

The Auditor-General
Audit Report No.32 2006–07
Performance Audit

Administration of the Job Seeker Account

Department of Employment and Workplace Relations

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of Australia 2007

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Canberra ACT
17 April 2007

Dear Mr President
Dear Mr Speaker

The Australian National Audit Office has undertaken a performance audit in the Department of Employment and Workplace Relations in accordance with the authority contained in the *Auditor-General Act 1997*. Pursuant to Senate Standing Order 166 relating to the presentation of documents when the Senate is not sitting, I present the report of this audit and the accompanying brochure. The report is titled *Administration of the Job Seeker Account*.

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



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

The Auditor-General is head of the Australian National Audit Office. The ANAO assists the Auditor-General to carry out his duties under the *Auditor-General Act 1997* to undertake performance audits and financial statement audits of Commonwealth public sector bodies and to provide independent reports and advice for the Parliament, the Government and the community. The aim is to improve Commonwealth public sector administration and accountability.

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Abbreviations

ANAO	Australian National Audit Office
DEWR	Department of Employment and Workplace Relations
JSKA	Job Seeker Account
EA3000	Employment Assistant 3000 system
ESC2	Employment Services Contract 2
ESC3	Employment Services Contract 3
ESN	Employment Services Network
FMA Act	<i>Financial Management and Accountability Act 1997</i>
ISca	Intensive Support customised assistance
JNM	Job Network Member
JSCI	Job Seeker Classification Instrument
NCMF	National Contract Management Framework
NESA	National Employment Services Association

Summary, Key Findings and Recommendations

Summary

Background

1. The Department of Employment and Workplace Relations (DEWR) contributes to the Australian Government's employment outcome of providing efficient and effective labour market assistance. DEWR performs this function by administering programmes to help unemployed people into work or to prepare them for employment.
2. The Job Network, a national network of non-government organisations, provides services to job seekers under contract to DEWR. The Job Network programme is now in its ninth year of operation. At the time of the audit there were 113 Job Network organisations at 1 154 sites across Australia. In 2005–06, DEWR paid \$1 250 million to Job Network Members under Employment Services Contracts for Job Network services.
3. Evaluation of the Job Network as operating prior to 2003 supported the view that Job Network Members were not investing sufficient funds on goods and services to assist job seekers, especially the most disadvantaged, into work.¹ Accordingly, in July 2003, the government introduced a new model of operation for the Job Network, the Active Participation Model.
4. Consistent with the Active Participation Model, DEWR made changes to the fee structure for Job Network services and introduced a new element, the Job Seeker Account (JSKA). A clear focus of the initial design of the JSKA was to assist the most disadvantaged job seekers.²

Job Seeker Account

5. Under the JSKA arrangements, Job Network Members are reimbursed by DEWR for goods and services purchased for individual job seekers to help them secure or maintain employment.

Operation of the notional account

6. DEWR established a notional account for each Job Network site that attracts credits as registered job seekers commence various stages of

¹ Under the previous Employment Services Contract (ESC2), any money spent on job seekers (to purchase goods or services) was funded by the Job Network Members themselves.

² JSKA Fact Sheet, current as at April 2006, available on a DEWR web site, the Employment Services Network (ESN) accessible to Job Network Members.

employment assistance. The amount credited at any stage varies according to the job seeker's level of labour market or locational disadvantage. Individual credits range from \$11 for a job seeker registered as unemployed for three months and not considered disadvantaged, through to \$1 575 for a job seeker entering Intensive Support customised assistance who is considered to be both Highly Disadvantaged³ and locationally disadvantaged.

Spending of JSKA funds

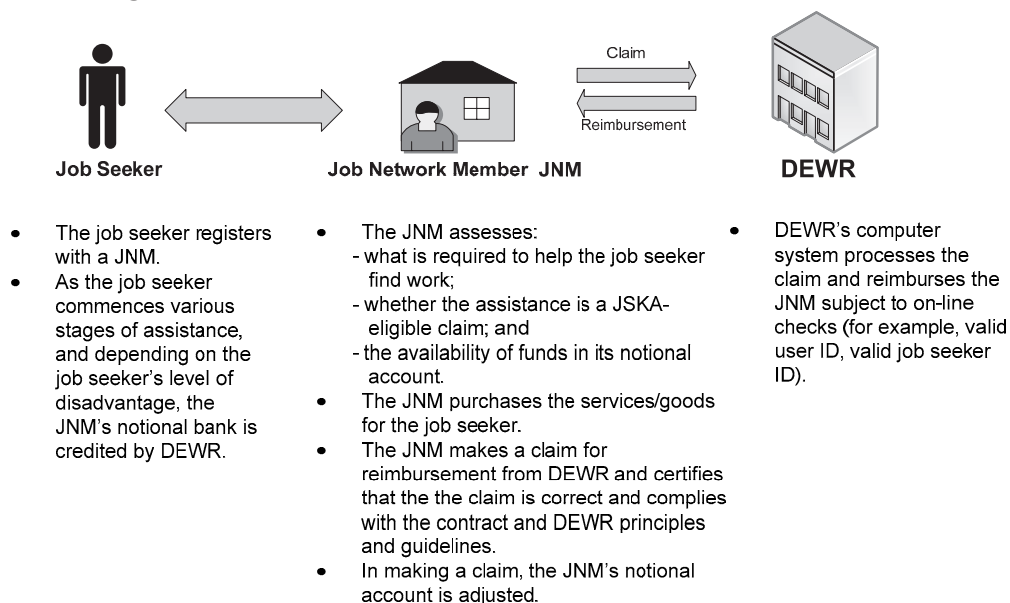
7. While credits accumulate to a Job Network site's notional account based on each job seeker's length of unemployment and level of disadvantage, spending of JSKA funds is largely at the discretion of Job Network Members. That is, Job Network Members choose which job seekers they will help using the JSKA, and how much they will spend, up to the limit of the balance of their notional account, irrespective of the amounts credited to the notional account in respect of each job seeker.

8. In making decisions relating to JSKA expenditure, Job Network Members are guided by DEWR principles and guidelines. These include that JSKA expenditure must reflect a job seeker's individual needs and must be directly related to a job seeker securing an employment outcome or placement in the labour market.

9. Job Network Members claim reimbursement from DEWR for payments for goods and services through DEWR's computer system, thereby reducing the balance of credits in their notional accounts.

10. Figure 1 illustrates the process through which a Job Network Member receives reimbursement from DEWR for assistance provided to job seekers.

³ In 2005–06, 33 per cent of eligible job seekers were classified by DEWR as Highly Disadvantaged using DEWR's Job Seeker Classification Instrument.

Figure 1**Accessing JSKA funds**

Source: ANAO

JSKA expenditure

11. From July 2003 to June 2006, DEWR's total JSKA expenditure was \$648 million. The five largest JSKA expenditure categories were:

- employer incentives (29 per cent)—the majority of expenditure in this category was for wage subsidies. Wage subsidies are generally paid to an employer to facilitate the employment of an eligible job seeker. These payments (averaging \$2 611 for an individual job seeker) are commonly made at 13 weeks and 26 weeks of employment to align with the periods required to trigger outcome payments from DEWR to Job Network Members;
- job seeker training (24 per cent)—this may include costs for enrolment in training courses that result in the job seeker obtaining a skill or qualification or for books and equipment essential to or related to a training or educational activity;
- clothing and equipment (12 per cent)—includes any clothing or equipment purchased for a job seeker for employment-related activities or to facilitate access to employment opportunities;

- professional services (13 per cent)—includes vocational counselling and rehabilitation; drug, alcohol and mental health counselling; medical services; and marketing job seekers to potential employers (reverse marketing); and
- transport assistance, fares and petrol (9 per cent)—includes purchasing transport for a job seeker (for example, a bicycle) and costs associated with obtaining transport such as driving lessons, licences, registrations and insurance. It also includes fares and petrol purchased for job seekers for employment or job search related activities.

Verifying JSKA transactions

12. Approximately one million claims for reimbursement from the JSKA are made each year by almost 10 000 Job Network staff at 1 154 sites across Australia.

13. The decision on who to help, what to buy and how much to spend using JSKA funds is made by individual Job Network staff members. DEWR, therefore, depends to a large extent on the integrity of Job Network Members to ensure JSKA claims are valid.

14. The nature of JSKA payments is such that it is difficult to verify the appropriateness of many individual JSKA transactions and more than one third of all items purchased, including clothing and bus tickets, are attractive for personal use and, therefore, subject to a higher level of potential fraud. Verifying such expenditure could require significant administrative effort and is further complicated where services are delivered by an outsourced provider to a third party.

15. In administering the JSKA, DEWR faces the challenge of balancing the need for assurance that Commonwealth funds have been spent appropriately with the need for a workable and flexible approach that is not overly burdensome for Job Network Members or for DEWR.

Audit objective

16. The objective of the audit was to assess the effectiveness of DEWR's administration of the JSKA in ensuring its optimal usage in achieving job seeker outcomes. The ANAO examined the following aspects of the JSKA: guidance provided to Job Network Members on its operation; identification and assessment of contract risks; management of contract risks and Job

Network Member performance; claims and payments; encouraging economy; and performance information.

Overall audit conclusion

17. The overall approach taken by DEWR to administer the JSKA is sound. The department has put in place a risk management framework and associated tools, guidance for Job Network Members on eligible claims, a post-claim monitoring regime and an evaluation strategy.

18. While DEWR's overall approach is appropriate, the ANAO identified three areas where DEWR could strengthen its administration of the JSKA. In particular, the department could:

- better identify, assess and monitor the specific risks relating to the JSKA (including the potential for fraud) presented by particular Job Network Member organisations and sites;
- place greater reliance on existing controls around the processes and procedures undertaken by Job Network Members that take effect prior to reimbursement of JSKA claims; and
- implement and report on DEWR's evaluation strategy.

Identifying, assessing and monitoring specific risks relating to JSKA

19. DEWR has a structured approach to risk management, both at the departmental level and when managing risks presented by contracted organisations. Under DEWR's National Contract Management Framework, contract risks are defined and applied across all the department's outsourced programmes. Risk assessments are undertaken by DEWR's contract managers for all Job Network Member organisations and sites and these form the basis for DEWR's approach to contract monitoring. Within this framework, the ANAO assessed whether DEWR appropriately identifies and monitors the specific risks relating to the JSKA.

20. While DEWR contract managers advised the ANAO that a significant proportion of their time was spent monitoring JSKA activity (in recognition of the higher level of risk presented by JSKA payments), DEWR's risk framework does not separately identify risks relating to JSKA at the Job Network Member organisation or site level. This approach relies heavily on the use of appropriate indicators and benchmarks for each of the different elements of

the Job Network and on the skills of DEWR contract managers to adequately assess and balance these different elements to arrive at a single risk rating for each Job Network organisation or site risk. Risk mitigation strategies could be better targeted by separately rating JSKA risks, clarifying risk descriptions and improving associated risk indicators and benchmarks.

21. DEWR could also improve risk assessments for Job Network Member organisations and sites by ensuring that its approach to assessing the likelihood of JSKA risks eventuating is consistent and is documented. This would give DEWR greater assurance that its risk assessments provide an accurate basis for managing JSKA risks at both the organisational and site levels.

22. DEWR has given considerable priority to monitoring JSKA usage through desktop reviews and site visits. This monitoring could be better targeted at Job Network Member sites that present the highest level of risk. Such an approach would provide DEWR with greater assurance that Job Network Members are complying with DEWR principles and guidelines for using the JSKA. Improvements to DEWR's monitoring regime, informed by revised risk assessments, would provide greater assurance that the one million JSKA transactions that occur each year are legitimate.

Considering placing greater reliance on existing controls around the processes and procedures undertaken by Job Network Members

23. In circumstances where individual Job Network staff exercise discretion and make judgements in regard to JSKA assistance that have a direct impact on claims against DEWR, the department has a responsibility to make sure that appropriate controls exist and operate effectively.

24. After providing a JSKA-eligible service, the Job Network Member submits a claim for reimbursement to DEWR. When making a JSKA claim, the individual Job Network staff member must certify that the details provided in the claim are true and correct. DEWR has also put in place preventative measures that require each Job Network Member to comply with DEWR's Employment Services Code of Practice and to implement a fraud control plan.

25. While DEWR can expect that Job Network Members will have sufficient internal processes and controls to support JSKA claims, by requiring certification and compliance with other contractual requirements, DEWR could

obtain greater assurance that the controls underpinning JSKA transactions within Job Network Members are in place and operating effectively.

26. Some Job Network providers, for instance, have implemented their own internal controls for JSKA expenditure. While the content and quality of these controls vary, they place these particular Job Network Members in a better position to assess, monitor and certify their JSKA-related expenditure.

27. Given the nature of the expenditure that takes place under the JSKA, the very large number of individual transactions involved, and the large number of individuals with access to undertake JSKA claims, the ANAO considers that DEWR could benefit from an increased focus on overall system integrity. This would include placing greater reliance on selective testing of Job Network Member controls, involving judgement regarding both the areas to be tested and the nature, timing and extent of tests to be performed. Such an approach would give DEWR greater confidence that any significant misuse or fraudulent use of the JSKA will be identified.

28. As well as providing additional assurance, this approach has the potential to allow DEWR's contract managers to focus their post-claim monitoring activities on higher risk Job Network organisations, that is, Job Network providers that are assessed as having inadequate JSKA controls in place. Currently, DEWR contract managers review the evidence for approximately 2.25 per cent of JSKA transactions. Increasing its emphasis on testing the preventative controls already in place would provide DEWR with the opportunity to consider a more targeted approach to its transaction-based monitoring.

Implementing and reporting on DEWR's evaluation strategy

29. DEWR undertook a range of evaluation activities relating to the JSKA during the contract period, and published the *Jobseeker Account Evaluation Report* on its workplace website⁴ in December 2006. This report seeks to synthesise salient points from this body of research. However, DEWR is yet to complete an evaluation of the Active Participation Model as a whole, and without this broader analysis of the Active Participation Model and of exogenous factors such as macro-economic conditions and the state of the labour market, it is difficult to ascertain the extent to which job placements over the first three years of the JSKA can be attributed to use of the JSKA.

⁴ <www.workplace.gov.au>.

Key Findings

Guidance provided to Job Network Members on the operation of the Job Seeker Account (Chapter 2)

30. Over the three years that the JSKA has been in operation, DEWR has provided considerable guidance to Job Network Members on how they may use the JSKA. This guidance has included additional explanation of the JSKA expenditure principles, changes to what is acceptable under particular categories, the prohibition of certain items of expenditure, and information on what is required to support claims under the JSKA. The effect of the additional guidance has been to make the administration of the JSKA very complex. This complexity has led to many Job Network Members using their own resources to develop guidance for staff that is based on the material available from DEWR, often involving lists of approved and prohibited items. As a result, considerable Job Network Member resources are devoted to determining what is, or is not, allowed under the available guidance.

31. The ANAO suggests that DEWR make available a streamlined and consolidated version of JSKA guidance on the DEWR secure intranet site for Job Network Members.

32. The ANAO notes that DEWR recently reviewed the principles and guidance provided to Job Network Members. Revised principles and guidance were posted on the secure intranet site for Job Network Members on 14 November 2006. As this development occurred late in the audit it has not been reviewed by the ANAO.

Identification and assessment of contract risks relating to the Job Seeker Account (Chapter 3)

33. DEWR's National Contract Management Framework is underpinned by risk assessments of Job Network Member organisations and sites completed by DEWR contract managers, desktop monitoring of data from DEWR's computer application EA3000,⁵ and site visits.

34. The department has identified two levels of risk relating to its contracts: organisational risks and site risks. Contract risks are defined and applied across the Job Network and cannot be modified or added to by individual

⁵ EA3000 was developed to facilitate implementation of the Active Participation Model in July 2003.

contract or account managers. Organisational risks and site risks apply to all of DEWR's labour market programmes and are classified into four risk families: financial, servicing, performance and compliance.

Identifying JSKA-related risks

35. The nature of the risk presented by the JSKA to the Commonwealth is different to that for other Job Network payment types such as service fees and outcome fees. This is because many JSKA transactions are difficult to verify and some of the items purchased, such as clothing and bus tickets, are attractive to individuals and, therefore, subject to a higher level of potential fraud. In addition, approximately 15 per cent of JSKA payments are made to related entities of the Job Network Member that decides who to help, what to buy and how much to spend using JSKA funds.

36. The risks listed in DEWR's Risk Management Module (which are standard for a wide range of DEWR programmes) cover, at a broad level, the range of risks presented by the JSKA: potentially fraudulent use; use not consistent with guidelines; inequitable use; poorly targeted use; and errors in claims. However, because DEWR develops only programme-level risk ratings for each organisation and site delivering a programme, the JSKA, as one element of Job Network services, is not separately rated.

37. The ANAO found that indicators and benchmarks for the risks most likely to be affected by JSKA usage were either absent or of limited use in assisting contract managers to identify and assess the specific risks presented by the JSKA.

Assessing JSKA risks at the site level

38. In order to manage the risks presented by the JSKA at the Job Network site level, DEWR assesses the risk level for each of the 1 154 individual Job Network sites. Risk ratings for each site, and for each DEWR programme administered by that site, are recorded electronically in DEWR's Risk Management Module.

39. The ANAO reviewed the risk ratings for 11 of the 1 154 sites in the Job Network. The sites were jointly selected with DEWR and represent a range of metropolitan and non-metropolitan locations for five organisations in two States (including one large provider and a range of medium and small providers).

40. The ANAO reviewed site risk ratings relevant to the JSKA for the 11 sites visited. The majority of risks reviewed received a 'moderate' rating. Five were rated as 'high' and two as 'low'. This limited range of ratings is partly due to the fact that all risks relevant to the JSKA are considered to have either moderate or major impacts and, therefore, the lowest overall risk rating that could be achieved based on DEWR's risk rating matrix, is 'moderate'.

41. For the 11 sites reviewed, the ANAO found that where the same contract manager was responsible for monitoring multiple sites that were part of the same organisation, risk ratings and commentary were identical across the sites. The ANAO found this practice in the three State/regional offices visited. In some cases, these identical ratings and comments may be valid owing to similar practices in the same organisation impacting on the risk ratings of sites. However, JSKA risk ratings for the 11 sites reviewed by the ANAO were not sufficiently supported with documented analysis to provide confidence that the risk assessments were accurate.

Management of contract risks and Job Network Member performance (Chapter 4)

42. DEWR has approximately 200 contract managers who monitor the services provided by Job Network Members. Their activities cover all types of DEWR payments made to Job Network Members, including JSKA payments. Contract managers undertake a range of monitoring activities, including desktop reviews of JSKA usage data and reports for each Job Network site (usually monthly) and site visits to check documentation supporting JSKA claims (annually or bi-annually). DEWR also has a quality audit programme and a programme assurance function that assist it to manage contract risks and Job Network Member performance relating to the JSKA.

43. The ANAO assessed whether DEWR appropriately manages the contract risks relating to the JSKA.

44. The ANAO found that DEWR's desktop monitoring regime does not focus on monitoring the relevant risk indicators (as set out in DEWR's Risk Management Module) and is not well documented.⁶ Rather, DEWR's desktop monitoring relies largely on basic data analysis and reviews of standard reports. DEWR contract managers do not have sufficient tools to adequately

⁶ While DEWR requires that all desktop monitoring activity is recorded in the Risk Management Module, the ANAO found that this data was unreliable and not able to be easily analysed to provide reports on the type and extent of monitoring across a range of sites or organisations.

analyse JSKA data to identify trends in JSKA usage that could lead to discovery of invalid claims or fraudulent activity.

45. Site visits involve DEWR contract managers reviewing evidence for a small proportion of JSKA transactions on either an annual or bi-annual basis. The ANAO estimated that approximately 2.25 per cent of JSKA transactions are reviewed annually across all sites. DEWR does not collate data on the number of JSKA transactions that are reviewed through its monitoring activities.

46. While DEWR requires that monitoring activity is recorded in its Risk Management Module, the ANAO found the data did not present a clear picture of when monitoring occurred, what was covered and relevant findings or actions. The data, in its present form is not conducive to management understanding of the extent of monitoring that has actually occurred (across a range of sites and/or organisations).

47. Where DEWR contract managers identified inappropriate use of the JSKA through monitoring activity, site risk ratings did not always reflect these findings. For example, one Job Network Member reviewed by the ANAO had been found by DEWR to be using post placement support for claim tracking (across three sites) which is in breach of DEWR guidelines and, therefore, an inappropriate use of funds. However, DEWR's likelihood rating for the relevant risk (inappropriate use of funds), was 'unlikely' therefore the overall risk rating was 'moderate'.

48. Overall, the findings of DEWR monitoring activity were not always reflected in site risk assessments and, therefore, in individual site ratings.

49. With regard to the effectiveness of DEWR's monitoring activities in identifying inappropriate use of funds, a high proportion of recoveries appear to be self-identified by Job Network Members through their own quality processes. DEWR does not record the nature or originator of recovery action.

Job Seeker Account claims and payments (Chapter 5)

50. The ANAO assessed DEWR's controls framework as it relates to expenditure under the JSKA.

51. When a Job Network staff member makes a JSKA claim, DEWR requires that individual to certify that the details provided in the claim are true and correct, the activity has been undertaken, any required documentation is available and the purchase was made in accordance with the Employment

Services Contract and Job Seeker Account expenditure principles. Contractual arrangements also require each Job Network Member to comply with DEWR's Employment Services Code of Practice and to implement an appropriate fraud control plan.

52. Job Network Members themselves have instituted a number of controls within their own organisations relating to the JSKA. While the content and quality of these controls vary, they generally involve the use of delegations, approval processes, reconciliations and reviews of claims by compliance officers or audit officers.

53. However, DEWR does not currently test whether Job Network Members have appropriate controls in place within their own organisations to support the Job Network Members' JSKA certification or to provide assurance that they are complying with the department's code of practice. For example, DEWR does not routinely request and review Job Network Members' fraud control plans.

54. DEWR relies heavily on transaction-based testing of a relatively small number of JSKA transactions (approximately 2.25 per cent) after claims have been paid. Checking 22 500 claims out of the one million JSKA transactions per year places a limit on DEWR's effectiveness in identifying and combating invalid claims and fraudulent activity. Since the beginning of 2005, DEWR's Investigations Branch has investigated or examined 10 separate instances of fraud, or potential fraud, involving the JSKA: five instances arose from information provided to DEWR by individuals external to DEWR; two were identified by Job Network Members; and three arose from DEWR's own examinations.

Encouraging economy (Chapter 6)

55. Job Network Members use the JSKA to assist job seekers into sustainable work. Inherent in the design of the JSKA is an incentive for Job Network Members to spend JSKA funds to increase the chances of job seekers gaining sustainable employment. When a job seeker is employed for a period of 13 weeks, the Job Network Member receives an outcome payment; a further payment is made when the job seeker has been employed for 26 weeks. Outcome payments range from a total of \$550 for a person unemployed for less than four months to \$6 600 for a person unemployed for longer than three years.

56. The ANAO examined the extent to which DEWR ensures that Job Network Members are using JSKA funds economically, that is, when required to address individual needs in order to assist a job seeker to secure an employment outcome relevant to the labour market.

57. While Job Network Members are required to comply with DEWR principles and guidelines in order to make a claim from the JSKA, the fact that Job Network Members generally have a considerable notional account balance⁷ reduces their incentive to economise in their use of the JSKA.

58. Certain types of JSKA expenditure lead to a direct financial benefit for the Job Network Member and are, therefore, at greater risk of being used when not clearly required (on the basis of individual needs). Examples include where the Job Network Member is the service provider and, therefore, receiving the JSKA payment directly, or where the JSKA expenditure directly contributes to the achievement of an outcome payment (such as in the case of wage subsidies).

59. Wage subsidies accounted for 38.5 per cent of JSKA expenditure in 2005–06 and have been trending upwards over the contract period. The ANAO found that wage subsidies are often paid to employers at 13 weeks and then at 26 weeks to coincide with the timing of outcome payments to Job Network Members. Provision of a wage subsidy can assist a Job Network Member to achieve an outcome payment in a situation where there is concern that the payment may not otherwise be achieved. This can occur where:

- a job is unlikely to provide the required hours over the required period; or
- a job seeker has found employment independently and does not provide the relevant paperwork to the Job Network Member so that an outcome payment can be claimed (providing a wage subsidy maintains contact with the recently employed job seeker and the employer).

60. ANAO analysis shows that nearly 30 per cent of wage subsidies are provided to job seekers who found their own employment and half⁸ of wage subsidy dollars are spent on job seekers who are not classified as Highly Disadvantaged⁹. Approximately \$10 million of wage subsidy expenditure in

⁷ In June 2006, the balance of the total JSKA notional account was \$240.9 million and had been trending upwards during 2006.

⁸ ANAO analysis of JSKA expenditure data for 2005–06.

⁹ Level of disadvantage is calculated using the Job Seeker Classification Instrument administered by Centrelink and subject to review by Job Network Members.

2005–06 was on job seekers who had been unemployed for less than 12 months and were not classified as Highly Disadvantaged.

61. Documentation supporting the need for a wage subsidy is generally poor. DEWR requires greater assurance that wage subsidies are being used efficiently and are provided on the basis of individual need for sustainable jobs.

62. Services provided by Job Network Members for which they receive payment from DEWR through the JSKA include reverse marketing,¹⁰ post-placement support and other additional contacts. The nature of these services (telephone calls and meetings) means that DEWR cannot independently validate that the services claimed were provided. Documentation to support such claims is generally poor. Overall, DEWR requires greater assurance that claims relating to these services are appropriate, that is, that services are being provided on the basis of individual need to assist job seekers to secure and maintain employment.

Performance information (Chapter 7)

63. The intention of DEWR's Outcome 1: *efficient and effective labour market assistance* is to make it easier for job seekers to be placed in employment. DEWR intends that the JSKA will contribute to this outcome. However, DEWR's current level of aggregation of performance information, and subsequent reporting, makes it difficult to identify the contribution that the JSKA makes in assisting job seekers to secure and maintain employment, particularly those job seekers who are most disadvantaged.

64. Policy and programme evaluation goes some way to measuring the contribution of individual public sector initiatives in a cost-effective manner. DEWR's evaluation strategy for the Active Participation Model (of which the JSKA is one element) acknowledges the challenges of evaluating elements of the Job Network, noting that:

[S]eparating out the impact of a programme element from other elements and from the compliance regime poses difficulties, and at the end of the day is probably impossible. One of the major challenges for these studies will be to isolate the effects of the Active Participation Model from those of other policy and of the broader economic changes.¹¹

¹⁰ Reverse marketing refers to Job Network Members contacting targeted employers to market a particular 'job-ready' job seeker.

¹¹ *Evaluation Strategy for the Active Participation Model*, DEWR, April 2004, p. 13.

65. DEWR undertook a range of evaluation activities relating to the JSKA during the contract period, and published the *Jobseeker Account Evaluation Report* on its workplace¹² internet site in December 2006. This report seeks to synthesise salient points from the body of research relating to the JSKA. DEWR is yet to complete an evaluation of the Active Participation Model as a whole. Without this broader analysis of the Active Participation Model and of exogenous factors such as macro-economic conditions and the state of the labour market, it is difficult to ascertain the extent to which job placements over the first three years of the JSKA can be attributed to use of the JSKA.

66. One of the guiding principles for the JSKA is that expenditure should be based on individual need. The JSKA was designed to help the most disadvantaged. However, in 2005–06, while Job Network Member credits on behalf of Highly Disadvantaged job seekers accounted for 59 per cent of total credits, Highly Disadvantaged job seekers received 44 per cent of the expenditure in that year. Future evaluation activity by DEWR could place a greater focus on whether JSKA use is being guided by the principle that expenditure should be based on individual need, and whether it is meeting the requirements of those job seekers most in need.

67. The ANAO supports the publication of the *Jobseeker Account Evaluation Report* and encourages publication of the Active Participation Model evaluation upon completion as it will contribute to an understanding of whether the JSKA has succeeded in:

- increasing assistance provided to job seekers, particularly the most disadvantaged, to help them secure work; and
- improving outcomes for those who receive assistance.

DEWR's response to the audit

68. A detailed response to the audit report was provided by DEWR and is included at Appendix 4. ANAO comment on DEWR's detailed response is also included at Appendix 4. DEWR also provided a summary response as follows:

DEWR's response

The Job Seeker Account (JSKA) is an integral part of Job Network's record success in helping job seekers into sustainable work. The flexibility of JSKA gives JNMs the ability to individually tailor assistance to job seekers – such as

¹² <www.workplace.gov.au>.

assistance with transport, wage subsidies, training or equipment – to successfully assist a job seeker into work.

Since its introduction in July 2003 to December 31 2006 over 800 000 job seekers have received JSKA assistance. Seventy-three per cent of job seekers who were provided with assistance through the JSKA in the last twelve months have been placed into employment.

The Department of Employment and Workplace Relations (DEWR) welcomes the ANAO's conclusion that the overall approach the department has taken to administer the JSKA is sound. The ANAO has recognised that the department has put in place a risk management framework and associated tools; guidance for Job Network Members on eligible claims; a post-claim monitoring regime and an evaluation strategy. The report also recognises DEWR's structured approach to risk management, both at the departmental level and when managing risks presented by contracted organisations. The ANAO has also recognised the considerable priority that the department gives to monitoring JSKA usage.

The Report makes two recommendations. DEWR agrees in part with the first recommendation and disagrees with the second recommendation. DEWR considers that the costs/risks associated with these disagreed recommendations outweigh the benefits. DEWR is also concerned that some areas of the report do not present findings in an appropriate context. DEWR's response clarifies many aspects of the administration, management and evaluation of the JSKA and provides this context.

Recommendations

Set out below are the ANAO's recommendations aimed at ensuring that DEWR's administration of the Job Seeker Account is effective. Report paragraph references and abbreviated responses from DEWR are included. More detailed responses from DEWR are shown in the body of the report immediately after each recommendation, including ANAO comments, where appropriate.

Recommendation No.1

Para 3.31

The ANAO recommends that:

- (a) to assist DEWR to better target its monitoring of JSKA usage, DEWR ensure specific risks associated with the JSKA are clearly identified and that corresponding indicators and benchmarks are developed that facilitate a more accurate assessment of the level of risk presented by Job Network Members in administering the JSKA; and
- (b) DEWR review a sample of JSKA transactions for Job Network Member sites to confirm that DEWR's risk rating and programme assurance is sound for each site.

DEWR's response:

- (a) *Agree in part.*
- (b) *Agree.*

**Recommendation
No.2**

Para 5.43

The ANAO recommends that DEWR consider placing greater reliance on existing controls within Job Network Members that take effect prior to claims for reimbursement from the JSKA. Assurance that these controls are in place and having effect would be increased through selective testing of Job Network Members' controls. Such testing would include, but not be limited to, an assessment of the consistency of providers' fraud control arrangements with the Commonwealth Fraud Control Guidelines.

DEWR's response: *Disagree.*

Audit Findings and Conclusions

1. Introduction

This chapter describes the Job Seeker Account and the objective, scope and methodology of the ANAO's performance audit.

Background

1.1 The Australian Government has provided employment services to unemployed job seekers since 1946. For 50 years this assistance was provided directly by the Commonwealth Employment Service. On 1 May 1998, the government replaced the Commonwealth Employment Service with the Job Network. The Job Network is managed by the government's employment department, the Department of Employment and Workplace Relations (DEWR).¹³ DEWR's role is to:

[d]evelop policies and implement and manage programmes directed at maximising working age Australians' ability to participate in the workforce and improving the productive performance of enterprises in Australia.¹⁴

1.2 In fulfilling this role, DEWR provides advice and services to achieve the three outcomes of:

- efficient and effective labour market assistance;
- higher productivity, higher pay workplaces; and
- increased workforce participation.

1.3 DEWR contributes to achieving efficient and effective labour market assistance by providing an integrated suite of programmes to assist people into work or to assist them to prepare for employment.

1.4 Under the Job Network programme, DEWR does not directly provide services to job seekers. Rather, it purchases the provision of services to job seekers from a national network of government and non-government organisations. These are:

- Centrelink, the Australian Government organisation responsible for administering social security entitlements. DEWR pays Centrelink for services it delivers to job seekers under a Business Partnership Arrangement. Centrelink provides services to job seekers, including

¹³ At that time, the Department of Employment, Education, Training and Youth Affairs.

¹⁴ DEWR *Annual Report 2004–05*, p. 9.

assessing job seekers' relative labour market disadvantage and referring job seekers to Job Network Members; and

- Job Network Members, which comprise 113 organisations at 1 154 sites. Under Employment Services Contracts, DEWR pays Job Network Members for Job Network services (total payments were \$1 250 million in 2005–06).

1.5 While it does not directly provide services to job seekers, DEWR is ultimately accountable for the quality of services provided to job seekers by Centrelink and Job Network Members¹⁵ and the achievement of employment results consistent with the department's outcomes and outputs.

Job Network programme services and the Active Participation Model

1.6 The Job Network programme is now in its ninth year and has recently extended its third contract.¹⁶ The third contract, Employment Services Contract 3 (ESC3), commenced on 1 July 2003 and implemented an Active Participation Model of service provision. The Active Participation Model was designed to simplify access to services for job seekers and streamline services provided by Centrelink and Job Network Members as well as related service providers. DEWR anticipated that the Active Participation Model would benefit employers, job seekers and the community by providing:

- simpler and faster access to services for job seekers;
- greater access to job vacancies;
- improved servicing of vacancies for employers;
- more help for those most in need—a Job Seeker Account and a Service Guarantee; and
- better linkages to other services.¹⁷

1.7 The Active Participation Model made changes to the fee structure for the Job Network. The balance between service fees and outcome/placement fees was changed and a new element was introduced, the Job Seeker Account

¹⁵ Commonwealth Procurement Guidelines, Department of Finance and Administration, January 2005, p. 17.

¹⁶ On 1 July 2006, this contract was revised and extended; the extended contract is referred to as the Employment Services Contract 2006–09.

¹⁷ *Employment Services—An Active Participation Model*, Discussion Paper, DEWR, May 2002, p. 4.

(JSKA). The JSKA was intended to share the risk of investing in addressing job seekers' barriers to employment between Job Network providers and the Commonwealth with the goals of assisting job seekers to secure work and encouraging ongoing active participation.

Eligible job seekers

1.8 Two main classes of job seekers are eligible for services under the Job Network programme:

- Fully Job Network Eligible (FJNE)—job seekers who are registered as looking for work and either receive a specified type of income support payment or are aged 15 to 20 years and not in full-time education or training. Around 75 per cent of FJNE job seekers are Newstart Allowance or Youth Allowance (Other) recipients; and
- Job Search Support Only (JSSO)—job seekers who are looking for work and are not FJNE.¹⁸

Job Network Member services

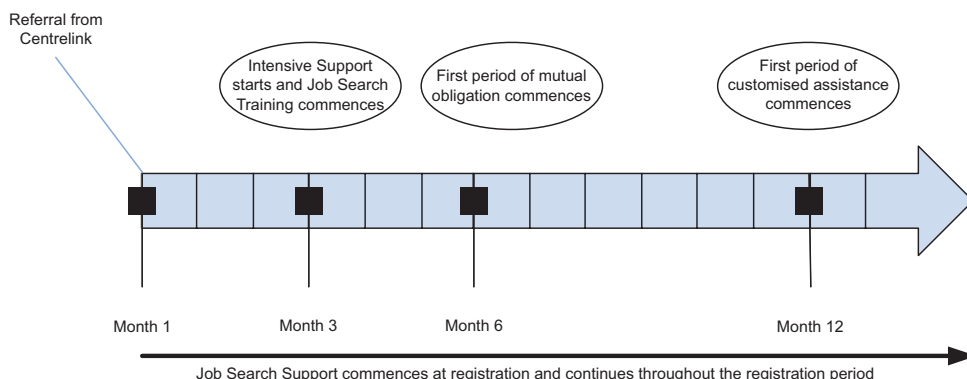
1.9 Job Network Members are contracted by DEWR to provide assistance to job seekers. Job Network Members specialise in finding jobs for unemployed people, particularly those who are long-term unemployed. Under the Active Participation Model, Job Network Members provide two major services to job seekers—Job Search Support and Intensive Support. These two services together with mutual obligation arrangements form a continuum of service that increases in intensity if the job seeker remains unemployed.

1.10 Figure 1.1 illustrates the continuum of services provided to a typical FJNE job seeker in the first 12 months of unemployment.

¹⁸ Full-time students, people in paid employment for more than 15 hours per week, overseas visitors on working holiday visas and other people prohibited by law from working in Australia are ineligible to receive JSSO services.

Figure 1.1

Service delivery continuum



Source: ANAO

Job Seeker Account

What is the JSKA?

1.11 The JSKA is a quarantined pool of funds that can be drawn down by a Job Network Member to purchase goods and services to assist job seekers to address their barriers to work and gain employment.

1.12 Within DEWR's computer system (EA3000), each Job Network Member site has a notional account that is credited by DEWR as registered job seekers commence various stages on the Active Participation Model continuum. The JSKA operates on a reimbursement model and Job Network Members make claims from the JSKA through EA3000, reducing the balance of credits in their notional accounts.

1.13 Job Network Members' notional accounts receive credits only for job seekers considered FJNE. Job Network Members' notional accounts receive additional credits for job seekers who are considered to be locationally disadvantaged or to be Highly Disadvantaged (see Table 1.1).

Table 1.1**JSKA crediting rates for job seekers**

Job seeker status	Initial registration	Intensive Support	ISca1 ¹	ISca2 ²
FJNE	N/A	\$11	\$900	\$500
FJNE + HD ³	N/A	N/A	\$1 350	\$750
FJNE + LD	\$22	N/A	\$1 125	\$625
FJNE + HD + LD ³	N/A	N/A	\$1 575	\$875

Source: DEWR Employment Services Contract 3

Abbreviations: FJNE = Fully Job Network Eligible, HD = Highly Disadvantaged, ISca = Intensive Support customised assistance, LD = locationally disadvantaged.

- Notes:
1. ISca period 1—entered at 12 months' unemployment duration. Job seekers classified as Highly Disadvantaged get immediate access to customised assistance.
 2. ISca period 2—entered at 24 months' unemployment duration.
 3. Job seekers who are classified as Highly Disadvantaged get immediate access to Intensive Support customised assistance.

1.14 After a provider has purchased assistance for an eligible job seeker it makes a claim for reimbursement through DEWR's computer system, EA3000.

1.15 Prior to a job seeker entering Intensive Support, Job Network Members can only seek reimbursement from the JSKA for limited services such as interpreter services and transport assistance.

1.16 Once a job seeker has passed into Intensive Support, there is no cap on the value of assistance that Job Network Members may provide to any single job seeker through the JSKA, that is, the provider could spend \$0 or \$10 000 or more (within the limits of the balance of its notional account). Expenditure from the JSKA is guided by the Job Network contract, a set of expenditure principles and a range of JSKA guidelines developed by DEWR. Within this framework, it is the responsibility of the Job Network Member to determine what assistance should be provided to an eligible job seeker based on the job seeker's individual needs.

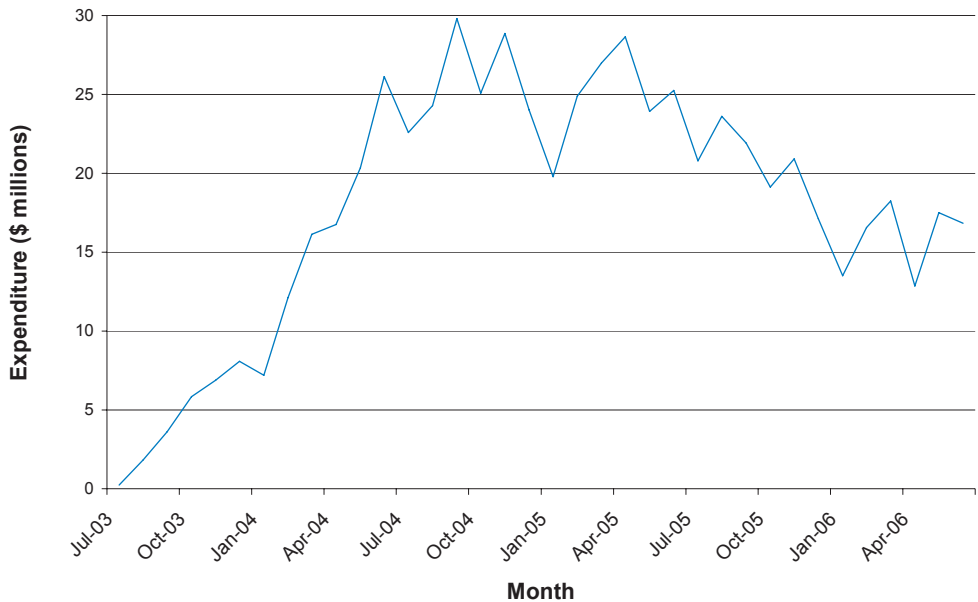
How much has been spent?

1.17 From 1 July 2003 (when the JSKA was introduced) to 31 March 2006, Job Network Members' notional banks have been credited with \$833 million, of which they have spent \$602.5 million. Monthly expenditure has varied considerably over this period, with an initial increase after the JSKA's

introduction, and a downward trend in JSKA usage during 2005, as illustrated in Figure 1.2.

Figure 1.2

Monthly JSKA expenditure, 1 July 2003–30 June 2006



Source: DEWR administrative data

How is the JSKA used?

1.18 DEWR has developed a number of categories in EA3000 to capture the range of goods and services for which the JSKA is used. Table 1.2 illustrates the total expenditure in each of these categories since the JSKA was implemented in July 2003. An indication of the types of goods and services included in each of these categories is provided at Appendix 1.

Table 1.2**JSKA expenditure by category, 1 July 2003–30 June 2006**

Category	Total expenditure (\$)	Percentage of total expenditure
Employer incentives	187 222 592	28.9
Training	153 698 846	23.7
Professional services	81 298 744	12.5
– reverse marketing	44 721 495	6.9
– other	36 577 249	5.6
Clothing and equipment	78 754 677	12.1
Transport assistance	34 160 118	5.3
Job Network Member contacts	31 488 806	4.9
Fares and petrol assistance	26 856 478	4.1
Work-related licensing	7 395 480	1.1
Job Network Member transport	6 805 589	1.0
Job seeker incentives	4 944 504	0.8
Self-employment	4 305 521	0.7
Interpreter services	3 568 069	0.6
Relocation assistance	2 448 605	0.4
Other	25 333 100	3.9
Total	648 281 129	100

Source: DEWR administrative data

1.19 Table 1.3 illustrates that usage patterns within JSKA categories have changed over time. For example, while expenditure on employer incentives was fairly low in 2003–04 at 9.5 per cent, in 2005–06 the proportion of the JSKA spent on employer incentives increased to 38.2 per cent.

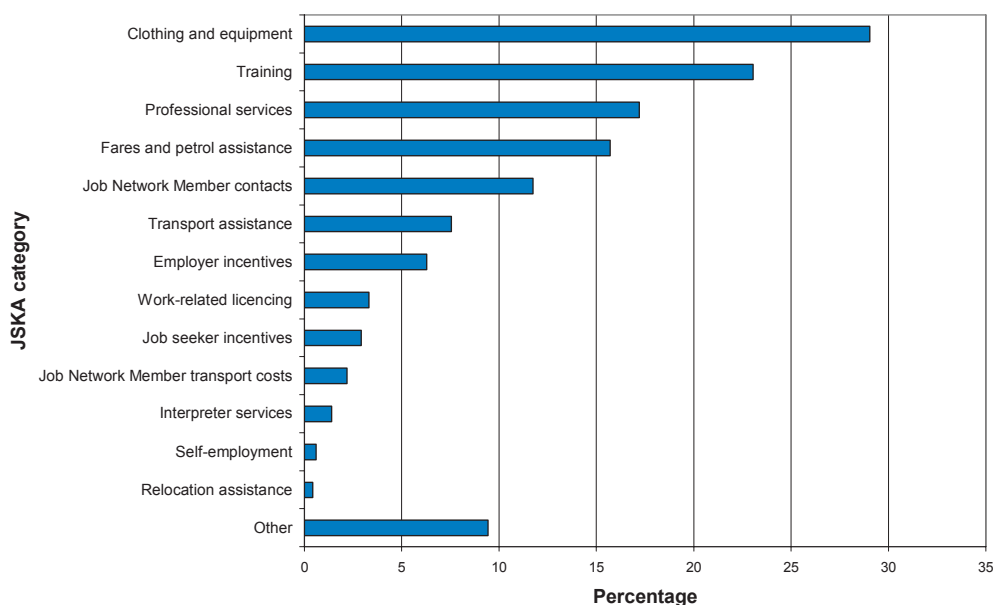
Table 1.3**Percentage spent on each JSKA category for each year of the contract**

	2003–04	2004–05	2005–06
Total expenditure	\$125 159 905	\$304 130 240	\$218 990 984
Employer incentives	9.5%	30.1%	38.2%
Training	32.2%	20.8%	23.0%
Clothing and equipment	14.6%	12.2%	10.7%
Professional services			
– reverse marketing	5.5%	7.0%	7.6%
– other	7.8%	5.2%	5.0%
Transport assistance	6.9%	6.4%	2.8%
Fares and petrol assistance	4.4%	4.8%	3.1%
Job Network Member contacts	5.3%	4.9%	4.5%
Other	13.8%	8.6%	5.1%
Total	100%	100%	100%

Source: DEWR administrative data

Who is being assisted?

1.20 Over the period of ESC3, DEWR advised that 1.56 million job seekers were eligible for JSKA assistance. Of these, approximately 56 per cent received some form of assistance from the JSKA. Job seekers were most likely to receive assistance in the form of clothing and equipment, with 28 per cent of eligible job seekers receiving this form of assistance (see Figure 1.3).

Figure 1.3**Proportion of eligible job seekers who received JSKA assistance, by JSKA category, 1 July 2003–30 June 2006**

Source: DEWR administrative data

1.21 DEWR developed an evaluation strategy for the Active Participation Model in April 2004. DEWR undertook a range of evaluation activities relating to the JSKA during the contract period, and published the *Jobseeker Account Evaluation Report* on the department's workplace internet site¹⁹ in December 2006. This report seeks to synthesise salient points from the body of research relating to the JSKA. DEWR is yet to complete an evaluation of the Active Participation Model as a whole.

1.22 DEWR has advised that while it has not undertaken any audits specifically focussing of JSKA, that JSKA was covered in the department's 2005–06 Job Network Controls audit and that a Programme Assurance Audit relating to the JSKA was being finalised in early 2007.

1.23 JSKA expenditure has been the subject of specific projects in DEWR's programme assurance area. While the projects were due to be completed by July 2006, the report was not finalised until February 2007. The ANAO has been unable to fully consider the findings of these reports in this audit.

¹⁹ <www.workplace.gov.au>.

Previous audit

1.24 The 2004–05 ANAO audit on DEWR’s *Oversight of Job Network Services to Job Seekers* raised several issues concerning DEWR’s administration of the JSKA. These related to the consolidation of guidance provided to Job Network Members, the lack of guidance on the purchase of assets for job seekers, the use of the JSKA to provide incentives to employers and the transfer of funds between Job Network Member sites and the subsequent impact of this practice on job seekers.

Audit objective, scope and methodology

Audit objective

1.25 The objective of the audit was to assess the effectiveness of DEWR’s administration of the JSKA to ensure its optimal usage in achieving job seeker outcomes.

1.26 The audit addressed the following criteria.

- **Performance information to assist planning and evaluation**—Does DEWR collect and use JSKA data appropriately to improve the administration of the JSKA and outcomes for job seekers? Does DEWR appropriately review, evaluate and report on the use of the JSKA and related outcomes?
- **Guidance and communication**—Has DEWR provided sufficient and clear guidelines for all stakeholders (Job Network Members, DEWR contract managers and Centrelink) to ensure the effective implementation and use of the JSKA? Is the ongoing communication with stakeholders appropriate and effective to ensure the optimal use of the JSKA?
- **Risk management and monitoring**—Are the risks associated with the JSKA appropriately identified and managed by DEWR? Does DEWR effectively monitor the performance of Job Network Members in administering the JSKA and related activities?
- **Claim and payment processes**—Are the claim and payment processes for the JSKA effectively and efficiently administered by DEWR?

Audit scope

1.27 The JSKA was introduced as part of the Active Participation Model on 1 July 2003. This coincided with implementation of the third Job Network contract (ESC3). This contract was revised and extended on 1 July 2006 and the extended contract is referred to as the Employment Services Contract 2006–09 (ESC 2006–09). The majority of analysis in this report refers to the ESC3 contract period (1 July 2003 to 30 June 2006). Where the ANAO refers to the latest contract, ESC 2006–09, this is noted in the body of the report.

Audit methodology

1.28 The audit methodology comprised:

- fieldwork in DEWR's national office. The work undertaken included analysing documents and interviewing key personnel;
- fieldwork in two DEWR State offices and one DEWR regional office. The work undertaken included analysing documents and interviewing key personnel;
- analysis of DEWR administrative data relating to the JSKA;
- visits to the head offices of five Job Network Member organisations and 11 Job Network Member sites in selected metropolitan and regional locations in New South Wales and South Australia. The work included holding discussions with key personnel and reviewing job seeker files;
- meetings with National Employment Services Association and Jobs Australia;²⁰ and
- a focus group discussion with National Employment Services Association representatives and nominated Job Network Member managers.

1.29 The selection of Job Network sites was not designed to provide statistically significant results and the data obtained cannot be extrapolated to the population. However, the sites, which were selected with DEWR's assistance, are broadly representative of those sites providing Job Network services nationally and the findings are likely to be indicative of the range of issues relating to the use of the JSKA across Job Network sites.

²⁰ National Employment Services Association and Jobs Australia are employment industry peak bodies.

1.30 Throughout the audit, the ANAO kept DEWR informed about audit issues and emerging audit findings.

1.31 A consultant, Mr Pat Farrelly, assisted with the conduct of the audit.

1.32 The audit was conducted in accordance with ANAO auditing standards at a cost to the ANAO of \$319 976.

2. Guidance Provided to Job Network Members on the Operation of the Job Seeker Account

This chapter analyses the guidance DEWR provided to Job Network Members relating to Job Seeker Account claims, as well as the changes made over the period of the Employment Services Contract 3 that began on 1 July 2003.

Introduction

2.1 In order to minimise the risk of inappropriate expenditure under the Job Seeker Account (JSKA), DEWR has developed an array of guidance relating to JSKA usage. In discussions as part of the audit, Job Network Members indicated that DEWR's current compliance focus on JSKA contract management activity has made it more important for Job Network Members to have access to clear guidelines.

2.2 The ANAO examined whether the guidance provided to Job Network Members is clear and comprehensive, and allows them to effectively use the funds available to assist job seekers. The ANAO also reviewed the effectiveness of DEWR's communication channels with Job Network Members.

Elements of guidance

Active Participation Model

2.3 The first public documentation of the scope and purpose of the JSKA was included in DEWR's discussion paper on the Active Participation Model for employment services. That paper referred to the JSKA as:

a quarantined pool of funds that can be flexibly drawn down by a Job Network Member to assist job seekers obtain employment. The Job Seeker Account is to be used to purchase services and products for job seekers to assist them to overcome barriers to employment and to obtain work.²¹

2.4 The Active Participation Model paper provided examples of allowable JSKA expenditures. These included:

- fares and petrol assistance to attend job interviews arranged by Job Network Members;

²¹ *Employment Services—An Active Participation Model*, Discussion Paper, DEWR, May 2002, p. 24.

- interpreter services;
- goods such as work boots, tools and equipment, or clothing needed to secure employment;
- transport (for example, a bicycle or short-term car hire), driving lessons, drivers' licence fees and assistance with car registration where essential to taking up employment;
- appropriate training (subject to close monitoring where the training organisation is a related entity);
- employer incentives, such as wage subsidies (where Indigenous wage assistance is not claimable) or appreciation rewards for employing long-term unemployed or otherwise disadvantaged job seekers;
- help with establishing a job seeker's business/self-employment; and
- job seeker incentives (subject to an integrity test).

2.5 The Active Participation Model paper also listed activities for which the JSKA could not be used, such as funding wage subsidies for employment with the Job Network Member or a related entity, or paying costs associated with administering the contracted services.

Employment Services Contract 3 (2003–06)

2.6 Clause 7.1 of Part B of Employment Services Contract 3 (ESC3) provides that:

The provider may be reimbursed from the Job Seeker Account for services, activities, facilities and products purchased for a FJNE²² Job Seeker to overcome barriers to employment and to obtain suitable employment.

2.7 This clause specifies that Job Network Members will be reimbursed for their expenditures related to the JSKA. The contract also provides for fares and petrol assistance to attend interviews and interpreter services to be provided to job seekers who have not commenced Intensive Support.

2.8 In relation to the use of the JSKA, ESC3 provides that DEWR may:

- impose a limit on a Job Network Member's use of the JSKA;
- preclude a Job Network Member from using the JSKA in whole or in part for particular purchases; and

²² Fully Job Network Eligible.

- direct Job Network Members to repay any amounts they have received from the JSKA which DEWR considers have been incorrectly paid.

2.9 These provisions provide DEWR with the ability to take action to remedy situations where Job Network Members may have drawn down money from the JSKA that DEWR considers they were not entitled to. In addition, ESC3 indicates that DEWR will pay particular attention to monitoring payments for goods or services that were provided by a Job Network Member itself or a related entity (for example, professional services provided by a subsidiary of a Job Network Member).

2.10 ESC3 lists a number of expenditure items for which DEWR will not reimburse Job Network Members. Claims are not allowable for administrative costs and overheads; matters separately required under the contract, including interviews and contacts; assistance not related to job seekers' needs and employment prospects; and activities that may bring the Job Network into disrepute.

JSKA expenditure principles

2.11 With the commencement of ESC3, DEWR issued a fact sheet for the JSKA that included a list of examples of services and products that would be reimbursed from JSKA funds (the list is similar to the examples in DEWR's Active Participation Model discussion paper). The fact sheet also included six expenditure principles that Job Network Members were to follow in regard to JSKA expenditure items. These principles were restated in broadly similar words in additional guidance that was provided to Job Network Members in March 2005. Some aspects of these principles are documented in ESC3, while others are not. Table 2.1 summarises the JSKA expenditure principles.

Table 2.1**Job Seeker Account expenditure principles**

Principle	ANAO comment
1. Goods and services purchased using the Job Seeker Account must withstand scrutiny, and must not bring the Job Network or the Commonwealth into disrepute.	<ul style="list-style-type: none"> There is no further clarification of what standard of scrutiny must be withstood. Similarly, there is no definition of what may be considered to bring the Job Network or Commonwealth into 'disrepute'. The requirement relating to 'disrepute' is contained in clause 7.10 of ESC3.
2. Assistance purchased using the Job Seeker Account must be directly related to a job seeker securing an employment outcome relevant to the labour market.	Clause 7.2 of the contract indicates that Job Network Members will be reimbursed for purchases for job seekers 'to overcome barriers to employment and to obtain suitable employment'.
3. Goods and services purchased using the Job Seeker Account must represent value for money for the Commonwealth and taxpayer, and payment rates should be fair and in accordance with industry standards.	<ul style="list-style-type: none"> This principle is mirrored in the list of prohibited items issued by DEWR in March 2005. Clause 7.13 of ESC3 indicates that monitoring would cover purchases from own or related entities. It is not clear which 'industry standards' are being referred to.
4. Services, products and programmes must be sufficiently different to and/or over and above those which providers are required to deliver as part of their contractual obligations.	Paragraph 7.10(b) of ESC3 makes a similar point to this, although that paragraph only refers to Intensive Support services whereas this principle refers to all services.
5. Use of the Job Seeker Account must reflect a job seeker's individual needs.	This requirement is not set down in ESC3.
6. An appropriate mix of services, products, and programmes must be funded from the Job Seeker Account to reflect the range of barriers job seekers face.	This requirement is not set down in ESC3.

Source: JSKA Fact Sheet, JSKA expenditure guidance, March 2005 and ANAO analysis

2.12 The original principles (included in the JSKA Fact Sheet provided to Job Network Members in July 2003) were not issued under the terms of the contract with providers. The only elements that were issued under the contract were those prohibited items that have contractual standing based on the provisions of paragraph 7.10(h). In the Employment Services Contract that commenced on 1 July 2006 (ESC 2006–09), DEWR included a new paragraph in clause 7.10 stating that Job Network Members will not be reimbursed for 'any

cost where DEWR is not satisfied the cost was properly incurred in accordance with the Guidelines’.

Notices related to clause 7.10 of ESC3

2.13 Since the commencement of ESC3, DEWR has issued four notices related to paragraph 7.10(h) of the contract that provide additional information concerning matters for which Job Network Members will not be reimbursed through the JSKA. The dates of issue of the four notices were:

- 7 July 2004;
- September 2004;
- 21 December 2004; and
- 17 February 2005.

2.14 All of these notices addressed or made reference to the following matters: fines; court fees; Job Network Member legal costs; union dues; paying out job seeker loans; work experience with a Job Network Member or related entity; relocation costs for job seekers relocating overseas; the hire of security guards for a Job Network Member’s premises; costs associated with administering the JSKA; and contacts with a job seeker or employer solely for the purpose of verifying employment or tracking an outcome. The notices provided to Job Network Members were each about a half page in length.

2.15 The notices of 21 December 2004 and 17 February 2005 specified two additional categories that would not be reimbursed:

- employer incentives for placements in government organisations, including wage subsidies; and
- wage subsidies for job seekers who become self-employed.

2.16 In addition to these matters, the first two notices prohibited incentive payments to job placement organisations for services they were already contracted to supply. Both of these notices also sought to clarify the rules relating to cash payments to job seekers. The 7 July 2004 notice indicated that in providing post-placement support, Job Network Members should consider alternatives to cash payments such as petrol, fares and transport assistance or temporary child care assistance. The September 2004 notice clarified that cash payments could be made to job seekers where those payments were directly related to gaining employment or addressing employment barriers (that is, reimbursing a job seeker for a purchase where it would have been appropriate

for the Job Network Member to provide the good or service). The notice again referred to alternatives to cash payments such as petrol and fares.

2.17 The four notices have served to limit the range of goods and services for which providers may use the JSKA. The ANAO notes that in the case of cash payments to job seekers, there has been considerable effort to make it clear to Job Network Members that while they are not to make cash payments to job seekers, they may provide assistance in kind that would serve the same purpose (for example, petrol vouchers offered post placement). The ANAO observed evidence of this practice when examining job seeker files as part of the audit.

JSKA expenditure guidance of March 2005

2.18 Until March 2005, the JSKA expenditure guidance set out in the Active Participation Model discussion paper (May 2002) remained largely intact. The provision of guidance by DEWR in March 2005 marked a narrowing of the items for which JSKA funds could be used. The advice provided in March 2005 was about seven pages in length and also included the list of expenditure principles.

2.19 The March 2005 guidance provided considerable commentary on each of DEWR's expenditure principles. The comments included lists of many purchases that would not be reimbursed and gave examples of purchases that would be acceptable.

2.20 The March 2005 guidance included a list of prohibited items that was much longer than the list of items included in the notices previously provided to Job Network Members. Purchases that were ineligible for reimbursement from the JSKA after March 2005 included:

- mobile phones and mobile phone credits;
- watches, alarm clocks, handbags and personal hygiene products such as shavers, hair dryers, make-up, toiletries and soap;
- computers, printers, facsimile machines and photocopiers;
- personal hygiene products such as hair colouring, beautician visits, 'makeovers' and pamper packs; gym memberships; weight reduction services; and nicotine patches;
- rent and bond monies, food and household bills and Internet connections;

- items that employers could be expected to contribute as a standard condition of work such as non-portable work goods;
- wage subsidies of 100 per cent or more of wage costs (except in certain special circumstances);
- employer incentives, rewards and gifts;
- incentives for job seekers, gift vouchers or vouchers that can be redeemed for cash; and
- wage subsidies or certain other assistance for job seekers who become self-employed.

2.21 These changes further reduced the menu of items that Job Network Members could draw on to support job seekers in their pursuit of an employment outcome. In discussions undertaken as part of the audit, Job Network staff commented on several occasions that they considered that products or services to improve the presentation of job seekers were very beneficial in assisting some job seekers into work. Comments were also made that, in special circumstances, providing a mobile phone to a job seeker was helpful.²³

2.22 DEWR acknowledges the view that some of the prohibited products and services may help overcome barriers and assist job seekers into employment. However, DEWR considers the issue to be whether it is appropriate for these items to be purchased using taxpayers' money. The department notes that there is nothing to prevent Job Network Members from making these purchases with their own funds.

Revision to the guidance of March 2005 (issued in April 2005)

2.23 DEWR's March 2005 guidance sought to restrict fares and petrol assistance to circumstances where a job seeker travelled more than 90 minutes each way, or where the cost was more than 10 per cent of the job seeker's income (the 90/10 rule). Following feedback from Job Network Members, the guidelines were reissued in April 2005 and references to the 90/10 rule were deleted.

2.24 The ANAO found that Job Network Members remain confused about the application of this item of guidance. Some Job Network staff were still

²³ The majority of Job Network Members spoken to as part of the audit indicated that they had chosen not to use DEWR's loan phone scheme as it was too administratively cumbersome.

applying the 90/10 rule when considering whether transport assistance should be provided to job seekers.

Documentary evidence for Job Network services (July 2006)

2.25 DEWR's July 2006 guidance totalled about four pages and was supplementary to the guidance material provided by DEWR in March and April 2005.

2.26 The July 2006 guidance introduced new restrictions for Job Network Members in using the JSKA. For example, it indicated that post-placement support should only be claimed 'where there is a risk of the job seeker losing a job'.

2.27 In relation to wage subsidies, a Job Network Member is required to document 'how the Job Network Member has determined that the job will be on-going and sustainable after the end of the subsidy'. DEWR may need to consider revising this guidance as it would be difficult for Job Network Members to comply when the work involved is casual (approximately one-third of all wage subsidies are provided for casual jobs)²⁴ or seasonal, or when the industry concerned has a record of high staff turnover.

Streamlining JSKA guidance

2.28 Information relating to the use of the JSKA by Job Network Members is transmitted to the Job Network in a number of ways, including the contract between DEWR and Job Network Members; notices provided under the contract; letters and their attachments sent to the chief executive officers of Job Network Members (the method used for communicating the guidance of March 2005); the National Policy Clearing House (NPCH);²⁵ operational guidance available on the DEWR secure intranet site; the EA3000²⁶ Bulletin Board; and teleconferences involving DEWR national office, contract managers and selected Job Network Members (further detail on these communication channels is available at Appendix 2).

2.29 Accordingly, Job Network Members must refer to a number of sources for information relating to the operation of the JSKA. Having information

²⁴ *Jobseeker Account Evaluation Report*, DEWR, August 2006, p. 49.

²⁵ The NPCH is a database that provides answers to questions that have been raised in relation to a range of DEWR programmes, including the operation of the JSKA. Job Network Members access the NPCH through the DEWR secure intranet site.

²⁶ The DEWR Job Network computer system used by Job Network Members.

available from several different places makes it difficult for Job Network Members to be certain that they have the whole and most up-to-date 'story' on a particular aspect of the JSKA. One of the Job Network Members spoken to as part of the audit indicated that it had an officer whose job responsibilities included daily monitoring of DEWR's EA3000 Bulletin Board to check whether any matters were raised concerning the JSKA that should be specifically communicated to staff.

2.30 Job Network Members also approach their contract managers directly for advice if they are unable to discern from the available guidance whether a particular JSKA expenditure would comply with the guidelines. Contract managers have raised internally within DEWR the problems caused by having a multitude of possible sources of information for what is allowable in regard to JSKA expenditure.

2.31 While Job Network Members contacted as part of the audit considered contract managers were, in the main, helpful and responsive when queries were raised with them, National Employment Services Association representatives spoken to as part of the audit indicated that their members considered that contract managers in different locations had different interpretations of the JSKA guidelines.

2.32 The additional guidance provided during the three years of operation of the JSKA has made administration of the JSKA very complex. This has led to many Job Network Members using their own resources to develop guidance for staff that is based on the material available from DEWR, often involving a list of approved and prohibited items.

2.33 Given the changes to JSKA guidance that have occurred since the beginning of the contract on 1 July 2003, the ANAO considers that there is scope to enhance guidance provided to Job Network Members to clarify what is and is not permissible expenditure under the JSKA.

2.34 The ANAO suggests that making available a streamlined and consolidated version of JSKA guidance on the DEWR secure intranet site for the Job Network should assist Job Network Members to provide accurate and adequate direction to their staff on using the JSKA.

2.35 Given Centrelink's role in facilitating the initial contact between job seekers and Job Network Members and providing advice on the process that is involved, the ANAO reviewed Centrelink's communication with job seekers and Job Network Members (see Appendix 3).

2.36 In summary, while the general response from Job Network Members was that their relationship with Centrelink was good, there were concerns relating to Centrelink creating unrealistic expectations for assistance with some categories of job seekers and a lack of knowledge about the Job Network among Centrelink Call Centre staff.

3. Identification and Assessment of Contract Risks Relating to the Job Seeker Account

This chapter examines whether DEWR appropriately identifies and assesses the contract risks relating to the Job Seeker Account.

Introduction

3.1 In purchaser–provider arrangements, it is important that the purchaser have in place mechanisms for identifying and managing risks. Risk assessments address both the likelihood and consequences of risks. In rating consequences, the materiality of any potential financial impact is factored in. The rationale for this approach is that proportionately more resources are invested in managing ‘higher risk’ providers.

3.2 In this chapter the ANAO assesses whether DEWR:

- adequately identifies the contract risks arising from including the Job Seeker Account (JSKA) in the Employment Services Contract 3 (ESC3); and
- makes robust assessments of the risks presented by Job Network Member organisations and sites in their use of the JSKA.

3.3 Management of these risks and Job Network Members’ performance in administering the JSKA are examined in Chapter 4.

DEWR’s approach to managing ESC3 contract risks

3.4 DEWR has developed a corporate framework for contract management, called the National Contract Management Framework, which guides the way DEWR does business with its employment service providers. The framework sets out the principles of contract management and establishes the standards of risk management. It is underpinned by risk assessments of Job Network Member organisations and sites conducted by DEWR contract managers, desktop monitoring of data from DEWR’s computer application EA3000,²⁷ and site visits. DEWR provides a central intranet site known as the Contract

²⁷ EA3000 was developed to facilitate the implementation of the Active Participation Model in July 2003.

Manager Portal through which contract managers access a broad range of information and tools to assist them in their role.

3.5 DEWR has a structured approach to risk management that is supported by a tool known as the Risk Management Module. The Risk Management Module lists all relevant risks and is used for recording risk assessments, agreed actions and comments on a site-by-site basis. The department has identified two levels of risk relating to its contracts: organisational risks and site risks. These risk levels apply across the Job Network and cannot be modified or added to by individual contract or account managers. The six organisational risks and 16 site risks apply to all of DEWR's labour market programmes and are classified into four risk families: financial, servicing, performance and compliance.

3.6 Each Job Network organisation is assessed against the six organisational risks and then each site within that organisation is assessed against the 16 site risks for each programme that it runs. At the time of the audit, there were 113 Job Network organisations operating out of 1 154 sites across Australia.

Identification of risks relating to the JSKA

3.7 The ANAO assessed whether:

- documented risks allowed for clear identification of the specific risks presented by the unique risk profile of the JSKA;
- risks relevant to the JSKA were defined clearly to facilitate appropriate assessments by contract management staff; and
- risk indicators developed by DEWR were effective in assisting DEWR staff to identify sites where risks were likely to eventuate.

Specific JSKA risks

3.8 The JSKA has certain features—such as the high number of small transactions and the lack of verification prior to or at the time of payment (the nature of JSKA payments is described in detail in Chapter 5)—that place the JSKA at a higher level of risk for fraud or misuse than other payments made to the Job Network. While payments to providers such as service fees and outcome fees allow for a measure of external verification, JSKA expenditure involves Job Network Members exercising their discretion and certain types of payments are often difficult to verify independently (for example, expenditure

on additional contacts or reverse marketing activity to promote a ‘job-ready’ job seeker to employers²⁸).

3.9 Risks relating to the JSKA are taken into consideration during the assessments undertaken of Job Network services. While JSKA is not specifically mentioned in the risk descriptions, certain patterns of JSKA usage are discussed as possible indicators of risks that may eventuate.

3.10 An ANAO review of the risks presented in DEWR’s Risk Management Module that apply to the Job Network (not all risks apply to all programmes) revealed that one organisational risk and five site risks are relevant to JSKA usage. Table 3.1 details these risks.

²⁸ Further discussion of the difficulties in verifying these types of transactions is included in Chapter 6.

Table 3.1

Organisational and site risks relating to the Job Seeker Account

Risk family	Risk description	Consequence	Indicators	Benchmark	ANAO comment
Servicing (O5) ¹	Providers' integrity is questionable (includes accumulated site-level issues identified).	Major	None	None	DEWR has provided little guidance to assist contract managers in rating providers, for example, type and extent of issues identified, number of sites at which issues were identified.
Performance (P2)	Disadvantaged or targeted job seekers are underrepresented in outcomes.	Moderate	Low JSKA expenditure for disadvantaged job seekers.	Equal or less than average for non-Highly Disadvantaged job seekers on caseload	
Financial (F2)	Claims, acquittals, reporting and/or reimbursements not accurate, verified, timely or consistent with known information.	Moderate	Errors in claims, acquittals and reimbursements.	None	With a combined Job Network rating, it is not explicit that it is JSKA payments, by their nature, that present the greatest risk for incorrect payments and/or fraud. The potential problem with this approach is that the higher level of risk is not recognised and, therefore, appropriate mitigation strategies are not applied.
			Delays in submitting claims, acquittals and reimbursements.	None	
Financial (F3)	Inappropriate use or mismanagement of funding available for job seeker use or fraudulent claims/practices have been identified/suspected.	Major	Inadequate, inappropriate or excessive expenditure of the JSKA.	<25% or >85% of notional bank expended >\$5 000 claimed at one time or cumulatively claimed for one job seeker (JSKA alert)	The terms 'inappropriate use' and 'mismanagement' of funds are not clearly defined. No distinction is made between intentional misuse of the JSKA (fraud) and misuse due to differing interpretations of guidelines or administrative error.

Risk family	Risk description	Consequence	Indicators	Benchmark	ANAO comment
			Low JSKA expenditure.	>20% below Employment Services Area (ESA) ² average	The ANAO considers that indicators such as poor internal controls, inadequate staff training, high staff turnover and history of DEWR-identified recoveries would be more relevant indicators of potential misuse of JSKA funds.
Servicing (S3)	Job seeker/participant service requirements not met.	Major	No logical link between job seeker expenditure and the goals of the client.	None	
Servicing (S4)	<p>Low or generic use of funding available for job seekers, including providers:</p> <ul style="list-style-type: none"> underutilise the funds available for job seeker assistance under JSKA and Training Accounts³, use the JSKA or Training Account inequitably; do not adequately tailor services to job seeker needs; or do not encourage and assist job seekers to use their training credits. 	Moderate	<p>Low level of outcomes and a low proportion of expenditure compared with their 'notional bank'.</p> <p>Low level of outcomes and a low proportion of expenditure compared with their 'notional bank'.</p>	<p><25% of JSKA notional bank spent</p> <p>>2 bulk claims for the same expenditure category</p> <p>>30% of total expenditure is for bulk items</p> <p>>15–20% of referrals to the same course</p> <p>>30–40% of intensive Support job seekers do not have funds</p>	<p>The risk description is not clear and concise (underutilisation can refer to poorly targeted expenditure as well as low levels of expenditure).</p> <p>The risk indicators are cumbersome and not clearly defined. Considerable data analysis would be required to identify sites that meet the criteria. For example, the second indicator would require a site to have low outcomes, low use of the JSKA on 'special groups' and generic training to job seekers.</p> <p>Many risk indicators do not have associated benchmarks, making it difficult for contract managers to identify high-risk sites.</p>

Risk family	Risk description	Consequence	Indicators	Benchmark	ANAO comment
			of generic training being provided to job seekers.		
			Expenditure categories inconsistent compared to other Job Network Members.	None	
			Complaints regarding this risk.	>5 per month per site	

Source: ANAO analysis of DEWR data

- Notes:
- 1. This organisational risk relating to servicing was the only organisational risk considered by the ANAO to be of particular relevance to JSKA usage. All other risks listed are site-level risks.
 - 2. The Job Network is divided into 19 Labour Market Regions and 137 Employment Service Areas.
 - 3. The Training Account is a separate account to the JSKA and can be used to fund training needs for certain categories of job seekers.

3.11 Risk ratings should drive monitoring activity and, therefore, it is important that they accurately reflect potential risks in order to ensure resources are directed appropriately.

3.12 The risks relevant to the JSKA listed in DEWR's Risk Management Module (which are standard for a wide range of DEWR programmes) could be better expressed. Changes may involve subdividing some risks where the risk, as currently expressed, contains a number of different elements (for example the risk relating to low or generic use of JSKA funds).

3.13 The range of risks listed in DEWR's Risk Management Module cover, at a broad level, the range of risks presented by the JSKA: potentially fraudulent use, use not consistent with guidelines, inequitable use, poorly targeted use and errors in claims. However, because DEWR develops programme-level risk ratings for each organisation and site delivering a programme, the JSKA, as one element of Job Network services, is not separately rated.

3.14 DEWR's risk management approach operates on a programme-by-programme basis and that Job Network services as a whole are considered one programme. This approach relies heavily on the use of appropriate indicators and benchmarks for each of the different elements of the Job Network and on the skills of DEWR contract managers to adequately assess and balance these different elements to arrive at a single risk rating for each Job Network organisation or site risk.

3.15 The ANAO found that indicators and benchmarks for the risks most likely to be affected by JSKA usage were either absent or of limited use in assisting contract managers to identify and assess the specific risks presented by the JSKA.

Risk assessments

Assessment framework

3.16 Risk assessments are conducted for all Job Network Members against six organisational risks and 16 site-level risks (a subset of these considered by the ANAO to be relevant to JSKA are identified in Table 3.1). These assessments are recorded in the Risk Management Module, which is the primary tool used by all DEWR contract managers for assessing, monitoring and rating provider-associated risks.

3.17 Risks relating to Job Network services are set out in DEWR's Risk Management Module with agreed consequence (impact) ratings that may be

changed if required (with justification for the change to be documented in the module).

3.18 Within the Contract Management Framework, contract managers at DEWR's State and regional offices have responsibility for assessing the likelihood of risk occurrence and deciding on appropriate action. Account managers are required to approve all organisational and site ratings for their organisations.

3.19 For each risk, DEWR has developed risk indicators to assist contract managers to assess the likelihood of a risk occurring. In some cases DEWR has set benchmarks that correspond to the indicators.

3.20 Once a contract manager has assessed the likelihood of a risk arising, a matrix is applied that produces an overall risk rating. These ratings are intended to direct contract managers to the areas and/or sites that require greater focus.

3.21 DEWR requires that all risks 'of concern' have an action recorded to lessen the likelihood of risk. No action is required for risks rated 'low' or 'moderate' that are not considered to be 'of concern'. Contract Actions suggested by DEWR are detailed in Table 3.2.

Table 3.2

Risk ratings and suggested actions

Risk rating	Definition
Extreme	Immediate senior management attention needed, for example, regular reporting to DEWR's Executive Management Committee.
High	Management responsibility must be specified, for example, regular site visits
Moderate Risk of concern	Requires regular monitoring, for example, desktop monitoring—risk of concern so action is recorded
Not a risk of concern	Able to be managed through routine procedures, for example, alerts—no action required
Low	Not really relevant to site or organisation—no action required

Source: DEWR Contract Manager Portal

Risk assessments in practice

3.22 In order to form a view of the risk assessment process, the ANAO examined the robustness of the risk assessments conducted by contract managers for the sites visited as part of the audit.

3.23 The ANAO reviewed the risk ratings for 11 of the 1 154 sites in the Job Network. The sites selected represent a range of metropolitan and non-metropolitan locations for five organisations in two States (including one large provider and a range of medium and small providers). The ANAO considers that findings for these 11 sites are likely to be indicative of the range of issues to be found with risk ratings across all Job Network sites.

3.24 The ANAO reviewed site risk ratings relevant to the JSKA for the 11 sites visited. The majority of risks reviewed received a 'moderate' rating. Five were rated as 'high' and two as 'low'. This limited range of ratings is partly due to the fact that all risks relevant to the JSKA are considered to have either moderate or major impacts, and therefore the lowest overall risk rating that could be achieved, based on DEWR's risk rating matrix, is 'moderate'.

3.25 The ANAO found that consequence ratings had been changed for a number of risks at three sites (out of the 11 assessed) without any supporting comment to indicate the reason for the change (as required by DEWR). This impacted on the subsequent risk rating for these sites (including two sites receiving a low rating for a JSKA-related risk).

3.26 For the 11 sites reviewed, the ANAO found that where the same contract manager was responsible for monitoring multiple sites that were part of the same organisation, risk ratings and commentary were identical across the sites.

3.27 The ANAO found this practice in the three State/regional offices visited. In some cases, these identical ratings and comments may be valid (due to similar practices in the same organisation impacting on the risk ratings of sites). However, the ratings were not sufficiently supported with documented analysis to provide confidence that the risk assessments accurately reflected the level of risk presented by these sites.

3.28 Overall, there was a lack of consistency in DEWR's approach to assessing risk and assessments made were not necessarily supported by comments in DEWR's Risk Management Module or by file notes.

Risk profile based on a sample of transactions

3.29 In order for DEWR's risk assessments to be useful in driving monitoring activity, a cross-section of sites should reflect a range of risk ratings to allow contract managers to clearly see where their attention needs to be focused. The ratings also need to accurately reflect variations in risk level between sites of the same organisation.

3.30 The ANAO found considerable variation in the factors that contract managers considered in arriving at risk ratings for particular organisations and sites. While eliminating inconsistencies in approach is likely to be impossible, a sampling²⁹ exercise would inform a more supportable risk rating for each Job Network organisation and site. Improvements to ongoing risk management practices, including documented reviews of ratings, would ensure that risk assessments remained accurate and relevant, thereby supporting a risk-based monitoring approach.

Recommendation No.1

3.31 The ANAO recommends that:

- (a) to assist DEWR to better target its monitoring of JSKA usage, DEWR ensure specific risks associated with the JSKA are clearly identified and that corresponding indicators and benchmarks are developed that facilitate a more accurate assessment of the level of risk presented by Job Network Members in administering the JSKA; and
- (b) DEWR review a sample of JSKA transactions for Job Network Member sites to confirm that DEWR's risk rating and programme assurance is sound for each site.

DEWR's response

- (a) Agree in part—DEWR agrees the importance of correctly targeting monitoring of JSKA usage and other aspects of Job Network performance. DEWR already identifies specific risks associated with JSKA and makes use of indicators and benchmarks for JSKA as part of its established contract monitoring and assurance of the Job Network. DEWR will continue its practice of continuous improvement of its

²⁹ While a sample size of approximately 100 transactions per site would be sufficient to establish risk ratings at the site level, stratification by JSKA category, which may be useful given that different category types represent different levels of risk, would require a sample of approximately 500 transactions per site.

existing and extensive risk management practices for the monitoring of JSKA usage.

ANAO Comment

From July 2003 to June 2006, DEWR's total JSKA expenditure was \$648 million. The JSKA has certain features (such as a high number of small transactions and a lack of verification prior to or at the time of payment) that place the JSKA at a higher level of risk for fraud or misuse than other payments made to the Job Network.

Within DEWR's risk management framework, JSKA risks are considered along with other risks to provide a consolidated assessment of Job Network risks. The weight given to JSKA risks is contingent upon the clarity and use of JSKA indicators and benchmarks. However, many of the indicators and benchmarks that could be relevant to JSKA were of little use as indicators of JSKA misuse, were not easily measurable or were absent. Recommendation 1(a) contains sufficient flexibility for DEWR to decide how best to ensure specific risks associated with the JSKA are more clearly identified, for example, by separately rating JSKA risks and/or by revising risk descriptions and associated indicators and benchmarks.

(b) Agree.

4. Management of Contract Risks and Job Network Member Performance

This chapter assesses whether DEWR's monitoring regime and associated treatment strategies are sufficient for overseeing Job Network Member performance in administering the Job Seeker Account and managing the associated contract risks.

Introduction

4.1 Key elements of contract management are identifying and treating contract risks and managing contractor performance. An effective contract management strategy should increase the likelihood that the required outputs and outcomes are achieved.

4.2 In this chapter the ANAO assesses:

- the effectiveness of DEWR's identified risk treatments (including desktop and site monitoring, quality audits and programme assurance activity);
- the extent to which risk reviews are informed by monitoring and review activities and take account of other changes in circumstances that might impact on the identified risk; and
- whether DEWR contract managers effectively monitor Job Network Members' performance in administering the JSKA.

DEWR's monitoring regime

4.3 DEWR contract managers undertake a monitoring regime that includes desktop reviews and site visits. Quality audits are also conducted as required.

4.4 DEWR State and regional offices vary in their structure, but generally a contract manager is responsible for approximately 12 to 15 sites. Where possible, one contract manager manages all sites for a particular organisation in a region or State. Contract managers report to a team leader and in some cases there is also an account coordinator who reports to an account manager. Contract managers are usually between Australian Public Service level 4 and level 6.

4.5 Contract managers advised the ANAO that they considered their day-to-day contact with Job Network Members, including fielding telephone calls and e-mails seeking advice on interpreting DEWR principles and guidelines, to

contribute to the overall monitoring regime as it provided them with increased knowledge about sites and their operations.

4.6 While DEWR requires that monitoring activity is recorded in its Risk Management Module, the ANAO found the data did not present a clear picture of when monitoring occurred, what was covered and relevant findings or actions. For these reasons, the frequency and nature of monitoring activity for an individual site or across a range of Job Network sites are not readily identifiable for management purposes. As a consequence, it is difficult to estimate the number of JSKA transactions that are reviewed as part of DEWR's monitoring regime.

4.7 The ANAO reviewed the monitoring regimes in place at two State and one regional DEWR office. The ANAO found that each office had a standard monitoring regime that was usually applied to all sites managed by that office regardless of their risk ratings.

4.8 Monitoring of the JSKA is performed through the standard monitoring regime and contract managers indicated that a considerable portion of their time is spent on JSKA-related monitoring. Each aspect of the monitoring regime is discussed separately below.

Desktop monitoring

4.9 The ANAO examined DEWR's desktop monitoring regime to assess:

- whether it focused on those sites presenting the highest level of risk;
- whether standard reports contained useful information and were easily interpreted to allow contract managers to identify trends in JSKA expenditure;
- whether contract managers had appropriate tools, and were sufficiently trained in using those tools, to enable them to easily identify and investigate issues relating to JSKA usage; and
- whether desktop monitoring was appropriately documented to provide a record of the monitoring activity and any subsequent actions.

4.10 DEWR advised that desktop monitoring may involve a range of activities, including reviews of Health Check Reports (see paragraph 4.18); alerts; Semore data; complaints data; management reports in EA3000;³⁰

³⁰ EA3000 is a computer application developed by DEWR to facilitate implementation of the Active Participation Model in July 2003.

insurance and viability assessments; post programme monitoring data and other surveys; quality audit reports; and analysis of JSKA usage data from EA3000.

4.11 DEWR's Contract Manager Portal states that:

Desktop Monitoring allows contract managers to become familiar with trends and to easily identify where assistance may be needed to improve practices or performance. This then ties into the risk management process whereby, issues can be identified and treated early before becoming problems. Through this approach, time and resources can be focussed towards those providers who may require more intensive assistance.

Frequency of desktop monitoring

4.12 The frequency and intensity of DEWR's desktop monitoring is designed to reflect the assessed level of risk for each provider or site.³¹ Discussions with key DEWR staff in the States and regions visited during the audit revealed that their target was to subject all sites to desktop monitoring on a monthly basis. There is no formal requirement to undertake monthly desktop monitoring.

4.13 An ANAO review of selected desktop monitoring files in three DEWR offices found that, in many cases, there was little evidence that desktop monitoring had occurred or, if it was noted, there was little detail as to what was analysed and what the results of the analysis were. This approach makes it difficult for DEWR to assess whether contract managers are achieving their stated target of monthly monitoring of all sites.

4.14 The ANAO found that for one Job Network organisation's sites considered to present a high level of risk, the required action in the Risk Management Module was quarterly (rather than monthly) desktop monitoring. While quarterly monitoring of appropriate intensity could result in adequate management of these sites, DEWR's files did not demonstrate that such an intense focus had been employed.

Use of Health Check Reports

4.15 ANAO review and discussions with DEWR contract managers in two State offices indicated that desktop monitoring consisted, almost exclusively, of reviews of Health Check Reports. In the regional office visited, contract managers had recently moved to a desktop monitoring programme that

³¹ This comment was made by DEWR during the audit in response to ANAO draft findings. ANAO Issues Papers, para 5.13, p. 25.

required them to focus on a different topic or issue each month. This approach, while possibly allowing for a more in-depth review of each aspect of Job Network services, has the potential to increase the period between reviews of JSKA expenditure as it may not be selected as a focus for several months.

4.16 DEWR's contract management staff reported that their capacity to conduct in-depth analyses of JSKA data was limited by the availability of staff with strong skills in using the reporting tools. In one office visited, contract managers had begun using a reporting tool available through EA3000 to produce reports; however, the contract managers advised that it did not enable them to easily interrogate JSKA data.

4.17 Health Check Reports are standard reports produced weekly for all sites. They are available to DEWR staff and also to Job Network Members (in an abridged form). A Health Check Report provides basic information about a site and compares the site's performance with averages for the Employment Services Area (ESA), Labour Market Region (LMR) and nation.³² JSKA data presented in the report include the proportion of notional account spent and a table showing expenditure over the contract period (dollars and percentages) for each expenditure category compared to ESA, LMR and national averages.

4.18 Contract managers advised that, in reviewing Health Check Reports, they look for changing expenditure patterns or deviations from average percentages for the ESA, LMR or nation to identify any emerging issues relating to JSKA expenditure.

4.19 Health Check Reports do not provide trend information; they give a figure to date for the contract period. Identifying trends from this information requires contract managers to try to synthesise the available data.³³ However, given that the contract period is now more than three years, it would take a significant increase in expenditure in a particular category to affect the percentages in any one month. Therefore, even if contract managers were to plot total percentages or dollars spent in each category from month to month, they would be unlikely to see any change in expenditure patterns for a number of months.

4.20 In addition, comparing expenditure to various averages (ESA, LMR and national) is not particularly useful in assessing the level of risk presented

³² There are currently 19 Labour Market Regions and 137 Employment Service Areas in the Job Network.

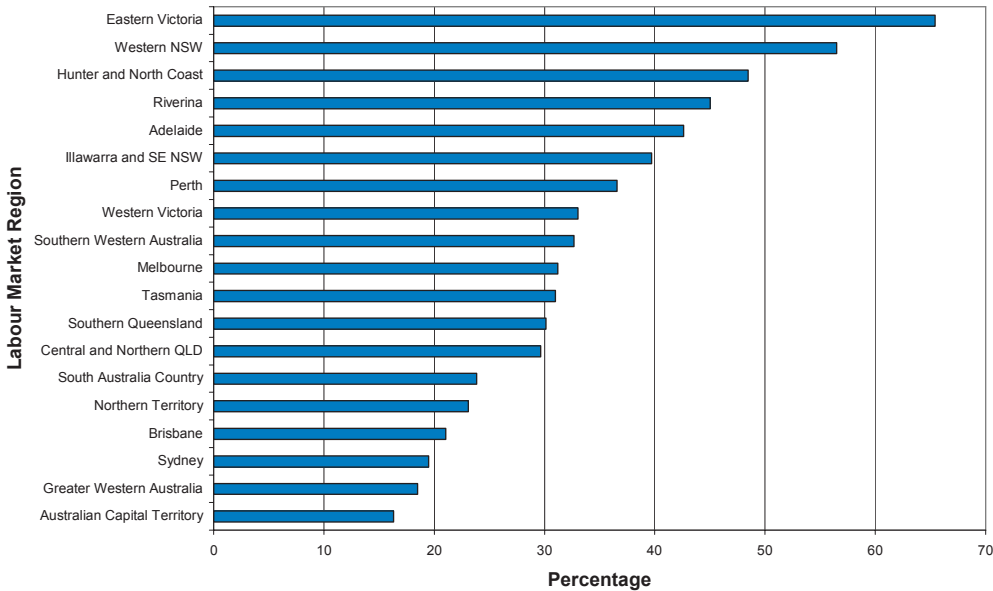
³³ In one DEWR office, contract managers were observed transcribing data from the Health Check Reports into Excel spreadsheets to identify changes in JSKA expenditure patterns.

by an individual site. This is because the percentage expended through the JSKA in total and on the various JSKA categories varies between sites, ESAs and LMRs depending on Job Network Members' strategies for achieving outcomes.

4.21 Figure 4.1 illustrates the percentage spent on wage subsidies for the 19 LMRs in the Job Network for the month of March 2006.

Figure 4.1

Percentage spent on wage subsidies, by Labour Market Region, March 2006



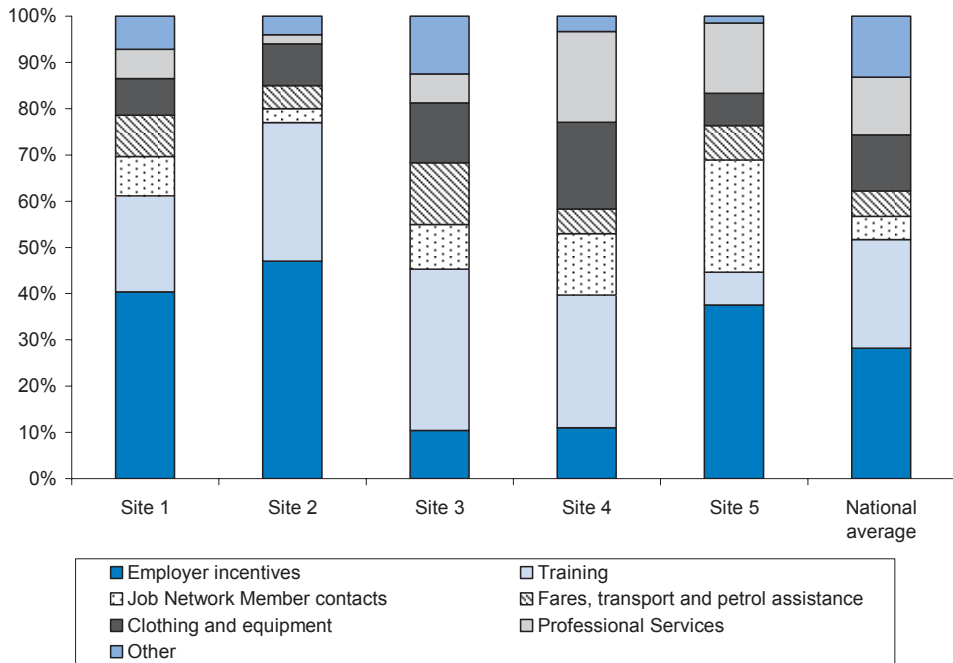
Source: DEWR data

4.22 Figure 4.2 illustrates, for five Job Network Member sites visited by the ANAO, the variance in usage, compared to the national average, of the top six categories³⁴ of expenditure: employer incentives; training; Job Network Member contacts; professional services; clothing and equipment; and fares, transport and petrol assistance.

³⁴ Two DEWR categories, fares and petrol assistance and transport assistance, have been combined in the figure.

Figure 4.2

JSKA usage patterns for five sites compared to the national average, March 2006



Source: DEWR Health Check Reports, March 2006

4.23 In order to interpret JSKA expenditure patterns, contract managers must first understand the strategies Job Network Members employ in using the JSKA. ANAO discussions with contract managers revealed that they do not routinely seek this information from Job Network Members, thereby limiting their ability to interpret expenditure patterns and identify emerging issues.

4.24 The ANAO also notes that there was little evidence that DEWR contract managers evaluated each site against the relevant risk indicators and benchmarks set forth in DEWR's Risk Management Module.

4.25 In relation to the JSKA, the ANAO considers that DEWR's current desktop monitoring regime, which is heavily reliant on reviewing Health Check Reports, does not allow contract managers to 'become familiar with trends and to easily identify where assistance may be needed to improve practices or performance' as intended by DEWR.

4.26 The ANAO suggests that DEWR:

- focus desktop monitoring activity on those Job Network sites that present higher levels of risk rather than spreading contract managers' time and resources evenly across all sites or organisations;
- develop standard reports that provide month-to-month trend data for the JSKA and provide visual cues (such as symbols, charts or graphs) to assist contract managers identify changing patterns;
- provide staff with appropriate tools and training to allow them to interrogate the large amounts of transactional data relating to the JSKA to better identify emerging issues;
- encourage contract managers to develop a better understanding of the strategies employed by Job Network Members at the sites they monitor to give them greater context when interpreting JSKA usage data;
- focus analysis on monitoring the risk indicators detailed in DEWR's Risk Management Module; and
- require contract managers to document their desktop monitoring activity and any follow-up action.

Site visits

4.27 DEWR states that the purpose of site visits to Job Network organisations is to 'allow contract managers to see what is happening on the ground and to further investigate any issues identified through desktop monitoring'.³⁵

4.28 DEWR requires that site monitoring visits be completed at least once per year (for full-time sites) and more often if an 'of concern' action specifies additional site visits as the risk treatment.

4.29 In reviewing the effectiveness of site visits as a form of monitoring and as a risk treatment, the ANAO assessed whether site visits:

- focused on those sites presenting the highest risk;
- were conducted on a regular basis and were appropriately documented;

³⁵ Contained in an overview of site visits in the monitoring section of the Contract Manager Portal on DEWR's intranet.

- adequately informed contract managers of the nature and extent of risks presented by a site; and
- were effective in identifying inappropriate practices or expenditure relating to the JSKA.

4.30 The ANAO found that DEWR contract managers conducted regular site visits, either annually or bi-annually depending on the office. That is, the cycle did not vary according to the risk assessment contained in DEWR's Risk Management Module. Two of the DEWR offices visited had an annual cycle of visits while one office conducted site visits of all its full-time sites twice a year (some part-time sites were visited less often).

4.31 In reviewing the relevant site monitoring files, the ANAO found that site visits were generally well documented and they usually followed a similar pattern:

- (a) the contract manager reviews a range of relevant information (for example, latest Health Check Reports, complaints data, records of any recoveries and alerts³⁶) which, along with any national office stated priorities, guides the selection of a sample of job seekers;
- (b) DEWR provides the Job Network Member with advance notice of the files to be reviewed (generally between 24 and 48 hours). The number of files selected usually ranges from 10 to 25;
- (c) the contract manager reviews job seeker files (sometimes with Job Network staff present) and assesses the files against criteria listed in a file review pro forma. Where JSKA funds have been spent (that is, not all cases), the contract manager is required to detail the expenditure and note whether the expenditure is in line with the contract and supported by appropriate evidence;
- (d) the contract manager gives feedback to the Job Network Member manager, which is followed up with a formal letter stating the outcomes of the visit and any required actions (for example, producing further evidence that was not available on the day of the visit); and
- (e) the contract manager reviews and updates DEWR's Risk Management Module as required.

³⁶ Alerts can be designed by contract managers to notify them of any items or trends in a site's JSKA expenditure that may warrant further review.

4.32 When visiting a site and reviewing job seeker files, contract managers review between 20 and 30 actual JSKA transactions on each visit (approximately 2.25 per cent of all transactions across all sites are reviewed). However, the percentage of files reviewed for a particular site varies considerably with the size of its caseload and the extent of its JSKA usage. The criteria for selecting job seeker files for review are not always documented and it is therefore difficult to determine the extent to which the files selected represent those likely to demonstrate inappropriate practices or contain inappropriate expenditure.

4.33 The ANAO reviewed site monitoring files for the 11 sites visited and found that, for those sites, DEWR's focus when reviewing JSKA expenditure was on confirming that an expenditure was for allowable goods and/or services (that is, the expenditure was not explicitly disallowed) and that it actually occurred (by sighting receipts or internal paperwork). A secondary focus was on finding a correlation between the expenditure and a need described in the Job Search Plan³⁷ or another assessment tool.

4.34 If an item of expenditure meets these criteria, it is accepted as valid. If it does not meet these criteria, further questions may be asked or documentation required. If the contract manager is not satisfied with the response, DEWR may initiate recovery action.

4.35 A job seeker file checklist used by one State office on site visits requires contract managers to answer the following for each job seeker file reviewed:

- Is there evidence of assessment of the job seeker's needs?
- How is the JSKA/Training Account³⁸ being used for this job seeker?
- Is there appropriate evidence to support the JSKA/Training Account expenditure on file?
- Is this expenditure in line with ESC3³⁹ clause 7.1 and clause 8 respectively?⁴⁰

³⁷ Every job seeker registered with a Job Network Member has a documented and agreed Job Search Plan which documents how they will go about finding work and what assistance they will receive from their Job Network Member. This assistance may include goods or services to be purchased using the JSKA to address the job seeker's needs.

³⁸ The Training Account is a separate account to the JSKA and can be used to fund training needs for certain categories of job seekers

³⁹ ESC3 refers to the employment services contract that ran from 2003–2006.

⁴⁰ Clause 7.1 states that the provider may be reimbursed from the JSKA for services, activities, facilities and products purchased for an eligible job seeker to assist the job seeker to overcome barriers to employment and to obtain suitable employment. Clause 8 relates to use of the training account.

4.36 The ANAO found that, in the files reviewed at this office, contract managers provided little detail in answer to these questions.

4.37 The ANAO examined whether contract managers were effectively assessing the appropriateness of JSKA expenditure. The ANAO reviewed 93 job seeker files containing JSKA expenditure and examined evidence to support each claim, such as receipts, purchase orders, Job Search Plans, job seeker assessments, printed comments from EA3000 and any other supporting material provided by the Job Network Member.

4.38 The ANAO found that the documentation was often not sufficient to make a judgement as to whether the expenditure was in line with JSKA principles and met DEWR guidelines. While most organisations reviewed did record any likely JSKA expenditure in the Job Search Plan, the reference would often be to the need for a 'wage subsidy' or 'interview clothes' or 'transport assistance' with little detail provided on the extent of assistance to be provided or the reason it was required.

4.39 Job Network Members advised that the decision to spend money on an individual job seeker is subjective and made on the basis of a wide range of factors and specific knowledge of the job seeker's circumstances and that documenting this can be onerous.

4.40 The ANAO found that, for the sites visited, the general lack of documentation to justify a claim can make it difficult for DEWR's contract managers to make a judgement on the appropriateness of JSKA expenditure. For example:

- a job seeker received five pairs of shoes within 12 months. While each pair of shoes had a receipt and were purchased prior to an interview or a placement, there was no documentation of the reasons five pairs of shoes were required; and
- a job seeker received \$40 a week in petrol vouchers for the period of the job seeker's 26-week wage subsidy. There was no documentation of the reasons for the decision to provide the vouchers such as the distance between the job seeker's work and home, the availability of public transport or the inability of the job seeker to fund their own transport.

4.41 Contract managers in the offices visited generally reviewed, at a broad level, whether JSKA expenditure was allowable, that receipts were kept, and that any expenditure was for a purpose mentioned in the Job Search Plan. However, the ANAO found that contract managers did not routinely seek to

view evidence that would enable them to assess the appropriateness of expenditure in terms of DEWR's principles and guidelines.

4.42 The ANAO considers that effective post-claim checking would need to ensure that:

- assistance was provided on the basis of individual need and reasons were clearly documented;
- the assistance provided met any specific guidelines applying to the category of expenditure at issue;
- the purchase was made and receipts and other documentary evidence were kept;
- the assistance provided value for money (this may include referring to industry standards or reviewing quotes); and
- the assistance purchased was actually delivered to the job seeker (this may involve contacting the job seeker).

4.43 Providing an appropriate level of ongoing assurance using only a post-claim investigative approach would involve a significant increase in the administrative effort required to verify expenditures and could involve increased sample sizes (the required sample size would be determined by the risk assessment process and the accepted level of risk). In Chapter 5, the ANAO examines the nature of JSKA payments and the controls framework that currently exists around these payments and whether placing greater reliance on controls operating within Job Network Members could provide DEWR with a higher level of assurance and better value for money.

Identification of inappropriate expenditure

4.44 DEWR's contract managers regularly request additional evidence as a result of site visits and, in some cases, as a result of desktop monitoring activity.

4.45 The ANAO, in reviewing monitoring files held by DEWR State offices for 11 sites, noted that both contract managers and Job Network Members spend considerable time following up on paperwork for individual transactions.

4.46 The ANAO found that, in one DEWR office, while contract managers regularly request evidence from Job Network Members for a range of transactions, there is no documentation on file as to the reasons for the

requests or the nature of the monitoring being undertaken. Another DEWR office regularly requested that 12 months worth of transaction evidence for a job seeker be provided in cases where a Job Network Member had been unable to produce the required evidence for a transaction during a site visit.

4.47 At the Job Network sites visited by the ANAO, Job Network Member staff could often provide the required evidence after searching various files (some of which may not have been held at the site when the visit occurred) and EA3000 comments fields⁴¹, yet a significant amount of work was required to collate and send this evidence to DEWR to satisfy DEWR's request.

4.48 One Job Network Member advised that the work involved in gathering evidence in response to DEWR's requests (as a result of desktop reviews) was affecting the organisation's ability to internally monitor the quality of services delivered to clients. DEWR considers the Job Network Member in question to be comparatively low risk.

4.49 The net result of DEWR's monitoring efforts is identification of a relatively small number of recoveries. The majority of DEWR-identified recovery action was for administrative error, missing receipts or duplicate claims. Concerns regarding poor justification for expenditure were more likely to be raised in feedback letters to Job Network Members as an area requiring improvement.

4.50 In reviewing monitoring files for 11 sites, the ANAO found that a high proportion of recovery action was actually initiated by the Job Network Members themselves through their own quality checking or audit processes. As DEWR recovery data do not allow meaningful analysis of the nature of recoveries, DEWR cannot examine the extent or seriousness of breaches. Systematic analysis of recovery data could assist DEWR in targeting its risk management activity and assessing whether improved guidelines are needed (if certain types of expenditure are repeatedly targeted for recovery action). If the majority of recovery action is self-identified, this could be an indicator of strong rather than weak internal controls.

4.51 The ANAO suggests that DEWR require that all recoveries be classified as either Job Network Member identified or DEWR identified. This would allow better use of recovery data in assessing risks.

⁴¹ Job Network staff can provide additional detail relating to a claim through comments fields available in EA3000.

Use of the results of DEWR's monitoring activity

4.52 The ANAO reviewed data on monitoring files and contained in DEWR's Risk Management Module to assess whether monitoring activity informs the risk management process to ensure that risks are reviewed and updated as appropriate and that actions are likely to be effective in addressing assessed risks.

4.53 Through discussions with contract managers in three DEWR offices, reviews of DEWR monitoring files and comments in the department's Risk Management Module for 11 sites, the ANAO concluded that risk ratings are rarely changed.⁴² Any change is usually in response to a risk eventuating, for example, when fraud is identified. Instances where evidence found during a site visit suggested an increased risk of inappropriate use or mismanagement did not necessarily translate into a revised risk rating.

4.54 Where DEWR contract managers identified inappropriate use of the JSKA through monitoring activity, site risk ratings did not always reflect these findings. For example, one Job Network Member organisation reviewed by the ANAO had been found by DEWR to be using post placement support for claim tracking (across three sites) which is in breach of DEWR guidelines and therefore an inappropriate use of funds. However, DEWR's likelihood rating for the relevant risk (inappropriate use of funds), was 'unlikely' therefore the overall risk rating was 'moderate'.

4.55 The implication of this analysis is that some contract managers are not ensuring that the outcomes of their monitoring activity are accurately reflected in their risk assessments and, therefore, in the overall site ratings.

4.56 In one DEWR office, contract managers indicated to the ANAO that the availability of resources and time to update the Risk Management Module was a significant issue. They also acknowledged that the module's usefulness depended on the quality of data input. At another office, contract managers indicated that few changes are made to risk ratings because the Job Network is stable.

4.57 Overall, the ANAO found that, for the 11 sites it assessed, contract managers were not effectively reviewing and updating the likelihood of risks relating to the JSKA.

⁴² Subsequent to the audit, DEWR advised that it is possible to review changes to risk ratings for individual sites, the ANAO found that some DEWR contract managers were not been aware of this functionality and therefore were not using it.

Other means by which DEWR monitors JSKA usage

Quality audits

4.58 DEWR contract managers may initiate quality audits where issues have arisen that they feel require further investigation. One State office visited indicated that a Risk Committee (consisting of the State manager and account managers) met quarterly to take a 'closer look' at selected providers and that quality audits were often triggered by this process. DEWR states that:

Quality Audit projects provide a formal framework for the assessment of quality issues and can be used to assess whether there has been a breach of the Code of Practice or Service Guarantee.⁴³

4.59 Quality audits are conducted by an independent person or team, not DEWR contract or account managers. One DEWR State office indicated that it had conducted six quality audits in the previous 12 months of which two or three were related to the JSKA.

4.60 The ANAO considers that quality audits are a useful component of DEWR's monitoring framework as they allow a concentrated focus on practices at a particular provider, independent of the contract manager.

Programme assurance

4.61 DEWR views its programme assurance function as contributing to the monitoring of JSKA usage. DEWR states that:

Essentially programme assurance is all about ensuring that job seekers have received the services that providers are contracted to deliver and to quality assure the integrity of claims that services provide in relation to services they have delivered.⁴⁴

4.62 DEWR programme assurance activity involves sending surveys to a sample of job seekers on a weekly basis and comparing the information provided by job seekers with DEWR data to check that services are being delivered and that claims for payment are valid. Where anomalies are identified, further checking is conducted by DEWR State office staff (contract managers, account managers or compliance officers).

4.63 Given that JSKA expenditure is often for small purchases (for example, bus or train fares or an item of clothing) or for services provided without the

⁴³ Contained in an overview of quality audit and reciprocal obligation in the monitoring section of the Contract Manager Portal on DEWR's intranet.

⁴⁴ Contained in an overview of programme assurance in the monitoring section of the Contract Manager Portal on DEWR's intranet.

job seekers' knowledge (for example, phone calls to potential employers or to existing employers on their behalf), the ANAO considers that this approach provides little added assurance that JSKA claims are valid and that job seekers have received the stated goods and/or services.

4.64 DEWR has advised the ANAO that its programme assurance function has recently undergone a review that has resulted in changes to its approach to assurance activity. In this vein, DEWR is currently undertaking a Job Seeker Account Programme Assurance Project, approved in March 2006, the purpose of which is to:

protect the integrity of government expenditure and minimise risk of the misuse of JSKA funds by:

- identifying anomalous outcome claims payments for wage assisted job seekers;
- reviewing cases where wage assisted job seekers have returned to the Active Participation Model;
- identifying anomalous claims for JSKA Job Network Member contacts; and
- reviewing cases where Job Network Members have 'above average' usage of JSKA Job Network Member contacts.⁴⁵

4.65 The project will involve job seeker surveys, Job Network Member surveys, case studies and data analysis. A key objective of the project is to determine areas where any further systemic action is required (such as enhanced guidelines) and make appropriate recommendations.

4.66 The ANAO considers that this more in-depth analysis of key expenditure categories will be of considerable benefit to DEWR in enriching its understanding of how wage subsidies and additional contacts are being used by Job Network Members. This information will be essential in informing the future development of the JSKA.

4.67 The scheduled completion date for the project is 27 June 2006. However, DEWR has indicated that it is currently behind schedule and the department has been unable to provide the ANAO with preliminary findings from the study.

⁴⁵ *Project Brief—Job Seeker Account Programme Assurance Project*, DEWR, March 2006.

Performance review process and the JSKA

4.68 Job Network Members are subject to a performance review every six months that focuses on the performance of individual sites as evidenced by their achievement of employment outcomes. DEWR has advised the ANAO⁴⁶ that the JSKA is sometimes raised as a discussion point if the appropriateness of its use is an issue of concern, but that it is not part of the routine discussion of trends and performance issues.

4.69 Incorporating into the review a routine discussion of the JSKA, covering the site's strategy in using the JSKA and any issues regarding usage that may have arisen during the previous performance period, would assist contract and account managers to gain a deeper knowledge of how the JSKA is being used and would inform an assessment of the effectiveness of JSKA usage.

⁴⁶ E-mail from DEWR's New South Wales State Account Coordinator, 29 June 2006.

5. JSKA Claims and Payments

This chapter examines DEWR's controls framework within its payment system, contract management arrangements and programme assurance function for Job Seeker Account expenditures.

Introduction

5.1 As part of the operation of the Job Seeker Account (JSKA) arrangements, Job Network Members purchase goods or services and subsequently seek reimbursement from DEWR for those purchases.

5.2 Central to appreciating how the JSKA claim process operates is to recognise the size of overall expenditure, the volume of individual transactions and the dispersion of claimants across all Job Network Member sites across Australia. Key data to consider under Employment Services Contract 3 (ESC3) arrangements include:

- there are 113 Job Network Members making claims against DEWR for reimbursement of amounts from JSKA funds;
- these Job Network Members operate from 1 154 sites or locations across Australia;
- across Australia, 9 932 Job Network staff have access to EA3000⁴⁷ and have the capacity to make draw downs against the JSKA (effectively making claims against DEWR);
- in the last financial year, 2005–06, Job Network Members were reimbursed \$219 million from the JSKA, with \$648 million being paid over the life of ESC3 (to 30 June 2006);
- the number of individual reimbursements made since ESC3 began to 30 June 2006 is 2 963 302; and
- many of the expenditures occurring under the JSKA are for goods and services that could be attractive to individuals (for example, clothing, fares or petrol) or to an associate organisation (for example, training fees or wage subsidies).

⁴⁷ DEWR's Job Network computer application, EA3000, was developed by DEWR to facilitate implementation of the Active Participation Model in July 2003.

5.3 Overall control activities within a purchasing function such as is involved with the JSKA would be expected to include controls of a number of types:⁴⁸

- management controls (such as the review of exception reports and the use of internal audits);
- organisational controls (including well-defined responsibilities and segregation of functions);
- authorisation controls (including authorisation, approval and checking);
- operational controls (such as sequence checking and reconciliations); and
- computing controls (such as controls over unauthorised access and data quality).

5.4 The design of the JSKA means that many of the key decisions related to expenditure under the JSKA are made by the staff of Job Network Members. DEWR has a contract with each Job Network Member that the Job Network Member's staff must abide by. In Chapter 2 the ANAO examined guidance available to Job Network Members. Within this purchaser-provider arrangement, the ANAO assessed whether DEWR took appropriate account of the extent of controls Job Network Members had in place for their use of JSKA funds.

5.5 The audit sought to determine whether the payment and related monitoring processes for the JSKA were sufficient to assure DEWR that JSKA expenditure was appropriate. This requirement stems from the department's responsibilities under the *Financial Management and Accountability Act 1997*, particularly Section 44. That section refers to promoting the 'proper use of the Commonwealth resources', where proper use is defined as 'efficient, effective and ethical use'.

5.6 DEWR has not undertaken an internal audit specifically focusing on the payment processes related to the JSKA.

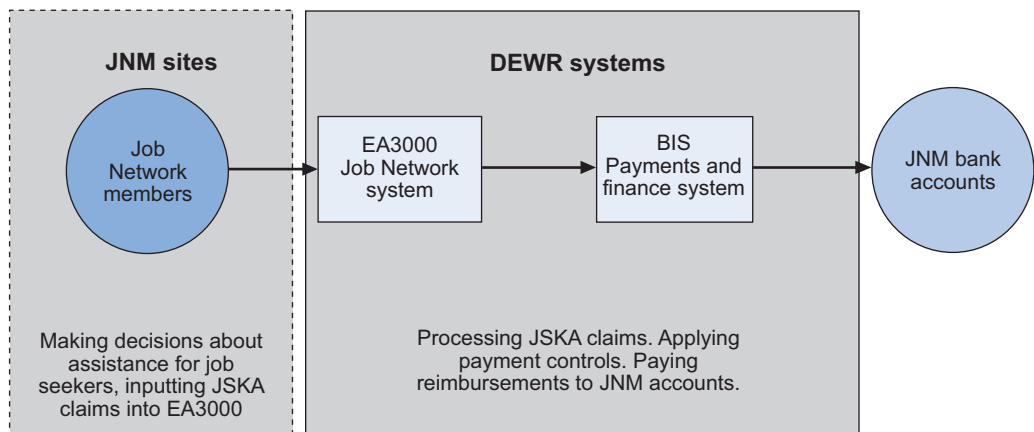
⁴⁸ *Controlling Performance and Outcomes: Better Practice Guide to Effective Control*, ANAO, December 1997.

The JSKA payment process

5.7 Clause 7 of Part B of ESC3 provides that DEWR will pay a Job Network Member an amount equal to JSKA costs incurred for a job seeker where an appropriate invoice has been recorded on DEWR’s information systems, provided DEWR accepts the invoice. Invoices are accepted through EA3000 and payments are made through DEWR’s Business Information System. Figure 5.1 sets out the interaction of the processes undertaken by the Job Network Member and DEWR’s computer systems relating to the JSKA.

Figure 5.1

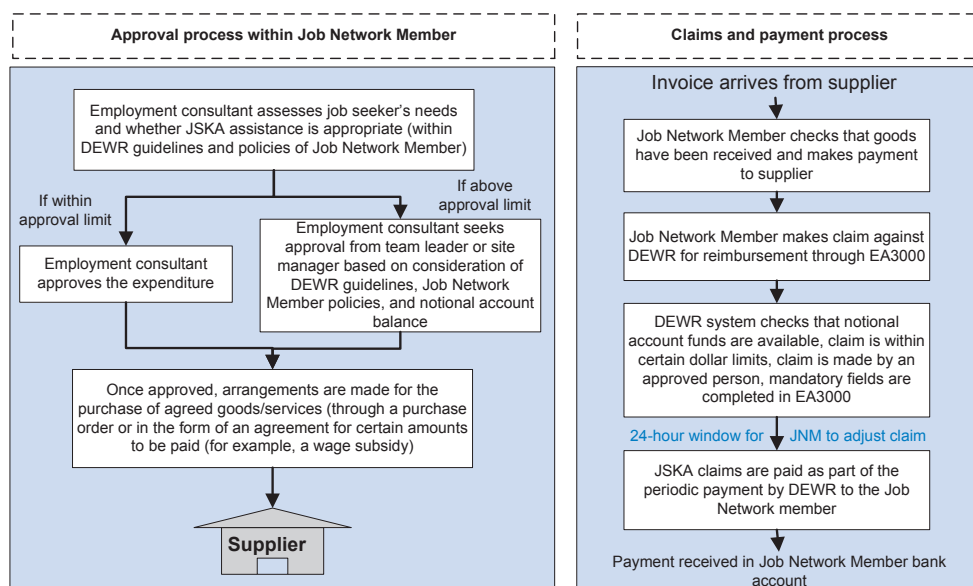
Overview of the JSKA payment process



Source: ANAO analysis

Abbreviations: JNM = Job Network Member, EA3000 = DEWR computer system, BIS = Business Information System.

5.8 Figure 5.2 outlines how a Job Network Member might access JSKA funds, including typical approval processes undertaken by the Job Network Member for purchases made from an outside supplier. Different arrangements apply where the Job Network Member is supplying the services itself (for example, in the case of a claim for Job Network Member contacts or professional services). The example also does not refer specifically to arrangements that might be in place in the case of bulk draw downs by Job Network Members (which would cover claims where a number of job seekers were assisted).

Figure 5.2**Accessing JSKA funds—typical approval and claims processes**

Source: ANAO analysis

How are JSKA claims different from other Job Network payments?

5.9 The other payments made to Job Network Members by DEWR as part of the Job Network are service fees and outcome payments.

5.10 A Job Network Member is paid Job Network service fees for each registered eligible job seeker attached to it in accordance with the job seekers duration of unemployment and level of disadvantage. This initial service fee is paid in advance on a quarterly basis.

5.11 Subsequent service fees are then paid to the Job Network Member when job seekers registered with that organisation commence the various Intensive Support service types (for example, job search training and customised assistance).

5.12 Outcome fees are claimed by Job Network Members when they have successfully placed job seekers in employment for periods of 13 weeks and 26 weeks. DEWR is able to independently check whether these claims are valid in a number of ways, including by examining the level of benefits provided to the job seeker.

5.13 In the case of claims related to the JSKA, DEWR's ability to review providers' claims is limited in large part to its contract management and programme assurance arrangements. The limitations of this work are examined in Chapter 4.

Similarities between JSKA claims arrangements and the operation of a corporate credit card

To help make the point about the importance of having appropriate controls in place, it is useful to compare the features of a corporate credit card with those of the decision-making and claims processes for the JSKA. Both credit cards and JSKA expenditures are used as inputs into other programme or administrative processes. In the case of a corporate credit card, a number of features are often present, such as:

- the cards are available to a large number of individuals, who may be geographically dispersed within an organisation; and
- the cards are often used for small transactions that could involve the purchase of goods or services that might be put to personal use.

Key controls applied in the case of a corporate credit card include:

- expenditures using a corporate credit card are restricted to staff who are issued with a card, and specific usage guidelines are in place; and
- before purchasing items with a corporate credit card, the card holder must undertake an expenditure approval process within the organisation.

The features of the JSKA claims process and corporate credit card programmes have a number of similarities. Potential JSKA claimants are widely dispersed around the country (and reside in a large number of organisations), and some of the items purchased under the JSKA could be put to personal use (for example, petrol vouchers) or to personal advantage (for example, paying a wage subsidy to a company in which the claimant has an interest).

Accordingly, there is a case for designing the controls for JSKA claims to be similar to the controls for corporate credit cards. DEWR restricts access to EA3000 and therefore controls who can make a claim, and individual providers have approval processes that determine whether a particular good or service will be acquired to assist a job seeker.

DEWR's controls framework relating to the JSKA

5.14 Job Network Members deliver services and/or products on behalf of the Commonwealth to job seekers. Job Network Members' activities are governed by the provisions laid out in ESC3. DEWR's control framework for Job Network services includes a range of measures that are applicable to JSKA payments. The controls that apply prior to DEWR making a reimbursement to a Job Network Member include:

- **Employment Services Code of Practice**—the code requires that Job Network Members:
 - act with honesty, due care and diligence;
 - behave ethically and professionally;

- avoid any practice or activity that could be foreseen to bring employment services into disrepute;
- comply with all relevant Australian laws.⁴⁹
- **Fraud control plans**—DEWR requires that all Job Network Members take reasonable steps to prevent fraud upon the Commonwealth, including the implementation of an appropriate fraud control plan.
- **Principles and guidelines**—DEWR provides guidance to Job Network Members to assist them in determining what is an eligible claim and to guide them on the evidence required to support claims. ESC3 specifies the types of assistance that are not permissible under the JSKA.
- **System controls**—all claims must reference a valid job seeker identifier and be from a provider with a valid contract. In addition, the Job Network Member must complete all mandatory fields and the amount claimed must be available in the Job Network Member's notional account.
- **Job Network claimant's certification**—when making a claim, a Job Network staff member is required to certify that the details provided in the claim are true and correct, the activity was undertaken, any required documentation is available and the purchase was made in accordance with the Employment Services Contract and JSKA expenditure principles.

5.15 The controls that are applied after DEWR has reimbursed a Job Network Member include:

- **Monitoring of JSKA transactions**—DEWR's contract managers monitor JSKA usage and conduct site visits during which they may review evidence for JSKA transactions. Quality audits may also be triggered where concerns are raised in relation to a particular provider.
- **Programme assurance**—DEWR's programme assurance area conducts surveys of job seekers to ascertain whether services purchased have been delivered and implements tailored assurance projects on an ad hoc basis.

Controls relating to the operation of the notional account

5.16 The notional account is the means by which a limit is set on the funds available for JSKA expenditure by a particular Job Network site. Job Network

⁴⁹ The Employment Services Code of Practice was reviewed in the ANAO performance audit *DEWR's Oversight of Job Network Services to Job Seekers*, No.51, 2004–05.

Members are also required to comply with JSKA expenditure principles and to service their entire caseload of eligible clients.

5.17 DEWR makes credits to a Job Network Member's notional account on the basis of job seekers' commencement in particular types of assistance and their level of labour market or locational disadvantage. These credits are made automatically within EA3000 based on information held within the system. The size of a Job Network Member's notional account in EA3000 is reduced when it commits to JSKA expenditure within the system.

5.18 A job seeker's level of disadvantage is initially determined by Centrelink staff using the Job Seeker Classification Instrument (either through face-to-face or telephone interviews). As part of amendments introduced during ESC3, Job Network staff were given the ability to alter information held in EA3000 relating to a job seeker's circumstances. This can result in the modification of a job seeker's score. In some circumstances, a new score can result in higher amounts being credited to the notional account (it may also lead to higher outcome fees being payable). Similarly, Job Network staff can alter information in EA3000 that can affect the level of locational disadvantage attributed to a particular job seeker.

5.19 While an increase in level of disadvantage does not in itself result in additional Commonwealth expenditure, it is important that there be effective controls over the fields that Job Network staff can alter.

5.20 Reviews undertaken by DEWR since early 2005 indicate that several issues have arisen relating to the validity of the alterations made by certain Job Network Members. Out of a total 34 155 'upgrades'⁵⁰ performed by Job Network Members to 23 June 2006 under ESC3, 6 964 were considered to be unwarranted.⁵¹

5.21 Between 1 July 2003 and 30 June 2006, there were 82 351 JSKA credits for 55 851 job seekers with a value of \$8.5 million on the basis they that were locationally disadvantaged. DEWR contract managers were recently asked to investigate the use of locational disadvantage 'flags' by five providers with metropolitan sites. These investigations resulted in adjustments to one provider's notional bank account (these adjustments totalled approximately \$67 000 as of 12 September 2006) and removal of the locational disadvantage

⁵⁰ DEWR defines an 'upgrade' as a change in a job seeker's status from not Highly Disadvantaged to Highly Disadvantaged under the Job Seeker Classification Instrument.

⁵¹ The ANAO did not examine how Job Network staff were administering any changes in circumstance for job seekers.

flag on miscoded job seekers. DEWR has advised that it is seeking to address this issue more broadly through a range of system changes and increased monitoring of the use of the Locational Disadvantage flag.⁵²

5.22 Following queries from Job Network Members, in 2005 DEWR reviewed the crediting arrangements for the JSKA. This review revealed that JSKA credits had not been made for some job seekers who had entered a second period of Job Network assistance. DEWR was upgrading EA3000 to correct this fault and ensure automatic crediting of the JSKA in these circumstances. DEWR made a bulk adjustment to Job Network Members' notional account balances totalling \$23.9 million in May 2006. DEWR has advised that the final adjustment was due to be processed in March 2007.

Controls relating to the accuracy of JSKA payments to the Job Network

5.23 The ANAO examined whether any issues had arisen that affected the accuracy of payments made to Job Network Members related to the JSKA.

5.24 Over a period of more than two years, DEWR made duplicate JSKA payments to Job Network Members in respect of 2 193 claims, totalling \$0.59 million. Duplicate payments were made intermittently from July 2003, with spikes against times of high processing loads for DEWR's Business Information System, such as end of financial year. These payments occurred for some claims where Business Information System transactions took longer than 30 seconds to process. After 30 seconds, the user received a message that the EA3000 transaction had timed out. The user was then able to immediately resubmit the claim. The original transaction still proceeded and was processed by the Business Information System, but EA3000 did not prevent the duplicate from also being forwarded to DEWR's Business Information System and being processed.

5.25 DEWR advised that JSKA claims processing was changed on 1 December 2005, and that duplicate claims can no longer be lodged in EA3000. The overpayments have since been recovered. DEWR is reviewing the existing reconciliation process to ensure that appropriate controls are in place to identify potential payment errors.

⁵² The ANAO did not examine how Job Network staff were administering the Locational Disadvantage flag.

Fraud control

5.26 The ANAO requested fraud control plans for two of the Job Network Member organisations that participated in audit fieldwork. DEWR advised that one of these organisations did not currently have such a plan. DEWR does not maintain a record of its requests for fraud control plans. DEWR's assessment is that any such requests would have been infrequent.

5.27 The ANAO considers that DEWR could better use the provisions within its contractual arrangements relating to fraud control plans to ensure that pre-claim preventative controls, as required in the contract, are in place. An increased focus on enforcing the requirement for appropriate fraud control plans would serve to remind providers of their obligation to act to minimise the risk of fraud on the Commonwealth.

5.28 If there are insufficient controls in place overall in relation to JSKA claims for reimbursement, there is the potential for funds to be wasted or for fraud to occur. Amounts could be fraudulently claimed for goods or services used for a private purpose, and not for a purpose stipulated in ESC3.

5.29 Since the beginning of 2005, the DEWR Investigations Branch has investigated or examined 10 separate instances of fraud, or potential fraud, involving the JSKA. Of these instances, five arose from information provided to DEWR by individuals external to DEWR (sometimes anonymously); two were brought to DEWR's attention by Job Network Members; and three arose from DEWR's own examinations. These frauds involved claims for a range of goods and services, including reverse marketing, wage subsidies, clothing and training.

5.30 In relation to fraud prevention, the Commonwealth Fraud Control Guidelines, which define the government's requirement that all budget-funded agencies put in place practices and procedures for effective fraud control, state that:

Agencies are responsible for ensuring that external service providers are aware of, and comply with, relevant:

- legislation;
- government policy, including the Commonwealth Fraud Control Guidelines, the *Protective Security Manual* (PSM), and the *Commonwealth Fraud Investigation Standards Package* (CFISP); and

- departmental policies e.g. the fraud control and security policies developed by the agency.⁵³

5.31 In order to provide adequate assurance that outsourced agencies (in this case, providers of Job Network services) are effectively protecting Commonwealth funds, the ANAO considers that DEWR should ensure providers are aware of, and comply with, the Commonwealth Fraud Control Guidelines.

Job Network Members' internal controls

5.32 The ANAO found that a principal control from a Job Network Member's perspective is to make sure that the amount it spends on JSKA-related matters is equivalent to the amount claimed from DEWR (and paid into the Job Network Member's bank account).

5.33 The Job Network Members visited have developed a number of other controls that could also assist DEWR in assessing whether JSKA-related expenditure is valid. These controls involve the use of delegations, approval processes, reconciliations and reviews of claims by compliance officers or audit officers. The design, extent and quality of these control processes vary across providers.

5.34 Currently, DEWR does not set standards for or assess the level of controls that Job Network Members have in place relating to the JSKA.

Increasing the level of assurance that JSKA payments are appropriate

Assurance relating to EA3000

5.35 The responsibility within DEWR for the JSKA payment process lies with the Intensive Support Group, the Chief Finance Officer and the Employment Systems Group. The Intensive Support Group is the owner of the JSKA programme and, therefore, has responsibility for the business rules that are included in EA3000. Given its overall responsibility under Section 44 of the *Financial Management and Accountability Act 1997*, the Intensive Support Group should consider acquiring written assurance that appropriate controls are in place in EA3000.

⁵³ Commonwealth Fraud Control Guidelines, Attorney-General's Department, May 2002.

Testing of Job Network Member controls

5.36 DEWR requires that all Job Network staff members making a claim certify that the details provided in the claim are true and correct, the activity has been undertaken, any required documentation is available, and the purchase was made in accordance with the Employment Services Contract and JSKA expenditure principles. This certification is, in effect, made by an individual staff member on behalf of the organisation and DEWR may expect the Job Network Member to have sufficient processes and controls in place to provide reasonable confidence that its staff are complying with applicable policies and procedures.

5.37 In order for DEWR to establish an appropriate level of assurance that claims against the JSKA are true and correct and that the activity has been undertaken and is compliant with the contract and JSKA expenditure principles, a balanced risk-based approach to compliance monitoring is required.

5.38 DEWR relies heavily on transaction-based, post-claim testing of a relatively small percentage of JSKA transactions (approximately 2.25 per cent) to identify inappropriate and/or fraudulent activity within the Job Network. While transaction-based checking provides a level of confidence, post-claim checking, of itself, is of limited benefit in detecting and preventing fraudulent activity.

5.39 An approach placing greater reliance on selective testing of Job Network Member controls, involving judgement regarding both the areas to be tested and the nature, timing and extent of tests to be performed, would give DEWR greater confidence that any significant misuse or fraudulent use of the JSKA will be identified.

5.40 Placing greater reliance on controls within Job Network Members could potentially reduce the number of transaction-based checks DEWR contract managers perform, particularly for those Job Network providers assessed as having adequate controls in place and presenting a lower level of risk to the Commonwealth. The costs and benefits of gaining additional assurance would need to be balanced against the cost of making existing post-claim monitoring approaches more effective.

5.41 In addition, DEWR would need to decide whether assurance activities regarding the existence and operation of controls would be best performed by

its own staff (with appropriate skills), contracted auditors or audit firms that undertake other audit work for Job Network Members.

5.42 The results of compliance monitoring of Job Network Members' controls would inform risk assessments and contract management processes undertaken by DEWR.

Recommendation No.2

5.43 The ANAO recommends that DEWR consider placing greater reliance on existing controls within Job Network Members that take effect prior to claims for reimbursement from the JSKA. Assurance that these controls are in place and having effect would be increased through selective testing of Job Network Members' controls. Such testing would include, but not be limited to, an assessment of the consistency of providers' fraud control arrangements with the Commonwealth Fraud Control Guidelines.

DEWR's response

Disagree—DEWR's established practices robustly test Job Network Members' JSKA claims for reimbursement, and other aspects of the Job Network contract. The ANAO does not provide evidence that relying more on Job Network Member's own internal controls or fraud control documentation would give better assurance to the Commonwealth of JSKA expenditure, nor alter the need for DEWR to sample JSKA claims to assure any such controls were in practice in place and having effect. In line with sound risk based practices, Job Network Members' demonstrated monitoring results are already taken into account in determining a commensurate level of ongoing scrutiny. DEWR does not seek to legally substitute itself for the office holders and management of not-for-profit and commercial Job Network organisations in approving their internal control arrangements. DEWR's established national contract management framework, and associated monitoring, risk and fraud management, and programme assurance, provide sound assurance of Job Network practice and payments.

ANAO comment

The JSKA model requires that DEWR approve payments to Job Network Member organisations by way of reimbursement for goods and services purchased to assist registered job seekers. In approving JSKA payments, DEWR needs to be satisfied that it has appropriate controls in place, including procedures designed to ensure the promotion of the efficient, effective and ethical use of Commonwealth resources.

The higher level of risk associated with JSKA payments requires a sound controls framework to provide adequate assurance. This includes considering the most appropriate balance between preventative and detective controls.

Preventative controls in the long run are generally less expensive and disruptive to daily operations as they are designed to deter or prevent undesirable events, such as the unauthorised purchase of goods and services. Conversely, detective controls provide evidence that an error or irregularity has occurred and, therefore, requires correction. While preventative controls are preferred, detective controls are also important to provide evidence that the preventative controls are functioning as intended.

JSKA expenditure is monitored via a regime of desktop monitoring, site visits and programme assurance activities that review JSKA transactions after they have occurred. While this regime is a central aspect of DEWR's detective controls, the department was not able to provide details on the extent of transactional checking that takes place and the ANAO found that the nature of such checks varied considerably.

The nature of much JSKA expenditure is such that it is often difficult to verify the appropriateness of transactions once they have occurred. For this reason, the ANAO considers that the current level and nature of DEWR's post transaction monitoring activity is unlikely to identify the range of inappropriate or fraudulent activities and is, therefore, of limited use in informing risk assessments.

The ANAO has recommended that DEWR consider (emphasis added) the adequacy of the current level of assurance and the benefits to be obtained from placing increased reliance on preventative control adopted by Job Network Members to assure the validity of claims for reimbursement from the JSKA. This could be achieved under DEWR's existing National Contract Management Framework.

6. Encouraging Economy

This chapter assesses the extent to which DEWR ensures that Job Network Members use Job Seeker Account funds economically.

Introduction

6.1 Job Network Members use the Job Seeker Account (JSKA) to assist job seekers into sustainable work. Inherent in the design of the JSKA is an incentive for Job Network Members to spend JSKA funds to increase the chances of job seekers gaining sustainable employment. When a job seeker is employed for a period of 13 weeks, the assigned Job Network Member receives an outcome payment; a further payment is made when the job seeker has been employed for 26 weeks. Outcome payments range from a total of \$550 for a person unemployed for less than four months to \$6 600 for a person unemployed for longer than three years.

6.2 The ANAO examined the extent to which DEWR ensures that Job Network Members are using JSKA funds economically, that is, when required to address individual needs in order to assist a job seeker to secure an employment outcome relevant to the labour market.

6.3 A major determinant of the extent of JSKA expenditure is the amount of money available to Job Network Members through the notional account. The ANAO examined the balance of the notional account over the period of the Employment Services Contract 3 (ESC3).

6.4 The ANAO also examined areas of expenditure where Job Network Members would have less incentive to economise. These include instances where the expenditure of JSKA funds delivers a direct benefit to the Job Network Member (as the payment is to the Job Network Member itself or a related entity) or is closely linked to the achievement of an outcome payment.

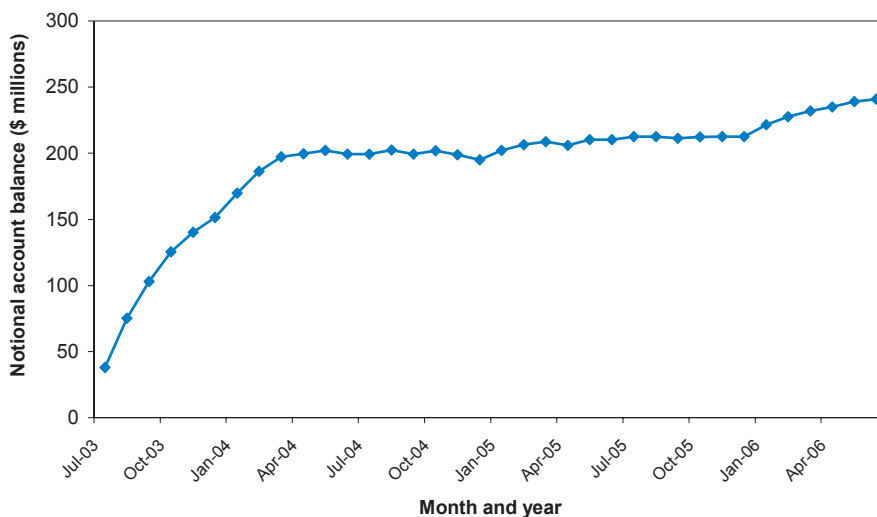
The JSKA notional account

6.5 As described in Chapter 1, the JSKA operates on a reimbursement model with each Job Network Member site having a notional account that is credited by DEWR as registered job seekers pass through various points on the Active Participation Model continuum.

6.6 In June 2006, the balance of the total JSKA notional account was \$240.9 million and has been trending upwards during 2006 (see Figure 6.1).

Figure 6.1

JSKA notional account balance, 1 July 2003–30 June 2006



Source: ANAO analysis of DEWR data

6.7 JSKA expenditure averaged approximately \$15.9 million per month over the six months to 30 June 2006. Therefore, there is approximately 15 months of expenditure (at current expenditure levels)⁵⁴ available in the notional account. DEWR has advised that the average credit to the account was \$20.6 million per month during the first six months of 2005–06. On average, Job Network Members are currently spending approximately \$4.7 million less than their credited amount per month.

6.8 As illustrated in Figure 6.1, the notional account balance increased dramatically during 2003–04. The build up of the notional account was largely due to the fact that JSKA expenditure was slow to take off. Job Network Members have had, from the early days of the JSKA, a substantial amount of money in their notional accounts to draw on to meet the needs of job seekers. As at 30 June 2006, Job Network Members had, on average, spent 72.9 per cent of the amount credited into their notional accounts over the life of the contract.⁵⁵

⁵⁴ This figure is the average monthly expenditure over the six months from January to June 2006.

⁵⁵ DEWR has advised that this figure includes some Job Network Members that are now no longer in business.

6.9 Job Network Members are expected to maximise outcomes by using the JSKA effectively and are required to comply with DEWR principles and guidelines in order to make a claim from the JSKA. However, the fact that Job Network Members generally have healthy notional account balances reduces their incentive to economise in their use of the JSKA within this framework. While this can be seen as having potential positive impacts for job seekers, DEWR needs to ensure that Commonwealth money is not being wasted.

Incentives to economise

6.10 JSKA expenditure is designed to assist job seekers into sustainable employment and, therefore, can be viewed as assisting Job Network Members to achieve outcomes and therefore outcome payments. However, there are certain types of JSKA expenditure that lead to a direct financial benefit for the Job Network Member and are, therefore, at greater risk of being used when not clearly required (on the basis of individual needs). Examples include where the Job Network Member is the service provider and, therefore, receives the JSKA payment directly or where the JSKA expenditure directly contributes to the achievement of an outcome payment. While use of the JSKA for such expenditure is permitted, DEWR need to have a reasonable level of confidence that the JSKA is not being used primarily to facilitate an outcome payment rather than to assist a job seeker into sustainable work.

Wage subsidies

6.11 Expenditure on wage subsidies, as a percentage of the total JSKA expenditure, is increasing. The figure for the contract period to 30 June 2006 was 28.9 per cent; however, in 2005–06, 38.5 per cent of JSKA funds were spent on wage subsidies. The average expenditure per subsidised job seeker during 2005–06 was \$2 611.

6.12 Wage subsidies are an allowable expenditure under the JSKA guidelines. Prior to 30 March 2005, Job Network Members had a relatively high degree of discretion in determining, based on the overarching JSKA principles, the terms and conditions of wage subsidies.

6.13 On 30 March 2005, DEWR issued revised guidelines for wage subsidies. Job Network Members were advised that JSKA funds may be used for:

- wage subsidies for employment which is sustainable and ongoing after the wage subsidy has ceased;

- the value must be commensurate with the job seeker's level of disadvantage, that is, wage subsidies may be expected to increase for the most highly disadvantaged job seekers;
- to demonstrate their commitment to ongoing employment, the employer must also generally make a significant contribution to the cost of the job seeker's wage;
- Job Network Members should not generally offer wage subsidies of 100% (or more) of wage costs without the agreement of their contract manager and only in isolated instances. Where a Job Network Member has an opportunity for a particularly disadvantaged individual (such as over 5 years unemployed or with multiple disabilities) additional supplementation to an employer may be appropriate;
- the wage subsidy may cover costs such as on the job training but should not include items such as employer incentives or rewards.

6.14 In addition, the list of prohibitions included:

- wage subsidies of 100 per cent or more (as per the text quoted above);
- wage subsidies for job seekers who become self-employed; and
- wage subsidies for Commonwealth or State government departments.

6.15 Use of wage subsidies by a Job Network Member for its own organisation or a related entity is specifically prohibited under ESC3.

6.16 The ANAO found that at the 11 sites visited, Job Network Members had entered into written agreements with employers to pay wage subsidies at particular milestones (usually at 13 and 26 weeks).

6.17 These periods coincide with the intervals at which Job Network Members receive outcome payments for job seekers. The amount of these outcome payments is detailed in Table 6.1.

Table 6.1**Interim and final outcome payments payable under ESC3**

Duration of unemployment	Interim payment (13 weeks)	Final payment (26 weeks)
4–12 months	\$550	N/A
13–24 months	\$1 650	\$825
25–36 months (or Highly Disadvantaged)	\$3 300	\$1 650
3 years or longer	\$4 400	\$2 200

Source: ESC3 documentation

6.18 Using this approach, if a milestone is not achieved, the wage subsidy is not paid.

6.19 DEWR administrative data do not allow for analysis of the period of the wage subsidy or the proportion of wage subsidies paid at these milestones. Therefore, the ANAO was unable to analyse the extent to which wage subsidy agreements were linked to outcome payment periods. DEWR has conducted some analysis of wage subsidy usage patterns and found that:

in most cases they [wage subsidies] take the form of a small payment at the start of employment or a larger payment at the 3 and/or 6 month marks, coinciding with outcome payments.⁵⁶

6.20 Concerns have been raised by the industry that some Job Network Members use wage subsidies to ‘buy outcomes’.⁵⁷ That is, Job Network Members provide subsidies for positions that are not likely to be sustainable in order to achieve an outcome and thereby increase their star ratings.⁵⁸ A small number of Job Network Members visited by the ANAO reported that they used wage subsidies to allow an employer to offer increased hours to a job seeker in anticipation that after the placement period finished, the employer’s business would have grown sufficiently to support the position at the same level on an ongoing basis. A similar strategy was used by a small number of Job Network Members to extend seasonal work in areas where it was the main form of employment.

⁵⁶ *Job Network Best Practice*, DEWR, April 2006, p. 34.

⁵⁷ This issue was raised in discussions with the National Employment Services Association.

⁵⁸ The star ratings model used by DEWR to rate Job Network Members was reviewed in Audit Report No.6, 2005–06, *Implementation of Job Network Employment Services Contract 3*, ANAO.

6.21 Recent DEWR analysis of wage subsidies through a programme assurance project found that one third of all job seekers entering employment that was subsidised through a JSKA funded wage subsidy, were aware of the expected duration of their employment (that is, they were aware that their employment was of limited duration rather than being an ongoing and sustainable job as required by DEWR's guidelines on wage subsidies). The same project found that 15 per cent of job seekers indicated that they were told the employment would be for approximately three months.⁵⁹

6.22 DEWR analysis shows that approximately one-third of all wage subsidies are for casual jobs and that the value of the subsidy does not vary greatly by the type of job (full-time, part-time or casual).⁶⁰

6.23 DEWR measures the sustainability of jobs obtained through wage subsidies at 12 months and then at 2 years after the subsidy period ends or the last subsidy payment is made. The *Jobseeker Account Evaluation Report* found that the 12 month off-benefit outcome rate for wage subsidies was 59.2 per cent while the 24 month off-benefit outcome rate was 71.1 per cent. However, these figures do not assist DEWR in assessing whether the person receiving the subsidy would have achieved the same outcome without the subsidy.

6.24 Wage subsidies are commonly used for job seekers who have found their own employment (29 per cent of wage subsidies were paid to people who had found their own jobs in the contract period to 31 December 2005⁶¹). DEWR analysis demonstrates that there is little variation in the value of the wage subsidies provided to job seekers who found their own employment and job seekers who found a position with assistance from a Job Network Member.⁶² One Job Network Member indicated to the ANAO that it considered that jobs found by job seekers themselves were 'high risk' and, therefore, warranted use of a wage subsidy (and post-placement support).

6.25 JSKA guidelines (March 2005) state that JSKA expenditure must reflect a job seeker's individual needs and that the value of any wage subsidy should be commensurate with the job seeker's level of disadvantage.

⁵⁹ *JSKA wage subsidies Job seeker survey*, DEWR, January 2007, p. 1.

⁶⁰ *Jobseeker Account Evaluation Report*, DEWR, August 2006, p. 49.

⁶¹ E-mail from DEWR, 9 July 2006.

⁶² *Jobseeker Account Evaluation Report*, DEWR, August 2006, p. 48.

6.26 In addition, DEWR's evaluation work demonstrates that subsidies need to be highly targeted to avoid deadweight losses (that is, money being spent on job seekers who would have found jobs anyway).

6.27 In 2005–06 Job Network Members spent, on average, \$502 more on wage subsidies for Highly Disadvantaged job seekers than for non-Highly Disadvantaged job seekers⁶³. While DEWR data relating to wage subsidies shows that Job Network Members are providing increased subsidies for the most disadvantaged (50 per cent of wage subsidy expenditure in 2005–06 was for those job seekers not classified by DEWR as Highly Disadvantaged and approximately 12 per cent (nearly 10 million dollars) of the expenditure on wage subsidies in 2005–06 was on job seekers who were neither Highly Disadvantaged or long term unemployed.⁶⁴ While the ANAO acknowledges that, just as wage subsidies are not necessarily required for all Highly Disadvantaged and/or long term unemployed job seekers, job seekers who do not fit these categories may, at times, benefit from such assistance. Ultimately, any judgement of the appropriateness of a wage subsidy should rely on the individual assessment of job seekers needs.

6.28 ANAO file reviews found that documentation relating to wage subsidies generally consisted of an agreement with the employer outlining the amount of the subsidy and the conditions under which the subsidy was payable. There was, however, little evidence of why wage subsidies were required for individual job seekers. Examples of wage subsidy arrangements reviewed by the ANAO where the ANAO considered there was insufficient documentation to justify the need for the subsidy are provided in the box below.

⁶³ As this figure reflects total average expenditure on wage subsidies for a job seeker, the higher average expenditure on Highly Disadvantaged job seekers may be due to the fact that they have received multiple subsidies rather than that they are receiving higher subsidies for each wage subsidy agreement.

⁶⁴ In 2005–06, Highly Disadvantaged job seekers accounted for 33 per cent of the job seeker population.

Examples of wage subsidy expenditure reviewed by the ANAO during fieldwork

Case 1: One Job Network Member used a standard letter to employers stating that 'I have enclosed several client resumes....in order to secure a guaranteed continuous period of employment for our clients and to assist you in making a decision in favour of our clients, I have pleasure in presenting a wage subsidy proposal for your consideration'. The employer was offered a subsidy of \$1 000 for 13 wks and an additional \$1 000 for 26 weeks.

Case 2: A job seeker found their own employment and advised their Job Network Member. The Job Network Member subsequently rang the employer to offer a wage subsidy totalling \$1 500. The wage subsidy was structured to be paid at 13 weeks, and 26 weeks. The internal request form for the wage subsidy showed that the client was eligible for JSKA, detailed the amount credited on their behalf and listed previous expenditure. There was no real justification of why a wage subsidy was required.

Case 3: A job seeker is classified as Highly Disadvantaged but considered by their Job Network Member to be highly motivated with appropriate skills and the job seeker assessment does not indicate the need for a wage subsidy or ongoing support. This job seeker has had a wage subsidy paid on their behalf to one employer totalling \$5 500. The \$5 500 subsidy was a 100% subsidy for 15 hrs per week which dropped to 6 hrs per week once the subsidy finished. The job seeker had another wage subsidy agreement in place at the time of the audit with a different employer for \$1 500.

Case 4: One job seeker who had advised their Job Network Member that they were likely to have difficulty sustaining work due to a sick child and had not worked in 20 years received a wage subsidy valued at over \$6 000. The profile prepared by the Job Network Member indicated that the job seeker was 'job ready'.

Case 5: A job seeker with a strong work history and in their early 20's was working 12-20 hrs in casual employment. The profile prepared by the Job Network Member indicated that the job seeker was 'job ready with minor intervention'. The job seeker found a job in the same industry in which they had experience and a wage subsidy agreement for over \$5 000 was put in place for a job where the job seeker was required to work 27 hrs per week.

6.29 The crux of the wage subsidy issue is that Job Network Members achieve a direct benefit from using the JSKA to pay a wage subsidy—they are assured of an outcome payment. This explains the strong link between this category of expenditure and outcomes—Job Network Members do not actually pay wage subsidies unless they receive outcome payments.

6.30 Wage subsidies are an expensive form of assistance and in order to be considered as a value for money investment need to be instrumental in assisting the job seeker to achieve a long term employment outcome. There are risks in relying on measuring off-benefit outcomes as a sufficient measure of the appropriateness of the use of wage subsidies for individual job seekers.

6.31 In order to reduce the risk of DEWR paying subsidies for job seekers who would have achieved outcomes without the subsidies or paying subsidies for unsustainable jobs, DEWR should consider increasing the incentive for Job

Network Members to be more economical in their use of the JSKA for wage subsidies.

Related entity expenditure

6.32 Where a Job Network Member receives a direct financial benefit from spending JSKA funds it has a reduced incentive to economise.

6.33 Some categories of JSKA expenditure are always provided by the Job Network Member itself, such as Job Network Member contacts. Other categories entail a high proportion of related entity expenditure, such as professional services (43.3 per cent related entity) and training (36.5 per cent related entity). In addition to the direct benefit, additional contacts, where they relate to post-placement support, have the added benefit that they can be used to assist the Job Network Member in achieving an outcome payment. These categories are addressed separately below.

Additional contacts

6.34 DEWR guidelines state that Job Network Members must be able to substantiate that additional contacts claimed under the JSKA are:

- tailored to the individual needs of each job seeker and are in the interest of the job seeker;
- not used as a one size fits all approach;
- focussed on more disadvantaged or long term unemployed job seekers with a view to achieving job outcomes; and
- for a significant period of time, as a guide, a minimum of 15 minutes duration for each contact⁶⁵.

6.35 For the contract period to date, expenditure on Job Network Member contacts totalled \$31.5 million. The level of expenditure, over the life of the contract, on Job Network Member contacts varied from 3 per cent to nearly 25 per cent among the organisations reviewed by the ANAO (the national average is 5 per cent).

6.36 The ANAO found that a considerable proportion of additional contacts are made post placement to offer support to job seekers once they are in employment. DEWR data do not easily allow for a disaggregation of this

⁶⁵ Job Seeker Account Expenditure Principles , DEWR, March 2005.

category of expenditure to identify the percentage of additional contacts made post placement.⁶⁶

6.37 Post-placement support facilitates the Job Network Member to maintain a relationship with the employer and job seeker throughout a placement via regular telephone calls and/or face-to-face meetings. This contact increases the likelihood that the Job Network Member will receive the appropriate documentation required to claim an outcome.

6.38 ANAO fieldwork (involving five Job Network Member organisations across 11 sites) found that a number of Job Network Members were using JSKA funds on a widespread basis to 'track' job seekers once they were in employment. As an example, comments relating to a call would often be 'checked hours with job seeker' or 'everything going OK' or something similar.

6.39 DEWR's Job Seeker Survey⁶⁷ found that 59 per cent of job seekers who had started a job in the previous six months had been contacted by their Job Network Member more than three times and 10 per cent had been contacted more than 10 times. More than 90 per cent of respondents indicated that the contacts were 'just follow-up calls to see how you were going'. When asked whether the contact encouraged them to stay in the job, nearly 50 per cent said it had no impact (39 per cent) or only a slight impact (10 per cent).

6.40 The ANAO found that documentation surrounding additional contacts was variable. While the job seeker for whom the service had been provided could usually be identified along with the length and cost of any contact (all necessary for seeking reimbursement from the JSKA), it was often difficult to identify who had been contacted and the nature of the call. There was rarely any information available relating to outcomes of the call. The ANAO also found that in many cases locating phone records was time consuming and difficult due to the large volume of such transactions and the tendency for them to be billed in multiples (identifying \$60 worth of assistance may require tracking four different phone calls made over an extended period).

6.41 File notes reviewed by the ANAO indicate that, at times, post-placement contact was not wanted by either the employer or the job seeker.

⁶⁶ While it is possible to consider any contacts claimed after a placement date as post placement support, the fact that organisations can make claims for multiple contacts and that it may be a number of weeks between the contact and the claim makes analysis difficult.

⁶⁷ During 2005, DEWR conducted a survey of job seekers which included a series of questions relating to a job seekers contact with their Job Network Member post-placement. The survey did not identify whether these contacts had triggered a claim from the JSKA or whether the cost of the contact was borne by the Job Network Member.

This was supported by DEWR's Job Seeker Survey, which found that nearly 10 per cent of those job seekers contacted by their Job Network Member after starting work described this contact using words such as 'appalling/terrible intrusion/didn't like it'.

6.42 At a number of sites the ANAO noted that such calls, and similar calls to the employer or job seeker, were being charged to the JSKA in 15 minute blocks on a weekly basis for a wide range of job seekers (that is, not just for those classified as Highly Disadvantaged). This would appear to be in contravention of the guidelines for additional contacts outlined by DEWR.

6.43 Charging additional contact time in 15 minute blocks is a response to DEWR guidelines that additional contacts must be 'for a significant period of time, as a guide, a minimum of 15 minutes duration for each contact'.

6.44 ANAO analysis of DEWR data relating to Job Network Member additional contacts shows that a significant proportion of additional contact expenditure is not focused on job seekers considered by DEWR to be Highly Disadvantaged and/or long-term unemployed (as required by DEWR guidelines).

6.45 DEWR data show that, during 2005–06, 65 per cent of all additional contacts were with non- Highly Disadvantaged job seekers and 70 per cent of additional contact expenditure was on non- Highly Disadvantaged job seekers (Table 6.3).

Table 6.2

Use of additional contacts for Highly Disadvantaged job seekers, 2005–06

	Total	Highly Disadvantaged	Non-Highly Disadvantaged
Job seekers assisted	48 020	35%	65%
Total expenditure	\$9 866 478	30%	70%
Average spend per job seeker	\$205	\$173	\$223

Source: ANAO analysis of DEWR data

6.46 The ANAO also reviewed DEWR data relating to expenditure on short-term compared to long-term unemployed job seekers and found that 56 per cent of the JSKA money spent on additional contacts was spent on job seekers who were unemployed for less than 12 months. Of these, 23 per cent were classified as Highly Disadvantaged.

6.47 Available evidence suggests that additional contacts are not focused on those job seekers likely to be most in need, that is, Highly Disadvantaged or long-term unemployed, as required by DEWR guidelines.

6.48 While additional contacts may be contributing to valid outcomes for job seekers, evidence suggests that they are being used in ways that do not meet DEWR guidelines. The fact that additional contacts are a reimbursable service provided by Job Network Members reduces the incentive to economise and increases the risk of misuse.

Professional services

6.49 Professional services include assessments by psychiatrists, physicians or specialist employment advisors. They also include services offered by Job Network Member themselves, such as reverse marketing activity. Over the contract period, reverse marketing has accounted for 55 per cent of professional services paid for using the JSKA (the proportion has been increasing over time, from 41 per cent in 2003–04 to over 60 per cent in 2005–06).

6.50 Reverse marketing involves telephoning and/or visiting targeted employers to market a particular 'job-ready' job seeker (or job seekers) to an employer. This service is considered to be over and above the services provided for in the contract.

6.51 Similarly to additional contacts, the ANAO found that the standard of documentation relating to reverse marketing was variable and it was often difficult to decipher which employer had been contacted or the nature of the discussion. Reverse marketing activity was often charged in 15 minute blocks although the amount of time spent on reverse marketing tended to be longer than that spent on additional contacts.

6.52 Both additional contacts and reverse marketing are subject to a higher level of risk of inappropriate use than many other JSKA expenditure categories as they are largely provided by Job Network Members themselves. Gaining appropriate assurance relating to additional contact and reverse marketing activities is inherently difficult given the minimal documentation often associated with these expenditure categories. The ANAO suggests that DEWR consider whether it may be more practical to fund these Job Network Member delivered services through an alternative mechanism (for example, through service fees).

7. Performance Information

This chapter assesses the performance information DEWR provided on the Job Seeker Account (JSKA). DEWR's subsequent reporting and evaluation of the JSKA against its stated objectives is also examined.

Introduction

7.1 The measurement, assessment and reporting of performance is relevant to both internal managers and external stakeholders. Performance information encompasses a range of activities such as the setting of objectives, strategies, indicators, targets, standards and benchmarks. Such information can be expressed both quantitatively and qualitatively. The purpose is to assist management to make sound internal decisions and to allow stakeholders to draw well-informed conclusions about performance in published documentation.

7.2 In addition, evaluation studies can be used to test whether the outcomes and stated objectives are being achieved. Evaluations and performance information are complementary tools to assist performance management. Because evaluations can identify causal links, they can provide an invaluable perspective on impact, especially over a number of years. In contrast, performance indicators are better suited to informing day-to-day management decisions.

7.3 Evaluation studies can be used to improve performance information, but cannot be substituted for management's responsibility to have routine information available to monitor a programme and to feed back into decision-making. Evaluations of programme impact should be based on, and use, current performance information.

DEWR's outcomes and performance hierarchy

7.4 Performance information should be provided in an agency's Portfolio Budget Statements (PBS) in accordance with requirements set out by the Department of Finance and Administration.⁶⁸ Performance information

⁶⁸ The Department of Finance and Administration's current guidance on outcomes and outputs frameworks for Australian government agencies was issued in a web-based format in September 2003. This guidance identifies desired features of agency outcomes and outputs statements and performance reporting under the outcomes and outputs framework.

provided by DEWR in its PBS for 2006–07 is organised into a hierarchy flowing from outcomes to outputs.

7.5 Within this hierarchy, the Job Seeker Account (JSKA) is one of many initiatives that contribute to DEWR's Outcome 1: *Efficient and effective labour market assistance*. The JSKA is 'nested' within DEWR's Output 1.2.2: *Employment services*. While the JSKA is only one contributor to this output, annual expenditure on the JSKA has averaged \$216 million.

- **Efficient and effective labour market assistance (Outcome 1)**
 - in the period under review, DEWR's three outcomes were *efficient and effective labour market assistance; higher productivity, higher pay workplaces; and increased workforce participation*;
- **Effectiveness indicators**
 - the average duration of unemployment relative to labour market performance; and
 - comparative labour market experience for long-term unemployed, Indigenous Australians, mature-aged people, people of culturally and linguistically diverse backgrounds, sole parents, people with a disability and young people;
- **Strategy**
 - the Active Participation Model is the major overarching strategy to assist people into work. DEWR, through its Outcome 1, is responsible for managing the delivery of the Active Participation Model and implementing enhancements;
- **Individually tailored employment services (Output 1.2.2)**
 - a central component of the Active Participation Model is the Job Network service, comprising, in particular:
 - Job Search Support, providing a personalised service for eligible job seekers; and
 - Intensive Support, providing additional, individually tailored assistance of graduated intensity to eligible job seekers based on their duration of unemployment or high risk of becoming long-term unemployed;
- **Help for the most disadvantaged job seekers**

- a key component of Intensive Support is the JSKA, which was designed to:
 - help the most disadvantaged job seekers; and
 - be available only after a job seeker enters Intensive Support customised assistance (ISca), that is, after 12 months' unemployment or when assessed as Highly Disadvantaged according to DEWR's Job Seeker Classification Instrument.

Level of JSKA monitoring and reporting

7.6 The Joint Committee of Public Accounts and Audit made the following comment in regard to the hierarchy of information as presented in agencies' PBS:

The Committee considers that high levels of aggregation in some agency outputs is a major problem making it difficult for the Parliament and the community to track the level of funding of particular organisations and what they are doing with those funds.⁶⁹

7.7 It is important that agencies be able to account for their outputs appropriately. With this in mind, the ANAO assessed whether DEWR had:

- developed a clear objective for the JSKA;
- developed appropriate performance indicators and reported progress in meeting the JSKA objective; and
- where appropriate, used evaluation as a tool to assess the contribution of the JSKA to DEWR's Active Participation Model and its employment services output.

Development of the JSKA objective

7.8 With the introduction of the Job Network, several independent external reviews were undertaken to analyse the impact of the Job Network and its effectiveness in helping the unemployed.

⁶⁹ *Review of the Accrual Budget Documentation*, Joint Committee of Public Accounts and Audit, Report 388, June 2002, p. 41.

Innovations in Labour Market Policies—Organisation for Economic Co-operation and Development (OECD)

7.9 In 2001, the OECD reported on Australian Government labour market policies. The report referred to earlier work undertaken by DEWR that indicated that ‘very few providers appeared to be offering effective services to address the underlying barriers to employment’.⁷⁰

7.10 Accordingly, discussion within the OECD report referred to the need to address the underlying barriers to employment.

Independent Review of the Job Network—Productivity Commission

7.11 In June 2002, the Productivity Commission also made comments in relation to disadvantaged job seekers:

The providers often then direct their services to job seekers who are likely to be responsive to their interventions. They may park⁷¹ those with insurmountable or high barriers to work who have low likelihoods of achieving payable outcomes. Sometimes poorly motivated job seekers may ‘self-park’.⁷²

7.12 The Productivity Commission concluded that there needed to be better targeting of the needs of job seekers, changes to payment systems and greater options for referring job seekers to other programmes.⁷³

DEWR’s introduction of the JSKA

7.13 In 2002, in response to the finding that previous contracts had not encouraged sufficient investment of services in the most disadvantaged, the Government agreed to the creation of a new model of service provision to job seekers, the Active Participation Model. This included the creation of the JSKA, a quarantined pool of funds that could be flexibly drawn down to assist job seekers in overcoming their barriers to employment and in obtaining employment. The intention of the JSKA was to reduce the risks carried by Job

⁷⁰ *Innovations in Labour Market Policies—The Australian Way*, Organisation for Economic Co-operation and Development, 2001, p. 19.

⁷¹ ‘Parking’ refers to Job Network Members providing job seekers with little or no assistance during a period where they are meant to be receiving intensive assistance.

⁷² *Independent Review of the Job Network—Inquiry Report*, Productivity Commission, Report No.21, 3 June 2002, pp. xxxii–xxxiii.

⁷³ *ibid.*, p. xx.

Network Members and better ensure that investments were made to achieve positive outcomes for difficult to place job seekers.

7.14 The first public documentation of the JSKA's intended use was included in DEWR's discussion paper on the Active Participation Model for employment services. That paper referred to the JSKA as:

a quarantined pool of funds that can be flexibly drawn down by a Job Network Member to assist job seekers obtain employment. The Job Seeker Account is to be used to purchase services and products for job seekers to assist them to overcome barriers to employment and to obtain work.⁷⁴

7.15 This discussion paper went on to indicate: 'This arrangement also ensures that Job Network Members will have funds available to assist the most disadvantaged job seekers.'⁷⁵

7.16 Much of the guidance provided with the introduction of the JSKA referred to helping job seekers overcome employment barriers and secure work. A fact sheet issued relating to the JSKA stated:

The Job Seeker Account is a quarantined pool of funds that can be used by a Job Network Member to purchase goods and services for individual job seekers to help them secure employment. It is designed to help the most disadvantaged job seekers.⁷⁶

7.17 The JSKA is available for job seekers on Job Search Support for transport and fares assistance and interpreter services. When a job seeker commences Intensive Support (after three months' unemployment), the assigned Job Network Member can purchase products and services that address the job seeker's barriers to employment (subject to meeting contractual and guidance requirements).

7.18 Credits of substantial amounts to the JSKA in respect of a particular job seeker are only made after a job seeker enters ISca (after 12 months' unemployment or when assessed as HD).

7.19 JSKA credits in respect of job seekers who are assessed as HD are 50 per cent higher than for non-HD ISca participants. There is no direct relationship between the number of credits accumulated for a particular job seeker and the amount of goods and services purchased for that job seeker under the JSKA.

⁷⁴ *Employment Services—An Active Participation Model*, Discussion Paper, DEWR, May 2002, p. 24.

⁷⁵ *ibid.*

⁷⁶ The Job Seeker Account Fact Sheet is located on the DEWR Employment Services Network, a secure web site for Job Network Members.

Reporting on the JSKA

7.20 An important aspect of performance information is reporting. Internal performance reporting is used to support day-to-day decision-making, such as monitoring progress, expenditure and client service. While internal reports that include results in terms of inputs, outputs and outcomes are useful for managers, external reports are the main means by which interested parties, such as the Parliament and the public, obtain information on efficiency and effectiveness.

7.21 Under DEWR's PBS, the JSKA is included within the administered appropriations for the Job Network (\$1 250 million in 2005–06). Under Output 1.2.2, the JSKA forms part of the assistance provided under Intensive Support. The performance reporting in DEWR's PBS is at a sufficiently broad level that it is not possible to draw specific conclusions on the effectiveness of a particular input such as the JSKA. DEWR's PBS includes targets for the placement of Intensive Support participants into employment, but there is no breakdown of information that would allow an assessment as to whether JSKA expenditure is effective in achieving these goals.

7.22 The ANAO reviewed DEWR's reporting and evaluation of the JSKA to assess its effectiveness in measuring JSKA usage and performance.

7.23 Reports are provided to DEWR senior management on JSKA usage and performance in a number of ways. Two reports containing usage information relating to the JSKA are provided on a regular basis to DEWR management:

- *Active Participation Model weekly report*—this provides statistics on JSKA usage (by week and month) and notional account balance (by month) for both the current and previous financial years; and
- *Employment services summary report*—this provides statistics on notional bank credits for the JSKA and on JSKA expenditure for both the current and previous financial years.

7.24 These reports do not provide detail on usage by category of JSKA expenditure or an analysis beyond the national level (for example, by Labour Market Region or Employment Service Area⁷⁷). In addition, there is no breakdown by the various job seeker characteristics, such as level of disadvantage, length of unemployment or payment type.

⁷⁷ There are currently 19 Labour Market Regions and 137 Employment Service Areas in the Job Network.

7.25 DEWR has made several presentations to senior management relating to the JSKA:

- ‘JSKA Usage and Outcomes’—February 2004;
- ‘Findings on JSKA Usage’—June 2004;
- ‘JSKA’ (an update of findings on an earlier post-programme monitoring study into Job Network staffing practices)—September 2004;
- ‘Related Entity Spending under the JSKA’—March 2005;
- ‘Participation and Outcomes for Indigenous Job Seekers’—May 2005;
- ‘Australian Government Employment Services’ (presented to senior management for approval prior to its use at the National Employment Services Association conference)—July 2005; and
- ‘Predictive Modelling Tool’—September 2005.

7.26 Performance-related information is included in many of these presentations including, for example, expenditure by category, length of unemployment, age, payment type received and other job seeker characteristics.

7.27 The ANAO considers that, as part of DEWR’s internal management reporting regime, it would be beneficial for DEWR to provide performance information relating to the JSKA, including analysis of emerging trends and analysis of credits and expenditures by level of disadvantage. This is particularly important given the changing trends in JSKA usage since the beginning of the contract (both in terms of total expenditure levels and the mix of expenditure categories).

Evaluation of the JSKA

Evaluation strategy

7.28 DEWR’s current level of aggregation of performance information, and subsequent reporting, for its Active Participation Model and Output 1.2.2: *Employment services*, makes it difficult to identify the contribution the JSKA makes in helping the most disadvantaged job seekers.

7.29 DEWR did, however, finalise an evaluation strategy for the Active Participation Model in late 2004, about 12 months after the Active Participation Model was implemented. While this strategy has not been released publicly, it is an important step for a number of reasons:

- it was introduced subsequent to the evaluation of the Job Network completed in 2002;
- the JSKA, a reimbursement model with a notional account, is quite different to other models used by DEWR in either the Job Network or its other programmes;
- Commonwealth agencies⁷⁸ and the employment services industry have expressed interest in an evaluation of the JSKA; and
- DEWR's reporting through its PBS does not provide specific performance data on the JSKA.

7.30 DEWR stated in the Active Participation Model Evaluation Strategy that:

As they become available the evaluation findings will contribute to continuous improvement of policies and programmes. This should ensure that programme managers have access to information in a timely manner and that policy development is based on the available evidence.⁷⁹

7.31 A key aspect of the evaluation was to look at options for assisting job seekers, one element of which is the JSKA. The strategy indicated that the JSKA study would examine:

- the effect the introduction of the JSKA has on the way Job Network Members and staff make decisions about the assistance they provide;
- administration of the JSKA;
- who gets assistance including assessment of job seeker needs by providers and job seeker influence on access to the JSKA;
- the types of assistance provided;
- the accessibility of assistance, including options available for Job Network Members to provide the assistance required; and
- the impact of assistance provided.

7.32 The strategy stipulated that an evaluation of the JSKA would be performed in two parts. The first part would involve a qualitative study to be

⁷⁸ The Department of Prime Minister and Cabinet, The Treasury, the Department of Finance, the Department of Education, Science and Training and the Department of Families, Community Services and Indigenous Affairs indicated their interest in an evaluation of the third iteration of the Job Network in coordination comments to the original Cabinet Submission.

⁷⁹ Evaluation Strategy for the Active Participation Model, DEWR, April 2004, p. 1.

completed by mid September 2004 that would be used to inform a quantitative survey of Job Network Members. The second part of the evaluation would involve analysis of JSKA administrative data supported by the survey of Job Network Members and interviews with a sample of job seekers. DEWR also indicated that it would undertake a literature review to examine the performance of similar schemes overseas. The second part of the JSKA evaluation was to be completed by early November 2005.

7.33 The strategy proposed that assessing the impact of the Active Participation Model and its services would measure overall impact, the net impact of the various programme elements and the impact of compliance. The strategy notes that:

[S]eparating out the impact of a programme element from other elements and from the compliance regime poses difficulties, and at the end of the day is probably impossible. One of the major challenges for these studies will be to isolate the effects of the Active Participation Model from those of other policy and of the broader economic changes.⁸⁰

7.34 DEWR intended to measure the overall impact of the Active Participation Model by predicting Active Participation Model performance based on performance under the second Employment Services Contract (ESC2) and then comparing predicted outcomes with actuals. DEWR acknowledged that the major issue for the research would be the accuracy with which changes in labour market conditions between ESC2 and the Active Participation Model could be measured.

7.35 With regard to particular programme elements, DEWR intended to conduct net impact studies on individual elements of the Active Participation Model, noting that 'it will be difficult to construct control groups because most job seekers in IA (Intensive Assistance) are meant to follow particular assistance pathways'.

7.36 In relation to the JSKA, DEWR also expected that it would be possible to relate star ratings⁸¹ outcomes to the use of different forms of assistance provided under the JSKA.

7.37 While DEWR intended to manage and conduct the evaluation, it indicated that it planned to establish an interdepartmental reference group to

⁸⁰ Evaluation Strategy for the Active Participation Model, DEWR, April 2004, p. 13.

⁸¹ Star ratings are DEWR's system of setting a comparative order of merit among Job Network sites, reflecting DEWR's assessment of their relative performance (see paragraph 7.49).

advise on evaluation issues and approaches as the need arose. In addition, DEWR indicated that it would present the evaluation strategy to an evaluation advisory panel, made up of representatives from the employment services industry and academics with expertise in research into the performance of labour market assistance, to provide independent advice on evaluation and research methodologies.

7.38 At the time of the audit, DEWR advised that the Active Participation Model Evaluation Committee⁸² had met once, in early December 2004, to review a draft of the Active Participation Model Evaluation Strategy. Minutes of that meeting document the committee's agreement that:

- all reports arising from the evaluation would, where appropriate, include a discussion of the environment, including economic environment, in which the studies were undertaken; and
- Centrelink would be invited to become a member of the steering group, to draw on their knowledge of the implementation of the Active Participation Model and Active Participation Model related data sources.⁸³

7.39 DEWR has advised that there has not been a meeting of the DEWR Evaluation Advisory Panel since the Active Participation Model Evaluation Strategy was developed.

Overview of evaluation activity

7.40 DEWR has prepared a number of reports that present findings from its evaluation activities since the introduction of the JSKA in July 2003. Several of these have draft status.

- *The Job Seeker Account—A Qualitative Study*, July 2004;
- *Job Network Best Practice*, April 2006
 - includes a study of the effectiveness of the JSKA based on qualitative studies of the practices of Job Network Members and the views of job seekers conducted over two time periods, March–May 2004 and December–February 2005, and on analysis

⁸² Including representation from the Department of Prime Minister and Cabinet, The Treasury, the Department of Education, Science and Training and the Department of Families, Community Services and Indigenous Affairs.

⁸³ Outcomes of the Active Participation Model Evaluation Steering Committee Meeting, DEWR, 4 December 2004.

of administrative data (much of this analysis is based on data collected in early 2005);

- *Training under the Job Seeker Account*, February 2006 (the analysis period was March 2004–July 2005);
- Draft *Job Seeker Account Study*, mid 2005 (the majority of the research reported in this paper relates to the first two years of the Employment Services Contract 3, 2003–2005);
- Draft chapter on the Job Seeker Account, which DEWR advised would form part of an Active Participation Model evaluation report, July 2006;
- *Jobseeker Account Evaluation Report*, August 2006
 - DEWR has informed the ANAO that this report supersedes previous reports and draws together all research conducted on the JSKA. While some of the analysis has been updated to June 2006, the reference periods for other elements of the analysis are not provided.

7.41 The ANAO found that these reports each sought to address different questions relating to the JSKA and used different methodologies to address these questions. Subsequently, the focus and findings of these reports are quite different.

7.42 A DEWR presentation was made to the National Employment Services Association conference in 2005 and in 2006 on the JSKA. In August 2006, DEWR drafted the *Jobseeker Account Evaluation Report*. This report was published on the department's workplace internet site⁸⁴ in December 2006.

Impact of the JSKA on outcomes and performance

Key findings of the draft JSKA Study 2005

7.43 The draft JSKA study (written in late 2005) used a net impact analysis methodology that compared the labour market outcomes of job seekers who received JSKA assistance to similar groups who did not. The study found that:

The job seekers' labour market disadvantage and propensity for unemployment were the major predictors of whether a job seeker would be on or off-benefit in June 2005 following ISca assistance, not the level of assistance they received from the JSKA. Despite expensive tailored assistance, many

⁸⁴ <www.workplace.gov.au>.

highly disadvantaged and long term unemployed job seekers failed to obtain employment or remain off-benefit for significant periods of time.⁸⁵

7.44 The study concluded that:

[m]any job seekers do not need substantial levels of assistance to enter employment and that extremely expensive assistance (even wage subsidies) often failed to change the long term employment outcomes of job seekers. Rather, high quality internal management practices added to the effectiveness of the assistance purchased from the Job Seeker Account – well run organisations were better at helping job seekers.⁸⁶

Key findings of the draft chapter for the Active Participation Model evaluation, July 2006

7.45 The draft chapter for the Active Participation Model evaluation also used net impact analysis and found that job seekers who received JSKA were more likely than other job seekers to find employment lasting at least 13 weeks.⁸⁷

Key findings of the Jobseeker Account Evaluation Report, August 2006

7.46 The *Jobseeker Account Evaluation Report*, notes that, ‘as the JSKA is an integral element of the Active Participation Model, it is not really possible to isolate the effects of the JSKA in a traditional net impact study’.⁸⁸

7.47 The report goes on to say that, while such an analysis was previously attempted (as outlined above):

[u]ltimately, the results showed net impacts of between 10 and 30 per cent for assistance as modest as bus tickets and new clothes. While such results, if valid, would be very positive indeed, it appears highly likely that some bias effects were at play.⁸⁹

7.48 In regard to measuring the effectiveness of the JSKA, DEWR indicated in the report that:

Firstly, ... the net impact of Job Network services overall has been assessed and found to be highly positive. Secondly, it is possible to examine the mix of

⁸⁵ *Draft JSKA Study*, Outcomes from the Job Seeker Account, DEWR, 2005, p. 14.

⁸⁶ *Draft JSKA Study*, Outcomes from the Job Seeker Account, DEWR, 2005, p. 17.

⁸⁷ Draft Chapter for the Active Participation Model evaluation, DEWR, July 2006, p. 3.

⁸⁸ *Job Seeker Account Evaluation Report*, DEWR, August 2006, p. 24.

⁸⁹ *ibid.*

assistance provided under the Jobseeker Account to see which elements are the most effective in terms of assisting jobseekers into work.⁹⁰

7.49 Measuring the contribution of JSKA expenditure to the achievement of employment outcomes for job seekers is complex. DEWR has taken two approaches to determine the relative impact of different types of JSKA assistance:

- a comparison with DEWR's 'star ratings'; and
- a regression analysis restricted to job seekers who had received assistance under the JSKA.

Correlation with star ratings

7.50 DEWR uses a star ratings system to assess the performance of its Job Network providers across Australia. DEWR assigns star ratings to Job Network providers at the site level. They range from one star (described by DEWR as indicating 'room for improvement') to five stars (representing 'performance that is well above the average') in half-star increments.

7.51 DEWR adjusts Job Network providers' business share at the site level, up or down, according to the star ratings they have achieved. In this way, DEWR uses star ratings as an incentive to improve provider performance through competitive pressure.

7.52 Star ratings measure relative, not absolute, performance. DEWR calculates performance measures for each Job Network provider at the site level to gauge the performance of each provider, using the range of job seeker fees and payments according to a percentage weighting including job placement fees, interim payments, final intermediate payments, interim outcome payments and final outcome payments.

7.53 ANAO analysis of DEWR data for December 2005 found that the average JSKA usage for a 1 to 1.5 star site was 66.7 per cent, while for a 4 to 5 star site the average was higher at 78.4 per cent. It should be noted that only 5.3 per cent of providers received a rating of less than 2 stars in December 2005.

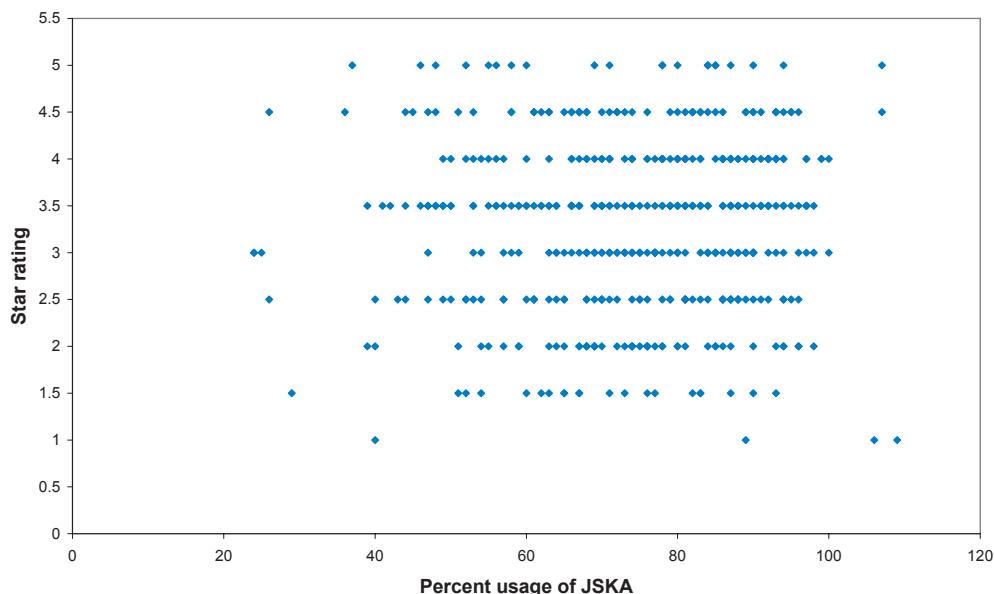
7.54 Trend data illustrate that sites with lower star ratings made a slow start with regard to JSKA expenditure and that this slow start is still being reflected in their percentage usage of the JSKA (although the gap has been closing).

⁹⁰ *ibid.*

7.55 While, on average, since the JSKA was implemented, higher performing sites have spent a higher proportion of their notional accounts. However, ANAO analysis shows that in December 2005 the average expenditure for a 1 to 2 star provider was 73 per cent, while 2.5 to 3.5 star providers spent on average 74 per cent of their notional accounts and 4 to 5 star providers spent an average of 76 per cent. Figure 7.1 illustrates the wide variation in expenditure patterns across sites with various ratings.

Figure 7.1

Star rating by per cent usage of the JSKA, December 2005



Source: DEWR administrative data

7.56 DEWR has compared the correlation of different types of assistance with star ratings. The department found that there is a high correlation between star rating and employer incentives such as wage subsidies.⁹¹ DEWR's report titled *Job Network Best Practice*, April 2006 (the findings from which are summarised in the August 2006 report), carries the following caveat on this analysis which is not articulated in the August 2006 report:

With all of these findings it is not entirely clear whether the strategies and practices (such as the greater use of wage subsidies) were driving the higher performance or whether they were simply a result of the higher performance.

⁹¹ Wage subsidies are allowable expenditure under the JSKA.

... As such, providers will need to exercise some care in the application of these findings to particular sites.⁹²

7.57 In addition, the ANAO notes that while DEWR recognised in the *Jobseeker Account Evaluation Report* that 'it is also necessary to control for a range of other factors associated with provider performance, such as staffing strategies and employer servicing strategies'⁹³, the analysis did not control for the role of the site manager, which DEWR's *Job Network Best Practice Guide* stated was 'a central driver of success'⁹⁴ for Job Network Members.⁹⁵

Regression analysis: correlation with 12 month off benefit outcomes

7.58 The comparative regression analysis showed that the categories of JSKA expenditure most likely to lead to 12 month off benefit outcomes⁹⁶ were:

- employer incentives;
- job seeker incentives; and
- self-employment expenses.

7.59 The ANAO notes that job seeker incentives were disallowed under the JSKA in May 2005 and that in the same cohort of changes, self-employment expenses were substantially limited.

7.60 DEWR's regression analysis showed that the expenditure categories least likely to lead to a 12 month off benefit outcome were:

- interpreter services;
- Job Network Member transport; and
- training.

7.61 DEWR advised the ANAO in relation to this analysis that:

Care should be taken with these results as they do not control for selection biases, in particular the fact that providers may give some forms of assistance

⁹² *Job Network Best Practice*, DEWR, April 2006, p. 6.

⁹³ *Job Seeker Account Evaluation Report*, DEWR, August 2006, p. 25.

⁹⁴ *Job Network Best Practice*, DEWR, April 2006, p. 10.

⁹⁵ DEWR advised that it was not possible to control for this factor as data on the impact of the site manager was not available for all sites included in the regression analysis. The limitations that this places on the usefulness of the regression analysis is not acknowledged in the *Jobseeker Account Evaluation Report*.

⁹⁶ A 12 month off benefit outcome refers to a job seeker, who, at 12 months after receiving assistance through the JSKA, is no longer receiving labour market assistance in the form of unemployment or other working age payments from Centrelink.

to the most employable job seekers. Similarly costs are not controlled for, and different forms of assistance can have different costs.⁹⁷

Factors to be considered when interpreting the evaluations

Factors associated with the nature of JSKA expenditure

7.62 The ANAO considers that any analysis of the impact of the JSKA on outcomes or performance should take into account the effect on expenditure patterns of the DEWR principle that JSKA expenditure is to be directly related to a job seeker securing an employment outcome. Outcome fees are claimed by Job Network Members when they have successfully placed job seekers in employment for periods of 13 weeks or 26 weeks. DEWR qualitative evaluation found that:

Many providers reported that they placed a high priority in using the JSKA to get job seekers 'over the line' into a job and to actively support job seekers in the early months of employment.⁹⁸

7.63 Much JSKA expenditure is consequently focused on assisting people into an identified job and providing ongoing support once they are in employment. Therefore, it would be expected that JSKA expenditure would be highly correlated with outcomes at 13 weeks and 26 weeks and beyond.

7.64 Another factor contributing to the difficulties in interpreting data relating to the impact of the JSKA, and the relative impact of specific categories of expenditure, is that many job seekers receive more than one type of assistance under the JSKA and/or may receive the same type of assistance several times.

7.65 The fact that Job Network Members do not necessarily claim their JSKA expenditure directly after the expenditure is incurred, that is, when the job seeker receives the benefit, can also complicate calculations relating to the timing of JSKA expenditure and any related outcomes.

Factors associated with the mix of assistance

7.66 Job seekers registered with a Job Network Member may participate in a range of programmes (for example, Work for the Dole) and receive a range of assistance (for example, Customised Assistance and Job Search Training) during their period of unemployment. Many job seekers would have

⁹⁷ E-mail from DEWR dated 12 September 2006.

⁹⁸ *Jobseeker Account Evaluation Report*, DEWR, August 2006, p. 16.

participated in more than one of these elements of the Active Participation Model and some of these elements can occur concurrently.

7.67 In the *Jobseeker Account Evaluation Report*, DEWR states that ‘outcomes achieved under the JSKA are sustained over time at a level equivalent to other programmes such as Customised Assistance, Job Search Training and Work for the Dole’.⁹⁹ It is not clear how the mix of assistance provided to job seekers has been taken account of in the analysis.

Exogenous factors

7.68 DEWR’s Active Participation Model Evaluation Committee agreed that all reports arising from the evaluation would, where appropriate, include a discussion of the environment, including the economic environment, in which the studies were undertaken. DEWR also noted that isolating the effects of the Active Participation Model from broader economic changes would be a key challenge for the evaluation team.

7.69 The ANAO notes that the *Jobseeker Account Evaluation Report* has not provided contextual analysis relating to the broader economic environment.

7.70 In response to a previous ANAO audit,¹⁰⁰ DEWR stated that:

[I]t is very difficult to determine quantitatively the effect of Departmental programmes (including Job Network) on the average duration of unemployment and the rate and incidence of long term unemployment—most of the explanatory variables reported in these two studies¹⁰¹ are largely outside the Department’s influence and Job Network spending accounts for well under half a per cent of GDP.

7.71 The ANAO considers that any attempt to quantitatively assess the impact of an individual component of the Active Participation Model on outcomes, without an overall assessment of the impact of the model,¹⁰² is necessarily constrained.

⁹⁹ *ibid.*, p. 22.

¹⁰⁰ Audit Report No. 6, 2005–06, *Implementation of Job Network Employment Services Contract 3*, ANAO.

¹⁰¹ Refers to studies conducted on DEWR’s behalf by Connolly and Cunningham (2004) and Connolly, Herd and Neo (2002).

¹⁰² DEWR has advised that finalisation of the Active Participation Model evaluation is subject to resource availability.

Does usage of the JSKA reflect a job seeker's individual need?

7.72 One of the guiding principles of the JSKA is that its use must reflect a job seeker's individual needs. DEWR's Job Seeker Account Fact Sheet¹⁰³ states that the JSKA was designed to help the most disadvantaged job seekers.

7.73 The ANAO considers that the extent to which the JSKA addresses individual needs is an important measure of its effectiveness.

7.74 As noted in Chapter 1, 56 per cent of job seekers who were eligible for JSKA assistance received some form of assistance under the JSKA. Of those who received JSKA assistance, the majority (approximately 60 per cent) received less than \$500. DEWR analysis showed that, in the contract period to 1 July 2005, 5.6 per cent of eligible job seekers received 48 per cent of the JSKA funds disbursed.¹⁰⁴ This pattern of expenditure, with a very small proportion of eligible job seekers receiving a high level of JSKA funds, makes it even more important to ensure that the job seekers receiving JSKA funds, especially those receiving large amounts of JSKA funds, are those most in need.

7.75 DEWR, based on its interviews with Job Network Members, found that:

The decision of many providers to assist an individual job seeker with the JSKA was based on the job seeker's:

- level of engagement with their Job Network Member; and/or
- demonstrated commitment to job search and motivation to obtain employment.¹⁰⁵

7.76 Furthermore, the decision on how much to spend was influenced by:

- whether expenditure will make it more likely that the job seeker will get a job; and
- the likelihood that the job will result in an outcome payment for the provider.¹⁰⁶

7.77 DEWR's qualitative findings indicate, and ANAO research supports, that for many Job Network Members the link to a job needs to be very strong before they will spend JSKA funds. In some cases this can mean that a job must be lined up or promised before JSKA funds are spent. DEWR notes that for

¹⁰³ The Job Seeker Account Fact Sheet is located on the DEWR Employment Services Network, a secure web site for Job Network Members.

¹⁰⁴ Draft JSKA study, based on data from 1 July 2003 to 1 July 2005.

¹⁰⁵ *Jobseeker Account Evaluation Report*, DEWR, August 2006, p. 16.

¹⁰⁶ *ibid.*

some providers this means a greater focus on providing assistance for their most job-ready clients.¹⁰⁷

7.78 DEWR's *Jobseeker Account Evaluation Report* shows that there is little variation in the type of JSKA assistance provided by JSKA characteristics such as duration on benefit or type of Centrelink benefit received (for example, unemployment benefit, disability pension or single parenting payment).

7.79 The ANAO reviewed JSKA expenditure, examining both the level of disadvantage and the length of unemployment of the job seeker.

7.80 The ANAO found that Highly Disadvantaged job seekers accounted for approximately 33 per cent of all eligible job seekers in 2005–06.

7.81 DEWR provides Job Network Members with higher credits for job seekers classified as Highly Disadvantaged, but does not require Job Network Members to spend more of the JSKA on this group. It is at the Job Network Members' discretion to spend JSKA funds as they see fit within DEWR's principles and guidelines.

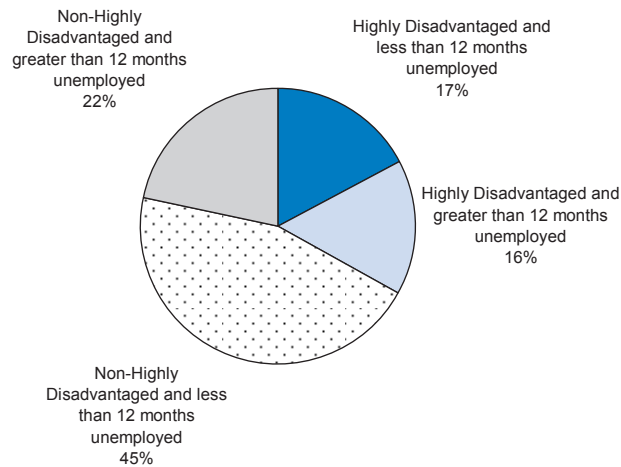
7.82 While credits on behalf of Highly Disadvantaged job seekers accounted for 59 per cent of total credits in 2005–06, Highly Disadvantaged job seekers received 44 per cent of the expenditure in that year.

7.83 The ANAO considered the relative level of credits and debits for job seekers segmented by both level of disadvantage and a basic measure of length of unemployment (less than or greater than 12 months unemployed). Figure 7.2 illustrates the percentage of the job seeker population in each of these categories in 2005–06.

¹⁰⁷ DEWR's *Draft JSKA Study 2005* stated that 'extent of job readiness and engagement were key factors influencing who got assistance'. In the same report DEWR found that 'some clients did not receive assistance because the Job Network Member believed they could obtain work without extra assistance. Others, particularly highly disadvantaged clients, were less likely to receive assistance because providers believed they were 'to far from work' to qualify for JSKA assistance'.

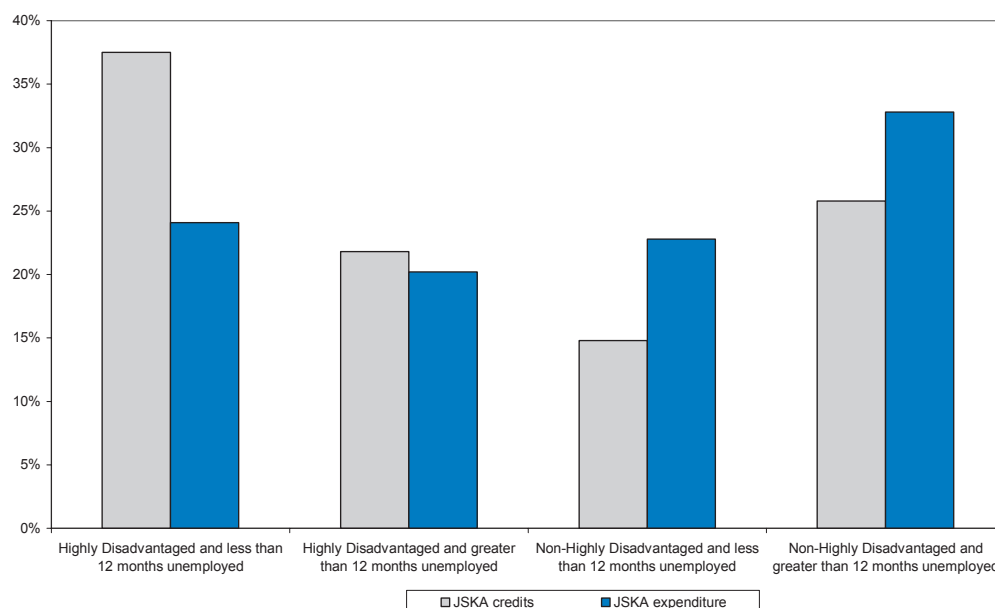
Figure 7.2

Job seeker population by level of disadvantage and length of unemployment, 2005–06



Source: ANAO analysis of DEWR administrative data

7.84 Figure 7.3 illustrates the relationship between credits to the notional bank and JSKA expenditure by job seeker status during 2005–06.

Figure 7.3**Level of JSKA credits and expenditure by job seeker status, 2005–06**

Source: ANAO analysis of DEWR administrative data

7.85 ANAO analysis shows that the job seekers least likely to have received assistance commensurate with the credits made on their behalf were those classified as Highly Disadvantaged and unemployed for less than 12 months. Job seekers not considered Highly Disadvantaged but unemployed for more than 12 months were most likely to receive levels of assistance considerably higher than their credit levels. While this group accounted for 22 percent of the population, they received 33 per cent of the JSKA funds disbursed in 2005–06.

7.86 DEWR's draft chapter on the JSKA for inclusion in the Active Participation Model evaluation, July 2006, assessed the extent to which funds had been used as intended and, in particular, whether disadvantaged job seekers had been assisted as intended. With reference to the pattern of Highly Disadvantaged job seekers receiving a relatively low proportion of the funds credited to them, the evaluation concluded that:

This pattern of expenditure suggests that the use of the JSKA has not been entirely consistent with its objectives and consideration could be given to a separate pool of funds for the less and more disadvantaged job seekers.¹⁰⁸

¹⁰⁸ Draft chapter on the JSKA for inclusion in the Active Participation Model evaluation, DEWR, July 2006.

7.87 The ANAO considers that DEWR should examine further the extent to which the JSKA is spent on the basis of individual need—one of the guiding principles of the JSKA.

Data integrity issues with DEWR's evaluation of the JSKA

7.88 An ANAO review of the latest DEWR evaluation of the JSKA (provided to the ANAO in August 2006) highlighted a number of inconsistencies between data provided by DEWR's Operational Information Analysis Branch (which provided the ANAO with much of the data presented in this report) and the data presented in the evaluation report. For example:

- JSKA expenditure for the month of March 2006 varies by nearly \$8 million;
- the proportion of expenditure under the professional services category attributed to reverse marketing varies by approximately 25 per cent; and
- there are inconsistencies relating to the level of JSKA expenditure in various categories.

7.89 While these inconsistencies may be due to varying methodologies and timeframes employed by DEWR, the *Jobseeker Account Evaluation Report* does not provide sufficient information relating to these factors to assist in interpretation of its findings. These are matters that could be usefully addressed in finalising the evaluation report.

Data collection issues impacting on reporting and evaluation requirements

7.90 DEWR collects a wide range of data relating to JSKA expenditure. All JSKA expenditure is linked to a job seeker identifier, which allows analysis of JSKA expenditure by all job seeker characteristics. Job Network Members have queried the level of data required to input a JSKA claim and DEWR has worked with Job Network Members to reduce the amount of data collected. While an exception was made for bulk transactions, DEWR has maintained the need for the majority of transactions to be linked to job seekers in order to meet reporting and evaluation requirements.

7.91 There are, however, a number of issues relating to the way data are recorded that impact on the usefulness of the data for reporting and evaluation purposes.

7.92 The ANAO found that many categories of JSKA expenditure are used either just prior to or during a job placement. For example, clothes are purchased for an interview or are required for a job, wage subsidies are paid for a specific placement and additional contacts are often used in post-placement support. However, expenditure, while linked to an individual, is not linked to a particular placement within DEWR's computer systems. It is, therefore, difficult to determine when JSKA funds are being spent in relation to a placement. This has implications in assessing to what extent the JSKA is being used to assist people into work or support them once they are employed.

7.93 Also, there are particular issues with certain categories of expenditure. Data relating to wage subsidies supplied by DEWR refer to an amount as being the average level of a wage subsidy, yet this would be impacted significantly by the fact that a single wage subsidy agreement may constitute six or seven transactions in EA3000.

7.94 The ANAO found that Job Network staff commonly split a single claim into a number of transactions in an effort to stay within the limits imposed by their organisation for single JSKA claims. Conversely, a series of additional contacts for a particular job seeker may be consolidated into one claim. This practice causes DEWR to lose key information relating to the way the JSKA is being used, for example, that Job Network Members may be billing for a large volume of 15-minute contacts.

7.95 DEWR employs various methods to account for these difficulties. These methods have changed over time and are not described in DEWR's evaluation reports. Lack of documentation makes it difficult to compare analyses for different time periods. For example, DEWR reports that from July 2003 to July 2005, the average wage subsidy was \$1 983. However, in April 2006 it reported that the average subsidy was \$2 263, and data produced by the Operational Information Analysis Branch to 30 June 2006 show an average subsidy of \$2 611; it is not clear whether this large increase in the average wage subsidy is real or whether it is due to methodological factors.

7.96 The ANAO considers DEWR could increase the accuracy and usefulness of its reporting and analysis of JSKA expenditure by addressing these data issues and, where this is not possible, seeking to arrive at a uniform and documented methodology for data reporting.



Ian McPhee
Auditor-General

Canberra ACT
17 April 2007

Appendices

Appendix 1: Categories of Job Seeker Account Expenditure

Category	Expenditure
Clothing and equipment	
1. clothing	1. Any clothing purchased for a job seeker for employment related activities or to facilitate access to employment opportunities.
2. equipment	2. Any equipment purchased for a job seeker for employment-related activities or to facilitate access to employment opportunities except equipment purchased as part of a training activity or for self-employment purposes.
Employer incentives	
1. wage subsidies	1. Any payment made to an employer in the form of a wage subsidy package to facilitate employment of an eligible job seeker.
Fares and petrol assistance	
1. fares	1. Any fares purchased for job seekers for employment or job search related activities, including fares charged for transport provided by a Job Network Member.
2. petrol	2. Any petrol purchased for job seekers for employment or job search related activities.
Interpreter services	Any accredited interpreter services purchased for an eligible job seeker for employment or job search related activities or requisite Active Participation Model activities.
Job Network Member contacts	Any fees charged to the JSKA for additional contacts with, or services provided to, eligible job seekers over and above the scheduled appointments and services outlined in the contract (except where there is a more appropriate category – for example, professional services categories).
Job Network Member transport costs	Any legitimate transport costs incurred by Job Network Members in servicing eligible clients – for example, costs associated with outreach and remote servicing. Where these include accommodation and meals costs they should be reflected in the comments field.
Other	Any legitimate costs that do not fit appropriately under the other categories listed. Comments must clearly reflect nature of the purchase. (Note: ESC3, Part B, Clause 7.10 identifies items for which use of the JSKA is not acceptable).

Category	Expenditure
Professional services	
1. drug & alcohol counselling	1. Any accredited counselling services related to drug and alcohol issues.
2. medical	2. Any accredited professional services related to medical issues.
3. mental health counselling	3. Any accredited counselling services related to mental health issues.
4. reverse marketing	4. Any activities that involve marketing a job seeker to potential employers.
5. vocational counselling	5. Any accredited careers counselling or other employment-related counselling services.
6. vocational rehabilitation	6. Any accredited professional services related to vocational rehabilitation of a job seeker.
Relocation assistance	Any costs associated with the relocation of a job seeker for an employment opportunity (for example, travel costs,; rental assistance; goods transport).
Self-employment	
1. Mentoring/business support	1. Any other business costs related to establishing or sustaining self-employment (for example, business advice or financial counselling services; access to mentoring services).
Training	
1. books and equipment	1. The cost of books and equipment essential to or related to a training or education activity.
2. training	2. The cost of enrolment in any training organisation or educational institution to undertake a course or activity (or any associated costs) resulting in obtaining a skill or qualification (includes obtaining RPL). On the job training activities, training related to obtaining heavy vehicle or machine operation licenses, etc. should also be recorded in this category.
Transport assistance	
1. associated cost	1. The cost of obtaining motor vehicle driver's licenses or permits; vehicle registration; vehicle insurance etc.
2. driving lessons	2. The cost of motor vehicle driving lessons provided by a professional driving trainer.
3. transport purchase	3. Any mode of transport purchased for a job seeker (for example, car; bike etc).
Work related licensing	Any costs associated with obtaining professional or work related licenses.

Source: DEWR

Appendix 2: DEWR Communication Channels

National Policy Clearing House (NPCH)

1. The NPCH is an Internet-based site containing a database of information that provides clarification on or answers to questions regarding all employment programmes. The information it contains goes beyond the JSKA and is available for both DEWR staff and Job Network staff as a point of reference. Contract managers advised that questions they raised related to the JSKA were posted on this site, together with the answers. A search of the NPCH relating to the JSKA yielded 12 results. Given the many questions Job Network Members have raised with contract managers, the number of matters recorded on the NPCH is relatively small. Some of the items found could only be accessed by DEWR staff (there are different levels of access) and other queries were very old.

DEWR secure intranet site

2. Operational advice and job aids are accessible by Job Network Members on the DEWR secure site. The site includes questions and answers relating to the JSKA, information on the loan phone scheme, the expenditure principles and guidance, as well as advice regarding processing bulk claims. The operational advice is categorised such that all advice related to the JSKA is in one area. With the operational guidance available on the secure site, it is not easy to discern what might have changed, or when particular changes were made.

3. The site also contains a noticeboard where information on the JSKA may be available. This material is archived, although it is not searchable.

4. DEWR advised the ANAO that the site is being redeveloped to provide improved features such as:

- process-driven information categories;
- easily manipulated information architecture;
- alerts to updated information;
- more accessible and updated content; and
- teleconferencing.

Teleconferences

5. The ANAO noted that the Job Seeker and Flexible Services Section has held JSKA Contact Group Teleconferences, involving contract managers and selected Job Network Member representatives, over the life of ESC3. Many of the discussions have involved clarification of the principles and guidance related to JSKA expenditure. Job Network Member representatives have also raised questions relating to procedures for processing particular claims or making adjustments to claims. The ANAO notes that the question of the Job Network Members' notional accounts not obtaining credits where some job seekers are undertaking a second period of intensive assistance was first discussed in this forum (this matter is referred to in Chapter 5 in an analysis of notional account matters).

Other channels of communication

6. EA3000 bulletins are accessed through EA3000 and contain information about guidelines, the EA3000 system, upcoming events and a range of other matters. The majority of bulletin items relate to systems matters. An online update is posted on the bulletin board each week. It contains announcements on a variety of matters related to ESC3, including the JSKA. Back issues of updates are available, although they are not searchable and thus do not allow particular matters relating to the JSKA to be extracted.

7. DEWR also provides information to Job Network Members through 'Employment Extra', which is an online and printed magazine that contains articles on topics related to DEWR employment programmes. Topical articles relating to the JSKA have appeared in the magazine.

Appendix 3: Centrelink Communication with Job Seekers and Job Network Members

1. Centrelink facilitates the initial contact between job seekers and Job Network Members and provides basic advice on the process that is involved. DEWR has in place a Business Partnership Agreement with Centrelink that provides a framework under which the relationship between DEWR and Centrelink is managed.

2. Under arrangements introduced in 2005, Centrelink uses a procedure called 'rapid connect' to ensure early contact between job seekers and Job Network Members. This referral process can occur as a result of job seekers contacting Centrelink through its Call Centres or visiting a Customer Service Centre (CSC). The referral process works in a similar manner in either circumstance.

3. As part of the 'rapid connect' process, a Centrelink officer reads to a job seeker from a prepared script. In regard to the JSKA, the same words are used regardless of whether the job seeker is required by Centrelink to be looking for work or not (such as those receiving Parenting Payment). The text used includes the following:

The provider can provide a wide range of employment assistance, including assistance to prepare and update resumes, assistance with training and skills development, help with attending job interviews and help with starting work.

4. During discussions with Job Network Members, the ANAO asked about their relationship with Centrelink, particularly in regard to JSKA matters. The general response from Job Network Members was that the relationship was good, and that any issues that arose from time to time were resolved quickly. The Job Network Members understood the need for their local sites and the local Centrelink CSCs to have good two-way information flows.

5. However, in discussions during the audit, Job Network staff commented that job seekers sometimes come to them with particular expectations about the type of assistance Job Network Members can provide. Job Network Members indicated that this appears to be particularly prevalent with job seekers who were receiving Parenting Payment and who wish to receive assistance from Job Network Members for training courses. The Job Network Members commented that often the job seeker concerned was not eligible for JSKA expenditure beyond interpreter and travel costs, and that

under the Active Participation Model it could be some time before the job seeker was eligible for more comprehensive assistance. The ANAO considers that the wording of the script used by Centrelink, which specifically mentions training opportunities, could lead certain job seekers to develop unrealistic expectations. DEWR notes that Intensive Support job search training is available after job seekers enter Intensive Support (after three months' unemployment).

6. DEWR advised that it has reviewed the script and will request a change to ensure job seeker expectations are not raised.

7. The ANAO undertook discussions with staff of two CSCs and one Call Centre. In discussions undertaken as part of the audit, Job Network staff indicated that they had a reasonable local knowledge of the Job Network Members working in their area and how the Active Participation Model operated. Staff at the Call Centre were not as certain about what the Job Network Members did as they had no contact with them in the normal course of their duties. This appeared to be particularly true for those who dealt with non-activity tested job seekers.

8. Some of the Job Network Member sites visited had quite close relations with the local CSC, including staff familiarisation visits by the local CSC to the Job Network Member site. This process was considered to be beneficial for both parties.

Appendix 4: DEWR's Formal Comments on the Proposed Report

Introduction

The Department of Employment and Workplace Relations (DEWR) welcomes the opportunity to participate in the performance audit of the Job Seeker Account (JSKA). DEWR has worked closely and productively with the Australian National Audit Office (ANAO) since the audit commenced in February 2006.

Since its introduction in July 2003 to December 31 2006 over 800 000 job seekers have received JSKA assistance. Seventy-three per cent of job seekers who were provided with assistance through the JSKA in the last twelve months have been placed into employment.

DEWR welcomes the ANAO's conclusion that the overall approach the department has taken to administer the JSKA is sound. The ANAO has recognised that the department has put in place a risk management framework and associated tools; guidance for Job Network Members on eligible claims; a post-claim monitoring regime and an evaluation strategy. The report also recognises DEWR's structured approach to risk management, both at the departmental level and when managing risks presented by contracted organisations. The ANAO has also recognised the considerable priority that the department gives to monitoring JSKA usage.

While these are significant areas of agreement, there are some parts of the report where agreement is not possible. DEWR is concerned that many areas do not present findings in an appropriate context. DEWR's response for inclusion in the appendix to the final report clarifies many aspects of the administration, management and evaluation of the JSKA and provides the necessary context to fully understand the JSKA.

The Report makes two recommendations. DEWR agrees in part with the first recommendation and disagrees with the second recommendation. DEWR considers that the costs/risks associated with these disagreed recommendations outweigh the benefits. DEWR is also concerned that some areas of the report do not present findings in an appropriate context. DEWR's response clarifies many aspects of the administration, management and evaluation of the JSKA and provides this context.

1. DEWR response to issues raised in the Report

References to materials in the Summary of the Report should be taken as relevant to related references in the main body of the Report.

Introduction

ANAO has reviewed DEWR's risk management strategies for the JSKA. DEWR has a number of issues with ANAO's review of DEWR's JSKA risk management strategies.¹⁰⁹

DEWR has a structured approach to risk management to provide assurance across all aspects of programmes. Risks are identified across all of Job Network and are not limited to a particular element such as JSKA, to ensure that risks can be assigned and consistently assessed by all employment services programmes. The DEWR risk management framework is supported by DEWR's on-line Risk Management Module tool which lists all relevant risks and records risk assessments, agreed actions and comments on an organisational and site by site basis.

There are 6 Organisation Risks and 16 Site Risks applied to all of DEWR's labour market employment service programmes, classified into four risk families: financial; servicing; performance and compliance.

The DEWR programme manager determines the risks that are most applicable to each service. In the case of Job Network (JN), 13 of the possible 16 risks were selected.

The JSKA is considered a Contract Monitoring Priority for 2006–2007 and guidance to the monitoring of the JSKA has been provided to contract managers. Guidance has also been provided to ensure that risks of concern are accurately recorded in the Risk Management Module, with comments and action plans reflecting the level of risk that has been identified.

The DEWR Job Network programme area works with Contract Management and State Office counterparts, and with the oversight of the Programme Assurance and Risk Management Committee (PARMS), to develop Job Network specific indicators and benchmarks for each risk. These indicators and benchmarks are periodically reviewed and updated, and form a basis for DEWR

¹⁰⁹ ANAO comment: Paragraphs 3.4–3.6 of this report outline DEWR's approach to managing contract risks.

account and contract managers to assess risks and develop risk plans. Job Network risks and indicators including JSKA elements were, for example, reviewed and updated prior to the commencement of the 2006 contract extension for Job Network services. The department continues to ensure that indicators and benchmarks are developed and updated for each programme, and service element, to address existing and emerging risks.

DEWR considers the established risk management framework provides a robust and integrated basis for management of programme risks, including JSKA risks. As part of continuous improvement of these established risk descriptions, indicators and benchmarks, DEWR will continue to periodically consider enhancements for programme priority areas.

Response to issues raised in specific paragraphs in the summary of the proposed audit report

- *Paragraph 20: ANAO considers that risk mitigation strategies could be better targeted by separately identifying JSKA risk; clarifying risk descriptions and revising associated risk indicators and benchmarks.*

DEWR currently has a number of JN indicators and benchmarks that detail the risk associated with JSKA usage. These indicators and benchmarks are currently linked to one organisation risk and five site risks. By incorporating JSKA within an integrated approach to Risk Management framework, DEWR is able to best take into account JSKA risks that may be influenced by differences in labour markets or regional factors and/or organisational or site risk history. This process still allows the overall risk level to reflect any high risks specific to JSKA.

Job Network risks, including risks relating to JSKA usage, were reviewed by DEWR recently in preparation for the implementation of Job Network contract extensions in mid 2006. DEWR periodically reviews and updates risks for currency for existing and any emerging risks.

DEWR does not agree that separation of JSKA risks from within the current, integrated approach to consolidated assessment of Job Network risks would give greater assurance than under the current approach¹¹⁰.

- *Paragraph 21: ANAO considers that risk assessments could be improved by ensuring that the approach to assessing the likelihood of JSKA risks eventuating is consistent and is documented.*

DEWR has provided guidance to its DEWR Contract Managers to ensure that 'risks of concern' are accurately recorded in the Risk Management Module, with action plans and comments reflecting the level of risk identified. The operation and use of the Risk Management Module is an important part of ongoing Contract Manager capabilities within DEWR.¹¹¹

¹¹⁰ ANAO comment: See paragraphs 3.8–3.15 of this report for further detail on how DEWR has addressed specific JSKA risks. Rating JSKA risks separately from other Job Network risks would allow the higher level for risk presented by JSKA payments to be overtly recognised. Separately rating JSKA risks does not preclude their management within DEWR's risk management framework.

¹¹¹ ANAO comment: The ANAO's findings relate to the consistency and documentation of the risk assessment process, that is, how contract managers arrive at a risk rating rather than how it might be recorded in DEWR's Risk Management Module. Further detail relating to risk assessments is included at paragraphs 3.22–3.28.

- *Paragraph 22: ANAO states that monitoring JSKA usage through desktop monitoring and site visit could be better targeted at those Job Network Member sites presenting the highest level of risk.*

In line with sound risk management practice, DEWR already targets monitoring activity to ‘risks of concern’. DEWR also uses a range of processes, including routine desktop review, site monitoring samples and programme assurance, to augment targeted work so as to monitor for new or emerging risks. DEWR JSKA Guidelines outline the additional tasks and actions that should be undertaken if ‘risks of concern’ are identified. DEWR has analysed a number of JN providers across different states and sites which show that, on the whole, monitoring activity is targeted to ‘risks of concern.’¹¹²

- *Paragraph 27 and 28: ANAO assessment that DEWR should assess JNM internal controls on JSKA expenditure. This would assist DEWR Contract Manager monitoring as they could focus on JNMs identified as having inadequate JSKA controls in place.*

As noted by ANAO, DEWR has a structured approach to risk management, both at the department level and when managing risks presented by JNMs. The ANAO does not provide evidence that relying more on Job Network Member’s own internal controls or fraud control documentation would give better assurance to the Commonwealth of JSKA expenditure, nor alter the need for DEWR to sample JSKA claims to assure any such controls were in practice in place and having effect. In line with sound risk based practices, Job Network Members’ demonstrated monitoring results are already taken into account in determining a commensurate level of ongoing scrutiny. DEWR does not seek to legally substitute itself for the office holders and management of not-for-profit and commercial Job Network organisations in approving their internal control arrangements. DEWR has sufficient controls and contractual requirements (i.e. the National Contract Management Framework and associated monitoring, risk and fraud management, and programme assurance activities) to appropriately manage this risk and provide sound assurance of Job Network practice and

¹¹² ANAO comment: The ANAO found that each of the three DEWR Offices it visited largely conformed to a set routine of desktop monitoring and site visits irrespective of the risk rating of individual sites. DEWR’s programme assurance function is examined at paragraphs 4.61–4.67. DEWR has not provided details of its analysis (referred to in their response) of the extent of targeting of monitoring activity.

payments.¹¹³

- *Paragraph 29: DEWR is yet to complete an evaluation of the Active Participation Model. Without this evaluation, ...it is difficult to ascertain the extent to which job placements over the first three years of the JSKA can be attributed to use of the JSKA.*

An evaluation of the Active Participation Model (APM) is being conducted. The APM evaluation strategy highlights that separating out the impact of a programme element from other elements and from the compliance regime poses difficulties. As the JSKA is an integrated element of the continuum of APM assistance and is designed to assist jobseekers based on their individual needs, it is not conceptually possible to isolate its effect from other aspects of the APM. The research undertaken to date has established through net impact studies and comparative analysis of the outcomes achieved under ESC2 and APM, that employment outcomes have increased under the APM.¹¹⁴

Since the time of the audit fieldwork, DEWR has published additional materials on its research and evaluation of JSKA to date (Jobseeker Account Evaluation Report, available publicly on the internet). Data on the JSKA is reported in a highly disaggregated form both internally and externally. For example, DEWR reports data (for example, page 26 op cit) on outcomes and sustainability for individual categories of assistance provided through the JSKA to allow for an assessment of the fact that the JSKA has contributed to overall APM outcomes.¹¹⁵

- *Paragraph 37 (now paragraph 36 of final report): ANAO found that JSKA is not separately rated because DEWR develops risk ratings only at the programme level for each organisation and site.*

¹¹³ ANAO comment: The ANAO found that DEWR's monitoring results are not always taken into account when assessing risk (paragraphs 4.52–4.57) and that monitoring activity is not specifically targeted at those sites with higher levels of risk (refer to paragraphs 4.12–4.14 in relation to desktop monitoring and paragraph 4.30 in relation to site visits). Other points raised by DEWR are addressed in the ANAO's comment on DEWR's response to Recommendation 2 (paragraph 5.43).

¹¹⁴ ANAO comment: Because of the inherent difficulties in calculating the impact of exogenous factors on the performance of the APM and its components, broader economic factors and trends in the labour market that are likely to be contributing to affect the success or otherwise of these programmes should be identified. An analysis of these factors within the evaluation would allow stakeholders to better assess the likely contribution of the JSKA to employment outcomes.

¹¹⁵ ANAO comment: The regression analysis detailed in DEWR's *Jobseeker Account Evaluation Report* is comparative between JSKA categories, it does not calculate the actual impact of individual categories nor the overall impact of the JSKA on outcomes.

This matter is addressed in the comments concerning paragraph 20 concerning the DEWR risk management framework.

- *Paragraph 38 (now paragraph 37 of final report): ANAO found that risk indicators and benchmarks for those risks most likely to be affected by JSKA usage were either absent or would be of limited use in assisting contract managers to identify and assess the specific risks presented by the JSKA.*

This matter is addressed in the comments concerning paragraph 20, concerning the DEWR risk management framework.

- *Paragraph 40: ANAO reviewed the risk ratings for 11 of the 1 154 sites in the Job Network*

The ANAO reviewed the risk ratings for 11 Job network sites. This is a very small sample size representing less than 1% of Job Network sites. This small sample size, and the dangers of extrapolating from a sample of this size and making assessments of JNM practices, needs to be acknowledged.¹¹⁶

DEWR notes that the ANAO has acknowledged these methodological limitations at 1.28 of the report. However the ANAO needs to acknowledge this limitation in the body of the report, particularly where broader conclusions about JNM and DEWR practices are being made, and indeed whether these conclusions can be drawn from such a small sample.¹¹⁷

- *Paragraph 42 (now paragraph 41 of final report): ANAO found that the risk ratings were not sufficiently supported with documented analysis to be confident that the risk assessments accurately reflected the level of risk presented by these sites.*

Guidance has been provided to contract managers to ensure that ‘risks of concern’ are accurately recorded in the Risk Management Module, with comments and action plans reflecting the level of risk that has been identified. The Risk Management Module allows for the bulk assessment and comments of

¹¹⁶ ANAO comment: At paragraph 40, the ANAO is referring to DEWR’s risk management practices, not Job Network Member practices.

¹¹⁷ ANAO comment: DEWR’s risk assessment process is examined at paragraphs 3.22–3.28 of this report. Paragraph 3.23 specifically states that the findings for the 11 sites visited are likely to be indicative of the range of issues concerning risk ratings across all Job Network sites.

risks by the one provider (who may have a number of sites) and/or the one site. DEWR notes that the ANAO has acknowledged that Contract Managers may have properly provided identical ratings/commentary on sites that were part of the same organisation due to similar practices in the same organisation impacting on the risk rating of the JNM sites.¹¹⁸

- *Paragraph 45 (now paragraph 34 of final report): ANAO found that DEWR's desk top monitoring regime does not focus on monitoring the relevant risk indicators (as set out in DEWR's Risk Management Module) and is not well documented. They also found that DEWR contract managers do not have sufficient tools to adequately analyse JSKA trends that could lead to the identification of invalid claims or fraudulent activity.*

DEWR desk top monitoring forms only one aspect of DEWR oversight of Job Network contracts including JSKA usage. DEWR continues to enhance on-line reports, including for trend data, to assist contract managers in understanding the potential practices of concern by providers.

Historical data can be found in the Risk Management Module and should be also available on the provider's file. DEWR has recently undertaken data analysis training for Contract Managers to increase the awareness of the number of reports available and the ability to analyse data from reports.¹¹⁹

- *Paragraph 46 (now paragraphs 45-46 of final report): ANAO considers that it is difficult for DEWR to estimate the regularity of monitoring visits or the number of JSKA transactions that are part of the monitoring regime as these details are not recorded electronically on a central system by the department.*

Provider risk assessments and plans for all of their full time sites are undertaken in DEWR's Risk Management Module. Data on desk top monitoring and

¹¹⁸ ANAO comment: See paragraphs 3.22–3.28 for an examination of DEWR's risk assessment process.

¹¹⁹ ANAO comment: The audit acknowledges that desktop monitoring forms only one element of DEWR's oversight of JSKA. Site visits, programme assurance activity and quality audits are all assessed in Chapter 4 of the audit. DEWR's recent steps to enhance reporting and further train contract management staff is useful (see paragraph 4.26). Since this was conducted after audit fieldwork, the ANAO has been unable to assess the impact of these changes on desktop monitoring. The ANAO has revised relevant paragraphs in the report to reflect that DEWR's Risk Management Module does contain historical ratings (but not associated comments).

monitoring site visits is included in the Risk Management Module.¹²⁰

- *Paragraph 47 (now paragraph 48 of final report): ANAO considers that the outcomes of DEWR monitoring activities were not always reflected in site risk assessments and, therefore in individual site ratings.*

DEWR does not agree with the ANAO's assessment. DEWR analysis of five JNMs across different States and sites shows that 90% of Contract Managers are providing specific site comments for risks associated with the JSKA. This is evidence that intelligence gathered as a result of monitoring activities is used to inform risk assessments. That said, guidance has been provided to Contract Managers to ensure that 'risks of concern' are accurately recorded in the Risk Management Module, with comments and action plans reflecting the level of risk that has been identified.¹²¹

- *Paragraph 52 (now paragraph 53 of final report): DEWR does not currently test whether Job Network Members have appropriate controls in place within their own organisations to support the JNMs JSKA certification or to provide assurance that they are complying with the department's code of practice.*

As noted by ANAO, DEWR has a structured approach to risk management, both at the department level and when managing risks presented by JNMs. The ANAO does not provide evidence that relying more on Job Network Member's own internal controls or fraud control documentation would give better assurance to the Commonwealth of JSKA expenditure, nor alter the need for DEWR to sample JSKA claims to assure any such controls were in practice in place and having effect. In line with sound risk based practices, Job Network Members' demonstrated monitoring results are already taken into account in determining a commensurate level of ongoing scrutiny. DEWR does not seek to legally substitute itself for the office holders and management of not-for-profit and commercial Job Network organisations in approving their internal control arrangements. DEWR has sufficient controls and contractual requirements (i.e. the National Contract Management Framework and associated monitoring, risk and fraud management, and programme assurance activities) to appropriately

¹²⁰ ANAO comment: Further analysis of DEWR's Risk Management Module revealed that while the Risk Management Module does contain the necessary functionality to record monitoring activity, the data is generally of poor quality (paragraphs 45 and 46 and paragraph 4.6 have been revised accordingly).

¹²¹ ANAO comment: Paragraphs 47 and 4.54 have been revised to further clarify the ANAO's finding that DEWR contract managers do not always consider the results of monitoring activity in assessing an appropriate level of risk. This can lead to inaccurate risk ratings. DEWR has not provided details of its analysis (referred to in its response).

manage this risk and provide sound assurance of Job Network practice and payments.¹²²

- *Paragraph 59 52 (now paragraph 60 of final report): ANAO analysis shows that more than half (56%) of wage subsidy dollars are spent on those job seekers who are not considered by DEWR to be Highly Disadvantaged.*

DEWR disagrees with this comment. It is not appropriate to use the Highly Disadvantaged (HD) classification as the sole relevant measure of job seeker disadvantage or the appropriateness of JSKA wage subsidy assistance.¹²³ The Jobseeker Account Evaluation Report 2006 notes that, in terms of providing greater assistance to the most disadvantaged, a long term unemployed or highly disadvantaged jobseeker on average receives around 7 times as much assistance in dollar terms as a jobseeker who does not fit into either of these categories.¹²⁴

- *Paragraph 61 (now paragraph 62 of final report): Services provided by Job Network Members for which they receive payment from DEWR through the JSKA include reverse marketing, post placement support and other additional contacts. The nature of these services (phone calls and meetings) means that DEWR cannot independently validate that the services claimed were provided. Documentation to support such claims is generally poor.*

DEWR actively monitors JSKA expenditure levels by JNMs to ensure that funds are being spent appropriately to maximise outcomes for job seekers.

The current Documentary Evidence Guidelines¹²⁵ outline the JSKA evidentiary requirements for costs incurred in providing reverse marketing services, post placement support or additional JNM contacts. JNMs are required to maintain a record indicating the JNM staff member, job seeker, duration and form of assistance, employers contacted, person contacted, the results of contacts made and the methodology for calculating the rate charged where applicable.

¹²² ANAO comment: See footnote 113.

¹²³ ANAO comment: The 56 per cent figure provided is based on ANAO analysis of DEWR data. Throughout this report, the figure has been revised (to 50 per cent) to reflect the 2005–06 year. The ANAO is not suggesting that wage subsidies should only be provided to Highly Disadvantaged job seekers and the relevant paragraphs (paragraph 60 and paragraphs 6.25–6.31) have been revised accordingly.

¹²⁴ ANAO comment: The DEWR analysis relating to the level of spending on Highly Disadvantaged and long term unemployed job seekers includes expenditure that may have occurred prior to the job seeker becoming Highly Disadvantaged or long term unemployed. ANAO analysis for 2005–06 using the job seekers status at the time of JSKA expenditure produces a figure closer to 3 times the assistance.

¹²⁵ ANAO comment: These guidelines were released in October 2006.

DEWR will accept evidence of this in the form of either comments in the transaction, a note for file, or other means that indicate the level and type of service provided to support their claim. DEWR notes that the Contract requires that Job Network Members hold evidence to support JSKA claims. Job Network Members may retain this either on the job seeker file, or in centralised records, so long as this is available on request. Where any question arises as to JSKA expenditure, DEWR seeks and obtains from Job Network Members its full particulars in order to make an informed assessment of the claim. Where cases of inappropriate use are identified, several options are available to DEWR, these include recovery action or sanctions.

ANAO has not provided particulars to support the comments relating to poor documentation.¹²⁶

- *Paragraph 62 (now paragraph 63 of final report): The intention of DEWR's Outcome 1: efficient and effective labour market assistance is to make it easier for job seekers to be placed in employment. DEWR intends that the JSKA will contribute to this outcome. However, DEWR's current level of aggregation of performance information, and subsequent reporting, makes it difficult to identify the particular contribution that the JSKA makes in assisting job seekers secure and maintain employment, particularly those job seekers who are most disadvantaged.*

DEWR seeks to maximise the ability of unemployed Australians to find work, particularly those that face severe barriers to work. The JSKA, which is focused on helping disadvantaged job seekers, facilitate this outcome as part of an integrated suite of services and assistance to address job seekers individual needs. DEWR's performance management framework provides a holistic assessment of Job Network Members' success in assisting job seekers into sustainable employment.

Data on Job Network Member usage of the JSKA is available to DEWR in a highly disaggregated form. As noted above, DEWR's published materials include data on outcomes and sustainability for individual categories of assistance provided through the JSKA to allow for an assessment of the fact

¹²⁶ ANAO comment: Paragraph 6.40 has been revised to provide more information on the documentation of contacts.

that the JSKA has contributed to overall APM outcomes.¹²⁷

- *Paragraphs 64 (now paragraph 65 of final report): Implementing and reporting DEWR's evaluation strategy*

This matter is addressed in the comments on paragraph 29, concerning evaluation of the JSKA. As noted in that part, research undertaken to date has established, through net impact studies and comparative analysis of the outcomes achieved under ESC2 and APM, that employment outcomes have increased under the APM.

- *Paragraph 65 (now paragraph 66 of final report) – Assessment of success of JSKA, use of JSKA on HD job seekers*

The Jobseeker Account Evaluation Report 2006 provides an unambiguous assessment of the success of the JSKA (page 63) ‘...Overall the jobseeker Account is performing strongly...’and that it is working as it was designed to. For example, in terms of providing greater assistance to the most disadvantaged, a long term unemployed or highly disadvantaged jobseeker on average receives around 7 times as much assistance in dollar terms as a jobseeker who does not fit into either of these categories.¹²⁸

- *Paragraph 66 (now paragraph 67 of final report) – dissemination of evaluation material*

DEWR has undertaken a comprehensive evaluation of the JSKA. Evaluation findings have been made available in a timely manner to all relevant stakeholders, including the publicly released Jobseeker Account Evaluation Report, the Job Network Best Practice Report and presentations to Job Network managers and practitioners at a range of Job Network conferences.¹²⁹

¹²⁷ ANAO comment: This section of the report is referring to the performance information available in DEWR's Annual Report. The ANAO highlights the need for adequate programme evaluation to assess the contribution of JSKA in assisting job seekers into work.

¹²⁸ ANAO comment: Analysis of DEWR's evaluation activity is included in Chapter 7 of this report. Refer to footnote 124 for methodological information relating to the level of expenditure on Highly Disadvantaged or long term unemployed job seekers.

¹²⁹ ANAO comment: The ANAO has revised all references to the *Jobseeker Account Evaluation Report* to reflect that it was published in December 2006.

2. DEWR Response to matters raised in the audit findings and conclusions in the proposed audit report (not in the Summary report)

- *Paragraphs 1.22 & 5.6 DEWR has not conducted any internal audits relating specifically to the JSKA*

While DEWR has not conducted any internal audits relating specifically to the JSKA, scrutiny of JSKA has been included in annual audit coverage through audits such as the Job Network Controls Review. In addition, the Programme Assurance audit which was included on the 2005–06 annual audit work plan included interrogation of JSKA payments.¹³⁰

- *Paragraph 2.24: ANAO concluded that some JNMs are confused about the application of fares and petrol assistance to job seekers.*

DEWR will reissue the guidance on this matter and request feedback from JNMs to ensure that they understand this matter.

- *Paragraph 2.27: ANAO suggests DEWR review its documentary evidence in relation to wage subsidies for on-going and sustainable employment when the work is casual, seasonal or in an industry with a high level of staff turnover.*

DEWR Documentary Evidence Guidelines, issued in October 2006, state that JNMs must be able to provide documentary evidence with enough detail to demonstrate that the JSKA expenditure principles and in particular how the JNM has determined with the employer (that it is the intent of the employer) that the job will be on-going and sustainable after the end of the subsidy. To assist JNMs, a template for a wage subsidy agreement is available on the Job Network Secure Site.¹³¹

- *Paragraph 3.10: An ANAO review of the risks presented in DEWR's Risk Management Module that apply to Job Network Services (not all risks apply to all programmes) revealed that one organisation*

¹³⁰ ANAO comment: Paragraph 1.22 has been revised to reflect DEWR's internal audit activity during 2006 and audit work which is currently ongoing (as advised by DEWR in February 2007). However, these audits do not specifically relate to JSKA payment processes referred to in paragraph 5.6.

¹³¹ ANAO comment: The audit acknowledges that DEWR has provided considerable guidance on the use of wage subsidies. However, given that approximately one-third of wage subsidies are for casual employment, additional clarification is required for the use of wage subsidies in the circumstances outlined.

risk and five site risks could be impacted by JSKA usage. Table 3.1 details these risks.

DEWR comments are recorded on the Table 3.1.¹³²

¹³² ANAO comment: See paragraphs 3.8–3.15 of this report for further detail on how DEWR has addressed specific JSKA risks.

Table A.1

Organisation and Site Risks Relating to the Job Seeker Account

Risk family	Risk description	Consequence	Indicators	Benchmark	ANAO comment	DEWR comment
Servicing (O5)	Providers' integrity is questionable (includes accumulated site level issues identified).	Major	None	None	There is little guidance provided to assist DEWR contract managers in rating providers. For example, type and extent of issues identified, number of sites at which issues were identified.	Agreed. Account and contract managers use risk assessments at site level as a basis for provider ratings based on their particular knowledge.
Performance (P2)	Disadvantaged or targeted job seekers are underrepresented in outcomes.	Moderate	Low JSKA expenditure for disadvantaged job seekers.	= or < average for non Highly Disadvantaged job seeker on caseload		
Financial (F2)	Claims, acquittals, reporting and/or reimbursements not accurate, verified, timely or consistent with known information.	Moderate	Errors in claims, acquittals and reimbursements.	None	By having a combined Job Network Services rating it is not explicit that it is JSKA payments, by their nature, that present the greatest risk in terms of potential for incorrect payments and/or fraud. The potential problem with this approach is that the higher level of risk is not recognised and, therefore, that appropriate mitigation strategies are not applied.	The department's risk management approach, in particular the Risk Management Module, was designed under the principles of the National Contract Management Framework (NCMF) in that descriptions of risks are to apply to all employment service programmes. As such the department does not agree to altering the employment services risks and making them programme specific. This would detract from the NCMF's principle of consistency and would not allow contract managers the flexibility of reviewing all programme issues. There are currently a range of indicators associated with the JSKA. The department is currently reviewing these indicators and associated benchmarks to ensure they remain relevant to the employment service risks and programme risks.
			Delays in submitting claims, acquittals and reimbursements.	None		

Risk family	Risk description	Consequence	Indicators	Benchmark	ANAO comment	DEWR comment
Financial (F3)	Inappropriate use or mismanagement of funding available for job seeker use or fraudulent claims/practices have been identified/suspected.	Major	Inadequate, inappropriate or excessive expenditure of the JSKA.	<25% or >85% of notional bank expended >\$5 000 claimed at one time or cumulatively claimed for one job seeker (JSKA alert)	The terms 'inappropriate use' and 'mismanagement' of funds are not clearly defined. There is a lack of distinction between intentional misuse of the JSKA (fraud) and misuse due to differing interpretation of guidelines, administrative error. The ANAO considers that indicators such as poor internal controls, inadequate staff training, high staff turnover and history of DEWR identified recoveries would be more relevant indicators of potential misuse of JSKA funds.	As above, descriptions of risk apply to all employment service programmes and are not JSKA specific. The department does not agree to altering the employment services risks and making them programme specific. Poor internal controls, inadequate staff training, high staff turnover and history of DEWR identified recoveries are not necessarily a specific indicator for the JSKA. There are currently a range of indicators associated with the JSKA. The department is currently reviewing these indicators and associated benchmarks to ensure they remain relevant to the employment service risks and programme risks.
Servicing (S3)	Job seeker/participant service requirements not met.	Major	Low JSKA expenditure	>20% below ESA average		
Servicing (S4)	Low or generic use of funding available for job seekers, including providers: Underutilise the funds available for job seeker assistance under JSKA and Training Accounts; Use the JSKA or Training Account inequitably; Do not adequately tailor services to	Moderate	No logical link between job seeker expenditure and the goals of the client. Low level of outcomes and a low proportion of expenditure compared with their 'notional bank'.	None <25% of JSKA notional bank spent >2 bulk claims for the same expenditure category >30% of total expenditure is for bulk items >15–20% of referrals to the same course >30–40% of IS	The risk description is not clear and concise (underutilisation can refer to poorly targeted expenditure as well as low levels of expenditure). The risk indicators are cumbersome, not clearly defined and would require considerable data analysis to identify sites that meet the criteria. For example the second indicator would require a site to have low outcomes, low use of the	Underutilisation in this context refers to the lack of servicing of participants. Risk descriptions are not programme specific. DEWR is currently working with key internal stakeholders to ensure that the indicators and benchmarks for each programme, which support the provider risk assessment, remain relevant for the 2006–2009 contract and funding deeds.

Risk family	Risk description	Conse- quence	Indicators	Benchmark	ANAO comment	DEWR comment
	job seeker needs; or Do not encourage and assist job seekers to use their training credits (CWC).			job seekers do not have funds	JSKA on 'special groups' and generic training to job seekers.	
			Low level of outcomes and a low proportion of expenditure on special groups and over time there is a history of generic training being provided to job seekers.	None		
			Expenditure categories inconsistent compared to other Job Network Members.	None	Many risk indicators do not have associated benchmarks making it difficult for contract managers to identify high risk sites.	
			Complaints regarding this risk.	>5 per month per site		

Source: ANAO analysis of DEWR data

- *Paragraph 2.27 The ANAO considers that, in relation to the documentation of wage subsidies to justify that the JNM has determined that the job will be on-going and sustainable after the end of the subsidy, DEWR may need to consider revising this guidance as it would be difficult for Job Network Members to comply where the work involved is casual*

Under the JSKA Expenditure Principles, JNMs are required to ensure wage subsidies are used for employment which is sustainable and ongoing after the wage subsidy has ceased. The Documentary Evidence for Job Network Services Consolidated Edition (October 2006) reflects these requirements and reinforces the JNMs responsibilities under the JSKA Expenditure Principles.¹³³

- *Paragraph 3.8: JSKA expenditure involves Job Network Members exercising their discretion and is also difficult to verify independently (for example, expenditure on additional contacts or reverse marketing activity to promote a 'job ready' job seeker to employers).*

In the case of JNM contacts, the JNM must be able to demonstrate that the additional contacts reimbursed from the Job Seeker Account are additional to that required by the contract. DEWR will accept as evidence of this a plan showing scheduled contacts under the contract, and distinguishing contacts that are additional to the contract requirement. DEWR may at its discretion accept other evidence. If any doubt exists, JNMs should consult with DEWR before seeking reimbursement from the JSKA.

Evidence also needs to show that the contact was substantial (as a guide, a minimum of 15 minutes duration), employment related and that a reasonable level of service was delivered. DEWR will accept evidence of this in the form of either comments in the transaction, a note for file, or other means that indicate the level and type of service provided to support their claim. Such evidence could also take the form of an employment consultant time sheet. Where JNMs hold evidence in the form of consultant log sheets or in a similar consolidated form, it is not necessary for JNMs to copy the relevant page(s) to attach to an individual job seeker's file. JNMs need to be able to provide the relevant supporting evidence within a reasonable time if requested by DEWR.

Reverse marketing involves actively marketing particular job seekers to potential employers where a vacancy does not otherwise exist (the reverse of

¹³³ ANAO comment: Refer to footnote 131.

having employers request job seekers with specific skills to fill a particular vacancy). In the case of reverse marketing, JNMs must be able to produce documentary evidence to show that this is the type of service that they have provided. DEWR will accept evidence of this in the form of either comments in the transaction, a note for file, or other means that indicate the level and type of service provided to support their claim. Such evidence could also take the form of a time sheet. Where JNMs hold evidence in the form of consultant log sheets or in a similar consolidated form, it is not necessary for JNMs to copy the relevant page(s) to attach to an individual job seeker's file. JNMs need to be able to provide the relevant supporting evidence within a reasonable time if requested by DEWR.

The JSKA expenditure principles do not prohibit the use of reverse marketing for a JSKA eligible 'job ready' job seeker. Reverse marketing may be a suitable intervention where a job seeker's skills need to be highlighted to a prospective employer, or where a job seeker does not have the skills to effectively market themselves.¹³⁴

- *Paragraph 4.41 (now paragraph 4.40 of final report): The ANAO notes a lack of documentation to justify particular JSKA claims for reimbursement at some sites visited.*

DEWR has been unable to obtain from ANAO particulars to support these comments.¹³⁵

DEWR notes that the Contract requires that Job Network Members hold evidence to support JSKA claims. Job Network Members may retain this either on the job seeker file, or in centralised records, so long as this is available on request. Where any question arises as to JSKA expenditure, DEWR seeks and obtains from Job Network Members its full particulars in order to make an informed assessment of the claim. This may include where a job seeker has

¹³⁴ ANAO comment: DEWR's ability to verify this type of expenditure (for example expenditure on additional contacts and reverse marketing activity), which is often provided by the Job Network Member or a related entity, is examined in Chapter 6 of this report (paragraphs 6.32–6.52).

¹³⁵ ANAO comment: During audit fieldwork the ANAO found a range of examples where it was difficult to verify the appropriateness of JSKA expenditure (after reviewing the job seeker's file, and any other records the Job Network Members could locate). A small number of these examples (which had been approved by the Job Network Member and reimbursed by DEWR) have been included in the report only to illustrate the complexity involved in assessing the appropriateness of JSKA expenditure in line with DEWR guidelines. Because these examples illustrate the complexity of JSKA decision-making and not whether the decision was correct, the ANAO does not consider it necessary to provide transactional details to DEWR for investigation. DEWR was provided with a record of job seeker files reviewed by ANAO staff during audit fieldwork.

received repeat JSKA assistance (for example, due to a different job opportunity) or to verify that particular items meet the JSKA guidelines (for example, navigation equipment may be self-evidently relevant to a vacancy as a courier or taxi driver, yet may also be in order for a labourer or office assistance position where the employer had a particular need for staff to work at a range of off-site projects).

- *Paragraphs 6.11-6.38 (now paragraph 6.11-6.31 of final report): Wage Subsidies*

DEWR considers there are a number of issues with the ANAO's consideration of the use of JSKA for wage subsidies, particularly in regard to discussion of outcome payments and JSKA use for Highly Disadvantaged (HD) job seekers.

The department measures the sustainability of jobs obtained through wage subsidies. DEWR measures sustainability, in terms of the proportion of wage subsidy recipients in employment, for periods up to two years after the subsidy period ends or the last subsidy payment is made. Overall, the sustainability of jobs obtained through the use of wage subsidies is similar to other wage subsidy programs. Monitoring involves both analysis at the national level and periodic assessments at the site level to ensure that providers are using wage subsidies appropriately.

The results have shown that wage subsidies produce sustainable jobs. The JSKA Evaluation Report August 2006 found that the 12 month off-benefit outcomes rate for wage subsidies was found to be 59.2% while the 24 month off-benefit outcome rate was 71.1%. Wage subsidies are a very effective tool for achieving long term off benefit outcome.¹³⁶

While total JSKA expenditure on wage subsidies has increased over time, the average expenditure per subsidy has changed only marginally from \$2,500 per job seeker in 2004–05 to \$2,600 per job seeker in 2005–06. The numbers of job seekers assisted has increased from 5 821 in May 2004 to 45 780 by May 2005 and 67 072 by June 2006. The average cost of a wage subsidy is less than the amount of income support that job seekers would have received if they had not been placed in a job.¹³⁷

¹³⁶ ANAO comment: Paragraphs 6.20–6.23 examine the sustainability of wage subsidies (these paragraphs were revised in light of additional evidence presented by DEWR in relation to the use of wage subsidies).

¹³⁷ ANAO comment: The ANAO has highlighted inconsistencies in DEWR's reporting of average wage subsidies at paragraph 7.95 of this report. The proportion of JSKA expenditure on wage subsidies has increased considerably over the contract period, from 9.5 per cent to 38.2 per cent. DEWR has advised the ANAO that 34 782 job seekers were assisted via wage subsidies in 2005–06.

The contract reflects the intention that JSKA be targeted at employment that is ongoing and sustainable after the wage subsidy has ceased, and the amount of the subsidy is consistent with the job seeker's level of disadvantage. The evidence reflects that Job Network Members target wage subsidies in this way, as shown by the difference in average wage subsidy expended for Highly Disadvantaged and Long Term Unemployed job seekers. The average wage subsidy per LTU job seeker during ESC 2003–06 was \$2 800 (compared to the average wage subsidy of \$2 600) and the average wage subsidy per HD+LTU job seeker was \$3 100.¹³⁸

Use of wage subsidy for job seekers with more recent work history may also mean the difference between these job seekers gaining employment before the length of time that they have been out of the work force becomes an issue to potential employers. This is consistent with the department's commitment to reducing the likelihood of job seekers becoming long term unemployed. The differential between the lower cost of a wage subsidy compared to income support payments and potential development of welfare dependency translates to savings for government and the tax payer¹³⁹.

The ANAO also comments on the economic use of JSKA by Job Network Members.

DEWR notes that, in addition to the requirement for all JSKA usage to meet the Contract and JSKA Principles, JNMs have a finite pool of JSKA funds available to them which creates an inbuilt incentive for effective and prudent use of this pool to place the maximum possible number of job seekers into sustainable jobs, particularly disadvantaged job seekers who attract the highest weighting in the Job Network performance framework. Following the introduction of the JSKA in 2003, Job Network usage increased for a time and has since been relatively stable.¹⁴⁰ The ANAO did not find evidence of instances where Job Network Members were using the JSKA in uneconomic

¹³⁸ ANAO comment: The ANAO has acknowledged (at paragraph 6.27) that the average expenditure on wage subsidies is higher for Highly Disadvantaged job seekers than other job seekers. However, 50 per cent of wage subsidy expenditure is for job seekers not classified by DEWR as Highly Disadvantaged.

¹³⁹ ANAO comment: Wage subsidies may be useful in a range of circumstances. However, in order for the subsidy to provide value for money for the Commonwealth, DEWR needs to be confident that the job seeker would not have gained employment without the subsidy in place (see paragraph 6.30–6.31).

¹⁴⁰ ANAO comment: Paragraphs 6.5–6.9 examine the size of the notional account and its value as an incentive for Job Network Members to economise in their use of the JSKA.

ways.¹⁴¹

- *Paragraph 6.43 (now paragraph 6.44 of final report): ANAO suggests that additional contacts are not focussed on those job seekers likely to be most in need, that is, HD or long term unemployed, as required by DEWR guidelines. (similarly paragraph 7.5, 7.16)*

The JSKA guidelines do not prohibit the use of JSKA for additional contacts for those job seekers who are not classified as HD or long term unemployed (LTU). Additional contacts can be an effective servicing strategy for selected short term unemployed job seekers to help them secure employment quickly and so reduce the time in receipt of benefit.¹⁴²

- *Paragraph 7.27 The ANAO considers that, as part of the DEWR's internal management reporting regime that it would be beneficial to provide performance information relating to the JSKA, including analysis of emerging trends and analysis of credits and expenditures by level of disadvantage.*

JSKA usage, including analysis of emerging trends and analysis of expenditures by different client groups, is compiled and examined regularly and provided to DEWR management routinely. Such analysis informs decision making and policy formulation.¹⁴³

ANAO Comment

DEWR has provided a full response to this audit. Where relevant, specific points raised by DEWR in its response are addressed by the ANAO in the text of this report and in footnotes to DEWR's response. There are, however, some areas where it is appropriate to make more general comment.

¹⁴¹ ANAO comment: Examples of a range of wage subsidy arrangements have been provided. The ANAO considers that there was insufficient justification for the wage subsidy arrangements to ascertain whether they met DEWR's guidelines.

¹⁴² ANAO comment: DEWR's guidelines require that 'Job Network Members must ensure, and be able to substantiate, that additional contacts are: focussed on more disadvantaged or long term unemployed job seekers with a view to achieving job outcomes' (quoted at paragraph 6.34). The ANAO's analysis of the use of additional contacts (paragraphs 6.44–6.47) concludes that a greater focus on more disadvantaged or long term unemployed job seekers is required.

¹⁴³ ANAO comment: The ANAO sought to clarify this response with DEWR. DEWR advised that it was specifically referring to 'Senate Estimates preparations and briefings'. The weight given to specific programmes leading up to Senate Estimates varies over time and the ANAO does not consider that this constitutes routine and regular reporting.

DEWR has indicated a concern that the ANAO has made findings relating to the behaviour of Job Network Members or DEWR contract staff based on small sample sizes. The sampling strategy for the Job Network and the actual sites selected were agreed with DEWR prior to audit fieldwork commencing and appropriate caveats are included in the report. It would be appropriate for DEWR to build on the ANAO's work and undertake further sampling to ascertain the extent to which issues identified by the ANAO are apparent across the whole Job Network (or throughout DEWR's offices).

DEWR has referred to a range of evidence in its response that was made available late in the audit process. For example, the department issued revised expenditure principles (November 2006) and documentary evidence guidelines (October 2006) to Job Network Members. DEWR has also undertaken work to gain greater assurance around JSKA payments including: a programme assurance project focusing on Job Network Member additional contacts and wage subsidies (finalised in February 2007); an internal audit of programme assurance activity (related to the JSKA and still being drafted in February 2007); and an evaluation of JSKA was published on DEWR's website in December 2006.

In addition, DEWR contract managers have received further focussed training on risk assessment and in the use of reporting tools available through the Risk Management Module.

The ANAO recognises DEWR's efforts to improve its administration of the JSKA and to evaluate the performance of the programme. Further and ongoing work of this nature will assist stakeholders to better understand the extent to which JSKA is operating as intended to assist the most disadvantaged job seekers into sustainable employment.

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