

Report on

CONTROLS, COMPLIANCE AND ACCOUNTABILITY AUDITS 1998

Report No 8 – October 1998



AUDITOR GENERAL

Western Australia



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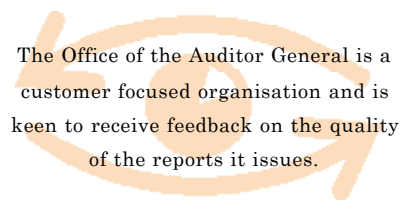
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**THE SPEAKER
LEGISLATIVE ASSEMBLY**

**THE PRESIDENT
LEGISLATIVE COUNCIL**

REPORT ON CONTROLS, COMPLIANCE AND ACCOUNTABILITY AUDITS 1998

This Report has been prepared consequent to audits conducted under section 80 of the *Financial Administration and Audit Act 1985* for submission to Parliament under the provisions of section 95 of the Act.

These audits seek to provide Parliament with assessments of aspects of public sector management and to identify opportunities for improved performance.

A handwritten signature in black ink, appearing to read 'D D R Pearson'.

D D R PEARSON
AUDITOR GENERAL

October 14, 1998

Contents

Introduction	1
Collection of Revenue	
Assessment and Collection of Stamp Duty on Motor Vehicle Transfers	3
Control of Agency Expenditure	
Administration of Grants	10
Corporate Card Payments	16
Members of Parliament Travel Entitlements	19
Payments to Visiting Medical Practitioners for Professional Attendances	25
Human Resource Management	
Management of Leave	30
Prevention and Recovery of Payroll Overpayments	39
Administration of Superannuation Systems	
Government Employees Superannuation Board	44
Follow-Ups of Previous Examinations	
Ministerial Office Expenditure	51
Fines Enforcement Registry	52
Recent Reports	54

Introduction

Controls, Compliance and Accountability (CCA) audits are a part of the Office's performance auditing approach which has as its objective "To meet Parliament's need for independent and impartial strategic information regarding public sector accountability and performance".

CCA audits are undertaken to inform Parliament about aspects of financial control and public administration which are not likely to be covered by performance examinations or annual attest audits of agencies' financial statements and performance indicators.

Whilst the matters raised may not individually be qualification issues or material in an attest auditing sense, they are considered significant and warranting attention across the public sector. The scope and focus of CCA audits are directed towards:

- internal control systems;
- compliance with applicable legislation and procedures;
- accountability; and
- probity.

The objective of CCA audits is to facilitate improved performance and financial management in the public sector by:

- highlighting areas where there is scope for improvement in management;
- identifying the need to implement improved controls and procedures; and
- providing assurance on aspects of public administration.

About this Report

This Report summarises the results of eight CCA audits and two follow-up examinations which report on action taken in regard to previously reported audits. This Report brings to the attention of Parliament significant issues covering:

- collection of revenue;
- control of agency expenditure;
- human resource management;
- administration of superannuation schemes; and
- follow-up examinations.

Both agency specific audits and those undertaken across a number of agencies are reported. These latter audits are included in a generic manner as the issues raised are based on findings in a range of agencies which are considered indicative across the public sector.

Where appropriate, action taken by agencies to address the issues raised is also reported. As this Report covers audits undertaken progressively over the last 12 months, the extent of action taken by agencies varies, particularly so for those only recently completed.

Follow-up examinations are undertaken to assess the impact of the initial examination and to provide Parliament with information on progress and changes made. The section outlines the progress made for two audits reported in the initial CCA Report tabled in November 1997.

Collection of Revenue

Assessment and Collection of

Stamp Duty on Motor Vehicle Transfers

Background

In 1997–98, the Department of Transport (DOT) collected \$139.9 million in stamp duty on around 400 000 motor vehicle transfers. Stamp duty is payable at the rate of three per cent of the market value of a vehicle.

Defining market value can be complicated, being defined as the amount for which a motor vehicle might reasonably be sold, free of encumbrances in the open market. Market value includes the value of any accessories, delivery, selling costs and discounts not generally available in the open market. Simply stated however, in most cases the price paid is the same as the market value.

Under the *Road Traffic Act 1974*, the seller of the motor vehicle is required to immediately notify DOT of the sale and the price paid. The buyer has 28 days to notify DOT of the sale, the price paid and the market value of the vehicle as well as to pay the stamp duty.

The *Stamp Act 1921* sets out the responsibilities of DOT and the State Revenue Department (SRD) for assessing and collecting stamp duty. An assessment of the stamp duty payable can be made by DOT staff if it is considered the stated market value is incorrect. The buyer is then required to pay the assessed amount before the vehicle can be transferred. If the buyer disagrees with the assessment, an appeal can be made to SRD but the assessed amount must first be paid.

After a transfer has been made, SRD can review the amount paid and make an additional assessment if the stated market value is considered unreasonable. The SRD can also impose a penalty of 100 per cent of the stamp duty due and take action to have both the buyer and the seller prosecuted for a false declaration (the maximum fine is \$10 000).

What is the Potential Risk?

The key risk is that stamp duty is being under assessed and collected. A number of factors contribute to this risk including:

- purchasers and sellers understating the purchase value;
- market value being understated by not adding back discounts and other adjustments or offsetting trade-ins; and
- the high volume of transfers and other licensing transactions which are processed through various arrangements.

What Did We Do?

The examination involved:

- undertaking an analysis of vehicle transfers recorded in DOT's Licensing System database. This involved:
 - categorising the 324 000 transfers effected during the period July 1, 1997 to May 14, 1998. As shown in Figure 1 below, passenger vehicles less than ten years old is the largest category making up 33 per cent of all vehicle transfers and 55 per cent of stamp duty collected.

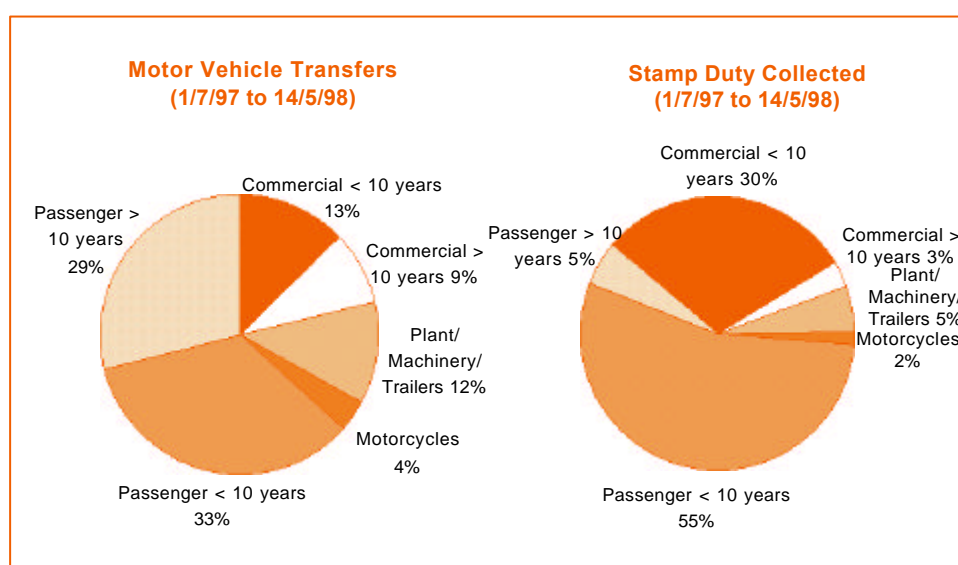


Figure 1: Analysis of vehicle transfers by type and stamp duty collected.

Source: OAG and DOT database

- computer matching vehicle model and values for passenger vehicles less than ten years old to 'Glass's Guide' (a vehicle price guide). Due to the limited data on vehicle models in DOT's database, vehicles were generally matched to values for the base model. This resulted in 98 000 matches of the 110 000 vehicles in this category;
- reviewing a sample of transfers against the original transfer documents; and
- reviewing the procedures followed by DOT and SRD to assess and monitor stamp duty collections.

What Did We Find?

Analysis of Vehicle Transfer Values

Discussions with departmental staff revealed that DOT or SRD did not undertake an analysis of the declared value of vehicle transfers either prior to, or after a transfer has been processed. Such an analysis offers the opportunity to identify potential exceptions and trends and assist in checking the reasonableness of declared values.

The analysis of vehicle transfer values undertaken as part of this audit was broken down into new vehicles, used vehicles up to five years old and those between five and ten years old.

Figure 2 shows the declared market value and these values as a percentage of the manufacturer's list price (new vehicles) and average retail price (used vehicles) shown in Glass's Guide.

This Figure shows a peak at around 100 per cent of the expected value shown in the Guide.

Vehicle with values above 100 per cent of the Guide's valuation are attributed to such factors as matching to base models, optional extras (in both new and used vehicles), or to variations in a used vehicle's condition.

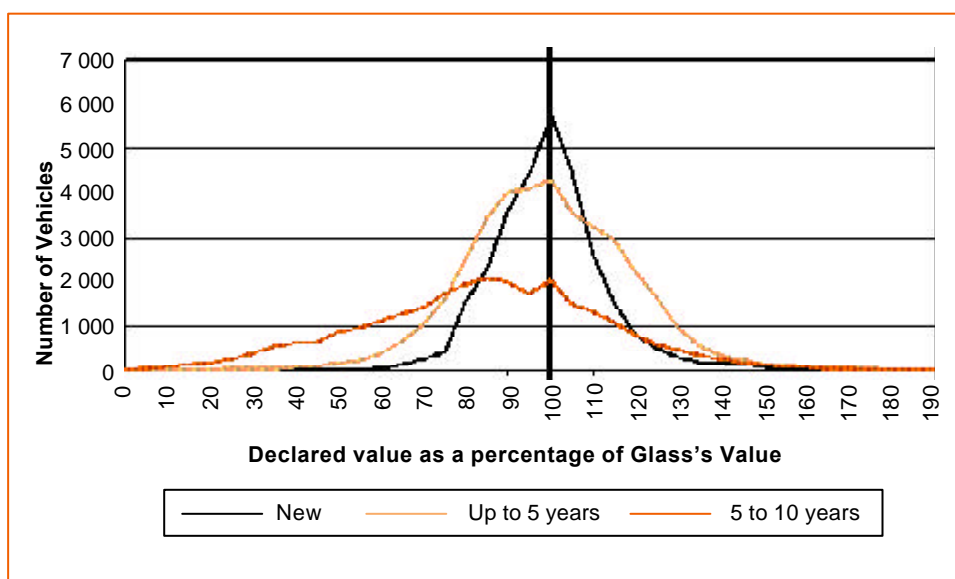


Figure 2: Declared values in relation to Glass's valuations.

Source: OAG, DOT database and Glass's Guide

This Figure also shows that declared values are lower than expected for a significant number of vehicles, which could mean stamp duty is being under assessed.

This analysis further shows:

- 57 per cent (or 16 750) of new vehicles were valued below the list price. Some of these would have been attributable to allowable discounts (such as fleet owner's discount), however further breakdown shows that 27 per cent were below 90 per cent of the list price, with seven per cent below 80 per cent of this price.
- 56 per cent (or 21 706 vehicles) of used vehicles under five years old had declared values below the Glass's Guide average retail price. 33 per cent (or 12 786 vehicles) were below 90 per cent and 16 per cent (or 6 356 vehicles) below 80 per cent of the average retail price.
- 72 per cent (or 19 416 vehicles) of five to ten year old vehicles had declared values below the Glass's Guide average retail price. There were also 43 per cent (or 11 684 vehicles) below 80 per cent and 13 per cent (or 3 493 vehicles) below 50 per cent of retail price.

Some variation in market value is to be expected in used vehicles as they may be sold retail, wholesale or privately and vehicle condition would vary significantly, particularly as they age. Reasons for declaring that the market value of a new vehicle is below the manufacturers' list price are less readily apparent. Nevertheless, this analysis shows a large number of vehicles below the Guide's valuation.

Review of Selected Transfers

A sample of 107 transfers was checked back to transfer forms. The sample was selected to identify problem areas and was therefore made up of different types of transactions (i.e. new, used and hire vehicles, concessions, etc.). Major issues identified from this sample were:

- 68 of the forms showed significant variations in the declared value that could not be explained by information on the form. These included some new vehicles that had declared values less than 60 per cent of the manufacturer's list price. These have been referred to SRD for follow-up;
- 27 forms showed a satisfactory value. However, on several occasions it was necessary to assume that the vehicle was in poor condition even though there was no clear statement of the vehicle's condition on the form; and
- on 12 of the forms the value of the vehicle was wrongly keyed and an incorrect amount of stamp duty was paid. These ranged from \$15 000 keyed in as \$1 500 to \$129 000 keyed in as \$12 900.

In addition, 29 of the forms were incomplete in areas such as the buyer section not being completed and the purchase and market value not always being provided.

These results indicate that declared values could be understated for a significant proportion of vehicles. It also shows the difficulty in determining market value from the information provided by buyers and sellers and highlights the need for an effective compliance program to identify and review anomalies.

Ensuring Compliance

Compliance strategies, such as the identification and analysis of risks and implementing procedures to detect non-compliance, are necessary to ensure stamp duty is correctly assessed and collected. Such strategies are also necessary to ensure the requirements of the *Stamp Act*, (which sets out the responsibilities of DOT and SRD) are met. These requirements are covered in the Instructions to Licensing Officers Manual issued by DOT, which states:

- stamp duty is to be reassessed prior to transfer if the declared market value is considered incorrect; and
- copies of transfer forms are to be referred to SRD under various circumstances such as the declared value being less than a specified amount.

Current arrangements and practices in these areas are outlined below.

Reassessment of Stamp Duty

DOT staff are provided with a commercially available vehicle price guide (the Red Book) to reassess stamp duty if vehicle values are considered unreasonable. The number of transfers reassessed prior to transfer is not known and there was no evidence that any of the transfers in the audit sample had been queried or reassessed. Senior management at DOT indicated that it was likely declared values were accepted and not reassessed. Factors contributing to difficulties in reassessing values include:

- the inexperience of counter staff;
- the number of transactions to be processed;
- the large percentage of transfers processed by mail or through an on-line facility making it difficult for staff to query vehicle details with the buyer/seller;
- the absence of information about the condition of the vehicle on the transfer form (e.g. kilometres, wreck, or the presence of optional extras);
- the time taken to manually locate values in the vehicle price guide; and
- the lack of instructions or guidance as to which of the values shown in the guide (e.g. wholesale, retail, etc.) should be used.

Compliance Program

Inquiries at DOT and SRD also identified that only a minimal number of transfers (approximately 30 in the past 12 month period) had been referred to SRD for assessments in recent years. DOT advised that a computerised program was established in 1992 which scanned the vehicle database to extract information such as year, make, model and market value. This program has not been run for a number of years and an investigation has not been able to clearly establish why the scan of the database was discontinued.

What Does This Mean?

The lack of procedures to identify and follow-up potential exceptions and trends in declared transfer values increases the risk that stamp duty may be under collected.

The amount of revenue potentially under collected is difficult to estimate, however the analysis undertaken as part of this audit indicates that values for a large number of vehicles could be understated.

What Should Be Done?

DOT and SRD should implement procedures and controls over the stamp duty assessment and collection process sufficient to provide reasonable ongoing assurance that stamp duty due is being collected, including:

- changing the transfer forms to include more information on the vehicle, its condition and details of trade-ins and discounts to enable a better estimate of market value to be made;
- develop a computerised system to identify potential instances of under declared values, either when the transaction is processed or for subsequent follow-up;
- provide improved guidance and staff training on the assessment of market value and procedures for follow-up and referral of suspected non-compliance; and
- the development of compliance strategies, including a program to review and follow-up potential exceptions.

What Has Been Done?

The Departments have advised the following procedures and controls are to be implemented:

- amendments have been made to the transfer form to include provision for the condition of the vehicle and a comment in relation to the vehicle's condition. Provision has also been made to include on the form the number of kilometres the vehicle had travelled at the time of sale.

In addition, the warning on this particular form has been extended to include "A seller who understates the purchase price of a vehicle or who provides **information which is false in a material particular** commits an offence under the *Stamp Act 1921* and is liable to a penalty of \$10 000". This warning previously only referred to a seller who understated the purchase price of a motor vehicle;

- preliminary investigations into a computerised data matching system have been undertaken between DOT and a dealer's guide representative;
- DOT are presently in the process of preparing a guide for staff in relation to the assessment of market value and procedures for follow-up and referral of suspect transfers;
- compliance investigations have previously determined that a motor vehicle dealer audit program is required. However, this program can be enhanced by targeting those dealers returning sales with particularly low market values by using the above computerised data; and
- SRD will continue to follow-up suspect transfers referred by DOT and will also investigate those transfers included in exception reports provided by DOT.

In addition, SRD has commenced investigations into the transfers referred and has reported that:

- 36 transfers reflected the correct market value which was low due to the condition of the vehicle or as a result of the number of kilometres the vehicle had travelled;
- 7 transfers were found to have a market value which was incorrect and accordingly will be subject to assessment by the Commissioner of State Revenue. Prosecution will also be considered in relation to any deliberate understatement of market value; and
- 25 transfers are still under investigation and results are unknown at the time this report was prepared.

Control of Agency Expenditure

Administration of Grants

Background

A number of public sector agencies provide funding or grants of public funds for specific welfare and community development activities consistent with government policy objectives. Grant-giving agencies may allocate funds directly to individual applicants or to non-government organisations ranging from small voluntary groups to large commercially run organisations.

Controls and safeguards over grants should be similar to those that apply to other expenditure and ensure that the money is spent according to the conditions of the grant and that programs are achieving their stated objectives. An agency should establish objectives and criteria for its grant program to ensure that grants are allocated to eligible applicants and purposes. It is also essential that agencies determine whether grant recipients have complied with reporting requirements and have achieved appropriate outputs and outcomes.

What is the Potential Risk?

This audit focused on the assessment and approval of grant applications and the monitoring and acquittal process. Key risks in these areas include:

- guidelines for eligibility may not be clearly established or consistently applied; and
- individual grants are not effectively monitored and acquitted which could result in grants not achieving their intended purposes.

What Did We Do?

The administration of grants by the Disability Services Commission and the Ministry of Culture and the Arts were examined. A sample of grants covering programs and/or activities that were approved in 1996–97 were selected and reviewed to determine if grants:

- were assessed and approved consistent with the agencies' criteria, policies and objectives; and
- had been acquitted in accordance with grant terms and conditions.

What Did We Find?

The audit identified a number of areas where there is a scope to improve the administrative effectiveness and accountability over the assessment, monitoring and acquittal of grants. Details of the grants administered by each agency and results of the audit are detailed below.

Disability Services Commission

The Disability Services Commission is moving away from the direct provision of services such as accommodation support to purchasing or funding these services through the non-government sector. In 1996–97, non-government service providers were allocated \$57.7 million to enable them to provide services to people with disabilities. A further \$5.3 million was provided under the Local Area Coordination program to individuals with disabilities to purchase services (such as carers) of their own choosing.

Assessment of Grants

Grants to non-government service providers were made under the following arrangements:

- funding allocations for a number of programs (representing around 74 per cent of 1996–97 funding) were made on the basis of costs of inputs, such as staff salaries, or other historical formulae. Such funding allocations were not based on performance information such as the delivery of a quantity of service outputs (such as hours of service provided, number of clients serviced), or the outcome sought (such as the impact of counselling provided). The limited use of such outputs and outcomes in funding arrangements can impact on the Commission's ability to:
 - measure and promote efficiency and effectiveness amongst service providers; and
 - ensure that clients obtain a suitable level of service with the funds provided.

The Commission advised that the 1996–97 funding program was negotiated in the latter half of 1995–96, prior to the introduction of output based management initiatives which are being developed for all funded services.

- in comparison, grants approved under the Post School Options Program and Accommodation Support Funding Program include specific criteria, funding methodology and specification of outputs to be achieved in relation to hours of service.

Local Area Coordination grants are allocated after an assessment of an application either by Commission staff or committees depending on value and criteria. The audit concluded that grants were being assessed and approved in accordance with Commission policies.

Grant recipients sign an Acceptance of Grant Form which outlines the general purpose(s) of funding and all recurrent grants have an agreed funding plan. However, the specific services for which the grants are made were not detailed sufficiently in the Acceptance of Grant Forms signed by recipients. This could result in grant recipients being uncertain on what was being funded and result in funds being used for other purposes.

Monitoring and Acquittal

Monitoring and acquittal processes for funding provided to service providers focused on what had been spent rather than what had been achieved with grant acquittal requirements in funding agreements predominately focusing on financial reporting.

The Commission has subsequently introduced a number of initiatives to ensure that clients obtain a suitable level of service and to assess and monitor providers' performance. These include:

- an annual client data collection, which identifies outputs for all Commission funded and provided services;
- an annual self assessment process, which all Commission funded and provided services undertake to measure themselves against the National Disability Service Standards;
- an independent standards monitoring process, which reviews how Commission funded and provided services are performing against the National Disability Service Standards;
- submission of annual reports by funded providers, which clearly identify non-financial and financial results for the year;
- visits to providers by Commission staff, which are aimed at assisting agencies with specific enquiries, but also determining the value and quality of services provided; and
- grievance procedures in place for all funded providers.

Notwithstanding the above, a review of 1996–97 grant agreements showed that many service providers (90 per cent of the sample selected) had not complied with the conditions in funding agreements. These included failure to submit the:

- audited financial statements relating to specific Commission funded activities; and
- audit certifications to attest to the proper use of grant moneys and establish whether any surplus moneys should be refunded.

The Commission has in consequence adopted alternative strategies such as approving a one year suspension of the requirement to submit audited financial statements for Commission funded activities and to separately account for 1996–97 surpluses.

In relation to Local Area Coordination grants, difficulties were experienced in obtaining from the grants database the value of 1996–97 grants yet to be acquitted. Consequently, management did not have access to readily available and accurate information to monitor either outstanding acquittals or the performance of this program.

Ministry of Culture and the Arts: Arts WA

The Ministry of Culture and the Arts encompasses a number of agencies including the (then) Department for the Arts (Arts WA) and ScreenWest who have grant programs. Arts WA made grants to provide the public with access to high-quality arts activities. In 1996–97, individual artists and community groups received around 400 grants totalling \$3.1 million, while 23 major arts organisations (such as theatre companies) received \$8.3 million.

Assessment of Grants

Grants to major arts organisations are negotiated through business plans or approved through a panel process. Audit review of this process produced a satisfactory outcome.

Most grant applications to individuals and community groups (termed panel grants) are satisfactorily appraised and assessed by independent panels against predetermined criteria.

However, for funds totalling \$642 000 allocated to initiatives which meet the objectives of Arts WA's strategic plan:

- more detail is required on departmental files to show what criteria the grants were assessed against; and/or
- grants were approved against strategies which did not have adequately documented guidelines or assessment criteria.

The Ministry advised that guidelines for these strategic initiatives have now been developed.

Monitoring and Acquittal of Grants

The Ministry has established appropriate monitoring and acquittal processes covering financial and operational results for funding to major arts organisations. Demonstrating that panel grants have delivered 'artistic merit' is more difficult because of the subjective nature of the arts. To acquit these grants, the Ministry relies on Artistic Reports prepared by grant recipients. However, in 30 per cent of the sample tested, there was no documented evidence to show that artwork had been produced or exhibitions held with grant moneys provided.

The Ministry advised that a number of other steps were taken to ensure grant moneys were properly used. These include contact with grant recipients by Ministry staff and review of other support material. However, these details were not documented.

A review of acquittal procedures identified that Artistic Reports for grants totalling \$526 000 (or 17 per cent of 1996–97s funding total) remained outstanding by up to 17 months as at December 1997. Subsequent to the audit, the Ministry advised this had been reduced to six per cent (at May 1998).

Ministry of Culture and the Arts: ScreenWest

ScreenWest allocated \$2.5 million in the form of grants, loans, and investments to assist in the development of the film industry in Western Australia.

The requirement in agreements between ScreenWest and film producers to provide regular expenditure reports and other progress reports had not been complied with in 50 per cent of the agreements covering the six film projects examined. At the time of the audit, ScreenWest was reviewing the acquittal requirements for film projects.

What Does This Mean?

Key issues identified were:

- a lack of performance information for grants made to service providers which makes it difficult for the Commission to assess the efficiency and effectiveness of programs;
- the lack of adequate guidelines, appraisal criteria and documentation for funding a number of grants made by Arts WA; and
- procedural inadequacies over the monitoring and acquittal of some grants made by both agencies. As a consequence, it is difficult to demonstrate that moneys are being used in accordance with grant conditions and achieving intended outcomes.

What Should Be Done?

The **Disability Services Commission** should:

- continue to refine its funding model to move towards making payments to service providers for achieving defined outputs or outcomes wherever possible;
- ensure that the terms and conditions of performance agreements with service providers are met;
- ensure that the purposes for which Local Area Coordination grant moneys are provided are clearly specified in Grant Acceptance Forms; and
- ensure that outstanding Local Area Coordination grant acquittals are able to be reliably monitored at an appropriate level.

The **Ministry of Culture and the Arts** should:

- ensure that all grants are assessed against appropriate criteria and/or guidelines and decisions are adequately documented;
- strengthen acquittal processes with documented independent assessments/evidence of grant outcomes; and
- ensure that grant recipients provide acquittals on a timely basis.

What Has Been Done?

The **Disability Services Commission** has advised that:

- the use of outputs and outcomes will be addressed in performance agreement negotiations and that providers will be required to meet acquittal conditions;
- a new management information system to facilitate improved reporting and control over Local Area Coordination grants is also being implemented, as well as new operational benchmarks and a revised Acceptance of Grant Form; and
- the Performance Agreements currently in place with the funded sector include a higher degree of specificity regarding outputs to be delivered, financial and non-financial reporting requirements, and measurement of activities against National Standards. In addition, the Commission has made significant progress in the implementation of the State Supply Commission's "Buying Wisely: Best Practice Guidelines" for the funding program. This has included the redrafting of Procedures and Orientation manuals, contract management training for funding staff, expression of services in output terms, changes to the job descriptions of funding staff, and proposed enhancements of the funding programs' performance management strategies.

The **Ministry of Culture and the Arts** has:

- drawn up more specific guidelines, assessment criteria and assessment process for funding made under strategic initiatives and instituted an acquittal checklist to document that panel grants have been properly spent; and
- advised that ScreenWest is finalising the review of its funding agreements to ensure they are appropriate to the terms of the funding provided and provide for better compliance.

Control of Agency Expenditure

Controls over

Corporate Card Payments

Background

The Government Corporate Card was introduced to the Western Australian public sector in 1989 for the purchase of goods and services. Benefits flowing from the use of the Corporate Card include efficiency savings from a reduction in paperwork and processing requirements as a result of streamlined administrative procedures, as well as speedier payment to suppliers. The use of the Corporate Card, within an appropriate control framework, also provides an accountable method of purchasing.

Figure 3 shows the growing trend of Corporate Card usage in the public sector. For 1997–98, around 140 000 Corporate Card transactions were made for a total amount of \$34.3 million.

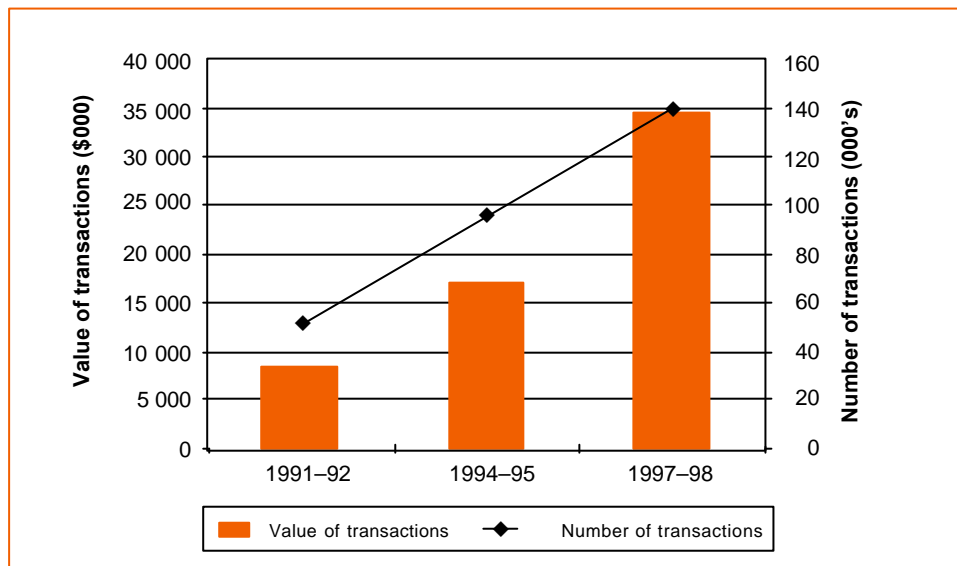


Figure 3: Corporate Card Use – Value and number of transactions.

The large increase in 1997–98 was due to the requirement for travel arranged under a new common use contract to be made using a Corporate Card.

Source: OAG and Bank Reports

What is the Potential Risk?

The use of the Corporate Card represents a significant change over other purchasing methods and requires a control framework to ensure:

- purchases are made only for official purposes; and
- purchases are appropriately approved and monitored.

What Did We Do?

Controls over the use of Corporate Cards were reviewed in five agencies, including two with a decentralised organisational structure where individual sections are responsible for processing expenditure. A sample of payments from July 1997 to January 1998 were examined for:

- documentation supporting Corporate Card payments or other supporting explanations; and
- authorisation and verification procedures for transactions.

What Did We Find?

Supporting Documentation

In the agencies examined, the percentage of transactions not adequately supported by documentation or other supporting explanations ranged from less than five per cent up to 25 per cent (See Table 1). The lack of supports (such as sales dockets or other explanation to help identify the goods or services purchased) makes it difficult to demonstrate that expenditure was for official purposes.

Agency	Number of transactions examined	Inadequate supporting documents or explanation
A	747	187
B	2 105	418
C	180	37
D	430	21
E	797	199

Table 1: Summary of inadequate supports by agency.

Source: OAG

Authorisation Procedures

Authorisation and verification procedures to assist in ensuring the probity and accountability of Corporate Card transactions varied between the agencies:

- Cardholders were not always signing monthly statements to certify that goods and services had been received and were for official purposes. This ranged from being a common occurrence in some sections within an agency to a small number of cases in one department; and

- procedures for monitoring transactions varied. In one agency, all statements and supporting documentation was reviewed by a supervisor while another agency has a policy that all documentation is retained by the Cardholder and was not normally subject to any review.

Under the *Financial Administration and Audit Act 1985*, Incurring Officers are required to certify that payment details are correct. In the absence of supporting documentation and Cardholders certification that goods and services have been received, it is not possible for them to make a proper certification.

What Does This Mean?

Deficient authorisation procedures and the lack of supporting documentation for Corporate Card transactions:

- increases the risk of payments being made which do not comply with agency policies; and
- results in Incurring Officers not always being in a position to properly fulfil their responsibilities.

What Should Be Done?

Agencies should ensure controls over the use of Corporate Cards are appropriate to their operational circumstances and sufficient to demonstrate expenditure is for official purposes. This includes:

- ensuring Cardholders are aware of their responsibilities to only use Corporate Cards for approved purposes and to provide adequate supporting documentation to enable verification of Corporate Card transactions; and
- monitoring Corporate Card use to identify and address instances of inappropriate use.

Control of Agency Expenditure

Members of Parliament

Travel Entitlements

Background

Members of Parliament are entitled to receive a range of allowances for travel undertaken as part of their duties. These include travelling within a Member's electorate, travelling to Parliament, interstate, intrastate and overseas travel for official Parliamentary and electorate business as well as the provision of motor vehicles. In 1997–98, total expenditure for travel related allowances was around \$2.5 million. Other entitlements and support for Members (such as postage and stationery allowances and the cost of operating electorate offices) total a further \$12.3 million.

Travel related allowances are determined under the following arrangements:

- the Salaries and Allowances Tribunal established under the *Salaries and Allowances Act 1975* determines Members remuneration as well as various travel and accommodation allowances. This also includes travel allowances for office holders such as Ministers and members of certain Parliamentary Committees; and
- the Treasurer who determines electorate air travel (including spouse and dependants travel) and travel under the Imprest System.

The Ministry of the Premier and Cabinet (the Ministry) and the Parliamentary Departments (Administrations of the Joint House Committee, Legislative Assembly and Legislative Council) are responsible for administering Members travel entitlements.

What is the Potential Risk?

Factors which increase the risk of errors and incorrect claims being made include:

- the administration of related entitlements by different agencies, which could result in duplication of claims; and
- the diversity of allowances individual Members are entitled to receive.

The importance of sound administrative processes to minimise such risks is shown by recent events relating to Commonwealth Parliamentarians where a number of matters regarding incorrect claims and alleged misuse of entitlements have been raised.

What Did We Do?

The administrative systems operated by the Ministry and Parliamentary Departments were reviewed to assess the adequacy of controls over Members travel allowances. For each entitlement, a sample of Members was selected and payments reviewed to check that:

- allowances were paid at the correct rates and there was no duplication of claims; and
- payments were supported by appropriate documentation and were properly authorised.

The entitlements examined during this audit are set out below.

Entitlements Determined by the Salaries and Allowances Tribunal

Travelling and Accommodation Allowance

Administered by Parliamentary Departments

Members representing certain country Regions and Districts are paid an amount per financial year based on 80 days accommodation (currently \$12 800 per year) for accommodation and associated expenditure for:

- Sittings of that Member's House of Parliament.
- Meetings of Select Committees of which they are a member.
- Attendance at official government or parliamentary functions.
- Other official duties pertaining to parliamentary or electorate matters.

Members who only have a residence in Metropolitan Regions are not entitled to receive this allowance.

Travelling within the Member's Electorate

Administered by Parliamentary Departments

Members representing certain country Regions and Districts may claim travel allowances for each overnight stay at a place in or adjacent to their electorate, but not within 50 kilometres of the Member's principal place or residence or second residence. The maximum number of nights claimable per financial year ranges from 30 to 50 nights depending on the electorate serviced. Where a Member exceeds the maximum number of nights, a further entitlement equivalent to the original may be claimed provided the Member produces evidence that expenditure was incurred.

Motor Vehicle Allowances

Administered by Parliamentary Departments

Members who do not take up the entitlement of a private plated motor vehicle receive an annual allowance of \$6 300 in lieu. In addition, these members are entitled to receive an allowance for use of a privately owned vehicle for official travel which is in excess of 100 kilometres (for each trip). The monetary allowance of \$6 300 is also received by Members who are provided with a vehicle as a result of Office held.

Parliamentary Party Meetings
Administered by Parliamentary Departments

Members attending parliamentary party meetings outside of Perth can claim an accommodation allowance up to a maximum of eight nights per financial year. Members not belonging to a party can claim eight nights for business relating to parliamentary duties.

Air Charter and Hire
Administered by the Ministry

Members representing certain country Regions and Districts can utilise charter transport except where scheduled airline services are operating at reasonably convenient times. Members are allowed amounts ranging from \$5 400 to \$24 200 per financial year depending on the electorate represented. This allowance is to be used for travel by the Member within or for the service of their electorate.

Motor Vehicles
Administered by the Ministry

Every Member of Parliament, with the exception of those Members who are provided with a government owned vehicle as a result of Office held (e.g. Ministers, Committee Chairpersons), is entitled to the supply of a private plated motor vehicle for use on Parliamentary, electorate and private business within Western Australia. Members who are supplied with a government owned vehicle as a result of Office held may also make application to the Tribunal for the issue of an electorate vehicle.

Entitlements Determined by the Treasurer

Travel – Imprest System
Administered by the Ministry

In accordance with the *Salaries and Allowances Act 1975*, the Treasurer determines the amount allowed for travel entitlements under this system. This was set at \$17 590 for the current four-year parliamentary term. Members and spouses can use these funds for travel connected with parliamentary and electoral duties.

Electorate Air Travel
Administered by the Ministry

Country Members are entitled to unlimited air travel (where their electorate is serviced by regular scheduled air services) to and from Perth and within the Members electorate. Members spouse and dependent children under 18 years are also entitled to four return trips between Perth and the electorate each calendar year which is cumulative for the life of each Parliament.

What Did We Find?

Administration of Travel and Vehicle Entitlements

The Ministry and the Parliamentary Departments have established individual systems to monitor and record travel related allowances to ensure Members receive entitlements to approved limits. The following issues were identified and changes to existing arrangements recommended to improve the administration and accountability for these entitlements.

Monitoring of Travel and Vehicle Entitlements

Under current arrangements, the Ministry and Parliamentary Departments have respective responsibility for the administration of different aspects of certain travel and vehicle entitlements. There is currently no mechanism in place between these agencies to cross check or link travel information (such as dates of travel) to guard against duplicated claims.

Whilst audit testing of travel and accommodation entitlements did not identify any duplicated claims, four instances of overpayments relating to the motor vehicle allowance were identified (as detailed below) which highlights the need for improved coordination and systems to verify entitlements.

Motor Vehicle Allowance Payments

An examination of this allowance identified that four Members were being paid the \$6 300 per annum motor vehicle allowance and at the same time had use of a government provided leased vehicle contrary to the Salaries and Allowances Tribunal determination.

This occurred as the Ministry was not notified by the vehicle leasing company of the date vehicles were delivered. In consequence, the Parliamentary Departments were not advised and had not ceased payment of the allowance. As a result, overpayments totalling \$14 860 occurred. These amounts are currently being recovered from the Members.

Travel – Imprest System

Under current procedures, Members are paid funds from their entitlement based on the application form which details the reason for travel, planned dates and costs of fares and travel allowances. The Premier approves overseas travel with domestic travel being approved by the Director General, Ministry of the Premier and Cabinet.

There is no requirement for Members to provide supports for actual fares paid (e.g. airline tickets/invoices) or to provide a certification that the number of days for which an allowance was paid was actually incurred or undertaken. However, each Member is provided with a group certificate detailing their Imprest expenditure for the financial year.

Supporting Documentation and Certification of Claims

Conditions attached to some entitlements (such as air charter, and hire and electorate travel) are for the travel to be undertaken by the Member for purposes such as Parliamentary and electorate business. As these terms are not clearly defined and supporting documentation does not always provide sufficient information to verify that these conditions are met, appropriate certifications signed by the Member are important in establishing that these conditions are met.

A small number of instances were found where an electorate officer was authorising payments on behalf of the Member, while instances were also noted where the certification provided by the Member did not state that the travel related to Parliamentary/electorate business.

What Does This Mean?

Overall, the procedures and individual management systems operating in the Ministry and Parliamentary Departments are satisfactory. Key issues identified from this audit were:

- the lack of systems and procedures for cross checking of relevant data which increases the risk of duplicated claims and incorrect payments; and
- documentation and acquittals to support Imprest System travel not being required which reduces accountability for those payments.

What Should Be Done?

To improve the administration of travel entitlements the Ministry:

- in conjunction with the Parliamentary Departments, should develop appropriate systems and/or procedures to enable regular and timely cross checking of vehicle allowances and travel claims; and
- should review the rules and procedures relating to Imprest System travel and introduce more specific arrangements covering the acquittal and certification of travel costs.

What Has Been Done?

The following steps have been taken to improve the administration of travel entitlements:

- the Parliamentary Departments have developed a system to record travel information while the Ministry has advised a similar system is being investigated to enable cross checking and timely identification of potential exceptions;
- the Ministry has advised details of Members on the leased vehicle scheme will be verified with the Parliamentary Departments on a regular basis; and
- the Ministry now requires Members to personally certify air charter and hire allowance claims or invoices and has issued a standard certification based on the conditions of the determination.

In addition, the Ministry has advised the rules and procedures of the Imprest System will be reviewed.

Control of Agency Expenditure

Payments to Visiting Medical Practitioners for

Professional Attendances

Background

Visiting Medical Practitioners (VMPs) are private doctors who provide a wide range of medical services to the State's non-teaching hospitals. After salaries and wages, payments to VMPs are generally the largest operating expense in these hospitals. Medical services provided by VMPs include surgery, anaesthesia, obstetrics, radiology, and professional attendances. Professional attendances are consultations with patients by VMPs, similar to visits to a local general practitioner. Fees payable for professional attendances to hospital patients are specified in the WA Public Hospitals Fee Schedule. There are generally four categories of fee that may be claimed, depending on the complexity of the consultation. These are designated Level A, B, C and D, with Level A being the least complex and consequently the lowest fee. For example, a Level A fee would apply to a consultation which is obvious and straightforward (e.g. a tetanus immunisation) whereas a Level B fee would apply where the consultation involves taking a selective history and implementing a management plan (e.g. an ear ache).

An agreement between the Minister for Health and the Western Australian Branch of the Australian Medical Association (AMA Agreement) dated September 4, 1995 governs the provision of the medical services. Clause 9.7(a) of this Agreement specifies that "A visiting medical practitioner shall submit claims for payment supported by documentation in hospital records commensurate with the service provided". Authorisation of claims for payment by hospitals must comply with:

- Section 33 of the *Financial Administration and Audit Act 1985 (FAAA)* which states "A certifying officer shall not certify as correct the payment of an account ... unless payment of the account is authorised by the person incurring the expense in accordance with the Treasurer's Instructions"; and
- Treasurer's Instruction 305(4) which states "The Incurring Officer shall not certify to the payment of an account unless satisfied that ... rates of charges are correct and ... services have been satisfactorily performed".

What is the Potential Risk?

A number of factors increase the risk of incorrect payments to VMPs for professional attendances including:

- payments should only be made in relation to services to eligible patients;
- the category of fee is determined by the VMP based on the complexity of the examination conducted;
- the increasing number of payments processed by hospitals each month; and
- the absence of approved guidelines for the verification of claims for payment, particularly in relation to the category of fee.

What Did We Do?

A sample of payments made to VMPs for professional attendances to hospital inpatients over the period July 1996 to January 1998 was randomly selected at each of four non-teaching hospitals – two in the metropolitan area and two in the country. Each payment was checked to hospital records by sighting:

- documentation that the VMP had visited the patient on that occasion (normally notation by the VMP on the patient's medical record); and
- documentation supporting the category of fee claimed.

The effectiveness of current verification procedures for payments to VMPs was also assessed.

What Did We Find?

Analysis of VMP Professional Attendance Payments

Discussion with senior management of the four hospitals confirmed that there is little or no analysis of VMP payments performed to review payment trends and exceptions. Management review is generally restricted to comparing actual expenditure to budget for financial budgeting and reporting purposes.

Payments to VMPs by the four hospitals for the period July 1996 to January 1998 included \$1.4 million for professional attendances. An analysis of these professional attendance payments shows that Level B fees were paid for 80 per cent of the 33 800 attendances. This is shown graphically in Figure 4.

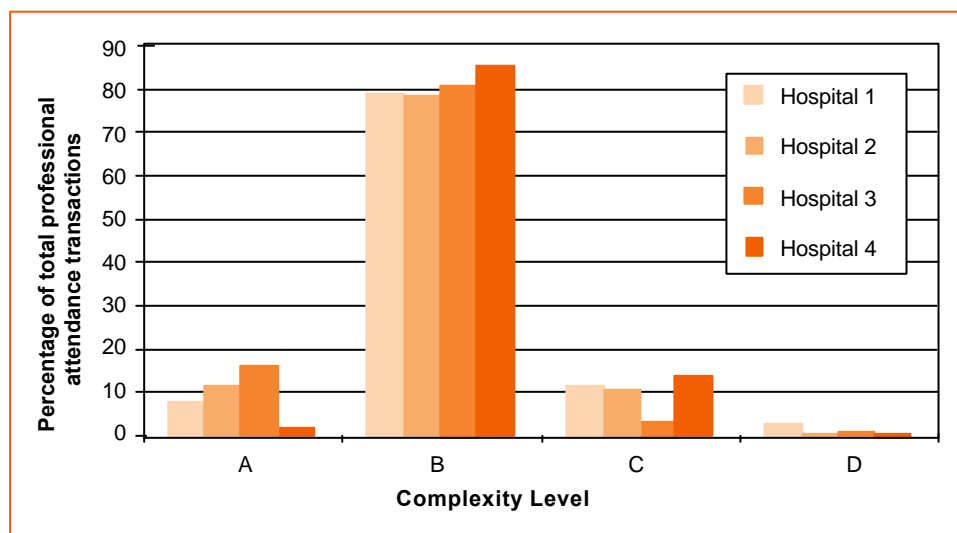


Figure 4: Distribution of professional attendances by category for four non-teaching hospitals for the period July 1996 to January 1998.

Source: Hospital records and OAG

It could not be ascertained from hospital management whether this spread of payments across the four categories was in accordance with their expectations. In fact management were not aware of this payment distribution as this type of analysis had not been undertaken by hospitals at the global or individual VMP levels.

Verification Procedures

Current verification procedures undertaken by hospital staff for professional attendance claims for payment include:

- confirmation that the patient was an eligible patient; and
- confirmation that the patient was in hospital for the attendance dates claimed.

On limited occasions a sample of claims by individual VMPs are checked to patient's medical records to confirm that the VMP visited the patient on that date. The large volume of claims processed by the hospitals was generally given as the reason that further checks were not carried out.

There are generally no verification procedures undertaken to determine whether the fee claimed by the VMP was commensurate with the service provided. The main reasons given by hospital management for not carrying out this check included the lack of staff with the appropriate clinical knowledge and the degree of subjectivity involved in the interpretation of the definitions for each category level.

The verification procedures undertaken are relatively ad hoc as they have not been documented. Further, there is no evidence that hospital management has considered and endorsed the procedures undertaken by staff to verify payments.

Effectiveness of Current Verification Procedures

Four samples totalling 899 professional attendance payments were selected for verification to documentation in hospital records. The verification procedures included sighting:

- notation by the VMP on the patient's medical record; and
- documentation supporting the level of fee claimed.

The results are summarised in Table 2.

Finding	Hospital 1		Hospital 2		Hospital 3		Hospital 4		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%
No notation by the VMP to support the attendance	85	29	4	2	3	1	9	5	101	11
Documentation by VMP does not support the level of fee claimed	136	46	85	50	99	39	89	49	409	45
Unable to read writing by VMP	15	5	0	0	0	0	0	0	15	2
Satisfactory documentation by the VMP	60	20	80	48	152	60	82	46	374	42
Total	296	100	169	100	254	100	180	100	899	100

Table 2: Summary of results from the verification of a sample of professional attendance payments.

Source: OAG

These results indicate on a prima facie basis that for about 45 per cent of the payments in the sample it could not be satisfactorily substantiated from the VMP notes in the medical record that the appropriate fee had been claimed and paid. For a further 11 per cent there was no notation by the VMP on the medical record to indicate that the patient was seen on that date.

This does not mean that these payments have necessarily been paid at an incorrect rate. It does mean, however, that it is difficult, if not impossible, to substantiate the fees claimed based on the notes by the VMPs on the medical records. This finding has been confirmed with clinical staff in two of the hospitals.

Further, as hospital staff do not carry out any checks to confirm that the fees claimed are commensurate with the service provided, Incurring Officers do not have sufficient assurance that the "rate of charges are correct" prior to authorising payments.

What Does This Mean?

Under current arrangements:

- verification procedures do not provide satisfactory assurance to hospital management that all payments to VMPs comply with current policies and agreements;
- Incurring Officers who are certifying these payments are not always in a position to properly fulfil their responsibilities under the *FAAA*; and

- hospital management are unlikely to be aware of significant trends and exceptions in professional attendance payments, and consequently, may miss opportunities for improvements in the provision of medical services.

What Should Be Done?

The Health Department of Western Australia, in consultation with the management of non-teaching hospitals, should:

- prepare and endorse appropriate policies and procedures for the verification of payments to VMPs, particularly in relation to the reasonableness of the categories of fees for professional attendances;
- clarify the level of documentation required in patients' medical records to support payments for professional attendances; and
- introduce analysis of payments to VMPs for medical services sufficient to identify trends and exceptions which may be utilised for improved hospital management.

Human Resource Management

Management of Leave

Background

Over the last four years, whole of government financial reporting has shown an increase in the liability for employee annual and long service leave entitlements from \$720 million in 1994 to almost \$1 billion in 1997.

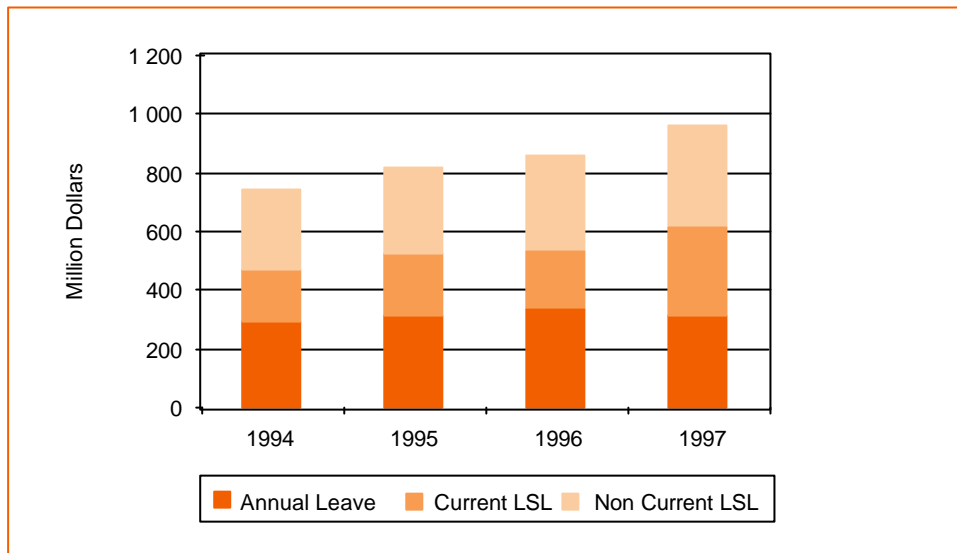


Figure 5: Reported leave liabilities have increased between 1994 and 1997 by \$240 million.

Source: Analytical Information in Support of the Treasurer's
Annual Statements and Consolidated Financial Statements

This increase is in part explained by increases in salaries and wages over the period, the introduction of accrual accounting and improved measurement techniques for determining the value of the liability. However, with the reduction in the number of public sector employees over the same period by approximately 5 000, the increase also appears to be due to employees not taking all the leave they are entitled to each year.

This premise is supported by information collated by the then Public Sector Management Office (PSMO). That Office collected data from agencies in relation to staff levels, demographics, salaries and leave accruals and clearances. This information also shows a growth in accrued leave entitlements over the same period.

The PSMO conducted a study of this data and published a discussion paper (Effective Leave Management: Strategies and Options) in August 1997. This paper identified the rate at which the workforce is aging and the large proportion of accrued leave for employees over 45 years of age as areas of concern. A number of strategies to manage leave entitlements were recommended.

The Government's concerns in this area are evident from Circular to Ministers No. 5/98 issued on June 2, 1998 in which the Premier informed Ministers that "all CEOs will be required to reduce their agency's leave liability by ten per cent compared to the figure published in the 1998–99 budget papers by no later than 30 June 1999".

What is the Potential Risk?

Accrued leave entitlements may be considered as a debt owed by the government to its employees. This liability for the payment of accrued leave is generally unfunded as most government agencies are currently funded on a cash basis and have not built up the cash reserves needed to fund the future payout of accrued leave entitlements.

Without proper management of these unfunded leave liabilities, the payout of accrued leave entitlements over the next ten years may have adverse budget impacts if service delivery levels are to be maintained by agencies.

What Did We Do?

The examination analysed PSMO's leave data collected to June 30, 1997 to identify indications of problems, trends or specific risk areas. Following this analysis, six agencies were selected to explore these issues and to review associated leave management procedures.

What Did We Find?

Reliability of Data

The data collected by PSMO is the most comprehensive available, however the usefulness of this information is limited because:

- several agencies, including some large departments, have not provided data;
- some of the data provided does not include accurate information for key fields including length of service and the value of leave;
- there is little consistency of data over time, which makes any analysis of trends unreliable; and
- agencies have interpreted the information requirements differently. For example, numerous agencies provided both actual long service leave due as well as accrued leave, whereas other agencies only supplied details of actual leave due.

Some of these problems have occurred because agency data was obtained direct from a third party service provider without being referred to the relevant agency for verification.

These limitations with the data hinder informed decision making as comparisons between agencies or detailed analysis of trends cannot be reliably undertaken.

Analysis of Data

Notwithstanding these shortcomings and reservations, an audit analysis of the PSMO leave data was performed. This identified the following issues and trends involving leave clearance rates and the relationship between accrued leave entitlements, employee age and salary level.

Leave Clearance Rates

Leave clearance rates refer to the proportion of leave being taken compared to the amount due. Significant variations exist in the amount of leave being cleared across agencies, with many agencies clearing leave at levels below the amount being accrued each year. This contributes to an increase in the amount of accrued leave.

Figure 6 shows a comparison of average accrued leave balances per employee and average leave taken per employee for the 58 agencies able to provide both sets of data to PSMO. Also shown is an estimated leave accrual rate of 220 hours per year, which is based on staff accruing 150 hours (or four weeks) of annual leave and 70 hours (around two weeks) of long service leave.

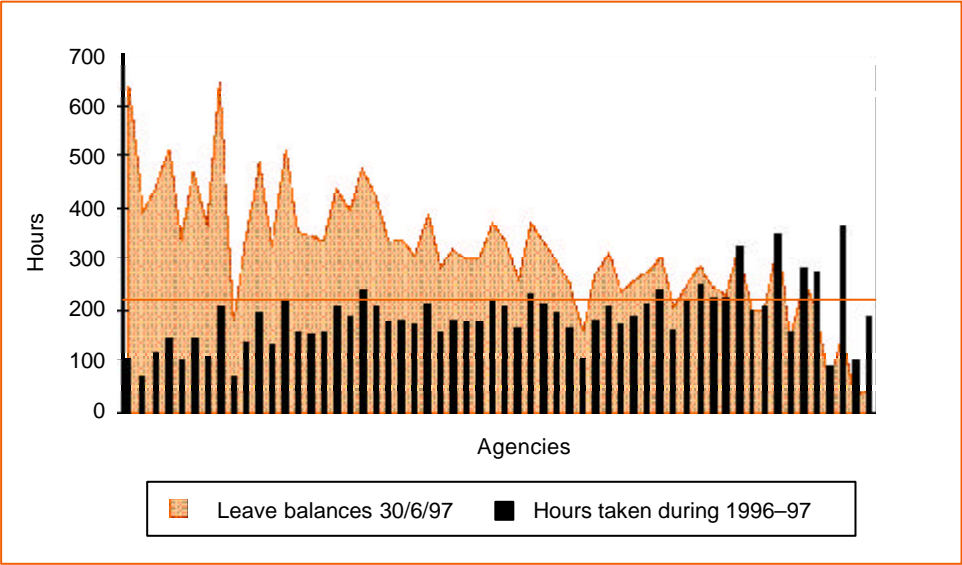


Figure 6: Average leave balances and clearance rates.

Source: OAG and PSMO Data

This figure shows only 13 of the 58 agencies achieving a clearance rate at least equal to the 220 hours accrual rate. Moreover, many of those agencies with the higher average accrued leave balances have clearance rates significantly below this rate.

For example, the first agency shown cleared an average of 107 hours per employee in 1996-97, which is 113 hours less than the estimated leave accrual. A majority of agencies appear to be in a similar position.

Age

The average age of the public sector employees has been increasing. The PSMO report states that "the age of the (public sector) workforce has significantly increased since 1988". An analysis of 51 500 employees included in the PSMO leave data shows there are now more staff older than 50 years than under 30 years of age, and twice as many over 55 years (or voluntary retirement age) than under 25 years of age. The average amount of accrued leave per employee increases substantially by age group as shown in Figure 7.

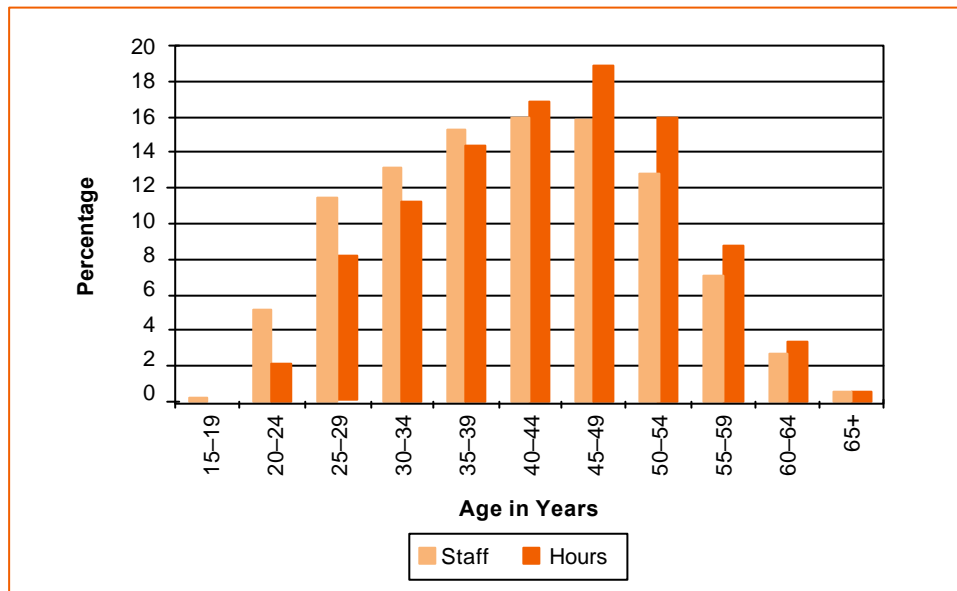


Figure 7: Older age groups have proportionately more leave accrued.

Source: OAG and PSMO Data

This figure shows staff over 40 years of age have accrued a higher proportion of leave. Specifically, 55 per cent of staff are over 40 years of age and have accrued 64 per cent of the leave.

Salary Level

The amount of leave accrued per employee also increases with salary level as shown in Figure 8.

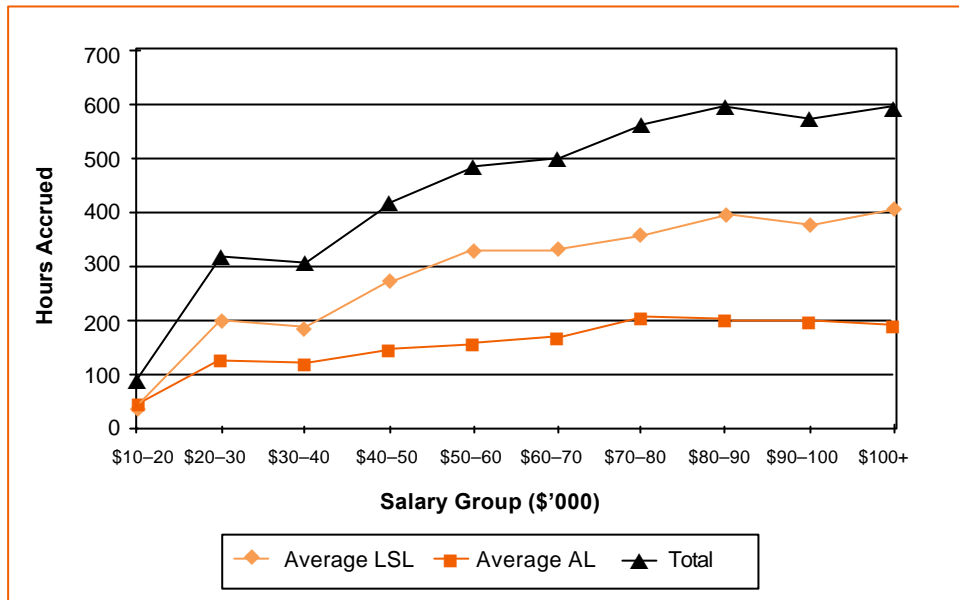


Figure 8: Accrued leave entitlements increase as salary levels increase.

Source: OAG and PSMO Data

Thirteen per cent of employees earn more than \$50 000 per year. However, they account for over 18 per cent of the total accrued leave. These employees have an average accrued leave balance of over 400 hours, which is almost two years of leave entitlements. This suggests that key staff are experiencing greater difficulty taking leave as their salaries and responsibilities increase.

Leave Management Strategies

Several reasons for the increase in accrued leave in recent years were advanced by the six agencies, including:

- Reductions in staff numbers and cost pressures has meant that the agencies do not have relieving staff to cover key positions, particularly those in management, professional and technical areas. As a consequence staff are not encouraged, and are reluctant, to clear leave.
- Agencies with seasonal workloads or critical projects discourage leave during these periods. In addition staff working extra hours during these periods are encouraged to take time off in lieu of payment to the detriment of clearing leave entitlements.

- Many agencies are regularly restructuring making it difficult for staff to find time to clear leave in changing job circumstances. This problem is compounded where staff are acting in positions at a higher salary which they may lose when on leave.
- Staff of agencies facing redundancy tend to feel they can not go on leave in case their position is viewed as unnecessary. Also these staff may tend to accumulate leave to increase the payout on redundancy.
- Some workplace agreements have allowed long service leave to be taken at two weeks each year for a period of seven years. Prior to this change any long service leave could not be taken until after the seven year period was completed. Effectively these employees are accruing, and need to clear, an increased amount of leave each year.

Good administrative arrangements to assist in the management of leave include:

- developing clear policies and procedures;
- monitoring and reporting of accrued leave entitlements and leave clearance rates; and
- rostering leave.

Policies and Procedures

None of the agencies reviewed could demonstrate clear documented policies for managing and clearing leave. However, there were ad hoc policies applied by human resource staff which involved periodically following up staff who had excessive leave accrued. Judgement was usually applied to deciding when accrued leave balances became excessive. However, policies, where applied, generally aimed at clearing long service leave within three years of becoming due and ensuring staff are taking some of their annual leave entitlement. These procedures were mainly applied in smaller agencies where staff could be more closely monitored. The larger agencies reviewed had no procedures in place for managing leave.

Monitoring and Reporting of Leave Information

Most agencies were having difficulty producing reliable management information on accrued leave entitlements and the extent of monitoring and reporting of leave information varied significantly between agencies. Larger agencies with human resource specialists and the capacity to develop specific leave reports often had better reporting and monitoring than smaller agencies.

Leave Rostering

Leave rostering was left to operational (or section) managers in all agencies reviewed and rosters were generally prepared to ensure operational staff levels were maintained. Generally, human resource management had little knowledge of, and no responsibility for, how well (or if) rosters were prepared outside their own sections. There was little information or instructions provided to section managers as to how much leave should be cleared, when and by whom. There was also no one responsible for monitoring or reviewing rosters on an agency wide basis.

What Does This Mean?

Taxpayers and customers in future years will have to bear the cost of the increased accrued leave entitlements, particularly in relation to older employees who more than likely will be paid out their accrued leave entitlements over the next 11 years. However, there are no estimates of this potential cost or of its impact on future State budgets.

Given the limitations of the PSMO data any attempt to quantify the effect of current accrued leave entitlements on future budgets is significantly restricted. However, to approximate the future impact of accrued leave payouts audit developed a model using the data for the 51 500 staff in the 1997 PSMO study. The model is based on the following assumptions:

- each agency's leave clearance rate will be equal to its average clearance rate over the past three years;
- retirement ages between 50 and 60 years old as the current age profile of the public sector shows a gradual decrease in staff numbers from 50;
- salary rates increasing two per cent per year; and
- staff levels remaining constant, and all staff currently over 40 years old continuing their employment until retirement.

Figure 9 predicts potential accrued leave payouts on retirement over the next 11 years.

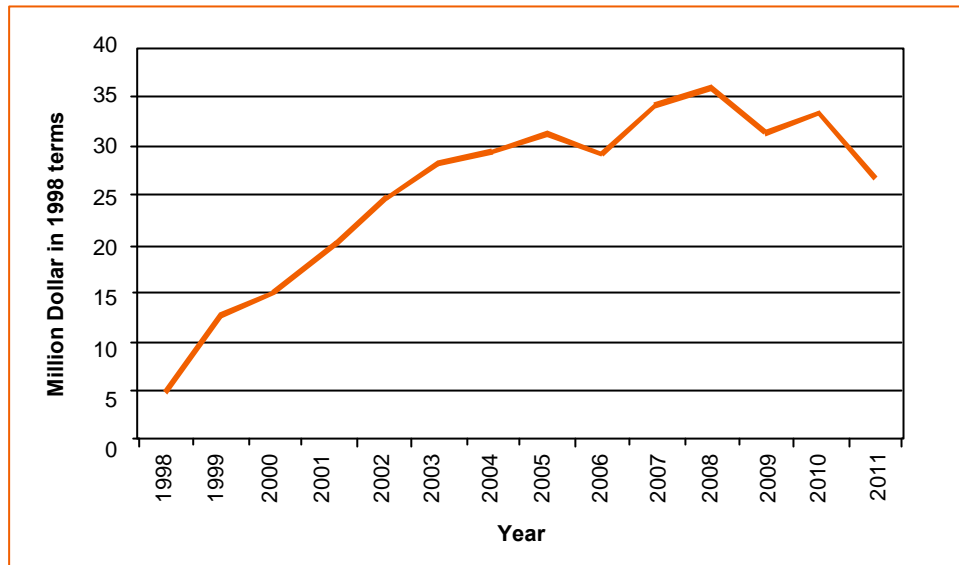


Figure 9: Estimate of potential accrued leave payouts to retiring employees 1998–2011.

Source : OAG and PSMO Data

The above graph shows payouts increasing to \$36 million per annum by 2008 based on the PSMO data for 51 500 employees. Based on the current public sector workforce of 88 000, the estimate of leave payouts for 1998 is \$8.5 million rising to about \$36 million in today's dollar terms by 2008.

What Should Be Done?

- The Ministry of the Premier and Cabinet, in conjunction with other central government agencies, should continue to improve the comprehensiveness and reliability of data on public sector leave, including leave clearance rates, accrued leave, and leave accrual rates, to facilitate analysis and forecasting.
- Agencies should develop and implement formal policies to effectively manage the clearance of annual and long service leave entitlements.
- Administration of leave should be regularly reported to, and reviewed by, senior management of agencies.
- Agencies should develop strategies to identify, and fund, potential significant payouts of accrued leave.

- Agencies, in conjunction with central government agencies, should determine appropriate and reasonable accrued leave balances, on both an accounting basis and an actual entitlement basis, and aim to achieve these targets.
- The strategies to manage leave outlined in the PSMO paper "Effective Leave Management: Strategies and Options" should be reviewed and implemented by agencies where applicable.

What Has Been Done?

The Ministry of the Premier and Cabinet has advised that considerable work has been undertaken during 1998 to improve both the quality and quantity of the information collected. The Profile of the Western Australian State Government Workforce: June 30, 1998 currently being prepared will also include a chapter on leave and review agencies current rates of leave liability as well as leave clearance.

Human Resource Management

Prevention and Recovery of

Payroll Overpayments

Background

Human resources are a significant cost for most agencies. Recent data indicates that the Western Australian public sector employs approximately 88 000 people and pays almost \$4.2 billion in payroll related expenditure. The public sector has been subject to a number of significant changes in the human resources area in recent years including the decommissioning of centralised personnel and payroll systems, the use of external providers for payroll and personnel services, the introduction of workplace and enterprise bargaining agreements, and increased emphasis on productivity and efficiency with, in some cases, agency downsizing.

What is the Potential Risk?

The changing human resource environment described above means that traditional and existing internal controls over payroll and personnel systems may become less effective or even inappropriate. Further, the introduction of new systems and industrial practices generally require new risk assessments and changed management practice and internal control. If this action has not been taken, or internal controls are not effective, there is an increased risk of payroll overpayments occurring through:

- individuals being paid an incorrect rate of pay or entitlement;
- individuals continuing to be paid after they have completed higher duties assignments or left employment; and
- termination payments being incorrectly calculated or not complying with industrial agreements.

What Did We Do?

The audit focused on six larger government departments where the risks of payroll overpayments were considered to be higher than normal due to the nature of their workforce and operations. The audit reviewed:

- procedures to prevent and detect payroll overpayments;
- the extent of salary overpayments and the success in recovering overpayments; and
- the correctness of termination payments.

What Did We Find?

Although internal controls over payroll in the six departments were found to be generally satisfactory overpayments were still occurring. This is not uncommon in most payroll systems and given the size of payroll expenditure for the departments concerned the total value of the overpayments is not considered material for external financial reporting purposes. They are nevertheless required to be strictly managed by the *Financial Administration and Audit Act 1985*. Although the departments had various internal checking functions in place to identify potential and actual overpayments there remains scope to reduce further the incidence of payroll overpayments and to significantly improve the rate of recovery of overpayments.

Adequacy of Internal Checking Functions

All of the departments had internal checking functions in place designed to both prevent and detect payroll overpayments. The extent of checking of payroll transactions ranged from a sample of payroll change advice notices each fortnight to a complete check of all transactions. However, the effectiveness of these checking functions varied. For example:

- the checking function in one department identified an overall average error rate of seven per cent for the period July 1997 to April 1998. However, the error rate was greater in a number of areas as shown in Table 3.

Payroll Area	Error Rate (%)
Commencements – Contractors	12.2
Terminations – Contractors	11.5
Long Service Leave Paid in Advance	19.2
Leave Without Pay	9.9
Higher Duties Allowances	10.3
Promotions	10.3
Overtime	21.2
Shift Loadings	20.7

Table 3: Identified error rates in specific payroll areas.

Source: OAG

These error rates were identified from checking predetermined sample sizes of payroll transactions. However, there was no action taken by the department to increase the extent of checking in the areas with greater error rates indicating a lack of management oversight of the checking process. Steps have recently been taken to increase checking in problem areas.

- for another department the checking function was either not undertaken or finalised for nine of the 12 months during 1997–98.
- although checking functions were identifying error rates in payroll transactions there was little evidence to suggest that the affected departments were analysing the errors so as to identify their causes and take appropriate corrective action. In addition in a number of cases there was no evidence of supervisory review of the results of the payroll checking functions. As a consequence management may not be aware of the currency and extent of checking or the error rates being identified.

Records of Overpayments

Appropriate records should be maintained of payroll overpayments which have been detected. This serves two purposes. Firstly, the debt is formally recorded and this allows it to be properly monitored until paid in full or written off. Secondly, it allows for analysis of overpayments in relation to their value, causes, and recovery.

Although departments were maintaining registers of overpayments in one department deficiencies in the records were noted as follows:

- audit tests identified four overpayments over \$100 (out of a sample of 11) which had not been transferred to the register of overpayments. There was no evidence of follow-up or recovery of these overpayments.
- some overpayments were not being recorded and followed up because they were less than \$100. However, this threshold was not being consistently applied nor had it been formally endorsed by management.
- it was not possible to determine the total value of overpayments that had been identified and recorded in the register of overpayments during 1997–98 because, once paid, overpayment records were deleted from the spreadsheet-based register. The absence of an audit trail and poor security over access to the register raises concerns as to the completeness and accuracy of the register.

Recovery of Overpayments

Overpaid salaries and wages constitute a debt and employees who are overpaid are liable for the debt. If the debt is not repaid a department may enforce payment using normal commercial means (i.e. debt collection agency and court action). Review of outstanding payroll overpayments and recovery procedures at the six departments identified the following shortcomings:

- In most of the departments, employees were notified immediately of payroll overpayments. However, in one department lengthy delays had occurred in formally notifying employees of overpayments. Around 25 per cent of overpaid employees were not notified for more than three months after the overpayment was identified.
- Most of the departments were experiencing difficulties in recovering some overpayments. Although the total payroll overpayments recorded by the departments individually represented only a small fraction of total payroll expenditure (less than one percent), Table 4 below shows that as at June 1998, collectively almost \$1 million, or 47 percent, of total recorded payroll overpayments for the six departments remained outstanding.

	Pre 1997–98 Amount	1997–98 Amount	Total Amount
Total Overpayments	\$1 151 740	\$870 659	\$2 022 399
Outstanding	\$522 221	\$435 969	\$958 190
Percentage Outstanding	45%	50%	47%

Table 4: Recorded payroll overpayments and recoveries for six departments.

Source: OAG

Of concern is that 55 per cent of the outstanding amount related to overpayments which were identified over 12 months ago including some minor amounts dating back to the 1991–92 financial year. Further, for a majority of these old outstanding overpayments there have been no amounts recovered at all.

- Most of the departments did not have formal policies governing the recovery of payroll overpayments including policies on repayment amounts and periods, and action to be pursued where recovery was proving difficult. In contrast, one department has developed clear guidelines and policies covering acceptable repayment schedules and recovery action to be taken.
- Repayment arrangements were often based on periodic payments. In one department, policies require the repayment to be at the same rate as the overpayment or to be made over a maximum period. However in some

departments, the amount of the periodic payment and the repayment period appear to have been at the sole discretion of the employee. In some cases some extraordinary repayment arrangements have been accepted by departments. For example:

Overpayment	Details	Repayment (\$ per fortnight)	Repayment Period
\$10 897	Paid for 3 months after receiving leave paid in advance.	\$25	17 years
\$3 065	No information available.	\$10	12 years
\$3 556	Paid for 2 months after utilising all sick leave entitlements.	\$20	7 years
\$1 825	No information available.	\$10	7 years
\$8 906	Paid for 3 months whilst on leave without pay.	\$53	6 years
\$2 894	Paid for 2 months after utilising all sick leave entitlements.	\$20	6 years

Table 5: Payroll overpayment repayment arrangements.

Source: OAG

What Does It Mean?

This review of the approach at six departments indicates more emphasis is required to both prevent payroll overpayments before they occur and particularly to recover overpayments in a timely manner. It is generally more efficient to devote resources to the prevention of overpayments as there is a significant cost in recovering overpayments. These costs escalate if recovery procedures are not instituted, and actively pursued, as soon as overpayments are identified.

What Should Be Done?

Departments and statutory authorities should:

- ensure that the results of regular payroll checking functions are analysed and reported to management;
- ensure that all recoverable payroll overpayments are appropriately recorded; and
- develop effective policies for the timely recovery of identified payroll overpayments.

Administration of Superannuation Schemes

Government Employees Superannuation Board

Background

The Government Employees Superannuation Board (GESB) provides superannuation administration and funds management services to State public sector employees on behalf of the Western Australian Government. The GESB administers three main superannuation schemes:

- The Pension Scheme established under the *Superannuation and Family Benefits Act 1938*. The scheme is a unit based scheme in which members make contributions based on the number of units they are purchasing. It was closed to new members from August 15, 1986.
- The Gold State Superannuation Scheme (GSS) established under the *Government Employees Superannuation Act 1987* to provide a defined lump sum benefit contributory scheme for members. Members generally contribute five per cent of salary. Employing agencies are required to make concurrent (actual or notional) employer contributions of 12 per cent of a member's salary. The scheme was closed to new members from December 29, 1995.
- The West State Superannuation Scheme (WSS) set up as a consequence of the Commonwealth Superannuation Guarantee Act 1992 which required employers to provide superannuation support for their employees from July 1, 1992. It is a non-contributory scheme designed to cater for all government employees not contributing to other State superannuation schemes. Employing agencies are required to contribute (actual or notional) seven per cent of a member's salary.

At June 30, 1997 the three schemes comprised approximately 205 000 membership accounts with 146 000 WSS accounts, 46 000 GSS accounts and 13 000 Pension Scheme accounts.

Around \$75 million a year in employees' contributions and another \$63 million in employers' contributions are received by the GESB. It is estimated that a further \$100 million a year in notional employer contributions are posted to WSS members' accounts. The GESB utilises a number of different computerised systems to collect, process and store superannuation data. It is also reliant on over 170 employing agencies to determine and remit employee and employer contributions.

What is the Potential Risk?

The GESB relies on agencies to forward accurate and complete data for the large number of employee and employer superannuation contributions required to be processed each fortnight. However, considerable organisational and personnel change in agencies together with complexities associated with determining superannuation contributions has increased the risk of:

- members and employers not making the correct superannuation contributions;
- contributions not being received and accurately processed on a timely basis; and
- members not receiving their correct entitlements.

What Did We Do?

The integrity of the data on the members' contributions database was assessed by:

- utilising computer assisted audit techniques to interrogate the members' contributions database to search for and identify anomalies (e.g. duplicate members, overlapping memberships, missing memberships, missing member details, incorrect contribution rates, etc.);
- examining the payroll records of ten employing agencies to determine if they were correctly calculating superannuation contributions; and
- assessing the current status of action being taken by the GESB in addressing problems with the Data Verification Project and the Data Exchange System.

What Did We Find?

As the members contributions database contains over 205 000 membership accounts it was anticipated that some accounts would not be correct due to the amount of data processing required each fortnight. Small error rates are tolerable so long as they are promptly detected and corrected and do not adversely impact on the GESB or the members. However, the audit found some areas of operations where the error rates are considered greater than they should be and where action by the GESB to address known problems was taking longer than planned.

The GESB has had difficulties in effectively administering aspects of the various superannuation schemes in a rapidly changing environment:

- it is still resolving problems originating with the introduction of WSS in 1993 and the closure of GSS to new members in 1995;

- it is currently experiencing difficulties in processing all superannuation data each fortnight resulting in delays in updating the members database and the financial system; and
- employing agencies are not always providing timely or reliable member data.

There is also some uncertainty by both the GESB and employing agencies as to their respective responsibilities in relation to superannuation contributions. For WSS purposes the GESB initially adopted an overall public sector employer role. However, it now believes that agencies have responsibility for ensuring all employee contributions are correct. Agencies are not ensuring that all contributions are correctly calculated particularly where WSS notional contributions are involved.

Specific findings are described in the following paragraphs.

Gold State Superannuation Scheme

Contribution Arrears

Arrears in GSS members' contributions have increased significantly during the past three years, from \$0.7 million at June 30, 1995 to \$4.8 million at June 30, 1998 (\$5 million at August 1998). This is illustrated in Figure 10.

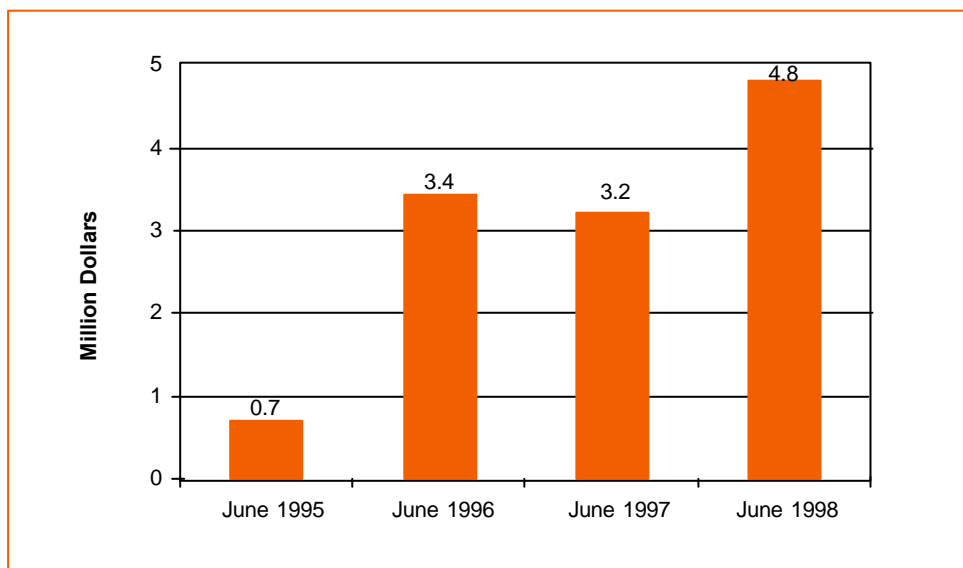


Figure 10: GSS Contributions Arrears.

The arrears of \$4.8 million at June 30, 1998 represents 6.5 per cent of approximately \$72 million in annual contributions received from GSS members and is increasing.

Source: GESB

This increase has been caused by a number of factors, including:

- the large influx of new members prior to the closure of GSS to new members in December 1995. Approximately 12 000 applications were received and the GESB was unable to process all the applications as they were received. As memberships were backdated to the application date, delays in processing applications led to delays in commencing fortnightly contributions and resulted in a build up of arrears.
- the suspension of annual contribution adjustments for over six months from September 1997. The GESB introduced a Data Exchange System (DES) in July 1997 to provide for the electronic submission and receipt of superannuation data by all employing agencies. At the same time the annual adjustment process was automated utilising salary data provided by DES. However, it soon became evident that there was an unacceptable error rate in the GSS salary data being submitted by employing agencies. As a consequence the automatic annual adjustment function was switched off from September 1997 and March 1998. No annual adjustments were processed for GSS members who had a birthday during this period.
- approximately 4 155 GSS members whose current fortnightly contributions are less than required. This difference is increasing the arrears by about \$28 000 per fortnight.

Annual Adjustment Backlog

The automatic annual adjustment function was recommenced in April 1998. The backlog of annual adjustments was processed using data supplied by employing agencies. Some of the data was considered by GESB to be questionable. Subsequently the system:

- rejected 6 740 annual adjustments mainly because the current salary was less than the previous salary; and
- reported 71 920 FTE adjustment errors which were mainly caused by incorrect effective dates being supplied by employing agencies.

These errors are being manually investigated and rectified by the GESB.

Collection of Arrears

The GESB established an Arrears Team in October 1997. To date the team has recovered about \$150 000 and negotiated repayment arrangements with a number of members. In May 1998 the recovery of arrears was put on hold for approximately three months as the team was mainly directed towards arresting the continued increase in the arrears total.

West State Superannuation Scheme

WSS Members Contributions

Employers are required to contribute (either actual or notional) seven per cent of salary for each WSS member each fortnight. The definition of salary for WSS purposes differs from the definition for GSS purposes.

The audit reviewed contribution calculations for accuracy for one fortnight for each of ten employing agencies. Errors were identified in contribution calculations at four of the agencies. The errors included:

- salary packaging and bonuses were being incorrectly included in the salary when calculating the WSS contribution;
- annual leave loading was not being included in the salary when calculating the WSS contribution; and
- the GSS salary was being used instead of the WSS salary to calculate the WSS contribution.

The results of this sample suggest an unacceptable error rate in WSS contributions that may ultimately affect the entitlements of members.

In addition, it was noted that employing agencies were not notifying the GESB when salary overpayments were discovered and corrected, for example when one member was paid \$140 000 in error. The amount has been recovered by the employer but an invalid WSS contribution of \$8 400 to the members WSS account had not been reversed as GESB had not been informed of the correction.

Overlapping Membership of GSS and WSS

Generally WSS contributions should only be made for members who are not otherwise contributing to the GSS or Pension Fund. Audit tests identified approximately 1 700 GSS members who have had contributions totalling about \$470 000 made to their WSS accounts. There appear to be two main causes for the overlapping memberships:

- on the closure of the GSS to new members in December 1995 many existing WSS members made application to join GSS. However, WSS contributions continued until their GSS application was processed. Approximately 1 200 members have invalid WSS contributions for this period which are yet to be adjusted.
- although the contribution system has inbuilt verification procedures which stop the creation of WSS memberships for GSS members with the same payroll number in the same pay period, it was noted that GESB staff sometimes manually modified

incoming payroll numbers and created a new WSS membership. This appears to be the main cause for a further 500 overlapping memberships.

Data Verification Project

In the Auditor General's First General Report of 1996 (Report No. 2 – May 1996), deficiencies in controls over the input of employers' WSS contributions by the GESB were reported. In December 1996 the GESB commenced a Data Verification Project (DVP) to check the completeness and accuracy of the WSS contributions processed for the period July 1992 to June 1996. Agencies were asked to verify WSS members' contribution details by March 1997.

There have been delays in finalising the DVP:

- at the date of the audit three large employing agencies (which together account for about 37 per cent of all WSS members involved in the DVP) had not verified their WSS members' contribution details. These agencies have now indicated that they will verify the data.
- the DVP has revealed large numbers of errors in WSS members contribution data for the period, mainly caused by employers using incorrect WSS salary definitions. It is estimated that several hundred thousand adjustments to WSS accounts will be required.

Pension Scheme

Contribution Arrears

According to GESB policies on pension payments, pension payments should not commence until all pension contributions were paid in full. Audit tests identified 42 pension recipients who collectively were about \$120 000 in arrears in their pension contributions. This figure included 15 who had been receiving pensions for over two years.

What Does This Mean?

The findings from this audit indicate that aspects of the administration of the three superannuation schemes by both the GESB and employing agencies are less than satisfactory. This has led to:

- a substantial increase in contribution arrears which the GESB is experiencing difficulty in recovering in a timely and cost effective manner;
- a significant number of incorrectly calculated WSS contributions;
- a significant number of invalid WSS contributions; and
- an increased risk that GSS members are making incorrect contributions.

What Should be Done?

The GESB should:

- clarify the responsibilities of employing agencies and the GESB in relation to superannuation contributions;
- review the effectiveness of its current program of education of employers to ensure that the correct salary is used when determining GSS and WSS contributions;
- review WSS members accounts where there is a risk that employer contributions are inaccurate;
- adjust all invalid WSS contributions processed for GSS members;
- validate GSS contribution rates; and
- implement effective strategies for the timely recovery of contribution arrears.

What Has Been Done?

The GESB has informed audit that:

- the DVP is nearing successful completion with only one large agency still experiencing problems. It is expected that these will be resolved shortly;
- the implementation of DES has made the transfer of WSS data simpler and increased the level of accuracy of information provided, and that improvements should continue;
- the review of GSS annual adjustments should be finalised shortly;
- the response of members to the payment of arrears will determine whether firmer measures are necessary to recover amounts more quickly;
- action has been taken to recover pension contributions arrears; and
- it is examining means of enforcing the accountability of agencies for the data they provide.

Follow-up of Previous Examinations

Ministerial Office Expenditure

(Initial Report Tabled November 12, 1997 – Report No. 7)

Background

The cost of running the 17 Ministerial Offices and the Office of the Leader of the Opposition was around \$8.8 million (excluding salary costs) in 1997-98. The individual Offices are responsible for ensuring payments are in accordance with public sector requirements, while the Ministry of the Premier and Cabinet is responsible for processing the payments. The Ministry became responsible for this function from July 1, 1997. Previously, these Offices were cost centres within a host agency which processed payments for that Office.

What Did We Report?

Issues identified in the 1997 audit which reviewed four Ministerial Offices included:

- corporate credit card, hospitality and taxi cabcharge payments not always being certified and supported by appropriate documentation in accordance with relevant guidelines; and
- records of assets held by Offices not being adequately maintained by host agencies.

What Has Been Done?

To assess progress made, six of the 17 Ministerial Offices and the Office of the Leader of the Opposition were examined for procedures and controls in place from July 1, 1997 to February 28, 1998.

When the Ministry assumed responsibility for processing expenditure:

- a procedures manual was prepared;
- seminars were held for Ministerial Office staff to provide guidance on public sector financial administration requirements; and
- a stocktake at each Office was undertaken and the Ministry's asset register appropriately adjusted.

Overall, the support provided by the Ministry has contributed to an increase in the level of compliance when compared with that of the previous year. Minor exceptions only were noted of inadequate support documentation.

Follow-up of Previous Examinations

Fines Enforcement Registry

(Initial Report Tabled November 12, 1997 – Report No. 7)

Background

The *Fines, Penalties and Infringement Notices Act 1994*, administered by the Ministry of Justice, establishes the Fines Enforcement Registry (FER) and the position of Registrar. The Act provides for unpaid Court of Petty Session fines, and unpaid traffic and other infringement penalties to be referred to FER for enforcement.

Enforcement options include:

- suspending offender's drivers and vehicle licences; and
- issuing warrants of execution to the Sheriff for the seizure of goods (for Court fines only).

What Did We Report?

In summary, the 1997 audit found that:

- there were numerous old outstanding licence suspensions due to non-payment of fines in the FER system, without clear policies regarding further follow-up action;
- there was a large backlog of matters listed for the issue of warrants of execution to the Sheriff; and
- the FER system did not have a debtors control facility and the value of outstanding fines and penalties could not be easily determined or reported.

It was recommended the Ministry of Justice should:

- establish policies for the follow-up and resolution of old outstanding licence suspensions;
- establish priorities and criteria for the issue of warrants of execution;
- establish policies for the extinguishment of old outstanding debts where it is not likely that warrants held by the Sheriff can be executed;
- review resourcing of the Sheriff for the execution of warrants; and
- establish a debtors control facility within the Registry system.

What Has Been Done?

The Ministry has taken action in respect of each of the recommendations. Specifically:

- the Attorney General has approved a new policy governing the follow-up of old licence suspensions relating to court fines. The policy is to be implemented in conjunction with the outsourcing of certain functions of the Sheriff's Office;

- the Attorney General has also approved an amended write off policy and approximately \$3.5 million of old outstanding fines have been approved for write off;
- additional funding for the Sheriff's Office and changed warrant issuing criteria have allowed the FER to increase the number of individual offenders targeted each day to 60 (compared to a maximum of 20 offenders previously) for the issuing of warrants to the Sheriff's Office. Notwithstanding the number of warrants listed for issue has increased by about 6 000 since November 1997;
- consultants were engaged to assist the Ministry in considering alternatives for improving the execution of warrants. This has resulted in a decision to outsource the serving of metropolitan warrants and the tender process has commenced;
- the Ministry is currently considering enhancements to the FER system which are likely to be incorporated into the development of the new Court Debtors and Payments system; and
- the Ministry has developed a program to provide an aged analysis of outstanding fines and infringements on the FER system. The establishment of a debtors control facility is to be considered as part of the proposed enhancements to the FER system.

The Ministry is making satisfactory progress in addressing the audit findings.

Recent Reports

Details of Reports issued by the Office of the Auditor General prior to the dates below are available from the OAG Reporting and Communications Branch Telephone 9222 7577.

Tabled

1997

On Display – Public Exhibitions at: The Perth Zoo, The WA Museum and the Art Gallery of WA	April 9, 1997
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Bus Reform – Competition Reform of Transperth Bus Services	June 25, 1997
First General Report	August 20, 1997
Get Better Soon - The Management of Sickness Absence in the WA Public Sector	August 27, 1997
Waiting for Justice – Bail and Prisoners in Remand	October 15, 1997
Controls, Compliance and Accountability Audits	November 12, 1997
Public Sector Performance Report 1997	November 13, 1997
Private Care for Public Patients – The Joondalup Health Campus	November 25, 1997

1998

Report on Ministerial Portfolios	April 8, 1998
Selecting the Right Gear – The Funding Facility for the Western Australian Government's Light Vehicle Fleet	May 20, 1998
Report on the Western Australian Public Health Sector	May 20, 1998
Weighing Up The Marketplace – The Ministry of Fair Trading	June 17, 1998
Listen and Learn – Using customer surveys to report performance in the Western Australian public sector	June 24, 1998
Report on the Western Australian Tertiary Education Sector	August 12, 1998
Do Numbers Count? – Educational and Financial Impacts of School Enrolment	August 19, 1998

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