

SPECIAL REPORT NO. 30

*Grants and Subsidies
to Non-Government
Organisations*

MARCH 1994

VICTORIA

Auditor-General
of Victoria

SPECIAL REPORT No. 30

**GRANTS AND SUBSIDIES
TO NON-GOVERNMENT
ORGANISATIONS**

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The Honourable the Speaker
Legislative Assembly
Parliament House
Melbourne Vic. 3002

Sir

Under the provisions of section 48A of the *Audit Act* 1958, I transmit the Auditor-General's Special Report No. 30 on Grants and Subsidies to Non-Government Organisations.

Yours faithfully


C. A. BARAGWANATH
Auditor-General

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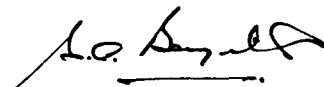
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Foreword

In times of economic constraint it is essential that publicly-funded services provided by government agencies, and indirectly through the non-government sector, be delivered efficiently while, importantly, maintaining a high standard of quality.

In line with the Government's policy of placing greater emphasis on the involvement of the non-government sector, considerable sums of public moneys are provided to an extensive network of non-government organisations to provide such services. The provision of these services by the private sector requires that proper oversight be exercised by government over the administrative processes in place to manage these arrangements.

This Report discusses various matters concerning the administration of grants and subsidies to non-government organisations at a central agency and departmental level. The findings should be considered in terms of applying risk management principles to the whole gamut of government operations with a view to improving the effectiveness and efficiency of the public sector, a theme which I have expressed on more than one occasion in the past.



C.A. BARAGWANATH
Auditor-General

Part 1

Executive Summary

Part 1.1

Overall audit conclusion

1.1.1 In 1992-93, funding of around \$3.4 billion was provided by government departments to public and non-government organisations in the form of grants and subsidies. Of this amount, approximately \$760 million was directed to the non-government sector for application towards the performance of a wide range of functions, some of which focus on service provision while others emphasise self-help, community development, advocacy and social action. In line with the Government's strategies, the role of the non-government sector is likely to expand in future years with greater emphasis to be given to the purchase of services from that sector in preference to the continued provision of grants and subsidies.

1.1.2 In assessing the practices involved in the administration and management of grants and subsidies to non-government organisations (NGOs), the audit encompassed a review of the role of central agencies and the processes employed by the department responsible for the management of the majority of the grant and subsidy programs, namely, the Department of Health and Community Services.

CENTRAL AGENCY PERSPECTIVE

1.1.3 In response to concerns that arose during the mid-1980s regarding the administrative practices employed by departments in funding services provided by the non-government sector, the Government introduced Treasury Guidelines in May 1988 to assist departments in the management of grants and subsidies. The Department of the Premier and Cabinet, which was assigned a central agency responsibility for monitoring the implementation of the Guidelines between 1988 and 1992, was pro-active until late 1990 in undertaking this monitoring role. While the Department received satisfactory implementation time frames from agencies, it did not monitor progress against the established target dates. Therefore, audit concluded that the Department could have undertaken its monitoring role more effectively in reporting outstanding issues to the Social Development Cabinet Committee over the final 2 year period of the implementation time frame.

1.1.4 Given the change in government that occurred in October 1992, audit is of the view that the Guidelines should have been reviewed in the light of the current Government's policies and initiatives. The Department of the Treasury has recently advised audit that the Guidelines will now be reviewed and that consideration will be given to particular audit suggestions contained in this Report. In the interim, the existing Guidelines will remain in force.

1.1.5 While the development of the Guidelines provided the basis for the implementation of sound management practices within departments where the Government interacts with the non-government sector, the audit disclosed that central agencies do not exercise, on an ongoing basis, central oversight over these practices. Audit also found that, although certain risks are addressed at a central level, the 2 central agencies involved have not undertaken a comprehensive cross-sectional risk assessment of the key elements of government policy. As such, it is not possible for the Government to assess its exposure in the area of providing grants and subsidies to the non-government sector against other risks associated with its overall policy objectives and responsibilities. As a consequence, the Government is not in a position, in audit opinion, to reach valid conclusions on the materiality of its exposure to the following significant risks associated with the management of grants and subsidies:

- application, allotment and accountability requirements not being satisfactorily applied;
- public funds not being used efficiently and effectively;
- a lack of security over public funds in the event of NGOs not complying with agreed funding terms and conditions; and
- an unsatisfactory standard of financial performance and expertise of NGOs in receipt of government grants.

1.1.6 Audit's view is that the strong focus of the Government in devolving prime responsibility to individual Ministers and departmental management for the administration of grants and subsidies should not completely absolve central agencies from exercising a limited high-level overseeing role, based on sound risk-based principles, in ensuring that:

- the Government is not exposed to undue risks; and
- the intended benefits arising from the introduction of central government guidelines are in fact realised.

1.1.7 In discussing this matter with the respective central agencies, audit was advised that improved monitoring and accountability mechanisms aimed at addressing major risks associated with grants and subsidies will be introduced as part of the Government's *Management Improvement Initiative for Victoria* which was announced in October 1993. Whether or not central agencies will exercise central oversight, in the context of improved monitoring and accountability mechanisms to be introduced, is yet to be determined by the Government. In addition, the Government expects its policy of purchasing services from NGOs rather than traditionally providing grants to these organisations will reduce risks dramatically as these new procedures will be in the form of commercial arrangements and the extent of grants to NGOs will gradually decline.

1.1.8 Successive governments have recognised that their relationships with the non-government sector are a high risk area. The current Government is proposing additional powers for the Auditor-General to establish whether grants made to NGOs are applied economically, efficiently and effectively for the intended purpose. This proposal confers similar access powers on the Auditor-General to those that currently exist under other legislation such as the Health Services Act. These powers should complement the limited monitoring role advocated by audit for central agencies to address key risks to government and the essential ministerial and departmental management role of ensuring that practices involving the administration of grants and subsidies are efficient and effective.

DEPARTMENTAL PERSPECTIVE

1.1.9 Given the lack of oversight at a central agency level in the past, the audit focused on the Department of Health and Community Services which is responsible for administering annual grants and subsidies of approximately \$620 million, representing 82 per cent of all budget sector grants and subsidies to the non-government sector.

1.1.10 Since the late 1980s, the Department has directed substantial effort towards reforming funding arrangements through the adoption of a structured approach to the introduction of service agreements, and more recently, standard unit costs with priority given to major program areas such as hospitals and aged care residential services. Priority has also been given to the development of funding guidelines, accountability criteria and performance measures.

1.1.11 It is also pleasing to report that progress has recently been made to improve the efficiency and effectiveness of the management of grant and subsidy payments through:

- standardisation of reporting requirements across the Department;
- proposals to improve competition in the Disability Services, Drug and Alcohol, and Psychiatric Services Programs through the expanded use of NGOs;
- extensive training of relevant staff in all aspects of the funding and service agreement process, including the presentation of seminars by finance staff within each region on the evaluation of financial statements and financial monitoring requirements; and
- the introduction, during 1993-94, of a new standard service agreement process for all programs.

1.1.12 The audit focused on the administration of grants and subsidies to the non-government sector and, therefore, excluded public hospitals. In undertaking the review, audit was cognisant that the Department has undergone a significant reorganisation following the amalgamation of 3 separate departments into the current organisational structure and, in recent times, expended considerable time and effort in implementing major cost savings as part of its budget strategy. The major strategy involving unit costing and benchmark standards, which constitutes a significant investment by the Department, was developed over a number of years with implementation commencing in selected programs during 1992-93.

1.1.13 Audit concluded that although the Department has given highest priority to the reform of its largest program areas such as public hospitals and aged care, the administration and management of grants and subsidies to NGOs could be further improved as reforms are progressively implemented. Specifically, audit found that while grants and subsidies to NGOs were generally administered in accordance with the requirements of the Treasury Guidelines, the efficiency and effectiveness of service delivery is likely to have been adversely affected by:

- The absence of an effective framework incorporating performance standards and monitoring mechanisms within some programs. Such a framework would assist the Department in ensuring that service outcomes and achievements are consistent with its overall objectives;
- The continued funding of a large number of NGOs on the basis of their historical costs such as labour and operating costs, as the Department's policy of linking funding to service outputs and desired outcomes through the adoption of unit costing has yet to be fully implemented across some programs,

- The absence of a system to record and safeguard the State's equity in the \$500 million worth of assets held by NGOs. Although accurate information is not available, the Department maintains that the majority of the assets held by these organisations was purchased with donations and other non-public money.
- The allocation of grants and subsidies to the same NGOs and the need to increase competition among service providers. Audit recognises that the opportunity for additional competition in the provision of some services is limited by the small number of organisations capable of providing these services.
- Agreements with NGOs (except for those programs which deal with intellectually disabled persons) being entered into in good faith on the basis that performance is not intended to be legally enforceable; and
- Inadequacies in procedures established to monitor and assess the financial performance of NGOs.

OVERALL COMMENT

1.1.14 Initiatives proposed at a central agency level and the continuation of the progress achieved at the Department of Health and Community Services will enhance the efficient and effective administration of grants and subsidies to NGOs.

□ RESPONSE by Secretary, Department of the Premier and Cabinet

The roles and relationships of central agencies and service delivery departments are being examined as part of the Management Improvement Initiative. One of the objectives is to rationalise and, where possible, reduce the level of unnecessary detailed monitoring of departmental activities. This is a necessary corollary of the Government's requirement for a higher level of accountability to be exercised at departmental and agency level.

This will also include judgements about risk management and the role of central agencies in keeping such risks to a level that is acceptable to the Government of the day and to the community. The Department of the Premier and Cabinet will continue to play an important role in addressing such issues both through the Cabinet process and in advice to the Premier

It must be recognised, however, that the Department's role in the development, management and monitoring of specific socially directed programs has changed substantially with the election of the present Government.

Direct involvement in the monitoring of grants and subsidies to non-government organisations would not be consistent with the more strategic, policy advisory and co-ordination role which the Department is now developing.

□ RESPONSE by Secretary, Department of the Treasury

As I have had an opportunity to discuss the Report with your officers and I am satisfied that Treasury's comments are adequately dealt with in the Report, no further comment is required.

□ RESPONSE by Secretary, Department of Health and Community Services

The Department of Health and Community Services' budget of in excess of \$4 billion is substantially applied towards the provision of funds to non-government agencies providing a wide range of services. In excess of \$2 billion is spent on the provision of Public Hospital services and is made available through the application of the CASEMIX formula whereby inputs are directly linked with outputs. This method of funding was commenced in July 1993 utilising data collected from the hospital system and assessed against national and international standards.

The second largest Program Aged Care, accounting for over half a billion dollars, includes funding for Nursing Homes and rehabilitation services for the Aged and the Home and Community Care (HACC) Program. Nursing homes receive funding under the CAM SAM formula applied by the Commonwealth Government for the funding of Private Nursing Home services with adaptations made by Victoria to recognise the capital investment by the State in these homes. The other major component of the Program, HACC, accounting for in excess of \$150 million, is made available to service providers under funding criteria established by the Commonwealth Government and generally applied across all States. The Department has placed priority on reforming areas involving the most significant amounts of departmental funds.

The area of concern to the Auditor-General's Office involves grants to a wide range of organisations providing services to the community. The Report does not give clear recognition to the priority given by the Department over the past 5 years to the development of the information base required to identify the range of services and the quality of those services for all of the service providers active in the provision of services on behalf of the Government.

The Department conducted a major review within the non-government industry in 1990 and 1991 and released its findings in August 1992 in the publication titled "Welfare as an Industry. A Study of Community Services in Victoria". Research work associated with this study identified the need to develop funding methodologies for services provided by both government and non-government organisations. All program areas are developing or refining unit costing models. Furthermore, within the Disability Services Program, service agreements are legally binding and have been developed and applied for the non-government sector clearly linking inputs with agreed outputs. The development of these funding strategies has given stability and certainty to the service providers, both government and non-government, and has assisted with the rationalisation of services including the closure of inefficient and outdated major institutions such as Caloola, Beechworth and Aradale. The Department does not perceive an advantage in making all service agreements legally binding. The Department is concerned to avoid higher administrative costs brought about by a potentially more litigious environment. To date, problems with the performance of non-government organisations have been resolved through changes to the agency's performance or by withdrawal of funding.

The Department recognised that there are a number of services consuming a small percentage of the Department's budget where specific funding and accountability criteria have been insufficiently developed. During 1992-93 and 1993-94 the Department reviewed the service contracts to be applied across all programs and has in place monitoring and reporting requirements for each service funded in the non-government sector. The Department's regional management capability has been made responsible for negotiating many of the service agreements and for monitoring the performance of service providers. Training has been provided to regional staff to enable efficient administration of the new arrangements. Sub-standard performance will result in regional office intervention and unless the service provider rectifies performance difficulties, de-funding action will be taken. The accountability requirements include, where appropriate, accounting for assets purchased either in full or in part from government grants. In this way, the Department will be positioned to assess the economic benefit of funding provided and to ensure proper management of government assets.

The Department continues to commit significant resources dedicated to the improvement of the framework for individual program service plans to clearly specify the Department's service objectives and output measures.

Part 1.2

Summary of major audit findings

1.2.1 Major findings arising from the audit of the administration of grants and subsidies to non-government organisations (NGOs) are set out below. These findings should be considered in the totality of the discussion in this Report.

CENTRAL MANAGEMENT OF GRANTS AND SUBSIDIES

- Although central agencies have adopted risk management principles in some areas of government activity, a comprehensive cross-sectional assessment of the risks facing the Government from the implementation of key elements of government policy has not been formally undertaken.

paras 4.1 to 4.22

- The absence of adequate central agency monitoring of the management of grants and subsidies by departments exposes the Government to significant risks. The Government's *Management Improvement Initiative for Victoria* will, according to the Department of the Treasury, address the risks identified in this Report. Whether central agencies are to exercise a limited monitoring role, albeit at the highest level, is yet to be determined by the Government.

paras 4.1 to 4.22

- The Department of the Premier and Cabinet did not effectively discharge its responsibility to monitor the introduction of the Treasury Guidelines across government agencies during the latter 2 years of the 1988 to 1992 implementation time frame.

paras 4.23 to 4.29

- Audit commends the recent government decision to assess the adequacy of the 1988 Treasury Guidelines in the light of recent policy formulation and initiatives. This action should remove the confusion that exists within departments as to the status of the Guidelines.

paras 4.30 to 4.32

- The discontinuation of the Department's funding handbook in 1992 and the failure of most departments to provide similar information on an individual basis subsequent to that date, is likely to have adversely affected the quantity and quality of funding applications.

paras 4.33 to 4.37

DEPARTMENT OF HEALTH AND COMMUNITY SERVICES

FRAMEWORK FOR SERVICE DELIVERY

Page 47

- An appropriate framework to ensure that services delivered are in accordance with departmental objectives has not been established in some programs.

paras 5.1.1 to 5.1.5

APPLICATION AND ALLOCATION OF FUNDING

Page 49

- The provision of funding to NGOs was found to be inflexible, as the majority of funding is provided to the same service providers each year without any requirement to submit formal applications. This process is likely to impact on the efficiency and effectiveness of the Department's service delivery. However, audit accepts that the potential for increased competition is limited in some programs due to the unavailability of alternative service providers.

paras 5.2.1 to 5.2.7

- The effectiveness and efficiency of services provided by NGOs is affected by the Department's current funding methods, which in a large number of cases is based on historical costs. However, it is pleasing that the Department is moving towards output-based funding with the development of unit costing methods for all remaining programs.

paras 5.2.16 to 5.2.26

FUNDING ARRANGEMENTS

Page 59

- Although service agreements between the Department and NGOs were not established in the time frames outlined within Treasury Guidelines, audit recognises the significant progress made by the Department in developing these agreements.

paras 5.3.1 to 5.3.15

- It is pleasing to report that standardised agreements have recently been developed by the Department for use across departmental programs. The introduction of such agreements is likely to reduce the administrative costs of NGOs.

- Formal agreements have not been developed for grants and subsidies provided to municipal councils under the Home and Community Care Program.

paras 5.3.18 to 5.3.21

- With the exception of the Disability Services Program, the Department's ability to safeguard public moneys distributed through grants and subsidies is limited by the inclusion of a clause in service agreements which specifically makes the terms and conditions outlined in such agreements not legally binding.

paras 5.3.22 to 5.3.28

DEPARTMENT OF HEALTH AND COMMUNITY SERVICES - continued

MONITORING PROCEDURES

Page 65

- The Department has not maintained an accurate record of the State's equity in NGOs and as a result is not in a position to ensure public resources are adequately safeguarded.

paras 5.4.1 to 5.4.19
- The absence of an appropriate departmental fraud control framework is likely to have contributed to the incidence of fraud within NGOs. Although the \$270 000 in losses resulting from fraudulent activities outlined in this Report are not material in amount when compared with total program outlays, the consequences of these activities can have a significant effect on the services provided to local communities.

paras 5.4.20 to 5.4.33
- Procedures to effectively monitor the financial performance of NGOs have not been implemented by the Department.

paras 5.4.34 to 5.4.39
- Standardised accountability guidelines for the funding of NGOs have not been established across the Department, resulting in confusion and additional administrative costs for organisations receiving funding from more than one program. It is pleasing that the Department plans to introduce uniform guidelines in the near future.

paras 5.4.40 to 5.4.52
- Monitoring of services provided by NGOs is limited by the absence of a comprehensive framework to measure service delivery effectiveness. The Department, therefore, cannot ensure that service outcomes are consistent with overall program objectives

paras 5.4.53 to 5.4.70
- The Department has not fully utilised its opportunities to monitor the activities of NGOs and assess their performance through the extended use of available audit resources.

paras 5.4.71 to 5.4.77

DEPARTMENT OF HEALTH AND COMMUNITY SERVICES - *continued*

COST SAVING MEASURES

Page 79

- Audit identified a number of instances where the Department funds NGOs for services which are provided by third parties. This practice does not always represent the most efficient use of public funding.

paras 5.2.8 to 5.2.15
- Total departmental budget savings during 1992-93 were approximately \$134 million or 4 per cent, with planned savings for 1993-94 and 1994-95 of \$372 million or 11 per cent. Of these amounts, audit was advised by the Department that savings of approximately \$49 million in relation to services provided by NGOs are planned to be achieved over the 3 year period ending 30 June 1995.

paras 5.5.5 to 5.5.7
- NGO administrative costs representing, on average, 25 per cent of their total expenditure were substantially higher than acceptable levels advocated within the industry. A reduction in such costs to more realistic levels could generate annual savings of up to \$50 million for re-direction to service delivery. These cost savings are likely to be substantially achieved as unit cost funding is introduced into departmental programs.

paras 5.5.8 to 5.5.19
- The failure of NGOs to take advantage of the savings available from using the State Supply Service or pooled purchasing has increased their operating costs and consequently reduced the resources available for service provision.

paras 5.5.20 to 5.5.26
- Appropriate cost-benefit analyses of the contracting of departmental functions need to be undertaken to ensure that efficiency gains generated by these initiatives are not made at the expense of other service delivery objectives relating to the quality, access and appropriateness of services delivered.

paras 5.5.27 to 5.5.33
- User charges within programs were found to have been inconsistently applied across the Department resulting in service inequities.

paras 5.5.41 to 5.5.47

Part 2

Background

2.1 The State Government provides significant funding to public and non-government organisations (NGOs) in the form of grants and subsidies. In 1992-93, the value of such funding was in excess of \$3.4 billion or 16 per cent of total Consolidated Fund payments

2.2 NGOs perform various public functions. Some focus on service provision while others emphasise self-help, community development, advocacy and social action. The Government has defined these organisations as agencies which operate predominantly on a non-profit basis and includes local government agencies, community health centres, self-help groups, voluntary agencies, community groups and co-ordinating bodies. This definition, however, excludes hospitals within the ambit of the Health Services Act, non-government schools and organisations established under statute



An example of services offered to the intellectually disabled by a non-government organisation funded, in part, by the Department of Health and Community Services Disability Services Program.

2.3 Audit estimates that grants and subsidies paid by government departments to NGOs during 1992-93 were in excess of \$750 million. Details are shown in Table 2A.

TABLE 2A
GRANTS AND SUBSIDIES
TO NON-GOVERNMENT ORGANISATIONS, 1992-93

<i>Department</i>	<i>Amount</i>	<i>Percentage</i>
	<i>(\$million)</i>	<i>(%)</i>
Health and Community Services	(a) 620	81.8
Arts, Sport and Tourism	50	6.6
Planning and Development	36	4.8
Business and Employment	32	4.2
Other	20	2.6
Total	758	100

(a) Estimate provided by the Department.

Source: 1992-93 departmental Annual Reports.

WHAT ARE GRANTS AND SUBSIDIES?

2.4 **Grants** can be defined as transfer payments to non-business organisations that are not required to be returned or reciprocated. Grants made by government to the non-government sector are normally conditional upon recipient organisations using these moneys for specific purposes set out in agreements. **Subsidies** are financial assistance given to support the operations of businesses and other organisations that provide public services. Subsidies may be made to offset recurring losses and may include payments to ensure a guaranteed price or to maintain prices of commodities below the costs of production. Although separately defined, grants and subsidies are generally regarded by departments and funded agencies as synonymous.

2.5 Grants and subsidies are provided to numerous organisations under various government programs. Funding recipients include public and private hospitals, nursing homes, schools, tertiary institutions, pre-school committees, research teams and minority groups. Generally, grants and subsidies are accompanied by service agreements or formal conditions which specify the manner in which funds are to be applied and outline accountability requirements. The purpose for which grants and subsidies are provided varies between programs but usually enables government services, many of which are free or provided for a nominal fee, to be made available to the public.

WHY FUND THE NON-GOVERNMENT SECTOR?

2.6 NGOs are funded through numerous government agencies for a variety of reasons. This funding is mainly provided as a result of:

- policy decisions to limit the role of government as a direct service provider;
- the non-government sector, through its existing network, has a greater understanding of community needs and the most appropriate means of addressing these needs;
- insufficient government resources to provide the diverse range of services required by the community; and
- the belief that the non-government sector can provide services at a lower cost due to its access to volunteer staff and the benefits associated with not having to maintain a large management infrastructure.

2.7 The use of NGOs to provide government services is likely to increase in future in line with the State Government's policy of reducing the involvement of the public sector in service provision.

DEVELOPMENT OF TREASURY GUIDELINES

Cabinet Committee inquiry into grant and subsidy payments

2.8 In 1984, in recognition of the magnitude of the funding provided to NGOs, the former Social Development Cabinet Committee was requested by the Government to review the administration and management of grants and subsidies to NGOs, with particular emphasis to be given to grant application procedures, development of funding arrangements and financial accountability requirements. A Research Group was subsequently established by the Committee to conduct the review, with the Department of the Premier and Cabinet assigned responsibility for convening and co-ordinating the activities of the Group and reporting on the outcome of its research. The findings of the Group were outlined in the May 1986 *Report of the Research Group on the Funding of Non-Government Agencies*. This report recommended that:

- service contracts be developed for all NGOs receiving recurrent funding,
- funding agencies improve the co-ordination of their activities;
- departments, in conjunction with the non-government sector, develop funding formulae;
- agencies encourage NGOs to raise funds from other sources; and
- the Department of the Premier and Cabinet prepare an annual publication detailing programs across the public sector which provide funding to the non-government sector.

Previous audits by the Auditor-General

2.9 The Auditor-General's 1986 *First Report to the Parliament* included the results of an audit of grant and subsidy payments made by government agencies across the Victorian public sector. The key findings of the audit were:

- terms and conditions of funding were not formally agreed upon between the grant providers and recipients;
- widespread inconsistencies in accountability for payments;
- inadequacies in departmental monitoring of expenditure; and
- inconsistencies in the timing of payments, with some paid in advance, while others were more appropriately made upon receipt of claims or progressively on a needs basis.

2.10 Subsequent to the above review, audit examined grant and subsidy payments made by several agencies, including the former Departments of Health, Community Services and Aboriginal Affairs. The findings of these audits were included in the *Auditor-General's Reports on Ministerial Portfolios* in 1989, 1992 and 1993.

2.11 These audits raised many of the issues identified in the 1986 Auditor-General's Report and also found:

- examples where funding was not used for the intended purpose;
- a lack of adequate performance indicators to assess the effectiveness and efficiency of service provision; and
- instances where accountability processes were inadequate.

Treasury Guidelines

2.12 The Department of the Treasury, in responding to the recommendations of the Social Development Cabinet Committee and the 1986 Auditor-General's Report, developed Treasury Guidelines for the funding of NGOs. These Guidelines, known as the *Uniform Application Procedures and Funding Arrangements for Non-Government Organisations*, were tabled in Parliament by the Treasurer in May 1988. The Guidelines applied to all budget sector agencies for the purpose of:

- streamlining funding application procedures;
- ensuring that the basis of funding is clearly defined; and
- establishing uniform financial accountability requirements.

2.13 Implementation of the Guidelines was planned over a 4 year period commencing in 1988-89, **with compliance voluntary during the first 2 years**. The phased introduction was designed to provide sufficient time for systems and mechanisms to be developed by both departments and NGOs to facilitate compliance with the new procedures by 30 June 1992.

2.14 Responsibility for monitoring the implementation of the Guidelines was assigned to the Department of the Premier and Cabinet as a result of its involvement in the Research Group established by the Cabinet Committee.

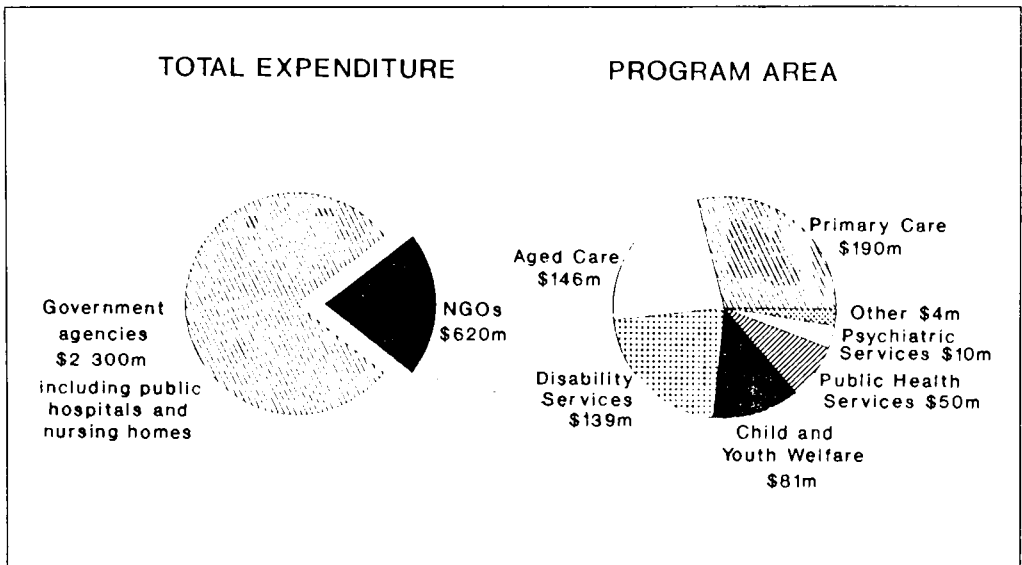
DEPARTMENT OF HEALTH AND COMMUNITY SERVICES

What is the magnitude of the Department's grant and subsidy payments?

2.15 Grants and subsidies provided to public organisations and NGOs by the Department of Health and Community Services during 1992-93 totalled in excess of \$2.9 billion. While the majority of this funding was allocated to public hospitals, the Department advised that some \$620 million or 21 per cent of this amount was paid to over 2 500 NGOs. This level of funding makes the Department the largest provider of grants and subsidies to the non-government sector.

2.16 The breakdown of grant and subsidy payments between departmental programs is illustrated in Chart 2B.

CHART 2B
GRANTS AND SUBSIDIES EXPENDITURE, 1992-93
 (\$million)



Sources: Total grant and subsidy expenditure - 1992-93 Victorian Government Finance Statement.
 Program expenditure - DHCS Information Payments System.

What are the major departmental funded programs?

2.17 The major departmental programs providing grants and subsidies to the non-government sector are represented in Chart 2C.

**CHART 2C
DEPARTMENTAL FUNDING OF NON-GOVERNMENT ORGANISATIONS**

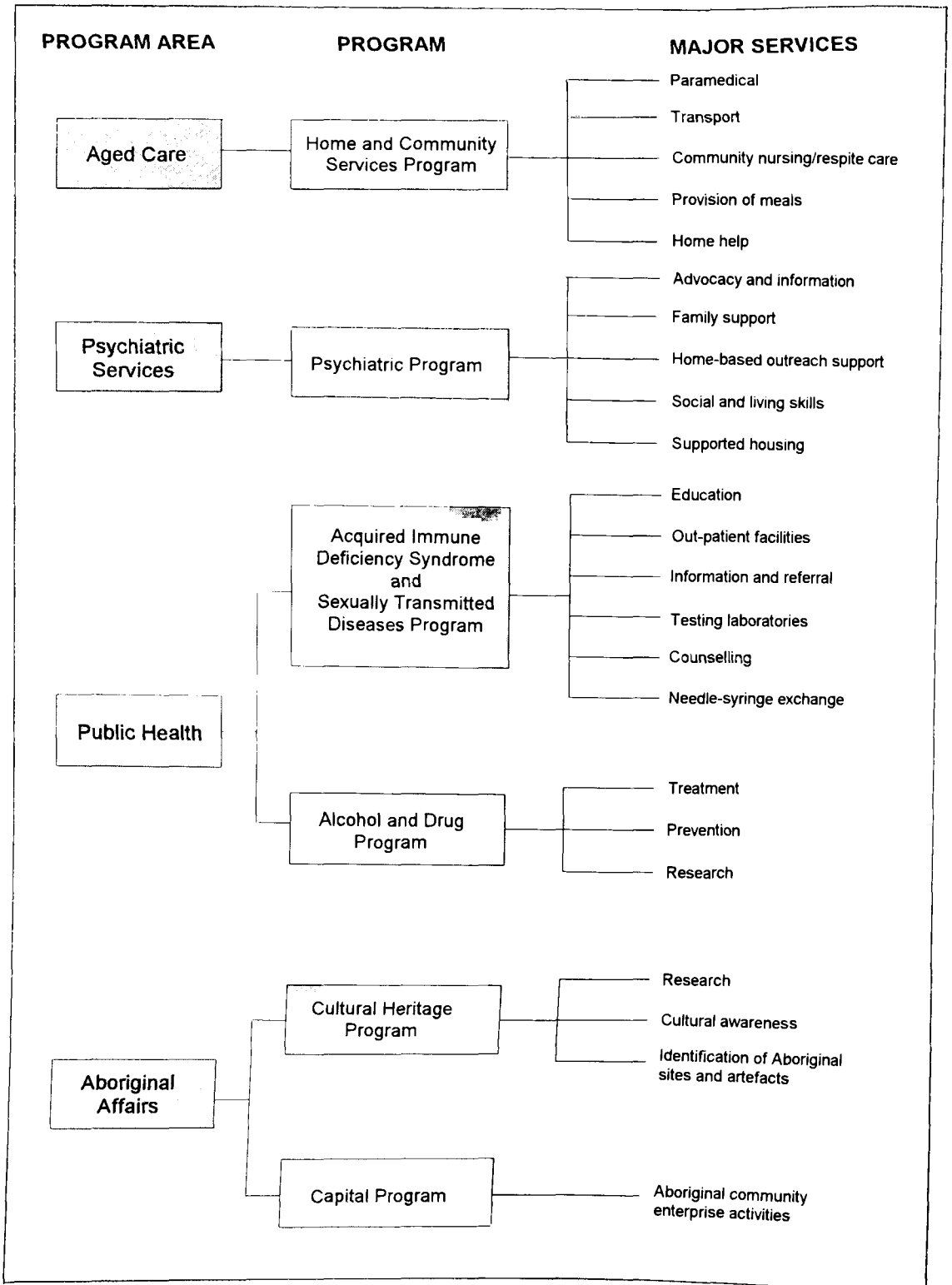
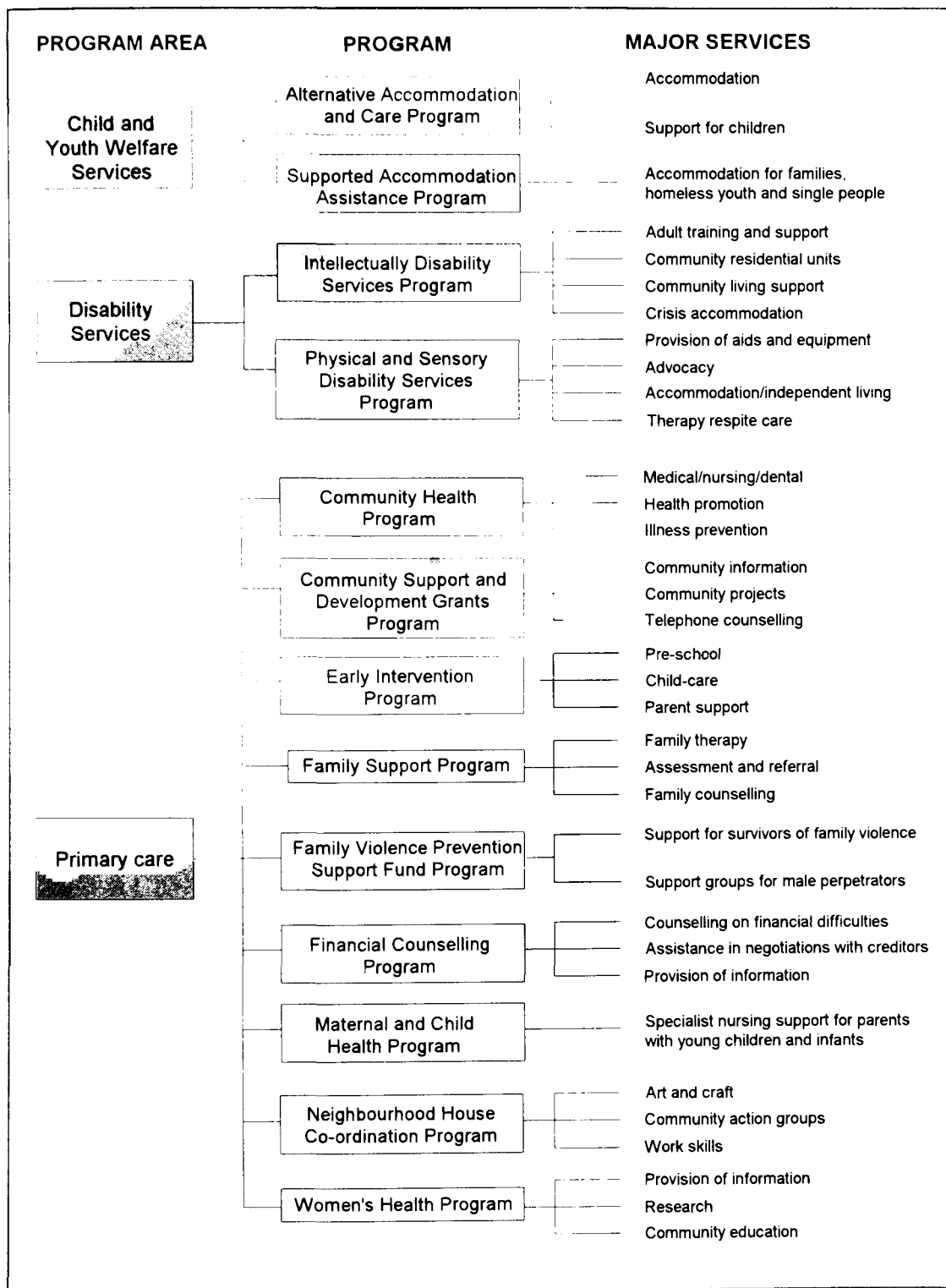


CHART 2C
DEPARTMENTAL FUNDING OF NON-GOVERNMENT ORGANISATIONS - continued



2.18 Information on various funding programs and examples of some of the grants administered by the Department are detailed in Appendix A of this Report. Comments arising from a detailed audit of the Alcohol and Drug Program will be included in a subsequent Report to Parliament.

How are grants and subsidies administered by the Department?

2.19 As indicated in Chart 2C, the Department administers a number of programs, each focusing on the provision of specific services. In order to ensure that its overall objectives are met and that services are adequately co-ordinated, the provision of these services is centrally planned and monitored. However, the management of programs is largely autonomous, with departmental regions responsible for operational performance on a daily basis.

2.20 Regional program management and staff are the direct link to the majority of NGOs and are in regular communication with representatives from these organisations. Once the grants and subsidies are distributed, responsibility for service provision rests with the NGOs.

2.21 In the mid-1980s, the Department introduced a major initiative involving the implementation of service agreements. These agreements outline the expectations and obligations of the Department and the service providers, major purposes and objectives of the program, performance indicators, accountability requirements and provide the means of ensuring grants and subsidies are used in accordance with the Department's service requirements.

Changing environment

2.22 The current departmental organisational structure was established in October 1992 following the amalgamation of Health Department Victoria, the Department of Community Services, the Department of Aboriginal Affairs, the Office of Pre-School and Child Care, and the Older Persons Planning Office (which previously formed part of the Ministry of Ethnic, Municipal and Community Affairs).

2.23 This new structure was accompanied by substantial program development and necessitated the establishment in July 1993 of a single financial information system for the whole Department.

2.24 A major focus of the Department's resources during 1993 has been the implementation of these structural changes and the achievement of the significant expenditure savings required by the Government.

Strategic reviews of the Department

2.25 Following the departmental amalgamation, internal reviews were initiated by the Department for the majority of programs. The major aim of these reviews was to ensure that the operations of the Department were consistent with government policy and to facilitate the integration of the former administrative structures into the new departmental structure. As many of the program services are delivered by NGOs, these reviews have directly impacted on the provision of grants and subsidies.

2.26 One of the major internal reviews examined the Community Health and Support Services Programs. The key issues addressed in this review, as outlined in the July 1993 *Community Health and Support Issues Paper*, included:

- accountability arrangements;
- community health and support service system linkages;
- equitable distribution of resources,
- health promotion;
- quality of care; and
- unit cost funding.

2.27 A number of these issues are addressed in the later sections of this Report.

Industry study - community services

2.28 A further comprehensive study of community services in Victoria, commissioned by the former Department of Community Services, resulted in the *Welfare as an Industry, A Study of Community Services in Victoria* report in late 1992. The Study was undertaken to identify and assess the community services currently provided, and gather information on the size of the industry, details of service providers, funding methods in use and staffing levels of provider organisations. This information is used in departmental strategic planning to ensure resources are adequately targeted to address community needs. Reference to the Study is made throughout this Report.

Part 3

Conduct of the audit

AUDIT OBJECTIVES

3.1 In relation to the Department of the Premier and Cabinet, the audit focused specifically on an assessment of whether adequate monitoring procedures had been established to ensure that the Treasury Guidelines, for the provision of grants and subsidies to non-government organisations (NGOs), had been effectively adopted by all budget sector agencies during the 4 year implementation time frame which concluded on 30 June 1992.

3.2 The ongoing future involvement of the Department of the Premier and Cabinet and other central agencies in the monitoring of grants and subsidies across agencies, beyond the implementation date, was also reviewed.

3.3 At a departmental level, the objectives of the audit of grant and subsidy payments to NGOs was to assess whether:

- the administration and management of such financial assistance was undertaken in an efficient, effective and economic manner;
- recipient organisations have utilised the financial resources obtained from government agencies in an efficient, effective and economic manner and for the intended purpose; and
- payments were allocated in accordance with established Treasury Guidelines.

3.4 This part of the audit concentrated on the processes in place at the Department of Health and Community Services.

SCOPE OF AUDIT

3.5 The audit of central agencies involved discussions with senior management of the Department of the Premier and Cabinet and the Department of the Treasury, and an examination of relevant documentation.

3.6 The Department of Health and Community Services was selected due to the significant financial outlays it makes to the non-government sector (\$620 million, 1992-93 or 82 per cent of budget sector outlays to the non-government sector) and the large number and variety of NGOs it funds throughout Victoria.

3.7 The audit encompassed an assessment of the management of grant and subsidy programs at the Department's head office and 4 of its 9 regional offices. Grants and subsidies examined included payments to a variety of organisations providing a wide range of services within areas such as community health, the physically and intellectually disabled, youth training, crisis support, activities therapy, financial counselling and women's health.

3.8 Specifically, the review addressed:

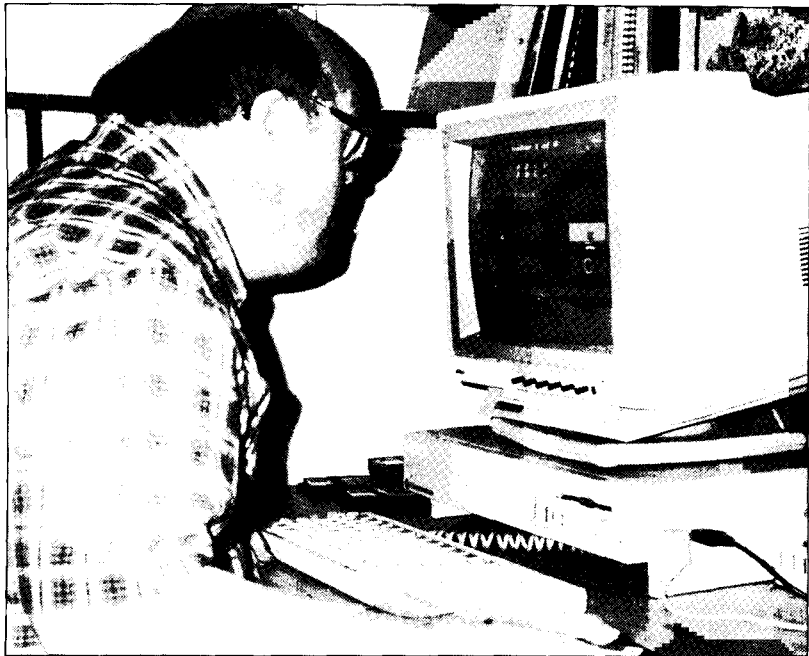
- the framework for service delivery;
- application and allocation procedures;
- funding arrangements;
- accountability and monitoring mechanisms; and
- cost saving measures.

3.9 The Auditor-General's authority to access the records and documents of NGOs covers only those organisations registered as funded agencies under the *Health Services Act 1988*, i.e. approximately 15 per cent of NGOs receiving funding.

3.10 Although audit did not have the authority to directly investigate the activities of the majority of NGOs, a small number of these organisations agreed to assist in the review and were visited by audit. Information gathered during these visits was used in the overall assessment of the Department's management of grants and subsidies.

3.11 In conducting the audit, relevant records were examined and discussions held with key officers from the Department and various government agencies with responsibility for administering government programs. Discussions were also held with the Victorian Council of Social Services (VCOSS) which played a key role leading to the development of the Treasury Guidelines.

3.12 Management, staff and various groups involved in the administration of grants and subsidies to NGOs provided significant support and assistance throughout the course of the audit. I wish to acknowledge the contribution that such assistance made to the preparation of material for this Report.



A client developing and maintaining skills in the Monkami Centre for the Intellectually Disabled. (Photo courtesy of the Monkami Centre, a non-government organisation visited by audit.)

Part 4

Central Agency Perspective

OVERVIEW

4.1 The traditional role of central agencies has included the development of government guidelines and monitoring certain key aspects of the financial and operational management of departments where it impacts directly on central agency objectives. These responsibilities have been aimed at ensuring that the major strategies of government are implemented and the State is not exposed collectively to significant risks.

4.2 The respective mission statements and objectives of central agencies suggest that currently they have a mandate which could include monitoring, in a broad context, the administration by departments of grants and subsidies to non-government organisations (NGOs). As a general principle, audit is of the view that if guidelines are issued centrally, then there should be some ongoing role for the central agency to be assured that the guidelines are operating effectively within agencies and any risks to government are minimised.

4.3 The audit found that, while some risks to government have been addressed on an individual basis, central agencies have not undertaken a comprehensive cross-sectional assessment of the risks facing the Government from the implementation of key elements of government policy. As such, it is not possible for the Government to adequately assess the materiality of its exposure in the area of providing grants and subsidies to NGOs. Nevertheless, **the administration of grants and subsidies to NGOs was not regarded by central agencies as a high risk area that would warrant an ongoing monitoring at a central level.** Responsibility for ensuring that sound practices were in place was instead devolved to each department. While the Department of the Premier and Cabinet was assigned central agency responsibility for monitoring the implementation of the Treasury Guidelines between 1988 and 1992, the audit found that the Department had not been fully effective in discharging its responsibility over the final 2 years of the implementation time frame.

4.4 In audit opinion, the lack of central monitoring of the management of grants and subsidies, in conjunction with an assessment of risk management principles, exposes the Government to significant risks across the public sector. **Whether such risks are material in the context of the priorities of government is a matter for central agencies to determine when undertaking departmental risk assessments.** It is audit's view, however, that central agency monitoring of risks associated with providing grants to the non-government sector would enhance public sector management. In undertaking a complementary role to the prime responsibility devolved to government departments, a central agency would have to ensure that **its limited high level monitoring function** is focused on ensuring the operation of adequate accountability mechanisms and not on duplicating the necessarily intensive management role performed by departments.

ONGOING ROLE OF CENTRAL AGENCIES

Introduction

4.5 The provision of services by the non-government sector is regarded as an area of major importance on the basis that:

- substantial funds are provided by the government sector;
- a large number of departments are involved;
- significant problems have been highlighted by past reviews;
- management of these organisations is at arms-length to the operations of government;

- the Auditor-General does not currently have access, for audit purposes, to the records of all these organisations; and
- this area of activity was given high priority in the mid-1980s due to the deficiencies identified in the management of grants at that time.

4.6 To evaluate the post-implementation role of central agencies in the oversight, at a macro level, of the administrative practices employed by departments in the granting of public moneys to NGOs, audit initially examined the major strategies of the current Government. The stated objectives of central agencies were then reviewed and a risk management framework developed to assess the extent to which appropriate oversight is being exercised by central agencies over the granting of moneys by the departments to numerous NGOs which provide a wide range of essential services to the public.

Government strategies

4.7 With the October 1992 change of government, the Treasurer announced a number of key strategies including:

- shifting activity and resources from the public to the private sector through, in part, contracting out services which can be performed more efficiently by the private sector; and
- improving the effectiveness and efficiency of the public sector by adopting a range of measures which included:
 - reducing costs through improved co-ordination and implementation of policies and programs and minimising duplication between departments;
 - discontinuing programs which no longer serve a useful purpose;
 - providing better public services to the community;
 - concentrating on outputs or performance, as well as inputs, and holding managers accountable for results; and
 - the transformation of 22 departments into 13 departments.

4.8 As part of the machinery of government changes, there are 3 departments that perform a central agency role, namely, the Department of the Premier and Cabinet, the Department of the Treasury and the Department of Finance. In audit opinion, it is inappropriate to expect that responsibility for implementing the Government's strategies rests solely with the 10 operating departments. While these organisations have prime responsibility for implementation, **the central agencies should have a high level monitoring role to ensure consistency and control of government operations based on risk management principles.**

4.9 The stated roles of the 2 central agencies that were involved in the framing of guidelines covering application and funding arrangements for the NGOs are outlined below.

Department of the Premier and Cabinet

4.10 The mission of the Department of the Premier and Cabinet as detailed in its Corporate Plan is to lead the Victorian public sector in contributing to the development of Victoria as a soundly managed State. The Department exists to provide advice to the Premier and the Cabinet which is directed at the effective and efficient implementation of the Government's policies and programs. It also endeavours to promote a spirit of service to the community throughout the public sector by having a **strong focus on the delivery of customer oriented services.**

4.11 According to the Departments' Corporate Plan, the Department has a co-ordinating, policy advising and **monitoring** role. Its major functions include:

- providing policy analysis and advice to the Premier and the Parliamentary Secretary of the Cabinet,
- **reviewing and reforming management processes, management performance, accountability frameworks and structures of the Victorian public sector,** and
- assisting the Premier in the general operation of the State's administration through the co-ordination of activities and the provision of advice and support services within the Premier's portfolio.

Department of the Treasury

4.12 The Department of the Treasury's functions as outlined in its *1992-93 Annual Report* include ensuring responsible financial management of the State, and the management, preparation and monitoring of the State's Budget. As part of these functions, **the Department is to conduct detailed reviews of expenditures of departments.**

Risks to government from lack of oversight by a central agency

4.13 Clearly, the functions of these central agencies suggest that they have a role in overseeing the grants and subsidies programs of the State. But to date, neither of the above departments has undertaken a detailed risk assessment in the context of their total responsibilities. The audit revealed that, as the ongoing prime responsibility for the administration of grants and subsidies is devolved to each department, and central agencies have priorities in other areas, **central agencies have not exercised central oversight over the departmental management of grants and subsidies.**

4.14 In considering the potential risks to government from a lack of central agency monitoring, it is necessary to examine the problems which necessitated the framing of the Treasury Guidelines in 1988 and the benefits gained from compliance with the established procedures. The Government, in recognising the significant level of funding provided to non-government organisations and their important role in service delivery, acknowledged that funding procedures lacked consistency which had at times led to misunderstandings between the parties and the inefficient use of resources. In response to those concerns, a wide range of reforms to the funding process were announced by the Government in 1988 with anticipated benefits expected to be derived by both the government and non-government sectors. The Guidelines intended to strike a balance between the obligations on the Government to adequately account for the public funds for which it was responsible, while at the same time not unduly constraining the work performed by the non-government sector.

4.15 Without adequate central monitoring of the implementation of the Government's Guidelines for the funding of non-government agencies, the Government cannot be assured that the procedures in the Guidelines have been adopted by agencies and have been adhered to on an ongoing basis. As such, the Government may remain exposed to various risks if there are material departures from the established funding procedures in that:

- The standard of service delivery may not meet acceptable levels and be customer orientated;
- Public funds may not be used efficiently and effectively;
- The streamlining of administrative arrangements may not have occurred across government agencies;
- Inconsistent funding arrangements may be in place across government;

- Funding arrangements may not be responsive to the needs of NGOs;
- Significant misunderstandings may exist between government and the non-government sector and, as such, a productive relationship may not be fostered between these parties;
- Grants and subsidies could be paid to the same NGO for the same purpose by more than one government agency;
- Government agencies may not be providing clear and timely advice on applications for funding;
- Application, allotment and accountability requirements may be inefficient and ineffective (e.g. the absence of standard application criteria),
- Clearly defined funding agreements may not have been established and, as such, NGOs may be spending public moneys on irrelevant projects or projects without any agreed outcomes. Mutual expectations and obligations of both parties involved may not have been established;
- NGOs receiving substantial grants may not be incorporated as a corporate entity and, accordingly, a legal entity (against which a legal action can be brought thereby resulting in a greater security of public funds) may not exist;
- The financial performance and expertise of some NGOs may be unsatisfactory which places public funds at risk and may affect the quality of service delivery;
- The use of internal audit to address key risks facing departments may not be effective as part of an overall management control framework; and
- Departments may have a negative attitude towards financial reporting and controls.

4.16 In audit opinion, many of the abovementioned risks will still apply in relation to the Government entering into commercial arrangements for the purchase of services. For example, eligibility criteria will still have to be established, proper tendering and selection processes will need to be applied, post-project reviews will become more important and quality of service delivery will need to be maintained.

4.17 In the context of departments granting funds to NGOs for the delivery of services to the community, audit is of the view that, given the stated roles of central agencies and the potential risks to government outlined above, there is an ongoing role for a central body to evaluate whether the State is subject to any material risks due to poor practices involved in the administration of grants and subsidies by operating departments.

Monitoring practices of central agencies

4.18 As previously mentioned, the audit disclosed that the practices followed by departments in the administration of grants and subsidies to NGOs are not currently monitored at a central agency level. In discussing this matter with the respective central agencies, audit was advised that monitoring and accountability aimed at the types of risks identified earlier in this Report will form an integral part of the Government's *Management Improvement Initiative for Victoria* which was announced in October 1993. Under this initiative, individual Ministers and departments have clear responsibility and authority to implement the Government's policies and programs without unnecessary detailed central control. However, the Government has acknowledged in the Initiative that the effectiveness of such measures will depend, in part, on the development of an appropriate framework by central agencies which will include the following key features:

- a relaxation of inefficient detailed central controls on inputs and processes;
- the development of financial systems which provide useful information concerning the efficiency of resource use; and

- a rationalisation of the information needs of central agencies which will be aimed at providing a consolidated information base.

4.19 In addition, the Initiative also supports effective outcome-oriented planning and performance management systems which will provide timely, accurate and informative performance reports to management and government which will meet both external monitoring and reporting requirements. Whether or not central agencies are to have an ongoing role in overseeing the intensive monitoring and accountability mechanisms employed at a departmental level is yet to be decided by the Government.

4.20 In audit opinion, as part of the procedures envisaged in the Initiative, consideration should be given to requiring each funding agency to provide a report to a responsible central agency outlining the management procedures and safeguards built into their processes for administering grants and subsidies to NGOs, to ensure that the potential risks are being addressed. The central agency should examine this information on an annual basis to determine whether the achievement of the Government's policy objectives are at risk as a consequence of any actions of grantor departments.

4.21 In examining the processes adopted at the major grantor department, the Department of Health and Community Services, the audit found that:

- with the exception of the Disability Services Program, agreements with the non-government sector were not legally binding;
- the financial performance of NGOs was not evaluated by the Department; and
- there was a lack of qualitative and quantitative performance indicators within some programs.

4.22 The absence of central oversight of key risk areas at a central level, such as those that were found at the above agency examined by audit, results in a situation whereby the Government cannot be assured that it is not exposed to serious sector-wide risks.

MONITORING IMPLEMENTATION OF THE TREASURY GUIDELINES (1988-1992)

4.23 The established role of the Department of the Premier and Cabinet in the central management of grants and subsidies provided to NGOs was to:

- Monitor the implementation of the Guidelines;
- Provide advice to departments on any difficulties experienced during such implementation; and
- Report to the Social Development Cabinet Committee. In particular, at the end of 1989-90 the Department, in conjunction with funding agencies, was required to undertake a review of the progress achieved in the implementation of the Guidelines and report to the Cabinet Committee on issues of significance that may have arisen during this voluntary period. During 1990-91 and 1991-92, the Department was to report regularly to the Cabinet Committee on outstanding issues.

4.24 Desirable management procedures which one might have expected the Department to have used for monitoring the implementation of the Guidelines over the 4 year period included the following:

- establishment of objectives covering the Department's role, and a plan of action for management of the project, e.g. assigning responsibilities and arranging progress meetings;
- the issue of formal correspondence by the Department to each budget sector agency explaining the monitoring process over the 4 year implementation time frame and the role of the Department;
- the maintenance of a record of each agency's implementation time frame;
- communication of actual progress compared with the proposed implementation time frames and instances of non-compliance, exemptions and extensions to the Social Development Cabinet Committee at regular intervals;
- departmental officers conducting field inspections at government agencies, representative bodies such as VCOSS and NGOs during implementation to ascertain any problems which required the Guidelines to be revised;
- the formal granting of exemptions by the Department where it could be demonstrated that compliance with the Guidelines created particular difficulties;
- the submission of a report at the end of the 4 year implementation time frame (30 June 1992) to the Cabinet Committee outlining any agencies that had not complied with the implementation time frames and any amendments required to improve the Guidelines;
- follow-up action in relation to non-compliance with the Guidelines; and
- due to the change in government in October 1992, the issue of a directive as to the status of the Guidelines, especially in view of the initiative to increase the involvement of the non-government sector in service delivery.

4.25 The audit disclosed that the role of the Department was formally established and conveyed to government agencies. The Department also entered into correspondence with funding agencies to ascertain those agencies which would be able to comply with the Guidelines. Audit was advised by the Department that, by 1990, implementation time frames set by agencies were conveyed to the Department and, based on advice from agencies that the Guidelines would be implemented, no intervention seemed necessary and accordingly monitoring ceased in late 1990. No exemptions to the Guidelines were sought by agencies.

4.26 While the measures adopted by the Department fulfilled, to some extent, its monitoring role, further enhancements could have been made during the final 2 years of the implementation period in relation to monitoring progress by agencies against established target dates and conveying any concerns to the Cabinet Committee. The audit revealed that, some 4 years later, significant aspects of the Guidelines had still not been fully implemented. In particular, the audit found that in the case of the Department of Health and Community Services, which has responsibility for administering the majority of grants and subsidies, adherence to the Guidelines had not been achieved in all programs within the prescribed deadline of 30 June 1992. To date, full compliance has still not been achieved. Examples of non-compliance varied from agreements not being prepared to instances where specific Guideline requirements had not been incorporated within agreements.

4.27 From discussions with representatives from the key funding agencies, it was evident that the Department had only limited contact with those agencies in relation to the implementation of the Guidelines. Furthermore, discussion with staff of the Department clearly indicated they were not aware of the current status of the implementation of the Guidelines across the whole of the budget sector. Documentation provided by the Department revealed that only 2 progress reports had been provided to the Cabinet Committee between 1988 and 1992 on the implementation status of the Guidelines: the first 9 months after the tabling of the Guidelines in Parliament and the second in late 1990.

4.28 While not diminishing the role that funding agencies have over the various grant programs they administer, audit considers that the absence of effective central co-ordination and monitoring has, in part, contributed to the delays in implementing the Guidelines and consequently adversely impacted upon the management of funding programs

4.29 With the significant amount of public resources distributed to NGOs in the form of grants and subsidies, taxpayers are entitled to expect that funding provided to these organisations will be applied in an effective, efficient and economical manner.

□ RESPONSE by Secretary, Department of the Premier and Cabinet

The former Treasurer, in his letter to all Ministers of 17 May 1988 forwarding copies of the Guidelines, clearly stated that the implementation was the responsibility of the Ministers and their government agencies. The Department interpreted its role as monitoring whether or not agencies would be able to implement the Guidelines within the time frame set out within the Guidelines. This monitoring role was carried out by requiring reports from agencies and contact with agency officers. Field inspection type monitoring is not a function undertaken by the Department.

Departments had opportunities during both the development of the Guidelines and the implementation period to raise implementation problems and issues with the Department of the Premier and Cabinet. In addition, the former Secretary wrote to all Departments in June 1990 specifically asking for comments on substantive issues that had arisen from implementing the Guidelines, or would impede the implementation process. No implementation issues were raised in response. The Auditor-General's Report on Ministerial Portfolios in May 1992 also did not raise any issues relating to the implementation of the Guidelines by agencies.

The Department agrees that a review of the Guidelines and their implementation by agencies at the end of the implementation time frame in June 1992 would have been beneficial. However, it was not undertaken due to the imminent election and possibility of significant changes to State policies.

Current status of the Guidelines

4.30 With the change of government, the current status of the Treasury Guidelines is unclear, as the Guidelines have neither been formally adopted, amended or repealed by the new administration.

4.31 Given that it is almost 6 years since the Treasury Guidelines were released, audit is of the view that there is a need for the Guidelines to be updated to reflect significant changes in government policy as it impacts on the social and economic climate in Victoria. As part of this process, consideration should be given to the wider application of risk-based principles. In addition, attention should be directed to:

- outlining the monitoring role of central agencies and reporting requirements by grantor departments;
- requiring large grant recipients to comply with the reporting requirements of the Annual Reporting Act;

- clearly outlining a requirement to make funding agreements legally binding;
- including direction on how government equity in NGO-controlled assets should be protected in the event of a NGO either no longer providing the service or ceasing to operate;
- including additional requirements into standard application procedures, e.g requiring a statement on management expertise/internal controls in place within NGOs,
- bringing municipal councils, as major recipients of grants and subsidies, under the requirements of the Guidelines;
- directing departments to promote a more competitive environment in the selection of NGOs through use of tendering procedures where appropriate;
- providing guidance on procedures to be followed in the event of allegations of fraud within NGOs;
- outlining the monitoring role of departments' Internal Audit branches in relation to the effective use of grants;
- assigning responsibility for the preparation of a funding handbook covering details of all funding programs, eligibility criteria and guidelines for application; and
- reviewing the appropriateness of the financial accountability levels set out in the existing Guidelines.

4.32 In bringing this matter to the attention of the Department, it is pleasing that the status of the Guidelines is now earmarked for review. The Treasurer has confirmed that the Guidelines are to continue in force until the review is completed. The objective of the review, which is to be undertaken in consultation with the Department of the Premier and Cabinet, is to assess whether any changes to the Guidelines are necessary in the context of the current policies and initiatives introduced by the Government, including the need to ensure probity in the spending of public moneys and the development of performance agreements.

LACK OF GRANT PROGRAM INFORMATION TO THE COMMUNITY

4.33 As previously mentioned, the *Report of the Research Group on the Funding of Non-Government Agencies* included a recommendation that the Department of the Premier and Cabinet prepare an annual publication detailing programs across the public sector which provide funding to the non-government sector. The Social Development Cabinet Committee, in recognising the importance of providing comprehensive information to potential service providers, recommended that:

- departments should make publicly available in clear and precise terms the objectives, guidelines and eligibility criteria of grants and subsidies programs for which they are responsible (the publication of this information may highlight that funding programs in different departments which fund similar functional activities may require rationalisation);
- all relevant information should be made available at least 4 months prior to the commencement of the annual funding allocation process;
- a systematic and comprehensive means of making all funding information available to the public should be developed; and
- in advertising individual programs, more emphasis should be given to the use of ethnic media and newspapers.

4.34 Based on these recommendations, the 1988 Treasury Guidelines indicated that consideration would be given by the Government to producing a funding handbook detailing funding programs, eligibility criteria and guidelines for application. This led to the development by the Department of a handbook in 1989 which provided details of all funding programs. This handbook was to be updated annually and made available to the public.

4.35 Audit found that while the handbook was prepared by the Department in 1989, 1990 and 1991, a conscious decision was made to discontinue this publication prior to the State election in October 1992 in order to avoid the possibility of agencies subsequently having to amend program information. While some departments such as the Department of Arts, Sport and Tourism had initiated the production of a handbook on an individual basis, the Department of the Premier and Cabinet did not take any action to ensure that this information was prepared by all relevant departments. Also, the Cabinet Committee recommendation that the handbook be prepared both in English and in other community languages and be advertised widely was never adopted.

4.36 Without the information contained in the handbook, or similar information to that provided by the Department of Arts, Sport and Tourism, the quality and quantity of applications for grants and subsidies may have diminished in recent years. The importance of providing the type of information contained in the handbook to potential service providers was emphasised by the Australian National Audit Office in its draft *Best Practice Guide for the Administration of Grant Programs* in which it stated:

"The first ingredient of a successful grant scheme is a high level of interest from prospective applicants. This means using different kinds of publicity to increase awareness. Encouraging as many potential eligible applications as possible gives a wide field of possible grants so that available funds can be targeted to best effect. Leaflets or other publications should set out the various forms of assistance available in a clear and attractive way."

4.37 With greater emphasis being given by the current Government to the provision of services by the private sector, the Department and other line agencies should consider the re-introduction of an annual funding handbook in order to increase competition and the knowledge and interest of prospective service providers.

□ RESPONSE by Secretary, Department of the Premier and Cabinet

The Department agrees that clear, timely and readily available information on the objectives, guidelines and eligibility for government funding programs is important to ensure the quality of applications. However, the Department questions whether the compilation of program information in one handbook is required. While the Department accepts that the decision taken in 1992 to discontinue publication of the funding handbook could have made it more difficult for some prospective applicants to formulate applications for grants and subsidies, audit presents no evidence that the quality or quantity of applications declined as a consequence of this decision, taken in a period of increasing budgetary stringency and in the lead-up to the 1992 election.

The production of a handbook does not replace the obligation on departments to make information on their funding programs readily available, as was recommended by the then Social Development Committee of Cabinet. The review of the Guidelines by Treasury will give consideration to audit's recommendation that an annual funding handbook be re-introduced.

Part 5

Department of Health and Community Services

Part 5.1

Framework for service delivery

5.1.1 Irrespective of whether government services are provided directly by the Department of Health and Community Services or indirectly through non-government organisations (NGOs) by way of grants and subsidies, these services need to be in accordance with the departmental objectives, i.e. the community should be able to access quality services which meet their needs and are affordable. In order to enable these objectives to be met, there needs to be a comprehensive framework within which departmental services can be delivered. This framework should provide overall direction and establish the benchmarks for performance evaluation and would normally:

- define the Department's philosophy and objectives in relation to each service;
- outline specific services to be provided, including outcomes;
- include a profile of the population likely to require these services and a broad determination of community need for these services;
- outline specific strategies to achieve departmental objectives;
- determine whether services are to be provided directly by the Department or through external organisations;
- establish State-wide planning benchmarks and appropriate quality standards for each service; and
- establish appropriate accountability structures and performance measuring and monitoring processes.

5.1.2 Where services are to be provided by external organisations there is also a need to establish:

- eligibility criteria to assist in determining those organisations to receive funding and the conditions to be met;
- selection criteria for reviewing and approving applications for funding; and
- grievance resolution mechanisms.

5.1.3 The audit indicated that many of the features outlined above had been established across programs by the Department. However, some requirements such as the development of qualitative performance indicators and standards and the framing of outcomes for service delivery had not been adequately developed for certain services within some programs such as the Maternal and Child Health, the Community Support and Development Grants and the Psychiatric Services Programs.

5.1.4 It is possible, in the absence of such a framework, for services to meet departmental requirements regarding quantity, type, quality and accessibility. **In order to ensure departmental objectives are met, an appropriate framework incorporating the features previously outlined should be developed for all departmental programs.**

5.1.5 Additional comments addressing various aspects of the framework are provided in Parts 5.2 to 5.5 of this Report

□ RESPONSE by Secretary, Department of Health and Community Services

The Department in 1993 provided clearly enunciated strategies for the delivery of services across all programs. While in some areas it is recognised that further development is necessary, the majority of service delivery objectives have been clearly set out and linked with the service agreement process applicable for all externally funded agencies. Priority has been accorded by the Department to Public Hospitals and Nursing Homes which account for more than 65 per cent of total departmental expenditure.

Part 5.2

Application and allocation of funding

OVERVIEW

5.2.1 Audit found that there was an absence of flexibility in relation to the application and allocation of funding to non-government organisations (NGOs), given that the majority of funding was provided to the same service providers each year without any requirement for formal applications. The level of funding supplied to numerous organisations was largely based on their historical costs such as labour and operational costs rather than on the outputs they generated. In audit opinion, this lack of flexibility is likely to adversely impact on the efficiency of the Department of Health and Community Services' delivery of services. However, audit recognises that the potential for increased competition is limited in some programs due to the unavailability of alternative service providers.

5.2.2 In addition, the audit highlighted the need to improve the Department's application and selection processes through improved documentation of funding policies, provision of information to potential service providers regarding the availability of funding and development of standard application forms.

APPLICATION AND ALLOTMENT PROCEDURES

5.2.3 As mentioned earlier in this Report, health, community and Aboriginal services are provided directly by the Department or indirectly through the Department's funding of NGOs.

5.2.4 Where NGOs are used to provide services, the efficiency and effectiveness of these services are largely dependent upon the Department establishing comprehensive funding policies and appropriate application and selection processes. It is also important that there is flexibility in the allocation of funding and competition among service providers, where appropriate, to ensure that organisations selected for funding provide effective services at the lowest cost to the Department.

Lack of flexibility in the selection of service providers

- 5.2.5** Grant and subsidy funding is allocated by the Department in one of 3 ways:
- NGOs which have historically provided services are automatically allocated funding, provided past service delivery has been satisfactory,
 - selected NGOs, known to be willing and capable of providing required services, are requested to apply for funding; or
 - NGOs apply for funding either in response to departmental advertising or based on their knowledge of the availability of funding

5.2.6 The majority of funding is allocated to NGOs which have historically provided departmental services. With the exception of a small number of programs such as the Community Support and Development Grants Program and the Family Violence Prevention and Support Program, funding is provided to organisations without the requirement to submit applications.

5.2.7 **The inflexible nature of the current system can adversely impact on the ability of the Department to provide efficient services. The lack of flexibility and competition among potential service providers could be improved through the increased use of tendering.**

Tendering of services

5.2.8 Tendering provides an opportunity to invite service providers to formally bid for the supply of a predetermined set of goods and services to another organisation. The successful tenderer would normally be required to provide the goods or services for a specified period of time, during which the instigator of the tender would fund the service provider and monitor performance against the initial agreement. Tendering can be used to stimulate competition and therefore generate a more cost-effective means of providing services.

5.2.9 Traditionally, tendering has been used by government departments to facilitate the construction of buildings and public infrastructure, and to acquire a wide range of goods and services such as computer equipment, office supplies and consultancy services. However, tendering can also be applied to other services such as those acquired through the provision of grants and subsidies.

5.2.10 As indicated earlier, due to the Department's practice of allocating grants and subsidies to existing NGOs without a detailed analysis of alternative service providers, tendering has not been widely used within the Department to enhance the efficiency of service provision.

5.2.11 The Home and Community Care (HACC) Program funded by the Department in conjunction with the Federal Government, represents a good example of where a system of tendering could be usefully employed. Within this program, payments are made to municipal councils for the provision of health and community services including meals-on-wheels and cleaning. However, these services are often provided by other organisations such as hospitals or private contractors, for example:

- hospitals preparing meals-on-wheels - municipal councils enter into contracts with hospitals to prepare meals for HACC recipients, utilising the excess capacity of hospital kitchens; and
- private contractors providing cleaning services - municipal councils enter into agreements with private contractors to provide certain services, such as house cleaning for HACC service recipients.

5.2.12 The current procedure of funding organisations for services which are provided by a third party does not always represent the most efficient use of public funding, as the additional administrative work associated with this practice results in higher service delivery costs.

5.2.13 Appropriate changes designed to introduce greater competition between potential service providers are currently under consideration within the HACC Program, as evidenced by the following extracts from an issues paper written by a regional HACC co-ordinator in June 1993

"Currently the Department of Health and Community Services funds agencies through the HACC Program to provide services to consumers rather than providing these directly through, for example regional offices. This could be seen as a form of purchasing model. However, a formal purchaser-provider system means much more than this. In such a model the HACC Program would formally adopt the role of purchaser and seek to purchase the best services at the best price on behalf of the communities they serve. Such a system breaks with the expectation that the same set of providers will exist in perpetuity. It implies a greater degree of formality in the form of contracts for service and, to be fully implemented, sophisticated measures of need, reasonable unit costs and service performance."

5.2.14 It is pleasing to report that, in addition to the preliminary evaluation of the purchase-provider system in the HACC Program, the Department is also considering the expanded use of tendering to provide services in the Alcohol and Drug, Psychiatric Services and the Community Health Programs.

5.2.15 To improve the efficiency of service provision, there is a need to introduce greater flexibility in provider selection. In some cases, due to the specialised nature of the service and the limited number of organisations with the expertise to provide the required services, audit accepts that it is not possible to make significant changes to current practices. **However, in certain areas such as the HACC Program discussed above, increased flexibility in service provision through the expanded use of tendering could provide services at a lower cost to the Department.**

□ RESPONSE by Secretary, Department of Health and Community Services

The Department uses a mixture of funding approaches for external agencies including CASEMLX, CAM SAM, unit-based etc. The general focus of the Department is to link inputs with agreed outputs and to establish benchmark costs. To claim that the provision of funding to NGOs is inflexible is not supported and clearly overlooks the funding strategies developed and implemented in recent years. The use of historical costs to determine grants is appropriate where the costs are used to establish benchmarks. However, the Department, through its monitoring and review process, continues to refine allocations to ensure equity in funding allocations and the achievement of defined outputs. Further, in many areas, funding is now in accordance with benchmark standards and it is intended that nearly all programs will implement this approach progressively during 1993-94 and 1994-95.

In many programs the appropriateness of calling for applications for funding rounds is questionable as the number of service providers is limited. The majority of services provided by way of contract to the Department involves direct client care. The standard of care provided is closely monitored by program managers. The level of competition available is generally confined to established agencies, however, the distribution of resources will vary from agency depending on agency performance and ability to expand and improve services. Regions will continue to reallocate funding based on their views about the relative performance of agencies.

In the non-direct care services the ability exists to make greater usage of contracting out or greater competition between government and non-government services. e.g. laundry services, meals-on-wheels, cleaning and security services. Many strategies have been developed by the Department to increase competition and effectiveness of these services, however, in the first instance significant rationalising of existing non-direct care services has occurred throughout Health and Community Services' service system.

The practice of some NGOs using third-parties to provide services was criticised on the basis that it results in higher service delivery costs. There was no evidence provided to support this assertion or recognition of any benefits resulting from these arrangements.

FUNDING METHODS EMPLOYED BY THE DEPARTMENT

5.2.16 Audit was advised by departmental staff that, as programs have largely operated independently of one another, funding methodologies have not been developed in a systematic fashion across the Department. Grants to a large number of NGOs have been traditionally based on the previous year's allocation, supplemented with funding for new initiatives and adjusted for across-the-board funding cuts. Table 5.2A below summarises the major funding methods used by the Department and provides examples of programs funded under each method.

**TABLE 5.2A
NON-GOVERNMENT ORGANISATIONS
GRANT AND SUBSIDY FUNDING METHODS, 1992-93**

<i>Funding Program</i>	<i>\$million</i>
Formula-based -	
Alternative Accommodation and Care	51.2
Community Health (a)	63.5
Home and Community Care	158.0
Maternal and Child Health	15.0
Neighbourhood House Co-ordination	4.6
Historically-based -	
Community Health (a)	63.5
Disability Services	132.0
Early Intervention	6.5
Family Support	10.0
Financial Counselling	2.1
Supported Accommodation and Assistance	36.7

(a) The Community Health Program uses both formula and historically-based funding methods.

5.2.17 Program funding for 1992-93 in relation to numerous NGOs was largely based on historical information. In some instances, formula-based methods have been introduced to standardise funding across regions and between individual organisations, however, these formulae have also been largely based on historical information.

5.2.18 There are several problems which result from basing future funding decisions on historical costs, including the use of formula-based methods which rely on historical information such as existing staffing profiles. These include:

- A lack of explicit or direct links between the level of funding and outputs;
- Insufficient incentives for organisations to increase efficiency. Despite the costs of similar services differing widely among NGOs, there is no mechanism to reward those organisations which are more efficient;

- Perpetuating any inequities and inequality inherent in the current system; and
- Insufficient incentive to reallocate resources to areas of higher priority such as new policy initiatives and services.

5.2.19 An alternative method currently being introduced by the Department is to base funding on the outputs generated by NGOs. This method which links the funding of organisations to the number of units of service provided is known as "unit cost funding"

Unit cost funding

5.2.20 Adoption of unit cost funding ensures that different service providers receive an equivalent level of funding for similar services. Under this arrangement, providers operating significantly above the agreed unit cost would need to improve efficiency to remain viable, while those efficient providers operating below this level are allowed to retain the additional funding to provide new or additional services

5.2.21 The introduction of unit cost funding moves the emphasis from funding of inputs, to outputs and outcomes. This change results in a more effective allocation of resources, improved management accountability and provides a means of assuring service efficiency. Unit cost funding also received support from the Victorian Audit Commission which recommended that:

"The Government should fund its activities and services to the community on the basis of outcomes (results), purchasing designated outputs (goods and services) from departments and service providers, rather than funding inputs such as salaries and operating expenses."

5.2.22 As indicated earlier, funding for a large number of NGOs was based on historical costs. Where unit costing has been introduced within departmental programs, such as the Neighbourhood House Co-ordination Program which provides set funding per hour of service, it has only been in a rudimentary form.

5.2.23 Unit costing is only effective where the funding provided is linked to the desired outcomes of the program. This involves:

- identifying the specific program services required;
- determining the desired outcomes for each service addressing issues such as quality, access and appropriateness; and
- developing a system which links funding to the desired service outcomes.

5.2.24 **Audit considers that the development of unit costing within the Department to date has not proceeded to a level where the above requirements are adequately addressed.**

5.2.25 In July 1993, the Department released the *Community Health and Support Issues Paper* which endorsed unit cost funding and stated that this method of funding will be introduced into the Community Health and Support Services sector in 1994-95. Work required to be undertaken before its introduction includes the identification of core services, the development of unit cost benchmarks and pilot systems, changes to financial and performance monitoring, and establishment of suitable systems. Unit cost funding was also introduced on 1 January 1994 for Adult Training and Support Services (ATSS), which forms part of the Disability Services Program, in accordance with a recently developed model that provides funding on the basis of the number of clients treated.

5.2.26 Audit recognises that the introduction of unit cost funding has the potential to generate substantial cost savings and acknowledges the progress made by the Department to date in areas such as the ATSS Program. A challenge now facing the Department is to ensure that unit cost funding does not adversely impact on the effectiveness of services provided.

FUNDING POLICIES

5.2.27 As indicated earlier in this section, the effectiveness of service provision is, in part, dependent on the establishment of appropriate funding policies. Such policies should be clearly defined and well documented and would normally include:

- an indication of which services will be delivered by NGOs;
- the type and form of funding available;
- how funding decisions are to be made;
- eligibility criteria; and
- selection criteria.

5.2.28 Although funding policies have been developed for most programs, the extent to which they are documented is varied. Where policies are not fully developed and documented there is a risk that funding will not be allocated in accordance with departmental objectives. **The Department should therefore ensure that funding policies for all of its programs are fully documented and disseminated to interested bodies.**

APPLICATION AND SELECTION PROCESSES

5.2.29 In order to ensure that the most efficient and effective NGOs are selected to provide departmental services, appropriate application and selection processes, incorporating the following key features, need to be in place:

- guidelines which outline the description, objectives, priorities of the program and relevant funding policies; and
- standard application documentation which provides information for use in the selection process and forms the basis for funding negotiations and decisions.

5.2.30 Selection processes should include established eligibility criteria which are used to determine whether NGOs applying for funding satisfy the Department's requirements and under what conditions funding is to be provided. Where more than one NGO satisfies the eligibility criteria, the final decision needs to be based on a well defined set of selection criteria.

5.2.31 With the majority of funding to NGOs essentially fixed from year to year, the need for detailed application and selection processes is significantly diminished. However, a number of improvements which are discussed below can still be made to the current system.

Program information relating to funding

5.2.32 As previously mentioned in Part 4 of this Report, the Department of the Premier and Cabinet, in response to a recommendation contained in the former Social Development Cabinet Committee's 1984 review of public funding to NGOs, developed the *Victorian Government Funding Programs for Non-Government Sector Handbook* in 1989. In relation to each departmental program, this handbook provided the following information to potential service providers to assist them in applying for State Government funding:

- program description and objectives;
- types of services eligible for funding;
- who can apply for funding;
- closing dates for funding applications;
- period and timing of funding; and
- a departmental contact.

5.2.33 The handbook, which was originally established as an annual publication, was produced again in 1990 and 1991 but was discontinued the following year. Without the information contained in the handbook, the quantity and quality of applications for departmental grants and subsidies may have diminished in recent years.

5.2.34 In order to make the information outlined above available to prospective service providers, the Department should consider developing its own handbook for health, community and Aboriginal services programs.

Standard application forms

5.2.35 As indicated earlier in this Report, application forms are not required for many of the Department's programs. In addition, where these documents are used their form and content varies between programs. In the absence of standard application forms, greater demands are placed on NGO staff to comply with the variety of departmental requirements, which may add to their administrative costs.

5.2.36 In order to simplify the Department's application requirements and comply with the Treasury Guidelines, the Department should develop standard application forms for use across all programs.

Selection criteria

5.2.37 With the majority of NGOs not required to apply for funding, the need for comprehensive selection criteria is less important. However, as the Department introduces a greater degree of competition among NGOs for departmental funding, the need for well defined and documented selection criteria assumes greater significance. **Therefore, the Department should undertake a review of its selection criteria to ensure that only those service providers which best meet the Department's funding requirements are provided with grants and subsidies.**

ASSESSING THE COMPETENCY OF NGO MANAGEMENT

5.2.38 The competence of NGO management is a key factor impacting on the delivery of effective and efficient services and in minimising the incidence of fraud.

5.2.39 Audit was informed by the Department that, prior to the approval of grant funding, there was only limited assessment of the managerial capability of NGO personnel. This is despite the wide variances reported by departmental officers regarding the extent of management expertise in these organisations.

5.2.40 For many NGOs relying on the services of volunteers, the level of management expertise within their organisations is hampered by the variability in the quality and availability of volunteer labour. Deficiencies in the managerial capability of NGO personnel were also identified in the *Welfare as an Industry, A Study of Community Services in Victoria* report, which also outlined a lack of financial resources to employ people with those skills.

5.2.41 The development of processes to ensure the adequacy of NGO management becomes more important as the Department often has limited options for dealing with NGOs which have failed to manage their resources effectively.

Dealing with non-performing NGOs

5.2.42 Due to the absence of procedures to assess the competence of NGO management, grants and subsidies have been provided to a number of organisations which have been identified in departmental reviews as being poorly managed, resulting in wastage of public moneys and ineffective service provision. Departmental records indicated that the performance of NGO management was inadequate in the following instances.

Disability Services Program

5.2.43 A private training centre received in excess of \$1.1 million annually from the Department for the above program to provide residential and vocational services to intellectually disabled people. Following a number of complaints, a review of the centre was undertaken by the Department in January 1992 which found:

- *the centre failed to meet its legislative requirements outlined in the Intellectually Disabled Persons' Services Act in that:*
 - *access to adequate medical support and attention was not available to residents at all times;*
 - *allegations of sexual and physical abuse were not adequately investigated;*
 - *residents were left unattended when ill; and*
- *the management was incompetent and inefficient."*

5.2.44 This was the **fifth review of the organisation and many of the findings were similar to those outlined in previous reviews which dated back some 10 years.** Following the results of the latest review, the Department appointed an independent administrator to manage the centre, while it negotiates for another organisation to take over the running of the centre.

Women's Health Program

5.2.45 An organisation established in 1989 was allocated funding of \$450 000 by the Department in 1992-93 to provide a range of health services to women in a country region.

5.2.46 In February 1992, the organisation dismissed 2 employees as a result of allegations of misconduct. These dismissals caused an industrial dispute, which extensive negotiations between the Department, the organisation and the employees failed to resolve.

5.2.47 An independent review commissioned by the Department concluded that there were significant problems with the organisation, which included:

- the failure to provide services to the entire region in accordance with the requirements of the health service agreement; and
- deficiencies in the organisation's personnel practices particularly performance appraisal, handling employee problems and disciplinary procedures.

5.2.48 In late 1993, as a result of the issues raised in their review and the organisation's failure to comply with the terms and conditions of its health service agreement, the Department discontinued funding the organisation.

5.2.49 In another case, a women's refuge collective, which provides crisis support services for women and women with children who have been subject to domestic violence, received annual funding of \$240 000.

5.2.50 In October 1991, as a result of allegations of inappropriate financial and management practices and service quality, a departmental staff member was appointed to review the operations of the collective. Based on the findings of the review, the Department initially appointed an administrator to manage the collective and, subsequently in September 1992 withdrew funding.

Community Health

5.2.51 Following allegations of fraud and misconduct at a community health centre between 1989 and 1991, the Department engaged the services of the deputy Chief Executive Officer of a public hospital to independently review the financial and management arrangements at the centre. The review, which was completed in May 1993, found that although the allegations of fraud and misconduct could not be substantiated, significant problems had arisen due to:

- difficulties experienced in the delineation of functions between the role of the board of management and the management of the organisation;
- the inefficient accounting systems and inappropriate procedures over the payment of staff; and
- an inadequate organisational structure, no clear level of delegation, and ineffective and inefficient procedures, policies and administrative practices.

Family support/Alternative accommodation and care

5.2.52 Two agencies experienced severe cash flow problems resulting from their reliance on fundraising projections which did not eventuate. In one case it was alleged that a proportion of the government grants was used to fund mortgage payments for premises controlled by the organisation which would normally have been met by fundraising. A police investigation in 1991 found that although there was insufficient evidence to instigate criminal charges, there was a lack of accountability by the agency for grant funding received.

5.2.53 In the second case, the agency experienced severe liquidity problems in 1993, resulting from its failure to generate budgeted fundraising revenue. A major overhaul of the agency's financial management practices was required to rectify its budgetary problems.

Overall conclusion

5.2.54 The cases outlined above represent examples where the effectiveness of NGOs providing departmental services have been adversely affected by poor management.

5.2.55 Although it is not possible to establish systems which would completely eliminate such occurrences, the management of NGOs **can be enhanced** by the Department:

- **providing the necessary information and support systems to enable such organisations to expand their understanding of the requirements of financial and program management;**
- **assessing the competencies of NGO management before grants and subsidies are initially made and during subsequent departmental reviews of these organisations; and**
- **building into service agreements the requirement that NGOs satisfy certain conditions with regard to the managerial competency of their staff such as demonstrated management experience and membership of professional bodies, prior to the provision of funding.**

Part 5.3

Funding arrangements

OVERVIEW

5.3.1 The Department of Health and Community Services' funding arrangements are generally formalised through the use of service agreements which define the terms and conditions upon which such funding is to be provided to the respective non-government organisations (NGOs).

5.3.2 The audit disclosed that, although service agreements for all programs had not been established within the 4 year time frame set in the Treasury Guidelines, nor standardised across the Department, considerable progress has been made in the development and implementation of these agreements.

5.3.3 Service agreements have not been developed for grants and subsidies provided to municipal councils under the Home and Community Care (HACC) Program and agreements currently used by the Department for the majority of its programs contain a provision rendering them not legally binding. However, audit acknowledges that the Department is now proposing to introduce service agreements for municipal councils. The Department has, however, decided that it will not introduce legally binding agreements.

SERVICE AGREEMENTS

5.3.4 Following decisions to engage NGOs to provide departmental services and the establishment of appropriate application and allocation processes, effective funding arrangements need to be established. These arrangements set out the terms and conditions on which funding will be provided.

5.3.5 A Western Australian review of grant and subsidy funding to NGOs undertaken by the Public Service Commission in 1992, which was titled *Helping the Community Help Itself*, identified a number of funding arrangements which can be used by government agencies, including:

- letters of offer from the agency, and letters of acceptance by the NGO;
- agreements signed by both parties, requiring NGOs to be accountable for the financial and other inputs provided by the agency; and
- contracts signed by both parties, requiring NGOs to be accountable for outputs and outcomes, resulting from, and in addition to, the financial or other inputs provided by an agency.

5.3.6 The Treasury Guidelines, discussed earlier in this Report, require the Department and NGOs in receipt of grants and subsidies to agree on clearly defined funding terms and conditions. This is achieved through the establishment of service agreements. The following commentary is included within the Guidelines:

"Agreements will encourage the development of a simplified funding system, lead to more effective and efficient evaluation of services, and clarify expectations with regard to service delivery and accountability."

5.3.7 Specifically, the Guidelines require that agreements include the following components:

- an outline of the roles, mutual expectations and obligations of both parties;
- a description of the arrangements which include the major purpose of the programs or projects and their relevance to government policy;
- performance standards which include key performance indicators;
- financial accountability requirements; and
- processes for ongoing consultation and review of the project or service.

5.3.8 The objectives of the Guidelines are to provide a consistent approach to the funding of NGOs and establish a framework to ensure that the services they provide reflect departmental objectives, such as providing quality services which are both accessible to, and meet the needs of, the community.

5.3.9 As indicated earlier in this Report, departments were required to implement the Guidelines over a 4 year time frame commencing in 1988-89, with compliance voluntary in the first 2 years. The audit found that **the introduction of service agreements for some programs administering grant and subsidy payments was not completed by the Department in accordance with the prescribed implementation time frame.**

5.3.10 Although the former Health Department Victoria commenced implementing health service agreements in 1986-87, these agreements had not been established for all service providers by the 30 June 1992 deadline set in the Guidelines.

5.3.11 Discussion with departmental staff revealed that the process of implementing service agreements within the former Department of Community Services, in accordance with the Guidelines, did not gain momentum until March 1992 following a decision made in late 1991 to:

- determine the departmental direction of the process; and
- assign responsibility for co-ordination and implementation of service agreements to its Management Review Branch.

5.3.12 Prior to this decision, agreements were prepared in a variety of formats within the former Department, resulting in the inconsistent application of funding across programs and according to representative bodies, confusion at the NGO level.

5.3.13 While the former Department of Aboriginal Affairs has established service agreements, these agreements did not comply with some aspects of the Guidelines, such as the requirement to develop performance indicators.

5.3.14 An evaluation of service agreements relating to the provision of health and community services was undertaken by the Department's Operations, Review and Investigations Branch in 1992. This review made various recommendations to improve the management and operation of service agreements within the Department.

5.3.15 An assessment of service agreements by audit identified a number of additional matters requiring attention which are outlined below

Inconsistency in service agreements

5.3.16 Prior to the amalgamation of the Department, service agreements were developed individually by 3 separate agencies. As a consequence, the agreements do not have consistent application across the new Department. The differing requirements for NGOs under various programs within the new Department, result in additional time and effort by NGO staff to administer these agreements and additional costs which, in many cases are publicly-funded, to the detriment of service provision.

5.3.17 **It is important that each program area administering grants and subsidies ensures that NGO funding agreements are consistent across the Department to minimise the risk of ineffective and inefficient use of public resources.**

□ RESPONSE by Secretary, Department of Health and Community Services

The Department, during 1993, reviewed the service agreements from the previous Departments of Health and Community Services Victoria to ensure consistency in reporting and monitoring and the linking of inputs with outputs. A common agreement format now applies to all of the non-government agencies funded from the 2 former departments.

Service agreements - municipal councils

5.3.18 Municipal councils throughout Victoria received approximately \$75 million in government grants and subsidies from the Department under the HACC during 1992-93. This funding accounted for some 12 per cent of total departmental grants and subsidies distributed to NGOs for that year.

5.3.19 The audit revealed, **with the exception of a small number of councils participating in a pilot scheme administered by the Department, service agreements between the Department and municipal councils had not been instituted.**

5.3.20 Discussions with departmental staff indicated that major reasons for the delay in formulating funding agreements with municipal councils was due to the Municipal Association of Victoria.

- requesting that an overall agreement with the Department be established prior to completing individual agreements; and
- objecting to having pro-forma service agreements established by the Department, without having any opportunity for involvement in their development.

5.3.21 Given the significant financial contribution made by the Department to municipal councils, it is important that terms and conditions and agreed measures of performance are formally established. Where this is not the case, there is no mechanism to ensure that the services provided by councils are consistent with the Department's delivery objectives and as a result there is a risk that public moneys will not be expended in the most efficient and effective manner. To address these matters, audit recommends that the Department continue to pursue the introduction of service agreements with municipal councils as a matter of priority.

□ RESPONSE by Secretary, Department of Health and Community Services

The issue of formal agreements for the provision of HACC services by municipalities is under review and it is the intention that all future funding allocations will be linked to service agreements.

Lack of legally binding agreements

5.3.22 With significant public funding distributed in the form of grants and subsidies, it is essential that service requirements are clearly stated and understood by both the Department and the NGOs, and that there is a mechanism to ensure compliance by both parties. A method of achieving this is through the use of legally binding agreements.

5.3.23 The Western Australian review of grants and subsidies to NGOs referred to previously, stated that:

"Legally binding instruments provide the protection of the Courts for the funds provided, and are particularly appropriate for the funding of major capital items or works ... the existence of a legally binding instrument does not commit agencies or NGOs to taking legal action: it provides a safeguard in the event of extreme situations."

5.3.24 **Funding arrangements established between the Department and NGOs have primarily taken the form of agreements which are not legally binding.** With the exception of agreements under the *Intellectually Disabled Persons' Services Act 1986*, each agreement specifically states that:

"This agreement represents the firm intention of the two parties for the period of the agreement. It is entered into in good faith by both parties at the time of signing. However, it is not intended that performance identified in the agreement be enforceable through a court."

5.3.25 The Department has historically not adopted legally binding service agreements across programs due to:

- the difficulty in establishing NGO compliance with some agreements due to the subjective nature of the service requirements;
- a reluctance on the part of the Department to proceed with litigation against NGOs under any circumstances; and
- the Department's belief that the existence of appropriate controls over funding would eliminate the need for legally binding contracts.

5.3.26 However, further consideration is currently being given to the introduction to legally binding agreements, as demonstrated by the comments made by the Secretary of the Department in his introduction to the report *Welfare as an Industry, A Study of Community Services in Victoria* in which he stated that in relation to service agreements:

"The central objective is to move as far as possible toward a contractual relationship between the provider and recipient of government grants."

5.3.27 At the date of preparation of this Report, no further progress had been made in the establishment of legally binding agreements.

5.3.28 It is essential that adequate controls exist to safeguard public moneys disbursed through grants and subsidies. **As part of this process, the introduction of legally binding arrangements for major programs would provide the Department, the public and NGOs with an assurance that in the event of a dispute between the parties to the agreement, there is a formal mechanism to ensure the contract terms and conditions are met.** While legally binding arrangements would minimise the risks associated with non-performance, they should not automatically lead to legal proceedings and such action would obviously only be a last resort where irreconcilable differences existed between the parties

□ RESPONSE by Secretary, Department of Health and Community Services

The Department currently has legally binding agreements with Disability Services providers. All other agreements with the non-government sector have clauses directly linking inputs with outputs and failure to meet targets results in funding reductions. The ongoing review and monitoring by program managers ensures service quality is maintained. Failure to maintain quality will generally result in the cessation of funding and the reallocation of resources. Funding to the non-government sector is by way of negotiated cash flow schedules thereby ensuring greater protection for public moneys. Poor performance by agencies during the year will be detected by regionally-based program managers and thereby resulting in funding adjustments (including de-funding). After extensive consideration, the Department did not consider that legally binding service agreements were appropriate in the program areas as there are no perceived advantages and there is a likelihood of increased legal costs.

PROCEDURES FOR DEALING WITH NON-PERFORMING NGOS

5.3.29 As indicated earlier in this Report, a number of instances were identified where grants and subsidies funding provided to NGOs had been poorly managed. In these circumstances there needs to be a mechanism in place to minimise the adverse effects of poor NGO management on the public resources held by these organisations. However, the current procedures provide limited opportunities for the Department to protect these resources. For organisations established under the *Health Services Act 1988* and the *Intellectually Disabled Persons' Services [IDPS] Act 1986*, the Department has the power to appoint an administrator. Under the *Health Services Act* this power is at the discretion of the Minister. An administrator can also be appointed under the *IDPS Act* where a registered or non-registered residential service is:

- inefficiently or incompetently managed; or
- has failed to provide an effective service in accordance with principles specified in the Act; or
- where there has been a breach or failure to comply with any provision in the service agreement.

5.3.30 In all other circumstances, the only effective alternative available to the Department is to withdraw funding. However, this course of action does not enable the Department to recover funding made in the past for services which were not delivered in accordance with the agreed terms and conditions. Furthermore, the discontinuation of funding while disputes are being resolved, adversely impacts on the recipients of government services.

5.3.31 If the Department is to adequately safeguard public moneys and ensure NGOs comply with the terms and conditions of their funding, **it needs to establish appropriate controls to deal with non-performing organisations, such as building into service agreements the authority to appoint an administrator.**

Part 5.4

Monitoring procedures

OVERVIEW

5.4.1 With significant amounts of public funding provided to non-government organisations (NGOs), it is essential that the Department of Health and Community Services establish effective procedures to monitor whether these funds have been used for their intended purpose and ensure that procedures are in place to safeguard its interests in the assets controlled by these organisations.

5.4.2 The audit found that the Department had not maintained a comprehensive record of the State's equity in NGOs, and as a consequence, was not in a position to ensure the Government's interest in the assets of these organisations was adequately safeguarded. In addition, the absence of an appropriate fraud control framework within these organisations, combined with the existence of internal control weaknesses, may have indirectly contributed to the misappropriation of public funds within a number of NGOs. Although misappropriations of \$270 000 are not material in the context of the Department's overall operations, such misappropriations can adversely impact on the provision of services in particular local communities.

5.4.3 Significant departmental resources are available for the monitoring of NGO activities which focus on the operational aspects of service provision. However, the lack of thorough assessments of financial data and the existence of multiple accountability guidelines may have adversely affected the efficiency and effectiveness of NGOs.

5.4.4 While audit is conscious of the importance of not creating cumbersome bureaucratic functions which add to the Department's costs and adversely impact on the NGOs' primary function of service provision, there is a need to ensure that the services provided by these organisations are meeting government objectives. Enhanced procedures to monitor and control NGOs' performance, introduced on a risk basis, would result in a marginal increase in costs but would provide greater assurance that the services provided by these organisations are achieving their desired outcomes.

DEPARTMENTAL MONITORING OF NON-GOVERNMENT ORGANISATIONS

5.4.5 Public resources are made available to enable the provision of goods and services to the community. In return, taxpayers expect the Government to be accountable for resources under its control regardless of whether they are applied by departments in the direct provision of services or used to fund NGOs.

5.4.6 Once an appropriate framework has been established to evaluate the performance of NGOs, mechanisms need to be developed to monitor their activities to ensure that funds continue to be used for the purpose intended.

5.4.7 Monitoring of NGOs in receipt of grant and subsidy payments is undertaken from an overall departmental perspective, with centrally-located units reviewing and analysing industry-wide statistical information.

5.4.8 In addition, program monitoring occurs at both the central and regional levels. Information compiled by head office staff is used to monitor program performance, while the day-to-day monitoring role is performed in the regions. Furthermore, cyclical program reviews are undertaken every 2, 3 or 4 years, depending on the program requirements.

5.4.9 Monitoring has historically been undertaken on an informal or ad hoc basis, however, with the introduction of service agreements this process has become more formalised. Within these agreements there is a provision which outlines performance indicators and targets for each organisation and establishes the requirement for periodic reviews.

SAFEGUARDING ASSETS

Government equity

5.4.10 A significant proportion of capital items currently controlled by NGOs such as buildings, vehicles and furniture have been acquired from grant and subsidy funding. Although these assets remain under the control of each NGO, a portion of their value represents the State Government's equity in these organisations.

5.4.11 The 1992 industry study, *Welfare as an Industry, A Study of Community Services in Victoria*, undertaken by the former Department of Community Services, estimated that the value of fixed assets owned by 2 000 NGOs reviewed in the study was approximately **\$500 million** at 30 June 1990. Furthermore, the study indicated that with NGOs recording the majority of their assets at cost, the current market value of these assets was likely to be far greater than the \$500 million calculated.

5.4.12 **The audit of the Department's information systems revealed that a comprehensive record of the State's equity in NGOs is not maintained. As a result, the Department is not in a position to monitor and account for a significant proportion of public funds provided to these organisations for the purchase of assets.**

5.4.13 Without a means of managing the Government's equity in NGOs, there is a risk that its interests may be adversely affected where assets are sold by these organisations without departmental notification or for an amount greater than that reported to the Department. Furthermore, if a publicly-funded NGO discontinues operations, the Department is not in a position to identify the extent of its equity contribution and therefore may not realise its full entitlement on the sale or winding-up of the organisation.

5.4.14 During the course of the review, audit identified 2 instances where the ability of the Department to safeguard its equity in an NGO has been tested, with differing results.

Barwon Women's Health Service

- The Barwon Women's Health Service was created to address women's health needs and issues within the region. As a result of a dispute over funding and the adequacy of service provision, the Department discontinued funding in 1993 and took possession of the publicly-funded assets. The assets were subsequently disposed of and the proceeds retained by the Department. This case represents an example where prompt action by the Department has ensured that public equity has been safeguarded.

Regional Residential Associations

- Regional Residential Associations were established throughout Victoria to manage community residential houses which provide accommodation for disabled persons. In order to address the inefficiencies and poor management practices identified by the Department, it took over the running of residential services on a temporary basis in December 1992 prior to the contracting out of the service.

Legal advice obtained by the Department at that time indicated that a degree of ambiguity existed over the ownership of the Associations' assets. However, in order to enable a continuation of services, the Department effectively agreed to waive its interest in these assets and lease them for use by departmental staff. In this case, the lack of adequate records may have resulted in the State Government forgoing its equity in the Associations' assets and illustrates the ambiguity that can arise over the ownership of NGO assets.

5.4.15 From a public accountability perspective, it is important that the Department maintains an accurate record of the capital funding provided to individual NGOs to ensure that its equity investment in these organisations is protected.

5.4.16 As the level of competition in the provision of health and community services increases, it is likely that a greater variety of NGOs will be used to provide departmental services. With the increased turnover of these organisations as service providers, the need to record and monitor the Government's investment in NGOs will become even more important.

5.4.17 It is pleasing to report that in 1993 the Department introduced an additional requirement within service agreements for NGOs to maintain a register of all assets purchased with departmental funding with a value of \$1 000 or more.

5.4.18 Discussions with departmental staff indicated that while the Department's newly developed financial information system was capable of recording the Government's interest, the absence of detailed and readily accessible information on past grant and subsidy payments made it difficult to establish a comprehensive record of public equity.

5.4.19 In relation to future grant and subsidy payments, the Department should establish a central register detailing its interests in each NGO receiving public funding. In past cases, where records are available and easily accessible, government equity previously provided to these organisations should also be recorded in this register. Where this information is not readily available within the Department, it may be possible to determine the Government's equity in the assets of major NGOs through access to the records of these organisations.

□ RESPONSE by Secretary, Department of Health and Community Services

The Department has acknowledged that a comprehensive register of assets owned by the non-government sector has not been established. The Department, however, has established within the service agreement process provision for the compilation and monitoring of an asset register to include all material assets purchased from public funds. The need for the asset register and the development of government policy in relation to publicly-funded assets was recognised in the "Welfare as an Industry. A Study of Community Services in Victoria" report released in 1992. The service agreements for 1993-94 include provision for agencies to report on the assets.

Fraud management

5.4.20 An important objective of the Department's monitoring process in regard to grant and subsidy payments is to ensure that financial resources provided to NGOs are adequately safeguarded. While in most organisations adequate controls exist to protect public funding, there is always the risk of fraud or misappropriation. To minimise this risk, it is important that adequate procedures are established within the Department to complement those operating within NGOs.

5.4.21 Guidelines, which outline procedures to address allegations of financial misconduct in NGOs, were developed by the Department for its community services programs in 1991.

5.4.22 In 1991, the Auditor-General wrote to all government departments emphasising the role of management in minimising the risk of fraud. This contact provided the opportunity for departments to express their views on fraud management and outline particular initiatives or measures introduced by them to give greater assurance over fraud prevention and detection. However, the former Departments of Health, Community Services and Aboriginal Affairs did not formally respond.

Fraud control framework

5.4.23 A fraud control framework covering services provided by NGOs, which identifies risk areas and procedures to minimise the incidence of and limit the impact of fraud, has not been developed by the Department.

5.4.24 By way of contrast, the former Federal Department of Health, Housing and Community Services introduced a *Fraud Prevention and Control Strategy* in January 1990. The objective of this strategy, as outlined in its *1991-92 Annual Report*, was to "... fulfil its responsibility to protect the public interest ..."

5.4.25 The key elements of the strategy included:

- development and maintenance of a Fraud Control Plan, based on a detailed risk assessment of the significant elements of each departmental program;
- establishment of a specialist fraud control area;
- development of specialist compliance units in areas assessed to be of significant risk; and
- undertaking activities to raise awareness of fraud and fraud prevention among program staff and managers.

5.4.26 In order to adequately manage the risk of fraud, the Department should consider developing an organisation-wide fraud control framework which should emphasise the importance of ensuring departmental staff and management of NGOs are conscious of the potential for fraud and have an understanding of how to minimise the risk of it occurring. This framework should:

- initiate fraud awareness programs, including specific training for all managers involved in the administration of grant and subsidy payments;
- incorporate training for operational and financial staff to enable them to analyse financial statements effectively and identify risk areas and the potential for fraud, and
- encourage NGOs to undertake systematic and comprehensive assessments of fraud risks

Use of internal audit to centrally monitor the incidence of fraud

5.4.27 It is appreciated that cases of fraud and misappropriation need to be handled by regional management, as they are best equipped to communicate with both the NGOs and, if required, the relevant authorities. **However, audit is of the view that the Department's Internal Audit Unit should also be notified by regional program managers of all incidences of fraud occurring within NGOs, to ensure that potential risk areas are identified and targeted for more detailed investigations where appropriate.**

Failure to follow-up weaknesses identified by NGOs' auditors

5.4.28 An internal audit review of the Supported Accommodation and Assistance Program (SAAP), undertaken in 1992-93, highlighted that the Department's financial monitoring processes did not encompass reviews of external audit management letters relating to NGO operations.

5.4.29 Given the potential for misappropriation of funds resulting from internal control weaknesses and non-compliance with requirements, it is essential that problems identified by the external auditors of NGOs are brought to the attention of departmental management. This process could be facilitated by including a requirement within service agreements that a copy of all NGO external audit management letters, in addition to audited financial statements, be forwarded to the Department. This advice would also serve to alert the Department of potential financial problems faced by NGOs.

Instances of fraud within NGOs

5.4.30 During the audit, departmental staff advised that in the past 3 financial years, 10 frauds totalling approximately \$270 000 had been detected within NGOs. These frauds ranged in value from \$3 000 to \$80 000. Generally, the misappropriations were attributed to:

- lack of management control over staff involved directly in the handling of funds;
- limited financial expertise of NGO management;
- an absence of regular departmental reviews;
- limited financial resources at the disposal of NGOs which preclude the appointment of qualified accountants or book-keepers; and
- inadequate segregation of duties.

Audit conclusion

5.4.31 In order to provide assurances that public moneys are properly accounted for, audit considers that it is the responsibility of NGO management to ensure that adequate internal controls, which minimise the potential for fraud and error and safeguard NGO resources, have been established and are operating effectively.

5.4.32 Audit considers that for NGOs in receipt of significant public funding or considered to represent a high risk, departmental funding should only be provided where it can be demonstrated that adequate internal controls are in place. This could be achieved by including appropriate provisions within service agreements.

5.4.33 The Department, through its Internal Audit Unit or jointly with regional finance staff, should consider providing specific training for NGO staff to address the importance and application of internal controls.

FINANCIAL MONITORING AND ACCOUNTABILITY

Department financial monitoring

5.4.34 The Department needs to monitor, from a risk management perspective, both the operational aspects of service provision and the financial performance of organisations in receipt of public funding. While most programs require an annual return which generally includes production of a revenue and expense statement and a balance sheet, many programs also require interim or periodic financial returns to be prepared and forwarded to the Department. These returns are used by program staff to monitor the financial performance of NGOs.

5.4.35 The detailed 1993 review by the Department's internal audit of the Supported Accommodation and Assistance Program (SAAP) found that:

- the objectives and structure of SAAP's quarterly financial returns were not clear;
- financial monitoring was not targeted on a risk basis;
- guidelines in relation to the financial analysis to be undertaken by the Department had not been developed; and
- the financial monitoring of the Program was generally inadequate and ineffective.

5.4.36 The audit at 4 regional offices confirmed the findings of the SAAP review, and indicated that departmental monitoring of NGO financial management was deficient. Regional program staff, while monitoring the operational aspects of service provision, were not undertaking thorough assessments of financial data provided by NGOs. For example, the audit revealed that financial monitoring did not include a review of the level of administration costs and the financial viability of the organisations. It is pleasing to report that in a number of regions, the level of financial expertise is increasing as staff from within the finance area work alongside regional program staff to assist in monitoring the financial performance of NGOs.

5.4.37 As indicated earlier in this Report, a number of instances were identified where NGOs had poorly managed the public resources provided to them by the Department. Problems identified with the management of these NGOs were in almost all cases brought to the attention of the Department by either a former employee or client of the organisation. While audit was advised by the Department that in some cases funding has been withdrawn from poorly managed NGOs, continuation of public funding to a number of NGOs that have not been efficiently and effectively managed indicates that departmental monitoring of certain NGO activities is not fully effective.

5.4.38 In the absence of adequate departmental monitoring and control mechanisms, there is a risk that NGOs:

- Which have built up considerable cash reserves have not been properly assessed for the future requirement of grant funding,
- Incur large debts which can create liquidity problems or eventual insolvency;
- Maintain high levels of investments which do not generate an adequate market return, thus placing further reliance on grant payments from the Government. A once-off analysis undertaken as part of the *Welfare as an Industry, A Study of Community Services in Victoria* review revealed that investments held at 30 June 1990 by the 2 000 NGOs examined amounted to approximately \$177 million; and
- Do not adequately support their fixed assets through a regular maintenance program which, in the longer-term, may adversely impact on the effectiveness of these assets in the provision of services.

5.4.39 While audit is cognisant of the fact that the problems raised above are not likely to be evident in the majority of NGOs, **there is still a need to establish adequate monitoring mechanisms to ensure that public moneys are used efficiently and to protect public equity in these organisations.**

Accountability

5.4.40 It is important that NGOs are accountable for the funding they receive and that the Department receives value-for-money from its grant and subsidy payments.

5.4.41 The lack of applicability of the Treasury Guidelines to particular aspects of the health industry and the recent departmental amalgamation resulted in numerous separate guidelines being developed for health and community services. Each set of guidelines had different accountability requirements.

5.4.42 In the absence of a uniform set of guidelines, additional time and effort is required by NGO staff to ensure compliance with the appropriate requirements. These increased administrative demands can adversely impact on the ability of NGO staff to provide departmental services.

5.4.43 It is pleasing to report that during 1993 the Department consolidated its health services guidelines into one set for hospitals and one set for all other organisations. In addition, the Department is currently planning to adopt the community service guidelines across all funding programs.

5.4.44 **To ensure consistency and improve the effectiveness of accountability requirements, the Department should consolidate its existing funding guidelines for application across the Department. These guidelines should include, as a minimum, the requirements outlined in the Treasury Guidelines.**

5.4.45 The audit further identified inconsistencies between the existing accountability requirements for government agencies directly providing services and NGOs providing similar services. These inconsistencies can be best illustrated in relation to the funding of community health centres.

5.4.46 Specifically, only minimal accountability requirements are in place for community health centres, despite the fact that funding provided to many of these centres has increased over the years to such an extent that some now have annual budgets of \$2 million or more, which is equivalent to the funding provided to small hospitals.

5.4.47 At present, community health centres are required to negotiate annual health service agreements with the Department, which outline their financial and performance reporting requirements. These requirements include:

- quarterly financial, statistical and performance reports; and
- an annual finance and statistical return which incorporates:
 - statement of receipts and payments;
 - consolidated statement of income and expenditure; and
 - schedule of investments.

5.4.48 Audit requirements for annual returns are dependent on the total level of funding provided to the centre as prescribed by the Department's reporting guidelines.

5.4.49 By way of contrast, hospitals in receipt of an equivalent level of funding have far more stringent annual accountability requirements such as the presentation of:

- a consolidated balance sheet;
- cash flow statements; and
- detailed notes to the financial statement.

5.4.50 Audit is of the opinion that in some cases, the quality of accountability required for community health centres is inadequate in relation to the level of public funding they receive.

5.4.51 As community health centres increase in size through amalgamations or in line with the growth in community demand for services, it is important that the accountability requirements change to reflect the higher levels of public funding.

5.4.52 It is pleasing that the Department is currently proposing to bring community health centres in receipt of public funding of over \$1 million within the ambit of the *Annual Reporting Act 1983*. This initiative will enhance accountability to the Parliament.

□ *RESPONSE by Secretary, Department of Health and Community Services*

The Department provides funding, under approved guidelines, to a vast range of non-government organisations. The government funding to the organisation can range from less than 5 per cent to nearly 100 per cent of the agency income dependent on the type of service provided. Additionally, prior to the amalgamation of the Departments in October 1992, organisations received funding from each of the former Departments generally without any cross-reference. The contract service agreement process has addressed the issue of multiple funding to the one agency. The concept of the "lead regional co-ordination" function responsible for the provision of monitoring information for each agency has been implemented in the 1993-94 agreements. To claim that the Department has not established procedures to monitor the financial performance of NGOs irregardless of the size of the grant as a component of total income is not warranted. The Department has in place service agreements covering the grants and services contracted to the Department. The overall responsibility for the financial performance of many of the funded agencies falls under the Companies Act, or the Incorporated Associations Act, or the Local Government Act. The Department's regional infrastructure has the formal responsibility to monitor the performance of agencies.

The Government recognises the need to streamline grants to organisations receiving funding from more than one program and project officers are specifically addressing this task.

The range of services available and the funding sources, e.g. fully Commonwealth or Commonwealth/State-funded programs require specific monitoring and accountability arrangements thereby necessitating specific agreements.

MONITORING OF NON-GOVERNMENT ORGANISATION EFFECTIVENESS

5.4.53 As indicated earlier in this Report, the Treasury Guidelines rely on service agreements between government agencies and NGOs to ensure appropriate performance measures and targets are established and to outline monitoring procedures. Consistent with the requirements within the Guidelines, the Department has placed reliance on service agreements to measure and control the performance of NGOs in the provision of departmental services. With programs operating as autonomous units, performance measures and targets, where established, have been developed within each program

5.4.54 The Treasury Guidelines specify that service agreements:

"Identify key performance indicators for effectiveness and efficiency, including non-financial measures, in order to monitor progress and assess performance against the agreed targets or standards of service or other objectives.

"Set out the procedures to monitor progress of the project or program and evaluate performance against agreed targets or standards of service, or other agreed performance measures."

5.4.55 While performance indicators provide a means for assessing efficiency and effectiveness, they also, if consistently applied, allow comparisons of NGO performance with similar organisations.

5.4.56 An issues paper developed by the Service Agreement Steering Committee of the former Department of Community Services, which gathered data from interviews and surveys conducted with NGO staff, identified a number of issues associated with the use of performance indicators, including:

"There is a lot of uncertainty about what performance indicators [PIs] should look like and how they are established. However, PIs are meant to be a measurable extension of the Program Standards by which a service is provided. What are the implications of not having clearly identified Program Standards on the development of meaningful PIs ?

"Many of the staff in central programs and in the field are relatively inexperienced/untrained/not familiar when it comes to designing and then applying specific PIs to services in their field of expertise. What are the implications of this situation given that PIs will form the basic standard for how an NGO's performance will be assessed?"

5.4.57 The task of developing comprehensive performance indicators to measure the effectiveness of service delivery is difficult in any environment. It is therefore not surprising that, as is evident from the abovementioned comments, the Department has also experienced significant problems in the development of performance indicators and that many of the indicators do not adequately measure the performance of NGOs in delivery of departmental services.

5.4.58 A review by audit of service agreements across departmental programs disclosed a number of deficiencies, including

- The failure to set targets to measure NGO performance even though performance indicators were, in many instances, established;
- Absence of a specific link between the funding provided and the achievement of established performance targets; and
- Development of performance indicators was limited to such things as hours of service, contact hours and the number of referrals. While useful measures of NGO output, such quantitative indicators did not adequately address outcomes and departmental objectives relating to quality, community access, equitable distribution and needs-based services

Community health centres

5.4.59 An illustration of how the Department has failed to adequately measure and monitor the effectiveness of NGOs can be found in relation to the funding of community health centres.

5.4.60 Since their inception in 1973, these centres have become a significant provider of health services in the State, with funds provided to 120 centres through the Community Health Program in 1992-93 totalling \$58.5 million.

5.4.61 In the Auditor-General's *Report on Ministerial Portfolios, May 1989*, the management of the Community Health Program and the operation of community health centres was reviewed. This review indicated that in relation to some centres there was:

- a need to improve management practices;
- a lack of co-ordination of community health services;
- limited promotion of some services;
- inadequate staff resourcing;
- an absence of quantitative and qualitative performance indicators; and
- insufficient education and support programs developed by the Department for committees of management

5.4.62 The Department, in responding to the recommendations of the Auditor-General's Report, established a Community Health Task Force to review community health centres. Although the Task Force also identified most of the issues raised in the Auditor-General's Report, some of these problems still remain unresolved.

5.4.63 As part of the current audit, the management of grants to community health centres was examined. This examination also disclosed a lack of monitoring by the Department of the effectiveness of services provided by these centres.

5.4.64 Although health service agreements outlined services to be provided by centres, and included performance indicators, these indicators were generally only quantitative in nature, measuring such things as the number of community contacts. Audit recognises the importance of setting targets for service provision, however, quantitative data in isolation does not provide a measure of the quality of services delivered, the ability of the community to access services or how effective the services have been in addressing the needs of consumers. **In effect, the most important components of the service are not measured by the existing indicators.**

5.4.65 Audit was informed that the Department relied on each centre obtaining formal accreditation from associations such as the Victorian Community Health Standards Association, to ensure that its service quality objectives are met. Centres are accredited following an independent review to ensure certain predetermined standards are met. The accreditation process focuses on aspects of administration, staffing (including training), facilities, services and consumer management. After the initial assessment, centres are reviewed on a triennial basis to ensure that standards are maintained.

5.4.66 Although the Department encourages accreditation, it has not been mandatory. At the time of the audit, **approximately 30 per cent of community health centres had not been accredited.** The recent *Community Health and Support Issues Paper* supports the inclusion of a requirement in service agreements for these centres to be accredited.

5.4.67 In relation to service effectiveness objectives, **appropriate mechanisms to measure, monitor and control the performance of community health centres have not been established by the Department. Accordingly the Department cannot ensure that services provided by community health centres are in accordance with its objectives. In addition, paying for the provision of inadequate or poor quality services also represents an inefficient use of public resources.**

Lack of performance indicators - Aboriginal Affairs Program

5.4.68 A review of service agreements within the Aboriginal Affairs Program revealed that measures designed to assess the performance of NGO services had not been established.

5.4.69 Without a formal process to assess performance, there is a risk that capital projects for the Aboriginal community may incur budget overruns and exceed predetermined time frames. In addition, the effectiveness of officers appointed to enhance and create a greater awareness of Aboriginal cultural heritage in Aboriginal and non-Aboriginal communities cannot be reliably measured.

Overall conclusion

5.4.70 If services provided by NGOs are to achieve the objectives set by the Government, the Department needs to develop appropriate performance measures and targets for each of its programs. These measures and targets should address both the quantitative and qualitative characteristics of the services provided.

□ RESPONSE by Secretary, Department of Health and Community Services

The level of effectiveness of the services provided by NGOs is part of an ongoing review by head office and regional program managers. Organisations are required to enter into agreements each year and are required to report on service outputs under the terms of the agreements. Program managers are required to assess agency performance during the year and agencies not providing services within the terms of the agreements are either dropped from the approved providers listing or requested to improve the standard of service provided. Program managers seek to improve the quality of service agreements including performance indicators, to streamline the administration and develop improved management information to enable enhanced monitoring.

AUDIT OF NON-GOVERNMENT ORGANISATION OPERATIONS

5.4.71 As a provider of public funding, the Department is accountable for the way in which this funding is applied by the NGOs. The audit function can play an important role in the accountability process by

- confirming the completeness of information disclosed in the financial statements of NGOs;
- determining the extent of NGOs' compliance with service agreements and funding conditions; and
- assessing the effectiveness and efficiency of services provided by NGOs.

5.4.72 In 1993, financial reporting requirements were enhanced by the Department to streamline reporting and accountability arrangements for grant and subsidy recipients. These requirements made it compulsory for NGOs receiving grants in excess of \$100 000 to have their financial statements externally audited by private practitioners. For other organisations, annual statements are only required to be certified by the chairperson or treasurer and the principal accounting officer of the organisation.

5.4.73 The requirement for NGO financial statements to be audited is an important accountability control. However, scope exists to expand the role of audit to include an assessment of NGO compliance with funding terms and conditions, and report on the accuracy of performance information, such as the number of clients treated, quality control reviews performed and customer surveys undertaken by these organisations.

5.4.74 An April 1993 review undertaken by the Department's internal auditor of the Supported Accommodation Assistance Program (SAAP) revealed that the departmental financial reporting requirements provide for the external auditor to furnish an additional opinion on whether funding terms and conditions, where readily verifiable, have been met. However, the internal audit review reported that the SAAP and other programs had not used this facility to "*... enhance the efficiency and effectiveness of their monitoring function*".

5.4.75 The use of external auditors to perform functions in addition to the attestation of NGO financial statements is further supported by the 1988 Canadian Comprehensive Auditing Foundation's report on *Provincial Government Transfer Payments: Accountability and Audit*. The report indicated that funding bodies in Canada require the external auditor to undertake a supplementary audit in addition to the attest audit, commenting on matters such as the protection of assets or compliance with requirements laid down in service agreements.

5.4.76 In the opinion of the Foundation, such an audit involves little extra work and does not result in significant increases in audit fees. The existence of government powers enabling external auditors of publicly-funded organisations to conduct broadly defined audits which encompass matters of economy, efficiency and effectiveness was also recommended in the report.

5.4.77 In order to ensure that services are provided by NGOs in accordance with funding conditions and are consistent with government objectives, the Department should consider including in future service agreements a requirement for the external auditors of NGOs to provide an additional opinion on the organisation's compliance with funding terms and conditions and, where cost-effective, the accuracy of performance information reported in financial statements and annual returns.

□ RESPONSE by Secretary, Department of Health and Community Services

The proposal to extend the external audit function of the appointed auditors to include an assessment of NGO compliance with funding terms and conditions and to provide an opinion on the accuracy of performance information generated by these organisations is not appropriate. It is the responsibility of the departmental program managers to ensure NGO compliance with all aspects of the funding and service agreements. Any expansion of the external audit function could have significant cost implications for the Department in respect of smaller agencies.

The Department has clearly defined accountability requirements in the service agreements. The extent of this accountability varies from an unaudited financial statement for grants of less than \$5 000 to full "company audited" statements for agencies in receipt of grants of in excess of \$250 000. Agencies in receipt of grants in excess of \$1 million will, where appropriate, be brought under the Annual Reporting Act (Contributed Income Sector) Regulations 1988 or proposed financial accountability legislation. This will extend the coverage of the Auditor-General to these organisations.

Part 5.5

Cost saving measures

OVERVIEW

5.5.1 A primary focus of the Department of Health and Community Services has been the reduction of departmental expenditure. In generating cost savings the Department has aimed to limit the impact of these cost savings on the level of service provision. As non-government organisations (NGOs) providing departmental services receive substantial public funding, it is also essential that cost savings are achieved by these organisations through improved operating efficiencies.

5.5.2 With NGOs spending an average of 25 per cent of their resources on administrative costs, scope exists to improve the efficiency of their operations through the reduction of these costs. Potential annual savings to the non-government sector is in the order of \$50 million, with departmental savings dependent on the determination of appropriate levels of administrative cost for each service. The introduction of unit cost funding within programs will eliminate NGO administrative inefficiencies by limiting funding to the average industry cost.

5.5.3 In addition, changes to NGO procedures such as the expanded use of the State Supply Service or the introduction of pooled purchasing could reduce the costs of goods and services acquired by NGOs.

5.5.4 Other initiatives introduced by the Department such as the contracting out of functions previously performed within the Department also have the potential to reduce departmental costs. However, the Department needs to undertake sufficient analysis of the options available to ensure that efficiency gains are not made at the expense of other service delivery objectives relating to the quality, access and appropriateness of services delivered.

EFFICIENCY OF NON-GOVERNMENT ORGANISATIONS

5.5.5 With the demand for government services continually increasing and limited public resources available to fund these services, it is important that departments use resources available to them in the most efficient and economical manner.

5.5.6 Expenditure reduction has been a major priority of the Department during 1993 and is likely to be a priority in the short-term. Total departmental budget savings during 1992-93 were approximately \$134 million or 4 per cent, with planned savings for 1993-94 and 1994-95 of \$372 million or 11 per cent. Of these amounts, audit was advised by the Department that savings of approximately \$49 million in relation to services provided by NGOs are planned to be achieved over the 3 year period ending

30 June 1995. These cost savings were based on the results of the Health and Community Support Services Review undertaken by the Department in 1992-93 and assessments within each program.

5.5.7 As significant departmental services are provided by NGOs, expenditure reductions impact on the grant and subsidy payments to these organisations. Discussions with departmental staff indicated that these reductions are likely to result in the amalgamation of some NGOs and the closure of others.

□ RESPONSE by Secretary, Department of Health and Community Services

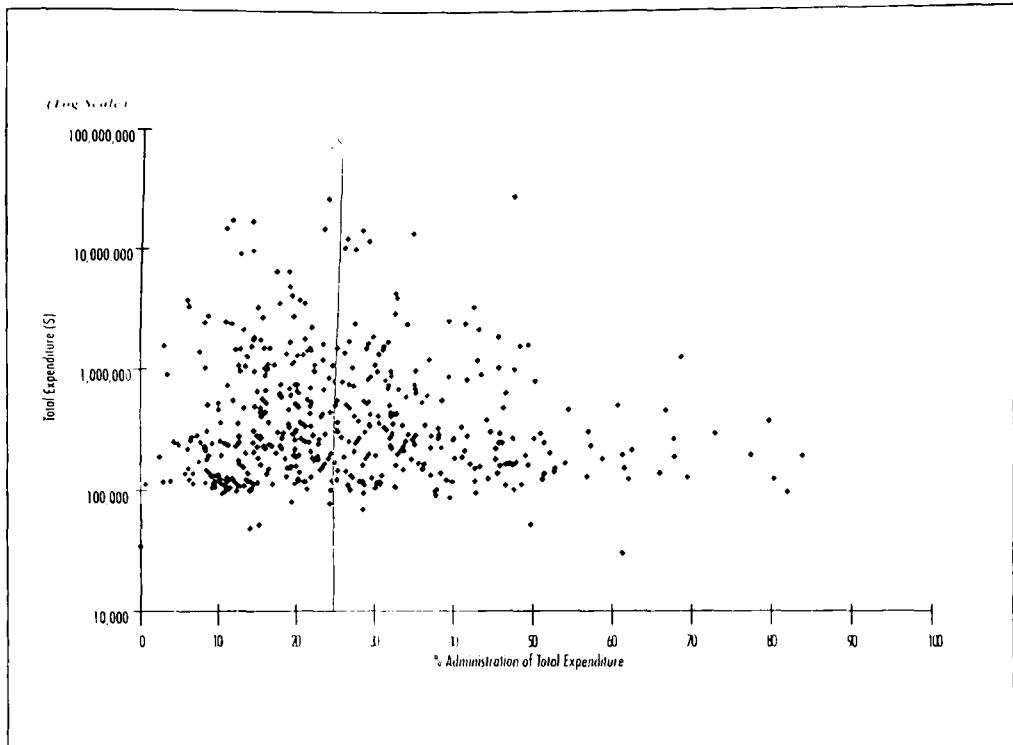
The Department has achieved implementation of budget savings across all programs without any agreed reduction in the quantity or quality of services provided to clients. Therefore, the savings represent a significant improvement in the efficiency of provision of services. Further, in a number of programs, substantial growth in throughput has been achieved.

EXCESSIVE ADMINISTRATION COSTS

5.5.8 Costs associated with the provision of NGO services can be allocated between those incurred in the direct provision of the service such as staff salaries, meals, medicines and transport for clients, and the cost of providing these services such as administrative salaries, energy costs and office expenses. As administration costs reduce the funds available for the provision of services to the community, it is essential that the ratio of administration costs to total costs is kept to a minimum.

5.5.9 A detailed examination of administration costs was not undertaken by audit, however, the industry study *Welfare as an Industry, A Study of Community Services in Victoria* undertaken by the Department in 1991-92, highlighted significant differences in administrative costs between NGOs. The study found that **one quarter (\$131 million) of the \$543 million expended in that year by NGOs was on administration costs.** The range of administrative costs incurred by NGOs with revenues exceeding \$100 000, was also reviewed as part of the Study, details of which are graphically represented in Chart 5.5A.

CHART 5.5A
PROPORTION OF EXPENDITURE ON
ADMINISTRATION FOR ORGANISATIONS WITH INCOMES EXCEEDING \$100 000



Source: *Welfare as an Industry, A Study of Community Services in Victoria, 1992.*

5.5.10 As disclosed in the above chart, administration costs incurred by NGOs in the provision of departmental services range from less than 5 per cent to in excess of 80 per cent of their total costs, with the average approximately 25 per cent.

5.5.11 Administrative costs will vary between NGOs as some services require a higher administrative component due to the nature of the services provided. Furthermore, some of the high levels recorded in the study may reflect the inadequacies of NGO costing systems. Although these factors partially explain the variances in administrative costs, the level of variation is nevertheless excessive.

5.5.12 There is evidence to suggest that administration costs should be in the order of 10 to 15 per cent as indicated by the following quote in an article entitled *"Facing the Challenge of Charity"* in the business journal *Management Today*, October 1991:

"If these costs are more than 10 to 15 per cent of turnover there is a risk of incurring the wrath of individual investors, i.e. the charity givers, or their major financiers, those statutory and corporate bodies who fund most charities".

5.5.13 Reducing NGO administration costs from the 25 per cent of total costs reported in the industry study to 15 per cent, would generate annual cost savings in the order of \$50 million. If the 35 per cent of organisations which spent more than one-quarter of their total expenditure on administration costs reduced their costs to the average, while the administration costs of the other 65 per cent of organisations remained unchanged, the cost savings generated would be even greater.

5.5.14 Audit was unable to identify any specific action taken by the Department to address the incidence of high NGO administrative costs identified in the above review.

5.5.15 The average administration costs for services **provided directly by the Department**, outlined in the industry study, represented 17 per cent of their total costs. Therefore, the average administrative cost for services provided by the Department was **approximately 32 per cent lower than the average cost incurred by NGOs.**

5.5.16 Excessive expenditure on administrative costs not only affects the level of services provided by NGOs, but also has the potential to limit contributions from private sector organisations, as indicated in a recent article in the April 1992 *Australian Accountant*, on funding "not for profit organisations" in which a senior executive from a large multi-national company stated.

"The corporation insists on examining the books of all organisations applying for funds, and favours those whose expenditure on administration is low".

5.5.17 Organisations may be reluctant to donate scarce financial resources, especially during depressed times, to NGOs which incur a significant proportion of their total expenditure on administrative costs.

5.5.18 In order to ensure NGOs in receipt of significant public funding are operating efficiently, the Department should:

- for each departmental service delivered by these organisations, establish targets which outline an appropriate proportion of grant and subsidy funding for administrative services;
- review the administrative expenditure of individual NGOs and compare this expenditure with the targets developed; and
- investigate NGOs with administrative expenses substantially in excess of the established targets and ensure strategies are adopted to reduce the costs of those organisations.

5.5.19 A longer-term solution to this problem, which is currently being developed within some programs, involves the introduction of a unit cost funding system which provides a set amount of funding per unit of service produced by NGOs

□ *RESPONSE by Secretary, Department of Health and Community Services*

The appropriate level of NGO administrative costs varies according to the type of program/service delivered. Implementation of unit cost models and benchmark cost standards has encouraged significant savings in service delivery and administrative costs to be achieved by NGOs.

SCOPE FOR COST SAVINGS

5.5.20 It is important that the purchase of administrative supplies and equipment by NGOs be acquired economically.

5.5.21 In 1988 the State Supply Service was established within the Department of Finance to rationalise a number of previous departmental supply services. The purpose of the Service was to achieve savings for government-funded agencies through the centralised purchasing and supply of products, such as office equipment, cleaning materials and stationery.

5.5.22 A key finding of the audit review into the operations of the State Supply Service, summarised in the Auditor-General's *Report on Ministerial Portfolios, May 1993*, was that the average prices of products available through the Service were 5 per cent lower than those offered by its major competitors and that significant savings could be achieved by organisations utilising its services.

5.5.23 Audit found that approximately 90 per cent of NGOs in receipt of departmental funding were not using the State Supply Service and accordingly may have been paying more than necessary for particular goods and services. In addition, audit revealed that only limited use was made of bulk purchasing opportunities.

5.5.24 The report by the former Department of Community Services entitled *Welfare as an Industry, A Study of Community Services in Victoria* found that 86 per cent of NGOs with income of less than \$10 000 were not claiming their full sales tax exemptions on purchases.

5.5.25 By not fully utilising the above facilities and entitlements, NGOs are incurring higher operating costs and consequently have less resources available for their primary function of providing services to the community.

5.5.26 The Department has taken the view that the formulation of purchasing strategies is the responsibility of NGO management. **However, in order for NGOs to operate economically, the Department should, through the provision of information and ongoing promotion, actively encourage NGOs to:**

- **make greater use of the State Supply Service;**
- **take advantage of available sales tax exemptions; and**
- **consider establishing, in conjunction with other organisations, a system of pooled purchasing.**

□ RESPONSE by Secretary, Department of Health and Community Services

NGO management are responsible for formulation of purchasing strategies. Reduction in costs may result from increased use of pooled purchasing or greater use of State Supply services.

CASE MANAGEMENT IN ALTERNATIVE ACCOMMODATION AND CARE

5.5.27 The Department has adopted the view that the most efficient and effective way to deliver health, community and Aboriginal services is to concentrate on its core business and encourage the private sector to deliver non-core functions. Rather than applying the traditional method of providing grants and subsidies to fund these functions, the Department is moving towards contracting out such services. An example where services are now contracted out is in the area of case management.

5.5.28 Case management is a mechanism used to connect and co-ordinate the various components of a service delivery system into a comprehensive package designed to meet the needs of individual clients. An example of how case management operates can be found in relation to the care of young people under 18 years of age who are temporarily or permanently unable to live with their families. Case managers carefully plan and co-ordinate services such as accommodation, education and other personal services required by these young people, providing an intermediary and advocacy role in relation to their dealings with government departments, the courts and other organisations.

5.5.29 The external provision of case management services is usually limited to long-term and stable placements. In such cases formal contract agreements delineating roles and responsibilities of provider organisations and the Department are established. Contractors are required to implement, monitor and report on service plans for the clients under their care, while the Department maintains the case planning function.

5.5.30 The audit disclosed that in a number of instances the case management services described in the above example had been contracted out. However, a cost-benefit analysis evaluating the most effective means of providing these services had not been undertaken by the Department. As a result it was not possible to assess whether the external contracting of case services provided the most efficient and effective outcome for the Department.

5.5.31 The major benefit of contracting out services to the private sector is generally realised in the form of reduced service costs. However, it is important that in an attempt to achieve cost savings that the effectiveness of the services delivered is not allowed to suffer. Departmental officers have indicated to audit that in relation to the above example, the introduction of externally provided case management services has adversely impacted on the services delivered. Specifically, the external contractors could not provide case management services in the areas where the clients were located and behaviourally difficult clients were likely to be handed back to the Department.

5.5.32 While it was not possible to confirm the validity of such assertions to determine the most appropriate method of delivering case management services, the Department should undertake a cost-benefit analysis in each particular instance of the options available to it. If it is shown that the contracting out of services is the most cost-effective option, this approach should be introduced in all regions. In addition, the Department should ensure that monitoring of service provision standards is maintained and incentives implemented for organisations to continue to manage difficult clients.

5.5.33 Prior to contracting out any other services, the Department should undertake an analysis similar to that outlined for case management services.

□ RESPONSE by Secretary, Department of Health and Community Services

The implementation of contracting out of departmental services by the Department includes a detailed analysis of their impact on service delivery.

INEFFICIENT PROCESSING OF GRANT PAYMENTS

5.5.34 The Department advised audit that prior to May 1993 cheques for community support programs were paid on a 6 monthly basis to NGOs complying with the reporting requirements outlined in their individual service agreements. The cheques were authorised by head office at the start of the 6 month period and sent to the regional office to be forwarded on to these organisations once the reporting requirements had been fulfilled.

5.5.35 Audit investigations revealed that in a number of instances NGOs were tardy in complying with the reporting requirements resulting in the regional office withholding cheques for up to 4 months.

5.5.36 While audit recognises that the Department's policy of withholding grant and subsidy payments to NGOs which do not comply with departmental requirements is appropriate, **audit questions the need to draw the cheques before they are required.**

5.5.37 In May 1993 the Department amended the procedure for the payment of grants. The new procedures are as follows:

- head office prepares a list of grant cheques to be drawn for the next payment period and forwards this to the regional office;
- the regional office verifies that the cheque amounts and payees are correct and returns the list to head office, together with notification of any cheques which should not be drawn because of non-compliance with reporting requirements;
- on receipt of the list from each region, head office generates the cheques and forwards them directly to the NGOs, and
- when NGOs, whose cheques were held back, have complied with their reporting requirements, the regional office requests head office to prepare a cheque which is sent direct to the organisation.

5.5.38 Although the new system of cheque generation eliminates the problem of storing cheques at the regional office until conditions are met by NGOs, it increases the amount of paperwork moving between the regional office and head office.

5.5.39 The Department is currently in the process of establishing a system which will credit grant and subsidy payments directly to the bank accounts of NGOs, and improve the efficiency of the system.

5.5.40 Audit considers that as the Department has devolved program and budget management responsibility to the regional offices, the raising of direct credits to NGO bank accounts under the Department's new system should be performed by regional office staff. In the interim, responsibility for raising NGO payments under the current system should also rest with the regional office.

USER CHARGES

5.5.41 As with other government services, the Department's services may be provided free to the public or users may be charged for part or all of the costs associated with generating these services.

5.5.42 In July 1993 the Department of the Treasury released *Guidelines for Setting Fees and Charges Imposed by Departments and Budget Sector Agencies, 1993-94*. These guidelines state that fees and charges should be set to recover the full costs of services unless government policy provides otherwise or there is a compelling reason for not doing so. The guidelines also state that cost recovery should be determined by reference to direct labour and material costs, non-direct labour and costs such as accommodation, corporate overheads and capital related costs.

Community health centres

5.5.43 Community health centres have the capacity to charge users for the services they provide. In 1992-93, the budget for the Community Health Program which provides grant funding to these centres was \$58.5 million while the revenue generated was approximately \$6 million. Revenue includes income earned from patient fees, donations, interest earnings and program charges. Revenue estimates are taken into account in determining future grant payments.

5.5.44 Audit was informed by the Community Health Program Unit that a policy on fees for services has not been developed. The fees currently charged by community health centres are set by their committees of management. Audit found that amounts charged for services varied considerably with charges ranging from a nominal fee to an amount equivalent to the full-cost of providing the service.

5.5.45 In the absence of guidance from the Department on the setting of service fees there is a risk that:

- potential revenue is forgone;
- fees set by individual centres may be inappropriate; and
- inequities will develop where services in one area cost more than in another.

Supported Accommodation Assistance Program services

5.5.46 In April 1993 the Department's internal auditor completed a review of the Supported Accommodation Assistance Program (SAAP) and found that there was no policy in relation to the setting of fees for the services provided. The report made the following recommendations:

"There should be a clear policy on fee for service and cost recovery for SAAP services ... The SAAP unit will have to assess this recommendation with respect to the Program objectives, the impact on the target group and current government policies. Under the current economic constraints, the fee charging or cost recovery could be put to the NGOs as a means by which they can supplement their income in addition to what Community Services (and other funding sources) is able to fund them".

5.5.47 To ensure that NGOs are complying with government policy as outlined in the guidelines on fee setting, and in order to eliminate the inequities present in the current system, the Department should develop guidelines in relation to fees charged by NGOs for publicly-funded services.

□ RESPONSE by Secretary, Department of Health and Community Services

The guidelines in relation to fees charged by NGOs for publicly-funded services would need to be incorporated in funding and service agreements.

Appendix A

Grant Programs in Brief

Information on various funding programs and examples of some of the grants administered by the Department of Health and Community Services are detailed below.

AIDS/STD PROGRAM

The Acquired Immune Deficiency Syndrome (AIDS) and Sexually Transmitted Disease (STD) Program provides funding for the provision of information, professional training and education, and prevention and treatment Programs. The Program is jointly-funded by the Commonwealth and the State under the national HIV/AIDS strategy which has been in place since 1989-90.

	(\$)
Victorian AIDS Council/Gay Men's Health Centre	478 200
Victorian Deaf Society (Education and Training)	57 200
Prostitutes Collective of Victoria (AIDS education for men in prostitution)	55 500
Cape Centre	24 800
Sebastopol Community Health Centre (Needle and Syringe Exchange Program)	10 500

ALCOHOL AND DRUG PROGRAM

The Alcohol and Drug Program funds a range of community-based services for alcohol and other drug dependent people, complementing the services provided by government organisations.

	(\$)
Alcohol and Drug Foundation	483 400
Buoyancy Foundation	158 300
Wangaratta/King Valley Community Health Centre	44 500
Gateway counselling	33 300
Woman for Sobriety	19 900

ALTERNATIVE ACCOMMODATION AND CARE PROGRAM

The Alternative Accommodation and Care Program funds services for families and children who are separated from each other or are at imminent risk of separation because of family dislocation. The Program's aim is to assist families to stay together or to provide services for children separated from their families.

	(\$)
Mercy Family Care	1 359 900
Southern Western Community Care Inc.	720 200

COMMUNITY HEALTH PROGRAM

Community health centres are registered under the *Health Services Act* 1988 and provide services which respond to the needs of local people and groups through a multi-disciplinary approach to health by combining prevention, direct primary medical and allied health services. Centres are managed by independent committees of management which are mainly elected by the membership of the centre.

	(\$)
Bendigo Community Health Service	1 478 300
East Preston Community Health Centre	1 096 000
Maroondah Social and Community Health Centre	709 700
Wheatlands Community Health Centre	247 700

COMMUNITY SUPPORT AND DEVELOPMENT GRANTS PROGRAM

The Community Support and Development Grants Program funded 400 regional and 9 State-wide organisations in 1993. The 1992-93 budget was \$12 million. The purpose of the Program is to increase the capacity of individuals, families and communities to:

- use local community resources to meet their community service needs; and
- gain access to, and advocate for improvements in, other community services.

Projects funded include:

- community information services;
- community projects and networks;
- advisory services provided to the Department by State-wide representative organisations; and
- telephone counselling information and referral services.

	(\$)
Mill Park Community House - Intellectual Disability Support Program	17 000
Seymour and District Community Group - Mum's Chums Scheme	2 700
Coolaroo West Community House - Multi-cultural Sewing Group	1 500
Craigieburn Community Health Centre - Men's Group	1 000
Woomelang Group School - Woomelang Community Newsletter	500

DISABILITY SERVICES PROGRAM

The Disability Services Program services endeavours to redress inequalities experienced by people with disabilities including limited access to opportunities for education, housing, community activities, and social and intimate relationships.

Intellectual disability services

These services ensure that clients have access to services embodied in the *Intellectually Disabled Persons' Services Act* 1986, promote integration into the community and provide support services. Services include Adult Training and Support Services (employment, vocational training, continuing education, recreational options), Community Residential Units (housing in supported community settings), Community

Living Support Services (support for clients whether they are living at home, in departmental facilities or other funded agencies' facilities), Crisis Accommodation and Family Support.

Physical and sensory disabilities

The Program assists disabled people to live independently in the community. Services include the provision of aids and equipment, advocacy, accommodation and support, therapy, respite, independent living training, recreation options, and information and research development.

	(\$)
Multiple Sclerosis Society of Victoria (Toorak) - In-Home Support	1 715 000
Yooralla Society of Victoria (Glenroy) - Therapy	626 000
Spastic Society of Victoria (Ballarat) - Accommodation Support	125 200
Barwon Disability Resource Centre - Advocacy	33 600
Yackandandah Shire Council - Respite Care	26 300

EARLY INTERVENTION PROGRAM

The Early Intervention Program funds organisations providing a range of activities and programs directed towards children aged under 5 years with developmental difficulties and their families.

	(\$)
Canterbury Family Centre	1 764 200
Family Action (Dandenong)	102 500
Waverly Community Health Centre	50 000
Barwon Family Resource Centre	34 900

FAMILY SUPPORT PROGRAM

The Family Support Program targets families with children and young people with limited financial, personal or social resources to confront and overcome problems, and who may be experiencing crises that may result in the breakdown of the family unit, place family members at risk or lead to homelessness.

The Program funds 164 services across the State, of which 61 are for in-home support, 79 for counselling, 13 for parent education and 11 for family support for pregnancy, early parenting and other related services.

	(\$)
Careforce Inner East - Family Aides Grants	52 000
City of Northcote	50 000
St. Lukes Family Care - Family Counselling Grant	48 500
Mallee Family Care - Family Counselling Grant	40 000

FAMILY VIOLENCE PREVENTION AND SUPPORT PROGRAM

The Family Violence Prevention and Support Program was established in 1988-89 to provide support for survivors of family violence, as well as support groups for male perpetrators wishing to change their behaviour. Funding was provided to 46 NGOs in 1993 from a budget of \$680 000. In addition to individual projects, the Program funds a community education strategy for Victoria.

	(\$)
Marriage Guidance Council of Victoria	12 000
Brunswick Neighbourhood House	4 000
Mallee Sexual Assault Unit	2 500
Langwarrin Living and Learning Centre	1 300
Box Hill Community Health Service	1 000

FINANCIAL COUNSELLING PROGRAM

Funding for financial counselling began in June 1977 to extend and improve family support services in Victoria, with a view to preventing the breakdown of families and the admission of children to statutory care.

Services are provided through community health centres, community legal centres, local government, family welfare agencies, consumer advice and advocacy organisations.

	(\$)
Consumer Advocacy and Financial Counsellors' Association	111 300
Dignity Financial Counselling Service	84 300
Latrobe Valley Financial Counsellors' Committee	68 200
Western Financial Counselling (Footscray)	43 400
City of Chelsea	22 000

HOME AND COMMUNITY CARE PROGRAM

The Home and Community Care (HACC) Program was established in 1985 under the *Home and Community Care Act 1985*. The Program is jointly funded through the Commonwealth/State HACC agreement. The Program was initiated to provide an integrated and comprehensive range of community care services. Services focus on the needs of frail aged and younger people with disabilities, with the aim of enabling them to live at home for as long as possible. Services are provided primarily by local government with services also provided by NGOs, District Nursing Services and community health centres. The types of services provided include:

- community nursing;
- community respite care;
- food services;
- home help;
- home maintenance;
- paramedical services;
- personal care; and
- transport.

MATERNAL AND CHILD HEALTH PROGRAM

The Maternal and Child Health Program is provided under the *Health Services Act 1988* and is a community-based preventative health care service that focuses on providing support for families with children aged under 6 years. Funding is provided for the salaries of maternal and child health nurses.

NEIGHBOURHOOD HOUSE CO-ORDINATION PROGRAM

This Program was established in 1986 to provide recurrent funding to Neighbourhood Houses. The Program funded 259 houses, 18 regional networks and one State-wide body in 1992-93 from a budget of \$5 million. Funding is provided to Neighbourhood Houses to employ a co-ordinator (for usually less than 20 hours a week) and to contribute towards operating costs. Houses offer a wide range of activities including:

- art and craft,
- community action groups;
- domestic violence support;
- education;
- holiday programs;
- parent support;
- playgroups; and
- work skills.

	(\$)
Prahran Neighbourhood House	40 400
Coonara Neighbourhood House	21 800
Sandy Beach Community Centre	21 800
Alamein Community Flat Neighbourhood House	12 800
Shire of Bulla	10 900

PSYCHIATRIC SERVICES PROGRAM

In 1992-93, 53 projects were funded from a budget of \$8.9 million. The Psychiatric Services Program (with minor exceptions) is a component of the Commonwealth/State Disability Agreement. The Program funds a range of non-clinical support services to ensure that people who are mentally ill have access to treatment, rehabilitation and continuing support services which promote a return to full participation in the community. The following services are provided:

- advocacy and information;
- family support;
- home-based outreach support;
- social and living skills centres; and
- supported housing.

	(\$)
The Richmond Fellowship of Victoria (provides residential rehabilitation and supported housing)	1 176 200
Barwon Psychiatric Resources Council	213 400
Action on Disability within Ethnic Communities	57 800
Shire of Daylesford and Glenlyon - Daylesford Psychosocial Day Program	19 700
Anorexia and Bulimia Nervosa Fellowship Council	2 000

SUPPORTED ACCOMMODATION AND ASSISTANCE PROGRAM

This is a joint Commonwealth/State program to provide financial assistance to NGOs, operating supporting accommodation and related support services to homeless people in crisis. The Supported Accommodation and Assistance Program was established under the *Supported Accommodation Assistance Act 1989* and secured under a signed agreement between the Commonwealth and the States. The current 5 year agreement commenced on 1 July 1989. Services funded by the Program include those for:

- families, including single parent families;
- homeless youth;
- single men;
- single women; and
- women, and women with children escaping domestic violence.

	(\$)
Bethany Family Support (Barwon)	205 200
Malvern Youth Accommodation Service	84 400
Salvation Army (Warrnambool)	68 400

WOMEN'S HEALTH PROGRAM

In the mid-1980s a Ministerial Working Party on Women's Health was formed and on the basis of their recommendations the Women's Health Policy and Programs Unit was established in the then Health Department Victoria. Women's Health has been jointly funded by the Commonwealth and the State. Funding has been devoted to the development of infrastructure for women's health services and sexual assault services. In 1992-93, 9 regional women's health services and 3 women's health information services were funded. In addition, 13 regional and 2 State-wide sexual assault services were funded. Sexual assault services have been funded to provide:

- crisis care and support for women and children;
- longer-term follow-up;
- policy research and development; and
- professional and community education.

Women's health services are funded for:

- community and professional education;
- participating in regional health service planning; and
- promoting access for women to mainstream services.

	(\$)
Loddon Campaspe Women's Health Service	432 400
Geelong Rape Crisis Centre	248 900

