



Management of the Multi-Purpose Taxi Program

VICTORIA

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Auditor-General

Management of the Multi-Purpose Taxi Program

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Victorian Auditor-General's Office
Auditing in the Public Interest

The Hon. Robert Smith MLC
President
Legislative Council
Parliament House
Melbourne

The Hon. Jenny Lindell MP
Speaker
Legislative Assembly
Parliament House
Melbourne

Dear Presiding Officers

Under the provisions of section 16AB of the *Audit Act 1994*, I transmit my performance report on *Management of the Multi-Purpose Taxi Program*.

Yours faithfully



D D R PEARSON
Auditor-General

3 December 2008

Foreword

The Multi-Purpose Taxi Program provides transport to members of the community with a severe and permanent disability. It is a long-standing program that provides an important service to the community.

Changes were made to the program in 2004 to address increasing cost pressures. These changes, such as revised eligibility criteria and means testing of new applicants, were aimed at safeguarding the program's financial sustainability and targeting funding more on a needs basis. These changes were successfully introduced.

As the vast majority of members are over 70 years of age, the program is potentially susceptible to the impact of the ageing of the population and, with that, the increased incidence of disability. The report has recommended that it would be prudent to introduce an increased focus on long-term service demand projections to better place management to plan for and respond to any challenges to the sustainability and integrity of the program.

The program involves members who are some of the most vulnerable in the community and has a history of fraud usually committed by taxi operators. The safeguarding of public funds is a critical management responsibility.

I note that the new management within the Victorian Taxi Directorate has introduced a number of important fraud prevention and control initiatives such as the establishment of the Audit and Investigations Unit in May 2008. The report however highlights that a considerable amount of work still needs to be done. I am pleased that this is acknowledged by the Department. The most immediate priority is the introduction of a fraud control plan based on a systematic assessment of risks to allow the setting of fraud prevention and control priorities.

I see the findings and recommendations of this report as setting an agenda for further progressing work in this area.



D D R PEARSON
Auditor-General

3 December 2008

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1 Executive summary

1.1 Introduction

The Multi-Purpose Taxi Program (MPTP) commenced in 1983 and plays an important role in providing transport to those with a severe and permanent disability to access all aspects of community life.

Over 185 000 people are members of the program. Seventy-five per cent of them are over 70 years of age. The program is administered by the Victorian Taxi Directorate (VTD) and in 2008–09 has an annual budget of \$43.7 million.

To be a member of the program, a person must:

- have a severe and permanent disability that prevents them from using public transport unaided
- be a permanent resident in Victoria
- meet certain financial criteria (unless they permanently use a wheelchair).

Members are eligible for a 50 per cent fare subsidy of up to \$30 per trip, with a cap of \$1 090 per year. Certain categories of disability, such as a member who permanently uses a wheelchair, are exempt from the subsidy cap.

Following significant growth in program membership and costs to the state, changes to the operation and management of the program to maintain its long-term sustainability were announced in late 2003.

The MPTP has a history of fraud usually by taxi operators. Fraud prevention and control is therefore one of VTD's key priorities.

This audit focused on determining:

- whether projections of service demand are soundly based
- the effectiveness of organisational arrangements for monitoring and assessing service demand
- the extent to which projected demand and cost pressures are likely to affect the long-term sustainability of the program
- the degree to which robust controls are in place to safeguard against fraud.

1.2 Findings

1.2.1 Service demand and costs

VTD has the necessary organisational arrangements to monitor and assess service demand. VTD has systems, such as the Taxi Client system, which provides detailed information on members and their use of the program. While VTD uses this information to compile monthly, quarterly and annual reports, VTD needs to give more attention to longer-term service demand projections.

The current cost pressures on the program are primarily driven by factors such as the rate of increase in taxi fares as well as the balance of active and non-active members in the scheme. While the program has traditionally underspent, the level of underspending is declining. The cost pressures have been offset by a decline in member use of the program and the number of trips undertaken.

Demographic changes such as the ageing of the population and increased incidence of disability indicate an increase in the pool of potential MPTP members. It is therefore prudent for VTD to commence discussions with the Australian Bureau of Statistics (ABS) on improvements in the specificity of disability data available to assess likely effects for the program and its budget.

Changes introduced to the MPTP in 2004, including means testing of new applicants and the introduction of an annual subsidy cap, have achieved their objective of bringing membership growth and service demand under control.

1.2.2 Controls against fraud

VTD has concerns about fraud and has renewed its focus on implementing controls to mitigate these concerns. An Audit and Investigations Unit has also been established to support this.

The immediate challenge for VTD is to develop a fraud control plan based on a systematic assessment of identified risks and the development of associated mitigation strategies. This will provide a more strategic approach to fraud prevention and control priorities.

Fraud detection practices need strengthening with the introduction of fraud awareness training and clearer direction about the recovery of public moneys. In the case of Project Longmile, a VTD investigation into suspected fraud between July 2004 and May 2005, an estimated \$800 000 of projected annual savings from suspected fraudulent claims was identified. Warnings were issued and, in a number of cases, disciplinary action was undertaken. There was no evidence of any recovery action.

VTD indicated that the purpose of the project was to send a strong message to the taxi industry that fraud will not be tolerated, not to recover public funds. Audit believes that similar projects in the future should include a documented and approved rationale for the approach adopted.

In terms of external agency engagement, VTD should finalise its memorandum of understanding with Victoria Police to provide clarity and consistency about information exchange, liaison and investigations in cases of suspected fraud.

The internal and external reporting of fraud requires attention as:

- VTD does not report instances of suspected fraud to the Department of Transport
- annual reporting does not include details of strategies to safeguard against fraud, consistent with the *Australian Standard 8001–2008 Fraud and corruption control*
- the department has not reported cases of alleged fraud to either the Minister for Finance or the Auditor-General as required by the Ministerial Directions under the *Financial Management Act 1994*.

1.3 Recommendations

Forecasting service demand and costs

VTD should:

- undertake longer-term MPTP service demand projections to examine the extent to which changes in assumptions or input variables will affect the program and its budget (**Recommendation 3.1**)
- develop operational guidelines and procedures on service demand projection methodology particularly given the heavy reliance placed on a small number of key staff to undertake this function (**Recommendation 3.2**)
- explore with the Australian Bureau of Statistics the potential for refinements in their 2009 Disability Survey to enhance future service demand planning (**Recommendation 3.3**)
- more systematically capture qualitative feedback from stakeholders and directly from members as an input into service demand planning (**Recommendation 3.4**).

Controls against fraud

VTD should:

- develop a MPTP fraud control plan based on a risk assessment consistent with the *Australian Standard 8001–2008 Fraud and corruption control* (**Recommendation 4.1**)
- finalise its memorandum of understanding with Victoria Police about information exchange, liaison and investigation for suspected cases of fraud (**Recommendation 4.2**)
- improve reporting of suspected fraud by providing relevant details to the Department of Transport and comply with the requirements of the Minister for Finance's Direction 4.5.4 (**Recommendation 4.3**)
- develop appropriate system controls as well as regularly audit data in the Taxi Client system to assure its integrity (**Recommendation 4.4**)

- provide fraud awareness and investigator training to staff on a needs basis **(Recommendation 4.5)**
- further enhance guidelines and procedures for conducting investigations to address:
 - critical facets of the investigatory process such as interviewing witnesses
 - recovery of moneys through civil action
 - suspected fraud by non-taxi drivers **(Recommendation 4.6)**.
- regularly monitor the existing approach to prioritising investigations to confirm it is well documented and robust **(Recommendation 4.7)**.

RESPONSE provided by Secretary, Department of Transport

I note your findings that the Victorian Taxi Directorate (VTD):

- *has the necessary organisational arrangements to monitor and assess service demand*
- *that changes introduced to the Multi-Purpose Taxi Program (MPTP) in 2004, including means testing of new applicants and the introduction of an annual subsidy cap, have achieved their objective of bringing membership growth and service demand under control*
- *has concerns about fraud and has renewed its focus on implementing controls to mitigate these concerns. An Audit and Investigations Unit has also been established to support this [renewed focus].*

I accept all your recommendations and advise that all are either in various stages of development or are being implemented.

2 Background

2.1 Introduction

The Multi-Purpose Taxi Program (MPTP) is a subsidy program administered by the Victorian Taxi Directorate (VTD) within the Department of Transport. The MPTP makes taxi travel more accessible for Victorians with a severe and permanent disability by making it more affordable. The program began in February 1983 under the responsibility of VicRoads and has been administered by VTD since 1994.

There are approximately 185 000 MPTP members of whom 75 per cent are over 70 years of age. There are approximately 100 000 active members. An active member is defined as one who takes at least one trip annually.

To be a member of the program, a person must:

- have a severe and permanent disability that prevents them from using public transport unaided
- be a permanent resident in Victoria
- meet certain financial criteria, unless they permanently use a wheelchair.

Successful applicants are issued with a program membership card which is valid for six years.

A member must present their MPTP card to the taxi driver on entering the taxi and have it returned before they leave. On completion of the trip, the driver claims 50 per cent of the fare using the taxi EFTPOS terminal which is linked to the Cabcharge payments system. The terminal calculates the MPTP subsidy amount and the balance is paid by the passenger. In cases where the taxi's EFTPOS terminal fails, emergency vouchers can be used to process a MPTP fare.

2.1.1 Organisational changes

In the last 12 months, VTD underwent major organisational changes. A new General Manager was appointed in December 2007 and a new management team established in 2008. This included the appointment of a MPTP Administration and Management Manager and an Audit and Investigations Manager in mid-2008.

2.1.2 Program changes since 2004

As a result of substantial growth in program membership and costs, a series of changes to the program were introduced in 2004. These included:

- tightened eligibility criteria for applicants based on the functional impact of a person's disability
- a means test for new applicants
- an annual subsidy cap
- an exceptional circumstances subsidy.

In addition to the annual budget allocation of \$37.6 million in 2003–04 for the MPTP subsidy, \$29.2 million was allocated over four years to fund the new initiatives.

The subsidy cap introduced in July 2004 means the program pays:

- 50 per cent of the fare for a trip in a licensed Victorian taxi, up to \$30 per trip and \$1 090 per year
- 50 per cent of the fare for a taxi trip taken in another state, for a limited number of trips per year
- a lifting fee for wheelchairs.

A member is exempt from the annual subsidy cap if they:

- have a disability that qualifies them for a full exemption such as a visual impairment or dementia
- permanently use a wheelchair
- qualify for an Exceptional Circumstances Subsidy. These subsidies are provided on a case-by-case basis for needs related to employment, visits to health care providers and/or partner in a nursing home, education, types of volunteer work, and financial hardship.

2.1.3 Applying for membership

To prove eligibility, an applicant must submit a declaration by a registered medical practitioner that the applicant has a severe and permanent disability that prevents their independent access to public transport. VTD may ask the medical practitioner for more information or may ask the applicant to see an independent doctor or have medical tests, before approval is granted.

The applicant must also provide financial information for assessment against the means test, except for applicants who permanently require a wheelchair for mobility outside their home, infants and members before January 2004. Applicants who do not use wheelchairs are exempt from the means test if they hold a Department of Veterans' Affairs Pensioner Concession Card that is endorsed 'Extreme Disability Adjustment' (EDA) or 'Totally and Permanently Incapacitated' (TPI).

VTD administrative staff confirm that the applicant satisfies the eligibility criteria by verifying:

- that the medical practitioner is a registered member of the Medical Practitioners Board of Victoria
- the applicant's financial information is consistent with information on Centrelink's database.

2.1.4 MPTP Panel

The MPTP Panel was established in 2004 to provide advice and direction to VTD in relation to the administration of the program. The panel's role includes:

- monitoring the effectiveness and impact of the 2004 program changes and in particular the effect of the revised eligibility criteria and means testing
- reporting annually on program performance against key performance indicators
- recommending initiatives and developing guidelines to improve service quality to members within budget allocations.

The panel comprises a medical expert in acute care of the elderly and representatives from the Disability Advisory Council of Victoria, National Ageing Research Institute and the Departments of Transport and Human Services.

2.1.5 Program reviews

The issues of affordability and availability of services for MPTP members have been covered in the following reviews:

- Essential Services Commission Taxi Fare Review 2005
- Victorian Country Taxi Industry Review 2006
- Victorian Equal Opportunity and Human Rights Commission's Time to Respond: Realising Equality for People with a Disability Utilising Taxi Services Report 2007
- Essential Services Commission Taxi Fare Review 2007–08.

In relation to the last-mentioned review, stakeholders such as the Victorian Council of Social Services (VCOSS) and the Department of Human Services (DHS) expressed concerns that:

- membership is restricted to people with a permanent and severe disability, however, other disadvantaged groups are not subsidised
- membership criteria are too dependent on a doctor's medical certificate. Doctors may be too subjective or inconsistent in their approach
- the complexity of the application process is a barrier to people accessing the program
- the \$30 per trip maximum subsidy discriminates against people who need to make longer trips, such as people in rural areas.

In response to these concerns, the Commission made recommendations to:

- examine options to reduce red tape in the application process for MPTP membership
- examine the feasibility of temporary membership for people who are temporarily disabled and required to use a wheelchair
- retain the MPTP benefit level at 50 per cent of the fare
- reconsider the government position on previous proposals to increase the maximum trip subsidy to \$50
- consider a several-fold increase in the annual MPTP subsidy cap.

2.1.6 Rationale for audit

While the above reviews have examined affordability and availability of services, there has been no independent review of:

- the future impact of demand and cost pressures on the program and thus the program's long-term sustainability
- the effectiveness of processes to mitigate the risk of fraud.

These aspects were the focus of this audit.

2.2 Audit objectives and method

The objective of the audit was to examine the effectiveness of the management of MPTP in terms of:

- whether projections of service demand are soundly based
- the effectiveness of organisational arrangements for monitoring and assessing service demand
- whether projected demand and cost pressures are likely to affect the long-term sustainability of the program
- the degree to which robust controls are in place to mitigate against fraud.

The examination of projected demand and cost pressures included an assessment of the demand and cost impact of the program since changes were introduced in 2004.

The review of fraud mitigation controls involved an examination of whether internal controls over fraud have been implemented and the extent to which they are consistent with the *Australian Standard 8001–2008 Fraud and corruption control*.

The audit was performed in accordance with the Australian Auditing Standards applicable to performance audits, and included tests and procedures sufficient to allow audit conclusions to be reached.

The total cost was \$245 000. This cost includes staff time, overheads and printing.

3 Forecasting MPTP demand and costs

At a glance

Background

It is important that robust forecasts of service demand and cost are made as part of ongoing planning. These forecasts are important for budgetary reasons and also assist with better understanding how future conditions and demographic changes will likely impact on a particular program or project.

Key findings

- VTD satisfactorily identifies short-term trends and/or issues through its monthly, quarterly and annual reporting arrangements. However, there remains a need to develop longer-term service demand projections.
- VTD has the necessary organisational arrangements in place to monitor and assess service demand, including access to a reliable source of information on program membership and trip data through the Taxi Client system.
- changes introduced to the MPTP in 2004, such as revised eligibility criteria and means testing of new applicants, have strengthened long-term sustainability of the program by bringing membership growth and service demand under control.

Key recommendations

VTD should:

- undertake longer-term MPTP service demand projections to examine the extent to which changes in assumptions or input variables will affect the program and its budget (**Recommendation 3.1**).
- develop operational guidelines and procedures on service demand projection methodology particularly given the heavy reliance placed on a small number of key staff to undertake this function (**Recommendation 3.2**).
- explore with the Australian Bureau of Statistics the potential for refinements in their 2009 Disability Survey to enhance future service demand planning (**Recommendation 3.3**).
- more systematically capture qualitative feedback from stakeholders and directly from members as an input into service demand planning (**Recommendation 3.4**).

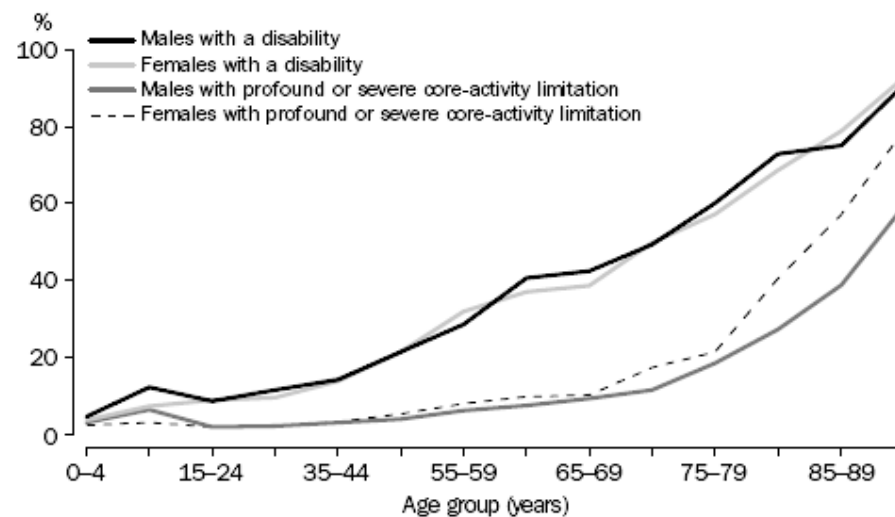
3.1 Introduction

It is important that agencies make robust projections of service demand and cost as part of their planning because:

- program managers need to understand how factors such as demographic changes will impact on their program’s ability to deliver on the government’s policy objectives
- rapidly escalating demand and/or costs can threaten program viability
- a decreasing percentage of the target population using the program may indicate access barriers need to be identified and addressed.

As shown in Figure 3A, the percentage of people with a disability increases with age. The figure shows that, in 2003, 41 per cent of people aged 65 and older, and 78 per cent of people aged 85 and over, had a disability. It shows that the percentage of people with a profound and severe core activity limitation also increased from 20 per cent of people aged 75 to 79, to 74 per cent of people aged 90 and over. Australian Bureau of Statistics (ABS) data indicates that in 25 years time, Victorians aged 65 and over will grow to 20 per cent of the Victorian population compared to 13 per cent in 2006¹.

Figure 3A
Relationship between disability and age



Source: ABS Cat No 4330.0 Survey of Disability, Ageing and Carers (2003).

¹ ABS Cat No 3222.0 Population Projections (2006-2101).

Population ageing, the increasing incidence of disability with age and more sophisticated medical interventions resulting in more people living with disabilities will significantly increase the future number of people with a permanent disability who could be eligible to join the program. Eighty per cent of MPTP members are 65 or older, of whom 68 per cent are 75 years or older and 38 per cent are 85 years or older.

It is therefore important that the most reliable demand and cost data is available to better inform future policy development to address the anticipated delivery pressures.

3.2 Availability of data—service demand projections

To forecast service demand, a range of comprehensive, relevant data is required and includes:

- demographic data about the eligible Victorian population, disaggregated to identify permanent and severe disability, age, sex and metropolitan or non-metropolitan location
- accurate and up-to-date data about active and non-active MPTP members
- reliable projections of the future number of people in the eligible population, disaggregated into the same categories as current data about MPTP members.
- environmental information to interpret the data and make assumptions relevant for forecasts. This includes information about:
 - demand drivers such as influences on the average length of trips and factors affecting members attitudes to using the program, for example, perceptions of taxi safety
 - cost, technology and practice drivers such as likely changes in taxi fares, taxi sharing and the number and availability of wheelchair-accessible taxis
 - government policy affecting the program such as commitments to change the membership criteria.

VTD has access to a range of relevant, comprehensive internal and external data available for forecasting service demand, particularly on membership usage. This is outlined below.

3.2.1 Taxi Client system data

VTD uses database software called the Taxi Client system (TCS) to administer all aspects of the MPTP. The system links with Cabcharge and taxi depots to provide the directorate with real-time data about trips taken by program members.

The system provides up to date and reliable data, however, we recommend in Part 4 that there should be further safeguards over data integrity to address risks such as alteration of information without authorisation.

VTD utilises the TCS information to generate monthly and quarterly reports on current member usage and costs. The TCS satisfactorily provides a comprehensive range of data on member usage of the program that can be used for service demand projections.

3.2.2 Quantitative data

Australian Bureau of Statistics data

VTD used ABS population projections from 2004 to 2101 which were applied to the current MPTP membership numbers by gender and age to determine the percentage of MPTP members as a proportion of total ABS population. This was used to forecast service demand from June 2004 to June 2013.

The 2003 ABS Disability Survey covers severe and profound core activity limitations (such as communication, mobility and self-care) by age and sex for Victoria. There are opportunities for VTD to explore with ABS within the 2009 survey, in conjunction with other State Government areas such as the Department of Human Services (DHS), the further enhancement of data relating to each core activity limitation by age and sex for metropolitan and regional cities.

3.2.3 Qualitative data

VTD has access to a range of stakeholder groups representing the taxi industry and those with a disability, however, feedback from these groups is not factored into service demand studies.

The more systematic capture of qualitative feedback from a supply and demand perspective would better inform service demand projections and improve their reliability. By way of illustration, demand for MPTP services is reducing. The number of active members using the MPTP and the number of trips taken have been steadily declining despite a recent increase in membership. The reasons for this and the extent to which this trend will continue, particularly in the light of the ageing of the population, are unclear.

Forums such as the Disabled Persons Taxi Advisory Committee present an opportunity to explore attitudes of members to the current and future use of taxis. Alternatively, surveys could be taken of a representative sample of non-active members to ascertain their views on taxi use.

3.3 Current approach to monitoring service demand

A sound methodology to estimate future service demand and program costs would:

- use a range of relevant and comprehensive data
- make robust assumptions about demand, price and demographic and policy trends relating to disability
- be transparent and easily understandable
- be fit-for-purpose.

VTD satisfactorily identifies short-term trends and issues via its monthly, quarterly and annual reporting arrangements. There remains, however, a need to undertake longer-term service demand projections.

VTD developed a model in 2008 for projecting future service demand over the five years to 2013 using MPTP membership data, MPTP subsidy data and ABS population projections from 2004 to 2101. The model has been used once, however, the frequency of its future use is unclear.

The results of these projections were that:

- MPTP membership growth will increase steadily by nearly 3 per cent per annum over the next five years to over 213,000 members
- MPTP subsidy claims will also increase steadily by over 5 per cent per annum over the next five years to nearly \$47 million.

While VTD has identified some key variables that underpin service demand for the program such as membership levels and subsidy claims, the model should be extended to include a comprehensive assessment of service demand and program costs. Greater account should be taken of:

- data on mobility-related disability incidence in the population by geographic area
- assumptions and forecasts for demand side issues such as the frequency and duration of trips based on TCS data
- assumptions about price issues such as CPI and taxi fare increases
- the capacity to provide projections based on various scenarios arising from possible policy changes such as amendments to eligibility criteria.

In terms of resourcing, VTD has a small number of key staff to undertake service demand projections. The MPTP Administration and Management Manager is responsible for monitoring and assessing service demand. This position is supported by a Business Information Analyst who maintains and updates the financial model for forecasting demand and cost.

To maintain corporate memory, should key staff depart, it is important that VTD documents its methodologies for monitoring, assessing and forecasting program demand.

3.4 Future service demand

There are cost challenges facing the MPTP in the future such as:

- While the MPTP budget has historically underspent, the extent of that underspending is decreasing with subsidy costs increasing from \$33.9 million in 2005–06 to \$36 million in 2007–08
- The MPTP budget increases by 2.5 per cent annually to 2010–11. However, VTD estimated that fare increases over the last 15 years have averaged 4.2 per cent per annum. This trend will place the budget under pressure long-term.

Offsetting these increases in costs is the declining usage of the program by members. The number of active members using the program (active members are defined as those who have used the program once or more within a financial year) and the number of trips undertaken have been trending downward.

The number of individual journeys has fallen from 4.64 million in 2005–06 to 4.55 million in 2006–07 to 4.45 million in 2007–08. This correlates with the decline in active membership from approximately 108 000 in 2005–06 to approximately 100 000 in 2007–08. It is difficult to determine whether member usage will continue to trend downward. We have suggested that VTD should obtain qualitative feedback from representatives of the membership base on reasons for this or alternatively survey non-active members on future intentions for program use.

Demographic issues are not currently driving current cost pressures on the program. However, the ABS data indicates that the ageing of the population will increase with associated heightened levels of disability. Therefore the pool of potential MPTP members is likely to expand in the future. A key consideration for VTD is whether new members will substantially increase the number of trips taken in comparison to existing members. The extent to which this occurs will need to be monitored by VTD as part of its service demand deliberations.

VTD has undertaken service demand projections based on the 2003 ABS Disability Survey, however, improvements should be considered in terms of accessing more detailed information from the ABS 2009 survey.

At this stage, however, the current cost pressures on the program are being driven more by factors such as the rate of increase in taxi fares than additional patronage from program members.

3.5 Impact of program changes since 2004

The MPTP Panel was established to monitor the effectiveness and impact of changes introduced to the MPTP in 2004. The changes were designed to improve the long-term sustainability of the program and to target areas of greatest need.

The 2004 changes included revised eligibility criteria based on the functional impact of an individual's disability or impairment, means testing of new applicants, a fee for membership card replacement and renewal, and the introduction of a subsidy cap for some disability types.

Prior to the 2004 reforms, MPTP growth had been approximately 6 per cent per annum. Following the changes:

- program membership fell by 1.02 per cent in 2004–05 to 177 417 members, however, grew by almost 0.6 per cent to 178 459 members in 2005–06
- there was a fall in annual applications for new membership immediately following the introduction of the program reforms in 2004, from 24 173 in 2002–03 to 13 747 in 2003–04. However this increased to 14 810 in 2007–08. The number of applications approved in 2007–08 was 11 801
- the number of individual trips or journeys taken and the number of members applying for the additional subsidy due to exceptional circumstances has declined.

The revised subsidy cap was sufficient to meet the needs of the majority of members who did not have exceptional circumstances. Both the number of people reaching the cap amount and the number of people applying for additional subsidy due to exceptional circumstances has fallen.

3.6 Conclusion

Changes were introduced to the MPTP in 2004, which included revising eligibility criteria, introducing means testing and the subsidy cap. These changes have strengthened the long-term sustainability of the program by bringing membership growth and service demand under control, while focusing the program on areas of greatest need. There are, however, a range of future cost challenges facing the program that need to be addressed.

VTD has sound systems in place to provide MPTP usage data and has also begun to make use of external demographic ABS data. The potential to further refine disability data should be explored with ABS.

Although VTD has systematic arrangements to monitor program demand and cost, it should give more attention to longer-term service demand projections and assess the extent to which changes such as the ageing of the population or possible changes in program eligibility will affect the program and its budget.

Recommendations

That VTD should:

- 3.1 undertake longer-term MPTP service demand projections to examine the extent to which changes in assumptions or input variables will affect the program and its budget
 - 3.2 develop operational guidelines and procedures on service demand projection methodology particularly given the heavy reliance placed on a small number of key staff to undertake this function
 - 3.3 explore with the Australian Bureau of Statistics the potential for refinements in their 2009 Disability Survey to enhance future service demand planning
 - 3.4 more systematically capture qualitative feedback from stakeholders and directly from members as an input into service demand planning.
-

4 Controls against MPTP-related fraud

At a glance

Background

The Multi-Purpose Taxi Program (MPTP) has a history of fraud committed usually by taxi operators. Fraud prevention and control is therefore one of the Victorian Taxation Directorate's (VTD) key priorities. In May 2008, a new Audit and Investigations Unit Manager was appointed to give renewed focus to this area.

For the purpose of this audit, the *Australian Standard 8001–2008 Fraud and corruption control* has been applied as it provides a comprehensive guide for controlling the risk of fraud.

Key findings

- VTD does not have a fraud control plan based on a risk assessment of the likelihood and exposure to types of fraud.
- VTD does not have documented protocols with Victoria Police regarding information exchange, liaison and investigations in cases of suspected fraud.
- Reporting of fraud both internally to the Department of Transport and externally to the Auditor-General and Minister for Finance has not occurred.

Key recommendations

VTD should:

- develop a MPTP fraud control plan based on a risk assessment consistent with the *Australian Standard 8001–2008 Fraud and corruption control*
(Recommendation 4.1)
- finalise its memorandum of understanding with the Victoria Police about information exchange, liaison and investigation for suspected cases of fraud
(Recommendation 4.2)
- improve reporting of suspected fraud by providing relevant details to the Department of Transport and comply with the requirements of the Minister for Finance's Direction 4.5.4 **(Recommendation 4.3)**.

4.1 About MPTP fraud

Multi Purpose Taxi Program (MPTP) members are often elderly and/or suffering from disabilities that make them vulnerable targets for MPTP fraud-related activity. The incidence of fraud has been an ongoing concern for the Victorian Taxi Directorate (VTD).

In 2004, the Department of Transport (DOT) linked taxi meters directly to EFTPOS terminals in taxis to ensure that only the metered fares could be charged to passengers, with the MPTP paying half the fares.

According to MPTP Panel reports, this initiative reduced the risk of fraud, saving what VTD estimated as some \$3.1 million in 2004–05. However, we were unable to confirm this figure due to the lack of substantiating documentation at VTD.

We assessed the effectiveness of VTD's fraud identification and mitigation activities using *Australian Standard 8001–2008 Fraud and corruption control*. The standard outlines a better practice approach to controlling fraud and corruption for use by public sector agencies.

4.2 Fraud control and governance framework

4.2.1 Fraud control plan

The standard states that organisations should develop a plan to control its exposure to fraud at the strategic and operational levels. A key component of the plan is a risk assessment of the likelihood and exposure to types of fraud. The standard recommends that the plan should be updated regularly, at least every two years.

VTD does not have a documented fraud control plan. DOT has fraud prevention guidelines that were last reviewed in 2005 but the guidelines do not make reference to VTD and it is not evident they are followed by VTD.

The main types of MPTP fraud identified by VTD included:

- inappropriate use of lost/stolen MPTP cards
- collusion between taxi drivers and members and/or relatives
- use of a member's card by a family member
- excessive and/or inappropriate use of emergency vouchers including claims for trips not taken
- taxi drivers using a MPTP member's card when collecting a fare from another passenger
- a taxi driver allowing the meter to run before commencing a trip.

VTD does not maintain a fraud risk register and has not systematically identified and assessed risks and developed risk mitigation strategies as part of a fraud control plan. This places VTD at a disadvantage strategically in determining where to maximise the allocation of resourcing to prevent and control fraud.

4.2.2 Resourcing

VTD has renewed its focus on implementing controls against MPTP fraud. In December 2007, VTD appointed a new General Manager and in early 2008 appointed a MPTP Administration and Management Manager.

In 2007 VTD established a Fraud Investigation Unit to:

- investigate all fraudulent activity in the taxi industry including MPTP fraud
- monitor the investigation of all reported and unreported serious offences
- assist Victoria Police in the investigation of serious offences.

In May 2008 the unit was renamed the Audit and Investigations Unit and a new manager was appointed.

The new management team has utilised the Australian Standard 8001–2008 Fraud and corruption control and:

- established systems to guard against taxi drivers claiming emergency vouchers using lost and stolen cards
- commenced using GPS location data in MPTP fraud investigations
- improved its information technology systems so that, if a taxi driver's accreditation expires, their MPTP smart card will also expire
- commissioned Public Records Victoria to review VTD's current document management practices to identify improvements required
- established a reporting system on the VTD intranet for staff to report suspected cases of fraud to the VTD Audit and Investigations Unit.

The standard states that organisations should have staff with the technical expertise to identify, analyse and investigate fraud-related activity. The VTD's Audit and Investigations Unit has been staffed to meet the requirements of this standard.

VTD does not provide training in fraud awareness although VTD advised that the provision of such training is recognised as a priority. It will be important that training includes definitions of fraud and fraud controls, application of fraud indicators, fraud reporting as well as using actual fraud case studies to identify lessons learnt. Fraud awareness training is more important now that VTD has implemented a fraud reporting system accessible to all staff through its intranet.

4.2.3 Liaison arrangements—Victoria Police

A new applicant for a taxi driver's licence is required to provide a National Police Certificate (also known as a police check) which is a national summary of the person's offender history. Drivers renewing their licences are not required to provide a certificate, but must provide a declaration of any charges or findings of guilt for criminal offences within the last three years. The VTD does not currently check any declarations of taxi drivers that claim to have a clear criminal history. A sample check at least is needed to provide a basis for relying solely on driver declarations.

VTD needs to finalise its memorandum of understanding with Victoria Police to encourage greater clarity and consistency about information exchange, liaison and investigations for suspected cases of fraud. The memorandum of understanding with Victoria Police should cover:

- the transfer of data between the two organisations
- arrangements to match the taxi driver's accreditation details against criminal history records maintained by the Victoria Police
- protocols and processes for VTD referring a case to Victoria Police including at what stage of an investigation a case should be referred and who is responsible for referring cases
- arrangements for separate or joint investigations.

4.2.4 Internal and external reporting requirements

Internal and external reporting of MPTP-related fraud requires attention. The *Australian Standard 8001–2008 Fraud and corruption control* states that organisations should regularly report about instances of fraud to a body such as an audit or ethics committee and indicate what action has been taken to reduce the level of fraud.

VTD does not report to the Department of Transport about instances of suspected MPTP-related fraud. While VTD has communicated through the Victorian Taxi Association website strategies to safeguard against fraud, DOT's annual reports do not include this information. Audit has noted that other public sector agencies have included details about fraud mitigation strategies in their annual reports. The Audit and Investigations Unit started reporting MPTP fraud to VTD Senior Management in August 2008.

Under the *Financial Management Act 1994*, Ministerial Direction 4.5.4 requires agencies to notify the Minister for Finance and the Auditor-General of all cases of suspected fraud within two months if the alleged fraud is more than \$1 000 or at the end of the financial year for cases involving less than \$1 000. The direction requires the agency to prepare an incident report stating, among other things:

- if internal controls and systems have been reviewed
- if any weaknesses in internal controls and systems have been identified and have or will be rectified
- the status of any proceedings, investigations or disciplinary actions
- if any public funds have been recovered.

Reporting of suspected MPTP fraud to the Minister for Finance and the Auditor-General has not occurred.

4.3 Fraud prevention and detection

4.3.1 Case management

VTD is introducing improvements in fraud detection and case management processes. Before the Audit and Investigations Unit was established in May 2008, VTD had no systems to case manage alleged fraud.

VTD's information technology systems enable it to view trip data to identify suspected fraudulent transactions. It conducts weekly searches of trip data for ten key indicators of fraud and generates reports automatically. It also generates:

- monthly reports that identify MPTP electronic and emergency voucher usage
- weekly reports that identify the top 50 driver and member subsidy claimants
- daily reports identifying excessive use of member subsidy claims.

As part of the application process, medical practitioners are required to certify that an applicant has a permanent and severe disability that prevents them from independently accessing public transport. In addition to the above, VTD should also generate regular reports to highlight any trends in the level of certification of applications by individual medical practitioners. This would place VTD in a good position to respond to any issues identified.

In August 2008, the unit began recording details of cases of alleged fraud on the iFacts case management system.

VTD advised that it intends to install the more sophisticated iBase fraud detection and case management software in December 2008 and that this software will enable the unit to actively case manage and provide an appropriate level of transparency to the investigation process. The software is to be supplemented with an analytical component with the ability to incorporate analysis within the case management system. This work is currently completed manually.

4.3.2 Taxi Client system data audit

The Taxi Client system (TCS) stores data about members, the trips undertaken and subsidy payments. The TCS verifies data with:

- the Medical Practitioners Board of Victoria and Centrelink which enables staff to verify an applicant's eligibility for the program.
- the Department of Justice through the Registry of Births, Deaths and Marriages to cancel cards of deceased members.

While there are some checks to protect the integrity of data, such as automated data entry error alerts, there are no system controls to:

- safeguard against the alteration of information without authorisation
- check the currency of member information such as whether a member is still eligible for the program.

To assist in VTD's auditing process, TCS can generate a range of reports, showing who has accessed the system and modified data. At the time of the audit, VTD was not generating such reports.

4.4 VTD's response to fraud

4.4.1 Fraud policies and guidelines

VTD needs to develop MPTP fraud identification and response policies. VTD has six manuals, last updated in 2005, relating to the MPTP. None of these manuals addresses the identification of and response to fraud. Although recent emails to relevant individual staff have included policy statements, we found no evidence of a consolidated policy document that is reviewed and updated regularly.

VTD's *Investigation and Case Management Guidelines and Procedures* require further development to provide guidance to staff on:

- critical facets of investigations such as interviewing witnesses or people suspected of involvement in fraud, obtaining statements, reviewing and collating evidence, preparing briefs of evidence and record keeping
- taking civil action to recover losses, allowing for the fact that the standard of proof is lower for civil actions. In some cases, civil action could be taken in tandem with criminal and administrative action and the guidelines should provide for this
- investigating fraud involving non-drivers. We found that in four cases of fraud by third parties, no action was taken against individuals such as the immediate family of MPTP members.

Criminal sanctions are an appropriate response to fraud. The guidelines have set a threshold below which suspected fraud will not be referred to the Victoria Police, however, the basis for the setting of the threshold is unclear. The threshold should be the subject of discussion with the Victoria Police as part of the development of a memorandum of understanding as previously recommended.

VTD advised us that they believe the *Australian Government Investigation Standards* provide sufficient guidance on fraud prevention and control. Audit considers these policies and guidelines should be tailored specifically to the circumstances of MPTP fraud and should be supported by staff training if they are to be purposefully applied.

4.4.2 Recovery of public funds—Project Longmile

The VTD's Project Longmile investigated suspected frauds between July 2004 and May 2005 involving the use of electronically processed transactions. Investigations continued until June 2007. The operation examined some 53 000 suspect trips by 150 taxi licence holders and taxi drivers. VTD estimates \$800 000 of projected annual savings from suspected fraudulent MPTP claims.

Of the 150 licence holders and drivers suspected of making fraudulent claims:

- 117 received warning letters
- 27 were sent letters asking them to explain why they should not have their driver's accreditation suspended or revoked
- 2 drivers had their accreditation revoked
- 10 driver's accreditations and five licences were suspended for between two and six months.

We found no evidence of any recovery action. During Project Longmile, internal administrative procedures, guidelines and processes were developed, including a 'please explain' and 'show cause' process for dealing with taxi drivers who were alleged to be involved in fraudulent claims.

VTD have advised that Project Longmile was not an exercise in recovery action. Instead, its purpose was to convey a message to the taxi industry that fraud can be detected and would not be tolerated. In future, any similar projects should include a documented and approved rationale for the approach adopted.

Furthermore, Project Longmile was not evaluated to determine the extent to which it met its objectives or to identify lessons on how similar projects could be managed more effectively in the future as part of a continuous improvement framework.

4.4.3 Prioritisation of fraud cases

Before the formation of the Audit and Investigations Unit in May 2008, VTD did not have processes to prioritise and investigate MPTP fraud cases. The audit found extended periods of time between MPTP fraud cases being opened and investigated. These included:

- one major case of MPTP fraud that came to VTD's attention in 2005. While information and relevant data was gathered and analysed during February 2007, no active investigation took place until January 2008
- one case originally opened in May 2007, and two cases opened in November 2007 were not formally investigated until May 2008.

The Unit developed a case priority tool and reviewed all open files with the objective of pursuing only cases with significant evidence of fraud. In July 2008, VTD reviewed its approach to prioritising investigations and found that the approach adopted was not resulting in the prompt investigation of the most important cases. In August 2008, VTD changed its approach to address these deficiencies.

Each new case of alleged fraud for investigation or monitoring is prioritised using seven indicators such as the type of the fraud and the previous history of the person or people involved. This should support a more strategic and consistent approach to priority setting. It will however, need to be closely monitored in operation and regularly reviewed until proven reliable in achieving the outcome sought.

4.5 Conclusion

The new management team and in particular the Audit and Investigations Unit has achieved a considerable amount in terms of establishing the building blocks for fraud control and prevention within a short period. VTD has the resources in place to further progress work in this area, however, more needs to be done based on the *Australian Standard 8001–2008 Fraud and corruption control*.

While VTD's attention has been on addressing immediate concerns, there is a need for a more strategic approach, particularly through the development of a fraud control plan underpinned by a risk assessment. As MPTP is particularly vulnerable to fraud, the importance of developing such a plan cannot be over-estimated.

This audit has also highlighted the importance of internal and external reporting of fraud as part of a transparent and effective financial risk management and governance framework.

Finally, it should be a priority to finalise its memorandum of understanding with the Victoria Police on information exchange and investigations. Audit was advised this work had commenced.

Recommendations

VTD should:

- 4.1 develop a MPTP fraud control plan based on a risk assessment consistent with the *Australian Standard 8001–2008 Fraud and corruption control*.
- 4.2 finalise its memorandum of understanding with Victoria Police about information exchange, liaison and investigation for suspected cases of fraud
- 4.3 improve reporting of suspected fraud by providing relevant details to the Department of Transport and comply with the requirements of the Minister for Finance's Direction 4.5.4
- 4.4 develop appropriate system controls as well as regularly audit data in the Taxi Client system to assure its integrity
- 4.5 provide fraud awareness and investigator training to staff on a needs basis
- 4.6 further enhance guidelines and procedures for conducting investigations to address:
 - critical facets of the investigatory process such as interviewing witnesses
 - recovery of moneys through civil action
 - suspected fraud by non-taxi drivers
- 4.7 regularly monitor the existing approach to prioritising investigations to confirm it is well documented and robust.

Auditor-General's reports

Reports tabled during 2008–09

Report title	Date tabled
Managing Complaints Against Ticket Inspectors (2008-09:1)	July 2008
Records Management Checklist: A Tool to Improve Records Management (2008-09:2)	July 2008
Investing Smarter in Public Sector ICT: Turning Principles into Practice (2008-09:3)	July 2008
Private Practice Arrangements in Health Services (2008-09:4)	October 2008
Working with Children Check (2008-09:5)	October 2008
CASES21 (2008-09:6)	October 2008
School Buildings: Planning, Maintenance and Renewal (2008-09:7)	November 2008
Managing Acute Patient Flows (2008-09:8)	November 2008
Biosecurity Incidents: Planning and Risk Management for Livestock Diseases (2007-08:9)	November 2008
Enforcement of Planning Permits (2008-09:10)	November 2008
Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2007–08 (2007-08:11)	November 2008
Local Government: Results of the 2007–08 Audits (2007-08:12)	November 2008

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