SUBJECT: Follow Up of Audit Report 2007-15 – Ontario Works (OW) – Non-Active Clients and Overpayments (CM09017) (City Wide)

RECOMMENDATION:

That Report CM09017 respecting the follow up of Audit Report 2007-15, Ontario Works (OW) – Non-Active Clients and Overpayments, be received.

Ann Pekaruk
Director, Audit Services
City Manager's Office

EXECUTIVE SUMMARY:

Audit Report 2007-15, Ontario Works (OW) – Non-Active Clients and Overpayments, was originally issued in June, 2008 and management action plans with implementation timelines were included in the Report. In July, 2009, Internal Audit conducted a follow up exercise to determine that appropriate and timely actions had been taken. Regarding the implementation of the eleven (11) recommendations made in the original Report and Addendum, three (3) have been completed, four (4) are in progress, three (3) have been initiated and an alternative has been implemented for the remaining one (1).

BACKGROUND:

Audit Report 2007-15, OW – Non-Active Clients and Overpayments, was originally issued in June, 2008. The report indicated eleven (11) recommendations for strengthening the administration, categorization and collection of overpayments to non-active OW clients.

It is normal practice for Internal Audit to conduct follow up reviews within a 12-18 month period following the issuance of the original report in order to determine whether action plans committed to by department management have been implemented. In July 2009, Internal Audit followed up the report to confirm appropriate and timely actions had been taken.
ANALYSIS/RATIONALE:

The report attached as Appendix “A” to Report CM09017 contains the first three columns as originally reported in Audit Report 2007-15 along with an added fourth column indicating Internal Audit’s follow up comments. One (1) item in the Addendum has also been followed up with the appropriate detail provided.

Three (3) of the eleven (11) recommendations have been fully implemented. These include: the development of a set of criteria for the temporary uncollectible categorization, supervisory review and authorization of the temporary uncollectible deferrals and the development and utilization of a write-off process.

Four (4) of the recommendations are in progress as follows: management is working with neighbouring municipalities in pursuing the Province to develop reliable, standard reports from the SDMT for the accounting and administration of overpayments; staff are currently targeting their collection efforts on inactive clients with overpayments exceeding $25,000; management had developed a draft policy regarding repayment terms; and management is monitoring the impact of the portability of overpayments.

Three (3) recommendations have been initiated but without any substantial progress at the time of the follow up work. However, most have indicated an expected date of completion in the near future. They are: a Request for Proposal for the creation of a stand alone overpayment recovery system expected by the fall of 2009; options to help recover overpayments being researched by Legal Services expected by late 2009; and the Refund Set-Off program as it related to OW overpayments has been placed on hold by the Ministry.

The remaining recommendation dealt with use of appropriate “end dates” for the temporary uncollectible classification. An acceptable alternative has been implemented.

ALTERNATIVES FOR CONSIDERATION:

Not applicable.

FINANCIAL/STAFFING/LEGAL IMPLICATIONS:

Financial
Twenty percent of all dollars recovered is retained by the municipality that collects the funds.

Staffing
None.

Legal
Decisions by the Eligibility Review Unit to refer cases to the Police require accumulation and assessment of documentation before a fraud charge is recommended.
POLICIES AFFECTING PROPOSAL:
Ontario Works Act, 1997
Several Ministry of Community and Social Services Policy Bulletins and Directives

RELEVANT CONSULTATION:
The results of the follow up were provided to management and staff responsible for the identification and collection of overpayments (Community Services Department - Eligibility Review Unit of the Benefit and Eligibility Branch).

CITY STRATEGIC COMMITMENT:
By evaluating the “Triple Bottom Line”, (community, environment, economic implications) we can make choices that create value across all three bottom lines, moving us closer to our vision for a sustainable community, and Provincial interests.

Community Well-Being is enhanced. ☐ Yes ☑ No
Council’s goal of “A Great City in Which to Live” and its commitment to providing quality community services and supporting people in need are upheld by the provision of services through the area audited and reported upon.

Environmental Well-Being is enhanced. ☐ Yes ☑ No

Economic Well-Being is enhanced. ☑ Yes ☐ No
City Council’s strategic commitment to "Best Practices - Best Value" under "A City That Spends Wisely and Invests Strategically" is addressed through audits and reviews and their subsequent follow up to ensure controls are in place to protect the assets of the City and promote efficient, effective and economic services and programs.

Does the option you are recommending create value across all three bottom lines?
☐ Yes ☑ No

Do the options you are recommending make Hamilton a City of choice for high performance public servants?
☐ Yes ☑ No

ap:dt
Attachment – Appendix “A”
### OBSERVATIONS OF EXISTING SYSTEM

1. **Total Overpayments Due from Inactive Cases**
   - Obtaining a reliable accounting of the total overpayments due from inactive cases was difficult. A monthly report produced automatically by the Service Delivery Model Technology (SDMT) system entitled The Ageing of Overpayment for Inactive Cases Report (Ageing Report) indicates that as of June 30, 2007, 12,097 OW clients owed $21.4 million. However, a separate report, the OW Overpayment File Review – Inactive Clients, provided by the Ministry using the same SDMT data shows that, as of June 30, 2007, the inactive OW clients totaled 12,580 and owed $25.1 million in overpayments. Due to such unexplained discrepancies and the limitations of the SDMT system, an internally developed program – the Computer Assisted Payment Recovery System (CAPRS) – is used to track recoveries only when the client has agreed to specific payment arrangements. Certain client information already in the SDMT has to be duplicated through manual entry into CAPRS. However, this system cannot be used to proactively pursue recovery from inactive clients as it does not have the functionality for this particular aspect of collection. Without adequate and reliable information systems, the accuracy, efficiency and effectiveness of inactive overpayment recovery activities are negatively impacted.

### RECOMMENDATION FOR STRENGTHENING SYSTEM

- That management work together with other municipalities to actively pursue the Province in developing reliable, standard reports for the accounting and administration of overpayments. Such reports should be readily available to be run off the system in a format that facilitates analysis and data extraction.

### MANAGEMENT ACTION PLAN

- Agreed. Management will approach other municipalities with the goal to work together to pursue the Province in developing reliable, standard reports for the accounting and administration of overpayments. Expected implementation date of April 30, 2008.

### FOLLOW UP

- In Progress. Management has established in-house which meet monthly to address the recommendations made by both the City’s Internal Auditor and the Office of the Auditor General of Ontario. The database feasibility group has developed data extract reports. As of June 2009, these reports are being validated and reviewed by City staff.

- Management is working with neighbouring municipalities to pursue the Province in developing reliable, standard reports for the accounting and administration of overpayments. A request was sent to the Ministry for new overpayment reports. The Ministry has not yet responded.
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<td>2.</td>
<td>Notification of Inactive Clients with Overpayments. Currently, inactive clients with overpayments are notified via reminder letters issued by the SDMT system at the time that their overpayments are 30, 60 and 90 days past due. However, SDMT does not issue further reminders once the overpayment is more than 90 days old. Although SDMT produces various reports, the information is not provided in a manner that permits staff in the Eligibility Review Unit (ERU) to take action efficiently with respect to delinquent inactive clients. The exception to this is clients that have been convicted of defrauding OW are obligated by the courts to issue repayments. These are regulated by court appointed officials such as probation officers.</td>
<td>That management in the Eligibility Review Section (ERU) investigate and evaluate alternative information systems that will support staff in the recovery of overpayments from inactive clients.</td>
<td>Agreed. Management is currently investigating alternative technology and software programs to assist with the recovery efforts for overpayments from inactive clients. Preliminary review to be completed with recommendations by June 1, 2008.</td>
<td>Initiated. Several Consolidated Municipal Service Managers (CMSMs) decided to issue a Request for Proposal (RFP) for the creation of a stand alone overpayment recovery system that could be used by all CMSMs. It is anticipated that resulting reports could be used to also address the requirements of #1 above. The RFP is expected to be ready by the fall of 2009.</td>
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<td>3.</td>
<td>Prioritization of Overpayments for Collection. A Ministry of Community and Social Services (Ministry) directive states that overpayments should be prioritized so that those cases with the highest overpayment amounts and those closed within the past two years (where the amount outstanding exceeds $3,000) are pursued first. There is no indication that this is currently being done. Rather, as indicated in point 2, the ERU is dependent on inactive clients voluntarily remitting payments once they are notified by the SDMT issued letters after the overpayment is 30, 60 and 90 days past due. In ranking the clients listed in the OW Overpayment File Review – Inactive Clients Report referred to in point 1 by the dollar value of overpayment, it was noted that 27 individual clients had overpayments totaling $2.3 million, four (4) of which were less than two (2) years old.</td>
<td>That management establish criteria to identify high priority cases where overpayments exist for non-active clients. Priority should be established on accounts in excess of a threshold amount and collection efforts should concentrate on those deemed priority cases.</td>
<td>Agreed. Management will establish criteria and technological supports to assist staff in identifying overpayments in a prioritized manner in order that cases with the highest overpayment amounts and those closed within the past two years (where the overpayment amount outstanding exceeds a recommended threshold amount) are pursued first. Development and implementation of a policy and procedure on prioritized cases is expected by April 30, 2008.</td>
<td>In Progress. The ERU section has obtained ad hoc quarterly reports from the Ministry. Staff have reviewed the reports and are currently targeting their collection efforts on inactive clients with overpayments exceeding $25,000. Draft policies and procedures governing various overpayment collections have been developed and are expected to be finalized by late 2009. Staff continue to actively track and review inactive clients with overpayment balances greater than $25,000 and report to management on an ad hoc basis.</td>
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### Community Services

**OW Non-Active Clients and Overpayments – Follow Up**

**July 2009**

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<td>4.</td>
<td><strong>Debt Collection Process</strong></td>
<td>That management evaluate the use of private collection agencies to recover outstanding overpayments.</td>
<td>Agreed. Management will evaluate the use and effectiveness of private collection agencies. Discussions with private collection agencies will commence May 1, 2008.</td>
<td>Initiated. Management has met with a collection agency. It has also had meetings with Legal Services to discuss the use of such agencies. Legal Services has indicated it will research other options to help recover overpayments (i.e. writs) by late 2009.</td>
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<td></td>
<td>A Ministry directive permits the use of private collection agencies to recover overpayments from inactive clients that are in default. The City has not utilized this option, preferring to wait for the Ministry to permit the use of the Canada Revenue Agency’s (CRA) Refund Set-Off program*. However, the Ministry has delayed introducing this program for OW clients and has not given any indication as to when it will be introduced. Therefore, the debt collection process has been slow. As an example, three (3) of the larger overpayments outstanding for inactive clients amounts to approximately $490,000 and only $4,500 has been recovered to date even though they have been outstanding for more than four (4) years.</td>
<td>That management establish specific criteria for determining overpayment accounts to be referred to collection agencies along with adequate procedures for monitoring such cases.</td>
<td>Management met with Ministry staff on February 28, 2008 and requested an update with respect to the roll out (Phase II) of the Canada Revenue Agency, Refund Set-Off Program. A response is expected by March 31, 2008.</td>
<td>Initiated. Management has identified overpayments that could be recovered through this program and has contacted the Ministry. However, the Refund Set-Off program as it relates to OW overpayments continues to be on hold at this time. The Ministry has not indicated when it will be implemented.</td>
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[*This program is designed to “set-off” the overpayment due to the City with the tax refund/tax credits that the client may be entitled to when he/she files their income taxes.]*

| 5. | Management has indicated that the amount recovered each month is determined by what the client can afford to pay at the time of the negotiation for repayment. This sometimes leads to circumstances where the monthly repayment is minimal (i.e. $25 - $50) and the total overpayment is $10,000 or more. Therefore, in such circumstances, it would take upwards of 30 years to fully recover the overpayment. Yet, over such a long time period, rather than proactively seeking to increase the amount recovered, staff rely on the client coming forward to voluntarily increase the monthly amount remitted. | That, once the prioritization criteria are established as per recommendation #3, staff review client files on a regular basis in an effort to promote more timely recovery. | Agreed. Management will establish prioritization criteria promoting more frequent re-negotiation of payment schedules and amounts. Expected implementation is May 31, 2008. | In Progress. Management has developed a draft policy whereby the client must repay at a rate of 5% of their gross monthly income (minimum of $50/month) unless financial impairment can be demonstrated. The repayment terms are reviewed annually. Staff are making an effort to implement this policy. However, overpayment recoveries from clients with large outstanding overpayments (more than $25,000) continue at very low levels (i.e. $50/month). |

Initiated. Management has met with a collection agency. It has also had meetings with Legal Services to discuss the use of such agencies. Legal Services has indicated it will research other options to help recover overpayments (i.e. writs) by late 2009. Initiated. Management has identified overpayments that could be recovered through this program and has contacted the Ministry. However, the Refund Set-Off program as it relates to OW overpayments continues to be on hold at this time. The Ministry has not indicated when it will be implemented. |
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<td>6.</td>
<td>Revisions to the Ontario Works Act authorized portability of overpayments across programs and enabled the recovery of overpayments across jurisdictions. This means that for active Ontario Works cases, the City could recover an overpayment created by another program or another municipality. However, what it also means is that clients with overpayments incurred in other municipalities transfer their overpayments to Hamilton upon moving to the City and claiming benefits. When these clients become inactive, the overpayment is attributed to the City even though it did not issue the overpayment. The cumulative effect of portable overpayments on the City could not be determined but it is evident that portability has increased the responsibilities and associated workload of administering such cases. The operational impact of portability has not been measured.</td>
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### RECOMMENDATION FOR STRENGTHENING SYSTEM

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<td>6.</td>
<td>That management review and attempt to measure the impact of full portability of overpayments on the section’s resources and administration of social assistance. Such impact should be reported to Committee and appropriate Provincial authorities, with particular attention to additional funding requirements.</td>
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### MANAGEMENT ACTION PLAN

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<td>6.</td>
<td>Agreed. Management will request Strategic Services to conduct a Business Process Review on the impact of full portability of overpayments. Management will also evaluate the operational impact and make recommendations. Planned implementation is May 31, 2008.</td>
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### FOLLOW UP (July 2009)

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<td>6.</td>
<td>In Progress. Management is monitoring the impact of the portability of overpayments. Further monitoring will be conducted before reporting to Committee, likely to occur by early 2010.</td>
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7. **Temporary Uncollectible Classification**

Currently, there are provisions to defer the recovery of overpayments by classifying amounts as “Temporary Uncollectible” with an “end date”. Such amounts are not included in the Overpayment dollars due as produced by the system and as such, there is a risk that no recovery activity will occur on these cases.

Eligibility Review Officers (ERO) and Overpayment Recovery Officers (ORO) make such determinations and the appropriate changes to the records without evidence of any supervisory review. Although a report is available (run quarterly) to indicate the work completed by the ERO’s and ORO’s, the detail listed is not adequate for the manager to judge the appropriateness of the classification. During our review of a selected sample of temporarily uncollectible amounts, we found cases where the detail on the SDMT system did not adequately support this classification.

In addition, staff insert an “end date” for the classification. In the sample tested, dates of 2999 or 2777 would tend to indicate permanent uncollectibility situations and thus, considered for write off once the criteria have been established as recommended in #1 of the Addendum.

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<td>7.</td>
<td>Temporary Uncollectible Classification</td>
<td>That criteria be developed to address situations where the “temporary uncollectible” categorization should only be considered.</td>
<td>Agreed. Management will develop specific criteria and policies relating to the “temporary uncollectible” categorization. Management will review the set end dates as established by the Ministry and the impact of completing a clean up of the existing cases and end dates.</td>
<td>Completed. Management has developed a set of criteria to be met for the “temporary uncollectible” categorization.</td>
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<td>That temporary uncollectible deferrals receive supervisory review and authorization.</td>
<td>Agreed. The criteria and policies noted above will include supervisory review and authorization for temporary uncollectible deferrals.</td>
<td>Completed. The policy governing the change in the collection status of an overpayment now requires the Case Manager to complete a Case Review sheet and have it approved by the Program Manager.</td>
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<td>That, once criteria for write offs have been established, staff consider the use of this capability rather than using the temporary uncollectible provision with end dates that are unreasonably into the future.</td>
<td>Agreed. The end dates will be set at one year intervals and reviewed once end dates are reached.</td>
<td>Alternative Implemented. Specific situations leading to the temporary uncollectible classification have been identified with set end dates (some are set by Provincial policy). Most of these end dates appear reasonable for the circumstances or act as identifiers for particular situations.</td>
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ADDENDUM

The following item was noted during the course of the audit. Although it does not present an internal control deficiency, it is indicated in this Addendum so management is aware of the issue and can address it as necessary.

1. **Write-off Process**
   The accounts for the cumulative outstanding overpayments are noted on the Province’s SDMT system but are not recognized in the City’s financial records as accounts receivable. Thus, providing for write off of deemed uncollectible amounts would not have a financial impact on the City’s accounting records. However, using write-off criteria prepared by the Ministry in June, 2006 to develop a process for recognizing uncollectibility of certain overpayments would result in a more realistic picture of potential recoveries of overpayment amounts.

   Ranking the clients listed in the OW Overpayment File Review – Inactive Clients Report provided by the Ministry in June, 2007 by their termination date, it was noted that about 20% of the overpayments indicated in that report (about $5.4 million) are more than seven (7) years old and are likely uncollectible.

   **It is recommended:**
   *That management implement a write off process for identifying and recognizing uncollectible amounts using the guidelines developed by the Ministry.*

   **Management Response:**
   *Agreed. Management will implement a write off process for identifying and recognizing uncollectible amounts using the guidelines developed by the Ministry by April 1, 2008. The impacts will be provided to Council in an information report.*

   **Follow Up Comment (July 2009):**
   *Completed. Management is following the approved City write off policy. Uncollectible amounts are now written off when it is either not cost effective to pursue the overpayments or where there is little chance for material recovery. This process was approved by the Emergency & Community Services Committee on 03-Dec-08.*