

Administration of Residential Care Payments

Department of Veterans' Affairs

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Canberra ACT
19 June 2014

Dear Mr President
Dear Madam Speaker

The Australian National Audit Office has undertaken an independent performance audit in the Department of Veterans' Affairs titled *Administration of Residential Care Payments*. The audit was conducted in accordance with the authority contained in the *Auditor-General Act 1997*. Pursuant to Senate Standing Order 166 relating to the presentation of documents when the Senate is not sitting, I present the report of this audit to the Parliament.

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

Yours sincerely

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

Ian McPhee
Auditor-General

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

AUDITING FOR AUSTRALIA

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Abbreviations

ACA	Aged Care Assessment
ACA application form	Permanent Residential Aged Care: Request for an Assets Assessment form
ACA report	Aged Care Assessment report
ACAS	Aged Care Assessment Service (in Victoria only — known as ACATs elsewhere in Australia)
ACAs	Aged Care Assessment
ACAT	Aged Care Assessment Team
ACS	Aged Care System
Aged Care Act	<i>Aged Care Act 1997</i>
ANAO	Australian National Audit Office
AVO	Australian Valuation Office
DoF	Department of Finance
DoH	Department of Health
DoHA	Department of Health and Ageing
DSS	Department of Social Services
DVA	Department of Veterans' Affairs
FMA Act	<i>Financial Management and Accountability Act 1997</i>
FOI	Freedom of Information
Human Services	Department of Human Services
IT	Information Technology

KPI	Key Performance Indicator
LLLB	Living Longer Living Better
MRCA	<i>Military, Rehabilitation and Compensation Act 2004</i>
QAR	Quality Assurance Review
QAR program	Quality Assurance Review Program
QAR Protocols	Income Support Quality Assurance Protocols
RCA	Residential care assessment system
RER	Residential Entry Record
Resident status	Aged care resident status
RMF	Risk Management Framework
SFR	Self-Funded Retiree
SPARC	System for Payment for Aged and Residential Care
SPRO	Service Pension Review Officer
SRCA	<i>Safety, Rehabilitation and Compensation Act 1988</i>
subsidy principles	Residential Care Subsidy Principles 1997
TTTP	Time Taken To Process
VEA	<i>Veterans' Entitlement Act 1988</i>
VIEW	Veterans' Information Enquiry Window

Glossary

Aged Care Assessments (ACAs)	Conducted by DVA to calculate a client's net assets and determine their 'resident status' prior to, or at the time of, their entry into a residential aged care facility. Assets for ACA purposes are defined under the Aged Care Act administered by DSS. ACAs are not compulsory for people entering care, unless they want to receive financial assistance from the Australian Government towards the costs of their residential aged care.
Centrelink Services and Centrelink	Part of the Human Services portfolio with responsibility for undertaking asset and income assessments for the general population in regard to aged care. Both names are intended to have the same meaning.
data file	Contains the details of all residents in care and is transmitted by Human Services each business day to DVA and Centrelink, to enable both agencies to match, identify and exchange updated information on their respective clients/residents in care. The data exchanged by DVA and Centrelink updates the residents' information in the residential care payment system and includes acceptance of liability for payment of residential care subsidies—to either DVA for its eligible clients or to DSS for all other residents.
Human Services	Provides payments and services, including family assistance on behalf of Medicare, Centrelink, Child Support and the Commonwealth Rehabilitation Services Australia.
liable agency	Refers to the agency that is legally responsible for the payment of the Australian Government residential care subsidy and supplements for a particular resident.

System for Payment for Aged and Residential Care (the SPARC)	Calculates and processes residential care payments. The SPARC is called the residential care payment system in this report. Residential care payments are administered by Human Services.
Two year rule	DVA's policy of using evidence obtained from clients within the previous two years to assess their eligibility for residential care subsidies.

Summary and Recommendations

Summary

Introduction

1. Each year over one million older people receive some form of government funded aged care in Australia¹, with more than 27 000 Department of Veterans' Affairs (DVA) clients residing in Australian Government funded residential care facilities in June 2013.
2. The Australian Government provided more than \$9 billion in funding to residential care facilities, including approximately \$1.4 billion in residential care subsidies for DVA clients in 2012–13.² The residents of aged care facilities are subject to asset and income tests to determine their eligibility to receive government subsidies towards the cost of their care.³ Most residents pay some fees based on their income—including full and some part-pensioners⁴ who pay a basic fee—and an accommodation charge or bond if a resident is assessed as having the capacity to pay. For their part, approved providers have to meet accreditation standards to receive government subsidies on behalf of eligible residents.
3. Australian Government agencies involved in the delivery of residential aged care (residential care) services include the Department of Social Services (DSS)⁵, the Department of Human Services (Human Services) and DVA. Formal agreements are in place between the departments to support the efficient and timely delivery of residential care services.⁶

1 Productivity Commission, *Caring for Older Australians*, Productivity Commission Inquiry Report, Volume 1, No. 53, 2, Canberra, 2011, p. xxii, available from http://www.pc.gov.au/data/assets/pdf_file/0004/110929/aged-care-volume1.pdf [accessed 2 April 2014].

2 Department of Veterans' Affairs, Portfolio Budget Statements 2012–13, Budget Related Paper No. 1.5B, p. 55.

3 Asset and income assessments are not compulsory but if residents do not declare their assets and income they attract the maximum fees and charges payable for their care. In order for residents to be eligible for government subsidised care the resident must first be assessed by an Aged Care Assessment Team (ACAT), to determine their level of need.

4 Victoria Cross Recipients and former Prisoners of War in residential care are the exception as they are entitled to have the cost of their basic daily fees paid by DVA.

5 Responsibility for aged care transferred from the former Department of Health and Ageing (DoHA), now the Department of Health) to DSS on 18 September 2013, following changes to the Commonwealth Administrative Arrangements Order (AAO).

6 An agreement exists between DVA and DSS (originally entered into by DoHA). Another agreement exists between Human Services and DSS (originally entered into by DoHA).

Veterans' Affairs administration of residential care payments

4. DVA administers the Australian Government's residential care subsidy, via a special appropriation, for its eligible clients; people who have an entitlement under the *Veterans' Entitlement Act 1988* (the VEA) and other legislation administered by DVA. Under the *Aged Care Act 1997*⁷ (the Aged Care Act), DVA conducts aged care assessments (ACAs) and income testing to assess the net value of their assets based on their pension assessment and to determine the daily fees a client will be required to pay.

5. Data relating to a resident's total net asset amount, aged care resident status determination and total assessable income is exchanged between DVA and Human Services, enabling Human Services to calculate the maximum residential care costs payable by clients and to make payments to approved providers on behalf of eligible residents. The quality of the data exchanged by DVA is critical to the accuracy of residential care payments and whether those payments are made from the correct agency appropriation.

Audit objective and high-level criteria

6. The objective of the audit was to assess the effectiveness of DVA's administration of residential care payments.

7. To assist in evaluating DVA's performance in terms of the audit objective, the ANAO developed the following high level criteria:

- DVA has an effective governance framework;
- DVA's service delivery objectives are clear, well-designed and well-managed; and
- DVA's systems to monitor and report the accuracy of residential care payments and performance are effective.

Overall conclusion

8. The Department of Veterans' Affairs (DVA) provided approximately \$1.6 billion in residential care subsidies for around 27 000 DVA clients in 2012–13, as part of a wider Australian Government program providing more

7 The Aged Care Act and Aged Care Residential Subsidy Principles 1997 establish the overarching framework for the provision of aged care residential services and subsidies in Australia. While DVA administers the appropriation for eligible residents with an entitlement under legislation administered by DVA, DSS manages the appropriation for all other eligible aged care residents in Australia.

\$9 billion in funding to residential aged care facilities⁸ in 2012–13, under the provisions of the Aged Care Act. DVA identifies its individual clients in residential care through an exchange of data with Human Services; and payments are made to approved providers on behalf of eligible DVA clients, based on the data exchanged between DVA and Human Services.

9. The audit highlighted that DVA's administration of residential care payments has not been fully effective, due to: shortcomings for over six years in the department's ability to accurately identify eligible DVA clients in residential care, resulting in incorrect and unauthorised payments to approved providers⁹; and the absence over the past two years of legal delegations necessary for DVA officials to validly exercise powers and perform decision-making functions under the Aged Care Act. Further, the department has missed opportunities to mitigate these program risks through its internal risk management processes and procedural controls. While payment errors can be resolved through adjustment or recovery processes, these can be complex and introduce additional transaction costs for agencies and stakeholders.

10. Known weaknesses in the integrity of DVA's data and exchange processing has affected the department's ability to correctly identify its eligible clients, resulting in DVA exchanging incorrect client data with Human Services for more than six years. As a consequence, responsibility for the payment of residential care costs has often been assigned to the wrong agency, resulting in payments being made from the wrong appropriation. In 2012, DVA identified that it had incorrectly funded the residential care costs of 1130 ineligible residents in 2010–11, necessitating an adjustment to DVA financial records of \$39 million to account for the overpayments. In 2013, DVA identified

8 To be entitled to receive government subsidies, an organisation must be approved by the Australian Government as an 'approved provider' and can only receive subsidies on behalf of the residents for the specified number of residential care places that it has been allocated.

9 There is a risk of a breach of section 83 of the Australian Constitution where payments are made from special appropriations and special accounts in circumstances where the payments do not accord with conditions included in the relevant legislation. Section 83 of the Constitution provides that no money shall be drawn from the Treasury of the Commonwealth except under an appropriation made by law and requires that all spending by the Executive Government from the Consolidated Revenue Fund must be in accordance with an authority given by the Parliament. The possibility of this being an issue for DVA was reported in the notes to DVA's 2010–11 financial statements, and during 2011–12 DVA undertook a detailed investigation of the issue. A financial quantification of potential breaches of section 83 in 2012–13 was also performed by DVA. This review identified that potential breaches in respect to the *Veterans' Entitlements Act 1986* were \$59.7 million for the 2012–13 financial year, with \$44.7 million of that amount relating to incorrect residential aged care payments. See ANAO Financial Statement Audit Report No.13 2013–14 *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2013*, p. 147; and Note 32 forming part of the financial statements, in the *Department of Veterans' Affairs Annual Report 2012–13*, DVA, Canberra, pp. 255–56.

770 instances where it had incorrectly identified clients as eligible and provided funding for their care, resulting in overpayments of \$35.8 million.¹⁰ While DVA has advised that the root cause of the incorrect payments was addressed in September 2013 by changing a key data processing rule in its systems¹¹, recent internal testing of its residential care subsidy recipient data indicates that further overpayments are forecast for 2013–14.¹²

11. To help DVA address data integrity issues, Human Services has, since July 2012, provided DVA with a quarterly listing of all relevant records to enable DVA to correctly identify its eligible clients. By March 2014 however, DVA had only fully investigated the data in the first report provided by Human Services and subsequent reports had not been actioned. The slow progress in addressing the backlog of incorrect records to identify ineligible payments requires review by the department. Going forward, to provide assurance on the integrity of relevant client data and the administration of residential care payments, DVA should establish quality and timeliness standards for its management of information used as part of the data exchange process.

12. As mentioned previously, DVA has been aware for over six years of limitations in its ability to correctly identify eligible DVA clients. However, the relevant DVA business-level plans examined by the ANAO indicated that the plans did not identify, assess, or document treatments for these known risks, raising questions about the department's ongoing monitoring of program risks, and any changes in the severity of the risks.¹³ A further program risk arising in recent years has been the absence of sub-delegations between

10 \$9.4 million was incorrectly paid in 2011–12 and \$26.4 million was incorrectly paid in 2012–13.

11 A note provided to DVA's Secretary on 9 July 2013 acknowledged that in 'DVA's Residential Care Allowance system, the business rules were set up incorrectly as far back as 1997'.

12 In April 2014, DVA estimated that the overpayment for residential care payments was \$10.2 million based on internal testing covering the period July 2013 to November 2013. The annualised estimate for the same period was approximately \$24.5 million. Note 32 to the Financial Statements in DVA's 2012–13 Annual Report, indicates that 'DVA will continue to monitor its level of compliance with section 83 of the Constitution across all legislation for which it is administratively responsible. Where possible, future changes to procedures and amendments to legislation will continue to be progressed to reduce the risk of non-compliance to an acceptably low level across all programs'. See *Department of Veterans' Affairs Annual Report 2012–13*, Canberra, pp. 255–256. This footnote should be read in conjunction with footnotes 9, 10 and 11.

13 In February 2013, an internal review of risk management identified the need to develop formal reporting and monitoring of risks in business plans. During the course of the audit, DVA developed a risk assessment for the administration of residential care payments 'to inform external stakeholders and others.' However, at the time the audit fieldwork concluded, many of the treatments identified in the risk assessment were either not applied by DVA at the operational level, or were not effective.

17 November 2011 and 14 October 2013, to enable DVA officials to validly exercise the Secretary's powers and decision-making functions under the Aged Care Act. An effective risk management process would have identified and treated risks relating to the program's delegation structure as a matter of course. In this light, DVA should review its approach to identifying and treating business-level risks in the context of the department's Risk Management Framework. To facilitate the effective ongoing management of delegations and to provide additional assurance that DVA officials have validly-made delegations for the exercise of statutory powers, the department should also maintain a central delegations register.

13. As part of its administration of residential care payments, DVA has developed internal guidance and procedures to support the consistent collection and use of client information for aged care assessment decisions and to accurately calculate payments. However, these measures have not been fully effective and the ANAO identified instances of decision-making based on incomplete, poorly documented and/or out-of-date information. At present, eligibility decisions can be based on client asset and income information that may be up to three years old¹⁴; in contrast to arrangements for DVA pension assessments, which require clients to advise DVA within 14 days if they gain or dispose of any assets. To improve compliance with the Aged Care Act, and the quality of its decision-making, DVA should use up-to-date client information and consistently document its decisions, including client information that informs these decisions.

14. The ANAO has made four recommendations aimed at improving the department's administration of residential care payments, focusing on: improving the management and integrity of information used as part of the data exchange process; establishing a central delegations register to improve the management of internal delegations; enhancing risk-management processes; and improving compliance with the Aged Care Act and the quality of decision-making by using up-to-date client information and consistently documenting decisions.

14 Under of the Aged Care Act, the value of a person's assets must be determined at the time 'specified in the determination' (section 44–8AB) or on the day the person 'entered the residential care service' (section 44–5A).

Key findings by chapter

Asset Testing and Income Assessments (Chapter 2)

15. Under the Aged Care Act and related subsidy principles, DVA officials can be provided with delegated authority to collect and assess information on clients seeking financial subsidies towards the cost of their aged care. DVA did not have relevant sub-delegations in place for decision-makers for two years. To provide assurance regarding the management of delegations, and to avoid legal risks such as challenges to decision-making, the department should maintain a central delegations register to facilitate the management of delegations. Such an approach is commonly adopted by departments.

16. Client information for residential care purposes is mainly captured through ACA applications by DVA staff, and following assessment, information regarding a client's total net asset amount, aged care resident status determination outcome and total assessable income amount is provided to Human Services as part of a regular data exchange process. In its present form, the ACA application often results in DVA receiving inconsistent and incomplete information from clients, resulting in delays in the assessment process. The current review of the ACA form by DVA and DSS provides an opportunity to address these matters and reduce the risk of ambiguity for applicants. In its response to the audit of 28 May 2014, DSS acknowledged that current administrative difficulties as they relate to the capture of client information could be addressed in part by improvements to the ACA application form, which is being amended as part of the implementation of the 1 July 2014 Aged Care Reform measures.

Integrity of Residential Care Data (Chapter 3)

17. To reduce the risk of paying government subsidies for non-DVA clients and to facilitate the accurate exchange of information with other agencies, DVA has provided guidance to staff and implemented a range of system controls, procedures and reporting arrangements.

18. To manage data mismatches and errors, DVA has implemented a number of strategies, including Aged Care reports which identify, assess and correct data discrepancies. Departmental procedures require all Aged Care reports to be investigated and if discrepancies are confirmed, DVA systems must be updated. The ANAO reviewed a targeted sample of 51 cases in the reports and examined the related pension and aged care case information in

DVA systems.¹⁵ The ANAO identified incorrect data matches between Human Services data and DVA records, indicating that the wrong client information had been exchanged and DVA was paying residential care subsidies for residents with no entitlement under the VEA.¹⁶ Data exchange errors can result in unauthorised payments being made from DVA's special appropriation or provider fee adjustments, requiring complex and drawn out processes to resolve.

19. Since July 2012, Human Services has provided DVA with a quarterly listing of residents with liability accepted by DVA, to enable the department to identify and confirm its aged care residents with an entitlement to DVA funding. By March 2014 however, DVA had only fully followed-up on the first quarterly report for 2012–13, and subsequent reports provided by Human Services had not been actioned by DVA.¹⁷

20. DVA's acceptance for funding the payment of government subsidies for residents with no entitlement under the VEA has resulted in significant payment errors and payments drawn down from the wrong appropriation, for more than six years.

Governance, Reporting and Review (Chapter 4)

21. The ANAO examined the 2011–12 and 2012–13 business plans for two key business areas with responsibility for the administration of residential aged care payments. Business plans did not identify known risks relating to mismatches of client information in the data exchange process with Human Services, notwithstanding their frequency or the quantum of the incorrect payments each year; raising questions about the department's ongoing reporting and monitoring of known risks at the business-level.¹⁸ During the audit, DVA developed a risk assessment for the administration of residential

15 As necessary, the ANAO sought assistance from DVA technical experts in the residential care systems data exchange, and where required, program advice from income support decision-makers about specific cases in the Aged Care reports.

16 The data exchanged by DVA in the data file, includes its acceptance (or non-acceptance), for payment of the residential care subsidies for eligible DVA clients under the VEA. DSS is responsible for payment of the residential care subsidy for all other residents.

17 Human Services advice to the ANAO, 11 March 2014. In its response to this audit dated 22 May 2014, DVA advised that it has now actioned all reports.

18 In February 2013, an internal review of risk management noted the need for DVA to develop formal reporting and monitoring of risks in business plans; however, the process had not been developed or documented. Further, DVA's 2013–14 state office business plans did not identify risks in respect to the administration of residential care payments or reflect that the outcomes of the review had been implemented.

care payments. However, many of the risk treatments identified are either not applied consistently by the department, or are not effective in addressing the risks.

22. The ANAO also reviewed the formal agreements between DVA and other government stakeholders. In particular, the Agreement between DVA and the former Department of Health and Ageing (DoHA¹⁹) that governs aged care administration, which includes business processes and performance reporting for the exchange of aged care data, and financial responsibilities and accountabilities agreed between the parties. The Agreement has not been fully effective in facilitating the management of data errors or resolving funding liability issues²⁰ in a timely manner, resulting in government stakeholders expending considerable resources to resolve the issues over more than six years. There is a need for greater senior management oversight of the agreement's operation and the ongoing efforts to resolve DVA's data integrity issues relating to the identification of residential care clients and related payments.²¹

23. There would be benefit in DVA investigating options with other government stakeholders, to streamline the current administration of the residential care program in order to reduce the potential for double handling and inefficiencies in respect of administering residential care payments.

19 The Agreement was for three years from 30 July 2010 to 30 June 2013. The Agreement was extended through an exchange of letters for a further twelve months to 30 June 2014, in preparation for implementation of the new Aged Care Reforms and systems from 1 July 2014. Under the Machinery of Government changes on 18 September 2013, responsibility for aged care was transferred from DoHA to DSS.

20 Liability relates to the agency that has financial responsibility for funding the residential care subsidy costs for particular clients.

21 In its response to this audit, DSS acknowledged that the current inter-departmental governance arrangements between DSS and DVA can be strengthened to: provide additional assurance across the management of operational matters and issues as they arise; and provide additional clarity regarding the role of senior management in providing oversight on the operation of the agreement and resolving issues as required.

Summary of agencies responses

24. Summary responses to the proposed audit report are provided below. Full responses are at Appendix 1.

Department of Veterans' Affairs

The Department of Veterans' Affairs notes the findings of the report and agrees with all recommendations suggested by the Australian National Audit Office.

Department of Human Services

The Department of Human Services welcomes this report which notes the work the department undertakes with the Department of Veterans' Affairs (DVA) to support DVA's role under the Australian Government's Residential Care Programme.

The department will continue to work closely with DVA to support the provision of accurate and timely residential care payments for eligible veterans and their families.

Department of Social Services

DSS welcomes the findings of the audit report on the Department of Veterans' Affairs Administration of Residential Care Programs and considers that the implementation of its recommendations will enhance the integrity, delivery and quality of decision-making in DVA's administration of the programme.

Improving the application of asset testing and income arrangements, addressing the integrity of residential aged care data and ensuring appropriate governance reporting and review arrangements are in place will strengthen the delivery of the residential aged care programme and further support effective and appropriate decision making across agencies.

DSS notes that in many instances, implementation has commenced in response to key findings and will continue to work closely with DVA and DHS on the joint delivery of aged care programmes.

Recommendations

Recommendation No. 1

Paragraph 2.8

To provide assurance that officials of the Department of Veterans' Affairs (DVA) have valid delegations under the *Aged Care Act 1997*, and to facilitate the ongoing management of delegations, the ANAO recommends that DVA establish and maintain a central delegations register.

DVA's response: *Agreed.*

Recommendation No.2

Paragraph 2.30

To improve compliance with the *Aged Care Act 1997* (the Act) and the quality of decision-making by the Department of Veterans' Affairs (DVA) under the Act, the ANAO recommends that DVA:

- accurately capture and document the client's current circumstances as required by the Act; and
- consistently document its decisions including the client information that informs these decisions.

DVA's response: *Agreed.*

Recommendation No.3

Paragraph 3.36

To improve the level of assurance relating to the integrity of residential care payments data, the ANAO recommends that the Department of Veterans' Affairs take early steps to improve the quality of that data and establish quality and timeliness standards for its management of information, used as part of the data exchange process.

DVA's response: *Agreed.*

Recommendation No.4

Paragraph 4.18

The ANAO recommends that the Department of Veterans' Affairs should strengthen its risk management processes relating to the administration of residential care payments by addressing business-level risks in the context of the wider departmental Risk Management Framework.

DVA's response: *Agreed.*

Audit Findings

1. Introduction

This chapter provides an overview of the residential care system in Australia and outlines the role of the Department of Veterans' Affairs (DVA) and other government stakeholders in the delivery of residential care services for eligible DVA clients. It also includes the audit objective, criteria and scope.

Background

1.1 Each year, over one million older people receive some form of government funded aged care in Australia.²² The number of people aged 75 years or more is projected to rise by four million between 2012 and 2060, an increase from around 6.4 to 14.4 per cent²³, and is a major driver of anticipated demand and expenditure for health and related services in Australia.

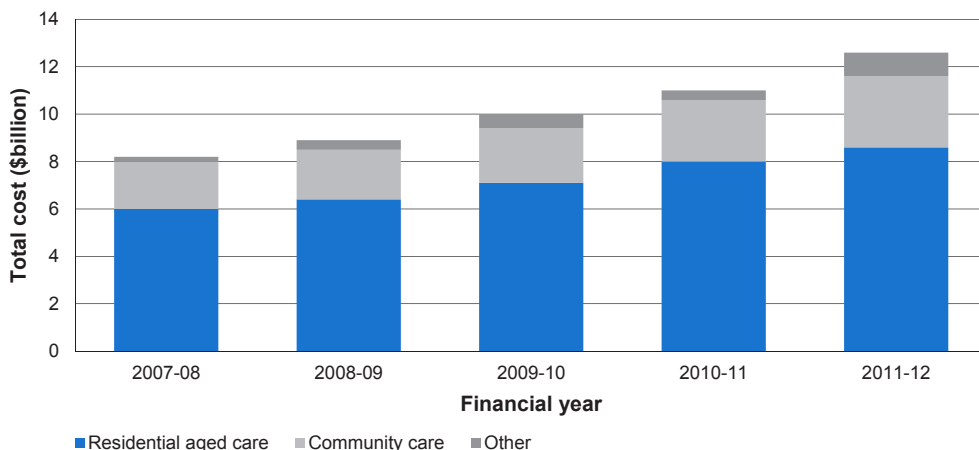
1.2 The Australian Government funds and regulates the provision of aged care and support services to meet the needs of older Australians, whether through assistance in their homes as they age, or in residential aged care (residential care) when their needs can no longer be met at home. While the government provides substantial funding to residential care facilities to assist with the costs associated with providing care and sustaining the aged care system, most residents also pay some fees based on their income, including DVA clients.

1.3 Figure 1.1 shows the increase in Australian Government expenditure for aged care support and services, from 2007–08 to 2011–12.

22 Productivity Commission, *Caring for Older Australians*, Productivity Commission Inquiry Report [Internet], Volume 1, No. 53, 2, Canberra, 2011, p. xxii, available from <<http://www.pc.gov.au/projects/inquiry/aged-care/report>> [accessed 2 April 2014].

23 Productivity Commission, *An Ageing Population: Preparing for the Future* [Internet], Productivity Commission, Canberra, 2013, available from <http://www.pc.gov.au/data/assets/pdf_file/0005/129749/ageing-australia.pdf> [accessed 2 April 2014].

Figure 1.1: Australian Government expenditure on aged care services



Source: Department of Health and Ageing, *2011–12 Report on the Operation of the Aged Care Act 1997*, DoHA, Canberra, 2012, p. 6.

1.4 In June 2013, more than 27 000 DVA clients were residing in government funded residential care facilities—about 14 per cent of all aged care residents—at a cost of approximately \$1.6 billion in 2012–13.²⁴ Compared to the general population, DVA’s client population is older and ageing faster than some other groups²⁵, and their special needs are recognised in the *Aged Care Act 1997* (the Aged Care Act). With the change in profile of the ex-service community over time, most DVA clients are now aged over 80 years. The large cohort of men and women who served during World War II are frail, and increasingly, require higher levels of residential care and related services.²⁶

The Residential Aged Care Program

1.5 The Aged Care Act and the Aged Care Residential Subsidy Principles 1997 (subsidy principles) establish the overarching framework for the provision of aged care residential services and subsidies in Australia. Care can

24 DVA’s 2012–13 Portfolio Budget Statements record that the department was provided approximately \$1.4 billion for residential care in the 2012–13 Budget. In its advice to the ANAO in relation to its 2013–14 financial statements, the department indicated that expenditure for residential care was approximately \$1.6 billion in 2012–13.

25 Department of Veterans’ Affairs, ‘Veterans’ Need for Aged Care Services’, DVA, Canberra, April 2011, paragraph 3.5.

26 Productivity Commission, *Caring for Older Australians*, Inquiry Report, Vol. 1, No.53, Productivity Commission, Canberra, June 2011, p. 52.

be provided to ageing Australians on a respite or permanent basis.²⁷ Respite care provides short-term care in an Australian Government funded residential care facility or other approved accommodation for elderly people who are: being cared for and whose carer is in need of a temporary break from the caring role; or in need of respite care themselves and they intend to return to their home. There are two types of permanent residential care: low and high level care. Some providers specialise in one or the other; however, many facilities now offer the full range of care to enable residents (including veterans) to age in place.²⁸

Residential care subsidies and supplements

1.6 The Australian Government subsidises the provision of residential care for eligible residents, which are intended to contribute to the ongoing financial sustainability of the Australian Government's Residential Care Program. To be entitled to receive government subsidies, an organisation must be approved by the Australian Government as an 'approved provider'. Approved providers are allocated a certain number of 'aged care places'—and can only receive subsidies on behalf of the residents for the specified number of residential care places they have been allocated.²⁹

1.7 Approved providers can provide government as well as non-government funded places within their facility and residents can move between the two accommodation types.³⁰ The facility also has to meet the accreditation requirements for the standard of care provided. Non-government accredited facilities do not attract Australian Government subsidies in respect of their aged care places.

27 According to the Department of Health and Ageing, *2011–12 Report on the Operation of the Aged Care Act 1997* [Internet], DoHA, Canberra, 2012, p. 36, at 30 June 2012 there were 167 009 people in permanent residential care and 4056 in respite care, available from <<http://www.health.gov.au/internet/main/publishing.nsf/Content/ageing-reports-acarep-2012.htm>> [accessed 15 April 2014].

28 Department of Veterans' Affairs, 'Training in Residential Aged Care for Income Support', DVA, Canberra, 2005, p. 9.

29 The 'approval' of an aged care provider will commence when a provider obtains an allocation of 'places' in respect of aged care services. There are two ways that approved providers can acquire places: through an application in an Aged Care Assessment Round (ACAR); or by purchasing places and applying to DSS for approval to transfer places from the vendor. Aged care places are allocated annually through the ACAR process, which is a highly competitive selection process.

30 For example, a resident may agree to be placed in a non-government funded bed, awaiting a government subsidised bed to become available in the same facility. In these cases, the residents will be responsible for payment of the full costs of their care until a government subsidised bed becomes available.

1.8 To be eligible for their care to be subsidised by government, all persons entering care must be assessed by an Aged Care Assessment Team (ACAT), who determine the resident's level of care needs as either low or high.³¹ These assessed level of care needs, attract different accommodation cost structures. The amount of basic subsidy and care supplements payable for permanent residents in care is based on their assessed level of personal and health care needs under the Aged Care Funding Instrument (ACFI).³² However, all residents, including full and some part-pensioners, pay a basic daily fee (the standard resident contribution).³³

1.9 The Aged Care Act includes provisions for financially disadvantaged people to allow equitable access to residential care and designates certain people as 'people with special needs'—this includes veterans and other eligible DVA clients. For residents with limited assets assessed as less than 2.25 times the basic aged pension rate, the Australian Government will pay all residential care costs.³⁴

1.10 Table 1.1 summarises the Aged Care Assessment resident status rules for determining eligibility for the government's residential care subsidy.³⁵

31 The Australian Government's policy agenda for means testing aged care subsidies has evolved considerably over time. Currently there are different subsidy classification categories that apply to clients depending on the date at which they enter care. The different categories apply to aged care residents that have entered care at either 'pre-March 2008' (before reforms to the *Aged Care Act 1997* (the Aged Care Act) or 'post-March 2008'.

32 Productivity Commission, *Caring for Older Australians*, Inquiry Report, Vol. 1, No.53, Productivity Commission, Canberra, June 2011, p. 27.

33 The exception is Victoria Cross recipients and former Prisoners of War as DVA covers the cost of their fees by prior arrangement. See Department of Health and Ageing, *Report on the Operation of the Aged Care Act 1997: 1 July 2010 to 30 June 2011*, DoHA, Canberra, 2011, p. 46.

34 Department of Health and Ageing, *Five Steps to Entry into Residential Aged Care* [Internet], DoHA, Canberra, 2011, p. 17, available from <<http://www.health.gov.au/internet/publications/publishing.nsf/Content/ageing-rescare-5-step>> [accessed 16 April 2014].

35 Under of the Aged Care Act, the value of a person's assets must be determined at the time 'specified in the determination' (section 44-8AB) or on the day the person 'entered the residential care service' (section 44-5A). These rules apply to assessments post-2008 following changes to the Aged Care Act.

Table 1.1: Subsidy status post-March 2008 rule changes

Residential care subsidy status types	Asset assessment rules
Fully supported	The applicant or resident has assets of less than 2.5 times the basic Age Pension amount (rounded up to the nearest \$500, rounding to \$250 upwards).
Partially supported	The applicant or resident has assets of more than 2.5 times the basic Age Pension amount (rounded up to the nearest \$500, rounding to \$250 upwards) and less than \$116 136.
Not supported	The applicant or resident has assets of more than \$116 136. This amount is indexed six monthly in Sept and March.

Source: Department of Health, *Schedule of Residents Fees and Changes from 20 March 2014*, DoH, Canberra, March 2014, p. 1.

1.11 The aged care asset and income thresholds are linked to pension amounts and subsidy limits. The cut-off asset levels for residents who have a 'fully' or 'partially supported' resident status under the program are shown in Table 1.2.³⁶

Table 1.2: Asset cut-off thresholds

Determination	Asset cut-off level
Fully supported resident status	\$45 000
Partially supported resident status	\$116 136

Source: Department of Health, *Schedule of Residents Fees and Changes from 20 March 2014*, DoH, Canberra, March 2014, p. 1.

1.12 At 20 March 2014, all residents including DVA clients with more than \$116 136 in assets were not eligible for 'fully' or 'partially' supported resident status.

Residential care fees, bonds and charges

1.13 As well as the basic daily fee, residents can also be required to pay an accommodation bond or charge based on their capacity to pay and level of assets. However, some residents cannot be required to pay an accommodation charge. These can include fully supported residents, residents with assets below the minimum asset level and a resident who has applied for a financial hardship determination.

36 Shows the asset cut-off level from 20 March 2014.

1.14 Table 1.3 provides an overview of the types of fees and charges residents may be required to pay.

Table 1.3: Residential care fees and charges

Types of fees and charges	Who pays?
Accommodation payment (bond or charge)	Residents with sufficient assets
Basic daily fee	All residents to pay
Income-tested fee	Residents with sufficient income
Extra service fee	Residents receiving care on an extra service basis

Source: Department of Veterans' Affairs, Consolidated Library of Information and Knowledge, 'Funding for Residential Care', DVA, Canberra, May 2008, pp. 1–2.

1.15 Accommodation bonds are not a set amount and clients or their representatives negotiate the sum directly with the approved provider. Residents can choose to pay the bond as a lump sum, or as a periodic payment, or through a combination of both. The government has no role in these transactions except to apply a threshold asset amount that the resident must be left with after paying the bond.³⁷ On 20 March 2014, the threshold amount after paying a bond was \$45 000.³⁸

1.16 The current system is intended to ensure that those who can afford to pay for their residential care costs do so³⁹, directing government subsidies towards those who most need them.

Roles and responsibilities

1.17 A number of government agencies are involved in the delivery of residential care services in Australia, including the Departments of Social Services (DSS) and Human Services, and DVA. Human Services administers residential care payments in accordance with policies developed by the former Department of Health and Ageing (DoHA); a responsibility which transferred

³⁷ Accommodation charge amounts are based on the actual date the resident first entered care.

³⁸ Department of Health, *Schedule of Residents Fees and Charges from 20 March 2014* [Internet], DoH, Canberra, January 2014. p. 1, available from <<http://www.health.gov.au/internet/main/publishing.nsf/Content/ageing-finance-resfees.htm>> [accessed 16 April 2014].

³⁹ Department of Health, *Schedule of Residents Fees and Charges from 20 March 2014* [Internet], DoH, Canberra, January 2014. p. 1, available from <<http://www.health.gov.au/internet/main/publishing.nsf/Content/ageing-finance-resfees.htm>> [accessed 16 April 2014].

to the new DSS on 18 September 2013.⁴⁰ Table 1.4 summarises the roles and responsibilities of the key government stakeholders.

Table 1.4: Roles and responsibilities of the service delivery agencies

DSS POLICY FRAMEWORK		
<i>Income and Asset Testing</i> <ul style="list-style-type: none"> • Policy advice—formal agreements are in place with service delivery agencies • Provision of accurate and reliable data concerning aged care trends and facilities • Provision of timely advice to assist DVA to complete asset assessments 		<i>Financial Responsibilities</i> <ul style="list-style-type: none"> • Maintains the current arrangement to draw down appropriations with Human Services • Ensures that there are sufficient funds to process residential care subsidy transactions as required
OPERATIONAL ENVIRONMENT FOR AGED CARE SUBSIDIES		
Human Services		DVA
Aged Care Program <i>Processing and payments</i> <ul style="list-style-type: none"> • Maintains Aged Care On-Line Claims system • Maintains Aged Care Payment system <i>SPARC data extract</i> <ul style="list-style-type: none"> • Implements daily processing and provides a daily data file to DVA and Centrelink Services in relation to new admissions, changes in level of care and subsidies, and discharges <i>Payments to approved providers</i> <ul style="list-style-type: none"> • Payment of pensioner supplement and government subsidy to the approved providers 	Centrelink Services <i>Data matching and exchange</i> <ul style="list-style-type: none"> • Updates data in the Human Services segments in the data file for all residents other than DVA clients • Advises all parties of any data delays • Ensures client data is correct and updated in the data exchange process 	<i>Income and asset testing</i> <ul style="list-style-type: none"> • Data matches client records in the data file • Determines and advises total income and asset assessments in the data exchange process • Reports to DSS <i>Data matching and exchange</i> <ul style="list-style-type: none"> • Ensures client data is correct and updated in the data exchange process • Reports to DSS • Resolves unmatched data issues • Advises all parties of any data delays <i>Financial responsibilities</i> <ul style="list-style-type: none"> • Funds the Australian Government residential care subsidy and supplements for DVA clients

Source: Department of Veterans' Affairs, 'Business Partnership Agreement between the Department of Veterans' Affairs and the Department of Health and Ageing 2010–2013', DVA, Canberra, July 2010.

⁴⁰ The former DoHA was the key agency responsible for aged care policy and administration of the Aged Care Act until 18 September 2013 when responsibility was transferred to DSS under the AAO. In this report, DoHA is referred to in the following circumstances—direct quotes and references to agreements that were in place prior to 18 September 2013. In all other instances, the report refers to DSS as the responsible agency.

1.18 Formal agreements are in place between the key government stakeholders delivering residential care services, which were implemented to govern the delivery of residential care payments to, or reimbursement of, residential care approved providers. The payment process is based on a regular data exchange of eligible client asset and income information, which provides a basis for the management of residential care, including formal reporting requirements.

Department of Social Services

1.19 Generally aged care, including residential care, is regulated by the Aged Care Act and the *Home and Community Care Act 1985*. The latter governs the support services to aged people in their homes and is outside the scope of this audit.

1.20 DSS is the principal agency responsible for administering the Aged Care Act and subsidy principles⁴¹ and has responsibility for the operation and provision of services in residential care, including: aged care policy and regulation; accreditation and compliance; and establishing the independent Office of the Aged Care Commissioner to investigate complaints and undertake quality and compliance audits.⁴²

Department of Human Services

1.21 Human Services administers more than \$9 billion in payments and subsidies to approved providers annually on behalf of DSS. The payments are administered across a range of residential and other aged care programs, through the residential care payment system.

1.22 Human Services provides a daily data file to DVA that contains the details of all permanent aged care residents and their movements in, and out of, aged care on a particular date.⁴³ DVA is also provided with residential care payment expenditure each month by DSS. The data exchanged by DVA (and by Centrelink Services in respect of all other residents), is used to update the

41 The subsidy principles deal with eligibility for the Australian Government subsidy, how it is paid and the amount paid. The level of subsidy depends on the value of a person's assets and other circumstances such as the date the person entered care.

42 Department of Health and Ageing, *Report on the Operation of the Aged Care Act 1997: 1 July 2009–30 June 2010*, DoHA, Canberra, 2009, p. 3.

43 DSS also provides the total payments made by the department for each resident separately to DVA on a monthly basis.

asset and income details of eligible DVA clients in the residential care payment system, whether entering, residing or departing residential care facilities.

1.23 The accuracy of the payments made to residential care providers by Human Services is reliant on: the integrity of the assets and income client data provided by DVA and Centrelink and effective collaboration between DSS, DVA and Human Services.

Department of Veterans' Affairs

1.24 The department administers three key acts to determine client entitlement to health care, income support and compensation—the *Veterans' Entitlement Act 1986* (the VEA), the *Safety, Rehabilitation and Compensation Act 1988* (SRCA)⁴⁴ and the *Military, Rehabilitation and Compensation Act 2004* (MRCA).⁴⁵ The eligibility of DVA clients to receive residential care subsidies and supplements is determined by their assessed asset level under the provisions of the Aged Care Act. The entitlement of DVA clients to have the cost of their residential care subsidies and supplements funded by the department is determined under the three key acts administered by DVA.

1.25 Although the VEA and SRCA were superseded by the MRCA in July 2004, the majority of DVA clients are aged and frail and their claims pre-date 2004. Therefore the bulk of claims for health care related to residential care subsidies continue to be assessed under the VEA.⁴⁶

1.26 Table 1.5 provides an overview of the health treatment provisions of the VEA, SRCA and MRCA in terms of their relationship with funding the cost of eligible DVA beneficiaries' health care and, therefore, acceptance of liability by DVA to fund their residential care subsidies and any relevant supplements.

44 SRCA is a workers' compensation scheme that applies to all Defence Force personnel.

45 The MRCA is designed to cover the whole spectrum of modern military and operational service in all its forms.

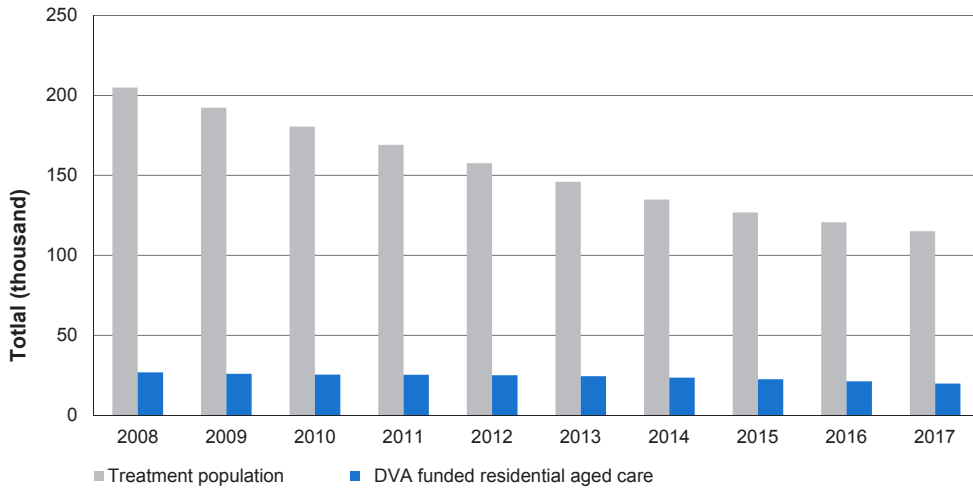
46 At 30 June 2013, of the 313 880 VEA beneficiaries including veterans, war widows/widowers and dependents, 243 153 were aged 70 years or more. See *Department of Veterans' Affairs Annual Report 2012–13*, DVA, Canberra, pp. 15–17.

Table 1.5: Health care legislated provisions

Health treatment card	Subsidy provisions	Description
VEA – Gold or White Health Treatment Card holders MRCA – Gold or White Health Treatment Card holders SRCA – White Health Treatment Card holders (from 10 December 2013)	DVA will fund the residential care subsidy amount plus any relevant supplements for eligible clients with a Gold or White Health Treatment Card. Additional provisions exist for former Prisoners of War and Victoria Cross Recipients.	Generally, the resident will pay the Basic Daily Fee, any Income-tested fee and any accommodation charge or bond that the resident is assessed as having the capacity to pay. DVA will pay the residential care subsidy amount and any relevant supplements which the recipient may attract. DVA will pay the Basic Daily Fee for former Prisoners of War and recipients of the Victoria Cross. These residents are also exempt from the Income-tested fee, but they may be asked to pay an accommodation charge or bond, depending on their capacity to pay. Provisions exist within the VEA and the MRCA Treatment Principles for DVA to accept financial responsibility for costs not normally accepted by the Commonwealth where exceptional circumstances apply.
MRCA and SRCA – no Treatment Card	In some circumstances, DVA can meet resident fees and charges (excluding accommodation bonds or charges) if the person is in residential care because of their accepted disability.	DSS will fund the residential care subsidy amount and any relevant supplements. DVA can meet the Basic Daily Fee and Income-tested fee directly through payment of a provider invoice or through reimbursement to the client (these arrangements are separate to the residential care data exchange process). However, the resident will still be required to pay the accommodation bond or charge.

Source: Department of Veterans' Affairs, *Review of Military Compensation Arrangements: Report to the Minister for Veterans' Affairs*, DVA, Canberra, February 2011, Volume Two, pp. 337–340.

1.27 Different health treatment cards are issued by DVA, which signify the client's eligibility for a range of health benefits. This total client group of DVA health treatment card holders is referred to as DVA's eligible treatment population. Figure 1.2 provides an overview of DVA's historical and projected eligible treatment population requiring aged care services from 2008 to 2017.

Figure 1.2: Projected eligible treatment population requiring aged care

Source: Productivity Commission, *Caring for Older Australians*, Inquiry Report, Vol. 1, No. 53, Productivity Commission, Canberra, June 2011, p. 52.

1.28 Although DVA's total veteran population is trending downwards, a resurgence in demand by its clients for aged care services is expected after 2020, when the cohort of Vietnam veterans move into their 80s.⁴⁷

Service delivery role

1.29 DVA makes determinations about the eligibility of its clients to receive subsidised care under the Aged Care Act. A client's entitlement for DVA to fund these subsidies is determined by applying the VEA and other legislation administered by DVA. Under the Aged Care Act, services provided by DVA focus mainly on determining: a client's income for the payment of daily fees in aged care; the net value of a client's assets based on their pension assessment records already held by DVA; and, if relevant, any additional evidence provided by the applicant, or obtained from other government agencies.

1.30 The aged care asset thresholds are linked to pension amounts. DVA may be notified that a client has entered residential care when their details appear on the data file provided by Human Services that contains the details

⁴⁷ Productivity Commission, *Caring for Older Australians*, Inquiry Report, Vol. 1, No.53, Productivity Commission, Canberra, June 2011, p. 51.

of all residents in care in Australia and a match occurs with the information held by DVA in its client information management systems. Alternatively, the client may:

- advise DVA that there has been a change in their circumstances and the department updates their details accordingly (as a Pensioner Initiated Review)—the updated data populates the data file the following day; or
- submit a Permanent Residential Aged Care: Request for an Assets Assessment form (ACA form) that informs DVA of their intention to enter care—requiring the department to upload the value of the client's assets into the Aged Care Assessment⁴⁸ system (ACA system) to determine eligibility for subsidised care under the Australian Government's Residential Care Program.⁴⁹ During this process, the client's income and assets information is updated for DVA income support pension assessment purposes and to determine the income tested fee amount to be paid by the resident.

1.31 The department may also initiate a review of a client's circumstances (a Department Initiated Review) as part of their compliance review program.

Aged care assessments

1.32 The ACA system is designed to import asset information from the client's current pension assessment and allows the information to be adjusted to account for differences between the legislated pension assessment test and the aged care resident assessment test. Once authorised, the asset information is stored in DVA's Residential Care Assessment system (residential care system), which interfaces with the Human Services residential care payment system.⁵⁰

Daily data exchange

1.33 When a resident enters care, the approved provider notifies Human Services by way of a Residential Entry record (RER). The RER is entered into the residential care payment system and this system transmits a data file each Canberra business day to DVA, to enable the department to match and

48 The ACA system allows income support staff processing ACA forms to calculate the net assets and resident status for a person who is anticipating or has entered permanent residential aged care.

49 This advice has to be made by DVA within 14 days of making its determination.

50 Department of Veterans' Affairs, 'Aged Care Assessment Requirements Document: Harmer Project (Phase 1)', DVA, Canberra, June 2009, p. 3.

exchange information on income support pensioners in residential care. DVA exchanges updated client assets and income data that includes its acceptance of liability for payment of the government subsidy for eligible DVA clients. The data file is then forwarded to Centrelink Services (within Human Services) to conduct the same process for all other aged care residents in Australia, including Self-Funded Retirees (SFR).⁵¹ Once completed, the data exchanged by DVA and Centrelink updates the residential care payment system, attributing liability for payment of the government subsidies for eligible residents—to either DVA for its eligible clients, or to DSS for all other residents.

1.34 Human Services then uses the data collected from DVA and Centrelink to: determine the subsidy amount to be paid to the approved provider on behalf of the eligible resident; and calculate the maximum fees and charges payable by the resident to the approved provider.⁵² The accuracy of the payments to approved providers is reliant on the accuracy of the data provided by DVA and Centrelink Services.⁵³

1.35 DVA generates reports which flag inconsistencies in the client details held in DVA's databases and matched with residents' records in the data file. DVA is generally reliant on the provision of client information from third parties, such as family members, persons holding a power of attorney and aged care providers, unless the client has submitted an assets assessment application to DVA prior to entering care. Human Services and DSS are also reliant on timely advice from aged care providers, including ACAT assessments, to enable the effective delivery of residential care services.

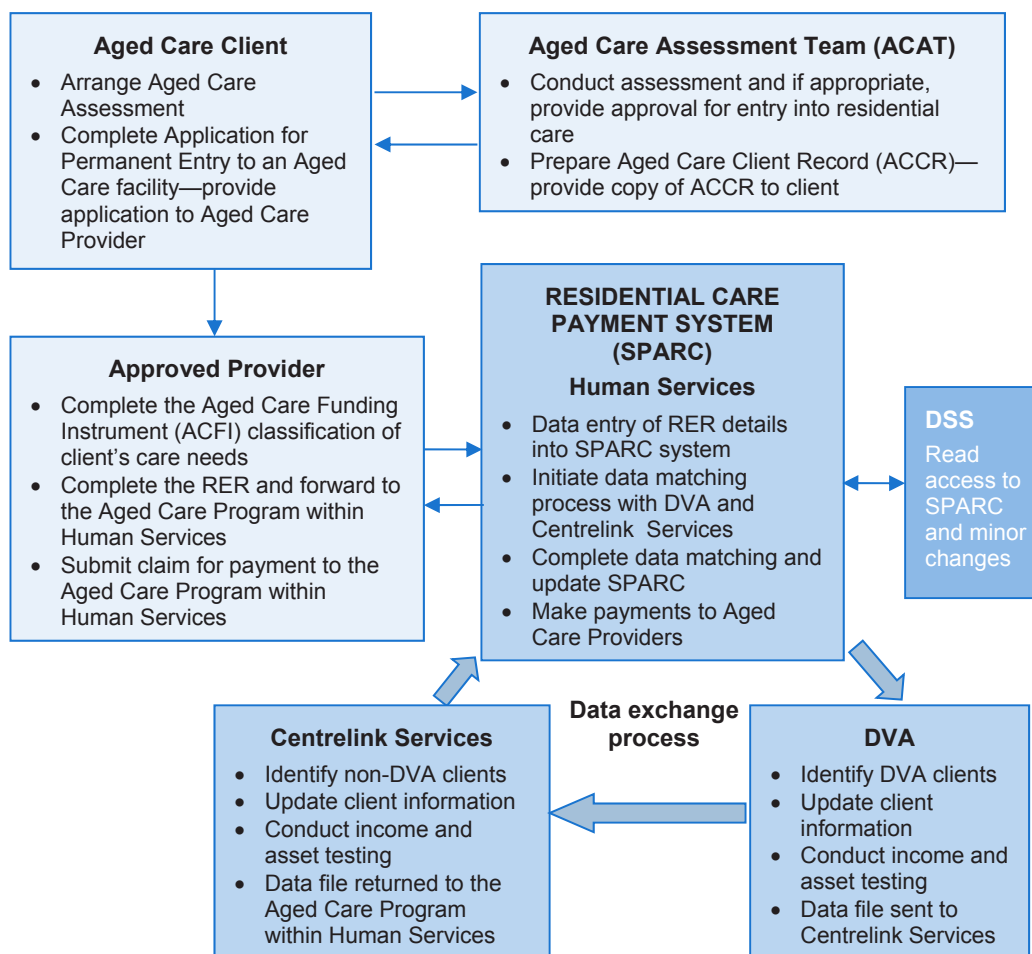
1.36 Figure 1.3 provides an overview of the information flows in the aged care exchange and payment system.

51 The aged care regulations provide that clients who do not disclose their means for 70 days or more and whose details are mismatched for that period, can be charged the highest residential care fees.

52 Human Services issues letters to residents or their representatives and to approved providers advising them of the residential care fees and charges payable, based on the data exchanged by DVA and Centrelink in the data file.

53 Aged Care subsidies are paid by Medicare/Human Services on behalf of DVA.

Figure 1.3: Residential Care Payment System — Information flows



Source: Department of Veterans' Affairs, 'Business Partnership Agreement between the Department of Veterans' Affairs and the Department of Health and Ageing 2010–2013', DVA, Canberra, July 2010, Schedule 3, Attachment C, p. 14.

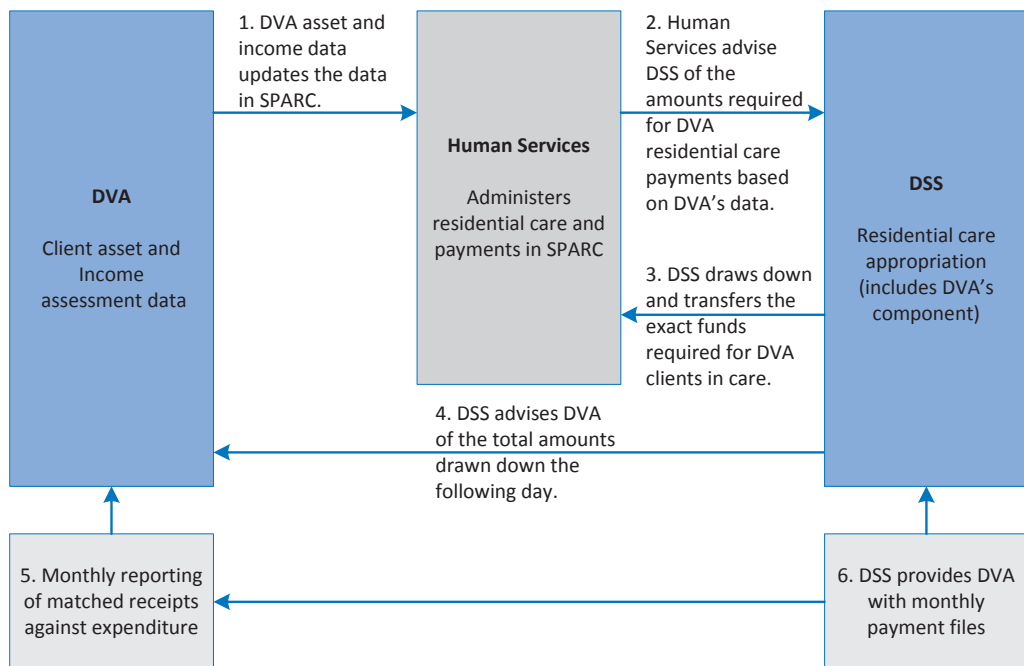
Residential care funding arrangements

1.37 DVA administers the Australian Government's residential care subsidy and related supplements, via a special appropriation, for its eligible clients with an entitlement to health treatment under the VEA and other legislation administered by DVA. DSS manages the special appropriation for all other eligible aged care residents in Australia. The annual DVA component of the appropriation is based on a calculation of the proportion of DVA-liable clients in residential care from the previous financial year.

1.38 During the course of the audit and up until the AAO changes on 18 September 2013, DVA made monthly reconciliation payments (four months in arrears) to a Human Services bank account (the Nominated Account). The nominated account was linked to the former DoHA ‘sweeping account’ in accordance with the Agreement between DVA and DoHA. As a result of the AAO changes, responsibility for aged care was transferred to DSS. On 20 November 2013, DVA’s Secretary signed drawing rights to allow DSS to undertake a daily draw down of residential care amounts from the appropriation on behalf of DVA, for direct payment to Human Services. Each month DSS provides DVA with residential care payment expenditure, that is, the total payments made by the department for each of its residents.

1.39 Figure 1.4 provides an overview of the steps in the current draw down process.

Figure 1.4: The draw down process for DVA residential care payments



Source: ANAO analysis based on DVA advice.

Aged care policy developments

1.40 On 28 June 2013, legislation relating to the Living Longer Living Better aged care package (Aged Care Reforms) received Royal Assent. The Aged Care Reforms are a comprehensive package intended to reshape the aged care system, at a cost of \$3.7 billion over five years.⁵⁴ From July 2014, a combined income and asset means test will apply for many aged care recipients.⁵⁵ This contrasts with the eligibility arrangements post-March 2008, which introduced the separate income test and income tested fees for most residents, enabling the government to reduce the amount of subsidy paid to the provider, based on the income tested fee amount paid by the resident. The changes also recognise the additional costs associated with certain types of care and service requirements for aged residents such as additional supplements for DVA veterans with mental health conditions accepted by the department or residents suffering from dementia.⁵⁶

Audit objective, criteria and scope

1.41 The objective of the audit was to assess the effectiveness of DVA's administration of residential care payments.

1.42 To assist in evaluating DVA's performance in terms of the audit objective, the ANAO developed the following high level criteria:

- DVA has an effective governance framework;
- DVA's service delivery objectives are clear, well-designed and well-managed; and
- DVA's systems to monitor and report the accuracy of residential care payments and performance are effective.

54 Australian Government, *Budget at a Glance: Aged Care Reforms*, Australian Government, Canberra, May 2012, pp. 1–3, available from <<http://www.health.gov.au/internet/budget/publishing.nsf/Content/budget2011-glance.htm>> [accessed 11 April 2014].

55 Department of Health and Ageing, *Living Longer Living Better: Aged Care Reforms in Action* [Internet], DoHA, Australia, 27 June 2013, available from <<http://www.livinglongerlivingbetter.gov.au/internet/living/publishing.nsf/Content/Proposed-Legislative-Changes>> [accessed 31 October 2013]. This initiative is intended to address the issue of asset-rich, income-poor residents paying for all of their accommodation and nothing for care, and income-rich, asset-poor residents paying for their care but not for accommodation.

56 Department of Health and Ageing, 'The Dementia and Veterans' Supplement in Aged Care', DoHA, Canberra, 2013, p. 1.

Audit methodology

1.43 The ANAO examined key documents including those establishing governance frameworks, Repatriation and Military Commission submissions⁵⁷ and business arrangements with government stakeholders. Key personnel from DVA, the former DoHA, DSS and Human Services were also interviewed, as were some residential care providers and ex-service organisations. A sample of income support cases of DVA clients in residential care by each state was examined, involving 300 electronic records and 150 paper client files.

1.44 The ANAO reviewed approximately 100 completed ACA forms in DVA's Queensland and New South Wales state offices and examined data error reports that are generated in the data exchange process between Human Services and DVA. The ANAO also undertook a detailed examination of relevant reviews, performance and quality assurance reports and internal audit reports related to residential care issues in DVA, the former DoHA and Human Services.

1.45 The focus of this audit is on DVA's administration of residential care payments for recipients under the VEA.⁵⁸ The audit did not examine community and flexible care services.⁵⁹

1.46 There are some SRCA and MRCA clients living in residential care facilities with no entitlement for a health treatment card but who require 24 hour nursing care because of their injuries.⁶⁰ Victoria Cross Recipients and former Prisoners of War in residential care facilities are entitled to have the cost of their basic daily fees paid by DVA through prior financial approval. Similarly, DVA reimburse the residential care providers directly for the associated costs of the care of the MRCA and SRCA veterans. As these client groups were not subsidised under the Australian Government's Residential Care Program, their residential care arrangements were not examined as part of the audit.

57 DVA's day-to-day activities are directed by two Commissions—the Repatriation Commission and the Military Rehabilitation and Compensation Commission. The Commissions delegate their powers to DVA to grant pensions and benefits, and provide health treatment and other services to eligible clients.

58 The samples tested by the ANAO did not contain any MRCA clients. The audit focus is on income support recipients under the VEA.

59 Three main service streams make up the Australian Government's aged care system—community care, flexible care and residential care.

60 DVA advised that there are less than 100 clients in these groups in residential care—DVA advice to the ANAO, 21 and 22 November 2013.

Structure of the report

1.47 The report is in four parts—Chapter 1 introduced the audit topic and the remaining three chapters are reflected in Table 1.6.

Table 1.6: Report structure

Chapter	Title
Chapter 2	Asset Testing and Income Assessments
Chapter 3	Integrity of Residential Care Data
Chapter 4	Governance, Reporting and Review

2. Asset Testing and Income Assessments

This chapter examines the effectiveness of DVA's administration of aged care asset testing and income assessments and related decision-making processes to determine client eligibility for Australian Government subsidies towards the cost of their residential care.

Background

2.1 The Aged Care Act and subsidy principles provide authority for DVA to conduct aged care asset and income testing, referred to internally as ACAs, to determine client eligibility to receive Australian Government subsidies towards the cost of their residential care.

2.2 The key activities performed by DVA under the enabling legislation and the Agreement with DSS are to:

- collect evidence to conduct ACAs to determine a client's net assets⁶¹;
- assess a client's total assessable income and provide the information to DSS to determine the level of aged care fees and/or eligibility for financial hardship assistance⁶²;
- apply net asset determinations that categorise and advise clients, within certain asset thresholds, the classification of their 'aged care resident status'; and
- provide client ACA information to Human Services to calculate the maximum fees and charges payable by clients and notify clients and residential care providers of the outcome once they have entered residential care.⁶³

61 DVA collects evidence from clients that submit a 'Permanent Residential Aged Care: Request for an Asset Assessment Form'. Department of Health and Ageing, *Information Booklet: Permanent Residential Aged Care: Request for Assets Assessment*, DoHA, Canberra, March 2013, p. 3.

62 Department of Veterans' Affairs, 'Business Partnership Agreement between the Department of Veterans' Affairs and the Department of Health and Ageing 2010–2013', DVA, Canberra, July 2010, Schedule 1, paragraph 1.3.

63 Department of Veterans' Affairs, 'Businessline: Residential Aged Care: Changes to Fees and Subsidies', DVA, Canberra, 31 March 2008.

2.3 ACAs are also conducted by Centrelink Services for the general population who are considering entering, or have entered aged care. Centrelink Services' work in this area forms the majority of all ACAs conducted by the Australian Government each year. During 2012–13, Centrelink Services reported the receipt of 42 608 requests for resident status asset assessment determinations, compared to 9935 requests received by DVA.⁶⁴

2.4 An ACA provides a snap shot of a pensioner's net assets at a particular point in time.⁶⁵ ACAs are used to determine the applicant's eligibility for the cost of their care to be subsidised by the government and the level of aged care fees they will be required to pay. At the completion of an ACA, information regarding a client's total net asset amount, aged care resident status determination outcome and total assessable income amount is electronically uploaded into the data file⁶⁶ and transmitted to Human Services, to calculate the maximum fees and charges that a client is required to pay on behalf of DSS.⁶⁷

Legal delegations

2.5 The legality of decisions made by an agency is affected if decisions are not made under the legal authority of an authorised person.⁶⁸ Under the Aged Care Act, the Secretary of DSS (formerly the Secretary of DoHA) can delegate his/her powers and functions to Secretaries of other departments, who can in turn sub-delegate legal authority for agency officials to conduct aged care resident status determinations to determine a client's eligibility for the cost of their care to be subsidised by government. On 17 November 2011, the Secretary of the former DoHA provided written delegation to the Secretary of DVA for this purpose.⁶⁹ However, DVA could not provide the ANAO with evidence that these powers were sub-delegated to DVA staff from 17 November 2011 until 14 October 2013. In the absence of legal delegations necessary for DVA staff to validly exercise power to perform decision-making

64 Department of Veterans' Affairs, 'DoHA Aged Care Report: Performance by DVA 2012–13', DVA, Canberra, 16 August 2013.

65 Department of Veterans' Affairs, 'CLIK Procedure Library: Aged Care Processing', DVA, Canberra, 10 March 2011.

66 Discussed in paragraphs 3.5–3.12.

67 *ibid.*

68 Administrative Review Council, *Decision Making: Lawfulness*, Better Practice Guide Number 1, ARC, Canberra, August 2007, p. 1, available from <http://www.arc.gov.au/Documents/ARC+Best+Practice+Guide+1+Lawfulness.pdf> [accessed 11 April 2014].

69 Legal delegations were subsequently issued by the Departmental Secretary on 14 October 2014.

functions⁷⁰ under the Aged Care Act, risks arise in respect to the legal basis of affected decisions during this period. Further, as at December 2013, DVA staff delegations published on the department's Intranet were out-of-date and incomplete.

2.6 The ANAO reviewed a sample of ACAs, completed by DVA during 1 January 2012 to 30 June 2013, to assess whether legal delegations were in place for DVA staff to exercise their powers and functions under the Aged Care Act. The ANAO found that in respect of the ACAs that it examined, DVA staff did not have an appropriate delegation in place for these functions.⁷¹

2.7 On 4 March 2014, DVA advised that it had drafted 'a short process document' to establish a process for following up with affected business areas when changes occur that may affect aged care delegations, such as a change in the responsible Secretary for administering the Aged Care Act. However, in light of the audit findings and to facilitate the effective ongoing management of delegations, the department should establish and maintain a delegations register to provide the necessary assurance that DVA staff are provided with validly-made delegations.

Recommendation No.1

2.8 To provide assurance that officials of the Department of Veterans' Affairs (DVA) have valid delegations under the *Aged Care Act 1997*, and to facilitate the ongoing management of delegations, the ANAO recommends that DVA establish and maintain a central delegations register.

DVA response:

2.9 *The Department agrees with this recommendation. Maintenance of business (non financial) delegations is the responsibility of the Principal Legal Advisor (PLA). Information about all delegations (financial, business and HR) is currently maintained in the DVA intranet, accessed via a central delegations webpage. Having considered the issues raised in this audit, the PLA has confirmed the need to establish a centralised*

70 DVA advised that it was operating under old 2008 sub-delegations for asset testing and 2009 sub-delegations for income testing. DVA subsequently advised the ANAO that the former DoHA had issued 'an instrument of sub-delegation in relation to DVA in November 2011', but there was 'no evidence of transmission of this instrument to DVA and as such, no new delegations were issued at the time'.

71 The activities conducted under the Aged Care Act by DVA staff related to powers and functions to conduct resident status and asset value determinations (section 44–8 AA); the requirements for making an assets determination, timeframes for notification and how long determinations will remain in force (section 44–8 AB); and the reconsideration of reviewable decisions (sections 85–4 and 85–5).

register of all business delegations, including those that rely on delegations provided by Ministers or Secretaries external to DVA. There is also a need to ensure delegations are amended promptly when required, such as when there are changes to the Administrative Arrangements Orders, Machinery of Government changes or a change of Secretary for the Department. To address these issues, a business delegations register will be included on the relevant intranet page, along with the protocol which details roles and responsibilities where changes to external agencies have a flow on impact for DVA delegations. Responsibility for coordinating action in accordance with this protocol and to maintain the business delegations register will be held by the Director, Legislation and Instruments.

Decision-making practices

2.10 An ACA determination for a client, tests and assesses a client's net assets at either:

- the time of the assessment (if the timing is prior to entry into residential care); or
- the date of entry into care (if the assessment is being conducted after a client has entered care).⁷²

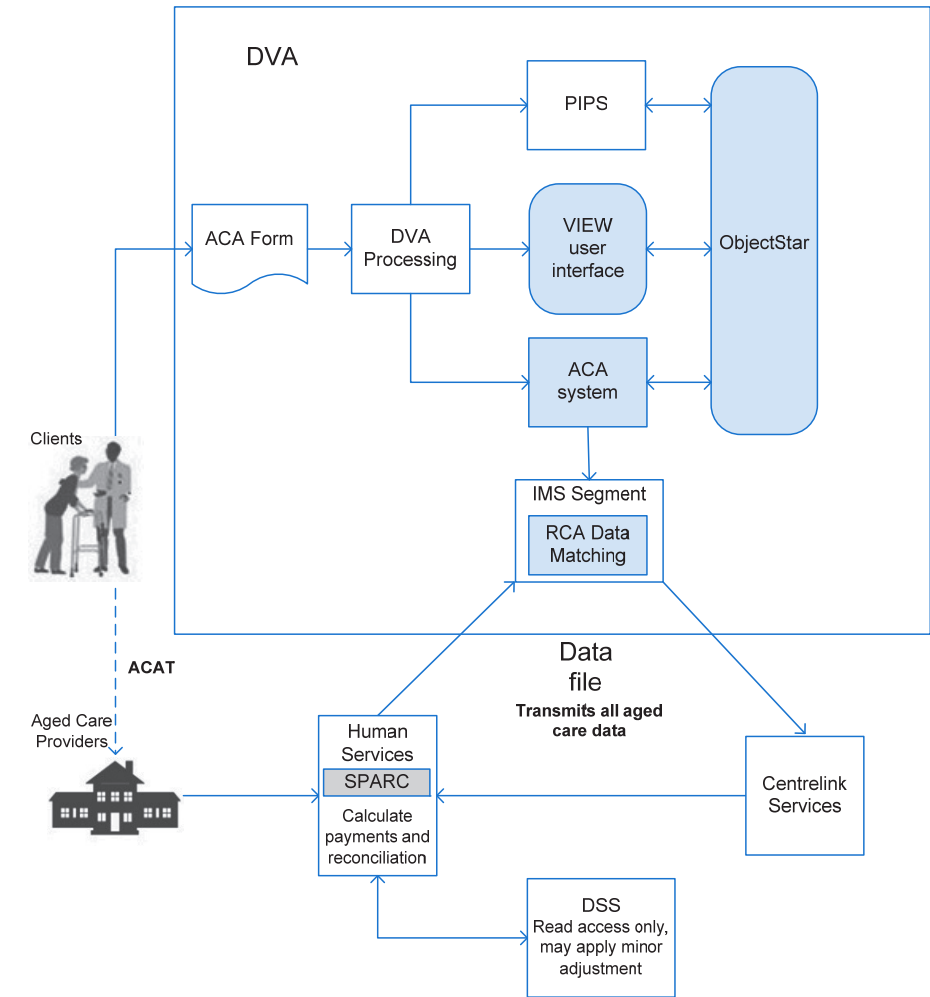
2.11 When conducting an ACA, DVA staff are also required to update client pension entitlement information, such as income support payments received under the VEA. As a consequence, DVA refers to staff as wearing 'two hats' when performing ACAs because multiple decisions are made under the VEA to update pension assessments to accurately reflect the current circumstances of the client, and the Aged Care Act. DVA staff performing decision-making activities under both Acts must apply different rules on the treatment of asset types. For example, the ownership of a home is not included in the asset test for pension purposes, whereas, unless certain rules are met, it is included in the net assets test under the Aged Care Act. Furthermore, when clients enter residential care other VEA processes may be affected, such as clients changing to a single rate of pension if their living arrangements are no longer defined as a member of a couple.⁷³

72 Aged Care Act 1997, sections 44-5B, 44-7 and 44-8; and Residential Care Subsidy Principles, section 21-5A.

73 This situation can arise when one member of a couple enters care, and they are considered to be separated for pension payment purposes. Each person is entitled to receive a single rate of pension, as opposed to a couple pension rate, which is a lesser amount.

2.12 DVA has established complex Information Technology (IT) systems and information flow arrangements to support its internal assessment, decision-making and administration of aged care payments. Figure 2.1 shows the IT system information flow arrangements.

Figure 2.1: IT system information flow arrangements



Source: ANAO analysis based on DVA and DoHA process maps.

Obtaining evidence

2.13 DVA employs a Request for an Assets Assessment (ACA application form) to collect information from clients which is used to assess net asset levels and apply resident status determinations that categorise clients within defined asset thresholds.

2.14 Alongside the information provided by clients in the ACA form, DVA's Agreement⁷⁴ with DSS provides for other information sources to inform its decision-making on net assets and resident status determinations:

DVA will take account of ... subsequent information provided by the person, information already held by DVA for the purpose of determining eligibility for an income support payment (if appropriate, with consent), and through verification by third parties, e.g. the Australian Valuation Office.⁷⁵

2.15 In June 2010, DVA issued guidance to staff after 'it ... became apparent that the extent of examination being undertaken for aged care asset assessments is inconsistent across [DVA state offices] and between individual staff'.⁷⁶ The guidance was intended to align DVA's asset determination processes more closely with Centrelink Services', with the goal of promoting a more consistent approach to evidence gathering and directing staff to use client information already contained in DVA's systems, rather than conducting lengthy investigations.⁷⁷

2.16 In particular, the guidance explained that the practice of using evidence previously obtained from clients within the last two years (known as the two year rule)⁷⁸ must be adopted because of 'very short targets' in which to process ACA applications and that ACAs should not be processed as compliance exercises. For example, ACAs were not to be conducted using the same approach as fraud and compliance investigations, which are used by agencies to examine the accuracy of client information and eligibility to receive payments from the Australian Government.⁷⁹

2.17 Whilst DVA does not view ACAs as a compliance exercise, it is important that the process produces accurate decisions that reflect the circumstances of clients at the time of each decision and as intended by the

74 The Agreement is discussed in Chapter 4.

75 Department of Veterans' Affairs, 'Business Partnership Agreement between the Department of Veterans' Affairs and the Department of Health and Ageing 2010–2013', DVA, Canberra, July 2010, Schedule 2, paragraph 3.1.1. In January 2014 the Australian Government announced that the AVO would close on 30 June 2014.

76 Department of Veterans' Affairs, 'Minute: Reviewing Client Information for Aged Care Asset Information', DVA, Canberra, 24 June 2010, p. 1.

77 *ibid.*

78 The two year rule involves using information previously submitted by DVA clients (within two years of conducting an ACA) originally submitted for pension purposes, as evidence for making ACA decisions under the Aged Care Act.

79 DVA also identified that 'if there are problems with the data [relating to client information] in [DVA's] system the client has the option to have the aged care assessment corrected' after the completion of an ACA. Department of Veterans' Affairs, 'Minute: Reviewing Client Information for Aged Care Asset Information', DVA, Canberra, 24 June 2010, p. 2.

Aged Care Act. Producing accurate decisions will also limit further information demands being placed on DVA resources and its clients, particularly for elderly clients facing the life changing decision to move into permanent residential care.

2.18 The ANAO was informed by DVA staff responsible for processing ACA application forms that the relevant form⁸⁰ is problematic because it states that if the applicant currently receives an income support payment from either DVA or Centrelink, and the agency already has their asset details, unless the applicant needs to advise of any changes:

... you do NOT need to complete this section ... you only need to answer those questions ... where you need to give new information ...⁸¹

2.19 DVA staff advised that these instructions are confusing for applicants and result in clients not providing current documentary evidence of their financial circumstances at the time of their application. DVA staff also advised that confusion among clients often results in insufficient information being provided by clients, for a decision to be made. The interplay of insufficient client information and DVA's application of the two year rule means that ACA decisions can be based on information that may be up to three years out-of-date. The ANAO's examination of 150 ACA files⁸² identified inconsistencies in: client responses to requests for information using Section E of the ACA application form; and DVA decision-makers' responses to receiving incomplete client information.

2.20 Table 2.1 identifies examples of cases that highlight the types of issues identified by the ANAO and the potential for existing processes to result in the collection of inconsistent and incomplete responses from clients.

80 In particular, Section E of the form.

81 Department of Health, *Request for an Assets Assessment*, Section E, Other assets, DoH, Canberra, August 2012, p. 17.

82 The 150 ACA files were randomly selected for examination from a larger proportional sample (of decisions made by DVA across different states and territories) out of a total of 300 ACA decisions made over an 18 month period, from 1 January 2012 to 30 June 2013.

Table 2.1: Inconsistent and incomplete client and DVA responses to asset assessment requests

Examples of inconsistent responses to section E of the request for an asset assessment form
The client indicated that they did not need to provide updated information to DVA, yet information of a deposit with a financial institution of \$30 388, with a share of 100 per cent of the deposit was provided. However there is no evidence on file that a proof of bank balance amount was submitted with the application form.
The client indicated that they did not need to provide updated details of deposits in a financial institution. However the client chose to provide further information about their financial circumstances of a \$40 000 bank deposit with a share ownership of 50 per cent. The DVA decision-maker included the amount of \$40 000 and not \$20 000 as indicated by the client. A minute on file shows that the decision-maker spoke with the client regarding the deposit amount. However, there is no explanation of the treatment of the evidence in relation to the percentage of ownership of the asset. The decision-maker's ACA report does not record the decision, home owner test or asset test outcomes.
Two ACAs were completed in the Veterans' Information Enquiry Window (VIEW) by DVA staff—the first was authorised on 13 March 2012 and was rejected because of insufficient information provided by the client. The client indicated at Section E of the form that they did not need to provide updated information to DVA. DVA then wrote to the client on 13 March 2012 asking for the client to contact DVA within 28 days via telephone, as the client had not been reviewed by DVA within the last two years. There are post-it-notes and an incomplete file note indicating that the client made contact and asset information was obtained. However, the basis of the decision to grant a resident status determination of fully supported is not clear and is poorly documented. The decision-maker's ACA report is missing key information such as the decision of the aged care resident status outcome.
An aged care resident status determination was made on 30 March 2006. In a subsequent request for an asset assessment on 7 January 2013 the client indicated that they did not need to provide updated information to DVA. The previous information provided by the client in 2006 may have been used to complete the later 2013 assessment. There is no other evidence relating to the later assessment.

Source: ANAO analysis of 150 client files sampled from 300 DVA aged care resident status decisions.

2.21 The inconsistent and incomplete responses identified in Table 2.1 demonstrate the potential difficulties and complexity involved in collecting factual and up-to-date information which can be relied upon for decision-making.⁸³ Effective follow-up and record-keeping by DVA staff is necessary for the proper administration of the ACA process and to comply with the Aged Care Act, and the ANAO's sample indicates that there is scope for improvement in the collection of client information.

⁸³ Under the Aged care Act, the value of a person's assets must be determined at the time 'specified in the determination' (section 44–8AB) or on the day the person 'entered the residential care service' (section 44–5A).

2.22 Where clients do not fully complete an ACA application form, DVA has put in place a procedure designed to ‘stop the clock’ in terms of the measurement of the time taken to process requests.⁸⁴ The procedure allows clients to provide a fully completed application within 28 days of their initial request for an assessment, if they are advised in writing that further information is required. In 2010, DVA enhanced its ACA system so that it could identify applications requiring further information and to register the date that completed applications are subsequently received.⁸⁵

2.23 DVA staff advised the ANAO that there is a lack of consistency across processing teams when processing applications with insufficient client information. For example, staff identified instances when they incorrectly applied the ‘stop the clock’ procedure to seek certified copies of power of attorney documents which are not required under the Aged Care Act but are required for pension assessment purposes under the VEA. The ANAO’s analysis shows that during 2012–13, 40 per cent of all ACAs (out of almost 10 000) were put on hold because clients had not provided a complete application, or the client’s circumstances had not been reviewed by DVA for over two years prior to their application.

2.24 In light of the high incidence of clients providing incomplete ACA applications to DVA, it would be beneficial for DVA and DSS to reconsider the design of the ACA form, with a view to reducing ambiguity for applicants and improving DVA’s compliance with the Aged Care Act and the quality of its decision-making. In its 28 May 2014 response to this audit, DSS acknowledged that the:

Current administrative difficulties as they relate to the capture of client information could be addressed in part by improvements to the ACA application form. DSS further notes that the ACA application form is in the process of being amended as part of the implementation of the 1 July 2014 Aged Care Reform measures and will include improvements to the way that information is captured from applicants as agreed by DSS, DHS and DVA.

84 Department of Veterans’ Affairs, ‘Aged Care Asset Assessments: Requesting Further Information’, DVA, Canberra, March 2011; and DVA, ‘Aged Care Assessments: Form Incomplete’, DVA, Canberra, June 2010.

85 Guidance was also issued to staff to improve their performance and ensure they followed the correct procedures. Department of Veterans’ Affairs, ‘Aged Care Assessments: Form Incomplete’, DVA, Canberra, June 2010, p. 1.

Risk management and collecting information

2.25 The ANAO examined the business plans for 2011–12, 2012–13 and 2013–14 of DVA branches that have a key role in residential care service delivery, to consider their assessment and treatment of program risks.

2.26 As previously discussed, the ANAO identified the absence of sub-delegations over a two year period, relating to aged care status determinations. An effective risk management process would have identified and treated risks relating to the program's delegation structure as a matter of course, and DVA should review its approach to identifying and treating business-level risks in the context of the department's Risk Management Framework.⁸⁶

2.27 During the course of the audit, DVA developed a document intended to mitigate specific risks relating to aged care administration—the Process Overview: Risk Assessment and Control document, which included information in relation to ACAs and the two year rule. The Process Overview shows that DVA assessed that once the relevant control and mitigation strategies were in place, the residual likelihood of the risk relating to aged care administration was remote, the consequence was minor and the overall risk was low.

2.28 The Process Overview recognises the risks related to capturing information at a 'point in time' of a client's financial situation. A further, related risk arises from DVA's current practice of applying the two year rule because there is a risk that clients may enter aged care on the basis of a resident status determination that is out-of-date and up to three years old. For example, a three year period attached to the currency of asset information provided by a client would eventuate if the two year rule was applied and the client entered care at the end of the twelve month lapsing period from when a resident status determination was made.⁸⁷

2.29 Given the potential risks arising from the application of the two year rule, it would also be beneficial for DVA and DSS to review the agreed practices outlined in their written Agreement regarding the currency of information

86 The ANAO received advice from DVA on 28 May 2014, that the department is revising its Risk Management Framework, with the intention of including clear and documented roles and responsibilities for all levels of risk management activity.

87 In contrast, at the completion of pension outcome assessments, DVA informs clients that they are obligated 'by law to tell [DVA] within 14 days ... if [they] gain or dispose of any assets'. For example, this advice is provided in correspondence to clients about their pension entitlements, at the time of asset testing and income assessments to determine residential aged care residential status.

received from clients to make ACAs.⁸⁸ Evidence gathering practices should be aligned with the intent of the Aged Care Act and subsidy principles, which specify that ACAs must capture a client's assets at either the time of the assessment (if clients have not yet entered care); or the date of entry of a client into care.⁸⁹ Further, a review would provide DVA with assurance that relevant requirements under the Aged Care Act are being adhered to, in anticipation of the implementation of the Aged Care Reforms from July 2014.⁹⁰

Recommendation No.2

2.30 To improve compliance with the *Aged Care Act 1997* (the Act) and the quality of decision-making by the Department of Veterans' Affairs (DVA) under the Act, the ANAO recommends that DVA:

- accurately capture and document the client's current circumstances as required by the Act; and
- consistently document its decisions including the client information that informs these decisions.

DVA's response:

2.31 *The Department agrees with this recommendation. As part of the introduction of new ICT systems and business processes supporting the aged care reforms, DVA is redeveloping its procedural and systems guidance for staff. This will also provide an opportunity to reinforce consistent evidence gathering and recording practices amongst processing staff. The connection between accurate assessment of client circumstance and subsidy entitlement will be emphasised in the new procedural and training material, and specifically reinforced by the issue of written management instruction.*

Eligibility of DVA clients to receive aged care subsidies

2.32 The department's arrangements to determine the eligibility of its clients to receive residential care subsidies funded by the Australian Government involves DVA: determining a client's entitlement to health care funded by the

88 On 28 May 2014, DVA advised the ANAO that this matter had been noted for discussion at its next meeting with DSS on the negotiation of a new agreement for residential care service delivery.

89 Aged Care Act 1997, sections 44–5B, 44–7 and 44–8; and Residential Care Subsidy Principles, section 21–5A.

90 For example a combined income and asset means test will apply for many aged care recipients when the Aged Care Reforms are implemented. This will affect how evidence will be used to determine ACAs.

department under legislation administered by DVA, a key criterion of which is to be a veteran and have qualifying service; issuing a gold or white health treatment card to eligible veterans/clients signalling their entitlement to receive health care funded by DVA; and applying the provisions of the Aged Care Act to assess the level of residential care subsidy the client is eligible for, based on their assets.

2.33 DVA advised that the key control for determining eligibility of its clients for their health care to be funded by the department (including residential care subsidies for eligible clients) was whether a client has been allocated a gold or white health treatment card.⁹¹ The ANAO's analysis of the sample of 300 ACAs recorded in VIEW identified 31 clients in receipt of residential care subsidies funded by DVA, who had not been granted either a white or gold health treatment card. There would be benefit in DVA revisiting the eligibility of the 31 clients identified by the ANAO to assess whether the correct eligibility criteria have been applied.⁹²

2.34 Further, DVA advised the ANAO on 29 April 2014 that it has paid the residential care subsidies for certain white card holders who may be ineligible to receive residential care subsidies. The department has estimated, following testing in April 2014, that overpayments for this group were \$10.2 million from July to November 2013.

Time taken to process resident status determinations

2.35 As previously discussed, guidance provided to DVA staff in June 2010 identified the need for improvement in the way that evidence is collected and used to make ACAs. A key component of that guidance related to consistency in processing times:

This inconsistent approach has led to disparities in time taken to process [investigations] across locations as some staff are conducting lengthy reviews while others are processing the assessments based on the information currently within our systems.⁹³

91 DVA has in place complex arrangements and controls to identify the eligibility of its clients for health treatment cards, including data matching.

92 The ANAO brought these cases to DVA's attention on 28 February 2014. The department advised the ANAO on 28 May 2014 that the 31 cases are being reviewed.

93 Department of Veterans' Affairs, 'Minute: Reviewing Client Information for Aged Care Asset Information', DVA, Canberra, 24 June 2010, p. 2.

2.36 The length of time taken to process resident status decisions has implications for both the efficiency of DVA's operations and the agreed performance standards contained in the Agreement between the former DoHA and DVA, which specifies that certain categories of decisions must be completed within target timeframes.

2.37 Table 2.2 identifies the agreed performance standards and results for 2012–13 for Time Taken To Process (TTTP) and completed ACAs for different customer categories.

Table 2.2: Performance for completing asset assessments

Pension category	Client status	Agreed target timeframe	DVA performance 2012–13
Single/Partnered	Non homeowner	3 working days	<ul style="list-style-type: none"> • 4043 finalised • 21 per cent not processed within target timeframe
Single/Partnered	Homeowner—home exempt from assets assessment	8 working days	<ul style="list-style-type: none"> • 2471 finalised • 12 per cent not processed within target timeframe
Single/Partnered	Homeowner—valuation correct—no exemptions	3 working days	<ul style="list-style-type: none"> • 219 finalised • 24 per cent not processed within target timeframe
Single/Partnered	Homeowner—Australian Valuation Office (AVO) valuation required—no exemptions	14 working days	<ul style="list-style-type: none"> • 3121 finalised • 6 per cent not processed with target timeframe
Single/Partnered	Homeowner—verification of exemptions required—AVO valuation required	14 working days	<ul style="list-style-type: none"> • Data not available
Single/Partnered	Homeowner exemptions being sought—eligibility of a carer or close relation for payment of an income support payment to be assessed	28 working days	<ul style="list-style-type: none"> • Data not available
Non-income support recipients	Homeowner status as for Single/Partnered above	3–14 working days	<ul style="list-style-type: none"> • Data not available
Non-income support recipients	Interest in a business, company or trust	Up to 70 consecutive days	<ul style="list-style-type: none"> • Data not available

Source: DVA, 'Business Partnership Agreement between the Department of Veterans' Affairs and the Department of Health and Ageing 2010–2013', DVA, Canberra, July 2010, paragraph 3.6; and DVA 2012–13 performance data.

2.38 DVA advised the ANAO that it could report on some of the TTTP categories, but not the last four identified in Table 2.2, because the categories cannot be identified and extrapolated from DVA's IT systems. In the areas where DVA can report on performance standards, TTTP targets not met during 2012–13 within agreed timeframes ranged from six per cent to 24 per cent. The ANAO also identified cases that were completed well outside nominal TTTP targets. These ACA decisions, made between October 2012 and October 2013, involved: five decisions that took longer than 300 days to finalise; 13 decisions that took between 102 and 189 days to finalise; and two decisions that took between 92 and 98 days to finalise.

2.39 In addition to specifying TTTP performance targets, the Agreement between DVA and the former DoHA provides that 95 per cent of all requests for an asset assessment are to be met within specified timeframes. DVA is also required to report to DSS on its performance through monthly management information reports.⁹⁴

2.40 DVA has provided regular management information reports to the former DoHA on the number of assessments not completed within the target timeframe of 95 percent. In 2012–13, DVA reported that 14 per cent of all asset assessments did not meet processing timeframe targets, which is an improvement from the 17 per cent shortfall against the targets reported in 2011–12.⁹⁵

2.41 DVA advised the ANAO that it has never met the TTTP targets specified in its Agreement with DoHA/DSS. The department indicated that whilst there have been some months when TTTP performance has improved, performance has been affected by resourcing constraints, even though experienced staff have performed the assessments. DVA also advised that it had never received feedback from the former DoHA, about its difficulty in meeting the TTTP targets or its ability to only report on a reduced number of the targets due to system limitations. In May 2010, DVA had identified internally that:

94 Department of Veterans' Affairs, 'Business Partnership Agreement between the Department of Veterans' Affairs and the Department of Health and Ageing 2010–2013', DVA, Canberra, July 2010, paragraphs 4.1–4.5.

95 Department of Veterans' Affairs, 'Minute: Management Information Report–Residential Aged Care Assets Testing', DVA, Canberra, June 2013, 16 August 2013.

The reporting requirements for Asset Testing are numerous and in some [cases] a number of data items that DoHA want us to report on are not currently tracked in our systems. To obtain some of the information may require additional processing steps at the front end and/or changes to our systems to enable data collection.⁹⁶

2.42 In DVA's regular management information reports to the former DoHA for 2011–12 and 2012–13, it reported to DoHA that it was not able to provide performance information on a number of the performance targets including: priority cases; the number of verifications of customer details undertaken in relation to home exemption requests; and the total number of claims for home exemptions involving verifications in respect of a carer or close relative who is eligible for, but not currently receiving, an income support payment.⁹⁷

2.43 In October 2013, in the final review for 2012–13 of the Agreement with DoHA/DSS, DVA indicated the difficulties in meeting the performance targets under the Agreement⁹⁸; a positive first step in addressing DVA's performance reporting difficulties. There would be benefit in DVA and DSS considering options for the revision of expectations if the agreed targets cannot reasonably be met.⁹⁹

96 Department of Veterans' Affairs, 'Aged Care Issues Paper: Income Support Managers Conference', DVA, Canberra, May 2010, p. 16.

97 Department of Veterans' Affairs, 'Management Information Report: Residential Aged Care Assets Testing 2011–12 and 2012–13', DVA, Canberra, June 2012 and June 2013.

98 Department of Social Services, 'Business Partnership Agreement Between the Department of Health and Ageing—Department of Veterans Affairs: October 2013–Report', DSS, Canberra, 18 October 2013, Attachment B.

99 DVA advised the ANAO on 28 May 2014 that enhanced systems, to be implemented from July 2014 as part of the Aged Care Reform process, are expected to enable improved scrutiny and reporting capability against overall performance target expectations.

Record-keeping of administrative decisions

2.44 Government decision-making and transparency are enhanced by effective record-keeping:

Full and accurate records should be kept—including copies of documentary evidence, notes of inquiries, findings of fact, and reasoning. The decision maker might not need to give full details of fact finding when notifying the affected person of their decision, but good record keeping will help with providing a fuller justification if challenged.¹⁰⁰

2.45 To assess the effectiveness of DVA's record-keeping in respect of administrative decision-making, the ANAO examined how aged care assessment outcomes and evidence is recorded by DVA.

Aged care assessment decisions

2.46 DVA records aged care assessment decisions in an ACA report, which is populated with key information recorded during the assessment process. The ACA reports list, in summary form: the client's details; outcomes against various assessment criteria (for example whether a client's home is a protected asset and should not be included in the asset total); asset and liability totals; and the aged care resident status decision. A signature and date of authorisation by the DVA delegate is also required.¹⁰¹

2.47 The ANAO examined 150 client files, where it was a requirement for an ACA report to be placed on the client's file, and a targeted sample of 51 aged care resident status decisions.¹⁰² The ANAO identified the following issues:

- 23 ACA reports were incomplete and did not meet record-keeping standards, with some reports missing key decision information such as decisions made by delegates, dates of completed ACAs, information about the application of the home owner and asset test, and delegate decision authorisation dates and signatures;

100 Administrative Review Council, *Decision Making: Evidence, Facts and Findings—Better Practice Guide 3*, ARC, Canberra, August 2007, p. 11, available from <http://www.comcare.gov.au/forms_and_publications/publications/laws_and_regulations/?a=52141> [accessed 11 April 2014].

101 Department of Veterans' Affairs, 'The Fairer Assets Test Users Manual', DVA, Canberra, February 2007, pp. 37–38.

102 The targeted sample of 51 aged care resident status decisions was conducted during ANAO fieldwork at DVA's Sydney and Brisbane offices.

- 18 examples of missing ACA reports, where there was no record of documented decisions by DVA delegates contained in client files;
- 10 examples of incorrect Aged Care Act resident status categories being applied to ACA reports and signed-off by delegates. For example, categories of 'assisted' or 'concessional' that pre-dated the March 2008 Aged Care Act reform rules, whereas the current categories of 'partially supported' or 'fully supported' should have been applied; and
- 46 examples of client files that did not contain the original ACA application forms that clients had submitted to DVA.¹⁰³

2.48 The Aged Care Act and the Agreement between DVA and DoHA/DSS require DVA to provide the outcome of client ACAs in a letter with explanatory attachments, notifying the client of the outcome of the request for an ACA that includes the resident status and asset value determination.¹⁰⁴

2.49 DVA informed the ANAO that copies of the written correspondence provided to clients were not retained either on client files or in hard copy. As a consequence, there is a limited audit trail to demonstrate whether clients were advised of the ACA outcome in writing or evidence of signed and dated decisions. However, DVA further advised and demonstrated to the ANAO that unsigned versions of the letters can be reproduced from its electronic records if necessary.

2.50 Whilst DVA can reproduce unsigned versions of the decision letters it provides to clients, a doubt arises as to whether unsigned correspondence is 'functionally equivalent to original' copies, which is a requirement under DVA's Records Management Policy.¹⁰⁵ Retention of a complete and signed record of original advice letters sent to clients would put the matter beyond doubt and improve the level of assurance in the event of Freedom of Information (FOI) requests, external review and legal discovery processes.

¹⁰³ In relation to the 46 missing client ACA applications, the Aged Care Act specifies that an ACA form must be submitted by a client in order for an asset determination to take place. See *Aged Care Act 1997*, section 44–8AA.

¹⁰⁴ This advice also informs the client that aged care providers do not need to know the value of a client's assets if they are eligible to pay an accommodation charge.

¹⁰⁵ Department of Veterans' Affairs, 'Records Management Policy', DVA, Canberra, May 2013, p. 6.

Documenting evidence

2.51 In the context of the ANAO's analysis of a sample of 150 recent ACAs, DVA advised that five client files requested by the ANAO for review, which should have contained documentation relating to the collection of evidence and decision-making under the Aged Care Act, had been destroyed and were not available for examination. However, under the Aged Care Act, clients have a right of review or reconsideration of decisions including a right of appeal to the Administrative Appeals Tribunal (the AAT), if they are not satisfied with the department's decision. In the absence of any documented material or evidence that was used in the decision-making process for these cases, DVA would have difficulty justifying their decision. This practice is also not consistent with the provisions of the *Archives Act 1983*, which provides that a Department requires permission from the National Archives of Australia to destroy Commonwealth records unless destruction is specified under another piece of legislation.¹⁰⁶

2.52 The ANAO's analysis of DVA's practices in documenting the completion of ACAs found some instances where DVA delegates did not adequately document whether the two year rule was applied in their determinations; or if, and how, further information was obtained to update the currency of information available to DVA for decision-making.

2.53 The ANAO identified 13 instances, out of a sample of 150 client files, where investigations into client circumstances were incomplete and did not document the evidence upon which the decision was based. These instances can be categorised as relating to: clients informing DVA that they needed to update their financial circumstances and DVA not documenting whether the information provided was used for decision-making; or conversely, whether information provided by clients within the last two years was considered adequate for decision-making.

2.54 The ANAO also identified 11 instances where the evidence used to make a decision was poorly documented. In these cases the minutes or hand written notes placed on file did not clearly identify the evidence obtained from clients such as those recorded on post-it-notes. The partial recording of findings of fact on the post-it-notes made it difficult to determine the basis for the decisions that were made by DVA.

¹⁰⁶ Available from <<http://australia.gov.au/people/public-servants/key-legislation-for-public-servants>> [accessed 11 April 2014].

2.55 In one case examined by the ANAO, the ACA report did not record a completion date by the DVA delegate, and recorded an incorrect resident status decision category of ‘assisted’.¹⁰⁷ Debt amounts listed by the client in the assets request form were also crossed out by the DVA delegate with a hand written note stating that ‘all these have been paid prior to lodging this form’, with no record of how this information was obtained or verified.

2.56 DVA staff interviewed by the ANAO recognised that it was a requirement to document evidence collected through direct contact with clients or their nominated representatives. However, the records examined by the ANAO indicate that these requirements have not been consistently applied.¹⁰⁸

2.57 The ANAO identified a range of other record-keeping issues as part of its examination of a sample of 150 ACAs, including:

- multiple resident status determination decisions were recorded in the ACA system for the same clients, and sometimes made on the same day, with no clear explanation as to why the multiple decisions had been made¹⁰⁹; and
- two clients indicated that clarification and correspondence was requested from DVA about their eligibility for benefits, but there was no evidence of a response provided by DVA.

2.58 As discussed, good record-keeping practices involve obtaining and recording evidence that is relevant to, and justifies the decision. Such practices also facilitate internal and external review and FOI and legal discovery processes. The ANAO identified two instances where a client and a client’s representative submitted FOI requests to DVA to access their records and key decision documents were not on file: these included the ACA forms submitted by the clients requesting an aged care asset determination; and the decision-maker’s ACA reports.

107 The ACA report included a residential status decision of pre-March 2008, which under the Aged Care Act applies to residents who have entered (or remained in) residential care before this period; whilst DVA’s ACA system listed the decision as ‘partially supported’ which applies to residents applying for a determination post-March 2008.

108 While decision-makers have targets to meet, most DVA staff indicated that they were not onerous and some staff advised that they achieved more than the required number.

109 From the total population of all ACA decisions made by DVA during 1 July 2012 and 30 June 2013, the ANAO identified 464 duplicated decisions, mostly with two decisions made; 17 instances where three duplicate decisions had been made and one instance where four decisions had been made by DVA delegates.

2.59 There is scope for significant improvement in record-keeping practices relating to ACA decisions by DVA staff. There would be benefit in DVA reviewing the application of its record-keeping requirements and underlining its importance to staff for demonstrating compliance with legislation and departmental procedures and processes.

Review of decisions

2.60 If a client is dissatisfied with a decision made by DVA there are a number of review avenues available under the Aged Care Act or within the administrative law framework. In the first instance two levels of internal review are available: a review by the original decision-maker; and a review by a Service Pension Review Officer (SPRO). If the client remains dissatisfied with a review conducted by an SPRO they are also entitled to appeal to the Administrative Appeals Tribunal (AAT).¹¹⁰

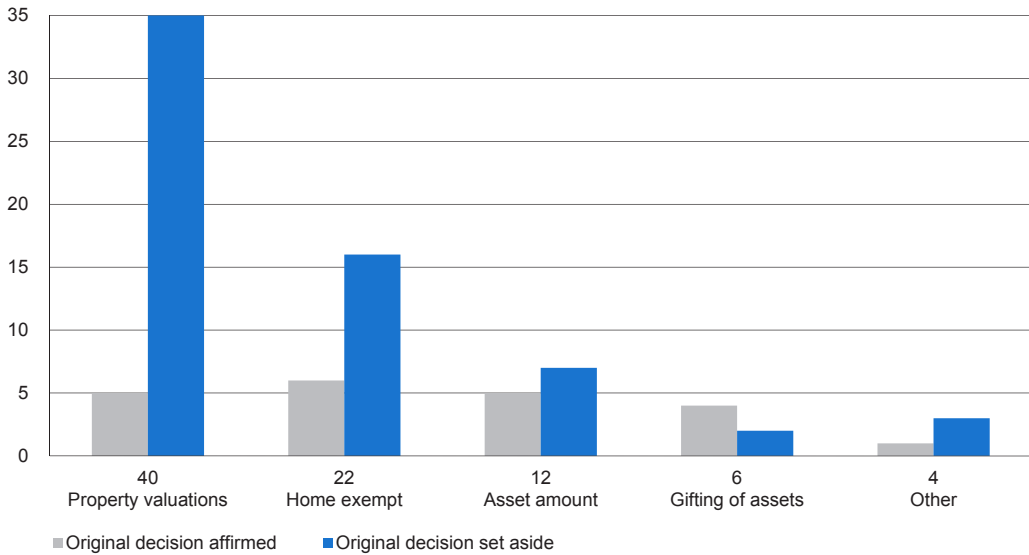
2.61 Alongside review avenues available under the Aged Care Act, for ACA decisions, clients can also seek a review of decisions made in relation to pension entitlements under the VEA; for example when a client's income is assessed and pension entitlements are altered due to a change in the client's financial or living arrangements.¹¹¹

2.62 Figure 2.2 shows that from September 2011 to July 2013, DVA conducted 84 reviews of ACA decisions under the Aged Care Act. Of the 84 reviews conducted by SPROs, 25 per cent of original decisions were affirmed and 75 per cent were set aside. DVA reported to the former DoHA under the Agreement, that no Aged Care Act asset determination reviews have resulted in further appeal to the AAT.

110 The reconsideration of ACA decisions can be made under s. 85–4 of the Aged Care Act.

111 The reconsideration of VEA decisions can be made under s. 57 of the VEA Act.

Figure 2.2: Reviews conducted by DVA September 2011 to July 2013



Source: ANAO analysis of review information provided by DVA

2.63 The most common reason for clients seeking a review were decisions made on the net asset valuations of home property. Of the 40 reviews of property valuations sought in the period examined¹¹², 35 (87.5 per cent) of original decisions were set aside. DVA's current practice of assessing the value of a client's home property is to first seek a client estimate of the value (through information provided in the ACA form) and to then seek an AVO valuation of the property conducted through a desk-top review by the AVO.¹¹³ When DVA clients seek a review of a property valuation used to make an ACA decision, DVA has used the AVO to conduct a more comprehensive valuation of the property, which may involve a site visit to the client's home.

2.64 The overall success rate of customer objections is a potential indicator of the correctness of original decisions made by DVA and the quality of the department's administration. While a small percentage of the total decisions made by DVA staff are formally reviewed, a high number of the reviewed

¹¹² The period of the reviews examined was from September 2011 to July 2013.

¹¹³ If a previous DVA valuation of a home property has taken place within the last two years, then that valuation will be used towards the total net asset amount determined for the client. In January 2014 the Australian Government announced that the AVO would close on 30 June 2014.

decisions are set aside.¹¹⁴ The high number of decisions overturned on review indicates that there would be merit in DVA assessing whether aspects of its ACA decision-making should be re-examined, to reduce the number of decisions set-aside and the related costs.¹¹⁵ A reduction would benefit both clients and the DVA.

Staff training and quality assurance reviews

2.65 Training that provides staff with an understanding of the legal and administrative framework in which they work can assist to improve the quality of decisions.¹¹⁶ Staff that are well-trained and whose work is regularly reviewed against standards will also help DVA meet its legal and Service Charter obligations, which include robust decision-making practices.¹¹⁷

2.66 Staff interviewed by the ANAO stated that there had been limited training on decision-making under the Aged Care Act and that it had been several years since any formal training was provided.¹¹⁸ Staff also stated that regular training may improve consistency in the processing of their decisions under the Aged Care Act and in the effectiveness of processing difficult decisions.

2.67 In a 2012 review of its Rehabilitation and Compensation Learning and Development Framework¹¹⁹, DVA concluded that improvements could be made by: developing a more structured, formal approach to training; introducing a formal accreditation process; greater consultation with the Quality Assurance Team to identify training gaps; allocating time for staff to

114 DVA staff interviewed by the ANAO stated that they will often try and resolve complaints from clients informally and without documenting them, particularly in relation to client concerns around AVO property valuation decisions in aged care assessments. This suggests that considerably more effort goes into resolving property valuation decisions and issues informally than are formally recorded or reported.

115 The issues around property valuations can be complex. Clients have a vested interest in the valuation of their properties because valuation decisions impact their access to government subsidised care and may lead to increased accommodation bonds and charges.

116 Administrative Review Council, *Decision-Making: Evidence, Findings and Fact–Best Practice Guide 3*, ARC, Canberra, p. v.

117 Department of Veterans' Affairs, 'Service Charter', DVA, Canberra, November 2006, p. 2, available from <http://www.dva.gov.au/aboutDVA/publications/corporate/service_charter/Pages/index.aspx> [accessed 11 April 2014].

118 DVA staff have received some training on the introduction of the Aged Care Reforms which are due to be in place by 1 July 2014.

119 The department identified that of 55 surveyed staff, 9.5 per cent had never attended client contact training, 50.9 per cent had never attended administrative law training and 39.6 per cent had never attended claims management training. Department of Veterans' Affairs, 'Review of Rehabilitation and Compensation Learning and Development Framework', DVA, Canberra, November 2012, p. 5.

complete training; and improved communication about the availability of training for staff. The review indicated that a Rehabilitation and Compensation Training Action Plan was developed for implementation in 2012–13.

Quality assurance

2.68 DVA's Quality Assurance Review (QAR) program is an important means to review the accuracy of decisions and provide feedback to staff on performance.¹²⁰ The key objectives of the QAR program are to: provide assurance about the correctness of decisions made by delegates on client entitlements in rehabilitation, compensation and income support under the legislation; provide analysis on error trends (financial and non-financial); share good practice to improve work procedures; and identify potential training needs.¹²¹

2.69 The overall quality measures assessed by DVA in its QAR program are: accuracy and compliance; consistency; coherent communication; and efficiency and effectiveness. A major issue identified by QAR staff who review ACA decisions, relates to clients paying a bond to an aged care facility, which is considered to be an asset for ACA purposes and finding that the amount has not been recorded by the DVA decision-maker, as required under the Aged Care Act. The failure of DVA to record such payments gives rise to problems when determining the level of the client's assets, as bond amounts must be included in an aged care asset determination, and the failure to include bond amounts will lead to a significantly lower assessment of a client's total net assets.¹²² As a consequence clients may pay less in fees while the Australian Government may pay more in subsidies than legislatively provided for.¹²³ QAR findings relating to ACAs for July 2012 to June 2013 also identified instances where asset amounts were incorrectly over, or undervalued for ACA

120 DVA's Income Support Quality Assurance Protocols (the QAR Protocols) document DVA's approach to conducting QARs. These Protocols were developed in response to the ANAO's 2011–12 audit on DVA's financial statements, which found that revisions of QAR Program Protocols could be communicated more effectively.

121 Department of Veterans' Affairs, 'Income Support Quality Assurance Protocols', Version 2.0, DVA, Canberra, June 2013, p. 8.

122 In addition, where a DVA client leaves residential care and a bond has been paid, DVA is required to review the person's income and assets to take account of the funds received.

123 DVA advice to the ANAO, 19 September 2013.

outcomes, which can result in clients paying higher or lower bond or charge amounts than warranted.¹²⁴

2.70 DVA staff responsible for conducting QARs advised that overall, there is a generally lower error rate when the department makes decisions under the Aged Care Act compared to other administrative decisions and that no critical errors for decisions under the Aged Care Act were identified in 2012–13.¹²⁵ DVA reported against Key Performance Indicator (KPI) targets for QARs in 2012–13 and identified that the critical error rate for income support decisions was two per cent, which was lower than the KPI target of five per cent.¹²⁶ The QAR process is, at present, the only formal way for DVA staff to receive feedback about the quality of their decisions. To enhance the quality of decision-making, there would be benefit in DVA decision-makers receiving more regular feedback and oversight from supervisors about the quality and timeliness standards of their work, outside the sample of aged care decisions selected for review by the QAR process.

Conclusion

2.71 Under the Aged Care Act and related subsidy principles, DVA officials can be provided with delegated authority to collect and assess information on clients seeking financial subsidies towards the cost of their aged care. DVA did not have relevant sub-delegations in place for decision-makers for two years. To provide assurance regarding the management of delegations, and to avoid legal risks such as challenges to decision-making, the department should maintain a central delegations register to facilitate the management of delegations. Such an approach is commonly adopted by departments.

2.72 Client information for residential care purposes is mainly captured through ACA applications and pension assessments by DVA staff. Following assessment, information regarding a client's total net asset amount, aged care resident status determination outcome and total assessable income amount is provided to Human Services as part of a regular data exchange process. In its

¹²⁴ The QAR process identified that because some errors were not seen as critical, there was no overall effect on the outcome of ACA assessments. For example, one QAR identified that an overall ACA outcome remained correct regardless of a decision-maker not correctly establishing that a client had a mortgage debt. Department of Veterans' Affairs, 'QUASARS II: Manager's Case Summary Report 2012–13', DVA, Canberra, 18 September 2013.

¹²⁵ DVA advice to the ANAO, 19 September 2013.

¹²⁶ Department of Veterans' Affairs, *Annual Report 2012–13*, DVA, Canberra, September 2013, p. 46.

present form, the ACA application often results in DVA receiving inconsistent and incomplete information from clients, resulting in delays in the assessment process. The current review of the ACA form by DVA and DSS provides an opportunity to address these matters and reduce the risk of ambiguity for applicants. In addition, more regular feedback and oversight from supervisors about the quality and timeliness standards of the work of decision-makers including training, would enhance the quality of decision-making.

2.73 To improve compliance with the Aged Care Act and the quality of decision-making, DVA should use up-to-date client information and consistently document its decisions. Improved record-keeping practices by DVA staff will also facilitate accountability, review and FOI and legal discovery processes. While a small percentage of the total decisions made by DVA staff are formally reviewed, a high number of the reviewed decisions are set aside. There would be merit in DVA assessing whether aspects of its ACA decision-making should be re-examined, as a reduction in the number of decisions set-aside and related costs would benefit both clients and the DVA.

2.74 On 28 May 2014 DVA advised the ANAO that a range of initiatives are underway in preparation for the implementation of the Aged Care Reforms from 1 July 2014, including policy and procedural updates and scheduled training sessions on documenting reasons for decisions.

3. Integrity of Residential Care Data

This chapter examines DVA's administration of residential care payments, including departmental measures introduced to ensure that the data underpinning payments to residential care providers is complete, up-to-date and accurate.

Introduction

3.1 The residential care payments process is complex, relying for its effectiveness on accurate data exchange by the responsible agencies, and the interaction of agency systems to effect payments. As previously discussed, it is important that the electronic records of DVA clients receiving subsidised residential care contain evidence to meet the key eligibility criteria of: the VEA, for pension assessment and health care payment purposes; and the Aged Care Act, for residential care subsidies and daily fee levels.¹²⁷

3.2 An effective data exchange process between agencies provides assurance that: the correct agency accepts responsibility for clients¹²⁸; and the money drawn down for residential aged care is from the correct appropriation and by the responsible agency. The Agreement between the former DoHA and DVA for aged care service delivery also specifies the need for 'accurate and timely data exchange to assist in financial reconciliation and data reporting' in respect of eligible DVA clients residing in an accredited residential care facility, in an Australian Government subsidised place.¹²⁹

3.3 The ANAO examined the effectiveness of the information exchange process between Human Services and DVA.¹³⁰ The ANAO also examined the efficiency and effectiveness of measures intended to assist in the timely identification and correction of DVA data errors in the residential care payment system.

127 See paragraph 3.18 for the interactions that occur between VEA pension assessment information and the Aged Care Act assessments.

128 That is, the correct agency accepts responsibility for those clients in residential care that satisfy the legislative requirements for purposes administered by the agency.

129 Department of Veterans' Affairs, Internal Audit Services, 'Review of Residential Care Payments 2011–12', DVA, Canberra, No. 8, January 2012, p. 1.

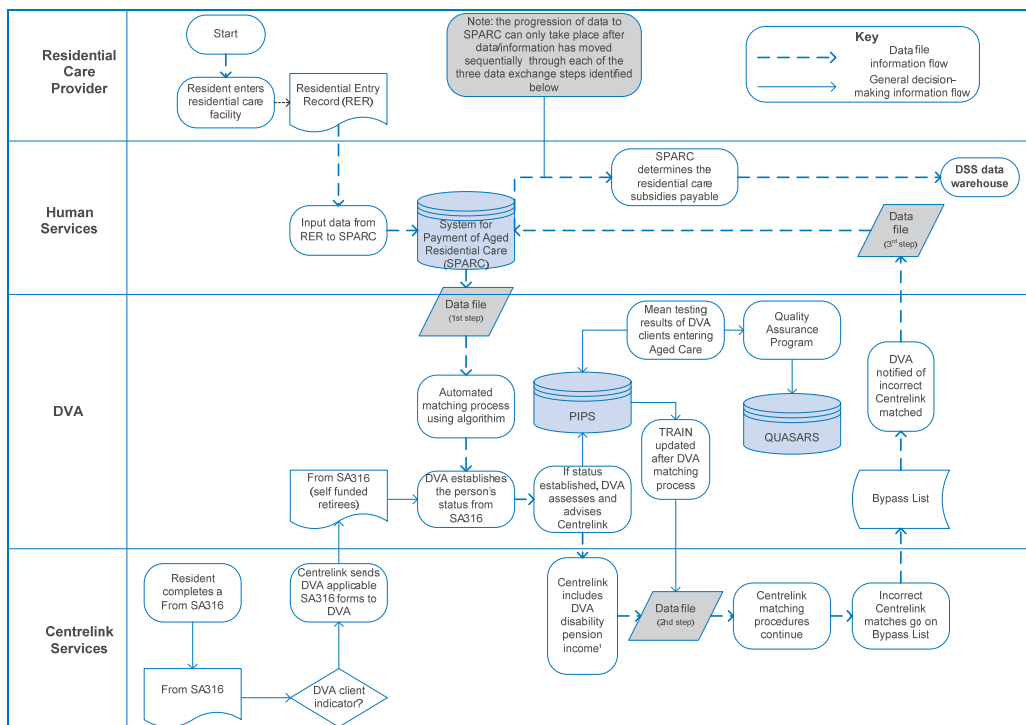
130 As discussed in Chapter 1, paragraphs 1.33–1.34, the residential care service delivery process involves the provision of a daily data file, which is generated from the residential care payment system by Human Services and forwarded to DVA. The data file lists all permanent aged care residents' details and movements in, and out of, residential care on a particular date.

Exchange of information process

3.4 The regular data matching process identifies those aged care residents who are: DVA pensioners; social security pensioners; self-funded retirees; or non-pensioners.¹³¹ The data file interfaces with DVA's systems and the assets and income data exchanged includes DVA's acceptance of a client's eligibility for the government subsidy and their entitlement under the VEA, for DVA to fund the subsidy.

3.5 Figure 3.1 illustrates the matching process and the flow of data between the government stakeholders.

Figure 3.1: Information flows and data exchange



Source: Department of Veterans' Affairs, 'Review of Residential Care Payments 2011–12 No. 8', DVA, Canberra, January 2012, p. 12.

Note 1: Centrelink Services include income assessment for DVA disability pension recipients who do not have Qualifying Service.

Note 2: The data file lists all permanent aged care residents' details and movements in, and out of, residential care on a particular date. SPARC is referred to in this report as the residential care payment system that determines the residential care subsidies paid, based on the data provided by DVA and Centrelink.

¹³¹ Department of Veterans' Affairs, 'Aged Care Reforms, Departmental Instruction: C12/98', DVA, Canberra, 20 March 1998, p. 21.

3.6 In summary, Human Services' Aged Care Program area is reliant on the accuracy of the asset and income information provided by DVA and Centrelink, to accurately calculate the fees and charges to be paid by the resident, and to calculate the subsidies and related supplements to be paid to approved providers, on behalf of eligible residents.¹³²

3.7 DVA advised the ANAO that aspects of the current data exchange process are more complex and inefficient than it would prefer, as the matching process requires information to be drawn from a number of systems in DVA.¹³³ A further source of potential inefficiency arises where residents in care are not identified through the automatic data matching/exchange process.

3.8 The ANAO examined the process for the timely and effective investigation and correction of mismatched data; an important element of maintaining the integrity of departmental information holdings and the residential care payment system.

Investigating and correcting mismatched data

3.9 Once DVA has accepted responsibility for payment of the residential care subsidies and related supplements for a resident, this liability¹³⁴ cannot be changed in the residential care payment system by Human Services or DSS, unless formal advice is received from DVA.¹³⁵

3.10 As summarised in Table 3.1, DVA has independently or jointly with other agencies, implemented a number of measures to manage data errors and mismatches that can lead to incorrect income support pension and/or residential care payments, if not addressed.

132 DVA collects, uses and stores a large amount of information and is reliant on its extensive and complex Information Technology (IT) environment that consists of old heritage and contemporary systems to support its core day-to-day business functions, including determinations for: income support payments under the VEA; and asset testing and income testing under the Aged Care Act.

133 DVA advice to the ANAO, 25 June 2013.

134 Liability relates to which agency is accountable to pay for the government subsidy and related supplements for a particular client.

135 DSS advice to the ANAO, 21 November 2013. In addition, the residential care payment system does not recognise DVA file numbers, making it difficult for Human Services to follow up enquiries from DVA regarding partial matches or mismatched data based on DVA client numbers.

Table 3.1: Initiatives to identify and correct data mismatches

Measures		Strategy overview
1.	Residential Care Allowance (Aged Care) reports	<ul style="list-style-type: none"> The Aged Care reports identify cases that require investigation and follow-up by DVA to ensure: income support assessment data of clients in care is complete, up-to-date and accurate; and residential care subsidies are only paid for eligible clients.
2.	Quarterly reports of DVA liable residents	<ul style="list-style-type: none"> In 2011–12, agreement was reached between the government stakeholders whereby Medicare (Human Services) would provide a quarterly data list of all DVA residents in the residential care payment system that DVA had accepted liability for payment of their government subsidy—DVA was to confirm which clients it is responsible to pay the cost of their care and which clients DSS (the Commonwealth) is liable for. DVA is required to return the quarterly list of client data to Human Services confirming which residents are DVA's responsibility.

Source: DVA and Human Services advice to the ANAO.¹³⁶

3.11 The ANAO examined these key measures designed to correct data errors and anomalies that directly impact on the accuracy of residential care payments as well as pension payments.

Aged Care reports

3.12 The Aged Care reports are designed to ensure income support pension records are updated to reflect any relevant changes from the daily residential care data transmissions. The reports are intended as a key control mechanism for DVA to ensure that data underpinning payments to residential care providers is: complete, up-to-date and accurate¹³⁷; and compliant with the VEA and the Aged Care Act.

3.13 The reports enable DVA to identify, investigate and update the records of income support clients who are not: identified as DVA clients through the data matching process; and correctly or fully matched with DVA records.¹³⁸

¹³⁶ Policy and program documents refer to either DVA as the responsible (liable) agency or the Commonwealth (DSS), and the terms are built into the systems that administer the program.

¹³⁷ A full match occurs on first name, surname, Date of Birth (DoB) and sex. DVA advised that fully matched records can still result in an incorrect match occurring because they can relate to a different person with the same personal details. There are two types of partial matches—a partial match can occur on surname, sex, state, DoB and the first two letters of the first name; or on first name, surname, sex, state and two out of three fields defining the DoB.

¹³⁸ Department of Veterans' Affairs, 'Processing Residential Care Allowance (Aged Care) Reports: Director Claims, Aged Care and Procedures', DVA, Canberra, 10 January 2013.

3.14 Income support business areas in DVA's state offices, responsible for investigating and actioning the Aged Care reports are supported by internal policy instructions and procedures that require all of the reports to be reviewed.¹³⁹ Fundamental checks need to be undertaken by DVA in the first instance to ensure the resident in the data file, is actually the same person as matched with DVA's records.

3.15 The ANAO assessed DVA's compliance with internal and external policies and procedural requirements including departmental instructions relating to the investigation and actioning of the Aged Care reports. The ANAO also reviewed a targeted sample of 51 cases in the Aged Care reports, for the period from June to September 2013, and examined the related pension and aged care case information in DVA's systems.

3.16 The ANAO's analysis of the Aged Care reports indicates that apart from the Queensland and the Tasmanian offices that process one or two of the five reports, none of the DVA state offices fully process all of the reports. Overall, in its administration of the Aged Care reports process, DVA does not fully comply with its internal policies, procedures and departmental instructions, or the provisions of the VEA and the Aged Care Act.

3.17 Table 3.2 provides an example of cases containing data discrepancies identified by the ANAO in each type of Aged Care report and identifies the key risks that require further investigation and corrective action by DVA, to improve the accuracy of both income support pension and residential care payments data.

139 Since March 1998, several departmental instructions and procedures from DVA's CLIK Procedure Library have been issued (or updated) with detailed instructions about actioning the Aged Care reports.

Table 3.2: Case studies from the Aged Care reports

Aged Care report	Discrepancies between client data held in DVA systems and in Human Services' data file	ANAO comments
Report A: Income support clients who have fully or partially matched with DVA records and who have an appropriate residential situation recorded.	<ul style="list-style-type: none"> • The client's records are partially matched in the data file with DVA's records. • The client's DoB was different in both systems. • There was insufficient information in the data file to match with the records held in DVA's systems. • The nursing home category was missing in the data file report. • Dates of admission and entry to residential care were different in DVA's records, compared to those in the data file. 	<ul style="list-style-type: none"> • DVA accepted liability for payment of the government residential care subsidy for this client. • The match was found to be the wrong person. Therefore, DVA is not authorised to pay the government subsidy. • If the correct aged care resident has a larger amount of income than the DVA client, there will need to be a fee adjustment and money recouped from the provider.
Report B: Income support clients who have fully or partially matched with DVA records and who do not have an appropriate residential situation recorded.	<ul style="list-style-type: none"> • The client's records were not in the data file a week after this report was generated. • The ANAO checked for a 'death' notice in DVA's records but none was recorded. • DVA's systems conveyed that the client was still in high level residential care. • The client had not lodged an ACA with DVA. • The client was a homeowner. 	<ul style="list-style-type: none"> • There was insufficient information in DVA's systems to determine the current status of the client.
Report C: Income support clients who are newly admitted to care (or transferred between aged care facilities) and who have fully or partially matched with DVA records.	<ul style="list-style-type: none"> • The client went into high care on 27 September 2013 (according to the data file record). • The client had paid an accommodation bond (according to the data file record). • Pension and deemed income details are in DVA's systems (and recorded in the data file). • The client is not eligible for the government subsidy. • No ACA had been submitted to DVA by the client. • The client is a non-homeowner. 	<ul style="list-style-type: none"> • The client information in the data file and in DVA's records was inconsistent suggesting the wrong client data has been matched and exchanged.

Aged Care report	Discrepancies between client data held in DVA systems and in Human Services' data file	ANAO comments
Report D: Income support clients discharged from residential care who have fully or partially matched with DVA records.	<ul style="list-style-type: none"> • The client was recorded as being in high care in DVA's systems. • The client was discharged 'return to family' from residential care on 6 September 2013 (according to the data file record). • The DOB was different in both the data file and DVA's systems. 	<ul style="list-style-type: none"> • The data had matched with the incorrect client in DVA's records. • DVA had contacted the nursing home to seek confirmation that the client had not actually been discharged. • There were no implications for pension or aged care payments in this case because DVA contacted the facility and confirmed that the client information was incorrect.
Report E: Income support clients who are aged care residents and have matched with duplicate records.	<ul style="list-style-type: none"> • More than one data match occurred with this case in DVA's records. • Two separate DVA files exist for this client in separate states. 	<ul style="list-style-type: none"> • Potential implications in these circumstances exist for DVA pension payments rather than aged care payments. • While the client may or may not be receiving their correct DVA entitlement when multiple active files exist, different types of payments for a client can be split across files and this needs to be investigated to ensure there is only one active file containing the client's correct details.

Source: ANAO analysis of cases in the Aged Care reports A, B, C and E, generated on 4 September 2013, and review of the cases in DVA's systems on 23 October 2013. In addition, the ANAO's analysis of cases in Report D generated on 18 September 2013.

3.18 The ANAO's analysis of the issues in the Aged Care reports, and the case studies in Table 3.2, highlight the ongoing need for DVA to carefully undertake basic checks of each case in the Aged Care reports to confidently establish that the client information held by DVA: relates to the same person whose details are matched with a resident's data in the data file; accurately reflects any changes in the client's address and circumstances; is current and correct in regard to income support pension assessment data (including the recorded details of a partner as it can effect pension amount and other issues); is eligible to receive government subsidised care; and has an entitlement under legislation administered by DVA for the cost of their residential care subsidy and related supplements to be funded by DVA.

3.19 Instructions provided to income support managers in January 2013 highlighted the need for staff to be reminded to follow documented procedures that require each of the Aged Care reports, generated through the data exchange process, to be investigated.¹⁴⁰

Review of residential care payments

3.20 In January 2012, DVA internal audit services completed a review of residential care payments.¹⁴¹ The review did not assess whether the client data exchanged by DVA was accurate. The review identified key areas for improvement by DVA including: identifying and correcting the reported information in all Aged Care reports; improvements to internal procedures to ensure the timely update of client details and the need for a more timely review of the content in all of the Aged Care reports; and outlining the expected timeframes for processing the reports. The review also recommended that a thorough 'data cleanse' be performed by DVA in order to validate the completeness and accuracy of the data provided in the reports. DVA advised the ANAO in December 2013 that the department had not actioned the recommendation for a data cleanse of residential care data, some two years after it was proposed.

3.21 The ANAO suggests that DVA undertake the data cleanse of residential care client data in the Aged Care reports¹⁴², in preparation for the Aged Care Reform changes due in July 2014. These activities would improve the level of DVA's assurance for the completeness, currency and accuracy of its data in relation to residential care payments and income support pensions, for residents in care when the new systems become operational.¹⁴³

140 Department of Veterans' Affairs, 'Processing Residential Care Allowance (Aged Care) Reports', DVA, Queensland, 10 January 2013.

141 The review focused on: DVA's processes and procedures for verifying DVA liable clients on the master file; and the controls in place to ensure that DVA is not paying the government subsidy for non-liaable DVA clients. Department of Veterans' Affairs, 'Review of Residential Care Payments 2011–12', No. 08, DVA, Canberra, p. 1.

142 This would include investigating and resolving data anomalies in the reports and consistently actioning the admissions and discharges reports, to improve the integrity of the data.

143 On 28 May 2014, DVA informed the ANAO that it had commenced the data cleanse of residential care client data in preparation for the aged care reforms in July 2014.

New residential care data exchange system

3.22 The current data exchange process between DSS, Human Services and DVA, which operates on an old mainframe system, will be replaced by a 'Tri-Agency Data Exchange' in July 2014 to accommodate the Aged Care Reforms that are due for implementation in 2014–15. The 'Tri-Agency Data Exchange' will effectively be real time and provide a set of more clearly defined information exchanges between the agencies.

3.23 While this process involves the replacement of the department's ACA and mainframe residential care systems, DVA will still be reliant on its old heritage and contemporary systems for the provision of client data for identifying, matching and exchange purposes for DVA clients in care. DVA acknowledges the potential risks posed to the new systems by continuing to use information from existing DVA systems that are not well-integrated and DVA is developing new reports to manage the risk of data mismatches occurring as part of the new process.¹⁴⁴

Agency responsibility for residential care costs

3.24 DVA accesses a special appropriation for paying the Australian Government's residential care subsidy for eligible DVA clients, as well as all other eligible residents in care. DSS is responsible for the overall residential care estimates process with the Department of Finance (DoF) including agreement of DVA's component of the special appropriation.

3.25 DVA's component of the special appropriation is based on a calculation of the proportion of departmental clients in the previous financial year whom DVA has accepted to pay their residential care subsidies, as reflected in the residential care payment system, based on the data provided by DVA.¹⁴⁵ DVA is not authorised to accept responsibility for the payment of residential care costs for residents with no entitlement under the legislation it administers, whose residential care costs are the legal responsibility of DSS. When the department does pay the residential care subsidy for residents with no

¹⁴⁴ The reports are intended to be progressively rolled out from 1 July 2014, when the new Aged Care Reforms and systems are implemented. The department advised the ANAO that these reports will include rankings that relate to the relative priority of the issues as well as timeframes for actioning the reports.

¹⁴⁵ While the funds transferred from DVA to Human Services represent notional payments that do not leave the Consolidated Revenue Fund, section 6 of the FMA Act requires agencies to treat these payments as 'real' payments.

entitlement under its legislation, an overpayment of DVA's special appropriation will occur. Conversely, an underpayment of DVA's special appropriation will occur if the department does not accept liability for a resident who is later found to have an entitlement under DVA's legislation.

3.26 Since 2007–08, DVA has been managing significant incorrect payment amounts: a situation arising from the department's inability to correctly identify DVA clients in residential care and, either incorrectly accepting responsibility for payment of the government subsidies for residents; or not accepting responsibility for payment of the government subsidies when DVA is the responsible agency. DVA records indicate that it has taken the department more than six years to identify and correct what DVA considers to be the main cause of the incorrect payment issue: a 'respite care business rule' in DVA's systems. A note received by DVA's Secretary on 9 July 2013, acknowledged that in 'DVA's Residential Care Allowance system, the business rules were set up incorrectly as far back as 1997'.¹⁴⁶

3.27 Resolving DVA's incorrect payment issue—by identifying the actual cause of the problem and by effectively correcting the business rule so that it continues to work long-term—has consumed significant resources in DVA, the former DoHA and Human Services over many years. Appendix 2 provides an overview of the quantum of the payments exchanged between the agencies from June 2010 to August 2013, in order to rectify DVA's payment errors in the residential care payment system.¹⁴⁷ In summary, DVA made financial adjustments to its residential care special appropriation of: \$26.2 million in 2009–10, which related to an underpayment¹⁴⁸; \$39 million in September 2011 for the financial years 2010–11 and 2011–12; and \$35.8 million in 2013–14, \$9.4 million of which was for the 2011–12 financial year.

3.28 In the course of the audit, DVA advised the ANAO that the root cause of the overpayment was addressed in September 2013 through changing a key data processing rule in its systems. However, recent internal testing of residential care recipient data between July 2013 and November 2013, indicates that further significant overpayments of DVA's special appropriation are

146 An undated and unsigned note to the DVA Secretary, stamped as received on 9 July 2013 and entitled 'Resicare Issue'.

147 DVA provided the ANAO with a Chronology of Events relating to the incorrect payments issue, to illustrate the actions the department had taken to resolve the issue over time. A summary of the incorrect payments each year is at Appendix 2.

148 DVA had not accepted liability for the cost of the government subsidy for eligible DVA clients in care.

forecast for 2013–14. In March 2014, the estimated overpayment for residential care payments was \$17.9 million, covering the period July 2013 to November 2013. The annualised estimate for the same period was approximately \$48.6 million. In April 2014 the figures were revised by DVA—to \$10.2 million and \$24.5 million respectively, for the same period.¹⁴⁹ DVA advised the ANAO that the cause of the error had been isolated to one client group who are most likely ineligible.¹⁵⁰

3.29 In July 2013, DVA informed the Secretary that:

The charge to DVA's appropriation has been overstated ... in 2011–12 and ... in 2012–13, and by an unquantified amount in prior years ... it represents a section 83 breach of the Constitution ...¹⁵¹

3.30 There is a risk of a breach of section 83 of the Australian Constitution where payments are made from special appropriations and special accounts in circumstances where the payments do not accord with conditions included in the relevant legislation. Section 83 of the Constitution provides that no money shall be drawn from the Treasury of the Commonwealth except under an appropriation made by law and requires that all spending by the Executive Government from the Consolidated Revenue Fund must be in accordance with an authority given by the Parliament. The possibility of this being an issue for DVA was reported in the notes to DVA's 2010–11 financial statements, and during 2011–12 DVA undertook a detailed investigation of the issue. A financial quantification of potential breaches of section 83 in 2012–13 was also performed by DVA. This review identified that potential breaches in respect to the VEA were \$59.7 million for the 2012–13 financial year, with \$44.7 million of that amount relating to incorrect residential aged care payments.¹⁵² A note to DVA's financial statements for 2012–13 indicates that:

149 While the department advised that this represents approximately 1.7 per cent of its estimated annual expenditure on residential care payments, DVA continues to report significant and ongoing incorrect payments each financial year that require considerable resources from DVA, DSS and Human Services to resolve.

150 DVA advice to the ANAO, 29 April 2014.

151 An undated and unsigned note to the DVA Secretary, stamped as received on 9 July 2013 and entitled 'Resicare Issue'.

152 See ANAO Financial Statement Audit Report No.13 2013–14 *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2013*, p. 147, available from <<http://www.anao.gov.au/Publications/Audit-Reports/2013-2014/Audits-of-the-Financial-Statements-of-Australian-Government-Entities>> [accessed 11 April 2014] and Note 32 forming part of the financial statements, in the *Department of Veterans' Affairs Annual Report 2012–13*, Canberra, pp. 255–56, available from <<http://www.dva.gov.au/aboutDVA/publications/corporate/annualreport/2012-13/Documents/ar2012-13.pdf>> [accessed 11 April 2014].

DVA will continue to monitor its level of compliance with section 83 of the Constitution across all legislation for which it is administratively responsible.¹⁵³

Quarterly data reports

3.31 Quarterly data reports (quarterly reports) list all records for which DVA has accepted liability to pay: the residential care subsidy and related supplement costs. These reports were introduced specifically to resolve DVA's ongoing inability to correctly identify its eligible clients in care and the related incorrect payment issue, and rely on an informal agreement reached in 2011–12 between Human Services, DVA and the former DoHA. This agreement followed the ANAO's Financial Statements audit of Medicare Australia, which found that DVA was accepting the cost of residential care for certain residents that were DoHA's responsibility.

3.32 From July 2012, Human Services agreed to produce quarterly reports from the residential care payment system that provided a listing of all residents with liability accepted by DVA, to enable: the department to identify and confirm those residents that it is legally responsible for payment of their residential care costs¹⁵⁴; Human Services to manually correct the outstanding incorrect DVA records in the residential care payment system¹⁵⁵; and the resolution of these ongoing unauthorised overpayments and incorrect underpayments by DVA in relation to its special appropriation for residential care.

3.33 On 12 December 2013, Human Services provided DVA with the quarterly reports for 2012–13 and 2011–12—the reports were backdated due to the long-term nature of DVA's incorrect payment data. On 11 March 2014, the ANAO was advised that DVA had actioned only the first quarterly report for 2012–13 and that the three reports from the current financial year had not been actioned by DVA. In its response to this audit of 22 May 2014, DVA subsequently advised that it has now actioned all of the quarterly reports and provided the updates to Human Services.

153 ANAO Financial Statement Audit Report No.13 2013–14 *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2013*, p. 147.

154 Department of Human Services, 'Program Integrity Review of Medicare Australia's Administration of the Aged Care Payments Program', September 2011, p. 85.

155 *ibid.*

3.34 As discussed, the department's inability to accurately identify eligible DVA clients in residential care, has resulted in a substantial number of incorrect and unauthorised payments to approved providers for ineligible residents and as at April 2014, DVA has not been effective in resolving the issue (as discussed in paragraph 3.30). The corresponding incorrect payments do not comply with the provisions of the Aged Care Act or the VEA¹⁵⁶ and have given rise to a potential breach of section 83 of the Constitution, which as previously discussed, was acknowledged by the department in advice to the DVA Secretary in July 2013.¹⁵⁷

3.35 The quarterly reports are currently prepared under an informal agreement between Human Services, DSS and DVA, agreed by the agencies in 2011 with a view to resolving DVA's incorrect data and payment issues. The slow progress in addressing the backlog of incorrect records to identify ineligible payments requires close consideration by the department and its senior management. To provide a greater level of assurance of the integrity of its client data and the administration of residential care payments, DVA should establish quality and timeliness standards for its management of information used as part of the data exchange process.

Recommendation No.3

3.36 To improve the level of assurance relating to the integrity of residential care payments data, the ANAO recommends that the Department of Veterans' Affairs take early steps to improve the quality of that data and establish quality and timeliness standards for its management of information, used as part of the data exchange process.

DVA's response:

3.37 *The Department agrees with this recommendation. The Department is already actioning many aspects of this recommendation. Specifically, the Department has engaged staff to work through data cleansing activities associated with fully or partially matched clients without a correct residential situation (Report B) which will be completed by the end of July 2014. Staff are also now consistently*

¹⁵⁶ The department's potential breaches in respect of the VEA in 2012–13 was \$59.7 million, of which \$26.4 million related to incorrect residential care payments. See ANAO Audit Report No.13 2013–14 *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2013*, p. 147.

¹⁵⁷ In the form of an undated and unsigned note to the DVA Secretary, stamped as received on 9 July 2013 and entitled 'Resicare Issue'.

actioning records associated with residential aged care entry and departure (Reports C and D) on a national basis. The importance of consistent and timely action of these reports will be reinforced by the issue of written management instruction. Finally, DVA has now actioned all reports correcting DVA liability for Commonwealth Subsidies (Quarterly Reconciliation Reports) and provided updates to the Department of Human Services (DHS). The Department will look to include protocols and performance measures in regards to timely actioning of these reports as new agency agreements are developed.

Conclusion

3.38 DVA has provided guidance to staff and implemented a range of system controls, procedures and reporting arrangements to: facilitate the exchange of accurate client information with other agencies; and reduce the risk of incorrect and unauthorised government subsidy payments or the need for provider fee adjustments. To manage data mismatches and errors related to DVA clients in care and pension assessment information, DVA has measures in place, including the Aged Care reports to identify, assess and correct data discrepancies and these reports must be actioned.

3.39 However, the ANAO identified incorrect data, indicating that the wrong client information had been exchanged by DVA with Human Services and DVA was paying residential care subsidies for residents with no entitlement under the VEA. The ANAO identified that DVA's system and administrative controls are not fully effective in accurately identifying eligible DVA clients in residential care, resulting in: a substantial number of incorrect and unauthorised payments from the residential care special appropriation for more than six years; provider fee adjustments needing to be made; and a complex and drawn out process to resolve the issues.

3.40 Since July 2012, Human Services has provided DVA with a quarterly listing of residents with liability accepted by DVA, to enable the department to identify and confirm its aged care residents with an entitlement to DVA funding. By March 2014 however, DVA had only fully followed-up on the first quarterly report for 2012–13. Subsequent reports provided by Human Services had not been actioned by DVA.

3.41 Establishing quality and timeliness standards for its management of information used as part of the data exchange process will improve DVA's level of assurance of the integrity of its client data and the administration of residential care payments. In addition, there would be merit in the department

investigating options with other government stakeholders, for streamlining the current administration of the residential care program in order to reduce the potential for double handling and inefficiencies in respect of administering residential care payments.

4. Governance, Reporting and Review

This chapter examines the effectiveness of DVA's key governance frameworks including the department's Risk Management Framework and their application to the administration of residential care payments for eligible clients under the Australian Government's Residential Care Program.

Introduction

4.1 The ANAO examined the effectiveness of DVA's key governance and risk management frameworks, and the Business Partnership Agreement between DVA and the former DoHA¹⁵⁸ of 2010–2013 (the Agreement), which are intended to govern and support DVA's service delivery role under the Australian Government's Residential Care Program.

Risk Management Framework

4.2 Effective risk management requires an organisation to identify the risks that can impact on the achievement of its objectives, take measures to reduce the impact of those risks and look to benefit from opportunities identified.¹⁵⁹

4.3 DVA seeks to manage its risks through a Risk Management Framework that is intended to be applied at all levels within the agency.¹⁶⁰ The four levels of risk identified in DVA's Risk Management Framework are at the enterprise, division or business-level, project and specialist risk levels.

4.4 In the context of the Risk Management Framework, risks relating to the assessment of eligibility for residential care subsidies are a 'business-level' risk, and are therefore primarily a division and branch-level responsibility.

158 The audit time frame covers 2011–12 and 2012–13 and 2013—the former DoHA was the key agency responsible for aged care policy and administration of the Aged Care Act until 18 September 2013 when it was transferred to DSS, therefore report references are applied to the former DoHA in the following circumstances—direct quotes and references to agreements that were in place prior to 18 September 2013. In all other instances, the report refers to DSS as the responsible agency.

159 Comcare Better Practice Guide—*Risk Management*, Comcare, Canberra, June 2008, p. 5, available from <http://www.finance.gov.au/sites/default/files/Better_Practice_Guide.pdf> [accessed 11 April 2014].

160 Department of Veterans' Affairs, 'Chief Executive Instruction: Risk Management', No. 8.7, DVA, Canberra, August 2013.

Review of risk management

4.5 In February 2013, DVA completed a review of its risk management practices.¹⁶¹ The review found there was minimal evidence that business-level risks were explicitly considered or discussed within the department at all levels, and that these practices ‘do not support a strong, explicit risk culture’ in DVA.¹⁶² Table 4.1 summarises the key issues identified by the review at the enterprise and business levels.

Table 4.1: Key issues identified in the review of risk management

Risk level	Findings
Enterprise	<ul style="list-style-type: none">• Generally no formal reporting and monitoring of the documented risks.
Business	<ul style="list-style-type: none">• Generally risk assessments are poorly analysed and documented in business plans.• No formal reporting and monitoring of risks at this level.• Issues identified include insufficient detail, risks not documented, lack of risk treatments identified, and no assessment or risk rating.

Source: Department of Veterans’ Affairs, ‘Review of Risk Management 2012–13’, DVA, Canberra, February 2013.

4.6 The review also found weaknesses in monitoring and reporting known enterprise and business-level risks and identified the need to develop formal reporting and monitoring of risks in business plans. The review findings, which included evidence of poorly analysed and documented risk assessments in business plans, are consistent with those identified by the ANAO during the course of the audit (as discussed further in this chapter).¹⁶³

Managing business-level risks in residential care service delivery

4.7 While a number of DVA business areas have aged care responsibilities, the two key business areas examined by the ANAO were the Community and Aged Care Branch and the Income Support and Grants Branch. The ANAO reviewed the business plans of these two branches—which are involved in residential aged care policy and service delivery respectively—including the identified risks and treatment strategies for 2011–12, 2012–13 and 2013–14.

161 Department of Veterans’ Affairs, ‘Review of Risk Management 2012–13’, DVA, Canberra, February 2013.

162 *ibid.* p. 2.

163 The review did, however, note that risk management was embedded in DVA’s day-to-day operations. For example, ‘hot and emerging issues’ were discussed at the Secretary’s weekly meeting with the Executive, as well as Division and Branch meetings. The review also noted the Secretary’s monthly report that enables business areas to highlight emerging issues.

4.8 The ANAO also reviewed the DVA state office business plans for 2013–14, and in particular those offices responsible for: assessing ACA applications from DVA clients; and updating pension assessment information and aged care income assessments.¹⁶⁴ The state offices report to national office on a limited number of the performance requirements specified in the Agreement between DVA and DoHA.

Income Support and Grants Branch

4.9 The responsibilities of the Income Support and Grants Branch include processing: ACA applications for income support recipients; and Income Fee Assessment Forms for SFRs in care. In the plans reviewed by the ANAO for the years 2011–12, 2012–13 and 2013–14 ‘the provision of pension assessment as part of entry into aged care’ was one of the key service delivery responsibilities for the branch.¹⁶⁵

4.10 The branch prepares an annual business plan that covers its role in maintaining and enhancing the financial security and independence of eligible persons and their dependants through access to income support, including: income support service delivery; pension assessment as part of entry into aged care; departmental reviews; pension related data matching; quality assurance reviews of income support decisions; death processing; and IT system management.

4.11 The risks identified in this audit introduce significant risks into the administration of DVA’s residential care program. However, none of the business plans reviewed¹⁶⁶ identified specific risks in regard to the branch’s core function of processing ACA applications and related decision-making such as: the complexity of the dual roles of decision-makers operating under both the VEA and the Aged Care Act; known issues such as the inconsistent and incomplete evidence collection in relation to ACAs; and the management of delegations and legal risks relating to decision-making without validly made delegations.

¹⁶⁴ Updates occur when clients advise of a change in their circumstances such as submitting an ACA or entering permanent residential care.

¹⁶⁵ Department of Veterans’ Affairs, ‘Income Support Group Business Plan 2011–12’, p. 4, ‘Income Support and Grants Branch Business Plan 2012–13’, pp. 5-6 and ‘Income Support and Grants Business Plan 2013–14’, p. 5.

¹⁶⁶ Except for one risk identified in the 2013–14 business plan regarding the provision of information to DoHA about DVA clients in care and the potential impact on aged care payments if information is not provided in a timely manner by DVA.

4.12 The Income Support and Grants Branch also has management responsibility and ownership of DVA's aged care data and systems. However, there is no reference to the potential risks to pension assessment data and residential care subsidy decisions when data mismatches or errors occur in the exchange process, which is a regular occurrence.¹⁶⁷ There is also no mention in the business plan of risks to the accuracy of residential care payments or pension assessment data—that can affect residential care payments—when errors and data mismatches identified in the Aged Care reports are not followed-up by DVA. The Aged Care reports are an important mitigation measure for reducing risks to the accuracy of pension payments and residential care payments, and are only fully effective if systematically and consistently followed-up.

Community and Aged Care Branch

4.13 A key focus of the 2011–12 business plan¹⁶⁸ was the emerging issue of ageing Vietnam veterans and the implications for service delivery of mental health care within the residential aged care context. In 2012–13, the branch tasks included: developing policy supporting high quality health care; and oversight of the nursing care for veterans with complex care needs including liaison with consultative bodies on aged care issues.¹⁶⁹ In 2013–14, the branch tasks include: liaison with stakeholders on aged care matters; supporting the Aged Care Reform program; and briefing the Executive and other bodies on aged care issues.¹⁷⁰ The Branch Head is the business owner of residential aged care with financial delegation over DVA's residential care appropriation; however, none of the known long-term risks to the integrity of residential care payments were identified or referenced in any of the business plans.

4.14 DVA did not prepare a risk assessment for residential care payments for 2011–12 and 2012–13. However, in 2013–14 during the course of the audit, the Community and Aged Care Branch coordinated the development of an Enterprise Risk Assessment in regard to the administration of residential care

¹⁶⁷ Data mismatches and partial matches occur on a daily basis and can relate to aged care issues and/or income support pension issues. As discussed in Chapter 3, DVA's incorrect residential care payment data has resulted in significant under or overpayments for more than six years.

¹⁶⁸ Department of Veterans' Affairs, 'Community and Aged Care Policy Group Business Plan 2011–12', DVA, Canberra, p. 3.

¹⁶⁹ Department of Veterans' Affairs, 'Community and Aged Care Transport Branch Business Plan 2012–13', DVA, Canberra, p. 5.

¹⁷⁰ Department of Veterans' Affairs, 'Community and Aged Care Transport Branch Business Plan 2013–14', DVA, Canberra, p. 4.

payments, covering business processes, quality assurance, finance and IT systems. DVA advised that the risk assessment was developed to 'inform external stakeholders and others'. The recently-developed risk assessment provides a sound basis for the ongoing identification of risks to DVA's administration of the aged care payment system. However, there are no risks identified for the processing of residential care assessments or DVA's process for updating income support pension assessment and aged care related information. Further, some of the mitigation strategies and controls identified in the recently developed risk assessment are in need of review. For example, one of the risks identified is:

Data quality proves to be unreliable (eg. individuals flagged as DVA-liable are not, or vice versa) which results in incorrect allocation of financial liability or calculation of fees/subsidies.¹⁷¹

State office business plans

4.15 The ANAO also reviewed DVA's state office business plans for 2013–14. However, none of these plans identified known or other risks to the residential care program at the operational level, although the state offices are responsible for investigating and actioning the Aged Care reports to ensure that pension assessment and aged care data is complete, up-to-date and consistent in both DVA's records and in the residential care payment system.

4.16 In summary, DVA completed an internal review of its risk management practices in February 2013, and identified the need to develop monitoring and reporting of known business-level risks, particularly at the business level. However, none of the business-level plans for 2013–14 examined by the ANAO identified, assessed, or documented treatments for DVA's known risks to the administration of residential care payments, which remain ongoing.¹⁷²

4.17 DVA should review its approach to identifying, assessing and treating any elevated business-level risks in the context of the department's Risk Management Framework and the findings of the February 2013 review of its risk management.

¹⁷¹ Department of Veterans' Affairs, 'Administration of Residential Aged Care Payments: Process Overview, Risk Assessment and Controls', Version 1.8, DVA, Canberra, June 2013, p. 18.

¹⁷² As discussed in Chapter 3, DVA's inability to correctly identify its clients in care and the resulting incorrect acceptance of liability for the cost of residents' care is one of the major risks to the accuracy of the department's residential care payments and DVA's administration of the program. While DVA has a number of treatments in place to manage the risk, including: regular meetings with Human Services and DSS; the Aged Care and quarterly data reports; and processes set out in its Agreement with other agencies, these treatments are either not fully applied by DVA or are not fully effective.

Recommendation No.4

4.18 The ANAO recommends that the Department of Veterans' Affairs should strengthen its risk management processes relating to the administration of residential care payments by addressing business-level risks in the context of the wider departmental Risk Management Framework.

DVA's response:

4.19 *The Department agrees with this recommendation. The business area responsible for the Risk Management Framework (RMF) has already commenced the process of identifying business activity which cross branches, divisions or agencies, with the view to conducting end to end risk assessments on these activities. This work is being completed in the context of a revision of the RMF which will include the clarification and documentation of roles and responsibilities at all levels of risk management activity. Action on the end to end risk assessment for cross branch/division/agency activity will commence as soon as the revised RMF has been endorsed by the Secretary and the Department's Audit and Risk Committee. It is proposed that the residential aged care programme will be one of the first to undergo this full risk assessment process. In addition, these risks and the appropriate mitigation strategies will be incorporated into section and branch level business planning practices to ensure they are monitored on an ongoing basis.*

Interagency agreements

4.20 Formal business arrangements are often entered into when a number of agencies are involved in the delivery of complex programs. Such agreements can provide agencies with a clear understanding of their respective roles, responsibilities and accountabilities. They can also provide government with additional assurance that the delivery of services is efficient, effective and co-ordinated.¹⁷³ Where they exist, the effective administration of policy and programs requires such formal arrangements to be well understood and reinforced at all levels within an agency.¹⁷⁴

4.21 DSS has overall program management and policy responsibility for residential care in respect of all Australians and is assisted in this role by DVA

173 ANAO Audit Report No. 4 2008–09 *The Business Partnership Agreement between the Department of Education, Employment and Workplace Relations (DEEWR) and Centrelink*, p. 45. Available from <http://www.anao.gov.au/~media/Uploads/Documents/2008%2009_audit_report_04.pdf> [accessed 16 April 2014].

174 ANAO Better Practice Guide—*Public Sector Governance*, Volume 1, July 2003, p. 16.

and Human Services. To formalise the agencies' respective roles and responsibilities, business agreements have been negotiated between the former DoHA and DVA, and DoHA and Human Services.

The Agreement between DVA and DoHA

4.22 The Agreement for the delivery of residential care subsidies was first entered into by DVA and the former DoHA, which had responsibility for aged care, as a means of managing the relationship between the agencies and resolving data integrity issues. It was executed on 30 July 2010 for three years and extended for a further 12 months to 30 June 2014, through an exchange of letters. The extension allows for the implementation of the Aged Care Reform changes and new systems which are expected to be operational from 1 July 2014.

4.23 Four schedules underpin the Agreement, specifying the agencies' roles and responsibilities in regard to: business arrangements and operational functions; deliverables; and performance reporting.

Operation of the Agreement—performance and reporting

4.24 Schedules One and Two to the Agreement outline a number of performance targets for DVA's service delivery obligations, and arrangements for the joint monitoring of these performance indicators.

Schedule One

4.25 Some of the targets in Schedule One require DVA to periodically report to the former DoHA (now DSS) on the degree of compliance it has achieved. In particular, paragraph 17.5 states that performance reports will identify the degree to which DVA has met the targets 'and the strategies that will be employed to ensure improved performance'. Table 4.2 outlines the key performance indicators for income testing in Schedule One that DVA is required to meet.

Table 4.2: Performance targets—Schedule One

Task	Task description	Performance target
1	Data matching of all DVA income support records that can be automatically matched and provision of information on pension status and total assessable income amount to DoHA.	Provision of information for 90 per cent of DVA income support clients within one working day of receiving the data from DoHA.
2	Data matching of all DVA income support records that can be manually matched and provision of information on pension status and total assessable income amount to DoHA.	Provision of information for 98 per cent of cases within 8 working days of receiving the data from DoHA.
3	Income assessment and provision of information on SFR status and income amount for non-pensioner residents eligible for specified income exclusions (due to qualifying service).	Provision of information for 100 per cent of DVA SFR residents within 5 working days of verification of qualifying service.
4	Participate in external training of providers and ACAT teams, as required.	Participation in training as required.
5	Participate in delivery of external communications, as required.	Participation as required.
6	Review monthly list of records unmatched at 70 days.	Provision of information to facilitate matching of DVA clients within 8 working days.

Source: Department of Veterans' Affairs, 'Business Partnership Agreement between the Department of Veterans' Affairs and the Department of Health and Ageing 2010–2013', DVA, Canberra, July 2010, Schedule 1.

4.26 Under paragraph 2.4 of Schedule One, DVA is required to provide quarterly reports to DoHA on the first three performance targets. On 17 October 2013, DVA advised the ANAO that it cannot report on performance targets one and two above because:

Income Support does not currently 'tally' the number of cases that have been matched. Automatic matches would need to be manually counted to separate out the cases that required 'manual' correction. Technically, all automatic matches occur instantaneously in response to the client data received from the TRAIN [data file] and therefore DVA would meet this KPI by default.¹⁷⁵

4.27 While DVA accepts responsibility for payment of the government subsidy for residents' in the data file whose data fully matches with DVA's records, automatic matching using what DVA describes as 'loose business

¹⁷⁵ DVA advice to the ANAO, 17 October 2013.

rules¹⁷⁶ in its systems, can also result in DVA's acceptance of liability for incorrect partial and mismatched data. These circumstances make it difficult for DVA to meet the first target in Table 4.2.

4.28 DVA would also have difficulty in meeting the second target in Table 4.2 as manual fixes can be required to correct mismatched data or data errors. In relation to the second target, DVA further advised the ANAO that:

Manual matches occur as a result of either correcting data in response to mismatched clients identified as part of the review of the Aged Care Reports, from the lists of clients not matched at 70 days or from ad hoc notifications and requests received from DoHA, Centrelink or in rare cases from the client or nursing home. Due to the different point of entries and lack of system tracking of these corrections it would be difficult and time consuming to record and report on these activities.¹⁷⁷

4.29 The ANAO also reviewed DVA's management information reports produced from July 2011 to June 2013, which confirmed that in respect to tasks one and two in Table 4.2, the information to report on required performance is not available from DVA's systems. For Task three in Table 4.4, (SFR assessments) performance has ranged from 81 per cent of assessments completed within target in the September 2011 quarter, to 92 per cent in the June 2013 quarter.¹⁷⁸ However, while the percentage of SFR assessments completed within target has improved over time, the results do not meet the target of 100 per cent specified in Schedule One of the Agreement.¹⁷⁹

4.30 In respect to item six in Table 4.2, the management information report for 1 January 2012 to 30 March 2013, states that the monthly lists 'have been completed where possible except for system limitations where DVA has not been able to fix these records at this time'.¹⁸⁰

176 On 9 August 2013, DVA advised the ANAO that 'loose' business rules were the main cause of the data errors in its residential care payment data.

177 DVA advice to the ANAO, 17 October 2013.

178 The average number of working days taken to process assessments fluctuated between 3.43 to 5.19 for the September 2011 quarter and 3.93 for the June 2013 quarter.

179 During the period reviewed by the ANAO, DVA has not been required to participate in external training or communications in accordance with tasks four and five.

180 Department of Veterans' Affairs, 'Management Information Report—Residential Aged Care Income Testing—1 January 2012 to 31 March 2013', Minute, DVA, Queensland, undated and unsigned, p. 2.

Schedule Two

4.31 Schedule Two of the Agreement requires DVA to provide monthly reports on residential care asset testing to DoHA, now DSS. While DVA has provided the monthly reports since the implementation of the current Agreement in 2010, DVA has provided data in respect of only seven of the 14 specified reporting areas. DVA has advised that this is due to the limited functionality of its systems.¹⁸¹

4.32 While most of the data reported is statistical in nature, the results for the percentage of assessments not completed within agreed timeframes are important as they relate to the specific performance targets agreed between DoHA and DVA in delivering residential care services in the Agreement. The annual results summarised in Table 4.3 show a significant improvement between 2010–11 and 2012–13; however, the percentage of assessments not completed remains well outside Schedule Two’s target of five per cent.¹⁸²

Table 4.3: Assessments not completed within agreed timeframes

Year	Percentage of assessments not completed on a monthly basis within agreed timeframes	Target of 5 per cent
2010–11	Ranged between 7.5 to 50 per cent	Not met
2011–12	Ranged between 6 to 50 per cent	Not met
2012–13	Ranged between 6.5 to 23 per cent	Not met

Source: ANAO analysis of DVA performance reports.

Annual review of the Agreement

4.33 Section 14 of the Agreement requires DVA and DoHA (now DSS) to perform an annual review of the effectiveness of the relationship between the agencies with respect to the provision of services under the Agreement and its Schedules. The ANAO examined each of the reports for 2010–11, 2011–12 and 2012–13, prepared under the Agreement.

4.34 In summary, the key issues raised in the review reports were: DVA’s inability to correctly identify its clients in the data file; the resources invested by the other government stakeholders to resolve DVA’s ongoing liability issue;

181 Department of Veterans’ Affairs, ‘Business Partnership Agreement between the Department of Veterans’ Affairs and the Department of Health and Ageing 2010–2013: Report’, DVA, Canberra, October 2013, Attachment A.

182 Schedule Two performance targets are discussed in more detail in Issues Paper 2 as they relate to timeframes for processing asset assessments for DVA clients already in, or entering, residential care.

DVA's breach of provision 9.2 of the Agreement due to its inability to verify who its clients are in the data file and to 'accurately report on Recipient Liability data'¹⁸³; DVA's need to consistently, accurately and efficiently check financial responsibilities for DVA clients in residential care; and DVA's non-disclosure of appropriation adjustments made in regard to the incorrect payments it had made.¹⁸⁴

4.35 In October 2013 DVA acknowledged, in the context of the joint DVA and DSS 2012–13 final review of the Agreement, that it cannot fully meet the performance reporting requirements, performance targets and timeframes for completing ACAs that it signed up to in 2010. The ANAO's examination indicated that DVA has never met the timeframes outlined in the Agreement in relation to the time taken to process its ACAs. Further, over the three years of the Agreement, neither DVA nor the former DoHA had initiated discussions to consider the revision of the performance measures that DVA was unable to meet.¹⁸⁵

4.36 The ANAO also examined each of the review reports prepared under the Agreement since it was executed by DVA and the former DoHA in 2010. The ANAO identified that there would be merit in some additional attention being given to the timely preparation of the annual reviews, none of which had been prepared by 1 July, as provided for in the Agreement.

Consultative arrangements

4.37 While the ANAO observed a strong working relationship at the officer level between DVA, the former DoHA and DSS for residential care¹⁸⁶, DVA documentation indicated that there was minimal oversight of the Agreement's operation by DVA Senior Management. For example, while the agencies have struggled to find a solution to DVA's incorrect payments for residential care

183 Department of Health and Ageing, 'Business Partnership Agreement (BPA) Between the Department of Health and Ageing and the Department of Veterans' Affairs: June 2012–report', Canberra, Attachment B, Schedule 3 comments, 17 July 2012.

184 DSS is now responsible for the overall residential care estimates process and agreement of the related special appropriation with DoF. DVA's component of the special appropriation is based on the number of residents in care whom DVA has accepted liability for payment of their government subsidy the previous year. Financial reports produced by DSS identify a receivable or payable amount from DVA but as DVA does not report on this, DoF continues to raise the issue with DSS.

185 Although there is a provision in the Agreement to vary the performance indicators providing both parties agree.

186 In the 2012–13 review report, DVA states that the relationship between the parties has been excellent over the previous 18 months, a positive state of affairs also observed by the ANAO during the audit.

for over six years, DVA could not provide the ANAO with any Ministerial or Senior Executive briefings, advising of the department's ongoing incorrect payment and related appropriation issues.

4.38 On 9 August 2013, DVA advised the ANAO that the absence of executive involvement or briefing was due to the fact that the Audit and Risk Committee (ARC) had been 'managing' the ongoing DVA liability and incorrect payment issue. The ANAO's review of ARC papers indicates that the issue was a standing agenda item¹⁸⁷, but there was minimal information in the papers on DVA's action to resolve the issue.¹⁸⁸ More fundamentally, the issues were primarily a matter for DVA management to resolve. Audit Committees have an advisory rather than a management role, and their involvement is no substitute for appropriate management oversight and action.

4.39 DoHA and DVA established a Joint Consultative Committee (JCC) in accordance with Section 14.3 of the Agreement to monitor operational issues associated with service delivery in the schedules.¹⁸⁹ The JCC is currently chaired at the middle management level from the relevant business areas in DSS and DVA. Human Services staff who administer residential care payments in the residential care payment system also attend the JCC meetings.

4.40 The JCC meets as often as is necessary and DSS advised that the frequency of the meetings is based 'on the seriousness of the issues they are dealing with at the time'.¹⁹⁰ As well as monitoring the operation of the Agreement and schedules against service delivery objectives and issues, the JCC is responsible for the review of the Agreement and reporting on performance by 31 July each year, to senior management in DVA and DSS.

187 The ANAO reviewed the ARC papers for the years 2011, 2012 and 2013 and identified the liability and incorrect payment issue as a standing agenda item in the context of the financial statements.

188 The ARC papers included out-of-session meetings; however, the meeting documents provided by DVA were unrelated to the DVA liability and incorrect payment issue.

189 The JCC draws its membership from DVA and the former DoHA, now DSS and is also required to meet biannually for the purpose of discussing policy and service delivery issues as they relate to the Agreement.

190 For example, with the implementation of the Aged Care Reforms due to come into effect from 1 July 2014, DVA, DSS and Human Services are meeting more regularly. DSS advice to the ANAO, 16 December 2013.

4.41 Section 1.4 of the Agreement also requires the DVA Secretary to report to the Minister for Veteran's Affairs about the activities performed under the Agreement and provides for the timely provision of information and performance reporting in accordance with the department's annual Statement of Expectations. The ANAO requested copies of this documentation but was advised by DVA that:

We have consulted widely across the department to source the statement referenced in paragraph 1.4 of the Business Partnership Agreement and have not been able to find any record of such statement existing in a DVA context.¹⁹¹

4.42 The issues identified in this audit and in the annual review reports of the Agreement suggest that there is scope for more regular oversight of the Agreement's operation, particularly in regard to: DVA's approach to preparing the quarterly data and annual financial reports; and the quality of DVA's data exchanged with Human Services that is critical to the integrity of its residential care payments.

4.43 In its response to this audit of 28 May 2014, DSS acknowledged that:

Current inter-departmental governance arrangements between DSS and DVA can be strengthened to provide additional assurance across the management of operational matters and issues as they arise. DSS notes that as part of the work underway to establish revised bilateral arrangements with DVA, the roles and responsibilities of officers in each department have been considered and additional clarity will be included in the revised arrangements regarding the role of senior management in providing oversight on the operation of the agreement and resolving issues as required.

191 DVA advice to the ANAO, 23 December 2013.

Arrangements between DVA and Human Services

4.44 DVA provided the ANAO with an agency-level agreement between the department and Human Services on 4 September 2013.¹⁹² To strengthen their relationship, there would be merit in DVA and Human Services considering the option of negotiating formal arrangements for managing aged care payments, in a schedule to the agency-level agreement.¹⁹³ While DSS has overall program management and policy responsibility for residential aged care for all Australians, the strength of the business relationship between DVA and Human Services is a key factor in ensuring that complete and accurate data is exchanged between the agencies in a timely manner, and where data disparities arise, these are resolved appropriately and in a co-ordinated manner.

Conclusion

4.45 The ANAO examined the business plans across three financial years for two DVA key business areas with responsibility for the administration of residential aged care payments. The business plans did not identify known elevated risks relating to mismatches of client information in the data exchange process with Human Services, notwithstanding their frequency or the quantum of the incorrect payments each year; raising questions about the department's ongoing reporting and monitoring of known risks at the business-level. During the audit, DVA developed a risk assessment for the administration of residential care payments. However, many of the risk treatments identified are either not applied consistently by the department, or are not effective in addressing the risks.

4.46 The ANAO also reviewed the formal agreements between DVA and other government stakeholders. In particular, the Agreement between DVA and the former DoHA that governs aged care administration, including business processes and performance reporting for the exchange of aged care data, and financial responsibilities and accountabilities agreed between the parties. DVA has not met the performance reporting requirements, performance targets or timeframes for completing its ACAs in the Agreement

¹⁹² In March 2014, the schedules to the agreement were still to be drafted.

¹⁹³ On 28 May 2014, Human Services advised that a draft schedule to the current agency-level agreement, for managing residential care data and related payment issues, was provided to DVA in late 2013 and following receipt of DVA's response, would be progressed.

that it signed up to in 2010. There would be benefit in DVA and DSS considering options and if necessary, revising expectations in the context of negotiations for the new agreement.

4.47 The Agreement has not been fully effective in facilitating the management of data errors or resolving funding liability issues in a timely manner, resulting in government stakeholders expending considerable resources to resolve the issues over more than six years. There is a need for increased Senior Management oversight of the agreement's operation and the ongoing efforts to resolve DVA's data integrity issues relating to the identification of residential care clients and related payments.



Ian McPhee
Auditor-General

Canberra ACT
19 June 2014

Appendices

Appendix 1: Responses from agencies



Australian Government
Department of Veterans' Affairs
OFFICE OF THE SECRETARY

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


Dear Dr Ioannou

PROPOSED AUDIT REPORT ON THE ADMINISTRATION OF RESIDENTIAL CARE PAYMENTS

Thank you for your letter of 5 May 2014 providing a copy of the Australian National Audit Office's proposed audit report into the Department's administration of residential aged care payments.

I note the four recommendations outlined in the audit report. The Department agrees with each of these recommendations, noting that significant effort has been undertaken in recent months to address many of the issues that have been raised. In addition, the introduction of new systems and capabilities under the aged care reform program are expected to further improve the Department's management of residential aged care processes.

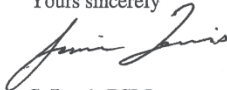
The Department's responses to the recommendations, along with comments of an editorial and technical nature are attached. The Department's response for inclusion in the report summary is:

"The Department of Veterans' Affairs notes the findings of the report and agrees with all recommendations suggested by the Australian National Audit Office".

I also note that Ms Judy Daniel, First Assistant Secretary, Health and Community Services Division has written to you separately to provide comments on the observations made throughout the report.

If you have any further questions about the Department's response, please contact Mr Dylan Kurtz, Director, Aged Care Section on (02)6289 4748 in the first instance.

Yours sincerely



S. Lewis PSM
Secretary
22 May 2014

ENCL

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Saluting Their Service

Proposed Audit Report on the Administration of Residential Care Payments Departmental Response to ANAO Recommendations

#	Reference	Recommendation	Departmental Response
1	2.8	To provide assurance that officials of the Department of Veterans' Affairs (DVA) have valid delegations under the Aged Care Act 1997 (the Act), and to facilitate the ongoing management of delegations, the ANAO recommends that DVA establish and maintain a central delegations register.	<p>The Department agrees with this recommendation.</p> <p>Maintenance of business (non financial) delegations is the responsibility of the Principal Legal Advisor (PLA). Information about all delegations (financial, business and HR) is currently maintained in the DVA intranet, accessed via a central delegations webpage. Having considered the issues raised in this audit, the PLA has confirmed the need to establish a centralised register of all business delegations, including those that rely on delegations provided by Ministers or Secretaries external to DVA. There is also a need to ensure delegations are amended promptly when required, such as when there are changes to the Administrative Arrangements Orders, Machinery of Government changes or a change of Secretary for the Department.</p> <p>To address these issues, a business delegations register will be included on the relevant intranet page, along with the protocol which details roles and responsibilities where changes to external agencies have a flow on impact for DVA delegations. Responsibility for coordinating action in accordance with this protocol and to maintain the business delegations register will be held by the Director, Legislation and Instruments.</p>
2	2.30	<p>To improve compliance with the Act and the quality of decision-making by DVA under the Act, the ANAO recommends that DVA:</p> <p>Accurately capture and document the client's current circumstances as required by the Act; and</p> <p>Consistently document its decisions including the client information that informs these decisions.</p>	<p>The Department agrees with this recommendation.</p> <p>As part of the introduction of new ICT systems and business processes supporting the aged care reforms, DVA is redeveloping its procedural and systems guidance for staff. This will also provide an opportunity to reinforce consistent evidence gathering and recording practices amongst processing staff. The connection between accurate assessment of client circumstance and subsidy entitlement will be emphasised in the new procedural and training material, and specifically reinforced by the issue of written management instruction.</p>

#	Reference	Recommendation	Departmental Response
3	3.36	To improve the level of assurance relating to the integrity of residential care payments data, the ANAO recommends that DVA take early steps to improve the quality of that data and establish quality and timeliness standards for its management of information, used as part of the data exchange process.	<p>The Department agrees with this recommendation.</p> <p>The Department is already actioning many aspects of this recommendation. Specifically, the Department has engaged staff to work through data cleansing activities associated with fully or partially matched clients without a correct residential situation (Report B) which will be completed by the end of July 2014. Staff are also now consistently actioning records associated with residential aged care entry and departure (Reports C and D) on a national basis. The importance of consistent and timely action of these reports will be reinforced by the issue of written management instruction. Finally, DVA has now actioned all reports correcting DVA liability for Commonwealth Subsidies (Quarterly Reconciliation Reports) and provided updates to the Department of Human Services (DHS). The Department will look to include protocols and performance measures in regards to timely actioning of these reports as new agency agreements are developed.</p>
4	4.18	The ANAO recommends that DVA should strengthen its risk management processes relating to the administration of residential care payments by addressing business-level risks in the context of the wider departmental Risk Management Framework.	<p>The Department agrees with this recommendation.</p> <p>The business area responsible for the Risk Management Framework (RMF) has already commenced the process of identifying business activity which cross branches, divisions or agencies, with the view to conducting end to end risk assessments on these on activities.</p> <p>This work is being completed in the context of a revision of the RMF which will include the clarification and documentation of roles and responsibilities at all levels of risk management activity. Action on the end to end risk assessment for cross branch/division/agency activity will commence as soon as the revised RMF has been endorsed by the Secretary and the Department's Audit and Risk Committee. It is proposed that the residential aged care programme will be one of the first to undergo this full risk assessment process. In addition, these risks and the appropriate mitigation strategies will be incorporated into section and branch level business planning practices to ensure they are monitored on an ongoing basis.</p>

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- 2 JUN 2014
9.30



Australian Government
Department of Social Services

Finn Pratt PSM
Secretary

Dr Tom Ioannou 2/6
Group Executive Director
Performance Audit Services Group
Australian National Audit Office
GPO Box 707
CANBERRA ACT 2601

Dear Dr Ioannou

Australian National Audit Office – Section 19 Draft Response
Department of Veterans' Affairs Administration of Residential Care Payments

Thank you for the opportunity to comment on the ANAO's Section 19 Report for the Audit Department of Veterans' Affairs Administration of Residential Care Payments.

I note that the Department has previously reviewed the audit's preliminary findings and proposed recommendations within the 'Issues Papers'.

The Department notes the findings of the audit. A summary of the department's response is included at **Attachment A**. Our full responses to the report's key findings are included at **Attachment B**.

In conclusion, I would like to take this opportunity to express my appreciation to your staff for the professional way in which they engaged with my staff in undertaking the audit.

Yours sincerely

Finn Pratt

28 May 2014

Attachment A:**Summary of DSS's comments on the section 19 draft response**

DSS welcomes the findings of the audit report on the Department of Veterans' Affairs Administration of Residential Care Programs and considers that the implementation of its recommendations will enhance the integrity, delivery and quality of decision-making in DVA's administration of the programme.

Improving the application of asset testing and income arrangements, addressing the integrity of residential aged care data and ensuring appropriate governance reporting and review arrangements are in place will strengthen the delivery of the residential aged care programme and further support effective and appropriate decision making across agencies.

DSS notes that in many instances, implementation has commenced in response to key findings and will continue to work closely with DVA and DHS on the joint delivery of aged care programmes.

Attachment B:

DSS's formal comments to be included in full as an appendix to the final report

DSS welcomes the findings of the audit report on the Department of Veterans' Affairs Administration of Residential Care Programs. The Department has reviewed the transcript of the report for factual correctness.

DSS notes the following regarding the findings of the report:

Key findings, paragraph 15:

Delegations of functions and powers of the DSS Secretary under the *Aged Care Act 1997* to the DVA Secretary and to the Repatriation Commission are in place to ensure appropriate delegated authority for DVA and the Repatriation Commission. DSS supports the maintenance of a central delegations register in DVA to facilitate the management of delegations as they relate to the *Aged Care Act 1997* and associated subordinate legislation.

Key findings, paragraph 16:

Current administrative difficulties as they relate to the capture of client information could be addressed in part by improvements to the ACA application form. DSS further notes that the ACA application form is in the process of being amended as part of the implementation of the 1 July 2014 Aged Care Reform measures and will include improvements to the way that information is captured from applicants as agreed by DSS, DHS and DVA.

Key findings, paragraph 18:

The integrity of residential care payment data has been impacted by ongoing issues related to the incorrect or absent identification of clients as DVA liable. DSS also notes the progress made by DVA in addressing a number of the ICT and business process deficiencies resulting in these issues however is aware that additional work is required. DSS further notes that the ICT systems that facilitate exchange of client data in support of the identification and management of DVA liability will be replaced on full implementation of the 1 July 2014 Aged Care Reform measures.

Key findings, paragraph 19:

DSS supports that DHS and DVA should continue to work closely together to review and address issues relating to residents with liability accepted by DVA to ensure that residents with eligibility to DVA funding are identified in a timely manner.

Key findings, paragraph 22:

Current inter-departmental governance arrangements between DSS and DVA can be strengthened to provide additional assurance across the management of operational matters and issues as they arise. DSS notes that as part of the work underway to establish revised bilateral arrangements with DVA, the roles and responsibilities of officers in each department have been considered and additional clarity will be included in the revised arrangements regarding the role of senior management in providing oversight on the operation of the agreement and resolving issues as required.

Key findings, paragraph 23:

DSS supports DVA in investigating options to, where possible, streamline the current DVA administration of the residential aged care programme in order improve the integrity of programme delivery and to reduce the potential for inefficiencies.

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27 MAY 2014
9-30



Australian Government
Department of Human Services

Kathryn Campbell CSC
Secretary

Ref: EC14/165

Dr Tom Ioannou *TJ 22/5*
Group Executive Director
Performance Audit Services Group
Australian National Audit Office
GPO Box 707
CANBERRA ACT 2601

Tom
Dear Dr Ioannou

Thank you for the opportunity to comment formally on the extracts of the proposed 'section 19' report arising from the Australian National Audit Office's (ANAO) performance audit on the Department of Veterans' Affairs Administration of Residential Care Payments, dated 5 May 2014.

The Department of Human Services (the department) notes that there are no recommendations made in the report for the department.

Attachment A to this letter details our overall response to the extracts of the proposed report.

If you would like to discuss the department's response, please do not hesitate to contact Ms Michelle Wilson, General Manager, Disability, Carers and Older Australians on (02) 61437288.

Yours sincerely

Kathryn Campbell

25 May 2014

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Attachment A

Response to the extract of the section 19 report on the performance audit on the Department of Veterans' Affairs Administration of Residential Care Payments

Summary of comments for the follow-up report brochure

The Department of Human Services welcomes this report which notes the work the department undertakes with the Department of Veterans' Affairs (DVA) to support DVA's role under the Australian Government's Residential Care Programme.

The department will continue to work closely with DVA to support the provision of accurate and timely residential care payments for eligible veterans and their families.

Appendix 2: Overview of DVA incorrect residential care payments

Timeframe or date	Summarised issues
January 2008	The 'DVA charge' field is set automatically by DVA's residential care system depending on the entitlement determined by DVA for each client in care at the time the data exchange takes place. DVA conceded that it was possible that the system's program was not assigning the DVA charge code correctly (resulting in DVA incorrectly accepting responsibility for the payment of residential care subsidies for some residents).
June 2010	DVA transferred \$26.2 million to the former Medicare Australia (Aged Care Account) that had responsibility for administering the residential care payment system on behalf of the former DoHA. Correspondence in July 2010 shows that this amount eventually went back to DoHA because DVA had been incorrectly attributing the cost of residential care to DoHA. This was impacting on both DVA's and DoHA's special appropriations for residential care.
January 2011	DVA attempted to correct the incorrect payment issues identified in the 2010–11 Financial Statements audit through system corrections in September and October 2011. There were 28 244 DVA clients recorded on the data file at the time but only 22 695 client records recorded as 'DVA liable' in the residential care payment system. Documentation provided by DVA indicates that there was some confusion as to whether the system changes were successful in correcting the underlying cause of DVA's incorrect payment issue.
September 2011	DVA identified between 1020 and 1130 instances (both figures were provided) where DVA had incorrectly accepted responsibility/liability for payment of the government subsidy in the residential care payment system. On 16 October 2013, DSS advised that a journal adjustment of \$39 million was manually paid to DVA for 2010–11. DVA documentation indicated that corrective action through a system change was not performed at the time because the payment amount was so significant.
2012–13	Following investigation by DVA and Human Services, approximately 770 records were identified where DVA had accepted responsibility/liability for payment of residents care in the residential care payment system.
2013–14	The systems change to correct the respite business rule was applied by DVA in its residential care system in September 2013. Human Services subsequently manually corrected the 770 records in the residential care payment system with liability for payment of their care incorrectly attributed to DVA, by DVA. The financial adjustment related to these records was \$35.8 million for 2011–12 and 2012–13 (\$9.4 million for 2011–12 and \$26.4 million for 2012–13).

Source: DVA provided the ANAO with the above Chronology of Events relating to the incorrect payments issue on 12 September 2013. The June 2010 amount of \$26.2 million should have been \$27 million. However, DVA documentation indicates that the department requested the lower amount to avoid having to seek additional funds from the then Department of Finance and Deregulation.

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Better Practice Guides

The following Better Practice Guides are available on the ANAO website:

Administering Regulation	June 2014
Implementing Better Practice Grants Administration	Dec. 2013
Human Resource Management Information Systems: Risks and controls	June 2013
Preparation of Financial Statements by Public Sector Entities	June 2013
Public Sector Internal Audit: An investment in assurance and business improvement	Sept. 2012
Public Sector Environmental Management: Reducing the environmental impacts of public sector operations	Apr. 2012
Developing and Managing Contracts: Getting the right outcome, achieving value for money	Feb. 2012
Public Sector Audit Committees: Independent assurance and advice for chief executives and boards	Aug. 2011
Fraud Control in Australian Government Entities	Mar. 2011
Strategic and Operational Management of Assets by Public Sector Entities: Delivering agreed outcomes through an efficient and optimal asset base	Sept. 2010
Planning and Approving Projects – an Executive Perspective: Setting the foundation for results	June 2010
Innovation in the Public Sector: Enabling better performance, driving new directions	Dec. 2009
SAP ECC 6.0: Security and control	June 2009
Business Continuity Management: Building resilience in public sector entities	June 2009
Developing and Managing Internal Budgets	June 2008
Agency Management of Parliamentary Workflow	May 2008
Fairness and Transparency in Purchasing Decisions: Probity in Australian Government procurement	Aug. 2007
Implementation of Programme and Policy Initiatives: Making implementation matter	Oct. 2006

