



1. Executive summary



1.1 Introduction

This report sets out the results of 10 special audits which examine:

- the validity of several significant allegations and concerns conveyed by external parties to my office, about the propriety, adequacy and transparency of several agencies' management and administrative practices
- the adequacy of processes for ensuring that medical practitioners employed in Victorian health services are appropriately qualified to practice medicine
- the progress made by the Department of Human Services and Dental Health Services Victoria to address the significant matters raised in my October 2002 performance audit report entitled *Community dental services*
- the adequacy of the process used for (and outcomes achieved from) the sale of the Overseas Corporation of Victoria Ltd's major assets
- the progress made in implementing 2 major "change" initiatives (the Government Infrastructure Management System and the Telecommunications Purchasing and Management Strategy), which aim to improve asset management and telecommunication services across the public sector, respectively
- the quality of capital budgeting and management by local governments.

The major conclusions and recommendations from these audits are presented below.

1.2 Overall conclusions and recommendations

1.2.1 Cheltenham and Regional Cemeteries Trust - Review of expenditure and related matters

The Cheltenham and Regional Cemeteries Trust (the trust) was established in 1865 and manages cemeteries at 3 locations: Cheltenham Memorial Park, Cheltenham Pioneer Cemetery and Bunurong Memorial Park. A voluntary 8-member trust oversees the administration of the cemeteries.

In July 2004, 2 trust members expressed concerns to the Department of Human Services (DHS) about the expenditure of trust funds and related matters at the trust. DHS subsequently referred these matters to my Office for investigation. Given the significance of the matters (which questioned the propriety, transparency and accountability of certain trust activities), the need to examine them in further detail became apparent.

Our investigation concluded that the trust made, and continues to make, substantial expenditures that are excessive by public sector standards and not for the purposes of the trust. Despite continually being made aware of appropriate purchasing practices by DHS and my Office, the trust over several years engaged in practices that are unacceptable for agencies in the public sector.

We further concluded that the entry into, and the ongoing relationship between the trust and 2 companies owned and operated by the sons of the trust's Chief Executive Officer (CEO) were not transparent, fair and contestable and exposed the trust to significant ongoing risks. We found that the trust:

- improperly used trust funds to purchase a vehicle for the CEO's wife's private use
- sold trust assets to staff and related parties without a transparent sales process or a policy to guide such sales
- in relation to its dealings with one contractor, failed to tender for significant work, obtained financial accommodation without gaining the necessary approval, paid contractor's costs it was not required to pay and entered into a lease of crown land that resulted in considerable cost to the state
- guaranteed a private loan for the CEO and his wife without obtaining the necessary approval
- failed to comply with existing purchasing policies on a routine basis
- illegally paid incentives to private businesses
- made substantial expenditures on items that may deliver a private benefit to trust members and staff, without having policies to guide such expenditures
- failed to maintain adequate security over its fixed assets.

Recommendations

Several recommendations were made focusing on the need for the trust to immediately strengthen its governance arrangements, and its expenditure policies and practices. These included a need for the trust to:

- require all substantial financial matters to be considered by a meeting of trustees in advance of commitments being made
- ensure adequate and timely consideration of key management decisions, and compliance with legislative requirements and purchasing policies
- review its tendering policies, practices and processes to ensure that all aspects of all its procurement activities are governed by policies that meet or exceed the standards set by the Victorian Government Purchasing Board
- not approve expenditure or asset purchases that are not directly relevant to the trust's objectives and operations
- engage an independent party to develop and assess options for the future provision of information technology services to the trust, and to make recommendations
- implement rigorous controls over approvals for information technology services in addition to the minimum agreed services
- ensure that the remuneration of its future CEO is in line with government policy on executive remuneration
- immediately bring its asset register up to date.

We also recommended that DHS ensure trust members have appropriate skills and expertise to effectively discharge their responsibilities.

1.2.2 Qualifications and registration of medical practitioners in Victorian public health services

The regulatory framework for the practice of medicine in Australia is complex, with different Commonwealth and state responsibilities.

We assessed the adequacy of procedures and processes established to ensure that medical practitioners employed in Victorian public health services are appropriately qualified to practice medicine. We examined the processes for registration of medical practitioners in Victoria by the Medical Practitioners Board of Victoria (MPBV) and the credentialing and other employment related quality assurance processes used by 4 Victorian hospitals.

We found that the systems used by the MPBV to register medical practitioners are generally consistent with the requirements of the *Medical Practice Act 1994* (the Act). However, of the 8 cases examined, the level of documentation to support the registration of medical practitioners was at times inadequate.

In cases where registration occurred under the specific registration provisions of the Act¹ and where supervised study or training arrangements were required for registration, we further found that the specific detail included in applications, of supervised training and the skills and knowledge needs of applicants, varied considerably. Some applications simply indicated ‘as appropriate to the position’, some attached a copy of a generic training program and others attached detailed plans and rosters to show the number and seniority of staff supervising the medical practitioner.

The MPBV does not require a structured and consistent approach to supervised study or training for specific registration. However, it does take into account the appropriateness of the proposed supervised training, considering the individual needs of the applicant, when making the decision to register an applicant or not.

Finally, we found that the systems and controls used by hospitals to ensure that medical practitioners are appropriately qualified, trained and supervised were better in larger hospitals than in smaller or more remote hospitals. The latter have a smaller pool of medical practitioners from which to recruit and they also are less likely to have well resourced, formal structures to supervise or train medical practitioners.

¹ Section 8(1) of the Act provides for a “specific registration” of an applicant, where the applicant has a primary medical qualification from a university that has not been accredited by the Australian Medical Council and the applicant has not completed the requirements for general or provisional registration.

Recommendations

Several recommendations were made focusing on the need for the MPBV to strengthen its administrative processes and requirements for supervised training under specific registration, and for the Department of Human Services to support these endeavours.

1.2.3 Progress in addressing the recommendations of our performance audit report, *Community dental services*

Our October 2002 performance audit *Community dental services* assessed how well the Department of Human Services (DHS) and Dental Health Services Victoria (DHSV) managed the delivery of community dental services². It identified scope for improvement, and made 15 recommendations addressing 4 main areas:

- service access
- service delivery
- work force management
- program management.

The follow-up audit found that DHS and DHSV had implemented a number of our 2002 recommendations. In particular, they had:

- increased service delivery and implemented a number of initiatives to reduce demand in the longer term
- taken steps to improve efficiency in clinics
- addressed several of the clinical practice and compliance issues in dental clinics.

In particular, DHSV had implemented a number of initiatives to improve and enhance service provision. Progress was also made on a series of plans, starting with the *Oral Health Strategic and Service Plan for Victoria*, developed to provide a comprehensive framework for the dental public health service. However, progress was slow in:

- improving waiting list management practices
- developing agency level information on costs and agency level benchmarks.

² DHS has policy and program responsibility for public dental health in Victoria, while DHSV is the lead agency responsible for coordinating and managing public dental health services.

The increase in government funding for community dental services from 2004-05 (\$97.2 million over 4 years) presents an opportunity to address the worsening access issues identified in our 2002 report. The challenge now is to provide the modelling, long-term framework and plans to deliver measurable improvement in the delivery of dental public health services, and the oral health of Victorians.

Recommendations

Several recommendations were made focusing on the need for:

- **DHS, in collaboration with DHSV, to undertake comprehensive modelling work to better inform the allocation of the additional government funds**
- **DHS to better understand the costs of service delivery and develop a funding formula based on this information**
- **DHS and DHSV to collaborate on the implementation of a waiting list strategy, as a priority**
- **DHSV to complete the work commenced on benchmarking the efficiency of dental clinics, to better inform the development of improvement strategies**
- **the dental capital plan (which DHS and DHSV will jointly develop) to include an analysis of the desired configuration of fixed and mobile clinics, and plans to decommission any dental service vans identified as not meeting clinical standards and service requirements**
- **DHSV to develop a more complete dental health workforce database, to better inform the analysis of current workforce strategies and the development of future strategies**
- **DHS to monitor and report on the effectiveness of implementation of their 2, 5 and 10 year public dental workforce strategies**

1.2.4 Implementation of the Telecommunications Purchasing and Management Strategy (TPAMS)

In July 2002, as part of its *'eGovernment vision - Putting People at the Centre'* initiative, the government launched the Telecommunications Purchasing and Management Strategy (TPAMS). The strategy establishes a framework for the whole-of-government procurement and management of telecommunications services into the future. It involves 4 projects that aim to improve the accessibility, quality and cost of telecommunication services across the Victorian public sector.

Our examination of the implementation of TPAMS concluded that, overall, this initiative was effectively planned and managed. Although minor project delays and project cost revisions were experienced, the project is still on track to meet the June 2006 deadline and is within budget. However, enhancements to project cost and milestone reporting need to be considered.

The program's project governance and management by the Department of Infrastructure and its Chief Technology Office is robust. However, the role of the Office of the Chief Information Officer (within the Department of Premier and Cabinet) needs to be reviewed and clarified in relation to monitoring whole-of-government information technology projects.

The telecommunications contract procurement process was assessed as fair, followed due process and complied with Victorian Government Purchasing Board guidelines.

It is still too early for us to conclude that all TPAMS program expected benefits and cost savings will be achieved. However, early indications are that lower telecommunication prices were negotiated and regional areas may have enhanced telecommunications access. The project team indicated that the original expected savings, of \$73 million over 5 years, are likely to be exceeded.

Although the TPAMS program risks are adequately managed, as the TPAMS program progresses risks associated with government department and agency take-up of telecommunication services and the chief technology office's ability to manage multi-supplier and user telecommunication services, will need to be closely managed.

Recommendations

That the TPAMS governance committee monitor whole-of-project-life costs, and capital and operating expenditure, for each of the TPAMS projects.

That the Office of the Chief Information Officer and other central government agencies interested in whole-of-government IT projects review and clarify their roles and lines of reporting for large IT projects.

That the Chief Technology Office ensures it is able to identify and manage emerging risks as TPAMS projects move into later stages.

1.2.5 Management of Overseas Projects Corporation of Victoria Ltd's major asset sale

The Overseas Projects Corporation of Victoria Ltd was established in 1985 as a state-owned company. Its mission was to export Victorian public and private sector skills (such as project management skills), technologies and equipment to external markets. Most of its work focused on projects conducted in developing countries.

The company experienced considerable financial difficulty over recent years. Advice from its board that it was not a core government business, contributed to the government's decision in October 2003 to sell the company.

In June 2004, the company concluded an asset sale agreement with a private party, for \$1.4 million. This agreement sold the company's interest in most of its ongoing major projects and partnering arrangements, and its trading name. It also transferred almost all of the company's permanent employees to the buyer. The buyer also agreed to manage, on the company's behalf, those projects retained by the company on a fee-for-service basis.

We examined the adequacy of the sale process, the outcomes achieved and the arrangements established for the eventual wind-up of the company and the management of any residual issues.

To achieve a satisfactory sale outcome, it was important for the sale to be completed expeditiously given the nature of the company's business and the importance of ensuring that the skills and experience of its employees were retained during this period. It was equally important that due process, including a high standard of equity, transparency and probity, was maintained throughout. We concluded that, while the sale was conducted expeditiously under difficult circumstances, some procedural matters were deficient.

While acknowledging that there were several strengths in the process adopted for the sale (including comprehensive sale documentation and the engagement of a probity adviser) and that the sale process was made more difficult by the company's considerable financial difficulties, there are lessons to be learned for future asset sales, including:

- key sale documents should be formally approved prior to their issue to the market
- probity plans issued to bidders should be followed
- the conclusions and recommendations of the bidder selection committee should be formally documented and signed-off by its members

- where the nature of a sale changes during the sale process (for example from a sale of a company to a sale of the company's assets), at least all short-listed bidders should be given the same opportunity to submit proposals
- committees established to oversee the conduct and management of the sale of an entity should take a leadership role, not become an integral part of the conduct of the sale and should be independent of the entity's board or management, therefore ensuring the government's ownership interests are protected
- advisers to a sale process, which have an affiliation or interest which might create a possible perception of a conflict of interest, should not participate in the process
- the successful bidder should not be allowed to take over the entity (or the purchased assets) before the sale agreement is finalised.

The cash proceeds of the sale, which were received by the company and totalled \$1.4 million, fell below the company's revised valuation of the projects sold (\$1.5 million) and the original estimated proceeds for the sale of the company as a whole (\$2.5 million). Further, the state continues to bear risks arising from the unsold projects of the company. Nevertheless, based on the 2 offers received, the state achieved the highest available cash return on the sale.

The state has contributed some \$9.9 million as capital to the company since its inception in 1985. In June 2004, the state also provided a grant of \$400 000 to the company to meet some of its debts. In return, the company has contributed dividends totalling some \$800 000 to the state since 1992. At 30 June 2004 (after taking into account the proceeds from the sale), the company's net assets amounted to \$1.3 million, with a further \$317 000 estimated as being needed to complete its wind-up. Clearly, the majority of the state's investment in the company has been lost.

The wind-up of the company's affairs was incomplete at the time of preparing this report and an up-to-date plan (and budget) needs to be prepared and approved for this purpose.

Recommendation

That the board of the Overseas Projects Corporation of Victoria Ltd, together with the liquidator and the Department of Industry, Innovation and Regional Development, prepare a revised plan for winding-up the company's affairs for the approval of the Minister for State and Regional Development.

1.2.6 Implementation of the Government Infrastructure Management System project

The Government Infrastructure Management System (GIMS) project commenced in 2000 with the overall aim to improve asset management across the public sector. This was to be achieved through the implementation of new software, supported by enhanced policies and procedures. The Justice portfolio was chosen to pilot the new software which was to be acquired under the project.

We examined whether this project was adequately defined, implemented and managed by the participating agencies in the Justice portfolio.

While the Department of Justice (DoJ) planned to fully implement the software by January 2003 across a number of its business groups and portfolio agencies (Victoria Police and the Country Fire Authority), at the time of our audit (February 2005), the software was not fully implemented within the DoJ business groups (including Corrections Victoria, Courts and Tribunals, and the Victoria State and Emergency Services).

Our review of the project's management found that better project governance and coordination would have reduced some of the delays encountered.

One of the aims of the GIMS project was to enable cross-agency comparisons, monitoring and benchmarking of asset management performance. This aim has not been achieved by participating agencies, as not all are recording all common assets (such as plant, equipment and buildings). Unless there is greater standardisation of approaches and asset types recorded, this aim (and one of the stated benefits of the project software) will be difficult to achieve.

With the GIMS software now being considered for use by other public sector agencies, it is important that a full post-implementation review of the Justice portfolio GIMS project be conducted. This will ensure that public sector agencies benefit from the lessons learned by Justice portfolio participating agencies.

Recommendations

Several recommendations were made focusing on the need for DoJ to ensure that:

- project plans and budgets for future major IT projects are formally endorsed by relevant governance bodies or senior staff before the plans are implemented
- expenditure on major projects is regularly monitored and reported against project budgets
- future IT projects involving multiple business groups within DoJ and/or other agencies have a senior representative (such as a deputy secretary) appointed to their steering committee
- all participating agencies and business groups regularly check their GIMS database records against records in their financial systems
- a post implementation review of the GIMS project is undertaken.

1.2.7 Construction of the Yalmy Road fire control line

During February 2003, as part of an effort to extinguish the largest wildfires ever experienced in Victoria, the Department of Sustainability and Environment (DSE) constructed a fire control line along Yalmy Road in East Gippsland. This operation was carried out in extraordinary circumstances, involving a large number of fires that simultaneously burnt over a considerable period of time, spreading rapidly and behaving erratically, and therefore placing considerable time and resourcing pressures on DSE during this time.

After receiving an allegation from a member of the public in early 2004, that timber with a substantial market value was stolen from this fire control line, I decided to investigate the claim and examine how well DSE managed the construction of the control line.

The primary objective of DSE's effort in constructing the fire control line was to limit the impact of the fires on life, property and community assets. Our investigation found that deficiencies in the planning and management of the control line compromised DSE's fire suppression effort. Trees representing a high fire hazard were not removed, while trees representing a low fire hazard, but containing high quality timber, were removed from the control line. Pushing trees and vegetation up against the forest wall also created a fire hazard that threatened the safety of firefighters.

In constructing the control line, DSE failed to comply with a number of legislative requirements and its forestry/fire management codes of practice. The most significant breach involved the taking of wood from the Snowy River National Park for commercial use, which is not permitted under the *National Parks Act 1975*. DSE also failed to properly supervise, accurately record and check the timber salvaged.

An internal investigation into the management of the fire control line, conducted jointly by DSE and Parks Victoria, went to considerable effort to establish a sound basis for sampling forest plots in order to determine the volume of timber taken from the site. However, by not establishing whether logs were removed from the trees that were “pushed over”, it was not possible to determine what timber was taken from the site. Consequently, we were not able to determine whether appropriate royalties were paid to DSE for all timber removed from the control line.

The internal investigation made several recommendations to help improve the management of similar fire suppression efforts in future. While DSE did not publicly release a summary of the investigation report until some 12 months after it was completed, it had taken appropriate action to address its recommendations.

Recommendations

That future investigations be better planned by DSE to ensure that sufficient evidence is gathered to enable as firm as possible conclusions to be drawn from the data available.

That, in future, DSE publicly releases the findings of major investigations dealing with issues of public interest, on a timely basis.

1.2.8 Administration of the contractor assistance program

In 2002, the government announced its aim to reduce the volume of hardwood sawlogs harvested in Victoria's state forests through the buy-back of licences. The contractor assistance program (CAP) was established to assist contractors affected by the buy-back program and exiting the industry. The Department of Sustainability and Environment had overall responsibility for the assistance program.

In 2004, a number of correspondents expressed concerns to my office about the management of CAP, particularly the prioritisation process employed to provide CAP assistance. We investigated those concerns.

We found that the program attracted 175 applicants, many more than originally anticipated. To assist all eligible applicants would have required funding in excess of initial and revised funding estimates. To address this situation, assistance was initially provided to 38 eligible applicants assessed as a high priority in a first round of the program. This exhausted funding available for the program at that time.

A further 119 applications were put on hold until additional funding became available. The initial guidelines did not mention the prioritisation process and therefore contributed to the expectation that all eligible applicants would receive assistance.

While additional funding was subsequently made available, it was insufficient to assist all remaining applicants. Program guidelines and priority criteria were amended that effectively limited eligibility for assistance to applicants from specific areas. Following assessment on this revised basis, 25 of the remaining applicants received assistance. The remainder still interested in receiving assistance were deemed ineligible or advised that their applications would not be considered further.

Our review identified that many of the management processes used in the program were effective. However, we also identified a number of lessons to be considered when developing and implementing future assistance programs. These included ensuring that:

- detailed funding estimates are developed in the initial stages of programs
- potential applicants are fully informed of all aspects of the program, particularly where not all eligible applicants will receive assistance, applications are to be prioritised or provision exists for amending criteria during the assessment process
- decisions on assistance to individual applicants are fully supported by documentation

- realistic deadlines are set for the receipt of applications and supporting information, and policies for late applications are clearly developed and complied with
- processing of applications for assistance and notification of applicants of the outcome of assessment processes is timely.

Recommendations

Several recommendations were made to help strengthen the administration and management of future industry assistance (and similar) programs. These focused on the need for program delivery agencies to ensure effective planning, governance and implementation arrangements are established, and clearly communicated to all stakeholders, so that that program objectives can be best achieved.

1.2.9 Capital budgeting and management by local governments

In each of 2002-03 and 2003-04, Victoria's 79 local governments (councils) spent over \$800 million acquiring and renewing assets (including major infrastructure assets such as roads, bridges and drains) used to deliver services to their local communities. On average, this capital expenditure equated to 20 per cent of their total annual revenues.

Our examination of the capital budgeting and management processes used by 9 councils concluded that these authorities were not currently managing their capital expenditure programs as well as they could.

The councils examined failed to achieve their budgeted annual capital programs over the past 2 years. This experience reflects the broader experience of the local government sector.

All but one had yet to implement a comprehensive asset management framework, covering all classes of major assets, that allow them to plan their capital expenditure "top down", both strategically and operationally. The Municipal Association of Victoria's STEP program³ is helping councils implement such a framework, but there is still some way to go.

³ The STEP program commenced in 2003 and is designed to assist councils to improve their asset management processes with support from a consortium of asset management consultants. All councils are encouraged to participate in the program.

Recommendations

That councils:

- complete the development of (and formalise) their asset management frameworks, as a priority
- link their capital budget process to their asset management plans
- implement systematic and consistent analysis of all major new asset proposals, through the preparation of comprehensive business cases
- develop long-term funding and cost-reduction strategies to ensure they have the funds needed to renew assets or acquire new assets, in line with their asset management framework
- review the timing of their capital budget process, to ensure sufficient time is allowed prior to the approval of the budget to obtain and analyse relevant data on estimated costs, and to allow for earlier commencement of approved projects
- review their internal reporting to ensure it captures important milestone data for the life of each major capital project, as well as annual data.

1.2.10 Review of Warrnambool City Council financial management practices

In June 2004, the Ombudsman referred a number of allegations to my Office for enquiry about the adequacy of Warrnambool City Council's financial management practices. This report sets out the results of our examination of these allegations. In all, some 15 allegations were investigated covering the 13-year period 1992 to 2004.

While our investigation found the majority of allegations not to be substantiated, or not able to be substantiated due to insufficient evidence, a number of issues were identified, including:

- non-compliance with the *Local Government Act 1989* requirements for a major purchase and the funding of employee long service leave entitlements
- non-compliance with the Council's own procurement policies for 4 sizeable capital projects examined
- inadequate management and reporting of the 2002 and 2003 Fun 4 Kids festivals, which represent a major annual activity of the Council

- inadequate risk assessment during the early 1990s for some of the Council's industry development and facilitation projects
- scope for improved management practices over certain major capital works projects and a rental property.

One of the allegations referred to us focused on the financial standing and sustainability of the Council. While the Council's reported results over the past 4 years show a strong financial performance and position, this largely resulted from the receipt of significant capital grants over this period. After excluding capital receipts, the result was an underlying deficit, indicating that Council was not generating sufficient recurrent revenue to cover its costs of operations.

While the level of rates and charges raised by the Council is consistent with other regional cities, overall operating expenditure has been significantly higher.

The Council, in recent years, implemented various continuous improvement initiatives as part of the local government Best Value Program, aimed at strengthening its management practices and improving community outcomes. The Council also implemented various initiatives to assist in better managing its short and longer-term financial sustainability. Its financial projections to the year 2008 predict a progressively improving operating result and funding position.

Notwithstanding these initiatives and projections, there remains a need for the Council to continually review and refine its governance and reporting arrangements, and its project management procedures.

Recommendations

Several recommendations were made focusing on the need for the Council to:

- **ensure that all its purchases comply with the requirements of the *Local Government Act 1989* and its own procurement policies**
- **refine its budget setting, reporting and review processes associated with the Fun 4 Kids festival**
- **improve the quality of future capital project proposals submitted for council funding approval**
- **ensure that any future evaluations of potential asset acquisitions associated with industry facilitation activities, are preceded by sufficient analysis and risk assessment**

- **establish a periodic review process to ensure ongoing compliance with all tax requirements**
 - **continue to closely monitor its operating and cash flow positions over a rolling forward 5 year period, to ensure that its operations remain sustainable and sufficient cash is available to meet financial obligations**
 - **review the condition of its major infrastructure assets, to identify required capital works and develop funding strategies.**
-