

Mr David Shoebridge, MLC
Committee Chair
Public Accountability Committee
NSW Legislative Council

Via email: public.accountability@parliament.nsw.gov.au

Dear Mr Shoebridge

Request for Documents – Core Integrity Pty Ltd (Core Integrity) bushfire grant programs

I refer to your letter dated 27 April 2021 requesting the Department of Customer Service (DCS) to provide certain documents relating to services provided by Core Integrity Pty Ltd (Core Integrity).

Further to the response dated 3 May 2021, on behalf of the Secretary, Department of Customer Service, the following additional information is provided to support the work of the Public Accountability Committee.

Background on grant programs administered by Service NSW

Service NSW (SNSW) has been tasked by the NSW Government to administer grants and outward payments to assist customers impacted by hardship events, including the summer 2019-2020 bushfires, the COVID-19 pandemic and the 2021 floods.

In carrying out this work, SNSW's priority has always been to ensure that it administers the grants and outward payments programs efficiently to allow financial support to be available quickly to communities in need following a hardship event, whilst ensuring that risks are identified and mitigated. SNSW has worked to significantly improve its grant administration systems over the past 12 months, including implementing stronger fraud detection and mitigation systems and bolstering its internal capability in this area.

Beginning in January 2020, SNSW was required to deliver these payments in extremely short timeframes in response to the bushfire and pandemic crises, and to respond to an immediate need to support impacted communities.

SNSW had not previously administered grants and outward payments of this magnitude or complexity, requiring new teams, functions and processes to be set up at the same time as programs were being designed and implemented. This was necessary to ensure that monies and support could be distributed in the quickest possible timeframes to those in need.

Digital application forms for initial grants were built on average within eight days, and applications required minimal upfront evidence and relied on self-declaration as agreed by the Commonwealth and NSW agencies (NSW Treasury, Office of Emergency Management (now Resilience NSW) and SNSW). A key reason for the design of this approach was the need to ensure the safety of the public, and specifically SNSW customers in crisis, including minimising the need for physical travel to service centres as part of any application process.

Whilst this approach reduced the burden on applicants in applying for funds, and allowed funds to be disseminated quickly, it did result in an increased fraud risk across the grant programs.

In March 2020, SNSW was alerted by NSW Police and financial institutions to a number of potential instances of fraud associated with the Volunteer Fire Fighter (VFF) Bushfire and COVID-19 grant programs.

As a result, in May 2020, the Chief Executive Officer (CEO) of SNSW established the Grants Administration Taskforce comprised of SNSW and DCS representatives to review the status of the current programs, bolster controls to mitigate further fraud exposure, implement processes to seek recovery of fraudulent and ineligible payments and enhance fraud detection and case management systems.

The initial grants which were administered by SNSW prior to the establishment of the Grants Administration Taskforce were the:

- \$6K Volunteer Fire Fighter Payment - from 20 January 2020
- \$50K Small Business Bushfire Recovery Grant - from 4 February 2020
- \$10K Small Business Bushfire Support Grant - from 23 April 2020
- \$10K Small Business COVID-19 Support Grant - from 14 April 2020.

Core Integrity's engagement and function

The several separate engagements of Core Integrity by DCS are outlined as follows:

- Core Integrity was initially engaged to provide services to DCS from 12 - 18 May 2020.
- The arrangement was extended to provide further services from 19 May 2020 – 1 June 2020.
- Following a competitive Request for Quote process, Core Integrity was then engaged by DCS to perform investigative services related to the SNSW Grant Administration Taskforce until 31 December 2020.
- This arrangement was extended until 28 February 2021.

Core Integrity's initial focus was to assist SNSW in assessing and sizing the grant fraud exposure as well as providing advice on the referral of suspected fraud matters to the NSW Police.

As part of the ongoing arrangements, Core Integrity formed a Strategic Investigations Unit (SIU) within DCS in July 2020. The SIU responded to inbound NSW Police enquiries to provide data and evidence to support criminal investigations (Strike Force Roche and Strike Force Fireant). In addition, SNSW made ongoing referrals of applications to the SIU for investigation where fraud indicators had been triggered.

Core Integrity's involvement was with the following grants:

- \$50K Small Business Bushfire Recovery Grant
- \$10K Small Business Bushfire Support Grant
- \$6K Volunteer Fire Fighter (VFF) Grant
- \$10K Small Business COVID-19 Support Grant
- \$3K Small Business COVID-19 Recovery Grant
- \$5K and \$10K Small Business Southern Border Grants
- \$10K Export Assistance Grant.

Sizing the amount of the fraud exposure

One of the initial areas of focus for Core Integrity was the sizing of the projected grant fraud exposure.

In June 2020 when Core Integrity was engaged to assist SNSW to size the amount of the possible fraud exposure, SNSW did not have the enhancements to its fraud controls and fraud detection systems that are now in place, which allow SNSW to

have greater confidence in its current assessment of projected fraud exposure (as described below).

In June 2020, data analysis from the \$10,000 COVID-19 grant, the \$10,000 bushfire grant, the \$50,000 bushfire grant and the VFF grant programs was undertaken to categorise applications into high, medium, low or no fraud risk and place a quantum on forecast exposure. The analysis used a five-stage approach to assess and report on suspicious applications: analysis (automated red flags), security assessment (remove false positives), business verification (manual assessment), investigations and NSW Police referrals/recovery of funds.

At that point in time it was projected that the maximum forecast fraud exposure amounted to \$26.69m. This analysis was based on sampling of a relatively small number of applications and assumptions which have been borne out to be generous. This figure includes a significant volume of false-positives.

SNSW now has much stronger systems and processes in place which allow for a more accurate analysis of applications to identify when fraud controls have been triggered. We also have now established internal Manual Assessment and Fraud Triage teams which can undertake reviews of suspicious applications. This has resulted in a current projected fraud exposure of \$11.16m across the full list of grants and outward payments programs, as at 28 April 2021. With applications still under assessment, this number does not remain static.

Future state of fraud management within Service NSW

Core Integrity's provision of services included working with the business to design how a fraud prevention and control team could be set up internally within DCS or SNSW, so that capabilities could be developed and expanded, and any outstanding actions could be transitioned.

Various options were considered regarding how the internal function could be operationalised. The expansion of the existing SNSW Security Review Team (now called the Fraud Response Team which includes the Fraud Triage and the Law Enforcement Liaison teams), was the endorsed recommendation.

This operating model satisfied SNSW's legislative obligations and requirements and is designed to facilitate responses to inbound referrals from NSW Police, and suspected fraud is reported to NSW Police for their action.

Transition Plan

SNSW did not terminate Core Integrity's services. Core Integrity fulfilled their obligations under the contract and as Core Integrity's contractual arrangements were coming to an end, Core Integrity and SNSW worked together on a Transition Plan to hand over outstanding matters.

The Transition Plan was created to implement a plan to address outstanding SIU investigation matters and transition the operations of the SIU to SNSW on 1 March 2021. This project plan scope of work included:

- identification of roles and responsibilities for the transition and, for SNSW staff, following the transition
- identification of resource requirements and recruitment of these resources to enable a successful transition
- a change impact assessment
- a project risk assessment
- a plan to manage the transition of 2886 applications (comprising 1031 applications for grants that had been paid to customers and 1855 applications for grants that were unpaid at this time) from the SIU to the internal SNSW Fraud Response team
- funding request to manage the pipeline of cases.

At the conclusion of the contractual arrangements of Core Integrity, a Final Report from Core Integrity dated 24 February 2021 was submitted to DCS and SNSW executives.

SNSW Fraud Response team - SNSW’s Fraud Response functions following the transition from the SIU

SNSW’s Fraud Response team (comprising the Fraud Triage and the Law Enforcement Liaison teams, comprising 10.5 FTE) continues to work on the cases that were transitioned to SNSW from Core Integrity as well as its own program of Fraud Response activities relating to current and upcoming grants and outward payment programs.

The Law Enforcement Liaison Team (LEL) has leveraged from the SIU formerly within DCS and refined investigation processes, case preparation and referral processes for grants and stimulus programs. The primary role of the LEL is to:

- act as the SNSW liaison with NSW Police and other law enforcement agencies relating to allegations of fraud in connection with grant payments made by SNSW.
- report to NSW Police all applications deemed fraudulent that are not already under police investigation and seek compensation orders via judicial proceedings for any outstanding funds where perpetrators are convicted.
- work closely with the nominated NSW Police contact point(s) to prepare and supply information, briefs of evidence, affidavits and court statements in support of active investigations.
- support NSW Police prosecutions and consider and pursue any available options for recovery of fraudulently obtained monies.

Since February 2021, following the transition of work into SNSW from the SIU, the SNSW Fraud Response Team has actioned fraudulent activity as follows:

Total Inbound Referrals received from NSW Police 01/02/2021-28/04/2021	67
Level 2 Evidence Packs Provided to Police (where all supporting documentation is obtained by SNSW and supplied to Police)	54
Inbound Police Requests received in relation to Person of interest (POI) searches - where SNSW undertook searches but did not identify any applications that were submitted by the POI	12
Applications received by LEL Team from the Fraud Triage Team for NSW Police referral (05/03/2021 -28/04/2021)	362

Enhancing fraud management within SNSW

In addition to the work of the Fraud Response Team, over the last 12 months the following functions have been set up and bolstered within SNSW to strengthen fraud management
Fraud Detection team – this team develops the front and back end fraud controls which are incorporated into digital grants and outward payments products, undertakes daily monitoring of fraud indicators, analyses and monitors for fraud vulnerabilities and trends as well as refining fraud indicators where applicable. Currently, SNSW applies a library of fraud controls, according to which are relevant to each grant, to help detect fraud. The controls are not listed in full here as releasing this information would compromise the integrity of our fraud detection activities. In addition, the team maintains ‘black’ and ‘grey’ lists of excluded bank accounts and SNSW MyAccounts to ensure payments are not made to suspicious applicants. This team numbers 5 FTE.

Manual Assessment team - this team assesses applications against specific eligibility criteria. If potential fraud indicators are identified, applications are referred to the Fraud Triage team to be reviewed. This team numbers 89 FTE.

Grants Administration Taskforce - this team looks after incident management and resolution for previous and new grant programs, reporting, backlog management within

operational teams, process improvement and lessons learnt for future grant programs. In addition, the team coordinates and manages enquiries and escalations and assists in supplying and coordinating responses for Audit requests across the grant programs. This team numbers 3 FTE.

Fraud Control Framework team - this team's focus has been on implementing systems, technologies and enhanced processes with the focus on improving SNSW's ability to administer grants. Key systems and technologies this team is implementing include a fraud analytic and detection solution, an uplift of an existing case and investigations system and an optical character recognition tool with the ability to identify, collect data and process a grant application. This team numbers 5 FTE.

Grant program statistics

The table below outlines key statistics across grant programs as of 28 April 2021. For the grant programs outlined below, a total of \$899.3m has been paid out to communities experiencing hardship and out of those funds, the projected fraud exposure is \$11.16m. This accounts for 1.24% of funds distributed and the level of identified fraud to date sits well within international benchmarks: the Association of Certified Fraud Examiners in their 2020 Report to the Nations reports that the median percentage loss of annual revenues to fraud each year is 5%, while the UK Government's Counter Fraud Centre of Expertise estimates public sector fraud and error loss as 0.5% to 5% of government spending. It should be noted that given the ongoing work involved in investigating cases, these statistics are changeable based on the evidence that becomes available to either prove or disprove fraudulent activity.

The work of both the SIU and SNSW Fraud Response Team in assisting the NSW Police has resulted in 46 convictions of fraud, amounting to a value of more than \$526,000. SNSW seeks compensation orders from the court upon conviction to seek recovery of these paid-out funds.

It is also important to note that the SIU and the Fraud Response Team successfully detected suspicious activity and withheld payments relating to an additional 2089 applications which equates to \$26,946,197 of suspected attempted fraud. These cases are also in the process of being reported to Police for investigation and or intelligence purposes.

Grant	SNSW Partner Agency	Total # and \$ value of applications received and paid.	# and \$ value of paid level 3 applications (fraud exposure)	Total # and \$ value of applications where a fraud conviction has been recorded	Total # and \$ of applications successful in funds recovery
10K Small Business COVID-19 Support Grant	Treasury	53.1K \$526M	220 \$1,994,600	6 \$60,000	70 \$678,901
3K Small Business COVID-19 Recovery Grant	Treasury	36.8K \$109M	92 \$274,998	2 \$6,000	35 \$105,000
10K Small Business Bushfire Support Grant	Resilience NSW	18.2K \$182M	746 \$7,464,000	35 \$350,000	80 \$800,000
50K Small Business Bushfire Recovery Grant	Resilience NSW	2K \$52M	42 \$1,067,537	3 \$110,896	3 \$121,857

VFF Payment	Resilience NSW	3K \$10.9M	87 \$292,060	0 \$0	1 \$6,000
Export Assistance Grant	Treasury	369 \$3M	5 \$42,913	0 \$0	0 \$0
Southern Border Grant	Treasury	2.4K \$16.4M	3 \$25,000	0 \$0	0 \$0
Total		115.9K \$899.3M	1195 \$11,161,108	46 \$526,896	189 \$1,711,758

*In addition to the volumes outlined above, there are approximately 8000 applications which are currently under eligibility assessment.

Current focus areas

SNSW continues to balance its efforts to work through the pipeline of cases which have transitioned from Core Integrity as well as support fraud mitigation efforts for new payment programs that are regularly released.

Some of these more recent programs include:

- NSW Dine & Discover Vouchers
- Flood Disaster Recovery Small Business Grant
- Return to Work Program
- Northern Beaches Hardship Grant
- Small Business Fees and Charges Grant.

SNSW operational teams are constantly working to manage their backlog of activities on previously closed applications whilst ensuring new grant programs being released have adequate controls in place in the front and back end. Lessons learnt across all aspects of the end-to-end administration process are regularly factored in and operations continue to be improved.

Grants Administration for Disaster Relief Audit

The Audit Office of NSW is conducting a performance audit into grants administration for disaster relief involving SNSW, NSW Treasury and the Department of Customer Service (DCS). SNSW and DCS are committed to implementing ongoing improvements to their grants administration and fraud prevention systems in line with the Audit Office's findings and our ongoing efforts as detailed in this letter.

I trust the information outlined in this letter assists in providing additional context and explanation for the consideration of the Committee. If the Public Accountability Committee requires further detail, a confidential briefing can be supplied.

Yours sincerely

Damon Rees
Chief Executive Officer, Service NSW