Western Australian Auditor General's Report

Second Public Sector Performance Report 2012

Report 11 – September 2012

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ISBN: 978-1-922015-11-2

WESTERN AUSTRALIAN AUDITOR GENERAL'S REPORT

Second Public Sector Performance Report 2012

Report 11
September 2012

THE PRESIDENT
LEGISLATIVE COUNCIL

THE SPEAKER
LEGISLATIVE ASSEMBLY

SECOND PUBLIC SECTOR PERFORMANCE REPORT 2012

I submit to Parliament my *Second Public Sector Performance Report for 2012* under the provisions of sections 24 and 25 of the *Auditor General Act 2006*.

COLIN MURPHY
AUDITOR GENERAL

26 September 2012

Contents

Auditor General's Overview

This is the second Public Sector Performance report for 2012. These reports address performance by public sector agencies across a broad spectrum of government operations. This report contains the following items:

- Business continuity management by port authorities
- Western Australian natural disaster relief and recovery funding
- Housing's implementation of the head contractor maintenance model.

Western Australians understand the benefits of being well prepared for unforseen events and disasters. The first two audits in this report focus on activities to prepare our infrastructure, communities, and services for disasters, and help them recover and get back to normal.

Western Australia (WA) exports almost half the nation's trade. As the bulk of this trade must move through our ports it is vital that any disruptions to critical parts of their business are minimised during, and after, an emergency. Business continuity management (BCM) aims to reduce the impact of an emergency or other significant event on an organisation's critical business activities.

The first audit in this report assessed maturity of business continuity management in four of the primary port authorities in WA. We found the level of BCM maturity at the four ports varied from high to basic or none. Without well-planned response and recovery strategies, ports risk ongoing disruptions that can adversely affect the economy and the reputation of both the port and the state.

The second audit focused on the administration of funds available through WA's natural disaster relief and recovery arrangements (WANDRRA). These funds are used to support communities affected by a disaster, and to repair damage. Typical expenditure includes the funding of evacuation centres, emergency food and clothing, loan subsidies to farmers and small businesses, and repairing damaged public infrastructure.

The Fire and Emergency Services Authority (FESA) coordinates WANDRRA. It also has a key role, along with three other agencies, in distributing funds. A spike in the number of natural disasters in 2011 tested both FESA and agency systems for managing WANDRRA payments. Mostly the outcomes were acceptable though improvements are needed to some aspects of the system.

The third item reports my findings on the Housing Authority's (Housing's) post-implementation management of its Head Contractor Maintenance Model (HCMM). The HCMM, which was introduced in July 2010, saw Housing engage three Head Contractors to manage maintenance done by hundreds of maintenance contractors across the state. Implementation of the HCMM like the other two areas we audited involves planning, monitoring and managing risk. A number of issues relating to the implementation of the HCMM were referred to me, and there has been ongoing public concern.

It is acknowledged by Housing and the current and previous Minister for Housing that the implementation of the HCMM should have been better planned and risks better identified. Housing has taken steps over the past two years to address the problems that resulted from the implementation of the HCMM. We found that many of these actions have been effective and there are indications that maintenance outcomes are improving. But some actions were not well thought through and Housing is having to deal with the impact of these.

There are lessons here for any agency planning major changes to core activities. These are that such change must involve good planning, risk analysis, communication and ensuring key systems are in place. If things go wrong and corrective action is required then this action also needs to be well considered to avoid unintended impacts.

Business Continuity Management by Port Authorities

Overview

Western Australia exports nearly 50 per cent of the nation's trade. The business continuity of the state's ports is crucial to ensuring the flow of this trade is not interrupted or compromised. Events such as the lead contamination at Esperance Port in 2006 are recent reminders of the potentially significant economic, social and environmental costs associated with poorly managed incidents at our ports. Common risks to business continuity at ports may include:

- harbour closure due to an oil spill or ship grounding
- infrastructure damage through storm, fire or chemical explosion
- workers' disputes
- information and telecommunication system breakdowns.

Business continuity management aims to minimise the impact of an emergency or other event on the critical business activities of an organisation. Key components of business continuity management include the assessment of the activities most critical to the business of the organisation, the identification of the maximum amount of time they can be out, and developing response plans to ensure the continuity of the business in the event of a disruption.

This audit assessed the maturity of business continuity management at four port authorities – Fremantle, Esperance, Geraldton and Port Hedland. We used RiskCover's[1] *Business Continuity Management Guidelines* (2009) for our assessment and rated the port authorities against RiskCover's maturity model for business continuity management.

Conclusion

Fremantle Port Authority's business continuity management was the most advanced of the four ports and had reached a high level of maturity. Geraldton Port Authority was assessed as mature despite only recently engaging with the process. Port Hedland and Esperance Port Authority have yet to develop mature business continuity management. Port Hedland has taken some preliminary steps towards managing their business continuity, while Esperance has not yet started.

A lack of mature business continuity management at our ports exposes the state to significant economic, social and environmental risks.

Key findings

Business continuity management has to be led from the top. Executive support and the commitment of resources to establish an appropriate framework are essential to driving the process. We found port authorities (PA's) were demonstrably more mature in their business continuity management when the Board and executive are engaged and committed to the process.

Notably, port authorities less mature in their management of business continuity had been going through substantial structural and executive change over the last few years.

1 RiskCover is a division of the Insurance Commission of Western Australia.

Specifically we found:

- **Fremantle PA's** business continuity management is at an advanced stage. They began business continuity planning in 2007. There is clear Board and Executive commitment to the process. The Port has identified critical business activities and maximum allowable outage times. They have developed response plans and tested them for most critical areas. Key responsibilities have been identified and responsible staff have been trained.
- **Geraldton PA** met the minimum requirements for a mature business continuity process. Since February 2012 it has initiated, drafted and approved its business continuity policy. However they have yet to fully implement or test response plans to determine if they appropriately address identified scenarios.
- **Port Hedland PA** has taken some preliminary steps towards updating its business continuity management. It is progressing plans to update a 2007 business continuity plan and develop its business continuity program. A new position, General Manager Risk and Governance, was added to its organisational structure last year. It has also integrated new software to identify and manage risk, including risks to business continuity.
- **Esperance PA** has not commenced its business continuity planning. The lead contamination incident in 2006 has had a significant ongoing financial impact on the Port and has affected nearly all aspects of its operations. The Port has experienced eight changes of CEO and a significant number of changes in all senior executive positions. Their risk manager left in 2011 and has not been replaced.

What should be done?

The port authorities and all government entities should ensure the continuity of their critical business activities by:

- embedding a business continuity culture within their risk management program, guided by a policy and a plan approved by an executive overtly committed to business continuity management
- undertaking a thorough assessment of the resources required to sustain business continuity
- developing plans for business continuity with enough detail for them to be accurately and fully activated
- preparing staff by training them to ensure they are aware of their business continuity responsibilities
- testing the plans to make sure they work before they are required
- reviewing plans to incorporate any lessons learnt from testing, and keep them up to date.

Agency response

Port Hedland Port Authority

The Authority acknowledges and accepts the findings in this report. It was aware of the need to review and mature its business continuity framework. This activity is a priority for the business during the 2013 financial year.

Background

Business Continuity Management

Risk management is an essential component of good business management. It includes identifying, understanding and managing all the factors that could jeopardise an agency's successful achievement of its broader mission or goals.

Business Continuity Management (BCM) is a subset of risk management. It focuses specifically on minimising any disruption to an agency's critical business activities. The key output of BCM is a business continuity plan (BCP). This is the operational plan that details the actions and resources required to maintain the operational continuity of identified critical activities (Figure 1).

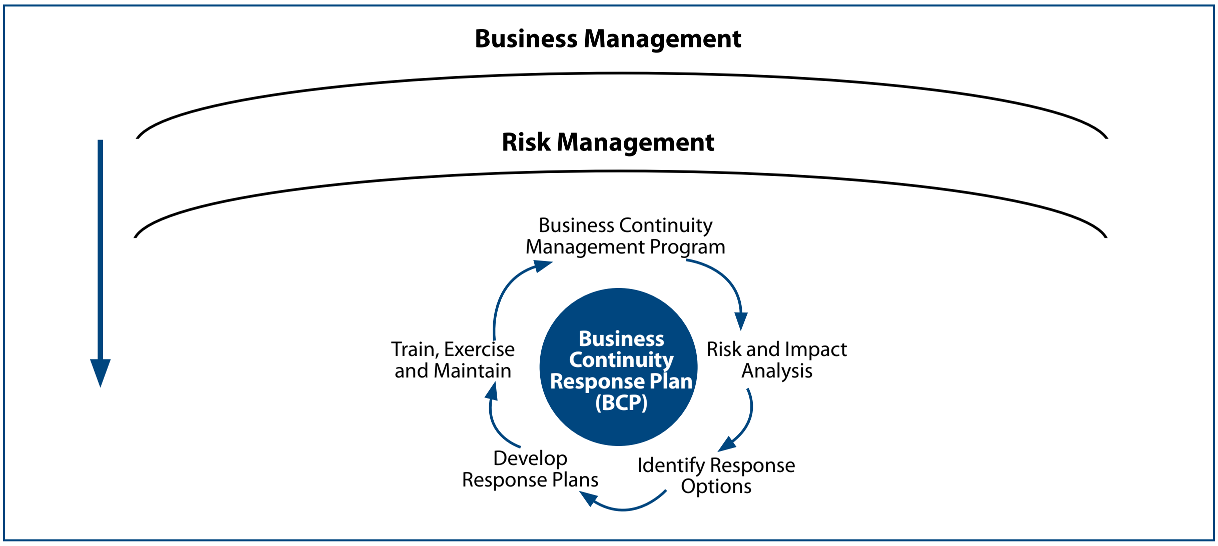


Figure 1: The relationship between business management, risk management and business continuity management[2]

The BCP is not an emergency response plan. Rather, it is concerned with ensuring the critical parts of the business that may be impacted by an incident or an emergency are sustained through a planned response and recovery. Figure 2 shows an emergency response which may or may not trigger the activation of the BCP, depending on its nature. For example, if a number of staff are required to respond to an emergency the agency must consider how that impacts on the staffing requirements for its critical business activities.

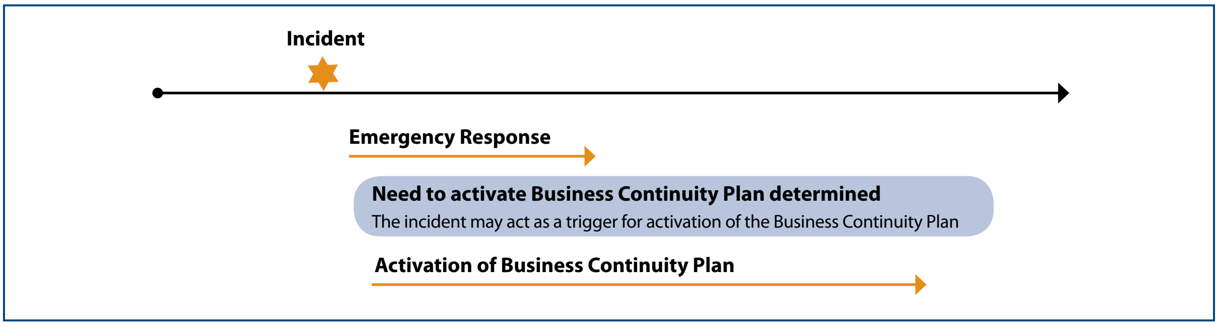


Figure 2: Activation of the Business Continuity Plan[2]

[2] Figure adapted from *Western Australian Government Business Continuity Management Guidelines* (RiskCover, July 2009), page 5.

BCM is not a 'one-size-fits-all' process. A mature BCM process is ongoing and cyclical, and embedded in the culture of the organisation.

Agencies should develop a business continuity plan that is appropriate to the size, complexity and nature of their operations. Time and experience are necessary to develop a plan that best matches the risks, resources and complexity of the business, with each testing and review building on the one before.

All public sector agencies are required to have a BCP that they maintain and review regularly[3]. Details of risk management and business continuity policies, procedures and plans must be submitted to RiskCover.

The Insurance Commission of Western Australia through its RiskCover Division has a mandate to manage and administer risk management on behalf of public sector agencies. RiskCover's Western Australian Government Business Continuity Management Guidelines (2009) are consistent with the national[4] and international[5] standards for business continuity management.

The four port authorities we audited are government corporatised entities, and are not part of the public sector (*Port Authorities Act 1999*). However, they should be cognisant of best practice, as defined in the relevant standards and reflected in the RiskCover guidelines.

RiskCover has developed a tool to assess the maturity of business continuity management at government entities[6]. The maturity model focuses on five areas:

- governance
- assessment (business impact and response options)
- action decisions (response plans)
- monitoring and ongoing maintenance (exercise and maintenance)
- BCM culture.

Port authorities

Western Australia's share of the nation's exports has risen from 26 to nearly 50 per cent over the past 10 years. The Australian economy relies upon efficient passage of commodity exports and imports through its ports. Business continuity and avoiding any prolonged interruptions are critical to their efficiency.

To accommodate the increase in through trade, ports have generally had to expand their business. This places even more importance on having mature business continuity management processes in place. Table 1 illustrates the amount of trade over the last five years for the ports we audited. Port Hedland in particular has undergone significant expansion.

[3] Public Sector Commission's Circular (2009 -19), *Risk Management and Business Continuity Planning*
[4] AS/NZS 5050:2010 – *Business continuity – Managing disruption – related risk*
[5] ISO 22301: 2012 – *Societal security – Business continuity management systems – Requirements*
[6] RiskCover (2009), BCM Status Review

Trade Statistics (m tonnes) (2007 to 2012)					
Port Authority	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**
Esperance	9.9	9.9	11.3	11.1	11.8
Port Hedland	130.7	159.4	178.6	199.0	246.7
Geraldton	6.7	7.7	9.0	10.0	10.4
Fremantle	26.1	26.6	26.2	26.1	28.2

Table 1: Trade (m tonnes) through ports in the last five years

Risks that ports have planned for include marine oil spills, cyclones, tsunamis, security incidents and pandemics. In 2008 one of the most serious threats a port can face occurred in Port Hedland. A ship grounded while departing the port loaded with iron ore, blocking the channel. Fortunately, no pollution resulted from the incident and the ship was only grounded for about 12 hours. Although the incident closed the port for only 17 hours, the potential for it to have had a much more severe impact is clear.

These ports have faced other critical incidents including the Esperance lead contamination disaster which was first detected in 2006 and continues to have a significant impact. Although the Port was never closed, a heavy cost has been associated with litigation related to the incident, and with the clean up of the port and the town of Esperance.

The state has 21 major trading ports, including eight port authorities and 13 non-port authority ports (Figure 3). Port authority ports are government owned but semi-autonomous while non-port authorities are privately owned and operated, but subject to regulation by the Department of Transport. Five more private ports are expected to be constructed at Barrow Island, Wheatstone, Oakajee, James Price Point and Anketell within the next decade.

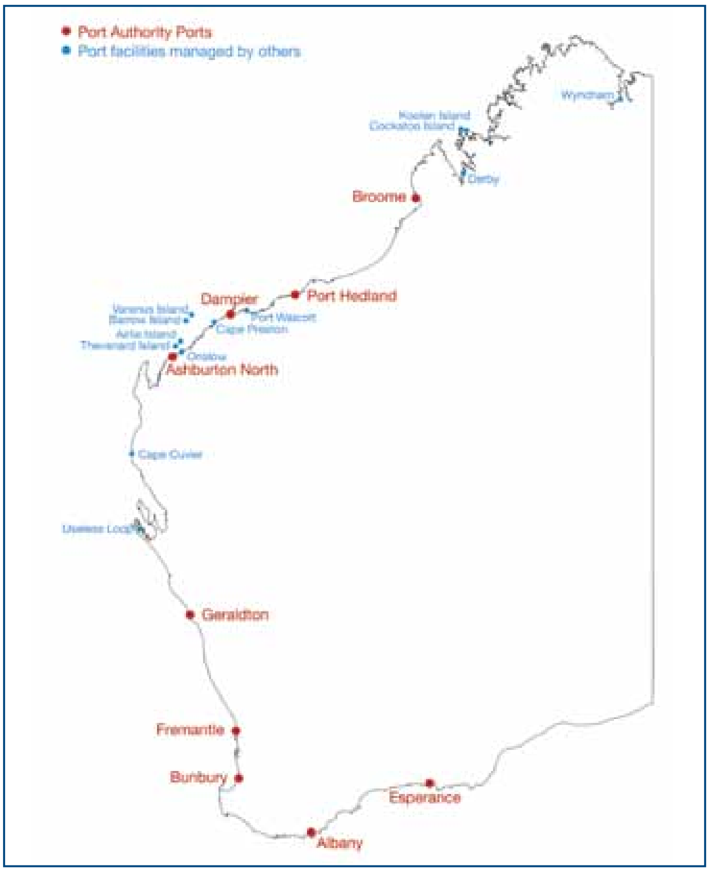


Figure 3: Western Australia's major trading ports[7]

There are eight port authorities governed by the Port Authorities Act 1999 *(red) (also Port Authority Regulations 2001) and 13 non-port authority ports governed by the* Shipping and Pilotage Act 1967 *(blue), and the* Marine and Harbours Act 1981. *Ashburton North is technically part of the Port of Dampier, governed by the Dampier Port Authority.*

What did we do?

The audit objective was to assess the maturity of business continuity management at four port authorities.

We asked six key questions based on the principles set out in RiskCover's *Western Australian Government Business Continuity Management Guidelines* (2009):

- Do port authorities have an appropriate BCM framework in place?
- Have port authorities identified critical business areas and has the impact of disruptive events been assessed?
- Have port authorities identified appropriate response options?
- Have port authorities developed response plans and implemented preparatory controls?
- Have port authorities trained their staff in the use of the response plans?
- Do port authorities exercise and maintain their response plans?

[7] A Vision for Western Australian Ports, Department of Transport, page 3.

We then used our assessment to rate the port authorities against RiskCover's maturity model for business continuity management. Each of the ports was selected due to the significance of its trade and geographical distance from the other ports in the state.

At each port we:

- interviewed agency staff
- examined agency documents
- reviewed the business continuity plans to assess authority compliance with the guidelines and its own program policies and procedures
- assessed the ports using the tool developed by RiskCover to assess the maturity of business continuity management at government entities.

The audit was conducted in accordance with Australian Auditing and Assurance Standards.

What did we find?

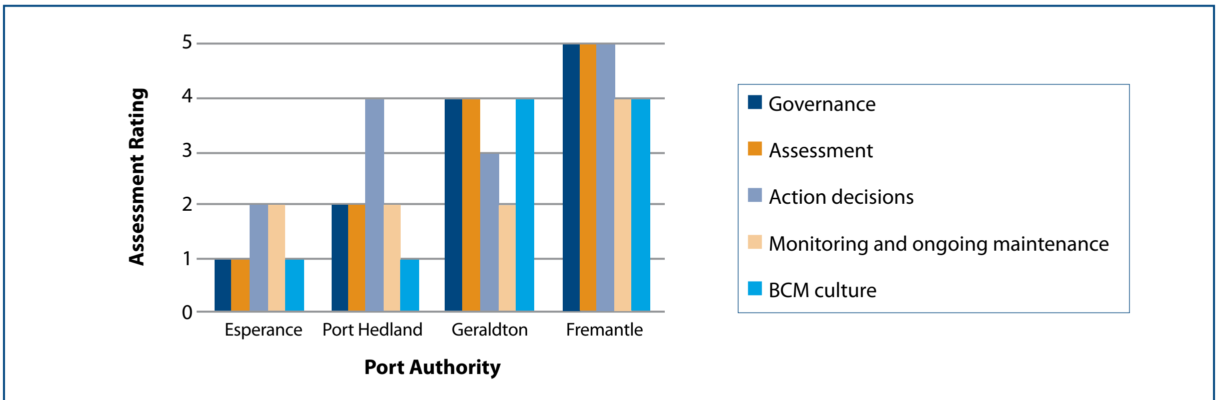
We found Fremantle Port Authority (PA) is advanced in the maturity of its risk and business continuity governance, the assessment of its business continuity requirements, and the action response plans it has developed to ensure business continuity. It is also mature in the BCM culture it has developed and the monitoring and maintenance of its plans.

Geraldton PA is mature in its governance, assessment and the BCM culture it has developed. However, the action response plans it has developed and the monitoring and ongoing maintenance it undertakes is basic.

Port Hedland PA is mature in the action response plans it has developed for business continuity. However, it is basic in its governance, assessment, and ongoing monitoring and maintenance. It was found to lack a BCM culture.

The action response plans Esperance PA has in place for its information systems and their ongoing monitoring and maintenance have basic maturity. However, its governance, assessment and its business continuity culture have no maturity.

Figure 4 shows our detailed assessment against each of these factors which are discussed in the following sections.



Source: OAG

Figure 4: Assessment of the PAs using RiskCover's maturity model

(Ratings: 1 = none, 2-3 = basic, 3-4 = mature, 5= advanced.)

Governance

The only thing harder than planning for an emergency is explaining why you didn't.

Unknown

Governance refers to the extent to which BCM is overseen by the executive and embedded within an agency's risk management process. A specific BCM policy should be in place and include details about:

- governance structure
- compliance requirements
- objectives and scope
- roles and responsibilities.

We rated Fremantle PA's governance over BCM as advanced. Its policy has executive approval, is linked to the broader risk management processes of the port and includes each of the key details listed above. Many of those with BCM responsibilities are also active in the Crisis Management Team and the Emergency Management Team.

Executive support of the policy is underpinned by their involvement in the business continuity planning activities. An Executive Sponsor is included in the Business Continuity Team and members of the Executive Review Team are also on the Business Continuity Team. Board papers show Fremantle PA's Executive Review Team routinely report to the Board on the status of BCM.

Geraldton PA has only just progressed its governance over BCM to a mature level. Prior to our audit it had recognised the need to focus on BCM and had sent a number of senior executives to RiskCover training. The BCP was drafted and approved by the Board during the audit.

Its policy includes all of the key details expected, but requires development in some areas such as succession planning and training schedules for those with BCP responsibilities. While strategies for monitoring the port's BCM have been detailed only limited monitoring of the plan has occurred due to its recency.

Port Hedland PA has a basic business continuity governance framework. Its BCP is out of date and not used. However, the Authority is working to implement a business continuity framework by the end 2012. It recently added the role of a General Manager Risk and Governance to its organisational structure and has begun to implement a software program for the integration of risk management, including business continuity, at the port.

Esperance PA has no BCM policy and has not yet begun its business continuity planning.

Assessment (business impact and response options)

Planning is an unnatural process; it is much more fun to do something. And the nicest thing about not planning is that failure comes as a complete surprise; rather than being proceeded by a period of worry and depression.

Sir John Harvey-Jones

Identifying the critical activities of the business and fully understanding when and how their disruption would affect the business is a key aspect of BCM. Such an assessment includes a formal analysis of:

- critical business activities
- the amount of time they can be out
- the priorities for recovery
- the resource requirements
- practical options for responding
- information system disaster recovery options.

Fremantle was rated as advanced in the assessment of their business continuity requirements, while Geraldton met the minimum requirements to be rated as mature. Both ports have done formal analyses to identify the activities most critical to their business. Examples of critical business activities identified by the ports include: information system failures, critical infrastructure damage, vessel traffic management, security operations of the port, ship scheduling and pilot transfer.

Both authorities have determined the maximum amount of time that critical activities can be interrupted without a serious consequence. They have also considered the interdependencies of the critical activities with internal and external stakeholders, such as contractors and utility service providers.

Furthermore, both ports have documented the minimum resource requirements for business continuity in response plans. The resources they refer to include staff, equipment and infrastructure. Also, both ports have received executive approval of their business continuity assessments before including them in their BCPs. However, only Fremantle PA has identified, planned for and resourced an alternate site for relocation of its critical business activities if its main administration building were to be inaccessible for a period of time.

The broader analysis of Port Hedland and Esperance PA's business continuity requirements is lacking. In particular, they have no current analysis of their critical business activities, the resources they would require to sustain them if they were disrupted in some way or a clear delineation of what the impact would be. They would, essentially, have to make it up as they went along, and hope the decisions they make in a time of crisis are fortuitous and sound.

Action decisions (response plans)

> *You can't prepare for everything but you can prepare for anything.*
>
> Paul Youngjohns (involved in Lockerbie recovery)

Response plans for business continuity differ from those for an emergency. An emergency may not always trigger the BCP. The BCP will only be triggered if an incident impacts on a critical business activity as defined by maximum allowable outage times. The key to mature BCM is explicitly recognising the link between an emergency/crisis response and the requirements to ensure business continuity.

Response plans are expected to include details about:

- the responsible team, contact lists, and other references
- action checklists
- distribution and control procedures.

All four ports have crisis management plans, although the contact lists for the crisis management plans of Geraldton, Esperance and Port Hedland require updating.

Fremantle is the only port which links the crisis management plan into its business continuity plan. It has clearly identified a crisis management team and assigned them roles and responsibilities. Activation of its business continuity plan is determined by the crisis management team leader.

Fremantle's BCP also met all the criteria included by RiskCover in its maturity model. Its BCP clearly identifies a BCM team, assigns them roles, includes action checklists, a current contact list, and has detailed plan distribution and control procedures. They have identified an alternate site to carry out their business from, if required, and have installed extra data points and information system equipment.

Geraldton's BCP is adequate, but lacks features such as action checklists, a contact list and plan distribution and control procedures. Port Hedland and Esperance PAs do not have current BCPs that they use.

All ports have disaster recovery plans for their information systems in which they have identified the critical systems/infrastructure, recovery time objectives and technical procedures for recovery. However, only Fremantle and Port Hedland PAs have set up a site dedicated to information systems disaster recovery, and have resourced it with disaster recovery infrastructure.

Port Hedland's dedication to ensuring the continuity of its information systems raised its assessment rating for Action Decisions to a mature level, even though they do not have a current BCP.

Monitoring and ongoing maintenance (exercise and maintenance)

However beautiful the strategy, you should occasionally look at the results.

Winston Churchill

Monitoring and ongoing maintenance of BCPs should be undertaken in line with documented schedules and overseen by the executive. The plans need to be complete, up-to-date, and familiar to staff and others responsible for their use. Testing scenarios include telephone cascade tests, desktop, and real time exercises involving the use of an alternate site. Maintaining the plans includes following up on issues identified through regular testing and review.

Emergency oil spill is a common response scenario planned for by all ports we audited. All ports had conducted exercises to test their emergency oil spill response in the last 12 months. Each port had identified and documented issues that needed follow-up as a result of testing. Areas for follow-up included the need for further equipment or other resources, clarification of communication issues and further training requirements.

Fremantle PA has detailed schedules with timeframes for the testing and review of its risk management plans which are monitored by the Executive. Clear responsibility is assigned for the maintenance and review of the crisis management plan and the BCP.

The schedule requires the conduct of a telephone cascade test every six months, a desktop walk though test every 18 months and a full simulation test every three years. However, there has not yet been time for a simulation test of its BCP using its alternate site. This is a key criteria for advanced maturity.

Fremantle PA had tested its IT disaster recovery plan, including the use of their dedicated disaster recovery site, in the last 12 months. No other port has tested its information systems disaster recovery plan in this time.

Although Geraldton PA have assigned the responsibility for BCP monitoring and have linked it to the annual risk review schedule, the testing schedules do not set out clear timeframes.

BCM culture

The time to repair the roof is when the sun is shining.

John F Kennedy

An educated and committed attitude to BCM across all levels of an organisation is essential to making it work. BCM culture in an organisation is demonstrated through:

- assignment of clear responsibility for BCM across the agency to an appropriately skilled manager or coordinator
- divisional head ownership and engagement with the response plans relevant to their area
- fully briefing and training all staff to prepare them for their business continuity responsibilities.

Creating a business continuity culture involves sending a clear message to staff that it is important. This is done by assigning ownership of the BCP, appropriately resourcing it, making staff aware of business continuity logic and preparing them to activate the BCP. The commitment and involvement of the executive to BCM is fundamental to establishing its status.

Fremantle and Geraldton PAs were assessed as having mature, but not advanced, business continuity cultures. Both have assigned the responsibility of BCM manager/coordinator to a senior staff member, documented this in the BCM policy and plan, and detailed their role. Divisional heads own the BCP response plans relevant to them and are named in the BCP. However, the responsibilities of response plan owners are not sufficiently detailed in Fremantle's BCP.

Staff at both Fremantle and Geraldton PAs required further business continuity training. Geraldton PA has not yet formally trained staff with BCM responsibilities though BCM general awareness training is given to new staff. Not all staff with BCM responsibilities have been trained at Fremantle PA and its BCM general awareness training requires further development.

Port Hedland and Esperance PAs were assessed as lacking a business continuity culture. Port Hedland PA has recently assigned the responsibility for BCM to the General Manager Risk and Governance and allocated resources to it. No formal business continuity training has occurred at either port.

Western Australian Natural Disaster Relief and Recovery Funding

Overview

Natural disasters can strike at any time and can devastate individuals, communities, businesses and infrastructure. Due to its vast size and natural features, Western Australia is vulnerable to a range of disasters such as bushfires, storms, cyclones, and floods.

The Western Australian Natural Disaster Relief and Recovery Arrangements (WANDRRA) are a combination of state and Commonwealth funds that can be available to assist communities recover after a natural disaster. Eligibility for funding is based on criteria set by the Commonwealth through the Natural Disaster Relief and Recovery Arrangements (NDRRA).

In 2011, just under $61 million was spent on disaster relief through WANDRRA. These funds were mainly distributed to:

- provide temporary accommodation ($27.6 million)
- restore or replace essential public assets ($18.6 million)
- assist the general public and individuals, repair housing, and replace essential household items ($12.3 million).

The Fire and Emergency Services Authority (FESA) is responsible for the overall administration of WANDRRA. When a natural disaster happens, FESA assesses whether the event meets NDRRA criteria. If an event is eligible, FESA then recommends the state government declare a natural disaster.

Depending on the type and extent of damage, WANDRRA funds can be accessed by:

- individuals and families
- primary producers and small businesses
- state government agencies and local governments.

WANDRRA funds are distributed by FESA or one of three other state government agencies (partner agencies), according to the type of expenses incurred. Payments made by partner agencies for WANDRRA purposes are recouped from FESA. The partner agencies are:

- Department for Child Protection (DCP)
- Department of Agriculture and Food WA (DAFWA)
- Main Roads WA (MRWA).

Financial assistance may be provided to individuals for food and clothing, to local governments to repair damaged local roads and bridges, to small businesses as interest rate subsidies or to state government agencies to repair key infrastructure.

This audit examined whether WANDRRA funding is distributed to eligible recipients for appropriate purposes in a timely manner. We asked four questions:

- Do agencies ensure funding is provided to eligible recipients?
- Do agencies ensure funds are distributed for eligible items?
- Is funding provided within a reasonable timeframe?
- Are improvements in funding arrangements made following experiences in Western Australia and other states?

Conclusion

We found that WANDRRA payments are generally made in a timely manner to eligible recipients and for eligible purposes. However there were a small number of assistance payments where this was not the case.

The large number of natural disasters in 2011 highlighted some weaknesses in FESA's administration of WANDRRA. The absence of formal arrangements with partner agencies means there is a lack of clarity over roles and responsibilities. This has resulted in varying rigour in ensuring eligibility for funding, and differences in interpretation of funding guidelines.

We also found weaknesses in the systems and controls in place at some of the partner agencies. These weaknesses need to be addressed to minimise the risk of false claims being paid.

Key findings

- FESA promptly assesses disasters to determine whether WANDRRA funding applies. It then activates the process to provide funding support to those affected. However, in the sample we reviewed, FESA's documentation failed to adequately show how the WANDRRA criteria had been met. As a result FESA cannot readily support its decision to activate disaster relief funding.
- FESA has a good working relationship with the three partner agencies but its administration of WANDRRA is ad hoc and coordination of funding arrangements with partner agencies is not proactive. It lacks formal arrangements with partner agencies regarding roles and responsibilities, fraud prevention controls, and oversight and monitoring of the WANDRRA program.
- FESA, DCP and DAFWA paid most claims within 15 days after receiving all the supporting information from claimants. MRWA took an average of 49 days, partly because of the level of technical assessment required. Nevertheless, this was longer than expected. None of the agencies have established timeframes for processing and payment of claims which means there is no basis to monitor progress.
- FESA, DAFWA and MRWA independently scrutinise and document claims from local governments, primary producers and small businesses. However, they do not systematically check with partner agencies for duplicate claims even though there is a known risk that some types of claims could be made to more than one agency. Also, there is no formal arrangement with relevant federal agencies and insurance bodies to assist checks of claimants' eligibility and their insurance status.
- DAFWA's dedicated database for managing primary producers' claims showed better practice. It allows the agency to internally check for duplicates, monitor the claims process and support its decisions.
- DCP's disaster relief funding processes were not sufficiently robust across the disasters. Suitable eligibility checks were not always applied and payments were not consistent with the result that ineligible payments and overpayments have occurred. The extent that this has occurred is not known, although DCP believes it would be limited to very few instances.
- FESA is currently reviewing WANDRRA administration to streamline its processes. But both FESA and its partner agencies could do more to improve their funding support processes by better analysing and learning from experiences in WA and other states.

What should be done

To improve overall WANDRRA administration and coordination, FESA should:

- formalise arrangements with partner agencies and develop an agreed process to oversight and review fund distribution
- develop policies and procedures and establish timeframes for managing WANDRRA activation and claims.

FESA and partner agencies should:

- agree a consistent basis for recording and sharing recipients' data to facilitate checks for eligibility and duplicates
- ensure applicants understand their responsibilities in applying for funds and ask them to certify they have not made duplicate claims
- regularly review fund management and cross check recipients' details to identify non-compliance, duplicate payments and misuse
- develop a fraud prevention, detection and response policy for claims and conduct awareness training for staff
- investigate and formalise arrangements with other entities such as relevant federal agencies and insurance bodies to improve checks on eligibility of fund recipients
- conduct regular post-disaster reviews and consult with disaster management agencies in other states to learn from their experience and improve funding processes
- establish and monitor timeframes to pay claims.

When providing financial assistance to individuals and families DCP should:

- assess their eligibility and ensure recipients receive assistance that is consistent with policy
- further improve its processes for providing financial assistance including better and more timely cross checking for eligibility and duplicate payments.

Agency responses

Fire and Emergency Services Authority

FESA acknowledges that current procedures although working efficiently, need to be formalised. The issues raised by this audit together with the findings of the internal review will be used to further improve WANDRRA in its efforts to aid those affected by natural disasters.

Department for Child Protection

The Department's aim is to provide an efficient and cost effective response to each emergency rather than an identical response across emergencies.

The Department however, has strengthened its policies from February 2012 to eliminate perceived inconsistencies but reiterates that flexibility is required to deal with differing disaster responses. The results of this audit will be used to make further improvements.

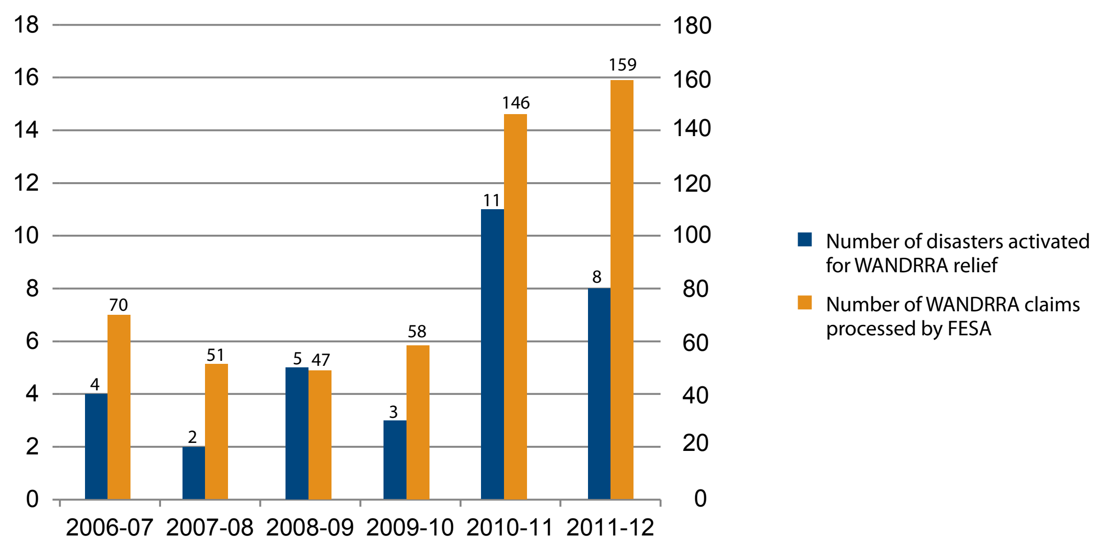
Background

In 2011, Western Australia (WA) experienced an unprecedented number of natural disasters. These events affected 88 of the 141 local government areas with many experiencing more than one disaster.

Natural disasters can severely impact communities. It is important to provide timely relief to those affected during a disaster and assist communities to recover afterwards. A range of relief and recovery measures are available to those affected by a disaster. These may include public donations; Commonwealth grants, subsidies and tax assistance; and state government donations, grants, and funds.

A significant amount of state and Commonwealth funds are distributed through Western Australian Natural Disaster Relief and Recovery Arrangements (WANDRRA). The program is aligned with the Commonwealth Natural Disaster Relief and Recovery Arrangements (NDRRA).

To be eligible for WANDRRA funding, events must meet the NDRRA criteria of disaster type and cost. That is, it must be a bushfire, cyclone, earthquake, flood, landslide, meteorite strike, storm, storm surge, tornado, tsunami, or a combination of these, and the total estimated damage to essential public assets must exceed $240 000. Figure 1 shows the number of WANDRRA events activated and claims processed by FESA since July 2006.



Source: FESA and OAG

Figure 1: WANDRRA eligible events activated and claims processed by FESA 2006-07 to 2011-12

Since 2006-07, there have been 33 disasters that qualified for WANDRRA funding.

The Fire and Emergency Services Authority (FESA) administers WANDRRA on behalf of the state government. It is assisted by partner agencies in distributing funds (Figure 2). These agencies are involved because they regularly deal with specific client groups as part of their normal business or due to their legislative mandate. A partner agency that makes WANDRRA payments to a recipient or group of recipients is recouped by FESA.

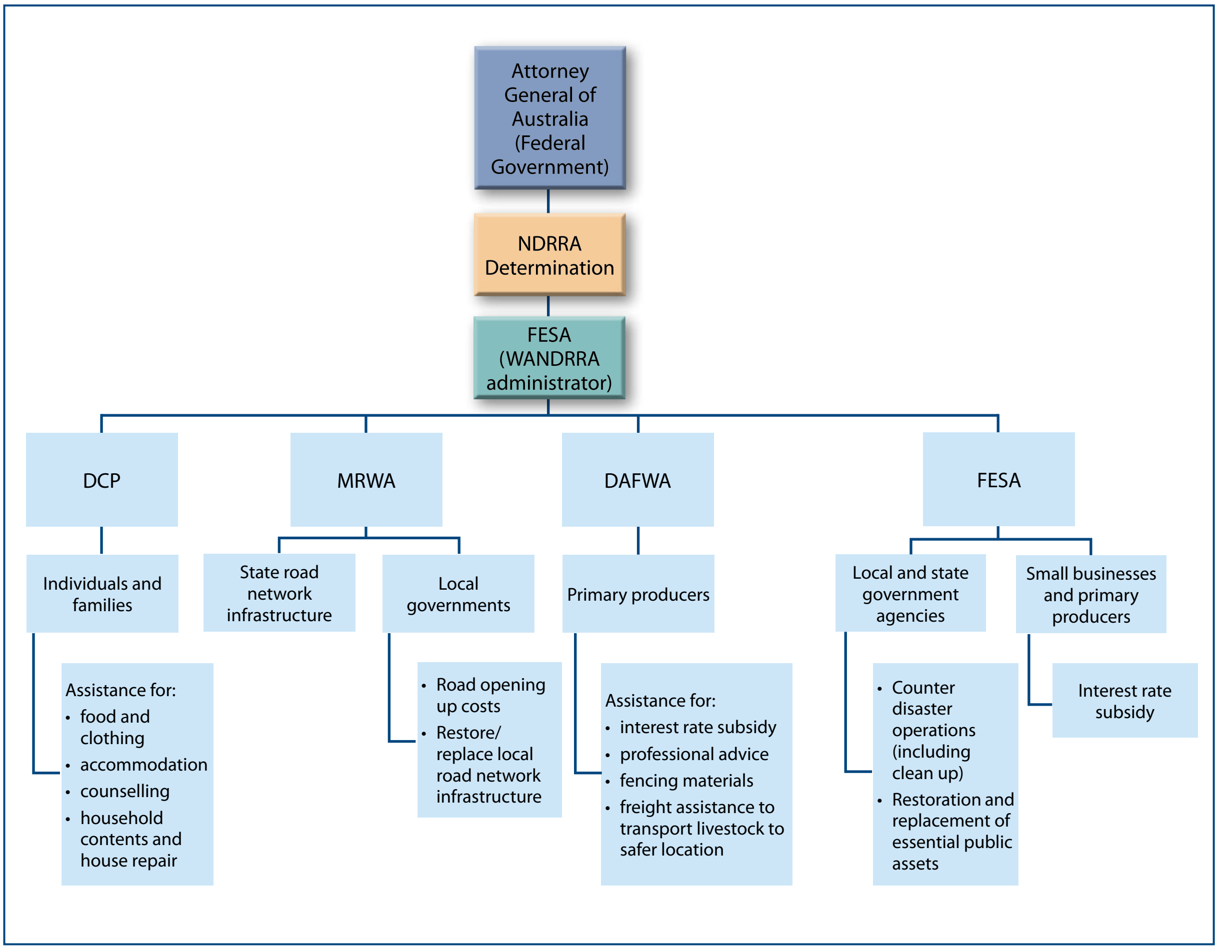


Figure 2: WANDRRA partner agencies, client groups and assistance types

The four WANDRRA funding agencies must balance the need to provide assistance quickly and fairly while ensuring that money is only paid to eligible applicants. Funds are available for a range of client groups and purposes:

- **individuals and families** – financial assistance for food and clothing, temporary living expenses, essential household contents and housing repairs
- **small businesses** – interest rate subsidies on loans, and recovery grants
- **primary producers** – professional advice, freight costs, fencing materials, interest rate subsidies and recovery grants
- **state government agencies and local governments** – restoration and replacement of essential public assets including roads; and cost of counter disaster operations.

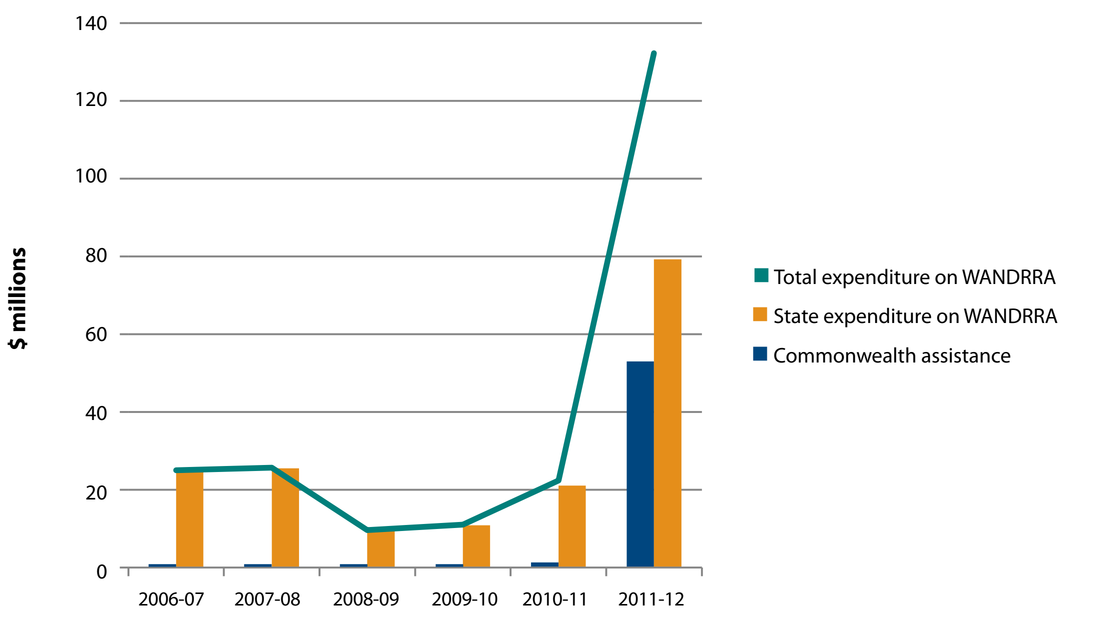
It is important to note that WANDRRA funds are not provided as compensation for damage or loss, or for insurable assets such as houses, buildings and vehicles. However, payment may be made for house repairs and contents, where the owner does not have insurance or is underinsured, to assist them to return home as early as possible.

There is no cap on the state government's natural disaster relief expenditure under WANDRRA. FESA spends what is required and applies for reimbursement through supplementary funding.

Commonwealth financial assistance for relief and recovery is only provided to the states where the total cost from disasters in a financial year exceeds set amounts. In 2011-12, the amount of financial assistance provided was defined by two thresholds:

- 50 per cent is reimbursed if the total cost exceeds $49 million
- 75 per cent is reimbursed if the total cost exceeds $86 million.

In 2011-12, state expenditure through WANDRRA, after reimbursement from the Commonwealth, was at least three times greater than in any of the previous five years (Figure 3).



Source: FESA and OAG

Figure 3: WANDRRA expenditure by the state and Commonwealth governments 2006-07 to 2011-12

Since 2006-07 net state expenditure through WANDRRA ranged from $9.7 million to more than $79 million. During the same period the Commonwealth Government reimbursed $8 325 to $53 million.

What did we do

The audit objective was to determine whether WANDRRA funding is distributed to eligible recipients for appropriate items in a timely manner.

We asked four key questions:

- Do agencies ensure funding is provided to eligible recipients?
- Do agencies ensure funds are distributed for eligible items?
- Is funding provided within a reasonable timeframe?
- Are improvements in funding arrangements made following experiences in WA and other states?

We examined management of WANDRRA claims by FESA and partner agencies against the criteria and requirements set out by the Commonwealth in the NDRRA. We also assessed FESA's overall administration of WANDRRA and activation of events.

We audited four agencies:

- Fire and Emergency Services Authority (FESA)
- Department for Child Protection (DCP)
- Department of Agriculture and Food WA (DAFWA)
- Main Roads WA (MRWA).

Each agency was selected due to the significance of its role in managing a specific client group.

At each agency we:

- interviewed staff
- examined policies, procedures and controls in place to manage claims
- tested disaster activation (FESA only)
- tested claims processing and payment in compliance with the NDRRA requirements and agencies' internal policies
- assessed coordination between FESA and partner agencies.

Each year the Auditor General certifies the WANDRRA financial statement claim and expenditure breakdown returns for FESA as required by the Commonwealth under the NDRRA. This certification is limited to ensuring the claim correctly reports total state expenditure on eligible measures and disasters.

We examined the activation of five of the 14 disasters declared in 2011. We focused on program administration, timeliness and payment controls which are not audited in the annual certification of the WANDRRA financial statements. We also tested 38 out of 226 claims processed in 2011, covering all disaster types, client groups and across a range of locations (Table 1).

Disaster Type	Number of claims (2011)	Total Paid ($)	Claims sampled	Value sampled ($)	Value sampled (%)
Bushfires	6	1 602 751	4	1 446 674	90
Cyclone	14	3 523 113	4	1 323 055	38
Flood	124	45 736 481	21	28 235 085	62
Storm	82	10 096 043	9	2 836 076	28
Total	**226**	**60 958 388**	**38**	**33 840 890**	**56**

Table 1: WANDRRA claims and audit sample by disaster type

The audit was conducted in accordance with Australian Auditing and Assurance Standards.

What did we find

Disaster Relief Activation

When a disaster occurs, FESA assesses the damage directly resulting from the event and estimated repair costs. It does this by seeking information from relevant state government agencies, local governments, the Bureau of Meteorology and the media on the event's cause, and scale of damage. It then decides whether the disaster meets WANDRRA criteria for activation and informs stakeholders.

If a community is 'severely' affected by the event, FESA considers additional funding that may be available under the *NDRRA Community Recovery Package*. This assistance can only be accessed with Prime Ministerial approval.

We expected FESA to:

- act quickly to assess events and activate disaster relief
- have policies and procedures for assessing events
- adequately document its decisions
- proactively communicate with stakeholders.

While FESA assesses and activates eligible disasters as a priority, it has not formalised or sufficiently documented these decisions and the supporting processes

FESA is timely in assessing and activating WANDRRA relief after a disaster. But it lacks formal policies to guide these assessments and does not often document the assessment and decision. Without a formal policy and documentation, FESA may not assess events consistently and efficiently. This is particularly important as only one FESA staff member is experienced in the assessment process.

Audit found activation is prioritised and not delayed once sufficient information is received from stakeholders. Our testing showed FESA proclaims disasters within two days of obtaining sufficient information and informs internal and external stakeholders of the activation within one day.

The time taken to activate a disaster varies and depends on the timeliness of feedback. Bushfires are generally declared within two days as the damage is more visible. In contrast, activation of flood events can take up to a month as the extent of damage and resulting costs cannot be estimated until flood waters recede from roads, bridges and other infrastructure.

FESA has not established policies or timeframes for assessing eligibility for WANDRRA funding and activating disaster relief. It relies on one staff member to assess the event against a checklist but the reasons for the assessment are not adequately documented or formally reviewed or approved by management.

FESA consults relevant stakeholders and complies with NDRRA requirements in determining whether a disaster is eligible. Eligible costs were estimated for all five events audited, however for four events the costs were not collated and summarised to clearly justify the decision to activate assistance.

Without effective processes, disaster relief may be inappropriately activated. In one instance, community recovery assistance of $15 000 was announced for small business and primary producers without Prime Ministerial approval. This occurred because of a lack of a communication protocol between FESA and the Department of the Premier and Cabinet and an assumption that previous Commonwealth advice on eligibility would apply in this instance. Prime Ministerial approval was not received and FESA subsequently had to turn down requests for this assistance.

We noted that during the audit, FESA developed process maps and spreadsheets to assess events and estimate eligible costs for decision-making and budgeting purposes. These will assist FESA to adequately document their decisions to activate disasters in future.

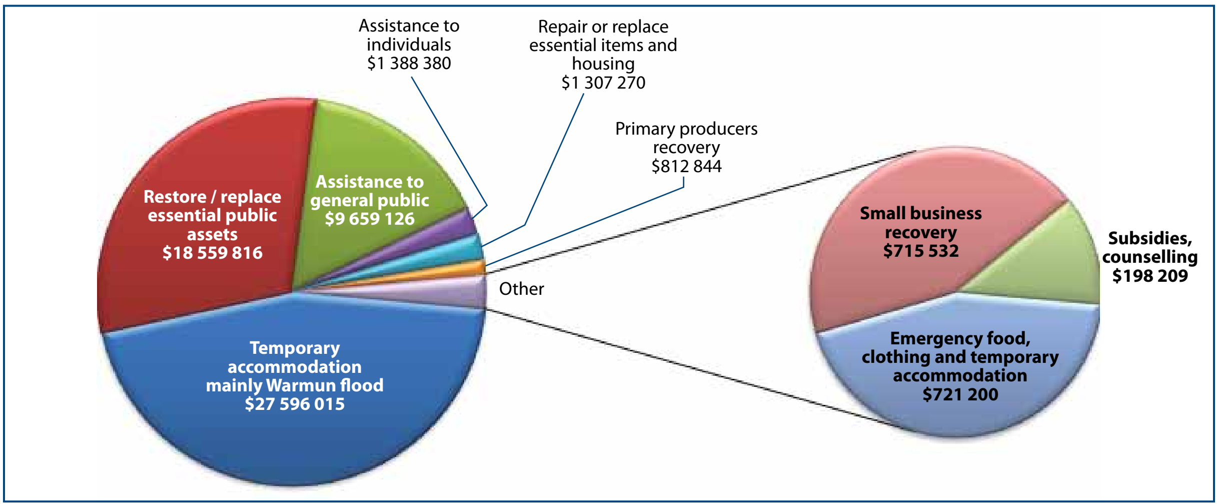
Distribution of WANDRRA funds

In the calendar year 2011, FESA and partner agencies distributed just under $61 million in WANDRRA funds (Figure 4). Of this, more than $27 million was paid to the Department of Housing and DCP to provide temporary accommodation and basic facilities to the Warmun community as a result of floods. A further $18.6 million was spent to restore and repair essential public assets, mostly through MRWA for local and state roads.

DCP provides financial assistance to individuals and families affected by a disaster, but will recoup the assistance from FESA if the event is eligible under WANDRRA. In 2011 DCP claimed $10 million from FESA. DAFWA claimed just over $800 000 for assistance to primary producers in the same year.

Each agency that distributes funds must ensure that claims are eligible, supported by evidence, and payments are made within reasonable timeframes.

We expected FESA to have formal arrangements in place with each partner agency outlining key roles and responsibilities; overarching policies for managing claims; and controls to crosscheck eligibility and identify duplicate payments and possible fraud. We also expected each agency to have policies, procedures and controls in place to manage the claims they process.



Source: FESA and OAG

Figure 4: Distribution of WANDRRA funds in 2011

FESA lacks formal arrangements with partner agencies and provides little coordination

FESA and its three partner agencies are responsible in most years for distributing a large amount of WANDRRA funding, at times to many recipients. FESA is responsible for coordinating the distribution of WANDRRA funds and reporting back to Commonwealth and state governments on this expenditure.

Although FESA's role is mandated under WANDRRA, the role of its partner agencies is not. FESA has not sought to address any gap in the responsibility of its partner agencies through formal agreements with them or by issuing guidance to them on matters such as assessing eligibility, fraud prevention, timeliness of processing, complaint management or recordkeeping.

The need for agreement on responsibility is evident in checks done by DCP before it authorises emergency payments for house repairs and contents. Before making any payment, DCP contacts the Insurance Council of Australia to establish whether a home owner is insured. If the owner does not have insurance or is underinsured, then they may be entitled to receive up to $20 000.

DCP considers FESA, as the WANDRRA administrator, is responsible for formalising the arrangement with the insurance body. However, FESA considers DCP should initiate the arrangement as they must confirm eligibility before they distribute funds. We note that neither agency has formally raised this matter with the other. In the absence of an agreement, we found that the required information is not always received before a payment is made.

We also noted opportunity for FESA or its partner agencies to establish formal arrangements with Commonwealth agencies and other organisations, such as insurance bodies, to improve eligibility checks.

As many types of damage may occur during a disaster, it is not always clear what is covered by the NDRRA. In such cases, FESA seeks the Commonwealth's advice. The decision is then communicated to the partner agency and filed on the event file.

At present, staff at FESA and partner agencies cannot easily find previous Commonwealth advice and decisions without looking through each event file. This could cause inconsistent treatment of items and delays in processing claims in subsequent events. Possible strategies to help agencies incorporate these decisions in processing future claims include documented policies and procedures or a decision register.

FESA does not review agencies' claims

FESA entirely relies on its partner agencies to ensure that all WANDRRA payments they make are eligible. FESA has not sighted or reviewed agencies' policies and procedures to ensure they have sufficient controls in place for managing WANDRRA claims. However, we did observe that FESA staff readily provide guidance and advice when asked.

We reviewed 12 claims from partner agencies that were approved by FESA and found that they generally contained little detail to support the claim other than a covering invoice. Instead FESA relies on the integrity of each agency's internal processes to help ensure that only eligible items are claimed.

FESA also receives claims from non-partner state government agencies for recovery assistance, sometimes for significant amounts. These claims contained inadequate supports to substantiate the claimed expenses, even when it was the first time the agency claimed from WANDRRA. FESA does discuss the claim contents with agencies during works and claim preparation, for example, whether certain items are eligible. However, it does not review the submitted claims for ineligible items.

These claims can be for a range of items on a complex project. For instance, rebuilding the Warmun site involved providing temporary accommodation for the community, relocating the town site to higher ground, and replacing almost all dwellings.

Agencies scrutinise and document claims from local governments, primary producers and small businesses

Of the four agencies we audited, we found FESA, MRWA and DAFWA are, for the most part, satisfactorily assessing and documenting claims to ensure funding is made to eligible claimants. The claims for assistance that DCP receives are more difficult to manage, largely because of their immediate and urgent nature. We have addressed DCP's claims management later in this report.

Both MRWA and DAFWA have formal written processes for assessing claims and they follow the processes closely. For the most part, their processes are suitable. FESA's assessment processes are not well documented but nevertheless are suitable in practice.

Local governments are often significantly affected by natural disasters and hence they are frequent and large claimants upon WANDRRA funding. Local government claims are directed to FESA for restoration and replacement of public assets or clean up and MRWA for road repair and clean up. Both FESA and MRWA require local governments to provide claims that contain sufficient detail and evidence to substantiate their claims.

Small businesses (including primary producers) affected by natural disasters are able to seek interest rate subsidies on loans, worth up to $150 000, for up to 10 years. Annual interest is paid in advance at the anniversary date of the loan. These types of claim are made to FESA. We found no issues in the processing and payment of these claims.

Primary producers affected by natural disasters are able to seek reimbursement for a range of assistance from DAFWA including grants for professional advice; freight costs (to transport food and water for livestock); and fencing.

Of the 186 applications made to DAFWA from Carnarvon primary producers affected by floods, four withdrew and 18 were declined. We found DAFWA adhered to its policies, procedures and controls when assessing claims and making payments to primary producers. All decisions were supported.

Agencies do not compare claims to identify duplicate items and do not have systems in place to regularly do so

While agencies individually assess claims they do not often cross-check claims to identify if they have been submitted to another agency for the same expense. They have also not considered whether this could occur. Currently, no cross-checking process exists amongst the partner agencies to prevent duplicate claims being paid. FESA as the coordinator of WANDRRA funding would be best placed to consider solutions to this issue.

Opportunities for duplicate payments include:

- primary producers that are also registered as a small business can make claims to both DAFWA and FESA. The potential for duplicate payments is increased because FESA and DAFWA record applicants' names differently. FESA also does not record ABN numbers in the claims register.
- both FESA and MRWA provide relief funds to local governments. FESA pays for assistance to the general public, such as clearing debris, and damage to local government property. MRWA helps restore and repair roads and bridges. MRWA and FESA recently identified, by chance, that a local government could claim 'opening up' costs from both agencies. However, the two agencies do not compare claimed items for duplication.

FESA's claims register only records the amount reimbursed to a partner agency by claim and disaster. Although it is the central WANDRRA register, it does not record details of payments partner agencies make, for instance, to primary producers and families. As FESA discourages partner agencies from sending details of funds paid by them, they cannot check for duplicate payments centrally.

One approach would be to store information on WANDRRA payments and recipients on a shared system. This would facilitate the processes and information sharing between agencies to identify duplicate payments or inconsistencies. We note that DAFWA operates a Grant Application Management System for all WANDRRA and other primary producers' grants. This system allows DAFWA to check applications for possible double dipping by using a simple name search.

Preventing and investigating the risk of duplicate payment and fraud can be improved

None of the agencies has adequately considered the risk of duplicate claims and fraud and then built in controls to prevent and detect this risk. It is also not evident that instances of possible fraud are adequately investigated.

Without suitable policies and guidance, agencies are less likely to prevent fraud by claimants, or other incorrect payments, or detect it after it has occurred so that moneys can be recovered. Appropriate policies and guidance are important for heightening staff awareness and ensuring proper procedures are followed.

If potential fraud is detected, it is important that it is properly investigated and if necessary referred to the police. None of the agencies we audited had established policy and procedures for this, though we noted that all four agencies had identified opportunities for fraud in their claims process.

DAFWA for example rejected a number of claims made after the 2011 Carnarvon floods that were duplicates against the same property or primary producer (sometimes with a different ABN number). DAFWA did not investigate the basis of the duplicate claims or refer the matter to the police.

DCP does not have robust processes for personal hardship and distress payments to individuals and families

We identified varying rigour in DCP's eligibility checks and inconsistencies in the amount of financial assistance made to individuals and families. DCP advised this was partly due to unclear policies, staff inexperience and on site decisions about an individual's or family's needs. DCP clarified and revised its policy in February 2012 before this audit started. We also noted that obvious control weaknesses within DCP's system for assessing claims and delivering assistance did not cause it to review payments later for duplicates and other issues.

In a disaster affecting individuals and families, DCP sets up evacuation centres; provides food, clothing, and counselling; and gives out money for necessities.

DCP manually registers the people assisted and processes financial assistance within the disaster area or evacuation centre. DCP advised that it uses a manual rather than electronic system because of possible prolonged power outages and limited access to internet facilities. While this is good emergency management practice, DCP could consider other options to enable some electronic processing even when there is little or no power. We noted that DCP does not subsequently review the manual registration forms to check for any duplicate payments or other eligibility issues.

We found:

- inconsistent practices across different disasters in checking and recording a person's identification. In any disaster, applicants receiving on site financial assistance from DCP are required to complete an application form that contains information including name, address and some proof of identity such as a driver's license number. In one disaster we noted that 100 per cent of applications contained proof of identity. In another, only 33 per cent were recorded.
- instances of double dipping and overpayment of financial assistance to individuals. For instance, a $700 overpayment to a husband and wife who registered separately on the same day with each receiving payments even though they provided the same children's names and family name.
- inconsistencies in the financial assistance provided to persons affected by different disasters. The cause was a lack of clear policy and staff training. For instance:
    - two person households affected by the Carnarvon floods received $30 for loss of food due to power outages. Two months later, two person households affected by the Armadale bushfires received $180
    - persons affected by the Margaret River fires were paid $350 per person per day for three consecutive days.

While we acknowledge the circumstances in each emergency are different, we expect there to be sound policy and guidance to clearly set the principles for appropriate assistance. We note that DCP has since clarified its policies and limited financial assistance to a one-off payment of up to $200 per person. A family can now get a maximum of $800 regardless of the number of persons residing in the household.

In September 2011, DCP introduced the use of debit cards with preloaded dollar values. These were seen as a more cost effective means of delivering financial assistance to its clients, including for disaster relief. The prepaid cards can be used immediately by the recipient for a limited number of days before they become invalid. The bank sends any unused funds back to DCP.

The cards were first used to provide disaster assistance to persons affected by the Margaret River fires. DCP has recognised that some undesirable issues arose from its use of the cards during this disaster and we have recommended that these be addressed:

- security – boxes of preloaded cards were at times accessible to the public and after hours security of the cards was weak. DCP advised Audit that it reconciled the number of issued and unissued cards at the end of the event and did not find any problems.
- unintended use – the cards are intended to provide hardship relief such as for food, accommodation and clothing. The cards state 'not to be used for alcohol or tobacco'. But recipients are not required to sign and acknowledge that the card use is for emergency purchases. DCP has learnt that some cards were used for purposes such as the purchase of art and hair extensions.

DCP's processes for providing household contents and house repair assistance have weaknesses

DCP will provide financial assistance to individuals and families to replace damaged and essential household items like refrigerators and stoves up to a value of $10 000. Payments will also be made for house restoration up to an amount of $10 000 if the house is not damaged beyond repair. To be eligible, the property must be the principal place of residence. Assistance is also normally income and asset tested though government waived this eligibility test for the 2011 Carnarvon floods.

We found that DCP was only making payments after it conducted site inspections and that it had paid the appropriate amounts. However, we also found that some parts of its assessment process needed improvement:

- three of the seven approved claims we audited were not supported by evidence that the property was the applicant's principal place of residence.
- DCP uses an electronic eligibility assessment form that is 10 years old. It uses pre-programmed formulas to calculate entitlement but these generate wrong totals and have to be manually recalculated. As well, separate forms are required for the two types of assistance thereby requiring duplication of input.

Most agencies are timely in assessing and paying claims

While no agency has established timeframes to process and pay claims, most claims we reviewed were paid within 15 days. However, payments by MRWA to local governments for road related repairs were considerably slower.

Of the eight local government claims we audited, MRWA's payment times ranged from 17 to 76 days and averaged 49 days. This was longer than we expected, though we acknowledge that the claims could require considerable assessment of technical information and supporting documents. While it is important that MRWA follows due process for managing claims, timely payments are also important if local governments are to manage their cash flow.

FESA processed and paid more than 70 per cent (27/38) of the claims we audited within 15 days of receiving the claim. Insufficient or incorrect information provided to FESA was the cause for all but two of the slower payments. These two payments took 54 and 122 days respectively after payment approval was given. The two claimants had requested urgent payment by manual cheques. FESA advised that the cheques were not issued due to staff inexperience, though insufficient oversight would also have contributed.

DCP distributes most personal hardship and distress payments to individuals and families within the first days of the disaster. Funding for house repair and contents is made within 15 days where the claim is submitted with complete information. However, most claims had insufficient information when initially submitted to DCP.

Our testing of DAFWA claims found that an average of 39 days was taken to pay after receiving a claim. However, we found the delays were justified and reasons recorded.

FESA is now reviewing the administration of WANDRRA but all agencies could improve by learning from disasters in WA and other states

Standard emergency management practice is for agencies to review and learn lessons from disasters in WA and other states. However, learning from experiences in relation to provision of assistance and financial support is much less comprehensive than for other aspects of emergency management.

For instance DCP provided staff to assist with relief and recovery during the Queensland floods. However, lessons learnt were not documented or considered in the ongoing management of disaster relief in WA.

We also understand that FESA is a member of the NDRRA stakeholders group, but we could not find evidence of an active WANDRRA group to share lessons learned from local disasters.

FESA is currently reviewing WANDRRA to improve its effectiveness in key areas. The review was initiated as a result of the large increase in disaster relief events since December 2010. The review includes the structure and disaster relief activation process; eligibility measures; stakeholder partnership; and WANDRRA's financial, administration and business management processes.

FESA has involved stakeholders to identify key areas for improvement and has considered reports from other jurisdictions, such as the Victorian Bushfires, for background information. But it has not consulted other states on their experience in providing NDRRA payments. The framework and procedures, difficulties faced and controls developed or evolved during larger disasters in other states can serve as a guide on what to adopt or avoid to improve WANDRRA.

Housing's Implementation of the Head Contractor Maintenance Model

Background

Housing introduced a Head Contractor Maintenance Model to drive improved maintenance outcomes

The Housing Authority (Housing) is responsible for almost 45 000 rental properties and in 2011-12 spent more than $100 million maintaining them. In July 2010 Housing implemented a Head Contractor Maintenance Model (HCMM) to carry out most of the maintenance of its rental properties.

Adopting the HCMM was a major shift in Housing's approach to maintenance management. Prior to July 2010, and for the previous decade or more, Housing managed its maintenance services using around 700 individual maintenance contracts and dealing directly with more than 300 contractors across the state. The HCMM reduced the number of maintenance contracts to 10 (one for each region), and centralised contract administration previously managed by Housing's Regional Offices. Using this model, Housing expects to improve the efficiency and effectiveness of its maintenance operations and drive better maintenance outcomes – reduced cost, improved quality and timeliness.

The three Head Contractors responsible for managing Housing's 10 regional contracts are:

- Transfield Services Australia Pty Ltd (six contracts) – North Metropolitan, South Metropolitan, South East Metropolitan, Great Southern, Mid West/Gascoyne, and Pilbara
- Lake Maintenance Pty Ltd (three contracts) – Goldfields, Kimberley and Wheatbelt
- Programmed Facility Management Pty Ltd (one contract) – South West.

Head Contractors manage multi-trade sub-contractors to do unplanned reactive maintenance

Housing's maintenance work comprises unplanned reactive maintenance (commonly referred to as day to day maintenance), and planned cyclical or scheduled refurbishment work. The HCMM contracts apply only to reactive maintenance, which includes a range of trades work and repairs to tenanted and vacant property. Trades covered in the contracts include: electrical, plumbing and gas, flooring, painting, carpentry, roof and wall tiling, glazing, pest control, fencing, drainage, reticulation and tree management.

Head Contractors receive maintenance job orders from Housing and organise sub-contractors to do the work. Planned maintenance work that is part of a refurbishment program sits outside Head Contractor contracts. Housing's contracting relationship is with the Head Contractor. Housing does not engage or monitor sub-contractors. This is the responsibility of the Head Contractor, who must also ensure all sub-contractors are appropriately licensed and qualified to do the required maintenance.

Housing accepts that the new contracting model was poorly planned and unsuccessfully rolled-out

On March 2012 the Minister for Housing acknowledged Housing's introduction of the HCMM 'had a lack of management oversight, very poor implementation in the first instance and very poor management of risk'.

The problems with the transition to the new model became apparent shortly after the contracts started on 1 July 2010. Complaints increased; tenants and Housing staff advised that maintenance work was not up to standard or not being done at all. There was a backlog of unpaid invoices for completed work, and it was taking longer for vacant properties to become available for rental.

Many of the problems were a direct result of the incompatibility of Housing's and the Head Contractors' information systems, essential for issuing, invoicing and paying for maintenance work.

As well, contractual arrangements and contract management under the HCMM was inadequate from the outset. Although Housing had previously managed contracts, it did not have a comprehensive contract management framework in place to deal with the new model. There was no contract management plan, nor were there Service Level Agreements (SLAs) specifying Head Contractor performance levels. Further, there was no guidance for either Housing staff or Head Contractors on the processes and procedures to be followed to meet contractual obligations.

This review sought to establish if:

- Housing can demonstrate that its corrective action has been effective in addressing issues identified since the implementation of the Head Contractor Maintenance Model?
- Housing has implemented sufficient controls in the management of the Head Contractor Maintenance Model?

Conclusion

Most of the significant problems arising from the initial HCMM implementation have been resolved and day to day maintenance processes are now functioning as intended.

The interface between Housing and Head Contractors' information systems is now working and being used to issue, invoice and pay job orders. Processes and procedures have been documented and training and guidance for Housing and Head Contractor staff have been provided. Regular communication between Housing and Head Contractors has been established, and dispute resolution has been effective for jointly addressing problems and improving maintenance processes and procedures.

Since July 2011, Head Contractor performance has been monitored. Key Performance Indicators (KPIs) show some improvement since then, but Head Contractor performance targets are not yet being met.

While stability has been achieved for ongoing maintenance, Housing has not yet fully addressed some of the consequences of the initial poor implementation and subsequent 'crisis management' actions.

Review of maintenance work between July and December 2010 and between December 2011 and May 2012 has identified both over and under charging, as well as some non-compliant work. At 17 August 2012, $3.36 million in possible overpayments to Head Contractors or non-compliant job orders had been identified and $0.97 million recouped. Housing is still negotiating with Head Contractors on the other $2.39 million. A review of job orders issued between January and November 2011 is expected to be complete by October 2012. This means the total overpayments/non-compliant job orders are likely to increase.

Following the implementation of the HCMM, Housing made a number of reactive changes to controls to address specific issues without thoroughly considering the potential consequences, including breaching a Treasurer's Instruction. Some of the issues existed prior to HCMM implementation, but became more visible when processes were being more closely scrutinised. The control arrangements now in place are adequate though some opportunities to improve these further have been recommended.

Key findings

- The effectiveness of Housing's corrective action has been mixed. Since July 2010, Housing has initiated multiple projects to fix the HCMM implementation problems. Housing estimates that its corrective action cost a minimum of $1.2 million. Most of the critical issues have been resolved, such as:
  - The interface between Housing and Head Contractors' information systems is now working and being used to issue, invoice and pay job orders.
  - Processes and procedures have been documented and training and guidance provided for Housing and Head Contractor staff.
  - Regular communication between Housing and Head Contractors has been established to discuss KPIs and performance.
  - Dispute resolution has been effective for jointly addressing problems, negotiating non-compliance issues and continuing to improve maintenance processes and procedures.
- However, some corrective action was not well thought through and the effects are still being assessed. For example, from mid November 2010 to early November 2011, approximately $50 million of maintenance work was not inspected prior to authorising payment. So far Housing has identified $3.36 million in potential overcharges and non-compliant job orders and has recouped $0.97 million from Head Contractors. However, nearly a year's worth of job orders is still being reviewed. The full effects of suspending prepayment checks will not be known until all relevant job orders have been reviewed.
- Where Housing has identified instances of Head Contractor non-compliance it has resolved issues or recouped payment. In reviewing and investigating non-compliant invoices, Housing has not identified any claims for payment from Head Contractors as being potentially fraudulent. We reviewed Housing's action for a number of complaints about possible rorting or fraud that were referred to us. We assessed Housing's documentation in relation to these concerns and found Housing had appropriately investigated and resolved these. We did not find any evidence of fraud. While no instances of fraud have been identified, Housing could strengthen its capacity to detect and respond to suspected fraud.
- Since July 2011, Housing has monitored contractor performance using KPIs linked to incentives and penalties. So far the KPIs only monitor timeliness and not the quality of the maintenance work or its cost effectiveness. While the timeliness of maintenance work has improved, targets are still not being met.
- At July 2012 Housing's control framework was fully operational and sufficient for issuing, monitoring, paying and quality assuring job orders. Overall the framework is adequate, but some individual controls could be strengthened and others better targeted by taking a more strategic, risk based approach.
- Housing established its centralised call centre in 2009 to manage maintenance requests and ensure that job orders are issued efficiently using consistent processes. However, we found in 2011-12, 58 per cent of job orders were still issued by Regional Offices. Housing's policy is to shift the issuing of job orders from Regional Offices to achieve a range of outcomes including improving timeliness and reducing costs and the administrative burden on the regions.

- Controls for tracking job orders and escalation processes for work not completed on time or to standard are not as timely as they could be. Timeliness is particularly critical for job orders categorised as 'emergency', as delays may place tenants and/or properties at a higher risk.
- Controls over payment of job orders are adequate, but the sampling of job orders for physical prepayment checks could be better targeted by using a wider range of risks, not just dollar value.
- Recently enhanced Housing and Head Contractor quality assurance processes are sound, but risk based sampling could make this process more efficient and effective. Quality assurance is intended to give Housing confidence that the quality of maintenance work meets required standards.

Recommendations

Housing should:

- ensure it has sound systems, processes and controls in place that minimise the opportunity for fraud and gives it the best chance of detecting it by:
  - conducting structured fraud risk analysis to identify areas of its maintenance processes or systems where the risk of fraud is highest
  - putting in place a fraud policy to assist staff to detect fraud and respond appropriately to instances of suspected fraud
  - making greater use of its maintenance information to identify patterns of activity that may indicate fraud.
- further develop its Head Contractor key performance indicators to include quality, cost and tenant satisfaction. Currently performance reporting is focused entirely on timeliness indicators.
- use risk based analysis of its tenant and property information, job order data and quality assurance results to better inform target setting for KPIs, job order controls, and the sampling used for completed work inspections before and after payment. This analysis should synthesise information from all sources and include a risk assessment of tenants and properties, as well as consideration of the various types of maintenance work being done (emergency, priority and routine, and planned maintenance).

Response by the Housing Authority

The introduction of the Head Contractor Maintenance Model in July 2010 was a once in a generation change that replaced a decades old system and aimed to deliver savings and ultimately better services to social housing tenants. The Department has acknowledged that there were implementation issues and responded by putting in place a re-implementation process that has achieved significant results.

I am pleased to note that your report acknowledges the Department's view that substantial progress that has been made; in particular:

- most of the significant problems arising from the initial implementation have been resolved
- day to day maintenance processes are now functioning as intended
- the interface between Housing and Head Contractors' information systems is working
- stability has been achieved
- the control arrangements now in place are adequate and fully operational

- controls over payment of job orders are adequate
- no evidence of fraud has been found
- customer complaints have fallen significantly
- vacant property numbers have returned to long term historical averages
- overdue job numbers have fallen and timeliness has improved.

The Department's maintenance service issues around 20 000 job orders a month to almost 40 000 households across Western Australia and, in this context, independent review provides the Department with invaluable feedback that assists the continuous improvement process.

In response to the points of concern highlighted in your report, the Department will compile a programme of works to encompass all outstanding items or areas where improvement is warranted. This programme will be overseen at executive level and commits to report back to your office initially after six months to inform you of progress.

Scope of this review

Between August 2010 and June 2012, Housing carried out substantial corrective action to redress the issues arising from the HCMM implementation. Nevertheless, concerns persisted about Housing's property maintenance and have been raised in Parliament, in the media and with the Auditor General. In June 2012, the Auditor General decided to review the effectiveness of Housing's approach to dealing with the problems arising from its Head Contractor Maintenance Model. We focused our review on answering two questions:

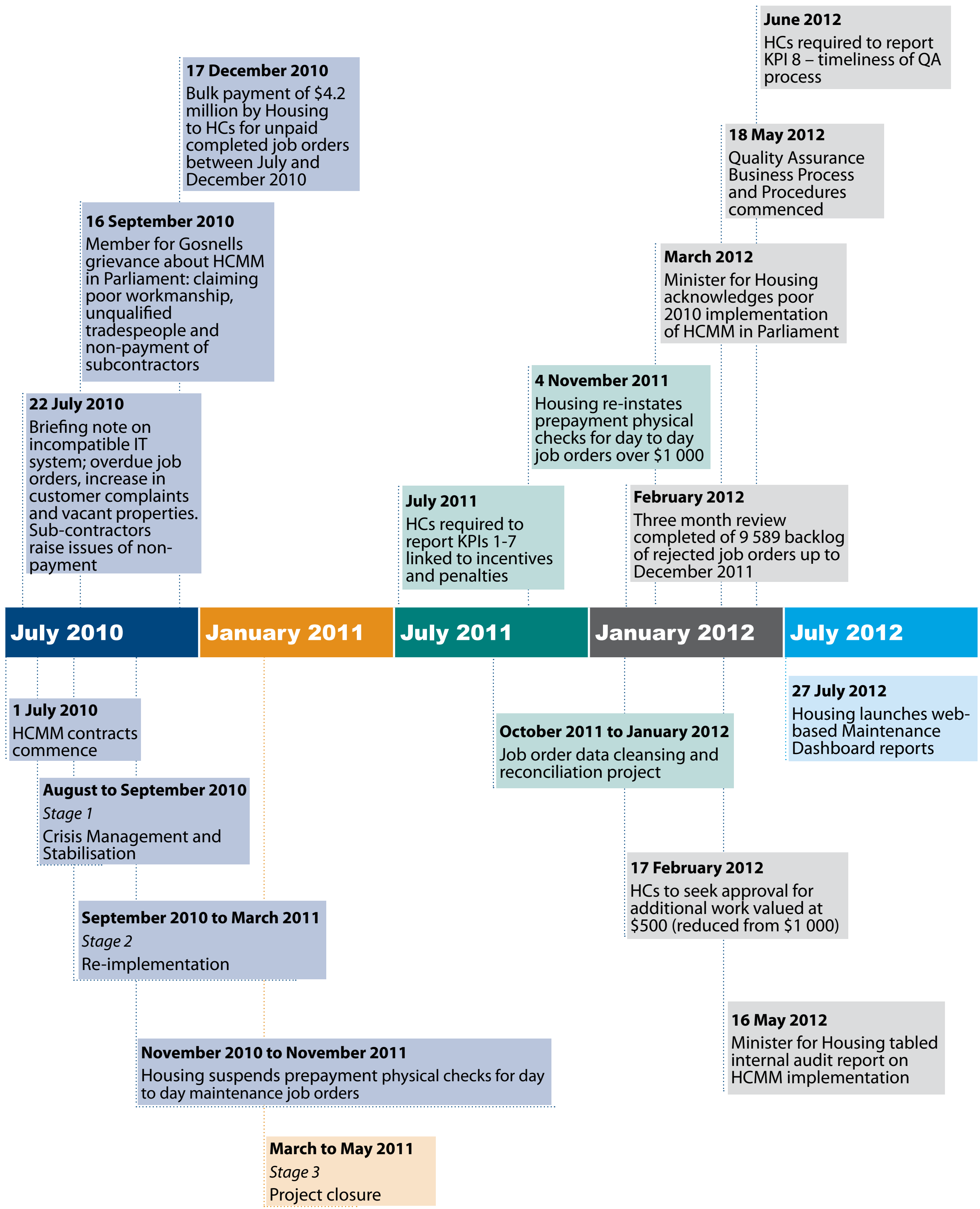
- Can Housing demonstrate that its corrective action has been effective in addressing issues identified since the implementation of the Head Contractor Maintenance Model?
- Has Housing implemented sufficient controls in the management of the Head Contractor Maintenance Model?

In carrying out this review we interviewed maintenance staff, assessed information from Housing's maintenance and financial systems and other documentation including internal audit reports about the HCMM implementation and corrective actions taken to date. We also visited one regional office and observed staff using the maintenance procedures and systems.

Findings

The effectiveness of Housing's corrective action has been mixed; many issues have been resolved, but some quick-fixes created further problems that are still being addressed

Housing started taking corrective action soon after it realised there were problems with the HCMM implementation. Its first step was to initiate crisis management to understand what was going wrong. It is two years since implementation and Housing is still fixing some of the problems (Figure 1). Most issues are now being dealt with as part of ongoing business.



Source: OAG

Figure 1: Timeline showing dates for Housing's key corrective actions and related events

Housing initiated multiple projects to fix the HCMM implementation problems, and most of these have been effective

Between August 2010 and May 2011, Housing put in place three overarching projects to deal with the problems of the initial HCMM implementation (Figure 1). These were:

- Stage One – Crisis Management and Stabilisation (August to September 2010)
- Stage Two – Re-implementation (September 2010 to March 2011)
- Stage Three – Project Closure (March to May 2011).

Stage One was reactive and ad hoc; it focused on identifying issues. By the end of September 2010, there were 251 issues identified. These formed the basis of the work in Stage Two which finished in March 2011. Stages Two and Three used a structured project management approach with identified tasks, timelines and outcomes. The objectives of Stage Three were also more strategic. It focused on improving performance and monitoring of maintenance outcomes by reducing vacant properties, more accurately measuring timeliness of job orders, enforcing compliance with Head Contractor KPIs and budget reporting. This stage ended in May 2011 and since then residual issues are being handled by the relevant business unit in the course of ordinary operations.

As well as the three staged re-implementation, Housing set up a number of issue-specific projects, such as the Rejection Taskforce initiated in December 2011. This was a three month review of all job orders submitted by Head Contractors that were rejected by Housing's maintenance system up to December 2011. The Taskforce's objectives included resolving systemic issues with Housing's processes and information systems.

Housing has resolved most of the critical HCMM implementation issues. The interface between Housing and Head Contractors' information systems is now working and being used to issue, invoice and pay job orders. Processes and procedures have been documented and training and guidance for Housing and Head Contractor staff are being provided. Regular communication between Housing and Head Contractors has been established to discuss KPIs and performance. Dispute resolution has been effective for jointly addressing problems and continuing to improve maintenance processes and procedures.

Housing estimates it spent a minimum of $1.2 million on re-implementing the HCMM.

Some corrective action was not well thought through and the effects are still being assessed

Housing suspended the usual internal controls for job orders to meet more immediate outcomes. These decisions were taken without proper risk analysis or understanding of the wider implications.

Between November 2010 and November 2011 Housing suspended prepayment inspections of day to day maintenance work. This action was taken to speed up the payment process so as to meet agreed timeliness targets and to ensure sub-contractors would be paid. However, suspending prepayment checks breached Treasurer's Instruction 304 in regard to controls over payments.

Approximately $50 million of job orders were paid without adequate mechanisms for providing assurance that work had been satisfactorily completed. However Regional Offices did keep records of any questionable or high risk job orders for checking at a later date.

Since then, Housing has reviewed paid job orders between November and December 2010 and is currently reviewing paid job orders between January and November 2011. Given the elapsed time since the jobs were completed, it may be difficult to conduct physical inspections of the completed work, although desk top audits would still be valid. Desk top audits involve matching the issued job order and the invoiced work to ensure these are correct. The effects of suspending prepayment checks will not be known until all relevant job orders have been reviewed.

So far Housing has identified $3.36 million in potential overcharges and non-compliant job orders and has recouped $0.97 million from Head Contractors; but nearly a year's worth of job orders are still being reviewed

At 17 August 2012, Housing had identified $3 361 698 in potential overpayments to Head Contractors and non-compliant job orders, and had recouped $974 359. The remaining $2 387 339 is being negotiated with Head Contractors. Housing is still reviewing job orders paid between January and November 2011 and advises that it expects to complete this by October 2012.

In December 2010, Housing made a bulk payment of $4.2 million to deal with a backlog of unpaid Head Contractor work, bypassing the normal payment process and systems. All transactions in the bulk payment have since been checked through a quality assurance process. The process involved a desktop review of all transactions and a physical inspection of a sample of maintenance work. This resulted in a recoup of $714 626 from two Head Contractors.

Housing has addressed instances of Head Contractor non-compliance by resolving the issue or recouping payment

Housing's quality assurance process identifies non-compliant job orders. A job order details the maintenance required using items selected from a Schedule of Rates (SoR) each with its own code. The SoR item explains the work required and what is included in the rate Housing pays, such as labour and an estimate of materials based on a related item in the Bill of Materials (BoM). A job order may comprise several SoR and BoM items.

Housing defines non-compliance variously as:

- over or undercharges against a particular SoR item
- using the wrong SoR item, and or quantity when issuing the job order
- quality of completed work is questioned after payment
- no description for materials claimed and requiring further evidence
- Head Contractor system errors where line items have been cancelled then recreated
- wrongly claiming for after-hours job orders
- variations to SoR items without proper authorisation.

When Housing identifies a job order as non-compliant, it will dispute payment and request the Head Contractor to respond to all issues raised. Housing's Quality Assurance Process documents Head Contractors obligations and responsibilities under the contract for dealing with non-compliant job orders.

Housing also investigates and takes action when it receives complaints that work has not been completed or not completed to the agreed standard. In the first few months of implementation there were claims that Housing was paying for work that was not being done.

A number of complaints about possible rorting or fraud were referred to us. These involved concerns regarding a significant number of reticulation jobs that were not completed to required standards and claims for roofing maintenance that was paid for but not done. We assessed Housing's documentation in relation to these concerns. It showed Housing did investigate and resolve these concerns.

Housing's resolution of the non-compliant reticulation work took several months and eventually involved some of the work being contracted to another company. In our view this matter should have been resolved faster. The matter relating to non-compliant roofing work that had not been done but paid for resulted in Housing seeking recoup of $7 143 from the Head Contractor, and the Head Contractor dismissing the sub-contractor. We noted that Housing had not sought legal advice or considered involving the police in this matter.

While no instances of fraud have been identified, Housing could strengthen its capacity to detect and respond to suspected fraud

In reviewing and investigating non-compliant invoices, Housing has not identified any claims for payment from Head Contractors as being potentially fraudulent and requiring referral to WA Police. Based on our limited examination of individual job orders for this review, we also did not find any evidence of fraud. Fraud is defined as activities undertaken with the intent to defraud or deceive for gain or benefit.

It is the Head Contractor's obligation to deal with suspected fraudulent behaviour of its sub-contractors. Housing has sought internal legal advice about dealing with fraud. The advice was that Housing has an obligation to refer suspected cases of fraud to WA Police but that under its Head Contractor arrangements, it would need to have strong evidence of corporate intent.

The risk of fraud in Housing maintenance existed before the HCMM was implemented. The HCMM potentially offers improvements over the previous maintenance arrangements in reducing Housing's exposure to fraud risk and loss:

- Separating the issuing of job orders from the certification of completion and payment by using Housing Direct to issue job orders and regions to sign off on completion is a more robust process, although this transition is not yet complete.
- The risk of fraud by sub-contractors lies with the Head Contractors, and Housing does not have to monitor 300 separate contractors for fraudulent activity, it only need monitor three. Where it identifies a non-compliant invoice, for instance one for work that has not been done – it can recover the money from the Head Contractor who carries the liability for fraud by sub-contractors.
- It is arguably less likely that the Head Contractors would commit fraud because doing so would require a significant level of organisation and would be more likely to be detected than smaller contractors taking opportunities for lower level manipulation of the system.

Nonetheless the risk of fraud in housing maintenance remains. The volume of job orders and claims (around 22 000 a month) and the complexity of using a SoR covering multiple trades and hundreds of individual maintenance items, can make it very difficult to identify whether a non-compliant invoice is a genuine mistake or intended fraud. The results of Housing's reviews of job orders and invoices to date, indicate that non-compliance reflects mistakes and misinterpretations rather than deliberate attempts to defraud.

Housing needs to ensure it has good systems, processes and controls in place that minimise the opportunity for fraud and gives it the best chance of detecting it. There are three ways that Housing could strengthen its capacity:

- by conducting structured fraud risk analysis to identify areas of its maintenance processes or systems where the risk of fraud is highest
- by putting in place a fraud policy to assist staff to detect fraud and respond appropriately to instances of suspected fraud
- by making greater use of its maintenance information to identify patterns of activity that may indicate fraud.

Housing now monitors Head Contractor performance, but so far it only monitors timeliness

Since July 2011, Housing has reported monthly on Head Contractors' performance against KPIs. The KPIs are stipulated in the contractual agreements with the Head Contractors and are linked to incentive and penalty payments. Prior to adopting the HCMM, Housing had limited visibility of contractor performance.

The eight KPIs are detailed in Table 1. Six of the KPIs relate to the timeliness of completed work, one is related to timeliness of invoicing, and the eighth is timeliness of submission of Head Contractor quality assurance reports. This last KPI was introduced in June 2012. As yet, no KPIs assess quality of work, tenant satisfaction or cost effectiveness.

KPI	Target	Service Level
KPI 1: Timeliness of completion of emergency work	100%	Within 3 hours for metropolitan areas and within 4 hours for non-metropolitan areas
KPI 2: Timeliness of completion of emergency work after hours	100%	Within 3 hours for metropolitan areas and within 4 hours for non-metropolitan areas
KPI 3: Timeliness of completion of priority work	95%	Within 48 elapsed hours on business days
KPI 4: Timeliness of completion of routine work	95%	Within 14 calendar days
KPI 5: Timeliness of completion of major work	95%	Within 28 calendar days
KPI 6: Timeliness of completion of vacant premises	95%	By agreed date and time of job order
KPI 7: Timeliness of submission of invoice	95%	Within 14 calendar days
KPI 8: Timeliness of submission of quality assurance reports	100%	Within 21 calendar days

Table 1: Description of Head Contractor KPIs, targets and service level requirements

Head Contractor performance has improved, but maintenance targets are still not being met

The KPI results show that Head Contractor performance has improved since July 2011, though work is not being completed within the established timeframes (Tables 2 and 3). However, other operation data does show improvement.

Customer complaints have reduced significantly, from 21 per cent in December 2010 to 3.7 per cent in April 2012; vacant property numbers have returned to long term historical averages; overdue job orders (ie work that has not yet been completed) have reduced from 15 000 in September 2011 to 7 000 in May 2012.

	KPI 1 - Target 100% Timeliness of Completion of Emergency Work				KPI 3 - Target 95 % Timeliness of Completion of Priority Work				KPI 4 - Target 95 % Timeliness of Completion of Routine Work			
Regions	July 2011 indicative %	June 2012 indicative %	Has performance improved since July 2011	Are HCs meeting KPI Target	July 2011 indicative %	June 2012 indicative %	Has performance improved since July 2011	Are HCs meeting KPI Target	July 2011 indicative %	June 2012 indicative %	Has performance improved since July 2011	Are HCs meeting KPI Target
Goldfields	55	86	Y	N	37	57	Y	N	71	78	Y	N
Kimberley	71	88	Y	N	53	55	Y	N	62	83	Y	N
Metro Fremantle	60	68	Y	N	36	100	Y	Y	57	85	Y	N
Metro North	61	58	N	N	52	65	Y	N	71	81	Y	N
Metro South East	54	60	Y	N	24	63	Y	N	55	81	Y	N
Mid-West	59	71	Y	N	49	62	Y	N	72	80	Y	N
Pilbara	42	77	Y	N	28	34	Y	N	69	73	Y	N
Southern	65	68	Y	N	59	69	Y	N	57	68	Y	N
South West	75	92	Y	N	52	75	Y	N	76	85	Y	N
Wheatbelt	66	87	Y	N	51	60	Y	N	54	71	Y	N

Table 2: Comparison of HCMM Key Performance Indicators 1, 3 and 4 for July 2011 and June 2012 and performance against targets

Note: KPI 2 is not reported due to the way data is captured by Housing Direct.

	KPI 5 - Target 95 % Timeliness of Completion of Major Work				KPI 6 - Target 95 % Timeliness of Completion of Vacant Premises				KPI 7 - Target 95 % Timelines of Submission of Invoice			
Regions	July 2011 indicative %	June 2012 indicative %	Has performance improved since July 2011	Are HCs meeting KPI Target	July 2011 indicative %	June 2012 indicative %	Has performance improved since July 2011	Are HCs meeting KPI Target	July 2011 indicative %	June 2012 indicative %	Has performance improved since July 2011	Are HCs meeting KPI Target
Goldfields	52	60	Y	N	72	77	Y	N	30	91	Y	N
Kimberley	100	50	N	N	59	76	Y	N	39	91	Y	N
Metro Fremantle	46	100	Y	Y	69	91	Y	N	89	92	Y	N
Metro North	56	68	Y	N	71	69	N	N	94	93	N	N
Metro South East	76	73	N	N	55	65	Y	N	87	91	Y	N
Mid-West	45	67	Y	N	73	87	Y	N	76	85	Y	N
Pilbara	17	100	Y	Y	76	73	N	N	79	43	N	N
Southern	14	17	Y	N	72	69	N	N	89	84	N	N
South West	47	73	Y	N	81	85	Y	N	85	73	N	N
Wheatbelt	33	31	N	N	65	76	Y	N	25	81	Y	N

Table 3: Comparison of HCMM Key Performance Indicators 5, 6 and 7 for July 2011 and June 2012 and performance against targets

Note: KPI 8 is not yet reported.

Housing's overall HCMM control framework is now sufficient, but some individual controls could be strengthened and better targeted by taking a more strategic, risk based approach

At July 2012 Housing's control framework was fully operational and sufficient for issuing, monitoring, paying and quality assuring job orders. While some of the individual controls could be strengthened, overall the framework is adequate. Some of the controls issues existed prior to HCMM implementation, but became more visible when the controls were more closely scrutinised.

Housing has agreed that its process for selecting a sample of completed jobs to review prior to approving payment would be strengthened by using its current maintenance and property information to give a more risk based and targeted sample.

Housing's internal control framework for the HCMM is embedded in the job order process and is adequate

All Head Contractors' maintenance work requires a unique job order, which is central to assigning and tracking maintenance work through Housing's processes and systems. Between 1 July 2010 and 30 June 2012, Housing paid around 22 000 job orders on average each month (about 260 000 over the full year).

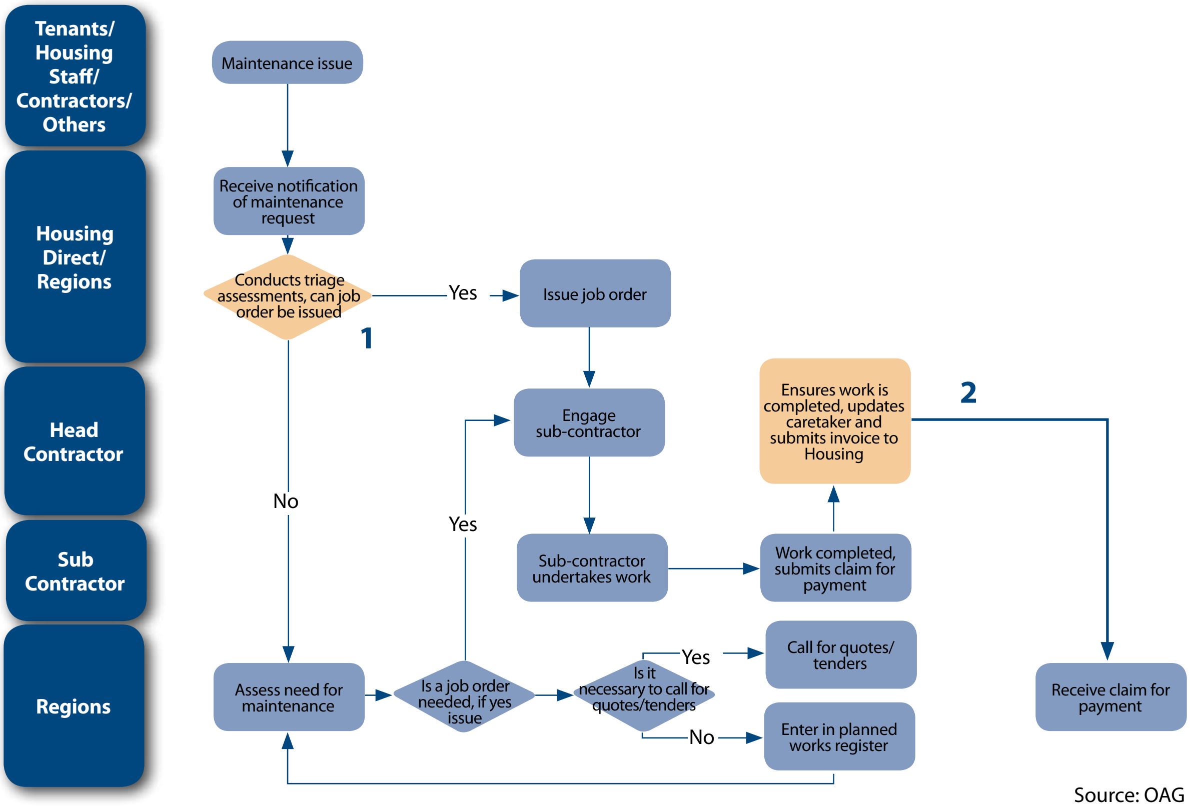
The main elements of Housing's current job order process (Figures 2 and 3) are:

1. issuing the job order
2. submitting an invoice on completion of work
3. prepayment desk top checks of completed job orders
4. physical inspections of a sample of completed jobs
5. incurring, certifying and paying the job order
6. post-payment quality assurance.

The control framework links to the six elements of the job order process and includes key decision points to assess:

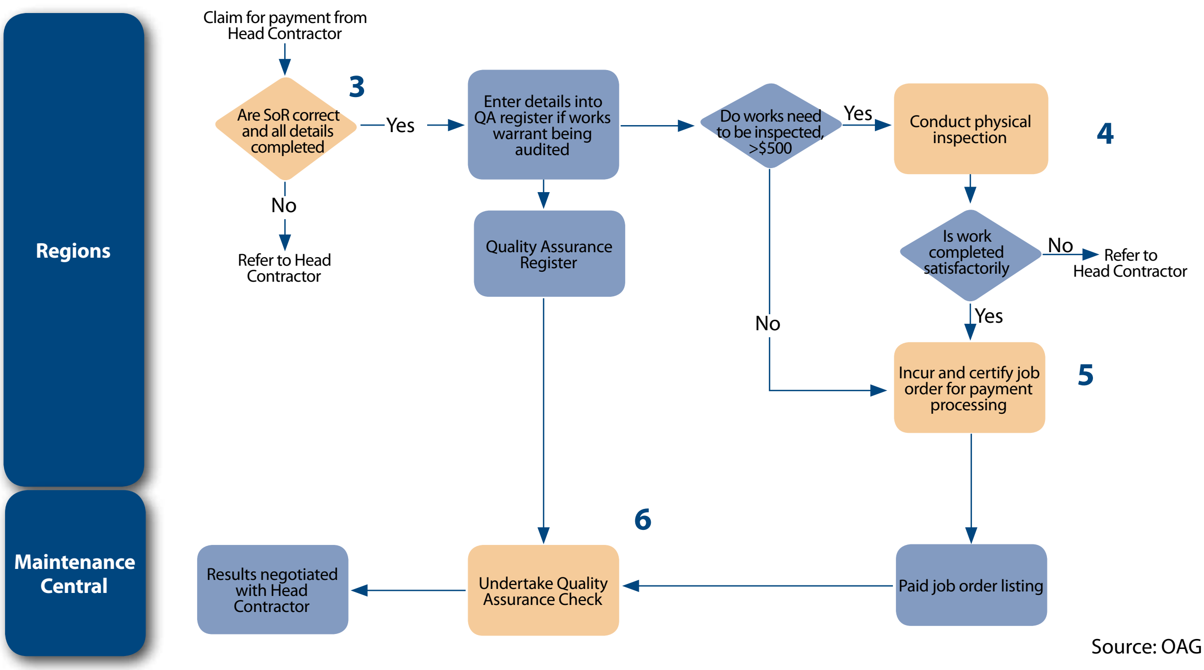
- the nature of required maintenance work
- whether or not the work has been completed as requested before paying the invoice
- whether the quality of the work is adequate.

The six control points are highlighted in the figures below.



Source: OAG

Figure 2: Housing's internal control framework for issuing job orders and submitting an invoice for completed work



Source: OAG

Figure 3: Housing's internal control framework for prepayment desk top and physical checks of completed job orders; incurring, certifying and paying job orders; and post-payment quality assurance

Taken as a whole these controls are adequate, but there is scope to strengthen individual controls. In addition, better synthesis and analysis of information contained within Housing's various systems (eg tenant and property information, quality assurance data, and financial data) would enable a more effective and efficient use of resources. In particular there is scope to refine the prepayment checks (currently based on a dollar threshold) by identifying high risk job orders and properties and targeting these.

Housing relies on its centralised call centre to manage maintenance requests and ensure a consistent approach to issuing job orders, however 58 per cent of job orders are still issued by Regional Offices

Housing's centralised call centre is the preferred point of contact for maintenance requests. Housing believes that trained staff at a centralised point are best able to ensure that the issued job orders accurately reflect the required maintenance, thereby improving efficiency. However, in 2011-12, Regional Offices issued 58 per cent of job orders.

Housing encourages tenants and others to place maintenance requests through its 24 hour call centre, 'Housing Direct'. Call centre staff use a scripted 'triage' approach to determine what, if any, maintenance work is required. However, we found most job orders are issued by Regional Offices and it is unclear what triage process Regional Offices use.

In 2010-11, Housing Direct issued around 22 per cent of all job orders, while 78 per cent originated from regional offices. In 2011-12, Housing Direct issued around 42 per cent of job orders (nearly twice as many as in the previous year), showing a noticeable shift toward the centralised job order issue.

An internal audit report of regional maintenance processes and procedures in July 2010 found:

- inappropriate processes used when issuing job orders using quotes and/or scheduled items
- lack of formally approved, consistent and clearly linked policies, procedures and guidelines governing issuing and management of job orders

For many reasons, the issuing of job orders by Regional Offices is likely to continue. However, as identified in Housing's internal audit report, Regional Offices also need to have consistent and clearly linked policies, procedures and guidelines governing issuing and management of job orders.

Some maintenance requests are referred to Regional Offices and are not systematically tracked

When Housing Direct receives a request for maintenance that does not clearly fit a SoR item, and cannot be labelled as emergency, priority, or routine, it refers the request to a Regional Office for assessment. The Regional Office then determines if this maintenance should be issued as a job order, considered as planned maintenance work and added to the planned work register, or deferred. Referred maintenance requests are not systematically tracked and may not be assessed for some time (months or years). At the Regional Office we visited, we noted that referred maintenance work was pending in the system for several months and in one case for several years.

Issuing (and acting on) a job order requires an understanding of Housing's systems and maintenance coding. A job order details the maintenance required using items selected from a SoR each with its own code. The SoR item explains the work required and what is included in the rate Housing will pay for the work, such as an estimate of materials based on a related item in the Bill of Materials (BoM). A job order may comprise several SoR and BoM items. In addition to allocating item codes, job orders are categorised into emergency, priority or routine work. Some SoR items are automatically labelled 'emergency', such as a faulty smoke alarm. But most job orders are categorised by determining the risk posed to tenants and/or property.

Tracking job orders and escalation processes are not as timely as they could be

There is potential for human or electronic error resulting in the Head Contractor not receiving the job order. Once a job order is received, Head Contractors do not immediately verify the receipt, nor is there timely reconciliation of issued and received job orders. Systematic cross-checking of job orders issued by Housing with those held by the Head Contractor may not occur until several weeks later. This delay is particularly critical for job orders categorised as 'emergency', as it may place tenants and/or properties at a higher risk.

Housing advised that it places reliance on tenant complaints to instigate an escalation process for 'missing' job orders. Escalation involves following up with the relevant Head Contractor to check on the status of the job order. There can be a number of reasons why maintenance has not been completed including the job order not being received, or the sub-contractor not being able to access the property.

The current escalation process is weakened by its reliance on tenants and other parties to notify Housing that maintenance work has not yet been done. While this may be reasonable in many cases, it is not wholly reliable, especially when the work request is not tenant instigated or when the job relates to tenant liability. For example, a smoke alarm may be intentionally damaged to silence it and such repairs would be at the tenant's expense.

Recently (July 2012) Housing began to generate reports which give Regional Offices the capacity to follow up job orders within a week of job order issue. The report summarises by region and category (emergency, priority or routine), the number of job orders that are overdue (ie work not yet completed) and outstanding (ie completed work not yet paid and needing authorising to do so). These reports provide Regional Offices with the capability to drill down summary information to an individual job order.

This is a significant improvement on previous processes which relied on individual Regional Offices keeping track of job order status after receiving reports from Head Office. However, we note that Housing has yet to develop real time information that would allow immediate follow up on emergency job orders. These job orders are issued for work requiring attention within a three or four hour timeframe and should be closely tracked to reduce the risk to tenants and properties.

Job order payment controls are adequate, but sampling job orders for physical prepayment checks could be better targeted by using a wider range of risks, not just dollar value

Housing pays just over 22 000 job orders per month for work completed at numerous locations across the state. Once a job order is received by a Head Contractor it is allocated to a sub-contractor to undertake the work. When the work is finished, Head Contractors submit a claim for payment to Housing.

Housing's current payment processes require it to conduct prepayment checks of all job orders over $500 to confirm that the work has been done satisfactorily. This means that approximately 20 per cent (4 400) need to be physically inspected each month before processing for payment. Using 2011-12 data, the value of job orders requiring inspection is around $7.523 million per month or $90.3 million per year, out of a total of $128.7 million.

These inspections are time consuming as arrangements need to be made with the tenant to gain access to the property. Given the effort required, we believe that Housing could derive greater value from its prepayment checks by sampling a range of jobs selected on a risk basis rather than just those valued at over $500.

Such risk based factors along with dollar value could include:

- type of maintenance work, trade or non-trade, complexity of task
- category of response timeframe
- previous quality assurance and prepayment check results
- analysis of who originated maintenance request
- whether there are additional SoRs added to job order
- type and location of property, with reference to type of work and timeframe category
- tenancy factors, including tenant health and behaviour or rental history
- property maintenance history
- results of the Head Contractor quality assurance.

Such an approach would need to be continually informed by ongoing monitoring and trend analysis of maintenance information to ensure effectiveness. Housing has accepted this recommendation.

Recently enhanced quality assurance processes are sound, but risk based sampling could be more efficient and effective

Quality assurance reviews of job orders differ from prepayment desk top and physical checks carried out by Regional Offices. The post-payment review of completed work is undertaken by Housing's quality assurance team which includes qualified trades people. Prior to implementing the HCMM, there was a limited quarterly quality assurance process. Since December 2011, Housing has enhanced its quality assurance processes for paid job orders. Housing needs to further develop its rationale for the quality assurance sample sizes, types of job orders selected and extrapolation of results. The sample size for the physical check is the same that was used prior to adopting the HCMM.

Currently these reviews are undertaken monthly and involve preparing a master list of SoR items that are over $1 000 in value for non-trade items and over $400 for trade items for each region. From this list two samples are selected comprising:

- at least 10 per cent for physical inspection
- five SoR items (selection is rotated each month) for desk top review. A desk top review involves a detailed analysis of the claim for payment, including all SoR items, BoM quantities, matching these against original job orders issued, and checking authorisations for any additional work.

As well as the above, all job orders entered into a quality assurance register by Regional Offices as high risk during the prepayment checks are included in the post-payment quality assurance.

Head Contractors have also recently commenced their own quality assurance of 500 job orders per region per quarter as required under the Service Level Agreements. Since June 2012, Housing has required Head Contractors to report the results of this process to Housing within 21 days.

Auditor General's Reports

REPORT NUMBER	2012 REPORTS	DATE TABLED
10	Information Systems Audit Report	28 June 2012
9	Public Sector Performance Report 2012 – Regional Procurement – Ministerial decision not to provide information to Parliament on the amount of funding tourism WA provided for the Perth International Arts Festival	28 June 2012
8	New Recruits in the Western Australia Police	20 June 2012
7	Pharmaceuticals: Purchase and Management of Pharmaceuticals in Public Hospitals	13 June 2012
6	Victim Support Service: Providing assistance to victims of crime	16 May 2012
5	Audit Results Report – Annual Assurance Audits completed since 31 October 2011 including universities and state training providers and Across Government Benchmarking Audits: Accuracy of Leave Records; Act of Grace and Like Payments; and Supplier Master Files	16 May 2012
4	Supporting Aboriginal Students in Training	2 May 2012
3	Beyond Compliance: Reporting and managing KPIs in the public sector	19 April 2012
2	Opinion on Ministerial decisions not to provide information to Parliament on the amount of funding Tourism WA provided for some events	22 February 2012
1	Working Together: Management of Partnerships with Volunteers	22 February 2012

The above reports can be accessed on the Office of the Auditor General's website at www.audit.wa.gov.au.

On request these reports may be made available in an alternative format for those with visual impairment.

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