

T h e A u d i t o r - G e n e r a l

Audit Report No.35 1998-99

Performance Audit

The Service Pension

Department of Veterans' Affairs

A u s t r a l i a n N a t i o n a l A u d i t O f f i c e

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Canberra ACT
19 April 1999

Dear Madam President
Dear Mr Speaker

The Australian National Audit Office has undertaken a performance audit of the Department of Veterans' Affairs in accordance with the authority contained in the *Auditor-General Act 1997*. I present this report of this audit, and the accompanying brochure, to the Parliament. The report is titled *The Service Pension—Department of Veterans' Affairs*.

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

Yours sincerely

A handwritten signature in black ink, which appears to read 'P. J. Barrett', is positioned above the printed name.

P. J. Barrett
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/Glossary

AAT	Administrative Appeals Tribunal
ATO	Australian Taxation Office
CCPS	Compensation Claims Processing System
CLIK	Consolidated Library of Information and Knowledge. An online repository of reference material used by ISSOs, organised to assist them in their work.
CMS	Claims Management System
DoD	Department of Defence
DEETYA	Department of Education, Employment, Training and Youth Affairs (now Department of Education, Training and Youth Affairs)
DFCS	Department of Family and Community Services
DIR	Department Initiated Review
DSS	Department of Social Security (now Department of Family and Community Services)
DVA	Department of Veterans' Affairs
DVA FACTS	A series of facts sheets on the services provided by DVA. These sheets are already accessible on DVA's Intranet and are planned to be accessible on the Internet from April 1999. There is an access facility to guide questioners to the appropriate sheet.
IMU	Information Management Unit
ISBP	Income Support Breakthrough Project
ISSO	Income Support Service Officer
IT	Information Technology
OMU	Overpayments Management Unit
PIPS/PC	The DVA IT system used to process new claims and reviews.
PIR	Pensioner Initiated Review
POI	Proof of Identity

PRS	Performance Review System
QA	Quality Assurance
SPOC	Single Point of Contact
SPRO	Service Pension Review Officer
VAN	Veterans' Affairs Network
VIEW	A support system that presents service delivery officers in any part of DVA with an overall view of a client's transactions.
VSD	Veterans' Service Delivery project

Summary and Recommendations

Audit Summary

Introduction

1. The service pension is an income support payment broadly equivalent to the Department of Family and Community Services' (DFACS') age pension and disability support pension. It was first introduced in 1936 for World War I veterans in recognition by the Government that the effects of service in the battle zones may have resulted in premature aging and the loss of earning power. It is now paid to veterans (and their dependents) of World War I, World War II and conflicts and peacekeeping operations from World War II to the Gulf War.

2. In 1997–98 the Department of Veterans' Affairs (DVA) paid income support payments of \$2613 million, with additional running costs of \$54 million. In 1998, there were approximately 396 000 people receiving the service pension and related income support payments. A person receiving a part pension can be paid as little as a few dollars weekly, while a single person on the maximum rate of pension receives \$357 fortnightly, which is the same as the social security age pension.

3. This audit is part of a continuing series of ANAO performance audits of pension or benefit payments functions. It builds on and utilizes experience gained from previous ANAO performance audits of the administration of pensions and benefits, including:

- No.4, 1995–96, *Regional Office Resourcing and Benefit Processing*, DSS;
- No.9, 1995–96, *Teleservice Centres*, DSS;
- No.25 1996–97, *Customer Service*, DSS; and
- No.11 1997–98, *AUSTUDY*, DEETYA.

Audit objective

4. The audit objective was to determine DVA's performance in the economy, efficiency and administrative effectiveness of the delivery of income support payments to veterans and war widows. The audit reviewed the Department's performance against the following criteria:

- payment of the correct pension to the correct people in a timely fashion;
- pensions processed at low cost; and

- provision of a quality client service within policy and budgetary constraints.
5. These criteria reflect the characteristics of a well run pension/benefits administration system.

Overall audit opinion

6. The ANAO found that DVA's administration of the service pension and other income support payments was generally sound. However, DVA needs a more complete picture of the costs of processing the service pension and other income support payments to inform effective decision making and provide a benchmark for assessing administrative efficiency. DVA's knowledge of its costs will improve with the introduction of output-cost indicators in 1998–99. The ANAO found that DVA's management initiatives were reducing costs and improving client service.

7. The ANAO found that DVA was paying the correct pension to the correct people in a timely fashion and was providing, overall, a quality client service within policy and budgetary constraints. DVA's quality assurance program provides an assurance that service pensions and other income support payments are made in accordance with legislation.

Key Findings

Overall, DVA is paying the correct pension to the correct people in a timely fashion within the required accuracy levels.

8. The ANAO found that DVA has systems in place to ensure that, overall, the correct pension is paid to the correct people. Pension payments during 1997–98 were made on the due date. DVA has a quality assurance process that senior management can rely on and is meeting quality assurance targets. Work by internal audit confirms that, overall, payments are paid at the correct rate.

9. DVA's quality assurance process contains controls for internal fraud. There is a system designed to detect external fraud and to remedy erroneous payments. DVA's overpayments recovery system is not integrated with its payments system. However, an integrated payments system is to be introduced in mid-1999.

10. Client-service staff have decision support systems to assist in accurate, timely and nationally consistent decisions. The utility of the qualifying service decision support system would be strengthened if it were amended to facilitate straight forward claims. There is an appeals system to review income support payment decisions with feedback to client-service officers.

DVA is not meeting timeliness targets for processing new claims but is meeting targets for reviews of existing claims.

11. DVA is meeting its timeliness targets for the processing of pensioner initiated reviews of pensions. These comprise more than 90 per cent of transactions processed by client service officers. However, the Department is not meeting its targets for the processing of new age pension claims, new dependent claims, and new invalidity pension claims.

DVA needs better information to ensure that it is minimising the cost of service delivery.

12. The ANAO found that, at the time of audit fieldwork (third quarter 1998), DVA did not have adequate knowledge of the process and output costs of administering the service pension and other income support payments. Performance indicators to be introduced from the 1998–99 financial year will address output costs.

13. DVA has, or is introducing, well devised processing systems to help service delivery officers produce accurate decisions in the minimum possible time at the lowest possible cost. DVA needs to monitor the

standard of support services provided to service delivery officers. Overall, DVA internal support units are dedicated to providing a quality service to service delivery officers.

Overall, DVA is providing a quality client service within policy and budgetary constraints.

14. The ANAO found that DVA has a strong client service culture and good client communications. DVA's culture is supported by human resource management policies and practices which are linked to client service. However, DVA does not yet have a complaints handling mechanism and its client service charter only has one measurable service delivery standard.

15. Overall, the ANAO also found that DVA maintains client friendly operations. However, as confirmed by DVA's performance indicators, DVA takes too long to process claims for invalidity service pensions. It should be noted that invalidity-pension claims are less than 3 per cent of income support transactions processed by DVA officers. DVA has a robust continuous improvement process, although the ANAO found that the extent to which a continuous improvement culture had been developed varied between states.

16. The ANAO consulted the Returned Services League, the War Widows' Guild, the Australian Veterans and Defence Services Council and the Vietnam Veterans' Association to obtain their impressions of the client service offered by DVA in respect of the income support payments. Generally these organisations were strongly supportive of the service offered by DVA. DVA's 1995 client satisfaction survey showed a 95 per cent satisfaction rate.

DVA needs, and is developing, a more comprehensive set of performance indicators for its own management and accountability purposes.

17. The ANAO found that, at the time of audit fieldwork, DVA did not have a sufficient range of performance indicators to allow senior managers or stakeholders to be assured that DVA is meeting all three objectives of a well-run pension payments system. DVA will be introducing a more comprehensive range of output and outcome indicators in 1998–99 as part of accrual budgeting to provide such assurance.

Other major findings

In comparison with the findings of previous audits DVA has a more balanced focus on the three major characteristics of a well run pension/benefits payments system.

18. In previous audits the ANAO found that agencies have had a good focus on paying the correct pension to the correct people but needed to improve their attention to client service and to minimising costs. The findings in this audit have led the ANAO to conclude that DVA has a strong focus on paying the correct pension to the correct people and providing a quality client service. DVA's focus on reducing its costs will be improved with the availability of output-cost indicators.

Service pensioners expectations of DVA's service timeliness are likely to increase.

19. From 1 July 1999, the time allowed for veterans to notify DVA of changes in their finances which could affect the level of the pension received will reduce from 21 to 14 days. DVA is upgrading existing systems and introducing new systems to enable it to process changes in the required timeframe. The tighter notification period changes are likely to increase veterans' expectations of DVA's service timeliness. Raised pensioner expectations may require DVA to revise its performance targets.

DVA does not compare practices and processes with other pension/benefit payment agencies and with comparable private sector organisations.

20. DVA is not benchmarking its performance against other pension payment agencies or private sector organisations with similar processes. Centrelink, as the administering agency for the social security age pension, provides a performance yardstick for DVA. Centrelink is a possible partner for joint development of support systems for client service officers in both organisations. Pension payment agencies in other countries and private sector organisations are a further possible source of better practice techniques.

ANAO recommendations and DVA response

21. The ANAO made eight recommendations for improvement. DVA agreed to all the recommendations, five in full and three in principle. DVA commented that:

Whilst the audit findings identified a satisfactory level of performance by DVA in its payment of income support pensions, the audit has provided DVA with a number of additional observations that will be valuable in further improving its service delivery performance. In particular, DVA will:

- *re-examine its performance indicators to ensure those measures are clearly comparable throughout its major publications such as the Annual Report and the Service Charter;*
- *undertake detailed analysis of the specific cases that consistently fall outside timeliness targets; and*
- *clearly identify its processing costs so that a comparison of costs between States may lead to the identification of some best practice initiatives which may in turn lead to additional cost benefits. Benchmarking against private and public sector organisations with similar processes will further assist in identifying areas for improved efficiency.*

Recommendations

Recommendation No.1
Para. 2.36 The ANAO recommends that, to assist in achieving nationally uniform outcomes for qualifying-service claims, DVA modify the qualifying-service decision support system to facilitate processing of simple claims, then make use of the system mandatory for staff who process qualifying-service claims.

DVA response Agree in principle.

Recommendation No.2
Para. 3.7 The ANAO recommends that, to identify efficient administration and better practice and to improve performance, DVA collect costing information to compare process costs between state offices.

DVA response Agree.

Recommendation No.3
Para. 3.14 The ANAO recommends that, in order to ensure that the service delivered by the computer applications used by Income Support Service Officers to process pension claims and reviews is of the required quality, DVA monitor, at the point of delivery, the availability and reliability of these applications.

DVA response Agree in principle.

Recommendation No.4
Para. 3.31 The ANAO recommends that, to separate the time taken to raise and initiate the recovery of an overpayment from the time taken to recover the overpayment, DVA develop performance indicators for:

- the time taken for DVA to identify and initiate recovery of the overpayment; and
- the period from notification of the veteran to the recovery of the overpayment.

This will assist in the more efficient management of overpayments.

DVA response Agree.

Recommendation No.5
Para. 4.15 The ANAO recommends that DVA ensure that the performance indicators included in its annual report, which are relevant in assessing performance against service standards in its service charter, are clearly linked to the appropriate service standards. This will assist stakeholders in assessing performance against the service standards.

DVA response Agree.

Recommendation No.6
Para. 4.18 The ANAO recommends that DVA examine its performance against the service delivery standards in its service charter and, where standards have not been met, use the resulting information to improve processes and service delivery.

DVA response Agree.

Recommendation No.7
Para. 4.39 The ANAO recommends that, to identify processing bottlenecks and other areas for improvement, DVA analyse the reasons for income support transactions being completed outside target times and take appropriate action to address the problems identified.

DVA response Agree.

Recommendation No.8
Para. 5.26 The ANAO recommends that, in order to operate as close as possible to best practice, DVA compare itself with and learn from other pension/benefit payments agencies and private-sector organisations with similar processes. Activities should include suitable benchmarking of administrative and management processes and exchange of better-practice techniques for more cost effective operations.

DVA response Agree in principle.

Audit Findings and Conclusions

1. Introduction

This Chapter provides the background to the audit. It describes the audit approach, objectives and methodology.

The Income Support pension

1.1 The service pension is an income-support payment made by the Department of Veterans' Affairs, broadly equivalent to the Department of Family and Community Services' (DFACS') age pension and disability support pension. It was introduced in 1936 for World War I veterans in recognition by the Government that the effects of service in the battle zones might result in premature aging and loss of earning power. It is paid now to veterans (and their dependents) of World Wars I and II and certain other war-like operations.

1.2 The income support supplement (ISS) is an income support payment made by DVA to eligible war widows and widowers. In 1986, the component of the Department of Social Security (DSS) age pension payable to war widow(er)s, in addition to the war widow(er)s pension, was frozen at \$120.10 per fortnight.

1.3 From 1995, this ISS payment could only be granted by DVA, although existing payees could choose to remain with DSS (now Centrelink). Approximately, 60 000 war widows transferred their payments from DSS to DVA at that time. About 4000 war widows remain with Centrelink and receive a frozen rate age pension.

1.4 In 1997–98, DVA paid service pension and other income support payments of \$2613 million, with additional running costs of \$54 million. The Income Support Branch in DVA's national office is responsible for income support policy and national administration. Income support sections in state offices are responsible for service delivery. A fuller description of the service pension and service pensioners can be found in Appendix 1.

1.5 The number of income support clients is expected to drop from 396 000 in 1998 to 307 000 in 2005. DVA is faced with achieving efficiencies in the administration of the income support payments while servicing a falling client population. In 1994–95 DVA introduced the Compensation Claims Processing System (CCPS). The CCPS led to productivity improvements of some 30 per cent in processing compensation claims. In 1995 DVA instituted the Income Support Breakthrough Project (ISBP) to redesign income support business processes and to apply the lessons

learned from the introduction of the CCPS to bring about, in DVA's words, dramatic improvements in the Department's performance in paying income support pensions. The ISBP is discussed further in Chapter 5.

Audit approach

1.6 This audit is part of a series of ANAO performance audits of the administration of pension or benefit payments functions. It builds on and utilises experience gained from previous ANAO audits, including:

- No.4, 1995–96, *Regional Office Resourcing and Benefit Processing*, DSS;
- No.9, 1995–96, *Teleservice Centres*, DSS;
- No.25 1996–97, *Customer Service*, DSS; and
- No.11 1997–98, *AUSTUDY*, DEETYA.

1.7 The audit also drew upon lessons learned from ANAO's Report No.7, 1995–96, *Financial Management*, DVA.

1.8 The audit used better practice principles from the following ANAO guides to assess DVA's performance:

- Better Practice Guide, *Performance Information Principles*, November 1996;
- Better Practice Guide, *Quality in Customer Service*, November 1997; and
- *Controlling Performance and Outcomes, a better practice guide to effective control*, 1997.

1.9 Other information used to plan the audit were the audit report of the British Comptroller and Auditor General in the United Kingdom¹ on pensions payments, and the experiences of Income Support New Zealand in reforming pension-payments processes.

Objective

1.10 The audit's objective was to determine DVA's performance in the economy, efficiency and administrative effectiveness of the delivery of income support payments to veterans and war widows.

Scope

1.11 The ANAO examined whether DVA had appropriate systems to achieve a desired outcome but did not examine the standard of outcome achieved. For example, the ANAO reviewed DVA's measures to ensure

¹ National Audit Office 1995, Report by the Comptroller and Auditor General, *Administration of Retirement Pensions*, HMSO, London.

that its staff were well-trained in eligibility criteria but not to test the staff's knowledge of those criteria.

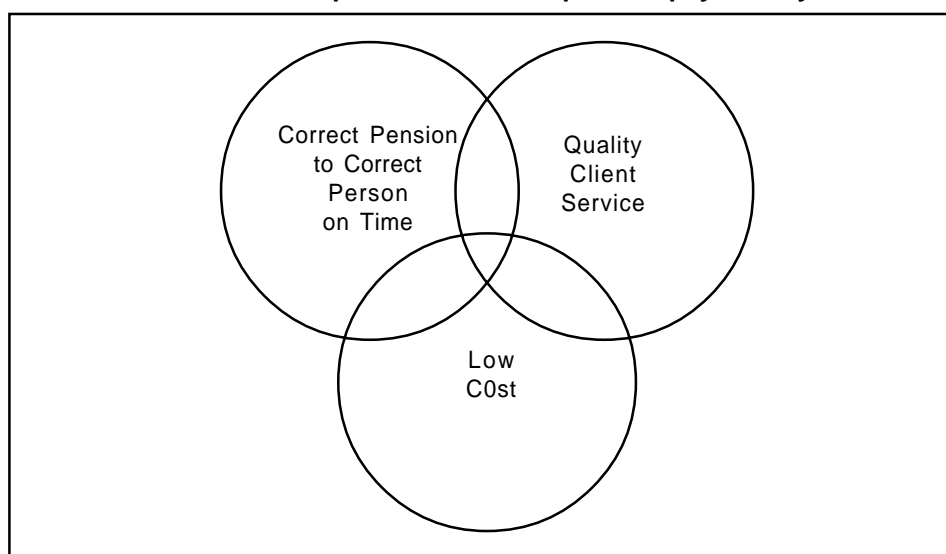
1.12 The ANAO examined DVA's compliance with particular government policy, for instance, whether it had a suitable Client Service Charter that accorded with the Government's policy requirements.

Audit methodology

1.13 Audit criteria encapsulate the auditor's expectations of what would be accepted as sound management and administration based on observed better practice. They would include reasonable and attainable performance and control standards against which the adequacy of systems, practices, programs and administrative activities could be assessed. ANAO experience from previous audits of benefits-payments processes led to the view that a well run benefit or pension payments system would have the characteristics shown in the following diagram.

Figure 1

Characteristics of a better practice benefit or pension payment system



1.14 The above characteristics were adopted as audit criteria, against which the Department's administrative performance was compared.

1.15 The main methods of enquiry were:

- a review of relevant DVA documents;
- observation of the processing of new pensions and pension reviews;
- interviews with DVA officers;
- interviews with representatives of major ex-service organisations; and

- engagement of a consultant, Mr Colin MacAlister, a former Deputy Secretary in the Department of Social Security, to provide advice on the scope of the audit and the audit criteria.

1.16 Field work was conducted between July and October 1998 in DVA's national office in Canberra and in state offices in Sydney, Melbourne and Brisbane. The latter were chosen because DVA administers payments to more than 75 per cent of income support pensioners from those places.

1.17 The audit complied with ANAO Auditing Standards. It cost \$292 000.

2. Correct and Timely Payment

This Chapter describes the steps DVA has taken to ensure the correct and timely payment of pensions. The ANAO concludes that, overall, DVA is paying the correct pensions to the correct people in a timely fashion. There is one recommendation for improvement.

Introduction

2.1 A characteristic of a well-run benefit or pension payments system is to pay the correct pension to the correct people in a timely fashion. The ANAO applied relevant guidelines developed from Audit Report No. 4 1995–96, *Regional Office Resourcing and Benefit Processing*, Department of Social Security, and Audit Report No.11 1997–98, *AUSTUDY*, Department of Employment, Education, Training and Youth Affairs, to assess the steps taken by DVA to ensure that the correct amounts are paid to the correct people.

Timely payment

2.2 Full-rate income support pensioners are heavily reliant on DVA for their income and are consequently dependent on the pension being paid into their bank accounts on pension paydays. Over 99.5 per cent of income support pensioners are paid by direct credit to their bank accounts. All pension payday payments made direct to bank accounts through DVA's payments system in 1997–98 were made on time. DVA has a contingency plan to ensure timeliness of payments—essentially this involves using the previous pension payday payroll and making manual payments to any new pensioners. The contingency plan was tested by DVA in 1998 but has never had to be used.

A quality-assurance program

2.3 An organisation striving to pay the correct pension or benefit to the correct people will assess the quality of the decisions made by those providing direct customer service. The ANAO found that DVA had a quality-assurance (QA) program for income-support pensions and benefits.

2.4 The program enables DVA to monitor the quality of the work of Income Support Service Officers (ISSOs) and other officers making decisions affecting pensions and other income support payments. DVA uses the QA program as a tool to improve service-delivery to veterans

and their dependents and to identify best practice, staff training needs and areas needing improvement.

2.5 Each state has a QA officer, an experienced staff member at team-leader level, who reports directly to both state and national office management on QA matters.

2.6 DVA's national QA program is designed to have the following three elements:

- data integrity;
- fraud control; and
- decision analysis.

2.7 The current version of DVA's income-support QA program has implemented the first two elements. The third element has not yet been implemented.

Data integrity

2.8 The data-integrity element has two components. The first component is designed to ensure that data is entered into the processing system correctly. The second component is intended to ensure that decisions are accurate and complete. Quality Assurance officers assess the quality of both components by examining a random sample of decisions.

2.9 The QA officer checks that data in the pensions database agrees with the data provided by the veteran. The QA officer checks also that the decision is complete and accurate. As well, all new-client applications are checked for proof of identity (see under fraud control, below).

2.10 DVA has defined two levels of error in decisions on eligibility for, and the level of, income support payments. These are classified as critical errors and non-critical errors. Examples of critical errors are:

- incorrect payments greater than \$10;
- wrong eligibility determination; and
- payment or advice sent to the wrong person.

2.11 Non-critical errors include;

- incorrect errors less than or equal to \$10;
- an incorrect change to claim details that has not affected the client's eligibility; and
- an incorrect change of address which does not result in the payment or advice being sent to the wrong person.

2.12 Each state is required to meet the following standards of the accuracy in their administrative decision-making:

- a critical error rate of less than 5 per cent (more than 95 per cent of decisions are to have no critical errors); and
- a non-critical error rate of less than 10 per cent (more than 90 per cent of decisions are to have no errors).

2.13 QA officers are required to submit a monthly report to the National QA Coordinator with the following information:

- total number of cases selected to be checked;
- number and types of errors;
- percentage of errors found; and
- action taken as a result of error detection.

2.14 DVA national office compiles from state reports a consolidated quarterly report. The outcomes of QA reviews are documented and statistics of error rates kept. The ANAO noted that the consolidated quarterly reports for March and June 1998 were not available until at least three months after the end of the reported quarter, while the report for the September quarter 1998 was available in mid December. Performance against targets is reported to senior management but has not yet been reported to external stakeholders. At the time of audit field work, DVA was not using this information as either an external or internal performance indicator. DVA has informed the ANAO that the results of the QA program will be used as both an internal and external performance indicator from 1998–99 under accrual budgeting. If the performance indicator is to be useful, results will have to be available on a timely basis.

2.15 Action taken by state offices to correct errors is reported to national office. QA officers might resolve problems by informing the relevant service delivery officer (the ISSO) of his/her mistake and also by training exercises to overcome common mistakes. Each state office produces a QA bulletin, which is circulated within the state and to national office as well as to other state offices. The Income Support Policy Section of National Office examines the consolidated quarterly QA reports and state office QA bulletins to identify national patterns that might need corrective action.

2.16 The Department's QA reports for 1997–98 show that, at a national level, the required standards are being met. At state level, all states except one are meeting the standards.

Fraud control

2.17 Single Point of Contact (SPOC) is a concept introduced as part of the Income Support Breakthrough Project (ISBP). This concept states that a veteran should have to communicate with only one officer in DVA to complete an item of business. An element of the concept is single-officer processing, which carries an increased risk for internal fraud. The procedures outlined in DVA's Fraud Control Protocol are designed to counter the increased risk.

2.18 Under DVA's Fraud Control Protocol, an ISSO checks for genuineness the Proof Of Identity (POI) and service documents of all new applicants. They are checked again by the team leader. Then the QA officer examines them to confirm that the team leader has completed the check, and makes a series of file checks to confirm that the applicant's identity and service documents exist and are genuine. These checks are designed to detect external fraud and to detect and deter internal fraud.

2.19 The Fraud Control Protocol is being introduced as state offices introduce SPOC. The last state to move to SPOC was Western Australia, which began in June 1998. Once the protocol has been in use in all states for six months, DVA intends to re-evaluate it.

External assessment

2.20 Each year, DVA's Internal Audit checks a sample of income-support transactions in each state. If the sample satisfies the QA criterion (less than 5 per cent critical errors), the result is regarded as satisfactory. The internal audit opinion for 1997–98 read 'Audit's overall assessment is that payments are paid at the correct rate...'. This provides independent verification for senior management that the Income Support QA process can be relied on.

Audit finding

2.21 The ANAO found that DVA has a Quality Assurance process which senior management can rely on. The ANAO regards DVA's income support Quality Assurance process as an example of better practice.

A system to detect and rectify erroneous payments

2.22 Pension or benefit payments schemes can be subject to fraudulent claims by applicants. Other causes of erroneous payments include errors by pensioners, DVA or other pension-payment agencies. A pension or benefit-payment agency needs appropriate systems to detect and correct erroneous payments. The ANAO found that DVA has an Income Support Overpayments Management Unit (OMU) in each state.

External fraud

2.23 DVA has several sources of information on possible external fraud. The first is a program of comparing data with the Australian Taxation Office (ATO) and other pension/benefit-payment agencies, particularly Centrelink. Income declared to the ATO is compared with that declared to DVA, and significant discrepancies are investigated. Data-matching with other pension/benefit payment agencies is designed to detect illegal claims for more than one benefit.

2.24 A second source of information is the public, with a third being Departmental initiated reviews (DIRs) of pensioners' circumstances. The final source is reviews of information received from pensioners (that is, pensioner initiated reviews, PIRs).

2.25 State-office overpayment units investigate possible fraud cases and refer them to the Australian Federal Police or the Director of Public Prosecutions for prosecution. Complex investigations of prosecution matters might be referred to DVA's National Investigation Unit.

Overpayments

2.26 Pensioners have 21 days to notify DVA of a change in circumstances which could affect their pension levels. If a change occurs which should lead to a pension reduction, and the pensioner does not notify DVA within 21 days, there will be an overpayment which DVA must recover. Agency error, too, can cause overpayments—for example, an ISSO might not enter a piece of information, resulting in an erroneous payment and the possible need for recovery action.

2.27 If an ISSO suspects an overpayment the pensioner's file is referred to the OMU, which confirms existence of the overpayment and whether to initiate recovery. Amounts of less than \$200 can be written off as uneconomic to recover.

2.28 DVA's present overpayments system is not integrated with its payments system, so manual calculation of the overpayment is necessary. Tracking of the overpayment's recovery, too, requires manual intervention. DVA is developing an integrated payments system that will include calculation and recovery of overpayments. It is scheduled for introduction by 1 July 1999.

2.29 A continuous-improvement project in the Victorian state office is using a risk-management approach to overpayments control and, by building on good practice from other offices, has developed some useful proposals.

2.30 If an underpayment is detected, the pensioner receives a back payment to the date when the pensioner notified DVA of the change in circumstances.

Audit finding

2.31 The ANAO found that DVA has a system to detect and rectify erroneous and fraudulent payments. The integrated payments system to be introduced in mid-1999 will facilitate overpayments management.

Decision support systems

2.32 A decision-support system is a tool that can help staff to make accurate, timely decisions. Decision support systems can also help ensure consistency of decisions made in separate offices. That is, such a system will increase the probability that two pensioners with the same circumstances will receive the same decision or advice from any DVA office. DVA has a computerised decision-support system to help its staff process qualifying-service claims. DVA's main processing system calculates pensions from the information entered and provides limited decision support. This report provides more information about DVA's processing systems in Chapter 3.

2.33 The qualifying-service decision-support system works well for complex claims but is cumbersome for claims for which the outcome is clear. At the moment, use of the qualifying-service decision support system is not mandatory for staff. If the system were modified to permit easy registration of decisions on claims with clear outcomes, its use could be made mandatory, which would help ensure nationally uniform outcomes for qualifying-service claims. Without the mandatory use of the qualifying-service decision system there is a danger of differing decisions on the same set of circumstances. It should be kept in mind that the cost implications of claims with clear outcomes can be significant.

2.34 DVA provides on-line reference systems to help its staff make accurate, consistent decisions quickly on pension eligibility and levels of payment (see Chapter 3 for more detail). These systems are maintained by National Office and ensure that all service delivery officers work from the same reference material.

Audit finding

2.35 The ANAO found that DVA has decision-support systems to help staff make accurate, timely and nationally uniform decisions. However, the qualifying-service decision support system could be modified to facilitate the registration of claims where the outcome is clear.

Recommendation No.1

2.36 The ANAO recommends that, to assist in achieving nationally uniform outcomes for qualifying-service claims, DVA modify the qualifying-service decision support system to facilitate processing of simple claims, then make use of the system mandatory for staff who process qualifying-service claims.

DVA response

2.37 Agree in principle. DVA will review the qualifying service support system to determine what changes may be required to ensure that the system is responsive to simple claims and that the necessary level of support documentation is generated. It will implement the changes if possible.

Reviews and appeals

2.38 An organisation striving to pay the correct pension to the correct people will advise pensioners of their right to have decisions reviewed or appealed and will have a system in place to process reviews and appeals. The organisation will monitor the results of reviews and appeals and take any necessary action to improve decision making by customer service officers.

2.39 When a decision is made by an officer the veteran is notified of the decision and the reasons for it. The veteran is also notified of his or her right to have the decision reviewed. An income support pensioner dissatisfied with a DVA decision has three months from the date of the decision to lodge an appeal. The pensioner informs DVA of the details of the situation and the reason for the appeal, and the decision is reviewed by an independent DVA officer called a Service Pension Review Officer (SPRO). If the pensioner is dissatisfied with the SPRO's decision, the next option is the Administrative Appeals Tribunal (AAT). The final option, for matters of law only, is the Federal Court.

2.40 In 1997–98 there were approximately 110 000 income-support transactions involving decisions by income-support officers, of which 734 (less than 1 per cent) were appealed. About 25 per cent of these appeals were upheld. The ANAO did not review the efficiency or effectiveness of this appeals system.

2.41 DVA monitors and evaluates appeals. When a SPRO overturns a decision, the case is discussed with the primary decision-maker. If the SPRO notices a consistent pattern of disallowed decisions, group training might be arranged. SPROs are able also to place relevant articles on matters arising from reviews of decisions in state office QA bulletins. National Office monitors appeals to the AAT and Federal Court.

Audit finding

2.42 The ANAO found that DVA has an appeals system to review income support-pension decisions. The Department reviews the results of appeals and where necessary provides counselling or training to Income Support Service Officers.

Well-trained staff

2.43 A prerequisite to the accurate and timely payment of a pension or benefit is staff who are well-trained in eligibility criteria. The ANAO found that all ISSOs undergo intensive training on all aspects of pension processing. State offices are responsible for their own staff training, but National Office provides specialist training at the request of the states. The Quality Assurance program discussed earlier, and feedback from DVA's appeals system, are used to identify weaknesses, the correction of which might necessitate more training.

2.44 In field work in state offices, members of the audit team observed ISSOs processing new claims and reviews. These observations indicated that staff were well trained in eligibility criteria.

Conclusion

2.45 DVA has systems to ensure that the correct pensions are paid to the correct people. As noted above, DVA's QA program indicates that required processing-accuracy levels are being achieved. Work by Internal Audit confirms that quality targets are being met.

2.46 The ANAO, as part of the audit of DVA's financial statements, examined the systems and controls for the payment of income-support pensions. No material deficiencies were noted in the underlying systems and controls.

Audit finding

2.47 The ANAO found that, within the accuracy levels set by DVA's Executive, DVA is paying the correct pension to the correct people in a timely fashion.

3. Cost of Service Delivery

In this Chapter the measures adopted by DVA to minimise costs are reviewed. The ANAO found that DVA did not have an output-cost indicator, but was working to develop one. It had made good progress in providing systems that facilitate the work of Income Support Service officers, and had internal support units dedicated to providing these officers with a quality service. At the time of audit fieldwork, DVA did not have a sufficient range of performance indicators to allow managers or stakeholders to be assured that all management objectives were being met. DVA has proposed more comprehensive output and outcome indicators for introduction in 1998–99 as part of the introduction of accrual budgeting. There are three recommendations for improvement.

A knowledge of output and process costs

3.1 An objective that managers of a well run pension or benefit-payments system strive for is to minimise the costs of processing pensions, consistent with a quality client service. An organisation with low cost processes will have a good knowledge of its process and output costs. Such knowledge allows the organisation to identify and encourage better practice and to identify and remedy poor practice.

3.2 An example of output costs is the departmental cost per pensioner of administering service pensions and other income support payments. An example of a process cost would be the average cost of determining whether an applicant has eligible qualifying service. An example of an input cost is the salaries paid by a business unit.

3.3 The ANAO found, that at the time of audit field work (third quarter 1998), DVA had a good knowledge of input costs, but did not yet have a knowledge of process costs or output costs. However, the Department informed the ANAO that, as part of its introduction of accrual budgeting, it was introducing output cost indicators. The income-support output and outcome cost indicators to be used by DVA for accrual budgeting are described in Table 1 on page 40. These indicators will be available from the 1998–99 financial year.

3.4 A well managed organisation uses output and process costs to identify areas of low cost and then examines these areas to determine whether they are examples of better practice. DVA's proposed output cost indicators will permit a state-by-state comparison of output costs. That is, it will be able to make statements such as 'the cost per pensioner of processing new claims is less in State A than in State B'. However, to

establish the reasons for differences in output costs between states, DVA will need the ability to compare the costs of similar processes between states. This would assist the Department to identify practices which are leading to significant differences in costs between states.

3.5 When collecting process cost information, DVA's aim should be to identify significant differences between states in the costs of similar processes. As DVA is looking for significant cost differences, well founded estimates may be sufficient. Comparability of estimates between states implies cooperation between states and a degree of central coordination. The ANAO notes that DVA intends to collect information periodically to confirm and refine its allocation of expenditures to cost centers, including those in state offices. This exercise could be used also to collect information for estimating the cost of income-support processes.

Audit finding

3.6 The ANAO found that, at the time of audit field work (third quarter 1998), DVA was not preparing estimates of process costs or output costs. However, DVA has informed the ANAO that it plans to introduce output-cost indicators, for both new claims and reviews of income support, from the 1998–99 financial year

Recommendation No.2

3.7 The ANAO recommends that, to identify efficient administration and better practice and to improve performance, DVA collect costing information to compare process costs between state offices.

DVA response

3.8 Agree

Well-devised processing systems

3.9 A low-cost customer service organisation will have processing systems that help client service officers produce accurate decisions in the minimum possible time with the minimum possible effort. These systems will make it easy for the client or customer to interact with the organisation. As mentioned earlier, DVA initiated its Income Support Breakthrough Project (ISBP) 'to redesign Income Support business processes to bring about dramatic improvements in performance. The ISBP is described in Chapter 5.

3.10 DVA introduced a decision-support system in the first quarter of 1998 to help its staff determine qualifying service claims. The ANAO observed this system in use in state offices and concluded that it provided

good support to staff facing complex decisions. However, as previously indicated, it is cumbersome to use to process straightforward decisions. Recommendation No.1 addresses this problem.

3.11 DVA's pension-processing system, PIPS/PC, assists staff through the income and assets tests and uses the information entered to calculate the pension payable. DVA has completed a project to streamline PIPS/PC, to facilitate its use by Income Support Service Officers (ISSOs).

3.12 DVA's processing systems provide a service to ISSOs. DVA managers need an assurance that the service delivered meets the required quality standards. In the course of field work in state offices, members of the audit team observed Departmental staff processing claims and reviews using PIPS/PC. During observations there were error messages which forced staff to restart PIPS/PC. The ANAO also observed instances of PIPS/PC seeming to save data but, when the print-out of the transaction was checked, the data was not there. In other words there were flaws in the service provided by PIPS/PC to staff. However, DVA did not have an adequate system to monitor the PIPS/PC problems which its staff experience, and was relying on ISSOs to report problems. Departmental staff did not always report problems with PIPS/PC.

3.13 DVA should monitor, at the point of delivery to ISSOs (the desktop), the availability and reliability of the computer applications used by staff to process pension claims and reviews. A possible approach could be to have members of one or more customer service teams keep a log of problems that have arisen. Workload could be spread by rotating this duty between teams. This will provide DVA with good knowledge of the availability and the quality of the service being provided. It would also permit an assessment of software problems and any patterns in them, and of operator problems and remedial-training needs.

Recommendation No.3

3.14 The ANAO recommends that, in order to ensure that the service delivered by the computer applications used by Income Support Service Officers to process pension claims and reviews is of the required quality, DVA monitor, at the point of delivery, the availability and reliability of these applications.

DVA Response

3.15 Agree in principle. DVA will investigate means of improving the monitoring of the availability and reliability of the applications at the point of delivery.

3.16 PIPS/PC includes a correspondence-support system. When an officer has finished processing a new claim or a review, the system will produce a standard letter, including the client's address, by selecting the appropriate paragraphs from a library of standard paragraphs. The staff member need only write the first paragraph. A copy of the letter is produced as part of the print-out of the transaction, which permits review of the letter before it is sent. DVA has conducted reviews of the correspondence-support system in 1995 and 1998, to provide shorter, better-focused letters.

3.17 Client focussed organisations which offer a wide range of services, produced by different divisions, will have systems in place to ensure that client interactions are as smooth as possible. As part of the ISBP, DVA has introduced the Single Point of Contact (SPOC) concept. As mentioned earlier, the idea behind the concept is that a veteran who has business with DVA should have to deal with only one officer to complete his or her business.

3.18 DVA has introduced a new system, VIEW, to support SPOC. VIEW has been designed to give ISSOs and other customer service officers throughout DVA an over-all view of all a client's transactions with DVA, including who has served the veteran previously and the status of any outstanding transaction. DVA intends to enhance future versions to allow simple transactions such as a change of address to be captured immediately through VIEW.

3.19 Another new facility, DVA FACTS, has been introduced to help ISSOs provide swift and accurate answers to enquiries. It is designed as an easily accessed, well structured reference system containing current information. It is structured as a series of fact sheets on veterans' entitlements and all services offered by DVA (not just income-support matters). The fact sheets are maintained in an on-line database on DVA's intranet, whose search facilities give easy access to them. It is particularly useful to ISSOs dealing with veterans' questions about entitlements or services not administered as part of income support. The Department informed the ANAO that DVA FACTS will be made available on the Internet during April 1999.

3.20 The Consolidated Library of Information and Knowledge (CLIK), which is currently under construction, has been designed as a consolidated database of reference material used by ISSOs and other client-service staff. All information they need is being collected and placed in an easily accessible on line database, which is integrated into processes. CLIK is being introduced progressively, with initial modules already in place. It will replace a number of existing knowledge repositories.

3.21 Two further systems used by income support staff are the payments system and the system used to raise and recover overpayments. DVA's payments system is over 25 years old and is not integrated with either the system used to assess eligibility and the level of pension payable (PIPS/PC) or DVA's overpayments system. A new integrated payments system is being developed for introduction from 1 July 1999. Amongst other benefits, it is intended to ensure that DVA's income support payments system is Year 2000 compliant.

Audit finding

3.22 The ANAO found that DVA is revising existing systems and introducing new systems to assist Income Support Service Officers and other Income Support staff to produce accurate decisions quickly and efficiently.

Dedicated internal support units

3.23 Organisations that are achieving quality client service at the lowest possible cost have internal support units dedicated to providing a quality service to service delivery officers. The ANAO examined the business plans and interviewed the managers of all national office Income Support sections.

3.24 The business plans of three of these four sections contained goals or objectives that involved supporting the delivery of income-support services to the veteran community. The fourth section did not identify stakeholders explicitly. All these sections had in their business plans strategies for supporting client service officers and means of gauging the success of that support.

3.25 The primary objective of DVA's Information Management Unit (IMU), which provides IT support to the rest of DVA, is

to provide IT systems and services which will assist DVA Divisions to meet the needs of Australia's veterans, Departmental management and staff in a cost efficient and effective manner.

IMU has a client relationship manager responsible for Income Support Information Systems and a Director, Veterans' System Support. IMU conducts periodic client-satisfaction surveys.

Audit finding

3.26 Overall, the ANAO found that DVA has internal support units dedicated to providing a quality service to service delivery officers.

Comprehensive management-information systems

3.27 A prerequisite to achieving the lowest possible cost consistent with a quality client service is a management-information system which assures managers that costs are being minimised while client-service standards and process quality are maintained or improved. Performance indicators should relate to management's objectives and permit assessment of the extent to which the objectives are being achieved.

3.28 We found that DVA's performance indicators fell into three categories as follows:

- indicators of process timeliness;
- indicators of process quality (accuracy); and
- cost indicators.

Process timeliness

3.29 ANAO found that there was a timeliness indicator for each type of pension process. Examples can be found in Figures 2 through 5 in Chapter 4. Process timeliness indicators were readily available to all managers through the Performance Review System (PRS), which presents information in graphical or tabular form, nationally or by state, and which also presents a number of alternative views of achievements. Data are available within seven days of the end of the week or month. Managers can obtain further relevant information on the processing of claims through the Claims Management System (CMS).

3.30 DVA's timeliness indicator for processing overpayments measures the time taken from the beginning of the overpayment transaction to the completion of recovery action. If recovery is by deduction of a small amount from the veteran's pension each pay day, recovery can take years to complete. Information on DVA's ability to raise and initiate overpayments recovery promptly is masked by the time actually taken to recover the overpayment. The overpayment timeliness indicator would be more useful if it were split into two parts to indicate the time taken:

- to identify and process the overpayment; and
- to recover the overpayment.

Recommendation No.4

3.31 The ANAO recommends that, to separate the time taken to raise and initiate the recovery of an overpayment from the time taken to recover the overpayment, DVA develop performance indicators for:

- the time taken for DVA to identify and initiate recovery of the overpayment; and

- the period from notification of the veteran to the recovery of the overpayment.

This will assist in the more efficient management of overpayments.

DVA response

3.32 Agree

Process quality

3.33 DVA has a national quality-assurance (QA) program that includes performance targets for quality of processing (see Chapter 2 for details). It requires each state to report monthly on performance against targets. At the time of audit field work, DVA was not using this information as a performance indicator.

Output costs

3.34 At the time of the audit field work DVA knew the direct and indirect costs of administering the service pension and other income support payments for each state office and for national office, but had not converted that information to an output indicator such as the cost per pensioner. Without an output-cost indicator, senior managers and stakeholders are unable to assess cost trends and whether costs are being minimised.

Client-service quality

3.35 DVA conducts periodic client-satisfaction surveys. The 1995 survey showed a 95 per cent satisfaction rating. The latest was conducted in November 1998 but the results are not yet available. Another gauge of client satisfaction is the number of complaints. At the time of audit field work DVA did not have a complaints system but will introduce one in the first half of 1999.

3.36 Prompt and accurate decisions are another aspect of a quality client service. The performance indicators for process timeliness and accuracy mentioned above give information that can be used also to assess the quality of DVA's client service.

Audit finding

3.37 The ANAO found that, at the time of audit fieldwork, DVA did not have a sufficient range of performance indicators to allow senior managers or stakeholders to be assured that DVA's administration of income support for veterans and their dependents was meeting process quality, process cost and client service quality objectives of a well-run pension payments system.

Proposed performance indicators

3.38 DVA is moving to accrual budgeting from 1998–99. As part of the process it is developing a range of output and outcome measures. The output for Subprogram 1.1, Income Support, has been defined as ‘deliver a means-tested income-support pension and allowances to veterans and their dependents’. Subprogram 1.1 will have two activity classes—new-claims processing, and reviews and maintenance. The output and outcome measures to be used are shown in Table 1 below.

Table 1

DVA’s 1998–99 accrual budgeting output and outcome measures—Income Support

	Output	Activities	
Description	Deliver a means tested income support pension and allowances to veterans and their dependents	New claims processing (including qualifying service applications)	Reviews and maintenance
	Measures	Measures	Measures
Quantity	Number of Income Support pensioners	Number of new claims (including qualifying service)	Number of reviews
Cost	Departmental cost per Income Support pensioner	Departmental cost per new claim. Targets to be developed.	Departmental cost per review. Targets to be developed.
Timeliness	(a)	Mean time taken to process new claims from receipt to finalisation. Target 32 days.	Mean time taken to process reviews from receipt to finalisation. Target 19 days.
Quality	(a)	Compliance with QA program. Target: more than 95% correct.	Compliance with QA program. Target: more than 95% correct.
Outcome	Veteran Satisfaction (from Veteran Satisfaction surveys)	(b)	(b)

Notes: (a) DVA has not proposed targets for output timeliness and quality.

(b) No outcome activity targets set or proposed.

3.39 As well as having performance indicators, a well managed organisation has performance targets. DVA has targets for the timeliness and quality activity measures in Table 1. However, 1998–99 will be the first year that DVA will know its costs on an accrual basis and, until it has this intelligence, it is not in a position to set output or activity cost targets.

4. Client Service

This Chapter presents the ANAO's findings on DVA's service to its pensioner clients. The ANAO identifies a number of areas of good practice and concludes that, overall, DVA is providing quality client service within policy and budgetary constraints. The Department is meeting its timeliness targets for the processing of pensioner initiated reviews of the level of pensions, but it is not meeting its targets for the processing of new age pension claims, new dependent claims and new invalidity pension claims. There are three recommendations for improvement.

A client-service culture

4.1 A characteristic of a well-run pension or benefit-payment system is to provide a quality client service within policy and budgetary constraints. An organisation that wants to offer quality client service must have a strong client-service culture. Elements of a strong client service culture include²:

- a strong alignment of managers and staff around the organisation's key customer-focused objectives;
- a positive climate in which staff are encouraged to improve customer service processes; and
- a strong commitment by both managers and staff to provide quality customer service.

4.2 DVA's vision is 'to be the best service delivery department in the public sector'. DVA states that it 'will realise its vision by doing the right thing, the right way, the first time'. The ANAO found that DVA's vision and action to achieve it was a central theme of business plans at all levels. Business plans in DVA are developed in a consultative fashion by managers and staff, which ensures a good knowledge of and strong commitment to DVA's vision and objectives.

4.3 DVA's continuous improvement is discussed later in this Chapter. The goals of the program are to establish a program of change and to get staff into the habit of improving processes. A consistent theme in business and action plans is the encouragement of innovation in delivering a high quality client service.

² Management Advisory Board and Australian National Audit Office 1997, *Quality in Customer Service*, Commonwealth of Australia.

4.4 Discussions with staff, including observation of service delivery officers, led the audit team to conclude that DVA's vision is widely shared by income-support staff at all levels.

Audit finding

4.5 The ANAO found that DVA staff, overall, have a strongly developed client-service culture.

Good client communications

4.6 To provide quality service, an organisation must keep up to date with client needs and expectations. The ANAO found that DVA is gathering information on clients' needs and expectations, as well as on their perceptions of DVA's performance. The following are examples of DVA's client or customer research:

- the 1998 Veterans' Consultative Forum;
- the October 1997 DVA *Call Management Survey*, and
- the 1995 and 1998 *Veterans' Satisfaction Survey*.

4.7 The 1995 *Veterans' Satisfaction Survey* showed a 95 per cent satisfaction rate. The 1998 survey, which is a more searching survey, was conducted in November 1998 and results were not available at the time this report was written.

4.8 Organisations providing quality client service will communicate with clients to help shape their expectations. At the highest level, DVA's Service Charter is a public statement of the services and the quality that the veteran community can expect to receive from DVA. DVA's Service Charter complies in most respects with Government policy as outlined in the *Principles for Developing a Service Charter* issued by the Minister for Small Business and Consumer Affairs in March 1997. There are two important exceptions. Principle 7 states that a service charter is to be supported by a complaints handling mechanism for resolving customer complaints. DVA does not have a complaints handling mechanism and does not comply with this principle, but, as mentioned in the previous chapter, it is developing a complaints system to become operational in the first half of 1999. This will be consistent with better practice and will assist in minimising use of other review mechanisms such as the Ombudsman.

4.9 Without a complaints handling mechanism DVA can only estimate the number of Income Support complaints. The ANAO's estimate of the number of written income support pension complaints nationally is fewer than 300 a year from more than 396 000 income support recipients. This

is a low level of complaints. In addition, DVA ran a two-week telephone survey in October 1997 in which it received 112 793 calls. Only 51 calls were complaints, which covered all aspects of DVA's service.

4.10 Organisations offering quality client service give staff opportunities to receive customer feedback, including through complaints. DVA staff receive feedback from systems such as ministerial correspondence and special correspondence control systems in some state offices. The introduction of a complaints mechanism would improve feedback to staff on the level of client satisfaction with services provided.

4.11 Principle 3 of the Minister for Small Business and Consumer Affairs' *Principles for Developing a Service Charter* states that the charter, or supporting documents, should contain meaningful and measurable standards regarding the level of service delivery. At the time that DVA was developing its service charter it was also developing the output and outcome performance indicators that it would use under accrual budgeting. DVA decided to delay the introduction of measurable service delivery standards until it knew that it would have the performance indicators required to measure performance against these standards. Consequently, the only firm standard in DVA's Service Charter is a promise to answer or acknowledge letters within 28 days.

4.12 During 1999 DVA's Service Charter will be reviewed by Internal Audit. There will be a simultaneous evaluation of the Charter using the results of the 1998 *Veterans' Satisfaction Survey*. At this time DVA intends to consider the inclusion of further measurable service delivery standards in its service charter. The performance indicators included in DVA's annual report should reflect performance against the service delivery standards in DVA's service charter.

4.13 DVA's Service Charter was introduced in May 1998 and the first public report on its performance against the service standards therein will be its 1998-99 Annual Report. In addition, DVA intends to report to veterans on that performance in its newspaper, *Vetaffairs*.

4.14 DVA's annual report contains performance indicators of the timeliness of service-pension processing. The link between these processing measures and service standards in the service charter is not clear. For example, there is a service standard titled, 'When you tell us about a change in circumstances'. The relevant performance indicator in the annual report is 'Pensioner Initiated Reviews'³. Unless you are familiar with DVA terminology, it is not immediately apparent that this performance indicator relates to the service standard quoted. A more obvious link would leave stakeholders better informed.

³ DVA Annual Report 1997-98, Commonwealth of Australia 1998, Canberra, p 120

Recommendation No.5

4.15 The ANAO recommends that DVA ensure that the performance indicators included in its annual report, which are relevant in assessing performance against service standards in its service charter, are clearly linked to the appropriate service standards. This will assist stakeholders in assessing performance against the service standards.

DVA response

4.16 Agree

4.17 The ANAO examined a customer-service charter produced by an insurance company with a reputation for quality client service, to see whether there were lessons for DVA. The company has used its charter to improve client service. When the company has not met specified service standards, it has reviewed its processes to identify areas needing improvement, to revise its service standards so that they remain challenges for the company, and to reform or to enhance its management. The ANAO considers DVA could use its service charter in a similar way to improve client service.

Recommendation No. 6

4.18 The ANAO recommends that DVA examine its performance against the service delivery standards in its service charter and, where standards have not been met, use the resulting information to improve processes and service delivery.

DVA Response

4.19 Agree

4.20 As well as the Service Charter, DVA uses a number of channels to communicate income support pension entitlements and obligations to clients, including:

- publications, such as *You and Your Pension*, a guide for people who receive income-support payments from DVA, and *Vetaffairs*, a quarterly newspaper for the veteran community;
- fact sheets, providing information on specific issues;
- outreach activities, such as the Veterans' Affairs' Network (VAN), seminars and official launchings;
- service delivery officers trained to help pensioners with all services offered by DVA; and
- standard letters tailored to specific events.

Audit finding

4.21 The ANAO found that, with the exception of the lack of a complaints handling mechanism, DVA has good client communications. DVA's Service Charter would be improved by the addition of further measurable client service standards. DVA should examine its performance against the service delivery standard in its Service Charter to improve processes and service delivery.

Client-friendly operations

4.22 The MAB/ANAO *Quality in Customer Service* guide states that customer-focused organisations make it easy for clients to do business. The audit team has observed ways in which DVA facilitates client-friendly operations, most notably the introduction of 'Single Point of Contact' processing, which enables clients to conduct transactions through a single DVA officer. Other instances of client-friendly operations noted by the audit team are:

- provision for pensioners to conduct business by telephone;
- outreach activities and alternative access points for clients who have difficulty getting to DVA offices;
- well-designed communication protocols (see Good Client Communications, above); and
- procedures for handling electronic mail from clients.

4.23 Customer-focused organisations analyse and change their operations to ensure that customer interactions are as smooth as possible and do not contain steps that add no value. Fundamental to this idea are well-devised processing systems. The ANAO found that DVA has, or is developing, well-devised processing systems designed to produce accurate decisions quickly and economically. This topic was covered in detail in Chapter 3.

4.24 Forms are an important part of interaction with clients. DVA conducted a review of its income-support new-claims forms in 1992–93 but has not market tested them since. Forms have been amended rather than revised comprehensively. Although there is no evidence of problems, a review might be timely. A comparison with forms used by other agencies might be useful.

Audit finding

4.25 The ANAO found that, overall, DVA maintains client-friendly operations.

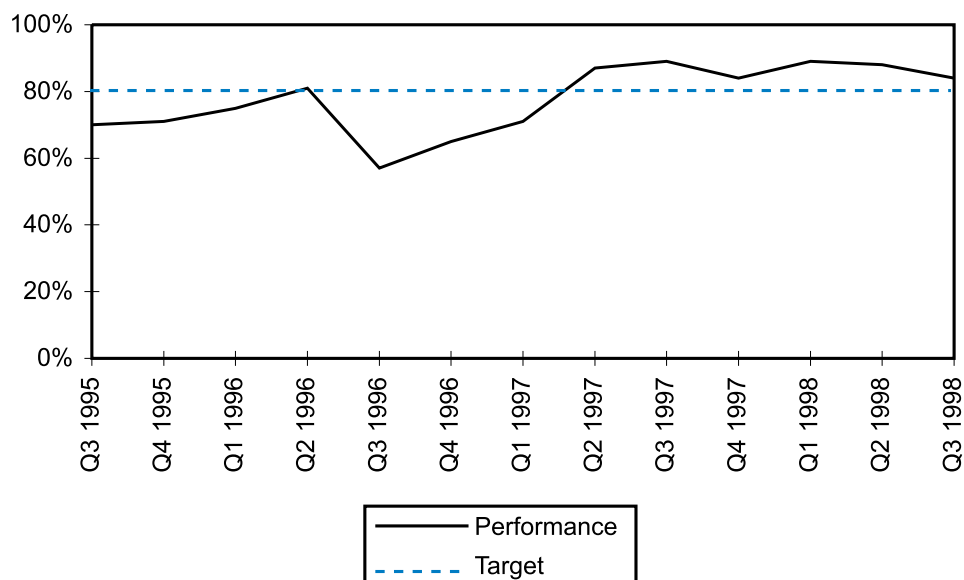
Timely processing

4.26 Prompt processing is a vital aspect of quality client service. Delays by DVA in processing new claims could lead to an eligible veteran being left without income. Delays in processing pensioner initiated reviews could lead to overpayments which are either written off by DVA or which have to be recovered from the veteran.

4.27 A Pensioner Initiated Review (PIR) occurs when a pensioner advises DVA of a change in circumstance which might affect an income-support payment. DVA has a performance target of processing 80 per cent of PIRs within 35 days of notification by the veteran. Figure 2 shows that DVA has exceeded this target in the last six quarters.

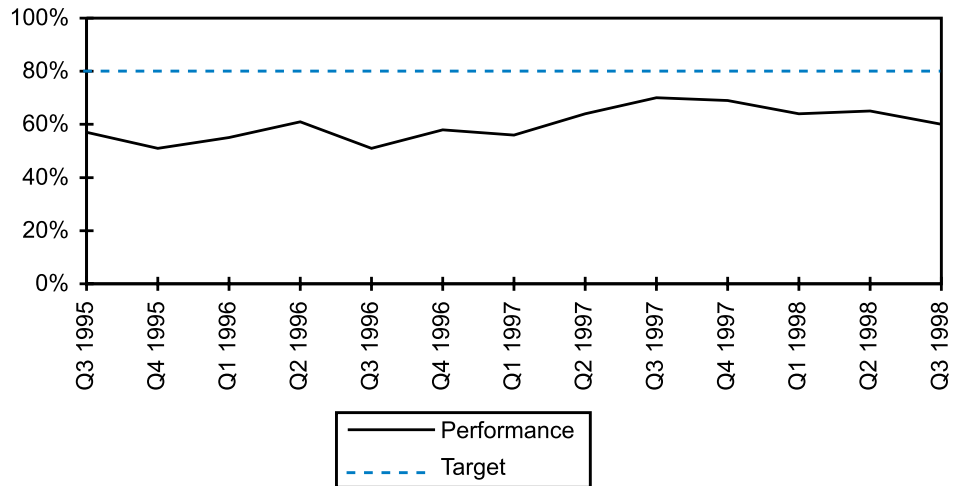
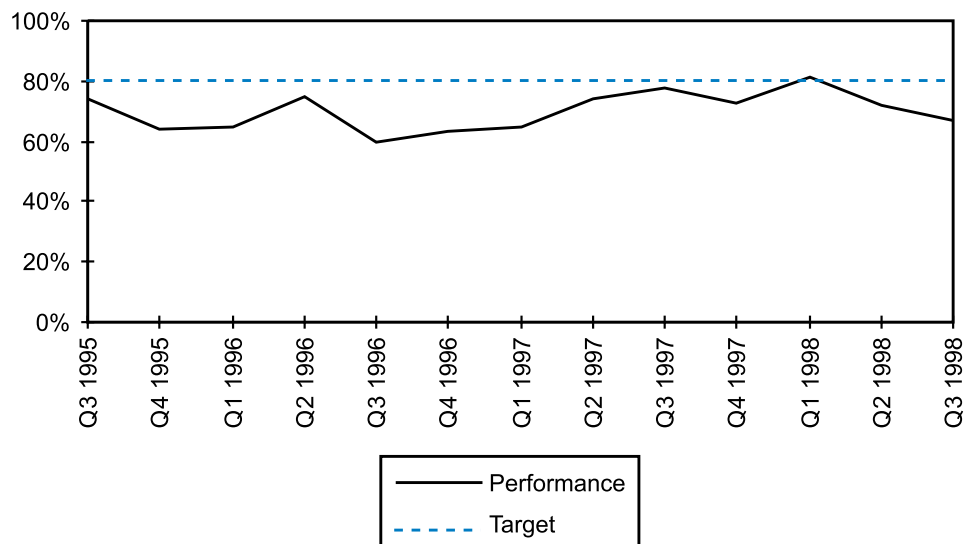
Figure 2

Pensioner initiated reviews—percentage processed within 35 days



4.28 DVA has a target of processing 80 per cent of new age-pension claims within 35 days of lodgment. Figure 3 shows that, although DVA's performance has improved since 1996, it is below target.

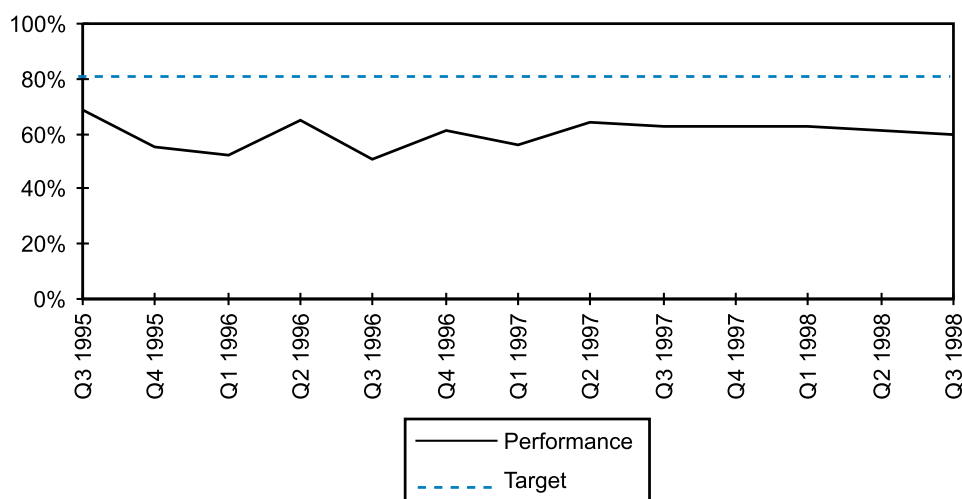
4.29 New dependent claims, too, have a target of processing 80 per cent within 35 days. Figure 4 shows that performance improved from 1996–97 to 1997–98 to be close to the target, but has since deteriorated somewhat.

Figure 3**New age-pension claims—percentage processed within 35 days****Figure 4****New dependent claims—percentage processed within 35 days**

4.30 DVA's target for processing new invalidity-pension claims is 80 per cent within 50 days. Figure 5 shows that DVA is not meeting this target. As part of the audit the ANAO consulted ex-service organisations on DVA's income-support service. The only criticism was of the timeliness of processing invalidity claims.

Figure 5

New invalidity-pension claims—percentage processed within 50 days



4.31 Although the above graphs give information on the timeliness of DVA's processing of new claims and reviews it does not give a complete picture. Table 2 shows the number of PIRs and new claims.

Table 2

New claim and review volumes 1997–98

<i>Transaction type</i>	<i>Volume</i>
Pensioner initiated reviews	97 956
Age new claims	4 365
Dependent new claims	1 274
Invalidity new claims	2 745

4.32 The audit team found that it is difficult to get an over-all picture of processing timeliness because there is no over-all processing timeliness indicator. For example, Figures 2 through 5 paint a picture of an organisation which is only meeting timeliness targets for one of its major performance indicators (e.g. see Figure 2, Pensioner Initiated Reviews). However, Table 2 shows that the performance indicator where DVA is meeting its target is overwhelmingly the most numerous type of transaction.

4.33 Although national targets for new claims are not being met, some states are meeting the targets. This is demonstrated by Table 3.

Table 3

Percentage of new age claims processed within 35 days (target 80 per cent)

State:	QE 9/97 %	QE 12/97 %	QE 3/98 %	QE 6/98 %	QE 9/98 %
NSW	63	63	48	45	40
Vic	69	69	76	64	66
Qld	68	70	70	81	72
WA	95	93	86	86	82
SA	78	64	56	76	74
Tas	84	65	42	77	70
National	70	69	64	65	60

Note: QE—Quarter Ended

4.34 New South Wales experienced a very high staff turnover in early 1998. This adversely affected the state office's performance.

4.35 DVA provides the details of many new applications to the Department of Defence (DoD), so that DoD can confirm the service records of new applicants. DVA relies on DoD's information, especially for those new applicants who are veterans from the Korean War and later conflicts. DoD then provides information to DVA confirming or correcting the relevant information in new applications. Therefore, DVA's targets for the processing of new applications are partially dependent upon DoD.

4.36 Currently, there is no service level agreement between the two Departments governing the timing of the information flow. DVA and DoD cooperated on determination of veterans' access to Gold Cards by DVA placement of its staff in DoD offices to review records. The ANAO suggests that DVA work with DoD to identify any areas for improving the flow of qualifying service information between the two departments. The objective would be to improve the current systems and methods for accessing those defence records relevant to assessment of new applications for service pensions.

Audit finding

4.37 DVA is meeting its timeliness targets for the processing of pensioner initiated reviews of the level of pensions, but it is not meeting its targets for the processing of new age claims, new dependent claims, and new invalidity pension claims.

4.38 The ANAO identified a private sector insurance company which is regarded as providing a quality client service. This company analyses transactions not completed within target times to identify processing bottlenecks and other areas for improvement. DVA could benefit from a similar analysis.

Recommendation No.7

4.39 The ANAO recommends that, to identify processing bottlenecks and other areas for improvement, DVA analyse the reasons for income support transactions being completed outside target times and take appropriate action to address the problems identified.

DVA response

4.40 Agree that this is an example of best practice. DVA recognises that this is an example of best practice and it will continue its current approach to continuously improving its operations by identifying and adopting best practice wherever possible.

Human resource management linked with client service

4.41 Quality client-service organisations have human resource management⁴ practices linked with client service. The ANAO found that the ability to achieve customer-service outcomes was a selection factor in the recruitment and promotion of staff to all Income Support positions.

4.42 When recruiting staff, DVA's National Office uses the standard Public Service competencies relating to client service. Income Support sections in some state offices have refined the client-service competencies to better meet their needs.

4.43 Customer focussed organisations ensure that managers have the necessary competencies and are provided with appropriate leadership and management training. DVA runs and participates in a number of leadership and management courses. A weakness noted by the ANAO was that DVA does not record the courses undertaken by individual managers. Without this knowledge, DVA may have problems in ensuring that managers have received appropriate training.

4.44 DVA is working to achieve 'Investors in People' accreditation, a quality standard that sets a level of good practice for improving an organisation's performance through its people. The standard provides a

⁴ Management Advisory Board and Australian National Audit Office, 1997, *Quality in Customer Service*, Commonwealth of Australia, Canberra, p9.

framework for integrating human resources strategy with business strategy. A review of the Department's *Investors in People: Diagnostic Report* shows that training and development linked with client service is provided to Income Support staff.

Audit finding

4.45 The ANAO found that DVA has human resource management practices and procedures directly linked with customer service. A weakness noted was that DVA does not record the courses undertaken by individual managers for later assessment of effectiveness in personal development.

Robust continuous-improvement processes

4.46 Good-practice client-service organisations have robust continuous-improvement processes. That is, they have continuous improvement processes that are supported by appropriate training, support and management processes. For continuous improvement processes to be robust they must be accepted by management at all levels as a normal business process. The ANAO found that DVA has a systematic approach to continuous improvement. A three-phase National Implementation Strategy for continuous improvement was introduced in 1995 and DVA has reached the middle phase. Progress is coordinated by steering committees at the national and state levels.

4.47 Continuous-improvement teams require appropriate infrastructure to support their work. The ANAO found that DVA has such an infrastructure. For example, the *Continuous Improvement Implementation Strategy*, November 1996, outlines a framework for integration within DVA culture, and the *Continuous Improvement Introduction* is a team handbook on principles and practices. Furthermore, all staff are receiving, progressively, training in continuous-improvement tools and processes, so that continuous improvement is being integrated into an over-all approach to quality management/business improvement. Some states are more advanced than others, workload being a crucial factor in workplace continuous-improvement activity. The approach taken to continuous-improvement in DVA's Victorian Office provides an example of good practice.

4.48 Customer-focused organisations take part regularly in external or internal quality assessments such as benchmarking, which can be used to evaluate continuous improvements. Income Support is not yet benchmarking, but other benchmarking exercises in DVA will have an impact on the quality of client service in Income Support. For example,

the tender brief for the 1998 *Veterans' Satisfaction Survey*, a survey of all clients, specifies that the consultancy will allow DVA to benchmark its service delivery against other public and private-sector organisations and best practice. This will allow Income Support to measure its performance against the benchmarks established as a result of the survey. A recommendation that DVA compare itself with other organisations, including benchmarking, can be found in Chapter 5.

Audit finding

4.49 The ANAO found that DVA has robust continuous-improvement processes, which would be improved if DVA were to introduce benchmarking internally and with other organisations.

Stakeholders

4.50 The ANAO consulted the following stakeholders to obtain their impressions of the client service offered by DVA in respect of income support pensions:

- Returned and Services League of Australia Limited;
- War Widows' Guild of Australia;
- Australian Veterans' and Defence Services Council; and
- Vietnam Veterans' Association of Australia.

4.51 The Vietnam Veterans' Association of Australia considers that DVA takes too long to process applications for invalidity service pensions. The delay can leave veterans without income for two to three months. DVA's performance indicators confirm that DVA is not meeting its timeliness targets for processing service-pension invalidity claims. The other three ex-service organisations consulted were strongly supportive of the service offered by DVA.

Conclusion

4.52 DVA has a strong focus on providing a quality client service within budgetary and policy constraints. It is a better-practice organisation in terms of client service culture and client-friendly operations. Its human resource management is linked with client service delivery. Client communications are strong and will be enhanced by the implementation of the proposed complaints/feedback monitoring system. It is developing robust continuous-improvement processes, which would be improved if it introduced benchmarking to the management of its Income Support program.

5. Management Focus

In this Chapter the ANAO concludes that DVA is focusing on all three major characteristics of a well-run pension payments system (see Chapter 1). The Chapter recommends that DVA compare itself with other pension-payments agencies and private-sector organisations with similar processes.

DVA's focus

5.1 In previous audits of pension or benefit payment agencies, the ANAO has found that agencies have had a good focus on the correct payment of pensions, but they needed to improve their focus on client-service and on minimising costs.

5.2 The ANAO has examined DVA's performance against each of the three characteristics described in Chapter 1. The ANAO's findings, given in detail in Chapters 2 to 4, have led it to conclude that DVA has a strong focus on providing a quality client service within policy and budgetary constraints and on paying the correct pension to the correct people in a timely fashion. DVA needs a more complete picture of the costs of processing the service pension and other income support payments. However, the Department is well advanced in a major investment to provide effective, low-cost systems.

Audit finding

5.3 The ANAO found that, in comparison with previous audits of the administration of pension/benefits systems, DVA has a much better-balanced focus on the three principal characteristics of sound pensions systems.

Impact of the Income Support Breakthrough Project

Income Support Breakthrough Project genesis

5.4 The first benefit payment system in DVA to be re-engineered was the system used to process claims for disability pensions for the tangible effects of war or defence service. The redeveloped system, known as the Compensation Claims Processing System, led to significant improvements in processing times and a reduction in arrears. It enabled DVA to process an increased number of claims with fewer staff. Productivity gains of some 30 per cent were achieved⁵. DVA decided to apply the lessons

⁵ Australian National Audit Office 1996-97, Compensation Pensions to Veterans and War Widows, Department of Veterans' Affairs, Commonwealth of Australia, Canberra, p 12.

learned from the introduction of the CCPS to the processing of Income Support payments.

5.5 In September 1995 DVA held a workshop involving Income Support staff from all levels and states, along with senior officers from the Department. The purpose of the workshop was to discuss the need to redesign Income Support business processes to bring about dramatic improvements in performance, particularly in light of Government initiatives which required productivity and efficiency gains by all Government Departments.

5.6 Another DVA initiative which had a significant impact on the ISBP was the Veterans' Service Delivery Project exposure draft, released in March 1997. This project was a holistic review of the services that would be required by veterans into the next century. The exposure draft identified a number of areas where action was required to improve service delivery to veterans. The ISBP has been designed to address these areas.

Single point of contact

5.7 DVA identified two categories of improvement—those which could be implemented without major changes to IT systems and those which would require significant change to or replacement of IT systems. In the early stages of the ISBP, DVA had no finance available for any major investment in IT systems. Accordingly, priority was given to improvements which did not require significant changes to IT systems. The major change in this category was the introduction of Single Point Of Contact (SPOC).

5.8 As described earlier, the intention of SPOC is to improve client service by empowering client service officers to make decisions quickly in order to better help veterans. Prior to SPOC, the authority to determine (make decisions) was held by a number of relatively senior officers. More junior officers collected the information and prepared a draft determination. This work was checked by the determining officer, who made the final decision. Under SPOC, one officer collects the information, prepares the case and makes the final decision. In some offices DVA had already moved to responsibility based processing, where competent officers were authorised to process and determine simpler decisions.

5.9 To support SPOC, DVA introduced a much more rigorous quality assurance system and extensive training for the new Income Support Service Officers. All state offices have introduced SPOC, the last being Western Australia, which began in July 1998. DVA started a trial of SPOC in New South Wales in May 1997, which was abbreviated by DVA's Executive on the grounds that benefits were manifestly evident. The New

South Wales office was then directed to proceed to full implementation of SPOC.

5.10 In 1996–97, DVA’s Victorian office income support area was regarded as the least efficient. It had not introduced responsibility based processing. The Victorian office decided to implement SPOC as a continuous improvement project. An evaluation of the project identified cost reductions in excess of \$900 000 per year. This was coupled with significant improvements in client service. The reduction of direct costs from 1996–97 to 1997–98 for Victoria in Table 4 is a reflection of this improvement.

Table 4
Income Support Direct Costs—1996–97 and 1997–98

	<i>National Office</i>	<i>New South Wales</i>	<i>Victoria</i>	<i>Q’land</i>	<i>South Australia/ Northern Territory</i>	<i>Western Australia</i>	<i>Tasmania</i>	<i>Total</i>
	<i>\$(000)</i>	<i>\$(000)</i>	<i>\$(000)</i>	<i>\$(000)</i>	<i>\$(000)</i>	<i>\$(000)</i>	<i>\$(000)</i>	<i>\$(000)</i>
1996–97								
Salaries	2 862.6	5 928.6	3 891.1	3 281.6	1 821.0	1 780.0	758.1	20 323.0
Administrative Expenses	3 487.9	107.0	114.6	37.3	54.1	12.3	11.9	3 825.1
TOTAL DIRECT COSTS	6 350.5	6 035.6	4 005.7	3 318.9	1 875.1	1 792.3	770.0	24 148.1
1997–98								
Salaries	2 949.1	5 615.4	2 978.8	3 089.4	1 864.6	1 456.2	679.9	18 633.4
Administrative Expenses	3 724.1	236.3	116.9	42.6	29.3	30.7	19.3	4 199.2
TOTAL DIRECT COSTS	6 673.2	5 851.7	3 095.7	3 132.0	1 893.9	1 486.9	699.2	22 832.6

Note: Table A1.1 in the Appendix provides additional financial data

5.11 DVA’s Queensland office had vigorously embraced responsibility based processing. However, the introduction of SPOC allowed an improvement in client service with small reductions in costs.

5.12 The other office visited by the audit team, New South Wales, experienced a very high staff turnover in early 1998 as SPOC was introduced. Only around 20 per cent of Income Support Service Officers had previous experience in administering Income Support payments. As a consequence processing times for the New South Wales office deteriorated during 1998. DVA’s experience in other states is that it takes 12 months to fully train a new Income Support Service Officer.

Date-of-effect

5.13 The 1997–98 Federal budget announced the date-of-effect initiative. At the moment pensioners have 21 days to notify DVA of an event, such as a significant change in their income or assets, which could lead to a change in their pension payment. Where notification has been received within 21 days, the date of effect is the next available pension payday. Under the date-of-effect initiative, it is proposed that a pensioner be obliged to notify DVA within 14 days of the event. For an increase in the pension, the date of effect would be the day the pensioner notified DVA. For a decrease in the pension, where DVA is notified in time, the date of effect will be the fifteenth day after the event. Where the pension will decrease and the pensioner does not notify DVA in time, the date of effect will be the date of the event.

5.14 In short, under the date-of-effect initiative, regardless of how long it takes DVA to process a change notified in time, the effective date of change for a decrease in the pension would be the fifteenth day after the event. If DVA is unable to process reductions or cancellations promptly an overpayment would occur, which need to be recovered from the veteran. DVA's current overpayment system is manual and consequently resource intensive. DVA believes that, without new or improved systems to enable changes to entitlement to be processed promptly, there would be a dramatic increase in workload from 1 July 1999 when the date of effect policy is implemented. Note that DVA's payments system will also need the ability to increase or decrease a payment from any day, not just the next pension payday.

5.15 In recognition of the need to improve processing systems to implement the date-of-effect initiative, the Government provided DVA with \$10 million over four years from 1997–98. A new integrated payments system is being developed for introduction from 1 July 1999. This will replace DVA's current payments system, which is over 25 years old and, as mentioned in earlier chapters, is not integrated with either the system used to assess eligibility and the level of pension payable, or with DVA's overpayments system. This, and other initiatives such as VIEW and CLIK (see Chapter 3), have been designed to assist DVA officers to process pension claims and changes to pensions promptly and will assist in allowing DVA to meet the demands of the date-of-effect policy.

5.16 Since pensioners must provide information on changes to their income and assets to DVA more rapidly from 1 July 1999, it is likely that pensioners' expectations for timely processing will also increase. Raised pensioner expectations may require DVA to revise its performance targets.

5.17 As well as allowing date-of-effect requirements to be met without cost increases, DVA has estimated the integrated payments system should

lead to cost reductions of over \$750 000 annually. These reductions are in addition to the cost reductions of \$900 000 identified in DVA's Victorian office.

Interaction with other pension/benefit payment agencies

5.18 DVA works with the Department of Family and Community Services to develop and implement income-support policy, and with the Department of Health and Aged Care to develop and implement health-care policies for the aged. DVA has a memorandum of understanding with DFCS to administer payments of the age pension to veterans receiving compensation pensions from DVA but who lack appropriate qualifying service and so cannot be paid the service pension. This allows veterans the option of a 'one-stop shop' for all their income support.

5.19 DVA has an operational relationship with Centrelink, ranging from cooperation at national level in introducing new or changed policy affecting both agencies, to local-level cooperation when a pensioner's benefit payment is transferred from one agency to the other.

5.20 Centrelink, as the administering agency for the age pension, provides a potential benchmark for DVA's service pension processes and an obvious source of better-practice techniques. Given the similarities between the service and age pensions, Centrelink is a possible partner for joint development of support systems for service delivery officers in both organisations.

5.21 The ANAO believes that DVA should benefit from cooperation and comparison with pension/benefit administrations in other countries. Although there will be legislative and cultural differences from country to country, the three major characteristics of a well-run pension or benefits-payments system will be unlikely to change.

5.22 Given that customer-service best practice principles are very similar for private and public sector organisations⁶, private sector solutions are likely to offer lessons for public sector customer organisations. An example is the way in which a private sector insurance company has used its service charter to drive improvements to processes and customer service. The ANAO considers that DVA could benefit also by comparing its processes with similar processes in the private sector and by adopting identified better practices.

⁶ Management Advisory Board and Australian National Audit Office 1997, *Quality in customer service*, Commonwealth of Australia, Canberra, p3.

5.23 Under current administrative arrangements DVA is the sole provider of the service pension, an income support payment to a minority segment of Australia's aged population. This pension is very similar (for those over 65 it is identical) to the pension provided by DSS/Centrelink. Centrelink has most of the systems necessary to administer the service pension in place. This places DVA in an unusual position as a provider of pension payment services, in that it is operating in a contestable environment.

5.24 Because DVA is operating in a contestable environment, it should identify better practice so that this can be applied and adapted for use by DVA. Even though it is not in direct competition for services provided, the tools and activities undertaken can be benchmarked against other public and private sector entities.

5.25 DVA's continued existence as a provider of income support services is dependant upon the ongoing support of the veteran community and that community's influence on Government policy. DVA has placed a strong emphasis on providing a quality client service to ensure that it retains the support of the veteran community. Benchmarking would assist DVA to demonstrate that it is providing a high quality and efficient service.

Recommendation No. 8

5.26 The ANAO recommends that, in order to operate as close as possible to best practice, DVA compare itself with and learn from other pension/benefit payments agencies and private-sector organisations with similar processes. Activities should include suitable benchmarking of administrative and management processes and exchange of better-practice techniques for more cost effective operations.

DVA response

5.27 Agree in principle. DVA recognises the advantages in being able to compare itself with and learn from other agencies. DVA will take advantage of opportunities to benchmark with private and public sector organisations wherever possible.



Canberra ACT
19 April 1999

P.J. Barrett
Auditor-General

Appendices

Appendix 1

The Service Pension and other Income Support Payments

Appendix 1 presents information on the service pension and other income support payments, the environment in which it is administered, and on service pensioners, partners and other Income Support Supplement recipients.

Background

1. *The Australian Soldiers' Compensation Act 1917* provided for the payment of compensation to veterans and their families for disability or bereavement suffered as a result of service in World War I⁷. These payments continue and are known as compensation pensions. However, compensation pensions cover only conditions attributable to war service, not premature aging or other disabilities of veterans that cannot be attributed specifically to war service.
2. In the 1920s there was continued debate in Australia about the effect on veterans' health of service in World War 1 battle zones. As a result, ex-service organisations began to lobby the Commonwealth Government for the introduction of a service pension. In 1931 the Returned Service League proposed the introduction of a service pension similar to those in Canada and New Zealand. On the advice of its medical officers, the Repatriation Commission rejected the proposal.
3. In 1935 a completely new panel of members was appointed to the Repatriation Commission, which supported the Australian Soldier's Repatriation Bill, introduced by the Minister for Repatriation, W. M. Hughes. The Bill was passed by Parliament without opposition.
4. The Australian Soldiers' Repatriation Act 1935 provided a service pension, subject to a means test, to veterans who had served in a 'theatre of war' (now referred to as having rendered qualifying service), and who were aged 60 or more or who were otherwise incapacitated for work. The pension's introduction reflected the Government's recognition that the effects of war service might be intangible and result in loss of earning power and premature aging.
5. Since 1941, many amendments and additional legislation have been enacted to extend eligibility for repatriation benefits to those who were involved in conflicts other than World War I. Parliament has also

⁷ Further information on the history of the Australian repatriation system can be found in the book: Lloyd, Clem and Rees Jacqui 1994, *The Last Shilling, A History of Repatriation in Australia*, Melbourne University Press, Melbourne.

extended the range of benefits available to veterans and their dependents, and varied the rules and methods of assessing of entitlement to them. The *Veterans' Entitlement Act 1986* consolidated and simplified repatriation legislation.

6. When the service pension was introduced in 1936, only veterans of World War I were eligible. Today a diverse range of income-support payments is available to veterans (and their dependents) of all conflicts in which Australia has been involved, including the Gulf War. They are available also to members of forces engaged in specified war-like operations, certain veterans of Commonwealth and Allied countries, and merchant mariners.

The Service Pension

7. The service pension is an income-support payment broadly equivalent to the Department of Family and Community Services' age and disability support pensions. Part III of the *Veterans' Entitlement Act 1986* provides statutory authority for its payment. Funds are appropriated for it under subprogram 1.1 (Income Support) of the Department of Veterans' Affairs appropriation. The objectives of subprogram 1.1 are:

To compensate veterans and their dependents for the premature ageing and loss of earning power which could result from the intangible effects of qualifying (theatre of war) service.

To allow veterans and their dependents to enjoy a living standard which is at least equal to that provided by other government income support programs and, whenever practicable, consistent with veterans' special standing in the community.

8. There are four groups of people who may be eligible for a service pension:

- veterans;
- partners and widows or widowers of veterans;
- widows and widowers (not war widows) of veterans may apply for, or continue to receive, partner service pension; and
- carers for veterans⁸.

9. Two of the four forms of service pension are paid to veterans only—the age service pension and the invalidity service pension. The other two are the partner service pension and the carer service pension.

⁸ The provision for carers was repealed in December 1997. No new carer pensions have been granted since then.

Income Support Supplement

10. War widows⁹ are entitled to an income support supplement of up to \$120.10 per fortnight, provided they are over the age of 56¹⁰ (60 for widowers), are Australian resident and in Australia at the time the claim is lodged.

11. The income support supplement provides a regular income for Australian war widows and widows with limited means in addition to the war widow(er)'s pension. It is subject to an income and assets test.

12. The income support supplement replaces the ceiling rate age, carer, wife and disability support pensions previously paid to war widows by the Department of Social Security (now Centrelink). War widows and widowers who qualify for the income support supplement may now receive both of their pensions from DVA. In all cases where the war widow(er)'s pension was granted after 20 March 1995, the income support supplement must be paid by DVA.

13. The income support supplement is paid fortnightly. The rate of income support supplement, for war widows and widowers receiving a reduced rate, is adjusted twice-yearly in March and September, in line with movements in the cost of living and/or average wages.

Income Support Expenditure

14. Table A1.1 shows DVA's expenditure for subprogram 1.1, Income Support, for the last five years.

Table A1.1

DVA's Income Support Expenditure

Year:	1993-94 \$'000	1994-95 \$'000	1995-96 \$'000	1996-97 \$'000	1997-98 \$'000
Program Costs	2,391,507	2,436,138	2,620,058	2,660,272	2,613,360
Running Costs	24,333	24,338	45,272	50,834	54,134
Total Outlays	2,415,840	2,460,476	2,665,330	2,711,106	2,667,494
Running costs as % total outlays	1.01	0.99	1.70	1.88	2.03
Staffing (person years)	473	456	624	643	551

Note: DVA has been progressively moving to full cost attribution. In 1995-96, 59 per cent of corporate costs were attributed; in 1996-97 94 per cent and in 1997-98 100 per cent. The \$54.134m. DVA spent on running costs in 1997-98 includes \$22.8m. in direct costs (as shown in Table 4) and corporate overheads of \$31.3m.

⁹ A war widow is a widow(er) of a deceased veteran whose death has been determined to be caused by war or defence service in Australian defence forces, or who was in receipt of a disability pension at the special rate, extreme disablement adjustment prior to his/her death or who was a former prisoner of war.

¹⁰ The qualifying age for females is being increased from 55 to 60 years by six months every two years so that by 1 July 2013 female and male qualifying ages will be the same.

15. For the period shown in the Table, program costs peaked at \$2.7 billion in 1996–97. The increase in person years attributed to the subprogram in 1995–96 and 1996–97 is a result of the Department’s move to full attribution of corporate overhead costs to programs. Part of the increased outlays on running costs in 1997–98 was due to expenditure on various Budget initiatives requiring major IT systems redevelopment, while part was due to full cost attribution.

The Service Pension and the Age Pension

16. There have always been strong links between the service pension and the age and disability support pensions, with these latter two pensions available to the general community through the Department of Family and Community Services. They include:

- identical maximum rates;
- similar related allowances;
- identical ‘fringe’ benefits from Commonwealth, state and local governments; and
- similar income and asset tests.

17. There are, however, some important differences between DVA’s service pension and the Department of Family and Community Services’ age and disability support pensions. They are:

- a service pension paid on the grounds of age is payable five years earlier than the age pension;
- a DVA compensation pension is regarded as income for the purposes of assessing the amount of a DSS age-pension payable, but is not income for service-pension purposes;
- service pensioners who satisfy a separate income or asset test are eligible for a wide range of repatriation health-care benefits.

Complex Environment

18. In administering income support pensions, DVA operates in a complex and changing environment. Two major factors contribute to complexity:

- the service pension is for a specific population; and
- there is a range of types of service that count as qualifying service.

19. Because income support pensions are targeted to a specific population, service delivery officers need to make a series of decisions before an applicant's eligibility can be determined, including:

- residency;
- level of income;
- assets;
- qualifying service;
- for the age service pension—age;
- for the invalidity service pension—age and capacity to work; and
- for the partner pension—relationship to the qualifying veteran.

20. The income, assets and residency tests move generally in line with the age pension and are subject to constant refinement. There have been more than 20 amendments to Part III of the *Veterans' Entitlement Act 1986*. As a result, in administering the income support pensions, DVA is operating in an environment of constant change. Furthermore, as interest rates or share and other asset prices change, the pension payable to part-rate pensioners can change. Disposal or acquisition of assets by pensioners may also lead to changes in the pension payable.

21. Consequently, Departmental staff who serve veterans require support systems capable of informing them of changes in eligibility criteria, and capable of helping them to reassess the pension payable to part-rate pensioners. The support systems too, need to be changed as eligibility criteria change.

22. When determining qualifying service, staff who serve veterans must be familiar with, or have a decision-support system which can provide information on many international conflicts and peace-keeping missions, ranging from World War I to the Gulf War.

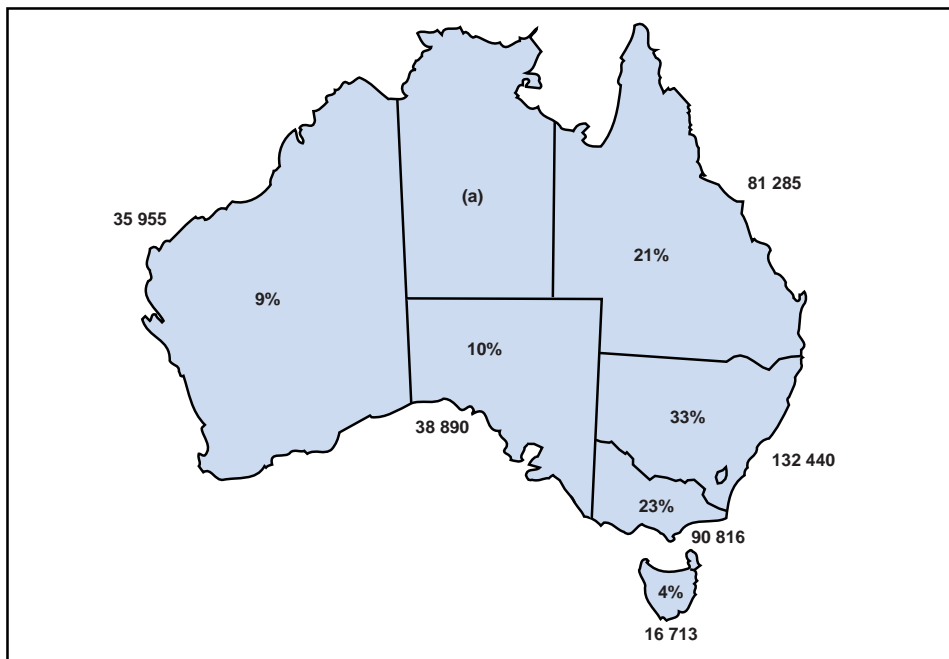
Income Support Pensioners

23. There were 396 099 income support pensioners in July 1998, mostly living in New South Wales, Victoria and Queensland. Their distribution is shown in Figure 6.

24. Most income support pensioners are over 70. The age distribution of income support pensioners is shown in Figure 7.

Figure 6

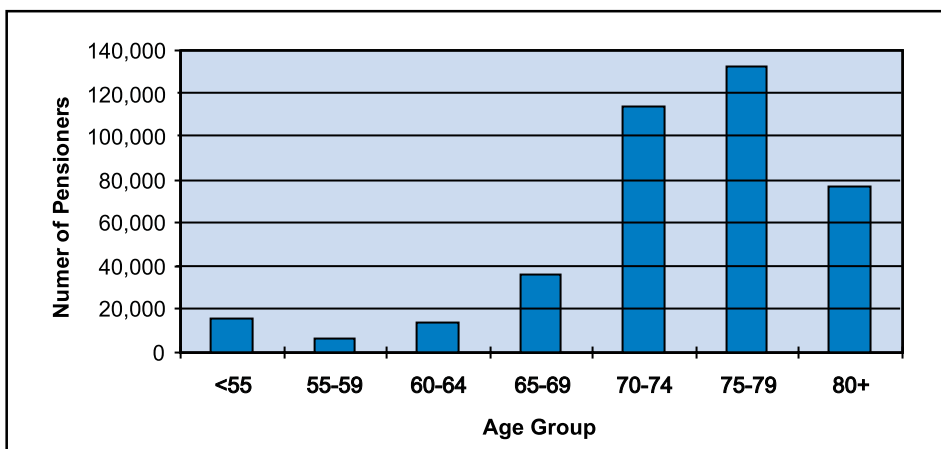
Income support pensioner distribution



(a). Income support pensioners living in the Northern Territory are included in South Australia.

Figure 7

Income support pensioner age distribution



25. The number of income support pensioners is expected to decline by 25 per cent between 1998 and 2005, from 396 099 to 307 000.

Table A1.2

Income support Pensioner Population Projections

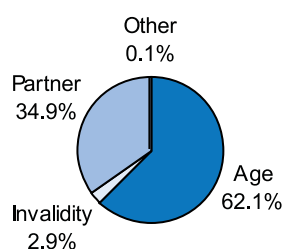
	1998	1999	2000	2001	2002	2003	2004	2005
NSW	132 440	129 900	126 300	122 300	117 900	113 400	108 700	103 900
VIC	90 816	88 900	86 100	82 900	79 600	76 000	72 500	68 900
QLD	81 285	79 400	77 400	75 200	72 600	69 900	67 300	64 500
SA	38 890	37 800	36 400	35 100	33 700	32 200	30 500	28 900
WA	35 955	35 300	34 300	33 300	32 100	30 900	29 800	28 600
TAS	16 713	16 200	15 600	14 900	14 200	13 600	12 800	12 000
AUS	396 099	387 500	376 100	363 700	350 100	336 000	321 600	307 000

26. Figure 8 illustrates the pension type, pension rate and means test classifications of income support pensioners.

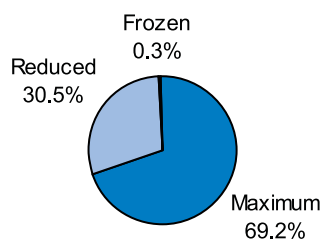
Figure 8

Income support pensions

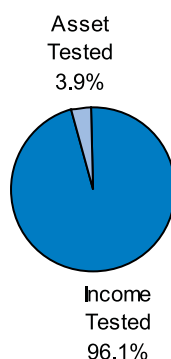
Income Support Pensioners by Pension Type



Income Support Pensioners by Pension Rate



Income Support Pensioners by Means Test



27. The first pie chart shows that 62.1 per cent of income support pensioners receive the age service pension, 34.9 per cent receive partner service pensions, 2.9 per cent the invalidity service pension; and very few receive the carer pension. The second shows that 69.2 per cent of recipients receive the maximum pension rate. The third shows that the means test for all but 3.9 per cent was the income test. Note that income support pensioners who qualify for a maximum rate are included as income-tested.

28. On 30 November 1998, the full pension for married couples was \$298.10 (each) per fortnight, while the single rate was \$357.30. The full income support supplement was \$120.10 per fortnight. The minimum pension paid would only be a few dollars per fortnight. However, even a small partial pension may be worthwhile, as the pensioner is also entitled to related allowances and fringe benefits from Commonwealth, State and local governments.

Performance audits in the Veterans' Affairs Portfolio

Set out below are the titles of the reports of the main performance audits by the ANAO in the Veterans' Affairs Portfolio tabled in the Parliament in recent years.

Audit Report No.7 1995–96
Financial Management
Department of Veterans' Affairs

Audit Report No.3 1996–97
Compensation Pensions to Veterans and War Widows
Department of Veterans' Affairs

Audit Report No.6 1996–97
Commonwealth Guaranties, Indemnities and Letters of Comfort
Department of Veterans' Affairs

Audit Report No.6 1996–97
Payment of Accounts
Department of Veterans' Affairs

Audit Report No.20 1996–97
Selected Commonwealth Property Sales
Department of Veterans' Affairs

Audit Report No.21 1996–97
Management of IT Outsourcing
Department of Veterans' Affairs

Audit Report No.28 1996–97
Use of Private Hospitals
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Audit Report No.40 1997–98
Purchase of Hospital Services from State Governments
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