



AUDITOR GENERAL
for
Western Australia

MANAGEMENT OF
HOSPITAL SPECIAL PURPOSE ACCOUNTS

Report No. 7 – November 2002

Background

In addition to operating funds received from the Department of Health and patient charges, the teaching hospitals receive around \$37 million each year from a range of other sources. These moneys, such as donations, bequests, research grants, and revenues from business activities, are placed in what has commonly been referred to as ‘trust accounts’. The use of the term ‘trust accounts’ has arisen from a misperception that the moneys in all these accounts are private moneys being held in ‘trust’ on behalf of a third party. In fact, only a small number are true trust accounts. Most of the moneys (around \$30 million) do belong to the hospitals but their use is restricted to specific purposes such as research and training and development. Therefore, these accounts are more correctly referred to as ‘special purpose accounts’ (SPAs).

The transactions through SPAs represent around three per cent of total hospital expenditure. However, the involvement of individuals and their sense of ‘ownership’ over the use of these moneys has elevated the profile of SPAs. In addition, a number of reviews in the past three years has reported adverse findings on the management and use of SPAs, ranging from inappropriate expenditure, diversion of hospital moneys and bulkbilling of public patients. It was therefore decided to undertake a comprehensive audit of the administration of SPAs and to provide detailed findings to encourage the development of a coordinated policy and control framework for the management of these accounts.

What the audit found...

- The management of SPAs in the past has largely resided with individual staff or hospital departments that have not had the knowledge, expertise, or the resources to properly account for the use of SPA moneys.
- Extensive audit testing did not disclose any SPA payments that were categorically used for personal benefit, fraudulent purposes, or non-hospital activities. However, significant weaknesses in controls over the management of SPAs were identified. In practice, the integrity of staff was effectively the only safeguard against abuse.
- Hospital mail containing moneys are often forwarded unopened and unsecured to individuals and hospital departments without controls to ensure that those moneys are ultimately receipted and

banked into hospital bank accounts. This has led to some moneys belonging to the hospitals being placed in ‘unofficial bank accounts’ outside the hospitals’ financial systems and records. Audit is unable to provide reasonable assurance that expenditure from ‘unofficial bank accounts’ was appropriate or for official hospital purposes.

- Around 80 per cent of SPA expenditure is of a routine nature and subject to comprehensive approval processes. However, some of the remaining expenditure did not comply with hospital or government policies, lacked adequate supporting documentation or was often processed unchallenged. In these instances, the hospitals were unable to demonstrate that SPA expenditure was in accordance with SPA restrictions or for specified purposes.
- The budgeting and monitoring arrangements for SPAs are less comprehensive than for hospital operating funds. SPA moneys are not integrated into hospital budget processes and budgets are not prepared for all SPAs with ongoing commitments or contractual obligations.
- Hospitals undertake a range of business activities that are transacted through SPAs. These activities have generally not been authorised under applicable legislation and their full costs have not been identified and recovered through the setting of fees and charges.
- Concerns over the practice of bulkbilling public patients treated at ‘privatised clinics’ operating within hospital premises and/or using hospital resources have not yet been satisfactorily addressed.

In summary the audit recommended...

The Commissioner of Health (as the accountable authority for the four teaching hospitals) needs to:

- develop a comprehensive policy and administrative framework for the management of SPAs; and
- set a timetable for hospitals to implement these policies and frameworks and ensure the revised arrangements put in place by the hospitals are progressively reviewed for compliance during this implementation process.

The hospitals need to:

- ensure these policies, associated frameworks and business rules are implemented with variations only being made to suit specific or unique circumstances; and
- review existing financial control structures, systems and practices to ensure compliance with the requirements of the *Financial Administration and Audit Act 1985* and other applicable legislation governing the operation of the hospitals.

A copy of the report can be accessed at www.audit.wa.gov.au/
For further information contact by E-mail: info@audit.wa.gov.au