

The Auditor-General
Audit Report No.40 2012–13
Performance Audit

Recovery of Centrelink Payment Debts by External Collection Agencies

Department of Human Services

Australian National Audit Office

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Canberra ACT
30 May 2013

Dear Mr President
Dear Madam Speaker

The Australian National Audit Office has undertaken an independent performance audit in the Department of Human Services with the authority contained in the *Auditor-General Act 1997*. I present the report of this audit to the Parliament. The report is titled *Recovery of Centrelink Payment Debts by External Collection Agencies*.

Following its presentation and receipt, the report will be placed on the Australian National Audit Office's Homepage—<http://www.anao.gov.au>.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ian McPhee', is positioned above the printed name and title.

Ian McPhee
Auditor-General

The Honourable the President of the Senate
The Honourable the Speaker of the House of Representatives
Parliament House
Canberra ACT

AUDITING FOR AUSTRALIA

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Abbreviations

ANAO	Australian National Audit Office
BMA	Bilateral Management Arrangements
DHS	Department of Human Services
DMIS	Debt Management Information System
ECA	External collection agency
FAO	Family Assistance Office
JCPAA	Joint Committee of Public Accounts and Audit
PBS	Portfolio budget statements
QPR	Quarterly performance review
SLA	Service Level Agreement

Summary and Recommendations

Summary

Introduction

1. The Department of Human Services (DHS) provides policy advice on service delivery to the Australian Government and delivers a range of health, social and welfare payments, and services to the Australian community. In 2012–13, DHS expects to deliver approximately \$149.4 billion in third party payments on behalf of other Australian Government agencies.¹
2. DHS makes core Centrelink payments such as Newstart Allowance on behalf of the Department of Education, Employment and Workplace Relations, and Age Pension payments on behalf of the Department of Families, Housing, Community Services and Indigenous Affairs.
3. Incorrect Centrelink payments can result in underpaying or overpaying DHS customers. Debts for customers can arise from: overpayments, because customers have not notified DHS of a change in their circumstances or have provided incorrect information; or, less often, through administrative errors being made by departmental staff.²
4. DHS is required under legislation to recover all Centrelink payments to customers that have been made incorrectly.³ If a debt is raised with a current customer of DHS—someone in receipt of a Centrelink payment—then the debt cannot be recovered in such a way that the person will experience severe financial hardship.⁴ DHS adopts a similar approach when recovering debts from non-current customers, so as to avoid people having to return to Centrelink payments for financial support.
5. Debt management is an ongoing and mature function within DHS with expenditure on Centrelink payment debt recovery estimated to be \$29.8 million⁵ in 2011–12. DHS is responsible for managing a significant number of Centrelink payment debts incurred by current and non-current

¹ Department of Human Services, *Portfolio Additional Estimates Statements 2012–13*, DHS, Canberra, 2013, p. 15.

² In 2011–12, the department reported payment correctness of 97.6 per cent.

³ *Social Security Act 1991*, Chapter 5, Part 5.2—Amounts recoverable under this Act.

⁴ *ibid.*, Chapter 5, Part 5.3—Methods of recovery, subsection 1231 (1AA)(a).

⁵ The expenditure is DHS' direct costs for undertaking debt recovery at the operational level, including DHS staff salaries and commission paid to external debt collection agencies. The total does not include other DHS business costs such as IT maintenance, infrastructure, and departmental services, such as records management.

customers. Table S1 presents a five-year overview of the payment debts raised and recovered by Centrelink and DHS (from July 2011).

Table S 1

Centrelink payment debts raised and recovered: 2007–2012

Year	Debts raised ¹		Debts recovered ²
	Number (million) ³	Value (\$billion)	Value (\$billion)
2007–08	2.2	1.8	1.1
2008–09	2.2	1.9	1.1
2009–10	2.2	1.7	1.1
2010–11	2.0	1.7	1.1
2011–12	1.8	1.8	1.1

Source: Centrelink and DHS annual reports.

Notes: (1) Total debts raised, including Family Assistance Office (FAO) debts. FAO debts are recovered annually at the time the FAO reconciliation is completed.

(2) Debts raised in a specific year are not always recoverable in the same year. In order not to cause financial hardship for individuals and families, repayment arrangements for debts can be lengthy. Sometimes, the contact details for non-current customers are no longer up-to-date, which extends the time required for the recovery process.

(3) The number of debts does not equate to the number of people with debts, because some current or non-current customers have more than one debt.

6. Table S 1 shows that while the number of Centrelink payment debts raised annually has declined in recent years (from 2.2 million to 1.8 million), the value of the debts recovered annually has remained at the same level (\$1.1 billion). A number of factors can influence debt raising and recovery activity, including external economic conditions such as those that affected Australia during the recent global financial crisis, and the need for DHS to divert agency resources to support national disaster and emergency responses.

7. The debt base for Centrelink payments is the cumulative difference between the number of debts raised and recovered annually by DHS. The long-term trend is for the value and age of the debt base to increase. At the end of 2011–12, the debt base was \$2.5 billion and the number of debts in the debt base that were more than two years old was 455 000 (46.2 per cent of the total number of outstanding debts). However, the ratio of Centrelink payment debt to total social security payments is low: \$96.97 billion in payments were made in 2011–12, compared to the debt base of \$2.5 billion. DHS attributes the rising trend in the debt base in recent years to: improved compliance and detection methods, which have increased the amount of debt being detected and raised; and social security payment recipients having limited capacity to repay debts

because of their financial circumstances, which makes it difficult to recover debts.

Recovering payment debt: external debt collection agencies

8. Centrelink payment debts can be repaid by current or non-current customers by: mail; telephone; in person; or online. Arrangements can also be made for electronic payment using direct debit or BPAY.

9. If a debt is not repaid and an extension of time has not been agreed, DHS can: reduce the amount of any current Centrelink payments⁶; garnish wages, tax refunds, other assets and income; or refer the matter for legal action.

10. Since 1996, external debt collection agencies (ECAs) have been contracted as mercantile agents⁷ to recover social security payment debts owing by non-current customers. The ECAs are paid a commission on the amount recovered for each debt. DHS currently contracts two private sector ECAs to undertake debt recovery for Centrelink payment debts: Dun & Bradstreet and Recoveries Corporation. The current arrangement is a standing offer for debt recovery services from both suppliers for the period February 2011–February 2014. While it is not possible to provide a final contract value, in 2012–13, DHS raised initial purchase orders for a total of \$8 million (GST exclusive) to cover the expected ECA commissions.⁸

11. DHS debt recovery staff will attempt, in the first instance, to recover any outstanding debt from non-current customers who DHS has lost contact with. If unsuccessful, debts that meet a set of standard criteria (including that the person is no longer receiving Centrelink payments and has failed to make or maintain a recovery arrangement) can be referred to an ECA for recovery action.

12. In 2011–12, DHS recovered \$1.1 billion in total debt repayments. The ECAs' contribution to the total amount recovered was \$114.3 million (10.4 per cent). While the amount recovered by DHS in the previous two years has remained the same at \$1.1 billion, the ECAs' contribution to the total

⁶ The standard withholding repayment rate for Centrelink payment debts is 15 per cent.

⁷ Mercantile agents act as an agent for the original creditor, collecting the debt on their behalf—in this case, the Australian Government. Alternatively, debt purchaser businesses buy the right to collect the debt at a discount from the face value of the outstanding debt.

⁸ Details of the contracts are available on Austender—the Australian Government's web-based procurement information system, see <<http://www.tenders.gov.au>>. [accessed 28 June 2012 and 10 August 2012].

amount recovered has almost doubled since 2009–10, when it was \$60.8 million or 5.5 per cent.⁹

Audit objective, criteria and scope

13. Debt management is an established function within DHS comprising four main elements: prevention; identification; raising; and recovery. While the Australian National Audit Office (ANAO) has conducted two previous performance audits examining customer debt management by Centrelink¹⁰, this audit focuses on one element of debt recovery in DHS—the arrangements for external debt recovery of Centrelink payment debts.

14. The objective of the audit was to assess the effectiveness of DHS' arrangements for engaging and managing ECAs to recover debts arising from Centrelink payments.

15. The department's performance was assessed using three audit criteria:

- DHS effectively engages ECAs as part of a debt recovery strategy for Centrelink payment debt;
- DHS has adequate administrative and contractual arrangements for managing the services contracted from ECAs; and
- performance monitoring by DHS is effective and supports management reporting and external accountability.

Overall conclusion

16. Social security law¹¹ requires DHS to recover Centrelink payment debts from current and non-current customers, and government partner agencies¹² expect DHS to actively seek to recover debts that have arisen because of customer error or administrative error made by departmental staff. Payment debt recovery is an ongoing function within DHS with more debt raised than is recovered annually. In 2011–12, DHS raised 1.8 million new Centrelink

⁹ In 2010–11, the ECAs' contribution to the total amount of debt recovered was \$82.2 million (7.5 per cent).

¹⁰ ANAO Audit Report No.4 2004–05, *Management of Customer Debt*, and ANAO Audit Report No.42 2007–08, *Management of Customer Debt—Follow-up Audit*.

¹¹ *Social Security Act 1991*, Chapter 5, Part 5.2—Amounts recoverable under this Act.

¹² For example, the Department of Education, Employment and Workplace Relations, and the Department of Families, Housing, Community Services and Indigenous Affairs.

payment debts¹³, valued at \$1.8 billion, and the department recovered \$1.1 billion in outstanding debts. Also in 2011–12, DHS referred Centrelink payment debts—when a debt recovery arrangement was not made or maintained by a non-current customer—to a panel of external collection agencies (ECAs)¹⁴ for recovery.¹⁵ The referrals were valued at \$703.7 million. The ECAs recovered \$114.3 million, which was 16.2 per cent of the value of the debts referred¹⁶, and approximately 10 per cent of the total debt recovered by the department in 2011–12 (\$1.1 billion). The Centrelink payment debt base, which is the cumulative difference between the number of debts raised and recovered annually by DHS, was \$2.5 billion in June 2012.

17. By way of background, almost two decades ago in 1996 the then Department of Social Security identified the potential for ECAs to undertake social security payment debt recovery.¹⁷ The use of ECAs at that time was seen as offering a new way to locate customers that the department could not, and to cost-effectively recover certain debts. In 2012, DHS reviewed the debt operating model for non-current customers, which includes the use of ECAs, but did not form a view about the ongoing role of ECAs in undertaking debt recovery on its behalf. However, with the department's current ECA contracts scheduled for review before February 2014¹⁸, there is an opportunity for DHS to determine the future role of ECAs in recovering Centrelink payment debts.

18. The department's administration of the current ECA contracts for the delivery of Centrelink debt recovery services is generally effective, and DHS has a constructive working relationship with the ECAs. DHS is largely compliant with key contractual requirements for the provision of customer data to the ECAs. The quality of the data being referred to the ECAs is also sufficient to conduct Centrelink payment debt recovery on behalf of DHS and, during the current contracts with the ECAs, no significant issues have been

¹³ The number of debts does not equate to the number of people with debts, because some current or non-current customers have more than one debt.

¹⁴ The panel is comprised of two private sector ECAs: Dun & Bradstreet and Recoveries Corporation.

¹⁵ If an ECA does not receive any repayments for a debt at the end of a 180 day referral period, all debts for that individual will be recalled by DHS for consideration of further debt recovery action. DHS can also temporarily suspend recovery action for debts until a later date if, for example, an individual's whereabouts are unknown.

¹⁶ The Australian Taxation Office also uses ECAs to recover taxpayer debt, albeit under different contractual arrangements. In 2011–12, the agency referred \$1.6 billion in debt cases to its panel of four ECAs and the amount of debt recovered was \$1.3 billion (81.3 per cent of the total value referred).

¹⁷ It was not until 2007 that the Australian Taxation Office established a panel of four ECAs to collect taxpayer debts.

¹⁸ The contracts commenced in February 2011 for an initial three-year period. They contain an option to extend the term for two further periods of one year.

identified with the IT systems used by DHS to manage and transfer debt data to the ECAs.

19. However, there is room for improvement in DHS' administration of two important activities under the current contracts: the administration of contract variations and the conduct of formal audits of the operation of key contractual requirements. There would be benefit in the department examining opportunities to avoid a recurrence of the lengthy delay, of over a year, in formalising a recent contract variation with the ECAs relating to an important operational change. Further, DHS has not undertaken any formal audits, since the contracts began, of the IT, physical and personnel security requirements contained in the contracts. DHS' current approach to auditing under the contracts is not supported by a risk assessment, and an appropriately designed audit program, or similar approach, would provide assurance to DHS that customer information is being managed securely by the ECAs.

20. The general reporting and monitoring framework established by DHS for management of the ECA contracts is appropriate. There is sufficient management information available to effectively support DHS' monitoring of the ECAs and, overall, the ECAs' reporting is consistent with the contractual requirements. DHS also has processes in place to respond to feedback or complaints received from customers about the quality of their experience with the ECAs. There is, however, scope for DHS to improve the level of information available about the ECAs' recovery work in its annual report, which would improve the level of transparency for this relatively small, but high profile activity.

21. The ANAO has made one recommendation to improve DHS' administration of external debt recovery services for Centrelink payment debts. The recommendation focuses on DHS verifying compliance with key contractual obligations for the ECAs to ensure that DHS customer information is managed securely.

Key findings

Debt Recovery Strategy and External Collection Agencies (Chapter 2)

22. To support the achievement of service delivery outcomes for the Government, DHS needs to have in place clear policy and operational guidance for its staff and stakeholders. At an operational level, e-Reference—an online reference tool for staff to access guidance on policies and procedures—supports the conduct of debt recovery activities in DHS' national network.

23. DHS is considering alternative future models for debt recovery. A recent review of the debt operating model for non-current customers showed that DHS has not determined what the future role of the ECAs should be. However, this work provides a sound basis from which DHS can develop a strategy to inform decision-making about the future direction of debt recovery in the agency across a number of payment programs, including the Medicare program.

Contract Management and Services (Chapter 3)

24. The department's administration of key elements of the ECA contracts for the delivery of Centrelink debt recovery services is generally effective, and DHS has established a constructive relationship with the ECAs based on successfully working together over a number of years.

25. While reviews of the Service Level Agreement with the ECAs have been conducted by DHS in accordance with the requirements in the Head Agreements, there is scope for DHS to improve its administration of two important activities under the contract. DHS' administration of formal contract variations has been mixed, with a lengthy delay in formalising a variation to reflect an operational change made over a year earlier. Further, DHS has not conducted formal audits of the ECAs' compliance with requirements in the Head Agreements for IT, physical and personnel security that protect DHS customer information. Given the potential benefit for DHS of increased assurance about those key aspects of contract management, and particularly in light of the relocation of one of the ECAs' business centres in December 2012, there would be merit in DHS undertaking an audit or similar activity in the near future to verify the ECAs' compliance with contractual requirements.

26. ANAO analysis of debt data, collected between August 2012 and February 2013, showed that DHS was largely compliant with key contractual requirements for the provision of customer data to the ECAs¹⁹ and the data provided to the ECAs was consistent with the expected operation of the Debt Management Information System (DMIS).²⁰ The quality of the data referred to the ECAs was sufficient to enable them to conduct Centrelink payment debt recovery on behalf of DHS. During the current contracts with the ECAs, no significant issues have been identified with the IT systems used by DHS to manage and transfer debt data to the ECAs and, in 2011–12, DHS successfully implemented major changes to DMIS for ECA debt recovery. During the six-month period from August 2012–February 2013, 99.7 per cent (approximately 153 000) of the debt referrals made by DHS to the ECAs were for individuals with payment debts, and the remaining 477 debt referrals (0.3 per cent) were for organisations with debts due to the payment of Paid Parental Leave. The value of the debts referred during the period was \$368.6 million.

27. There are areas where the future direction of the ECA contracts could be varied by DHS with a view to improving performance. Currently, DHS is considering the introduction of a performance monitoring scorecard to measure and compare the ECAs' performance in key areas such as: debt recovery; customer feedback (satisfaction and/or complaints); and compliance with contractual obligations.

Performance Monitoring and Reporting (Chapter 4)

28. DHS has an appropriate reporting and monitoring framework for the management of the ECA contracts. Overall, the ECAs' reporting is consistent with the contractual requirements and sufficient information is provided for DHS to monitor performance under the contracts. DHS is considering the future of the contractual reporting requirements and how best to tailor the content of the ECAs' reports to meet DHS' emerging needs. There is an opportunity for DHS to improve the quality assurance work conducted on site before the quarterly performance review meetings, which involves DHS staff

¹⁹ The exception is data for the 'reason for referral'. While the data is listed in the contract requirements, there is no specific data being sent to the ECAs. The referral reason in each case should be that the debt conforms to a set of standard rules for referring debts to the ECAs. For future contracts, DHS could consider deleting this redundant requirement.

²⁰ DMIS is a mainframe computer system in DHS that is used to manage a national database of Centrelink payment debts.

listening to operators' calls to non-current customers about their debt(s) and providing timely feedback to the ECAs.

29. DHS has processes in place to respond to feedback or complaints received from current or non-current customers.²¹ Complaints about the ECAs are recorded against one of four categories out of a total of 14 categories of complaints made about Centrelink debt recovery. The ECAs' recovery activity generated 27 per cent of the total number of complaints received from customers about debt recovery. DHS also has long-standing working relationships with key government and non-government stakeholders with an interest in debt recovery and meets with the latter to discuss issues that affect their clients.

30. The ECAs' reporting under the contracts is a sufficient basis from which DHS can generate management information for DHS staff that are responsible for implementing and overseeing debt recovery operations. However, there is an opportunity to improve the department's external reporting of ECA activity in its annual report, which currently does not include separate reporting on the ECAs' contribution to debt recovery compared to the total amount of debt raised and recovered annually by DHS. An alternative model of annual reporting, which merits consideration, is adopted in the Australian Taxation Offices' annual report for 2011–12. The Australian Taxation Office reported on: the number of debt cases referred to the ECAs, including their value; and the amount of debt recovered by the ECAs.

²¹ In 2011–12, DHS received 51 155 complaints (representing 0.7 per cent of Centrelink customers) about Centrelink services and payments, including debt recovery.

Summary of agency response

31. DHS' summary response is provided below:

The Department of Human Services (the department) welcomes this report and considers that implementation of its recommendation will enhance the recovery of Centrelink payment debts by External Collection Agencies. The department is committed to the introduction of security audits, consistent with the contractor's responsibilities, for the Protection of Information contained in the Head Agreements.

This added compliance measure will increase confidence that debtor information, passed to the External Collection Agencies for the purpose of debt recovery, is secure and debtor's privacy and confidentiality is being risk managed appropriately.

The department agrees with the recommendation outlined in the report.

32. DHS' full response to the proposed audit report is contained in Appendix 1.

Recommendations

Recommendation No.1

Para 3.18

The ANAO recommends that the Department of Human Services periodically verify compliance with the IT, physical and personnel security requirements contained in the current contracts with external collection agencies, to gain assurance that DHS customer information is being managed securely.

DHS' response: Agreed.

Audit Findings

1. Introduction

This chapter provides background information about the Department of Human Services' recovery of Centrelink payment debts by external collection agencies, and explains the audit approach and structure of the report.

Background

1.1 The Department of Human Services (DHS) provides policy advice on service delivery to the Australian Government and delivers a range of health, social and welfare payments, and services to the Australian community. In 2012–13, DHS expects to deliver approximately \$149.4 billion in third party payments on behalf of other Australian Government agencies.²²

Centrelink payments and debts

1.2 DHS makes core Centrelink payments such as Newstart Allowance on behalf of the Department of Education, Employment and Workplace Relations, and Age Pension payments on behalf of the Department of Families, Housing, Community Services and Indigenous Affairs.

1.3 Australians are accustomed to credit and debt associated with financial transactions. Many people have experienced debt in the private sector with overdue utility accounts for services such as electricity supply and consumption, or mobile phone plans.

1.4 In the public sector, incorrect Centrelink payments can result in underpaying or overpaying DHS customers. In practice, the operation of the social security system means that some level of customer debt will always be present among people who are currently receiving, or have in the past received, Centrelink payments. Debts for customers can arise from: overpayments, because customers have not notified DHS of a change in their circumstances or have provided incorrect information; or through administrative errors being made by departmental staff.²³

²² Department of Human Services, *Portfolio Additional Estimates Statements 2012–13*, Canberra, 2013, p. 15.

²³ In 2011–12, the department reported payment correctness of 97.6 per cent (the target was 95 per cent). DHS calculates payment correctness using data derived from random sample surveys. Payment correctness is measured as the percentage of surveys that identified there were no administrative errors that affect a customer's payment.

1.5 DHS is required under legislation to recover all Centrelink payments to customers that have been made incorrectly.²⁴ If a debt is raised with a current customer of DHS—someone in receipt of a Centrelink payment—then the debt cannot be recovered in such a way that the person will experience severe financial hardship.²⁵ DHS adopts a similar approach when recovering debts from non-current customers, so as to avoid people having to return to Centrelink payments for financial support.

1.6 Current and non-current customers can review or appeal a decision by DHS to raise a debt.²⁶ Where a debt is being recovered, repayments are usually required to continue until the matter has been resolved or a decision is made to temporarily suspend recovery of the debt.

Managing payment debt

1.7 DHS is responsible for managing a significant number of Centrelink payment debts incurred by current and non-current customers. Table 1.1 presents a five-year overview of Centrelink payment debts raised and recovered by Centrelink and DHS (from July 2011).

²⁴ *Social Security Act 1991*, Chapter 5, Part 5.2—Amounts recoverable under this Act.

²⁵ *ibid.*, Chapter 5, Part 5.3—Methods of recovery, subsection 1231 (1AA)(a).

²⁶ The review and appeal process is set out in the social security law. See ANAO Audit Report No.16 2010–11, *Centrelink's Role in the Process of Appeal to the Social Security Appeals Tribunal and to the Administrative Appeals Tribunal*, p. 29.

Table 1.1**Five-year overview of Centrelink payment debts raised and recovered**

Year	Debts raised ¹		Debts recovered ²
	Number (million) ³	Value (\$billion)	Value (\$billion)
2007–08	2.2	1.8	1.1
2008–09	2.2	1.9	1.1
2009–10	2.2	1.7	1.1
2010–11	2.0	1.7	1.1
2011–12	1.8	1.8	1.1

Source: Centrelink and DHS annual reports.

Notes: (1) Total debts raised, including Family Assistance Office (FAO) debts. FAO debts are recovered annually at the time the FAO reconciliation is completed.

(2) Debts raised in a specific year are not always recoverable in the same year. In order not to cause financial hardship for individuals and families, repayment arrangements for debts can be lengthy. Sometimes, the contact details for non-current customers are no longer up-to-date, which extends the time required for the recovery process.

(3) The number of debts does not equate to the number of people with debts because some current or non-current customers have more than one debt.

1.8 Table 1.1 shows that while the number of Centrelink payment debts raised annually has declined in recent years (from 2.2 million to 1.8 million), the value of the debts recovered annually has remained at the same level (\$1.1 billion) in recent years. A number of factors can influence debt raising and recovery activity, including external economic conditions such as those that affected Australia during the recent global financial crisis. Further, in 2008–09, Centrelink reported a decrease in the number of debts recovered, as agency resources were diverted away from routine debt recovery work to support national disaster and emergency responses.²⁷

1.9 Debt management is an ongoing and mature function within DHS. The number and value of debts identified on an annual basis necessitates that agency resources are used efficiently and effectively to raise and recover debts. DHS' expenditure on Centrelink payment debt recovery was estimated to be \$29.8 million²⁸ in 2011–12.

²⁷ Centrelink, *Annual Report 2008–09*, Canberra, 2009, p. 44.

²⁸ The expenditure is DHS' direct costs for undertaking debt recovery at the operational level, including DHS staff salaries and the ECAs' commission. The total does not include other DHS business costs such as IT maintenance, infrastructure, and departmental services, such as records management.

Debt base

1.10 The Centrelink payment debt base is the cumulative difference between the number of debts raised and recovered annually by DHS. The main Centrelink income support payments that comprise the debt base are set out in Table 1.2.

Table 1.2

Outstanding debt by main income support payment type, 30 June 2012

Benefit group	Number of debts	Value (\$million)
Age Pension	28 280	130
Disability Support and Sickness Allowance	55 084	221
Family Tax Benefit	279 103	767
Newstart Allowance	286 121	415
Parenting Payment	142 215	576
Youth Student, Apprentice and Austudy	79 801	170
Other	114 812	241
Total number of debts and value	985 416	2520

Source: DHS, 2012.

1.11 As part of two previous performance audits examining Centrelink customer debt management, the ANAO has highlighted the steady increase in the total value and number of customer debts.²⁹ The audits also drew attention to the increase in the average age of the debts. Table 1.3 presents a five-year overview of the Centrelink payment debt base since 2007–08.

²⁹ ANAO Audit Report No.4 2004–05, *Management of Customer Debt*, and ANAO Audit Report No.42 2007–08, *Management of Customer Debt—Follow-up Audit*.

Table 1.3**Five-year overview of the Centrelink payment debt base**

Year	Debt base ¹	
	Number (million)	Value (\$billion)
2007–08	1.2	2.3
2008–09	1.2	2.4
2009–10	1.2	2.5
2010–11	1.1	2.5
2011–12	1.0	2.5

Source: DHS, 2012.

Note: (1) The debt base includes FAO debts.

1.12 Table 1.3 shows a steady upward trend in the total dollar value of the debt base. It also shows that the number of debts has decreased and that as a result the average value of each debt has also increased. At the end of 2011–12, the number of debts in the debt base that were more than two years old was 455 000 (46.2 per cent of the total number of outstanding debts). The number of debts that were more than five years old was 165 000 (16.7 per cent of the total number of outstanding debts).

1.13 The long-term trend is for the value and age of the debt base to increase. However, the ratio of Centrelink payment debt to total social security payments is low: \$96.97 billion in payments were made in 2011–12, compared to a debt base of \$2.5 billion.

1.14 DHS attributes the rising trend in the debt base in recent years to:

- improved compliance and detection methods, which have increased the amount of debt being detected and raised; and
- social security payment recipients having limited capacity to repay debts because of their financial circumstances, which makes it difficult to recover debts.

1.15 Debts can also be over-recovered. For instance, the recovery payments made by current or non-current customers exceed the outstanding debt amount, or debts are reduced following reviews by DHS, the Social Security Appeals Tribunal or Administrative Appeals Tribunal. At the end of June 2012,

there were 7021 over-recovered debts, with a value of \$6.3 million. Every year, a large number of over-recovered debts arise as a result of the non-lodger and reconciliation processes for Family Tax Benefit payments.³⁰

Recovering payment debt

1.16 Centrelink payment debts can be repaid by current or non-current customers by: mail; telephone; in person; or online. Arrangements can also be made for electronic payment using direct debit or BPAY.

1.17 If a debt is not repaid and an extension of time has not been agreed, DHS can:

- reduce the amount of any current Centrelink payments;
- garnish wages, tax refunds, other assets and income; or
- refer the matter for legal action.

1.18 DHS reduces the amount of any current Centrelink payments to an individual by withholding a percentage of their payment and applying it against their debt. The standard withholding repayment rate for Centrelink debts is 15 per cent. Most Centrelink payment debt recovery is undertaken by DHS staff working with current customers.

The role of external debt collection agencies

1.19 Following a pilot in 1994, the Department of Social Security received funding in the 1995–96 Budget for a Flexible Debt Recovery measure, which would: ‘refer certain social security debts owed by non-current customers to mercantile agents for recovery action’.³¹ ECAs, acting as mercantile agents³², have been contracted since 1996 to recover social security payment debts

³⁰ Family Tax Benefit payments made during a financial year are based on estimated income. After the end of the financial year, the customer's entitlement is balanced (reconciled) based on their actual income following lodgement of their tax return(s). If a customer (or their partner) either fails to lodge a tax return or advise DHS that they are not required to lodge a tax return—within 12 months after the end of a financial year—a debt will be raised for all of the Family Tax Benefit paid during that year (non-lodger debt). When the outstanding tax returns are lodged (or the customer notifies DHS that they are not required to lodge a tax return), the non-lodger debt is reduced to zero and the customer's Family Tax Benefit entitlement will be reconciled. The non-lodger debt will become over-recovered if the customer has made repayments that exceed any debt resulting from the reconciliation process.

³¹ Department of Social Security, *Portfolio Budget Statements 1995–96*, Social Security Portfolio, Program 3, Canberra, 1996, p. 145.

³² Mercantile agents act as an agent for the original creditor, collecting the debt on their behalf—in this case, the Australian Government. Alternatively, debt purchaser businesses buy the right to collect the debt at a discount from the face value of the outstanding debt.

owing by non-current customers.³³ The ECAs are paid a commission on the amount recovered for each debt.³⁴

1.20 DHS currently contracts two private sector ECAs to undertake debt recovery for Centrelink payment debts: Dun & Bradstreet and Recoveries Corporation.³⁵ The current arrangement is a standing offer for debt recovery services from both suppliers for the period February 2011–February 2014.³⁶

Current rules for referring debts externally

1.21 A loss of contact is one of the criteria for eventually referring a debt to an ECA for recovery. However, DHS debt recovery staff will attempt, in the first instance, to recover any outstanding debt from non-current customers who DHS has lost contact with.

1.22 The referral of debts is an automated process using DHS' Debt Management Information System (DMIS) and a system-based rules engine for the collection agencies. Debt transaction files are passed between DMIS and the ECAs on a daily basis (business days only) using the Internet and a software application supplied by DHS.

1.23 There are referral rules in place that determine whether a debt can be referred to an ECA for recovery action. The two levels of determination made by the rules engine in DMIS are:

- 1: A customer level determination—assesses if there is any reason why the customer's record is not suitable for referral; and then
- 2: A debt level determination—assesses each individual debt and determines if it is suitable for referral.

1.24 At the customer level, a debt will be excluded from referral to an ECA if, for instance, the customer:

³³ DHS staff act under a range of delegations contained in the social security law to perform debt recovery activities. ECA staff are delegated to make arrangements for the repayment of Centrelink debts under the social security law.

³⁴ Details of the contracts are available on Austender—the Australian Government's web-based procurement information system, see <<http://www.tenders.gov.au>>. [accessed 28 June 2012 and 10 August 2012].

³⁵ DHS advises on its website that: 'The privacy and security of your personal information is protected while your account is with Dun & Bradstreet or Recoveries Corporation and your credit rating will not be affected'.

³⁶ The contracts commenced in February 2011 for an initial three-year period. They contain an option to extend the term for two further periods of one year.

- is or has been on a benefit, pension or allowance in the last 28 days³⁷;
- is less than 16 years old;
- is deceased;
- lives in a declared disaster or emergency area; or
- the total outstanding balance of the debt is less than \$20.³⁸

1.25 At the debt level, a debt will be excluded from referral to an ECA if, for instance, the debt:

- is less than 42 days old from the date the original account payable was issued;
- is pending recovery action—due to waiting for the outcome of a review or appeal; the customer being in prison or experiencing short-term hardship; or
- an account payable has not been issued.³⁹

1.26 If the ECA does not receive any repayments for a debt at the end of the 180 day referral period from DHS, all debts for that individual will be recalled by DHS for consideration of further debt recovery action. Debts can be re-referred to the same ECA for a further period of 180 days. If, at any point, someone with a debt refuses to negotiate with an ECA, the debt can be returned to DHS early.

1.27 In March 2012, DHS started referring Paid Parental Leave debts incurred by employers to the ECAs for collection. Under the scheme, the Government funds employers to provide parental leave pay to eligible employees.⁴⁰ When an overpayment of Paid Parental Leave funds occurs, DHS raises a payment debt and seeks to recover the funds from the organisation.

³⁷ Only non-current customers are referred to the ECAs, unless the status of the benefit type is 'current zero rate'. For example, customers receiving income, who are eligible to receive Family Tax Benefit payments, can elect not to receive any payments until after the annual FAO reconciliation is completed. This approach ensures that a debt will not be incurred as a result of a difference between the customer's estimated and actual income.

³⁸ This is not an exhaustive list of the customer level rules that are applied.

³⁹ This is not an exhaustive list of the debt level rules that are applied.

⁴⁰ The objective of the *Paid Parental Leave Act 2010* is to provide financial support to eligible working parents of newborn or recently adopted children.

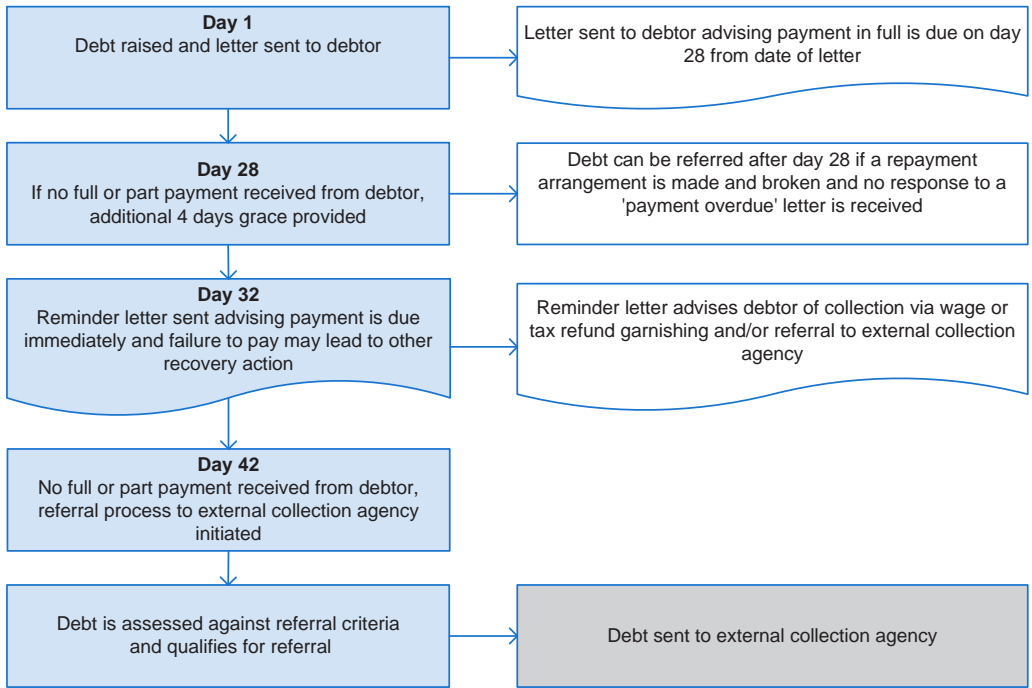
Debt referral process

1.28 Initially, DHS sends written advice to a customer requesting payment within 28 days of a debt having been raised. If the person does not respond, or breaks a repayment arrangement, the collection agent rules engine in DMIS automatically performs a customer and debt level determination. If all of the referral requirements are met, the debt is automatically referred 42 days after it was raised to one of the ECAs for debt recovery action.

1.29 Figure 1.1 summarises the key timing and actions taken before a debt is automatically referred by DMIS to an ECA.

Figure 1.1

Debt referral process to an external collection agency



Source: ANAO analysis.

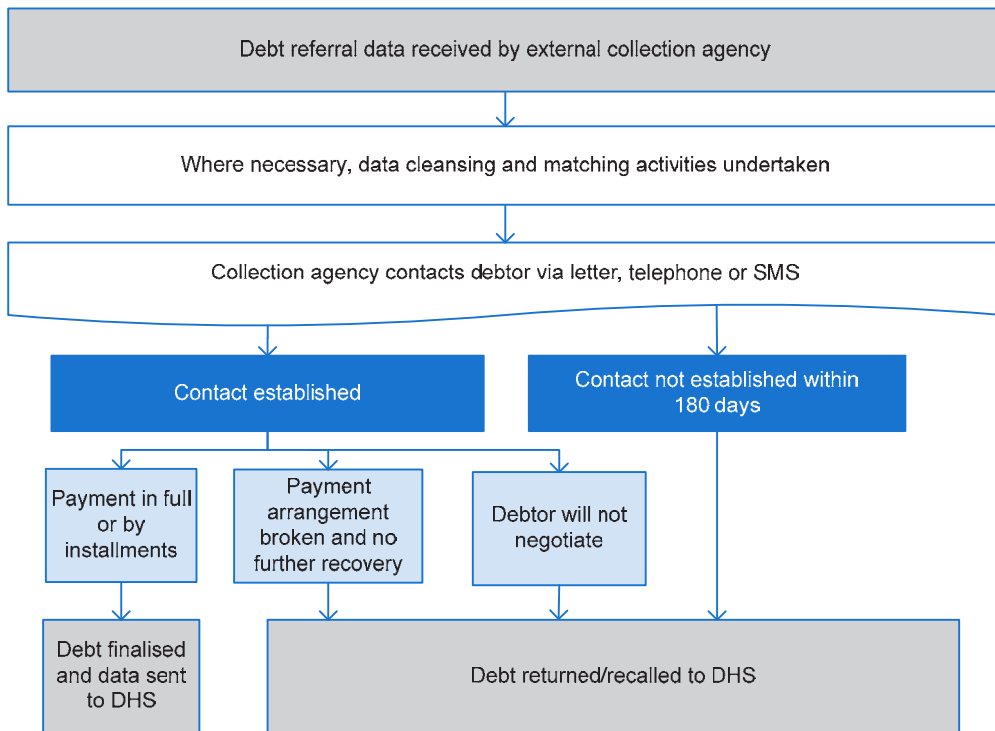
1.30 Figure 1.2 shows the process that is followed by the ECAs after a debt has been referred for recovery action. Debts are referred to the ECAs on a daily basis (business days only). If DHS does not recall a debt early, there are four potential outcomes of the referral process:

- full debt recovery—either by a single payment in full or repayment instalments over an agreed period of time;

- part-payment—after which the arrangement is broken and no further recovery occurs;
- contact is made—but the person refuses to negotiate with the ECA and the debt is returned to DHS; or
- contact is not established—and the debt is recalled by DHS after 180 days.

Figure 1.2

Debt management process by external collection agencies



Source: ANAO analysis.

1.31 A similar debt referral and management process is followed for the referral of organisations' Paid Parental Leave debts to the ECAs.

Payment options

1.32 DHS requires the ECAs to provide a wide range of options for the repayment of Centrelink payment debts, including, at a minimum, by: cheque or money order sent by post; Australia Post's Postbillpay; phone; and the Internet using BPAY. The payment options are required to be: available nationally, convenient, and without a lower limit on the value of the payment that can be made.

1.33 Table 1.4 sets out the payment methods offered by the ECAs and the number of payments made in October 2012 using each method.

Table 1.4

Method of payment of recoveries made to the ECAs, October 2012

Payment method	Number of payments	Percentage
BPAY	27 276	38.7
Direct Debit	24 900	35.4
Credit Card	8400	11.9
Australia Post's Postbillpay	8059	11.4
Other (Internet transaction)	1690	2.4
Cheque	64	.09
Money Order	27	.04
EFTPOS	2	.00
Total	70 418	100¹

Source: ANAO analysis.

Note: (1) Percentage figures do not total 100 due to rounding.

1.34 The most common payment method in October 2012, was BPAY (38.7 per cent of payments and approximately 27 300 transactions), and the least used payment method was EFTPOS (2 transactions).

1.35 In 2005, the Parliament's Joint Committee of Public Accounts and Audit (JCPAA) reviewed the ANAO's 2004–05 performance audit of customer debt in Centrelink. In discussing debt repayment methods, the JCPAA acknowledged that individuals: 'must have the right to manage their financial affairs according to how they see fit'.⁴¹ However, the JCPAA also expressed concern

⁴¹ Joint Committee of Public Accounts and Audit, *Report 404*, Commonwealth of Australia, Canberra, 2005, p. 122.

that using credit cards, with high interest rates, to make payments against debt balances could potentially lead to financial hardship for some people.

1.36 The JCPAA recommended that: ‘Centrelink monitor the work of its debt recovery officers, and those employed by its debt recovery agent, to ensure that customers are encouraged to repay debts via means other than credit cards’.⁴² Centrelink’s response to the JCPAA in 2006 advised that:

- There was no facility in Centrelink Debt Recovery Teams to accept credit card payments.
- While the ECAs had the facility to accept credit card payments, the option was only made available at the customer’s request.
- Customers could choose to make repayments on a Centrelink debt at Australia Post by using their credit card.

1.37 In 2013, DHS’ website advises that credit card payments are not accepted for BPAY. However, payments can be made by credit card using the option of Australia Post’s Postbillpay service.

1.38 Credit cards are not a repayment option required by the ECAs’ contract with DHS (paragraph 1.32), but DHS does not restrict the option from being offered by the ECAs. During the audit, the credit card payments for two unrelated months were as follows:

- October 2012—in Table 1.4, the third most preferred payment option for people contacted by the ECAs was by credit card (11.9 per cent). The average payment made by credit card that month was approximately \$210; and
- January 2013—the percentage of payments made by credit card, for both ECAs that month, was 13.4 per cent; with an average payment of approximately \$360.

1.39 The current options for customers who want to make Centrelink debt repayments by credit card are similar to that available in 2005, when the JCPAA raised concern about the use of credit cards. Given that credit card repayments represented more than 10 per cent of the total number of payments to the ECAs in both October 2012 and January 2013, there would be benefit in DHS reviewing the repayment arrangements to gain assurance that there is an

⁴² *ibid.*

appropriate balance between offering an individual the choice of how to manage their financial affairs and not subjecting people to further financial hardship.

External collection agencies' proportion of debt recovered

1.40 In 2011–12, DHS recovered \$1.1 billion in total debt repayments. The ECAs' contribution to the total amount recovered was \$114.3 million (10.4 per cent).⁴³ While the amount recovered by DHS in the previous two years was consistent, at \$1.1 billion, the ECAs' contribution to the total amount recovered increased from: \$60.8 million (5.5 per cent) in 2009–10; and again in 2010–11 to \$82.2 million (7.5 per cent).⁴⁴

Audit approach

Audit objective, criteria and scope

1.41 The objective of the audit was to assess the effectiveness of DHS' arrangements for engaging and managing ECAs to recover debts arising from Centrelink payments.

1.42 The department's performance was assessed using three audit criteria:

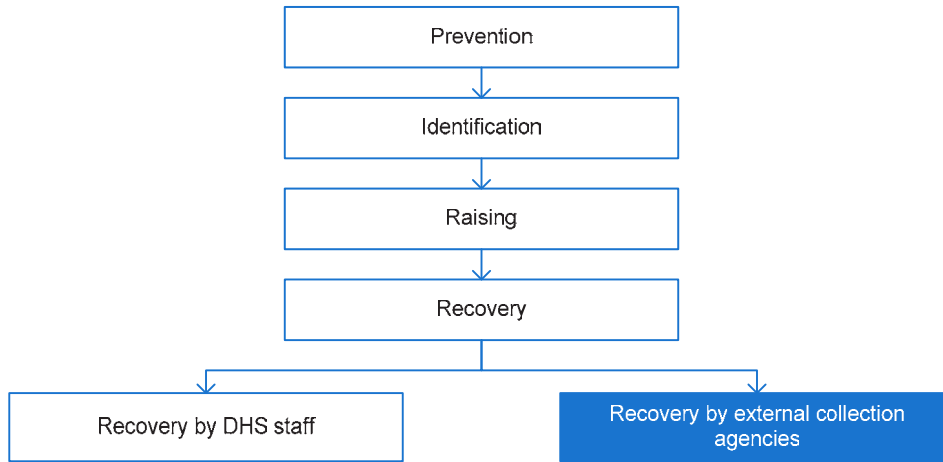
- DHS effectively engages ECAs as part of a debt recovery strategy for Centrelink payment debt;
- DHS has adequate administrative and contractual arrangements for managing the services contracted from ECAs; and
- performance monitoring by DHS is effective and supports management reporting and external accountability.

1.43 The management of Centrelink payment debts is a core business process for DHS comprised of four main elements: prevention; identification; raising; and recovery. Figure 1.3 is an overview of the four main elements of the debt management process for Centrelink payments that highlights the audit scope, which was to focus on DHS' external debt recovery arrangements.

⁴³ The Australian Taxation Office also uses ECAs to recover taxpayer debt, albeit under different contractual arrangements. In 2011–12, the agency referred \$1.6 billion in debt cases to its panel of four ECAs and the amount of debt recovered was \$1.3 billion (81.3 per cent of the total value referred).

⁴⁴ DHS has advised that the increase in the ECAs' contribution in recent years was a result of action taken by DHS to change its operations, rather than any changes to contractual arrangements. For example, in 2010–11, DHS staff were redeployed for three months to assist with responding to natural disasters around Australia and away from routine debt recovery work.

Figure 1.3
Audit scope



Source: ANAO analysis.

Audit methodology

1.44 The audit was conducted by:

- examining electronic records held by DHS;
- interviewing DHS staff in Brisbane and Canberra, and staff of the ECAs at their operational sites in Melbourne;
- observing at quarterly performance review meetings held between DHS and the ECAs in Melbourne;
- teleconference meetings with key stakeholders, including the Commonwealth Ombudsman's Office and the National Welfare Rights Network⁴⁵; and
- analysing a sample of electronic data extracts from DHS containing transaction records (customer debt data) transmitted to the ECAs in 2012 and 2013.

1.45 Fieldwork for this audit was primarily conducted from August 2012 to October 2012.

⁴⁵ The National Welfare Rights Network has member organisations in all states and territories of Australia and provides free and independent information, advice and representation about the social security law and its administration.

1.46 The audit was conducted in accordance with the ANAO’s auditing standards at a cost of approximately \$370 000.

Structure of the report

1.47 Table 1.5 outlines the structure of the remaining chapters in this report.

Table 1.5

Structure of the report

Chapter 2 Debt Recovery Strategy and External Collection Agencies	Examines DHS’ engagement of external collection agencies as part of a debt recovery strategy for Centrelink payment debt.
Chapter 3 Contract Management and Services	Examines DHS’ management of the contractual arrangements with external collection agencies. The contracts are for the delivery of specified Centrelink debt recovery services on behalf of DHS.
Chapter 4 Performance Monitoring and Reporting	Examines whether DHS effectively monitors external collection agencies’ debt recovery activity, including if the contract reporting requirements support DHS’ management reporting and external accountability.

Source: ANAO.

2. Debt Recovery Strategy and External Collection Agencies

This chapter examines DHS' engagement of external collection agencies as part of a debt recovery strategy for Centrelink payment debt.

Introduction

2.1 DHS is responsible for the development of service delivery policy and provides the Australian community with access to a wide range of Australian Government payments and services. Whole-of-government and agency specific policies support the implementation of programs and services to achieve government outcomes.

2.2 Within DHS, the Debt Management Branch is responsible for managing the department's debt recovery process for social, health and welfare programs, which includes debt recovery for Centrelink payments. By implementing a range of initiatives in 2012–13, the branch: 'aims to reduce the number and value of debt owed to the Commonwealth through efficient and effective delivery of all aspects of debt and compensation operations and management'.⁴⁶

Role of external collection agencies in debt recovery

2.3 ECAs have been contracted to recover social security payment debts since 1996. Originally, the purpose of engaging ECAs was:

Referral of certain debts to private collection agencies (debts not being pursued because the Department cannot locate the debtor or it is for other reasons not cost effective for the Department to pursue them) will lead to the recovery of sums that would otherwise be foregone.⁴⁷

2.4 Today, DHS uses ECAs: 'as part of the debt recovery escalation hierarchy where a debt is referred for recovery action where the Department has been unable to negotiate repayment with the debtor'.⁴⁸ Since their first use

⁴⁶ DHS, *Business Plan 2012–13* for the Debt Management Branch, 2012, p. 1.

⁴⁷ Department of Social Security, *Portfolio Budget Statements 1995–96, Social Security Portfolio*, Program 3, Canberra, 1996, p. 145.

⁴⁸ DHS, email to ANAO, 21 November 2012.

17 years ago, the ECAs have become embedded as an integral part of the debt recovery arrangements for Centrelink payment debts.

2.5 To assess the effectiveness of DHS' engagement of ECAs to recover Centrelink payment debts, the ANAO examined arrangements put in place by the agency to:

- specify the role of ECAs as part of a debt recovery strategy for Centrelink payment debt; and
- review the debt operating model for non-current customers.

Debt recovery and external collection agencies

2.6 Debt recovery is a mature business function that DHS, and the former Centrelink agency, has been undertaking for many years. While the social security law establishes the legislative basis for DHS' recovery of Centrelink payment debts, more detailed business level strategies and operational guidance are required to support debt recovery operations.

2.7 DHS does not have a debt recovery policy to support its debt management business. DHS advised the ANAO that its aim for Centrelink payment debts is: 'to recover debt as efficiently as possible without placing debtors in undue financial hardship'.⁴⁹

2.8 Advice about operational matters is available to DHS staff in e-Reference—an online reference tool used by staff to access up-to-date guidance on policies and procedures. For Centrelink payment debt recovery, staff are able to see the business process in e-Reference and access a number of detailed step-by-step procedural instructions. E-Reference does not contain any strategic directive or overarching policy for debt recovery.

2.9 The guidance in e-Reference relating to cost-effectiveness has a relatively narrow focus on the operational setting:

In general terms, cost effectiveness is determined by considering the amount owed, the customer's circumstances and the relative cost of available recovery action.

⁴⁹ *ibid.*

Recovery guidelines and procedures reflect cost effective processing and an improved likelihood of a successful outcome.⁵⁰

2.10 However, the Debt Management Branch *Business Plan 2012–13* includes an initiative to: ‘Adopt a new strategic direction for debt recovery’.⁵¹ One of three key performance indicators for the initiative is the: ‘Development of a risk-based debt model for a high-level discussion, following the ANAO audit report and related internal program work’.⁵² One part of the internal work program is a recently completed review of the debt operating model for non-current customers.

Review of the debt operating model for non-current customers

2.11 In 2012, prior to the audit, DHS had reviewed the debt operating model for non-current customers. The review was commissioned to provide an understanding of the business operation for non-current customer debt recovery, including the context for using ECAs. The review was undertaken in 2012 to provide DHS with sufficient time to consider the future direction of debt recovery before making a decision on whether to extend the existing ECA contracts beyond February 2014 and/or to inform the content of any future contracts.

2.12 The (mostly desk-based) review described and evaluated the operating model for non-current customers alongside the approach taken by other Australian Government agencies⁵³ and comparable government agencies internationally.

2.13 The draft report of the review explored the feasibility of adopting a risk-based operating model for debt recovery. Under the model, the available recovery options would be determined by the level of risk that a debt would not be readily recovered.

External collection agencies

2.14 The review of the debt operating model for non-current customer shows that DHS is undecided about whether to expand or reduce the use of

⁵⁰ DHS, e-Reference, 107.11240—*Cost effectiveness when recovering debts*, May 2012.

⁵¹ DHS, *Business Plan 2012–13* for the Debt Management Branch, 2012, p. 2.

⁵² *ibid.*

⁵³ DHS is a member of a cross-agency debt forum that is hosted by the Australian Taxation Office.

ECAs and has not determined what the future role of the ECAs should be. However, at this stage, DHS has not moved away from its traditional approach to debt recovery, even though recent business planning and risk assessments in the Debt Management Branch show that DHS is considering alternative future models for debt recovery.

2.15 There are two imperatives for DHS' debt recovery activity: providing appropriate services and support to assist vulnerable customers; and undertaking the cost-effective recovery of payment debts. While DHS and the ECAs are committed to a shared business outcome of effective debt recovery, DHS has to factor in the added consideration of not causing financial hardship to potentially vulnerable customers. Further, DHS continues to face a challenging operating environment, in the context of downward pressure on government agency resourcing.

2.16 In order to develop a new strategic direction for debt recovery in 2012–13, DHS will need to resolve a number of matters, including those specifically related to the role of ECAs. Defining the ECAs' role would inform the department's thinking on strategic directions and provide a basis for its future decision-making on the ECA contracts.

2.17 Overall, DHS has concluded that if it were to decide to adopt a risk-based model for non-current customer debt recovery that would entail a holistic redesign of the Centrelink payment debt recovery process, including changes to current business processes and IT systems. Through 2013, the department is involved in discussions with other Australian Government agencies about future approaches to the recovery of debt. DHS expects that an outcome from this process will be that the department's debt recovery strategy for Centrelink (and Medicare) payments will align with the broader government direction for debt recovery.

Increased recovery of high value non-current customer debt

2.18 The Government announced in the 2012–13 Budget a new expense measure targeted at non-current customer debt management. DHS is to receive \$5.9 million over four years to recover debts from non-current Centrelink

customers with large outstanding debts—individual amounts greater than \$10 000.⁵⁴

2.19 There are currently 7015 debts that meet the criteria with a total value of \$143 million (an average debt of approximately \$20 400). An investigative taskforce comprising intelligence analysts, debt management and legal officers will identify 600 cases to pursue by: locating the customer; analysing their income and assets; and determining if legal proceedings would be appropriate. DHS expects that the measure will provide net savings over the four years of \$14.2 million.⁵⁵

2.20 While the measure is targeted at producing net savings from non-current customer debt management, there is the potential to inform future debt recovery operations more broadly. In the short term, the likely effect of the new measure on the ECAs' debt recovery operations will be the recall by DHS of some debt referrals that are selected for investigation by the taskforce.

Conclusion

2.21 To support the achievement of service delivery outcomes for the Government, DHS needs to have in place clear policy and operational guidance for its staff and stakeholders. DHS does not have a documented debt recovery policy that articulates the role of ECAs in supporting debt recovery activities. However, the absence of a debt recovery policy or strategy does not impede day-to-day operational activities in DHS' national network.

2.22 DHS is currently considering alternative future models for debt recovery. A recent review of the debt operating model for non-current customers shows that DHS is undecided about whether to expand or reduce the use of ECAs and has not determined what the future role of the ECAs should be. Current work by the Debt Management Branch regarding debt recovery and the need to review the ECAs' contracts before February 2014 provides an opportunity for DHS to consider the ECAs' role in recovering Centrelink payment debts.

⁵⁴ Budget Paper No.2, Part 2: Expense Measures, Human Services, *Fraud prevention and compliance—increased recovery of high value non-current customer debt*, available from <<http://www.budget.gov.au/2012-13>> [accessed 27 November 2012].

⁵⁵ *ibid.*

3. Contract Management and Services

This chapter examines DHS' management of the contractual arrangements with external collection agencies. The contracts are for the delivery of specified Centrelink debt recovery services on behalf of DHS.

Introduction

3.1 The primary aim of contract management is to ensure that after a contract has been developed and formalised all parties meet their agreed obligations. An active approach to contract management by government agencies mitigates the risk that the contract deliverables will not meet the required standard and timeframe, or that the contract will not achieve value for money.

3.2 In 2012–13, using a standing offer arrangement⁵⁶ established in February 2011, DHS has separate contracts with two ECAs for the delivery of Centrelink debt recovery services on its behalf.

3.3 To assess the effectiveness of DHS' management of the contractual arrangements with the ECAs, the ANAO examined DHS':

- management of the contracts;
- implementation of key contractual requirements; and
- future direction of the contracts.

Background: procurement for the current contracts

3.4 To promote accountability and transparency in government procurement, the Department of Finance and Deregulation publishes policy and guidance material to support agencies' procurement activities, including the establishment of panel arrangements for supplying services to government agencies.

3.5 In 2010, the former Centrelink agency completed a procurement process that established a panel of mercantile agents to provide debt recovery services. Seven tenders were received, one of which was set aside as not being

⁵⁶ A deed of standing offer is an arrangement setting out the terms and conditions, including a basis for pricing, under which a supplier agrees to supply specified goods and services to an agency for a specified period.

compliant with the requirements of the Request for Tender. Following a detailed evaluation process for the six remaining tenders, three tenders were shortlisted for further assessment.

3.6 The Tender Evaluation Committee recommended that contracts be entered into with the two highest ranked shortlisted tenders, the incumbents at the time. While the third shortlisted tenderer's score was below that of the other two shortlisted tenders, the report did not explain why it was not recommended for the new panel. The tender documentation did not indicate that there was a limit on the number of providers that could be selected, and given the difference in proposed commissions, further details on the selection process could have been outlined in the report.

3.7 In October 2012, DHS offered a rationale for the committee's recommendation, which was that the committee's primary consideration was the difference in the total weighted score between the second and third ranked tender. However, future tender evaluation reports in DHS could be improved by the addition of a brief explanation of why any shortlisted tender did not receive further consideration. The inclusion of accurate and concise information on the process that was followed would improve transparency and better inform the financial delegate's decision-making.

Management of the contracts

3.8 The fundamentals of contract management include maintaining the most up-to-date version of the contract, as well as any variations, and adopting a sound approach to managing risk. Performance monitoring, which is also an important element of contract management, is examined in Chapter 4.

3.9 The current ECA contracts are for three years from February 2011–February 2014. The initial three-year term can be extended for two further periods of one year. The terms and conditions in the Head Agreements are standardised with minimal variation between the two agreements. The Head Agreements are complemented by a more detailed, uniform Service Level Agreement (SLA).

3.10 The contracts are administered in DHS by a designated Contract Manager and a separate Relationship Manager. The Relationship Manager's role is a minor component of the officer's full-time workload in the Debt Management Branch. The Relationship Manager's role focuses on four key areas of contract delivery: customer experience; process improvement; technical support; and financial arrangements.

Contract variations and service level agreement reviews

3.11 Clauses in the Head Agreements allow for the agreements to be formally varied.⁵⁷ As at September 2012, DHS and one of the ECAs had executed a minor Deed of Variation, which added a new approved subcontractor. The deed was signed, but not dated.

3.12 In October 2012, in response to a question from the ANAO about a service delivery change made in September 2011, DHS began preparing a second more significant variation to the Head Agreements for both contractors. The variations, which were signed in December 2012, extended the conditions and duration of time a debt is referred to an ECA when a partial repayment has been made: from three months to 180 days, unless DHS recalls the debt earlier. For important operational changes, there would be benefit in the department examining opportunities to avoid a recurrence of the lengthy delay in formalising the recent ECA contract variation.

3.13 Regular reviews of the SLA support effective contract management and contribute to managing relationships with the ECAs. DHS has reviewed the SLA in accordance with requirements in the Head Agreements. In October 2012, DHS initiated a new review of the SLA to: ensure the SLA reflects the work being undertaken; move towards comparable reporting between the ECAs; and update some of the terminology in the SLA.⁵⁸

Audits

3.14 The ability to conduct audits is a standard inclusion in contracts with government agencies.⁵⁹ An agency's decision to proceed with audits is likely to be commensurate with an assessment of the nature, risk and size of the contract being managed.

3.15 In 2010, DHS evaluated the shortlisted tenderers' ability to maintain the security of Centrelink customer records and concluded that each met the requirements specified in the Request for Tender. However, under the contracts that were subsequently established, DHS has not conducted formal audits of the ECAs' compliance with requirements in the Head Agreements for

⁵⁷ A contract variation amends the terms or conditions of an existing contract.

⁵⁸ DHS advised that the updated SLA was not finalised at the time of publishing this audit report.

⁵⁹ Audits of the performance of a contractor's obligations under a contract are conducted by the agency or its representative. Those types of audit differ from performance or financial statement audits conducted by the ANAO or an agency's internal audit area.

IT, physical or personnel security. Instead, the Relationship Manager visits the ECAs' offices up to three times a year for quarterly performance review meetings and there is an opportunity to conduct a walkthrough of the premises at those times, including the IT facilities. The Head Agreements require the ECAs to attest their compliance with the Deed of Confidentiality requirements on a quarterly basis, which DHS does not independently verify. DHS' current approach to this important aspect of contract management is not supported by a risk assessment.

3.16 The contracts emphasise the importance DHS places on protecting customers' personal information and allow for the conduct of audits of operational practices and procedures, and privacy and security obligations. Undertaking an appropriately designed audit program, or similar approach, would provide assurance to DHS that customer information is being managed securely by the ECAs and that DHS' reputation is protected.

3.17 In December 2012, one of the ECAs relocated their business centre to a new site. Given the relocation, there would be benefit in DHS undertaking an audit or similar activity in the near future to verify the ECAs' compliance with contractual requirements.

Recommendation No.1

3.18 The ANAO recommends that the Department of Human Services periodically verify compliance with the IT, physical and personnel security requirements contained in the current contracts with external collection agencies, to gain assurance that DHS customer information is being managed securely.

DHS' response:

3.19 *Agree.*

Implementation of key contractual requirements

3.20 Over time, there have been changes to the information supplied by the agency and the criteria for when Centrelink payment debts are referred to the ECAs. Two of the most notable changes have been:

- A decrease in the amount of elapsed time before a debt is referred to an ECA for recovery action.

- Originally, debts of less than \$500 were automatically referred for recovery 64 days after the debt was raised, and debts over \$10 000 were referred 393 days after the debt was raised.
- Currently, all debts equal to or greater than \$20 in total are automatically referred to the ECAs at 42 days.
- An increase in the number of days that a debt remains with an ECA for recovery action.
 - Originally, debts were referred to the ECAs for 120 days. After that time, and if there was no debt recovery arrangement in place, the debts were automatically recalled by the agency.
 - Currently, debts are initially referred to the ECAs for 180 days and if a partial repayment is received the referral will be extended by a further 180 days each time, unless DHS recalls the debt earlier for another reason.

3.21 The amount of elapsed time before debts are referred to the ECAs for recovery action was shortened on the basis of advice from debt recovery operators that the sooner recovery action is started the greater the likelihood of the debt being recovered.

3.22 To enable the delivery of services, the current Head Agreements specify the customer information that DHS is to send to the ECAs to facilitate debt recovery operations. The information sent to the ECAs is classified 'in-confidence' and should contain:

- a reference number identifying the customer;
- a reference number identifying the debt;
- date debt raised;
- original amount of debt;
- general reason for debt;
- amount and date of last repayment;
- current balance of outstanding debt;
- customer's name, salutation, date of birth, last known address, telephone number;
- reason for referral;

- customer's Centrelink Debt Recovery Site; and
- recovery period end date.⁶⁰

3.23 The exchange of customer information and debt referrals from DHS to the ECAs is automated and the data is electronically transmitted each business day. Initially, debts are referred to the ECAs for 180 days, unless recalled or returned earlier to DHS. If a partial payment is received, the debt is extended for an additional 180 days. If no payment is received, a debt will be recalled after 180 days.

3.24 DHS seeks to provide the ECAs with sufficient customer information to allow for the effective recovery of a debt, but does not provide the full customer record maintained by DHS. While additional information from a customer's record might make it possible for the ECAs to provide a more tailored service for each customer or increase the potential to recover a debt, DHS must also consider the privacy implications of sending more or information about the customer to a third party.

Data analysis

3.25 In order to confirm that the content of the debt records referred to the ECAs was consistent with the contractual requirements, and met the DMIS referral rules, the ANAO obtained from DHS electronic extracts of approximately 180 days (six months) of routine transmissions to the ECAs from August 2012–February 2013. Appendix 2 describes the data obtained from DHS and analysed by the ANAO.

3.26 The daily records sent to the ECAs for the six-month period comply with DHS' key contractual requirements (outlined in paragraph 3.22) for the provision of customer data, with one exception. The exception is the 'reason for referral', for which there is no specific data being sent to the ECAs. The referral reason in each case should be that the debt conforms to the requirements of the rules engine for collection agents in DMIS. For future contracts, DHS could consider deleting this redundant requirement.

⁶⁰ DHS, *Head Agreement Deed*, February 2011, clause 4.1(g), p. 42.

Debt referrals, value and recalls

3.27 Table 3.1 presents the findings from the ANAO's analysis of the number of debts referred and recalled from the ECAs and includes the value of the debts referred during the period.

Table 3.1

Debt referrals, value and recalls: August 2012–February 2013

Debt referrals		Number ¹
Individuals		152 682
Organisations (Paid Parental Leave)		477
Less than 28 days		19
Debt value		\$
Total value referred		368.6 million
Average value		2406.39
Highest single value		197 458.59
Lowest single value		13.55
Debt value		Number
Value equal to or greater than \$10 000		6787
Debt recall reasons		Number
Debt finalised ²		60 540
No recorded payment at the end of 180 days		29 300
Customer granted benefit		31 227

Source: ANAO analysis.

Notes: (1) A small number of debt referrals with the same debt identification number (317 records or 0.2 per cent) were excluded from the analysis because the debt was referred more than once in the extract period. In these instances, all of those records were excluded from further analysis to avoid double counting, or more, of the debt's value.

(2) Debts can be finalised either by a single payment in full or the ECA receiving a final payment instalment, which can be for a debt raised at a much earlier date.

3.28 The results in Table 3.1, for debts referred in the six-month period from August 2012–February 2013, show the outcomes of the operation of the referral rules in DMIS that determine whether a debt can be referred to an ECA for recovery action. Most of the debt referrals, 99.7 per cent (approximately 153 000), that were made during the period were for individuals with payment

debts⁶¹, and the remaining 477 debt referrals (0.3 per cent) were for organisations with debts due to the payment of Paid Parental Leave.

Referrals less than 28 days

3.29 One of the two levels of determination made by the rules engine in DMIS is a customer level determination, which assesses if there is any reason why the customer's record is not suitable for referral.

3.30 If a customer is or has been on a benefit, pension or allowance in the last 28 days the customer's record is not suitable for referral.⁶² Debts can be referred to an ECA if the debt was raised more than 28 days earlier and a repayment arrangement was made and broken, and the customer did not respond to a 'payment overdue' letter.

3.31 Table 3.1 shows that 19 referrals (0.01 per cent of the total number of individual referrals) made to the ECAs were under 28 days from when the debt was raised. The ANAO examined four of those records in detail. The reason for the referral was the same in each case and DHS advised that the records were correctly referred to an ECA:

The ... 4 debts were transferred to a collection agent greater than 28 days after the due date of debt. There were duplicate CRNs [Centrelink Reference Number] for these customers. When a debt is transferred from one customer's CRN to another (duplicate CRNs) the date the debt was originally raised is used to apply the business rules for referral to a Collection Agent.⁶³

Debt referral values

3.32 In Table 3.1, the lowest single debt amount referred to an ECA for collection was \$13.55. However, a further five debts for the same non-current customer, totalling approximately \$6900, were also referred to the same ECA on 7 November 2012 for recovery.

3.33 The highest single debt value was \$197 458.59. The debt was raised on 24 October 2012 for Age Pension payments and the reason recorded for the debt was because the customer was 'not in Australia'. No payments were

⁶¹ The number of debt referrals does not equate to the number of people with debts because some current or non-current customers have more than one debt.

⁶² Only non-current customers are referred to the ECAs, unless the status of the benefit type is 'current zero rate'. For example, customers receiving income, who are eligible to receive Family Tax Benefit payments, can elect not to receive any payments until after the annual FAO reconciliation is completed. This approach ensures that a debt will not be incurred as a result of a difference between the customer's estimated and actual income.

⁶³ Customer information stored electronically by DHS is organised around the CRN, which is intended to be a unique number. Email advice from DHS, 14 December 2012.

received and the debt was sent to an ECA for recovery action on 5 December 2012. Additional explanatory information, provided by DHS to the ANAO in April 2013, showed that a review of the customer's entitlement was undertaken following a data matching exercise, and the debt was raised for Centrelink payments made to the customer during a 15-year period from June 1997–June 2012.

3.34 While the average value of the debts referred to the ECAs in Table 3.1 (individual and organisation) was approximately \$2400, a stratification of the debt values shows that:

- the largest category of debts (71 123 or 46.4 per cent) range from \$100 to less than \$1000 in value, which represents 7.53 per cent (approximately \$2.8 million) of the total value of the debts referred; and
- the next highest category (67 487 debts or 44.1 per cent) range from \$1000 to less than \$10 000 in value, but represent 63.09 per cent (approximately \$23.3 million) of the total value of the debts referred.

3.35 There would be merit in DHS performing similar analysis to that in paragraph 3.34 to inform discussions with the ECAs about their potential to target the recovery of higher value debts. Additional effort by the ECAs would complement the work being done by departmental staff under the 2012–13 Budget measure for the recovery of high value non-current customer debt. This would assist with reducing the debt base for Centrelink payments in the long term.

Debt recalls for back on benefit

3.36 It is not uncommon for people receiving social security payments to move between being current and non-current customers of DHS because of their life and financial circumstances. In the six-month period examined, a total of 31 227 debt records were recalled from the ECAs because a non-current customer had been granted a benefit. When a non-current customer has been granted a benefit, DHS recalls all of the debts for that individual from the specific ECA and seeks to recover the debt directly by reducing the amount from the customer's Centrelink payments.

3.37 While a direct comparison is not possible, in New Zealand an audit of how well the Ministry of Social Development manages the recovery of money

owed to it found that: 'The Ministry's analysis identified that within 38 days of a client receiving a letter about their debt 24 per cent will return to receiving a benefit'.⁶⁴

Multiple debts and age profiles

3.38 Table 3.2 presents the findings from the ANAO's analysis of the number of multiple debts, age of the debtor and the oldest debt referred to the ECAs during the period.

Table 3.2

Multiple debts, age of debtor and oldest debt referred: August 2012 to February 2013

Multiple debts referred		Number
Number of people		24 485
For one person: 2 or 3 debts		21 515
For one person: 4 or more debts		2970
For one person: maximum number		22
Age of debtor referred		Number
Individual is less than 16 years old		0
Age of oldest individual		99
Oldest debt referred		Year
Debt raised		1991

Source: ANAO analysis.

3.39 Table 3.2 shows that approximately 24 500 non-current customers had multiple debts referred to an ECA and of those approximately 21 500 (87.9 per cent) were for two or three debt referrals.

Maximum number of debts

3.40 While approximately 3000 people (12.1 per cent of the total number of people with multiple debt referrals) had four or more debts referred to an ECA in the six-month period, the maximum number of debts referred for one person was 22, for 12 different payment types. The reason for raising the debts was described by DHS as being 'false/multiple identity'. No repayments had

⁶⁴ Office of the Auditor-General, New Zealand, *Ministry of Social Development: Managing the Recovery of Debt* [Internet], OAG, New Zealand, 2011, p. 29, available from <<http://www.oag.govt.nz/2011/msd-recovery-of-debt/docs/recovery-of-debt.pdf>> [accessed 14 March 2013].

been made in relation to these debts, which were raised between 2001 and 2012. The total debt referred to the ECA for collection was approximately \$246 000.

3.41 DHS referred the debts to an ECA in August 2012 after raising the most recent debts in July 2012, and not receiving any repayments or establishing a recovery arrangement. When a new debt is raised for an individual and referred to an ECA, any other outstanding debts for the same individual that are eligible for referral and not already with an ECA, are also referred, which happened in this case.

Age of debtor and debt

3.42 At the customer level, a debt will be excluded from referral to an ECA if the customer is less than 16 years old. Table 3.2 shows that no debts were referred to an ECA for customers less than 16 years old, indicating that the customer level determination made by DMIS was correctly applied during the six-month period.

3.43 The age of the debtor can affect the ECAs' ability to recover debts as some age groups are likely to have a greater propensity to pay than others. As shown in Table 3.2, the age of the oldest debtor referred to an ECA was 99 years. The debt, approximately \$7700, was raised on 7 February 2007 for Age Pension payments and the reason recorded for the debt was 'income from overseas pension'. The outstanding value of the debt, at the time of the data extract, was \$2085.92 after a payment was received on 19 September 2012. The debt was sent to an ECA for recovery action on 7 December 2012 after no further payments were received.

3.44 As also shown in Table 3.2, the oldest debt referred to the ECAs in the six-month period was 22 years old: it was raised in 1991, for approximately \$9400. The benefit type was 'Unemployment Benefit'. A debt was raised because the customer was described by DHS as having 'income: earnings not declared/coded (self)'. At the time of the data extract, the outstanding value of the debt was \$2638.56 after a payment was received on 13 April 2012. The debt was sent to an ECA for recovery action on 16 November 2012 after no further payments were received.

3.45 While the debt histories in paragraphs 3.43–3.44 are abbreviated descriptions, based on the information sent to the ECAs, the details illustrate the ongoing nature of DHS' debt recovery operations and the complexity of delivering payments to DHS customers at the different stages of their lives. At

the same time, there is also the imperative for DHS to recover a debt in such a way that the person will not experience severe financial hardship.

Routine operation of DMIS

3.46 The analysis of data records sent from DHS to the ECAs for a six-month period, from August 2012–February 2013, confirmed that the data provided to the ECAs during that period was consistent with the expected routine operation of DMIS.

Recent major changes to DMIS for external debt recovery

3.47 DMIS is a mainframe computer system in DHS that is used to manage a national database of Centrelink payment debts. The system supports DHS staff in creating, managing and recovering debts from current and non-current customers.

3.48 DHS routinely sends advice to the ECAs about new system releases, for instance, updates to reason and payment codes. Following the signing of new contracts with the ECAs in February 2011, a number of changes were made to the operation of DMIS. The system changes were designed to gain efficiencies in the recovery of debts by streamlining the processes and business rules for referring debts to the ECAs. The major changes made to DMIS in 2011–12 are summarised in Table 3.3.

Table 3.3**Major changes to DMIS in 2011–12 for the ECA contracts**

Change	Description	Date of effect
180 day extension	If the ECA receives a payment from the debtor, the referral period is extended by 180 days.	September 2011
All debts referred at 42 days	Previously, debts of less than \$5000 were automatically referred to the ECAs at 42 days and debts greater than \$5000 were referred to the ECAs at 92 days.	September 2011
Referral of active customers not receiving benefits	This occurs with Family Tax Benefit where customers are not receiving any payment, but their status is 'current'. Previously, withholdings ceased, but there would be no other recovery action taken.	September 2011
Change to referral strategy for existing ECA clients with new debts	Referring all debts on the customer record to the same ECA if the total outstanding balance met the referral rules—a total balance of \$20 or more and at least 41 days since the debt advice date.	December 2011
Automatic update to customer's file	Any update to a customer's file, by either DHS or the ECAs, is automatically updated as part of the daily transaction files, for example, a change of address.	December 2011
Paid Parental Leave referral	Referral of Paid Parental Leave debt recovery, for organisations, to ECAs.	March 2012

Source: ANAO analysis.

3.49 The recent major changes to DMIS were successfully implemented by DHS and the main effect on the ECAs was an increase in the volume of debt referrals, particularly at the end of 2011. From July to September 2011, the ECAs were sent 85 130 referrals, valued at \$174 million. However, from October to December 2011, the ECAs were sent 109 854 referrals, valued at \$256.5 million—a 29 per cent increase in referrals and 47 per cent increase in the debt value respectively.

3.50 Overall, during the current contract with the ECAs, no significant issues have been identified with the IT systems used by DHS to manage and transfer debt records to the ECAs. Furthermore, the data being referred to the ECAs is of sufficient quality for the ECAs to conduct Centrelink payment debt recoveries on behalf of DHS.

Future direction of the contracts

3.51 Under the Head Agreements, DHS is not obliged to order services from either ECA. Although, DHS has continually used the services of the two

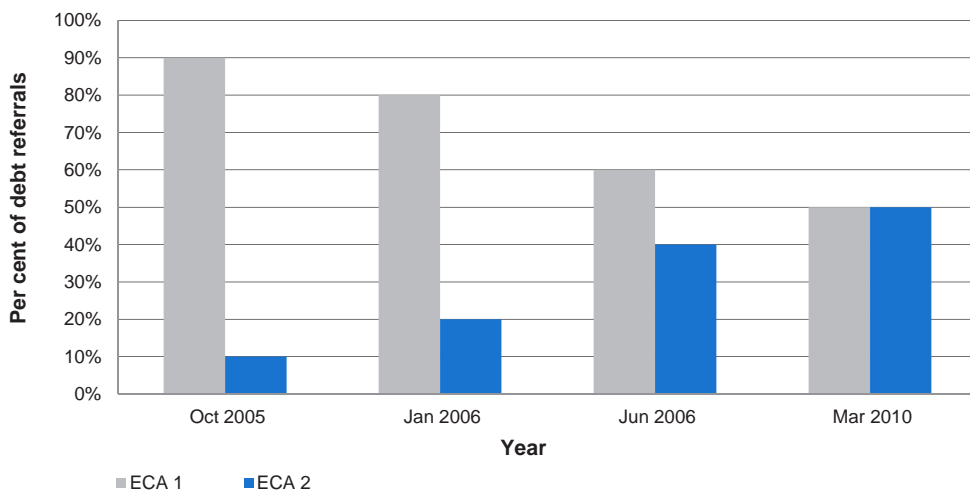
providers since 2005. The distribution of debt referrals between the ECAs is presently under consideration by DHS and there are also other areas where the future direction of the contract could potentially be varied to improve targeted recovery performance.

Debt distribution history

3.52 Figure 3.1 shows that the ratio of debts distributed between the two ECAs has changed significantly since 2005 and that currently there is an even distribution of the available number of debts between the ECAs (50 per cent to each ECA). There is also an approximately even distribution of the value of the debts available for recovery.

Figure 3.1

Debt distribution history 2005 to 2010: total number of debts available



Source: ANAO analysis.

3.53 The distribution of debts to the ECAs occurs using an automatic allocation process in DMIS. In September 2011, a change was made in DMIS to streamline the distribution process in the event that additional ECAs were contracted to DHS in the future. DHS advised that, in 2012–13, the ratio is designed to be equitable rather than encourage competition between the ECAs.

Scorecard proposals

3.54 In January 2011, DHS received a proposal from one of the ECAs to move towards a ‘balance scorecard’ approach. DHS subsequently requested a

scorecard proposal from the other ECA. The proposals suggest that DHS could measure and compare the ECAs' performance in the following key areas:

- debt recovery;
- customer feedback (satisfaction and/or complaints); and
- compliance with contractual obligations.

3.55 The scorecard proposals have been the subject of ongoing discussions between DHS and the ECAs for over two years. At separate meetings in October 2012, the ECAs were advised that DHS supports the move to a scorecard approach, subject to settling a range of matters—contractual; IT; and the content of the scorecard.

Potential to further improve recovery performance

3.56 The working relationship between DHS and the ECAs is constructive with no major contractual difficulties and is based on successfully working together over a number of years. Nonetheless, any changes to the existing contracts would need to be cost-effective and in accordance with the spirit of the Head Agreements.

Performance incentives

3.57 The ECAs are paid a commission, based on their performance in recovering Centrelink payment debts. While DHS is considering potential operational improvements suggested by the ECAs and is seeking to improve contractual reporting, the Head Agreements do not contain any clauses dealing with: targets; benchmarking; performance incentives; or penalties.

3.58 The social security law requires DHS to recover Centrelink payment debts and partner agencies expect DHS to actively seek to recover payment debts. While DHS needs to assess how to cost-effectively recover debts and not downgrade existing customer service levels provided by the ECAs, DHS could consider introducing a tiered commission rate for the ECAs to support the recovery of older or more difficult to recover high value debts.⁶⁵ This approach could be based on realising further benefits from using the specialist skills and experience of the ECAs in debt recovery.

⁶⁵ Chapter 2 details a complementary measure in the 2012–13 Budget targeted at increasing the recovery of high value non-current customer debts by DHS staff.

Automated referral strategy

3.59 DHS could also consider modifying the automated referral strategy in DMIS to take account of differences between customers. The current referral strategy operates on a predefined timeline, resulting in a 'one size fits all' outcome that does not take account of differences between customers. While DHS is already implementing a change to the referral strategy for some Indigenous non-current customers, other modifications could also be explored.

3.60 DHS is currently implementing a new initiative for Indigenous non-current customers with a Centrelink payment debt who live in a number of remote communities. Limited access to a Post Office or Internet banking for residents of those communities means that arranging repayment to an ECA can be difficult. In 2013, in order to improve debt recovery for Indigenous customers living in remote communities, DHS intends to cease referring Centrelink payment debts to the ECAs for those customers and to recall all existing debts that qualify for the exemption.

3.61 Suggestions for improving the performance monitoring, quality assurance and reporting requirements under the Head Agreements are made in Chapter 4.

Conclusion

3.62 DHS effectively manages a number of the key elements of the ECA contracts for the delivery of Centrelink debt recovery services.⁶⁶ DHS has a constructive working relationship with the ECAs, although there is room for improvement in DHS' performance of two important administrative functions.

3.63 Reviews of the SLA have been conducted by DHS in accordance with requirements in the Head Agreements. However, DHS' administration of formal contract variations has been mixed, with a lengthy delay in formalising a variation to reflect an operational change made over a year earlier.

3.64 DHS has not conducted formal audits of the ECAs' compliance with requirements in the Head Agreements for IT, physical or personnel security. The approach taken by DHS to this important aspect of contract management is not supported by a risk assessment. Given that one of the ECAs relocated their business centre to a new site in December 2012, there would be benefit in

⁶⁶ DHS' management of performance monitoring under the contracts is examined in Chapter 4.

DHS undertaking an audit or similar activity in the near future to verify the ECAs' compliance with contractual requirements.

3.65 ANAO analysis of debt data, collected between August 2012 and February 2013, showed that DHS was largely compliant with key contractual requirements for the provision of customer data to the ECAs and that the data provided to the ECAs was consistent with the expected operation of DMIS. The quality of the data referred to the ECAs was sufficient to enable them to conduct Centrelink payment debt recovery on behalf of DHS. During the current contracts with the ECAs, no significant issues have been identified with the IT systems used by DHS to manage and transfer debt data to the ECAs. Overall, DHS successfully implemented major changes to DMIS in 2011–12 for ECA debt recovery.

3.66 There are areas where the future direction of the ECA contracts could be varied by DHS with a view to improving recovery performance. Currently, DHS is considering the introduction of a performance monitoring scorecard to measure and compare the ECAs' performance in key areas such as: debt recovery; customer feedback (satisfaction and/or complaints); and compliance with contractual obligations. Further areas for potential change include DHS considering performance incentives for the contracts and investigating further modifications to the automated referral strategy to take account of differences between customers.

4. Performance Monitoring and Reporting

This chapter examines whether DHS effectively monitors external collection agencies' debt recovery activity, including if the contract reporting requirements support DHS' management reporting and external accountability.

Introduction

4.1 Monitoring and reporting of a contractor's performance enables an agency to evaluate the contractor's service delivery and contribution to achieving the organisation's goals. The reporting requirements should be clearly articulated in the contract and performance management must continue throughout the life of the contract, whether the contract is straightforward or complex.⁶⁷

4.2 The Head Agreements with each ECA outline DHS' expectations of the services to be delivered under the 'Standard Statement of Services'. The statement includes an expectation that each ECA will: align its values with DHS in order to achieve positive service outcomes for customers⁶⁸; commit to achieving superior recovery performance; and comply with the requirements to report to and hold meetings with DHS. While DHS does not report externally on the ECAs' performance, it does monitor their performance using the contractual reporting obligations and uses the reports for internal management purposes.

4.3 To assess the effectiveness of DHS' monitoring of ECA debt recovery services and the reporting arrangements under the contract, the ANAO examined the:

- contract reporting requirements;
- complaint handling and customer feedback mechanisms;
- internal reporting arrangements; and

⁶⁷ ANAO Better Practice Guide—*Developing and Managing Contracts*, February 2012, Canberra, p. 95.

⁶⁸ In Audit Report No.40 2009–10, *Application of the Core APS Values and Code of Conduct to Australian Government Service Providers*, the ANAO assessed the extent to which Australian Government agencies ensure that service providers are made aware of the core Australian Public Service Values and Code of Conduct and that these arrangements are monitored.

- external reporting by DHS in its annual report and under Bilateral Management Arrangements with partner agencies.

Contract reporting requirements

Background

4.4 In order for government agencies to manage the performance of service providers, a contract needs to include a sound performance information framework. Under the framework, reporting should be clearly linked to outcomes and the data collected used to support the agency in assessing and managing the contractor's performance.

4.5 The Head Agreements between DHS and the ECAs set out minimum requirements for the ECAs' reporting, including the timing and number of reports to be provided to the department. The SLA details the reporting responsibilities and contains a service delivery indicator for reporting—'Reports provided as required, within specified timeframes'.⁶⁹

4.6 Table 4.1 shows the reports required, the timeframes and whether the requirement is being met by the ECAs. The table also shows that most of the quarterly reports are provided to DHS at operational meetings held on a quarterly basis and referred to as quarterly performance reviews (QPR).

⁶⁹ DHS, *Service Level Agreement*, February 2012, Item 9, pp. 6–7.

Table 4.1**Service Level Agreement: reporting requirements**

Type of report	Monthly	Quarterly	Provided
Collection performance	✓		✓
Reconciliation of the trust account	✓		Partial ¹
Detail of complaints received	✓		✓
Reports provided at quarterly performance review meetings			
Action taken to locate customers		✓	Under review ²
Subcontractors, including confidentiality agreement compliance		✓	Partial ³
Staff training, confidentiality agreement and police records check compliance		✓	Partial ⁴
Strategic and other issues of interest		✓	✓
Complaints and escalations, including trend analysis		✓	✓
Customer contentment survey (50 customers)		✓	✓

Source: ANAO analysis.

Notes: (1) Trust account reports are not being sent by one of the ECAs.

(2) The report was not being provided and was under review by DHS in October 2012.

(3) Confidentiality agreement compliance is not reported by one of the ECAs.

(4) Police records check compliance is not reported by one of the ECAs.

4.7 In summary, while most of the reports are being routinely provided, a number of the key reports are only being provided by one or other of the ECAs and not both, for instance, trust account and staffing details. It is important that DHS receives the reports specified in the SLA in full to ensure contractual compliance and comprehensive reporting and monitoring. The monthly reconciliation of the trust account provides DHS with information about the payments received by the ECAs and transferred into the DHS trust account. The reporting of staff and subcontractor confidentiality agreement compliance and police record checks provides a level of assurance to DHS that the ECAs are taking all reasonable steps to protect customer information from unauthorised access.

Quality and usefulness of reports

4.8 There is a cost to the contractor, and the agency, of developing and delivering reports. This means that DHS needs to determine the level of contract reporting that is required, given the contract's complexity or the degree of risk involved.

4.9 The reporting requirements in the Head Agreements and SLA allow DHS the flexibility to modify the content of reports or request additional reports. Currently, however, the format of the ECA quarterly reports is not based on a standard template provided by DHS and there is variation between the two reports that makes a direct comparison after the QPR meetings more complex for DHS staff.

4.10 In October 2012, DHS initiated a review of the reporting requirements in Table 4.1 to ensure consistency between the SLA and operational activity, and to move towards more consistent reporting between the two ECAs. While DHS is not proposing to provide new reporting templates, a range of potential reports have been suggested to the ECAs by DHS, including measuring:

- the number of:
 - successful contacts made with debtors;
 - inbound calls to ECAs received or abandoned by operators;
 - letters and SMS being sent by the ECAs;
 - debts returned from an ECA after 180 days with no recovery action having taken place; and
- broken arrangements—when a payment arrangement is made with an ECA, but not sustained. DHS is interested in trends that show whether the broken arrangement occurs early, as a result of the initial amount being too high, or later. This analysis could suggest ways to make payment arrangements more sustainable.

4.11 As part of routine operational activity, the ECAs send DHS daily banking reports and confirmation of the number of referrals received through DMIS. Reports about the number of referrals are also sent weekly and monthly to DHS. The daily, weekly, and monthly reports on debt referral numbers are used by operational teams in the Debt Management Branch and inform briefings for senior management who have strategic oversight of the business function.

4.12 Overall, the ECAs' reporting is consistent with the contractual requirements and sufficient for monitoring the contract deliverables. DHS works collaboratively with the ECAs to develop new reports and there have been no apparent IT limitations on the type or number of reports that can be produced by the ECAs in response to requests from DHS. No duplicate or redundant reports have been identified by DHS that could be eliminated from the contractual reporting requirements.

Quarterly performance review meetings

4.13 QPR meetings are usually held in the month following the end of a quarter. At the QPR meetings, the ECAs present quarterly performance reports, which are based on data aggregated from the daily, weekly and monthly reports previously provided to DHS. Trends in the debt referral and recovery rates are highlighted for DHS by the ECAs. There is time available at the meeting for DHS to ask questions about the reports and to discuss other issues, including policy, procedure or IT matters. Records of the QPR agendas, meeting minutes and action items produced by the ECAs are maintained by DHS.

4.14 Before the meetings, DHS staff routinely sit with ECA telephone operators in the DHS area of the call centre facility and listen to the operators make outbound calls to customers and receive inbound calls in response to earlier SMS or telephone messages. DHS records the detail of the calls and the results, and any recordings of calls that DHS had selected before the meeting to listen to, are discussed at the beginning of the QPR meeting.

4.15 An area where DHS could make a beneficial change would be for the DHS staff conducting call audits to select a number of ECA operators to listen to on the day. Presently, the ECAs determine in advance which operators are available, which does not represent a random sample. Alternatively, DHS could seek secure access between QPR meetings to recorded calls, which is currently possible with only one of the ECAs.

4.16 Overall, DHS is satisfied with the conduct of the QPR meetings and the quality of the ECAs' reporting at the meetings. Given the investment in time and staff resources by DHS to attend the meetings (usually two to three people and overnight accommodation when visiting the ECA offices), it is important that DHS maximises the opportunities provided by the face-to-face quarterly meetings.

Complaint handling and customer feedback

4.17 The Commonwealth Ombudsman (Ombudsman) has stated that: 'complaint handling is a predictable and necessary part of [government] program and service delivery'.⁷⁰ Effective complaint handling is a means of improving government service provision and responsiveness to the public.

4.18 The ways that individuals and organisations can provide feedback, including complaints, to DHS about their experience with the agency are:

- online, at the department's website;
- by telephone (multiple channels);
- participating in surveys or completing feedback brochures;
- talking directly with staff in a service centre, an agent or access point in regional and rural areas; or
- writing to the department.

4.19 In the context of customer feedback and complaint handling, there is recognition that third parties, such as the ECAs, are increasingly providing services to the public on behalf of government agencies. The Australian Public Service Commission offers advice to agencies about the relevance of the APS Values and Code of Conduct, particularly when working with third party service providers:

When establishing relationships with providers, agencies need to consider how the Values and Code might apply, and how they will be promoted and compliance monitored, including the use of contract provisions...The Values relating to service delivery are critical, as is part of the APS Value relating to responsiveness to government in implementing the government's policies and programmes.⁷¹

Contract requirements

4.20 The ECA contracts address the APS Values of delivering services efficiently, accountably and courteously to a diverse Australian public. The Head Agreements for the ECAs include clear statements about DHS' values

⁷⁰ Commonwealth Ombudsman, *Better Practice Guide to Complaint Handling*, Canberra, 2009, p. 1.

⁷¹ Australian Public Service Commission, *APS Values and Code of Conduct in practice: A guide to official conduct for APS employees and agency heads* [Internet], Canberra, 2012, available from <<http://www.apsc.gov.au/publications-and-media/current-publications/aps-values-and-code-of-conduct-in-practice/working-with-the-private-sector-and-other-stakeholders>> [accessed 12 December 2012].

and make explicit the expectation that the ECAs will adopt the same values, and apply them to providing services for a diverse range of customers. The SLA specifically describes the ECAs' responsibility for responding to changes in government or DHS policy.

4.21 The SLA reinforces that the ECAs are to comply with all relevant Commonwealth, state and territory legislation, and community expectations of professional debt collection practice.⁷² The Australian Competition and Consumer Commission and the Australian Securities and Investments Commission enforce the Commonwealth consumer protection laws and provide guidance for both debt collectors and debtors.

4.22 DHS approves all telephone scripts, protocols and products, such as letters and SMS, which are used by the ECAs for customer contact. While the business materials are different for each ECA, the reporting requirements for customer feedback are the same, as is DHS' quality assurance process for customer contact.⁷³

4.23 For complaint handling, the Head Agreement specifies that the ECAs are required to have a dedicated service management operation to manage debt recovery for the duration of the contract, including disputes and complaints. Customers can provide feedback about their experience with the ECAs, including complaints, to DHS by: contacting the department; the ECAs; Ombudsman; or organisations such as the National Welfare Rights Network.

4.24 Monitoring trends in complaints enables an agency to gauge client confidence in service delivery and determine if any APS Values represented in contract clauses are not being upheld. At the QPR meetings, DHS considers ECA reporting on individual complaints and their resolution, trends in the complaints received, and the results of customer contentment surveys.

Complaints received by ECAs and DHS

4.25 Due to the different reporting formats used by the ECAs for the QPR performance reports it is not possible to make a direct comparison of the complaint summaries. However, the QPR reports for July–September 2012 show that compared to the number of customer contacts the level of

⁷² DHS, *Service Level Agreement*, February 2012, Item 1, pp. 1–2.

⁷³ DHS conducts detailed reviews of 20 customer files per quarter from each ECA.

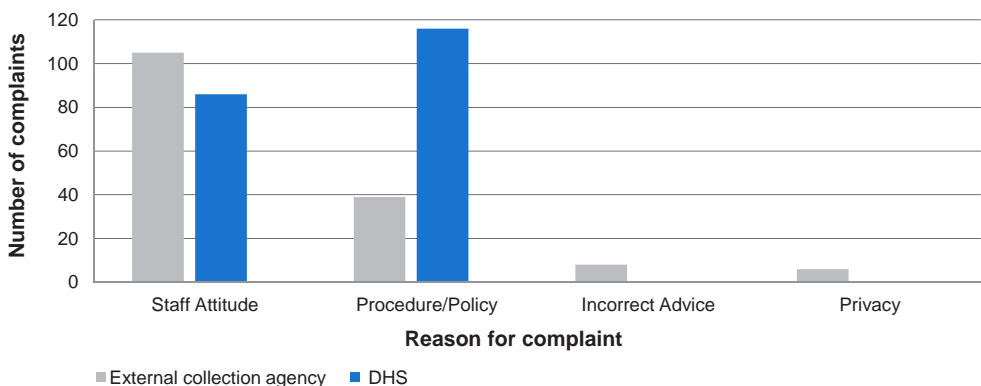
complaints is very low—less than one per cent of debt recovery activities. Earlier reports show a similar pattern.

4.26 Complaints received about the ECAs, by DHS or by the ECAs themselves, are sent to the Business Integrity Customer Solutions Team in the Debt Management Branch for action. The team records the complaint in the Integrated Customer Feedback Database and the actions taken are recorded on the customer’s electronic file.

4.27 Figure 4.1 shows that the majority of complaints received about the ECA and DHS debt recovery operations in 2011–12 related to ‘staff attitude’ and concerns about ‘procedure/policy’.

Figure 4.1

Complaints received: Centrelink payment debt recovery in 2011–12



Source: ANAO analysis.

Note: For privacy reasons, the ECAs are required to establish a customer’s identity before discussing a debt. Some customers can be reluctant to provide proof of identity details (full name, address and date of birth) to an unknown caller.

4.28 Complaints about the ECAs are recorded against one of four categories out of a total of 14 categories of complaints made about Centrelink debt recovery. The ECAs’ recovery activity generated 27 per cent of the total number of complaints related to debt recovery, received from customers. In the broader context, in 2011–12, DHS handled 56 million phone calls⁷⁴ from customers and received 51 155 complaints (representing 0.7 per cent of

⁷⁴ Department of Human Services, *Annual Report 2011–12*, Canberra, 2012, p. 9.

Centrelink customers) about Centrelink services and payments, including debt recovery.⁷⁵

4.29 In 2011–12, the Administrative Appeals Tribunal reported a 13 per cent reduction in the number of applications made for review of family assistance and social security decisions, compared to the previous year. In particular, fewer applications were lodged in relation to decisions involving overpayments, debt recovery and the age pension.⁷⁶

Key stakeholders

4.30 The Customer Solutions Team is also responsible for responding to ministerial enquiries, complaints received from the Ombudsman, and third party enquiries. The Ombudsman routinely receives and investigates complaints about DHS decisions to raise and recover Centrelink payment debts, including debt referrals to the ECAs. While no details of complaint numbers relating specifically to the ECAs are published, the Ombudsman's office and DHS' Debt Management Branch met three times during 2011–12 to discuss debt-related issues. The Ombudsman commented favourably in 2011–12 about the outcome of the meetings with DHS.⁷⁷

4.31 Another key stakeholder for DHS is the National Welfare Rights Network, which DHS also meets with on a regular and as required basis to discuss debt management issues and customer complaints. The Ombudsman and the National Welfare Rights Network are important sources of feedback and information for DHS about the delivery of its debt recovery services.

Customer surveys

4.32 The ECAs are required to conduct quarterly customer contentment surveys and report the findings at the QPR meetings. The surveys, of 50 customers selected by the ECAs, fulfil a contractual obligation to provide a customer service and complaints management process for the contract's duration.

⁷⁵ *ibid.*, p. 60.

⁷⁶ The Administrative Appeals Tribunal is established under legislation and its role is to provide independent merits review of administrative decisions. Administrative Appeals Tribunal, *Annual Report 2011–12*, Sydney, 2012, p. 23.

⁷⁷ Commonwealth Ombudsman, *Annual Report 2011–12* [Internet], Canberra, 2012, p. 54, available from <http://www.ombudsman.gov.au/pages/publications-and-media/reports/annual/ar2011-12/download/pdf/ombudsman_anrep_2011_2012.pdf> [accessed 13 December 2012].

4.33 One consideration with survey design is the number of questions, in terms of both the burden on respondents and processing cost. It is important that valid information is obtained in as few questions as possible. The ECA surveys contain a core set of eight questions requiring 'yes/no' answers including:

- did the operator ask you some questions to make sure they were talking to the right person;
- were you treated with respect; and
- given the nature of the call, was it handled appropriately.

4.34 DHS does not set a benchmark pass/fail score for the surveys. However, from the beginning of the current contract, the customer contentment survey scores reported by the ECAs range from 94–100 per cent as a measure of contentment with the service provided.

4.35 The purpose of a survey is to produce robust, consistent and relevant data, in this case so that DHS can monitor the ECAs' performance, which includes demonstrably upholding the values contained in the Head Agreement. The consistently high scores for the customer contentment survey are not independently verified by DHS.

4.36 In order to gain greater assurance about the customer feedback received by the ECAs, DHS will need to introduce a more rigorous approach to the survey methodology to ensure that the data produced is reliable, meaningful and appropriate to the contractual requirements. During the audit, DHS was exploring other survey options using technology already available in the department.

Internal reporting arrangements

4.37 Performance monitoring and reporting on activities, including service delivery by contractors, contribute to an agency's internal and external accountability processes. The availability of relevant and timely performance information supports informed decision-making by agency staff and the evaluation of programs and services. With regard to the ECAs, Centrelink payment debt recovery can have a high profile in the community and media and a sufficient level of monitoring by DHS is required. In the Debt Management Branch, the reporting produced by the ECAs is used operationally on a daily basis, monitored quarterly and contributes to high-level reporting within the branch.

4.38 DHS uses the ECA reports to maintain a central database of 'Collection Agent Performance Reporting'. The database is updated every month and includes records of debt referrals, recoveries and recalls, as well as invoice details extending back to July 2010. Until recently, DHS was using the database to produce eight further reports for management information purposes. However, the suite of reports is under review and some reports are no longer being produced because they were considered to be a duplication of effort or unnecessary.

4.39 The DHS Relationship Manager for the ECA contracts has a regular meeting schedule with the National Manager, Debt Management Branch. When meetings are held, they are an opportunity to discuss high-level issues, trends or exceptions to routine business activity by the ECAs. The National Manager has access to branch financial reporting that covers the ECAs' invoicing and commission payments, which supports financial monitoring by DHS. Furthermore, the National Manager has the ability to request general or specific DMIS reports as required.

4.40 The reporting produced by the ECAs and the area managing the ECAs in the Debt Management Branch is readily available to the National Manager and is supported by other financial and DMIS reporting. While the ECAs' performance is not specifically reported to any of DHS' strategic committees, performance information is reported to the Deputy Secretary with responsibility for the Debt Management Branch. Overall, there is sufficient management information available to effectively support DHS' monitoring of the ECAs by the Debt Management Branch.

External reporting by DHS

4.41 External reporting on performance is an important part of the management and accountability cycle in government agencies. At the same time as meeting statutory accountability requirements, annual reports provide agencies with a way to promote and demonstrate to the Parliament and community their achievements. Annual reports inform stakeholders of progress made during the year and communicate changes or improvements to programs and services.

Annual report

4.42 DHS reports annually to the Parliament about its contribution and performance against program outcomes. Readers of the department's annual report need to be assured that the quality and reliability of information in the annual report is adequate.

4.43 The ANAO examined the performance information published in a number of DHS' annual reports and portfolio budget statements (PBS). The 2011–12 annual report states that DHS recovered approximately \$1.1 billion in Centrelink payment debts that year, compared to \$1.1 billion in 2010–11.⁷⁸ While DHS acknowledges in its annual report that ECAs are used to recover payment debts, the total debt recovered annually that is reported is the consolidated amount recovered through all channels. The total amount recovered includes: withholdings from customers' current benefit payments, which is the most common debt recovery method; and the ECAs' debt recovery contribution.⁷⁹

4.44 An alternative model of annual reporting, about the use of ECAs, is shown in the Australian Taxation Offices' annual report for 2011–12. The agency reported the following information about its use of a panel of ECAs:

- number of debt cases referred to the ECAs (300 020);
- value of the debt cases referred (\$1.6 billion); and
- amount of debt recovered by the ECAs (\$1.3 billion).⁸⁰

4.45 There is an opportunity for DHS to improve the level of information available about the ECAs' recovery work in its annual report, which would increase the level of external accountability for this relatively small, but high profile activity. However, DHS would need to consider any changes to its annual reporting in the context of the available guidance to Australian Government agencies, in particular: 'the content of annual reports should merit reporting—the relative benefits and costs of reporting should be considered'.⁸¹

⁷⁸ Department of Human Services, *Annual Report 2011–12*, Canberra, p. 238.

⁷⁹ In 2011–12, the ECAs' contribution to the total amount recovered was \$114.3 million (10.4 per cent).

⁸⁰ Australian Taxation Office, *Annual Report 2011–12* [Internet], Canberra, 2012, p. 59, available from <<http://www.ato.gov.au>> [accessed 26 March 2013].

⁸¹ Department of the Prime Minister and Cabinet, *Requirements for Annual Reports for Departments, Executive Agencies and FMA Act Bodies* [Internet], Canberra, 2012, p. 4, available from <<http://www.dpmc.gov.au/guidelines>> [accessed 26 March 2013].

4.46 In 2012–13, the department's PBS contains key performance indicators that include a target for the amount of Centrelink payment debt under recovery. This is a change from the 2011–12 PBS where no specific debt recovery measures were included. DHS' format of reporting the amount recovered for the current and previous year in its annual report, in conjunction with the new PBS indicator, will allow readers to compare DHS' debt recovery performance over time.

Bilateral Management Arrangements

4.47 In July 2012, DHS signed Bilateral Management Arrangements (BMAs) with the Department of Education, Employment and Workplace Relations and the Department of Families, Housing, Community Services and Indigenous Affairs. The BMAs outline the purpose, the roles and responsibilities of the parties, and the operational and service arrangements for the achievement of government outcomes. Those outcomes include the delivery of social, health and welfare payments by DHS on behalf of the partner agencies.

4.48 Included in the BMAs is a reporting framework, through which the partner agencies monitor the success of the relationship and measure performance. This framework forms part of the operational arrangements and includes DHS reporting on debt data.

4.49 The key performance measures in the BMAs address payment assurance, payment integrity and debt minimisation. The measures are intended to provide assurance to the partner agencies that DHS is detecting, raising and recovering debts so as to maximise recovery and minimise growth of the debt base to agreed levels. While DHS reports to the partner agencies on the total amount of debt recovered, determining the most efficient and effective way to recover debts within available agency resources is ultimately an operational matter for DHS.

4.50 In 2012, changes were made to the debt related performance indicators in the BMAs. New indicators will measure the number and value of debts under recovery, as well as the proportion attributed to current and non-current customers. In combination, those indicators are expected to provide an overall picture of how debt is being managed by DHS and offer greater visibility around the levels of non-current customer debt. The first set of new reports against the indicators has been provided to the partner agencies, including the

former Department of Industry, Innovation, Science, Research and Tertiary Education.⁸² However, the data available for the first new report for non-current customers was limited in duration and only covered the final quarter of 2011–12 and the first two quarters of 2012–13.

Conclusion

4.51 DHS has an appropriate reporting and monitoring framework for the management of the ECA contracts. Overall, the ECAs' reporting is consistent with the contractual requirements and sufficient information is provided for DHS to monitor performance under the contracts. DHS is considering the future of the contractual reporting requirements and how best to tailor the content of the ECAs' reports to meet DHS' emerging needs.

4.52 The department is satisfied with the conduct of the QPR meetings and the quality of the ECAs' reporting at the meetings. Nonetheless, there is an opportunity for DHS to improve the quality assurance work conducted on site before the meetings: a process that involves DHS staff listening to operators' calls to non-current customers about their debt(s) and providing timely feedback to the ECAs. The ECAs' contractual material addresses the APS Values of delivering services efficiently, accountably and courteously to a diverse Australian public.

4.53 DHS has processes in place to respond to feedback or complaints received from current or non-current customers. Complaints about the ECAs are recorded against one of four categories out of a total of 14 categories of complaints made about Centrelink debt recovery. The ECAs' recovery activity generated 27 per cent of the total number of complaints received from customers about debt recovery. In order to gain greater assurance about the customer feedback received by the ECAs, DHS is exploring other survey options using technology already available in the department. DHS has effective working relationships with key government and non-government stakeholders with an interest in debt recovery.

4.54 The ECAs' reporting under the contracts provides a sufficient basis from which DHS can generate management information for DHS staff that are

⁸² The department is a partner agency with DHS in relation to the management of social security debt. In late March 2013, the department's responsibilities were expanded to incorporate functions from the former Department of Climate Change and Energy Efficiency and the department was renamed the Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education.

responsible for implementing and overseeing debt recovery operations. The department's external reporting of ECA activity in its annual report does not include separate reporting on the ECAs' contribution to debt recovery compared to the total amount of debt raised and recovered annually. An alternative model of annual reporting about the ECAs' activity, such as that adopted in the Australian Taxation Office's annual report for 2011–12, could be considered by DHS for its future annual reports. However, the level of available detail about debt recovery is being improved by DHS in the department's PBS and under BMAs with partner agencies.



Ian McPhee
Auditor-General

Canberra ACT
30 May 2013

Appendices

Appendix 1: Agency Response to Proposed Report



Australian Government
Department of Human Services

Kathryn Campbell CSC
Secretary

Ref: EC13/185

Dr Tom Ioannou
Group Executive Director
Performance Audit Services Group
Australian National Audit Office
GPO Box 707
Canberra ACT 2601


Dear Dr Ioannou

I am writing to you in response to the proposed audit report on the Recovery of Centrelink Payment Debts by External Collection Agencies. Thank you for the opportunity to comment on the proposed audit report.

The Department of Human Services (the department) agrees with the recommendation outlined in the report.

Attachment A to this letter details the department's response to the draft report and its recommendation.

If you would like any further clarification on these comments, please contact Ms Debbie Weise, National Manager, Debt Management Branch, on (07) 5558 0157.

Yours sincerely



Kathryn Campbell

16 May 2013

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Attachment A

Response to the Section 19 report on the Recovery of Centrelink Payment debts by External Collection Agencies Audit

Recommendation No.1

The ANAO recommends that the Department of Human Services periodically verify compliance with the IT, physical and personnel security requirements contained in the current contracts with external collection agencies, to gain assurance that DHS customer information is being managed securely.

DHS response:

Agree

Appendix 2: Description of Debt Records Obtained from the Department of Human Services

The Department of Human Services (DHS) sends debt records electronically to two external collection agencies (ECAs) that act on its behalf to recover Centrelink payment debts.

Data is transmitted automatically by DHS' Debt Management Information System (DMIS) to an ECA when specific rules are met, which determine if any customer debts are eligible for referral or re-referral to an ECA.

In order to confirm that the content of the records referred to the ECAs met the DMIS referral rules and were consistent with the contractual requirements, the ANAO obtained from DHS electronic extracts of routine daily transmissions to the ECAs in late 2012 and early 2013.

DHS transmits data to the ECAs on business days, which means any day that is not a Saturday, Sunday or a national public holiday. Due to DHS data storage parameters, the ANAO requested three separate sets of data during the period from 1 August 2012 to 14 February 2013. This approach yielded a combined dataset for a period of approximately 180 days (six months) that could be analysed by the ANAO.

The dataset contained two types of records: individual (for a customer no longer receiving a Centrelink payment); and organisational (debts arising from Paid Parental Leave arrangements with organisations). The total number of records analysed was 153 159 comprising: 152 682 (99.7 per cent) individual records; and 477 (0.3 per cent) organisational records.⁸³

⁸³ A small number of debt referrals with the same debt identification number (317 records or 0.2 per cent) were excluded from the analysis because the debt was referred more than once in the extract period. In these instances, all of those records were excluded from further analysis to avoid double counting, or more, of the debt's value.

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