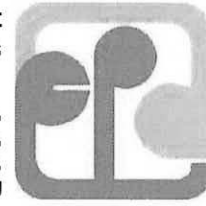


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31 May 2016

Public Accounts Committee
Legislative Council
Legislative Council Complex
1 Legislative Council Road
Central, Hong Kong
(Attn: Mr. Anthony CHU)

Dear Mr. CHU,

Public Accounts Committee
Consideration of Chapter 8 of the Director of Audit's Report No. 66
Procurement and inventory management of ICT products and services

In response to your letter dated 12 May 2016, I would like to provide the response and information in the Appendix.

Yours sincerely,

(T K CHENG)

for Director of Environmental Protection

Encl.

Reply to the Public Accounts Committee on Chapter 8 of the Director of Audit's Report No. 66 Procurement and Inventory Management of ICT Products and Services

Part 2: Procurement of ICT products and services

1. Why did EPD divide procurement of \$4.6 million into six separate purchases in two months instead of consolidating purchases to achieve better economies of scale? Was the practice of separate purchases of EPD intended to bypass the financial limits under the Stores and Procurement Regulations ("SPRs") that a procurement with an estimated value of over \$1.43 million, B/Ds should conduct open tendering given the short interval between each of the separate purchases (paragraph 2.2 refers)? If EPD considered it necessary to make separate purchases, what were the justifications for supporting EPD's decisions (paragraph 2.19 refers)?

Reply:

The Environmental Protection Department ("EPD") has all along acted according to the SPRs. We have no intention to avoid tendering procedures. All the above procurements of computer hardware and software items were proceeded according to the procedures on acquisition under the Standing Offer Agreements ("SOAs"). As stated in paragraph 2.3 of the Audit Report, the Office of the Government Chief Information Officer ("OGCIO") and the Government Logistics Department ("GLD") arrange competitive open tenders periodically to shortlist suppliers that can provide ICT products and services to the OGCIO's specifications. Shortlisted suppliers are placed on six SOAs for supplying six different types of ICT products and services (including personal computers). The six procurements concerned were made according to the procedures on acquisition under the SOAs. As indicated on page 21 of the Audit Report, these six procurements were made in different times (albeit quite close from 21 October 2013 to 3 December 2013) and, with the exception of Procurement 2 and 6, the remaining four procurements were for different items of computer hardware and software (Procurement 2 and 6 were for a same set of items, but the sum of the

procurement values was less than \$1.43 million). In handling these procurements, we treated them individually by obtaining quotations from all qualified suppliers listed under the SOAs in six purchases, the contracts were awarded to the lowest conforming bids submitted.

The Audit Commission (“Audit”) opined that the above six purchases could have been consolidated into one and made through open tendering so as to achieve better economy of scale. We accept the view of the Audit and have issued a circular to remind colleagues responsible for procurement of computer hardware and software, that even though there might be certain variations in individual purchase items and short gap in timing of purchases, they should consolidate the purchases of different items into one as far as possible so as to achieve better economy of scale.

Part 3: Control of ICT inventories

2. Audit found that up to 30 November 2015, 107 (11%) of 1 009 selected ICT inventory items had not been located by the departments concerned. The cost of these missing items amounted to some \$451,000, while 32 (30%) of the 107 missing items were embedded with data storage devices (e.g. personal computers) (paragraphs 3.4 to 3.6 refer). Since the loss of data storage devices could be a breach of security according to the Security Regulations, will the Administration inform this Committee about the consequences of the breach (paragraph 3.6 refers)? Of the 107 missing items embedded with data storage devices, whether it is found that sensitive or confidential information was stored in those devices, please provide the details (paragraph 3.6 refers). What remedies have been taken to the parties affected due to the missing data storage devices? As the ICT inventory records of EPD were not properly kept (paragraph 3.11 refers), what steps have been/will be taken to improve the situation?

Reply:

Regarding the follow-up actions on the classified data as mentioned in paragraph 3.6, as the four computers not located by us were used by junior staff for handling general administration work, which did

not involve sensitive or confidential information, no remedial actions as required in the Security Regulations were required to be taken.

Regarding paragraph 3.11, it was about 19 nos. of ICT inventory items – Ethernet routers, the record of which could not be updated timely. As shown in Table 11 on page 38 of the Audit Report, these 19 items had been traded-in and it did not involve any loss. We have started to review the procedures on the update of the records with a view to expediting the updating process and enhancing the accuracy. The review would be completed within this year.

Part 4: Disposal of ICT products

3. Concerning EPD's donations of ICT products, of the 2 161 items of unserviceable ICT products, 1 366 (63%) were covered by the Government Logistics Department ("GLD") disposal term contracts and, according to the SPRs, should have been sold to term contractors (paragraph 4.15(a) refers). Was EPD's non-compliance a result of its negligence (i.e. EPD didn't bother to check) or its lack of awareness (i.e. EPD didn't even know it had to comply with SPRs)?

Reply:

We have all along acted in accordance with the procedures laid down in the SPRs regarding the disposal of serviceable ICT products in that the donation was made only if the items concerned were not wanted within the Government. As regards the donation of 2 161 unserviceable ICT products, 795 items were not covered by the GLD disposal term contracts and were donated without the need to sell to the disposal term contractors. Regarding the remaining 1 366 items, we arranged for donation of the surplus items to a charitable organization for proper recycling in line with the waste management policy of encouraging proper recycling which would also reduce final disposal to landfills (see Answer below as well). We note these items are covered by the GLD disposal term contracts and agree that under the prevailing regulations, we should have taken into account the disposal term contract arranged by the GLD before donating them to the charitable organisation.

4. Concerning EPD's donations of ICT products, Audit found that all the donations were only made to one non-governmental organisation (paragraph 4.15(b) refers). Why did EPD donate its ICT products only to this non-governmental organisation? Had EPD had any connection/relationship with this organisation (e.g. previous partnership/cooperation) prior to donating its ICT products to this organisation? What efforts will EPD make to explore donations to more non-governmental organisations?

Reply:

The non-governmental organisation concerned, i.e. Caritas Computer Workshop¹, is our key partner in the preparation of the producer responsibility scheme (PRS) on waste electrical and electronic equipment (WEEE), which aims to effectively collect and properly manage locally generated WEEE. It is the only known non-profit making organisation which possesses the relevant experience, capability and operating scale. Sending the relevant ICT products to the organisation could help ensure that they are properly recycled and reused, while allowing us to gain the relevant experience for the preparation for the PRS.

We would follow up with relevant government departments including GLD on the best arrangement to dispose unserviceable ICT products with regard to our waste management objective to promoting their proper disposal, reuse and recycling.

¹ St James Settlement is another key partner as they have obtained funding from the Environment and Conservation Fund to operate the WEEE Go Green programme at the EcoPark. However, the WEEE Go Green programme focuses at the recycling and proper disposal of electrical appliances.