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Internal Audit Services Branch

Audit of Program Integrity Practices

November 2014

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Table of Contents

Executive Summary1

1.0 Background3

1.1 Context..... 3

1.2 Audit Objective 3

1.3 Scope 4

1.4 Methodology..... 4

2.0 Audit Findings.....5

2.1 The current management framework adequately supports investigation activities however, results can be better leveraged to strengthen program integrity prevention measures 5

2.2 Investigation activities could be more efficient with strengthened support mechanisms 7

3.0 Conclusion 12

4.0 Statement of Assurance 12

Appendix A: Audit Criteria Assessment 13

Appendix B: Glossary 14

Executive Summary

Employment and Social Development Canada (ESDC) delivers a wide range of programs and services to Canadians on behalf of the Government of Canada. Each year the Department delivers some \$87 billion in programs and services. In delivering its programs, ESDC must balance two fundamental objectives of processing timeliness and transaction accuracy. This means paying the right individual, the right amount in a timely fashion.

As part of its mandate, the Integrity Services Branch (ISB) reviews and investigates suspected client error and fraud to ensure effective stewardship of public funds. ISB currently undertakes investigations encompassing the Employment Insurance (EI), Pensions (Canada Pension Plan (CPP) and Old Age Security (OAS)) and Social Insurance Number (SIN) programs, and performs employer compliance reviews and inspections for the Temporary Foreign Worker Program.

National Headquarters (NHQ) develops functional direction as well as provides advice, guidance, tools and support to investigators located across various geographic locations within the ESDC regions. In fiscal year 2013–14, Integrity Services conducted over 275,000 investigations resulting in total program savings of \$575M. The savings calculation includes the expected Recovered Amounts Receivable, Future Expenditure Reductions and associated program administrative penalties.

Audit Objective

The objective of the audit was to assess the adequacy of the investigation management framework and the consistency of investigation practices undertaken across regional operations with national standards.

Summary of Key Findings

- The methodology used to select cases is comprehensive, but investigation resources are not prioritized based on potential overpayment amounts.
- More formalized and ongoing analysis of investigation results is needed to identify systemic issues and root causes leading to overpayment or error.
- Final adjudication delays are prolonging investigation timelines impacting efficiency.
- Investigator support mechanisms require enhancement to improve regional adherence to national standards and prevent duplication of effort.
- **PROTECTED.**

Audit Conclusion

The audit concluded that the investigation management framework adequately supports investigation activities. However, investigation results can be better leveraged to strengthen program integrity prevention measures. Enhancements are required to support mechanisms to improve the alignment of regional investigation practices to national standards.

Recommendations

- The Assistant Deputy Minister (ADM), ISB should analyze trends to identify systemic issues and root causes leading to overpayments or other errors uncovered by investigations.
- The ADM, Processing and Payment Services Branch (PPSB) in collaboration with the ADM, ISB, should assess options to develop and implement prevention measures that are cost-effective based on root cause analysis in order to enhance overall program integrity and efficiency.
- The ADM, PPCSB, in collaboration with the ADM, ISB and Regional ADMs, within the context of overall adjudication requirements, should address the backlog of pending investigation cases requiring final adjudication and implement protocols for the timely processing of investigation cases.
- The ADM, ISB in collaboration with Regional ADMs, should facilitate the development and update of timely and accurate reference material, training and support; while Regional ADMs should enforce consistent use of national materials.
- **PROTECTED**

I.0 Background

I.1 Context

ESDC delivers a wide range of programs and services to Canadians on behalf of the Government of Canada. Each year the Department delivers some \$87 billion in programs and services. In delivering its programs, ESDC must balance two fundamental objectives of processing timeliness and transaction accuracy. This means paying the right individual, the right amount in a timely fashion.

As part of Service Canada's mandate, ISB reviews and investigates suspected client error and fraud to ensure effective stewardship of public funds. ISB currently undertakes investigations encompassing EI, Pensions (including CPP and OAS) and SIN programs, and performs employer compliance reviews and inspections for the Temporary Foreign Worker Program. In fiscal year 2013–14, Integrity Services staff conducted over 275,000 investigations related to the EI, CPP and OAS programs. These investigations resulted in total program savings of \$575M (EI \$383M, CPP \$69M and OAS \$123M). Total program savings include all cases of program misuse and fraud. The savings calculation includes the expected Recovered Amounts Receivable (total overpayment created discounted to the amount assumed to be recoverable: 78% for EI and 37% for CPP and OAS), Future Expenditure Reductions and associated program administrative penalties.

The Integrity Operations Directorate within the ISB is responsible for the investigation into allegations relating to benefit eligibility and entitlement and to prevent, detect and deter misrepresentation and abuse of programs. The Directorate develops national functional direction as well as provides advice, guidance, tools and support to investigators located across various geographic locations.

I.2 Audit Objective

The objective of the audit was to assess the adequacy of the investigation management framework and the consistency of investigation practices undertaken across regional operations with national standards.

I.3 Scope

The audit scope included ISB's investigation management framework as well as existing investigation practices undertaken to enhance the integrity of ESDC's programs. In addition to audit activities at NHQ, regional visits were conducted in all four ESDC regions to review existing practices and determine the level of adherence to national standards across geographic areas and business lines. The audit also focused on identifying root causes in areas found to not be aligned with national direction.

The audit excluded inspections within the Temporary Foreign Worker Program due to the recent transition of responsibilities to ISB and to account for the substantial program changes that were underway.

I.4 Methodology

This audit used a number of methodologies including document review, interviews, on-site observations, walkthroughs, as well as sampling and testing. Travel to regional offices located in all four regions took place between May and July 2014.

2.0 Audit Findings

2.1 The current management framework adequately supports investigation activities however, results can be better leveraged to strengthen program integrity prevention measures

Investigation governance and approach to identify and initiate cases

We reviewed the investigation governance structure and found that it is well established at the senior management level where there is strong collaboration between NHQ and regions through various governance bodies.

There are various mechanisms used by ISB to identify ineligibility or incorrect payments. **PROTECTED.**

However, we noted that cases currently assigned to officers are not prioritized based on potential overpayment amounts. **PROTECTED.**

Alignment with the overall program integrity continuum

As part of an end-to-end integrity life-cycle, we expected to find that trend analysis would be undertaken to identify root causes leading to the errors or incorrect payments discovered through investigations. While identifying and pursuing eligibility and overpayment errors on a case-by-case basis is important to the stewardship of funds, it is equally important to leverage the accumulated knowledge gained to propose prevention strategies in order to enhance overall program integrity. We did see evidence that ISB has begun to initiate work on an ad-hoc basis to identify possible front-end control weaknesses, such as the EI Stewardship Review conducted in 2013, and an analysis of major investigation trends. However, we also noted that a formal, systematic and integrated approach with program stakeholders to leveraging investigation findings in the aggregate has yet to be developed and implemented. **PROTECTED.**

Of added concern, there are no overall governance protocols established for ISB to engage senior management of the various key program stakeholder branches to resolve identified systemic issues. In a decentralized organization, it is easy to lose perspective of the end-to-end program costs rather than the immediate costs and performance indicators of an individual Branch. We believe that it is important to assess possible mitigating preventive controls from an overall cost and client service perspective. Enhancing preventive controls could be found to result in greater savings.

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Improving preventive controls, based on the investigation findings, requires the collaboration of the individual functions of adjudication and investigation within the program continuum. A similar collaborative approach could benefit other departmental programs. **PROTECTED.**

Recommendation

- The ADM, ISB should analyze trends to identify systemic issues and root causes leading to overpayments or other errors uncovered by investigations.

Management Response

The ADM, ISB agrees with this recommendation and will build on work undertaken to date to analyze root causes of incorrect payments, develop a mitigations work plan with stakeholders and develop investigations analysis capacity. Actions are expected to be completed by June 2015.

Recommendation

- The ADM, PPSB in collaboration with the ADM, ISB, should assess options to develop and implement prevention measures that are cost-effective based on root cause analysis in order to enhance overall program integrity and efficiency.

Management Response

PPSB agrees with this recommendation, which is aligned with the Auditor General of Canada's recommendation in the 2013 Spring Report and tracked through the Work Plan – Comprehensive Analysis of the Causes for EI overpayments. Upon completion of the root cause analysis, a work plan will be developed. Actions are expected to be completed by June 2015.

2.2 Investigation activities could be more efficient with strengthened support mechanisms

Process delays and file backlogs

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For those cases that require PPSB's intervention, we noted the existence of a significant backlog of files awaiting finalization. Data analysis showed that over the past four years an annual backlog of at least 40,000 investigation cases was awaiting finalization by PPSB. Much of this backlog is related to EI cases. We were informed that the backlog is due to increased application volumes resulting in the need for operations to re-prioritize resources towards application processing.

The file backlog has had a direct impact on timeliness of final adjudication of investigation files by PPSB. We analyzed the data-set for all investigations finalized in 2013–14 and found that only 28% of all cases were adjudicated within 30 days, whereas 29% of cases took over a year to finalize following the completion of an investigation.

Timeliness of case finalization by PPSB in 2013–14					
0–30 days	30–60 days	60–90 days	3–6 months	6 months–1 year	Over 1 year
28%	11%	7%	11%	14%	29%

Once an overpayment is identified by the Department, it is in the client's best interest that the overpayment be corrected as soon as possible. Otherwise the amount the claimant must re-pay may continue to increase as time passes to finalize an investigation. This may result in added hardship to clients and negatively affect the Department's recovery ability, **PROTECTED**.

A contributing factor to these delays is the absence of established national protocols and performance measures for the timely finalization of investigation cases by PPSB. While we recognize the importance of adjudicating incoming applications, resources and processing timeliness should be defined to address the pending investigation files requiring PPSB attention. It is however important to note that a future focus on prevention measures could lead to fewer overpayments thereby decreasing the volume of cases to investigate which would be better aligned with PPSB's capacity to finalize investigations.

Recommendation

- The ADM, PPSB, in collaboration with the ADM, ISB and Regional ADMs, within the context of overall adjudication requirements, should address the backlog of pending investigation cases requiring final adjudication and implement protocols for the timely processing of investigation cases.

Management Response

PPSB agrees with this recommendation, reducing the backlog and moving to a sustainable funding model is an essential pre-requisite to the success of the EI Service Delivery Modernization initiative. Actions are expected to be completed by December 2016.

Collaboration with PPSB on individual investigations

As previously outlined, investigations are sent to PPSB officers who are responsible to review them, determine overpayment amounts, and make a final decision on imposing penalties for EI and Pensions cases. During our regional visits, we noted that, in the event the PPSB officer does not agree with the investigation results, the PPSB officer may contact the investigator to better understand these results. This conversation may lead the PPSB officer to request additional evidence to be gathered by the investigator, or to provide insight to the investigator on why their findings and recommendations weren't appropriate. We view this conversation as essential to confirm that not only the correct decision is made by the PPSB officer but also results in a shared learning opportunity for both individuals. Unfortunately this collaboration is not undertaken in all regions, nor is it formally required within established national procedures.

We have been told that there is no formal mechanism in place to exchange feedback information at the aggregated level between ISB and PPSB. A feedback loop would improve investigation processes and potentially enhance guidelines, training and oversight. An analysis of overturned recommendations could be useful to identify lessons learned.

The audit team also noted that some regions have established an oversight committee for major investigations. While the approaches differed from region to region, the best structured committees are comprised of regional senior managers from both investigations and processing sections. The committee is engaged in initiation approval of all major investigations, progress oversight, and approval of findings and recommendations. **PROTECTED**. In our opinion, it is important that NHQ establishes a national standard which all regions must adhere to for major investigation oversight.

Information exchange protocols

Access to pertinent evidence is a key element to perform an investigation. We were informed by staff and management alike that access to some key information sources is unavailable. Some Memorandum of Understanding (MOU) and information exchange protocols are either expired or have not been established. **PROTECTED**. We recognize that efforts are underway to resolve this issue and establish the necessary MOUs with pertinent authorities.

Operations manual and training

The Integrity Operations Manual is the official source of reference to provide officers with a comprehensive guide on investigation policy, direction and expected practices. However, we found that many of the chapters are not up-to-date, are unclear and often lack required details on how to conduct various investigation steps. As a result of the manual's deficiencies, a variety of information sources have been created both by NHQ and the regions to fill the gaps, such as email circulars issued by NHQ. These circulars however, often are not updated in the Integrity Operations Manual and are rather compiled in chronological order on an intranet site. Furthermore, regional staff indicated that circulars are often neither succinct nor provide sufficient operational context resulting in the need for regional Business Expertise to summarize key points and add missing operational context. Not only does this result in duplicated effort as most regions add additional context to these circulars prior to forwarding them to officers, but it also results in disparate messaging which could lead to inconsistent practices.

We have also observed additional mechanisms employed by either regions or individual officers to compensate for the manual's deficiencies resulting in a myriad of available guidelines and directives and a lack of clarity on which ones reflect current national protocols. This situation leads to inefficiency both at the operational level whereby officers need to research several different sources, and at the regional and national level in attempting to maintain multiple sources, none of which reference each other. It also can lead to inconsistencies in investigation practices not only from region-to-region, but also agent-to-agent. While it is imperative that NHQ collaborate with regions in order to provide accurate and timely information, it is equally important that regions be actively engaged in providing feedback and adopting national material.

While we did not observe the same extent of issues with operational training, we were informed by Business Expertise Advisors (BEA) across the country, that they are not consulted adequately during content training development. This results in similar inefficiencies as noted above as some BEAs indicated that they revise the training material to better meet the needs of their participants. Additionally, we heard that the corresponding French version is often unavailable until the final package, which can also lead to changes. These regional revisions not only result in inefficiency but can also result in the national training material being delivered differently across each region.

Quality monitoring and supervisory support

We found that regional Business Expertise monitoring for new hires is comprehensive and useful. Sound and detailed advice is provided to the officers explaining errors and corrective strategies to use to avoid making similar future errors. In contrast, we found that national quality monitoring file selection criteria results in very few files selected and as a result, agents rarely have their files selected. For those who did have a file selected, they indicated the quality of the feedback they receive is not nearly as useful as is provided within the new hire monitoring process.

We observed varying approaches taken by team leaders across regions to actively engage their staff. While all monitor workload distribution, not all are also attuned to quality considerations. We expected that team leaders would monitor their officers for consistency and adherence to standards. Many team leaders are providing excellent support to their teams. However they are not well supported in these activities as there are no general guidelines provided to them relating to basic monitoring activities. Since team leaders are the first line of defence that ISB has to determine if officers are conducting their investigations in a consistent manner and adhering to the national standards, we would suggest that they be better supported through appropriate tools.

Recommendation

- The ADM, ISB, in collaboration with Regional ADMs, should facilitate the development and update of timely and accurate reference material, training and support; while Regional ADMs should enforce consistent use of national materials.

Management Response

The ADM of ISB and Regional ADMs agree with this recommendation. Actions are expected to be completed by March 2015.

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3.0 Conclusion

The audit concluded that the investigation management framework adequately supports investigation activities. However, investigation results can be better leveraged to strengthen program integrity prevention measures. Enhancements are required to support mechanisms to improve the alignment of regional investigation practices to national standards.

4.0 Statement of Assurance

In our professional judgement, sufficient and appropriate audit procedures were performed and evidence gathered to support the accuracy of the conclusions reached and contained in this report. The conclusions were based on observations and analyses at the time of our audit. The conclusions are applicable only for the assessment of the investigation management framework and practices. The evidence was gathered in accordance with the *Internal Auditing Standards for the Government of Canada* and the *International Standards for the Professional Practice of Internal Auditing*.

Appendix A: Audit Criteria Assessment

Audit Criteria	Rating
ISB's Investigation Management Framework	
<ul style="list-style-type: none"> A governance structure is established to monitor investigations and facilitate a horizontal approach 	●
<ul style="list-style-type: none"> Investigation activities and resources are allocated across departmental programs and regions in a systematic and risk-based manner 	●
<ul style="list-style-type: none"> A risk-based methodology is used to select cases for investigation 	●
<ul style="list-style-type: none"> Investigation guidelines, training and tools are relevant, understandable, and aligned with policy and legislation requirements 	●
<ul style="list-style-type: none"> Results of investigations are reported to appropriate departmental stakeholders and analysis is undertaken to identify trends and root causes in order to propose mitigating actions 	○
Regional Investigation Practices	
<ul style="list-style-type: none"> Nationally established investigation directives, training and tools are consistently applied across regional operations 	●
<ul style="list-style-type: none"> Oversight and quality assurance mechanisms are applied to monitor the quality and consistency of investigation practices, compliance with established national investigation standards and incorporate adequate feedback opportunities 	●
<ul style="list-style-type: none"> Investigation directives PROTECTED are established and consistently applied across regional operations PROTECTED 	●

★ = Best practice

● = Sufficiently controlled, low risk exposure

● = Controlled, but should be strengthened, medium risk exposure

○ = Missing key controls, high risk exposure

Appendix B: Glossary

ADM	Assistant Deputy Minister
BEA	Business Expertise Advisor
CPP	Canada Pension Plan
EI	Employment Insurance
ESDC	Employment and Social Development Canada
ISB	Integrity Services Branch
MOU	Memorandum of Understanding
NHQ	National Headquarters
OAS	Old Age Security
PPSB	Processing and Payment Services Branch
SIN	Social Insurance Number