

The Auditor-General
Audit Report No.42 2007–08
Performance Audit

Management of Customer Debt— Follow-up Audit

Centrelink

**Department of Education, Employment and
Workplace Relations**

**Department of Families, Housing, Community Services
and Indigenous Affairs**

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of Australia 2008

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Canberra ACT
19 June 2008

Dear Mr President
Dear Mr Speaker

The Australian National Audit Office has undertaken a performance audit in Centrelink, Department of Education, Employment and Workplace Relations and the Department of Families, Housing, Community Services and Indigenous Affairs in accordance with the authority contained in the Auditor-General Act 1997. I present the report of this audit and the accompanying brochure to the Parliament. The report is titled Management of Customer Debt—Follow-up Audit.

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

Yours sincerely

A handwritten signature in black ink, which appears to read 'Steve Chapman', is positioned above the printed name.

Steve Chapman
Acting/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

AAT	Administrative Appeals Tribunal
ANAO	Australian National Audit Office
ARO	Authorised Review Officer
ASO	Area Support Office
BPA	Business Partnership Agreement
CSA	Customer Service Adviser
CSC	Customer Service Centre
DEEWR	Department of Education, Employment and Workplace Relations
DEST	Department of Education, Science and Training
DEWR	Department of Employment and Workplace Relations
DMIS	Debt Management Information System
DMO	Debt Monitoring Officer
EIAD	Early Intervention Activity Database
FaCS	Department of Family and Community Services
FaCSIA	Department of Families, Community Services and Indigenous Affairs
FaHCSIA	Department of Families, Housing, Community Services and Indigenous Affairs
FAO	Family Assistance Office
KPI	Key Performance Indicator

NSO	National Support Office (Centrelink)
ODM	Original Decision-Maker
PBS	Portfolio Budget Statements
QOL	Quality On-Line
RSS	Random Sample Survey
SSAT	Social Security Appeals Tribunal
VCW	Value Creation Workshop

Glossary

Accelerated Claimant Matching	Data-matching reviews which match information contained in a customer's records against other customer information held by Centrelink. These reviews aim to detect anomalies such as duplicate addresses, tax file numbers and birth certificate numbers.
Administrative error	Administrative error arises when a Centrelink officer incorrectly processes a customer's social security assessment.
Authorised Review Officer (ARO)	A Centrelink officer responsible for reviewing the decisions of the Original Decision-Maker (ODM) at the request of the customer.
Business Partnership Agreement (BPA)	A document that provides the basis for the relationship between Centrelink and its purchaser agencies, which is characterised by purchaser/provider responsibilities as well as partnership and alliance.
Compliance Review	A review conducted by Centrelink as part of its detection and review program that specifically aims to identify non-compliance by customers.
Customer Service Adviser (CSA)	A Centrelink officer responsible for providing services to Centrelink's customers in both Customer Service Centres and Call Centres. This includes processing new claims and re-assessments for social security programs; updating customer records and answering customer enquiries.
Customer debt	Debt related to income support and pension payments. For the purpose of this audit, customer debt excludes Family Tax Benefit reconciliation debts.

Debt Monitoring Officer (DMO)	A Centrelink officer responsible for identifying and initiating enhancements in work practices aimed specifically at minimising and preventing debts. This includes assisting CSAs to continually improve customer awareness of their notification obligations.
Debt Raising Officer	A Centrelink officer responsible for determining whether a customer debt exists; calculating the debt; and determining whether to recover or waive the debt.
Determined debt	Debt that has been identified and calculated, and a decision has been made to waive or recover the debt.
Host (Program) Review	A review generated by Centrelink's computer system or Centrelink officers to ascertain whether a customer is receiving their correct entitlement.
Mercantile Agent	A private sector agency specialising in the collection of payments in arrears or debts.
Original Decision-Maker (ODM)	The CSA who made the decision to raise the debt against the customer.
Quality On-line (QOL)	An on-line quality control mechanism which is intended to ensure that any identified errors are rectified before Centrelink completes the assessment.
Raised debt	Customer debt that has been identified and calculated.
Random Sample Survey (RSS)	A quality assurance mechanism used by purchaser departments (DEEWR and FaHCSIA), through Centrelink, where a sample of customer records is drawn to verify the customers' are receiving the correct entitlements.
Service Profiling Review	A risk based review targeted towards customers who exhibit certain attributes which identify them as an increased risk of receiving an incorrect payment.

Scriptor	A work-flow tool developed by Centrelink which aims to standardise and automate processes used by CSAs to enter data into payment systems and create consistent customer records.
Value Creation Workshop (VCW)	Focus groups involving both Centrelink customers and staff that are designed to provide direct feedback to Centrelink on the services it provides.
Waived debt	A customer debt which is not subject to recovery action.
Withholdings	A system of debt recovery whereby Centrelink withholds a portion of a customer's social security payment at each payment cycle until the debt is fully recovered.
Written-off debt	A customer debt which has had recovery action temporarily suspended.

Summary and Recommendations

Summary

Introduction

1. Centrelink is the Commonwealth's primary payment agency and is responsible for the distribution of social security payments to eligible customers. In 2006–07, Centrelink made payments totalling some \$66.3 billion.¹ The accurate and efficient distribution of these payments is dependent on Centrelink's business processes. When an incorrect payment is made by Centrelink which results in a customer receiving a greater benefit than they were entitled to receive, the customer may incur a debt to the Commonwealth. It is the responsibility of Centrelink to recover this debt in an efficient and timely manner.
2. Customer debt arises primarily from customers failing to notify Centrelink of changes in circumstances or providing incorrect information to Centrelink. Where debt arises solely from Centrelink administrative error, and the customer could not reasonably be expected to know they were being overpaid, the debt can be waived.²
3. A level of customer debt will always exist due to the nature of the social security system, which relies on customers accurately reporting changes to their details in a timely manner. The value of Centrelink's customer debt base has been steadily increasing from \$967 million in 2003, to approximately \$1.3 billion at 30 June 2007. The debt base consists of approximately 650 000 customers.
4. In August 2004, the ANAO completed a performance audit examining Centrelink's administration of its customer debt base - Audit Report No. 4 2004–05 *Management of Customer Debt*. The audit concluded that while Centrelink had improved the effectiveness of its debt management processes and practices, the debt base continued to grow rapidly. Further, the ANAO found many inconsistencies across the debt management practices employed in the network, particularly in relation to prevention and recovery, which could be improved to produce better outcomes.

¹ Centrelink, 2007, *Annual Report 2006–07*, p. 11.

² The application of a waiver is dependent on the debt meeting the requirements of the *Social Security Act 1991* (Cth) (ss1237A(1); 1237A(2); 1237AAA(1); 1237AAC; or 1237AAD).

5. The ANAO made nine recommendations relating to Centrelink's management of its customer debt base. Centrelink and its purchaser departments agreed to all nine recommendations. Subsequent to the audit, the Joint Committee of Public Accounts and Audit (JCPAA) conducted an inquiry into Centrelink's customer debt administration and made a further six recommendations.³ Centrelink responded to the JCPAA in August 2006 indicating that they had implemented, or were in the process of implementing all of the Committee's recommendations with the exception of Recommendation No. 22, relating to the value of the automatic debt waiver. Centrelink advised the Committee, on that issue, it was the responsibility of its purchaser departments to determine the automatic waiver value.

Audit objective and scope

6. The objective of this follow-up audit was to examine Centrelink's progress in implementing the recommendations of the 2004–05 audit and the subsequent JCPAA inquiry.

7. The audit focused on Centrelink's debt management operations including prevention, identification, raising and recovery.

8. The audit scope took into account the changes made to the Commonwealth's welfare program structure since the previous debt audit, and examined Centrelink's debt management arrangements with, at the time of the audit fieldwork, its main purchaser departments: the Department of Families, Community Services and Indigenous Affairs (FaCSIA), the Department of Employment and Workplace Relations (DEWR), and the Department of Education, Science and Training (DEST).⁴

9. The two major criteria for this audit were:

- to establish whether Centrelink has implemented the previous audit's and JCPAA's recommendations relating to customer debt management; and
- to establish Centrelink's current performance in administering its customer debt.

³ Joint Committee of Public Accounts and Audit, Report 404, *Review of Auditor General's Reports*, Parliamentary Paper 394/2005.

⁴ Note: due to the Administrative Arrangements Order changes of December 2007 FaCSIA/FaHCSIA and DEWR/DEST/DEEWR are used interchangeably throughout this report depending on the time period referred to.

Conclusion

10. The ANAO found that Centrelink and its purchaser departments had either fully or partially implemented all of the recommendations of the previous audit and JCPAA inquiry, with the exception of JCPAA Recommendation No. 22, which recommended that the debt waiver amount be raised from \$50 to \$100.

11. In implementing the recommendations of the previous audit and JCPAA inquiry, Centrelink had undertaken a significant ongoing restructure of its debt management operations that had improved consistency, efficiency and performance measurement. This had allowed Centrelink to meet the performance requirements of its purchaser departments. However, the ANAO still found notable inconsistencies across the Centrelink network, particularly in its allocation of resources to debt prevention; its application of debt waivers; and its approach to recovering debts.

12. Despite the identified improvements to debt management administration, the ANAO also found that the value of the debt base and its associated characteristics (including the number of debtors and the age profile of the debt base), had continued to increase. The ANAO notes that this is occurring at a time when the level of consumer debt in Australia is rising. Between 1 July 2003 and 31 December 2007, nominal household debt levels within Australia increased from 126.4 per cent to 160.4 per cent of disposable income.⁵

13. In these circumstances it is particularly important that Centrelink and its purchaser departments focus on gaining a better understanding of the factors driving the changes in the debt base. Undertaking an analysis of the debt base would usefully inform the framing of a nationally integrated program based approach to debt management. Such a framework would allow the implementation of more effective measures to prevent the circumstances that result in a customer incurring a debt and, in the longer term, slow the growth in the value of the debt base.

14. The ANAO made two recommendations based on the findings of the follow-up audit.

⁵ Reserve Bank of Australia, <<http://www.rba.gov.au/statistics/bulletin/B21HIST.XLS>> [accessed 14 April 2008].

Key findings

Chapter 2 - Value and Profile of the Debt Base

15. The ANAO found a continuation of the trends in the customer debt base identified in the previous audit. These included:

- the value of the debt base had been steadily increasing from \$967 million in 2003, to approximately \$1.3 billion at 30 June 2007. The number of customers with debts had also increased from 548 700 in 2003 to 651 540 at 30 June 2007;
- the portion of the debt base under some form of recovery arrangement had reduced from 75 per cent to 69.9 per cent; and
- the debt base continued to age, with 45 per cent of debts in excess of two years duration at 30 June 2007, compared with 37 per cent in 2004.

16. In order to implement strategies which effectively contain and reduce the growing trends of the customer debt base, it is important that the underlying drivers are understood. The ANAO found that Centrelink and its purchaser departments had undertaken limited work to develop a full appreciation of the underlying drivers of the customer debt base. The ANAO considered that this prevented Centrelink from being able to efficiently and effectively target its debt management resources, particularly debt prevention, to address the root cause(s) of the growth in the debt base. The ANAO made one recommendation to address this issue.

Chapter 3 - Business Management Processes for Administering Customer Debt

Recommendations made in the 2004–05 audit and agency responses

ANAO Recommendation No. 1

The ANAO recommends that, in developing a replacement for Centrelink's current Debt Servicing Strategy, the agency:

- continues to improve communication flows between teams within Centrelink responsible for debt prevention, identification and recovery; and
- aligns debt risks to compliance and service delivery risks, enabling greater efficiencies in debt management activities.

Centrelink agreed with this Recommendation.

ANAO Recommendation No. 2

The ANAO recommends that FaCS in consultation with Centrelink review the external monitoring regime for debt management in Centrelink to promote better practices and performance improvements. In particular, the ANAO recommends that the review consider the benefits of:

- replacing the current debt key performance indicators in the FaCS – Centrelink *Business Partnership Agreement* with indicators that measure the effectiveness of the four major phases of debt management (prevention, identification, raising and recovery) and
- revising the Outcome-Output measures in both FaCS' and Centrelink's Portfolio Budget Statements to encompass these measures, which would then be reported against the agencies' respective Annual Reports to Parliament.

Centrelink and FaCS agreed to the recommendation with qualification, indicating that at the time of the audit, the agencies were in the process of negotiating a Memorandum of Understanding which would be a mechanism for the future development of new outcome and output measures. Centrelink also indicated that it was examining the feasibility of a debt prevention indicator.

ANAO Recommendation No. 3

The ANAO recommends that Centrelink monitor customer satisfaction with the administration of its debt raising and recovery activities, and use those results to improve debt service delivery.

Centrelink agreed with this Recommendation.

Finding

17. Centrelink had implemented Recommendations No. 1 and No. 3. FaCSIA had implemented Recommendation No. 2 and DEWR and DEST had partially implemented Recommendation No. 2.

18. The ANAO found that Centrelink implemented a new *Debt Servicing Strategy* in May 2007. *The 2007–10 Debt Servicing Strategy*, combined with the major restructure of internal operations, better allowed Centrelink to integrate all facets of debt management into the one operational stream.

19. A new suite of performance indicators that were, or will be, publicly reported on, had been developed for all components of the administration of customer debt except for debt prevention. The ANAO found that FaCSIA (now FaHCSIA) had developed a debt prevention indicator that was still in the early stages of implementation and, accordingly, was not tested. DEWR and DEST (now DEEWR) had not implemented a debt prevention indicator as they considered the inherent difficulty in measuring debt prevention meant that their resources were more effectively focused on developing practical debt prevention projects.

20. The ANAO recognises the difficulty in developing an overall debt prevention indicator(s). However, in pursuing its practical debt prevention activities, there would be benefit in DEEWR measuring the effectiveness of the activities against their objectives in order to provide an assurance on DEEWR's ability to prevent debt within its payment programs. Given DEEWR and FaHCSIA are adopting different approaches to measuring the impact of debt prevention activities, the ANAO considers that there would also be benefit in the departments sharing their experiences with a view to understanding and learning from the risks and benefits of each approach.

21. Centrelink had undertaken three customer service surveys during 2004–05. However, the ANAO notes the last survey was undertaken in 2005. The ANAO considers that there would be benefit in Centrelink periodically undertaking further monitoring, whether through similar surveys or other available means, to update its knowledge about customer views on debt management customer service and to identify further opportunities to improve its service delivery.

Chapter 4 - Debt Prevention

Recommendations made in the 2004–05 audit and JCPAA inquiry, and agency responses

ANAO Recommendation No.4

The ANAO recommends that Centrelink review the implementation, including funding arrangements, of debt prevention activities across its network, and determine whether this implementation supports effective leadership and coordination of debt prevention and management initiatives by Centrelink's Debt Services Team.

Centrelink agreed with this Recommendation.

ANAO Recommendation No.5

The ANAO recommends that, to help support debt prevention initiatives, Centrelink develop a set of internal performance indicators that accurately measure, and/or assess, the effectiveness of its debt prevention activities.

Centrelink agreed with this Recommendation.

JCPAA Recommendation No.18

The Committee recommends that Centrelink prioritise the implementation of its payment integrity strategy, to ensure that payments are right in the first instance, rather than relying on reactive processes.

Centrelink should report to the Committee on its progress in implementing the payment integrity strategy in February 2006 and July 2006.

Centrelink advised the Committee in August 2006 that it was continuing with the implementation of its payment integrity strategy.

Finding

22. Centrelink had implemented these Recommendations. However, the ANAO noted that further improvements were required by Centrelink to allow the full impact of the Recommendations to be realised.

Operational debt prevention activities

23. Centrelink's main causes of customer debt continued to be under-declared or undeclared income, which accounted for 56 per cent of the number of debts raised, and 48 per cent of the value of debts raised during 2006–07. Qualification⁶ (eligibility to receive the entitlement) is the second

⁶ An example of a customer incurring a debt due to qualification is a student reducing their study load to part-time or ceasing to study altogether and failing to inform Centrelink.

major cause of debt in terms of value accounting for 14 per cent of the value of debts raised during 2006–07.

24. A key component of Centrelink's *Debt Servicing Strategy 2007–2010* is to 'minimise customer debt by building it [debt prevention] into standard customer service delivery so that debt prevention operates as part of mainstream customer service.'⁷ Centrelink reviewed its debt prevention activities in 2005 and, as a result, restructured its internal operations to allow the integration of debt prevention into the Business Integrity business line.

25. However, under the new structure, the ANAO found little evidence of a nationally integrated approach to debt prevention with the fragmentation particularly evident in the areas of resourcing and coordination of debt prevention activities.

26. Resourcing levels at both a staff and budget level varied across the network. This was found to be largely due to an approach that allowed each Area Business Integrity unit to determine its debt prevention budget from the overall Area budget without the benefit of an over-arching network strategy. This was also supported by some Areas using resources to target internal debt prevention operations, for example reducing administrative error, while other Areas focused their resources on 'out-reach' projects such as engaging specific industries or employers.

27. Consistent with the absence of an integrated national approach, the ANAO found that the problems identified in the previous audit relating to the coordination of debt prevention activities still existed. Despite implementing a national online project management system for debt prevention activities, the *Early Intervention Activity Database*, the ANAO found a lack of a quality control processes for the system and little evidence that the information reported by the system was robust and could be usefully relied upon.

28. Accordingly, the ANAO made one recommendation aimed at improving the national framework for debt prevention activities.

29. The ANAO notes that in December 2007, Centrelink undertook a further restructure of its debt prevention activities, which consolidated debt prevention operations into its National Support Office (NSO). The ANAO regards this restructure as having the potential to address the coordination and resourcing issues identified in the current and previous audit. However, as the

⁷ Centrelink, *Centrelink Debt Servicing Strategy 2007–2010*, p. 7.

restructure was undertaken after the completion of the audit fieldwork, the ANAO did not assess its effectiveness.

Preventing debts caused by administrative error

30. The ANAO found that the restructure of Centrelink's internal business operations and the formation of the *Business Integrity* business line had allowed the NSO to better communicate to the network the importance of payment integrity and minimising administrative error. This was complemented by the, continuing operation of the payment integrity strategy – '*Getting it Right*'⁸, aimed at ensuring that customers are paid the right entitlement from the first contact with Centrelink. However, the ANAO found no evidence that Centrelink measured the impact of these initiatives in preventing administrative error.

Measuring the effectiveness of debt prevention

31. The ANAO found that Centrelink had developed an internal set of performance targets in 2007 which were reported against on a quarterly basis. These targets included:

- 95 per cent of reviews undertaken by Centrelink do not contain administrative error with a dollar impact;
- for each payment reported in the Random Sample Survey (RSS)⁹, the percentage of customer driven errors will be maintained or improved based on the same trimester of the previous year; and
- a reduction in the rolling twelve month average percentage of the number of debts in the RSS from the corresponding period in the previous year.

⁸ The *Getting it Right* strategy is Centrelink's main strategy aimed at ensuring payment correctness and was implemented in November 2000. The purpose of the strategy is to establish a framework for improving accuracy and accountability within the Centrelink network.

⁹ The Random Sample Survey (RSS) is the primary mechanism used by Centrelink's key purchaser departments (FaHCSIA and DEEWR) to measure the accuracy of outlays across programs delivered by Centrelink. The RSS provides a point in time analysis of a sample of customers' circumstances designed to establish whether customers are being correctly paid.

Chapter 5 - Administering the Debt Base

Debt Identification

Recommendations made in the JCPAA inquiry and agency responses

JCPAA Recommendation No.19

The Committee recommends that Centrelink proceed with data-matching activities with academic institutions and major employers, in an effort to prevent debts incurred when clients change study courses or employment.

Centrelink advised the Committee in August 2006 that it was continuing to implement this Recommendation.

JCPAA Recommendation No.20

The Committee recommends that Centrelink review its methods of identifying customer debt, with a view to improving current methods of debt identification, or increasing the resources dedicated to compliance reviews. Centrelink should also take into consideration the ANAO's suggestion that it consider other methods of debt identification, such as:

- cross-referencing customer behaviour and attributes with known debt factors to better target debt prevention strategies;
- drawing on the experience of other agencies such as the Australian Taxation Office and Child Support Agency to develop best practice models for debt management; and increasing the support for the national coordination unit to better manage debt prevention projects.

Centrelink advised the Committee in August 2006 that it was continuing to implement this Recommendation.

Finding

32. Centrelink had implemented these Recommendations.

33. Centrelink continued to review its debt identification activities. In this context, the ANAO found that Centrelink had utilised and built on data matching activities with academic institutions (through the Centrelink Academic Reassessment Transformation (CART) project) and major employers.

34. Centrelink and its then purchaser department DEST, had also conducted a successful program of increased Service Profile Review activity for student payments. This increased activity allowed Centrelink to triple the amount of fortnightly savings. At the same time, the amount of customer debt identified as a result of Service Profile Reviews only increased by approximately 50 per cent, indicating that the Service Profiling Reviews were

identifying customers with incorrect details before they could accumulate large amounts of debt. In this circumstance, the ANAO considered that DEEWR, the agency now responsible for the administration of student payments, and Centrelink should maintain the use of Service Profile Reviews amongst the suite of debt identification and prevention measures.

Debt Raising

Recommendations made in the 2004–05 audit and JCPAA inquiry, and agency responses

ANAO Recommendation No.6

The ANAO recommends that Centrelink undertake a review of the accuracy of the value of debts determined and raised by its Compliance Teams. If the results of this analysis identify low rates of accuracy, immediate remedial action is advisable.

Centrelink agreed with this Recommendation.

ANAO Recommendation No.7

The ANAO recommends that Centrelink analyse the appropriateness of applying debt waivers throughout its network, especially at the original decision-maker level in Specialist Debt Raising Teams. If the results of this analysis identify low rates of appropriateness or consistency, immediate remedial action is advisable.

Centrelink agreed with this Recommendation.

JCPAA Recommendation No.21

The Committee recommends that Centrelink provide training to all officers responsible for debt raising on the correct circumstances in which to apply the debt waiver. The training should focus on empowering workers to make responsible decisions, and an emphasis on the importance of getting decisions right in the first instance, and not relying on downstream appeal mechanisms.

Centrelink should also introduce a standard operating procedure whereby debt raising officers refer any matter on which they are uncertain whether to apply a 'special circumstances' waiver, to a more senior officer for consideration.

Centrelink should undertake a review of the appropriateness of applying Debt Waivers throughout the Centrelink network, taking into account the matters raised in the ANAO report, as matter of priority.

Centrelink advised the Committee in August 2006 that it was implementing this Recommendation.

JCPAA Recommendation No.22

The Committee recommends that the debt waiver amount be raised from \$50 to not more than \$100. The Committee recommends that where small debts

are raised and automatically waived, customers should be informed of this action and of steps they can take to prevent a debt being incurred in the future.

Where a customer continues to incur small debts of less than \$100, that are continually waived, Centrelink should retain the right to recover these debts if a pattern of behaviour is apparent whereby the customer is not making any effort to prevent the incursion of small debts.

Centrelink advised the Committee in August 2006 that it was the responsibility of its purchaser departments to determine the debt waiver amount.

Finding

35. Centrelink had implemented ANAO Recommendations No. 6 and No. 7 and partially implemented JCPAA Recommendation No. 21. Centrelink and its purchaser departments had not implemented JCPAA Recommendation No. 22.

Accuracy of debt raising by Compliance Teams

36. Centrelink undertook an internal audit of compliance debt raising during 2005, which included the accuracy of debts raised by Compliance Teams. The audit found a significant error rate across the debts raised by Compliance Teams (more than 40 per cent of debts sampled contained at least one error).

37. The primary action taken in response to the internal audit was the development of a pilot project to trial four different debt raising procedures within Compliance Teams. The project identified a best practice model for Compliance Teams to investigate and raise debts.¹⁰

38. The ANAO found no evidence of a post project review to assess the effectiveness of the trials undertaken. Accordingly, the ANAO considered that due to the magnitude of the findings of the internal audit, Centrelink should re-assess the accuracy of debts raised by Compliance Teams to assess the effectiveness of the measures implemented.

Debt waivers

39. Centrelink undertook an internal audit of debt waivers in 2006 and found no breaches of legislation or significant breakdowns in the internal

¹⁰ In 2007, Centrelink initiated the *National Workflow Management Pilot*. Through this project, all *Business Integrity Area Teams*, including Compliance Teams, will develop a common business approach to issues such as debt management.

controls¹¹. However, the internal audit identified considerable variances in the training provided to Debt Raising Officers across Areas, and a reliance on on-the-job supervision to ensure Debt Raising Officers were applying correct procedures. The internal audit made several recommendations concerning training and guidance.

40. In order to promote a more consistent national approach Centrelink had taken action to address these recommendations which included: providing extensive training to delegated Officers; ensuring that debt waivers were considered as part of the debt raising process by updating the debt raising *Scriptor*¹²; and undertaking an extensive revision of E-reference materials relating to debt waivers. However, the ANAO found that not all Officers had been provided with the necessary training to effectively process debt waivers.

41. During this audit, the ANAO found improved processes for applying a debt waiver. However, the ANAO still identified notable inconsistencies between Centrelink's Areas in applying the provisions of *Social Security Law* relating to debt waivers, particularly in the areas of customers in receipt of multiple payments and customers experiencing special circumstances. These inconsistencies have the potential to influence customer outcomes between debt raising sites.

42. The JCPAA recommended that the debt waiver amount be increased from \$50 to not more than \$100 (JCPAA Recommendation No. 22). DEEWR advised it had undertaken some analysis on the debt waiver amount in 2006 and did not support an increase to the amount on the basis that it could be regarded as cost effective, in many cases, to recover debts less than \$50 in value. The ANAO found that Centrelink did not measure the costs of debt administration to the extent that a comprehensive analysis could be undertaken to determine the cost effectiveness of debt recovery. Accordingly, the ANAO suggests that Centrelink and its purchaser departments undertake an analysis to determine the amount(s) where it is no longer cost effective to pursue a debt and, therefore, it should be automatically waived.

¹¹ Centrelink Internal Audit, *Debt Waivers*, October 2006, p. 8.

¹² A scriptor is a work-flow tool developed by Centrelink which aims to standardise and automate processes used by CSAs to enter data into payment systems and create consistent customer records.

Debt Recovery

Recommendations made in the 2004–05 audit and JCPAA inquiry, and agency responses

ANAO Recommendation No.8

The ANAO recommends that, to increase the efficiency and effectiveness of debt recovery operations, as well as customer service, Centrelink:

- proceed with the planned implementation of a nationally-based approach to its recovery operations, which provides guidance to Areas about recovery structures, processes and practices; and upgrade the recovery infrastructure, including the telephonic and online systems, to ensure customers can readily access Recovery Officers.

Centrelink agreed with this Recommendation.

ANAO Recommendation No.9

The ANAO recommends that Centrelink continue with the development of:

- a national training program for Recovery Officers to provide consistency of approach as well as adequacy of skills, and which would support a high level of performance, throughout the Centrelink network; and
- debt recovery scriptors for use by Recovery Officers, to improve consistency of advice and decision-making.

Centrelink agreed with this Recommendation.

JCPAA Recommendation 23

The Committee recommends that Centrelink monitor the work of its debt recovery officers, and those employed by its debt recovery agent, to ensure that customers are encouraged to repay debts via means other than credit cards.

Centrelink advised the Committee in August 2006 that it had implemented this Recommendation.

Finding

43. Centrelink had implemented these Recommendations.

Debt recovery business structures

44. The ANAO found that Centrelink had consolidated its debt recovery operations into six sites. Centrelink had also undertaken a significant investment in infrastructure within these sites, which included installing

enhanced computer systems with programs used by mercantile agents such as *Pulse* and *SoftFone*.¹³

45. However, the ANAO found continuing inconsistencies in the level of customer service between recovery sites which could lead to different outcomes for customers. The ANAO concluded that these inconsistencies were mainly due to the lack of a central document for Debt Recovery Officers that clearly detailed the intent of the recovery process and the expected outcomes. Accordingly, the ANAO considered there would be merit in Centrelink developing an outcome statement for its recovery processes to improve the consistency in service delivery.

Skills and training provided to debt recovery staff

46. Centrelink now has in place a national training package for Recovery Officers. This package includes both theoretical and practical exercises such as: listening to calls taken by more experienced officers; taking calls with a more experienced officer listening for quality control, and regular training updates as legislation and guidelines change.

47. While training material has been revised and updated, the ANAO found that the delivery of the training to recovery staff was inconsistent across the network. In particular, a number of Recovery Officers had received the initial induction training, however, due to resource constraints, subsequent modules within the training package were not being delivered to those Recovery Officers as they were needed.

Customers' use of credit cards to repay debts

48. The ANAO found that Centrelink Debt Recovery Officers and the Mercantile Agents were not offering the credit card option as the primary method of payment.

Consistency of service delivery

49. While Centrelink had implemented a framework to achieve greater efficiency and consistency in its debt administration, the ANAO continued to identify inconsistencies in its operations between debt raising and recovery sites of a magnitude that could result in a significant variance in customer

¹³ SoftFone is the trading name of a specialised telephony software that allows the user to dial numbers and carry out other phone functions such as call queuing using a computer screen, mouse and keyboard. Pulse is another form of telephony software that allows phone calls to be made via a broadband connection.

outcomes. This was mainly due to each site developing its own interpretation of the national guidelines and procedures in place.

50. As Centrelink is a national service provider, customers would reasonably expect that the outcome of the administration of their debt would not be dependent on their geographical location. The ANAO suggests that Centrelink develop procedures for delivering more consistent levels of customer outcomes across its debt management sites.

Summary of agencies' responses

51. The Chief Executive Officer of Centrelink provided the following response to the proposed audit report:

Centrelink welcomes the overall conclusions of the audit and acknowledges the effort made by the ANAO to understand the challenges facing our organisation and the work already undertaken since the 2004 ANAO audit of Debt Management to improve debt management processes and practices.

These initiatives have included development of a Debt Management Strategy, continuing regular consultation with Policy Departments to improve shared outcomes, refined Key Performance Indicators and an intense review of internal work practices leading to a centralised debt management structure. These initiatives have improved the profile and importance of debt management within Centrelink. Other initiatives include enhanced debt identification techniques, improved technical support tools and restructuring of service delivery that have improved timeliness and accuracy of debt processing.

Centrelink is continuing to look for areas for improvement in debt management and will be implementing further initiatives in the near future with particular reference to the ANAO's recommendation of cross agency analysis of both new and existing debts.

52. The Secretary of the Department of Families, Housing, Community Services and Indigenous Affairs provided the following response to the proposed audit report:

In respect of Recommendation No. 1 to better understand the underlying drivers of the customer debt base profile, FaHCSIA has commissioned an actuarial study with a view to inform on an overarching debt strategy. This will investigate the reasons for the increase in the debt base with a corresponding increase in the numbers of customers experiencing debt and the ageing of the debt base.

In relation to the JCPAA recommendation that the debt waiver limit be raised from \$50 to less than \$100, FaHCSIA in consultation with the Department of

Education, Employment and Workplace Relations and Centrelink, will also consider this matter in light of the actuarial research mentioned above.

53. The Secretary of the Department of Human Services provided the following response to the proposed audit report:

The Department of Human Services (DHS) welcomes the follow-up report by the ANAO noting that Centrelink is the primary payment agency responsible for the distribution of social security payments to eligible customers, and that effective administration and management of the customer debt base is consequently an important issue.

The previous ANAO audit of Centrelink's administration of Customer Debt in August 2004 made nine recommendations. The follow-up audit criteria were to establish whether Centrelink has implemented the previous audit's along with the JCPAA's recommendations and to establish the current performance.

Centrelink has restructured its operations to improve consistency, efficiency and performance measurement. The reduction of recommendations from nine to two in the follow-up audit demonstrates Centrelink's ability to evolve through business process improvement and the implementation of ANAO recommendations.

Centrelink debts primarily arise from customers failing to notify Centrelink of changes in circumstances or providing incorrect information. Debts can also result from administrative error.

DHS notes that there will always be a level of customer debt due to the nature of the social security system and that Centrelink is continuously striving to provide effective and efficient processes for managing the debt base. The follow-up audit enables Centrelink to incorporate relevant learnings in the development of further improvements, especially in debt preventions and debt recovery.

54. The Secretary of the Department of Education, Employment and Workplace Relations provided the following response to the proposed report:

The Department of Education, Employment and Workplace Relations (DEEWR) agrees with the general content of this report, which is a very useful adjunct to the ongoing work between DEEWR and Centrelink in the area of debt management. DEEWR particularly welcomes the report's emphasis on debt prevention as well as proactive management of outstanding debt. DEEWR's fundamental expectation is that Centrelink's front-line customer service reflects this emphasis, through processes that support payment accuracy and prevent overpayment.

55. The Department of Education, Employment and Workplace Relations' full response to the audit is contained in Appendix 2 of the report.

Recommendations

Recommendation No. 1

Para 2.15

The ANAO recommends that Centrelink and its purchaser departments undertake an analysis to determine the underlying drivers of the value and profile of the debt base with specific reference to the continuing:

- increase in the value of the debt base;
- increase in the number of customers experiencing debt; and
- ageing of the debt base.

Based on this analysis, Centrelink should review its approach to debt management, particularly debt prevention, and develop an integrated program of initiatives that aim to address the underlying drivers of the debt base.

Centrelink's response: *Agreed*

Department of Families, Housing, Community Services and Indigenous Affairs' response: *Agreed.*

Department of Education, Employment and Workplace Relations' response: *Agreed.*

Recommendation No. 2

Para 4.23

The ANAO recommends that Centrelink review the existing governance arrangements and operation of the Early Intervention Activity Database (EIAD) to identify and implement improvements to the integrity and usefulness of the data produced and relied upon to support debt prevention strategy decision making.

Centrelink's response: *Agreed*

Audit Findings and Conclusions

1. Introduction

This Chapter provides background information on the management of customer debt in Centrelink. It explains the audit approach and the structure of the Chapters.

Background

1.1 Centrelink is the Commonwealth's primary payment agency, and is responsible for the distribution of social security payments to eligible customers. In 2006–07, Centrelink made payments totalling some \$66.3 billion.¹⁴ Critical to maintaining both the financial integrity and public confidence in the distribution of these payments, are the business processes Centrelink has in place to ensure the correct amount of benefits are paid to eligible customers.

1.2 When an incorrect payment is made to a customer it can result in one of two consequences. Firstly, a customer can be underpaid, which can result in the customer being entitled to an arrears payment. Secondly, the customer can be overpaid which, in most circumstances, results in the customer incurring a debt to the Commonwealth.

1.3 Social security overpayments affect both the customer and Centrelink. For the customer, it results in having to repay the debt out of often limited financial resources. For Centrelink, it results in having to allocate resources to identify, calculate and recover the debt.

1.4 Customer debt arises primarily from customers failing to notify Centrelink of changes in circumstances or providing incorrect information to Centrelink. Where debt arises solely from Centrelink administrative error, and the customer could not reasonably be expected to know they were being overpaid, the debt can be waived.¹⁵

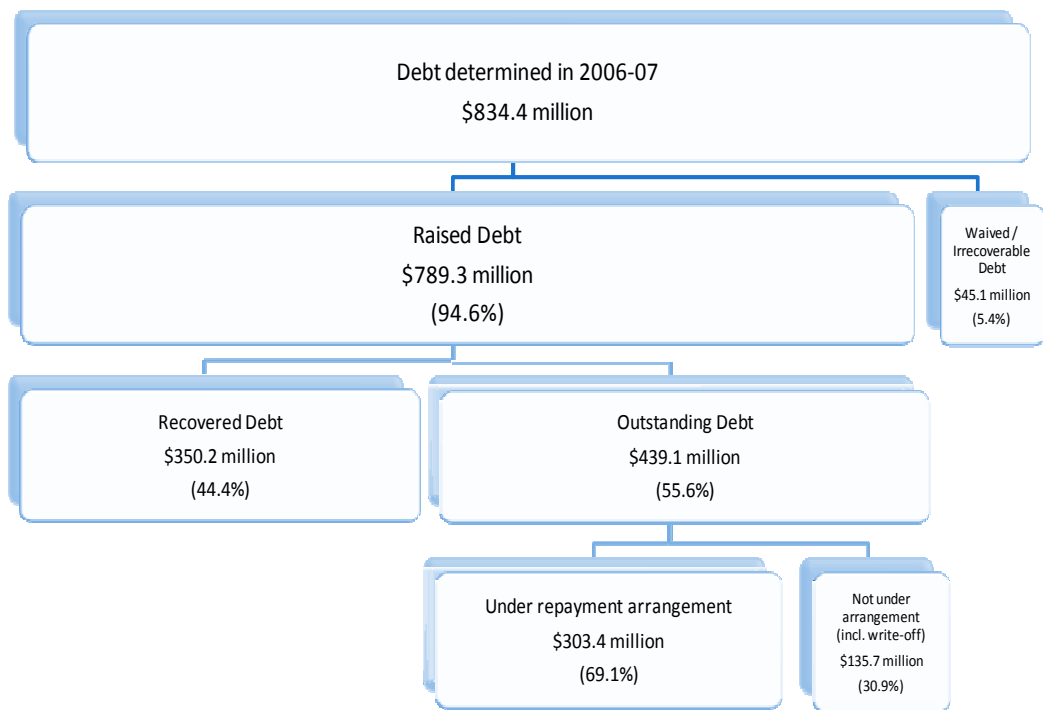
¹⁴ Centrelink, 2007, *Annual Report 2006–07*, p. 11.

¹⁵ The application of a waiver is dependent on the debt meeting the requirements of the *Social Security Act 1991 (Cth)*, ss1237A(1); 1237AAA(1); 1237AAC; and 1237AAD.

1.5 The total outstanding value of Centrelink’s customer debt base¹⁶ at 30 June 2007 was approximately \$1.3 billion owed by 651 540 debtor customers. Figure 1.1 illustrates the amount of customer debt identified during 2006–07 that contributes to this total outstanding debt base, and the actions taken by Centrelink to manage this debt.

Figure 1.1

Customer debt identified during 2006–07 and actions taken by Centrelink to manage this debt as at 30 June 2007



Source: ANAO analysis of data provided by Centrelink

- (1) ‘Determined’ debt is debt that has been identified and calculated and a decision has been made to recover or waive the debt.
- (2) ‘Raised’ debt, is debt that has been identified and calculated and deemed recoverable.
- (3) ‘Written-off’ debt is debt that has had its recovery action temporarily deferred.

¹⁶ Customer debt, for the purpose of this audit, is debt related to income support and pension payments, which at the time of the audit fieldwork, Centrelink administered on behalf of its then main purchaser departments: the Department of Employment and Workplace Relations; the Department of Families, Community Services and Indigenous Affairs; and the Department of Education, Science and Training. Centrelink refers to this type of debt as ‘benchmark debt’. This type of debt excludes Family Tax Benefit reconciliation debts. An audit of Family Tax Benefit customer debt was undertaken by the ANAO during 2006–07. See ANAO Audit Report No.12 2006–07, *Management of Family Tax Benefit Overpayments*. To maintain consistency with the previous audit, also excluded are payments such as Drought Relief, and other emergency payments.

1.6 Figure 1.1 demonstrates that while the amount of customer debt identified in 2006–07 is only a small proportion of Centrelink’s total social security outlays for the year (1.25 per cent of \$66.3 billion), its actual value (\$834.4 million) is quite large. Key to successfully managing this large debt base are management practices that aim to:

- prevent customer debt from occurring;
- identify customer debt in an efficient and timely manner;
- calculate customer debt accurately and within the legislative requirements; and
- recover customer debt efficiently.

Previous ANAO audit

1.7 In August 2004, the ANAO completed a performance audit examining Centrelink’s administration of its customer debt base - Audit Report No. 4 2004–05. The audit assessed whether Centrelink effectively and consistently managed its customer debt base across its network to ensure the integrity of payments made on behalf of the Commonwealth. The audit also assessed whether Centrelink provided effective levels of customer service to its debtor customers. The audit examined Centrelink’s customer debt administration across five key components:

- administration and integration of debt management processes;
- prevention and deterrence;
- identification;
- raising (calculation); and
- recovery.

1.8 The ANAO found a rapidly growing debt base both in terms of value and number of debts. The ANAO concluded that although Centrelink had improved the effectiveness of its debt management processes prior to the audit, there was an inconsistent application of these processes across its network. Further, the system lacked a set of robust key performance indicators, for all facets of debt administration, against which Centrelink could benchmark and improve its performance.¹⁷

¹⁷ ANAO Audit Report No.4, 2004–05, *Management of Customer Debt, Centrelink*, p. 18.

1.9 The ANAO made nine recommendations relating to the administration of Centrelink's customer debt base. Subsequent to the previous audit, the Joint Committee of Public Accounts and Audit (JCPAA) conducted an inquiry into Centrelink's customer debt administration and made a further six recommendations.¹⁸

1.10 Due to the significance of Centrelink's customer debt base, and the number of recommendations made by the ANAO and JCPAA, the ANAO has undertaken this follow-up audit to examine Centrelink's progress in addressing the issues raised in the previous audit and JCPAA inquiry.

Changes in administrative arrangements

November 2004

1.11 The Australian Government has twice restructured its delivery of welfare programs since the previous audit. During the previous audit, nearly all Australian Government social security programs were delivered by the then Department of Family and Community Services (FaCS), which was also Centrelink's main purchaser department.

1.12 In November 2004, a number of programs relating to unemployment and disability benefits were relocated from FaCS to the then Department of Employment and Workplace Relations (DEWR), and programs relating to students were relocated to the then Department of Education, Science and Training (DEST). Following further machinery of government changes in January 2006, the FaCS portfolio was expanded to include responsibility for indigenous affairs and the agency was renamed the Department of Families, Community Services and Indigenous Affairs (FaCSIA). The only major program FaCSIA retained that is included in the customer debt examined in this audit is the Age Pension program.

December 2007

1.13 Following the election of the new government in November 2007 there were further changes to the administrative arrangements. In December 2007, DEWR and DEST were in effect combined to form the Department of Education, Employment and Workplace Relations (DEEWR), and FaCSIA

¹⁸ Joint Committee of Public Accounts and Audit, Report 404, *Review of Auditor General's Reports*, Parliamentary Paper 394/2005.

became the Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA).¹⁹

1.14 Under this change DEEWR retained responsibility for unemployment and student benefits, however, benefits relating to disability support programs were transferred from DEEWR to FaHCSIA. FaHCSIA also retained responsibility for the Age Pension program.

1.15 As fieldwork for this audit was undertaken prior to the December 2007 changes in administrative arrangements, the analysis in this audit is based on the pre-December 2007 arrangements for delivering social security programs.

Audit approach

1.16 The objective of this follow-up audit was to examine Centrelink's progress in implementing the recommendations of the previous audit of customer debt management, and the recommendations made in the subsequent JCPAA inquiry.

1.17 The audit focused on Centrelink's debt management operations (including prevention, identification, raising and recovery).

1.18 The audit scope took into account the changes made to the Australian Government's welfare program structure since the previous audit and examined Centrelink's debt management arrangements with, at the time of the audit fieldwork, its main purchaser departments FaCSIA, DEWR, and DEST.

1.19 The two major criteria for this audit were:

- to establish whether Centrelink had implemented the previous recommendations made by the ANAO and JCPAA relating to customer debt management; and
- to establish Centrelink's current performance in administering customer debt.

¹⁹ Note: due to the Administrative Arrangements Order changes of December 2007, FaCSIA/FaHCSIA and DEWR/DEST/DEEWR are used interchangeably throughout this report depending on the time period referred to.

Audit methodology

1.20 The audit methodology included:

- examination of:
 - internal documents and data relating to the four key components of customer debt management: prevention, identification, raising and recovery;
 - internal reports relating to debt management performance;
 - business partnership agreements between Centrelink and its purchaser departments;
 - internal documents relating to Centrelink's relationship with its mercantile agents Dun and Bradstreet Ltd and Recoveries Corp;
 - review and appeals data relating to customer debt; and
 - data relating to the accuracy and timeliness of Centrelink Officers' processing of customer debt.
- inspection of Centrelink's consolidated debt raising and recovery sites.
- observation of:
 - debt prevention, identification, raising and recovery operations.
- interviews with:
 - key Centrelink staff with responsibility for debt management;
 - Centrelink's purchaser departments including FaCSIA, DEWR, and DEST;
 - Centrelink's mercantile agents Dun and Bradstreet Ltd and Recoveries Corp; and
 - a sample of relevant Non-Government Organisations with a stakeholder role in relation to customer debt management.

1.21 As part of the audit, the ANAO engaged Allanson Consulting to assist in undertaking a detailed data analysis of the customer debt base.

Structure of the Report

1.22 The report contains five chapters and two appendices.

- Chapter 1 – *Introduction*;

- Chapter 2 – *Value of the Debt Base*;
- Chapter 3 – *Business Management Processes for Administering Customer Debt*;
- Chapter 4 – *Debt Prevention*;
- Chapter 5 – *Administering the Debt Base*;
- Appendix 1 – *Profile of the Debt Base*; and
- Appendix 2 – DEEWR's response to the draft report.

2. Value and Profile of the Debt Base

This Chapter analyses the value and composition of Centrelink's customer debt base and considers the importance of understanding the drivers of recent trends.

Introduction

2.1 In the 2004–05 audit, the ANAO found a rapidly increasing customer debt base, with a value of \$967 million, as at 30 June 2003, owed by 548 700 customers²⁰. Key characteristics of the debt base at the time included:

- a substantial proportion of the debt base was relatively aged, with 37 per cent of the value of outstanding debt more than two years old;
- approximately 75 per cent of all debts were under some form of recovery arrangement;
- the incidence of debt was strongly related to the type of payment customers were receiving, that is, customers receiving payments through programs which required less frequent contact with Centrelink had larger debts than customers receiving their payments through programs which required more frequent contact with Centrelink; and
- a large number of debts had a relatively small financial value and, conversely, a small number of debts represented a significant proportion of the total debt base.²¹

2.2 In this audit, the ANAO sought to establish the current composition of the customer debt base.²²

Composition of Centrelink's customer debt base

Value of the debt base

2.3 As at 30 June 2007, Centrelink's total outstanding customer debt was approximately \$1.3 billion, owed by 651 540 customers. This represents an increase of approximately \$333 million (34 per cent) in the debt base and

²⁰ In the previous audit the ANAO identified that Centrelink's debt base consisted of approximately 600 000 customers. The data in the previous audit was supplied by Centrelink. In this audit, the ANAO undertook its own data analysis, and found that the 2003 figure was 548 700.

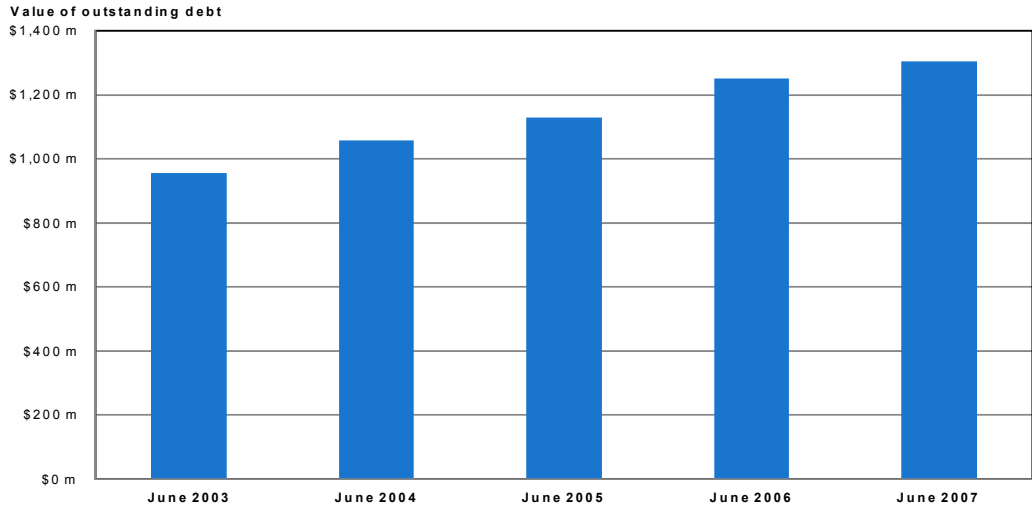
²¹ ANAO Audit Report No.4 2004–05, op. cit., pp. 34–35.

²² A more detailed analysis of the debt base appears in Appendix 1.

102 840 (18.7 per cent) customers since 30 June 2003. Figures 2.1 and 2.2 demonstrate the increasing trends.

Figure 2.1

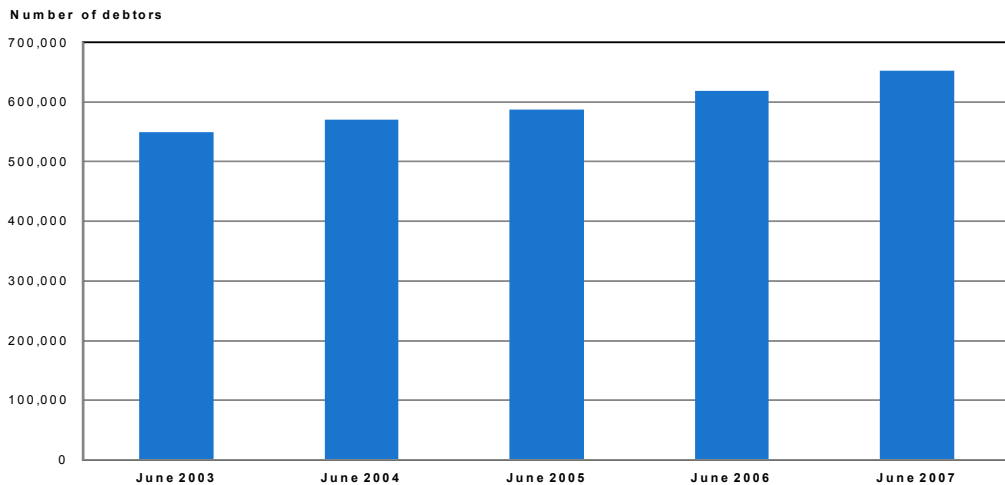
Value of outstanding customer debt June 2003 - June 2007



Source: ANAO analysis.

Figure 2.2

Number of Centrelink debtors with an outstanding debt June 2003-June 2007



Source: ANAO analysis

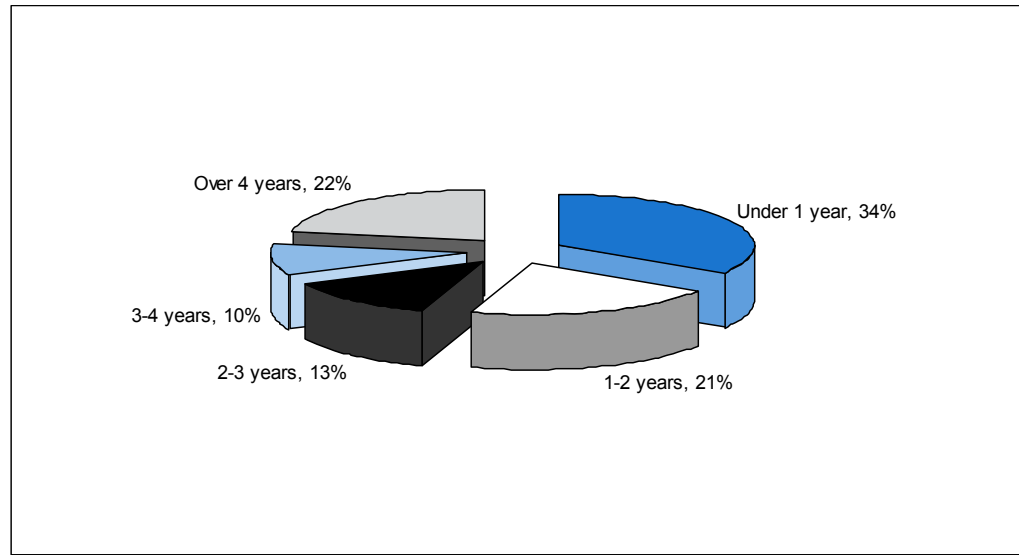
2.4 In addition to these increasing trends, as at 30 June 2007, approximately 69.9 per cent of the debt base was under some form of recovery arrangement comparing unfavourably to approximately 75 per cent at the time of the previous audit.

Age of the outstanding debt base

2.5 Figure 2.3 outlines the age of outstanding debts as at 30 June 2007²³.

Figure 2.3

Age of the debt base



Source: ANAO analysis

2.6 In the previous audit, the ANAO identified that 37 per cent (approximately \$358 million) of the debt base was at least two years old as at 30 June 2003.²⁴ Figure 2.3 demonstrates that the proportion of customer debt that is greater than two years old has increased in the four year period to 45 per cent (approximately \$585 million). This has resulted in debt that is greater than two years old increasing by more than \$227 million (63 per cent) in the four years to 30 June 2007.

²³ Debt duration statistics are calculated for individual debts (as opposed to debtors). In particular, the duration of outstanding debt is the number of days between the date on which the debt was raised and 30 June 2007 (the date of data extraction).

²⁴ ANAO Audit Report No.4 2004–05, op. cit., p. 35.

2.7 The older a debt becomes, the more difficult it is to recover. Despite the average size of debts remaining static and payment rates and recoveries increasing, Centrelink was unable to provide the ANAO with reason(s) for the ageing of its debt base.

2.8 Centrelink did advise the ANAO that one possible reason for the ageing of the debt base was the legislative restrictions which made it difficult for Centrelink to write off debt. However, section 1236 of the *Social Security Act 1991* (Cth), does provide for the Secretaries of Centrelink's purchaser departments to delegate to Centrelink the power to write off debt in certain circumstances:

...the Secretary may decide to write off a debt under subsection (1) if, and only if:

- (a) the debt is irrecoverable at law; or
- (b) the debtor has no capacity to pay the debt; or
- (c) the debtor's whereabouts are unknown after all reasonable efforts have been made to locate the debtor; or
- (d) it is not cost effective for the Commonwealth to take action to recover the debt.

Understanding the underlying drivers of the debt base

2.9 The ANAO notes throughout this report a range of measures that have been put in place to deal with specific issues that can contribute to customers incurring a debt, such as the *Getting it Right* strategy. However, despite these measures introduced by Centrelink and its purchaser departments to improve debt administration, the ANAO found that the value of the debt base; the number of persons experiencing debt; and the age of the debt base continued to increase. Further, the actual amount of the debt base under some form of recovery arrangement as a percentage of the total debt base had decreased over the last four years.

2.10 Centrelink's growing customer debt base exists in an environment of increasing overall household debt. Between 1 July 2003 and 31 December 2007, nominal household debt levels within Australia increased from 126.4 per cent to 160.4 per cent of disposable income.²⁵

²⁵ Reserve Bank of Australia, <<http://www.rba.gov.au/statistics/bulletin/B21HIST.XLS>> [accessed 14 April 2008].

2.11 The increase in the level of household debt, and the increase cost to households in servicing this debt, would have its most profound effect on lower income households, particularly those engaged in part-time or casual employment. Many of these households rely on Centrelink benefits to supplement their overall income. Accordingly, households in receipt of Centrelink benefits and experiencing financial difficulty could be more reluctant to actively engage Centrelink regarding any increased earnings, and would subsequently incur a debt. This is supported by the finding in Chapter 4 of this Report (refer paragraph 4.6) that identifies under or undeclared earnings as the main causes of customer debt.

2.12 The nature of the social security system, which does not apply interest to customer debt and allows debtors to repay their debt at minimal instalments (as little as \$2 per fortnight), could also provide little incentive to customers to place debts to Centrelink above their private debts when prioritising repayments.

2.13 To operate within this environment, the efficient and effective allocation of debt management resources is dependent on Centrelink and its purchaser departments understanding the underlying drivers of the customer debt base profile. The ANAO found that Centrelink and its purchaser departments had undertaken some limited analysis to identify the causes of customers incurring a debt. However, given the nature of the analysis, it was used to inform some individual initiatives rather than over-arching strategies to address the fundamental issues with the debt base. This was evidenced by the growth in the key measures of the debt base.

2.14 Undertaking a comprehensive analysis of the debt population and its drivers could usefully inform Centrelink and its purchaser departments on possible debt containment and reduction strategies. This in turn would allow for the framing of an integrated, program based approach to debt management that could place the customer debt base on a more sustainable basis going forward.

Recommendation No. 1

2.15 The ANAO recommends that Centrelink and its purchaser departments undertake an analysis to determine the underlying drivers of the value and profile of the debt base with specific reference to the continuing:

- increase in the value of the debt base;

- increase in the number of customers experiencing debt; and
- ageing of the debt base.

2.16 Based on this analysis, Centrelink review its approach to debt management, particularly debt prevention, and develop an integrated program of initiatives that aim to address the underlying drivers of the debt base.

Centrelink response

2.17 Centrelink agrees with this recommendation

2.18 Centrelink has written to the Secretaries of the Department of Education, Employment and Workplace Relations (DEEWR) and Families, Housing, Community Services and Indigenous Affairs (FaHCSIA) to request their input in responding to this recommendation.

FaHCSIA response

2.19 Agreed. In respect of Recommendation No. 1 to better understand the underlying drivers of the customer debt base profile, FaHCSIA has commissioned an actuarial study with a view to inform on an overarching debt strategy. This will investigate the reasons for the increase in the debt base with a corresponding increase in the numbers of customers experiencing debt and the ageing of the debt base.

DEEWR Response

2.20 The Department agrees with this recommendation.

2.21 DEEWR notes the ANAO's acknowledgment (at 3.5) of the collaborative approach outlined in the DEWR *Business Partnership Agreement* (BPA) with Centrelink. The Department looks forward to continuing with this cooperative relationship when pursuing the areas for improvement identified in this report.

2.22 DEEWR considers that the approach to debt management should consider the income support status of debtors to ensure that strategies address recovery from former recipients as well as from current recipients. DEEWR's analysis indicates that more than 70 per cent of outstanding Working Age Payment (WAP) debt is owed by ex-recipients.

Conclusion

2.23 The ANAO found a continuation of the trends in the customer debt base identified in the previous audit. These included:

- the value of the debt base and the number of customers experiencing debt had been steadily increasing, reaching \$1.3 billion and 651 540 respectively at 30 June 2007;
- the amount of the debt under some form of recovery arrangement had reduced to 69.9 per cent; and
- the debt base continued to age, with 45 per cent of debts in excess of two years duration at 30 June 2007.

2.24 The ANAO found that Centrelink, and its purchaser departments had undertaken some analysis of the drivers of the debt base and subsequently implemented some initiatives such as the *Getting it Right* strategy. However, the analysis was limited in nature and had not been able to capture a full appreciation of the underlying drivers of the customer debt base. This potentially prevented Centrelink from being able to more efficiently and effectively allocate its debt management resources though developing an integrated approach with targeted strategies to contain and reduce the debt base. The ANAO made one recommendation to address this issue.

3. Business Management Processes for Administering Customer Debt

This Chapter examines Centrelink's business arrangements with its purchaser departments for administering the customer debt base. The Chapter also examines how Centrelink reports its debt management performance to its purchaser departments.

Introduction

3.1 The administration of Centrelink's customer debt base requires Centrelink and the departments which purchase services from it to have in place business processes which identify the expected outcomes of their business relationship, and the lines of responsibility and accountability within the relationship. Complementing these processes should be a suite of performance indicators which adequately measure Centrelink's performance in administering the customer debt base.

3.2 The ANAO reviewed Centrelink's business management processes for administering its customer debt base, including the *Business Partnership Agreements* (BPAs) with its purchaser departments, and the governance strategies it has in place. The ANAO also reviewed Centrelink's and its purchaser departments' measurement of performance in relation to administering its customer debt base.

Business arrangements with purchaser departments

3.3 The bulk of customer debt, at the time of the audit fieldwork, related to programs administered by FaCSIA, DEWR and DEST. Centrelink had in place BPAs which governed the business relationships with each of these agencies.

Business Partnership Agreements (BPAs)

3.4 The ANAO found that each BPA contained protocols for the management of customer debt. The DEST BPA required Centrelink to 'maintain an efficient and effective debt prevention, management and fraud control program'.²⁶ Centrelink was responsible for the operational elements of debt management including identification, raising and recovery, while a collaborative approach between the agencies was applied for the management

²⁶ DEST – Centrelink *Business Partnership Agreement 2005–2008*, p. 89.

of debt prevention. Likewise, the FaCSIA BPA delegated to Centrelink the responsibility for the operational elements of debt management.

3.5 The DEWR BPA identified a far more collaborative approach to all areas of debt management than the DEST and FaCSIA BPAs. In particular, the BPA stated that the agencies' relationship regarding debt management would be underpinned 'by bilateral communication, co-operative working style, and of a commitment to the shared goals of...' effective debt management practices; an increased application of effective front-end practices; reducing the level of customer debt; and pursuing and recovering debts as quickly as possible within the law.²⁷

3.6 As with the previous audit, the ANAO found that the individual BPAs Centrelink had in place with its purchaser departments provided an effective framework for customer debt management. The BPAs detailed clear lines of responsibility between the agencies, and addressed the main aspects of debt management, including prevention, identification, raising and recovery.

Centrelink's internal business arrangements

Structure of debt management operations

3.7 Since the previous audit, Centrelink has undertaken a major restructure of its internal operations. This restructure involved the development of four distinct business lines:

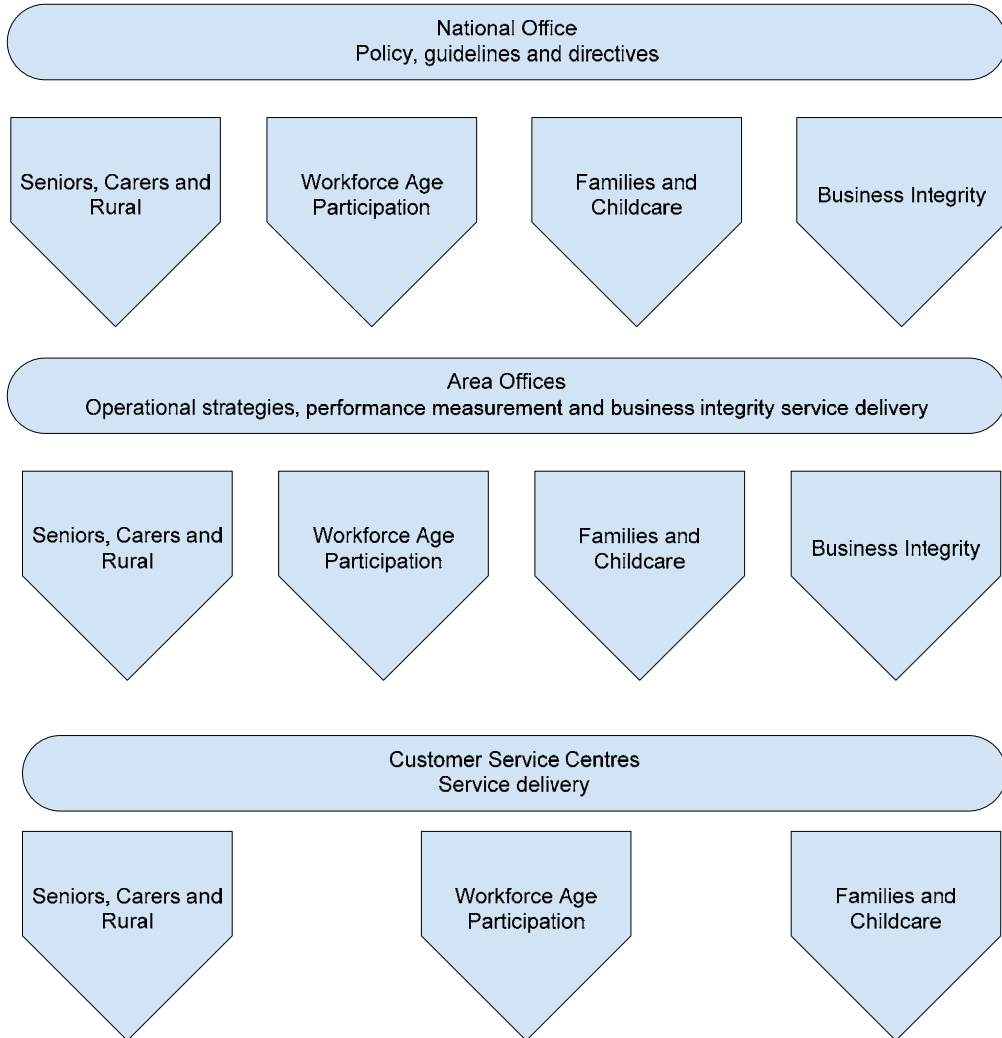
- *Seniors, Carers and Rural* – responsible for the administration and payment of the Age Pension, Carers, and Drought Relief programs;
- *Workforce Age Participation* – responsible for the administration and payment of programs relating to customers of workforce age including Newstart, Youth Allowance, Austudy, Parenting Payment, and Disability Support Pension;
- *Families and Childcare* – responsible for the administration and payment of programs relating to family assistance and childcare benefits; and
- *Business Integrity* - responsible for compliance and fraud investigation; debt management; performance management and monitoring; quality assurance; financial reporting and assurance; and resource management.

²⁷ Department of Employment and Workplace Relations and Centrelink, *Business Partnership Agreement 2006–2009*, p. 106.

3.8 The business line structure is a national approach to Centrelink's operations. The business lines cascade down from the National Support Office (NSO) to the Customer Service Centre (CSC) level (refer Figure 3.1).

Figure 3.1

Business Line structure



Source: ANAO analysis

3.9 Debt management is the responsibility of the Business Integrity business line. The development of the business line structure allowed Centrelink for the first time to integrate all facets of debt management (prevention, identification, raising and recovery) into the one operational stream. This is a significant improvement on the structure as it was at the time

of the previous audit. The previous audit identified that debt management processes were fragmented across a number of operational areas and did not allow for an integrated approach.²⁸

3.10 Business Integrity guidelines are developed by the NSO. However, the implementation of these guidelines is the responsibility of the individual Business Integrity units located within Centrelink's 15 Area Support Offices. Each Area Support Office develops its own operational strategies and plans and targets these plans towards the areas of business integrity management it deems important.

3.11 While this structure creates the potential for each Area Office to identify and address customer and Centrelink staff specific behaviours that can create debt, the ANAO found that there remained inconsistencies in the fundamental approach and levels of resourcing dedicated to the function (refer paragraphs 4.12 – 4.15).

3.12 Subsequent to the audit fieldwork, in December 2007, Centrelink further restructured its operations to centralise the debt management function within the NSO.

Centrelink's Debt Servicing Strategy

3.13 In the previous audit the *Debt Servicing Strategy 2001–2004* was the primary management strategy for the administration of customer debt.

ANAO Recommendation No. 1

The ANAO recommends that, in developing a replacement for Centrelink's current Debt Servicing Strategy, the agency:

- continues to improve communication flows between teams within Centrelink responsible for debt prevention, identification and recovery; and
- aligns debt risks to compliance and service delivery risks, enabling greater efficiencies in debt management activities.²⁹

Centrelink agreed with the Recommendation.

²⁸ ANAO Audit Report No.4 2004–05, op. cit., p. 42.

²⁹ ANAO Audit Report No.4 2004–05, op. cit., p. 41.

Findings of the follow-up audit

3.14 Centrelink had implemented this Recommendation, however, the ANAO considers that further work needs to be undertaken to allow the full benefits of implementing the Recommendation to be realised.

3.15 The ANAO found that Centrelink did not update the *Debt Servicing Strategy* until May 2007, with the introduction of the *Debt Servicing Strategy 2007–2010*. Centrelink advised the ANAO that the previous *Debt Servicing Strategy 2001–2004*, was extended to cover the period until May 2007, while the new Strategy was developed.

Addressing communication flows between debt management teams

3.16 The 2007–2010 strategy does not specifically address the issue of communication between the various debt management teams. However, the ANAO considers the establishment of the Business Integrity business line, provides a framework to better facilitate communication flows.

3.17 A stronger communication relationship between the various debt teams could improve the effectiveness of Centrelink's debt management processes. For example, information from debt raising teams about the types of debts being raised can be used by prevention teams to develop strategies preventing those specific types of debts.

3.18 During the fieldwork stage of the audit, the ANAO visited the debt management teams in six of Centrelink's 15 Areas.³⁰ The ANAO identified varying degrees of communication between the individual debt prevention, raising and recovery teams. In two Areas³¹ there were clear lines of communication linking prevention to identification, raising and recovery of debts. These Areas had developed strategies to ensure there was a sufficient flow of information between the teams to identify and address issues relating to customer debt. These strategies were complemented by regular meetings of the team managers where any issues relating to customer debt were discussed.

3.19 In the remaining Areas, the communication lines were less distinct. Members of the various debt management teams in these Areas identified that although the development of the Business Integrity business line had

³⁰ Areas visited included: East Coast (NSW); North Central Victoria; Western Australia; North Australia (NT and WA); Brisbane; and Pacific Central (QLD and NSW).

³¹ Areas Pacific Central and Brisbane.

improved coordination and communication, it was still difficult to identify the role of each team.

Aligning debt risks to service delivery risks

3.20 The establishment of the Business Integrity business line also addressed part two of Recommendation No. 1. The integration of the various debt management functions, including compliance, into the one business area, provides Centrelink with the framework to align its debt service delivery and compliance risks. For example, the targeting of Area debt prevention activities can be aligned with compliance activity to provide a coordinated approach to address specific issues causing customers to incur debts. This coordinated approach can be overseen by the Area's Business Integrity Manager, where as previously, a number of different managers drawing on different resources would have been involved. However, as paragraphs 3.18 – 3.19 identify, the ANAO found varying degrees of communication between these debt management teams.

Effectively utilising the new framework

3.21 Centrelink had implemented a framework to address Recommendation No. 1. However, the ANAO found that this framework was not yet being consistently implemented by all of Centrelink's Area Offices.

3.22 The ANAO considers that Area Business Integrity Managers should establish and maintain channels for information flow between each of the debt management teams, so as to better allow the new Business Line framework for debt management to be used effectively. This in turn, would create a more efficient approach to debt management through ensuring prevention and identification resources are more effectively targeted.

3.23 Centrelink advised the ANAO that through the implementation of the *Getting it Right Quality Control Strategy*, it will be able to further improve its coordination of its debt management functions. Centrelink commenced the implementation of the *Getting it Right Quality Control Strategy* in July 2007. The strategy aims to:

...improve the quality of Centrelink [sic] service delivery by improving the coordination and cost effectiveness of quality management across the organisation.³²

³² Centrelink, *Getting it Right Quality Control Strategy*, (NP) Version 1.0, July 2007.

3.24 The strategy aims to implement consistent management structures and processes across the network, through moving the responsibility for coordinating debt management activities from the Area Offices to the NSO. The strategy was implemented subsequent to the completion of the audit fieldwork, and the ANAO did not examine its effectiveness.

Performance Measurement

3.25 During the previous audit, Centrelink and FaCS were in the process of revising their performance indicators.³³ The ANAO found that Centrelink's internal measures for customer debt management were adequate and provided a good basis for the measurement of debt management with the exception of the indicators used for debt prevention. The ANAO also found that Centrelink did not measure customer satisfaction with its debt management processes.³⁴

ANAO Recommendation No. 2

The ANAO recommends that FaCS in consultation with Centrelink review the external monitoring regime for debt management in Centrelink to promote better practices and performance improvements. In particular, the ANAO recommends that the review consider the benefits of:

- replacing the current debt key performance indicators in the FaCS – Centrelink *Business Partnership Agreement* with indicators that measure the effectiveness of the four major phases of debt management (prevention, identification, raising and recovery) and
- revising the Outcome-Output measures in both FaCS' and Centrelink's Portfolio Budget Statements to encompass these measures, which would then be reported against the agencies' respective Annual Reports to Parliament.³⁵

Centrelink and FaCS agreed to the recommendation with qualification, indicating that at the time of the audit, the agencies were in the process of negotiating a Memorandum of Understanding which would be a mechanism for the future development of new outcome and output measures. Centrelink also indicated that it was examining the feasibility of a debt prevention indicator.

ANAO Recommendation No. 3

The ANAO recommends that Centrelink monitor customer satisfaction with the

³³ ANAO Audit Report No.4 2004–05, op. cit., p. 51.

³⁴ *ibid*, pp. 55–57.

³⁵ *ibid*, p. 53.

administration of its debt raising and recovery activities, and use those results to improve debt service delivery.³⁶

Centrelink agreed with the Recommendation.

Findings of the follow-up audit

3.26 FaCSIA had implemented Recommendation No. 2. DEWR and DEST had partially implemented Recommendation No. 2. Centrelink had implemented Recommendation No. 3, however, the ANAO considers Centrelink should undertake further work to realise the full benefit of implementing the Recommendation.

3.27 In view of the changed administrative arrangements discussed previously in this Report, the scope of this audit was widened to include Centrelink's performance measurement arrangements with DEWR, DEST and FaCSIA. The ANAO found that in meeting Recommendation No. 2, each purchaser department had developed performance indicators for all components of the administration of customer debt, with the exception of debt prevention for the DEWR and DEST programs.

3.28 After the machinery of government changes in December 2007, DEEWR provided a response to the ANAO identifying that they would not be pursuing the development of a debt prevention indicator at this stage, and would be focusing debt prevention resources on more practical debt prevention activities.

3.29 The ANAO recognises the difficulty in developing an overall debt prevention indicator(s). However, in pursuing its practical debt prevention activities, there would be benefit in DEEWR measuring the effectiveness of the activities against their objectives in order to provide an assurance on DEEWR's ability to prevent debt within its payment programs. Given DEEWR and FaHCSIA are adopting different approaches to measuring the impact of debt prevention activities, the ANAO considers that there would also be benefit in the departments sharing their experiences with a view to understanding and learning from the risks and benefits of each approach.

3.30 Table 3.1 outlines the indicators developed by Centrelink and its purchaser departments.

³⁶ *ibid*, p 57.

Table 3.1**Annual performance measures for the administration of customer debt**

Debt Function	Agency/Indicator
Debt prevention	<p>FaCSIA</p> <p>Latent debt should not exceed 0.2 per cent of Age Pension outlays. (A similar indicator was being delivered for Carers Payment).</p> <p>DEWR and DEST</p> <p>No indicator developed.</p>
Debt identification	<p>All agencies</p> <p>The value of debt found in each payment specific population versus the value of debt expected for that population as extrapolated from Random Sample Surveys (RSS)³⁷. Performance target to be set for 2007–2008 on the basis of the outcome of the 2006–07 RSS.</p>
Debt raising	<p>All agencies</p> <p>For each client agency - 70 per cent of the debt base relating to payments for which the client agency has policy responsibility, be determined debts based on a 12 month rolling average.</p>

³⁷ The Random Sample Survey (RSS) is a quality assurance mechanism used by purchaser departments (DEWR and FaHCSIA), through Centrelink, where a sample of customer records is drawn to verify the customers are receiving the correct entitlements.

Debt Function	Agency/Indicator
Debt recovery	<p>FaCSIA</p> <ul style="list-style-type: none"> • Value of debts under recovery be 65 per cent of the debt base; and • Value of total recoveries received be 72 per cent of the value of new debt raised based on a 12 month rolling average. <p>DEWR</p> <ul style="list-style-type: none"> • Value of debts under recovery be 65 per cent of the debt base; and • Value of total recoveries received be 77.5 per cent of the value of new debt raised based on a 12 month rolling average. <p>DEST</p> <ul style="list-style-type: none"> • Value of debts under recovery be 58 per cent of the debt base (interim target); and • Value of total recoveries received be 72 per cent of the value of new debt raised based on a 12 month rolling average.

Source: Centrelink

3.31 The ANAO regards the current customer debt performance indicators as an improvement on those in place at the time of the previous audit. In particular, the introduction of an indicator of Centrelink's performance on debt identification, and more detailed indicators of its debt recovery performance (including a dollar value target for recovery) provide a more comprehensive suite of performance indicators for debt management.

3.32 With regard to the reporting of the new suite of performance indicators, the ANAO found that Centrelink and its purchaser departments had, or would be, incorporating the measures in their Annual Reports.

Measuring customer satisfaction

3.33 The previous audit found that Centrelink did not have in place any substantial or regular monitoring of customer satisfaction with the agency's performance of its debt management processes. Centrelink agreed to undertake such monitoring in response to Recommendation No. 3.

3.34 The ANAO found that Centrelink conducted customer satisfaction monitoring between November 2004 and July 2005. This monitoring included three customer satisfaction projects:

- conducting Value Creation Workshops (VCWs)³⁸ during May – July 2005, specifically targeting customers who had incurred a debt;
- the development of a Customer Satisfaction Survey during 2005, to gauge the level of satisfaction customers have with Centrelink’s Debt Recovery Teams. The survey was conducted by Centrelink’s contracted Mercantile Agent Dun & Bradstreet; and
- the development of a customer satisfaction survey by Centrelink’s Customer Experience Branch containing specific questions relating to Centrelink’s customer debt management. The survey was conducted by Evalua Pty Ltd and targeted customers who had contacted Centrelink’s Debt Recovery Call Centre during November 2004 and May 2005.³⁹

3.35 Centrelink advised the ANAO that the results of these surveys were used to improve the training of Debt Raising and Recovery Officers, and improve the online resources available to staff. These improvements included updating all guidance for the Recovery and Raising Teams. To complement the updated guidance, Centrelink made available to its staff the Australian Competition and Consumer Commission’s guidelines on debt recovery, as well as the provisions within the *Trade Practices Act 1974 (Cth)* governing the operations of debt collectors.

3.36 The conduct of these surveys had allowed Centrelink to implement Recommendation No. 3 of the previous audit. However, the ANAO notes the last survey was undertaken in 2005. The ANAO considers that there would be benefit in Centrelink periodically undertaking further monitoring, whether through similar surveys or other available means, to update its knowledge about customer views on debt management customer service and to identify further opportunities to improve its service delivery.

³⁸ Value Creation Workshops (VCWs) are focus groups involving both Centrelink customers and staff which are designed to provide direct feedback to Centrelink on the services it provides.

³⁹ Centrelink, 10 May 2007, *Recommendations Update, 2004 ANAO Audit Management of Customer Debt in Centrelink*, pp. 10–11.

Conclusion

3.37 The ANAO concluded that Centrelink had addressed Recommendation No. 1 of the previous audit through the implementation of the *2007–10 Debt Servicing Strategy*, and the restructure of its internal debt management operations, integrating all areas of debt management into the one business line. However, the ANAO identified issues with communication flows between debt management teams, indicating that Centrelink’s Area Offices were not consistently implementing the *Debt Servicing Strategy* or the new internal framework to their full potential.

3.38 The restructure of Centrelink’s debt management operations and the latter development of the *Getting it Right Quality Control Strategy* allowed Centrelink to develop a framework aligning its debt risks to its compliance and service delivery risks.

3.39 FaCSIA had addressed Recommendation No. 2 through the development of a suite of performance indicators. DEWR and DEST had not developed a debt prevention indicator rather choosing to focus on debt prevention activities instead but had addressed all other parts of Recommendation 2.

3.40 Centrelink had addressed Recommendation No. 3, however, given the recent structural changes, and the three years that has elapsed since the last survey, the ANAO considers there would be benefit in Centrelink conducting regular ongoing customer satisfaction surveys to identify the impact of the reforms undertaken, and identify further refinements in their processes.

4. Debt Prevention

This Chapter examines Centrelink's and its purchaser departments' efforts to prevent customer debt, and measure the effectiveness of debt prevention strategies.

Introduction

4.1 A key component of Centrelink's *Debt Servicing Strategy 2007–2010* is to 'minimise customer debt by building it [debt prevention] into standard customer service delivery so that debt prevention operates as part of mainstream customer service.'⁴⁰ Debt prevention is also identified as a key debt management activity in Centrelink's BPAs with FaCSIA, DEWR, and DEST.

4.2 An effective debt prevention program contributes to the overall efficiency of customer debt management through reducing the administrative costs of having to identify, process and recover customer debt. It also reduces the potential burden placed on customers of having to repay the debt which, given that Centrelink's customers include members of the community with limited financial resources, is also important.

4.3 In the previous audit, the ANAO recognised that debt prevention was a complex activity that was both difficult to target and measure. The ANAO examined Centrelink's internal and external debt prevention activities and measures and made two recommendations relating to the coordination of debt prevention activities and the measurement of their effectiveness. The JCPAA made one further recommendation.

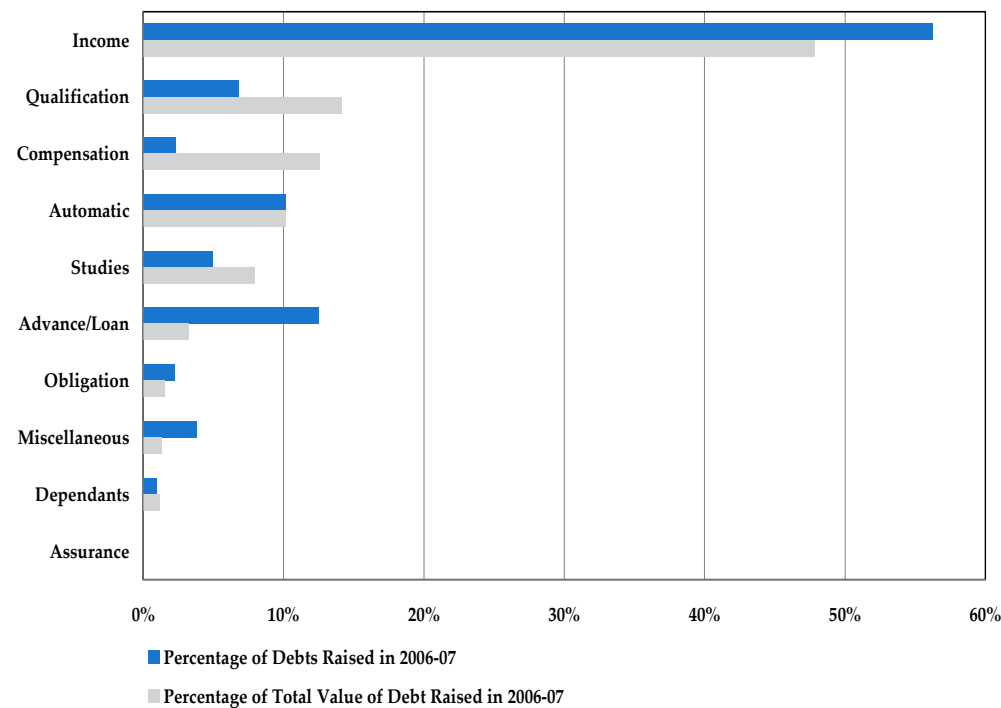
4.4 In this audit the ANAO re-examined Centrelink's debt prevention activities, its measurement of the outcomes of these activities and its progress towards implementing the previous audit's and JCPAA's recommendations.

Common reasons for and causes of debts

4.5 The previous audit identified that the major causes of customer debt were due to either under-declared or undeclared customer income. Figure 4.1 identifies the main causes of debt during 2006–07.

⁴⁰ Centrelink, *Centrelink Debt Servicing Strategy 2007–2010*, p. 7.

Figure 4.1
Main causes of customer debt 2006–07



Source: ANAO analysis

4.6 Figure 4.1 demonstrates that under-declared or undeclared income continued to be the main causes of customer debt accounting for 56 per cent of the number debts raised, and 48 per cent of the value of debts raised during 2006–07. Qualification⁴¹ (eligibility to receive the entitlement) is the second major cause of debt in terms of value accounting for 14 per cent of the value of debts raised during 2006–07.

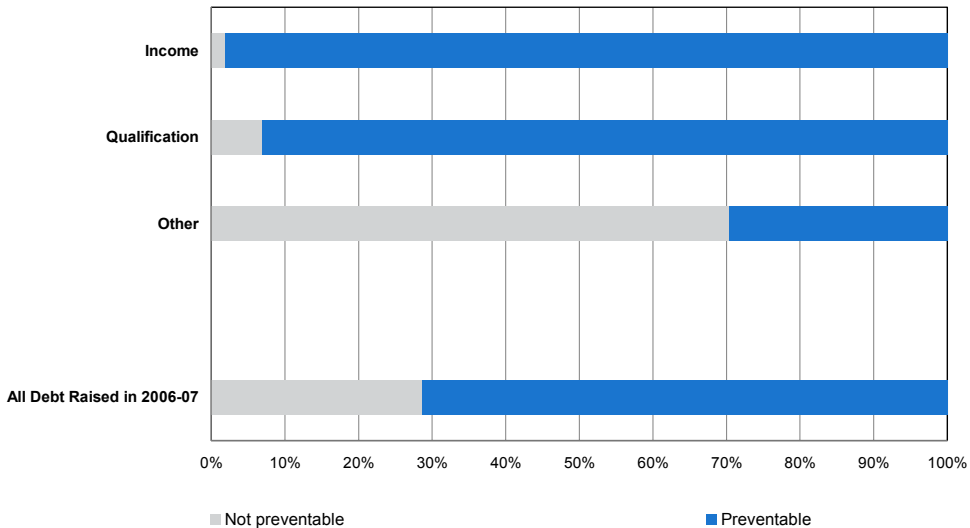
4.7 Centrelink classifies customer debt as either preventable or non-preventable. Preventable debt is debt that Centrelink should be able to influence or prevent. Non-preventable debt is debt that Centrelink has no influence over. An example of a non-preventable debt is a customer receiving an advance payment and then going off benefit due to employment, thus

⁴¹ An example of a customer incurring a debt due to qualification is a student reducing their study load to part-time or ceasing to study altogether and failing to inform Centrelink of this.

disqualifying themselves from receiving the entitlement they have received in advance.

Figure 4.2

Preventable debt versus non-preventable debt (percentage of customer debts raised during 2006–07)



Source: ANAO analysis

4.8 Figure 4.2 identifies that for Centrelink's two main causes of debt, income and qualification, the majority of debt raised was preventable. Therefore, Centrelink's debt prevention activities are essential to reducing customer debt.

Centrelink's operational debt prevention activities

Previous audit findings

4.9 The ANAO found there was little coordination between Centrelink's NSO and its Area Debt Prevention Teams.⁴²

ANAO Recommendation No. 4

The ANAO recommends that Centrelink review the implementation including funding arrangements, of debt prevention activities across its network, and determine whether this implementation supports effective leadership, and coordination of debt prevention and management initiatives by Centrelink's Debt Services Team.⁴³

Centrelink agreed with this Recommendation.

Findings of the follow-up audit

4.10 Centrelink had implemented Recommendation No. 4, however the ANAO considers further work should be undertaken to better coordinate debt prevention activities.

4.11 Centrelink conducted a review of its debt prevention funding arrangements in 2005. As a result of this review, Centrelink restructured its internal debt management operations and integrated debt prevention activities into the Business Integrity business line.⁴⁴ This restructure provided Centrelink with the framework to address the fragmented nature of the management of debt prevention activities identified by the previous audit and potentially improve leadership and coordination. The restructure also led to a funding model whereby funding could be drawn from the Business Integrity business line for all debt prevention activities.⁴⁵

4.12 However, as with the previous audit, the ANAO identified varying levels of resources dedicated to debt prevention in each Area. The main Area debt prevention resources are the Debt Management Officers (DMOs, formerly

⁴² ANAO Audit Report No.4 2004–05, op. cit., pp. 63–64.

⁴³ *ibid*, p. 69.

⁴⁴ This restructure is discussed in Chapter 3.

⁴⁵ Centrelink, 10 May 2007, *Recommendations Update, 2004 ANAO Audit Management of Customer Debt in Centrelink*, p. 11.

DPMOs⁴⁶), and the debt prevention projects they undertake. The ANAO observed in the Areas it visited variations in the staffing levels of DMOs; the resources available to DMOs; and the focus of DMO projects.

4.13 In some Areas debt prevention focussed mainly on addressing internal operations within Centrelink to limit administrative error. Other Areas targeted their debt prevention resources on 'out-reach' projects such as liaising with large employers, or groups of small employers within the same industry, to ensure their employees who were receiving Centrelink payments were aware of their obligations.

4.14 With the development of the *Getting it Right Quality Control Strategy*⁴⁷, the targeting and effectiveness of debt prevention strategies is now assessed and guided nationally. As this strategy was implemented after the completion of the fieldwork, the ANAO did not assess its effectiveness in addressing the inconsistent allocation of resources for debt prevention at the Area level.

Coordination of debt prevention activities

4.15 The success of debt prevention activities is heavily reliant on a clear and coordinated program-based approach that can target identified areas and issues. This approach should be supported by robust governance arrangements and reliable systems to coordinate, monitor and evaluate projects.

4.16 Centrelink conducts debt prevention activities at both a national and Area Office level. Centrelink identified to the ANAO a number of projects undertaken at the national level relating to students and indigenous programs. These national projects were implemented by Centrelink's network of DMOs based in its Area Offices.

4.17 As well as implementing national projects, DMOs are also responsible for developing Area based projects aimed at addressing the unique causes of customer debt in the DMO's Area of operation.

4.18 In the previous audit, the ANAO identified a lack of coordination between Centrelink's NSO and its Area offices with regard to the Area based projects. In response to the previous audit, NSO implemented a national online project management system for debt prevention projects, the Early

⁴⁶ Debt Prevention Monitoring Officers.

⁴⁷ See paragraph 3.23.

Intervention Activity Database (EIAD). DMOs enter into EIAD details of debt prevention projects they are undertaking, including the scope and methodology of the project as well as its potential and actual outcomes. EIAD serves two main purposes; to inform NSO of DMO activities; and to allow DMOs to share project information with each other.

4.19 The ANAO did not identify any governance arrangements or controls at the National or Area level on the information being entered into EIAD. Given the lack of controls and the feedback from the staff entering information into EIAD, the ANAO considered the information contained in the system was not of a sufficiently robust nature to allow for a reliable assessment by Centrelink's NSO of debt prevention projects undertaken at the Area level.

4.20 Ninety per cent of DMOs interviewed by the ANAO considered the EIAD to be ineffective. These DMOs said that they found the process for entering details into the system to be cumbersome, and subsequently did not enter all of the relevant project details into the system. Further, nearly all DMOs interviewed by the ANAO indicated that they believed NSO did little monitoring of the projects listed on EIAD, and very rarely gave advice on methodology or feedback on results, which in turn, led DMOs to doubt the usefulness of the system.

4.21 The ANAO found that the problems in the coordination of debt prevention activities still existed. While oversighting some nationally endorsed and funded projects at the time of the audit fieldwork, the NSO continued to have little input into the approval of debt prevention projects at the Area level and did not routinely assess the effectiveness of these projects.

Further restructuring of debt prevention operations

4.22 In December 2007, Centrelink restructured its debt prevention operations with the responsibility for resourcing and tasking of the DMO function moving from the individual Areas to the NSO. This provides Centrelink with the potential to implement a national and coordinated approach to debt prevention, which draws together projects and strategies and measures the impact of these through an effective information management system. However, the ability to achieve this is limited by the integrity of the underpinning model to monitor activities.

Recommendation No. 2

4.23 The ANAO recommends that Centrelink review the existing governance arrangements and operation of the Early Intervention Activity Database (EIAD) to identify and implement improvements to the integrity and usefulness of the data produced and relied upon to support debt prevention strategy decision making.

Centrelink's response

4.24 Centrelink agrees with this recommendation.

National Indigenous Debt Prevention Strategy

4.25 In reviewing debt prevention strategies, the previous audit noted Centrelink's important role in dealing with Indigenous customers. In October 2006, Centrelink released the *National Indigenous Debt Prevention Strategy 2006–2008*. The objective of the strategy is 'to provide a framework for reducing the number and dollar value of debts incurred by Indigenous customers.'⁴⁸

4.26 The strategy identifies that although Indigenous customers account for 3.3 per cent of Centrelink's customer base, they account for 4.7 per cent of total preventable debt, and were 75 per cent more likely to incur a debt than non-Indigenous customers. The strategy has several aims including: increasing payment accuracy; improving customer service and voluntary compliance; improving Centrelink's knowledge of Indigenous issues; and improving Indigenous customers' knowledge of their rights and obligations. Centrelink sets out a number of actions that the strategy will employ to achieve its objectives including: engaging with Indigenous communities; improving staff training and investigation; and improving processes and procedures.

4.27 During a fieldwork visit to Area North Australia, the ANAO observed elements of the strategy in action. In particular, the ANAO was briefed on projects involving DMO engagement with remote Indigenous communities, where communities with high levels of debt were identified, and strategies were implemented to address the causes of debt. These strategies included the re-verification of customer details; information sessions conducted in Indigenous languages relating to customers rights and obligations; and outlining the communication channels with Centrelink available to customers.

⁴⁸ Centrelink, *National Indigenous Debt Prevention Strategy 2006–2008*, p. 6.

4.28 The specialist Indigenous debt recovery team based in Darwin was also contributing to reducing Indigenous customer debt. The team was doing this by ensuring that customers contacting the recovery centre:

- had their details re-verified;
- were advised of their rights and obligations; and
- were informed of how they may avoid incurring a future debt.

The debt recovery officers involved were of Indigenous background and were able to communicate with the customers in various Indigenous languages.

4.29 The ANAO regards the *National Indigenous Debt Prevention Strategy* as a significant improvement in Centrelink's approach to the issue of Indigenous debt. The previous audit identified issues such as remoteness, language barriers, understanding of obligations and customer mobility as posing a significant risk to Indigenous customers incurring a debt. The objectives and proposed actions of the strategy seek to address these risks.

Preventing debt due to administrative error

4.30 One component of debt prevention is minimising administrative error. Customer debt due to administrative error arises when a Centrelink officer incorrectly processes a customer's social security assessment. Legislation prevents Centrelink from recovering customer debts due solely to administrative error which are more than six weeks old.⁴⁹

4.31 During the previous audit and subsequent JCPAA inquiry, Centrelink was in the process of developing a payment integrity strategy that aimed to reduce the incidence of administrative error and customer debt. The JCPAA made one recommendation in relation to the development of this Strategy.

JCPAA Recommendation No. 18

The Committee recommends that Centrelink prioritise the implementation of its payment integrity strategy to ensure that payments are right in the first instance, rather than relying on reactive processes.

Centrelink should report to the Committee on its progress in implementing the payment strategy in February 2006 and July 2006.⁵⁰

Centrelink advised the Committee in August 2006 that it was continuing with the implementation of its payment integrity strategy.

⁴⁹ *Social Security Act 1991* (Cth), (s1237A(1) and s1237A(1A)).

⁵⁰ Joint Committee of Public Accounts and Audit, Report 404, op. cit., p. 111.

Findings of the follow-up audit

4.32 Centrelink had implemented this Recommendation.

4.33 Centrelink continued with the operation of the *Getting it Right*⁵¹ payment integrity strategy. The strategy is administered centrally from Centrelink's NSO. Specifically NSO is responsible for:

- developing business and communication plans for the strategy;
- developing policy initiatives and procedures to improve payment correctness;
- working with Area and Customer Service Centre staff to implement the initiatives and procedures; and
- developing quality improvement responses to errors identified through QOL and the RSS.

4.34 The ANAO also identified that debt prevention projects were being undertaken to address administrative error at the Area level. However, as discussed previously, the resources allocated to these prevention projects varied between Areas.

4.35 The ANAO identified through interviews with DMOs and Debt Raising Officers, four continuing main causes of administrative error resulting in customers incurring a debt:

- the incorrect coding of earnings by Customer Service Advisers (CSAs);
- incorrect attribution of assets after the death of a customer's spouse;
- the CSA only updating one of the customer's payments on advice of a change in circumstances when the customer is receiving multiple payments; and
- CSAs incorrectly paying a customer an arrears payment.

4.36 The ANAO found that Centrelink had reviewed and refreshed much of its training and online E-Reference material relating to debt and payment issues since the previous audit. Centrelink had also scheduled staff development and training programs to address these issues. To measure the effectiveness of these initiatives, the ANAO suggests Centrelink periodically

⁵¹ The *Getting it Right* strategy is Centrelink's main strategy aimed at ensuring payment correctness and was implemented in November 2000. The purpose of the strategy was to establish a framework for improving accuracy and accountability within the Centrelink network.

sample workloads to identify whether changes to the E-Reference material and the conduct of the training programs has had an impact on reducing administrative error.

Measuring the effectiveness of debt prevention

Findings of the previous audit

4.37 The ANAO found that Centrelink did not explicitly measure the effectiveness of its debt prevention activities.⁵² As a result of this finding the ANAO made the following recommendation.

ANAO Recommendation No. 5

The ANAO recommends that to help support debt prevention activities, Centrelink develop a set of internal performance indicators that accurately measure, and/or assess the effectiveness of debt prevention activities.⁵³

Centrelink agreed with this Recommendation.

Findings of the follow-up audit

4.38 Centrelink had implemented this Recommendation.

4.39 In implementing Recommendation No. 5, Centrelink had developed an internal set of performance targets which are contained in a quarterly performance report on debt management. These targets include:

- 95 per cent of reviews undertaken by Centrelink do not contain administrative error with a dollar impact;
- for each of payment reported in the Random Sample Survey (RSS)⁵⁴, the percentage of customer driven errors will be maintained or improved based on the same trimester of the previous year; and
- a reduction in the rolling twelve month average percentage of the number of debts in the RSS from the corresponding period previous year.

⁵² ANAO Audit Report No.4 2004–05, op. cit., p. 74.

⁵³ *ibid*, p. 75.

⁵⁴ The Random Sample Survey (RSS) is the primary mechanism used by Centrelink's key purchaser departments (FaHCSIA and DEEWR) to measure the accuracy of outlays across programs delivered by Centrelink. The RSS provides a point in time analysis of a sample of customers' circumstances designed to establish whether customers are being correctly paid.

4.40 Centrelink also stated it relies on information from the Early Intervention Activity Database (EIAD) to measure the effectiveness of its debt prevention activities. Earlier in this Chapter (refer paragraphs 4.18–4.21), the ANAO identified that the EIAD has a significant shortcoming relating to the accuracy and comprehensiveness of the information it contains. The ANAO considers that if Centrelink intends to continue to rely on information contained in the EIAD for this purpose, it should ensure that DMOs fully utilise this system when planning projects and reporting on their outcomes.

Conclusion

4.41 The ANAO found that Centrelink had implemented ANAO Recommendations No. 4 and No. 5 of the previous report, focussed on the coordination of debt prevention activity and measuring debt prevention effectiveness, and had also implemented JCPAA Recommendation No. 18 regarding the ongoing priority to implement the payment integrity strategy.

4.42 However, the ANAO identified continuing inconsistencies between Centrelink's Area debt prevention resources and its NSO. Further, the ANAO found that the main system used to monitor and measure Area debt prevention activities, EIAD, lacked adequate controls to ensure the reliability of the information it contains. The ANAO made one recommendation to address this issue.

5. Administering the Debt Base

This Chapter examines Centrelink's administration of its customer debt base, in terms of identifying, raising and recovering debt.

Introduction

5.1 Regardless of Centrelink's and its purchaser departments' debt prevention activities, a level of customer debt will always exist due to the nature of the social security system, which relies on customers accurately reporting changes to their details in a timely manner. Accordingly, it is important that timely, accurate and efficient processes are in place to identify, raise and recover debts. Timely and effective debt identification processes reduce the number of incorrect payments to customers, and subsequently the size of debts. Accurate and timely debt raising processes ensure that the correct amount of debt is raised against the debtor customer, and that the relevant legislation and guidelines are correctly applied when deciding whether to recover or waive the debt.

5.2 Complementing the identification and raising process should be an efficient recovery process which aims to recover the maximum amount of the debt without placing the debtor customer into increased financial hardship.

5.3 In the previous audit, the ANAO examined Centrelink's identification, raising and recovery processes in relation to customer debt and made four recommendations. The JCPAA in its subsequent inquiry made three recommendations.

5.4 In this audit, the ANAO examined Centrelink's performance in identifying, raising and recovering debt, and its progress in implementing the recommendations of the previous audit and JCPAA inquiry.

Debt identification

5.5 Centrelink identifies customer overpayments in several ways including:

- formal reviews – these include accelerated claimant matching, compliance reviews (including tip-offs), program (host) reviews, and service profiling;

- customer initiated re-assessments⁵⁵ of their entitlement(s); and
- automated updates⁵⁶ of customer records.

Findings of the previous audit

5.6 The ANAO found that Centrelink had conducted 4.4 million reviews of customers' entitlements. The majority of these reviews (70 per cent) were program reviews, followed by compliance reviews (19 per cent). Compliance reviews were found to be the most effective review for identifying debt.⁵⁷

5.7 The JCPAA made two recommendations relating to debt identification.

JCPAA Recommendation No. 19

The Committee recommends that Centrelink proceed with data-matching activities with academic institutions and major employers, in an effort to prevent debts incurred when clients change study courses or employment.⁵⁸

JCPAA Recommendation No. 20

The Committee recommends that Centrelink review its methods of identifying customer debt, with a view to improving current methods of debt identification, or increasing the resources dedicated to compliance reviews. Centrelink should also take into consideration the ANAO's suggestion that it consider other methods of debt identification, such as:

- cross referencing customer behaviour and attributes with known debt factors to better target debt prevention strategies;
- drawing on the experience of other agencies such as the Australian Taxation Office and the Child Support Agency to develop best practice models for debt management; and
- increasing support for a national coordination unit to better manage debt prevention projects.⁵⁹

Centrelink advised the Committee in August 2006 that it was continuing to implement these Recommendations.

⁵⁵ Such re-assessments occur when a customer informs Centrelink of a change in their details.

⁵⁶ Updates initiated by Centrelink's computer based systems.

⁵⁷ ANAO Audit Report No.4 2004–05, op. cit., pp. 78–79.

⁵⁸ Joint Committee of Public Accounts and Audit, Report 404, op. cit., p. 112.

⁵⁹ *ibid*, p. 116.

Findings of the follow-up audit

5.8 Centrelink had implemented these Recommendations.

5.9 In response to the JCPAA Recommendation No. 19, Centrelink had continued to develop its data-matching program and the use of electronic reporting with academic institutions and major employers.⁶⁰ Centrelink identified one particular project, the *Centrelink Academic Reassessment Transformation* (CART) project, as having a high success rate in reducing student debt. The project links Centrelink's systems with those of participating universities through a weekly exchange of information. It aims to identify changes in student enrolment information, and subsequently ensure that students receive the correct rate of payment. Centrelink provided results from CART which demonstrated that customer debt for students enrolled in participating universities had fallen by in excess of 70 per cent.

5.10 It is envisaged that CART will eventually be implemented in all tertiary institutions including TAFE colleges. However, the rollout of the project into TAFE colleges had been deferred.⁶¹ Fourteen universities had implemented CART by 29 May 2008, and a further 27 universities are expected to have implemented the project by 30 June 2009.⁶² All Debt Management Officers (DMOs) interviewed by the ANAO identified that there was still considerable reluctance by many tertiary institutions, apart from the major universities, towards implementing the CART project. This was mainly due to the costs associated with upgrading their IT systems⁶³.

⁶⁰ Centrelink, 10 May 2007, *Recommendations Update, 2004 ANAO Audit Management of Customer Debt in Centrelink*, pp. 20–21.

⁶¹ Centrelink advised that this deferral was for several reasons including to take into account lessons learned from CART's implementation in the higher education sector. These lessons included the length of time taken to roll out CART within individual institutions and the internal and external implementation costs involved. As well, TAFE enrolments differ significantly with those in the University sector. University enrolment is tied to the Commonwealth's *Higher Education Contribution Scheme* (HECS), where as TAFE's enrolment process is based on the completion of individual units by the student. CART, in its present form is not compatible with TAFE's enrolment system.

⁶² Australia, Senate 2008, Standing Committee on Finance and Public Administration, Estimates 29 May 2008, *Proof Committee Hansard*, (Ms Vicki Beath, Centrelink National Manager: Education, Employment and Disability Services) p. 45.

⁶³ In Audit Report No.28 2006–07, *Project Management in Centrelink*, the ANAO identified that a significant risk with the CART project was that Centrelink was relying on educational institutions to voluntarily participate in the project, and to make changes to their IT infrastructure at their own cost. The ANAO found that Centrelink did not identify and manage the risks of institutions electing not to participate in the project. Audit Report No. 28 2006–07 found that CART's projected savings for 2006–07 had been reduced from \$1.8 million to \$80 000, and the number of institutions participating in CART reduced from 31 (168 000 students) to 24 (142 800 students). ANAO Audit Report No. 28 2006–2007 *Project Management in Centrelink*, pp. 72–73.

5.11 The ANAO recognises that the CART project has been effective in reducing the incidence of debt for students attending those tertiary institutions where CART has been implemented. However, the overall effectiveness of the initiative is limited to the extent that it relies on voluntary participation by educational institutions in circumstances where not only do they have to find room for the CART changes in their IT programs but also be able to fund these changes.⁶⁴

5.12 In addressing JCPAA Recommendation No. 20, Centrelink conducted 4 276 281 reviews during 2006–07, identifying \$418 944 238 in customer debt.⁶⁵ Centrelink conducts four major types of reviews:

- Accelerated Claimant Matching – data-matching reviews which match information contained in a customer’s records against other customer information held by Centrelink. These reviews aim to detect anomalies such as duplicate addresses, tax file numbers and birth certificate numbers;
- Compliance Reviews – a review conducted by Centrelink as part of its detection and review program that specifically aims to identify non-compliance by customers;
- Host (Program) Reviews – a review generated by Centrelink’s computer system or Centrelink officers to ascertain whether a customer is receiving their correct entitlement; and
- Service Profiling Reviews – a risk-based review targeted towards customers who exhibit certain attributes which identify them as an increased risk of receiving an incorrect payment.

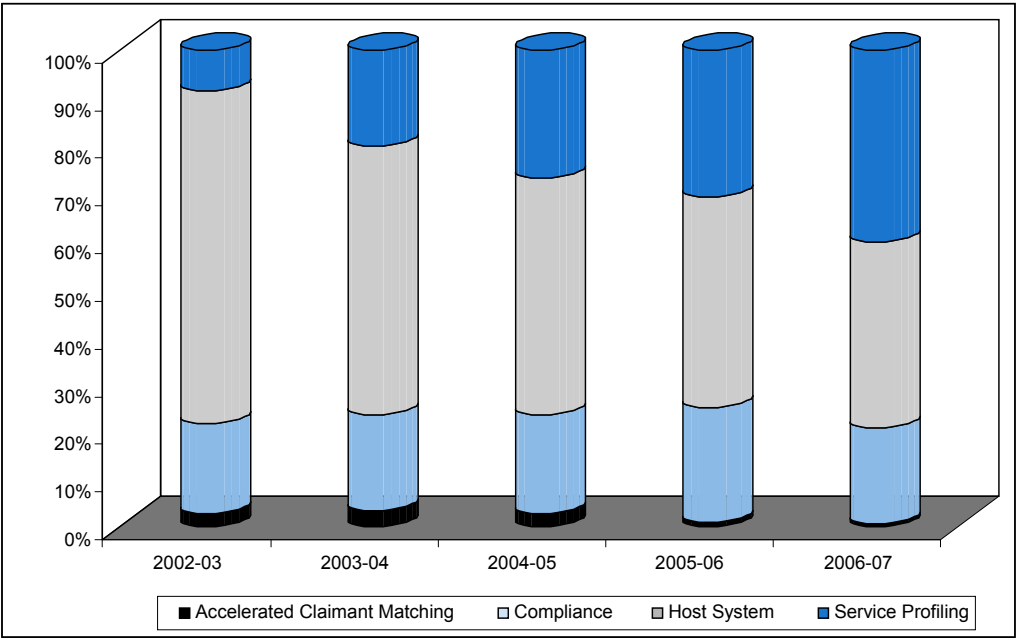
5.13 Figures 5.1 and 5.2 identify the contribution of each review type to identifying customer debt.

⁶⁴ The 2008–09 Federal Budget allocated \$500 000 to assist universities with the cost of implementing the CART system (Budget Paper No.2 2008–09, *Budget Measures*, p. 149)

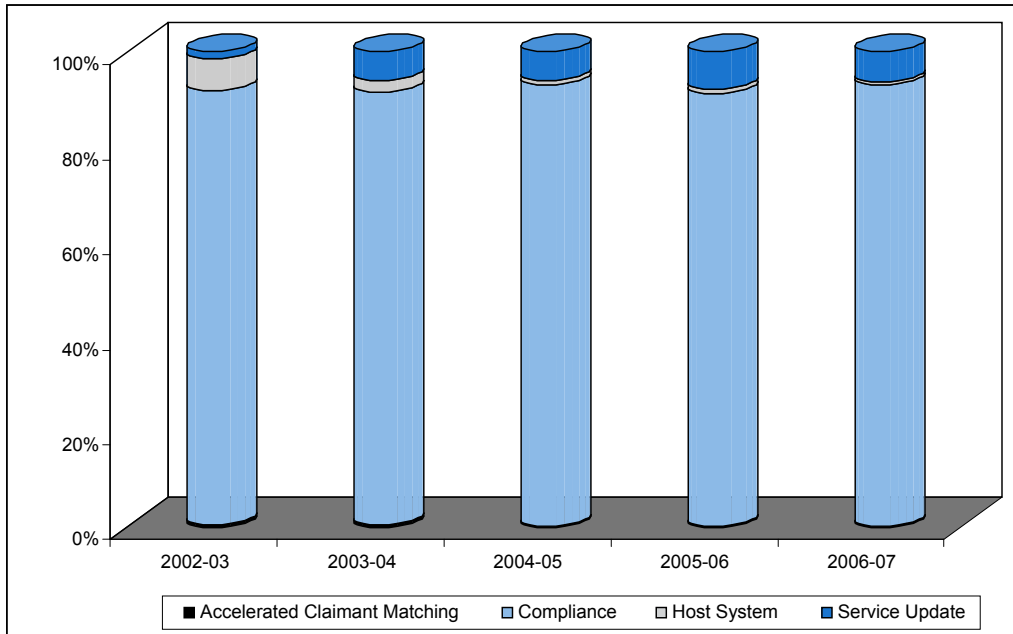
⁶⁵ Data provided by Centrelink.

Figure 5.1

Composition of customer reviews undertaken by Centrelink 2002–03 to 2006–07



Source: Data provided by Centrelink and ANAO analysis

Figure 5.2**Percentage of debt value raised by review type 2002–03 to 2006–07**

Source: Data provided by Centrelink and ANAO analysis

Compliance Reviews

5.14 Figures 5.1 and 5.2 identify that although Compliance Reviews only account for between 20 per cent to 30 per cent of reviews undertaken, they are by far the most effective in identifying customer debt. On a consistent basis, approximately 90 per cent of the debt raised due to review activity was as a result of a Compliance Review.

5.15 The usefulness of Compliance Reviews in identifying Centrelink customer debt was identified in the previous audit and resulted in the JCPAA recommending that Centrelink increase this activity (JCPAA Recommendation No. 20). However, DEEWR stated that it regards compliance reviews as only one component of the payment integrity framework. DEEWR is currently restructuring its compliance efforts towards a focus on prevention, and a

greater use of Service Profiling Reviews⁶⁶ which it regards as being more effective in the early detection of debt, and subsequently debt prevention.⁶⁷

Service Profiling Reviews

5.16 Figure 5.1 identifies that the composition of Centrelink’s review program has changed significantly since 2002–03. This is mainly due to the increased number of Service Profiling Reviews being undertaken⁶⁸ in preference to host reviews and accelerated claimant matching.

5.17 Figure 5.2 also suggests that the amount of debt being identified by Service Profiling Reviews is not proportional to their increased usage. However, this can be largely attributed to the application of Service Profiling Reviews which are a debt prevention measure used to identify and remedy incorrect customer details, rather than to identify debt.

5.18 Service profiling was introduced by Centrelink in 2002 as a method of ensuring payment correctness. In 2006–07, Centrelink conducted 1 675 712 Service Profiling Reviews across the various payment types identifying \$25 481 443 of customer debt.⁶⁹

5.19 As part of a payment correctness initiative in 2006–07, DEST doubled the number of Service Profiling Reviews it required Centrelink to undertake for student payments. Table 5.1 identifies the results of this increased review activity.

Table 5.1

Service Profile Reviews conducted on DEST payment types 2005–06 and 2006–07

	2005–06	2006–07
Service Profiling Reviews	39 707	79 192
Fortnightly Savings (\$)	835 791	2 312 059
Debt identified (\$)	1 150 338	1 528 916

Source: DEST

⁶⁶ The effectiveness of the use of service profiling reviews for preventing debt in student payments is discussed in paragraphs 5.20–5.21.

⁶⁷ DEEWR, response to the Issues Papers, 25 February 2008.

⁶⁸ Centrelink is gradually implementing Service Profiling Reviews, and when fully implemented Service Profiling will replace all Host Reviews.

⁶⁹ Data provided by Centrelink.

5.20 Table 5.1 indicates that by doubling the number of reviews, Centrelink was able to almost triple the amount of fortnightly savings. At the same time, the amount of customer debt identified as a result of Service Profile Reviews only increased by approximately 50 per cent, indicating that the Service Profiling Reviews were identifying customers with incorrect details before they could accumulate large amounts of debt.

5.21 Given the results reported in Table 5.1, it would appear that Service Profile Reviews have proven to not only be an effective form of debt identification, but also an effective form of debt prevention specifically for student payments. In this circumstance, the ANAO considers that DEEWR, the agency now responsible for the administration of student payments, and Centrelink should maintain the use of Service Profiling amongst the suite of debt identification and prevention measures.

Other data-matching activities

5.22 As well as data matching activities with educational institutions, Centrelink undertakes data-matching with employers to ensure customers' earnings details are correct. The ANAO found that since the previous audit, Centrelink has continued to develop its data matching programs with employers, including major supermarket chains, and major local industrial employers in each Centrelink Area.

Inter-agency relationships

5.23 In addressing the second point of JCPAA Recommendation No. 20, the ANAO found that Centrelink had in place cross-agency liaison and information sharing relationships with the *Child Support Agency* and *Medicare Australia*. These relationships also aimed to ensure Centrelink customers received the correct entitlement through data-matching programs.

Coordination of debt prevention activities

5.24 The ANAO found that Centrelink had addressed part three of JCPAA Recommendation No. 20 through the introduction of the EIAD system. However, the ANAO identified limitations in the effectiveness of this system (refer paragraphs 4.18 – 0).

5.25 Overall, the ANAO found that in addressing JCPAA Recommendation No. 20 Centrelink had continued to develop its debt identification processes, specifically through the operation of its data matching programs, and the establishment of cross-agency relationships.

Debt raising

5.26 The previous audit included a focus on debt raising activity. Once a potential debt is identified, it is referred to a specialist Debt Raising Officer. The Debt Raising Officer is responsible for calculating the debt, and then determining whether the debt should be recovered, waived or 'finalised no debt'⁷⁰.

5.27 *The Social Security Act 1991 (Cth)*, provides the Secretaries of Centrelink's purchaser departments with the capacity to delegate to Centrelink the power to waive debts arising from the overpayment of social security benefits and allowances where:

- the debt is solely attributable to an administrative error⁷¹ made by the Commonwealth and the debtor received the proportion of the payment that was incorrect in good faith (s1237A(1));
- the debtor acted in good faith when underestimating the value of property that in turn generated an overpayment (s1237A(2));
- it is not cost effective for the Commonwealth to take action to recover the debt (s1237AAA(1));⁷²
- there was an unclaimed entitlement to family payment or family allowance (s1237AAC); or
- the debtor did not knowingly make a false statement or knowingly fail to comply with the provisions of Social Security Law, and where there are special circumstances (other than financial hardship alone) that make waiver a more appropriate course of action (s1237AAD).

5.28 If the debt is not waived, the customer is required to repay the debt to the Commonwealth.

5.29 During the previous audit, Centrelink was undertaking a major restructure of its debt raising operations aimed at increasing efficiency and

⁷⁰ A debt shell may be automatically generated by the system as a result of a re-assessment or review. If subsequent analysis indicates that the value of the debt is zero, it will be 'finalised no debt'.

⁷¹ This right to waiver is dependant on the debt not being raised within a period of six weeks from the first payment that caused the debt (s1237A.(1A)), or six weeks from the end of the notification period if the customer had been notified.

⁷² Centrelink automatically waives debts of less than \$50, as it is deemed not cost effective to recover these debts.

consistency.⁷³ The restructure involved the consolidation of the debt raising function into centralised debt raising teams in each Area.⁷⁴

Debt raising performance

5.30 In July 2005, Centrelink changed its main debt raising key performance indicator (KPI). Centrelink is now required by its *Business Partnership Agreements* (BPAs) to ensure that, at any point in time, 70 per cent (expressed as a rolling 12-month average) of its customer debt base consists of ‘determined’ debts.⁷⁵

5.31 Consequently, the ANAO was unable to directly compare Centrelink’s current performance in debt raising with its performance at the time of the previous audit. Figure 5.3 outlines Centrelink’s performance in raising debts since the introduction of the new debt raising KPI in 2005.

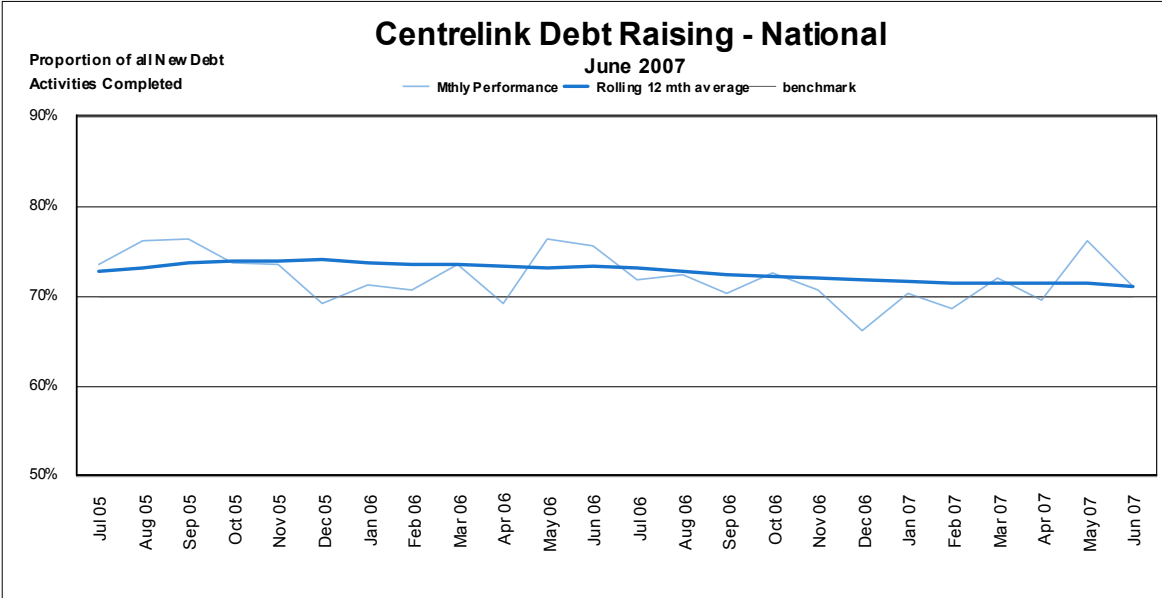
⁷³ Consistency of debt raising means that *Social Security Law* is being applied consistently when deciding whether to raise, waive or write-off a debt.

⁷⁴ Prior to this consolidation, debts were raised by the CSA who identified a debt existed. In the previous audit the ANAO identified that this procedure presented a number of obstacles for the efficient and consistent raising of debt. These obstacles included: ‘the adverse culture within Centrelink towards raising debt; the low level of priority attached to debt raising by many Customer Service Centres (CSCs); and the reluctance by CSAs to have to deal with customers on a negative issue such as debt. These obstacles resulted in significant amounts of debt not being raised by CSAs.’ ANAO Audit Report No.4 2004–05, op. cit., p. 95.

⁷⁵ A ‘determined debt’ is a debt that has been identified and calculated, and a decision has been made by Centrelink to recover or waive the debt.

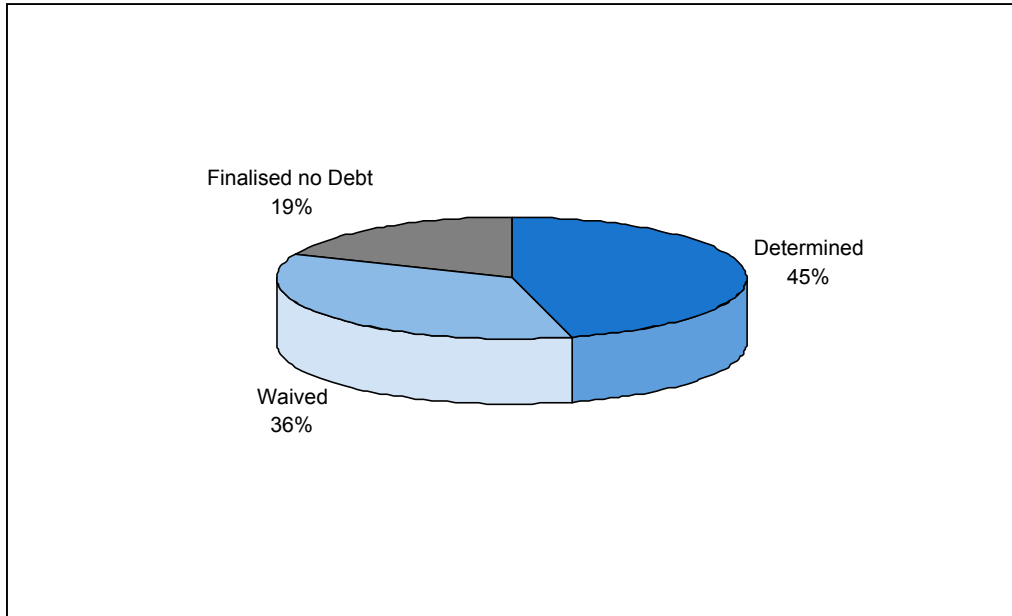
Figure 5.3

Centrelink’s debt raising performance July 2005 – June 2007



Source: Centrelink

5.32 Figure 5.3 illustrates that since the introduction of the new KPI, Centrelink has met the requirement of the current KPI that 70 per cent of its debt base be determined debts. Figure 5.4 identifies the outcomes of the debt raising process for 2006–07.

Figure 5.4**Centrelink's debt raising outcomes 2006–07 (% of number of debts)**

Source: Data provided by Centrelink and ANAO analysis.

5.33 The ANAO found little change in Centrelink's debt raising performance in 2006–07 when compared with that of the previous audit, that is: 45 per cent of debts were determined (44 per cent in 2003–04); 36 per cent were waived (33 per cent in 2003–04); and 19 per cent were finalised with no debt (23 per cent in 2003–04).

Quality assurance

5.34 The accurate calculation and determination of debts is an important measure to ensure that neither the customer nor Commonwealth is placed at a financial disadvantage. To support the accurate calculation and determination of debts, robust quality assurance processes are integral.

Findings of the previous audit

5.35 The main quality assurance mechanism for debt raising was QOL.⁷⁶ A Centrelink internal analysis of QOL had identified a number of deficiencies with QOL's application to debt raising.⁷⁷

⁷⁶ QOL is an on-line quality control mechanism which is intended to ensure that any identified errors are rectified before Centrelink completes the assessment.

5.36 Debts raised as a result of compliance reviews were not raised by specialist Debt Raising Officers, but by Compliance Officers. The ANAO identified that although Compliance Officers receive training in debt calculation, little specific work had been done to ensure the accuracy and quality of debts raised by Compliance Officers.⁷⁸

ANAO Recommendation No. 6

The ANAO recommends that Centrelink undertake a review of the accuracy of the value of debts determined and raised by Compliance Teams. If the results of this analysis identify low rates of accuracy immediate remedial action is advisable.⁷⁹

Centrelink agreed with the Recommendation.

Findings of the follow-up audit

5.37 Centrelink had implemented this Recommendation.

5.38 QOL had remained the primary quality assurance tool being used by Centrelink in relation to debt raising. The ANAO found that no changes had been made to QOL to address the issues raised by Centrelink's internal analysis identified in the previous audit, such as the difficulty in applying QOL to specialist tasks. Two recent Centrelink internal audits relating to debt management also identified that QOL was not an adequate quality control measure for debt processing activities.⁸⁰

5.39 In the previous audit the ANAO considered that Centrelink should aim to make QOL a more universal quality assurance tool. In Audit Report No. 26, 2006–07, the ANAO also identified the difficulty in applying QOL to specialist tasks.⁸¹ The ANAO considers that if Centrelink continues to utilise QOL as its main quality assurance tool, then the necessary changes should be made to ensure it can be effectively applied to a broader range of functions.

⁷⁷ Centrelink, Debt Services Team, *A DST Perspective on QOL Issues*, February 2003.

⁷⁸ ANAO Audit Report No.4 2004–05, op. cit., pp. 102–103.

⁷⁹ *ibid.*, p. 103.

⁸⁰ Centrelink Internal Audit Reports, *Debt Raising*, October 2005, p. 16; and *Debt Waivers*, October 2006, p. 10.

⁸¹ ANAO Audit Report No.26 2006–07, *Administration of Complex Age Pension Assessments*, pp. 60–61.

Accuracy of compliance review debts

5.40 In response to Recommendation No. 6, Centrelink undertook an internal audit review of the accuracy of compliance debt raising during 2005. The review found:

- there was a significant error rate for debts raised by Compliance Teams, with more than 40 per cent of debts sampled containing at least one error;
- 37 per cent of Compliance Teams debts sampled contained more than one error, which alone would have resulted in the debt failing the audit test for correctness;
- 35 per cent of errors related to the incorrect calculation of the debt, and 23 per cent of errors related to the incorrect recording of earnings by the Compliance Officer;
- 40 per cent of records which had passed the QOL checking process failed the audit's test for correctness; and
- the error rate for non-compliance debts was significantly lower than that of debts raised due to compliance activity.⁸²

5.41 The ANAO found that in response to the review, Centrelink developed a project to trial four different debt raising procedures within Compliance Teams. The project identified a best practice model for the investigation and raising of debts within these teams. The pilot also improved the communication between Debt Management Staff and Compliance Teams and provided additional guidance to Compliance Officers when raising debts.

5.42 Centrelink also recently initiated the National Workflow Management Pilot. A key goal of the project is that all Business Integrity Area Teams, including Compliance Teams, will develop a common business approach to issues such as debt management.

5.43 The ANAO found that Centrelink had implemented Recommendation No. 6 of the previous audit through both undertaking the review and taking subsequent action. However, given the magnitude of internal audit's findings, the ANAO considers that there is benefit in Centrelink re-assessing the accuracy of debts, through a statistical analysis of debts raised by Compliance Teams, to determine the effectiveness of the measures implemented.

⁸² Centrelink, Internal Audit, *Debt Raising*, October 2005.

Application of the 10 per cent recovery fee

5.44 From 1 July 2006 a 10 per cent recovery fee was introduced to customer debts where the customer had failed to provide information to Centrelink regarding income, or had provided false or misleading information to Centrelink relating to their income. The recovery fee applies to all DEEWR payments administered by Centrelink.

5.45 The recovery fee is applied at the time the debt is raised, and contrary to its name, the recovery fee is a penalty applied to customers, as opposed to a mechanism to offset the costs of recovery action.

5.46 Centrelink's internal intranet system, *Centrenet*, contains substantial guidance for Debt Raising Officers on when and how to apply the recovery fee. These guidelines require the Debt Raising Officer to contact the customer directly to identify if there were any circumstances which would warrant the fee not being applied.

5.47 Debt Raising Officers interviewed by the ANAO found the process of determining whether or not to apply the fee to be subjective, and therefore difficult to apply consistently. Further, Debt Raising Officers and Authorised Review Officers (AROs) expressed the view that often debtor customers did not understand why the fee had been applied, with many customers assuming it was an administration fee, rather than a penalty. Subsequently, customers did not understand they were entitled to appeal its application.

5.48 Accordingly, the ANAO suggests that Centrelink and DEEWR reconsider the use of the term 'recovery fee' to describe this penalty, and review procedures, including communicating to customers the reason for the fee.

Waivers

Findings of the previous audit

5.49 The ANAO interviewed external stakeholders and AROs and found a consistent view that Debt Raising Officers were reluctant to waive debts.⁸³ The ANAO made one recommendation relating to debt waivers. The JCPAA made a further two recommendations.

⁸³ ANAO Audit Report No.4 2004–05, op. cit., pp. 104–107.

ANAO Recommendation No. 7

The ANAO recommends that Centrelink analyse the appropriateness of applying debt waivers throughout its network, especially at the Original Decision-Maker level in Specialist Debt Raising Teams. If the results of this analysis identify low rates of appropriateness or consistency, immediate remedial action is advisable.⁸⁴

Centrelink agreed with the Recommendation.

JCPAA Recommendation No. 21

The Committee recommends that Centrelink provide training to all officers responsible for debt raising, on the correct circumstances in which to apply a debt waiver. The training should focus on empowering workers to make responsible decisions, and emphasise getting decisions right in the first instance, and not relying on downstream mechanisms.

Centrelink should also introduce a standard operating procedure whereby debt raising officers refer any matters on which they are uncertain whether to apply a 'special circumstances waiver', to a more senior officer for consideration.

Centrelink should also undertake a review of the appropriateness of applying debt waivers throughout the Centrelink network, taking into account matters raised in the ANAO report as a matter of priority.⁸⁵

Centrelink advised the Committee in August 2006 that it was implementing this Recommendation.

JCPAA Recommendation No. 22

The Committee recommends that the debt waiver amount be raised from \$50 to not more than \$100. The Committee recommends that where small debts are raised and automatically waived, customers should be informed of this action and of the steps they can take to prevent a debt being incurred in the future.

When a customer continues to incur small debts of less than \$100, that are continually waived, Centrelink should retain the right to recover these debts if a pattern of behaviour is apparent whereby the customer is not making any effort to prevent the incursion of small debts.⁸⁶

Centrelink advised the Committee in August 2006 that it was the responsibility of its purchaser departments to determine the debt waiver amount.

⁸⁴ *ibid.* p. 110.

⁸⁵ Joint Committee of Public Accounts and Audit, Report 404, *op. cit.*, p. 119.

⁸⁶ *ibid.* p. 121.

Findings of the follow-up audit

5.50 Centrelink had implemented ANAO Recommendation No. 7 and had partially implemented JCPAA Recommendation No. 21. Centrelink and its purchaser departments had not implemented JCPAA Recommendation No. 22.

5.51 In response to Recommendation No. 7 of the previous audit, and part three of JCPAA Recommendation No. 21, Centrelink undertook an internal audit of debt waivers in 2006 and found 'no significant breakdowns in the internal controls implemented for debts waived'⁸⁷, or breaches of legislation. However, the internal audit did identify considerable variances in the training provided to Debt Raising Officers across Areas, and a reliance on on-the-job supervision to ensure Debt Raising Officers were applying correct procedures.

5.52 The internal audit made several recommendations including implementing a structured training program for Debt Raising Officers and updating the guidance materials available to Centrelink Officers for determining whether to waive, or finalise no debt.

5.53 The ANAO found Centrelink implemented actions to address the issues raised in the internal audit. These actions included providing extensive training to delegated officers⁸⁸; ensuring that waivers were considered as part of the debt raising process through updating the debt raising Scriptor⁸⁹; and undertaking an extensive revision of E-reference materials relating to debt waivers, to promote a more consistent national approach.

5.54 During the audit, the ANAO found a more consistent understanding amongst Debt Raising Officers of when to apply a debt waiver, in comparison to the previous audit. This was confirmed by interviews with AROs who identified an improvement in the quality of decision making relating to debt waivers.

5.55 However, the ANAO found a degree of inconsistency in the approach of Debt Raising Officers to the application of the debt waiver provisions, specifically for customers in receipt of multiple payments. This occurred when customers in receipt of multiple payments informed Centrelink of a change in

⁸⁷ Centrelink Internal Audit, *Debt Waivers*, October 2006, p. 8.

⁸⁸ However, the ANAO found in this audit that this training has not been provided to all relevant officers (see paragraph 5.59).

⁸⁹ A scriptor is a work-flow tool developed by Centrelink which aims to standardise and automate processes used by CSAs to enter data into payment systems and create consistent customer records.

circumstances, and this change was not applied to all of their payments. The customers, subsequently incurred a debt.

5.56 The ANAO also found an inconsistency in the processes for determining whether the ‘special circumstances’⁹⁰ waiver should be applied. One debt raising site was conducting a thorough investigation of each customer’s circumstances when raising a debt to identify whether ‘special circumstances’ existed. The remaining sites were only applying the ‘special circumstances’ waiver provisions if the CSA referring the customer’s file to the Debt Raising Officer had already identified the existence of ‘special circumstances’.

5.57 This inconsistency arose from the different approach between debt raising sites, rather than between individual Debt Raising Officers, which was the case in the previous audit. The inconsistency found in this audit was of a magnitude that would result in customers experiencing different outcomes with regard to the application of debt waivers, depending on the site in which their debt was raised.

5.58 In response to part two of JCPAA Recommendation No. 21, Centrelink introduced a standard national guideline for referring cases in which the Debt Raising Officer was unsure whether to apply a special circumstances waiver. The ANAO found that all debt raising sites had made this guideline available to their debt raising staff.

Training provided to Debt Raising Officers

5.59 As per the previous audit the ANAO continued to find a level of inconsistency in the training provided to Debt Raising Officers. In one Area, the ANAO found that Debt Raising Officers had received no training relating to any facet of debt raising, apart from operating the on-line tools. Consequently, in this Area, the Officers interviewed were deliberately avoiding processing debts where the possibility of a waiver existed due to their limited understanding of the process.

5.60 Centrelink is currently undertaking a review of guidance materials used by Debt Raising and Compliance Officers, including waiver procedures.

⁹⁰ The ‘special circumstances’ waiver can be applied to customers living in circumstances which may prohibit them from meeting their obligations to Centrelink, such as being homeless, living in violent domestic situations, addicted to narcotics, or lacking the mental capacity to understand the guidelines governing their payments, but is not limited to these circumstances.

Centrelink advised that upon completion of this review, Debt Raising and Compliance Officers will undergo further training.

Value of automatic waiver

5.61 The JCPAA recommended an increase in the automatic waiver amount from \$50 to \$100, with Centrelink retaining the right to recover small debts, under \$50, where the customer has a history of incurring small debts. Centrelink is currently in negotiations with its purchaser departments regarding this recommendation.⁹¹

5.62 DEEWR advised that it had undertaken some analysis on the debt waiver amount in 2006 and did not support an increase to the amount on the basis that it could be regarded as cost effective, in many cases, to recover debts less than \$50 in value. The ANAO found that Centrelink did not measure the costs of debt administration to the extent that a comprehensive analysis could be undertaken to determine the cost effectiveness of debt recovery. Accordingly, the ANAO suggests that Centrelink and its purchaser departments undertake an analysis to determine the amount(s) where it is no longer cost effective to pursue a debt and, therefore, it should be automatically waived.

5.63 In implementing the JCPAA and ANAO Recommendations relating to debt waivers the ANAO found that Centrelink had undertaken work to address the quality assurance and consistency issues identified in the previous audit. Centrelink had also implemented a national training package for debt raising. However, the ANAO continued to identify inconsistencies in both the training and processes related to the debt raising function that could be addressed to further improve the application and administration of debt waivers.

Debt recovery

Recovery performance

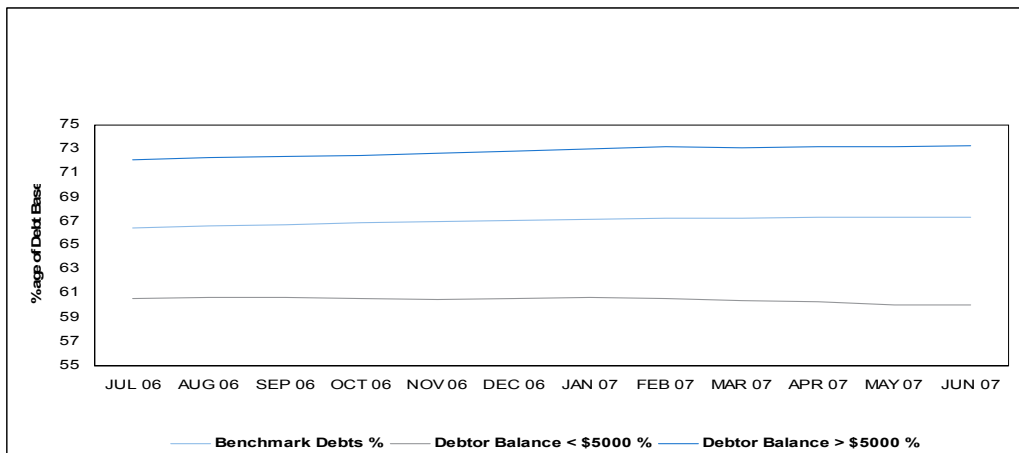
5.64 The 2004–05 audit included a focus on debt recovery performance; methods of recovery; and recovery processes. The audit identified potential improvements in the support and training provided to Debt Recovery Officers.

⁹¹ Centrelink, 10 May 2007, *Recommendations Update, 2004 ANAO Audit Management of Customer Debt in Centrelink*, p. 23.

5.65 Centrelink's national Key Performance Indicator (KPI) for debt recovery is that 65 per cent of the value of the debt base be under some form of recovery arrangement. Figure 5.5 shows that the value of the debt base under recovery for the year 2006–07 was 67 per cent which was down from 75 per cent at the time of the previous audit. The table also shows the proportion of debt base under recovery for debtor balances of \$5000 or less was 60.9 per cent and for debtor balances of \$5000 or greater was 72 per cent.

Figure 5.5

Debt recovery performance

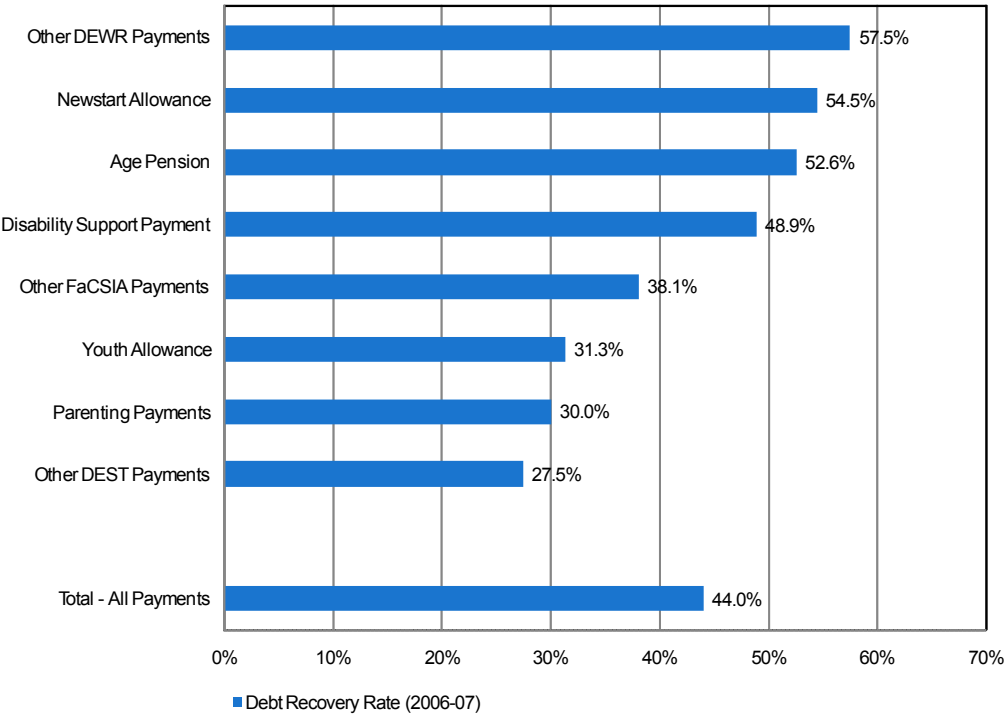


Source: Centrelink

5.66 Centrelink reports that in 2006–07, \$789 million of debt was raised across the eight payment types. Of this \$347 million was recovered by Centrelink by 30 June 2007. This equates to a 12 month recovery rate of 44 per cent. However Figure 5.6 shows that there are significant differences in the debt recovery rate across benefit types. The rate of recovery ranged from 57.7 per cent for 'Other DEWR Payments' to 27.5 per cent for 'Other DEST Payments' debts.

Figure 5.6

Recovery rate (per cent) across benefit types



Source: ANAO analysis.

Methods of recovery

5.67 During the previous audit the ANAO identified a number of methods used by Centrelink to recover debts. These included cash payments; withholding amounts from current customers’ benefits; direct debits from customers’ bank accounts and voluntary deductions from customers’ wages.

5.68 Centrelink was also offering customers the option of paying their debt by credit card. During 2003 Centrelink removed this recovery option unless customers specifically requested it. However, the ANAO found in the previous audit that Centrelink Recovery Officers, and the Mercantile Agent were still offering the credit card payment option without first ascertaining the customer’s financial circumstances.

5.69 In its inquiry into the previous audit the JCPAA re-examined the issue of customers using credit cards to repay social security debts and made one recommendation.

JCPAA Inquiry - Recommendation No. 23

The Committee recommends that Centrelink monitor the work of its Debt Recovery Officers, and those employed by its Debt Recovery Agent, to ensure that customers are encouraged to repay debts via means other than credit cards.⁹²

Centrelink advised the Committee in August 2006 that it had implemented this Recommendation.

Findings of the follow-up audit

5.70 Centrelink had implemented this Recommendation.

5.71 Centrelink no longer has the facility to accept credit cards, however customers can elect to repay their debts via a credit card through Australia Post payment facilities or the Mercantile Agents.

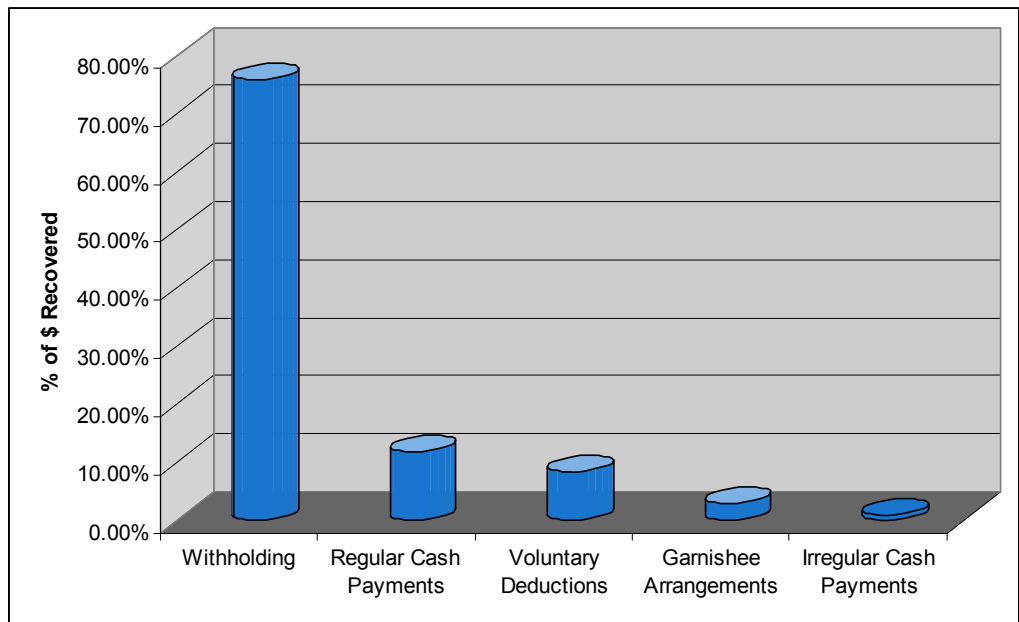
5.72 The ANAO found that the Mercantile Agents were not offering the credit card option as the primary method of payment, and that Centrelink was monitoring the Mercantile Agents' performance on this issue.

5.73 Consistent with the previous audit Figure 5.7 identifies that the majority of recovery action is through withholding a proportion of existing clients' benefits (76 per cent), followed by regular cash payments made by current or previous customers (11.8 per cent), and voluntary deductions from former customers' salaries (8.3 per cent).

⁹² Joint Committee of Public Accounts and Audit, Report 404, op. cit., p. 122.

Figure 5.7

Recovery methods as a proportion of the value of the debt base



Source: ANAO analysis

Recovery processes

5.74 Once a customer is advised that they have incurred a debt, they have 28 days to respond to Centrelink to put in place repayment arrangements.

5.75 The Centrelink recovery process aims to first recover the debt in full through a lump sum payment from the customer. If the customer does not have the funds available to pay the debt in full, then the debt can be recovered through instalments. In determining the amount of each instalment, the Recovery Officer is required to determine the customer’s existing financial situation to ensure that the instalment amount is commensurate with their income and essential expenses.

5.76 Centrelink customers receiving a payment can repay their debt via automated withholdings, whereby a portion of their benefit is withheld at each payment cycle until the debt is repaid. For existing customers who do not contact Centrelink within the 28 days of being notified that they have incurred a debt, an automated withholding is applied to their benefit at the default rate which varies according to payment type. Customers can seek to have the

default rate changed if it causes them financial hardship or if they choose to pay more.

5.77 If a customer is no longer receiving a Centrelink payment, then a combination of both manual and automated processes can occur to recover the debt. These processes include contacting the customer at their last known address and arranging regular cash payments or automatic payments.

Use of mercantile agents to recover debts on behalf of Centrelink

5.78 Centrelink has continued its contractual service arrangement with mercantile agent Dun & Bradstreet Ltd. Centrelink recently contracted a second mercantile agent, Recoveries Corp, to provide debt recovery services. This decision was partly due to an increase in the number of debtors and the value of customer debt, and also to provide a level of competition between agents to improve their services and procedures. The mercantile agents recover debts from customers that are no longer current on the Centrelink system or are not able to be contacted during a prescribed time.⁹³

5.79 The ANAO found that Centrelink was monitoring the performance of the mercantile agents and addressing performance issues as they arise.

Quality assurance for debt recovery processes

5.80 Centrelink employs two main tools to measure and quality assure the debt recovery process. These are:

- Quality On Line tool (QOL); and
- dual telephone headsets while making and receiving calls.

5.81 The percentage of work that the QOL tool is applied to varies dependant on the CSA's experience.⁹⁴ However as discussed previously in this Chapter (refer paragraphs 5.38–5.39), it has been found that the QOL tool has limitations when applied to debt management processes.

5.82 The dual headsets training module used in the debt recovery call centres provided Centrelink with information regarding the status of service delivery. The dual headsets are designed for a more experienced CSA to assess the customer service of junior officers. The ANAO found that the majority of

⁹³ The prescribed time is 64 days.

⁹⁴ Inexperienced Recovery Officers have 100 per cent of their work subject to QOL, for experienced Recovery Officers this figure is 5 per cent.

centres provided dual headset training to new staff as part of the induction process.

Skills and training of Centrelink debt recovery staff.

Findings of the previous audit

5.83 In the previous audit the ANAO found that the skill level of recovery staff varied significantly between areas. The ANAO observed that the training that officers received varied from Area to Area and that there was no national training package that offered a consistent level of certification.⁹⁵

ANAO Recommendation No. 9

The ANAO recommends that Centrelink continue with the development of:

- a national training program for Recovery Officers to provide a consistency of approach as well as adequacy of skills, and which would support a high level of performance, throughout the Centrelink Network; and
- debt recovery talk scripts for use by Recovery Officers, to improve consistency of advice and decision making.⁹⁶

Centrelink agreed with the Recommendation.

Findings of the follow-up audit

5.84 Centrelink had implemented this Recommendation.

5.85 In response to Recommendation No. 9 Centrelink developed and implemented a national training package for Recovery Officers. This package includes both theoretical and practical exercises such as listening to calls taken by more experienced officers, taking calls with a more experienced officer listening for quality control, and regular training updates as legislation and guidelines change.

5.86 While training material has been revised and updated, the ANAO found that the delivery of this training to recovery staff was inconsistent across the network. In particular a number of Recovery Officers had received the initial induction training, however due to resource constraints, subsequent modules within the training package were not being delivered to those Recovery Officers as they were needed. To address this inconsistency, the

⁹⁵ ANAO Audit Report No.4 2004–05, op. cit., p. 124.

⁹⁶ *ibid*, p. 125.

ANAO suggests that Centrelink implement a monitoring program to provide a greater assurance of its debt recovery training.

5.87 In response to part two of Recommendation No. 9, the ANAO found Centrelink had designed and implemented a debt recovery script. The script aims to assist staff in customer engagement and decision making. Since its inception in 2005, the script has undergone a number of upgrades based on feedback from debt recovery staff with the most recent upgrade taking place in June 2007.

Consistency of debt recovery service delivery and outcomes

ANAO Recommendation No. 8

The ANAO recommends that, to increase the efficiency and effectiveness of debt recovery operations, as well as customer service, Centrelink;

- proceed with the planned implementation of a nationally based approach to its recovery operations, which provides guidance to Areas about recovery structures, processes and practices; and
- upgrade the recovery infrastructure, including the telephonic and online systems to ensure customers can readily access Recovery Officers.⁹⁷

Centrelink agreed with the Recommendation.

Findings of the follow-up audit

5.88 Centrelink had implemented this Recommendation, however, the ANAO found further work was needed to improve the consistency of customer service.

5.89 In addressing Recommendation No. 8, Centrelink consolidated its recovery operations nationally into six sites, with the aim of ensuring a consistent and efficient debt recovery process. Additionally, Centrelink introduced a national '13' telephone number for customers to use when contacting a Debt Recovery Centre, and enhanced its computer systems to include programs used by mercantile agents such as *Pulse* and *SoftFone*.⁹⁸

⁹⁷ *ibid*, p. 122.

⁹⁸ SoftFone is the trading name of a specialised telephony software that allows the user to dial numbers and carry out other phone functions such as call queuing using a computer screen, mouse and keyboard. Pulse is another form telephony software that allows phone calls to be made via a broadband connection.

5.90 During this audit, the ANAO visited five of the six debt recovery sites. The operation of each site was determined by customer debt size. Three of these six sites recovered outstanding debts of \$5000 or less, two sites recovered outstanding debts greater than \$5000, and the remaining site was a specialist Indigenous debt recovery team based in Darwin, which was responsible for recovering all debt owed by customers identifying themselves as Indigenous.

5.91 The ANAO observed that in an effort to further improve customer service, Centrelink had installed over-head electrical banners in recovery centres to inform the recovery staff of the status of the caller queue trying to contact recovery staff. The information available on these banners includes, abandoned calls, calls taken, calls in queue and the number of Recovery Officers logged on to take calls.

5.92 The banners are an important management tool that allows call centre managers to make decisions on the efficient operation of the centre by opening more lines during peak periods or re-directing calls based on queue length. This allows for more efficient and speedier answering of incoming calls.

5.93 The ANAO also examined the level of consistency in recovery procedures and the influence of customer satisfaction surveys on training and development. In doing this the ANAO conducted interviews with Business Integrity Managers, Recovery Team Leaders, Senior Practitioners, and Recovery Officers. The ANAO also listened to both inbound and outbound telephone calls being taken by Recovery Officers.

5.94 The ANAO found an improvement in the debt recovery procedures compared to the previous audit. However, the ANAO found there continued to be cases of inconsistent recovery procedures between sites. This inconsistency mainly related to Recovery Officers' understanding of the expected outcomes of the Recovery Process, and consequently their manner and approach when dealing with customers.

5.95 In some sites there was an emphasis on providing a high level of customer service to the debtor, ensuring that the debtor understood their obligations, ascertaining the debtor's current social and financial situation, and advising the debtor of Centrelink and other non-government services that may be able to assist them. In other sites, the emphasis was on achieving a financial outcome without apparent consideration of the customer's financial or other circumstances.

5.96 In supporting Debt Recovery Officers, Centrelink developed an E-reference suite that contains debt recovery guidelines designed to provide advice on the debt recovery process. These guidelines are based on the legislative requirements⁹⁹ and allow the Recovery Officer to apply an appropriate recovery amount without causing the customer severe financial hardship.

5.97 However, the ANAO found that the debt recovery guidelines lacked a clear central statement which clarified the intended outcome of the debt recovery process. Rather, each recovery site appeared to develop its own interpretation of the appropriate recovery outcomes. This inconsistency in understanding between sites was found to be contributing to the varying level of customer service across sites and ultimately the outcomes of the debt recovery process.

5.98 The ANAO suggests that in order to support Debt Recovery Officers, the debt recovery guidelines be expanded to include a central outcome statement for the process that is supported by case studies and examples. This would assist Debt Recovery Officers gain a more consistent understanding of how debt recovery procedures are to be applied.

5.99 The ANAO found that in addressing the ANAO and JCPAA Recommendations, Centrelink had consolidated its debt recovery operations and undertaken considerable investment in its debt recovery infrastructure. Centrelink had also developed a national debt recovery training package. However, the ANAO identified inconsistency between debt recovery sites in the processes employed to recover debts.

Conclusion

5.100 The ANAO found that Centrelink had implemented Recommendations No. 6 and No. 7 of the previous audit, as well as JCPAA Recommendation No. 23. Centrelink had partially implemented JCPAA Recommendation No. 21, and Centrelink and its purchaser departments had not implemented JCPAA Recommendation No. 22.

5.101 In particular, the ANAO found that Centrelink had continued with its review activity, with Compliance Reviews continuing to be the most effective form of review for identifying customer debt.

⁹⁹ *Social Security Act 1991* (Cth), (s1231(1A) and s1231(1AA)).

5.102 In addressing the quality assurance issues raised in the previous audit, Centrelink undertook internal reviews of its Compliance Team debt raising operations, and the application of debt waivers across its network. Centrelink had implemented action to address the findings of these reviews.

5.103 While Centrelink had developed a national training program for Debt Raising Officers, the ANAO found that not all officers had received this training. Consequently, Centrelink had only partly addressed JCPAA Recommendation No. 21.

5.104 Centrelink and its purchaser departments had not implemented JCPAA Recommendation No. 22, to increase the debt waiver to \$100. DEEWR advised that it had undertaken some analysis on the debt waiver amount in 2006 and did not support an increase to the amount on the basis that it could be regarded as cost effective, in many cases, to recover debts less than \$50 in value. The ANAO found that Centrelink did not measure the costs of debt administration to the extent that a comprehensive analysis could be undertaken to determine the cost effectiveness of debt recovery. Accordingly, the ANAO suggests that Centrelink and its purchaser departments undertake an analysis to determine the amount(s) where it is no longer cost effective to pursue a debt and, therefore, it should be automatically waived.

5.105 Centrelink had consolidated its recovery operations into six sites, and had undertaken significant upgrades of its recovery infrastructure, including the implementation of automated systems to assist Recovery Officers in recovering debts. To complement this, Centrelink had developed a national training package for Debt Recovery Officers.

5.106 In its examination of Centrelink's debt administration the ANAO concluded that Centrelink's consolidation of its debt management operations was an improvement on the structure in place in the previous audit. However, there were still inconsistencies in how each site implemented the debt management processes that were of a magnitude the ANAO considered could cause differences in customer outcomes, depending on which site handled the case.

5.107 These inconsistencies were mainly due to each site developing its own interpretation of the national guidelines and procedures in place. As Centrelink is a national service provider, customers would reasonably expect that the outcome of the administration of their debt would not be dependent on their geographical location.

5.108 The ANAO considers that Centrelink's NSO could address the inconsistencies by providing a coordinating role to all of Centrelink's debt raising and recovery sites. This would assist with in delivering an integrated approach that allows debt management processes and service delivery to be carried out in a consistent manner. This could be supported by regularly conducting site visits, observing the raising and recovery procedures in operation; and subsequently addressing any inconsistencies with updated national guidelines and procedures.



Steve Chapman
Acting/Auditor-General

Canberra ACT
19 June 2008

Appendices

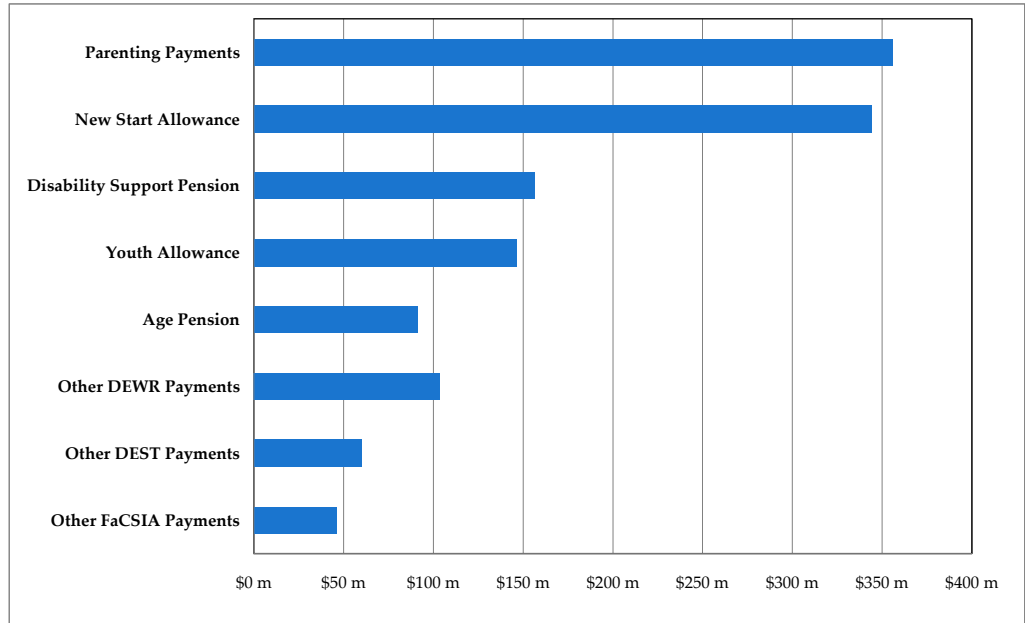
Appendix 1: Profile of the Debt Base

Value of the debt base per payment type

Figure A 1 identifies the distribution of the debt base per payment type as at 30 June 2007. It shows that, by a significant margin, the greatest value of debt relates to the parenting payments (single and partnered) and Newstart allowance payment types. However, substantial debt also relates to the Disability Support Pension and Youth Allowance payment types.

Figure A 1

Debt value per payment type



Source: ANAO analysis

Distribution of the debt base

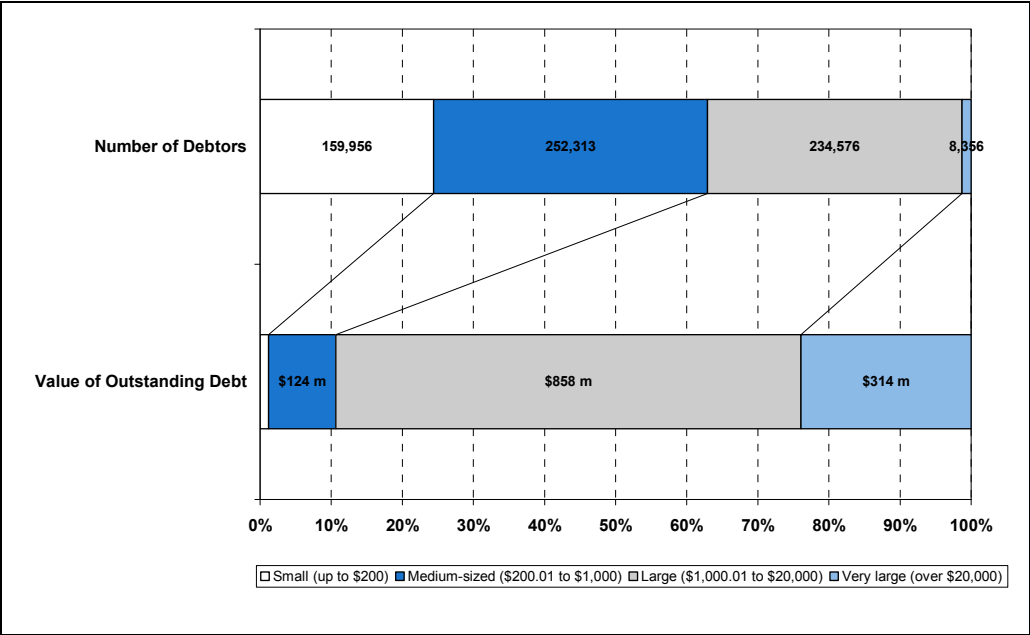
As per the previous audit the ANAO found that there remained a small number of debtors that accounted for a significant proportion of the value of the customer debt base. Figure A2 outlines the proportion of debtors and associated outstanding debt as at 30 June 2007 and shows that:

- 8356 debtors (1.3 per cent of the debtor population) each owed over \$20 000 and accounted for almost one-quarter (24.0 per cent) of the total value of outstanding debt;

- 234 576 debtors (35.8 per cent of the debtor population) each owed between \$1000 and \$20 000 and accounted for approximately two-thirds (65.4 per cent) of the total value of outstanding debt; and
- the remaining small and medium-sized debts accounted for almost two-thirds (62.9 per cent) of debtors but only 10.7 per cent of the total value of outstanding debt.

Figure A 2

Distribution of the debt base by size of debt



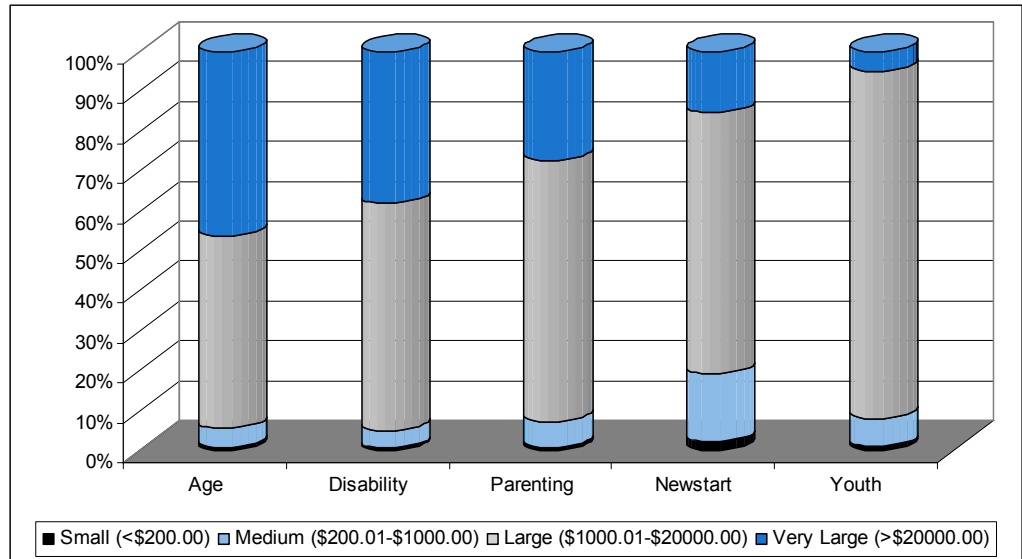
Source: ANAO analysis

Relation of debt size to payment type

Figure A 3 identifies the distribution of small to very large debts within each of the main payment types.

Figure A 3

Debt size as a proportion of the value of the debt base by major payment



Source: ANAO analysis

Consistent with the previous audit, the ANAO observed that the size of a customer's debt was dependent on the type of payment they were receiving. Customers in receipt of payments which required little direct contact with Centrelink, such as the Age Pension, were more likely to accumulate large debts (very large debts comprise 46.5 per cent of Age Pension debts). Whereas customers in receipt of payments which required frequent contact with Centrelink, such as Youth Allowance, were less likely to accumulate large debts (very large debts comprise 5 per cent of the Youth Allowance debts).

Appendix 2: Department of Education, Employment and Workplace Relations' Response

Comments

DEEWR provides the following additional comments with particular regard to sections of the report which refer to the Department or to purchaser departments more generally.

Causes of debt

DEEWR has conducted a range of analyses of debt, from which earnings has been identified as the principal cause of debt. Findings from our analysis have informed policy considerations and have resulted in a range of targeted activities to reduce earnings-related debt, including those outlined below.

Debt prevention

The report notes at paragraphs 19 and at 3.26 that DEWR and DEST had partially implemented Recommendation 2 of Audit Report No 4 2004–2005 in relation to development of debt prevention indicators. DEEWR notes that the report acknowledges the difficulty in developing an overall debt prevention indicator.

Debt prevention is difficult to measure reliably and measurement involves a cost. DEEWR is focusing on more practical debt prevention activities, as noted at 3.28 of the report. Some practical measures recently introduced to reduce the number and value of income related debts are:

- Verification of Earnings to Improve the Accuracy of Payments – to increase the number of working age payment recipients who verify their income when reporting to Centrelink.
- Improved Reporting of Changes in Income for People Receiving Centrelink Payments – when employment service providers place a recipient in employment or the provider becomes aware a recipient has found their own employment, a transaction is created and electronically transmitted to Centrelink.
- Regular Customer Account Statements – to inform recipients of the information used by Centrelink to assess their payments and require recipients to correct any errors.

These measures complement ongoing activities aimed at debt prevention and payment accuracy. These include service profiling reviews, Random Sample Surveys (RSS), compliance reviews and compulsory participation contacts.

The report suggests at 3.29 that there would be benefit in DEEWR and FaHCSIA sharing experiences with regard to the measurement of debt prevention activities. DEEWR and FaHCSIA meet regularly to discuss common issues and risks. FaHCSIA's debt prevention KPI methodology is currently applied only to Age Pension outlays. While DEEWR considers there are issues in translating this methodology to working age and student payments, the Department will monitor FaHCSIA's methodology as it matures.

The Centrelink Academic Reassessment Transformation (CART) project

The report acknowledges (at 5.9) that this project has been effective in reducing the incidence of debt for students. The report also refers (at 5.8 and 5.9) to issues with the rollout of this project. The 2008–09 Budget announced \$0.5 million for 'Enhanced connectivity between Centrelink and university systems' to accelerate the full implementation of information technology system linkages between universities and Centrelink, enabling automatic information exchange about enrolment and study load on a weekly basis.

Reviews

At 5.14, the report comments on the usefulness of compliance reviews. As stated, DEEWR considers these compliance reviews are one component of the payment integrity framework which includes prevention, deterrence and review activities.

DEEWR acknowledges the important role of compliance reviews in identifying debt. In addition, activities such as the Random Sample Survey and Service Profiling Reviews are important aids to earlier debt detection.

10 per cent recovery fee

The report at 5.44–5.48 raises concerns about the consistent application of this fee and suggests the fee be renamed to reflect that it is a penalty. DEEWR will discuss with Centrelink measures to improve staff understanding of this policy.

While the ANAO comments on the terminology used to describe the penalty amount have been noted, any such change would require funding for changes to Centrelink's systems and publications. The requirement for contact to be made with a recipient before the recovery fee is imposed already provides an opportunity for Centrelink staff to explain the reason for the fee to the debtor, including their appeal rights where they disagree with the decision. As the report indicates that this may not be happening, this will also be discussed with Centrelink in the context of improved administration of the 10 percent recovery fee.

Cost effectiveness of debt recovery

The report, at 5.61, notes that Centrelink and its purchaser departments had not implemented JCPAA Recommendation No 22, to increase the debt waiver to \$100.

DEEWR would be interested to work with Centrelink and the Department of Families, Housing, Community Services and Indigenous Affairs on the cost effectiveness of debt recovery, particularly for small debts, taking into account opportunities to streamline debt recovery procedures.

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