

**As regards the Chapter 8 of the Director of Audit's Report No. 66
Procurement and inventory management of
ICT products and services**

Questions and request for information

Questions to be responded by Highways Department

Part 2: Procurement of ICT products and services

- 1. Audit noted that in a procurement made in 2014, in order to fulfill the Standing Offer Agreement (“SOA”) requirements, HyD ended up paying more for the goods it procured. Did HyD consult GLD regarding the SOA requirements before it procured the products? If not, why not? (paragraphs 2.20 and 2.21 refer)?**

Answer:

Non-compliance with the SOA requirements will render the quotation non-conforming. In order to uphold the principles of impartiality and fairness in the procurement process and to guard against potential challenges from the suppliers that have submitted a conforming quotation, HyD did not and will not consider non-conforming quotations, in accordance with the Acquisition Procedures under the SOA. As such, HyD did not consult GLD regarding the quotations not complying with the SOA requirements.

Part 3: Control of ICT inventories

- 2. Given that most of the missing items identified by the Audit concerns HyD (94 out of 107 missing items) (paragraph 3.5 refers), and HyD was the only department out of the four departments examined by the Audit that it had not computerized its inventory control system (paragraph 3.23 refers), will HyD inform this Committee why it had not computerized its inventory control system? On 30 December 2015, HyD informed Audit**

that 68 of the 94 missing ICT inventory items had been disposed of, but HyD's manual inventory records did not provide sufficient details to support the disposal and 13 of the 94 items could not be located after extensive search (paragraphs 3.7(a) and 3.7(e) refer). Does HyD agree that the manual inventory records are not totally reliable? What is HyD's plan and timetable for computerizing its inventory control system? What are the implications of computerizing HyD's inventory control system in terms of cost and manpower?

Answer:

While there is no mandatory requirement under the Stores and Procurement Regulations ("SPRs") to computerize the inventory control system, HyD agrees that computerizing the inventory control system could enhance the efficiency and effectiveness in managing the large inventory of the department. To that end, HyD has been observing the performance and development of computerized inventory control systems that different departments have adopted, which come in various system designs and formats, and are planning to replace its existing manual inventory system by a Computerized Inventory Control System (CICS), subject to approval of funding from OGCIO. The CICS project is proposed to commence in 2017 for system launching in 2019 tentatively.

The preliminarily estimated non-recurrent cost for implementing the CICS is approximately HK\$3.2M, while the estimated recurrent cost is about HK\$0.2M per annum. HyD considers that the department is able to absorb both the non-recurrent and recurrent manpower staff resource required internally.

- 3. 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 32 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 HyD were not properly kept (paragraph 3.11 refers), what steps have been/will be taken to improve the situation?

Answer:

HyD has all along attached great importance to strict adherence to the relevant security requirements for all data storage devices embedded with sensitive or confidential information. All confidential information in the data storage device should be properly encrypted. Prior to the disposal of any computers, no matter whether they had been involved in handling sensitive information or not, all information would be completely cleared from the data storage device through proper degaussing or physical destruction to prevent leakage of information.

During the stocktaking by Audit, 24 HyD's ICT inventory items embedded with data storage devices could not be located. As at end May 2016, HyD has already located most of them and there are only 2 missing items embedded with data storage devices yet to be located. According to HyD's record, these 2 missing items are devices which were procured in 1990's for general office works, and do not contain any classified information. HyD is currently checking the file records with a view to confirming that these items have been traded-in or disposed of in the procurement and replacement exercises. Should any such items be unrecoverable, HyD would handle them in accordance with the procedures stipulated in the Security Regulations, the relevant Financial Circulars and the SPRs.

HyD is also preparing an internal accounting circular to remind its staff about the relevant security requirements including the OGCIO's

ICT security guidelines. HyD will regularly remind the relevant staff and their supervisors to follow the circular to ensure that prior to the disposal or trade-in of ICT inventory items, all data stored therein will be cleared through proper degaussing or physical destruction. Also, independent sample checks of erased storage media will be performed and relevant records will be properly kept.

In order to ensure proper inventory management in HyD in accordance with the SPRs, the Government Logistics Department Circulars and HyD Supplies Guidelines, HyD has examined and proposed enhancements on inventory handling, including (i) introduction of cross-office sample checking mechanism in annual stocktaking (already commenced since end 2015), (ii) promulgation of departmental accounting circular for inventory management as soon as possible, (iii) continuing to conduct refresher courses to staff responsible for inventory management, and (iv) replacing the manual inventory control system with a computerized inventory control system, which HyD tentatively target to launch in 2019.

Highways Department
7th June 2016