

Family and Community Services 2018

4 DECEMBER 2018



NEW SOUTH WALES AUDITOR-GENERAL'S REPORT

FINANCIAL AUDIT

THE ROLE OF THE AUDITOR-GENERAL

The roles and responsibilities of the Auditor-General, and hence the Audit Office, are set out in the *Public Finance and Audit Act 1983* and the *Local Government Act 1993*.

We conduct financial or 'attest' audits of State public sector and local government entities' financial statements. We also audit the Total State Sector Accounts, a consolidation of all agencies' accounts.

Financial audits are designed to add credibility to financial statements, enhancing their value to end-users. Also, the existence of such audits provides a constant stimulus to entities to ensure sound financial management.

Following a financial audit the Audit Office issues a variety of reports to entities and reports periodically to parliament. In combination these reports give opinions on the truth and fairness of financial statements, and comment on entity compliance with certain laws, regulations and government directives. They may comment on financial prudence, probity and waste, and recommend operational improvements.

We also conduct performance audits. These examine whether an entity is carrying out its activities effectively and doing so economically and efficiently and in compliance with relevant laws. Audits may cover all or parts of an entity's operations, or consider particular issues across a number of entities.

As well as financial and performance audits, the Auditor-General carries out special reviews and compliance engagements.

Performance audits are reported separately, with all other audits included in one of the regular volumes of the Auditor-General's Reports to Parliament – Financial Audits.



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In accordance with section 52A of the *Public Finance and Audit Act 1983*, I present a report titled **'Family and Community Services 2018'**.

A handwritten signature in black ink, appearing to read 'Margaret Crawford'.

Margaret Crawford

Auditor-General
4 December 2018

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Section one

Family and Community Services 2018

This report analyses the results of our audits of the Family and Community Services cluster agencies for the year ended 30 June 2018.



Executive summary

This report analyses the results of our audits of financial statements of the Family and Community Services cluster for the year ended 30 June 2018. The table below summarises our key observations.



1. Financial reporting

Audit opinions

Unqualified audit opinions were issued for all agencies' 30 June 2018 financial statements.

Quality of financial reporting

There are opportunities for agencies to improve the quality of financial reporting by:

- documenting all significant judgements and assumptions used when preparing the financial statements
- regularly reconciling inter-agency balances and transactions
- reconciling key account balances on a timely basis
- quantifying the impact of new and revised accounting standards.

Timeliness of financial reporting

Agencies completed revaluations of property, plant and equipment and submitted 31 March 2018 financial statements by the due date as required by NSW Treasury.

Agencies submitted year-end financial statements by the statutory deadline.



2. Audit observations

Internal control weaknesses

The 2017–18 audits reported 47 internal control weaknesses. While none were high risk, there were 15 repeat issues.

Twenty-two of these internal control weaknesses were related to information technology processes and controls. Control weaknesses in information systems may compromise the integrity and security of financial data.

Recommendation: Agencies should strengthen user access administration to prevent inappropriate access to key IT systems by:

- ensuring privileged user access is limited to those requiring access to maintain the IT systems
- monitoring privileged user access to address risks from unauthorised activity
- ensuring IT password settings comply with password policies
- ensuring timely removal of access to business systems for terminated and casual employees.

Contract management

The Department, NSW Land and Housing Corporation (LAHC) and three other cluster agencies' contract registers are incomplete and/or inaccurate.

Recommendation: Agencies should ensure their contract registers are complete and accurate so they can more effectively govern contracts and manage compliance obligations.

**Financial impact of the
commissioning approach**

The transfer of disability services to the National Disability Insurance Scheme and other commissioning of service delivery has contributed to a 36 per cent decrease in frontline employee numbers since 2015–16. Similarly, corporate services' employee numbers reduced by 34 per cent.

The ratio of corporate services employee numbers to support frontline and support services has remained at 1:10 since 2015–16, which indicates restructures have been planned to align with the transfer of disability services.

The Department's salary costs have reduced by \$232 million or 18 per cent from 2016–17.

**Impact of the new social housing
maintenance contract**

Maintenance expenses for social housing have increased by about 40 per cent since the new maintenance contract commenced in April 2016.

The Department's surveys suggest tenant satisfaction has improved since the new maintenance contract commenced. The new maintenance contract has contributed to some positive social outcomes such as tenants being employed by the contractors to conduct maintenance, as call centre operators and in administration. However, more can be done to ensure value for money is being achieved.

Security of child protection data

The Department has processes in place to ensure the security of child protection data. There is no direct interface into other agencies system from the ChildStory database and if required, data transfers between agencies are initiated through protocols and secure data exchange platforms. There have been no reported security breaches of child protection data.

ChildStory IT project

Whilst phase one of the ChildStory IT project went 'live' in 2017–18, the planned timetable has not been met and the revised date for full implementation is before the end of 2018.

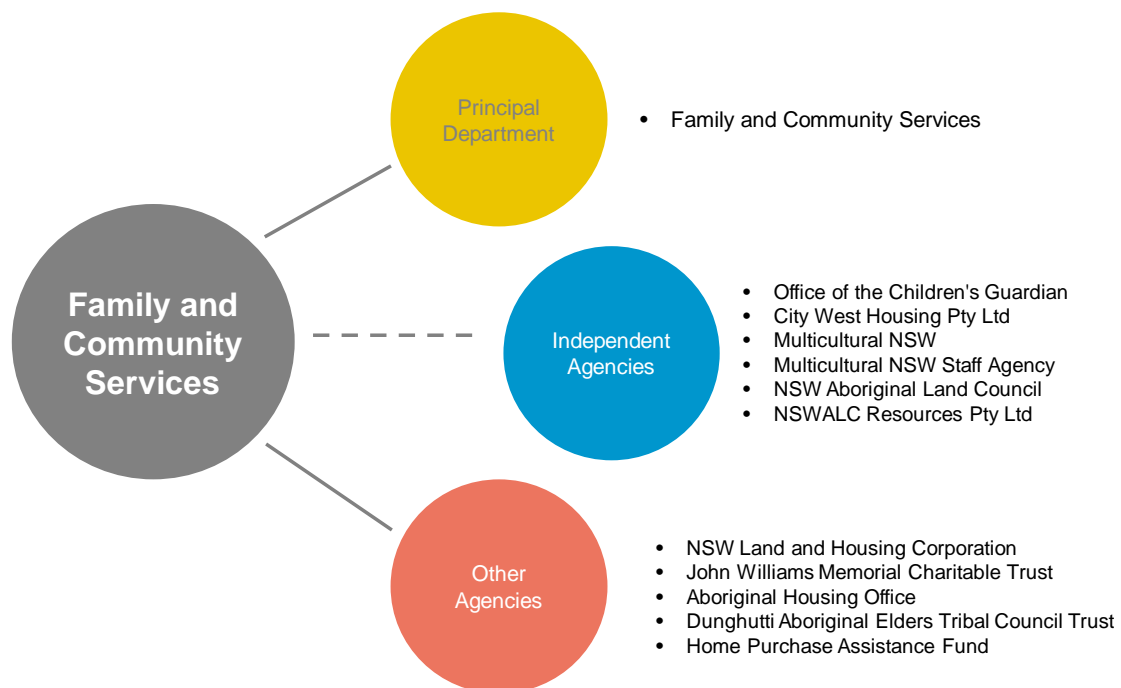


1. Introduction

This report provides NSW Parliament and other users of the financial statements of Family and Community Services' agencies with the results of our audits, our observations, analysis, conclusions and recommendations in the following areas:

- financial reporting
- audit observations
- service delivery.

1.1 Snapshot of the cluster



Note: NSW Aboriginal Land Council and NSWALC Resources Pty Ltd are included for reporting purposes but are not part of the cluster.



Note: NSW Aboriginal Land Council and NSWALC Resources Pty Ltd are included for reporting purposes but are not part of the cluster.

The Department of Family and Community Services (the Department), led by the Secretary, is the lead agency in the cluster. Most agencies report to the Secretary, except for the independent agencies listed above.

2017–18 Family and Community Services cluster activities



Number of Senior Card holders approaching 1.6 million



Transitioned to NDIS on 1 July 2018. 94,400 people in NSW are NDIS participants, with over 89,800 having fully transitioned



Conducts over 360,000 'Working With Children Checks'



Ability Links NSW (ALNSW) provides more than 150,000 short-term intervention services to people with a disability, their families and carers



Over 424,000 participants under the Community Builders program. The Child Youth and Family Support program provides support to approximately 85,000 families



Provides supported accommodation services to over 4,000 people with a disability



Assists over 139,000 households with social housing, 18,500 with rent assistance in the private market and 23,700 with temporary accommodation assistance



Provides approximately 152,000 social housing properties for people in need



Provides out of home care services for 17,400 vulnerable children and young people

Source: data supplied by the Department (unaudited).

1.2 People with disability

Front line disability services will be provided by non-government organisations under NDIS

The National Disability Insurance Scheme (NDIS) completed the New South Wales rollout on 1 July 2018. The NSW Government will continue to fund \$2.7 billion annually to the NDIS and an extra \$478 million through services provided by NSW Government agencies for 2018–19.

The NDIS is a national social insurance framework to support people with disability. NDIS aims to provide long term, high quality support for almost half a million people across Australia with permanent disability affecting their communication, mobility, self-care and/or self-management.

At 30 June 2018, the Department's unaudited data shows 86,200 people with disability in New South Wales had an approved NDIS plan. Disability services have mostly transitioned from the Department to non-government organisations (NGOs). Eleven companies were established to allow transfers from the Department to occur. The Minister for Disability initially held the membership of these companies, which has subsequently been transferred to the relevant NGO nominees. Employee numbers of the Department have reduced as front-line disability services are delivered by NGOs. Most disability workers transferred to NGOs or other public-sector agencies.

The Department advises it will continue to operate the large residential centres in the Hunter region until new homes are constructed. In September 2018, the Minister for Disability announced the Home4Life consortium, comprising two community housing providers and an investment firm, will construct new homes for those living with disability in the Hunter region.

1.3 Children and young people

'Their Futures Matter' is a cross-government reform designed to deliver whole-of-system changes to better support vulnerable children and families. The guiding vision is to significantly improve life outcomes for current and future generations of children and families, and to ensure that every child has a safe, permanent and loving home.

An Implementation Board has been established to oversee progress for key reforms 'Their Futures Matter' and other targeted early intervention programs. The Implementation Board is chaired by the Secretary of the Department and comprises of senior executives from:

- Department of Education
- Department of Family and Community Services
- Ministry of Health
- Department of Justice
- Department of Premier and Cabinet
- NSW Treasury.

Cross-agency collaboration and support from the Implementation Board is designed to achieve the following key objectives: designing new service solutions; developing the investment approach infrastructure; analysing the access system; and commissioning evidence-based programs.

'Their Futures Matter' and targeted early intervention programs are progressing

Key achievements to date reported by the Department include:

- commissioning evidence-based services for family preservation and restoration to help 900 families a year by December 2018, with 780 families participating at 30 June 2018
- implementing a cross-agency service solution for vulnerable children under the age of 12 years in an out-of-home-care (OOHC) residential setting
- designing new service solutions for the vulnerable
- approval of Public Interest Directions (PIDs) to finalise building a human services dataset
- progress on the high-level redesign of the child protection and child wellbeing access system in collaboration with ChildStory.

Targeted early intervention programs aim to support vulnerable children, young people and their families to live better lives. The Department advises it is currently working to redesign the system to meet the need for earlier intervention as the number of children reported at risk of significant harm continues to grow. Expenditure for 2017–18 was \$97.0 million (\$98.0 million in 2016–17).

1.4 Social and affordable housing

The Department is responsible for developing social housing policy and managing contracts with community housing providers. The NSW Land and Housing Corporation (LAHC) and Aboriginal Housing Office (AHO) owns the government's social housing assets. AHO was established to provide affordable and quality housing to Aboriginal and Torres Strait Islander people. Both agencies report to the Secretary of the Department. Social housing covers public housing, Aboriginal housing and community housing.

Programs under Future Directions are progressing

In January 2016, the NSW Government launched Future Directions for Social Housing in New South Wales to drive better outcomes for tenants, including help for those able to transition out of social housing. The Department reports the following has occurred in the four program areas:

- **Social and Affordable Housing Fund:** NSW Government established the \$1.1 billion Social and Affordable Housing Fund (SAHF) using seed capital invested in the NSW Government's investment arm, NSW Treasury Corporation. Returns from this investment funds the SAHF program to contract with the private sector to deliver additional social and affordable homes and integrated services package for 25 years. The Department is responsible for the procurement and commissioning functions under the SAHF program. The Department reported that at 30 June 2018, 140 households have moved into social and affordable homes funded by the first procurement phase.
- **Communities Plus:** There have been seven major renewal projects and three Neighbourhood Project releases in metropolitan and regional New South Wales. The first stage of the Macquarie Park (Ivanhoe) redevelopment plans to construct 259 social housing units progressively over three years, with further stages to follow. Total expenditure for all new supply programs for 2017–18 was \$244 million (\$273 million).
- **Social Housing Management Transfer program:** Plans to transfer management of up to 35 per cent of all social housing properties to the community housing sector. In 2018–19, management of 9,100 dwellings is to be transferred to Community Housing Providers (CHPs). Another 4,500 by October 2019. Total expenditure for implementing the program for 2017–18 was \$6.5 million (\$4.5 million). To date, nine CHPs have been selected and transfers to six of them are expected to occur in 2018–19.
- **Service Improvement Initiatives:** are being implemented with \$35.0 million spent in 2017–18 (\$21.3 million).

Further information can be obtained from the ['Future Directions'](#) website.



2. Financial reporting

Financial reporting is an important element of good governance. Confidence and transparency in public sector decision making are enhanced when financial reporting is accurate and timely.

This chapter outlines our audit observations related to the financial reporting of agencies in the Family and Community Services cluster for 2018.

Observation	Conclusions and recommendations
2.1 Quality of financial reporting	
Unqualified audit opinions were issued for all cluster agencies' financial statements.	Conclusion: Sufficient audit evidence was obtained to conclude the financial statements were free of material misstatement.
Agencies complied with NSW Treasury's mandatory early close requirements.	Conclusion: There are opportunities for agencies to improve the quality of financial reporting by:
Completing other early close procedures was inconsistent and not always supported by adequate evidence.	<ul style="list-style-type: none">• documenting all significant judgements and assumptions used when preparing the financial statements• regularly reconciling inter-agency balances and transactions• reconciling key account balances on a timely basis• quantifying the impact of new and revised accounting standards.
2.2 Timeliness of financial reporting	
Agencies completed revaluations of property, plant and equipment and submitted 31 March 2018 financial statements by the due date as required by NSW Treasury.	Conclusion: Early revaluations of property, plant and equipment contributes to agencies meeting the year-end statutory reporting deadline.
Agencies submitted year-end financial statements by the statutory deadline.	

2.1 Quality of financial reporting

Audit opinions

Unqualified audit opinions were issued for all agencies' financial statements

All agencies in the Family and Community Services cluster received unqualified audit opinions for their 30 June 2018 financial statements. In other words, sufficient audit evidence was obtained to conclude the financial statements were free of material misstatement and users can rely on them to make informed decisions.

Agencies can improve quality of financial reporting

Family and Community Services cluster agencies complied with Treasury's mandatory early close requirements by revaluing property, plant and equipment by the due date. However, agencies can improve the quality of financial reporting by:

- documenting all significant judgements and assumptions used when preparing the financial statements
- regularly reconciling inter-agency balances and transactions
- reconciling key account balances on a timely basis
- quantifying the impact of new and revised accounting standards.

Such procedures allow issues and financial reporting risk areas to be addressed early in the audit process.

2.2 Timeliness of financial reporting

Early close procedures were completed and financial statements submitted on time

Timeframes and requirements for financial reporting are established through legislation and directions from the Treasurer. By 23 April 2018, agencies were required to submit financial statements as at 31 March 2018, which incorporated results of revalued property, plant and equipment.

Agencies in the cluster completed mandatory early close procedures and submitted financial statements to the Auditor-General by the statutory deadline.

The table below shows timeliness of financial reporting.

Timeliness of financial reporting			
Cluster agencies	Early close procedures	Financial statements	Audit report
Principal Department			
Department of Family and Community Services	✓	✓	✓
Other agencies			
NSW Land and Housing Corporation	✓	✓	✓
John Williams Memorial Charitable Trust	N/A	✓	✓
Aboriginal Housing Office	✓	✓	✓
Dunghutti Aboriginal Elders Tribal Council Trust	N/A	✓	✓
Home Purchase Assistance Fund	N/A	✓	✓
Independent agencies			
Office of the Children's Guardian	✓	✓	✓
City West Housing Pty Ltd	N/A	✓	✓
Multicultural NSW	✓	✓	✓
Multicultural NSW Staff Agency	✓	✓	✓
NSW Aboriginal Land Council	N/A	✓	✓
NSWALC Resources Pty Ltd	N/A	✓	✓
Key	✓	!	
Statutory reporting deadline was met		Statutory reporting deadline was not met	
N/A	Agency not required to complete early close procedures.		

2.3 Key financial information

The Department and other cluster agencies provided grants and subsidies of \$4.8 billion in 2017–18 (\$4.1 billion in 2016–17), comprising:

- \$2.5 billion for disability services (\$1.9 billion to National Disability Insurance Agency)
- \$1.0 billion for out-of-home care
- \$294 million for early intervention programs
- \$67.0 million for community care programs
- \$881 million for other grants.

NGO's received \$2.1 billion from cluster agencies in 2017–18

A significant portion of these grants and subsidies are paid to non-government organisations (NGOs), which received \$2.1 billion in 2017–18 (\$2.6 billion in 2016–17) from cluster agencies to deliver services to people in need. With the commencement of National Disability Insurance Scheme (NDIS), \$1.9 billion was paid to the National Disability Insurance Agency (NDIA) in 2017–18 (\$757 million in 2016–17). This reduced the amount of grants and subsidies to NGOs for disability services from \$1.2 billion in 2016–17 to \$683 million in 2017–18.

Cluster agencies' assets increased by more than \$5.2 billion

The NSW Land and Housing Corporation (LAHC) revalued its property portfolio in 2017–18 resulting in a \$5.2 billion or nine per cent increase in value, primarily impacted by the Sydney market. Revalued land and buildings of the Department, Aboriginal Housing Office, City West Housing Pty Ltd and the NSW Aboriginal Land Council added a further \$513 million to the asset position. These increases in asset valuations are offset by disposal of land and buildings and depreciation.

Expenses in the cluster increased by \$448 million

Total expenses across the cluster increased by \$448 million in 2017–18 mainly due to payments to the NDIA. The NSW Government has pledged to support people with disability through the NDIS. The Department has transferred the delivery of most disability services to NGOs.

LAHC's deficit increased by 15 per cent to \$463 million

LAHC's deficit increased from \$401 million in 2016–17 to \$463 million in 2017–18. This was mainly due to vesting of \$76.3 million in properties to one NGO.

Despite ongoing operating losses, net cash inflows of \$158 million and the liquidity ratio of 1.5 indicates LAHC can meet its obligations in the next 12 months.

Appendix three details key financial information for Family and Community Services cluster agencies.



3. Audit observations

Appropriate financial controls help ensure the efficient and effective use of resources and administration of agency policies. They are essential for quality and timely decision making.

This chapter outlines our observations and insights from:

- our financial statement audits of agencies in the Family and Community Services cluster for 2018
- the areas of focus identified in the Audit Office [Annual Work Program](#).

The Audit Office Annual Work Program provides a summary of all audits to be conducted within the proposed time period as well as detailed information on the areas of focus for each NSW Government cluster.

Observation	Conclusions and recommendations
3.1 Internal Controls	
The 2017–18 audits reported 47 internal control weaknesses. While none were high risk, there were 15 repeat issues.	Conclusion: Management accepted audit findings and advised they are actioning recommendations. Timely action is important to ensure internal controls operate effectively.
Twenty-two of these internal control weaknesses related to information technology processes and control environment.	Conclusion: Control weaknesses in information systems may compromise the integrity and security of financial data used for decision making and financial reporting. Recommendation: Agencies should strengthen user access administration to prevent inappropriate access to key IT systems by: <ul style="list-style-type: none">• ensuring privileged user access is limited to those requiring access to maintain the IT systems• monitoring privileged user access to address risks from unauthorised activity• ensuring IT password settings comply with password policies• ensuring timely removal of access to business systems for terminated and casual employees.
The Department, NSW Land and Housing Corporation (LAHC) and three other cluster agencies' contract registers are incomplete and/or inaccurate.	Recommendation: Agencies should ensure their contract registers are complete and accurate so they can more effectively govern contracts and manage compliance obligations.

3.2 Audit Office Annual Work Program

Financial impact of the commissioning approach.

The transfer of disability services to the National Disability Insurance Scheme and other commissioning of service delivery has contributed to a 36 per cent decrease in frontline employee numbers since 2015–16. Similarly, corporate services' employee numbers reduced by 34 per cent.

The Department's salary costs have reduced by \$232 million or 18 per cent from 2016–17.

Impact of the new social housing maintenance contract

Maintenance expenses have increased by about 40 per cent since the new maintenance contract commenced in April 2016. LAHC measures the benefits of the new maintenance contract such as improved tenant satisfaction.

ChildStory IT Project

Whilst phase one of the ChildStory IT project went 'live' in 2017–18, the planned timetable has not been met and the revised date for full implementation is end of 2018.

According to the 2014–15 NSW Budget, the budget for ChildStory was \$100 million over a four-year period. During the design and implementation stage, this amount was revised to \$128 million, with approval of the Expenditure Review Committee. The actual cost incurred over the four years until 30 June 2018, is approximately \$131 million.

We identified issues with the data migration from the legacy systems to ChildStory.

Conclusion: The ratio of corporate services employee numbers to support frontline and support services has remained at 1:10 since 2015–16, which indicates restructures have been planned to align with the transfer of disability services.

Conclusion: The new maintenance contract has contributed to some positive social outcomes such as tenants being employed by the contractors to conduct maintenance, as call centre operators and in administration. However, more can be done to ensure value for money is being achieved.

Conclusion: To inform future IT projects, we understand the Department is capturing our findings, along with the findings from the Department of Finance, Services and Innovation's 'Healthchecks'.






3.1 Internal controls


Breakdowns and weaknesses in internal controls increase the risk of error and fraud. We report deficiencies in internal controls, governance matters and unresolved audit findings. We do this through our management letters, which include our observations, related implications, our risk assessment and recommendations.


The tables below summarise management letter issues across relevant cluster agencies by category and risk rating.


Management letter findings					
Cluster agencies	Extreme	High	Moderate	Low	Repeat
Principal Department					
Department of Family and Community Services	--	--	19	4	8
Other agencies					
NSW Land and Housing Corporation	--	--	4	2	--
Independent agencies					
Office of the Children's Guardian	--	--	3	2	2
Multicultural NSW	--	--	1	1	2
NSW Aboriginal Land Council	--	--	6	5	3

Note: agencies with no management letter findings are excluded.

Category	Risk Rating	Issue
Information technology	 Moderate: 11 new, 7 repeat  Low: 4 new	<p>There are opportunities for agencies to improve information technology processes and controls supporting the integrity of financial data used to prepare financial statements. Opportunities were identified to improve controls over:</p> <ul style="list-style-type: none"> • user access • password management • database security • change management.
Governance and oversight	 Moderate: 3 new, 1 repeat  Low: 1 new, 1 repeat	<p>One agency does not have a signed service level agreement with the Department covering the nature and extent of services provided and key deliverables.</p> <p>Four agencies have control weaknesses in contract management.</p>
Internal control deficiencies or improvements	 Moderate: 2 new  Low: 2 new, 2 repeat	<p>There are opportunities to improve fraud control and business processes, including:</p> <ul style="list-style-type: none"> • completing and documenting fraud risks for key operational areas • publishing fraud statistics and incidences • preventing duplicate and reducing long outstanding purchase orders.
Non-compliance with key legislation or central agency policies	 Moderate: 1 repeat	<p>Half of the Department's employees did not have a performance development program in place at 30 June 2018.</p>
Financial reporting	 Moderate: 6 new, 2 repeat  Low: 3 new, 1 repeat	<p>The following financial reporting issues were identified:</p> <ul style="list-style-type: none"> • lack of review of reconciliations • inadequate reporting of major works in progress in the annual report • recognising land under roads not controlled • overstating accrued expenses and commitments • incorrectly calculating annual leave provision.

 High risk from the consequence and/or likelihood of an event that has had, or may have a negative impact on the entity.

 Moderate risk from the consequence and/or likelihood of an event that has had, or may have a negative impact on the entity.

 Low risk from the consequence and/or likelihood of an event that has had, or may have a negative impact on the entity.

Information technology controls

Control weaknesses expose financial systems to unauthorised access

The Department provides financial services, including core financial systems, for six cluster agencies. Other cluster agencies have their own financial systems. Our financial audit of the Department and other agencies focused on the information technology processes and controls supporting the integrity, availability and security of financial data. Control weaknesses were identified in the financial information systems of the Department, LAHC and NSW Aboriginal Land Council.

Our audits identified and reported information technology control weaknesses of moderate risk including:

- a lack of segregation of duties
- a lack of user logging and monitoring on several databases
- a lack of regular and effective user access review
- weak password controls
- a lack of user awareness training and controls to address cyber security risks.

Controls weaknesses may compromise the integrity and security of financial data. Our financial audits ensured no material misstatements occurred in 2017–18 due to these control weaknesses.

3.2 Audit Office annual work program

Each year our financial audits examine a small number of specific topics across agencies. We determine which topics to consider by looking for opportunities to improve public-sector accountability, governance and administration. We also consider the risks and challenges to reporting the true financial position and performance of the State and how these may be addressed during our audits.

Risks and challenges that may impact on financial reporting of Family and Community Services cluster agencies this year include:

- financial impact of the commissioning approach
- impact on the new social housing maintenance contract
- security of child protection data.

Financial impact of the commissioning approach

Commissioning is designed to promote innovation and create a more competitive and accountable environment leading to lower costs and improved outcomes.

The Department has established a Commissioning Division led by a Deputy Secretary. It has also developed its 'Commissioning for Better Outcomes Framework'. The Department reports it commissions more of its services than any other NSW Government agency.

The '[NSW Government Commissioning and Contestability Policy](#)' and the '[NSW Government Commissioning and Contestability Practice Guide](#)' set out the requirements to be followed by NSW Government agencies when commissioning services.

The Department is currently undergoing a restructuring process. The Department is working through the impact of commissioning on services and commissioning activities in conjunction with NSW Treasury.

The transfer of disability services to the National Disability Insurance Scheme and other commissioning of service delivery has contributed to a 36 per cent decrease in frontline staff numbers since 2015–16. Similarly, corporate services employee numbers reduced by 34 per cent. The Department's salary costs have reduced by \$232 million or 18 per cent since 2016–17. The table below shows the changes in full time equivalent staff numbers over the past three years.

Year end 30 June	2016	2017	2018
Frontline staff	14,047	12,104	8,985
Corporate services	1,225	1,154	810
Ratio of corporate services to frontline staff	1:10	1:10	1:10

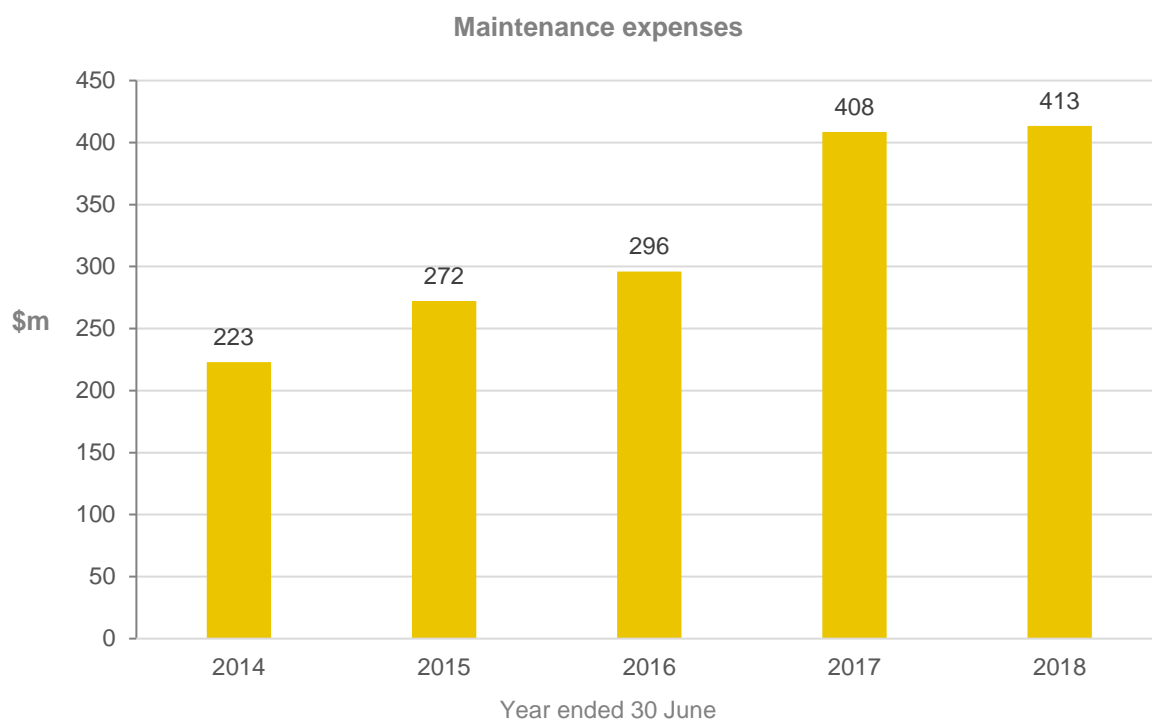
Source: Data supplied by the Department (unaudited).

Impact of the new social housing maintenance contract

LAHC established a new maintenance contract with five contractors commencing in April 2016, designed to drive greater accountability and cost-effectiveness. Contractors are incentivised to increase efficiencies, provide competitive pricing and value for money. Since the commencement of the contract, more maintenance is being undertaken against an aging portfolio driving higher costs.

Growing cost of maintaining social housing

Maintenance expenses for social housing have increased from \$223 million for financial year ended 30 June 2014 to \$413 million for 2017–18, a 51 per cent increase.



Source: NSW Land and Housing Corporation's audited financial statements.

LAHC advise the following main reasons for higher expenses:

- more calls from tenants requesting maintenance as they now have direct access to the contractors' call centres
- reduced call response time
- regular pop-up events with contractors on hand at social housing sites
- age of residential portfolio and the increasing costs to maintain
- higher costs due to damage and rubbish removal from properties when they become vacant.

Management regularly review expenditure against budget and report to those charged with governance. An audit and verification team, within LAHC, assesses contractor's work to ensure it meets contractual requirements. During 2017–18, LAHC engaged an independent external party to audit the contractors' performance in delivering maintenance work programs in accordance with the contract. Findings include:

- contractors delayed submitting claims
- overreliance on contractor data which lacks clarity in description of work performed
- replacing assets, when repairing is an option
- head maintenance contractors engage some subcontractors under a schedule of rates. These rates are not revised during the term of the contract and therefore missing the opportunity for any volume discounts.

LAHC has advised they are working with the contractors to resolve these issues.

New maintenance contract aims to improve social outcomes

Besides accountability and cost-effectiveness, the new maintenance contract aims to improve:

- timeliness in responding to tenants
- outcomes from vacant restorations and modifications
- employment opportunities for tenants with contractors.

The Department is responsible for tenant management and has established key indicators to measure performance. The new maintenance contract requires contractors to achieve a minimum of 75 per cent tenant satisfaction score from tenant satisfaction surveys. The Department also surveys tenants through its Housing Contact Centre. Based on unaudited data provided, with a 75 per cent response rate, maintenance contractors are consistently achieving scores above 85 per cent. Tenant satisfaction scores of lower than 75 per cent impact the overall monthly contractor's performance which can lead to a lower result in the overall performance evaluation. The table below highlights the results from the surveys.

Year	1 April to 30 June 2016	2016–17	2017–18
Surveys issued	12,195	76,508	60,120
Surveys responded	7,845	60,522	47,197
Average tenant satisfaction (%)	83	90	89

Source: Data supplied by the Department (unaudited).

Call responsiveness is also monitored and based on unaudited data, contractors are consistently meeting monthly target response times. Contractors also encourage local industry participation by engaging regionally based trades to deliver maintenance services.

The 'Public Accounts Committee Inquiry into the Management of NSW Public Housing Maintenance Contracts Progress Report October 2017' commented:

- modifications to meet the needs of older tenants or those with disabilities are professionally assessed through collaboration with occupational therapists and other medical professionals to ensure that these are delivered at a higher priority and are suitably designed and installed
- contractors have delivered 560 apprentice roles and employment opportunities in the provision of maintenance services and employment in call centres and administrative teams.

Security of child protection data

The Department has processes in place to ensure the security of child protection data. There is no direct interface into other agencies systems from the ChildStory database and if required, data transfers between agencies are initiated through protocols and secure data exchange platforms. There have been no reported security breaches of child protection data.

Issues identified with data migration

The Department of Finance, Services and Innovation (DFSI) performs regular 'Healthchecks' of the project. We also reviewed the ChildStory data migration during 2017–18 and identified areas for improvement including:

- measuring benefits realisation
- data quality issues were unresolved before the system went 'live'
- incomplete data was migrated
- system functionality issues
- inadequate training was provided to users.

Findings from DFSI 'Healthchecks' and our audit should be captured to inform future IT projects.

The Department acted on the findings to correct any data issue, improve system functionality and provide additional training.

Implementing ChildStory is over budget and delayed

ChildStory replaces a number of the Department's previous IT systems for child protection, early intervention and prevention, and out-of-home care. The system collects and stores key information of the Department's clients to support decision making and oversight. The project also aims to reduce administration time of frontline staff so they can spend more time with families in need.

The project commenced in July 2014, however there have been delays in meeting project milestones due to issues with the underlying IT platform and data migration. The project was to be completed by June 2018. Accordingly, the project is likely to be completed at the end of 2018.

According to the 2014–15 NSW Budget, \$100 million was allocated for ChildStory over a four-year period. During the design and implementation stage, this amount was revised to \$128 million, with approval of the Expenditure Review Committee. The actual cost incurred over the four years until 30 June 2018 is approximately \$131 million, 31 per cent over the original budget and 2 per cent over the revised budget.



4. Service delivery

This chapter outlines certain service delivery outcomes for 2017–18. The data on activity levels and performance is provided by Cluster agencies. The Audit Office does not have a specific mandate to audit performance information. Accordingly, the information in this chapter is unaudited.

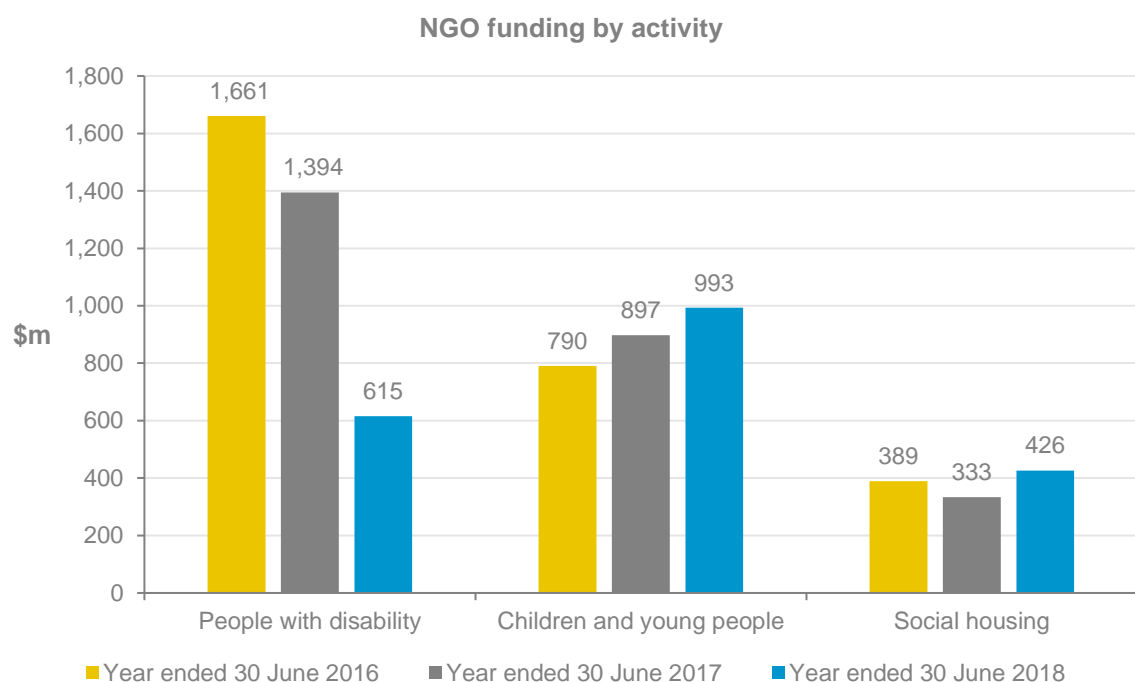
In our recent performance audit, [Progress and measurement of Premier's Priorities](#), we identified 12 limitations of performance measurement and performance data. We recommended that the Department of Premier and Cabinet ensure that processes to check and verify data are in place for all agency data sources.

4.1 Commissioning

NGOs received \$2.1 billion from cluster agencies in 2017–18 to deliver services

The \$2.1 billion provided by Family and Community Services cluster agencies to non-government organisations (NGOs) in 2017–18 represented 25 per cent of total cluster expenses (\$2.6 billion and 33 per cent in 2016–17). The Department, the Aboriginal Housing Office (AHO) and the NSW Land and Housing Corporation (LAHC) engaged with over 2,600 NGOs across eight different programs. Funding to NGOs for disability services in 2017–18 decreased as \$1.9 billion was paid directly to the National Disability Insurance Agency (NDIA).

The chart below details funding to NGOs for three key activities over the past three years.



Source: Data supplied by Department (unaudited).

Many services traditionally delivered by the Department and the AHO are being transferred in varying degrees to NGOs, along with substantial funding. The agencies retain responsibility for ensuring services are high quality and help people achieve good outcomes. Changing the service delivery model can change the profile of risks that need to be managed.



During 2019–20, the Audit Office of New South Wales will examine how the Department ensures good outcomes through the use of NGOs to deliver services.

The Department itself has the power to audit how well NGOs use funding provided. The Commissioning Division has a process for auditing NGO performance and reports quarterly to the Audit and Risk Committee. Similarly, the AHO has the power to monitor Aboriginal Community Housing Provider's performance and is developing a new contract and compliance framework to enhance its monitoring function and define clearer benchmarks in line with the National Regulatory System for Community Housing requirements.

The Department reports that it monitors progress against deliverables, to identify performance issues and take early steps to resolve issues and mitigate risk. This is done through:

- regular performance monitoring to review progress, measure contract performance and identify performance issues
- service providers submitting data and performance reports to contract managers for review
- documented visits, and written and telephone communication
- annual performance assessment of all funded service providers to assess overall governance, financial management and service delivery performance including a full financial analysis of providers' reported accountability, and risk assessment.

The Department implemented a strategic plan for control and risk management of the funding to NGOs, governed by the 'Funded Contract Management Framework' in early 2018. The plan involves three 'lines of defence':

- first line - contract management in accordance with a consistent framework
- second line - review of all out-of-home-care providers and other providers rated as high risk. Plan audits and reviews of a sample of providers rated as low to medium risk. Conduct audits, reviews and investigates complaints or allegations of misconduct
- third line - independent assurance from internal and external auditors as required to provide assurance to those charged with governance and regulatory agencies. External auditors are engaged where specialist or forensic auditing is required.

For the NGOs with 2016–17 contracts, all 1,500 were reviewed under the first line with 98 per cent rated low to medium risk. The Department advised there were 560 contracts reviewed under the second line of defence and none of these were escalated to the third line of defence. This process identified providers with performance issues with 23 relating to governance, resulting in:

- one contract being terminated
- two under investigation by the NSW Police for fraud
- two contracts placed under special administration and another issued with a notice by the Office of the Registrar of Indigenous Corporation.

The Department advised they commenced reviewing NGOs with 2017–18 contracts in November 2018.

Currently, the *Public Finance and Audit Act 1983 Act* does not provide the NSW Auditor-General with the capacity to directly examine performance outcomes from government services delivered by the NGOs. This limits the ability of the NSW Auditor-General to ensure that public money is being spent in an accountable manner.

4.2 Children and young people

Children's Guardian accredited 15 districts providing out-of-home care services

The Children's Guardian granted full accreditation to 14 of the Department's 15 districts for five years. Hunter New England District has accreditation but is currently being assessed to fully meet accreditation standards by December 2018.

Accreditation is achieved where services meet the 'NSW Child Safe Standards for Permanent Care'.

The role of the Children's Guardian is to promote and safeguard the best interests and rights of all children and young people in out-of-home care (OOHC). At 30 June 2018, there were 80 agencies accredited by the Children's Guardian to provide statutory OOHC.

The Department currently supports 17,387 children in care, a two per cent decrease over the past year. The cost of caring for these children and young people was \$1.2 billion in 2017–18 (\$1.2 billion in 2016–17).

OOHC refers to care of a child or young person by someone other than their parent. There are two types of OOHC overseen by the Department:

- statutory care, where a court has ordered parental responsibility of a child to the Minister
- supported care, where the Department provides care for a child, but the Minister does not have parental responsibility.

Placement reviews performed for over 80 per cent of children and young people in 2017–18

Under the *Children and Young Persons (Care and Protection) Act 1998*, the Department must review placements at least every 12 months. Placements of children and young people in OOHC are reviewed to ensure the child's requirements are being met per the case plan. Caseworkers assess areas such as the health, wellbeing, education and social life of the child during placement reviews.

The Department's unaudited data indicates over 80 per cent of children and young people under the parental responsibility of the Minister had their placement reviewed in the current year.

Addressing youth homelessness can be improved

One NSW Premier's Priority is to increase the proportion of young people who successfully move from specialist homelessness services to long-term accommodation by more than 34 per cent by 30 June 2019. At 30 June 2017, the data reported by the Department of Premier and Cabinet (DPC) shows 31 per cent have successfully moved. The 30 June 2018 data is not yet published by DPC.

The NSW Ombudsman recently released a report highlighting several gaps that continue to affect children staying in homelessness services and has recommended:

- developing a framework to address the lack of decision-making authority relating to children staying in homelessness services
- finalising any remaining district-level protocols for responding to unaccompanied children and young people, whilst also revising any existing ones to reflect the amended policy
- revising the Department's policy on unaccompanied children and young people to provide clarity on its role supporting youth homelessness services, having a single nominated contact point in each district or community services centre and establishing a mandated case review process for children overstaying in youth homelessness services
- ensuring the accuracy of data and timely reporting of children in statutory OOHC who enter homelessness services
- providing advice to the NSW Government on establishing regulatory standards to govern the quality of care by youth specialist and homelessness services
- finalising performance measures to monitor and report on outcomes for children who access homelessness services.

The Department has formally supported all recommendations and work is currently underway or planned to address them.

Children reported at risk of significant harm

A child or young person is at risk of significant harm if the circumstances causing concern for the safety, welfare or well-being of the child or young person are present to a significant extent.

The Department aims to provide more children at risk of significant harm with a face to face child protection response from a caseworker. The Department's unaudited data shows about 92,000 children were reported at risk of significant harm in 2017–18, which is an increase of about 5,600 children from the previous year. Since 2013, the number of face to face responses has been increasing each year till 2017–18, which saw a reversal of this trend. The Minister for Family and Community Services has directed the Department conduct a review into why there has been a decrease in face-to-face child protection responses from a caseworker.

Re-reporting children at risk of significant harm is progressing towards the target

One NSW Premier's Priority is to decrease the percentage of children and young people re-reported at risk of significant harm by 15 per cent to 34 per cent by 2020. This refers to children and young people being re-reported at risk of significant harm within 12 months of having their case plan closed with the closure reason being 'plan goal achieved'.

The Department's unaudited re-report rate is 36 per cent at 30 June 2018 (41 per cent in 30 June 2017). Since the June 2015 baseline, the rate has fallen by 10 per cent (from 40 per cent). The Department's performance against the target is reported on DPC's website. The Premier's Implementation Unit (PIU) was established within DPC in 2015. PIU is a delivery unit supporting agencies to measure and monitor performance, make progress toward the Premier's Priorities targets, and report progress to the Premier, key ministers and the public.

The Audit Office of New South Wales recently reported on '[Progress and management of Premier's Priorities](#)' that the Department:

- ensures data is not manipulated to meet performance targets by monitoring the cohort size of children at risk of significant harm whose case are closed in a 12-month period
- examines reasons for case closures to determine if anything unexpected has occurred
- has separated performance delivery and performance monitoring.

4.3 Social Housing

More can be done to manage antisocial behaviour in public housing

The Audit Office of New South Wales' recent audit, '[Managing antisocial behaviour in public housing](#)' found the Department has not adequately supported or resourced its staff to implement the antisocial behaviour policy. The Department's antisocial behaviour data is incomplete and unreliable. Accordingly, there is insufficient data to determine the nature and extent of the problem and whether the implementation of the policy is leading to improved safety and security. The Department has not dedicated sufficient training to equip frontline housing staff with the relevant skills to apply the antisocial behaviour management policy. However, the Department managed serious and illegal antisocial behaviour effectively.

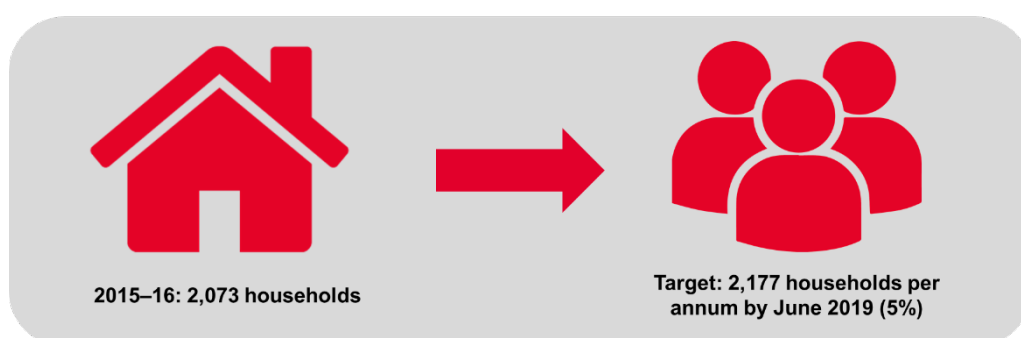
The Department's information management system (HOMES-ASB) is poorly designed and has significant functional limitations which impede the ability of staff to record and manage antisocial behaviour. Staff at most of the housing offices visited were unable to accurately record antisocial behaviour matters in HOMES-ASB, making the data incorrect and unreliable.

The Residential Tenancies Amendment (Social Housing) Bill 2018 was passed in August 2018. The legislation:

- requires mandatory termination of public housing tenancy agreements where the tenant has been convicted of rental rebate fraud
- allows LAHC and the AHO to collect rental bond from tenants at any time during the tenancy
- enables the Secretary of the Department to access information and have powers to prevent and investigate fraud
- enables the Secretary of the Department to recover rental subsidy or other benefit paid to a person who committed fraud to obtain the benefit.

Less households are transitioning out of social housing

One State Priority is to increase the number of households successfully transitioning out of social housing by five per cent over three years. In 2017–18, the Department reported 1,875 households successfully transitioned out of social housing (1,980 households in 2016–17). A decrease in successful transition out of social housing since the baseline of 2,073 households was established in 2015–16.



The Department advised the following drivers for the slower transition of social housing tenants to the private housing market:

- reduced security of tenure
- increased exposure to uncertain conditions
- shortage of affordable rent
- increasing availability of casual, part-time and fixed-term contracts, rather than secure long-term employment that private market is often looking for from prospective tenants.

The Department advised it is taking action to meet this target, such as:

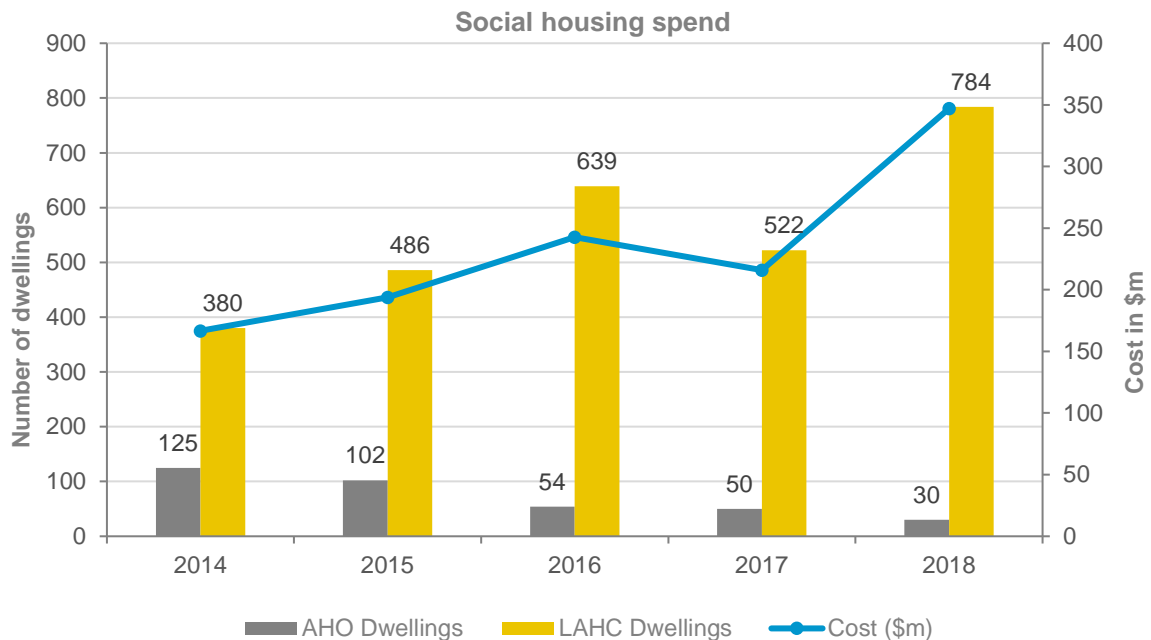
- Social and Affordability Housing Fund to increase the supply of affordable housing
- Opportunities Pathways program to increase employment opportunities for those in social housing
- Rent Choice program to provide rental assistance for up to three years to help households move into the private rental market.

364 more social housing properties

Data supplied by LAHC shows it acquired or completed constructing 784 properties in 2017–18 (522 in 2016–17). Also, there were 30 new Aboriginal housing properties in 2017–18 (50 in 2016–17). This new supply was offset by 450 properties being sold in 2017–18 (274 in 2016–17).

The completion of dwellings varies each year based on the timing of project commitments, planning approvals and tenant relocations. The focus of the Department is to deliver on the Future Directions program over the next ten years.

The chart below shows the cost and number of dwellings acquired or constructed over the past five years.



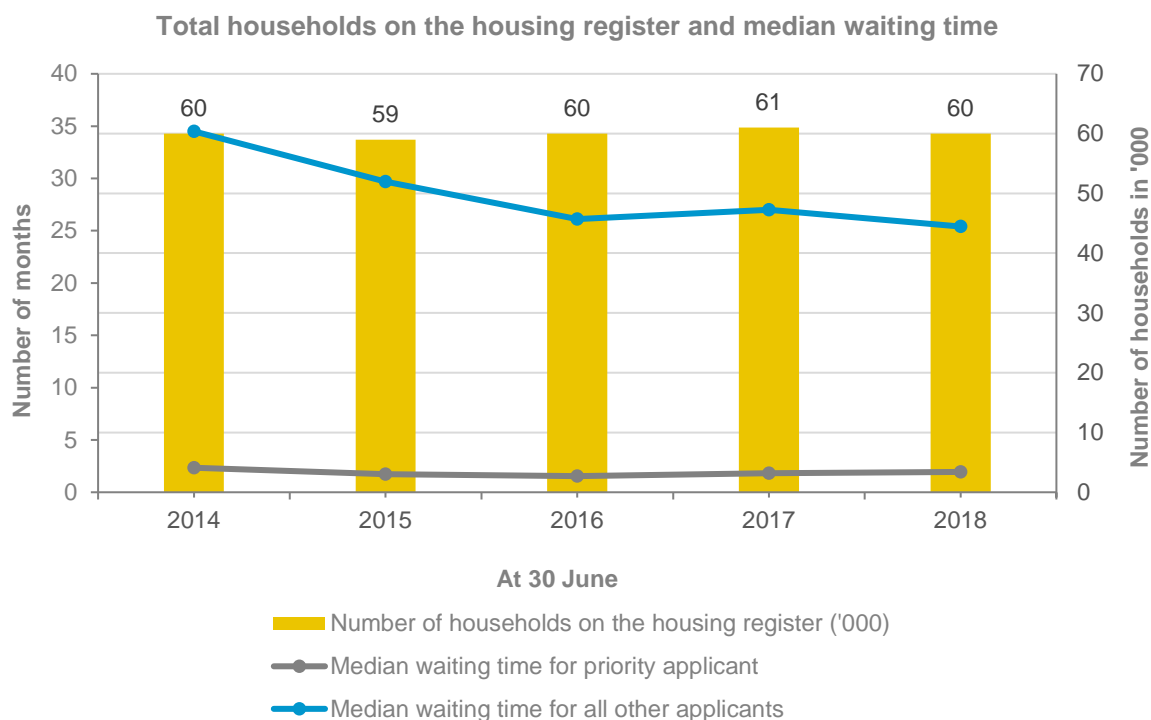
Source: Data supplied by the Department (unaudited).

LAHC advised that the cost per dwelling increased by 13 per cent in 2017–18 due to more properties being acquired in Sydney Metropolitan and key regional centres. Prior years included higher levels of construction on land owned by LAHC, resulting in lower costs.

Waiting times for social housing applicants remains steady

The Department's unaudited data indicates the total number of households on the social housing waiting list has decreased and the median waiting time for applicants on the social housing priority list has increased by six per cent to 3.4 months at 30 June 2018 from 3.2 months at 30 June 2017. The median waiting time for non-priority applicants decreased by six per cent to 25 months in 2017–18 from 27 months in 2016–17.

The chart below shows waiting time and the number of households on the housing register since 2014.



Source: Data supplied by the Department (unaudited).

Our data analysis found the number of vacant properties at 30 June 2018 was 2,682 (2,096 at 30 June 2017) which is three per cent of available social housing. At any point in time, there are vacant properties, some of which are under repair, including those requiring capital upgrade work given the age of the portfolio, while others are on a path for reletting, disposal or redevelopment as part of the Communities Plus program.

Proceeds from sale of Millers Point properties spent on new dwellings

LAHC expects over 1,500 new dwellings will be funded from the sale of Millers Point properties.

During 2017–18, the Millers Point Accommodation Plan resulted in net proceeds of \$210 million from the sale of properties (\$125 million in 2016–17). These proceeds have been used to construct new dwellings in the broader Sydney Metropolitan area. Over the life of the Plan, \$404 million (\$259 million) has been spent on new dwellings.

Section two

Appendices



Appendix one – List of 2018 recommendations

The table below lists the recommendations made in this report.



1. Audit observations

1.1 IT control weaknesses

Agencies should strengthen user access administration to prevent inappropriate access to key IT systems by:

- ensuring privileged user access is limited to those requiring access to maintain the IT systems
- monitoring privileged user access to address risks from unauthorised activity
- ensuring IT password settings comply with password policies
- ensuring timely removal of access to business systems for terminated and casual employees.



1.2 Contract management

Agencies should ensure their contract registers are complete and accurate so they can more effectively govern contracts and manage compliance obligations.



Key



Low risk












Medium risk



High risk



Appendix two – Status of previous recommendations

Recommendation	Current status
The Department should:	
Include targets and benchmarks in its performance reporting, where appropriate (repeat)	The Department has developed targets and benchmarks for key programs and commenced including them in its internal and external reporting. Performance data is presented with a defined target or benchmark where appropriate. The targets and benchmarks are based on trends, evidence and research. The Department will continue to test and refine the targets and benchmarks for key reforms underway and include them into the Department's publications over time. 
Continue with strategies to comply with its requirement to review placements of children and young people in statutory care (repeat)	The Department advised it has a Permanency Case Management Policy that guides how safety, permanency and wellbeing is to be achieved for vulnerable children and young people. It clarifies roles and responsibilities, responds to child protection reports, conducts case planning for permanency and wellbeing and embeds practice culture. 
Develop a consistent process for auditing NGO performance and report audit results to the Audit and Risk Committee	The Department has implemented a strategic plan for control and risk management of the funding to NGOs in early 2018. 
Other agencies should:	
Review compliance with the <i>Government Information (Public Access) Act 2009</i> and report results to their Audit and Risk Committee	Three agencies have not fully implemented this recommendation. 
Develop and regularly update a centralised contract register. Centrally monitor and report on contract compliance and performance	The Department is implementing a contract life cycle management system to provide a single register of contracts across the organisation. Two other agencies have not developed a centralised contract register. 
The Department and agencies should:	
<ul style="list-style-type: none"> ensure policies for creating, modifying and deactivating user access are documented enhance the current user access review process log and monitor highly privileged user account activity ensure timely removal of access to business systems for terminated and casual employees ensure password parameters comply with internal policies. 	The Department and other relevant agencies have acted to address control weaknesses for information systems. However, our financial audits continue to identify and report control weaknesses. 
 Fully addressed	 Partially addressed
 Not addressed	



Appendix three – Summary financial information

	Total assets		Total liabilities		Total revenue*		Total expense*	
	2018	2017	2018	2017	2018	2017	2018	2017
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Cluster lead agency								
Department of Family and Community Services	2,150	1,877	582	565	6,640	6,113	6,440	6,115
Controlled agencies of FACS								
John Williams Memorial Charitable Trust	11	11	--	--	--	1	--	--
Other related agencies								
Aboriginal Housing Office^	2,153	1,964	28	25	133	103	108	96
Office of the Children's Guardian	8	5	5	4	36	34	34	31
NSW Land and Housing Corporation	54,846	50,133	769	837	1,137	1,100	1,600	1,502
Home Purchase Assistance Fund	235	255	--	--	7	8	8	4
City West Housing Pty Ltd	682	668	2	1	48	71	18	15
Multicultural NSW^	5	4	5	3	26	26	27	25
NSW Aboriginal Land Council^	713	676	9	8	75	62	45	44

* Includes unrealised gain/(losses) on financial instruments.

^ Consolidated financial statements.

Note: NSW Aboriginal Land Council and NSWALC Resources Pty Ltd are included for reporting purposes but do not form part of the cluster.

Source: Financial statements (audited).



Appendix four – Cluster information

Agency

Principal Department

[Family and Community Services](#)

Executive agencies related to the Department

Multicultural NSW Staff Agency*

Separate agencies

[Office of Children's Guardian](#)

Other agencies

John Williams Memorial Charitable Trust*

[NSW Land and Housing Corporation](#)

[City West Housing Pty Ltd](#)

[Multicultural NSW](#)

[Aboriginal Housing Office](#)

Dunghutti Aboriginal Elders Tribal Council Trust*

[NSW Aboriginal Land Council](#) ^

NSW ALC Resources Pty Ltd*^

Home Purchase Assistance Fund*

* This entity has no website.

^ Note: NSW Aboriginal Land Council and NSWALC Resources Pty Ltd are included for reporting purposes but do not form part of the cluster.

OUR VISION

Our insights inform and challenge government to improve outcomes for citizens.

OUR PURPOSE

To help parliament hold government accountable for its use of public resources.

OUR VALUES

Purpose – we have an impact, are accountable, and work as a team.

People – we trust and respect others and have a balanced approach to work.

Professionalism – we are recognised for our independence and integrity and the value we deliver.

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