



2003

PARLIAMENT OF TASMANIA

**AUDITOR-GENERAL
SPECIAL REPORT No. 48**

**GRANTS TO THE COMMUNITY
SECTOR**

September 2003

*Presented to both Houses of Parliament in accordance with the provisions of Section 57 of the
Financial Management and Audit Act 1990*

By Authority:

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16 September 2003

President
Legislative Council
HOBART

Speaker
House of Assembly
HOBART

Dear Mr President
Dear Mr Speaker

**PERFORMANCE AUDIT NO. 48
GRANTS TO THE COMMUNITY SECTOR**

This report has been prepared consequent to examinations conducted under section 44 of the Financial Management and Audit Act 1990, for submission to Parliament under the provisions of section 57 of the Act.

Performance audits seek to provide Parliament with assessments of the effectiveness and efficiency of public sector programs and activities, thereby identifying opportunities for improved performance.

The information provided through this approach will, I am sure, assist Parliament in better evaluating agency performance and enhance Parliamentary decision making to the benefit of all Tasmanians.

Yours sincerely

A handwritten signature in black ink, appearing to read 'A J McHugh'.

A J McHugh
AUDITOR-GENERAL

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Executive summary

EXECUTIVE SUMMARY

INTRODUCTION

Grant funding is administered for the purpose of achieving goals and objectives consistent with government policy. A fundamental requirement of effective grant administration is the ability of an agency to protect its interest in ensuring public money is used for the intended purpose.

OBJECTIVE

To assess aspects of the effectiveness, efficiency and equity of the administration of grants to the community sector by the Department of Health and Human Services (DHHS).

SCOPE

The audit examined four grant programs administered by DHHS. These included:

- Supported Accommodation Assistance Program;
- Home and Community Care;
- Disability Services; and
- Mental Health Services.

Effectiveness of service delivery was not the primary focus of the audit.

The audit did not review adequacy of funding.

AUDIT OPINION

Long term aims and objectives

Long-term aims and objectives had been well-documented. However operational objectives were not adequately linked to Government policy in so far as a requirement to address the historical funding situation had not always been documented in strategic plans. Formal needs-based planning had not been fully adopted to target funding to areas of greatest need.

Value for money

Costing methodologies were not considered adequate as they did not accurately model activity-based costs of service delivery. However some work in this area was being undertaken. Existing funding arrangements had not been reviewed to establish whether a case for change existed and new proposals should be sought. Basic rules for addressing continuing eligibility in the event of ongoing unsatisfactory performance had not been established.

Accountability

Relevant and meaningful performance measures had not generally been set. There was insufficient public reporting of program aims and objectives. For the most part appraisal decisions were adequately documented. A process for formal management of complaints had been established.

Applications, approvals and formal agreements

Publicity had been used to increase awareness of programs where new services were created. There was not a requirement for conflicts of interest to be declared. The Department recognised that there were deficiencies in the Service Agreements with funded organisations and undertook a review of the format and content. An improved agreement was implemented from 1 July 2003.

Monitoring of funding

Financial monitoring was not sufficiently thorough. There was insufficient, relevant and reliable evidence of costs incurred by grant recipients. An outcome of the Department's review of the Service Agreement should be more appropriate financial reporting requirements.

Monitoring of results

Arrangements did not adequately ensure the consistency, quality and frequency of monitoring. There was a need to respond to governance concerns identified within some organisations.

Evaluation

Formal independent evaluations of the state-based administration of grant programs were not generally being undertaken. Results of reviews were not usually published on the Department's website.

MANAGEMENT RESPONSE

There are a number of issues that need to be addressed by the Department in the area of grants administration. Some of these issues have previously been identified by program staff and work on them is already underway.

Actioning of a number of the recommendations will require the allocation of additional funding to program administration. While the Department's priority is allocation of resources to direct service delivery to the community, the Department intends to progress the implementation of all recommendations where material risks to public funds and service outcomes are found to exist.

I would also like to take the opportunity to thank the staff of the Tasmanian Audit Office concerned for the way in which they undertook the audit.

J A Ramsay

SECRETARY

8 September 2003

SUMMARY OF RECOMMENDATIONS

This summary paraphrases major recommendations contained within the report.

- Aims and objectives**
- Documented operational objectives should demonstrate better linkage with current state Government policy
 - Strategies should seek to reduce difficulties associated with historical practices
 - Needs-based planning should be implemented to assist with better targeting of resources to areas of greatest need
- Value for money**
- Costing methodologies should be developed and/or refined to ensure an objective basis for amounts paid
 - Programs should establish whether proposals involving new arrangements and/or providers should be sought
 - Continuing eligibility should be determined from clearer definitions of ‘service levels’
 - Escalation procedures for managing ongoing unacceptable performance should be documented
- Accountability**
- Explicit guidelines for negotiating change to service delivery should be developed
 - Operational targets based on appropriate measures should be used to assess performance
- Monitoring of funding**
- Fraud control plans should be developed that consider risk as well as follow-up processes for suspected fraud
 - Further strategies should be devised to improve the return rate of audited financial statements
 - Independent auditors should be engaged to undertake random special purpose audits of sample organisations
 - Financial monitoring of audited statements should be completed prior to the third quarterly payment
- Monitoring of results**
- Validation of data collected should be undertaken to ensure the reliability of information submitted
 - Systematic analysis of information collected should be undertaken to facilitate identification of underperformance
 - Improved organisational governance and managerial practice should be facilitated through a training program
- Evaluation**
- Consideration should be given to seeking a formal evaluation of the State-based administration of programs
 - Appropriate independence should be ensured in the evaluation of grant programs

LIST OF ACRONYMS AND ABBREVIATIONS

ANAO	Australian National Audit Office
CRC	Contract Review Committee
CSO	Community Sector Organisations
DHHS	Department of Health and Human Services
HACC	Home and Community and Care Program
MDS	Minimum Data Set
NDCA	National Data Collection Agency
SAAP	Supported Accommodation Assistance Program

Introduction

INTRODUCTION

Background

Grant funding is administered for the purpose of achieving goals and objectives consistent with government policy. In the Tasmanian Government, most funding to community-based services is administered by the Department of Human and Health Services (DHHS) and our audit therefore focussed on the administration of grant funding to the community sector by this Agency.

DHHS community sector grant programs

In 2002-2003 the Grants Unit and relevant Divisions within DHHS administered grant programs totalling approximately \$94M. The following non-government community sector programs were reviewed for the audit:

Table 1: Grant program funding for 2002-2003

Supported Accommodation Assistance Program (SAAP)	\$13 396 000
Home and Community Care (HACC)	\$16 083 000
Disability Services	\$51 987 000
Mental Health	\$1 689 000

Source: Budget Paper 1 2002-2003 Administered Payments for DHHS (includes carry forward funds)

Mental Health Services also receives an additional sum of approximately \$1.6M under the *Commonwealth Health Care Agreement*.

A description of the funding structure and the purpose of each of the programs is provided in the following sections.

SAAP

SAAP is cost-shared and jointly managed at the national level between the Commonwealth, States and Territories. The Commonwealth Government contributes approximately 59% of funding to the program as well as identifying strategic priorities in conjunction with stakeholders.

The primary aim of SAAP is to provide transitional supported accommodation and a range of related support services, in order to help people who are homeless to achieve the maximum possible degree of self-reliance and independence.

Within this aim the goals are to:

- Resolve crisis;
- Re-establish family links where appropriate; and
- Re-establish a capacity to live independently of SAAP.

SAAP has evolved into an assistance program that seeks to support clients through providing medium term accommodation and outreach and, where possible assist their return to community based independent living. The program represents a major crisis response to people affected by domestic violence, whose personal safety is threatened and who have acute needs and require immediate support.

HACC

The HACC program is a joint Commonwealth, Territory and State initiative. Nationally the Commonwealth Government contributes approximately 60% of programme funding and maintains a broad strategic policy role.

The objective of HACC is to support frail aged people, younger people with disabilities and their carers to be more independent at home and in the community, thereby enhancing their quality of life and/or preventing their premature or inappropriate admission to long-term residential care.

The program is intended to provide basic maintenance and support services that meet the needs of individuals so they can remain in the community. The following are examples of the range of services provided:

- Domestic assistance;
- Social support;
- Nursing and allied health care;
- Personal care;
- Meals and other food services;
- Respite care;
- Home maintenance and modifications;
- Transport; and
- Counselling and advocacy.

Disability Services

Under the *Commonwealth State Disability Agreement (CSDA)* governments fund services for people with a disability.

Approximately 71% of all CSDA funding comes from State and Territory governments with the remaining 29% coming from the Commonwealth.

The objective of the CSDA is to enhance the quality of life experienced by people with a disability through assisting them to live as valued and participating members of the community. This includes providing access to government funded or provided specialist disability services on the basis of relative need and available resources.

State governments are responsible for administering accommodation, community support and access and respite services under the Agreement. The main areas of State government expenditure were:

- Accommodation support services;
- Community support; and
- Community access.

Mental Health Services

Mental Health Services administers a relatively small amount of funding to the community sector. Approximately 50% of the total allocated is provided by the State while the other 50% represents a contribution under the *Commonwealth HealthCare Agreement* as Schedule B funding.

The objective of the Mental Health Services program is to provide for the care and treatment of persons with mental illnesses in accordance with the best possible standards. This includes ensuring that services are equitable, comprehensive, coordinated, accessible and free from stigma.

The main service types provided by this program include:

- Accommodation;
- Day support;
- Information;
- Respite; and
- Self-help and social support.

Better practice for grants administration

The *Best Practice Guide for the Administration of Grants September 2001* developed by the Department of Treasury and Finance (Treasury) was the basis for the audit framework.

The Guide defines a ‘grant’ as:

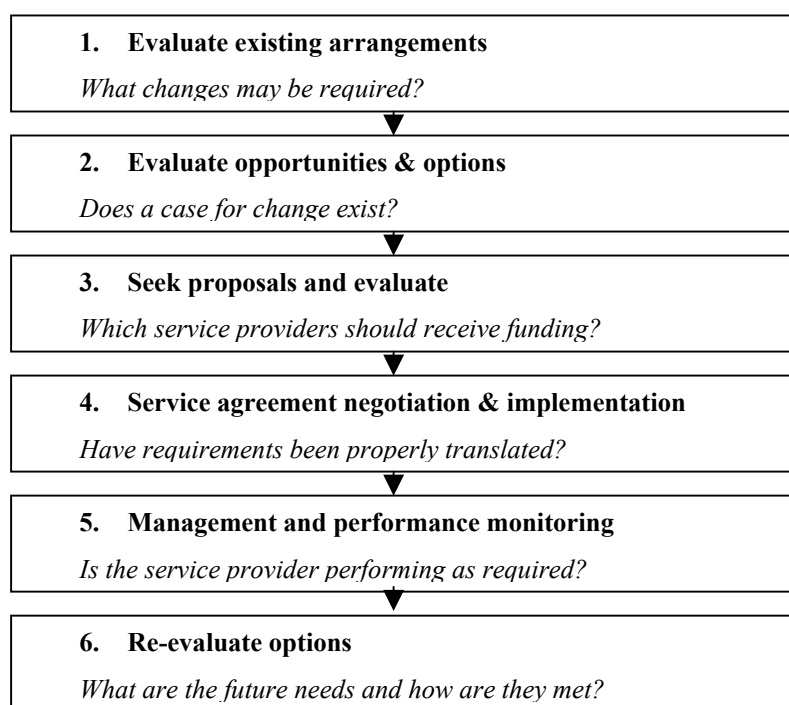
‘Any payment to a non-government organisation or individual on conditions unilaterally imposed by an Agency...’

A grant is not considered to include monies paid as a consequence of an agreement for the purchase of goods or services. A fundamental requirement of effective grant administration is the ability of an agency to protect its interest in ensuring public money is used for the intended purpose. Effective planning is key to achievement of operational objectives and value for money for any grant program. Establishment of meaningful performance measures is also necessary to facilitate monitoring of deliverables.

The more recent *Better Practice Guide for the Administration of Grants May 2002* published by the Australian National Audit Office (ANAO) was also referenced for the audit where appropriate.

DHHS guidelines

DHHS documented the following funding process model in the *Guidelines for the Funding of Services from Community Sector Organisations September 1998*:



This funding process was to be viewed as dynamic with programs being subject to each stage preferably on a triennial basis.

DHHS has noted that deficiencies associated with administration of funding to Community Sector Organisations (CSOs) reflect:

- The diversity of funding programs;
- The difficulty in measuring performance in many human service areas; and
- The differing extent to which funding programs have changed to accommodate more contemporary funding models.

Roles and responsibilities

Within DHHS the Grants Unit is responsible for administering funding arrangements with CSOs including:

- Preparation and management of service agreements; and
- Review of financial reporting requirements of organisations.

Divisions administering grant programs are responsible for:

- Managing the selection of organisations and negotiation of service agreements;
- Establishment of priorities for expenditure based on service gaps and client needs;
- Provision of advice to the Grants Unit on deviations from standards or levels of service; and
- Development of service reporting requirements and performance targets.

Legislation

The Commonwealth *Home and Community Care Act 1985* and the *Supported Accommodation Assistance Program Act 1994* provide for financial assistance to be made to the States for these programs.

The State *Disability Services Act 1992* provides for the Minister to make a grant of financial assistance to individuals or organisations to maintain services for persons with a disability. The *Mental Health Act 1996* does not refer to the administration of grant funding for Mental Health Services.

MANDATE

Under the provisions of section 44(b) of the *Financial Management and Audit Act 1990* the Auditor-General may:

‘Carry out examinations of the economy, efficiency and effectiveness of Government departments, public bodies or parts of Government departments or public bodies’.

The conduct of such audits is often referred to as performance auditing.

STANDARDS APPLIED

This audit has been performed in accordance with Australian Auditing Standard AUS 806 (*‘Performance Auditing’*) which states that:

‘The objective of a performance audit is to enable the auditor to express an opinion whether, in all material respects, all or part of an entity's activities have been carried out economically, and/or efficiently and/or effectively.’

The audit has included such tests and other procedures considered necessary in the circumstances.

OBJECTIVE

To assess aspects of the effectiveness, efficiency and equity of the administration of grants to the community sector by DHHS.

SCOPE

The audit examined four grant programs administered by DHHS:

- SAAP;
- HACC;
- Disability Services; and
- Mental Health Services.

Effectiveness of service delivery was not the primary focus of the audit.

The audit did not review adequacy of funding.

CRITERIA

The majority of audit criteria were derived from the Treasury *Best Practice Guide for the Administration of Grants* (Treasury September 2001). However some criteria were drawn from the ANAO *Better Practice Guide for the Administration of Grants* May 2002, DHHS Guidelines and other relevant sources.

Seven criteria were applied:

1. The long term aims and objectives of the grant program were documented, communicated and linked to Government policy. There was appropriate needs-based planning.
2. Value for money was achieved through use of an objective basis for determining amounts paid, consideration of administrative costs, review of funding processes and appropriate rules on eligibility.
3. Accountability mechanisms were in place including provision for recording reasons for decisions, appropriate reporting processes and the setting of meaningful performance measures.
4. Everything possible was done to encourage and develop initial approaches from prospective applicants. Approval processes included clear separation of duties and a requirement for declarations of conflict of interest. The service agreement provided protection for the agency.
5. There was sufficient, relevant and reliable evidence of costs incurred to minimise the potential for fraud. Financial information was evaluated for viability and accounting for grant money.
6. Arrangements ensured the consistency, quality and frequency of monitoring. Monitoring addressed the aims and objectives. There was provision for responding to monitoring.
7. Grant schemes were reviewed periodically for efficiency and effectiveness. Evaluations were performed by staff independent of the immediate line management. Results of reviews were published and fed back to management so that recommended improvements could be realised.

Audit methodology

For each of the four programs reviewed the audit opinion was formed as a result of:

- Discussions with program managers;
- Review of a judgement sample of three grants for each program; and
- Examination of relevant records.

Information was gathered through visits to relevant DHHS program offices. Reported ratings against audit criteria were assigned for programs as follows:

✓ - full compliance;

P - partial or some evidence of compliance; and

✗ - no evidence of compliance.

Reported ratings were based on an assessment process that included a degree of comparison between programs.

The funding allocated in 2002-2003 for the three CSOs reviewed for each program was as follows:

Table 2: Funding allocated in 2002-2003 to sample CSOs

Sample CSOs	Funding Allocated	Sample CSOs	Funding Allocated
SAAP		Disability Services	
CSO 1	\$427 697	CSO 1	\$3 180 432
CSO 2	\$67 475	CSO 2	\$727 082
CSO 3	\$165 214 ¹	CSO 3	\$167 902
HACC		Mental Health Services	
CSO 1	\$1 889 405	CSO 1	\$202 392
CSO 2	\$53 195	CSO 2	\$85 503
CSO 3	\$731 733	CSO 3	\$164 428

Stakeholder input

In line with the Audit Office's established practice for the conduct of performance audits, an advisory committee was convened to reflect stakeholder views. The committee provided input to the audit's methodology and reviewed the draft report upon its completion.

¹ CSO 3 funding for 2001-2002 as service provision ceased after this date

Nevertheless, the views expressed in this report are those of the Auditor-General, and are not necessarily shared by other members of the committee.

The Auditor-General chaired the committee and its members were drawn from the following areas:

- DHHS;
- Department of Treasury and Finance; and
- Tasmanian Audit Office.

Stakeholder input was also sought from the community sector.

Timing

Planning for the performance audit commenced in October 2002. Field-testing commenced in November 2002 and was completed in April 2003 with the report being finalised in July 2003.

Resources

The total cost of the audit excluding report production costs was \$75 000.

Reviews and audits in other jurisdictions

The Office of the Auditor-General of New South Wales published a performance audit report titled *Managing Grants* in December 2002. Principal findings were:

- Agencies could not be sure that grants allocated aligned with corporate objectives, and program outcomes were achieved;
- Problems across most programs could affect the fair and equitable selection of grants;
- There was not enough evaluation by agencies of the results achieved from individual grants; and
- Not enough formal reviews were undertaken of grant programs to assess the benefits they delivered and whether they continued to be relevant.

1 Aims and objectives

FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

This section of the report deals with our findings, conclusions and recommendations made in relation to the audit criteria.

1 AIMS AND OBJECTIVES

In relation to long term aims and objectives we considered whether:

- **These had been clearly documented and communicated; and**
- **Formal needs-based planning was conducted.**

1.1 DOCUMENTATION AND COMMUNICATION

Table 3: Objectives documented and communicated

SAAP	HACC	Disability Services	Mental Health Services
✓	✓	P	P

Long-term aims and objectives had been well documented for all programs reviewed. These were recorded in Commonwealth-State agreements, legislation, as well as national and state strategic plans.

Concerns identified for two programs with respect to a perceived lack of policy and procedures were considered to be attributable to poor communication of the relevant policy documents. A strategy to improve dissemination of policies and procedures should assist in overcoming a perception of a lack of strategic direction.

Program objectives require improved communication

Recommendation 1

Dissemination of strategic plans and documented objectives should be improved where appropriate to ensure provision of clear direction to all program staff.

1.1.1 Operational level

Table 4: Operational objectives linked to policy

SAAP	HACC	Disability Services	Mental Health Services
P	P	P	P

While we found that operational objectives had been documented for all programs these were not always clearly linked to current state Government policy.

As part of *Tasmania Together*, the Department undertook to implement the Government policy:

‘Improve the health and well being of the Tasmanian community through the delivery of coordinated services.’

According to Budget Paper No. 1 2002-2003 strategies for implementation were to include:

- *Policy driven investments* to reduce difficulties associated with historical practices and improve optimisation of resources;
- *Better targeting of resources* through analysis of community needs profiles against the distribution of services around the State; and
- *Improvement of service delivery models* by establishment of more cost-effective models that were accessible to clients.

A high-level analysis of cost-demand pressures for government-funded community services represented a significant first step in terms of implementation of these strategies. While some progress had been made at this level, we found that operational objectives aligned with each of these policy strategies were not explicitly documented in State strategic plans for programs reviewed. Although recommendations arising from reviews and other planning documents were found to partly facilitate implementation of these policies. Nevertheless we believe there is a particular need to devise strategies to reduce difficulties associated with historical practices as this will address a range of issues.

Strategic plans need better linkage to Government policy

Recommendation 2

Documented operational objectives and strategies should demonstrate better linkage with current state Government policy. Such strategies should explicitly seek to reduce difficulties associated with historical practices.

1.2 NEEDS-BASED PLANNING

Table 5: Needs-based planning is appropriate

SAAP	HACC	Disability Services	Mental Health Services
P	P	✓	P

Funding programs should be targeted at areas of greatest identified need. Directions and priorities should be based on formal needs analysis and reliance should be placed on analysis of appropriate data to determine those regions and service types needed most. A clear understanding of the distribution of service demands derived from reliable data is required for this purpose.

SAAP

Recent redistribution of SAAP funding on a population basis has ensured greater equity in the distribution of services throughout the State. Nonetheless, according to a recent high-level analysis by DHHS², there is still significant unmet demand for supported accommodation.

SAAP has advised that there is an intention to move the program towards a needs-based model under the next Commonwealth agreement. However, while SAAP now has adequate information on the actual demand for SAAP-funded services, data on the broader levels of homelessness and related needs remains inadequate for planning purposes.

HACC

The *HACC Annual Program Plan 2001-2002* states an intention to target funding to priority areas. As for SAAP concern regarding unmet demand for HACC services was also expressed through the recent high-level DHHS analysis which referred to ‘considerable waiting lists’. Although HACC has implemented a range of consultative mechanisms to assist in monitoring unmet need across regions, we considered that

Resources should be targeted according to need

² *Cost and Demand Pressures on DHHS Services: Emerging Issues May 2002 Version 2*

utilisation of quantitative data for this purpose could be enhanced.

HACC has advised that available waiting list data is not suitable for needs-based planning because clients are not assessed prior to inclusion on the list. Obtaining more reliable waiting list data was therefore not considered feasible or cost-effective. HACC considers that once the integrity of data collected for national reporting is assured this information could be used for needs-based planning.

Disability Services

Disability Services undertook a detailed cost and demand analysis of urgent unmet need in February 2003. The resulting paper³ identified areas of need totalling \$4.6 million for 271 people considered to be urgently in need of disability services. This assessment applied across a range of services (including the Grants Program) that provide support to people with a disability. DHHS has since advised that additional funds have been identified within the Agency to address some of these needs.

Mental Health Services

In relation to unmet need arising from accommodation services provided by the non-government sector, a Discussion Paper⁴ indicated that:

‘There are clearly considerable numbers of people with significant mental health problems, and significant support needs who cannot access suitable long-term accommodation.’

In addition we found that Mental Health funding to the non-government sector across the State was proportionally lower in the north with less than 1% of the total being allocated to this region. DHHS has advised that this is offset by service provision from other organisations based in the region that are not State-funded. Further as the level of funding to the non-government sector was relatively low for Mental Health Services achieving equitable distribution was more difficult. Nevertheless it was apparent that data was lacking on the adequacy of the total amount of each service type provided to the regions.

Currently Mental Health Services does not undertake formal needs-based analysis for the purpose of better targeting areas

Inequitable resource
distribution in Mental
Health Services

³ *Briefing: Disability Demand and Cost Pressures* February 2003

⁴ *Mental Health / Housing Supported Accommodation Project* November 2002

of identified need and determining directions and priorities. DHHS has indicated that work undertaken nationally will provide a framework for this development but its adoption will be will be dependent on additional resources.

Recommendation 3

Formal needs-based planning should be implemented for funded programs. Prioritisation strategies derived from this planning information should be implemented to better target areas of greatest need.

2 Value for money

2 VALUE FOR MONEY

We sought evidence that:

- There was an objective basis for determining amounts paid;
- Funding process options had been reviewed to enhance value for money; and
- Basic rules had been set on initial and continuing eligibility.

2.1 OBJECTIVE BASIS FOR PAYMENT

A costing methodology that considers activity-based costs of service delivery is useful for optimising the efficient allocation of grant funding and providing an objective basis for payment. The methodology should consider the following cost elements:

- Activity-based costing of service delivery;
- Administrative costs of service providers; and
- Administrative costs of the grant program.

Ideally, the funding model should also incorporate output-based funding arrangements into agreements. However as implementation can present technical and conceptual difficulties, adoption should be seen as a long-term goal.

2.1.1 Activity-based costing of service delivery

Table 6: Activity costing of service delivery considered

SAAP	HACC	Disability Services	Mental Health Services
P	P	X	X

As noted by a number of sources, funding to organisations has been allocated on an historical basis in both the selection of services for funding and their budgets. In the past, funding was allocated on the basis of submission or lobbying and, generally, amounts provided have continued to act as a baseline.

Historical funding models should be replaced

We considered that a reasonable funding model for service delivery costs should:

- Define measurable outputs;
- Apply output unit costings;
- Define the desirable service mix for regions;
- Include output levels in Service Agreements; and
- Monitor variances in service outputs.

While we found that measures had been taken in some programs to improve the linkages of funding to client outputs, there was still considerable work to be done in this respect. In addition, DHHS noted that many organisations were not resourced to meet the service standards outlined by various programs in the Service Agreement.

SAAP

Recent development of a state-wide model of the service system for SAAP was based on a number of constraints. This model required overall funding:

- To the regions to be proportional to the respective populations; and
- To be allocated according to prescribed levels for three modular functional service types.

The funding model addressed inequities and issues associated with service mix. However, as it did not take account of the range of service outputs the model was considered to have an input focus. SAAP advised that an output-based model was desirable and it was adopting an incremental approach towards implementation.

HACC

HACC aims to report annually on outputs in order to meet Commonwealth funding requirements. Output measures vary between service types, and can be measured in hours, number of packages, number of meals or number of one-way trips. Presently, monitoring of output levels is not considered sufficiently reliable for planning purposes.

HACC undertook a unit cost study in 1998 that identified all the steps in determining unit costs for service types. A unit cost calculation is now incorporated in the funding submission template. This will allow the HACC program to move towards considering unit costs for service types across regions. As yet, HACC has not determined the desirable level and mix of

service provision by region (as required by the Commonwealth HACC guidelines).

Despite scope for further improvement, HACC is clearly the most advanced program with respect to implementation of an output-based funding model. For this reason, we believe that DHHS programs considering adopting such a model should seek advice from HACC staff.

Disability Services

Disability Services has advised that a funding model accommodating roster arrangements for a given number of clients is predominantly used to allocate funding to organisations.

However according to the final report of the *Sector Reform Project July 2001* there was a need to examine the historical funding situation in Disability Services, as well as to explore models of funding that would provide equity and focus more on individual need.

In order to address inequities in distribution, the *Sector Reform Reference Group* recommended that several principles be observed in developing a framework for funding. These required the funding model to:

- Be needs-based and reviewed regularly;
- Reflect client outcomes; and
- Be transparent and equitable taking into account a fair administration component.

In line with these principles, the Group recommended the adoption of a funding model that was based on:

‘...a core component for organisations, a client support component based on the support needs of the individual and an administrative component dependent on the size of the organisation.’ pp9-10

After examination of a proposed funding formula the Department has recently decided that it does not support implementation because of a lack of robustness, reliability, and sensitivity to the various ‘types’ of organisations. In addition DHHS is of the view that existing inequities and inconsistencies in the service delivery sector cannot be appropriately addressed through implementation of an output based funding formula. The Department’s position is that these issues in Disability Services need to be addressed by the

development of more flexible and appropriate service models and more work is to be done in this respect.

Mental Health Services

Mental Health Services still operates its funding program to the community sector largely on the historical or 'list approach' whereby donations are made to worthwhile organisations. A briefing document⁵ proposed undertaking of a detailed review to inform the development of an appropriate funding model in contrast to the existing historically based funding.

At the time of the audit Mental Health Services had not developed a costing methodology nor had it determined or implemented the most desirable level and mix of services for each region. According to Mental Health unit-based costing is difficult to undertake as client support needs fluctuate widely and unpredictably and no significant work in this area has been undertaken nationally as a model for developmental purposes.

In addition Mental Health Services has advised that preliminary analysis of existing funding for organisations in other sectors, indicates that any unit costing methodology may result in the identification of significant increased funding requirements for existing services. Further without significant additional resources to support implementation this process could destabilise the sector. Similarly Mental Health Services considered implementation of an output-based funding model to be aspirational.

Recommendation 4

Costing methodologies should be developed and/or refined to ensure an objective basis for amounts paid. Flexible output-based funding arrangements should be integrated into Service Agreements where feasible.

⁵ *Briefing for Mental Health Services State Management Group: Administered Payments 2001-2002*

2.1.2 Administrative costs considered for providers

Table 7: Administrative costs considered for providers

SAAP	HACC	Disability Services	Mental Health Services
✓	P	✗	✗

According to DHHS guidelines, funding offered to non-government organisations should include provision for the full or marginal cost of necessary overheads.

We found that explicit consideration of overhead costs had only been fully implemented for the SAAP program. The costing model implemented made generic allocations for a number of overheads including administrative support, management fees and transport.

Provider overheads not determined

Administrative costs had not been explicitly determined for Disability Services or Mental Health Services. While administrative costs had not been ascertained for historical HACC funding, this component was determined in the context of submissions for annual growth funding.

DHHS has indicated that the issue of funding administrative costs is complicated because in many cases the Department is making a contribution towards the cost of providing the services, as opposed to fully funding service provision. Nevertheless as indicated in DHHS guidelines there is a need to give some consideration to overhead costs in funding allocated.

Recommendation 5
Overheads and administrative costs of non-government service providers should be more accurately ascertained, where appropriate, in order to enhance the efficiency and effectiveness of current funding models.

2.1.3 Administrative costs considered for programs

Table 8: Administrative costs considered for programs

SAAP	HACC	Disability Services	Mental Health Services
✓	✓	✗	✗

At the program level, administrative costs, including the costs of appraisal and monitoring should be estimated and controlled.

Administrative allocations for SAAP and HACC were determined by agreement between the Commonwealth and Tasmania and represented 1.4% and 1.5% of total budgets respectively.

SAAP advised that the component of 1.4% was inadequate to achieve the objectives of the program to a desirable standard. Negotiations seeking an increase to this allocation were underway with the Commonwealth and according to SAAP these were likely to be supported.

According to HACC the allocation for program administration should be greater and this is being progressed through discussions with Commonwealth HACC officials.

Administrative
program costs were
unknown

Administrative costs to the grant schemes for Disability Services and Mental Health Services had not been determined. Extraction of administrative costs is complicated by combined administration of both government and non-government services for those programs.

Recommendation 6

Current administrative costs to grant programs should be determined. These should be used to inform assessments of allocations for administrative functions such as appraisal and monitoring.

2.2 FUNDING PROCESS OPTIONS ARE REVIEWED

Table 9: Funding processes are reviewed

SAAP	HACC	Disability Services	Mental Health Services
✓	✗	✗	✗

Existing funding arrangements should be periodically reviewed for the purpose of establishing whether a case for change exists and proposals involving new arrangements and/or providers should be sought (as per DHHS Guidelines outlined in the Introduction). There is a range of possible options in relation to funding processes. These include:

- Direct selection;
- Selective/closed requests for proposal; and
- Open requests for proposal.

Existing arrangements
were in need of
review

We found that a review of funding processes for the core service providers had only been fully adopted for the SAAP program. Generally, there was a reluctance to instigate change without an explicit political mandate. Political support was considered necessary to achieve the flexibility required to realign business planning.

SAAP

The former Minister signed off a blueprint⁶ for a number of changes in the way that services would be provided for those who were homeless or at risk of homelessness.

The blueprint required that open tender processes be used for new services. It also called for redistribution of funding where the current funded level of service delivery in a region exceeded the proposed level. Provision was made through the blueprint for sponsoring organisations to:

- Reshape services and management arrangements on a voluntary basis; and
- Use an open tender process where satisfactory arrangements could not be met through voluntary participation.

Overall, we considered SAAP satisfied this criteria although we noted one instance where the former Minister intervened to announce that one unsuccessful SAAP tenderer would be funded under Mental Health Services after considerable media attention and political lobbying.

HACC

For the most part, funding for HACC services had been allocated on an historical basis without explicit consideration of whether proposals involving new arrangements and/or providers should be sought. HACC advised that that the current historical funding situation is operating effectively although a formal review documenting this view has not been undertaken. Full implementation of an output-based funding model will assist in confirming whether a case for change exists.

In accordance with national guidelines, HACC is seeking to target priority areas with growth funding. Applications for this funding (which is significantly less than the main allocation) are made in response to advertisements.

⁶ *Integrated Continuum of Support 2000-2005*

Disability Services

The *Sector Reform Group* examined the historical funding situation in Disability Services in 2001. There was an intention to explore funding processes that would provide equity and focus more on individual need. However, minimal progress had been made in this respect with report recommendations related to a proposed funding model being recently rejected by the Department. An overall review of the funding process within Disability Services for the purpose of establishing whether new arrangements and/or providers should be sought would therefore be appropriate.

Mental Health Services

According to Mental Health Services the list of funded organisations has become more or less entrenched and there is virtually no financial or political flexibility to make any changes to the basic list of organisations to be funded.

Despite this Mental Health Services does consider that periodic review should occur to establish whether a case for change exists. However it has indicated that until additional funds are available, any process to make funding equitable would mean a redistribution of current funds potentially affecting the viability of existing providers.

Recommendation 7

All programs should periodically review funding process options for the purpose of establishing whether proposals involving new arrangements and/or providers should be sought.

2.2.1 Open requests for proposal are considered

Table 10: Open requests for proposal are considered

SAAP	HACC	Disability Services	Mental Health Services
✓	✓	✗	✗

As discussed above, the SAAP program sought open requests for proposal via advertising to address inequity arising from the historical funding model as well as to improve the regional service mix. The requirement to implement this funding process option was explicitly documented in the *Integrated Continuum of Support 2000-2005*. Open requests for proposal were also used on an annual basis to seek submissions for HACC growth funding on a one-off and recurrent basis.

A closed approach is used when potential providers are limited

As part of the reform process in Disability Services, a decision was made to proceed with a closed request for proposal in order to transfer the management of three group homes to the non-government sector. Since there had been no review of funding process options in Mental Health Services, consideration had not been given to the use of open requests for proposal for this purpose.

Reasons for the preference for closed requests for proposal were not documented for either Disability Services or Mental Health Services. A closed approach was considered preferable by program management in each of these cases due to a perception that the number of providers outside of those funded would be limited. Nevertheless, while such an approach was legitimate in these circumstances, the basis for the decision should be recorded.

Recommendation 8

The basis for deciding upon a particular funding process option (ie direct selection, closed or open requests for proposal) should be clearly documented in accordance with DHHS Guidelines.

2.3 BASIC RULES ON ELIGIBILITY

Care should be taken to ensure that the rules of the grant scheme are clear. Such rules should contain necessary controls as well as including provision for subsequent evaluation.

In relation to eligibility DHHS Guidelines for funding community sector organisations are considered to be applicable to:

- Individuals; or
- Incorporated, not-for-profit organisations.

2.3.1 Eligibility: Incorporation status

Incorporation is preferable

According to DHHS, funding should not be provided to a group that is not a legal entity such as a committee that is not incorporated. Although the preference for incorporation should be stated in eligibility guidelines this should not prevent arrangements from being made with other legal entities. A requirement for community sector organisations to be incorporated was only identified in the HACC Service Agreements. DHHS has indicated that a preference for

organisations to be incorporated should be included in all Agreements as well as being referenced in guidance notes.

A check of the legal status of the sample of HACC service providers found that one organisation (allocated a relatively substantial sum of recurrent funding) was a deregistered association. The Department has advised that de-registration occurred as a result of an administrative oversight on the part of the organisation.

DHHS has acknowledged that it is not appropriate to allocate recurrent funding to a deregistered organisation as members of Boards of Management are not covered by the benefits of incorporation and the organisation is not a legal entity. In this regard, when organisations are allocated an initial grant to provide HACC services they are required to provide evidence of incorporation.

DHHS has advised that the revised Service Agreement will impose an obligation on an organisation to advise the Department of any changes in its incorporation status. While self-reporting will assist with management of changes in status to an extent, we believe that checks of the legal status of a sample organisations should be undertaken by DHHS periodically. This could occur as part of random, special-purpose audits proposed in Section 5.2.2.

Recommendation 9

The revised Service Agreement and supporting guidance notes should indicate a preference for organisations to be incorporated. Sample checks of the legal status of organisations should be undertaken periodically.

2.3.2 Eligibility: 'Not-for-profit' organisations

DHHS Guidelines were not intended to apply when a commercial market existed for the provision of a service. Such a situation could involve issues relating to competitive neutrality and require the application of normal procurement policies and procedures, unless there were overriding considerations relating to public benefit.

While most community sector organisations were 'not-for-profit' some 'for-profit' organisations were identified among the HACC and Disability Service providers. The involvement of 'for-profit' organisations in programs which traditionally only involved 'not-for-profit' bodies is a recent phenomenon.

'For-profit'
organisations now
eligible

Modification of DHHS guidelines needs to be undertaken for this purpose.

Recommendation 10
DHHS Guidelines should be modified to include ‘for-profit’ organisations as eligible providers of program services. Issues relating to competitive neutrality should be appropriately addressed.

2.3.3 *Criteria for initial eligibility are straightforward*

Table 11: Criteria for initial eligibility are straightforward

SAAP	HACC	Disability Services	Mental Health Services
✓	✓	✓	✓

Criteria for determining initial eligibility to a grant program should be straightforward and published. As the majority of organisations reviewed had participated in grant schemes on an historical basis, documentation outlining the bases for initial eligibility was not typically available on departmental files. However, we found that eligibility criteria were well-defined for new services.

2.3.4 *Basic rules on continuing eligibility*

Table 12: Basic rules on continuing eligibility

SAAP	HACC	Disability Services	Mental Health Services
✗	P	P	✗

In relation to continuing eligibility and conditions of support, Schedule 5 of the Service Agreement indicated that ongoing funding was subject to the following conditions being achieved:

- Service levels; and
- Service quality.

According to DHHS Guidelines, review of service providers should be conducted at least on a triennial basis to ascertain whether organisations are performing as required.

Difficulties with respect to assessment of service levels and quality were documented by DHHS as follows:

- Descriptions of services and associated standards were inadequate and in many cases did not match the work undertaken by the organisation; and
- Evaluation of services was *ad hoc* and implemented without consultation.

Rules on continuing eligibility are inadequate

We found these concerns to be valid for each of the programs reviewed, primarily because descriptions of ‘service levels’ did not always clearly reflect outputs. Moreover, performance monitoring was not consistently subject to validation, analysis or a suitable quality framework.

Service levels

Service Agreement descriptions of ‘service levels’ to be achieved did not always facilitate ease of assessment. Examples of broad descriptions used to define service outcomes for SAAP and Mental Health Service agreements were as follows:

‘The Organisation must assist all clients seeking assistance and ensure that they are referred to and achieve access to other services as appropriate.’

‘Total number of individuals is approximately 158, but membership numbers are not restricted and so are subject to constant fluctuation.’

We are of the view that DHHS would be limited in its capacity to adequately ascertain the continuing eligibility of organisations using these definitions.

Further, because systematic validation and analysis of data collected for monitoring purposes did not occur on a formal basis, strategies for ascertaining whether ‘service levels’ had been achieved were further compromised. DHHS has advised that deriving clear definitions of ‘service levels’ can be difficult where there are co-morbidity issues and clients have complex needs.

In relation to such concerns DHHS has proposed that service reporting templates be developed to clarify data requirements and obtain comparable information. This would require thorough consideration to be applied to development of appropriate definitions and a suitable reporting format. Nonetheless, we believe this should occur to facilitate

improved assurance with respect to achievement of ‘service levels’.

Recommendation 11

Continuing eligibility and conditions of support should be determined from clearer definitions of ‘service levels’ and demonstrated achievement of such levels through completion of validated service reporting templates.

Service quality

Each program required organisations to either meet a nominated set of standards or demonstrate progress towards achieving such standards. We found that development of an adequate quality framework for the purpose of evaluating compliance to nominated standards (on a triennial basis) had only recently occurred for HACC and Disability Services.

Further, for the small proportion of providers evaluated by these programs, significant concerns had been raised with respect to organisational practices.

Several organisations ranked poorly

- In the HACC program, 30% of organisations assessed against minimum requirements in 2001-2002 ranked poorly and 40% of all standards assessed were not met by the providers evaluated;
- Similarly, in Disability Services DHHS was not satisfied with performance against several standards for 2 out of 5 organisations assessed.

While comprehensive draft action plans had been developed for HACC and Disability Services, decision-making processes and notification or escalation procedures for managing continued non-compliance had not been explicitly documented.

SAAP and Mental Health Services have each indicated intentions to develop quality frameworks. However Mental Health Services has advised that until sufficient resources are available to provide education and support, compliance to the National Standards for Mental Health Services will not be achievable.

Recommendation 12

Quality frameworks providing for periodic assessment of service standards should be developed. Processes for determining continuing eligibility in the event of ongoing unacceptable performance should be documented.

3 Accountability

3 ACCOUNTABILITY

We considered the extent to which the grant schemes had been designed for accountability by reviewing whether:

- **There was adequate provision for recording reasons for decisions;**
- **The program conformed to departmental guidelines;**
- **Reporting mechanisms had been proposed or were in place; and**
- **Relevant and meaningful performance measures had been set.**

3.1 RECORDING REASONS FOR DECISIONS

Reasons for decisions at all stages of the grant process, including appraisal and approval, must be diligently documented. The reasons for decisions are part of the audit trail and should make it clear that only relevant factors have been taken into account in making recommendations and decisions. Decision-making processes should also conform with departmental guidelines.

3.1.1 Decisions for appraisal and approval are documented

Table 13: Decisions for appraisal appropriately documented

SAAP	HACC	Disability Services	Mental Health Services
✓	P	✓	✓

Recording of decisions related to appraisal and approval is facilitated by the Contract Review committee (CRC) which holds responsibility for reviewing all proposals. While recording of decisions was adequate for the most part, we considered that transparency with respect to appraisal of applications for annual growth funding in HACC could be improved. The recent *ANAO Better Practice Guide May 2002* advocates use of a numerical rating system (over ordinal scales e.g. High, Medium or Low) for differentiating the relative merits of projects that rate in the same range.

Currently, a qualitative approach and an overall numerical rating (that does not rank individual selection criteria) is used by HACC to record appraisal of decisions. We did not consider this to be ideal particularly as some of the qualitative assessments did not explicitly

Appraisal was adequate

differentiate reasons for unsuccessful applications. An example of such an assessment was as follows:

‘Whilst respite is a current priority the proposal is not supported at this stage in preference to other submissions.’

We are of the view that a purported ‘preference to other submissions’ is insufficient justification for non-selection. Implementation of a numerical rating system for evaluating selection criteria would assist in more fully substantiating and improving transparency with respect to such decisions.

Recommendation 13
Implementation of a numerical rating system should be considered for evaluating compliance to specific selection criteria where the relative merits of a number of applications are to be ranked.

3.2 CONFORMANCE WITH DEPARTMENTAL GUIDELINES

Table 14: The grant program conforms with DHHS guidelines

SAAP	HACC	Disability Services	Mental Health Services
✓	P	P	P

DHHS *Guidelines for the Funding of Services from Community Sector Organisations* represents a defining reference for the administration of grant funding to community organisations. A description of the key funding processes to be implemented is provided in the Introduction of this report.

For the most part we found the Guidelines provided a reasonable basis for grants administration. However, it was our view that there were some sections, (particularly those related to evaluation of existing arrangements and proposals), that could be updated to more accurately reflect current practice.

Evaluating existing arrangements

As discussed in the previous chapter, a lack of conformance to DHHS Guidelines was identified in relation to review of existing arrangements for the purpose of establishing whether a case for change was justified. Political support was considered necessary to facilitate such a review process and this had only been forthcoming for the reform within SAAP.

DHHS Guidelines require updating

In addition, there was a reluctance to implement such fundamental processes of change due to the potential destabilisation of the sector that could result. The preferred approach to change management therefore involved considerable negotiation with organisations to achieve incremental adjustments to service delivery over time.

The use of such negotiation processes did not appear to be given appropriate emphasis in DHHS Guidelines and there may be a case for this to be addressed through revision of this document.

Recommendation 14

DHHS Guidelines for Funding Services to Community Organisations should more explicitly outline processes for negotiation with organisations where change to service delivery is required.

Seeking proposals

Where new services were recently created we found that the documented guidelines had been observed for the programs reviewed apart from one prominent exception where a Ministerial directive resulted in the bypassing of normal decision-making processes.

In this case, key processes were sidestepped when the former Minister publicly announced that an organisation would become a provider of Mental Health Services after the organisation failed to succeed in a tender for SAAP services. The announcement to fund the organisation under Mental Health Services followed a significant campaign of political lobbying.

Key processes outlined in DHHS Guidelines that were not found to have occurred prior to the announcement were:

- Confirmation of the funding source;
- Development of funding program objectives;
- Determination of future service requirements;
- Undertaking of a detailed cost/benefit analysis; and
- Research of the market place.

An examination of the client group served by the organisation under SAAP (subsequent to the announcement) indicated an unintended consequence for a group of longer-term clients. This was not unexpected given the considerable unmet accommodation needs for clients with mental health issues. Further this analysis did not appear to give consideration to the apparent inequitable distribution of funding between the regions discussed in Section 1.2. In relation to the development of this new service, DHHS has indicated that the

A campaign of
political lobbying

Guidelines are only intended to provide guidance, and discretion needs to be applied in their application.

Evaluating proposals

While we found DHHS Guidelines to be a reasonable reference for evaluating proposals generally, we considered that guidance with respect to probity could be strengthened. In particular we formed the view that key probity requirements relating to appraisal should require the process to be:

- Free from interference by any interested party; and
- Secure and confidential.

As other aspects of DHHS Guidelines mentioned previously would benefit from revision, we considered that a formal review would be appropriate. Enhanced presentation and promulgation of the guidelines should also occur to improve the familiarity of program staff with key funding processes.

Recommendation 15

As part of updating DHHS Guidelines, departmental guidance in relation to probity of appraisal processes should be strengthened. The revised Guidelines should be widely promulgated to all program staff.

3.2.1 *A process provides for complaints of political or other forms of bias*

A process for formal management of complaints relating to the funding of grants was established by the Department 12 months ago. Prior to endorsement of these procedures management of complaints had been *ad hoc* with political and other forms of lobbying used as a means for resolving concerns.

3.3 REPORTING MECHANISMS ARE IN PLACE

It is important that DHHS reports regularly to Parliament about a grant program and the use of public funds. Programs produce different reports for a range of purposes, however, we restricted this part of our review to the suitability of DHHS *Annual Report* as a reporting mechanism because this document is routinely provided to Parliament.

3.3.1 Annual Reports address the aims and objectives

Table 15: Annual Reports address the aims and objectives

SAAP	HACC	Disability Services	Mental Health
P	X	P	X

The requirement for the Annual Report to address aims and objectives should be implemented in a way that reflects the operations of the grant program. Ideally, this report should include suitably aligned targets that are derived from appropriate efficiency and effectiveness indicators. Although for smaller programs such as Mental Health Services comprehensive reporting of performance may not be possible.

Suitable targets were not included in the Annual Report for programs reviewed but nationally reported indicators of efficiency and effectiveness had been included for SAAP and Disability Services. Some data showing trends in relation to activity was provided in the report for these programs. Neither quality nor efficiency indicators had been included in the Annual Report for any program reviewed.

Suitable targets are needed for reporting

Recommendation 16

Reporting of achievement in DHHS Annual Report should include suitable targets derived from appropriate efficiency and effectiveness indicators.

3.4 RELEVANT PERFORMANCE MEASURES ARE SET

Table 16: Relevant performance measures have been set

SAAP	HACC	Disability Services	Mental Health
P	×	P	×

The absence of suitable performance measures may adversely affect both accountability and the cost of the grant program. This can also affect the desired impact because necessary adjustments cannot be made to the grant program.

The following relevant and reliable measures are needed for each operational objective:

- Input measures;
- Output measures; and
- Impact/outcome measures.

Genuinely useful measures are:

- Accepted as relevant and reliable;
- Comparable over time;
- Comparable with other grant programs;
- Non-distortionary; and
- Economical to produce in relation to the benefits.

While implementation of such a system of performance measurement is desirable this may not be achievable in the short term due to difficulties associated with defining suitable measures for the provision of human services.

3.4.1 *Input measures*

National reporting of input measures had been implemented for both SAAP and Disability Services. Input measures had not been developed for HACC or Mental Health Services.

3.3.2 *Output measures*

Output measures show the extent to which operational targets have been achieved. Operational output targets reflective of non-government service provision had only been devised for Disability Services through the recent DHHS *Performance Management Review System*.

SAAP believes that the establishment of output targets is appropriate and achievable in the short term.

While implementation of performance measures is considered appropriate for HACC, this needs to be progressed as part of a National process.

Disability Services has well defined output measures for national reporting in relation to access and equity. Quality measures are still to be determined and implemented for reporting at this level.

Mental Health Services has not developed or implemented output measures for the non-government sector. While considered appropriate, development of performance measures is not regarded as being readily achievable. However it is proposed that a process of consultation will be undertaken over a two-year period to implement appropriate information collections under national agreements.

3.3.4 *Impact/outcome/efficiency measures*

Output/outcome measures should be developed and refined

Impact/outcome measures assess the extent to which the grant scheme is securing its wider aims and objectives. There is currently limited client outcome data available in SAAP and the nationally collected data that is available tends to be of a higher order and relates to outcomes that are dependent on external variables. Participation outcomes appeared to be well defined for the *Commonwealth State Disability Agreement* in Disability Services. Neither HACC nor Mental Health Services had developed outcome measures.

Efficiency issues can be addressed through linkage of relevant input and output measures. As with other measures these were not found to have been developed for HACC or Mental Health Services.

Recommendation 17

Programs should continue to develop and refine suitable input, output, outcome and efficiency performance measures. Operational targets based on these measures should be used to assess performance.

4 Applications, approvals and agreements

4 APPLICATIONS, APPROVALS & AGREEMENTS

We considered whether:

- Everything possible was done to encourage and develop initial approaches from prospective applicants;
- Approval processes included clear separation of duties and a requirement for declarations of conflict of interest; and
- A well-drafted document provided for Agency protection, agreed terms and conditions and dispute resolution.

4.1 ENCOURAGING PROSPECTIVE APPLICANTS

A high level of interest from prospective applicants is important for ensuring the success of a grant program. Encouraging as many eligible applications as possible gives a wide field of potential grant recipients. This means using different kinds of publicity to increase awareness. Promotional material should also set out the various forms of assistance available.

4.1.1 Different kinds of publicity are used to increase awareness

Table 17: Different publicity is used to increase awareness

SAAP	HACC	Disability Services	Mental Health Services
✓	P	✓	✓

Where new services were created, we found that different forms of publicity had been used to raise awareness. For example, with SAAP and HACC the intention to provide new services had been advertised in *The Mercury* newspaper. The intention to seek proposals in Disability and Mental Health Services for some new services was brought to the attention of prospective applicants by distribution of circulars to all known providers of the service type required.

As HACC is the only grant scheme with annual growth funding, the use of a range of promotional material is most appropriate for this program. While the availability of growth funding is advertised, publishing of the new services to be created on DHHS website may further enhance awareness.

New services were advertised

4.2 APPROVAL

No single officer should appraise a grant and give financial approval for the expenditure. Such an arrangement involves an unacceptable risk of collusion and fraud.

4.2.1 Separation of duties

The Minister ultimately approves offers thereby ensuring separation of duties between appraisal and approval at the highest level. The appointment of external parties on selection panels and departmental Contract Review Committee (CRC) processes also assists in this regard.

4.2.2 Declarations of conflict of interest

Although references to transparency and probity in the departmental funding guidelines require selection processes to be open and fair, a requirement for conflicts of interest to be declared was not identified.

Despite the absence of this requirement, an informal declaration was identified in relation to assessment of submissions for the 2002-2003 HACC funding round. Further as part of an evaluation of requests for proposal in SAAP a probity auditor recommended that a requirement to declare conflicts of interest be documented.

Conflicts of interest should be declared

Recommendation 18

A requirement for conflicts of interest to be declared in the appraisal and approval process should be strengthened and formalised in the probity section of DHHS Funding Guidelines.

4.3 A WELL-DRAFTED AGREEMENT

A fundamental requirement for effective grant administration is the ability of the agency to protect its interest in ensuring that public money is used for the intended purpose. An appropriate document is required which takes account of the legal difference between a grant and a contract for services and enables enforcement of the relevant grant conditions. In particular agreements should provide for:

- Legal protection of the agency;
- Agreed terms and conditions; and
- Dispute resolution arrangements.

4.3.1 Legal protection of the agency

Service agreements should describe the circumstances for reclaiming a grant by defining:

- Action for a perceived breach;
- Termination conditions; and
- Fees and costs on termination.

While these conditions had been defined in agreements, DHHS expressed concern that there was insufficient clarity to inform both parties of the situations where funds may be withheld from an organisation. In addition the SAAP program identified a significant concern that it was not possible to invoke penalties for non-compliance.

Legal advice was sought when one SAAP funded organisation stopped providing services under the Service Agreement very shortly after receiving a quarterly payment, so that no services were provided during that quarter. Although Crown Law was engaged to obtain a breakdown of all amounts paid from the grant monies to employees of the organisation, this information was not provided and funding could not be recovered in these circumstances.

No services were provided after payment

In order to clarify the position with respect to recovery, DHHS has proposed that the revised Service Agreement should provide for the Crown to be able to withhold any funds payable to the organisation if the Crown considered that:

- The Services provided by an organisation under the agreement are not satisfactory; and
- Grant funding has not being used for the purpose of providing services in accordance with the agreement.

The review of the service agreement has also proposed additional termination conditions as well as a provision for fees and costs to be recovered if the organisation terminates the agreement.

According to DHHS, Crown Law has verbally advised the Department that the revised Agreement does now provide adequate protection to the Agency. Given that this version will represent the basis for the allocation of a significant sum of funding to the community sector, it is our view that such confirmation should be sought in writing.

Recommendation 19

Confirmation should be sought in writing from Crown Law that the revised Service Agreement provides appropriate protection to DHHS.

4.3.2 Terms and conditions

The funding and service agreement should drive the enforcement of reporting and accountability requirements. The terms of the agreement should facilitate monitoring and evaluation of the project against approved performance criteria.

As discussed in Section 2.3.4, there is a need to enhance terms and conditions in the Agreement related to the ‘service levels and quality’ to be achieved. Further, while the agreements did provide for monitoring to occur, they did not always include clearly defined performance criteria to facilitate assessment of service levels.

4.3.3 Dispute resolution arrangements

If, during the term of the service agreement either party considers that the other party is not meeting its obligations, it is desirable that there are processes in place to deal with these situations. A number of concerns had been raised regarding the dispute resolution clauses in the existing agreement. These related to a lack of clarity in the resolution process and the role, selection and funding of any third party. Such concerns were to be addressed through inclusion of a flowchart in the explanatory notes of the revised service agreement. This detailed steps for resolving a breach and undertaking dispute resolution.

Dispute resolution procedures recently developed

5 Monitoring of funding

5 MONITORING FUNDING

We sought evidence that:

- **Fraud control plans had been developed;**
- **Financial information had been evaluated for sufficient, relevant and reliable evidence of costs incurred as well as viability and accounting for grant funds.**

5.1 FRAUD CONTROL PLANS

There had been allegations of fraud within funded organisations in relation to each of the program areas reviewed. DHHS has an obligation to ensure that public monies are not put at risk in the funding of services undertaken by community sector organisations. Fraud control plans can assist in this respect.

Allegations of fraud in each program

The *ANAO Better Practice Guide for the Administration of Grants May 2002* proposes that a fraud control plan be developed and that staff are aware of the procedures to follow when fraud or misappropriation is suspected.

Fraud control plans are designed to protect public money and property, as well as to protect the integrity, security and reputation of public institutions. Such plans should also consider the risk of misappropriation of grant funding. DHHS did not have such plans and we noted that investigative procedures for the alleged frauds were inconsistent across the programs.

Recommendation 20

DHHS should develop fraud control plans that seek to protect public money by explicitly considering the risk of misappropriation as well as suitable follow-up processes for suspected fraud.

5.2 MONITORING OF FINANCIAL INFORMATION

An assessment of the use of monies, in accordance with the agreement is important for ensuring that grant funding is used effectively. Independently certified evidence of costs obtained before payment of the grant can assist with this task.

5.2.1 *Reliable evidence of costs incurred*

Financial statements were insufficient evidence of costs incurred

Service agreements require organisations to submit audited financial statements by 30 September of the relevant financial year. We did not consider that audited financial statements provided sufficient, relevant or reliable evidence of costs incurred by the grant recipient. We have proposed measures in Section 5.2.2 to address these concerns.

In addition, we found from the sample of 12 organisations reviewed that five had not submitted audited financial statements by the due date. DHHS has acknowledged that many organisations do not comply with this and other reporting requirements. A later timeline of 30 October of the relevant financial year for provision of the audited financial statements has recently been introduced to improve return rates. As this extended timeline would not have been met in the past financial year by the five organisations concerned we believe that further strategies (including possible withholding of payment) should be developed, documented and consistently applied to ensure returns are received by the due date.

Recommendation 21

Further strategies should be devised to improve the return rate of audited financial statements prior to the designated due date of the relevant financial year. Withholding of payment should be considered where reasons given for late return are inadequate.

5.2.2 *Financial information/acquittal to DHHS*

DHHS found that there was a need for a separate acquittance of grant funds. General financial statements were not considered sufficient for this purpose because an organisation could receive funding from a number of sources. This view was supported by a DHHS discussion paper⁷.

Grant funds to be acquitted

In order to address these concerns, templates have recently been developed by the Grant Unit for organisations to acquit grant funds and report annually on their financial position. This approach will provide information better targeted to the needs of DHHS and promote comparability. Ideally, disclosures through such templates should be audited (as is required for HACC) to provide appropriate

⁷ *Review of Service Agreements between the DHHS and Funded Organisations* September 2002

assurance with respect to accounting for grant funds. However, this is not considered to be feasible for the majority of organisations in the short term.

Independent auditors should be engaged by DHHS

We also found that the financial statements reviewed did not provide a clear relationship between expenditure categories and the amounts spent on service delivery. For example the wages and salaries component that represented the main item of expenditure did not distinguish between administrative and service delivery costs. In addition it was not always possible to establish from audited financial statements whether administrative costs were reasonable.

We therefore believe that (in the absence of audited acquittals) greater assurance with respect to several aspects of expenditure should be sought by engagement of independent auditors to undertake random special purpose audits on a sample of organisations each year. Such audits should examine:

- Allocations for administrative/management expenses;
- Wages and salaries; and
- Verification of employees.
-

Recommendation 22

The Grants Unit should engage independent auditors to undertake annual random special purpose audits of a sample of organisations. These audits should consider administrative allocations as well as wages and salaries.

5.2.3 *Review of financial information*

The Grants Unit had implemented recording of details contained within audited financial statements. Data was being entered into a spreadsheet and this was to be completed as time permitted. However the Unit has advised that these tasks were undertaken primarily to ascertain the type of information submitted. As such the work performed did not represent a sufficiently structured reporting framework and review of financial information tended to be reactive.

We believe that documentation of a formal process for review of financial information will enhance monitoring of funding. Aspects of the review process that could be formally addressed might include:

- Timelines for review (preferably before provision of the third quarterly payment);
- Information for triggering further investigation; and
- Action for suspected concerns.

Given the significance of financial review in terms of accounting for grant funding as well as the shortcomings identified in relation to financial reporting generally, we believe the priority of this accountability function should be increased.

Recommendation 23

A formal strategy for the review of financial information should be documented. Financial monitoring of audited statements for the previous financial year should be completed for all organisations prior to provision of the third quarterly payment.

5.2.4 Identification of unused grant funds

The current Service Agreement requires that any funds provided must be reviewed at the end of the funding period and consideration given to the funds being carried over upon application in writing by the Organisation.

We found for the organisations reviewed, audited financial statements showed that 7 had carried over unexpended funds. Requests to carry over the funds had not been made by any of these providers. For a number of these, DHHS outlined circumstances that would cause the Department not to expect submission of a request to carry over the unexpended amount. These were as follows:

- A net deficit across a range of programs;
- Inability to provide financial statements due to investigation of alleged misappropriation; and
- Possible claim that the reported surplus related to non-grant income.

Requests for
unexpended funds

The Grants Unit had not systematically sought formal requests for approval to carry over unexpended funds as it had not developed a clear understanding of an actual surplus. The difficulty in assessing true surplus funds was increased by the varying styles and quality of financial reporting being provided by organisations to the Department.

Establishment of the reporting guidelines discussed previously should assist with improving consistency of presentation of financial data as well as enabling better identification of unexpended grant funds. However due to the significant past ambiguity and non-compliance to the Service Agreement requirement in relation to unexpended funds, there may be a need for other formal strategies to be developed and refined as part of financial monitoring to improve the submission rate for requests to carry over such funds.

Recommendation 24

Strategies should be further devised and refined to ensure that organisations submit written requests to DHHS to carry over unexpended grant funds.

5.2.5 Redundancies

DHHS had not articulated policies regarding the funding of redundancy costs incurred by community sector organisations. The issue of severance payments was raised in some instances where organisations had ceased to provide services.

Recognition of the need to fund redundancies

Whilst there has been recognition that organisations had an obligation to pay redundancies in these situations, the Department had not explicitly funded these costs.

In this regard the Grants Unit proposed that with financial reporting, organisations only charge expenditure in respect of the estimated cost of identified redundancies that would occur in the following year. DHHS has advised that as part of the revised financial reporting requirements such a strategy has been implemented in accordance with relevant accounting standards.

5.2.6 Funding not administered by the Grants Unit

As discussed in the Introduction it is the role and responsibility of the Grants Unit to prepare and manage service agreements, monitor budget performance and review financial reporting requirements.

However for time-limited funding provided in accordance with priorities of the *National Mental Health Plan* we found that Mental Health Services and not the Grants Unit was responsible for these tasks. While this may be appropriate in such cases, greater consistency on the part of the responsible program in performing these functions is required.

Recommendation 25

Administration and financial monitoring of Service Agreements should be enhanced in accordance with relevant requirements where the grant program assumes responsibility for these functions.

6 Monitoring results

6 MONITORING RESULTS

We considered:

- **Consistency, quality and frequency of monitoring;**
- **Provision for responding to monitoring.**

6.1 CONSISTENCY, QUALITY AND FREQUENCY OF MONITORING

Table 18: Consistency, quality and frequency of monitoring

SAAP	HACC	Disability Services	Mental Health Services
P	P	✓	✗

SAAP, HACC and Disability Services performed monitoring in conjunction with quarterly national data collection while monitoring of Mental Health Services was based on self-reporting by organisations.

Effectiveness was limited for three programs reviewed because of deficiencies noted, including:

- Lack of validation and analysis of information collected;
- Lack of adequate quality assurance processes for SAAP and Mental Health Services.

Lack of validation and analysis

Further we observed that there was a general lack of formal feedback to organisations regarding performance particularly in relation to service levels.

SAAP

Ongoing development of service specifications will facilitate improved monitoring of outputs in SAAP. The need for validation and increased analysis of data provided by organisations to the *National Data Collection Agency* (NDCA) has been acknowledged by SAAP. However it does consider that the most appropriate strategy for undertaking validation needs to be determined at both a State and National level.

SAAP accepts that increased analysis of NDCA data should be undertaken and it has advised that a range of options has recently been considered for this purpose.

There has been a history of inadequate processes to identify quality assurance issues in SAAP and a quality assurance project involving a review of the current SAAP standards is to be implemented.

HACC

HACC considers that validation of provider records on a sample basis will be enhanced through the *State Data Repository* project to be implemented in the near future. Consultants are currently undertaking a national evaluation of the implementation of the Minimum Data Set (MDS) and HACC has advised that this will involve validation of regional and provider level MDS data. Terms of reference for this process were not available at the time of the audit. While this consultancy exercise will be useful for verifying information collected on this occasion, we believe that validation of a sample of provider records should occur systematically on a regular basis.

A comprehensive quality assurance framework

In terms of analysis for ascertaining whether services are operating in accordance with agreed arrangements, HACC advised that where this is occurring it is targeted at organisations with known areas of concern. With a proposed addition of staffing resources HACC advised that a comprehensive approach to analysis is to be adopted. We found that the recently implemented HACC quality assurance framework for monitoring provider compliance to the HACC national standards was comprehensive.

Disability Services

Disability Services has advised that adequate validation is occurring of data collected for the MDS. However, this involves checking of information entered against service specifications and not validation of data against documentary evidence held by providers. According to Disability Services, validation of entered service levels via site visits is not necessary due to its relatively static client base. Disability Services undertakes analysis of MDS data at the state and provider levels.

The quality framework recently developed and implemented by the Evaluation Unit for Disability Services was thorough in assessing client satisfaction and compliance to relevant standards.

Mental Health Services

Mental Health Services has not systematically undertaken validation or analysis of information provided through self-reporting. However according to program management review and follow-up by exception has occurred.

Compliance or progress towards compliance to the *National Standards for Mental Health* has only recently been required in the revised Service Agreement. Mental Health Services has advised that organisations will be expected to provide quarterly reports relating to the strategies, activities and outputs specified in the new Schedule.

Facility may exist within the *Mental Health Act 1996* for review of organisations by the recently implemented Official Visitor’s Scheme and advice is currently being sought from the Solicitor-General in this regard.

Recommendation 26
Validation of data collected via monitoring should be systematically undertaken to ensure the reliability and quality of information submitted.

Recommendation 27
Systematic analysis of information collected through monitoring should be undertaken to facilitate identification of underperformance.

6.1.1 Monitoring is allocated to staff with knowledge of the activity undertaken

Table 19: Appropriate knowledge available for monitoring

SAAP	HACC	Disability Services	Mental Health Services
P	P	✓	P

Too-few staff available for monitoring

Where the reliability of information collected through monitoring was questionable it was apparent that there were too few staff with appropriate knowledge to undertake monitoring tasks. However the staff with monitoring responsibilities appeared to have considerable knowledge of program activities. At the provider level the need for support and training with respect to proper use of monitoring systems was apparent for SAAP and HACC.

Recommendation 28
DHHS should provide support and training to ensure that there are sufficient knowledgeable staff to meet monitoring requirements. At the organisational level adequate support should be provided to assist with implementation of monitoring systems.

6.1.2 Monitoring addresses the aims and objectives

Table 20: Monitoring addresses aims and objectives

SAAP	HACC	Disability Services	Mental Health Services
✓	P	✓	✗

We found that performance indicators developed for national reporting within SAAP and Disability Services were reasonably well aligned with the program aims and objectives.

While the MDS facilitates considerable reporting with respect to outputs in HACC, the absence of performance measures for this program means that monitoring does not fully address the aims and objectives.

Similarly as performance measures have not yet been devised for Mental Health Services provided by the non-government sector, monitoring has not appropriately addressed the aims and objectives of this program.

Recommendation 29

Programs should ensure that monitoring strategies address all documented aims and objectives including relevant aspects of efficiency and effectiveness (e.g. participation outcomes, quality, access and equity).

6.2 RESPONDING TO MONITORING

Table 21: Programs respond to monitoring

SAAP	HACC	Disability Services	Mental Health Services
✗	P	P	✗

Lessons learned from performance monitoring should lead to changes in future practices and procedures. As discussed in Section 6.1, analysis of data acquired through monitoring of service levels was generally found to be *ad hoc* and as a result feedback processes for formulating responses also tended to be reactive.

In relation to service quality, service development plans had been recently implemented for HACC and Disability Services to address shortcomings identified.

Governance issues

However, where quality assurance processes had been recently implemented these and other qualitative sources indicated significant concerns related to the poor governance and managerial practice of some providers. For instance, where evaluations had been conducted for HACC-funded organisations we found that 53% of the standards relating to efficient and effective management had not been met.

Governance issues in Disability Services have also been highlighted by an alleged fraud and related conflict of interest concerns. Similar alleged irregularities within organisations for SAAP, HACC and Mental Health Services were also considered to be attributable to problems with governance. In addition, general concerns regarding managerial practice were reflected in a decision by the former Minister to target governance and financial management training.

DHHS has advised that facilitation with the sector of training and development for Boards of Management represents a positive and proactive approach to address issues of proper governance. Some funding has been provided through Productivity Plus, to provide relevant training to the sector. However in order to specifically tackle issues associated with governance and financial management further exploration of appropriate targeted training needs (and other relevant options) is required.

Recommendation 30

In conjunction with the sector, DHHS should facilitate improved organisational governance and managerial practice through implementation of a training program. Such a program should focus on organisations with the greater perceived need for enhanced governance.

7 Evaluation

7 EVALUATION

We considered the extent to which:

- All grant schemes were evaluated periodically for economy, efficiency and effectiveness;
- Grant scheme evaluations were performed by staff independent of the immediate line management;
- There was a process for reporting of reviews and evaluations.

7.1 PROGRAMS ARE PERIODICALLY EVALUATED

Table 22: Programs are periodically evaluated

SAAP	HACC	Disability Services	Mental Health Services
✓	✗	✗	✗

The Treasury Best Practice Guide advocates evaluation of all grant programs for economy, efficiency and effectiveness over a three to five year cycle. In addition DHHS Guidelines propose that a triennial review be undertaken to establish whether a case for change exists.

Evaluations need a state focus

We found that SAAP had addressed a range of relevant aspects of program administration in an evaluation report⁸.

National reports and some reviews into specific aspects have been produced for HACC, Disability Services and Mental Health Services but these did not sufficiently focus on state-wide efficiency and effectiveness.

Recommendation 31

DHHS should consider seeking a formal evaluation every three to five years of the efficiency and effectiveness of the state based administration of grant programs.

⁸ Evaluation of the Implementation of SAAP III in Tasmania

7.2 EVALUATIONS ARE INDEPENDENT

Table 23: Evaluations are independent

SAAP	HACC	Disability Services	Mental Health Services
✓	✗	✗	✗

Although it is efficient to involve the manager of the grant program in an evaluation, it may not be reasonable to expect them to produce a critical detached review of the results of their own work. An independent view can be achieved by peer review, by involving internal audit or by appointing appropriately experienced independent consultants.

Increased independence

We found that independent evaluation with a state focus had been adopted for the SAAP program only. Consultants from the University of Tasmania were employed to produce an objective and comprehensive account of the efficiency and effectiveness of all relevant aspects of the SAAP III Agreement.

Recommendation 32

DHHS should ensure there is appropriate independence of any evaluations undertaken of grant programs.

7.3 REPORTING OF REVIEWS AND EVALUATIONS

Table 24: Evaluations are publicly reported

SAAP	HACC	Disability Services	Mental Health
✓	✗	✗	✗

Evaluations should be reported publicly to strengthen the accountability of the grant program. Results of reviews and evaluations should be fed back to those responsible for the management and design of the program so that recommended improvements can be realised.

Reviews should be published

The results of evaluations and reviews had only been reported publicly via DHHS website for the SAAP program. HACC and Disability Services both agreed that publishing of reports on the departmental website was desirable. DHHS has also emphasised the need for appropriate authorisation from the Executive and the Minister in publishing evaluations.

Recommendation 33

Reports produced from evaluations and reviews should be made available on DHHS websites after appropriate consultation with stakeholders.

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