outside the guidelines for that particular conference.

For his part, Mr Allman used funds held by Silverton to make grants to the 'Royal Children's Hospital Education Institute' and Glen Waverly Secondary College, paying for 'hire of room facilities' at the Kent Hotel in North Carlton, paying $6000 to the Alannah and Madeline Foundation to purchase 'buddy bags', paying more than $2000 for Christmas puddings and spending more than $1200 on chocolate Easter rabbits. The latter were purchased by the business manager at Silverton Primary School at Target and Big W on school time) and then couriered to the Department's central office at Treasury Place.

The principal of Moonee Ponds West Primary School, Mr Hilton gave evidence of similar payments. He recalled arranging a payment by Moonee Ponds West Primary School of $3000 to the Alannah and Madeline Foundation. His evidence was that the payment was arranged by Mr Napoli at the request of Mr Fraser and comprised $2000, being the cost of a table of 10 at the 'Starry Starry Night' fundraising dinner in November 2009, plus a $1000 donation. Mr Hilton was left to make contact with the Foundation to arrange for the issue of an invoice and then to make and record the payment.

Despite Mr Napoli's evidence of more widespread abuse of the banker school system, IBAC does not have evidence of individual Department executives apart from Messrs Rosewarne, Fraser, Allman and Napoli personally establishing or using banker schools in the manner described in the Silverton case study.

However, a number of witnesses gave evidence to the effect that the use of money in banker schools to circumvent Department rules or procedures was widely known and tolerated. For example, Eleanor Griffiths recalls that in mid-2004 or mid-2005 the Financial Services division decided to hold a retreat at the Cumberland Resort in Lorne. She recalls a meeting attended by (among others) Mr Napoli and Ms Britchford where it was agreed that alcohol would be supplied. It was a lavish retreat and everyone 'just assumed it would be paid for out of the Schools Global Budget or from banker schools'.

Mr Napoli's misuse of banker schools is described in Chapter 5.

3.4 Involvement of principals and business managers

Of particular concern in several of the accounts described in later chapters, is the willingness of school principals and business managers to knowingly sign and process misleading internal documentation at the request of Mr Napoli or Mr Rosewarne.

Indeed, it should be a matter of considerable concern that so many school principals and business managers were prepared to complete, sign and retain for audit purposes standard procurement forms, invoicing and sometimes delivery records which on their face falsely purported to verify purchases by, and delivery to, the school itself. Even though these school personnel knew that such records were false, the commonly used and plainly inadequate explanation for their creation was that cheques could not be signed and payments made on invoices without doing so.

A common thread running through the evidence (not only of school personnel but of Mr Napoli's relatives and business associates) was a willingness to trust Mr Napoli and Mr Rosewarne without question, because of their seniority: 'I just accepted...trusted Mr Napoli implicitly', said Mr Paul (Chandler Park Primary School).

However, it appears that some principals and business managers who colluded (wittingly or unwittingly) in the illegitimate banker school scheme, were also motivated by:

- perceived financial benefits for their school
- direct benefits to themselves.

3.4.1 'The end justifies the means'

The evidence suggests that some principals and business managers had a sense that banker schools were being used for purposes that were not entirely legitimate. However, the evidence of several principals suggests they adopted an 'end justifies the means' approach because their overriding interest was to get more funds for their schools.

- Mr Virtue gave evidence that when he was principal of Parkwood Secondary College, and some time before he received an invoice from Encino in about June 2004, Mr Napoli contacted him by phone and said he wanted to make some payments through Parkwood for a program that he was running centrally. Mr Virtue said to Mr Napoli, 'Nino, you understand that my school has some financial difficulties. If you want to do that, that's okay, but hopefully there's some monies left over for me'.

  Mr Virtue's expectation was that the school would make a small profit; that is, that the funds provided would be a rounded up sum, and the difference between the invoices and the rounded up sum would compensate the school for undertaking the administrative tasks associated with the payments. (Mr Napoli confirmed that it was his practice to provide grants in round sums and not use the total sum advanced, leaving a balance for the school to use for its own purposes.) Mr Virtue thought Parkwood had been selected by Mr Napoli because he would have known that Parkwood had financial difficulties. He also thought that Mr Napoli was aware he had worked for a time at central office and understood the Department's processes, namely that 'there were circumstances where the Department would use schools to administer programs that were essentially controlled by the centre'.

- Similar evidence was given by Peter Kearney, principal of Carranballac P–9 College. Mr Kearney explained that his school was struggling financially and he approached the Department for additional funding. He said that Mr Napoli later visited the school and Mr Kearney took him on a tour. When they discussed funding, Mr Napoli said he would 'put a little bit more in' and Mr Kearney could pay some bills from the centre for him. Mr Napoli explained that 'the bills did not fit within the processes at central office'. Mr Kearney asked if this was a regular practice because it didn't appear to be, but Mr Napoli assured him it was normal practice and 'because he is the chief finance man, I believed him'. Mr Kearney accepted that he did not see any of the goods and services to which the invoices related. Like so many others, he said he trusted Mr Napoli.
- When asked why he agreed to Silverton Primary School acting as a banker school, Mr Bryant said that it was an opportunity that might benefit the school. Specifically, he said it was an opportunity for Silverton, a low socio-economic school, to benefit from the interest paid on the amounts deposited into the school's account.

Schools benefited from the interest earned on funds deposited into their accounts by Mr Napoli, particularly in years of higher interest rates. The funds would generally be directly deposited by Mr Napoli into a school's 'high yield' bank account, usually just with an EFT remittance advice. In some cases, the deposit was preceded by a call from Mr Napoli to say it was coming. In others, the funds would arrive without warning. The school would then need to 'go searching' to find out why the money was there. Schools would subsequently enter the funds into the CASES21 system and a sub-program account created by the school. The evidence was that usually a few invoices would come in shortly after the funds were received, but invoices could continue to be received six months or more after the deposit.

A small amount of money and a little bit of kudos

When asked about the benefits of being a banker school, Mr Gamble gave evidence that Laburnum Primary School was equipped to operate as a banker school as it was a fairly large school with an excellent business manager, and there was some small amount of money to be gained in interest. He added that there was also 'a little bit of kudos, to be honest...it was flattering in a way to be asked. You think that's a sign that the school is respected'.

3.4.2 Direct benefits to principals and business managers

There was also evidence of more direct benefits to principals and business managers whose schools were banker schools for Mr Napoli. There was some suggestion (but no direct evidence) that the principals and business managers of Mr Napoli's banker schools were over-represented in the awarding by the Department of prizes, committee posts and consulting roles (see section 8.4.3).

Other benefits bestowed by Mr Napoli were more blatant. In September 2013, Michael Giulieri, principal of Keilor Heights Primary School (and formerly principal of Essendon North Primary School) wanted to undertake professional development training in the United States. He approached Mr Napoli and told him he needed $5000. Mr Napoli said that was not enough and a short time later arranged to deposit $15,000 into Mr Giulieri's school's account. Mr Giulieri used about $5000 of this to fund his trip.

Other situations are less clear cut. After Silverton became a banker school for Mr Allman and Mr Fraser, Silverton's principal Mr Bryant went on about seven or eight overseas trips to countries including in the United Kingdom, the United States, South Africa and in different parts of Asia. Before Silverton became a banker school, he had been on just one education-related trip to New Zealand. Mr Bryant conceded that at least some of these trips were funded through the school, and others by prize money attached to the Outstanding School Leadership Award he won in 2011, the interview panel for which was chaired by Mr Fraser, a matter further addressed in section 8.4.3.

Chandler Park Primary School is of particular interest in this regard as it paid significantly more invoices at the request of Mr Napoli (both in number and value) than any other school. Department records showed that both Mr Paul (principal) and Mary Hannett (business manager) each had numerous trips overseas with many (although not all) paid out of school funds and some paid from Mr Napoli's banker school money. Similarly, Ms Hannett gave evidence that a total of approximately $6000 was taken from the Chandler Park Primary School account where she held the banker school funds, to cover the cost of overseas trips. This included about $1900 for the cost of her flights to attend a conference in the United States. Her evidence was that she had spoken to Mr Napoli about attending the conference: 'it was his suggestion that I attend...'.

There was also evidence that Mr Paul had paid a number of bonuses to Ms Hannett (which Mr Paul insisted be called 'special payments' not bonuses) in recent years, including a payment in October 2013 of $5000 and a further payment in early-2014 of another $5500.

Each of these matters, while troubling in themselves (and, IBAC understands, the subject of further inquiry by the Department), also gave rise to the need to investigate the level of knowledge or involvement in Mr Napoli's corrupt scheme, insofar as it involved Chandler Park Primary School, of Mr Paul and Ms Hannett.

However, there is no evidence to support a positive finding that either knew of or suspected that any of the invoices they were paying were false, or that Mr Napoli was otherwise engaging in corrupt conduct and each of them refuted such matters in evidence.

3.5 The Department's 2010 audit into program coordinator schools

3.5.1 Scope of the audit

In 2010, Susan Larmer (a senior auditor within the Department's Audit and Risk Branch) and Neil Loveless (internal auditor) completed an audit of program coordinator schools. The audit was placed on the audit plan as a result of pressure bought to bear by a number of people including Ms Larmer who expressed concerns over a number of years about the use of program coordinator schools to circumvent systems and controls, Dr Brown who was also concerned about the apparent use of program coordinator schools to pay invoices as well as avoid return of unexpended funds, and Grant Rau, a former director of Barwon South Western Region, who questioned why funds were being held in schools rather than controlled from central office.

The audit identified that, as at October 2010, approximately $30 million was held by program coordinator schools on behalf of regions.

The audit looked at whether program coordinator schools were properly administering funds on behalf of regions, if departmental policies and procedures were being followed, and whether controls were in place to ensure appropriate authorisation, recording and reporting of expenditure.

3.5.2 Audit findings were highly critical

The audit concluded that program coordinator school arrangements were in breach of the *Education and Training Reform Act 2006*[3] as well as Department policies, procedures and guidelines. Three audit findings were defined as critical, indicating a potential severe adverse effect on the Department, and requiring the immediate attention of a deputy secretary.

The audit recommended that arrangements involving expenditure on behalf of regions and central office cease immediately:

> The outcomes of the review clearly indicate that governance and controls around PCSs are wholly inadequate. There is a complete lack of accountability and oversight for the activities and expenditure of PCSs and these practices have continued over a number of years with no reporting of compliance obligations for the PCSs.
>
> Based on the findings, it is recommended that the current operations of the PCSs be discontinued immediately and alternative mechanisms to disburse funds to schools for relevant activities be developed as a matter of priority.

Consistent with IBAC's concerns about funds becoming effectively invisible to central office once paid to a school, the 2010 audit identified that once funds were disbursed from regional or central office to program coordinator schools, 'they are expensed and effectively "off-their books" as far as their obligation to report carry-overs and commitments'.

In relation to possible corrupt conduct, the audit noted that 'limited transactional testing of program coordinator school regional expenditure did not identify evidence of fraud or corruption' but did identify numerous breaches of Department policies and guidelines. The failure to identify actual fraud appears to have occurred primarily because none of Mr Napoli's banker schools were visited or examined as part of the audit. This was because the schools audited were official program coordinator schools identified by regions, rather than unofficial banker schools paying expenses primarily for central office.

However, the audit did find that 'the mixing of school, regional and central office funds in one ledger, inadequate expenditure authorisation procedures, failure to adhere to departmental purchasing policies and the lack of effective reconciliation processes presents a very high risk of fraud'.

Interestingly, the audit did not identify that beyond the formal program coordinator school model, there existed an even murkier informal banker school arrangement primarily used by central office. In his evidence, Mr Loveless said that he and others involved in the audit 'thought we had the nub of the program coordinator schools but, clearly, we didn't because... it wasn't that clear to us that there was [sic] also these direct transfers from central office division... straight to a school'.

3.5.3 Mr Rosewarne's part in delaying action on audit findings

Despite the gravity of the findings and recommendations, the audit report languished. In fact, it was not signed off by management until August 2011, approximately eight months after its completion. The evidence suggests that Mr Rosewarne, who was Acting Secretary at the time, was a significant player in this delay. Mr Stewart Leslie, the independent chair of the Portfolio Audit Committee, gave evidence about his efforts to emphasise the significance of the audit findings (as well as other audits completed in early-2011[4]). He described one particular meeting with Mr Rosewarne in June 2011 where he recalled the words he used were:

> *Secretary, you have a Department that... generally does not comply with laid-down procedures. People are not held to account when they fail to comply with those procedures, and therefor you have an environment that is ripe for fraud.*

[3] According to evidence, Mr Napoli pressured the lawyer who provided advice that the funding arrangement was in breach of the Education and Training Reform Act and, when that was not successful, took steps to obtain an alternative legal opinion.

[4] Three further audits covered purchasing cards at schools, international and domestic travel at schools, and corporate cards at central office.

According to Mr Leslie, Mr Rosewarne looked neither shocked nor surprised, and responded, 'perhaps our policies and procedures are too complex'. Mr Leslie said he expected Mr Rosewarne to take action in response to the advice but did not discuss with Mr Rosewarne what specific action might be taken.

James Kelly, former General Manager Portfolio Governance and Improvement, also described his efforts to progress the implementation of the findings of the various audits, including the 2010 audit of program coordinator schools. He referred in his evidence to meetings in late 2010 with the then Secretary Peter Dawkins and Mr Rosewarne. He said he sensed more disbelief than push-back from Mr Rosewarne on the program coordinator school audit in these initial meetings. In January 2011, Mr Kelly had a further meeting with Mr Rosewarne, who was then Acting Secretary, to discuss getting Mr Rosewarne's comments on the program coordinator school audit as quickly as possible. Mr Rosewarne demurred, saying he had not had an opportunity to read the full audit report and was not yet able to provide comments. Mr Kelly said he set up another meeting for early March 2011 at which Mr Rosewarne said, 'I didn't realise you were waiting for a response from me', which Mr Kelly said was perplexing.

Mr Kelly said a further meeting in March 2011 deteriorated after Mr Rosewarne confronted him about an incident (specifically an incident that Mr Rosewarne suspected Mr Kelly was investigating him for). Mr Kelly said he left that meeting in a state of shock and did not have any further direct dealings with Mr Rosewarne in relation to the audits. He learned through his then Deputy Secretary Paul Linossier that Mr Rosewarne had later rejected Linossier's suggestion that the outstanding audits go to a working group chaired by Mr Leslie. Effectively, the audits had 'stopped at Jeff's desk'.

It appears that while Mr Rosewarne was doing nothing to progress the approval and implementation of the program coordinator school audit, he was actively considering another report by Drew Arthurson Pty Ltd into 'Regional Coordinator Schools' that had been arranged under the auspices of Mr Fraser. This report recommended a new model for 'Regional Coordinator Schools' and included a much more benign examination of the 'risk management implications' of these arrangements. Mr Kelly had no recollection of seeing this report and knew nothing about it until shortly before his public examination. It is troubling that this report and the associated briefings make no reference to the critical and urgent findings of the program coordinator school audit.

Mr Rosewarne's failure to act on the warnings given by Mr Leslie and Mr Kelly, including failure to act on the recommendations in the 2010 audit, cannot be explained by oversight or inattentiveness. The evidence supports the conclusion that Mr Rosewarne made calculated interventions, particularly during his tenure as Acting Secretary, to impede the implementation of the recommendations from the 2010 program coordinator schools audit.

Chapter 8 outlines why Mr Kelly felt unable to seek input or advice from outside of the Department about this matter.

3.5.4 The 2012 governance framework

Following a period of obstruction, management acknowledged the concerns raised in the 2010 audit and accepted most of the recommendations. However, the Department only partially accepted a recommendation that program coordinator schools be prohibited from performing transactions on behalf of regional and central offices. This reflected the view that it was important that schools continue to have the ability to undertake purchasing for collaborative projects.

The process of implementation was again unacceptably slow, given the seriousness of the findings and urgency of the recommendations.

In December 2012 the Financial Services division published its Program Coordinator School Governance Framework. This detailed operational constraints including clear administration and business rules, as well as financial management requirements. It does not appear that principals and business managers were aware of this framework, nor complied with it. It also does not appear that the Department took steps to review the operation of program coordinator schools following the introduction of the framework.

3.6 The 2015 audit and the end of banker schools

Following IBAC's initiation of Operation Ord, a further audit was conducted by the Department in 2015 and made its initial findings in June of that year. Notably, the 2015 audit showed a continued lack of adherence to the Program Coordinator School Governance Framework at school level, and inadequate design, implementation and communication of the framework. As a result, issues and risks identified in the 2010 program coordinator school audit still existed.

As at June 2015 some $12.4 million of funds transferred to schools from central and regional offices under program coordinator school arrangements were still held by those schools. This is distinct from funds – some $11.6 million – pooled in voluntary school-initiated networks. However, the Department has made clear its intention to abolish the program coordinator school or banker school model pending the implementation of a new approach to delivering shared services to schools. The Secretary has directed all school principals to identify and return funding transferred through central and regional banker school arrangements, unless the money is committed under existing binding contracts.

The Department's new approach will include development of a 'robust governance and controls framework for school group purchasing arrangements'. In a statement provided to IBAC, current Secretary Gill Callister said:

> *The new approach will restrict joint purchasing arrangements to fewer schools and enable monitoring through a centralised register. Only key trained and authorised staff will be able to process grants, and will do so through a segregated payment process to increase oversight and accountability. The new approach will bring the way grants are managed in the Department in line with public sector best practice.*

As Dr Brown observed in his evidence, the program coordinator school concept has much to commend it. However, both the matters revealed in the course of IBAC's investigation as well as the difficulties in implementing reforms since 2012 suggest it is a concept inherently vulnerable to abuse because it involves some degree of devolution of responsibilities and controls. It is essential that the Department adopts a carefully considered approach to any new proposal.

4 Jeffrey Rosewarne

4.1 Career path

Jeffrey Rosewarne joined the Department in 1980 as an administrative officer. Much of his career has been in the public sector, principally at the Department where he rose to prominent positions at executive level based on a reputation of competence and integrity. By about the mid-1990s, Mr Rosewarne held the position of Assistant General Manager of Finance and Administration. This involved overseeing the Department's budgetary, accounting and general administration functions.

In 1997, Mr Rosewarne moved to the Department of Treasury and Finance as a director of budget formulation in the financial division. He remained there until 2003 before returning to the Department as Deputy Secretary of Resources and Infrastructure, serving in that role between 2003 and 2009. He was the senior executive responsible for functions such as finance, information technology, human resources, infrastructure and knowledge management. In that time period he served under two Department Secretaries, Grant Hehir and Peter Dawkins.

By this time, Mr Rosewarne had built up a considerable number of close contacts within the Department, including school principals and their deputies. As might be expected of someone with a reputation as a sound administrator and leader, his influence had spread widely within the Department and beyond.

Mr Rosewarne's career at the Department reached its peak in late 2010 when he was appointed Acting Secretary upon Professor Dawkin's departure, a position he held until August 2011. He was then appointed Secretary of Department of Primary Industries, followed by a short stint as special advisor in the Department of Treasury and Finance until mid-2013. He moved from there to become Director of Policy, Research and Communication at the Catholic Education Commission of Victoria.

4.2 Relationship with Nino Napoli

During the 1990s Mr Rosewarne held a senior executive position in the finance area of the Department and Nino Napoli worked under him as a manager in the school finance area. Mr Napoli was a direct report to the Chief Financial Officer, Claire Britchford. Nevertheless, Mr Napoli and Mr Rosewarne had at least weekly contact, and remained friends and allies.

Mr Rosewarne and Mr Napoli also had social contact at events such as the football. This brought Mr Rosewarne into contact with immediate Napoli family members as well as other relatives such as Mr Napoli's cousins Luigi and Carlo Squillacioti (at whose business in Sunshine, Cobra Motors, Mr Rosewarne had his vehicles serviced and repaired for a time) and brother-in-law Ralph Barba.

The relationship between Mr Napoli and Mr Rosewarne became quite close. Indeed, for a decade or more Mr Napoli and his wife, through their company Bammington Pty Ltd, prepared and lodged at no charge Rosewarne family income tax returns. The relationship was a trusting one. As the events described below demonstrate, Mr Rosewarne felt he could rely on Mr Napoli to discreetly arrange payment of his personal and dubious work-related expenses through schools using departmental funds.

Based solely on these events, it would not be an understatement to describe Mr Napoli as Mr Rosewarne's 'go to man' when it came to arranging and paying (with departmental money) numerous questionable or plainly improper transactions.

4.3 Transactions involving Mr Rosewarne

Mr Rosewarne's abuse of the banker school system was evidenced by numerous transactions that came to IBAC's attention in the course of the investigation and that were exposed during public hearings.

This section outlines a range of those improper transactions.

4.3.1 Improper transaction – 2008 Christmas party

Brighton Primary School made a number of improper payments at the behest of Mr Rosewarne. One such payment in late 2008 began, according to then principal Gordon Pratt, after a meeting at central office when Mr Rosewarne approached him in a corridor about whether he could 'process an invoice'. A little taken by surprise at the unusual nature of the request, Mr Pratt said he was reassured by Mr Rosewarne it would be 'okay or alright' for him to do so.

Subsequently, Mr Rosewarne emailed to Mr Pratt, for payment by the school, a $4824 invoice from Arteriors Décor Installations (Arteriors) for 'the provision of goods and services supplied during the month of December 2008', with a promise of reimbursement. Presuming the invoice was for central office 'decorations or furniture or something like that', Mr Pratt caused it to be paid by school cheque. He falsely certified that the goods and services described on the invoice had been received by the school. Mr Pratt signed off on the transaction in standard internal documents, including a school purchase order for 'office requirements for Treasury Place'.

Without knowing it at the time, Mr Pratt played a key role in the creation of a false document trail designed to disguise the payment of costs associated with a large office Christmas party for executive officers thrown by Mr Rosewarne and Mr Fraser, both Deputy Secretaries at the time, at a suburban bowling club. In his evidence, Mr Rosewarne conceded sole responsibility for the mode of payment and that he orchestrated payment in this way 'to avoid scrutiny within the Department' as well as possible public scrutiny under the *Freedom of Information Act 1982*.

The business owner of Arteriors was Peter Foley, who normally contracted for functions at the bowling club. Mr Foley met Mr Rosewarne through their children. His evidence was that Mr Rosewarne dictated the wording on the Arteriors invoice, which Mr Foley then emailed to Mr Pratt for payment. (In evidence, Mr Rosewarne conceded the wording came from him and was not true.) It appears Brighton Primary School was subsequently reimbursed the amount of $5000 by central office. This rounded up amount added an extra layer of opaqueness to an already falsified document trail by making it harder to match the relevant debit and credit in any future audit process.

4.3.2 Improper transaction – 2009 Christmas party

A similar scenario was repeated in late-2009 for a large Christmas party for departmental executives at the same venue, again organised by Mr Rosewarne. Payment of $6820 was made on this occasion by Moonee Ponds West Primary School on an invoice prepared by Mr Foley which he said was at Mr Rosewarne's direction. The invoice (this time from another Foley entity called Caravan Music Pty Ltd) bore the description of 'Event management services for various DEECD events during November 2009'. Mr Hilton (then principal of Moonee Ponds West Primary School) was initially targeted by Nino Napoli to facilitate payment of the invoice. According to Mr Hilton, Mr Napoli told him 'there was an invoice coming covering a series of events and road shows and different other presentations that are happening during that month'. Mr Hilton arranged the payment from general central office funds previously paid into the school's account as a grant. In doing so, he unwittingly oversaw the creation of a false internal document trail (in that he had no awareness the payment was for a Christmas party). Based on the evidence, the inference is compelling that Mr Rosewarne colluded with Mr Napoli both to mislead Mr Hilton about what the payment was really for, and to ensure a false document trail was created to disguise the true nature of the transaction.

4.3.3 Improper transaction – coffee machines

Another improper transaction occurred in around mid-2009 after a visit by Mr Rosewarne to Brighton Primary School. During that visit Mr Rosewarne expressed a particular interest in obtaining expensive coffee machines such as those used at the school. Soon after the visit, Mr Rosewarne was provided with the school's corporate credit card details, which he used to buy two machines for a little more than $5000. This unorthodox use of the school's card was contrary to departmental policy and occurred despite Mr Rosewarne having his own corporate credit card.

Mr Pratt (then principal at Brighton Primary School) said that Mr Rosewarne's explanation for wanting to buy the machines in this indirect and plainly suspicious way was because doing it through the Department meant 'he would have to buy a machine for every office'. Based on the known facts, it is likely the real reason was that the transaction was known to be improper and therefore needed to be disguised.

Unknown to Mr Pratt at the time, one machine was actually delivered to Mr Rosewarne's private residence. Relying on the purchase invoice he received from Mr Rosewarne, Mr Pratt completed an internal purchase order that falsely represented the school as having purchased the goods. The purchase order also falsely represented the delivery addresses as being the Department's central office and the recently established offices of the Victorian Bushfire Reconstruction and Recovery Authority where Mr Rosewarne had been seconded for six months. Based on Mr Rosewarne's admission of one machine going to his residence, it is likely the other went to the Victorian Bushfire Reconstruction and Recovery Authority. The delivery docket suggests that the more expensive machine went to Mr Rosewarne's residence, a matter he disputed in evidence.

Mr Pratt must have realised when filling out the purchase order that one of the delivery addresses was not a departmental one. He explained his willingness to facilitate the transaction on account of Mr Rosewarne 'being very, very senior' to him and that he 'had no reason to distrust him'.

Sometime in late-2012 or early-2013, when he knew he was under investigation, Mr Rosewarne – through Mr Napoli, it would appear – had Mr Pratt deliver two seemingly well-used coffee machines to the school.

Not only did the school gain no benefit from its financial outlay, no evidence was found that the school was ever reimbursed despite an earlier promise by Mr Rosewarne to do so.

4.3.4 Improper transaction – thank you event

Later in 2009 Mr Rosewarne's misuse of banker schools continued when he successfully had Moonee Ponds West Primary School foot the bill for a $2000 'thank you' function for Victorian Bushfire Reconstruction and Recovery Authority staff. Mr Hilton said that Mr Rosewarne told him that the Authority lacked funds to pay for the event. Again, the transaction involved the creation of a false internal document trail within the school, insofar as the material falsely suggested the payment was for school purposes.

Figure 5: The corruption of the banker school system
Moonee Ponds West Primary School
1 January 2007 - 31 March 2014



Moonee Ponds West Primary School

- **The 4 Diego's Pty Ltd**
  $3,300.00
  1 Invoice
- **RS Media Innovating Visuals Pty Ltd**
  $13,310.00
  4 Invoices
- **Caravan Music Club**
  $6,820.00
- **On the Ball Personnel Australasia Pty Ltd**
  $49,280.00
  9 Invoices
- **Customer Training and Consulting Pty Ltd**
  $17,920.00
  3 Invoices

Total **$90,630.00**

4.3.5 Improper transaction – office furniture

Another example of the improper use of Moonee Ponds West Primary School occurred in early-2010 when Mr Rosewarne arranged for Richard Bell, the owner of an office furniture retail business called Premier Office National, to have a new desk, chair, shelving and filing cabinet delivered to his residence. The furniture had a value of around $4500.

Mr Rosewarne then arranged for Mr Bell to prepare an invoice for the goods to the school with the false descriptions 'design & graphic of school publication' and 'printing of school publication as per specs'. Mr Bell emailed this $4824 invoice to Mr Rosewarne's private email address, including a passing reference to Mr Napoli (indicating he was aware of the transactions). Mr Rosewarne presumed he then contacted Mr Hilton – a matter Mr Hilton disputed occurred – at Moonee Ponds West Primary School to inform him that the invoice was coming, with the expectation the school would pay it.

Mr Hilton left the school around that time, and the invoice went unpaid for many months, which led Mr Bell to send a follow up email to Mr Rosewarne with an offer to re-invoice another school for the goods. This exchange resulted in a replacement invoice being generated, this time directed to Chandler Park Primary School.

Mr Rosewarne accepted in evidence that he must have directed Mr Bell to address the replacement invoice to Chandler Park Primary School, saying that he did so 'because I knew Mr Peter Paul [its principal] and it's my recollection that Chandler Park Primary was a banker school'. Accepting he would have told Mr Paul an invoice for payment was coming, Mr Rosewarne said that he would have kept him and other school personnel 'in the dark' about the transaction. That school duly paid the invoiced amount, creating at the same time an internal document trail that falsely indicated the payment related to printing for the school.

Mr Rosewarne attempted to justify the transaction as involving furniture 'for the benefit of my conducting departmental work at my home... on a very regular basis'. He also attempted to justify the false description on the invoice as an attempt to protect Mr Paul from being asked difficult questions about the transaction by his school council. However, the clear subterfuge involved in the transaction, including communications with Mr Bell using his private email address, strongly implicates Mr Rosewarne in having knowingly orchestrated an unauthorised and improper transaction. (In fact, Mr Rosewarne conceded his contract did not provide for such benefits and he must have realised false internal school financial documents would be generated on the back of the invoice.)

In evidence, Mr Paul confirmed he was not aware at the time of the transaction of its true nature. However, he said that in about April 2014 when having coffee with Mr Rosewarne, Mr Rosewarne mentioned that a desk the school had once paid for was for his office and not his home, that he was entitled to it as (acting) Secretary 'and he would be able to fix that issue'. Mr Paul suggested in evidence that he would not have cooperated with Mr Rosewarne had he known the true nature of the transaction. A difficulty with this evidence is that Mr Paul facilitated the creation of a false internal document trail which on any reading suggested substantial printing had been done for the school by Premier Office National, something Mr Paul must have known at the time was untrue.

Explaining why he was a willing party to these events, Mr Bell gave evidence of having been a friend of Mr Rosewarne for about 25 years (on account of their wives having worked together) and having known Mr Napoli for around 20 years (having first met him at functions at Mr Rosewarne's residence). Mr Bell's evidence, which was generally consistent with the above description of events, was that this was a 'one off' transaction with Mr Rosewarne. He stated that originally he was going to invoice the Department, but was subsequently asked by Mr Rosewarne to invoice a school for printing in the same amount. He said that he participated in the false invoicing at Mr Rosewarne's request 'because I trusted this man... because of his position in the Department'.

4.3.6 Improper transaction – wine purchases

The investigation established that considerable Italian wine purchases were made through Chandler Park Primary School from Trembath & Taylor Pty Ltd, where principal Peter Paul's son Matthew was a director. Based on Trembath & Taylor Pty Ltd business records, Matthew Paul said wines were purchased through the school between 2007 and 2011 at a total cost of around $25,000. He estimated orders placed by his father for use at the school to have been around $6000, with the balance of around $19,000 being orders placed by Messrs Rosewarne and Napoli, ostensibly for Department-related use.

While Mr Napoli's evidence was that the instructions for wine purchases came from Mr Rosewarne, Matthew Paul said that at some stage Mr Napoli started separately ordering wines through entities he was associated with: Retail Services Pty Ltd and Innovating Visuals Pty Ltd. Presumably, these purchases were for private consumption. One series of such transactions occurred in late-2009 and involved some fifteen and a half dozen bottles being delivered to Mr Rosewarne's residence and two dozen bottles being delivered to Mr Napoli's residence. The total cost was $7500; the wine cost up to $83 a bottle. The invoicing and internal school paperwork for the wine, which Peter Paul signed, misleadingly recorded the school as having received goods and services for 'professional development'. Conceding in his evidence that no one else at the Department knew of these disguised transactions, Mr Rosewarne suggested the wine he and Mr Napoli ordered was used for Department-related functions and gifts to 'stakeholders'.

Mr Rosewarne's proffered reason for the subterfuge was a desire to avoid public scrutiny and media interest in alcohol consumption within the Department. However, he conceded that the Department Secretary at the time, Professor Dawkins, was a very conservative head '(who) probably would not have condoned what I was doing'. This is an implicit acknowledgement not only of unauthorised, but plainly improper conduct (regardless of how the wine was used).

Figure 6: The corruption of the banker school system
Chandler Park Primary School
1 January 2007 - 31 March 2014



Chandler Park Primary School

- **Innovating Visuals Pty Ltd**
  $34,320.00
  6 Invoices
- **SD Design & Print**
  $11,330.00
  2 Invoices
- **Trembath & Taylor - Wines**
  $29,920.28
  31 Payments
- **Premier Office Solutions Pty Ltd - Furniture**
  $4,587.00
  1 Payment
- **R&D Diamond Personalised Printing Pty Ltd**
  $654.00
  1 Invoice
- **On the Ball Personnel Australasia Pty Ltd**
  $32,175.00
  6 Invoices
- **Customer Training and Consulting Pty Ltd**
  $21,615.00
  4 Invoices
- **Encino Pty Ltd**
  $12,705.00
  3 Invoices
- **Quill Investments Pty Ltd**
  $4,840.00
  1 Invoice

Total **$152,146.28**

Mr Rosewarne went on to testify that the school 'would have been' reimbursed for these purchases by way of a monetary transfer from central office. This most likely would not have been accompanied by a payment description that disclosed the true nature of the transaction, and would have been a rounded up amount that would have made matching such a transfer to this particular expenditure more difficult for auditors than if the exact amount was paid.

Mr Paul's explanation for having signed off on clearly misleading documentation (that is, stating the school had received what was purchased and misstating the purchases as being for professional development) was that he was doing so at the request of Mr Napoli who 'stated on several occasions it was far easier to do that, and I just accepted... I trusted Mr Napoli implicitly'.

4.3.7 Improper transactions – birthday party

Of even greater concern than the transactions already described, is a transaction that pointed towards Mr Rosewarne having personally benefited from Department funds obtained by two of the various companies controlled by the Squillacioti brothers: Quill Investments Pty Ltd and Encino Pty Ltd.

In mid-2007, Mr Rosewarne arranged for his 50th birthday party to be held at a city wine bar. Mr Rosewarne and Mr Napoli exchanged a series of emails using private email addresses, as well as with Carlo Squillacioti at his Cobra Motors email address. Those emails revealed that the proprietor of the wine bar sent two invoices to Mr Rosewarne for the function, totalling a little more than $6000. Those invoices included the description 'professional development for staff conference and seminar'. Mr Rosewarne forwarded each to Mr Napoli with the request 'can we discuss?'.

Mr Rosewarne then forwarded the invoices – which in evidence he conceded contained false wording – to Mr Napoli in a form 'that can be edited if required'. In turn, Mr Napoli forwarded them to Mr Squillacioti 'for editing as necessary' and payment. In an email forwarding the second invoice, Mr Napoli said to Mr Squillacioti:

> *Geoff [sic] wants an invoice and a quote for say $12K for Encino or Quill, whoever you decide for the printing, design or 2007 student resource package training guides for business managers and principals for workshops. This includes artwork, printing, editing and for full colour copies quantity to 2000. Includes transportation. The invoice will cover the costs to date plus a balance.*

This email series is compelling evidence that Mr Rosewarne and Mr Napoli colluded to have one of the companies controlled by the Squillacioti brothers falsely invoice the Department under the guise of having done printing work. Not only was the Department falsely invoiced for the total cost of Mr Rosewarne's party (around $6000), but also for an extra $6000 for no apparent legitimate purpose (described by Mr Napoli as 'loading'). Bank records show that the cost of the larger invoice was met from Quill's bank account, while the invoice for the smaller amount came from Encino's account.

An invoice to the Department fitting the description in Mr Napoli's email to his cousin Carlo was not located. However, among the many seized documents, IBAC investigators located an unexplained draft quotation to the Department for $9980 plus GST for the purported printing of 2000 full colour booklets. This draft quotation was readily able to be used on either Quill or Encino letterheads. It was dated 22 June 2007 and concluded 'Kind Regards Carlo'.

By way of attempted justification for the transaction, Mr Rosewarne gave evidence that he could not afford the party at the time and saw the arrangement with Mr Napoli as a loan. No written evidence was found or produced supporting this suggestion, nor was there evidence of any repayment of a loan. Importantly, Mr Rosewarne's evidence in this regard was significantly contradicted by Mr Napoli's last mentioned email to his cousin about what 'Jeff wants'.

Despite both Mr Napoli and Carlo Squillacioti being taken in some detail through the documents referred to above, neither was able to offer any insight or explanation beyond what the documents themselves demonstrated. Mr Napoli did, however, confirm that he was 'in the middle of' the transaction and that his cousin Carlo was paying for the party 'because Jeff wanted him to pay [for] it'. Mr Rosewarne had known Carlo since the late-1990s or early-2000s.

Mr Squillacioti gave evidence that he did not deal directly with Mr Rosewarne on this transaction and only dealt with Mr Napoli to the extent of following his directions. This tends to confirm that Mr Napoli saw certain monies ostensibly controlled by his cousin as his own, perhaps also that of Mr Rosewarne, and therefore directed payments of that money. Importantly, neither witness offered any real support for Mr Rosewarne's suggestion that the transaction was one where he was being loaned the money by Mr Napoli. Nor did they support Mr Rosewarne's suggestion that he had agreed to repay such a loan in instalments over time.

The conclusion is compelling that Mr Rosewarne wanted Mr Napoli to forward the adjustable invoices to Mr Napoli's cousin to arrange payment because Mr Rosewarne knew that Mr Squillacioti had ready access to funds originally obtained from the Department that could be used. There is no evidence of a loan arrangement between Mr Rosewarne and Mr Napoli.

4.4 Jeffrey Rosewarne's evidence

While Mr Rosewarne came across in evidence as self-assured and articulate, he was also an artful witness who tended to offer little or no further factual detail than appeared in the emails and documents shown to him. He often claimed lack of memory of events that were the subject of inquiry, such as significant transactions of the kind described above. He also claimed not to remember details of meetings he admitted having had with several persons of interest to this investigation 12 or so months prior to giving evidence. It would be expected that an intelligent and high-achieving person would retain at least some general memory of the circumstances of these events.

Mr Rosewarne also came across in evidence as having prepared lines on topics he might have expected would be raised. For example, he explained away banker schools being used to pay for social events or luxury goods and services as something done to avoid either internal departmental scrutiny (through audit checks), or media attention (through freedom of information requests). And he explained away private meetings with persons of interest that took place after the IBAC investigation became known as essentially 'welfare checks'.

As described earlier, Mr Rosewarne also relied on cover stories such as being party to a loan arrangement to explain certain questionable transactions. (A further example of this is detailed in section 7.5.4 and relates to an inflated invoice from The 4 Diego's to cover the cost of Mr Rosewarne's wife travelling to Europe.) Such evidence was exposed as almost certainly fictional in that other relevant witnesses such as Mr Napoli and Ralph Barba firmly disagreed with Mr Rosewarne's explanation, and nothing was found or produced by way of contemporaneous documents to support such evidence.

4.4.1 Did Mr Rosewarne know of Mr Napoli's wrongdoing?

Mr Rosewarne's account of the extent of his knowledge of Mr Napoli's wrongdoing was called into question not only by Mr Napoli, but also by contemporaneous documents, especially emails. For example, early in his evidence and before being taken to documents about particular transactions, Mr Rosewarne said he was not aware when working at the Department of Mr Napoli giving work to relatives, and that he only heard such rumours after he had left. This evidence was immediately called into question by a 1996 C & L Printing letter marked to his attention at the Department and signed by Carlo Squillacioti. The letter, which on the evidence was not prepared by Mr Squillacioti, referred to a purchase order earlier that month, contained a request for a current costing to date, and proposed a discounted amount due of $38,700. Attached to the letter was a Post-it note message that Mr Rosewarne had initialled, which confirmed him as having seen the letter at some stage.

In his evidence, Mr Rosewarne said that due to the lapse in time he had no memory of the subject matter of the letter. The letter was in fact located at Mr Napoli's house among travel-related documents, which suggests an attempt to keep it hidden. Investigators were unable to locate any further documents about this purported transaction – there may have been none to locate. It is one of a number of suspicious transactions between C & L Printing and the Department dating back to the late 1990s that were loosely documented and where investigators found no evidence of the Department receiving any benefit in return for its financial outlays.

The episode described earlier involving payment for a birthday function through entities controlled by Carlo Squillacioti provides further evidence that Mr Rosewarne had knowledge of Mr Squillacioti's commercial relationship with the Department and his access to substantial funds. Indeed, in a lawfully recorded conversation with another witness in 2014, Mr Napoli expressed certainty that Mr Rosewarne was aware of his relationship with the Squillaciotis and the conflict of interest it created. Mr Napoli said he was quite sure he had on a number of occasions talked to Mr Rosewarne about Mr Squillacioti doing printing work for the Department.

4.4.2 Caution around Mr Rosewarne's evidence

Mr Rosewarne's evidence about the coffee machine purchases through Brighton Primary School contained certain material inconsistencies that make it difficult to accept he gave a totally frank account of events. For example, Mr Rosewarne initially suggested in evidence that school principal Gordon Pratt 'offered to pay on the basis the machines remain the property of the school and at any point when the usage finished, they would be returned to the school'. Later in evidence Mr Rosewarne inconsistently stated that the school was probably reimbursed for the purchases. If that were the case then it would be inconsistent not only with the school remaining owner, but also with the fact that two (by then presumably well-used) machines were eventually returned to the school after it became known there was an investigation into the matter. Mr Pratt did not believe any reimbursement was made, although he said he was initially led to believe that it would be made.

Mr Pratt firmly denied an earlier suggestion by Mr Rosewarne that at the time he first visited the school, it had 'a number of coffee machines in offices and staff rooms and the like', saying that the school had no more than one or two such machines. Mr Rosewarne's account is perhaps more an indication of Mr Rosewarne's preparedness to exaggerate in order to protect himself.

In conclusion, caution is required in readily accepting Mr Rosewarne's evidence on topics that raised issues about the propriety of his own conduct.

5 Nino Napoli

5 Nino Napoli

5.1 Career path

Nino Napoli commenced with the Department in 1974 when in his late-teens, while undertaking his commerce degree part-time. His first position was a clerical role. After qualifying, Mr Napoli worked in various finance roles, including in a regional office, before being appointed an executive within the finance area of the Department.

He holds a Bachelor of Business and is a Certified Practising Accountant and registered tax agent.

Mr Napoli was appointed Director School Resource Allocation Branch within the Financial Services division in 1992. He held this position until he was dismissed by the Department shortly before IBAC's public examinations in 2015.

Mr Napoli is the director and secretary of Bammington Pty Ltd, which operates his private accounting and tax agent business. Bammington also owns 50 per cent of the premises used by the Squillaciotis' motor repair and transport businesses (with Quill Investments Pty Ltd holding the other 50 per cent) and is the trustee of the Napoli family trust. The shares in Bammington are held equally by Mr Napoli and his wife Josephine. Mrs Napoli is a bookkeeper and is actively involved in the day-to-day operations of Bammington. At various times Bammington was the accountant for the Squillacioti companies and also did tax returns for Mr Rosewarne and his family.

5.2 Nino Napoli's influence and level of authority

As Director of the School Resource Allocation Branch with responsibility for overseeing the allocation of the School Resource Package (SRP) to state schools, Mr Napoli held a position of significant influence within the Department.

Mr Napoli's team was responsible for approximately $5.5 billion of the Department's total annual budget of approximately $11 billion. There was some doubt over how much of the $5.5 billion Mr Napoli could allocate on his own authority, without seeking the approval of more senior officers. Mr Napoli's manager, Chief Financial Officer Claire Britchford, gave evidence that Mr Napoli had a delegation for up to $1 million for school grants. Mr Napoli confirmed that his branch budget was about $1 million and that a buffer or contingency amount of about $10 million would be held back from the SRP. Once the SRP had been allocated, the buffer amount 'would be distributed out to schools or in payments, or the directors had discretions as to what he [sic] wanted to do with it'. It appears that it was these funds that Mr Napoli used to effect payments to banker schools in sums within his delegation. These funds were then available to pay false invoices and the other improper expenses discussed in this report.

Mr Napoli exerted his influence in other ways including appointing favoured principals as technical leadership coaches, recommending certain colleagues for promotions, and approving travel grants. This is detailed further in section 8.4.3.

He also had a close professional and personal relationship with Jeffrey Rosewarne, one of the most senior officers within the Department, and was part of an influential alleged 'boys club' that included Mr Rosewarne, John Allman and Darrell Fraser. As the Department's Secretary, Gill Callister noted in her statement, Mr Napoli was part of a coterie of senior departmental executives in whom was vested excessive control.

During the public examinations, various witnesses spoke of the influence – or perceived influence – wielded by Mr Napoli. Mr Allman, who was technically more senior than Mr Napoli, stated 'in terms of position, authority and so on, Nino had a very senior job. I would say he was probably the most senior (meaning influential) director in the Department'. And, in the context of explaining why he paid invoices at the direction of Mr Napoli, Mr Gamble (Laburnum Primary School) said 'I would have been influenced by the fact of his huge seniority and respect and reputation within the organisation'.

Mr Napoli agreed that he was man of influence within the Department, saying, 'I think I was pretty much well respected...I was a doer'.

5.3 The Nino Napoli scheme

Because the IBAC analysis of financial data focused on the period 2007 to 2014, it is difficult to be precise about when Mr Napoli began causing invoices from entities associated with his relatives to be provided to the Department and to schools. However, it is likely Mr Napoli's practice of transferring funds to schools and then causing invoices to be sent to those schools by entities controlled by family members began as early as 1999.

IBAC has located evidence of charges to the Department from C & L Printing (one of the Squillacioti entities) from as early as 1996, and invoices to schools from C & L Printing from 1999. A clear pattern of invoicing by On the Ball Personnel Pty Ltd to Dromana Secondary College began in 1999 and escalated during 2003 before ceasing. Mr Napoli confirmed that Dromana Secondary College was one of his early banker schools, going back 'probably 15 years'.

The evidence suggests that when it began, Mr Napoli's scheme was largely ad hoc and opportunistic. During his evidence, Mr Hilton gave an example. Moonee Ponds West Primary School was legitimately allocated funds as a pilot school in the early years of the CASES21 system (probably the early 2000s). The funding was to cover the cost of employing an additional staff member to assist with the implementation of the new system. However, when a change in the pilot program meant that the additional employee was no longer required, Mr Napoli told Mr Hilton that it was 'administratively convenient' to leave the funds with the school to pay for ongoing project costs. A number of invoices Mr Hilton later received and paid from those funds, ostensibly to employ temporary staff at central office, were from On the Ball Personnel Pty Ltd and probably funded payments to Mr Napoli's sons.

As Mr Napoli's scheme evolved, however, a number of patterns or themes began to emerge.

- **The principals he targeted were almost exclusively men in their 50s and 60s (similar in age to him), with whom he had either a pre-existing relationship or regular contact (often both).** Mr Napoli relied on certain principals, many of whom he had known professionally for many years, to approve the payment of invoices upon his direction. For instance, Michael Giulieri first met Mr Napoli in 1994 when he was appointed principal of Essendon North Primary School. Mr Napoli said that he had helped Mr Giulieri over the years, including by putting in a good word when Mr Giulieri applied for jobs and approving a travel grant. Mr Giulieri gave evidence that in 2005 he approved the payment of an invoice for two IBM notebooks and a deluxe leather case, at the request of Mr Napoli. The goods were not received by the school.

Mr Napoli's own evidence was that he chose schools primarily based on the principal's experience and knowledge of the work that needed to be done. (Mr Virtue, for example, was an ex-regional director.) He agreed that his relationship with the principal was another factor, but this was 'one of probably three or four criteria you used'. Mr Napoli also accepted that he spread invoices between a number of his banker schools, to make it less likely that someone might pick up on what was happening.

- **It was often the case that the principal concerned was on a committee that Mr Napoli chaired or attended.** This meant that Mr Napoli could discuss informally with the principal that he would be sending the school some money and then follow up with invoices for payment, usually based on a spurious explanation about the need to short-cut Department purchasing or other guidelines.

Douglas Conway, principal of Kings Park Primary School, confirmed that the arrangements were mainly made in person at a meeting and over the phone. He said that Mr Napoli would generally identify a particular project that the money was connected to and that it would be a different project each time.

- **Most of the schools used by Mr Napoli were primary schools.** Graeme Lane (a former principal and currently the Managing Director of School Governance Australia) suggested this was because business managers at secondary schools are generally better qualified (usually with accounting qualifications). Also, secondary schools might have requirements that school payments be countersigned by a school council member who was not a member of staff. (At primary schools, quite often the two parties signing off payments would be any two of the principal, assistant principal and the business manager.)

By carefully selecting and grooming principals and business managers, offering incentives and rewards for their assistance, explaining that the arrangements were required to avoid bureaucratic red tape (and therefore were not entirely above board) and spreading payments and invoices among a number of schools for 15 years or more, Mr Napoli was able to wholly corrupt the banker school system to his own ends.

An 'expedient' arrangement

Kings Park Primary School principal Douglas Conway gave evidence that Mr Napoli explained it was 'expedient' to put money into a school. He recalled one occasion where Mr Napoli said that the Minister for Education required a project to be completed and that temporary staff had to be engaged to deliver. Mr Napoli told Mr Conway that every Department had a ceiling on temporary staff and it was a long process to get around that. He said he would fund temporary staff through money deposited into Mr Conway's school so he could get the work completed.

When asked whether the fact that Mr Napoli was bypassing Department processes caused him any disquiet, Mr Conway said it did not because he thought it was an 'authentic process'. He said that based on the information given to him, 'I thought the project was authentic and it sounded a reasonable explanation at the time'. It was Department money and he assumed Mr Napoli would be accountable for that money.

Figure 7: The corruption of the banker school system
Kings Park Primary School
1 January 2007 - 31 March 2014



Kings Park Primary School

- **Innovating Visuals Pty Ltd**
  $26,400.00
  5 Invoices
- **RS Media Productions**
  $3,190.00
  1 Invoice
- **On the Ball Personnel Australasia Pty Ltd**
  $18,810.00
  4 Invoices
- **Customer Training and Consulting Pty Ltd**
  $17,710.00
  3 Invoices
- **Encino Pty Ltd**
  $7,700.00
  2 Invoices
- **Quill Investments Pty Ltd**
  $4,840.00
  1 Invoice

Total **$78,650.00**

5.4 Nino Napoli's evidence to IBAC and attempts to thwart investigations

From the latter part of 2012 Mr Napoli went to considerable lengths to attempt to create a retrospective (and largely false) paper trail and to develop false stories that were intended to make illegitimate transactions appear legitimate. He also sought to conscript others to adopt and support those stories, with mixed success. Michael Giulieri (then a school principal) was for a time a willing participant in Mr Napoli's attempted deceptions, as was Carlo Squillacioti. Legally obtained recordings show that Mr Napoli's wife Josephine and brothers Gus and Rob Napoli also encouraged Mr Napoli's older son Ralph to bow to the considerable pressure from his father in this regard (see 7.2.5). Ms Vandermeer (former sister-in-law to Mr Napoli and Director of On the Ball Personnel Pty Ltd) responded to Mr Napoli's request to alter records by destroying them. But others (notably Ralph Napoli) refused to take part.

Mr Napoli's mixed success in conscripting support, together with the discovery by IBAC investigators of documents and computer hard drives hidden by Mr Napoli in the ceiling cavity of his mother's home, would have made it obvious to him by late-2014 that his elaborately planned deception was rapidly and irretrievably unravelling. Further, Mr Napoli was called towards the end of the program of public examinations and had read much of the evidence of those who went before him. It is important to consider Mr Napoli's evidence in this context.

While Mr Napoli gave a frank account of his involvement in some of the false invoicing and other improper conduct, there was a strong sense that he was continuing to hang on to elements of the largely false narrative he had earlier tried to construct. For the most part, his admissions related to matters where the evidence against any other explanation was overwhelming. Mr Napoli was calculated and deliberate in how he set about to hide and reinvent what he knew to be highly incriminating information. For example, in a legally recorded conversation with Carlo and Luigi Squillacioti at Cobra Motors, he can be heard discussing a spreadsheet in these terms: 'You don't think there's – any of those spreadsheets in there? If they've got that spreadsheet --- I might as well be locked up if they've got that'.

Notably, Mr Napoli persisted with the assertions that Carlo Squillacioti had provided services of some value for many of the invoices prepared and sent by Mr Napoli on the letterheads of Encino, Quill and C & L Printing, when the overwhelming likelihood is that those services were either not provided at all (particularly in more recent years) or, if they were provided, added no value for the mark-up charged. (These invoices are discussed in Chapter 7.)

Mr Napoli also continued to describe invoices that were plainly false and were not for any work that was done or would ever be done as having been sent 'in advance' of the work. When he admitted wrongdoing, he used words like 'silly' or 'ignorant' to rationalise the conduct, when more base epithets such as greed and a sense of entitlement more accurately describe his motives. His expressions of regret were unconvincing, and probably reflect his regret at his conduct being so comprehensively exposed rather than any genuine remorse. His hubris in expressing pride in his son Ralph's refusal to give false evidence under oath was particularly galling, when viewed against the backdrop of Mr Napoli's extraordinary efforts over many weeks to persuade his son to do so, as revealed by numerous legally recorded conversations.

Mr Napoli was given a number of opportunities, including during his public examination, to assist the investigation by providing new information and/or to give a full and frank explanation of matters where it was clear there were gaps in the evidence available to IBAC. Regrettably, Mr Napoli is considered to have made a calculated decision not to take up those opportunities. It is considered that Mr Napoli has a much deeper and more complete knowledge of his own corrupt conduct and that of others in the Department with whom he associated than he was prepared to reveal.

5.5 Nino Napoli's reporting arrangements

Mr Napoli reported to the Chief Financial Officer of the Department who, since about 2004, was Claire Britchford. For most of the period between 2004 and 2011, Ms Britchford reported in turn to Mr Rosewarne.

There were differing views about Mr Napoli's competence in his role as Director of the School Resource Allocation Branch. Ms Britchford thought she and Mr Napoli had a 'good professional relationship' and, when asked what she thought of his financial management skills, she answered 'he managed his budget and his expenditure within his budget'.

On the other hand, Jenny Zahara (one of three managers reporting to Mr Napoli for 12 months in about 2012) was highly critical both of Mr Napoli's competence as a financial manager and of his management style. Evidence was given that Nino Napoli struggled to manage his budget, resulting in successive underlying deficits. Jenny Zahara attributed the deficits to poor financial management and excessive discretionary expenditure. She explained that she was unable to stop Mr Napoli from allocating funds in excess of those budgeted. Mr Napoli would make additional grants which Ms Zahara would only find out about when other managers told her. She also identified that growth funding allocated to the students with disability funding was used by Mr Napoli as one way of covering such deficits. It would appear that the focus was on fixing the budget holes, rather than identifying and rectifying the root cause of the problem.

Ms Zahara gave evidence that despite her significant concerns with Mr Napoli's competence and style, she did not countenance reporting her concerns to Ms Britchford for fear of retribution. Ms Zahara said that when she had raised relatively minor issues with the budget with Ms Britchford, she had been publicly embarrassed. As a result, Ms Zahara did not believe she would be supported if she complained about Mr Napoli.

5.5.1 Chief Financial Officer's failure to detect wrongdoing

In evidence, Ms Britchford said that she did not detect Mr Napoli's corrupt conduct because he appeared to be operating within his delegations and the transactions he was putting through banker schools were not significant enough (in value) to show up on reports that she reviewed in her role as Chief Financial Officer.

For example, Ms Britchford questioned the existence of the deficit highlighted by Ms Zahara, saying it was in fact due to the difference between projected enrolments at the start of the financial year and actual enrolments which could be up to $50 million a year. She explained that the 'shortfall' was recouped from the Department of Treasury and Finance following a submission from the Department under an agreement at the end of the year.

Acknowledging Mr Napoli's efforts to disguise his improper activities, Ms Britchford never detected they were occurring despite being his manager. This may be attributed in part to Mr Napoli's close relationship with Mr Rosewarne. As Chief Financial Officer, Ms Britchford was however responsible for ensuring the sound financial management of the Department.

Ms Britchford also attended meetings of the Portfolio Audit Committee at which the findings of the 2010 program coordinator schools audit were discussed. There is no indication that Ms Britchford lobbied Mr Rosewarne to address the critical risks identified in relation to financial management practices, including the risk of fraud.

6 John Allman

6.1 Career and relationship with Mr Rosewarne and Mr Napoli

John Allman, whose evidence provided valuable insight into banker school practices, joined the Department in 1972 and worked as a teacher in various state primary schools before serving as principal of Carlton Primary School between 1990 and 1995. He then moved to a senior position in the Department's Western regional office and in 2000 to central office for a number of years. Until 2013, Mr Allman worked in central office, reporting to Darrell Fraser (from 2004 to 2011), the Deputy Secretary responsible for the Office of Government School Education. In 2013 Mr Allman was appointed Director for the South Eastern Victoria region, oversighting about 400 schools including Silverton Primary School which closed in 2011.

His more senior postings brought Mr Allman into regular contact with both Mr Rosewarne (after 2011) and Mr Napoli and he formed a friendship with Mr Rosewarne (by 2013). Mr Allman said that in more recent times, in addition to internal rumours, he became aware through meetings with Mr Napoli that Mr Napoli's relatives and friends had obtained work through him (with Mr Napoli trying to explain to Mr Allman why there was no conflict of interest). Mr Allman said his advice to Mr Napoli, which was corroborated in a lawfully obtained recording of their meeting in late-2014, was to 'come clean and lay your cards on the table and tell the truth'.

6.2 Concerns about John Allman's own conduct

Mr Allman was directly asked in the public hearings whether he asked Mr Napoli not to mention Silverton Primary School to investigators. He said in response he had no memory of this. However, his memory was refreshed by listening to the above mentioned audio recording in which he said to Mr Napoli, 'mate, nothing has come up at Silverton, so don't fucking mention that'.

Mr Allman then conceded he had a banker school arrangement with the principal at Silverton until 2011. This was a matter of concern to him as it 'has never been a legitimate practice of the Education Department'. In December 2014 at another private meeting between the two, Mr Napoli made reference to Silverton in terms that confirmed he understood it to be Mr Allman's banker school.

Mr Allman said that it was Mr Napoli who facilitated the placing of central office funds into Silverton, which contemporaneous emails corroborated. Of particular concern to Mr Allman (as explained in his evidence), and why he asked Mr Napoli not to mention the matter, was the way in which he dealt with those funds. In the recorded conversation Mr Allman went on to say that he had all the files (meaning records) at home and was glad investigators had not gone to Silverton. (He knew this because Mr Bryant, the principal at Silverton whom Mr Allman had known for about 10 years, had told him at a social gathering). Mr Allman also said he could not find the records when he looked for them.

Mr Allman also stated in evidence that at his request and over a number of years, several hundred thousand dollars (in fact more than $500,000) went from the central office student package budget to Silverton to be spent as directed by him. He recorded these expenditures in a folder kept at his home.

Dr Brown, former senior departmental executive, referred in evidence to a conversation he had with Mr Allman in February or March of 2010, during which Dr Brown asked, 'How will you pay for something like that'? Allman responded 'without blinking an eye' that 'we've got banker schools we send the invoice to'. He named the banker schools concerned as Silverton Primary and Essendon North Primary. Dr Brown asked how he would keep track of that and Mr Allman replied that they had a book which departmental employee Stephen Sullivan kept locked in his top drawer.

While he went as far as revealing that commercial organisations were paid from the Silverton monies under his control, apart from those described in section 3.3.3 in relation to Mr Fraser, Mr Allman was not able to identify any other transactions. He did, however, confirm when specifically asked that several thousand dollars worth of wines (for staff functions, he claimed) were purchased. And he stated that monies were possibly paid to Ralph Barba's company The 4 Diego's Pty Ltd in connection with a voluntary soccer program at some South Eastern schools (not including Silverton). Mr Napoli and his school principal brother Gus Napoli had a particular interest in that program.

Mr Allman went on to say that his boss at the time, Mr Fraser had 'shared oversight' of Silverton as a banker school. He later clarified his evidence by saying that, on occasions, Mr Fraser used the monies for particular purposes, but that Mr Allman 'was ultimately responsible for activating any activity at Silverton'. One such transaction he recalled was the payment 'outside of the guidelines' of several thousand dollars for the cost of a serviced apartment that was used by a newly-appointed regional director who had exceeded his normal entitlement for temporary accommodation. Another was the cost of hospitality arranged by Mr Fraser at a hotel for about 60 to 70 volunteers at a conference for school principals. (Both payments are referred to in section 3.3.3.)

6.3 Destruction of departmental documents

Mr Allman also revealed in his evidence that shortly after IBAC officers executed a search warrant at his home in 2014, a matter that caused him great alarm, he tore up a number of Department-related documents they had missed. This included documents in a folder relating to Silverton. He then placed the material in a rubbish bin outside a nearby hardware shop. He conceded that at least some of the documents he disposed of were documents investigators would have been interested in, with the Silverton folder containing 'emails and requests from me to the principal to pay accounts'.

According to media reports at the time, Mr Allman was dismissed by the Department shortly after he gave evidence in public.

6.4 Silverton's principal's role (Mr Bryant)

Mr Bryant, who has been the Silverton principal for more than 20 years, gave evidence about his dealings with Mr Allman in relation to Mr Allman's use of the school as a banker school. He said it was through a former assistant principal at the school, John Cummins that he agreed to the school becoming a banker school. Up until that time Mr Bryant had not met Mr Allman. Mr Bryant went on to say that in relation to handling funds for Mr Allman, his school's business manager, Sue Mourant, 'kept a folder of every transaction and every email and fax that we received'. He said he went through this folder in 2015 with Ms Mourant to see if any businesses under scrutiny by IBAC featured, and whether there was 'something there we need[ed] to be wary of'.

At the hearings Mr Bryant was played a lawfully obtained recording of part of a conversation he had with Mr Allman in late 2014, where he spoke of going through a folder and removing invoices which looked suspicious. In this conversation he told Mr Allman about 'one of the invoices we'd taken out of the folder' being for a bulk purchase of chocolate Easter rabbits for central office staff, which clearly implied that other invoices were also removed from the folder. He conceded this was done before the anticipated arrival of auditors at the school. Mr Bryant claimed in evidence that only the one document was actually removed, being an invoice he wasn't sure at the time belonged with the others. This evidence was contradicted by the recorded conversation and later qualified by Mr Bryant with the suggestion that two invoices relating to Easter chocolate were in fact removed. The evidence was also contradicted by his own admission that he was looking for 'suss' documents, as well as by his further evidence that 'it [the invoice] didn't look appropriate'.

Mr Bryant confirmed that Silverton received more than $500,000 from central office. Most of the money was spent over about four years, with the last such expenditure being in mid-2011. Curiously, it appears never to have occurred to Mr Bryant to query Mr Allman on why payments for transactions that did not relate to the school (or any other school in the region for that matter) and involving no formal central office documentation could not – indeed should not – be paid directly by central office.

Mr Bryant agreed that the evidence established that 'we were being used'.

6.5 Particular transactions at Silverton

The following is a summary of transactions Mr Bryant was taken through at the public hearings, and which demonstrate how vulnerable the banker school arrangements were to abuse and corrupt conduct:

- The first such transaction involved the school paying an invoice for **$18,625** in March 2008 from an entity named AV Unlimited containing the very general description **'Communication ICT strategic review for regeneration and community partnerships division'.** There was no detail on the invoice regarding hours spent or rates charged, nor work actually done for whom and by whom. Mr Bryant, who knew nothing about AV Unlimited or the purported work involved, approved payment of the invoice out of the $25,000 that Mr Napoli had transferred to the school as a purported grant. Mr Bryant paid the invoice because Mr Allman asked him to by way of written instructions sent in the post together with a copy of the invoice. (Those instructions were foreshadowed via email.)
- The email also asked Mr Bryant to pay **$5000** to Glen Waverley Secondary College as a **'scholarship grant'**, which he did despite having no idea what the payment related to and whether it was legitimate. Mr Bryant said this was at the time a unique transaction in his experience; however, subsequently he agreed to pay more than **$11,000** to Benalla West Primary School (without knowing the purpose) as well as a further **$100,000** for **turf trials** at the Maryborough Education Precinct (in relation to a product called TigerTurf, which a friend of Mr Rosewarne and Mr Allman, Ian Maddison, was associated with).

- A further payment made by the school in this way involved a very generally worded Delf Australia Pty Ltd invoice in June 2008 for **$18,700**, which Mr Bryant also had no knowledge of nor made enquiries about.
- Mr Bryant was also taken through documents relating to **payments for hospitality or functions** at both the Kent and Mount View Hotels, the University Café (which he said was for a farewell dinner for a senior executive in the Department) and JMC Waiters (which he said was for a lunch hosted by Mr Allman), as well as a series of payments totalling about **$100,000** to **charities** at the direction of Mr Allman on behalf of the Department.
- There were also invoices paid for **premises hired** through Rush Hill Pty Ltd and Quest Apartments, a **bulk purchase of Christmas puddings** from Kings Puddings as well as unspecified product from Peter Wynn Productions.

A lawfully intercepted conversation between Mr Bryant and Mr Allman in 2014 indicated particular consternation on the part of Mr Allman about a $47,000 payment by Silverton to the Millimetre Printing Company. This was said in evidence to be due to Mr Napoli's improper schemes which often involved dubious invoices from obscure entities purporting to be engaged in the printing trade. Indeed, Mr Allman's high level of concern appears to have been on account of his having no knowledge of this invoice, which suggests it was paid at the direction of someone else in central office.

6.6 Darrell Fraser's evidence about the use of Silverton Primary School as a banker school

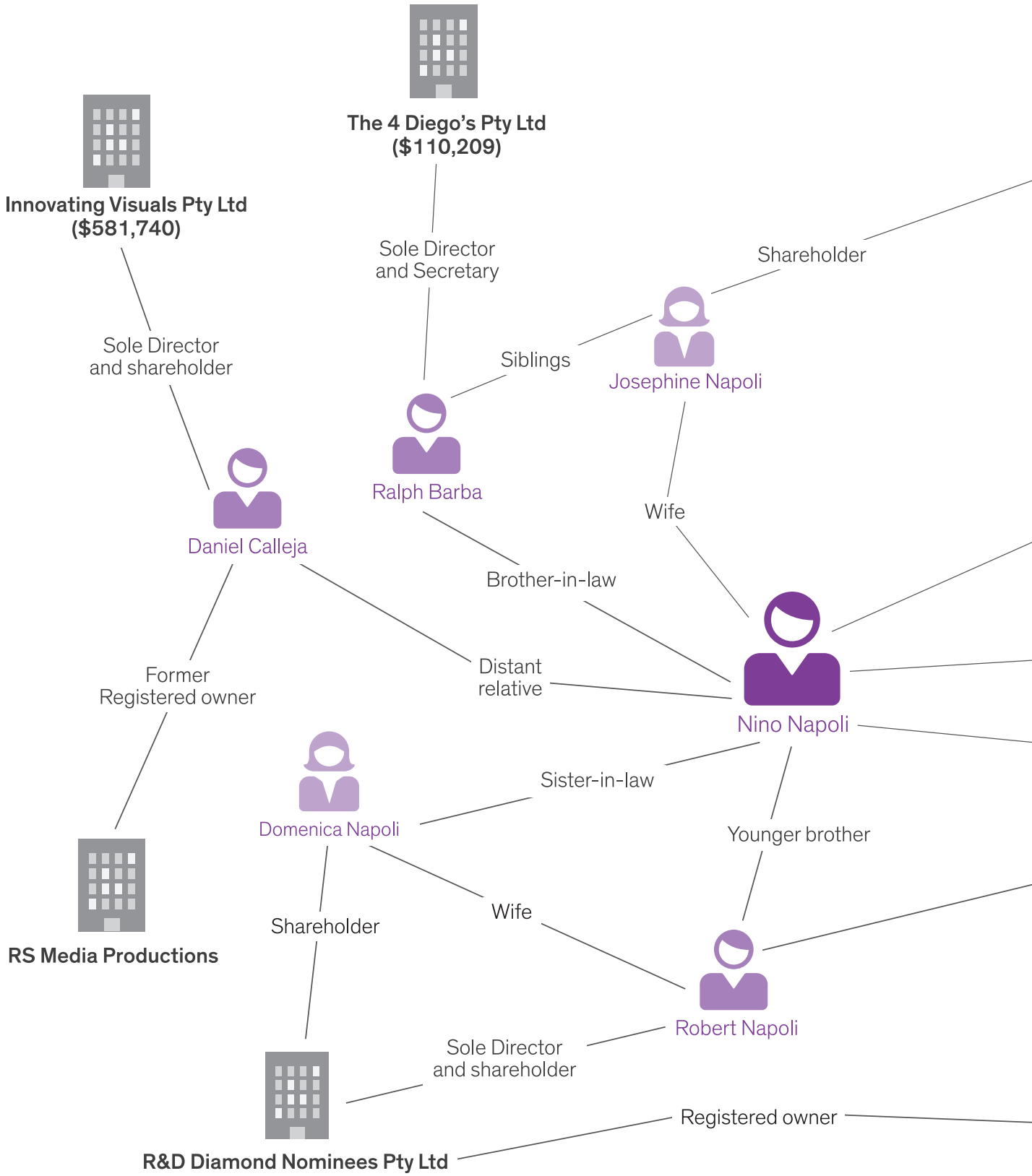
In March 2016, Mr Fraser gave evidence at the public hearings in IBAC's Operation Dunham (concerning the Department's failed Ultranet project) about the use of Silverton Primary School as a banker school. He stated that Mr Allman informed him in mid-2009 that he had deposited some hundreds of thousands of dollars near financial year end. This was done without reference to Mr Fraser despite him being Mr Allman's manager at the time. This occurred on more than one occasion and was done, as with many banker school deposits, to avoid money that was surplus to requirements being reclaimed from the Department.

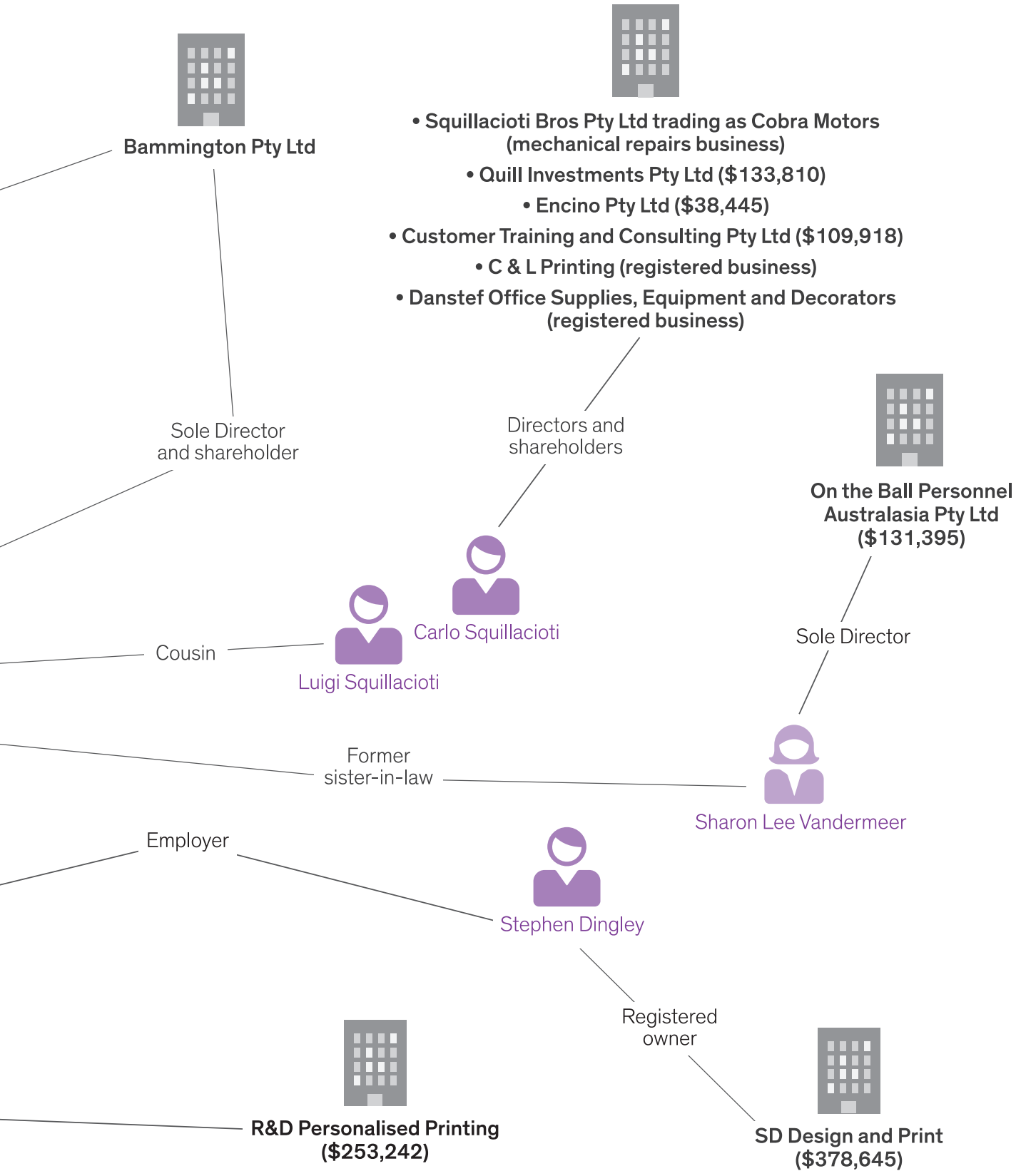
Some of the money so deposited by Mr Allman was then utilised by Mr Fraser to pay some accounts. Mr Fraser thought that about six such transactions occurred in substantial amounts, the details of which he no longer recalled. He explained that the invoices paid were for unbudgeted transactions, and gave as examples a printing invoice he recalled for $29,000, as well as invoices for certain consultancy projects performed by Drew Arthurson, a former Department employee who had worked in Mr Fraser's area. These payments had nothing to do with Silverton. Mr Fraser, who said that the banker school system was very much a part of the Department landscape when he arrived in central office in 2004, conceded that there was no record kept in central office of these transactions.

There is no evidence that Mr Fraser, who said that he always accessed Silverton monies through Mr Allman, personally benefited from any of them. Mr Allman denied in his evidence so benefitting.

7 Napoli relatives and associates

Figure 8: Napoli-associated individuals and entities, including invoices between 2007 and 2014




Bammington Pty Ltd
• Squillacioti Bros Pty Ltd trading as Cobra Motors (mechanical repairs business)
• Quill Investments Pty Ltd ($133,810)
• Encino Pty Ltd ($38,445)
• Customer Training and Consulting Pty Ltd ($109,918)
• C & L Printing (registered business)
• Danstef Office Supplies, Equipment and Decorators (registered business)
Sole Director and shareholder
Directors and shareholders
On the Ball Personnel Australasia Pty Ltd ($131,395)
Carlo Squillacioti
Cousin
Luigi Squillacioti
Sole Director
Former sister-in-law
Sharon Lee Vandermeer
Employer
Stephen Dingley
Registered owner
R&D Personalised Printing ($253,242)
SD Design and Print ($378,645)

7 Napoli relatives and associates

This chapter details how Mr Napoli was able to corrupt the banker school system to his own ends by using a web of business entities operated by relatives or associates to filter funds from the Department through banker schools.

It presents the evidence obtained by IBAC investigators, describes the response of key players to that evidence – and describes Mr Napoli's efforts to coerce relatives and associates, and to falsify and destroy evidence.

On occasion, the material covered relates to the period before 2007; it is included to establish important context for subsequent evidence and commentary.

This chapter focuses on the involvement of the following individuals and entities in Mr Napoli's scheme to use banker schools.

7.1 The Squillacioti entities

7.1.1 Background

Carlo and his brother Luigi Squillacioti are first cousins of Nino Napoli. Both are qualified motor mechanics. Many years ago they set up in partnership a motor car and light truck servicing business called Cobra Motors at an address in Sunshine North. While Luigi has continued to work in the business, Carlo has not been involved for many years. Carlo nevertheless retained an office in the building or in an adjoining building to Cobra Motors, from where he has allegedly conducted other business-related activities.

The total amount verified as paid by the Department and schools to various Squillacioti entities between 2007 and 2014 was $282,173.

7.1.2 C & L Printing

According to Carlo Squillacioti's evidence, around 1995 Mr Napoli mentioned to him that there was an opportunity for Carlo to become involved in some large departmental printing jobs that were coming up for tender. Mr Napoli suggested the formation of a business that was registered as C & L Printing, with Quill Investments the registered owner. This occurred despite Carlo having no printing experience and Quill Investments, a property holding company, owning no printing equipment.

Carlo Squillacioti confirmed that the Department was C & L Printing's only client. He claimed that the business won tenders for large jobs, which it had to subcontract out (without disclosing this to the Department). C & L Printing was deregistered as a business in 2001.

Despite the need for C & L Printing to contract out the work, according to Carlo Squillacioti it managed a healthy financial margin on each transaction of between 20 per cent and 40 per cent depending on the work Carlo did himself. He suggested he might receive a 20 per cent margin for doing nothing except the billing and up to an additional 20 per cent for collating or deliveries. Mr Squillacioti was quite unconvincing in his attempt to justify any entitlement to such high margin levels, especially where taxpayers' money is concerned.

From at least 1996, C & L Printing was invoicing the Department's central office or banker schools for large sums. These invoices were for purported printing and related work, usually through Mr Napoli, with quotes and invoices that often contained false contact names, false invoice numbers, misleading addresses and vaguely worded and often false job descriptions. These quotes and invoices always omitted reference to subcontract work being performed.

Mr Napoli had access to the C & L Printing business letterhead and engaged with his cousin Carlo in private emails regarding quotes and invoices to the Department. Mr Napoli often created these documents in the first instance and otherwise amended them, sometimes before and sometimes after the job was purportedly done. According to Carlo Squillacioti, Mr Napoli always directed which school should be named on quotes and invoices. When pressed on the matter, not only did Mr Squillacioti have little or no idea about any particular job and who subcontracted for it, he could never verify if work was in fact performed in return for payment by the Department or a school.

In short, Carlo Squillacioti admitted he was sometimes simply asked by his cousin Nino to prepare a quotation and to raise an invoice for a certain amount to a particular school, which was later paid. He made no enquiries and had no idea whether the school or Department received anything in return for the money. Compounding these concerning matters, some of the quotations bore identical dates and amounts, but were directed at different schools.

Because IBAC's investigation centred on the period between 2007 to early-2014, full details of the transactions between C & L Printing and the Department were not pursued. However, enough evidence was obtained to suggest that the Department paid substantial sums of money to C & L Printing as far back as the 1990s for purported printing and related work in seemingly dubious circumstances.

While Mr Napoli, like Carlo Squillacioti, made somewhat feeble efforts in his evidence to say that some printing work was done, no hard evidence was found by investigators or produced by relevant parties to corroborate that assertion. Nor was any evidence found or produced to corroborate payments being made to alleged subcontractors. This compels the conclusion that these particular arrangements – stretching back around 20 years – appear to have amounted to little more than a reasonably well-disguised scheme to illicitly obtain money from the Department.

There is no evidence that Luigi Squillacioti knew any of this was occurring at the time, and his brother Carlo and cousin Nino maintained that he did not know.

7.1.3 Quill Investments Pty Ltd

In 1995 Quill Investments Pty Ltd was registered as a holding company for properties that the Squillaciotis and Mr Napoli, their accountant from time to time, had interests in.

Between 2007 and early-2014, invoices from Quill Investments Pty Ltd around $134,000 were paid by the Department. Two invoices for just under $5000 each were paid by banker schools.

Similar observations can be made about the Quill invoices as were made about C & L Printing invoices. In particular, many Quill invoices appear to have been crafted by Mr Napoli and privately emailed out of hours by him to Carlo Squillacioti for checking and often correcting (spelling errors and looseness with business addresses are a ready guide to invoices created in the first instance by Mr Napoli). These would then be given to the Department or banker schools through Mr Napoli. Again, Quill's only client was the Department. Carlo Squillacioti said it was generally up to Mr Napoli as to whether Quill Investments would do the invoicing for any particular job (as distinct from another Squillacioti company).

Both Carlo Squillacioti and Mr Napoli gave evidence of the perceived need to spread the invoicing for such work among various companies to lessen the risk of concerns being raised at central office of too much work going to the one entity (with the consequential risk of the relationship between any such entity and Mr Napoli being discovered).

Other documents clearly showed that sometimes Quill's invoices for goods or services were used as a means of extracting money from allied entities such as On the Ball Personnel, Innovating Visuals and SD Design & Print. Such invoices were thought by Mr Squillacioti to have been prepared by Mr Napoli, and he confirmed that the purported goods or services described were never supplied. Relevant bank statements confirmed that such monies ultimately flowed through Quill Investments' bank account into various bank accounts controlled by Mr Napoli.

7.1.4 Encino Pty Ltd

Encino Pty Ltd was registered in 1992 with the Squillacioti brothers its directors and shareholders. It was set up essentially as a transport vehicle company. While Carlo claimed the company had done a range of work including IT-related work and printing, this was news to Luigi, according to his evidence. The company owned no professional printing equipment and needed to 'broker out' (as Carlo put it) printing work.

Encino Pty Ltd was used as a billing entity to particular banker schools on at least 11 occasions during the relevant period, to a total value of more than $38,000. Again, the evidence showed a similar pattern of Mr Napoli being heavily involved in the creation of Encino's invoices, using false contact names and invoice numbers, and typically containing very general descriptions of work purportedly done. The evidence also showed identical invoices being sent to different schools at the same time.

When pressed on particular invoices, Carlo Squillacioti admitted no work as described in them was ever done. In answer to a question from Counsel Assisting as to why he would not question at the time the use of one of his companies in such an improper way, he answered that he 'just thought it was right'. When pressed to explain, he said of Mr Napoli, 'he's a high level public servant there. I mean, he is doing this. Obviously I'm not going to question. I just think he's doing the right thing'. While now accepting such transactions were a sham, he maintained that at the time he did not see it that way, notwithstanding his acceptance in evidence that he performed none of the work described in the relevant invoices.

7.1.5 Mr Napoli's role in the Squillacioti transactions

Both Carlo Squillacioti and Nino Napoli tried to maintain throughout their evidence that the Squillacioti entities in question had subcontracted out the Department-related work in many of the invoices rendered (apart from invoices emanating from Customer Training and Consulting Pty Ltd, which are discussed below).

This is not credible given the absence of corroborating evidence (none of the many emails investigators found, covering many years, made any reference to subcontracting activities), as well as the documentary evidence in the form of contemporaneous emails and attachments. Both men also conceded that on many occasions it was Mr Napoli who prepared quotes and invoices to schools and the Department, which Carlo Squillacioti then placed on his various company letterheads. According to Mr Napoli, this usually occurred after a discussion between them over which company to use. Mr Napoli also said that he alternated between companies to disguise the conflict of interest these illicit activities gave rise to, a practice that only Mr Rosewarne in the Department was aware of. (Mr Rosewarne denied having knowledge of this.)

Further, like Carlo Squillacioti, Mr Napoli was extremely vague and often inconsistent in his evidence as to just what the purported goods and services in the quotes and invoices actually were, and who received the benefit of them. As to the many false contact names on such invoices, Mr Napoli said that he was 'simply rotating names' as 'it gave the appearance that there were more people' working in the purported printing businesses. Mr Napoli accepted that when he drafted them, he simply made up random invoice numbers.

Ultimately, Mr Napoli as good as conceded that he crafted practically all relevant invoices obtained in the investigation, as he believed that Carlo was not capable of preparing such documents. In a lawfully intercepted conversation, Mr Napoli is recorded as describing Carlo Squillacioti to his brother-in-law Ralph Barba as 'the biller man'. Mr Napoli also agreed that he probably created the Quill letterhead, which was designed to give the appearance of a legitimate printing and stationery business.

As for the amount in each invoice, always in the thousands of dollars and sometimes the tens of thousands, he suggested that 'Carlo would guide me as to the price'. Prices for what Mr Napoli called 'future work' – that is, work not done and, it is considered, never intended to be done – 'would be made up'. In evidence that bordered on the preposterous, Mr Napoli went on to say 'it [the advance payment] would have given him [Carlo] a credit of X thousands of dollars as an instalment towards whatever that other job would be and that would mean that there was a deficit, he would make it up somehow. So it was basically a made up figure in advance'. Ultimately he agreed with Counsel Assisting that such conduct was 'very loose, silly, stupid and corrupt'.

7.1.6 Customer Training and Consulting Pty Ltd

The scope of the corrupt scheme Carlo Squillacioti was caught up in at the instigation of Mr Napoli broadened with the incorporation in 2008 of Customer Training and Consulting Pty Ltd, the directors and shareholders of which were the Squillacioti brothers. However, the company was effectively controlled by Mr Napoli.

For the period between mid-2008 until early-2014, investigators were able to locate 15 invoices from Customer Training and Consulting that were sent to banker schools and two to the Department (one addressed to Mr Rosewarne for $24,200) totalling around $110,000.

All of the above described features of the invoices prepared by Mr Napoli also applied to invoicing by Customer Training and Consulting in that its only purported client was the Department, the invoices featured very general job descriptions, contained false contact names, used false numbering and often contained misleading business addresses (mostly Mr Calleja's residential address).

In short, both Mr Napoli and Carlo Squillacioti admitted that a large number of quotes and invoices from the company, all prepared by Mr Napoli, were false. As no hard evidence was found or produced by them that any invoices were authentic, it must be concluded they were all false.

When asked why he privately emailed drafts of invoices to Carlo Squillacioti, Mr Napoli said it was done simply for Carlo's files, to let him know what was occurring in the name of one of his companies in case he needed to field any enquiries from the Department or an auditor, and also for tax compliance purposes. While Mr Napoli did the general accounting work for the company, Mr Squillacioti did the quarterly BAS statements and therefore required this information. Mr Napoli accepted that he, rather than his cousin Carlo,ran the company and conceded that its business was essentially one of billing.

From time to time, Mr Napoli also sent invoices from Customer Training and Consulting to Mr Calleja's Innovating Visuals and Mr Dingley's SD Design & Print businesses to extract Department-sourced money from them. Bank records showed the monies that flowed from Customer Training and Consulting as largely going into accounts controlled by Mr Napoli, with some being used to occasionally pay expenses for Mr Rosewarne.

At one stage, Mr Napoli agreed he was 'using Carlo as a bank'. He also agreed he was using a bank account in the name of Mr Calleja in this way. In relation to what was going on in the name of Customer Training and Consulting, Mr Squillacioti said he became concerned because 'I wasn't really in control of any of the jobs. I was getting the invoice, I would be told Daniel's doing the job and from then on it was just out of my hands'.

Again, Luigi Squillacioti said he had no knowledge of what was going on under the banner of Customer Training and Consulting. He also said that Carlo now realised he had been 'manipulated' and 'stooged' by Nino, and that he was 'stupid'. He added that Carlo was 'very remorseful, knows he did a lot of harm to a lot of people'.

7.1.7 Cover ups and attempts to alter documents

Once it became known in the first half of 2014 that there was an IBAC investigation into certain Squillacioti-controlled companies, Carlo and Luigi regularly met in private with Mr Napoli to go over financial documents about individual transactions to devise cover stories. This was also done in relation to the many invoices sent in the name of the various Squillacioti entities to allied entities like Innovating Visuals Pty Ltd and SD Design & Print (for the purpose of moving money obtained from the Department out of these allied entities).

For example, a lawfully made recording at Cobra Motors in 2014 revealed Carlo and Luigi Squillacioti and Mr Napoli planning to mislead IBAC investigators by saying that invoices for large amounts of money (around $80,000 per year) from Encino to Innovating Visuals for purported storage of some of Mr Calleja's equipment were in fact for a combination of storage at Cobra Motors and scanning of bulk documents by Carlo.

As for suspicious looking payments by Squillacioti entities to Innovating Visuals, these were to be explained as being for 'presentations' of some kind by Mr Calleja. In other recorded conversations, other ideas and suggestions were discussed to explain suspicious transactions. According to Luigi Squillacioti, who was present at a number of these meetings, bank statements were often closely studied.

In his evidence, Mr Napoli agreed that plans to mislead investigators extended to the creation of false internal memoranda. These purported to legitimise dubious monetary movements between Squillacioti-controlled entities and earlier monetary grants to certain banker schools from where the money was sourced. In one recorded conversation there was a great sense of panic as Mr Napoli expressed particular concern to his cousins over whether IBAC investigators had obtained an incriminating spreadsheet from records seized from Cobra Motors. (This spreadsheet had been prepared by Carlo about transactions over the past few years.)

The conversation involved Mr Napoli repeating what he had previously warned Carlo – that:

> *If they've got that spreadsheet... I might as well be locked up, if they've got that... because that not only tells you what you've received but everything you've paid for me... And – Jeff. And that just puts us in fuckin' gaol, you know what I mean?*

For his part, Carlo Squillacioti expressed the hope that he had followed these instructions by fully deleting the spreadsheets from his computer. In relation to this discussion, Mr Napoli confirmed in evidence that the spreadsheet being talked about was one he was looking at in hard copy at the time, being 'a reconciliation of what went on... of who paid what for who'. Investigators were unable to locate the spreadsheet in either hard copy or electronic form.

At meetings between Mr Napoli and his cousins, there were often difficulties in reconciling and even understanding many of the transactions in question. It seems this was due to sloppy record keeping and very generally worded invoices for goods and services. On such occasions the mood usually descended into high anxiety, especially on the part of Mr Napoli who declared at one stage:

> *Because we were too sloppy. We - we - I mean, I knew they were on to things, Lou, but we - we gave them too much shit. My - my biggest downfall was - and I just can't stop thinking about this - my biggest downfall was at my mum's place.*

The reference to 'my mum's place' refers to the bulk of financial material (principally invoices and bank statements) relating to payments involving the Department and Squillacioti entities. This information was contained on computer hard drives that investigators located in the roof of Mr Napoli's mother's house. Mr Napoli later conceded this was an attempt to hide incriminating information from investigators.

Such comments clearly demonstrate that Mr Napoli considered many of the invoices and transactions being scrutinised to be false. Other recorded conversations demonstrated one or both Squillacioti brothers shared similar concerns.

7.1.8 Attempts to coerce witnesses

Around this time, Mr Calleja said he was instructed by Mr Napoli to meet with Carlo Squillacioti 'when Nino was panicking about this whole situation; about being investigated...by IBAC'. Mr Calleja said Mr Napoli required him 'to talk to him [Carlo] about these jobs that you did together, ensuring that you know exactly what was done, and you have to make sure that you create everything – know everything.' Mr Calleja added that 'he [Mr Napoli] basically put the pressure on me to try to make up stuff I didn't know about, and that's where I had to meet with Carlo a number of times with and without Nino to understand what I had to do, because I was absolutely, I was scared for my life... I was full of fear'. Mr Calleja also said that Carlo 'was very concerned, and he wanted to ensure that he could do things so he doesn't get caught'.

In short, Mr Calleja accepted in evidence that such meetings in 2014 were convened to develop a false story to cover up what had happened in the past. By this time he understood there to have been not only improper, but criminal conduct. He also said that the meetings included Mr Napoli replacing existing invoices with more detailed ones 'to make it seem more legitimate so that there's a lot of work he did for me and he told me "you have to say that... we did this for you and this is what we did for your company"'. Mr Calleja agreed he was subject to much coaching in this regard in his office and home, at Cobra Motors, as well as at the Tottenham business premises of a friend of Carlo's (at a stage when Carlo and Nino feared being the target of physical surveillance by investigators). He also said he was regularly badgered over the phone by Mr Napoli, so much so that Mr Napoli would 'keep on telling me the same story so it seemed like it was the truth'.

7.2 On the Ball Personnel Australasia Pty Ltd

7.2.1 Background to On the Ball and invoicing of Department and schools

On the Ball Personnel Australasia Pty Ltd began trading under that name in the early-1990s. Its original directors were Sharon Vandermeer and her then husband Dominic Barba, Mr Napoli's brother-in-law. Ms Vandermeer separated from Mr Barba in 1999 or 2000 and Mr Barba resigned as a director of On the Ball Personnel in March 2002. Mr Barba had been the accountant for the business until about the time he and Ms Vandermeer separated and then ceased to have any role in the business. Ms Vandermeer has run the business from the outset.

On the Ball Personnel Australasia Pty Ltd was registered on 5 July 2007 and was the trustee for the On the Ball Personnel Australasia Trust. The business of the original On the Ball entity was transferred into the new entity at about this time and the original entity was deregistered in March 2012. The business of both On the Ball companies was to provide permanent and temporary office support staff to various organisations.

On the Ball's financial records indicate that it was invoicing schools on the instructions of Mr Napoli from mid-1999, when On the Ball invoiced Dromana Secondary College for $3300 (plus GST). However, there is some evidence that the practice could have commenced even earlier. By 2000 and for the following 11 years, On the Ball was regularly invoicing numerous schools and the Department itself.

The total amount invoiced by On the Ball to the Department and individual schools between 2007 and 2014 was approximately $131,000.

7.2.2 On the Ball – the early years

In the period from the late-1990s until March 2006, On the Ball appeared to have two quite distinct roles with the Department, both arranged by Mr Napoli. The first was to provide temporary staff primarily to undertake administrative work at central office.

The total billed by On the Ball to the Department in this manner from July 1999 to June 2011 was approximately $423,180. Oracle data relating to this work frequently did not state the name of the person employed and often referred only to the 'engagement of temporary personnel'. IBAC did not investigate these transactions but many of the transactions appear questionable on their face, and therefore matters the Department may wish to consider looking into. On the Ball ceased providing staff for central office in March 2006 when, according to Ms Vandermeer, the Department secured the services of a national employment agency.

The second role was to invoice schools on the instruction of Mr Napoli. These invoices do not appear to be legitimate.

With the exception of a handful of invoices to Dromana Secondary College in 2003, these invoices were all for round amounts (invoices for $3300, $4400 and $5500 featured regularly) and generally had a narration along the lines of 'Administrative Services – Sept & Oct 2005'. The invoices did not name staff nor include a record of hours worked. These sat in stark contrast to the invoices rendered to the Department and every other client of On the Ball, which generally had numerous entries listing the staff engaged such as: 'Kristy Russell 24.00 hours @ $24.18 per hour (w/e 26.02.05) ...$580.32 GST'.

Ms Vandermeer agreed in evidence that the invoices to the schools were very unusual compared to On the Ball's typical invoices.

According to records seized under warrant, the total amount invoiced by On the Ball to individual schools between December 2000 and March 2011 was approximately $266,000. Of this, approximately $193,000 was invoiced in and after 2004 and most of this appears to have been expended on the wages paid to Mr Napoli's sons, Ralph and Matthew Napoli (discussed later in this section), plus the On the Ball margin on those wages.

The ultimate beneficiaries of the balance of approximately $73,000 paid before late 2004 is less clear. A series of payments during 2003 by Dromana Secondary College ($52,443) were not in round amounts. This suggests the payments could have been for temporary staff engaged at Dromana Secondary College or elsewhere for the Department. On the other hand, Mr Napoli gave evidence that Dromana was one of his early banker schools, so this is open to question.

There is also some evidence in the form of credit invoices rendered by On the Ball that some of these funds were paid for services provided by Franca Cestinucci (who once worked for Mr Napoli in the Department) and another On the Ball staff member. (The invoices were credited against funds of up to $10,000 advanced by Kings Park Primary School and Sunbury College to On the Ball.)

7.2.3 Payments to Squillacioti enterprises of concern

What is clear is that at least around $33,500 was paid by On the Ball through to companies controlled by the Squillacioti brothers. There is also clear evidence that at least $5500 of this amount ended up in an account of Bammington Pty Ltd, the trustee of Mr Napoli's family trust.

Ms Vandermeer's evidence about the payments to Squillacioti entities

Ms Vandermeer's evidence about these transactions was less than satisfactory. In substance, she accepted that the transactions must have occurred and must have involved discussions between her and Mr Napoli, during which he would have asked her to send an invoice to a school and explained that she would later be receiving invoices from Encino or Quill for her to pay. She also accepted that these were transactions she would not enter into lightly and that they were unusual. However, she claimed to have no recollection of any of the transactions nor any associated discussions with Mr Napoli. Nor did she have a recollection of receiving any of the equipment or services referred to in the invoices from C & L Printing, Encino Pty Ltd or Quill Investments Pty Ltd. She knew the name Encino because she had more recently found reference to it in On the Ball's financial records, but did not recall the names C & L Printing or Quill.

This response is difficult to accept. What is plain is that, at least in respect of the Quill invoice in 2005 and probably at least one of the earlier ones, Ms Vandermeer must have known at the time that payments on invoices sent by On the Ball to schools for 'administrative services' were being passed through Squillacioti-related entities shortly after receipt for printing services purportedly provided to On the Ball by Encino or Quill. The likelihood is that Ms Vandermeer was aware at the time the services were never provided by Quill or Encino to On the Ball. She gave positive evidence that she did not herself engage Quill to undertake any work for her. It is unlikely that Ms Vandermeer knew anything of the subsequent payment to Bammington, but there is no doubt that it occurred.

IBAC investigators located evidence of six payments made by On the Ball to the Squillacioti entities.

- On 6 November 1998 C & L Printing invoiced On the Ball for **$8500**, purportedly for printing 4000 promotional brochures. However, there is no other evidence or information about when or from what funds this invoice was paid.
- In May 2000 and again in December 2000 Encino Pty Ltd invoiced On the Ball. The first invoice was for **$5198** and appeared to be for computer hardware. The second was for **$5500** and appeared to be for computer maintenance. The second invoice was sent shortly after On the Ball had rendered an invoice to Kings Park Primary School for an identical sum. On the Ball bank records show that this Encino invoice was paid by On the Ball in January 2001.
- In March 2004 and March 2005 Encino sent further invoices to On the Ball for **$4750** and **$4000** respectively. Again, bank records show these were paid by On the Ball at about that time.
- On 3 November 2005 On the Ball sent an invoice for $5500 to both Kings Park Primary School and Dromana Secondary College with the identical narration 'Administrative Services – Sept & Oct 2005'. On the Ball bank records show that one invoice was paid on 5 December and the other on 23 December. By an invoice dated 12 December 2005 on the letterhead of 'Quill P/L' (but sent by Mr Napoli to Carlo Squillacioti on 18 December 2005), Quill invoiced On the Ball purportedly for printing work in the sum of **$5500**. Bank records for On the Ball, Quill and Bammington show that this precise amount was paid by On the Ball to Quill on 3 January 2006 and then by Quill to Bammington on 17 January 2006.

7.2.4 Payments to Ralph and Matthew Napoli (Mr Napoli's sons) for work never done

On the Ball paid Ralph Napoli a weekly wage and superannuation contributions from October 2004 to June 2011 and paid Mathew Napoli a weekly wage and superannuation contributions from October 2009 to June 2011. The number of hours Ralph and Matthew were paid for varied over the period, but was one or the other of 10, 15 or 20 hours. Both were paid an award rate of about $17 per hour. On the Ball charged a margin on top of this of about $6.50 per hour.

The wages, superannuation and On the Ball margin were paid by On the Ball from the payments it received from the invoices it rendered to the various schools. The total of those invoices between 2007 and 2014 was about $128,000.

Neither Ralph nor Matthew Napoli did any work for any of the schools concerned. Indeed, at no time in the period when they were receiving these wages was either of them in paid employment with the Department or with any school, until February 2011 when Ralph was engaged by Maribyrnong Secondary College in its sport program. He was paid for this work directly by Maribyrnong, while still receiving wages from On the Ball for the next five months, at which time the payments from On the Ball ceased.

It is uncertain whether Mr Rosewarne knew of these arrangements. Mr Napoli gave fairly vague evidence that he thought at some stage he had made Mr Rosewarne aware that his sons were employed part time at schools. No details on how Mr Rosewarne became so aware were given in evidence. As Mr Rosewarne maintained he did not know about this during his time at the Department, the evidence on this topic is inconclusive.

7.2.5 Weekly payments to Ralph Napoli

At the beginning of 2004, Ralph Napoli was 18 years old and an aspiring soccer player. In April of that year he travelled overseas to attend trials and clinics with some professional European clubs. He returned in June for a month before travelling overseas again until September. On 13 October 2004, Nino Napoli emailed Ms Vandermeer saying that, 'Ralph has commenced his part-time work' and requesting that she 'commence payment 20 hours per week as from 15/9/2004 at the clerical casual award rate please. You current [sic] have a budget of $10,000 which you would have received payment [sic] some time ago, please use that budget until it runs out.'

On 21 October 2004 Josephine Napoli sent a follow up email to Ms Vandermeer, apparently after a family event hosted by Ms Vandermeer the previous Saturday. In the email Mrs Napoli asked 'do you need any further information prior to crediting Ralph's account'.

On 22 October 2004 after further brief email exchanges, On the Ball made five separate payments of $307 into Ralph Napoli's account, each representing one week's salary. The payments were backdated to 15 September 2004. Ralph was thereafter paid by On the Ball each week without interruption until June 2011. He was paid for 20 hours per week until August 2005, then dropped to 10 hours until October 2007 when he went back to 20 hours until 5 April 2011. His hours were then reduced to 15 per week before ceasing altogether in June 2011.

Ralph Napoli unaware of source of payments

Ralph Napoli's evidence was that he gave total control of his finances to his father until he returned from India in 2014 and learnt of the details of IBAC's investigation and his potential involvement. Until then, he had no knowledge of the source of the money being paid into his bank account. He had an ATM card and paid for expenses from his account, so he noticed that the balance of his account was healthy and increasing, but never questioned where the money came from. His father, who had previously provided Ralph's spending money in cash, said in around 2004 that 'I won't be giving you cash as much now. So everything will be deposited into your account'. When Ralph asked him 'well, what do you mean', his father replied, 'well, you don't have to worry about it. It's something I've organised'. Ralph's evidence was that 'I trusted my dad...implicitly'.

Figure 9: Email exchange between Sharon Lee Vandermeer and Nino Napoli

RE: accounting outstanding

From: Sharon Vandermeer <[redacted]>
To: Nino Napoli <[redacted]>
Date: Wed, 18 June 2008 07:50:26 +1000

You will have them tonight Nino.
Thanks very much to you and Josie re Richard. He is feeling okay and has to have a number of heart related tests.
Thanks again for your thoughts and wishes and hope to catch up soon.

Sharon

From: Nino Napoli <mailto:[redacted]>
Sent: Tuesday, 17 June 2008 8:02 PM
To: Sharon Vandermeer
Subject: RE: account outstanding

With regards to these accounts can I get them soon before the term break otherwise you will be waiting for weeks to be paid
nino

From: Nino Napoli <mailto:[redacted]>
Sent: Monday, 16 June 2008 6:49 PM
To: 'Sharon Vandermeer'
Subject: RE: account outstanding

Sharon
Thanks for the information please arrange the following
Chandler primary school principal Peter Paul $ 4000 month of feb / march 2008
Moonee ponds west primary school principal tony Hilton$ 5000 month april /may 2008
Kings park primary school principal doug Conway 4500 month of march / april 2008
Carranballac p -9- secondary college principal peter kierney 4100 month of april / may 2008
Parkwood secondary college principal vin virtue 3500 month of april / may 2008

All these accounts are for Administrative support and temporary staff engaged

Email accounts to me and I will pass onto the principals , any issues let me know , this should put you ahead
All the best to Richard hope he gets well soon
nino

From: Sharon Vandermeer <mailto:[redacted]>
Sent: Friday, 13 June 2008 9:36 AM
To: 'Nino Napoli'
Subject: RE: account outstanding
Importance: High

That's fine Nino but the outstanding invoices are now at $11450.00 which takes us completely up to date.

Let me know if you would like those figures to change.

Cheers Nino.

Sharon

From: Nino Napoli <mailto:[redacted]>
Sent: Monday, 12 June 2008 7:55 PM
To: SHARON
Subject: RE: account outstanding

Sorry Sharon

The outstanding accounts for administrative staff should go to

Kings park primary school 3000k for administrative staff month of feb /march 2008
Moonee ponds west primary school 4500k for administrative staff for the month of april / may 2008

Can you arrange invoices to come to me please
nino

Ralph Napoli pressured to give false evidence

Ralph Napoli gave frank and forthright evidence that he did no work to earn any of the money paid to him by On the Ball. In particular, he said he never worked at Essendon North Primary School and, while he did commence casual work at Maribyrnong Secondary College in February 2011, he was paid separately for that work directly by the college. Ralph Napoli is to be commended for the fact that he gave this evidence, despite being put under considerable and relentless pressure by his father to lie under oath.

The evidence establishes that during the second half of 2014, Nino Napoli set out to develop an elaborate, detailed and completely false story that his son Ralph had been engaged in late 2004 by Michael Giulieri, the former principal of Essendon North Primary School, to undertake casual work in relation to the school's soccer program, including scouting for players and meeting regularly with Mr Giulieri to report on progress. Lawfully made recordings at Mr Napoli's home in 2014 revealed that Mr Napoli was assisted in both developing the story and in seeking to persuade Ralph to learn the detail and go along with it, by Mr Giulieri, Josephine Napoli and Ralph's uncles Rob and Gus Napoli. The recordings reveal that Matthew Napoli was also present for some of these conversations.

At times (particularly by late November 2014) Ralph Napoli argued heatedly with his father about what he was being asked to do. His evidence was:

> *I got angry a lot of times, Commissioner, about everything that dad was trying to do here, but then sometimes you go into the state where, because he was ill for a long time, you start to worry about his health and think how you can help him, but at every time I would always think about it and say, 'I don't want to be privy to anything of this nature'.*

He is recorded responding to his brother Matthew's suggestion that he 'chill' by saying, 'How can you chill, mate, when it's one big fucking lie, mate'. There are also a number of occasions where Ralph describes as 'delusional' his father's apparently unshakable confidence that the ruse will succeed, as long as Ralph plays along.

7.2.6 Weekly payments to Matthew Napoli

Matthew Napoli is almost six years younger than his brother Ralph. He was 18 years old and a full-time student doing his first year of a diploma in sports development at Victoria University when Mr Napoli emailed Ms Vandermeer on 13 October 2009 as follows: 'hanks [sic] can we do from now on for matthew 15 hours per week please'.

Payments of $257.05 (net) by On the Ball to Matthew's bank account duly commenced on 13 October 2009 and, together with monthly superannuation contributions, were made by On the Ball each week thereafter, with minor award increases, until a final payment of $285.10 on 14 June 2011.

Matthew Napoli's evidence not credible

Unlike his brother Ralph, Matthew claimed in his evidence that he was doing paid work in return for at least some of these payments from On the Ball. He said he was working once a week at the Sports Academy connected to Maribyrnong Secondary College. However, he was unsure of the date the work started, finally settling on 'the start of 2010'. Also, he gave evidence that he was employed casually 'I assume through the school', his hours varied and would have been between 8 and 10 hours per week (not 15). He said he did not keep any timesheets or otherwise record his time and could not explain how the school would know what to pay him if he kept no record of his hours. Nor could he explain why he was paid during school holidays when he wasn't working. His evidence was that 'dad said he had organised it... so I didn't question it any further'.

When asked about the nature of his work, Matthew's answers bore some of the hallmarks of the story that Nino Napoli had been developing for Ralph, including that he was 'scouting players'. His evidence was that he was originally engaged to work at the Sports Academy by Arthur Papas. However, information provided by Mr Papas to IBAC was that he had moved to the Australian Institute of Sport in July 2009 and did not return to the Sports Academy until 2011. Thus he (Mr Papas) could not have been at the Academy when the payments to Matthew started in late-2009. Robert Carroll, who was effectively in charge of the Academy at the relevant time and responsible for all hiring decisions, confirmed Matthew Napoli was never

employed at the Sports Academy. His evidence was that Matthew 'was a volunteer in our program and he did very little work'. His impression was that Matthew did a maximum of one or two hours a week, although he accepted that it was difficult for him to judge, because he did not closely monitor volunteer hours and a lot of work was done on weekends.

Against this background, it is difficult to accept Matthew Napoli genuinely believed that he was doing paid work at Maribyrnong Secondary College. On being shown details of the payments to him, he agreed that he was being paid for more time than he was working. However, he denied that his work at Maribyrnong Secondary College was done on a voluntary basis.

While accepting that Matthew Napoli is a young man who no doubt felt a strong loyalty to his father, his assertions that he believed he was doing paid work at Maribyrnong are simply not credible.

7.2.7 Ms Vandermeer's knowledge of Mr Napoli's scheme

Almost all of the sums invoiced by On the Ball to schools in the period after late-2004 were used to fund the wages paid to Ralph and Matthew Napoli. The source of the earliest payments to Ralph in late 2004 and into 2005 was the $10,000 'budget' that Mr Napoli referred to in his email of October 2004 requesting that payments to Ralph commence. That 'budget' in turn appears to have been raised from the payment of an invoice for $10,000 sent by On the Ball to Moonee Ponds West Primary School dated 23 August 2004.

Mr Napoli's request for Ms Vandermeer to retrospectively prepare quote

For reasons which are obscure, about 18 months after that invoice was rendered, Mr Napoli emailed Ms Vandermeer on 20 January 2006 as follows: 'As discussed please email or fax me the quote pertaining to invoice dated 23/8/04 to moonee ponds west primary school [sic] and names of two or tree [sic] people that worked During [sic] that time, I greatly appreciate [sic]'. Ms Vandermeer's response was, 'It will be done and faxed to you first thing on Monday'.

It is clear that Mr Napoli was asking Ms Vandermeer to retrospectively prepare a quote in respect of an invoice sent almost 18 months earlier and to use in the quote the names of two or three people that worked (presumably at On the Ball) at that time (namely around August 2004). Thus, the quote was clearly to bear no relation to any work that may actually have been done at Moonee Ponds West Primary School in 2004. In any event, Ms Vandermeer knew from Mr Napoli's October 2004 email that the $10,000 was the 'budget' which On the Ball was to use to pay Ralph Napoli. Further, Ms Vandermeer's response indicates that she was arranging to send the quote as requested. However, Ms Vandermeer said in evidence that she did not recall the January 2006 emails and she could not recall ever backdating a document. IBAC has been unable to locate the quote, and Ms Vandermeer accepted that it may have been among the documents she destroyed in 2014, as discussed below.

Ms Vandermeer's awareness of improper invoicing requests

In June 2008, a further email exchange between Mr Napoli and Ms Vandermeer is even more revealing of what Ms Vandermeer must by then have known, or at least strongly suspected: that Mr Napoli was arranging for her to invoice numerous schools in round amounts to cover payments made to Ralph and Matthew Napoli. It seems that some time before 12 June 2008, Ms Vandermeer or her staff must have contacted Mr Napoli about an 'account outstanding' as the extracted email chain (in Figure 9) shows.

This exchange clearly shows that Mr Napoli, having suggested in his email of 12 June that the only outstanding accounts were for Kings Park Primary School and Moonee Ponds West Primary School has, a few days later, miraculously identified work done at three other schools for overlapping periods which, when invoiced, 'should put you ahead'.

The inescapable conclusion that Ms Vandermeer must have drawn from this email (if she did not know it already) was that the invoices she was sending for round amounts to various schools bore no relationship either to the hours Ralph Napoli was working nor the schools where he was working.

Ms Vandermeer did concede that she 'definitely started to feel uneasy with the invoicing that was being done'. Despite this, she did not raise her concerns with Mr Napoli because she didn't want to think he was lying to her: 'I didn't want to think that he had put me in that position, put Ralph in that position. I just didn't want to acknowledge that.' Nor did Ms Vandermeer contact Ralph, Matthew or any of the schools she was invoicing about her concerns.

Ms Vandermeer's concerns increased when she learnt that Ralph had been overseas for an extended period in late 2008. But again she did nothing to allay her concerns and continued to invoice the schools as requested by Mr Napoli, paying Ralph and (later) Matthew their weekly wage and collecting the On the Ball margin of around $6.50 for every hour that Ralph and Matthew 'worked', until June 2011. The only explanation Ms Vandermeer offered was that the schools kept paying: 'We did question that, why would they continue to pay if Ralph had not been there, so that caused us, you know, definitely some confusion around that. Why would they pay?'. But she again agreed that she did not contact the schools to seek an answer to that question.

Doubts as to the veracity of Ms Vandermeer's evidence and destruction of documents

Whilst the matter need not be resolved in this report, the objective evidence raises serious doubts about the veracity of Ms Vandermeer's evidence that she has no recollection of the unusual transactions involving Encino and Quill. (That evidence includes invoices from the Squillacioti entities, emails requesting backdated quotes and the numerous invoices to numerous schools in rounded amounts). Similar doubts exist about her asserted lack of appreciation of Mr Napoli's corrupt conduct (beyond 'feeling uneasy'). Those doubts are reinforced by Ms Vandermeer's conduct in late January 2014 when she first learned that Mr Napoli may be in trouble.

In Ms Vandermeer's evidence about a meeting she had at this time (arranged by Mr Napoli at the Domain Bakery in South Yarra), she stated Mr Napoli was quite stressed which in turn made her stressed. He explained that because his sons had worked through On the Ball there was a 'conflict of interest'. He gave her a document showing how he would like her to alter her records, but she didn't look at it then or later. She said she returned to her office in a panicked state, discarded the document Mr Napoli had handed her and made arrangements to delete a folder of documents relating to Ralph and Matthew from the work computer.

Ms Vandermeer agreed to meet with Mr Napoli one further time in late March or early-April 2014. She said that at that meeting Mr Napoli was 'quite frightening' and 'asked me would my ex-husband be prepared to say the boys were payrolled through his business'. Ms Vandermeer first gave evidence that it was after that meeting she again set about destroying documents, this time by deleting emails from her system and shredding hard copy documents. She said she probably searched for any emails with the name 'Napoli' and deleted them.

Later Ms Vandermeer changed her evidence and said that the second occasion she destroyed documents was after she found out from her ex-husband that Mr Napoli had been visited by IBAC. She said that she deleted other emails and burnt and shredded other documents a couple of days after being told about this. Ms Vandermeer agreed she did this because she was concerned that someone could come and look at the documents she held. She also agreed that this was not the conduct of someone who had nothing to hide.

7.3 RS Media Productions and Innovating Visuals Pty Ltd

7.3.1 Daniel Calleja's personal and business relationship with Nino and Robert Napoli

Daniel Calleja is a distant relation of Nino Napoli. He holds a tertiary Arts degree specialising in multimedia and video production. After graduation, he started his own multimedia services business called RS Media Productions, which operated from his parents' home where he lived.

Following a chance meeting with Mr Napoli's brother Robert at a family function in early-2007, Mr Calleja was referred to Mr Napoli as someone who might be able to help him grow his business. Mr Napoli confirmed to Mr Calleja that he might be able to help him with some Department work. Not long afterwards, Mr Napoli offered Mr Calleja some work putting together a multimedia package to assist Mr Napoli in an international public speaking role. After this project was completed, Mr Napoli informed Mr Calleja that he would like to put some departmental printing work his brother's way but, due to sharing the same surname (and to avoid exposing an obvious conflict of interest), he proposed that the work go through RS Media Productions. Mr Calleja, a somewhat naive man in his early 20s at that time, agreed to this.

In the relevant period, Mr Calleja's two entities (RS Media Productions and Innovating Visuals) sent the Department at least 36 invoices totalling around $460,000, and 25 invoices to various schools totalling almost $123,000, a total of more than $580,000.

7.3.2 Invoices to the Department and schools for non-existent work

Thus began a business relationship of sorts whereby Mr Napoli would instruct Mr Calleja to prepare RS Media Productions' quotes and invoices in significant sums of money to the Department. (He did this by phone, email or in person at Mr Calleja's house.) The quotes and invoices would be marked to Mr Napoli's attention, and either emailed to Mr Napoli's private email account by Mr Calleja or handed to him in person.

Mr Calleja admitted that in return for payment by the Department of such invoices, the only work he did was to follow Mr Napoli's instructions in issuing them. He agreed that he acted as a mere puppet of Mr Napoli in this regard.

After RS Media Productions had received payments from the Department, Mr Calleja would receive invoices from Robert Napoli's R&D Personalised Printing business for purported subcontract work. Mr Calleja would then cause the invoices to be paid out of his bank account, with a small sum often left over as his commission. However, whether or not Mr Calleja received a commission was something Mr Napoli would determine for each transaction. Mr Calleja agreed in evidence that his modest share was decided entirely at the whim of Mr Napoli, with the latter always taking 'the lion's share'. Mr Calleja confirmed in evidence that he had no idea whether or not work was actually performed by R&D Personalised Printing in these situations. Mr Calleja said that such arrangements took place over a number of years.

After about the first year of such activities, Mr Calleja was instructed to mainly address such invoices to schools. The few invoices that were still sent to the Department were, he said, for work he did in fact do, albeit they were sometimes inflated.

Mr Calleja said that at some stage he asked Mr Napoli whether school principals were aware of the invoices he was creating. He was told they were, and that he had nothing to worry about. He said he took Mr Napoli at his word 'due to the trust I had with him'. Mr Calleja's evidence on the above transactions was fully supported by contemporaneous documents and bank records, many of which were tendered into evidence at the public hearings.

Not long after they began, these illicit activities occurred more in the name of a company called Innovating Visuals Pty Ltd, of which Mr Calleja was sole director and shareholder.

7.3.3 The role of third party invoices from Mr Napoli's associates

In time Mr Calleja started to receive invoices from Encino (with one such invoice even suggesting Encino was in the business of supplying office furniture), Quill Investments and Customer Training and Consulting. These invoices were an alternative way of shifting banker school sourced money from Calleja-controlled bank accounts into the hands of Mr Napoli. As described earlier in this report, ridiculously high amounts were being charged to Mr Calleja by one or more of these Squillacioti-owned entities for purported storage of his equipment at Cobra Motors' premises. Mr Calleja must have realised that these invoices were not legitimate. He later came to learn they were from entities owned and controlled by Mr Napoli's cousins the Squillacioti brothers, particularly Carlo.

Innovating Visuals also received a $6600 invoice from Ralph Barba's The 4 Diego's Pty Ltd for purported consultancy fees. This particular transaction was one where Mr Napoli was reimbursing Mr Barba for his (Mr Napoli's) wife's overseas travel in 2009, an event described later in this report. Apart from paying such third party invoices, Mr Calleja said that sometimes he received invoices from third party businesses to pay – usually, but not always, through Mr Napoli – which he was led to believe by Mr Napoli related to departmental work. For example, an invoice for around $10,000 came from a travel agency, some came from wine merchant Trembath & Taylor Pty Ltd, and some related to the purchase of personal computers for both Mr Napoli and one of his sons, and a camera for Mr Napoli.

Sometimes the invoicing was done in reverse. Mr Calleja would be asked to invoice entities such as Customer Training and Consulting for work he never did as a means by which Mr Napoli siphoned off funds from the entity into one of Mr Calleja's bank accounts. From there the money would invariably flow into one of Mr Napoli's bank accounts. Sometimes things were done so casually that quotes were sent by Mr Calleja either to schools or to other entities that were in cahoots with Mr Napoli at the same time as an invoice was sent. Sometimes, on the mere promise of a false invoice for purported work being sent, amounts were transferred directly from accounts controlled by Mr Calleja into accounts controlled by Mr Napoli.

7.3.4 Mr Calleja's evidence

Mr Calleja was taken in evidence through mainly Customer Training and Consulting invoices containing his name as the contact person, but with the rest of the contact details being those of Carlo Squillacioti. He said he was unaware at the time that his identity was being falsely used in this way.

Mr Calleja gave evidence that he was instructed by both Nino Napoli and Robert Napoli to delete from his computer everything that related to communications between the three of them. Mr Calleja said that he was 'very scared' and complied with these requests. Mr Calleja revealed that one particular cover story for missing transactional documents was to be based on a fire that had previously occurred in the ceiling of Cobra Motors. As for the 'coaching' sessions at Cobra Motors and elsewhere during 2014, Mr Calleja said:

> *So at the time when they wanted me to lie about all the invoices... Nino kept on printing out multiple copies... he wanted me to study and look at them, embed them into my head... He would always put these little notepads on there saying, 'You've got to remember this, you've got to remember that'... so I can remember the story he wants me to create for this particular invoice.*

Practically none of Mr Calleja's evidence of such events proved to be controversial when raised with Nino Napoli and Carlo Squillacioti. Despite the considerable efforts made by them to have him tell false stories to investigators about suspicious transactions, Mr Calleja is considered to have given a frank account of events at his public examination.

7.4 R&D Personalised Printing and SD Design & Print

Robert Napoli is Nino Napoli's younger brother. He worked at the Department for a year or so when he was 'just out of school', a job that Nino organised for him. He later worked in a series of other jobs before setting up his printing business in the mid-1990s. His business operated from his home for the next 10 years, before it relocated in 2007, first to the factory of a friend in Hawthorn Street North Sunshine and, about six months later, to 5 Whitehill Avenue Sunshine, next door to Cobra Motors.

Robert Napoli described his business in the early years as 'selling of garments, business cards, brochures, graphic design'. He outsourced larger printing jobs and did not do any scanning until the move to Whitehill Avenue. Robert Napoli has no qualifications in graphic design. Indeed, his evidence was that 'I do not know how to use a computer. I'm not very good at it at all. I outsourced everything'.

The business operates under the business name R&D Personalised Printing and the proprietor of the business is R&D Diamond Nominees Pty Ltd (together R&D), the family company owned by Robert Napoli with his wife Domenica. Domenica Napoli is an accountant and bookkeeper, who also runs her own accounting business and does bookkeeping work for various family businesses, including R&D.

Robert Napoli began engaging Steven Dingley on a contract basis in around late-2005, when the R&D business was still operating out of Robert's home. Mr Dingley became an employee of the business in late-2006, first on a casual basis and, from around February 2007, full time. Mr Dingley became known to Robert Napoli through his father who, at one time, was a cleaning consultant to the Department and an acquaintance of Robert.

In about September 2009, Robert Napoli asked Mr Dingley if a business Mr Dingley had set up a few years earlier was still active. Mr Dingley asked Domenica Napoli to check if the ABN was current and when she advised it was not, Mr Dingley reactivated the ABN and changed the name to SD Design & Print (SD Design).

Mr Dingley later set up an invoice sheet and letterhead for his business. He was instructed by Domenica Napoli to send the draft documents to Nino and her for comment and he did so by email on 1 December 2009. Mr Dingley had not met Nino Napoli at this time. A short time later, according to Mr Dingley, SD Design began receiving payments from the Department.

By March 2014, approximately $378,000 had been paid by the Department to SD Design and, of this sum, $354,935 was paid by SD Design & Print to R&D.

7.4.1 Early dealings between R&D and the Department

It appears that the Department was a major source of work for R&D from as early as 2005 – and probably earlier. However, Robert Napoli never invoiced the Department directly. Robert Napoli's evidence was that his brother Nino 'was very uncomfortable with the perception of a Napoli working – doing work in the Department'. Mr Napoli's suggestion to his brother was, 'just produce the work. Just don't have your name in there'.

In the years before SD Design was established, this was achieved in at least two ways:

- First, R&D gained contracting work from printing companies engaged directly by the Department. One example of this was Hellas Printing Pty Ltd, who secured printing work from the Department and then subcontracted design, collating and other incidental work to R&D. It is not clear whether this subcontracting role for R&D was arranged with Hellas by Mr Napoli or Robert Napoli or both.
- Second, it is clear that companies controlled by Carlo and Luigi Squillacioti were involved in invoicing for work undertaken by R&D. Banking records show on 15 April 2005 that Quill Investments Pty Ltd received the sum of $26,400 from the Department and then on 22 April paid $17,560 to 'RD Printing'. There is evidence of similar transactions in August 2005 involving a payment by Encino Pty Ltd to 'RD Printing' of $83,600. There are records of further substantial sums passing between R&D, on the one hand, and Quill Investments Pty Ltd and Encino Pty Ltd, on the other. These transactions took place between April and August 2008. And there are regular payments from Mr Calleja's businesses (first RS Media then Innovating Visuals Pty Ltd) to R&D from late-2007 until late-2009.

7.4.2 Robert Napoli's evidence

Robert Napoli was considered evasive in his evidence about his dealings with the Squillaciotis and their companies. He first asserted that he had nothing to do with them. On being taken to evidence of the transactions referred to above, his initial response was to suggest that Mr Dingley was doing the invoicing. Once it was pointed out that Mr Dingley could not have been doing the invoicing as early as April 2005, he resorted to a complete lack of recollection of that period. However, he accepted that he and his wife were the only people in their company and that Domenica Napoli 'would have to know something about it'. He also later conceded that R&D was doing (purported) scanning work for the Squillacioti companies.

He was similarly evasive about dealings with Innovating Visuals, asserting that Mr Dingley would have made all the arrangements.

Robert Napoli's asserted lack of recollection of, and involvement in, R&D's dealings with the Squillacioti companies and with Innovating Visuals, is not considered credible. The bank records and other contemporaneous documents (for example, an email from Domenica Napoli to Mr Calleja dated 9 March 2007 giving advice about how to format an invoice) clearly show that R&D was actively engaged in business dealings with these entities from at least early-2005 until late-2009. This engagement included receiving numerous substantial payments. Although Robert Napoli was at pains to distance his wife from participation in any dealings with the Department, either Robert Napoli or his wife (and probably both, given Robert Napoli's apparent inability to use a computer) must have been aware of and actively involved in these transactions; Robert Napoli's evidence suggesting otherwise is not credible.

Figure 10: The corruption of the banker school system

John Fawkner Secondary College
1 January 2007 - 31 March 2014



John Fawkner Secondary College

- **The 4 Diego's Pty Ltd**
  $29,854.00
  9 Invoices
- **R&D Personalised Printing Pty Ltd**
  $66,411.88
  33 Invoices

Total **$96,265.88**

7.4.3 R&D's direct dealings with schools

In addition to dealings with the Department, R&D also dealt directly with schools. Notably, R&D was a substantial supplier to Taylors Lakes Secondary College and John Fawkner Secondary College.

Mr Napoli's brother Gus Napoli was assistant principal at Taylors Lakes Secondary College from 2001 until late 2007, before commencing as principal at John Fawkner Secondary College in early-2008. R&D began receiving work from John Fawkner in February 2008 and by 31 March 2014 had received work from that school to a total value of $66,411.88.

Gus Napoli agreed in evidence that this work came about following an approach by his brother Robert. He also agreed that he had used his brother's services while he was assistant principal at Taylors Lakes Secondary College. There is also evidence that SD Design billed work done by R&D to Chandler Park Primary School, one of Mr Napoli's banker schools.

There was no evidence that the invoices rendered by R&D Diamond were false or that the work being invoiced was not done.

7.4.4 SD Design takes over the billing

Mr Dingley sent his first invoice to the Department on 21 December 2009. It was a detailed invoice with a lengthy description of the work done and the name and phone number of the individual in Mr Napoli's Financial Services division who had arranged the work with Mr Dingley.

A pattern developed where a few days after the SD Design invoice to the Department was paid, R&D would then invoice SD Design in almost identical terms, but for a marginally lower amount, the difference being Mr Dingley's commission of around five per cent of the invoice amount. All of the work reflected in the invoices was performed at R&D primarily by Mr Dingley in his capacity as an employee of R&D with occasional assistance from other R&D staff, using R&D equipment. Mr Dingley was also responsible for dealings with the Department – primarily staff in Mr Napoli's division and, on a couple of occasions, with Nino Napoli directly.

However, it is likely that not all invoices represented work that was actually done.

7.4.5 Mr Dingley's evidence

Mr Dingley identified at least three invoices where there was scant information in the body of the invoice about the nature of the work, and no name or phone number of the person in the Department who had arranged the work. Two of these invoices were addressed to the Department and one to Chandler Park Primary School. Mr Dingley agreed that these were not consistent with the form of invoice he usually sent and he had no recollection of sending them.

Mr Dingley endeavoured to identify the work that matched these invoices, but was unable to do so. The most he could say was that the brief description in these invoices referring to 'scanning' and 'graphic design' matched the description of the work that R&D regularly did for the Department. He recalls Robert or Domenica Napoli saying to him on one occasion when he returned from leave that some urgent work had come in during his absence and they had arranged to do the work and invoice it in Mr Dingley's absence. Domenica Napoli had remote access to Mr Dingley's QuickBooks (bookkeeping software) and could use that to generate SD Design invoices if she wished.

Robert Napoli asserted (having read the transcript of Mr Dingley's evidence) that there were records to show that this work was done, but just what those records were was not clear.

Mr Dingley's evidence about these matters is considered more credible.

7.4.6 $4000 paid to Bammington (Mr Napoli's company)

A number of the SD Design invoices (including both doubtful and legitimate invoices) have notations on them made by Domenica Napoli about how the amount of the invoice is to be allocated between R&D, SD Design and others. In a number of instances, one of the others is Domenica herself, as payment for tax work she had undertaken for SD Design. But in one case the annotation against an invoice to the Department dated 4 August 2010 for $6270, includes an allocation in the handwriting of Domenica Napoli of '$4,000 inclu GST Nino'. Bank records confirm that this sum was paid by R&D to Bammington Pty Ltd on 23 August 2010.

Robert Napoli was clearly forewarned about this transaction from his reading of Mr Dingley's transcript (if not from other sources) and readily offered the explanation that 'my brother helped me for years... [he] is in a position where he understands business structures and things like that... I just want to thank him for all the years of advice and help that he has given me'. Robert Napoli denied that his brother Nino in fact helped him by getting him work from the Department.

Robert Napoli's explanation concerning the payment of $4000 to Mr Napoli was contrived and unconvincing. His references to Mr Napoli's experience in business and his hours of guidance and advice, bear a strong resemblance to the types of explanations that Mr Napoli suggested Mr Calleja could use to justify the payments he made. (These explanations were revealed both in Mr Calleja's evidence and in legally recorded conversations involving Mr Calleja and Mr Napoli.)

7.4.7 Benefits to R&D and Nino Napoli

Mr Napoli was largely if not entirely responsible for securing purported work for his brother Robert to a value of approximately $630,000 in the period from late 2009 when SD Design began invoicing.

He was also responsible for securing other purported work of probably a similar value (if not more) in the preceding years, using Quill Investments Pty Ltd, Encino Pty Ltd, RS Media, Innovating Visuals Pty Ltd, Hellas Printing Pty Ltd' and possibly others, to front the work. Robert Napoli's debt to his brother was therefore far more tangible than any advice he may have received over the years. It is unlikely that the commission paid to Mr Dingley was commercially justified (in the sense that it would have been cheaper if R&D had invoiced direct) and it is far from clear that Robert Napoli added any value to the process when he outsourced all or part of a job. It also appears that on the occasions when Quill Investments Pty Ltd and Encino Pty Ltd fronted the work, they charged a substantial mark-up before remitting any funds to R&D. Again, it is difficult to see any commercial justification for that mark-up.

Further, it is likely that one or more invoices rendered to the Department were false in the sense they did not represent the work (if any) that was actually done. Nino and Robert Napoli would have known this. In the case of the invoice to Chandler Park Primary School, there would be no reason to render an invoice to one of Mr Napoli's banker schools if the work was in fact performed on the instruction of Mr Napoli or an employee in his division of the Department, as with the clearly legitimate invoices. In the case of the invoice from which $4000 was paid directly by R&D to Bammington Pty Ltd, the most plausible explanation is that $4000 was passed to Mr Napoli because R&D had done little or nothing to earn it.

7.5 The 4 Diego's Pty Ltd and Ralph Barba

7.5.1 Ralph Barba's relationship with Nino Napoli

Ralph Barba has always had a fairly close relationship with Nino Napoli, his brother-in-law.

Mr Barba is a qualified teacher. From 1986 until about 2002 he was employed in a Catholic school, where he taught and coached ball sports. In 1990 he incorporated The 4 Diego's Pty Ltd, of which he was director and shareholder. The 4 Diego's was the company through which he participated in radio broadcasts of professional soccer matches in Melbourne. Mr Barba moved from teaching to educational consultancy around 2002. The total amount paid by the Department and schools to The 4 Diego's between 2007 and 2014 was $110,209.

7.5.2 IBAC's interest in certain transactions

Improper transactions regarding invoicing for partnership proposals and subsequent work

In 2008, Mr Napoli put Mr Barba in contact with Mr Rosewarne to discuss ideas Mr Barba had for consulting to the Department in relation to school-related soccer activities. The idea Mr Barba 'pitched' to Mr Rosewarne involved the Department forming a partnership with the Manchester United Football Club and the David Beckham Academy (or other potential overseas entities) to create a facility and a curriculum to regenerate a Victorian school in a low socio-economic area. Apparently Mr Napoli had previously mentioned to Mr Barba that a working party within the Department was considering such a concept.

After a preliminary meeting with Mr Rosewarne, Mr Barba proceeded to investigate the possibilities of this partnership over the next few months. He said he offered to do this, and did do this, at no cost to the Department.

Ultimately, neither overseas organisation decided to pursue this proposal. Mr Barba then approached the English Premier League about the idea and followed it up with a lengthy written partnership proposal to the Department.

As Mr Rosewarne had pre-approved this work, Mr Barba emailed to Mr Napoli a 4 Diego's invoice for around $3000 marked to Mr Rosewarne's attention. Mr Barba said he was then contacted by Mr Napoli and, without explanation, asked to submit a replacement invoice to Customer Training and Consulting Pty Ltd (an entity he was not familiar with at the time), which he then did. The 4 Diego's was then paid accordingly.

Between 2009 and 2011 Mr Barba, with the approval of Mr Rosewarne, further approached the English Premier League on at least two occasions, with invoices being sent to the Department marked to Mr Rosewarne's attention. These were then paid.

Improper transaction relating to a gift in breach of public sector Code of Conduct

In October 2008, The 4 Diego's made a payment of $3000 into a bank account controlled by Mr Napoli. This occurred not long after The 4 Diego's had received $3000 plus GST from Moonee Ponds West Primary School on an invoice described as being for 'SRP Advanced Learning Outcomes'.

The payment into the Napoli bank account remains of concern based on Mr Barba's explanation of it as a gift to Mr Napoli because 'he had helped me a lot in... connecting with the Education Department, with Jeff [Rosewarne] in particular. At that point in time I had a really good response from the Premier League with my first meeting. I was very, very happy about that and I wanted to thank him'.

Accepting Mr Barba at his word, such a gratuity being offered by a contractor in appreciation of departmental work clearly poses an unacceptable corruption risk and should never be proffered, let alone accepted by a public servant. To do so was wrong on Mr Napoli's part, and contrary to the Code of Conduct for Victorian Public Sector Employees and the Department's conflict of interest framework.

Improper transactions relating to Mr Rosewarne's wife's travel

Mr Barba also said that between 2006 and 2013 he did paid project work for various schools in areas ranging from sports curriculum to media/marketing. In the period under investigation, nine invoices were rendered by him for a total of $110,209.

Mr Barba said that in 2009 Mr Napoli asked him to inflate the third invoice to cover the cost of Mr Rosewarne's wife's travel to Europe. Mr Barba said he was told that Mr Rosewarne's 'personal life was in turmoil and he felt he needed to take his wife overseas with him to try to make things better'. Mr Rosewarne's wife subsequently accompanied Mr Rosewarne and Mr Napoli and his wife Josephine on a trip to London and Italy via the Middle East.

Despite Mr Barba being troubled by the request, he acceded to it by adding an extra $9500 or so for that purpose. His explanation for his conduct was that he regarded Mr Napoli's request as more of an expectation or instruction and that if he did not comply it could jeopardise ongoing project work in which he had already invested a lot of his own money.

On emailed instructions from Mr Napoli, Mr Barba paid a travel agent around $15,000 for Mrs Rosewarne's travel as well as the travel of Mrs Napoli. This was from his own funds. He was then reimbursed by the Department through his inflated invoice (totalling around $24,000). This left Mr Barba about $6000 out of pocket for Mrs Napoli's travel, which Mr Napoli subsequently asked Mr Barba to absorb. As Mr Barba was not willing to absorb the extra amount, the accord they reached was that Mr Calleja, who was said by Mr Napoli to owe money to him, would reimburse Mr Barba for the sum through a false The 4 Diego's invoice for purported consultancy fees. The invoice was predated to the previous financial year at Mr Calleja's request to give his company Innovating Visuals an illegitimate taxation advantage.

Improper transaction regarding invoicing for review of presentation

Mr Barba also described in evidence a job he did for Mr Napoli that was a review of an interactive presentation by Mr Napoli to school principals and their business managers. When he sent an invoice for the work to the Department marked to Mr Napoli's attention, Mr Barba was asked by Mr Napoli to reissue it to Moonee Ponds West Primary School marked to the attention of its principal Tony Hilton, and to delete the reference to Mr Napoli. The explanation for this request was simply that the Department sometimes used banker schools for payment of its invoices.

7.5.3 Attempts to create cover stories for the transactions

In early-2013, Mr Barba said he was asked to meet with Mr Rosewarne and Mr Napoli at an eatery in the Melbourne CBD, whereupon he was asked to now treat the $9500 for Mrs Rosewarne's trip as a loan by him to Mr Rosewarne. Even though he was no longer out of pocket for that cost due to the Department having paid his inflated invoice, Mr Barba initially gave the appearance of going along with the scheme. A few days later he was visited by Mr Napoli with a typed loan repayment schedule, which Mr Barba said he later shredded as he was no longer willing to engage in the subterfuge. He said he was not at that stage made aware of any investigation into the transaction and 'thought they were covering their tracks for maybe an internal audit of some sort'.

In early-2014 Mr Barba visited Mr Rosewarne at his new workplace in the Catholic Education Commission to discuss a project he was working on. He said that during the meeting Mr Rosewarne 'raised the matter of the so called loan and suggested that if asked, that I should say that I was a great mate of his and that's why I loaned the money to him'. He said Mr Rosewarne also gave him 'a statement explaining a little bit about himself and his wife and his family and so I would have some knowledge about who he was'.

Mr Barba said that later in 2014 when Mr Napoli had already been visited by IBAC he 'arranged for Jeff to start paying – start arranging – talking to Jeff about paying the amount back as a loan'. Mr Barba said he then had to meet with Mr Rosewarne 'to arrange bank account details and so forth'. This meeting was at a café and was covertly filmed by IBAC. Confirming the falsity of the earlier concocted story they were 'great mates', Mr Barba said a piece of paper Mr Rosewarne was filmed writing on and handing to him contained his home address and contact details. Also discussed at this meeting, according to Mr Barba, was repayment of the fictitious loan by instalments of $500 per month into Mr Barba's personal bank account, which would then quickly be paid by Mr Barba back to Mr Rosewarne.

It was uncontroversial in the evidence that such repayments were made in 2014. Mr Barba agreed in evidence that the scheme was a farce concocted to try and explain away how money was paid in respect to Mr Rosewarne's wife's travel.

In May 2014 a lawfully recorded conversation at Mr Napoli's house provided evidence of Mr Barba and the Napolis anxiously discussing what appeared to be made up stories to tell investigators about various financial transactions that had occurred over the years, including a number of those referred to above:

- The $3000 suggested gift from Mr Barba to Mr Napoli, obviously a matter of particular concern to them on this occasion, was to be explained as money paid for bookkeeping work by Mrs Napoli for The 4 Diego's – something Mr Barba agreed in evidence was false.
- The $6000 or so payment by Mr Barba for Mrs Napoli's trip was going to be said to be partly for bookkeeping duties she had performed for Mr Barba, and partly as a present for her 50th birthday.
- They also discussed the need to create tax invoices for the alleged bookkeeping-related payments.

Mr Barba also proposed shredding some of the financial documents they were looking at. In evidence he agreed these documents were possibly notes he had made about various transactions. The plan was that if ever Mr Barba was questioned on his invoices to Customer Training and Consulting or to banker schools, he was simply to say that he followed Mr Napoli's instructions on where to direct them.

7.5.4 Mr Rosewarne's evidence about the payment for his wife's travel

In his evidence Mr Napoli admitted the facts surrounding the inflated The 4 Diego's invoice for Mr Rosewarne's wife's travel.

Mr Rosewarne maintained in evidence on separate occasions that the relevant transaction was always intended as a loan from Mr Barba to himself. He also denied having knowledge of the inflated The 4 Diego's invoice. Mr Rosewarne did, however, confirm not having attempted to make any repayments in the four or so years after the alleged loan was made. He also confirmed having met with Mr Barba between 2013 and 2014.

Apart from claiming to have no recollection of handing Mr Barba a statement about himself and his family during their meeting in early-2013 at the Catholic Education Commission, he said the café meeting in mid-2014 essentially involved Mr Barba demanding repayment of the alleged loan monies. He denied the meeting was to concoct a loan as a cover story, as Mr Barba described.

Mr Rosewarne's evidence in this regard must be rejected as there:

- is no contemporaneous evidence of a loan found or produced
- is clear documentary evidence and admissions against self-interest by Mr Barba of an inflated invoice being created and paid by the Department (and therefore Mr Barba not being out of pocket and having no basis to claim the money from Mr Rosewarne)
- is evidence that Mr Barba had no personal relationship with Mr Rosewarne at the time the loan was supposedly made
- are admissions against self-interest from both Mr Barba and Mr Napoli surrounding the circumstances of the inflated The 4 Diego's invoice and the loan story being false.

7.5.5 Collusion following IBAC investigations

In late-2014 there was another discussion at Mr Napoli's house where Mr Napoli and Mr Barba appeared to be colluding on aspects of what Mr Napoli had by then told investigators and a written statement of events made by Mr Barba in about mid-2014, which IBAC officers had recently seized. In evidence, Mr Barba agreed this statement contained a number of falsehoods in areas previously rehearsed with Mr Napoli. In his evidence Mr Barba said of the discussions:

> *I just wanted to protect them [that is, Nino and Josephine Napoli] where I could, but I was never going to perjure myself or lie to authorities... it was just rubbish. I look back at that time – it was purely some way I could help them, but looking back there, it was ridiculous.*

Figure 11: The corruption of the banker school system
Norwood Secondary School
1 January 2007 - 31 March 2014



Norwood Secondary School

- **Innovating Visuals Pty Ltd**
  $24,541.00
  3 Invoices
- **On the Ball Personnel Australiasia Pty Ltd**
  $19,470.00
  4 Invoices
- **Customer Training and Consulting Pty Ltd**
  $15,603.00
  3 Invoices
- **Encino Pty Ltd**
  $1,320.00
  1 Invoice

Total **$60,934.00**

7.5.6 False invoicing using Mr Barba's identity

It appears from the evidence that Mr Barba's identity was sometimes used without his knowledge by Mr Napoli to improperly siphon off banker school funds. For example, in a Customer Training and Consulting invoice for around $5000 to Norwood Secondary College dated May 2010, the contact names were 'Daniel/Ralph', and the description of the purported work 'Contracting and Consulting Report for the development of the HERO Program being professional development for schools re-engagement program'.

The reference to 'Ralph' as a contact plainly meant Ralph Barba because he had developed what he called the Heroes Program for the Professional Footballers Association in 2009. This work was paid for by the Association and had no connection with the Department. Mr Barba said that the invoice was unfamiliar to him and made it plain he had nothing to do with what appears to have been a false invoice.

In a similar vein was a draft C & L Printing quotation to the Department for $24,200 that was marked to the attention of Mr Rosewarne and described the work to be performed as:

> Contracting services for detailed report and recommendations on the joint school community project. Design programs and feasibility study of a possible joint project with the Manchester United and David Beckham Academy for disadvantaged schools in Victoria. Ten days contracting plus travel expenses and school visitations.

The document, which had been emailed to Carlo Squillacioti by Mr Napoli in September 2008, featured Mr Barba as the contact person. However, and somewhat typically for such invoices, the mobile phone number and email address contained in the quotation were those of Mr Squillacioti.

Mr Barba confirmed in evidence that the above job description was the work he did for the Department after his meeting with Mr Rosewarne (described earlier) and which he deliberately chose not to charge for. Ultimately the Department was improperly invoiced by Customer Training and Consulting on this very basis and paid, only with the contact name changed to the false one of 'Karl'. In evidence, Mr Barba said that when Mr Napoli showed him this final invoice (during one of the 2014 meetings at Mr Napoli's home) he was 'fairly shocked'.

In one of the late-2014 meetings at Mr Napoli's house, Mr Barba was lawfully recorded telling Mr Napoli that he should not have to shoulder all responsibility for improper financial transactions that went on over the years, and that:

> *Other people like Daniel [Calleja], Carlo [Squillacioti] and Sharon [Vandermeer] who were involved... over a period of time... [with] plenty of time to reflect on what they were doing and that they were getting benefits from this... [have] got to take some responsibility too... [at] some stage they would have had in their mind that the wrong thing is being done here.*

7.6 DyCom enlisted to delete electronic records

Mark Stecher is CEO of IT firm DyCom and gave evidence about attempts to delete certain electronic records of interest to Operation Ord investigators.

Mr Stecher had known Carlo Squillacioti and Mr Napoli for 25 or more years. Over those years he had performed IT-related work, through Mr Napoli, for the Department. As well, he had performed other work for Cobra Motors, for Encino and for Mr Napoli personally. When the IBAC investigation became known, he said he was called in by Sharon Vandermeer (of On the Ball Personnel) and Ralph Barba (of The 4 Diego's) to electronically back up their computers in case they were seized by IBAC investigators. She also sought confirmation from him about deletion by her of some electronic files, including a particular email he could no longer recall any detail on.

Mr Stecher's evidence was that he was also engaged in 2014 by Mr Napoli to delete emails from his computer and subsequently fully deleted the contents of a PC and external hard drive. He said he did so after a meeting over lunch with Mr Napoli and Mr Rosewarne, when they mentioned the IBAC investigation and their concerns over information held on their own personal computers at home. They discussed in particular whether a computer at Mr Rosewarne's former matrimonial home, which he no longer had direct access to, could be remotely accessed for the purpose of deleting files. That proved impossible at the time. Mr Napoli qualified Mr Stecher's evidence by saying that while his own computer was 'cleaned up', he had Mr Stecher transfer the information on to another hard drive, which he then hid in his mother's roof in case it needed 'to be referred to at some point'.

For his part, Mr Rosewarne denied being involved in requests to delete files. All he was prepared to admit was asking Mr Stecher to try to access his home computer remotely in an alleged attempt to thwart his estranged wife from accessing his email account. Why that could not have been done directly with the email provider was not explained. Consistent evidence was also given by both Mr Napoli and Mr Calleja of Mr Napoli asking Mr Calleja to fully delete what can only have been regarded as potentially incriminating evidence from his computer. This Mr Calleja did.

However, without telling Mr Napoli, he transferred a copy of the information to another hard drive.

DyCom itself had been engaged by Mr Napoli and Carlo Squillacioti in about late-2013, when it was first known there was an investigation, to prepare financial spreadsheets covering about a six year period. These were designed to set out transactional details from bank statements for the various Squillacioti entities that had had dealings with the Department, and included under each transaction individual descriptions about them. Mr Stecher was also asked to match the bank statement details to the profit and loss for each relevant business. Both Mr Napoli and Mr Squillacioti were said to have expressed particular concerns to Mr Stecher about the many purported printing and scanning jobs done for the Department in terms of payments made by it for work not done. Mr Stecher accepted in evidence that his work involved trying to legitimise what they seemed concerned at the time might not be legitimate.

7.7 Activity prior to 2007

Operation Ord focused on activity in the period 2007 to 2014. For this reason, and the fact that financial institutions generally only hold banking records for seven years, there has not been further investigation of pre-2007 transactions.

However, there were a significant number of suspicious transactions involving entities that came to IBAC's attention during the investigation, as well as other entities associated with people of interest. These suspicious transactions were not investigated but they do suggest that improper use of funds pre-dates 2007. This will be a matter for the Department.

Financial data provided by the Department identified 496 separate payments to the companies Quill Investments Pty Ltd, Encino Pty Ltd, and On the Ball Personnel Pty Ltd prior to 2007. The total of these payments exceeded $900,000. Together with information seized during the execution of search warrants regarding C & L Printing and Danstef Office Supplies, Equipment and Decorators, the total identified payments suspected to have occurred before 2007 **exceed $1 million**:

- Between 2000 and 2007 the Department paid **$332,018** to On the Ball Personnel.
- Between 2005 and 2007 the Department made payments totalling **$326,200** to Quill Investments.
- The Department made payments of **$252,151** to Encino between 2001 and 2006.
- IBAC has reason to believe the Department paid a total of **$165,230** to C & L Printing, predominantly for printing and graphic design work, a field in which neither Squillacioti brother had qualifications or experience. Evidence in relation to a C & L Printing transaction worth $38,700 is outlined in section 4.4.1.
- IBAC also believes that payments totalling **$18,415** were made from the Department to Danstef Office Supplies, Equipment and Decorators. (Investigators located 11 documents relating to these transactions, predominantly for services such as printing and graphic design.) Carlo and Luigi Squillacioti were Danstef's business owners. The business name Danstef was registered in 1992 and deregistered in 2004.

If IBAC had been able to draw on the financial data of all Victorian schools earlier than 2011, it is suspected that the total payments discovered would be far higher. As it stands IBAC was limited by the Department's Finance Mirror system only holding school financial data back to January 2011 and whatever information IBAC could acquire from the schools at which it executed search warrants.

IBAC has not confirmed that these companies received the money paid by the Department (aside from On the Ball Personnel). However, through a check of banking records, investigators have located documentation that indicates Nino Napoli and his family members were issuing invoices and receiving payments from the Department and through schools as early as 1996.

8 Department systems, controls and culture

8 Department systems, controls and culture

As part of Operation Ord, IBAC considered the adequacy of the systems and controls in place at the Department and its predecessors around procurement and financial management. This included how the Department audited funds moving in and out of state schools and how they detected if those processes were being manipulated to provide benefit to departmental officers. The investigation also looked at the extent to which the Department's organisational culture contributed to corrupt conduct, or hindered opportunities to detect and/or address that corrupt conduct.

A number of current and former departmental officers gave evidence that pertained to these issues, including:

- Gill Callister, Secretary
- Claire Britchford, former Chief Financial Officer
- Stephen Brown, former Regional Director Hume and Executive Director
- James Kelly, former General Manager Portfolio Governance and Improvement
- Gail Hart, former General Manager Corporate Services
- Jenny Zahara, former manager within the Schools Resource Allocation branch
- Eleanor Griffiths, former Manager Capital Budget
- Neil Loveless, audit officer
- Stewart Leslie, former Chair of the Portfolio Audit Committee.

8.1 Structural flaws enabled abuse of the banker school system

8.1.1 Two different and discrete finance systems

Probably the single most significant structural factor that enabled the abuse of the banker school system (and the factor that was at the heart of the concerns raised in the 2010 audit) was that the central office and schools operated two different and discrete accounting systems. All school-based transactions were recorded on the CASES21 platform set up for each individual school, whereas central office used the Oracle accounting package. Although information could be transferred from CASES21 into the Oracle system, the process was far from seamless.

Importantly, there was no procedure whereby payments at the school level were automatically or routinely referenced back to the funds advanced by central office that were used to make those payments. Once a grant or other allocation of funds for some generic purpose (for example, 'Partnership Programs') was signed off centrally and made to a school (being a payment outside the School Global Budget, which essentially covered recurrent expenses), those funds became invisible to central office. The acquittal of those funds was accounted for in CASES21 at the school level, but they were not directly accessible from central office or routinely reported back to central office.

The payments were subject to regular (but often infrequent) audits at school level, but were usually excluded from any real scrutiny on the basis of an explanation to the local auditors along the lines of 'this was central money for paying central expenses and nothing to do with the school'. As long as there was at least an invoice and payment voucher on file (and, ideally, a quote as well), no further questions were asked.

On some occasions, multiple invoices from the same company with the same invoice numbers were sent to and paid by schools. On other occasions, multiple schools paid the same invoices. CASES21, the system used by Victorian state government schools to manage administration and finances, was not capable of detecting these anomalies.

This deficiency was not rectified until 2011 when the Department introduced CASES21 Mirror, which gave central office access to school finance data on a daily basis.

8.1.2 A divide between the Department and schools

There appeared to be a divide between the Department's central office and schools. Many principals and business managers referred to central office as 'the Department' indicating that they considered themselves a separate entity.

To some extent, this is reflected in legislative and policy arrangements. For instance, teaching service staff are employed under the Education and Training Reform Act, while other staff are employed under the Public Administration Act. There were also a number of different policies applying to schools and the wider Department – for example, schools have their own policies regarding purchasing cards, recruitment and procurement.

The autonomy provided to schools may also have led to questionable conduct including recruitment of family and associates, and inappropriate purchasing.

Mr Loveless gave evidence that, in his view, schools were encouraged to be autonomous but they did not necessarily have the skills or resources to govern themselves in a way consistent with the expectations of public servants. Mr Loveless said:

> *It might be to do with a conflict of interest. It might be to do with the way they spend money on gifts, flowers, meals, alcohol, whatever it might be. And then when they get found out, somebody – somebody blows the whistle on them, then they come running saying, 'We didn't know that we're supposed to do that'.*

Ms Callister agreed there is something of a divide between those working in the Department (taken to be central office) and those working in schools. She recognised this was a problem, noting the importance of 'common commitments and accountabilities to the public'. Ms Callister indicated the Department was committed to developing and implementing a new regional support model that would better connect central office, regions and schools.

8.2 Manipulation of procurement processes

8.2.1 Blatant subversion of procurement processes

Operation Ord revealed a pattern of blatant subversion of departmental processes, many examples of which are documented earlier in this report:

- Conflict of interest was not declared or was concealed when engaging companies.
- Protocols around obtaining quotes were not followed:
  - invoices were either inflated in value or were for work which was not done at all
  - invoices were contrived to give the appearance that the companies that invoiced for printing and related work were credible and experienced when this was not the case
  - invoices disguised the true nature of the purchases
  - invoices were put through schools to avoid any scrutiny from the Department or the broader community.
- Purchasing cards were misused at both central office and within schools.
- Gifts and benefits from contractors were not declared.
- An unfair advantage was offered to at least one supplier from whom gifts had been received.

The investigation uncovered an example of the subversion of the procurement processes by Mr Napoli, unrelated to the abuse of banker schools but indicative of Mr Napoli's blatant disregard of proper procedures.

The following case study on page 95 shows Mr Napoli offering an unfair advantage to Geometric Technologies.

In 2009, Geometric Technologies (GT) was engaged by the Department to provide web-based solutions to assist the Department's response to emergencies affecting schools. Nino Napoli became known to GT's account manager through this contract. In 2010, Mr Napoli accepted two invitations from GT – one involved sailing around Port Phillip Bay on a super maxi yacht, the other involved Mr and Mrs Napoli attending an AFL match at the Etihad Stadium 'Inner Sanctum'. The value of the Etihad event was $780.

IBAC requested the gifts, benefits and hospitality register from the Department to check whether this hospitality had been declared, but it was not provided. The Department has since confirmed there is no evidence of a declaration of a gift, benefit or hospitality from GT on the register.

In June 2010, Mr Napoli awarded GT a $28,649 contract. Mr Napoli was a signatory to that contract.

In August 2011, Mr Napoli emailed the GT account manager, attaching a request for quote (RFQ) for consulting work within the Department. Mr Napoli invited the account manager to look at the RFQ 'before it officially gets sent out'. A formal RFQ was later sent to four companies, including GT. In September 2011, Mr Napoli awarded the $140,000 contract to GT. Five days later, Mr Napoli prepared a briefing note that stated 'a compliant procurement process has been undertaken in respect of the engagement of Geometric Technologies'.

In October that year, Mr Napoli accepted tickets to Emirates Stakes Day as a guest of GT. Mr and Mrs Napoli again attended Emirates Stakes Day in 2014, despite being on sick leave from the Department and the invitation coinciding with the renegotiation of the GT contract.

8.2.2 Evidence of poor controls around procurement

Operation Ord identified a general lack of control and rigour around procurement which enabled the subversion of processes to remain undetected.

The Finance Manual for Victorian Government Schools and the Department's Internal Controls for Victorian Government Schools outline internal financial management controls including those relating to procurement. These controls include segregating the purchase order approval from the person who receives the goods or services, all payments having supporting documentation, and confirming that goods/services have been received. However, it is clear these controls were either not consistently followed or were circumvented.

Deficiencies included the following:

- **Business managers consistently failed to check that the goods or services invoiced had been delivered or performed.**
- **Some invoices paid by banker schools were stamped to indicate goods or services had been received, although this had not occurred.** It is likely that invoices were stamped in this way to be seen to comply with the requirements of the payment process, not as a genuine control. Falsified invoices stamped in this way would mislead auditors reviewing procurement documentation, giving the appearance that proper steps had been taken to confirm goods or services had been provided.
- **It was common for schools that Mr Napoli used as banker schools to receive invoices without quotes.**
- **Invoices often contained insufficient information, yet were paid.**

- **Purchase orders were frequently raised after the invoice was received by the business manager who arranged payment.** This is poor practice and contrary to departmental policy that required business managers to attest they had arranged payment in accordance with the Department's instructions. Purchase orders should be raised by the business unit or individual requisitioning goods or services before procurement occurs. The purchase order should then be checked with the invoice and, where possible, against a receipt for goods to check that the correct goods and services have been ordered, delivered and invoiced. This did not occur.
- **No supporting documentation would be sent, but invoices were still paid.** Invoices would be sent to banker schools for payment, sometimes by private email or in a plain envelope, without supporting documentation of any kind (other than a handwritten note). In contrast, a number of witnesses gave evidence that legitimate grants paid to schools would be accompanied by an email confirming the grant and a formal notice which would be retained and filed by the school.
- **Co-signatory arrangements were not robust.** The majority of invoices discussed in this report were sent to primary schools for payment, where it was common practice for invoices to be approved by the principal, assistant principal and the business manager. A better practice would be to require a co-signatory that did not report directly to the principal, to provide a degree of segregation between people approving payment. (Requiring two signatories had little practical impact where the second signatory was a business manager acting under the control and direction of their principal.) Anne Jackson gave evidence that at Sale Secondary College, all payments must be co-signed by the principal and a school council member, to maintain some form of segregation between people approving payment. This did not prevent approval of false or inflated invoices but is a superior model.

Other controls, even when followed, failed to ensure proper financial management. For example, ensuring the principal or their delegate approved all purchase orders was ineffectual where the principal did little more than 'follow orders' of a superior to approve payment or where they were complicit in fabricating purchase orders.

8.2.3 Poor controls around accountability and financial mangement

Public servants are entrusted with public monies and are therefore expected to ensure those monies are expended in a way that is efficient, effective, accountable and value for money. Operation Ord identified practices that indicated a widespread lack of accountability for public money within the Department.

The investigation revealed a significant lack of transparency around the transfer of funds into and out of schools and no formal reporting or compliance obligations on banker schools through which they could be held to account. Invoices were paid without question at the direction of senior officers. Requesting schools to pay invoices for apparently central office expenditure did not cause disquiet.

Identified problems relating to accountability and financial management include:

- **Acceptance of informal arrangements and the maintenance of unofficial records.** As discussed elsewhere in this report, Mr Allman transferred an estimated $540,000 over a four-year period to Silverton Primary School. These funds were used to make 'grants' to other schools or to pay invoices as directed. Records of the transfer and use of these funds were informal at best and not centrally held or reviewed.

  Dr Brown, former Regional Director and Executive Director, gave evidence that Mr Allman had explained to him that banker schools facilitated the payment of invoices without the usual accountability or oversight and that unofficial records were maintained by Mr Fraser's office to track funds transferred to banker schools for payment of invoices (such records could not be located by IBAC).
- **The misleading use of the term 'grant'.** Payments to banker schools by Nino Napoli were sometimes described as 'grants' to disguise the true nature of the funds. The term 'grant' incorrectly implies the school had applied for the money for a specific program-related purpose. For instance, Mr Gamble gave evidence that $15,000 was transferred to Laburnum Primary School by Mr Napoli.

This was described as a grant associated with cluster professional development of financial management within schools. In fact, the funds were used to pay invoices forwarded by Mr Napoli. Describing transfers of funds as grants also implied there was accountability around delivering specific and agreed outcomes in return for the funding. This was not the case.

- **A relaxed approach to financial management.** The Department provides principals with financial management training. Talking Finances was a program developed by the Department's Financial Services division; indeed, Nino Napoli is credited with the creation of the Talking Finances and Dollars & Sense training packages. Talking Finances stated that principals are responsible for overseeing the financial administration of their school's finances and for developing appropriate financial procedures and controls to minimise risks.

  However, it appeared that some principals adopted a lenient approach towards financial management:

  - they consistently failed to scrutinise invoices sent for payment by Mr Napoli
  - many were not aware of any process that monitored funds coming in and going out of their school under some form of banker school arrangement
  - most had no interest given there was no school-related outcome for the school associated with the payment of invoices, as there would have been under a banker school arrangement.
- **Use of misleading descriptors in CASES21.** Although some business managers did take steps to track the money provided by Nino Napoli and other senior executives for banker school purposes by creating a separate sub-program within CASES21, the sub-program descriptors were misleading. The business manager of Silverton Primary School created a sub-program for funds deposited into the school by Mr Allman and Mr Fraser, which was disingenuously described as 'community partnerships regeneration'.

  Theoretically, through the creation of a specific sub-program, schools could produce a report showing income and expenditure against that line. In practice, other than arrangements put in place by Dr Brown and Grant Rau during their tenures as Regional Directors to identify and manage regional monies deposited into legitimate banker schools, there is no evidence these reports were reviewed at either regional level or central office.

  The sub-program was available for examination by school auditors, but the details recorded on CASES21 would not have revealed the link to Mr Napoli and other senior departmental officers.

8.2.4 The need for a greater separation of duties

As Director School Resources Allocation, Mr Napoli was responsible for the administration of a budget in excess of $5.5 billion for school resourcing. To a significant degree, Mr Napoli controlled the policy governing the funding of schools via the Student Resource Package, schools acquittal of their funding, and discretionary funding provided to schools ostensibly to meet budget shortfalls or specific program requirements. Mr Napoli also initiated procurement (real and fabricated) and sought payment through banker schools.

Former General Manager Portfolio Governance and Improvement, James Kelly commented in his evidence 'with the benefit of hindsight I think one of the issues here was that Nino had responsibility for both signing off on things and holding the money and dispersing the money, and that there should have been a greater separation of duties around that'. Ms Callister also acknowledged the accountability measures for the management of discretionary financial benefits as set out in the Standing Directions of the *Financial Management Act 1994* were not followed by Mr Napoli and, in other cases, were completely circumvented. These included the need to separate duties between the person appraising applications, approving offers and making payments.

8.2.5 The need to improve skills of business managers

The investigation also identified issues around the qualifications and training of business managers. Mary Hannett, business manager at Chandler Park Primary School, had no formal bookkeeping or accounting qualifications; she gave evidence that she was known to the school initially as a parent and effectively learnt on the job and through departmental

training courses. By way of contrast, the two business managers at secondary schools who gave evidence in the public examinations had qualifications in financial management or business accounting.

The Department has indicated it will review training and support provided to principals and business managers, and that it will consider the best way of managing the risks associated with the varying qualifications and capabilities of business managers.

8.3 Failure of audit program to detect problems

The Department's audit function included the following key elements:

- The Portfolio Audit Committee (now Portfolio Audit and Risk Committee) (PAC) was established pursuant to the Standing Directions of the Financial Management Act to oversee and advise the Department on matters of accountability and internal control. PAC reviewed and endorsed the annual audit plan and monitored audits and the progress of actions coming out of completed audits. PAC reported to the Secretary and was chaired by independent member Stewart Leslie between 2010 and 2013.
- The Department had an audit and risk branch. The branch was responsible for developing the annual audit plan, undertaking internal audits and monitoring outsourced audits. Mr Kelly was the general manager of this branch between 2007 and 2013 and reported via a 'dotted line' to the Secretary, as well as formally to a deputy secretary. Evidence was given that the internal audit function was staffed by approximately nine employees, including six auditors.
- The Department's audit program comprises a combination of planned audits, ad hoc audits (for example, in response to allegations of fraud at a particular school or work unit) and school council financial audits undertaken by contracted firms on a rolling basis. Collectively, these audits were considered to provide assurance around schools' financial activities and reports.

8.3.1 School council financial audits failed to detect illegitimate transactions

School council financial audits are conducted at least once every four years. According to the evidence of principals and business managers, these audits were previously conducted every year. Under the current approach, schools that meet certain criteria (for example, performing poorly in the previous year's audit) are subject to an audit.

The school council financial audits failed to detect the misuse of banker schools. Specifically, the audits did not raise concerns with funds being deposited into certain schools for purposes unrelated to school activities or programs, false invoices being paid, and invoices being paid for goods and services not received by the school.

The apparent failure of these audits can be partly attributed to deliberate acts to conceal false transactions and poor financial management practices such as:

- the auditors not being made aware that banker schools were paying invoices on the direction of senior officers in central and regional offices, for goods and services they did not receive
- the falsification of invoices to disguise their true purpose and to give the impression that the companies invoicing were legitimate
- the fabrication of purchase orders to give the impression that the goods or services purchased were something the paying school had specifically ordered
- transfer of monies to schools to reimburse invoice payments being disguised – for example, as a Student Resource Package funding adjustment, or as grants.

In addition, the audits of school finances were not comprehensive. It appears that auditors generally did not examine the detail of banker school transactions as those transactions were not considered directly relevant to the school's activities or finances. Ms Britchford stated in her evidence that following the 2010 audit of program coordinator schools, school auditors were directed to audit all transactions, including program coordinator school transactions. It is not clear if this occurred. The Department has advised it cannot find any evidence that school auditors were directed in this way.

According to departmental auditor Neil Loveless it is unlikely the school council financial audits process involved a detailed check of a batch of invoices to confirm their legitimacy. Mr Loveless said he believed auditors would have been focused on confirming that all the relevant documentation existed for particular purchases (that is, a quotation, purchase order, invoice and payment voucher) and cross checking against CASES21. Mr Loveless pointed out that the auditors were subject to time pressures, as the audit program had to be completed over a relatively short period of time.

The Department has acknowledged that it failed to adequately oversight school financial transactions and intends to implement additional measures including a data analytics program and a new school audit program.

8.3.2 Different accounting financial systems made it difficult to detect corrupt conduct

As mentioned earlier in this chapter, IBAC identified a significant factor in the corrupt conduct uncovered by Operation Ord was the existence of different finance-related systems in schools and the central office, and the inability of central office to access detailed data held by schools until 2011. This had particular ramifications for the conduct of audits.

The following departmental finance-related systems were identified:

- Ariba is the Department's electronic purchasing system. It manages approvals by financial delegates to purchase goods or services, generates 'direct orders' which are sent to suppliers, matches invoices to the direct order, and passes payment approvals to Oracle Financial for processing. It also records details of contracts.
- Oracle Financial is the Department's payment system for all funding and grants from central office to schools and third parties (for example, suppliers). It is also the Department's general ledger.
- CASES21 is the software used by schools for a range of administration and finance functions. CASES21 is able to produce financial reports that are intended to underpin schools' financial management. Schools do not use the Oracle Financial or Ariba systems.

CASES21 Mirror was introduced in January 2011 to give central office better access to and oversight of school finance data. Finance production data from more than 1500 government schools is uploaded nightly to the Mirror database. The Audit and Risk Unit installed a reporting capability over this mirror which allows the production of specific reports – for example, which schools have transacted with a certain supplier. Prior to 2011, central office relied on periodic audits at the school level to detect any financial anomalies. If credible allegations of misconduct or corrupt conduct were made regarding a school, the audit team would investigate. It is important to note that despite these additional controls the payment of false and inflated invoices to entities connected with Mr Napoli was not detected.

Also, standard auditing processes would not have uncovered payments being made by schools on behalf of senior officials as principals and business managers used descriptions and ledgers that prima facie indicated payments were for legitimate goods and services purchased and received by the school.

8.3.3 Inability to escalate risk issues for action

As outlined in section 3.5, in 2010 the Department's Audit and Risk Branch conducted an audit of program coordinator schools. The audit findings were both blunt and alarming. The audit did not find evidence of fraud but highlighted the program coordinator school system exposed the Department to a high risk of fraud.

In fact the audit appears on the evidence to have been delayed by Mr Rosewarne (then Acting Secretary) and Mr Napoli. Mr Kelly (General Manager Portfolio Governance and Improvement at the time) indicated that he was frustrated by Mr Rosewarne's obfuscation, describing the Acting Secretary as 'creating roadblocks to the progress of the audit'.

Mr Kelly said he raised his concerns with his then Deputy Secretary, PAC and people he respected outside of the Department. However, he did not appear to understand that he could go directly to the Victorian Auditor-General's Office (VAGO) with his concerns. There was regular contact between VAGO and the division (on a daily basis); however, the ability to disclose information to VAGO outside the normal processes seems to have been the subject of uncertainty. While there was no apparent legal

impediment to doing so, Mr Kelly gave evidence that 'it would have been odd' without first engaging the Secretary or his direct manager in the process.

In August 2011, the PAC Chair wrote to the then Acting Secretary Chris Wardlaw recommending that the Auditor-General be given the opportunity to review the findings of the program coordinator school audit (and three other audits considered part of a package) before signing his opinion on the Department's annual financial statements. Mr Wardlaw declined this advice, stating the issues raised were not material to the financial statements and it would be premature to release the reports before the Department had responded to the concerns. Whilst it might be expected the Chair's advice would normally be acted upon, it is not suggested that Mr Wardlaw was acting otherwise then transparently and in good faith at the time.

The current Secretary has acknowledged difficulties in the Department's dealings with VAGO and is taking steps to improve the relationship. The Department is also committed to reviewing Portfolio Audit and Risk Committee terms of reference, capabilities and issue escalation options.

8.4 Organisational culture

Section 7 of the *Public Administration Act 2004* outlines the values expected of public sector employees including integrity, impartiality, accountability and respect. The fact that these values have been set out in legislation suggests the high standards to which Parliament intended public officials to be held. It follows that leaders within an organisation should model the behaviour expected of all employees and consequently create a culture within an organisation that is consistent with those public sector values.

Unfortunately, this was not true within the Department. Senior officers, including members of the executive, modelled behaviours that contributed to an organisation beset with significant and deeply entrenched cultural issues incompatible with public sector values. While the unethical culture exposed by IBAC's Operation Ord was concentrated in central office, these issues also infiltrated certain regional offices and some schools.

Operation Ord highlighted cultural issues associated with a particular group of senior executives within the Department as described earlier. Due to their senior positions and their knowledge of systems and processes, these officers were able to bypass policies and procedures, misuse funds, and procure goods and services through family and friends, without detection.

As described earlier in this report, IBAC uncovered evidence of such persons assisting each other to bypass policies to engage in misconduct and to avoid detection. In addition, they recruited principals and business managers to disregard policy and procedures, and engage in inappropriate and potentially corrupt activity.

In 2010, the Department engaged an external consultant to conduct a review of cultural issues. This review was prompted by concerns raised with the Chair of the then State Services Authority regarding the culture at the Department, including inappropriate expenditure, excessive drinking by senior officers and bullying and harassing conduct at departmental forums and functions.

Mr Rosewarne was the executive sponsor of this project. The report found the Department's culture was generally supportive and aligned with the organisation's values of collaboration and information sharing, outcomes, respect and diversity, and empowerment. The report found there were no significant issues with a blokey or boozy culture. This was clearly incorrect; the report failed to identify issues with power vested in a small number of senior officers, bullying behaviour, and excessive drinking and hospitality. Perhaps this was inevitable given Mr Rosewarne's oversight of the review.

In summary, the departmental culture was characterised by:

- non-compliance with policies and procedures, rules and processes
- a culture of entitlement
- a 'boys club' mentality of drinking, lunching and preferential treatment
- inappropriate and/or unprofessional conduct by senior staff towards other staff
- bullying and fear of retribution.

8.4.1 Non-compliance with policies and procedures

Evidence given to IBAC clearly indicated that some officers considered procedures and policies as optional or not applicable to them. Furthermore, their seniority allowed the true extent of their behaviour to go undetected.

As the evidence presented elsewhere in this report demonstrates, Mr Napoli and other senior officers circumvented policies and procedures in relation to procurement and financial management. Bypassing policies and procedures in these ways created a 'shadow' financial system through the use of banker schools that enabled Mr Napoli and others to misuse public funds without detection for a significant period of time.

Two other areas of concern are the misuse of credit cards and non-compliance with travel protocols.

Non-compliance with credit card policy

In addition to the banker school system, Operation Ord revealed a culture of bypassing policies and procedures in relation to expenditure more broadly, including a culture of credit cards being used inappropriately by some senior officers.

In 2011, the Department's Audit and Risk Branch undertook a review into the use of corporate credit cards in central office. The review revealed the use of credit cards for non-departmental related expenses such as meals, coffee machines, and personal items (including, on one occasion, the purchase of jewellery by Mr Rosewarne for his wife). The review identified that this use of corporate credit cards was contrary to the Department's guidelines.

The review also identified the use of statutory declarations in lieu of original documentation to support purchases. These statutory declarations provided insufficient information about the item or service being purchased. This made it difficult to accurately assess its relevance to official Department business.

The evidence suggests that both Mr Rosewarne and Mr Fraser routinely bypassed procedures for substantiating credit card purchases with tax invoices, instead producing supporting statutory declarations.

Gail Hart, former General Manager, Corporate Services, gave an example in her evidence, stating:

> *If Mr Fraser hosted a function – a lunch or a dinner – instead of producing the receipt, he would do a statutory declaration saying that he had lost the receipt, that he had hosted a function at a particular venue, and the cost was this amount of money and these were the people who attended.*

Ms Hart estimated that this occurred probably once a fortnight. The use of statutory declarations in this way extended to substantiating expenses when Mr Fraser and Mr Rosewarne travelled overseas.

Another concern was that a subordinate employee would use a corporate credit card to buy goods or services and that expenditure would be approved by the employee's manager – who was also a beneficiary of the purchase. Evidence was heard in the public examinations that Stephen Sullivan, a relatively junior departmental employee who worked for Mr Fraser, would submit credit card expense claims including lunches with Mr Fraser. As Mr Sullivan's manager, Mr Fraser reviewed and approved those expenses. Ms Hart gave evidence that it was difficult to raise this issue within the Department because of the close relationship between Mr Rosewarne and Mr Fraser.

Non-compliance with travel policies and procedures

The Department has an international and domestic travel policy. The international travel policy clearly states that travel should only be undertaken when essential to specific work programs. It outlines the rules that should apply to travel applications, leave while overseas, and submission of a report upon return. The policy, which was frequently disregarded, is appropriately predicated on the assumption that international travel at public expense should be undertaken in accordance with strict rules and oversight, and that the learnings derived from the travel should be shared with the Department more broadly.

Evidence was given of inappropriate, unauthorised and/or seemingly excessive travel for certain employees including executives, principals and business managers and, in some instances, spouses:

- Mary Hannett, business manager at Chandler Park Primary School, told IBAC she undertook official travel to the United States four times, and to New Zealand three times. Ms Hannett gave evidence that she did not submit formal applications for the international travel and that she only produced a written report on the first overseas conference she attended. This is contrary to departmental policy.
- Mr Rosewarne travelled, in an official capacity, to Europe and Dubai in 2009 but did not produce a report. When questioned, he was unable to recall with whom he had met.
- Mr Rosewarne disregarded departmental policy by upgrading employees from economy to business class travel on international flights.
- An audit officer gave evidence that multiple principals travelled to Finland to observe that country's successful education system, but that more could have been done to coordinate the knowledge obtained from those trips, reducing the travel required.

It appears that departmental staff were aware that it was common practice to not comply with policies and procedures. A former departmental employee said there was a perception that some senior departmental officers surrounded themselves with people who would not question them or their practices. This may explain in part why a culture of non-compliance could develop and endure.

When non-compliance was challenged, it was met with resistance. For example, Ms Hart gave evidence that she experienced considerable pressure to grant exemptions from the procurement process when she was the chair of the Accredited Purchasing Unit. According to Ms Hart, Mr Rosewarne told her that other executives were complaining that she was being pedantic by not letting things through and suggested that she be 'more flexible' and look for ways around the processes.

In her statement, Ms Callister commented that the Department had identified a 'broader culture of poor compliance and lack of accountability in many areas relating to travel authorisations, and the use of vehicles and fuel cards and conflict of interest management that would not withstand the test of public scrutiny'.

8.4.2 A culture of entitlement

Underpinning the flouting of policies and procedures was a culture of entitlement among key senior departmental officers, including Mr Rosewarne and Mr Napoli. These officers appeared to believe that public money could be spent in any way they considered appropriate, including for extravagant functions or personal use.

Mr Napoli's sense of entitlement extended to enriching himself as well as family members and associates by using banker schools to pay for work not done or done at an inflated price.

Mr Rosewarne's and Mr Fraser's behaviour reflected a sense of entitlement that the Department funds functions regardless of their correlation to departmental work. The Christmas parties hosted by Mr Rosewarne and Mr Fraser for senior officers are one example (sections 4.3.1 and 4.3.2). Mr Rosewarne's use of public funds to pay for his 50th birthday party is another (section 4.3.7).

Further demonstrating an entitlement culture, witnesses gave evidence of extravagant retreats and conferences. As mentioned earlier, Eleanor Griffiths, a former Department manager, gave evidence that during a meeting about a retreat for the Financial Services division, it was decided that alcohol would be provided and it was assumed the alcohol would be paid out of the schools' global budget or a banker school (section 3.3.3).

Some witnesses said they were surprised at the amount of alcohol available at departmental functions. At some events, functions or conferences alcohol was supplied by the Department and consumed by staff well after the main meal was finished and the dining room closed, with reports that some executives were drinking late into the night. Excessive expenditure of public funds on alcohol is contrary to community expectations.

Ms Griffiths commented that the hospitality at the Department was more extravagant than she had experienced in private industry. She said her suggestions for less lavish team building or professional development functions were rejected and contributed to the perception that she was not a team player.

8.4.3 A 'boys club' – drinking, lunching and preferential treatment

Excessive drinking and lunching

More broadly, departmental functions and excessive alcohol consumption were said by some witnesses to be part of a 'boys club' culture within the Department. In particular Dr Brown described what he perceived as an embedded culture of excessive drinking and lunching, particularly among an 'inner circle' of influential officers including Jeffrey Rosewarne, Darrell Fraser, John Allman and others. Mr Napoli was also part of this inner circle.

The network was said to extend to certain former departmental employees, including Ian Maddison who contracted with the Department in a number of capacities including through his work with TigerTurf.

Mr Maddison regularly lunched with Mr Rosewarne, Mr Napoli and Mr Allman. On at least one occasion, the Chief Executive Officer of TigerTurf also attended lunch, which was paid for by TigerTurf. According to Mr Maddison, the purpose of the lunches was not to discuss business, although he agreed such discussions may have occurred.

IBAC heard evidence of Mr Maddison inviting Mr Rosewarne, Mr Napoli and Mr Allman to the AFL Grand Final as guests of TigerTurf, two years in a row. There was also an invitation from TigerTurf to a Sport Australia Hall of Fame Annual Induction Dinner at Crown Palladium.

Mr Maddison denied the invitations had any connection to the contracts between the Department and TigerTurf, suggesting instead that he invited Mr Rosewarne, Mr Allman and Mr Napoli as friends. However, Mr Maddison acknowledged that 'I may well have indicated to TigerTurf that they were senior people in Education and were therefore worth knowing'.

The Department had a policy around the receipt of gifts and benefits including a register to record details of all gifts and benefits received that exceeded a certain value. The policy encompassed invitations to events such as sporting events but Gail Hart (who as General Manager Corporate Services, oversaw the register) gave evidence that she could not remember any gift actually being entered onto the register.

Preferential treatment for awards and positions

There was a noticeable pattern of male principals receiving certain benefits (such as additional school funding, travel opportunities and employment opportunities) and the recipient's school making payments at the request of senior officers at central office.

Examples include:

- The principal of Silverton Primary School, Tony Bryant, receiving the 2011 'Outstanding School Leadership Award'. Mr Fraser chaired the interview panel for the award. As outlined earlier in this report, Silverton Primary School mainly acted for Mr Fraser and John Allman as a banker school and it made various payments at Mr Allman's direction.
- Gordon Pratt, principal of Brighton Primary School from 1998 to January 2009 being approached by Mr Fraser to take on the appointment as Executive Principal in Sharjah, a position Mr Pratt accepted. When Mr Pratt returned to Australia, he was offered the position of Technical Leadership Coach after an interview with Mr Fraser (and possibly Mr Napoli). This position was attached to Mr Napoli's Financial Services division. IBAC heard evidence that Brighton Primary School, during Mr Pratt's tenure as principal, purchased coffee machines for Mr Rosewarne and paid invoices at Mr Rosewarne's request, which did not relate to the provision of goods or services to the school.
- Tony Hilton being rehired two months after he retired as principal of Moonee Ponds West Primary School in March 2010 as a Technical Leadership Coach attached to Mr Napoli's division. Moonee Ponds West Primary School paid invoices at Mr Napoli's request (including for Mr Napoli, Mr Fraser and Mr Rosewarne) as well as $49,280 to On the Ball Personnel between December 2007 and December 2009. Mr Hilton was principal at the time.

  It was not possible on the available evidence to reach any conclusion on whether there was any causal link between these occurrences.

8.4.4 Inappropriate and unprofessional conduct by senior staff

Operation Ord received evidence of numerous instances of significant alleged unprofessional conduct on the part of senior departmental executives, including evidence of alleged alcohol abuse at events such as professional retreats.

There was also evidence from Dr Brown about the deterioration of his relationship with Mr Fraser. This followed Dr Brown's appointment to a senior position in central office (from a regional position) at the initiation of the then Secretary Peter Dawkins. Dr Brown said that at a departmental meeting, Mr Fraser expressed displeasure at Dr Brown's appointment, including inappropriately referring to his salary. According to Dr Brown, Mr Fraser felt threatened by his appointment, and also attributed the 2010 review of program coordinator schools to concerns that he (Dr Brown) had raised.

At a meeting intended to resolve the issues between the two men, Mr Fraser is said to have grabbed Dr Brown by the throat. Dr Brown said that the Department's culture, particularly his concerns about senior executives' unethical conduct and general inappropriate behaviour which verged on bullying, resulted in him leaving the Department. Other witnesses gave evidence that on occasions staff observed other senior officers behaving in ways that were inappropriate, outside rules or policies, or demonstrated poor integrity. Staff felt unable to raise the issue with more senior officers.

One witness reported that there was a significant demarcation within the Department between the executive and VPS employees. Regardless of professional performance or personal interactions, executive officers were perceived as generally beyond reproach for poor performance or bad behaviour. As a result, formal complaints were not adequately addressed.

8.4.5 Bullying and fear of retribution

One witness reported a general culture of fear and bullying within the Financial Services division that permeated across other areas of the Department. At least within the Financial Services division, staff who raised issues or identified mistakes were often bullied or intimidated. Jenny Zahara stated that when she attempted to dissuade Mr Napoli from allocating funds in excess of those budgeted 'he [Mr Napoli] would become extremely aggressive and yell and swear a lot'. This was a 'weekly, if not daily, occurrence'.

Another commented that staff were concerned that if they pushed back, their position within the Department could be jeopardised. On occasions, people who raised concerns, made complaints or questioned particular practices or decisions found they would not be approved for performance increments, they would be sidelined, their positions made redundant or they would be without a role following a restructure. IBAC heard evidence that in some circumstances these people were told they were not team players or they had the wrong attitude. Some were moved on.

Numerous witnesses told IBAC that senior officers did not support them when they raised issues or concerns about behaviours. A consistent theme was that those staff who did raise issues or concerns eventually felt they had nowhere to turn to raise concerns or complaints.

One witness told IBAC that the policies and procedures around conduct and ethics seemed to be weighted in favour of senior officers and did not appear to cater for a situation when a complaint was against a person's manager. Another witness raised concerns regarding the Department's formal complaints process, insofar as staff would work out who the 'whistleblower' was because any investigation would be handled internally.

It is well established that an ethical culture is underpinned by the tone from the top: it is critical that senior leaders and all managers actively model the values espoused by their organisation. If an organisation's most senior officials blatantly disregard policies and procedures and engage in unethical conduct, a clear message is sent to all staff that professionalism and integrity are not important. An environment is created where corruption can flourish.

9 Conclusions and recommendations

9 Conclusions and recommendations

Operation Ord revealed that funds intended for the Victorian state school system were corruptly misappropriated by a number of senior Department of Education and Training employees and used to pay for such things as excessive hospitality, travel and other personal expenses, or otherwise purloined for the personal benefit of themselves and their relatives.

IBAC estimates, based on checks of financial records which are available for seven years, that Nino Napoli and his relatives and associates corruptly obtained at least $1.9 million through the payment of invoices between 2007 and 2014. This does not include payments made through banker schools for inappropriate expenses (such as alcohol, hospitality and generous overseas travel), suspicious transactions involving entities associated with Mr Napoli prior to 2007, or contracts worth $3.293 million that were awarded following a dubious process or awarded to entities with whom Mr Napoli had a close relationship. Given the seniority of the officers involved and their knowledge of how the Department's systems could be easily exploited, it is likely that the amount misappropriated is significantly greater than $1.9 million.

Government funding of state schools is limited. School resources are often supplemented by parents making payments to help cover costs, teachers providing their own classroom materials and school communities pitching in through a range of voluntary fundraising activities. The knowledge that funds intended to support the education of some of the state's most disadvantaged children were misappropriated by senior departmental officers for their own personal gain is understandably a cause for significant public concern.

Through the corrupt misuse of a poorly defined banker school system, senior departmental officers were able to transfer funds from the Department's central or regional office budgets to schools and then direct the payment of invoices from those funds. This arrangement was generally accepted and enabled by a number of school principals and business managers because of the seniority of those involved and their established personal relationships. At least in some cases, a surprising number of principals and business managers turned a blind eye to questionable invoices because of an associated small financial return to the school, as well as benefits that accrued to individuals such as overseas travel and promotions.

Operation Ord identified substantial weaknesses in the Department's systems, controls and culture which created an environment in which the misconduct and corrupt conduct was able to flourish for at least seven years, and probably significantly longer. Key organisational failings included:

- a failure of controls and general lack of rigour around procurement, such as business managers failing to check goods and services outlined on invoices had been delivered
- poor controls around financial management including a general acceptance of the informal banker school arrangements, the maintenance of unofficial records and principals generally failing to fulfil their obligations regarding proper financial administration
- the failure of the Department's audit program to detect the misuse of funds through schools
- the operation of different financial systems in schools and central office which practically impeded central office accessing detailed financial data held by schools until 2011
- a culture of non-compliance with important policies and procedures, including those relating to procurement, financial management, recruitment, travel and use of corporate credit cards
- a culture of bullying of individuals who raised concerns about poor processes and inappropriate expenditure
- a culture of entitlement which enabled inappropriate conduct and expenditure of public funds (such as the purchase of alcohol) to be generally accepted
- the failure of senior leadership to set the right tone at the top, model organisational and public sector values and address the serious issues within the Department.

IBAC understands that the Department is implementing reforms designed to address the systemic failures that facilitated the conduct uncovered in Operation Ord and to develop a culture of integrity based on accountability and compliance. Key elements of this program include:

- the abolition of the program coordinator school and banker school model and the development of a new approach to facilitate joint purchasing by certain schools
- strengthening financial controls and compliance particularly in relation to schools and school councils
- building an 'integrity culture' within the Department including through the establishment of a new Integrity Division reporting directly to the Secretary.

These reforms will be challenging not only because of the scope of the changes required, but due to the size and structure of the Department (around 58,000 full-time equivalent employees, 96 per cent of whom are teaching service employees). At the direction of the Minister for Education, the Victorian Public Sector Commissioner will monitor and oversee the actions of the Department to address the issues identified in IBAC's investigation.

Pursuant to section 159(1) of the IBAC Act, IBAC makes the following recommendations:

Recommendation 1

The Secretary of the Department to provide IBAC with a detailed progress report by 30 December 2016 on the implementation of its reform program to address the issues identified during Operation Ord and a final report demonstrating the effectiveness of these reforms by 30 September 2017. These reports will be published on IBAC's website.

Recommendation 2

The Secretary's reports are to advise on actions to strengthen integrity and corruption prevention across the Department (including schools) in relation to the following issues, inter alia:

a. All employees' understanding of and compliance with public sector values and the code of conduct, and departmental policies and procedures related to conflicts of interest, declarable associations, and gifts and benefits

b. Employment policies and practices, including pre-employment vetting of prospective employees and regular revalidation for employees in identified positions, the potential for rotation of employees in identified positions and executive roles, and any steps taken to improve disciplinary and dismissal processes for employees found to have engaged in serious misconduct or corruption

c. Financial management, procurement and contracting systems and controls, and associated employee training and compliance measures

d. School governance and financial management arrangements, including the proposed new model to deliver 'shared services' to schools (ie. any new approach to program coordinator schools) and relevant policies, procedures and other controls

e. Audit and risk management programs to provide assurance in areas of identified risk

f. Mechanisms to encourage and support employees to speak up and report suspected misconduct or corruption, and to ensure appropriate assessment, escalation and investigation of such matters

g. Leadership and management programs to ensure executives are accountable for modelling integrity and public sector values, and to set the right tone at the top.

Recommendation 3

The Department to undertake a review to identify and audit any schools in addition to those identified by Operation Ord that may have been used inappropriately as banker schools to expend funds on behalf of either regional or central office.

Recommendation 4

The Department to take appropriate steps to exclude people and entities whose behaviour has been found to be improper or corrupt from obtaining work with the Department (including schools) in future.

Recommendation 5

The Victorian Auditor-General's Office to consider undertaking an audit of the Department to assess whether the issues identified in Operation Ord, specifically in relation to false payments made by schools, have been effectively addressed by the Department.

The alleged corrupt conduct exposed by Operation Ord and the associated public examinations highlighted the detrimental effects of public sector corruption and had a significant flow-on effect of additional complaints made to IBAC by public sector employees and members of the public.

From a corruption prevention perspective, Operation Ord's impact has extended beyond the Department of Education and Training to the broader Victorian public sector. In response to IBAC's exposure of serious and systemic corruption at senior levels within a major state government Department, in August 2015 the Victorian Secretaries' Board (VSB) issued a strong statement of commitment to preventing and eliminating corruption.

The VSB has committed to a corruption prevention and integrity action plan, including:

- inviting the independent chairs of member agencies' audit committees to regularly meet as a group and advise on whole-of-government corruption risks and solutions
- each appointing a senior executive Corruption Prevention and Integrity Champion to lead and coordinate the work within each agency and to share good practice.

The VSB comprises the secretaries of the seven Victorian Government departments, as well as the Victorian Public Sector Commissioner and the Chief Commissioner of Victoria Police. Chaired by the Secretary of the Department of Premier and Cabinet, the VSB is ultimately responsible for stewardship of the Victorian public service, including coordinated action to strengthen integrity and prevent corruption.

Recommendation 6

The Secretary of the Department of Premier and Cabinet provide a report to IBAC by 30 December 2016 on implementation of the VSB's corruption prevention and integrity action plan. This report will be published on IBAC's website.

IBAC is finalising Operation Ord, including determining whether it is appropriate to compile briefs of evidence for consideration by the Office of Public Prosecutions.

IBAC is also conducting another investigation into the Department of Education and Training. Operation Dunham is examining serious corruption allegations concerning the Department's $180 million Ultranet project, including:

- how contracts around the online learning portal were tendered and awarded
- the personal and business connections between Department employees and businesses involved in the Ultranet project
- whether current or former Department employees released confidential information, or used their position to influence procurement processes
- whether Department employees received payments, gifts, travel, employment opportunities or other benefits because they were involved in the Ultranet tender or procurement processes
- Department procurement and conflict of interest processes, and organisational culture.

IBAC is aware that, as a consequence of Operation Dunham, the VSB has committed to further action to prevent corruption across the Victorian public service, with a focus on:

- supporting ethical leadership
- overseeing a review of policies and procedures relevant to managing conflicts of interest, the public sector code of conduct, and gift, benefits and hospitality.

Operation Dunham will be the subject of a separate special report to Parliament later in 2016.

10 Appendices

Appendix A: Compliance with Protected Disclosure Act

Upon receiving the initial information that gave rise to Operation Ord, IBAC made an assessment of that information in accordance with the requirements of section 26 of the *Protected Disclosure Act 2012*. IBAC assessed that the disclosure fell within section 9 of the Protected Disclosure Act in that it was information that: 'shows, or tends to show' (or which the person believes on reasonable grounds shows, or tends to show), a person, public officer or public body has engaged, is engaging or proposes to engage in improper conduct.

Improper conduct is defined under section 4(1) of the Protected Disclosure Act. It was determined the disclosure in this operation was a protected disclosure complaint relating to 'improper conduct' as prescribed by section 9.

Consequently, the disclosure was determined to be a protected disclosure complaint pursuant to section 26(3)(a) of the Protected Disclosure Act.

Provisions protecting a person who has made a protected disclosure are set out in Part 6 of the Protected Disclosure Act. Confidentiality provisions also apply to all protected disclosure complaints to ensure the identity of the person making the complaint and the content of the disclosure are protected. Subject to the exceptions set out in part 7, sections 52 and 53 of the Protected Disclosure Act specify it is a criminal offence for:

- a person who received the disclosure, or has any information about the disclosure, to disclose the content or information about the content of the disclosure, and
- a person or body to disclose information likely to lead to the identification of a person who has made a disclosure.

The importance of ensuring all protected disclosure information remains confidential is further reflected in the fact that the Protected Disclosure Act also imposes confidentiality obligations on the discloser under section 74.

Section 131 of the IBAC Act requires that when a witness is summonsed to attend an examination (or produce a document or thing) for an investigation relating to a protected disclosure complaint, IBAC must advise the witness that they may be subject to obligations under the Protected Disclosure Act and of the nature of those obligations, prior to the witness being asked any questions, or producing any document or thing.

Consequently, each witness called to give evidence during Operation Ord, and any legal representative appearing on their behalf, was informed of the fact they would be committing a criminal offence if they disclosed:

- the content or information about the content of the disclosure, or
- information likely to lead to the identification of the person who made the assessable disclosure.

Witnesses were informed that they could disclose the content or information about the content of the protected disclosure to their lawyer for the purposes of obtaining legal advice or as part of their representation before IBAC but were not to disclose the information for any other purpose.

Similar provisions apply to Australian legal practitioners representing a witness at an examination involving a protected disclosure complaint. Pursuant to section 130(1)(d) of the IBAC Act, legal practitioners must be informed of confidentiality obligations under the Protected Disclosure Act as well as non-disclosure obligations under the IBAC Act.

Legal representatives appearing for witnesses during an examination in Operation Ord were informed that they may disclose such information to comply with a legal duty of disclosure or a professional obligation arising from their professional relationship with their client.

Except in limited circumstances prescribed by the Protected Disclosure Act, the obligation to maintain confidentiality of the disclosure and the discloser is an ongoing one.

Appendix B: Natural justice requirements and responses

Some parts of this special report were considered to be covered by section 162(4) of the *Independent Broad-based Anti-corruption Commission Act 2011*, which requires that non-adverse comment or opinion about any person be shown to them in advance. Therefore, such persons were extended the opportunity to inspect relevant parts.

To the extent that persons are identified in the report and are not the subject of adverse comment or opinion, IBAC is satisfied in accordance with section 162(7) that:

- it is desirable to do so in the public interest
- it will not cause unreasonable damage to any such person's reputation, safety or wellbeing
- each such person is not the subject, nor for that matter intended to be the subject, of any adverse comment or opinion.

To the extent that public bodies and persons are identified in the report and are the subject of adverse findings[5], comment or opinion[6], they have been given a reasonable opportunity to respond to same by being shown in draft material parts relating to them. In accordance with sections 162(2) and (3) respectively of the IBAC Act, responses – to the extent they are of the kind provided for in the IBAC Act – are set out below.

John Allman

Section		Mr Allman's comments
1.2.2	Involvement of senior departmental staff with banker schools	Mr Allman says a clear distinction needs to be drawn between Mr Napoli's use of banker schools for his own personal gain and Mr Allman's use of banker schools for no personal gain to park excess funds, often at the end of a given financial year, for the purpose of making payments outside of departmental guidelines. Mr Allman was aware that Mr Napoli allocated money to banker schools, however, he contends the evidence does not establish that Mr Allman directed Mr Napoli to invoice schools or, indeed, that he was aware that Mr Napoli did so. To the contrary, Mr Allman's evidence is that when he held the position of Executive Director/General Manager and used the Silverton Primary School as a banker school, he gave directions to make payments to that school either on his own initiative, or at the initiative of Mr Fraser.
3.1.5	Anne Jackson, business manager at Sale Secondary College, described her school as 'unofficially to semi-officially a banker school'	Mr Allman says he had no knowledge of this at any time.
3.3.3	Banker schools also enabled low level abuse of the system – use of Silverton Primary School as a banker school	Over the period 2008 to 2011, when Mr Allman was using Silverton, his position was General Manager/Executive Director, Education Partnership and Regeneration. As the name of his position indicates, Mr Allman's responsibilities were twofold, that is, he developed partnerships on behalf of the Department and undertook regeneration policy work in the Department. While Mr Allman is not aware of the particular description 'Partnership Regeneration Grant to Silverton PS', he does agree that he did use descriptions of this nature to identify the making of payments so they could be monitored and tracked by both Silverton and Mr Allman. Mr Allman says that, to the best of his recollection, leaving aside the payments initiated by Mr Fraser, all the payments authorised by him were connected to his portfolio.

[5] In relation to public bodies.

[6] In relation to persons.

Appendix B: Natural justice requirements and responses

John Allman

Section		Mr Allman's comments
3.3.3	Mr Allman said that banker schools like Silverton were 'very much about giving flexibility to the person requesting expenditure of those funds, and that flexibility went around compliance guidelines to the Department'. Money was taken out of central funds 'to hide it from government processes'	While Mr Allman readily agrees his involvement in these processes was inappropriate, he contends there is no evidence that he personally profited from the use of banker schools or that he used a banker school knowing that Mr Napoli, a member of Mr Napoli's family or Mr Rosewarne would personally benefit.
3.3.3	Segment headed 'Silverton Primary School: flexibility around compliance guidelines'	In response to the use of banker school monies to allow a newly-employed Regional Director to remain living at Quest Apartments, represents, in Mr Allman's view, an example of where the inflexibility of departmental guidelines meant that even a Deputy Secretary could readily, as a matter of discretion, authorise the expenditure of a moderate amount of money for a legitimate purpose. As to the other matters, Mr Allman says that: • As part of his partnership role, the Department had partnerships with the Royal Children's Hospital Education Institute and the Alannah and Madeline Foundation. From time to time, the Department would be asked to provide financial support for particular work being done by these organisations. • As to the purchase of Christmas puddings and Easter rabbits, it was over many years commonplace within schools and within the Department for modest gifts to be given to staff at Christmas and Easter and for these to be purchased from public money. The purchases in this case were initiated by Mr Fraser. • The payment for a room at the Kent Hotel was initiated by Mr Allman for a Christmas lunch - it was, over many years, common practice within schools and within the Department for there to be a Christmas lunch paid for using public money. This practice did not include the purchase of alcohol. On this occasion, a room was hired in order to conduct a meeting of about 13 people who comprised Mr Allman's staff. The meeting was followed by Christmas lunch for Mr Allman and his staff. The payment covered the cost of the room and the meal but not alcohol. • Mr Allman advises he has no knowledge of the payments referred to by Mr Hilton.
3.3.3	Despite Mr Napoli's evidence of more widespread abuse of the banker school system, IBAC does not have evidence of individual Department executives apart from Messrs Rosewarne, Fraser, Allman and Napoli personally establishing or using banker schools in the manner described in the Silverton case study	Whilst this may be the state of evidence before IBAC, Mr Allman says that more evidence of the misuse of banker schools would have been readily available had further inquiries been made. Had this additional evidence been found, it is contended that Mr Allman's actions would have been viewed in a wider context. As a result, Mr Allman contends there is an undue emphasis on him in the report. The few examples cited in section 3.4.2 reflect the very limited identification in the report of the use of banker schools to circumvent departmental procedures.

John Allman

Section		Mr Allman's comments
3.4.2 and 8.4.3	Direct benefits to principals and business managers	Mr Allman says that he was not responsible for Mr Bryant receiving any benefits on account of being the principal of a banker school nor to his knowledge did he receive benefits for this reason. Insofar as overseas trips are concerned, these would have been signed off by Mr Bryant's Regional Director, Peter Greenwall. As General Manager/Executive Director, Education Partnerships and Regeneration, Mr Allman says he was not in a position to give directions to Mr Greenwall. Mr Bryant was a leader and innovator in the use of information technology in primary schools and that, to Mr Allman's knowledge, in recognition of his expertise, Mr Bryant did travel overseas to attend conferences and had travelling expenses paid for by third parties.
5.2	Mr Napoli also had a close professional and personal relationship with Jeffrey Rosewarne, one of the most senior officers within the Department, and was part of an influential 'boys club' that included Mr Rosewarne, John Allman and Darrell Fraser. As the Department's Secretary Gill Callister noted in her statement, Mr Napoli was part of a coterie of senior departmental executives in whom was vested excessive control	Mr Allman does not agree that he was part of an influential 'boys club' nor was he part of a 'coterie of senior departmental executives' or that such groups existed. Mr Allman says: • He did not have a close professional relationship with Mr Rosewarne until 2011 when he acted as Deputy Secretary following Mr Fraser's departure. His relationship with Mr Rosewarne did not develop into a personal relationship until 2013 at which point, Mr Rosewarne had left the Department. Accordingly, during the period when banker schools were operating, Mr Allman had little to do with Mr Rosewarne. • Mr Fraser by reason of his ability, vision and drive was the most influential of the four Deputy Secretaries over the relevant period. • Mr Fraser had neither a close personal nor professional relationship with Mr Napoli – to the contrary, Mr Fraser did not like Mr Napoli and avoided dealing directly with him. • To the extent that Mr Allman socialised with other senior officers, he agrees that he socialised with Mr Rosewarne and Mr Napoli through having lunch with them but rarely with Mr Fraser. • To the extent that he socialised with Mr Fraser, the socialising was separate from his socialising with Mr Rosewarne and Mr Napoli and others. • Mr Allman does not agree that as a result of this relationship with Mr Rosewarne and Mr Napoli, he had more authority and influence than other General Managers/Executive Directors.
6.2	Of particular concern to Mr Allman (as explained in his evidence) and why he asked Mr Napoli not to mention the matter, was the way in which he dealt with those funds	Mr Allman says that, at about the time of his conversation with Mr Napoli, he was aware of rumours that Mr Napoli had, through banker schools, misused public monies for private gain. Mr Allman was, therefore, concerned that any investigation involving Mr Napoli would also involve him. Mr Allman wanted to keep his Silverton activity separate from anything that Mr Napoli was involved in.
6.2	Mr Allman did, however, confirm when specifically asked that several thousand dollars' worth of wines (for staff functions he claimed) were purchased	Mr Allman says these payments were requested by Mr Fraser.

Appendix B: Natural justice requirements and responses

John Allman

Section		Mr Allman's comments
6.3	Destruction of departmental documents	Mr Allman says the documents destroyed included hand written notes he prepared in late-2014 setting out the transactions he could recall went through Silverton. Mr Allman further states the documents he destroyed did not represent a complete set of documents relating to the Silverton banker school - they consisted of some documents fitting this description, however, all of these documents could have been retrieved from either the Silverton IT system or the Department's IT system such as emails between Mr Allman and Mr Napoli in relation to depositing monies in the Silverton account, and emails between Mr Allman and Silverton. Mr Allman says he did not destroy the folder of documents previously held by Mr Sullivan which is referred to in section 6.2.
6.5	Mr Bryant... agreed to pay more than $11,000 to Benalla West Primary School (without knowing the purpose) as well as a further $100,000 for turf trials at the Maryborough Education Precinct (in relation to a product called TigerTurf, which a friend of Mr Rosewarne and Mr Allman, Ian Maddison, was associated with).	Mr Allman says the $11,000 paid to Benalla West Primary School was authorised by him for regeneration work. His recollection of the $100,000 payment for turf trials is that it was directed by Mr Fraser after the Department received representations through the Minister from the Premier for something to be done about the grounds of the Maryborough Education Precinct. The relevant school council sought tenders for the work and the successful tenderer was not TigerTurf. Apart from directing that money held at Silverton be used for this purpose, Mr Allman had no involvement in the process. Hence TigerTurf gained no advantage out of Mr Maddison's relationship with Mr Allman.
6.5	$47,000 payment by Silverton to Millimetre Printing Company	Mr Allman, having read the transcript of Mr Bryant's evidence when this telephone conversation was raised, recalls that he was at the time, concerned about rumours that Mr Napoli had arranged for payments to be made from banker schools to bogus printing companies. In the conversation, Mr Bryant referred to a large payment from Silverton to a printing company having been made. At the time, Mr Allman recalled there had been a large payment to a printing company and became concerned the payment may not have been genuine. Mr Allman says he later discovered the printing invoice was for work requested by Mr Fraser and the payment was to Millimetre Printing.
8.4	Organisational culture	Mr Allman would not describe the situation in the Department as a 'cultural issue'; rather, it was an issue around the financial management of the Department with, on the one hand, slow and rigid procedures for procurement and budgeting processes which did not readily cater for unforeseen circumstances. Mr Allman says these rigidities and inadequacies, and the inability of senior officers to appreciate the potential for abuse, led to the widespread misuse of the banker school system and created a situation where Mr Napoli and Mr Rosewarne were able to abuse banker schools to obtain personal benefit. Neither Mr Allman nor Mr Fraser were responsible for using banker schools as a device to obtain a personal benefit.

John Allman

Section		Mr Allman's comments
8.4.3	Influential 'boys club'	Mr Allman disagrees that a 'boys club' existed within the Department and says the following are inaccuracies about him in Dr Brown's evidence: • He never had a departmental credit card. • The references to him attending long lunches are exaggerated, alcohol was rarely consumed at these lunches and if it was, it was consumed sparingly. • He never had lunch with Mr Craig or Mr Lake. • He had an occasional lunch with Mr Fraser but not with the others mentioned. • To the extent that he did have regular lunches, they involved a smaller group and generally lasted no more than an hour. • Where Dr Brown stated that there was a 'sense' there was a 'caucus' before fortnightly meetings so there was an agenda, Mr Allman says that he never participated in a 'caucus' meeting with the so called 'inner circle', nor was he aware of such caucus meetings. Mr Allman contends that conclusions about the cause of the breakdown in departmental systems cannot be attributed to the notion of the Department's decision making process being controlled by an 'inner circle'. Mr Allman says the misuse of banker schools occurred over decades and involved in any one period of time, dozens of people; and that the taking of public money for private benefit was confined to Mr Napoli and Mr Rosewarne.
8.4.3	Ian Maddison	Mr Allman agrees Mr Maddison did attend lunches with himself and other former colleagues from the Department. Mr Allman says he was aware that many schools were considering the installation of synthetic turf in school grounds, however, these decisions were taken at a school level, by school councils, and were not decisions for which he had any responsibility nor did he seek to influence those decisions. Further, Mr Allman says there is no evidence of any involvement of him in decisions by schools to acquire synthetic turf from any supplier including TigerTurf and he denies ever influencing the purchase of TigerTurf by schools. Further, Mr Allman says it was never his understanding that the invitations he received were connected to contracts TigerTurf had with schools. Mr Allman agrees he did not record the functions attended by him and paid for by TigerTurf. Mr Allman was never asked to declare gifts or benefits and, prior to Operation Ord, had little knowledge of a departmental register to record gifts or benefits or his obligations to make declarations.

Appendix B: Natural justice requirements and responses

Claire Britchford

Section		Ms Britchford's comments
3.3.3	Banker schools also enabled low level abuse of the system	Ms Britchford says she does not recollect the conversation regarding the payment for the Lorne retreat in 2004 or 2005 but would not have assumed that any payments would have been made from banker schools because at that time, she was relatively new in the role and not familiar with banker schools. Further, once the issue of banker schools was raised with her, she would not have tolerated their use to circumvent proper financial processes.
5.5	Nino Napoli's reporting arrangements	Regarding Ms Zahara's evidence, Ms Britchford says she did not knowingly ever publicly embarrass Ms Zahara, nor did Ms Zahara ever express a view to her that she had. Further, she refers to the results of an anonymous survey conducted in Augut 2010 where 28 of her colleagues, managers, direct reports and stakeholders were asked to provide feedback on a variety of questions about her. Ms Zahara was a responder to that survey. However, Ms Britchford received no comments in this anonymous forum to indicate anyone was embarrassed by her actions or were otherwise unhappy with their interactions with her. Ms Britchford says her supervision of Ms Zahara was always professional. In her team, there was always a robust exchange of ideas and views. She has no recollection of Ms Zahara pressing any issues about the budget with her, either privately or publicly, but it is possible they had an exchange about it at some point.
5.5.1	Chief Financial Officer's failure to detect wrongdoing	Ms Britchford says she did not 'lobby' Mr Rosewarne on any matter. She knew he was aware of the audit report and the issues that were raised. Her expectations was that he and the internal audit team would take the action necessary to progress the report to completion and that recommendations and actions would be assigned to responsible officers to implement. To the extent that she was one of the responsible officers, Ms Britchford says she implemented the actions recommended that were allocated to her. Given Mr Rosewarne's portfolio responsibilities that expectation was reasonable and did not require that she 'go and lobby' her manager to do what he ought to have done in the proper fulfilment of his duties. Regarding her not having detected Mr Napoli's improper activities, Ms Britchford says they were hidden. Further that he was able to hide his activities in the main because he had authority to approve the fraudulent transactions and he had the confidence of her manager, Mr Rosewarne. Mr Napoli was a senior executive in the organisation with significant responsibilities and decision making authority. Ms Britchford says she could not, in the proper fulfilment of her role, scrutinise the transactions that Mr Napoli approved that were within his financial delegation. There was nothing that alerted her, or could have alerted her, to the improper activities that Mr Napoli was undertaking.

Anthony Bryant

Section		Mr Bryant's comments
8.4.3	Preferential treatment for awards and positions	Mr Bryant says the Education Excellence Awards were an annual event. Many awards were given including the Outstanding Leadership Award. Mr Fraser did chair the selection panel for the Outstanding Leadership Award and the other major award, the Lindsay Thompson Award. Mr Fraser was only one of the four people on the selection panel. Mr Bryant cannot recall the names of the other panel members except for Colin Schott, a respected senior principal based in Gippsland. Before the Outstanding Leadership Award selection process commenced, Mr Bryant says he was advised by the Department that a group of principals from the Ballarat region had recommended the be considered for that award after they had visited Silverton Primary School. He then applied for the award and after a rigorous selection process, he was announced as the winner. Mr Bryant says that he received the Outstanding Leadership Award on merit and that Mr Fraser's membership on the interview panel does not provide a basis to suggest otherwise. Mr Bryant says further evidence of his merit includes that he has been: • recognised internationally by Microsoft Corporation and Cisco Systems • made an Honorary Fellow of the Victorian Branch of the Australian Council for Educational Leaders • made an Honorary Fellow of the Victorian Branch of the Australian College of Educators • made a national Honorary Fellow of the Australian Council for Educational Leaders • invited by the Bastow Institute of Educational Leadership to mentor young principals and aspiring leaders.

Appendix B: Natural justice requirements and responses

Darrell Fraser

Section		Mr Fraser's comments
2.5 and 3.3	Silverton as a banker school	Mr Fraser says payments made from Silverson's account at his request were made after invoices had been received and all were related to the work of the Office of Government School Education (OGSE). Further Mr Fraser says there were no fraudulent invoices issued with respect to his requests and he had nothing to do with any false invoicing by others. Mr Fraser says no payment was made for his personal benefit.
3.4.2 and 8.4.3	Award to Mr Bryant	Mr Fraser says Mr Bryant was generally acknowledged to be a high performing principal. The selection panel for this award was chaired by Mr Fraser and included four other people: a principal, Judy Petch, a representative of the Australian College of Educators and another employee from the OGSE. Thus two panel members were independent from head office. Mr Fraser says the selection process was rigorous and included written applications, a shortlisting process and then an interview. The panel decision was carefully considered and was based on consensus.
5.2 and 8.4.3	'Boys club'	Mr Fraser does not consider he was part of an influential 'boys club' and for reasons which appear below, contends Dr Brown's evidence to be unreliable. Mr Fraser was a friend of both Mr Allman and Mr Rosewarne but was not part of their regular luncheon club. Rather Mr Fraser says while Deputy Secretary of OGSE, he only attended their 'Waiters Club' lunches about six times over a period of seven and a half years, by invitation. Mr Fraser does not accept there was a 'boys club' mentality operating within the Department. Mr Fraser says there was a report commissioned by the then State Services Authority that, amongst other things, determined there was no evidence to suggest a 'boys club' type environment existed. Additionally, Mr Fraser contends that former Department Secretary Peter Dawkins giving evidence in IBAC Operation Dunham (in March 2016) rejected the proposition the Department was a 'boys club' and recounted his record of appointing women into the senior leadership team. Mr Fraser worked with many of these women, who he says were highly skilled and intelligent, and bought their ideas to the table in a compelling way.
6.2	Mr Sullivan's role	Mr Fraser says Mr Sullivan did not keep records of transactions that Mr Allman oversaw from the Silverton account. Mr Sullivan did keep a record of grants that Mr Fraser made to schools, the source of the funding being the OGSE secretariat budget. Mr Allman says he kept a folder that contained the details of the Silverton account and that Dr Brown's evidence was incorrect.
8.2.3	Alleged unofficial records kept by Mr Fraser	Mr Fraser says the records of each of the transactions that Mr Allman authorised to be paid through the Silverton account were kept by Silverton (and would have been part of the regular school audit program) and a copy was kept by Mr Allman. Mr Fraser says his office did not have a second set of records as Dr Brown stated he was told by Mr Allman.

Darrell Fraser

Section		Mr Fraser's comments
8.4.3	Mr Pratt	Mr Fraser says Mr Pratt became known to him after he had been to Brighton Primary School as part of his regular school visit program. Mr Pratt was also a well-known principal because of his work with the Primary Principals Association. Mr Fraser came to have a high regard for Mr Pratt, as an educator, a school leader and a system contributor. Mr Fraser says he asked Mr Pratt at some point in late-2008 whether he would attend a meeting with him to discuss a sensitive matter in relation to the Victorian International School in Sharjah. The Ruler of Sharjah's advisor, Dr Amr, had asked Mr Fraser to find a replacement Executive Director for the school as he was in the process of dismissing the current one. Mr Fraser says he had little time to find a solution. He knew that Mr Pratt was considering retirement and he also knew Mr Pratt possessed the sophisticated interpersonal skills that were required to repair the damage caused by Dr Amr's declining confidence in the school and to manage the issues that had emerged with the staff. Mr Fraser says that after significant persuasion and multiple discussions, Mr Pratt agreed to undertake the position of Executive Director, requiring him to relocate to the Middle East. The role was complex and far from rewarding in the beginning. Mr Fraser says Mr Pratt did an outstanding job and prepared the school for a new principal after a period of 18 months. Mr Fraser says Mr Pratt did the Department a significant service by agreeing to undertake this work. Mr Fraser says he was not aware of Mr Pratt's role in purchasing coffee machines or indeed any of the details of his relationship with Mr Rosewarne and Mr Napoli. Mr Fraser was asked by Mr Napoli to interview Mr Pratt for the Leadership Coach role and says he more than satisfied the requirements of this role. He was a very experienced principal and had a proven track record as a successful leader in a school setting.
8.4.3	Mr Napoli's invoice request	Mr Fraser says he has no knowledge of Mr Napoli asking Mr Hilton to pay for an invoice for him. Mr Fraser suggests this is another example of Mr Napoli using his relationship with senior Department executives to add authority to his requests.
8.4.4	Dr Brown's evidence	Mr Fraser does not accept Dr Brown's evidence against him. He specifically denies doing more than making a choking grip with his hands and advancing them towards Dr Brown's neck, without making contact, as a theatrical gesture out of exasperation, as some things Dr Brown had been saying repeatedly about his desire for career advancement and lack of relationship with members of the OGSE leadership group. More generally, he contends Dr Brown is an unreliable witness against him as he has an 'axe to grind', principally due to feeling undervalued within Mr Fraser's area and unsupported. Also, Mr Fraser says Dr Brown felt he did not receive sufficient recognition for his work and career advancement.

Appendix B: Natural justice requirements and responses

Anthony Hilton

Section		Mr Hilton's comments
8.4.3	Mr Hilton's employment as a Technical Leadership Coach (TLC)	Mr Hilton submits the following: • The TLC role did not exist within the Department prior to 2010. • The need for a role such as a TLC was identified at an expert principals' group and workforce bridging panel. • The job was centrally advertised on the Department's recruitment program, however the advertisement was also visible to applicants external to the Department. • He applied and was shortlisted for the position. • The interview panel consisted of: - Katherine Henderson, Regional Manager, South-West region, the region from which the position was being hosted - Geoff Pell, principal representative on the workforce bridging panel, the group out of which the position would work - Rex Pirie, workforce bridging coordinator, the section out of which the position would work, and - Nino Napoli. • At least one other applicant was interviewed for the position. • He did not believe Mr Rosewarne had any role in his appointment to the TLC position. • He was employed in the TLC position because he was the best candidate for the job after going through the central selection process and he got the job on merit. • Mr Napoli did not provide any evidence about his level of involvement with Mr Hilton's recruitment as a TLC. Having regard to the recruitment process, the members of the selection panel and Mr Hilton's credentials, Mr Hilton refutes any suggestion there was any correlation between Moonee Ponds West Primary School paying invoices for the Department and Mr Hilton's employment as a TLC and the implication that Mr Hilton was only employed because of his involvement.

Josephine Napoli

Section		Mrs Napoli's comments
4.2	Jeffrey Rosewarne's relationship with Nino Napoli	Mrs Napoli says the work she did on behalf of Bammington Pty Ltd was based on information supplied and subsequently verified by the client.
7.5.2	Improper transactions relating to Mr Rosewarne's wife's travel	Mrs Napoli says she only travelled to and from Dubai and that at the time, she thought the travel was a gift from her brother.

Matthew Napoli

Section		Mr Napoli's comments
7.2.4 and 7.2.6	Payments to Matthew Napoli	Matthew Napoli stands by his evidence. He says whilst it is granted there were some inaccuracies with dates, this was to be expected given the passage of time and the stress of giving evidence. He contends the essence of his evidence can be seen as truthful and correct. That is, he had a genuinely held belief he was lawfully and legitimately employed at all relevant times. He contends there is no contrary evidence to suggest otherwise. He says this view is supported by a number of factors including his young age, and that it is more plausible he would believe his father given the position he held at the Department and the relationship with his father, rather than a conspiracy with his father to defraud the Department. Mr Napoli adds that the remuneration he was receiving was not large and commensurate with a designed fraudulent activity. It was, he says, in accordance with a young man undertaking paid part-time work and in accordance with what he was told by his father whom, as would be expected, he trusted.

Peter Paul

Section		Mr Paul's comments
3.4	Involvement of principals and business managers	Mr Paul says he never received or requested any direct benefits from banker school activities.
3.4.2	Direct benefits to principals and business managers	Mr Paul says the special payments were not in relation to banker school activities but were payments for the work involved with the merger and restructure of Chandler Park Primary School. Further, that special payments are part of school management and are a legitimate practice to recognise additional work by staff.
4.3.4	Improper transaction – thank you event	Mr Paul says internal school financial records stated what was on invoices it received for payment at the direction of Mr Napoli and in that sense, were not false.
4.3.5	Improper transaction – office furniture	Mr Paul says he did not know at the time that the Premier Office National invoice was untrue and that he relied on Mr Napoli as to its being for printing.
4.3.6	Improper transaction – wine purchase	Mr Paul says that 'professional development' was put on the invoice at the request of Mr Napoli. Also, that various people within the school including Mrs Hannett and his vice principal knew about these matters as they signed some documentation.

Mark Stecher

Section		Mr Stecher's comments
7.6	DyCom enlisted to delete electronic records	Mr Stecher says that as part of a standard upgrade, he transferred Mr Napoli's electronic files to an external hard drive and new computer before wiping the data from the old one (so it could be sold). His diary has this occurring in September 2013 before he knew of IBAC's investigation. He says that the work he did at the time around the upgrade was a generally accepted practice industry wide.

Appendix B: Natural justice requirements and responses

Sharon Vandermeer

Section		Ms Vandermeer's comments
7.2	On the Ball Personnel	In relation to lump sum invoicing by On the Ball Personnel to Department schools which did not name the staff member or number of hours worked, Ms Vandermeer says nothing was unusual about these transactions as they were made at Mr Napoli's request, whom she was entitled to rely on in so preparing the documents. Further, she maintains she was entitled to rely on the fact that schools were paying the invoices as evidence the purported work was done, and that she reasonably assumed Mr Napoli had not lied to her or put her in a position where she was involved in any wrongdoing.
7.2.2	On the Ball – the early years	Ms Vandermeer disagrees through lack of evidence that On the Ball transactions which were not investigated by IBAC can, on their face, be said to be questionable.
7.2.3	Payments to Squillacioti enterprises of concern	Ms Vandermeer says the evidence of payments by On the Ball to Squillacioti entities does not establish these transactions occurred in a way alleged in the report. She says the evidence does not: • establish funds received by On the Ball Personnel from the Department were used to pay the entities associated with the Squillacioti brothers • establish services were not provided to On the Ball Personnel in return for any payments that may have been made • support a finding that Ms Vandermeer was in any way involved in these transactions. Ms Vandermeer further contends that if they occurred, the transactions took place over a decade prior to her appearance at the IBAC public examination. One transaction dates back to 1998 which is some 17 years prior to Ms Vandermeer's public examination. In these circumstances she says it could never be suggested that her inability to recall these transactions during her examination were not credible.
7.2.7	Ms Vandermeer's knowledge of Mr Napoli's scheme	Ms Vandermeer says the destruction of documents by her, understood in the context of her having panicked when she came to realise Mr Napoi had 'used' her in his wrongdoing is not proof that she had any knowing involvement in that wrongdoing. She rejects any implicit suggestion she was complicit in an attempt by Mr Napoli to fraudulently obtain money from the Department so he could make payments to his sons and says the evidence is insufficient to support any such finding.
7.2.7	Retrospective quote	Ms Vandermeer says the inferences drawn are not open on the evidence. In his email to Ms Vandermeer, Mr Napoli asked Ms Vandermeer to 'email or fax me the quote pertaining to two or three people who worked there at the time'. Ms Vandermeer says there is no basis to infer that Mr Napoli was asking her to prepare a backdated quote. She further contends the request is almost certainly a request to provide a copy of the quote which was provided at the time – namely August 2004. It is simply guesswork, she says, to conclude otherwise.

Appendix C: Scope and purpose of public examination in Operation Ord

The scope and purpose of the public examinations in Operation Ord concerned investigation of:

1. The circumstances in which the Department of Education and Training (DET) [formerly the Department of Education and Early Childhood Development (DEECD)] and its predecessors (principally DEECD) or its officers or former officers (DET Officers), designated certain state primary and secondary schools as so-called 'banker schools' (banker schools) including any formal or informal policies, criteria or guidelines concerning the establishment and operation of banker schools.
2. The circumstances surrounding the payment by the DET of funds in the form of specific or general grants, components of the 'School Resource Package' (SRP) or in other forms, into the accounts of banker schools to be held by those schools pending further instruction from the DET or DET Officers as to the application of those funds, including the levels of authority and discretions of DET Officers responsible for arranging or approving the payment of those funds.
3. The circumstances in which principals or business managers of banker schools were requested or directed by the DET or DET Officers to draw those funds for payment of invoices for goods or services, including for goods or services not used by or for the benefit of the schools concerned (banker school invoices).
4. The circumstances of the generation and despatch of the banker school invoices, including who instigated or directed the issuing of the invoices, the circumstances of the raising of any purchase orders in respect of the items invoiced, who generated the invoices and whether the invoices were sent directly to the recipient or via one or more intermediaries (and, if so, whom).
5. Whether the goods or services the subject of the banker school invoices were supplied at all or, if they were supplied, whether that supply was to or for the benefit of the DET or any state school and, if not, who received the benefit of the supply.
6. The circumstances in which the businesses or entities that issued or purported to issue the banker school invoices or supply goods or services to the DET or to state schools the subject of banker school invoices, were selected by the DET or DET Officers to provide goods and services to the DET, including whether those businesses or entities were asked to submit quotes or tenders.
7. The circumstances of the payment of the banker school invoices, including how payment was arranged, whether payment was made in the first instance to the invoicing party or elsewhere and what ultimately became of the funds remitted in payment of the banker school invoice.
8. The existence of any familial relationship or other personal or business connection between, on the one hand, businesses or entities (or their directors and officers) that issued or purported to issue the banker school invoices or supply goods or services to the DET or to state schools and, on the other hand, DET Officers or principals or business managers of state schools, and the level of knowledge or understanding within the DET of any such relationships or connections.
9. Whether any DET Officer, or any member of the family or personal or business associate of any DET Officer, or any principal or business manager of a state school, received any direct or indirect payment, gift, travel, invitation to a conference or function, bonus, employment opportunity or other benefit or advantage (benefits) in connection with their role in the establishment or operation of a banker school, arranging or facilitating the issuing or payment of banker school invoices, the supply or purported supply of goods or services to the DET or to state schools or otherwise in connection with or resulting from their position or role as a DET Officer or as a principal or business manager at a state school, other than their usual remuneration and entitlements.

Appendix C: Scope and purpose of public examination in Operation Ord

10. Whether the conduct of senior DET Officers, including in relation to:
    - the establishment and operation of banker schools;
    - the movement of funds into and out of banker schools;
    - the conferring of benefits on colleagues and themselves;
    - the arranging or facilitating of the supply or purported supply of goods or services to the DET or to state schools;
    - the use and enjoyment of employee entitlements and privileges or other benefits; and
    - the application of DET funds generally

    was consistent with the level of honesty and integrity that could reasonably be expected of an officer in their position.
11. The systems and controls in place at DET concerning procurement, financial management and for auditing of funds moving into and out of state schools (including banker schools), with particular focus on the existence and adequacy of systems and controls for ensuring the integrity of the audit, financial management and procurement process, including by detecting instances of DET Officers providing benefits to themselves, their family, friends or associates and other conflicts of interest.
12. If the investigation of the above matters identifies serious corrupt conduct on the part of one or more DET Officers, the extent to which (if at all) the organisational culture and practices within the DET (or groups or divisions within the DET) has fostered that conduct or hindered opportunities or attempts to detect and eliminate that conduct.

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