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## Performance Audit Report No. 26 (2013-14)

# Medicare Compliance Audits

## Introduction

4.1 Chapter 4 discusses the Joint Committee of Public Accounts and Audit (JCPAA) review of Australian National Audit Office (ANAO) Report No. 26, *Medicare Compliance Audits*, Department of Human Services (2013-14). The chapter comprises:

- an overview of the report, including the audit objective, criteria and scope; audit conclusion; and audit recommendations
- Committee review
- Committee comment

## Report overview

4.2 Medicare is the fourth largest expenditure item in the Federal Budget, with payments totalling $18.6 billion in 2012-13, accounting for approximately five per cent of total government expenses.[1] The Department of Human Services (Human Services) is responsible for administering Medicare, in accordance with policies developed by the Department of Health.

4.3 Human Services uses compliance audits to verify services provided by health professionals, where a risk has identified that Medicare payments

1 ANAO, Performance Audit Report No. 26, *Medicare Compliance Audits*, Department of Human Services (2013-14), Commonwealth of Australia, 2014, p. 13.

and benefits may have been claimed incorrectly. In 2012-13, 344 million Medicare services were provided for the $18.6 billion in payments processed by Human Services.[2] Medicare compliance audits therefore support the integrity and effective administration of the Medicare program.

4.4 The 2008-09 Federal Budget's Increased Medicare Compliance Audits (IMCA) initiative provided Human Services with enhanced legislative powers under the *Health Insurance Act 1973* and additional funding to support an expanded program of Medicare compliance audits, increasing the number of completed audits targeting health professionals each year from 500 to 2,500 (an increase of 8,000 over four years).[3] The IMCA initiative was expected to provide savings of $147.2 million over four years and cost $76.9 million to administer, leading to net savings of $70.3 million over four years.[4]

## Audit objective, criteria and scope

4.5 The audit objective was to assess the effectiveness of Human Services' management of Medicare compliance audits. To assist in evaluating the department's performance in terms of the audit objective, the ANAO developed the following high level criteria:

- Human Services effectively identifies, selects and prioritises potential cases of non-compliance for compliance audits.
- Compliance audits are conducted in accordance with legislative and operational requirements.
- Non-compliance actions are managed and the information is used to inform future compliance activities.[5]

4.6 The audit scope involved the ANAO interviewing Human Services staff involved in the conduct of Medicare compliance audits and key stakeholders, and reviewing key guidance materials and documents, including departmental reports that capture Medicare compliance performance information. The ANAO also reviewed a sample of Medicare compliance audits.

## Audit conclusion

4.7 The ANAO made the following audit conclusion:

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2 ANAO, Report No. 26, *Medicare Compliance Audits*, p. 13.

3 ANAO, Report No. 26, *Medicare Compliance Audits*, p. 15.

4 Australian Government, *Budget Measures, Budget Paper No. 2 2008–09*, 'Responsible Economic Management—Medicare Benefits Schedule—increase compliance audits', p. 404.

5 ANAO, Report No. 26, *Medicare Compliance Audits*, pp. 16-17.

Overall, the effectiveness of Human Services' management of Medicare compliance audits has been mixed. Human Services has delivered a program of compliance audits and related compliance activities, which has helped reinforce health professionals' awareness of their compliance obligations. However, the department's administration of Medicare compliance audits and its implementation of the Budget measure, the IMCA initiative, demonstrated a range of shortcomings that detracted from the department's performance in delivering these elements of its broader Compliance Program.[6]

## Audit recommendations

4.8 Table 4.1 sets out the recommendations for ANAO Report No. 26 and Human Services' response.

Table 4.1 ANAO recommendations, Report No. 26 (2013-14)

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|---|---|
| 1 | To more effectively identify and prioritise risks for Medicare compliance activities, including compliance audits, the ANAO recommends that Human Services further develop its risk management framework so that:<br>• incoming risks (and previously-identified risks that are yet to be analysed) are assessed in a timely manner; and<br>• decisions to prioritise compliance activity focus on targeting the significant compliance risks to the Medicare program.<br>**Human Services' response**: *Agreed*. |
| 2 | To more effectively target resources, the ANAO recommends that Human Services develop a methodology to monitor outcomes and report on the effectiveness of Medicare compliance audits, including anticipated benefits, in the context of the broader Compliance Program.<br>**Human Services' response**: *Agreed*. |

# Committee review

4.9 Representatives of the following agencies gave evidence at the Committee's public hearing on Thursday 17 July 2014:

- Australian National Audit Office
- Department of Human Services

4.10 As discussed below, the Committee identified four key issues of concern from the ANAO report findings and evidence provided at the public hearing:

6 ANAO, Report No. 26, *Medicare Compliance Audits*, p. 17.

- performance against agreed targets, and performance monitoring and reporting framework
- targeting risks and resources
- governance and accountability framework
- data quality

4.11 A further issue, management of sensitive information, was also of interest to the Committee. While this matter was not discussed in detail at the public hearing, the Committee supports the ANAO report findings concerning this area, as follows:

> … compliance officers interviewed indicated different understandings and adopted differing practices regarding the storage of sensitive information, including documents of a clinical nature. There is scope, in the context of an evolving framework under the *Privacy Act 1988*, for Human Services to review existing policies and, as necessary, tailor its guidance to promote greater consistency in its management of sensitive information for Medicare compliance activities.[7]

## Performance against agreed targets, and performance monitoring and reporting framework

4.12 The IMCA initiative had two agreed performance targets:

- savings achieved—net savings of $70.3 million over four years (2008-09 to 2011-12)
- audits completed—an increased number of Medicare compliance audits conducted in relation to health professionals (an additional 2,000 per annum, or 8,000 over four years).[8]

4.13 However, the final outcome against these performance targets was a shortfall in savings and number of audits completed. There were also issues with Human Services' performance monitoring and reporting concerning these matters.

### Savings shortfall

4.14 The IMCA initiative was introduced in the 2008–09 Budget to deliver the following outcome: '[t]his measure will provide savings of $147.2 million over four years and will cost $76.9 million to administer, leading to net

7 ANAO, Report No. 26, *Medicare Compliance Audits*, p. 23.

8 ANAO, Report No. 26, *Medicare Compliance Audits*, p. 74.

savings of $70.3 million over four years'.[9] However, as the Auditor-General observed, Human Services' management of the IMCA initiative ultimately 'represented a net cost to government, rather than delivering the anticipated savings'.[10] The department raised a total of $49.2 million in debts between 2008-09 and 2012-13 and recovered $18.9 million over the same period, from all Medicare compliance audits conducted, compared to the expected savings of $147.2 million from the IMCA initiative alone. This represented a 'significant shortfall of $128.3 million, or 87 per cent less than the $147.2 million in savings expected through IMCA'. Even if all the debts raised ($49.2 million) were in fact recovered, 'the result would be a shortfall of $98 million or 66 per cent less than the expected savings'.[11]

4.15 In terms of reporting on the IMCA savings target, as part of the Budget process the Government tasked responsible Ministers to 'agree on performance information to be used by Human Services to monitor the success of the measure' and 'report back to the Expenditure Review Committee (ERC) of Cabinet in 2011-12 on the success of the measure'. Further, 'the new policy proposal indicated that the effect of the new measure would be monitored on an ongoing basis and reported on every three months'.[12] However, the department did not subsequently establish systems or processes to monitor and report specifically against the IMCA savings target or follow-up ERC's request that Ministers report back to government in 2011-12.[13] In response to the Committee's query about why this had occurred, Human Services explained that:

> … the primary issue was we moved from being an independent organisation, Medicare, and went into Human Services as a larger organisation with quite a different governance regime that has improved … out of sight in terms of where we were, and there were some issues where we accept we omitted to do the responses to some of the elements that were required of us.[14]

4.16 In the absence of a mechanism to report specifically against the IMCA savings target, Human Services provided more general reporting in the form of the value of total debts raised. However, the department indicated that it could not separate out the number and value of debts raised and

9 Australian Government, *Budget Measures, Budget Paper No. 2 2008–09*, 'Responsible Economic Management—Medicare Benefits Schedule—increase compliance audits', p. 404.

10 ANAO, *Submission 2.1*, p. 2.

11 ANAO, Report No. 26, *Medicare Compliance Audits*, p. 79.

12 ANAO, Report No. 26, *Medicare Compliance Audits*, p. 76.

13 ANAO, Report No. 26, *Medicare Compliance Audits*, p. 76.

14 Mr Barry Sandison, Deputy Secretary, Human Services, *Committee Hansard*, Canberra, 17 July 2014, pp. 3-4.

recovered that related specifically to the IMCA initiative, in order to establish its performance against the savings target.[15] It was also not possible to use 'monies recovered' as an indicator of the level of savings achieved by the Compliance Program, as not all debts raised are actually recovered.[16] As Human Services explained, while some providers completely repay their debt, 'if you look at the total debt raised versus recovery you will end up with less because for some people their financial circumstances and other reasons mean they are unable to settle their debt'.[17] A further complication is that 'some of the [debt] arrangements are actually made over a number of years as well'.[18]

4.17 The Committee was interested in establishing whether this level of debt return through the IMCA initiative ($49.2 million in debt raised and $18.9 million in current debt recovery) was consistent with the department's previous compliance activities and historical benchmarks. Human Services confirmed that this debt return ratio was 'not inconsistent with historical rates pre 2008-09'.[19] Given that this level of return was consistent with practice, the Committee therefore queried the soundness of the original costing of the $147.2 million estimated savings. Mr Darren Box, General Manager, Human Services, clarified that part of the estimated savings included behavioural change from compliance activity that was not debt related:

> … the result we are getting as far as pure debt results, raising of debts, the costing I think would have been based on what we were getting historically. The costing then, is my understanding, included an element of what we would likely see as far as savings are concerned from behaviour change because of compliance activity which is not debt related. That has not been measured historically and we still need to get to that point ... So the pure debt raising percentage of it … is only one element of what we had anticipated to get from that costing as it was developed.[20]

4.18 Noting that behavioural change was part of the original costing, the Committee pointed out that this had not then been measured by the department and, further, that it had still not reached the stage, a number

15 ANAO, Report No. 26, *Medicare Compliance Audits*, p. 76.

16 ANAO, Report No. 26, *Medicare Compliance Audits*, pp. 77-78.

17 Mr Darren Box, General Manager, Human Services, *Committee Hansard*, Canberra, 17 July 2014, p. 2.

18 Mr Sandison, Human Services, *Committee Hansard*, Canberra, 17 July 2014, p. 3.

19 Human Services, *Submission 5*, p. 5.

20 Mr Box, Human Services, *Committee Hansard*, Canberra, 17 July 2014, p. 7.

of years later, of being able to account for this. As Human Services observed:

> … the savings were also based on the expectation that we would be able to measure impact and behaviour change. It is not always about a debt. It is not always about getting money back. It is about education and getting compliance activity in the community through education. Then, because we have done an audit activity, the community understands it is something they need to be aware of, and behaviour change results. Unfortunately, we are still working on that to be able to measure the behaviour change.[21]

4.19 Further clarification was therefore sought about exactly how the savings figure of $147.2 million had originally been calculated—the assumptions concerning how much of that amount was actually expected to be recovered and how much was expected to be in the behavioural change area. Human Services explained that:

> The savings were calculated based on best efforts at the time based on the history of what we were getting as far as debts and what we perceived to be behaviour change within the community from the audits and the compliance activity that was already underway, and then transposed to the increased compliance activity which the budget measure funded … Without getting into the costings, it was probably fairly simple: 'This is what we are finding now. If we have the new powers and we do more compliance activity, do more audits, we could expect to get an increase in results.' So it was effectively a multiplication … based on more audits, increased powers, more results.[22]

4.20 The department further clarified, in answer to a question on notice on this matter, that:

> Expected savings were calculated on reduced service volumes of approximately 500,000 Medicare Benefit Schedule (MBS) claims per annum by an average unit cost of approximately $75.00. These were derived from an agreed funding model with the Department of Health based on 2006-07 figures.
>
> The forecast savings were expected to be more than five times greater than the savings achieved prior to the 2008-09 Budget measure: Increased Medicare Compliance Audits …

21 Mr Box, Human Services, *Committee Hansard*, Canberra, 17 July 2014, p. 2.

22 Mr Box, Human Services, *Committee Hansard*, Canberra, 17 July 2014, p. 1.

> Direct savings were expected to be $26 million over four years. The remainder of the forecast saves were expected to be achieved through behavioural change.[23]

## Audits completed shortfall

4.21 The IMCA initiative provided funding to deliver a fivefold increase in the number of completed Medicare audits targeting health professionals each year, from 500 to 2,500 (an additional 2,000 per annum, or 8,000 over four years).[24] However, the final outcome in terms of this key performance indicator (KPI) was that between 2009-10 and 2012-13 Human Services achieved the 2,500 target only once—in 2011–12, when 2,549 Medicare audit and review cases were completed.[25]

4.22 Further, in terms of reporting on the audits completed target, Human Services changed the mix of compliance activities included in its reporting against the 2,500 target to include 'less onerous' activities, without advising the responsible Minister, and therefore inaccurately reported against the performance indicator:

> While the annual target had been agreed by Ministers in the 2008-09 Budget context, during 2012–13 Human Services altered the mix of compliance activities it counted towards the target, by including 500 less onerous 'targeted feedback letters', as well as compliance activities directed towards members of the public rather than health professionals. The department subsequently reported completing a total of 2819 Medicare compliance cases in 2012-13, against the revised activity mix. If the additional compliance activities were excluded, the number of Medicare compliance audits and reviews completed in 2012-13 (against the Ministerially agreed target) was 2073. While acknowledging the department's advice that targeted feedback letters were a valid compliance treatment intended to encourage voluntary compliance, their inclusion resulted in inaccurate performance reporting for the budget measure, as well as inaccurate and inflated internal reporting of its compliance coverage rate … the department did not inform their Minister of the proposal to expand the types of compliance activities it could conduct under the Budget measure.[26]

4.23 The Committee was interested in why the department had only once reached the 2,500 target. Human Services responded that 'we had been

23 Human Services, *Submission 5*, p. 1.

24 ANAO, Report No. 26, *Medicare Compliance Audits*, p. 74.

25 ANAO, Report No. 26, *Medicare Compliance Audits*, pp. 81-82.

26 ANAO, Report No. 26, *Medicare Compliance Audits*, pp. 19-20, p. 81.

counting letters in that target. We accept that they should be on top of the conduct of the audits ... The reason we did in only one of those other years is an issue of making sure the resources are focused in the correct areas'.[27] The Committee further queried why, during the period, the department had changed the performance reporting measure and also not informed the Minister of the proposal to expand the types of compliance activities it would conduct under that budget measure. Human Services explained that:

> We have accepted that was something that we should have done. What we would say is that the inclusion of those letters is a valid compliance activity … we had had conversations with the policy department, being the Department of Health, through a formal committee process. Notwithstanding that, we do accept that going back to ministers, because of the relationship to the budget measure, was a requirement we should have done and one we have agreed to in the audit.[28]

## Performance monitoring and reporting framework

4.24 A key point emphasised by Human Services is that its Medicare compliance activities may comprise formal audits and an education process—encouraging behavioural change through reinforcing health professionals' awareness of their compliance obligations. However, while such an education process may provide savings through a change in claiming patterns, the department acknowledged the 'problem is that the bit … we are missing is … we have not yet measured the behaviour change in a way which was anticipated in this budget measure. That is work which needs to be finalised'.[29] As Human Services further explained:

> If we were preparing a business case now along similar lines, there would be a different discussion on a range of areas about how indeed we would have to argue the case. It would be expected by the Department of Finance, watched carefully by ANAO, but it would be a debate about how we target risk approaches, what kind of return, is there a set number, but the expectations around behavioural change as well.[30]

4.25 This raised questions about why Human Services had not measured this area, how it would measure this area in the future and how this area might also be returned to the budget as a saving. In particular, the

27 Mr Box, Human Services, *Committee Hansard*, Canberra, 17 July 2014, p. 9.
28 Mr Box, Human Services, *Committee Hansard*, Canberra, 17 July 2014, p. 4.
29 Mr Box, Human Services, *Committee Hansard*, Canberra, 17 July 2014, p. 6.
30 Mr Sandison, Human Services, *Committee Hansard*, Canberra, 17 July 2014, p. 7.

Committee was interested in how the department might develop a methodology to better monitor outcomes and report on the effectiveness of Medicare compliance audits, including anticipated benefits such as behavioural change. Human Services acknowledged that 'we do need to finalise our work in being able to measure the impact from the compliance activity. Outside of straight debts, that is largely behavioural change, so seeing a change in claiming patterns'.[31] In terms of how this would be measured, the department commented that it was 'still looking at other jurisdictions, both in Australia and internationally, and how they are measuring their behaviour change … we have not settled 100 per cent on exactly how we are going to measure going forward, but it is something we are working on and we hope to have resolved'.[32] As the department further clarified:

> What we are trying to do … is make sure that we are really clear about what is an audit in the formal sense versus what is education and information that we provide … One of the issues that was measured here and commented on by the ANAO was the extent to which we made a baseline beforehand and understood what was happening and then were able to measure the impact and effect, be it an audit or an education process. Our measurement is not only something that is of interest to the ANAO but, needless to say, our colleagues in the Department of Finance have a strong interest about whether … that is real money returned to budget and if it was not spent in the first place how can it be a 'save'. That has always been a fraught area in compliance, in health or welfare, about how that gets recognised in various initiatives that are put forward.[33]

4.26 As the Auditor-General emphasised, 'it is a fundamental issue for all agencies and an expectation that they will monitor, particularly in the early years, new policy measures to see whether they are achieving the results that government expects and within the parameters that government expects'.[34]

## Targeting risks and resources

4.27 Human Services undertakes a number of environmental scanning activities to detect new and emerging risks to Medicare, and captures known risks on its Risk Topic Register (RTR). The department uses the

31 Mr Box, Human Services, *Committee Hansard*, Canberra, 17 July 2014, p. 3.

32 Mr Box, Human Services, *Committee Hansard*, Canberra, 17 July 2014, p. 3.

33 Mr Sandison, Human Services, *Committee Hansard*, Canberra, 17 July 2014, p. 3.

34 Mr Ian McPhee, Auditor-General, ANAO, *Committee Hansard*, Canberra, 17 July 2014, p. 4.

RTR as the basis for selecting risk topics for detailed analysis. However, as the ANAO report noted, while Human Services has processes in place to identify risks to the Medicare program, '[u]ntil recently, the department did not have a routine process to perform a preliminary analysis of risks as they were identified, limiting the department's ability to determine whether these risks required further compliance activity'.[35] Further, this approach has 'meant that a large number of identified risks have not been substantively analysed and as a consequence have not actively informed the development of Human Services' planned compliance activities'.[36]

4.28 The Committee was therefore interested in how Human Services might further develop its risk management framework, to target significant risks and achieve a more cost-effective compliance approach. In this regard, the Committee queried whether there had been any cost-benefit analysis of the compliance audits undertaken as part of the increased IMCA funding. As the ANAO observed, 'in terms of cost benefit, in resource constrained environments … the real trick in all of this is to target your resources as well as you can; hence, the focus on a targeted risk based approach'.[37]

4.29 Human Services confirmed that, with improved targeting of significant risks, it had sufficient funding to deliver a 'robust compliance approach'.[38] Further, the increase in the number of compliance audits, from 500 to 2,500, provided the department with scope to 'broaden' its audit approach and 'look at different targeting within the overall health system, not just do more of the same'.[39]

4.30 The Committee noted that, in the course of the ANAO audit, Human Services had introduced a number of enhancements to its risk prioritisation process, including a risk working group, with the potential to assist the department to establish a more effective framework for managing Medicare risks.[40] The Auditor-General pointed to the compliance approach of the Australian Taxation Office as a useful model in this regard.[41]

35 ANAO, Report No. 26, *Medicare Compliance Audits*, p. 21.

36 ANAO, Report No. 26, *Medicare Compliance Audits*, p. 21.

37 Dr Tom Ioannou, Group Executive Director, ANAO, *Committee Hansard*, Canberra, 17 July 2014, p. 5.

38 Mr Box, Human Services, *Committee Hansard*, Canberra, 17 July 2014, p. 5.

39 Mr Sandison, Human Services, *Committee Hansard*, Canberra, 17 July 2014, p. 2.

40 ANAO, Report No. 26, *Medicare Compliance Audits*, p. 21.

41 Mr McPhee, ANAO, *Committee Hansard*, Canberra, 17 July 2014, p. 5.

## Governance and accountability framework

4.31 The Committee was interested in Human Services' governance and accountability framework, noting the Auditor-General's comment about issues with the governance arrangements concerning the IMCA initiative:

> Ideally, the governance arrangements of an agency would monitor these new measures … Most agencies would say, 'The actual outcome is not lining up with our expectations. What can we do?' and manage it that way. So you manage it before it becomes a serious problem and if your estimates happen to be way out and are most unlikely to be able to be recovered, you would let the minister know fairly quickly and perhaps reset expectations … For me at the highest level it is a failure of governance arrangements over the measure at the time and it goes back quite some years.[42]

4.32 Human Services described the lines of responsibility in the department for preparing costings such as the estimated savings target for the IMCA initiative.[43] In terms of what processes the department had in place to hold officers accountable for such matters, Mr Sandison, Deputy Secretary, Human Services, also explained that:

> … there has been significant change in some of the areas that had responsibility for delivery of the measure. Some people are no longer in the Public Service and some are in different positions—they have been moved around … As it stands, in terms of how we respond to it, we have our targets of responding to the ANAO and how we conduct the audits, and that is a very clear direction. It sits in the performance agreements of individuals, where some of the things that I think were deficiencies in terms of things that should have been picked up that ANAO made comment on should have been very clear—'Your role and responsibility is to deliver on this and report on this at a regular stage.' That is now built into how we manage the workflows.[44]

4.33 As the Auditor-General emphasised, 'Government expects agencies to monitor these new measures and their implementation … It is a governance issue and … I think it is true that agencies' governance processes have improved considerably from the period we are talking about … So let's hope that it is a point in time issue and that we would not see it again'.[45]

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42 Mr McPhee, ANAO, *Committee Hansard*, Canberra, 17 July 2014, p. 8.

43 Mr Sandison, Human Services, *Committee Hansard*, Canberra, 17 July 2014, pp. 7-8.

44 Mr Sandison, Human Services, *Committee Hansard*, Canberra, 17 July 2014, p. 8.

45 Mr McPhee, ANAO, *Committee Hansard*, Canberra, 17 July 2014, p. 4.

## Data quality

4.34 As the ANAO noted, one of the 'cornerstones' of a reliable program information system is the quality of data used to track performance against key outcomes.[46] In a subset of Medicare compliance audit data reviewed by the ANAO (Medicare audits completed between March 2013 and 30 June 2013), 'various data anomalies were identified which resulted in the inaccurate reporting of the MBS non-compliance rate'—of the '359 completed Medicare audits, 33 (nine per cent) contained data inaccuracies that resulted in compliant claims being incorrectly recorded and reported as non-compliant'.[47]

4.35 Human Services clarified that this data inaccuracy was 'not to say we got the wrong result … If you ran the report, the right result was given to a provider … But when they then ticked the box, in the data, they picked the wrong reason. That is a quality issue around our data'.[48] The Committee queried how the department was addressing this inaccuracy rate, noting the Auditor-General's observation in terms of program administration generally, that 'nine per cent is getting too high … once you get above five per cent you are starting to get into areas of significance'.[49] Human Services confirmed that it had subsequently worked to rectify this problem: 'we have accepted the finding of the audit. We have provided training to people and we think we have resolved that issue. We will keep monitoring it, going forward'.[50]

# Committee comment

4.36 The Committee is encouraged by the work undertaken by Human Services during the course of the audit to improve its management of compliance audits, particularly relating to risk prioritisation.[51] It also acknowledges that the department has delivered a program of compliance activities that has helped to reinforce health professionals' awareness of their compliance obligations.

4.37 However, Human Services' management of the IMCA initiative ultimately represented a net cost to government, rather than delivering the

46 ANAO, Report No. 26, *Medicare Compliance Audits*, p. 22.

47 ANAO, Report No. 26, *Medicare Compliance Audits*, pp. 22-23.

48 Mr Box, Human Services, *Committee Hansard*, Canberra, 17 July 2014, p. 9.

49 Mr McPhee, ANAO, *Committee Hansard*, Canberra, 17 July 2014, p. 10.

50 Mr Box, Human Services, *Committee Hansard*, Canberra, 17 July 2014, p. 10.

51 ANAO, Report No. 26, *Medicare Compliance Audits*, p. 26, and Mr Sandison, Human Services, *Committee Hansard*, Canberra, 17 July 2014, p. 1.

anticipated savings. The department did not meet its overall targets against two key performance indicators (savings target and audits completed) for the IMCA initiative, and it did not develop and implement a methodology to accurately measure, monitor and report on savings achieved against the IMCA target. The development of these arrangements would have enabled Human Services to track and assess the effectiveness of the Australian Government's $76.9 million investment in the IMCA initiative. Further, while the Committee notes the explanation from the department that its Medicare compliance activities comprise both formal audits and an education process to encourage behavioural change, and that part of the savings under the IMCA initiative were therefore expected to be achieved through behavioural change, it points out that this area was not then measured by the department. During the course of the inquiry, Human Services noted that it was 'still working' on being able to measure the behaviour change.[52]

4.38 The Committee therefore supports the ANAO's findings and recommendations, and agrees with its conclusion that 'the effectiveness of Human Services' management of Medicare compliance audits has been mixed'.[53] The Committee was disappointed with the department's overall management of this area, particularly given the significant scale and cost of the Medicare program. While the department has taken some action in this area, it could do more.

4.39 The Committee agrees with the ANAO that developing suitable monitoring and reporting arrangements to demonstrate outcomes achieved is sound practice, and that agencies need to incorporate specific performance monitoring, reporting and evaluation activities into the design and costing of their programs.[54] This also reinforces the importance of developing auditable KPIs, particularly in the context of the new performance framework under the *Public Governance, Performance and Accountability Act 2013* and broader Public Management Reform Agenda. Effective monitoring of performance enables agencies to report to government and stakeholders on the achievement of anticipated benefits, including any projected savings.

4.40 Human Services' management of the IMCA initiative indicates that the department should improve reporting of outcomes by developing suitable monitoring and reporting arrangements to demonstrate the benefits realised from administering Medicare compliance audits and ensure that

52 Mr Box, Human Services, *Committee Hansard*, Canberra, 17 July 2014, p. 2.

53 ANAO, Report No. 26, *Medicare Compliance Audits*, p. 17.

54 ANAO, Report No. 26, *Medicare Compliance Audits*, p. 76.

departmental resources are properly targeted. The Committee concludes that Human Services should report back to the JCPAA on this matter.

### Recommendation 5

4.41 **The Committee recommends that the Department of Human Services report to the Committee, no later than six months after the tabling of this report, on its progress towards implementing the Auditor-General's recommendation that it develop a methodology to monitor outcomes and report on the effectiveness of Medicare compliance audits. The report should include any decisions or other progress made in regard to measuring savings from behavioural change.**

4.42 The Committee also points to the need for Human Services to further progress its response to the ANAO's recommendation that it more effectively target significant compliance risks to the Medicare program and increase the cost effectiveness of its compliance approach. The Committee therefore points to the usefulness of Human Services undertaking a cost-benefit analysis of this area. This will provide the department with the opportunity to achieve further efficiencies and better target limited resources to priority compliance activities.

### Recommendation 6

4.43 **The Committee recommends that the Department of Human Services undertake a cost-benefit analysis of its Medicare compliance activities to ensure more effective targeting of significant compliance risks to the Medicare program and increase the cost effectiveness of its compliance approach.**