



# Corruption risks associated with government-funded human services delivered by community organisations

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This information sheet highlights potential risks and drivers of corruption associated with government-funded human services<sup>1</sup> delivered by community service organisations. It aims to raise awareness of these issues so funding agencies and regulators can assist community service organisations to identify, manage and prevent corruption risks.

## Background

Community service organisations play an important role in delivering a range of welfare and social services to support the needs of individuals, families and communities. This information sheet focusses on community service organisations that deliver human services partially or fully funded by the State Government. The community expects these organisations to act with a high level of integrity, and that public funds are appropriately spent for the benefit of the community.

IBAC conducted research into corruption risks associated with government-funded human services delivered by community service organisations, to inform future prevention and operational activities.<sup>2</sup> The research identified risks that may arise, in part, due to the nature of the not-for-profit sector, complicated regulatory and funding arrangements, and outsourcing processes for service delivery. In developing its findings, IBAC consulted with a range of public sector agencies, experts in the sector, reviewed intelligence, investigations, complaint and notification data, as well as other relevant public reports and information.

The majority of community service organisations are performing exemplary community service, often with limited resources. Although not all of the risks and drivers identified in this research apply to all community service organisations, they merit attention so that community service organisations, regulators and funders are able to make informed assessments of the risks facing the sector and invest in appropriate prevention and detection strategies. Many of these risks also apply to the public sector and for-profit funded services.

IBAC acknowledges that many community service organisations, funders and regulators are already taking steps to mitigate corruption risks. The Department of Health and Human Services (DHHS), for example, has developed a range of resources for use across the sector, and these outline the policies and requirements of funded organisations, as well as principles, domains, roles and responsibilities of quality governance.<sup>3</sup>

This information sheet does not assert that corruption is widespread within the community services sector, it highlights potential corruption risks.

<sup>1</sup> Services that focus on prevention and remediation of problems, as well as improving overall quality of life. Human services funded by the Victorian Government include disability support services, aged care services, housing and support services for families and children, among many others.

<sup>2</sup> A detailed report on the research summarised in this information sheet will be made available on IBAC's website <[www.ibac.vic.gov.au](http://www.ibac.vic.gov.au)>

<sup>3</sup> The DHHS Service Agreement Information Kit <[fac.dhhs.vic.gov.au/service-agreement-information-kit](http://fac.dhhs.vic.gov.au/service-agreement-information-kit)> and Community Services Quality Governance Framework <[www.dhhs.vic.gov.au/publications/community-services-quality-governance-framework](http://www.dhhs.vic.gov.au/publications/community-services-quality-governance-framework)> provide advice for funded agencies on addressing some of the identified vulnerabilities and risks.

## Context

The Victorian Government provides funding to thousands of organisations within the not-for-profit sector to support the delivery of a wide range of human services to the community. Funding ranges from small grants and concessions, to large, multi-million dollar contracts and service agreements.

The diversity of community service organisations makes it difficult to determine the exact number of organisations providing services, or the extent to which they are funded by government, and the processes by which payments are made. Overall, there are approximately 140,000 community service organisations in Victoria, and the sector has an estimated income of approximately \$3 billion per annum.

Many community service organisations deliver a range of programs, with some receiving funding from a combination of Commonwealth, state and local governments, as well as philanthropic donors. In Victoria, the DHHS is the primary agency responsible for funding the delivery of human services, and outsources to 1154 community service organisations to deliver services to the community.<sup>4</sup>

There are challenges associated with outsourcing human services to community service organisations. Many community service organisations are small and lack necessary resources to invest in governance and corruption prevention processes. The implementation of formal reporting and regulatory processes may be difficult to reconcile with a trust-based, community centred ethos of an organisation and the broader not-for-profit sector.<sup>5</sup> Community service organisations need to be accountable for use of public funds and provision of services to those most in need, while also minimising administrative burdens that may limit flexible, responsive and supportive approaches to service delivery.

## Corruption Risks

### Fraudulent or inaccurate reporting practices

Some fraudulent activities relate to providing false or misleading information during the creation of service agreements, or fraudulent reporting, such as the reporting or over-reporting of services, that have not been delivered.

Community service organisations are generally required to report outputs (as a measure of service provision) to funding agencies such as DHHS. This allows funding agencies to monitor where service delivery or other aspects of the funding arrangement are not being met, and take action. However, this reporting requirement has the potential to create two corruption risks:

- organisations may lack, or have unsophisticated reporting systems (particularly where a range of services are funded from multiple sources)
- organisations may be motivated to inaccurately report service delivery outputs to ensure ongoing funding.

### Poor conflict of interest management

The non-declaration and/or mismanagement of conflicts of interest leaves community service organisations vulnerable to corrupt conduct. The mismanagement of conflicts of interest<sup>6</sup> has been identified by IBAC as a recurring corruption risk, and is a clear risk for community service organisations. A conflict is not corrupt merely because it exists, rather conflicts of interest can become problematic when they are not appropriately managed. Issues arise when conflicts of interest are concealed, only partially revealed, or are otherwise mismanaged.

A conflict of interest creates the risk that a public officer cannot separate their decision-making from the influence of their private interest. The Victorian Common Funding Agreement (VCFA)<sup>7</sup> Terms and Conditions refers to the obligation to report conflicts of interest, however it only provides a standard definition of a conflict of interest. It does not describe or suggest specific policy requirements, nor does it provide a framework for reporting conflicts of interests, or information and training around what constitutes a conflict of interest, and how to declare and manage them appropriately. Community service organisations funded by government should be provided with adequate guidance and support around the identification, declaration and management of conflicts of interest.

<sup>4</sup> IBAC's research focussed solely on community service organisations delivering human services funded by the Victorian Government. However, findings likely also apply across the health sector and other government-funded services.

<sup>5</sup> Shergold P, *Service sector reform: A roadmap for community and human services reform – Final Report*, July 2013 <[www.nwhn.net.au/admin/file/content9/c14/FINAL-Report-Service-Sector-Reform.pdf](http://www.nwhn.net.au/admin/file/content9/c14/FINAL-Report-Service-Sector-Reform.pdf)>

<sup>6</sup> A conflict of interest occurs when a public officer's private interests conflict with their public duties and their responsibility to act in the public interest. Conflicts of interest can take various forms – direct, indirect, financial and non-financial – and can arise as a result of private interests, personal or business associations, conflicting duties, and the provision and/or receipt of gifts, benefits or hospitality.

<sup>7</sup> The VCFA was established as a whole-of-government approach to the funding of not-for-profit sector organisations. It is used by all Victorian Government departments that fund community service organisations and local government to deliver services, projects, and specified capital works.

## Nepotism

Nepotism is a form of favouritism based on familial or other close relationships where a public officer exploits their position to provide a benefit to a family member. The risk of nepotism exists across many community service organisations. IBAC has identified it to be a particular risk in regional areas where a community service organisation works within a small community where close familial and other relationships within the community service organisation may be more common, have existed for a long period of time, and the community service organisation may be run by a highly regarded local figure or prominent family. Close relationships between a community service organisations' board members, staff and the broader community can create difficulties in adequately managing conflicts of interest.

## Poor procurement and contract management practices

Procurement risks, including those relating to tender and contract management that exist across the Victorian public sector, also apply to community service organisations. Procurement can be through various mechanisms, including tendering and expressions of interest. Identified procurement and contract management risks for community service organisations include:

- procuring goods and services from family, friends and related parties
- reimbursing payments without supporting documentation
- misuse of credit cards or purchasing items using cash
- purchases made without a contract or purchase order
- service delivery by a subcontracted entity that is not approved by the funding body.<sup>8</sup>

### Case Study: Misappropriation of community service organisation funds<sup>9</sup>

In September 2018, the New South Wales Independent Commission Against Corruption (ICAC) released its report on Operation Tarlo, an investigation which highlighted the potential corruption risks arising from the delivery of human services by government-funded community service organisations.

Operation Tarlo investigated the activities of the former principal officer of two government-funded community service organisations. These organisations were funded by the NSW Department of Family and Community Services and the South West Sydney Local Health District to provide various health and welfare services. One of the organisations also received funds from the Smith Family, funded by the Commonwealth Government.

The ICAC found that up to \$773,000 in funds were misused. The investigation identified theft, fraudulent invoicing and reporting, favouritism (nepotism) and the misuse of resources. Specific activities included the falsification of information provided to funding bodies, as well as the improper use of funds through reimbursement, bank transfers, and misuse of credit cards for personal goods and services.

## Improper 'double dipping' practices

Recent changes to the funding of disability services in Victoria means community service organisations are now receiving funds from both the State and Federal Governments, depending on the services being provided. For example, a community service organisation may be providing Commonwealth-funded services to people with disabilities, while at the same time providing State-funded housing or family support services to the same clients. 'Double dipping' can occur when a community service organisation receives funding for the same service from more than one source. There is potential for double dipping and corruption where funds are inappropriately used for non-funded purposes, particularly if an organisation is funded by both the Commonwealth and the State. This is particularly the case where an organisation provides services for both disability and non-disability clients.

Community service organisations providing services funded by both the State and Commonwealth may attempt to manipulate funding programs in order to obtain funds outside the intention or guidelines of those programs. These additional services could potentially lead to improper double dipping practices.

<sup>8</sup> Adapted from the New South Wales Independent Commission Against Corruption (ICAC)'s *Corruption and Integrity in the NSW Public Sector: an assessment of current trends and events*, December 2018, <[www.icac.nsw.gov.au/ArticleDocuments/232/Corruption-and-integrity-in-the-nsw-public-sector-an-assessment-of-current-trends-and-events\\_7Dec18.pdf.aspx](http://www.icac.nsw.gov.au/ArticleDocuments/232/Corruption-and-integrity-in-the-nsw-public-sector-an-assessment-of-current-trends-and-events_7Dec18.pdf.aspx)>

<sup>9</sup> NSW Independent Commission Against Corruption (ICAC), *Investigation into the conduct of a principal officer of two non-government organisations and others*, September 2018, <[www.icac.nsw.gov.au/ArticleDocuments/728/Investigation-into-the-conduct-of-a-principal-officer-of-two-non-government-organisations-and-others\\_Operation-Tarlo\\_Sep18.pdf.aspx](http://www.icac.nsw.gov.au/ArticleDocuments/728/Investigation-into-the-conduct-of-a-principal-officer-of-two-non-government-organisations-and-others_Operation-Tarlo_Sep18.pdf.aspx)>

Risks also exist around government funds being mixed with funds from other sources. This can cloud accountability requirements and potentially create an opportunity where total funding is understated. This can also create an environment where funds are wrongly used to deliver different services to what was contracted.

## Drivers of corruption

There are a number of factors which have the potential to drive or increase corrupt conduct in the not-for-profit sector.

### Complicated oversight and accountability requirements

DHHS, or the relevant funding department, has oversight of a community service organisations' contractual compliance, however many of these organisations are also oversighted or regulated by other bodies.<sup>10</sup> This can create confusion and potential overlap and duplication of regulatory activity.

Community service organisations also have varying levels of reporting, audit and oversight. Complexities resulting from the management of multiple funding sources and reporting obligations creates challenges, and poses a number of governance and corruption risks.

One way DHHS oversights the community service organisations it funds is through service agreements. In 2018, the Victorian Auditor-General's Office (VAGO) found DHHS' approach to managing and monitoring service agreements to be fragmented, duplicative, and not commensurate with service risk.<sup>11</sup> This demonstrated governance weaknesses regarding the administration of service agreements, lack of investment in skilled procurement staff, and inconsistent compliance activities.

Governance systems that make it easier for community service organisations to report funding use and compliance would help prevent maladministration, misconduct or corrupt conduct within a community service organisation. On the other hand, duplication in reporting across funding agencies and programs is expensive and can be confusing for community service organisations to navigate, which increases corruption risks. Community service organisations state that they are required to submit multiple reports, often providing different information with varying timeframes. This has the potential to create a 'tick-box' approach, rather than encouraging accurate governance reporting.

## Limited resources

Some community service organisations lack the resources to invest in dedicated formal governance and corruption prevention processes, and this can result in increased risk. Administrative and compliance burdens can lead to resources being disproportionately diverted away from service delivery. Some community service organisations have difficulty reconciling formal internal reporting, staff oversight and compliance processes with a trust-based, community centred ethos of the organisation and the broader not-for-profit sector.

Limited resources to invest in information technology safeguards, or formal training and processes around information use can result in further risks. Community service organisations delivering human services increasingly have access to sensitive personal and business information, and the risk of inappropriate information access and use is heightened when investment in appropriate safeguards is not made.

## Board and governance structures

It is possible that in smaller or more isolated communities there may be a shortage of suitably qualified individuals to participate on boards which govern community service organisations. This creates a situation where board members can have close community ties and a personal connection or stake in the service being provided, and this may give rise to conflicts of interest, which should be declared and appropriately managed. It can also mean a board is comprised of members of varying capabilities and understanding of their obligations.<sup>12</sup>

Turnover of board members can also present difficulties, particularly in circumstances where there are limited volunteers who have the skills required. If a board has a very high turnover it can create corruption risks. Conversely, if a board has extremely low turnover, this can also create unique corruption risks. High turnover can mean newly appointed board members might have varying levels of expertise, experience or awareness of corruption issues. Conversely, low turnover can mean board members serve together for many years, allowing for an element of group think to develop which can lead to a reluctance to recognise and fix emerging problems.

This issue is not unique to boards overseeing a community service organisation. It may be experienced more broadly across small community-based boards, especially in regional or isolated areas where members are often volunteers and there can be a limited pool of expertise to draw on, as well as limited resources to invest in appropriate governance and training.

<sup>10</sup> Other regulatory oversight bodies include, but are not limited to: Consumer Affairs Victoria, the Australian Taxation Office, the Australian Securities and Investments Commission and the Victorian Housing Registrar.

<sup>11</sup> VAGO, *Contract management capability in DHHS: Service agreements*, September 2018, <[www.audit.vic.gov.au/report/contract-management-capability-dhhs-service-agreements](http://www.audit.vic.gov.au/report/contract-management-capability-dhhs-service-agreements)>

<sup>12</sup> For more information on corruption risks associated with boards see IBAC's information sheet: *Corruption risks associated with public sector boards*, <[www.ibac.vic.gov.au/publications-and-resources/article/information-sheet---corruption-risks-associated-with-public-sector-boards](http://www.ibac.vic.gov.au/publications-and-resources/article/information-sheet---corruption-risks-associated-with-public-sector-boards)>

## Lack of awareness about corruption prevention

A lack of awareness about corruption prevention may lead to inappropriate reporting activities by community service organisations. This is more likely to be the case when the organisation and its leaders are unfamiliar with public sector values and principles, or may also be driven by a fear of losing funding if they report corrupt or fraudulent conduct by their own staff.

The diversity of human services means the forms and methods of possible fraud are likely to be numerous, particularly where the awareness of this risk is low. Although DHHS has resources available to enhance awareness about fraud, corruption, and improper conduct,<sup>13</sup> frequent turnover of staff, or rapid growth and change in a community service organisation's activities, without appropriate education and awareness programs in place, can contribute to low levels of corruption risk awareness in the sector.

Core documents<sup>14</sup> that govern the relationship between community service organisations and funding agencies do not include information or definitions around improper conduct or corruption, or how to manage or escalate complaints. This is likely to contribute to low levels of awareness within community service organisations around the detection, prevention and reporting of suspected corrupt conduct.

Smaller community service organisations often lack the resources to develop robust corruption prevention policies, systems and processes, and to educate staff on corruption prevention. Some community service organisations experience pressure to rapidly expand to meet service delivery requirements. This can impact on already limited resourcing of smaller community service organisations, particularly if they cannot develop their corruption prevention capabilities in line with their growth.

There can also be challenges in training and oversighting staff who are geographically dispersed and whose roles and responsibilities shift over time.

## Underreporting of complaints

Although there is a range of avenues available for lodging complaints regarding human services delivered by community service organisations across Victoria,<sup>15</sup> many community service organisations are unlikely to know how and where to report suspected corruption, and are unclear of their reporting obligations. Additionally, having multiple avenues to report can also serve to add to this confusion. This makes it difficult for a community member, client or a concerned staff member to identify the most appropriate body to which complaints should be addressed, which may result in corrupt conduct not being reported or detected.

Regulatory confusion and limited understanding of whistleblower protections can contribute to the underreporting of serious misconduct or corrupt conduct.

## Competition for funding

Competition for funding may increase corruption risks by creating incentives to misreport service delivery costs or outcomes, or to manipulate already funded existing services as new or additional services. Restrictive budgets can also create pressures around the allocation of resources. This may cause community service organisations to allocate funds to meet immediate service delivery outcomes, rather than investing in strong governance arrangements.

## Conclusion

The community services sector is large, complex and multi-faceted. The sector is increasingly used to deliver a broad range of human services on behalf of the Victorian Government. As in many comparable jurisdictions, accountability processes for many aspects of funded human service provision in Victoria require enhancement.

Oversight of community service organisations is heavily geared to ensuring services provided are commensurate with the contract. Key performance indicators are likely to be aligned to measuring service related outputs, or in some cases inputs or other process related measures. Reporting and detection efforts are most likely to be focused on areas of major identified service risk, given the vulnerability of many service clients, such as children or elderly people. Proactive detection of corruption and fraud is often not a priority of the funding body and resources devoted to it reflect this. These factors can leave gaps where corruption may emerge or continue undetected.

This information sheet highlights corruption risks and drivers associated with government-funded human services delivered by community service organisations and alerts public sector agencies to opportunities to strengthen their systems and practices to mitigate them. Agencies need to tailor corruption prevention and detection strategies to their operating environments, to ensure the strategies they adopt are effective and proportionate.

IBAC will continue to engage with key agencies across the Victorian public sector to help raise awareness of the risks highlighted in this information sheet, and to assist them to develop appropriate corruption prevention strategies to address those risks.

<sup>13</sup> DHHS Service Agreement Information Kit <fac.dhhs.vic.gov.au/service-agreement-information-kit>

<sup>14</sup> Such as the *DHHS Victorian Common Funding Agreement Funded Organisations User Guide Terms and Conditions*, December 2015, p15, <providers.dhhs.vic.gov.au/sites/default/files/2018-08/Victorian%20Common%20Funding%20Agreement-Funded%20Organisations-User-Guide-Version%202.0-December%202015.doc>

<sup>15</sup> Complaints can be lodged directly to the community service organisation, the funding agency, Victoria Police, a regulator or to an integrity body (such as the Victorian Ombudsman or IBAC).

## Useful resources

### Independent Broad-based Anti-Corruption Commission

Information sheet: Corruption risks associated with public sector boards

[www.ibac.vic.gov.au/publications-and-resources/article/information-sheet---corruption-risks-associated-with-public-sector-boards](http://www.ibac.vic.gov.au/publications-and-resources/article/information-sheet---corruption-risks-associated-with-public-sector-boards)

Information sheet: Conflicts of interest - myths, misconceptions and management

[www.ibac.vic.gov.au/publications-and-resources/article/information-sheet-conflicts-of-interest-myths-misconceptions-and-management](http://www.ibac.vic.gov.au/publications-and-resources/article/information-sheet-conflicts-of-interest-myths-misconceptions-and-management)

Managing corruption risks associated with conflicts of interest in the Victorian public sector

[www.ibac.vic.gov.au/publications-and-resources/article/managing-corruption-risks-associated-with-conflicts-of-interest-in-the-victorian-public-sector](http://www.ibac.vic.gov.au/publications-and-resources/article/managing-corruption-risks-associated-with-conflicts-of-interest-in-the-victorian-public-sector)

### Department of Health & Human Services:

[services.dhhs.vic.gov.au](http://services.dhhs.vic.gov.au)

[providers.dhhs.vic.gov.au](http://providers.dhhs.vic.gov.au)

DHHS has responsibility for developing and delivering policies, programs and services that support and enhance the wellbeing of all Victorians. Some of these activities include housing, disability, family and child services and programs, public health services, public hospitals, health, mental health and aged care services, the prevention of family violence and violence against women, and supporting the community in metropolitan, rural and regional Victoria.

### Victorian Auditor-General's Office

[www.audit.vic.gov.au](http://www.audit.vic.gov.au)

The Auditor-General is an independent officer of the Victorian Parliament, and provides assurance to Parliament and the Victorian community about how effectively public sector agencies are providing services and using public money. Through its audit work, VAGO makes recommendations that promote accountability and transparency in government, and improvements in service efficiency and effectiveness.

Contract management capability in DHHS: Service agreements

[www.audit.vic.gov.au/report/contract-management-capability-dhhs-service-agreements](http://www.audit.vic.gov.au/report/contract-management-capability-dhhs-service-agreements)

### New South Wales Independent Commission Against Corruption (ICAC)

[www.icac.nsw.gov.au](http://www.icac.nsw.gov.au)

ICAC was established by the NSW Government in 1988 in response to growing community concern about the integrity of public administration in NSW. ICAC's principal functions are set out in the Independent Commission Against Corruption Act 1988. In summary, they are:

- to investigate and expose corrupt conduct in the NSW public sector
- to actively prevent corruption through advice and assistance, and
- to educate the NSW community and public sector about corruption and its effects.

#### Operation Tarlo

[www.icac.nsw.gov.au/ArticleDocuments/728/Investigation-into-the-conduct-of-a-principal-officer-of-two-non-government-organisations-and-others\\_Operation-Tarlo\\_Sep18.pdf.aspx](http://www.icac.nsw.gov.au/ArticleDocuments/728/Investigation-into-the-conduct-of-a-principal-officer-of-two-non-government-organisations-and-others_Operation-Tarlo_Sep18.pdf.aspx)

#### Corruption and Integrity in the NSW Public Sector

[www.icac.nsw.gov.au/ArticleDocuments/232/Corruption-and-integrity-in-the-nsw-public-sector-an-assessment-of-current-trends-and-events\\_7Dec18.pdf.aspx](http://www.icac.nsw.gov.au/ArticleDocuments/232/Corruption-and-integrity-in-the-nsw-public-sector-an-assessment-of-current-trends-and-events_7Dec18.pdf.aspx)

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IBAC is Victoria's anti-corruption agency responsible for preventing and exposing public sector corruption and police misconduct. We do this by:

- investigating serious corruption and police misconduct
- informing the public sector, police and the community about the risks and impacts of corruption and police misconduct, and ways in which it can be prevented.

To report corruption now, visit [www.ibac.vic.gov.au](http://www.ibac.vic.gov.au) or call **1300 735 135**.

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