



AUDITOR GENERAL'S REPORT Western Australia

Second Public Sector Performance Report 2008



Report 8
December 2008



**THE PRESIDENT
LEGISLATIVE COUNCIL**

**THE SPEAKER
LEGISLATIVE ASSEMBLY**

SECOND PUBLIC SECTOR PERFORMANCE REPORT 2008

I submit to Parliament my second Public Sector Performance Report for 2008 under the provisions of sections 18(2) and 25 of the *Auditor General Act 2006*.

A handwritten signature in black ink, appearing to read 'C. Murphy'.

COLIN MURPHY
AUDITOR GENERAL
3 December 2008

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Auditor General's Overview

This is the second Public Sector Performance Report for 2008. These reports over time address public sector performance across a broad range of important government operations with the aim of keeping the Parliament and public informed.

This report covers three areas:

- Complaints Management in Shared Service Centres
- Funding and Purchasing Health Services from Non-Government and Not-For-Profit Organisations
- Management of Traffic Infringements for Government Vehicles and Staff

A common theme that runs through this report is the way in which agencies identify and act on opportunities for business improvement. It is not uncommon for people to react defensively when confronted with a criticism or complaint. However, complaints can be a rich source of information about business improvement opportunities. Because of this, many leading businesses focus significant effort in capturing customer complaints, resolving them in a timely manner and learning from them. The management of customer complaints is the focus of the first item in this report.

By its very nature, the work of my Office routinely identifies opportunities for business improvements. We aim to add value to our work by working with agencies to agree practical recommendations to the issues we identify. On some occasions we will 'follow-up' on our past work to assess whether performance has improved. This is the case in the second item of this report.

Agencies also conduct their own internal reviews to identify opportunities for improvements. Issues arising from an internal agency review led to the third item in this report. In this case the very serious matter of potential improper conduct by government employees was identified and referred to us for investigation.

While the examinations in this report focus on selected agencies and specific issues, the matters nevertheless have broad relevance across government. I therefore encourage all agencies to consider the issues and lessons contained in this report.

Complaints Management in Shared Service Centres

Overview

Good business practice and Government policies require organisations to have appropriate systems in place to effectively manage complaints. Organisations which are fundamentally service delivery institutions should be especially sensitive to managing complaints from clients.

Complaints can be used as an indicator of how well things are tracking for an organisation, including the effectiveness of service delivery. They can also be used to identify areas for improvement.

The key foundations for complaints handling in the public sector are:

- the principles outlined in Australian Standard ISO 10002-2006 Customer satisfaction – Guidelines for complaints handling in organisations (the Standard)
- Premier's Circular 2004/04, which requires all agencies to have complaints processes which meet the Standard.

In 2005, three major shared services centres (SSCs) were established to provide corporate services to the WA public sector:

- the Department of Treasury and Finance Shared Service Centre (DTFSS). DTFSS currently provides procurement and finance services for all 25 rolled in agencies and payroll services for 15 agencies. By 2013, DTFSS expects to be servicing up to 90 agencies for both finance and payroll services
- the Health Corporate Network (HCN). HCN services the health portfolio. It manages all procurement, including warehousing, as well as finance and payroll for the whole of public health sector
- the Education and Training Shared Services Centre (ETSSC). ETSSC services the education portfolio. It manages finance and human resource services for the whole of the State education sector, including all public schools and TAFE colleges.

Our examination focused on how these three SSCs deal with complaints arising from their core business, and to what extent they are improving their services by learning from the complaints process.

We did not assess how well the SSCs are implementing the whole-of-government shared services reform. Nor did we assess the quality of core services that the SSCs provide to their clients.

Key Findings

None of the three SSCs are able to provide basic information including volume, nature and time taken to resolve complaints. This arises for a number of reasons. Specifically:

- none of the SSCs adequately define, identify and capture complaints
- none of the agencies have developed clear processes and policies for handling complaints specific to their SSCs. While all three agencies have a formal complaints process, in each case this is focused on dealing with complaints about their core business (for example, complaints about health or education services) and not with their SSC's role as providers of corporate services
- only one SSC had a complaints management system that was accessible to all their clients
- review of processes and analysis of complaints data by SSCs is either non-existent or inadequate, largely due to insufficient data collection and poor recordkeeping.

Because of these weaknesses they may not be identifying potential business improvement opportunities or meeting client needs as effectively and efficiently as they could.

Despite the weaknesses in their complaints management processes, all three SSCs are focused on resolving client problems and staff treat client issues seriously.

What should be done

- Each agency and SSC should formally define 'complaint' and 'service request' so that they can properly understand the volume of complaints, nature of complaints, their complaint handling performance and any trends over time.
- Each agency should develop and implement specific policies and processes for handling complaints in its SSC.
- Each agency and SSC should capture information about complaints that can be analysed to improve both complaints handling and core service delivery.
- SSCs should regularly review their complaints systems and processes, and improve their monitoring of individual complaints.

Agency Responses

Department of Treasury and Finance

The Department of Treasury and Finance (DTF) Shared Services acknowledges the Office of the Auditor General's findings that DTF Shared Services are currently reviewing their complaints handling process to assess the adequacy of policies, procedures, resources required and data collection requirements. It is important to note however that the nature of business within the DTF Shared Services environment means that the majority of enquiries received daily are of a general operational nature.

Department of Health

The findings are noted. HCN has made considerable progress with its interim complaints management system. It is intended that the introduction of new systems, structural change and improved processes will result in all recommendations being acted on in 2009.

Department of Education and Training

The Department of Education and Training acknowledges the findings and is amending the 'Disputes and Complaints Policy 2007' to align it with the Standard. The complaints management process is also being reviewed to more clearly distinguish between the nature of complaints enabling monitoring and analysis of the information captured.

Background

The implementation of shared services reform has been a major initiative in corporate service delivery by the WA government. In 2005 three SSCs were established to provide corporate services to the WA public sector. The SSCs are housed within three key agencies, the Department of Treasury and Finance (DTF), the Department of Health (DoH) and the Department of Education and Training (DET). All three SSCs have processes in place for managing their relations with their client agencies, including arrangements to:

- work with client agencies to agree, document and report on required service levels
- participate in oversight forums along with senior representatives from client agencies
- meet regularly with other client agency representatives
- seek feedback from client agencies.

On a day-to-day basis, each SSC deals with huge numbers of requests for services and assistance from client agencies, agency staff and external suppliers:

- DTFSS currently provides procurement and finance services for 25 agencies and payroll services for 15 agencies. By 2013, DTFSS expects to be providing finance and payroll services to about 90 agencies. They deal with around 2 500 requests from client agencies, suppliers and individuals per month.
- HCN manages all procurement, including warehousing, as well as finance and payroll for the whole of the public health sector. It is responsible for processing the payroll for about 38 000 employees. In 2007-08 HCN processed approximately 70 000 invoices worth \$1.92 billion.
- ETSSC manages finance and human resource services for the whole of the State education sector, including all public schools and TAFE colleges. ETSSC process payroll for about 45 000 staff each fortnight.

There is a high degree of complexity and inherent difficulty in implementing the shared services program across government. A change management process on this scale is likely to see higher levels of client dissatisfaction, at least in the short term, as clients adjust to new ways of working. It is important that a sound method for dealing with complaints and problems is in place to ensure successful implementation of the reform and for continuous improvement of service delivery by the SSCs.

What Did We Do?

Our examination focused on complaints management arising from the day-to-day service requests received by the SSCs. In particular we examined:

- policies and procedures, including implementation
- data collection, recordkeeping and analysis of complaints
- review, monitoring and training.

We based our examination on good practice standards referred to in the Premier's Circular 2004/04. The circular requires all WA public sector agencies to have complaints management systems which conform to the principles of *Australian Standard ISO 10002-2006 Customer satisfaction – Guidelines for complaints handling in organisations*. To support agencies in complying with these principles, the Government has produced *Guidance to Good Practice in the Western Australian Public Sector*.

While the SSCs are not agencies in their own right, we considered the good practice standards and principles as appropriate criteria for use in our assessment.

What Did We Find?

None of the three SSCs are able to provide basic information including volume, nature and time taken to resolve complaints.

Complaints Management Policies and Procedures

None of the SSCs adequately define, identify and capture complaints

Of the three SSCs, only HCN had adequately defined what a complaint is. An adequate definition of complaint is essential to ensuring all complaints are captured, handled and reported appropriately:

- HCN had a definition which meets the requirements of the Australian Standard. HCN has developed an electronic interface called TellHCN, which clients can use to submit feedback online. TellHCN enables clients to select whether their contact is a complaint, an enquiry, a compliment or a suggestion. This aligns well with the best practice definition of complaint because it recognises that the client is best placed to know whether they are expressing dissatisfaction or making some other form of contact.

Neither DTFSS nor ETSSC had defined the difference between a client's request for a standard service and a complaint about service provision. As a result they lacked critical information to monitor and manage complaints:

- DTFSS only recognises complaints made through its formal departmental system. Limiting the mechanism through which complaints can be recorded has effectively eliminated complaint recognition. At the time of our audit, no complaints about DTFSS had been 'formally' lodged and DTFSS therefore believed it had never received a complaint. Clients' expressions of dissatisfaction received by the Customer Service Centre (CSC) had not been classified as complaints.
- ETSSC staff are not required to distinguish and record complaints separately from other business activities. Because ETSSC does not separately identify complaints in their business records, audit was unable to provide assurance that ETSSC correctly identifies all complaints.

SSCs deal with thousands of clients and millions of transactions annually. These range from requests for technical assistance to complaints about unpaid invoices or salaries and wages, for example. They also deal with a range of clients, from internal staff to contractors and external suppliers. Defining the different types of client contact is central to managing workflows, prioritising actions and business improvement.

We noted that each of the three parent agency policies meet the requirements of the Australian Standard in the way they define a complaint. Their definitions do not unreasonably restrict who can complain or what they can complain about. With some minor wording differences the agency policies agree that a complaint should be regarded as:

an expression of dissatisfaction related to the Department's products or services, or the complaints-handling process itself.

Two of the SSCs had limited access to their complaints systems

Of the three shared services, only DTFSS had a complaints system that provided equal access to all clients. ETSSC and HCN both exclude some clients from accessing their complaints systems:

- All DTFSS clients can lodge a 'service request' (that is, an enquiry, complaint or request for assistance) with the CSC. In addition, although DTFSS had not received any 'formally lodged' complaints, the formal agency complaints process is accessible to all clients via the DTFSS website.

- ETSSC operates under the DET policy which effectively excludes internal clients from making complaints about ETSSC services. The policy states:

Any person may lodge a complaint, however staff employed by the Department cannot use this process if they are acting in an official capacity.

The principle of accessibility requires that agency staff have equal access to the same complaint process as other ETSSC clients. The DET complaints process can be accessed from the ETSSC website.

- The HCN system does not recognise all of its clients as potential complainants. TellHCN is only available to Health agency staff who have access to the HCN intranet. In addition, expressions of dissatisfaction that are not received via TellHCN (for example telephone complaints) are not centrally recorded or classified as complaints. This effectively excludes all Health agency staff who do not access computers as part of their job, as well as Health agencies' suppliers. The HCN website does not provide direct access to the agency complaints process.

The Australian Standard defines a customer as anyone who receives a product (or service), and specifies accessibility as a key principle of complaint handling. We acknowledge that before shared services reform was implemented, the provision of corporate services was generally viewed as an internal activity. The reform has required a new recognition of these activities as services to clients.

None of the SSCs have adequate complaints handling policies and procedures specific to their business

Each of the home agencies – DTF, DoH and DET – have complaints policies and procedures. All three SSCs operate under these policies and procedures. However, none of the home agencies have adequate policies or procedures specific to the service delivery activities of the SSCs.

This increases the risk that these activities will not align with the best practices in complaint management, and that inappropriate solutions might be reached. High staff turnover and changing systems make clear procedures increasingly important.

Neither ETSSC nor HCN has documented procedures for managing complaints within their own business units. DTFSS does have its own complaint management policy, strategy and procedures which sit underneath the DTF complaints policy. Their *Complaint Lodgement and Resolution* procedure is designed to assist and guide staff working in their CSC, who receive all day-to-day client enquiries, complaints and requests for assistance. However, the procedure contradicts the Australian Standard by directing staff not to recognise client expressions of dissatisfaction as complaints. The DTFSS *Complaint Lodgement and Resolution* procedure states:

A formal complaint is not a person complaining about a service or OSS individual but rather a person who wants to formally have their issue placed in writing and their contact details taken.

HCN advised that it has established work practices for complaint handling. However, it does not have documented procedures to guide staff about how to deal with complaints and how to document decisions and actions related to complaints.

ETSSC does not have any complaint handling procedures. Each business unit is responsible for its own complaint handling practices under the guidance of the DET *Disputes and Complaints* policy. Our audit found that, in the absence of procedures, complaint handling practices vary across ETSSC.

| | Complaints Policies | Complaints Procedures | Complaint Definition Applied | Access to System |
|-------|---------------------|-----------------------|------------------------------|------------------|
| DTFSS | ✘ | ✘ | ✘ | ✓ |
| HCN | ✘ | ✘ | ✓ | ✘ |
| ETSSC | ✘ | ✘ | ✘ | ✘ |

Table 1: Adequacy of Definitions, Access, Policies and Procedures

None of the three SSCs have adequate complaints policies specific to their business roles. They also have weaknesses in defining complaints and clients. Only DTFSS provides equal access to all clients.

Source: OAG

Data Collection, Analysis and Recordkeeping

Analysis of complaints data by SSCs is either non-existent or inadequate due to insufficient data collection and poor recordkeeping

Adequate data collection is necessary to allow agencies to assess performance, identify trends and analyse root causes of complaints. At present, no SSC collects the data needed to enable them to understand and report accurately on key complaints information. No SSC has accurate information on numbers of complaints they receive, the types of complaints they receive or the time taken to deal with complaints:

- Neither DTFSS nor HCN have clearly defined when a complaint is closed. This affects their ability to accurately record and report timeliness information. We found examples of

complaints that were closed without the agreement of the client, closed without verifying that the suggested resolution is adequate, closed without addressing all issues and closed without a permanent solution offered.

- The DTFSS CSC records every request that it receives; however it does not differentiate between service requests, enquiries, or complaints. In addition, DTFSS does not adequately deal with 'follow-up' requests. DTFSS records follow-up contacts from clients about previously reported problems as new service requests. This practice inflates the numbers of actual issues dealt with, and would also inaccurately decrease any measure of time taken to handle complaints.
- HCN does not collect comprehensive data on the complaints it receives. As mentioned earlier, HCN's complaints data only includes complaints that are lodged via their TellHCN online complaints system. More than 10 per cent of health agency staff, plus all external suppliers, cannot access this system. HCN also does not collect any data on telephone, email or postal complaints.
- ETSSC does not classify complaints separately from any of their other business activities and so cannot provide any information on the number of complaints received or average time taken to handle complaints. They do report to client agencies on total numbers of client phone calls to their Personnel and Payroll units. However, they have identified a data integrity issue with these reports. We note that ETSSC is working to rectify this issue.

The inadequacy of data collection limits the value of the analysis conducted by SSCs:

- ETSSC does not conduct any analysis of complaints data.
- None of the analysis reports produced by DTFSS and HCN measure key performance information in relation to complaints, such as timeliness of complaint handling or levels of client satisfaction.
- DTFSS and HCN analyse complaints data for workload information rather than performance information. We were informed that DTFSS plans to introduce an automatic reporting tool as part of a larger TeleService improvement program (TeleService is the electronic system DTFSS uses to record and manage client contacts).
- HCN does analyse and report on systemic and recurring issues, but only for complaints relating to human resources services.

There are serious weaknesses in recordkeeping relating to complaints at all SSCs. This means they might not be able to defend decisions and actions:

- The DTFSS TeleService system is well equipped to collect and record relevant information. However, the system is not being used to best effect. We found absences and inaccuracies in the information recorded in the system.
- At HCN we found that 52 per cent of files tested had insufficient data on decisions, actions, resolution, and client feedback relating to handling of complaints.
- ETSSC do not collect relevant data needed to review information on complaints, as they do not record complaints separately from other business activities.

Review and Monitoring

There is limited review and monitoring of complaints handling

None of the SSCs routinely review closed complaints to provide assurance that their officers are handling complaints in accordance with agency policy and best practices in complaint handling.

Until recently, none of the SSCs had undertaken a comprehensive review of their complaints handling processes. Such reviews would help identify problems with the complaints handling process and provide assurance about the effectiveness of policies and procedures.

DTFSS and ETSSC are currently reviewing their complaints handling process to assess adequacy of policies and procedures, resources required and data collection requirements. Further, all three SSCs have recently conducted surveys of their clients:

- DTFSS surveyed 15 clients to assess their satisfaction with the CSC's handling of their enquiries, complaints and requests for assistance. The surveyed clients reported a neutral response to most aspects of the CSC experiences, with a mainly negative response about whether they were kept informed of the status of their request, and a mainly positive response about the courtesy of staff. In future, DTFSS plans to use an automatic surveying function in its TeleService system.
- In January 2008, HCN conducted a survey of 50 complainants. The survey found that although most were satisfied, a significant portion were not satisfied with response time (27 per cent) or the outcome of their complaint (20 per cent). HCN intends to conduct a monthly survey of up to 10 per cent of complaints lodged through their system.
- ETSSC recently conducted a customer survey to assess satisfaction with their core services. The survey was extensive, with over 4 000 clients invited to participate. However, the survey did not seek any specific feedback on ETSSC's management of complaints.

Training and Staffing

There are opportunities to improve training and staffing for complaints handling

None of the SSCs provide adequate training to staff to ensure they can deal effectively with dissatisfied clients and complaints:

- DTFSS staff do receive training in the TeleService system. However, neither DTFSS nor ETSSC staff receive comprehensive complaints handling training.
- HCN staff have not received training in the TellHCN system or in complaints handling generally.

Without adequate training in these key aspects of business, the SSCs are not preparing staff to perform their duties properly. The risk of inefficient and inadequate service to clients is also increased. We note that staff at all the SSCs receive customer service training that covers some aspects of complaints handling.

DTFSS has a dedicated CSC to handle client enquiries and complaints, but the CSC does not have any permanent Customer Service Officers. Customer Service Officers are temporarily rotated into the CSC from other business areas. There is a risk that staff from other business units might not be appropriately skilled to work in a customer service role. The use of temporary staff also limits the opportunity to develop corporate knowledge within the CSC. DTFSS has recognised these issues and has provided funding for the CSC to employ 75 per cent of its Customer Service Officers as permanent employees in 2008-09.

| | Collect Data | Analyse Data | Review Handling | Complaints Training |
|-------|--------------|--------------|-----------------|---------------------|
| DTFSS | ✓ | ✗ | ✗ | ✗ |
| HCN | ✗ | ✗ | ✗ | ✗ |
| ETSSC | ✗ | ✗ | ✗ | ✗ |

Table 2: Adequacy of data collection, analysis, complaints handling review and specific complaints training

Only DTFSS adequately collects data on complaints. All SSCs have weaknesses in analysing complaints, reviewing outcomes and processes, and in staff training.

Source: OAG

Funding and Purchasing Health Services from Non-Government and Not-For-Profit Organisations

Overview

The non-government and not-for-profit sector is engaged in delivering numerous forms of community service and education activities. Many of these organisations are dependent upon Government funding to carry on some or all of their activities. The Department of Health (DoH) is a major purchaser of services from these organisations. In 2006-07 DoH funded and purchased services valued at approximately \$526 million from almost 400 of these organisations.

In 2002 the Western Australian Government released its policy on Funding and Purchasing Community Services from the not-for-profit sector¹. The policy recognised the significant contribution not-for-profit organisations make to the well-being of our State and the unique difficulties they experience with a system of competitive tendering and contracts.

The policy aims to promote flexibility and innovation to better meet community needs whilst still maintaining appropriate levels of transparency, accountability and value for money.

This examination assessed how well DoH is contracting and managing its arrangements with not-for-profit organisations and whether it is complying with the general requirements of the 2002 government policy.

Key Findings

Our examination of DoH's funding and purchasing of health services from non-government and not-for-profit organisations found that DoH had made a number of important improvements since our last audit in 2003. However, we still found:

- over 75 per cent of funding arrangements examined were historical funding arrangements, renewed following a prior agreement. Eighty-six per cent of these were renewed without an evaluation of the provider against predetermined preferred service provider criteria and without market testing
- contract managers are not supported in their day-to-day functions by DoH's current electronic contract management system resulting in inconsistent and inefficient practices. DoH has been considering replacing the system since 2006
- there was a consistent lack of evidence across all of DoH's funding areas of due diligence assessments being undertaken prior to entering into agreements. Such assessments address concerns such as capacity to deliver and quality of service
- DoH has developed procedures to manage large, complex and high risk funding arrangements but has not defined which funding arrangements fall into these categories

¹ This policy is jointly administered by the Department of the Premier and Cabinet and the State Supply Commission.

- 24 per cent of financial and service reports were not lodged by providers or were lodged more than two months late. In nearly 30 per cent of reports lodged it was not clear what level of review had been undertaken by the contract manager
- only 17 per cent of files examined contained structured performance reviews at the completion of the agreement. Such assessments should be a key input to any decision to enter into a renewed agreement and the terms and conditions of that agreement.

What Should Be Done?

DoH should:

- ensure it formally assesses and awards preferred service provider status when setting aside the requirement for market testing
- replace its current contract administration system as a matter of priority
- ensure due diligence assessments are carried out and documented
- develop risk ratings and definitions for inclusion in its Business Rules and ensure that risk assessments are documented for all funding arrangements
- ensure providers comply with their reporting obligations and that contract managers document their review of this performance information
- ensure contract managers document a review of performance and outcomes against targets at the end of an agreement and use this to improve the next round of service identification and funding agreements
- keep DoH's Contract Management Business Rules up to date.

Response by Department of Health

The Department of Health has made significant progress to improve governance of contracting with non-government organisations. The recommendations of the Office of the Auditor General will be implemented to ensure that processes are further improved.

Background

The Department of Health (DoH) is a major purchaser of health services from the non-government (NGO) and not-for-profit (NFP) sectors. Such services include the Royal Flying Doctor Service, psychiatric hostels, cardiac rehabilitation services and sobering-up shelters.

In 2006-07 DoH funded and purchased services valued at approximately \$526 million from almost 400 providers. Table 1 shows funding awarded to NGOs and NFPs by each area of DoH in 2006-07.

| Funding Area | Awarded Funding (2006-07) (\$ million) |
|--|--|
| Statewide Contracting Unit | 204 |
| North Metropolitan Area Health Service | 133 |
| South Metropolitan Area Health Service | 78 |
| WA Country Health Service | 51 |
| Mental Health Division | 25 |
| Office of Aboriginal Health | 18 |
| Drug and Alcohol Office | 17 |
| TOTAL | 526 |

Table 1: Awarded funding to NGOs and NFPs in 2006-07

Source OAG

We last examined and reported on this area in April 2003 and made a number of recommendations, including that DoH should:

- assist NFPs to enhance their corporate governance skills especially in service delivery areas where there are limited providers
- pursue actions needed to bring about more effective contracting arrangements with Aboriginal NFPs

- establish clear documented approval processes that incorporate references to identified health needs
- establish consistent file management practices
- establish consistent contract management guidelines incorporating contract management intervention commensurate with the level of risk
- establish a more purposeful and cohesive approach to managing high risk NFPs.

What Did We Do?

We followed up DoH's implementation of recommendations from our 2003 examination.

We also examined a sample, across all funding areas, of DoH's funding arrangements with NGOs and NFPs for the purchase of health services in the 2006-07 year. We also assessed their compliance with the Government's 2002 Funding and Purchasing Community Services Policy (NFP Policy) and DoH's own internal policies and procedures. Specifically, we reviewed:

- procurement planning and formation of agreements – whether funding was provided as a consequence of appropriate and transparent planning and award processes
- management of agreements – whether arrangements are being effectively monitored and managed. However, we did not assess the appropriateness of any DoH reviews of NGO and NFP service quality
- review and evaluation of agreements – whether arrangements are being effectively reviewed and evaluated on completion and before renewal
- DoH's use of preferred service providers (PSPs) under a restricted process.

Areas reviewed are illustrated in the NFP Policy flow-chart:

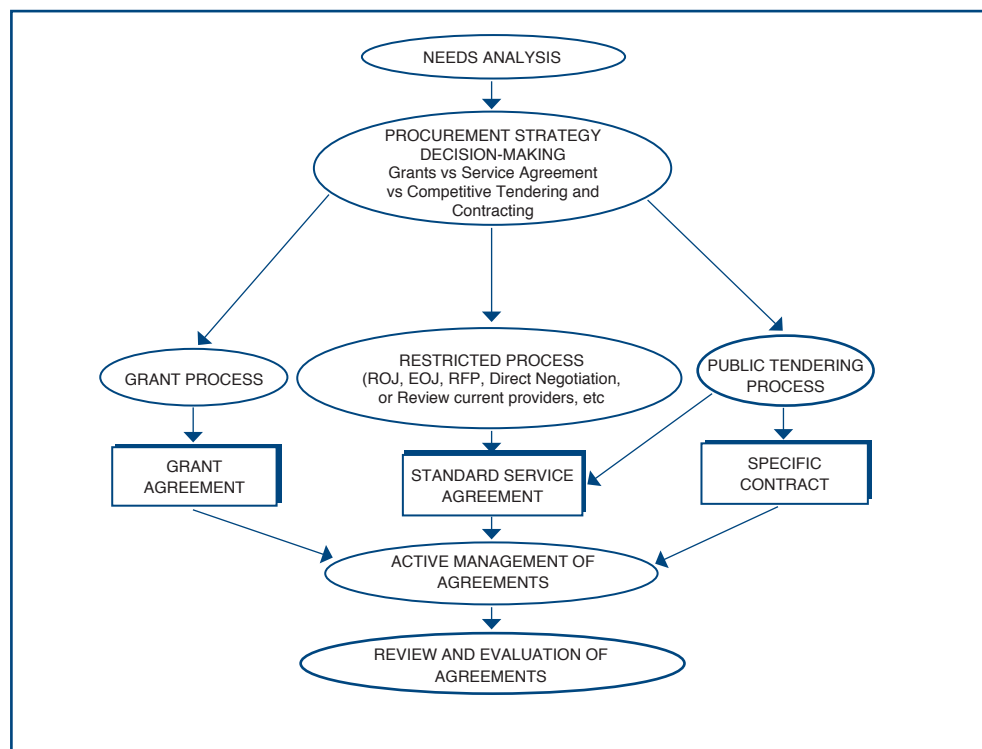


Figure 1: Government of Western Australia 2002, *Funding and Purchasing Community Services. A Policy Statement on a Fresh Approach to Funding and Purchasing Relationships with the Not-For-Profit Sector*, Process Flow-Chart, p.5.

What Did We Find?

Implementation of Auditor General’s 2003 audit recommendations

We found that many of our 2003 audit recommendations had been incorporated by DoH into their Contract Management Business Rules (Business Rules) and were being followed by contract managers.

However, some of the weaknesses we identified in 2003 are still to be fully addressed. For example, the identification and subsequent management of high risk NGOs and NFPs still requires improvement. Major risks include services not being delivered at agreed levels, services ceasing in the event of the NGO or NFP collapsing, and the risk of funds being wasted or lost. We were advised that these risk factors are considered during the procurement planning process and throughout the life of the agreement but we found no evidence of this.

DoH has incorporated risk assessment and management requirements into its Business Rules but has not developed definitions for the terms used and risk ratings are not stated. We found only two DoH funding areas that had structured their agreements to reflect increased risks associated with particular providers or types of service. One type of service involved \$3.35 million of funding in 2006-07. No formal risk assessment was found on file but agreements had clearly been tailored to incorporate more frequent reporting and annual renewal.

In the sample examined we did not find any instances where NGOs or NFPs demonstrated deficiencies in their corporate governance skills. DoH advised that a training course for providers was held in 2006. DoH did not keep a list of attendees and no other courses have been held.

Developments since 2003

Since our 2003 audit, DoH's management of funding arrangements has been affected by:

- the reallocation of funding arrangements to new contract managers following the creation by DoH of three Area Health Services and a Statewide Contracting Unit in 2005-06
- implementation in 2005 of the 2004 Reid Report recommendation that DoH separate its policy and contract management functions. Contract managers are now partly removed from the procurement processes that precede the formation of funding agreements. They now concentrate on the day-to-day management and monitoring of arrangements
- the creation in 2004 of DoH's Contract Management Business Rules (Business Rules) and NGO Policy Statement (Policy Statement).

The Current Funding Framework

DoH's Business Rules and Policy Statement are consistent with the NFP Policy and other State Supply Commission policies on open and effective competition and value for money. The majority of the Business Rules are appropriate and we found funding processes generally followed the requirements. However, the Business Rules have not been updated since their development in 2004 and we found areas for update and improvement.

Procurement planning and formation of agreements

The NFP Policy requires public authorities to adopt transparent needs analysis processes. However, since DoH separated its policy and contract management processes in 2005, contract managers are generally removed from this process and information to link funding to identified health needs is no longer kept on contract management files. We often found it difficult to find this information because its location was not cross-referenced on contract management files.

Over 75 per cent of 2006-07 agreements examined were historical funding arrangements, renewed from prior agreements. It is not unusual for DoH to continue funding the same provider for many years. In these instances, information to link the funding to an identified health need either was not available or had been archived.

| | 2006-07 Arrangements Examined |
|--|-------------------------------|
| Service Agreements/ Contracts – Historical | 49 |
| Service Agreements/ Contracts – New | 3 |
| Grant Agreements | 13 |
| TOTAL | 65 |

Table 2: 2006-07 service agreements, grants and contracts examined

Source:OAG

Preferred service providers (PSP)

The need to ensure service continuity and value for money in delivering services is recognised in the NFP Policy. Public authorities can set aside the requirement for market testing where providers have been assessed and awarded preferred service provider status. Assessment criteria are included in the NFP Policy and we found DoH's Policy Statement included similar criteria. The process must be transparent and capable of challenge by other organisations.

We found that DoH had not formally assessed and awarded PSP status or conducted further market testing in 86 per cent of renewed funding arrangements examined. DoH advised that it has recently developed a process for assessing providers for PSP status but, at the time of our audit, this process had not been used.

Other findings

We also found:

- a consistent lack of evidence to demonstrate that due diligence assessments were being undertaken prior to entering into agreements. Such assessments are important when considering the provider's capacity to provide the service, value for money and risk
- three amounts totaling \$499 450 were paid without written applications. One of these was a \$400 000 grant paid in May 2007 for the refurbishment of a provider's premises. Cost estimates were provided but DoH paid double the estimated \$200 000 cost. DoH advised that the additional \$200 000 was provided for anticipated further works but we found no evidence

of these being costed or documented. Although DoH amended the standard grant agreement to allow it to recover any unspent funds, at November 2008, \$211 300 remained unspent and had not been recovered

- 16 grant submissions worth \$392 536 were assessed by one funding area in 2006-07 but it was not clear who assessed the submissions, what due diligence was undertaken or what criteria they were assessed against. Five of these submissions worth \$193 700 were funded
- over 60 per cent of agreements examined were signed after the commencement date of the agreement. Delays in signing ranged from one day to 12½ months. However, most of these were renewals where existing agreements allowed for ongoing service provision.

Management of agreements

A key aspect of contract management is the ongoing monitoring of provider performance against predetermined, clearly understood and authorised criteria. Public authorities must be mindful of the special features of funding and purchasing from the NFP sector when setting accountability requirements to ensure they are relevant, achievable and consistent.

While public authorities are required to use a standardised agreement when documenting funding arrangements with NFPs, the frequency and content of financial and service reports can be structured to meet individual circumstances. In this way, public authorities ensure vital financial and service information is available for use in monitoring performance against contractual requirements.

We found appropriate and relevant reporting requirements in all funding agreements examined but found 24 per cent of reports were not lodged by providers or were lodged more than two months late. Table 3 shows the number of provider reports not lodged or lodged late in 2006-07.

| | Not lodged | Lodged > two months late |
|------------------------------|-------------------|------------------------------------|
| Financial Reports | 32 of 115 | 13 |
| Activity and Service Reports | 40 of 282 | 7 |
| Audited Financial Statements | 8 of 52 | 6 |
| TOTAL | 80 of 449 | 26 |

Table 3: 2006-07 reports that were not lodged or were lodged more than two months late by providers

Source: OAG

In many instances files did not show whether contract managers had followed up these missing or late reports. We also found that files did not contain a documented review of nearly 30 per cent of reports lodged by providers.

DoH's Contract Administration System (CAS)

Contract managers do not have an effective electronic contract management and monitoring tool to assist them with their day-to-day contract management duties. DoH's current contract management system, known as CAS, was introduced in 2002 and is considered by DoH to be cumbersome, expensive to maintain and upgrade, and obsolete. The system does not automatically record payments to providers or alert contract managers when action is required. Many contract managers do not have direct access to the system.

CAS's inability to meet Government reporting requirements has led DoH to maintain a separate electronic spreadsheet. A copy provided to audit was found to have limitations, including showing expected but not actual funding amounts. When compared to actual 2006-07 payment information, the spreadsheet overstated funding by approximately \$45 million.

The funding spreadsheet was also found to contain numerous minor errors and omissions including missing contract numbers, information not reflecting DoH's current structure and incorrect contract manager names.

DoH has been considering the replacement of CAS since 2006. A replacement system was intended to be operational by April 2007 but had still not been implemented at the time of our audit.

Review and evaluation of agreements

At the end of an agreement's term, public authorities should review provider performance and service outcomes against original targets. The identification of areas for improvement should then be used to improve the next round of service identification and funding agreements. Structured reviews at the completion of agreements were found on only 17 per cent of files examined.

Although a large number of DoH's 2006-07 funding agreements had a duration of only one year we found it is moving towards longer term agreements of between three to five years, except where risks are high. This should provide DoH with more time to review and evaluate performance and outcomes.

Management of Traffic Infringements for Government Vehicles and Staff

Overview

Under the *Road Traffic Act 1974* corporate vehicle owners including government agencies are required to nominate who was driving the vehicle at the time a traffic infringement is incurred, so that the responsible driver can be issued the appropriate infringement notice.

A media report in March 2008 indicated that government agencies often failed to nominate drivers of government vehicles that had been photographed by speed or red-light cameras infringing road traffic regulations. The information in the article implied that agencies were paying penalties on behalf of their employees. However, the article also raised a more serious possibility that agency staff might have been acting improperly to avoid appropriate penalties.

We investigated the issue of agency follow-up of traffic infringements including actions taken by the agencies to address any procedural weaknesses.

Key Findings

- During 2007-08, the 10 selected agencies failed to identify the driver in 12 per cent of reported traffic infringements. Two systemic weaknesses contributed to the failure to identify drivers:
 - A complex form used by the WA Police to request information about the identity of the driver of an infringing vehicle created potential for misunderstanding about the action required. This increased the risk of individuals escaping punishment for driving infringements. The form used by the WA Police is specified under the *Road Traffic (Infringements) Regulations 1975*. WA Police are taking steps to simplify the form.
 - A lack of central control by agencies meant that they were often unaware that the Police were not being notified of the driver's identity. The agencies we examined have changed their processes to address this weakness.
- Penalties for failing to nominate drivers of government vehicles were being paid, but only rarely by agencies. Rather, the form design created potential for drivers to misunderstand requirements and to pay the penalty for failing to nominate the driver instead of the traffic infringement.
- Because of the form design and weaknesses in agency processes, we were unable to determine that any government employees acted improperly by deliberately trying to avoid the penalty from the infringement.

What Should Be Done?

- WA Police should ensure any simplified form is implemented as a priority.
- All agencies should ensure that they comply with the recently issued Premier's Circular by ensuring that they nominate a particular individual as the person in charge of a vehicle when they receive a request from the WA Police. This is likely to involve a degree of centralising in the fleet management process.

Agency Response

WA Police Response

WA Police acknowledge that the NRI form is a complex document. However, the design of the NRI form is specified in the *Road Traffic (Infringements) Regulations 1975*. Having regard to the legislative requirements and the information necessary, WA Police are in consultation to simplify the form.

Background

In March 2008 a newspaper article reported that government agencies were failing to nominate the drivers of vehicles caught speeding or running red-lights and listed what they called the 10 worst agencies. The article implied that because agencies were failing to nominate the infringing driver, the agency incurred financial penalties on behalf of the drivers.

When corporate vehicles such as those owned or leased by government departments incur a traffic infringement, the organisation is issued with a Notice Requesting Information (NRI). The NRI asks the organisation to identify the driver and then notify the WA Police (WAP) within 28 days. When WAP receive this information they then issue a traffic infringement to the nominated driver. The nominated driver then either accepts the infringement including the financial and demerit point penalty or identifies the actual driver.

If organisations do not identify the driver and notify WAP within 28 days, then they will be fined an amount that is twice the amount of the fine for the road traffic infringement.

Premier's Circular 2008/04 was issued in April 2008 and deals with this area:

Chief Executive Officers have a responsibility to ensure that drivers of Government vehicles who infringe traffic laws can be promptly identified and are required to pay any penalties arising from their actions.

After the publication of the article and the Premier's Circular, a number of agencies reviewed their activity in this area. Two agencies came to the opinion that it was possible that some government employees might have acted improperly by avoiding demerit points and financial penalty. As a result the matter was referred to the Auditor General.

What Did We Do?

Our key questions for the examination were:

- was there any improper activity by government employees?
- do agencies have adequate processes in place to deal appropriately with traffic infringements incurred by their employees while in government vehicles?
- how well does the WAP infringement system control the risks involved?

In investigating this set of concerns, we consulted with the Corruption and Crime Commission to seek advice on what would constitute improper conduct. We then tested the systems and processes at WAP and at the 10 agencies reported in the newspaper article in regard to their issuing and receiving of NRIs and traffic infringements. A specific focus of our work was those NRIs and the associated government employees identified as involving potential misconduct.

What Did We Find?

We found that there were only a very small number of cases where agencies have paid penalties for being unable to identify drivers. This provides assurance that government funds are not being misused.

Financial records and other information provided to us by the 10 agencies indicated that the number of payments made by the agencies for NRIs ranged from zero to eight over the last financial year (2007-08).

It was not possible to conclude whether government employees had acted improperly

The key concern which led to this investigation was that government employees might be acting improperly in regard to traffic infringements incurred while travelling in government vehicles. Our investigation established that there were a number of ways an individual might act improperly in this area. Employees:

- might falsely declare that they were not the driver of the vehicle
- might knowingly exploit weaknesses that existed in the process used by agencies and WAP for managing NRIs to avoid receiving the appropriate infringement and any fines and/or demerit points.

We examined the cases which formed the basis of the newspaper article, and found no cases where an individual had signed a declaration stating that they could not identify the driver of the vehicle. Therefore no one had falsely declared this, and no one had definitely acted improperly.

We identified weaknesses in the process for managing NRIs by agencies and WAP which if known by individuals at the time could have been exploited. Testing in this area was problematic because the weaknesses in the system meant we were unable to positively conclude whether people had knowingly exploited them. These weaknesses have since been addressed by WAP and the agencies involved.

The Notice Requesting Information (NRI) created uncertainty

The complex design of the NRI form made it unclear what action should be taken and what information is required.

The NRIs issued during the period under review seemed to imply that people should pay a particular fine, which was highlighted on the front of the form, along with a payment slip. In fact, that fine was for failure to notify the Police of the identity of the driver and is double the penalty that follows from any particular traffic infringement. We noted instances where the agency

forwarded the NRI to the identified driver and this greater penalty was paid when following the correct procedure would not have involved any loss of demerit points. Those individuals were in effect penalised by the system, as opposed to gaining an improper benefit from it.

An unintentional consequence of the whole system, including the design flaw mentioned above, is an increased risk that individuals might manipulate the system to avoid receiving traffic infringements and ensuing losses of demerit points on their driving licences. The content and design of the form must meet regulated specifications under the *Road Traffic (Infringements) Regulations 1975*. We note that WAP is working within these constraints to simplify the design of the NRI.

There were significant numbers of cases where drivers had not been identified, but agencies have acted to improve processes

The original newspaper article stated that in 19 per cent of NRIs it examined, a driver was not nominated. This formed the basis of the further conclusions in the news story. Our analysis showed that the actual figure was 12 per cent. Nevertheless, this figure is still substantial, and indicates that agencies did not have adequate controls in place to ensure that drivers were properly identified. The different figures result from an in-depth examination by audit of available data and systems. For example, the IT system which WAP uses to manage this information has a limited range of identifiers for each case. In particular, if a driver/person in charge is initially not nominated, but is subsequently nominated, the system nevertheless records that the driver was not nominated.

Seven of the 10 agencies we examined had implemented systems which adequately handled NRIs. The other three amended their systems during the course of the audit.

All agencies agreed the key ingredient to a 'good practice' system is centralising the process for dealing with NRIs. In particular, agencies should ensure that they make all efforts to identify a driver/person in charge of the vehicle in the first instance and return the NRI to WAP. Doing this will meet the requirement of the Premier's Circular and achieve two important outcomes: the agency cannot be made responsible for any penalty for non-identification, and the agency will have ensured that the appropriate individual will be brought to account for any traffic infringement they have incurred.

Reports of the Auditor General

2008

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2007

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