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Audit of the Guaranteed Income Supplement

April 2018

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Table of Contents

| | | |
|-----|--|----|
| 1. | Background..... | 1 |
| 1.1 | Context..... | 1 |
| 1.2 | Audit Objective | 2 |
| 1.3 | Scope..... | 2 |
| 1.4 | Methodology | 2 |
| 2. | Audit Findings | 3 |
| 2.1 | Eligibility criteria are applied in a consistent manner | 3 |
| 2.2 | Applications for GIS benefits are reviewed and adjudicated in a timely fashion | 3 |
| 2.3 | GIS benefits are adjudicated and processed in a consistent manner, including the annual renewal of GIS benefits..... | 6 |
| 2.4 | Relevant information and documentation are available to support the adjudication, approval and payment of GIS benefits..... | 6 |
| 2.5 | Controls have been designed and are operating as intended to verify the integrity of information collected from the pensioners | 7 |
| 2.6 | There is a need to ensure valid delegation of authority is in place..... | 8 |
| 2.7 | Information affecting a GIS recipient is processed in a timely manner | 9 |
| 2.8 | Existing quality assurance activities need to be strengthened for GIS benefits | 9 |
| 3. | Conclusion..... | 10 |
| 4. | Statement of Assurance..... | 10 |
| | Appendix A: Audit Criteria Assessment..... | 11 |
| | Appendix B: Glossary..... | 12 |

I. Background

I.1 Context

Old Age Security (OAS) is a Government of Canada pension program, paid on a monthly basis, and available to seniors aged 65 and older who meet the Canadian legal status and residence requirements prescribed by the program administrator, Employment and Social Development Canada (ESDC). In addition to the OAS pension, there are three types of OAS benefits:

- Guaranteed Income Supplement (GIS);
- Allowance; and
- Allowance for survivor.

The GIS is a monthly non-taxable benefit to OAS pensioners which is added to eligible pensioner's¹ monthly OAS pension payment with the following eligibility and entitlement requirements:

- The pensioner must be receiving an OAS pension;
- The pensioner must submit an application for the GIS benefit;
- The pensioner must reside in Canada;
- If the pensioner is single, the pensioner's annual income must be lower than the maximum annual threshold; and
- If the pensioner is married or has a common-law partner, the pensioner and their spouse/partner's combined income must be lower than the maximum annual threshold.

ESDC reviews the eligibility of GIS applicants every year and entitled pensioners are automatically renewed based upon this annual review. The automatic GIS renewal is only eligible for individuals who have submitted their income tax returns. ESDC automatically renews approximately 1.9M GIS beneficiaries on an annual basis, which represents approximately 95% of GIS recipients. The amount of the GIS benefit received is dependent on the pensioner's marital status and income.

In determining a pensioner's entitlement to GIS, ESDC relies on income information provided by the individual. For the majority of GIS recipients who have submitted Federal income tax returns, Canada Revenue Agency (CRA) provides income information electronically to Service Canada (SC).

¹ Pensioner is defined as a person whose application for a pension has been approved. OAS Act, Part II.

The GIS benefit is delivered in four regions by SC². The net GIS amount paid³ is \$10.6B for the 2016 fiscal year.

1.2 Audit Objective

The objective of this audit was to assess the adequacy of the eligibility, adjudication, payment, maintenance and quality assurance processes of GIS benefits.

1.3 Scope

The scope of this audit included controls related to the eligibility, adjudication, payment, maintenance and quality assurance of GIS benefits.

1.4 Methodology

To meet the stated audit objective, the following methodologies were used:

- Documentation review and analysis;
- On-site observations and walkthroughs of processes within the four regions;
- Interviews with departmental management and staff; and
- Review and testing of a sample of 761 GIS transactions including 563 new GIS applications, 100 denied GIS applications and 98 GIS renewals for which payment activity took place from April 1st, 2016 to March 31st, 2017 within the four SC regions.

The GIS audit excluded:

- GIS under Canada's International Social Security Agreements, which was examined recently in a separate internal audit; and
- Protection and safeguarding of personal information, which was the subject of an external audit recently completed within ESDC.

² SC is a federal institution that is a part of ESDC. SC provides Canadians with a single point of access to a wide range of government services and benefits that can be accessed online, by telephone, mail or in person.

³ http://esdc.prv/en/service-canada/cpp-oas/reference/statistics/documents/bulletins/2017/march_mars_monthly_pub_2017.pdf

2. Audit Findings

2.1 Eligibility criteria are applied in a consistent manner

We found that GIS eligibility criteria were applied consistently across the four regions. Specifically, there was a consistent understanding of the elements that determine an applicant's eligibility for GIS benefits.

GIS process requires that Program & Services Delivery Clerks (PSDC) and/or Service Canada Benefits Officers (SCBO) review the GIS application and documentation provided by the client to determine if pensioners are eligible for the benefit.

Within regions, Business Expertise units have been established to provide staff with expert resources regarding the assessment of eligibility criteria for GIS.

Pensioner's Income

PROTECTED. Pensioners are required to report all foreign income to ESDC and CRA, including foreign pension income. PROTECTED. PROTECTED may result in an overpayment or underpayment of GIS benefits.

Pensioner's Marital Status

The marital status of a pensioner is a determinant of the maximum annual income to receive the GIS benefit. At the time of their application, pensioners self-identify their marital status: married, common-law, separated, surviving spouse or surviving common-law partner, divorced or single. PSDC and SCBO will PROTECTED and will follow up where required.

Pensioner's Residency

To be entitled to GIS, a pensioner must be a resident of Canada. If a pensioner becomes a non-resident of Canada, the pensioner is entitled to receive the GIS for the month of departure and the following six months. As a result, the pensioner may be absent from Canada for a period of six continuous months and still be entitled to get GIS benefits. In the seventh month following the month of departure, the benefit would be suspended.

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2.2 Applications for GIS benefits are reviewed and adjudicated in a timely fashion

GIS Processing

The volume of GIS annual renewals represents a significant portion of GIS processing activities. On an annual basis, the SC network processes approximately close to 300,000 new GIS applications and reviews GIS benefits of over 2M beneficiaries for ongoing entitlement to benefits. As stated before, ESDC automatically renews approximately 1.9M GIS beneficiaries on an annual basis, which represents approximately 95% of GIS recipients. The individuals for whom their benefits cannot be automatically renewed are those who have either not filed their income taxes on time or provided a statement of income back to SC. These individuals have their benefits renewed on a priority basis once SC receives the individual's income information.

Timeliness of review and adjudication of new GIS applications

A service standard is a public commitment to a measurable level of performance that clients can expect under normal circumstances.⁴ During the audit, we found that ESDC has not formalized service standards for the processing of GIS applications.

While service standards have not been established, Speed of Service Indicators have been defined. The Speed of Service Indicators include targeted processing times for GIS review and adjudication of new GIS, GIS renewal, allowance, allowance for the survivor and options. The Speed of Service Indicator for new GIS applications is 90 days. Based on the review of files, it was found that:

- The average processing time⁵ for new GIS applications is 85 days which conforms with the Speed of Service Indicator.
- However, one third of new GIS applications took longer to process than the 90 days Speed of Service Indicator.

The auditors recognized that processing delays can be outside the control of the Department, e.g. delays are encountered because clients are required to submit additional documents. These delays are not measured or documented within the Work Item Inventory Distribution, as the system lacks the capacity to do so.

Recommendation

1. Benefits Delivery Services (BDS), in collaboration with regions, should implement service standards for the processing of new GIS applications.

Management Response

Management agrees with the recommendation. As part of ongoing efforts to manage the delivery of its pension programs, BDS, in collaboration with regions, is undertaking a comprehensive review of its Canada Pension Plan and OAS service standards. The review will include consideration of the development of service standards for the GIS, including new applications and the annual renewal of benefits. Actions are expected to be completed by March 2018.

Timeliness of the review of urgent GIS applications

Urgent applications are applications for pensioners with dire needs, where the pensioner requires payment of the GIS benefit to provide basic necessities in the immediate future.

Based on the review of files, it was found that the average number of days for processing of urgent new GIS applications was four days.

⁴ Treasury Board of Canada Guideline on Service Standards.

⁵ Audit team counted the number of days from when pensioner was eligible or the month after 65 birth day to when a decision was granted.

Timeliness of the review of GIS options

An option occurs when a pensioner has suffered a loss of income and elects to have the GIS benefit paid based upon their estimated income for the current calendar year rather than based upon their actual income from their base calendar year. During the file review process, files that contained options were further examined to assess whether options were processed in a timely manner.

Based on the review of files, 92 out of 563 files contained options. For these 92 files, the average time for review and adjudication was 130 days. For the files that exceeded 90 days, the average time for review and adjudication was 214 days. We were informed by all regions that there is an inventory related to processing of options. We were also informed that the regions could not provide the estimated size of their inventory. It is recognized that processing delays are often outside the control of the Department, e.g. delays are encountered because clients are required to submit additional documents. These delays are not measured or documented within the Work Item Inventory Distribution, which lacks the capacity to do so.

Recommendation

2. BDS, in collaboration with regions, should investigate potential ways to reduce the inventory of GIS applications that include options.

Management Response

Management agrees with the recommendation. As part of the Pensions Integrated National Workload Plan, BDS, in collaboration with the regions, already identified the need to reduce OAS workload inventories, including GIS applications. Incremental funding to reduce these inventory levels has been received for fiscal 2017-18 through 2019-20, with associated inventory level reduction commitments. BDS has put in place workload strategies to better serve clients through reducing these inventories, including the prioritization of applications and renewals of GIS and other income-tested benefits. BDS will continue to investigate ways to further reduce the inventory, including identifying ways to address any delays attributable to applications where the Department is still awaiting information from the client. Actions are expected to be completed by March 2018.

2.3 GIS benefits are adjudicated and processed in a consistent manner, including the annual renewal of GIS benefits

During the processing of applications, there are two error types that could occur; financial and non-financial errors. Financial errors have a financial impact on the beneficiary (e.g. overpayment or underpayment of benefits). Non-financial errors are administrative errors such as the GIS application is not fully completed (signed and dated by pensioners, etc.), communication letter sent to pensioners is not accurate (inaccurate GIS amount and starting date of the benefit, etc.). During the file review, we examined applications to determine whether financial and/or non-financial errors had occurred. It was found that:

- 16 out of 563 new GIS files contained financial errors⁶. This represents a 97% accuracy rate that is above the target of 95% established for Payment Accuracy Reviews (PAAR); and
- 68 out of 563 new GIS files contained non-financial errors. This represents a 88% process accuracy rate which is above the target of 80% established for Processing Accuracy Reviews (PRAR).

The auditors believe that the implementation of more rigorous quality assurance activities which is discussed in Section 2.8 of this report could better mitigate the risk of errors.

2.4 Relevant information and documentation are available to support the adjudication, approval and payment of GIS benefits

In order to receive the GIS benefit, pensioners have to fill out an application form, which is available either online or at SC offices. Upon receipt of the form, SC offices review eligibility using PROTECTED.

During the review of GIS applications, it was found that 25 out of 563 new GIS files did not contain sufficient information to support the applicant's eligibility for GIS benefits.⁷

Regions were also unable to provide the auditors with a total of 19 (14 new GIS, 3 GIS renewal and 2 denied GIS) out of 761 applications files requested, stating that the files could not be located. At the conclusion of our audit fieldwork in October 2017, the files still had not been located. In these 19 cases, the auditors were unable to confirm the pensioner's eligibility for GIS benefits.

The conduct of quality assurance activities, including quality reviews, discussed in Section 2.8 of this report could mitigate the risks of missing documentary evidence and application files.

⁶ All financial errors have been validated by SC processing centres, and subsequently corrected.

⁷ This finding does not mean that the beneficiary was ineligible for GIS benefits; it means that there was insufficient evidence on file for the auditors to confirm that the beneficiary was eligible for the GIS benefit.

2.5 Controls have been designed and are operating as intended to verify the integrity of information collected from the pensioners

During the adjudication and payment process, the most significant risks are related to marital status, income and residency as these factors determine the pensioner's eligibility for GIS benefits.

Marital Status and Income

Under the terms of a Memorandum of Understanding with CRA, marital status information as reported to the CRA is shared with ESDC for the administration of OAS benefits.

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Operational Reports

There is a variety of operational reports available to the regions. The most commonly actioned report is the GIS potential report, which is a weekly report that identifies for regions late filers of income taxes who have missed the reversion period⁸. The GIS potential report also identifies accounts eligible for renewal based on current and/or future income which require review (pre and post-reversion). Furthermore, it identifies accounts where the GIS has been suppressed. Regions are currently actioning reports on a weekly and monthly basis as well as at certain peak times of the year. The audit team has been informed that a committee is in place to review the operational reports available to the regions and to identify reports that have the most value. We strongly encourage management to continue on this path.

⁸ Before GIS benefits are paid in the new payment period, the computer system goes through a process known as reversion. This process causes the production of new payments based on new income information and also suspends payments for accounts with no income information.

2.6 There is a need to ensure valid delegation of authority is in place

Delegation of authority has been established and includes:

- PSDCs have the authority to adjudicate simple GIS new and renewal applications, options, and to determine and approve underpayments of up to \$5K;
- SCBOs have the authority to adjudicate simple and complex GIS new and renewal applications, options, and to determine and approve underpayments of up to \$15K;
- Service Manager and Team Leaders have the authority to adjudicate simple and complex GIS new and renewal applications, options, and to determine and approve underpayments of up to \$25K; and
- Directors have the authority to adjudicate simple and complex GIS new and renewal applications, options, and to determine and approve underpayments of over \$25K.

Business Expertise Advisors (BEAs) have the authority to adjudicate simple and complex GIS new and renewal applications, options, and to determine and approve underpayments of up to \$25K. We found that BEAs adjudicate files in two out of four regions. The role of BEAs in the adjudication process needs to be clarified and applied consistently across the SC network.

Application of Section 34 of the *Financial Administration Act*

The results of our review of 661 files presented the following issues:

- 71 files did not contain evidence that the employee was trained for Section 34 and for these employees delegation of authority was not recorded in the financial system;
- 33 files showed the employees were trained for Section 34, but there was no evidence of subsequent delegation in the financial system;
- 30 files showed the employees did not have delegation of authority at the time they approve the transaction. By the time the audit was concluded these employees had their delegation of authority in place; and
- Nine transactions included in our sample had various issues.

Recommendation

3. BDS, in collaboration with regions, should ensure that valid delegation of authority is in place for the approval of transactions.

Management Response

Management agrees with the recommendation. BDS, in collaborations with regions, has continued to work with the Chief Financial Officer's Branch to strengthen the process to ensure that the valid delegation of authority is in place for the approval of transactions. Given ongoing attrition and new hires, BDS recognizes the ongoing need to ensure that all employees approving transactions have the appropriate delegation of authority. Actions are expected to be completed by September 2018.

2.7 Information affecting a GIS recipient is processed in a timely manner

Recipient information that may affect the GIS benefit includes income, residency, marital status and death.

Eligibility for the GIS benefit must be renewed on an annual basis. During the renewal period, occurring prior to July of each year, PROTECTED.

The Department PROTECTED, including changes which may impact the beneficiary's eligibility for the GIS benefit. If a death occurs it is important to note that the Department is notified of beneficiary deaths by provincial offices of vital statistics and other sources like funeral homes.

Once it is determined that a pensioner is eligible for the GIS benefit, the Department will proceed with an automatic renewal. Automatic renewals could represent up to 95% of all renewals. Following the assessment, a letter is issued to the pensioner informing them if their benefit is being renewed, stopped, or if the Department needs additional income information.

We concluded that information affecting a GIS recipient is processed in a timely manner based on the results of our review of 98 GIS renewal files and of 100 denied GIS applications which showed processing times for these transactions were below the 90 days Speed of Service Indicator.

2.8 Existing quality assurance activities need to be strengthened for GIS benefits

Payment Accuracy Reviews and Processing Accuracy Reviews

National Headquarters (NHQ) manages and oversees PRAR and PAAR. PRAR determine the accuracy rate of conformity to national operational policies and procedures by providing statistical information on the cause of errors. PAAR provide management with feedback information on the control of expenditures by providing detailed information on the causes, sources and amounts of undetected mispayments at the time of adjudication.

While PAAR are performed at the NHQ level on all OAS benefits types, including GIS, PRAR are performed in the regions and provide management with statistical information related to the OAS basic pension benefit. There are currently no reviews within PRAR on GIS files.

Post-training Monitoring

The objective of a post-training monitoring is to assess whether newly trained benefit processors perform their work in a consistent manner and in accordance with standard policies and procedures. Post-training monitoring for GIS is managed by each regional processing centre.

Based on our discussions with regional staff and management and our understanding of the processes in place, the audit team noted the following issues:

- With respect to the initial post-training monitoring conducted while a SCBO and PSDC are being trained on a new task, there is a requirement for 100% of the work performed by the SCBO and PSDC to be reviewed by a BEA. This requirement exists until the SCBO and PSDC reach an overall accuracy rate of 80% in the performance of the new task. Our interviews indicated that the monetary accuracy rate across regions ranges from 80% to 95%; and
- Once the files from SCBO and PSDC are no longer subject to 100% review, the internal audit team was informed that there is no random review being performed on any of the SCBO's and PSDC's GIS files. The absence of an ongoing quality mechanism increases the risk of errors in file processing not being detected in a timely manner.

In the audit team's opinion, strengthening GIS quality assurance activities would mitigate, to a large extent, the findings outlined in this report.

Recommendation

4. BDS, in collaboration with regions, should strengthen the Quality Assurance process on the work performed by PSDC and SCBO.

Management Response

Management agrees with the recommendation. BDS, in collaborations with regions, will explore ways to strengthen Quality Assurance measures related to GIS, including incorporating GIS into the existing PRAR and Individual Quality Feedback activities. Actions are expected to be completed by March 2019.

3. Conclusion

The audit concluded that eligibility, adjudication, payment and maintenance processes are adequate for GIS benefits. While components of a quality assurance process are in place for the processing of OAS files, these processes do not include specific requirements related to GIS. Opportunities exist to strengthen the quality assurance process for GIS benefits.

4. 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 Audit of the Guaranteed Income Supplement. The evidence was gathered in accordance with the Treasury Board *Policy on Internal Audit* and the *International Standards for the Professional Practice of Internal Auditing*.

Appendix A: Audit Criteria Assessment

| Audit Criteria | | Rating |
|-----------------------------------|--|--|
| Eligibility | Eligibility criteria are applied in a consistent manner. | Sufficiently controlled, low risk exposure |
| Adjudication and Payment | Applications for GIS Benefits are reviewed and adjudicated in a timely fashion. | Controlled, but should be strengthened, medium risk exposure |
| | GIS benefits are adjudicated and processed in a consistent manner, including the annual renewal of GIS benefits. | Sufficiently controlled, low risk exposure |
| | Relevant information and documentation are available, either paper or electronic, to support the adjudication, approval and payment of GIS benefits. | Sufficiently controlled, low risk exposure |
| | Controls have been designed and are operating as intended to verify the integrity of information collected from the pensioners. | Sufficiently controlled, low risk exposure |
| | Appropriate segregation of duties and delegation of authority are in place. | Controlled, but should be strengthened, medium risk exposure |
| Maintenance and Quality Assurance | Information (e.g. death, income, marital status and residence) affecting a recipient of GIS is processed in a timely manner. | Sufficiently controlled, low risk exposure |
| | A quality assurance program is in place to monitor and detect incorrect or inconsistent decisions regarding eligibility, adjudication and payment. | Controlled, but should be strengthened, medium risk exposure |

Appendix B: Glossary

| | |
|------|--|
| BDS | Benefits Delivery Services |
| BEA | Business Expertise Advisor |
| CRA | Canada Revenue Agency |
| ESDC | Employment and Social Development Canada |
| GIS | Guaranteed Income Supplement |
| NHQ | National Headquarters |
| OAS | Old Age Security |
| PAAR | Payment Accuracy Reviews |
| PRAR | Processing Accuracy Reviews |
| PSDC | Program and Services Delivery Clerks |
| SC | Service Canada |
| SCBO | Service Canada Benefits Officers |