

3 LESSONS FROM THE QHEALTH EXPERIENCE

The situation at QHealth detailed in the previous chapter demonstrates that an agency having in place a full range of governance systems, management mechanisms and regulatory frameworks could still be subject to fraud by an employee intent on subverting the system.

Given this situation, which could occur in any agency, the larger questions for the public sector are:

- How does an agency ensure that its frameworks are robust enough to manage high-risk employees (or situations)?
- What can other agencies learn from QHealth's experience and apply to their own workplaces?

The previous chapter demonstrated the specific mechanisms by which Barlow committed the frauds and the organisational factors within QHealth that facilitated them. This chapter is framed in terms of some key learnings for more general application across the public sector.

Any agency can harbour a high-risk employee

How does an agency identify a high-risk employee? In Barlow's case, when he came to work for QHealth he already had a criminal record and was wanted for questioning in New Zealand in relation to fraud.¹⁰² While not all agencies will perform criminal history checks, particularly overseas checks,¹⁰³ on potential employees, Barlow also provided a fabricated CV which does not appear to have been verified by QHealth. Nor does he appear to have provided QHealth with his official academic transcript or formal professional credentials.¹⁰⁴

From the outset, Barlow's conduct in the workplace manifested signs of chronic unreliability, characterised by:

- an obvious lack of respect for the workplace and a propensity to take advantage of the service conditions
- consistently poor attendance, erratic work hours unrecorded on timesheets and excessive amounts of leave taken without proper records kept
- poor-quality work not to the standard required of his seniority level, requiring other staff to complete or re-do his tasks.

Barlow gained detailed knowledge of the different financial systems and mechanisms involved in disbursing large amounts of funding in one of Queensland's largest and most complex departments. However, rather than work diligently in the interest of the agency, he used this knowledge to his own advantage when he:

- identified and deliberately used inappropriate payment mechanisms — designed for one-off rather than recurring expenditure — that would be subject to much less scrutiny than others would have been

102 QHealth advises that it is a requirement for all QHealth staff who are being appointed permanently or for a period of more than three months to undergo a criminal history check; further, that under the policy in place at the time of Barlow's appointment, criminal history checking was restricted to the Australian jurisdiction only.

103 On 29 January 2012, the Prime Ministers of Australia and New Zealand announced a six-month trial testing the sharing of criminal history information between Australia and New Zealand. On 30 May 2010, the Minister for Home Affairs and Minister for Justice announced that, under the six-month trial commencing in July 2012, New Zealand will be able to seek criminal records from all Australian jurisdictions and Queensland will be able to seek criminal records from New Zealand. After a successful six-month trial, the trial was extended to July 2013. After the trial, consideration will be given to expanding the arrangements to enable all Australian jurisdictions to make requests for criminal records from New Zealand.

104 QHealth advises that there is no requirement for officers appointed to administrative positions within the administrative stream to have formal qualifications.

- manipulated budgets by various means, including irregular reporting, frequent budget alterations, exclusion of critical information, and masking of over-expenditure by electronic journal entries and post budget adjustment
- took advantage of organisational confusion brought about by restructure and unclear supervisory arrangements.

Further, he successfully camouflaged his criminal activity by:

- creating a smokescreen persona — in this case, misrepresenting himself as a wealthy “Tahitian prince” — that appears to have disarmed suspicion and effectively forestalled management action
- taking advantage of relationships with colleagues — in particular, by exploiting the trust of subordinate staff
- avoiding awkward questions about required documentation or his work performance by taking sick or other leave and working irregular hours.

All agencies will at some time encounter a high-risk employee. They will manifest themselves in a variety of ways — not all will be as flamboyant as Barlow. They may not even be intentionally malicious; it may simply be that their conduct exposes an agency to risk. In any case, supervisors, managers, colleagues and subordinates should be alert to patterns of inappropriate or difficult behaviours and manage them promptly and objectively, advising HR when necessary and putting in place formal corrective action. Staff who evidence problem behaviours cannot simply be put in the “too hard” basket or have their behaviour dismissed as personal idiosyncrasies.

Internal weaknesses will put agencies at risk

Barlow admitted he actively intended to defraud QHealth. However, the frauds could not have succeeded or continued for so long if it were not for a range of factors within QHealth itself. These included:

1. low levels of compliance with existing policy and procedures by other staff
2. failures of financial management and accountability
3. failures in supervision and management
4. inadequate change management processes that failed to identify risk and failed to provide an effective follow-up review process
5. low awareness of the risk of fraud among staff at all levels
6. failure to properly investigate information provided in audits and complaints and evaluate it in a wider context.

It was this aggregation of factors that exposed QHealth to a long-term and continuing fraud. To some extent they overlapped, demonstrating their interdependence.

The following are important messages for all public sector employees, whatever their agency.

1. Compliance with policy and procedures is a strong defence against fraud

The assessment of QHealth policies and procedures, including those relating to grants, showed that they were broadly adequate to ensure a reasonable level of probity. However, Barlow profited from the fact that staff failed either to follow policies and procedures in relation to approving expenditure or, even more importantly, to understand the principles they represented.

Staff did not see the importance of thorough cross-checking and the requirement for two signatures on forms as a fraud control mechanism. When given non-compliant documents for payment, there is no evidence that the staff *whose responsibility it was to check them* followed agency policies and procedures for verification of supporting documentation or appropriate financial delegation. They appear to have signed documents without checking, simply because someone they knew asked them to.

Staff who are responsible for signing or countersigning documents need to understand that each signature amounts to a statement by the signer that they have checked the details of the proposal and are satisfied that it is legitimate and in accordance with the proper business and procedures of the agency. When two signatures are required, the purpose is to minimise the risk that one of the signers has made an error or is seeking to achieve an improper result.

To function properly, agencies must have not only appropriate policies and procedures, but also staff who understand and conscientiously adhere to them, and managers who can identify and effectively manage non-compliance.

2. Public servants are accountable officers under the Financial Accountability Act

Senior management failed to understand and/or act in accordance with their responsibilities as “owners” of QHealth’s financial reports and as accountable officers as specified in the *Financial Accountability Act 2009*.

Barlow was, effectively, allowed to side-step normal financial reporting processes when supervisors failed to challenge his failure to submit reports, and when he retained control of a cost centre after leaving the position responsible for it. Further, as in the case of the MGIA cost centre, he was permitted to be both the officer with budget accountability and the officer responsible for preparing the budget reports, even though the separation of these functions is regarded as a key financial control mechanism that is essential to preventing fraud. Had managers questioned Barlow’s work practices and reports more closely, his manipulation of the financial systems would have been exposed.

It is vital that managers, or workplaces and agencies as a whole, hold themselves accountable for providing accurate, reliable financial reports and demonstrate due diligence in identifying and querying any irregularities. They must set standards of personal and professional accountability for themselves and instil that ethos in others.

3. Proactive, engaged supervision is fundamental to public sector integrity

The fundamental function of supervisors and managers is to ensure that the conduct and work performance of those employed at public expense are of a satisfactory quality. To do so, managers must be able to *objectively* assess the performance of those they supervise or deal with, ensure that personal conduct and work performance are acceptable, and initiate corrective action where required.

In Barlow’s case, no-one appears to have been able to separate Barlow’s professional performance and obligations, for which he was accountable to the department, from his personal issues and manage him accordingly. On the contrary, Barlow was effectively rewarded for poor behaviour — with opportunities to perform higher duties, promotions, extensive unpaid leave granted, and tolerance of his irregular hours. Subordinate staff commented on the fact that he was promoted despite highly irregular and clearly sub-standard performance.

Inappropriate workplace behaviour should not be dismissed as personal eccentricity (for example, by saying “That’s just Ho”). Instead, proactive supervisors must be alive to how such conduct weakens the perceived integrity of senior management and compromises the standards of the whole workplace.

4. Effective change management should identify emerging risks or vulnerabilities

Any organisational restructure which leads to changes in roles and responsibilities should, as a matter of course, include a clarification of roles and responsibilities, an analysis of changes in procedure and workflow following from it, and a detailed analysis of the risk exposures which the change entails.

In the case of QHealth, the change management process put in place in relation to the restructure of the CSP team to Finance Branch in mid-2009 appears to have been deficient, with insufficient consultation occurring between sections to ensure clear governance arrangements for new areas

and associated understanding on the part of staff. As a result, the roles and responsibilities of Barlow's team were not clearly understood by the new supervisors in the Finance Branch.

The change management process in relation to the transfer of responsibility for the MGIA to the CSP Division also appears to have been deficient. In the absence of a clear governance framework and any structured or effective supervision, Barlow was able to retain responsibility for the MGIA cost centre and to continue offending.

5. Fraud awareness and prevention is the responsibility of all employees

Perhaps most seriously, Barlow's associates, both supervisors and subordinates, failed to consider the possibility of misconduct or internal fraud by a staff member. Although his conduct, and questions about it, appear to have been a frequent topic of discussion among senior managers, this was never translated into more probing questions being raised about his trustworthiness and his fitness to manage public funds.

In fact, Barlow consistently displayed behaviours generally regarded as indicators of probable fraudulent activity. These included:

- repeated submission of "urgent" payment requests without adequate documentation
- continuing failure to produce appropriate documentation despite serious questions being raised by the audit of his credit card and by the complaint relating to the misuse of his credit card in 2011
- jealous retention of functions or files related to a previously held position
- poor workplace conduct and performance generally, including erratic attendance, missed deadlines and poor-quality work.

Further, formal complaints about his conduct or performance were made on three occasions by parties external to his immediate workplace.

None of these matters led to the identification of the frauds. In part, this was because none of the complaints, whether formal or informal, were adequately followed through by his co-workers, managers or supervisors. Managers and supervisors in particular appeared to handle any complaint or issue concerning Barlow in isolation rather than connecting the issues and considering the potential implications within a larger context.

6. Information from complaints and audits are important early warnings

Over four years, important indicators of Barlow's fraudulent activities were received within QHealth: three formal complaints about his honesty as well as internal and external audits that identified financial irregularities or non-compliance with policies. However, none of these brought his fraudulent activities completely to light.

The fact that three complaints lodged against Barlow and other questions raised about his credit card use and handling of grant expenditures still did not reveal his fraud was due in some degree to the failure to:

- link all complaints about an officer (for example, by thoroughly searching all relevant complaint databases)
- conduct thorough inquiries (such as criminal history checks if warranted or relevant information at work-unit level)
- identify potential patterns of questionable behaviour (such as the recurring absence of appropriate documentation and absences to avoid questioning)
- consider a complaint in the context of all the information available in a workplace, rather than responding to issues in isolation
- recognise that complaints are not just a matter for an ethical standards unit, but are of equally vital concern to supervisors, managers and senior managers
- be alert to the possibility that even a longstanding and familiar staff member might be committing fraud.