



TORONTO STAFF REPORT

June 2, 2005

To: Audit Committee

From: Auditor General

Subject: Recovery of Social Assistance Overpayments, Toronto Social Services

Purpose:

The purpose of this report is to present the findings and recommendations in the attached audit report entitled "Recovery of Social Assistance Overpayments, Toronto Social Services," to the Audit Committee. Our audit of social assistance overpayments and recoveries contains a number of recommendations to improve the administration of the Ontario Works program.

Financial Implications and Impact Statement:

The financial implications resulting from the adoption of this report cannot be quantified at this time. However, the implementation of the recommendations will improve management controls in the City's administration of social assistance funds and result in more effective and efficient recovery of social assistance overpayments from inactive cases.

Recommendations:

It is recommended that:

- (1) the following recommendations in the attached Auditor General's report entitled "Recovery of Social Assistance Overpayments, Toronto Social Services" be adopted:
 - "1. The General Manager, Toronto Social Services, review and develop appropriate performance measures and targets in relation to program costs and recoveries. Such performance measures be used to evaluate the financial results and performance of the Inactive Overpayment Unit and determine an appropriate allocation of resources to the Unit.

2. The General Manager, Toronto Social Services, establish appropriate controls over the custody retention, and location of all inactive case files where overpayments have been identified. All such files be appropriately tracked and accounted for.
3. The General Manager, Toronto Social Services, establish appropriate performance measures in relation to collection follow-up procedures for all overpayments relating to Ontario Works clients. Such performance measures be subject to supervisory review and appropriate management action. The ongoing monitoring of collection activities be reviewed and evidence of such review be contained in all files.
4. The General Manager, Toronto Social Services, establish criteria to identify high priority cases where overpayments exist. Priority be established on accounts in excess of a predetermined threshold. Collection efforts be focussed on those high priority cases.
5. The General Manager, Toronto Social Services, evaluate the use of collection agencies in recovering outstanding overpayments on certain predetermined inactive cases. Specific criteria for determining overpayment accounts to be referred to collection agencies be established along with adequate policies and procedures for monitoring such cases.
6. The General Manager, Toronto Social Services, take steps to ensure case management staff and related supervisors review all files relating to overpayments in order to ensure that compliance with policies and procedures and to ensure the accuracy and timeliness of recovery efforts.
7. The General Manager, Toronto Social Services, evaluate the reporting capabilities of the current management information systems in order to ensure that the needs of the Inactive Overpayments Unit are addressed. The functionality of such a system should include:
 - automated receipt issuance when a recovery is processed;
 - automated consolidation of daily funds received and processed;
 - outstanding overpayment account balance information;
 - standardized collection letters;
 - automated bring forwards;
 - tracking of post-dated repayment cheques;
 - automated priority ranking of accounts; and
 - performance reports indicating key financial ratios such as overpayment recoveries compared to outstanding overpayments.

8. The General Manager, Toronto Social Services, request the Province to review the feasibility of centrally coordinating the development of information management systems pertaining to the accounting and administration of the recovery of all social assistance overpayments.
9. The General Manager, Toronto Social Services, take steps to ensure that funds are forwarded to the Revenue Accounting Unit at the end of each business day for immediate deposit.
10. The General Manager, Toronto Social Services, take appropriate steps to ensure:
 - overpayment recovery deferrals receive supervisory review and authorization;
 - policies and procedures are developed with criteria to guide staff in deferring recovery; and
 - management reports are developed and reviewed to ensure cases where recovery is deferred are correctly classified.
11. The General Manager, Toronto Social Services, ensure that the accounting for the recovery of overpayments and reimbursements relating to other programs is accurate. Reconciliation between the City's SAP financial system and the Province's Management Information System be conducted on a monthly basis and where appropriate, corrections be made on a timely basis. All such reconciliation be subject to supervisory review.
12. The General Manager, Toronto Social Services, establish reporting requirements for social assistance overpayments and recoveries. At a minimum, reports should include the following information for active and inactive cases administered by Toronto:
 - annual overpayments issued;
 - annual automated and repayment recoveries collected;
 - a summary of the cumulative year-end balance of overpayments, recoveries and outstanding overpayments to be recovered; and
 - performance indicators measuring overpayments created and the effectiveness and efficiency of recovery activities.

These reports should be submitted annually to Senior Management and the Community Services Committee.

13. The General Manager, Toronto Social Services, review and measure the impact created by the implementation of full portability of overpayments on the administration of social assistance and report the current and projected operational impact to the Community Services Committee and the Ministry of Community and Social Services.
 14. The General Manager, Toronto Social Services, expand its current performance management process to include performance measures related to overpayments for both active and inactive overpayments and recoveries.”
- (2) the Deputy City Manager be requested to respond to the Audit Committee by July 2006 regarding the actions taken to address the recommendations made by the Auditor General in the report entitled “Recovery of Social Assistance Overpayments – Toronto Social Services;” and
 - (3) this report be forwarded to the Community Services Committee for information.

Background:

Toronto Social Services is responsible for the administration of public funds in the delivery of the provincially mandated Ontario Works Program for the City of Toronto. The Ontario Works Program provides temporary financial assistance to eligible individuals.

The Ministry of Community and Social Services oversees the administration of the program in accordance with the Ontario Works Act (1997). The Province provides subsidy for 80 per cent of program expenditures and 50 per cent of administrative costs.

Inherent in the administration of public funds for social assistance is the potential for the issuance of overpayments. Under the Ontario Works Act (1997) overpayments may be recovered at the discretion of the Administrator of the program, even after a person is no longer receiving social assistance. The City refunds 80 per cent of overpayment recoveries to the Province.

Due to the size and complexity of the administration and recovery of social assistance overpayments, this audit is the first part of two separate audits. Overpayments are generally recovered from individuals receiving social assistance (active cases) and from individuals currently not receiving assistance (inactive cases). The recovery of overpayments relating to active cases is relatively straight forward to administer as the recovery is generally deducted from ongoing social assistance payments. Overpayments and the recovery from inactive cases are much more difficult and complex to manage and are the focus of this review. It is anticipated that Phase Two of our audit will be deferred until the recommendations contained in this report have been addressed.

The City of Toronto Auditor General's Work Plan included a review of the Quality Control and Assurance Unit, Toronto Social Services. One of the functions of the Quality Control and Assurance Unit is the administration and recovery of overpayments made to individuals no longer receiving social assistance. The scope of this review was primarily limited to the administration and recovery of "inactive" overpayments (those overpayments due from individuals not currently receiving social assistance).

Comments:

The key objectives in conducting this audit were to determine whether the Quality Control and Assurance Unit, Toronto Social Services, is in compliance with provincial legislation and City policies and procedures in recovering inactive overpayments. In addition, our review included an assessment as to whether or not improvements could be made to the City's financial management and administrative procedures for overpayments and any recoveries.

This audit was conducted in accordance with generally accepted government auditing standards.

Conclusions:

The attached report entitled, "Recovery of Social Assistance Overpayments, Toronto Social Services," discusses the findings from our audit in detail and outlines 14 recommendations that will improve the internal controls in the City's administration of social assistance funds and strengthen program efficiency and effectiveness in recovering overpayments from inactive cases. The response to the audit recommendations by the General Manager, Toronto Social Services, is submitted under a separate cover.

Contact:

Alan Ash, Director
Tel: 416-392-8476, Fax: 416-392-3754
E-mail: aash@toronto.ca

Bruna Corbesi, Senior Audit Manager
Tel: 416-392-8553, Fax: 416-392-3754
E-mail: bcorbsei@toronto.ca

Jeffrey Griffiths
Auditor General

Attachment:

Appendix 1- Recovery of Social Assistance Overpayments, Toronto Social Services

**Recovery of Social Assistance Overpayments
Toronto Social Services**

June 2005

Recovery of Social Assistance Overpayments

Toronto Social Services

Jeffrey Griffiths, C.A., C.F.E.
Auditor General
City of Toronto

June 2005

9th Floor, Metro Hall, Toronto ON Canada M5V 3C6

TABLE OF CONTENTS

| | |
|--|----|
| EXECUTIVE SUMMARY | 1 |
| RECOMMENDATIONS | 4 |
| BACKGROUND | 8 |
| AUDIT OBJECTIVES, SCOPE AND METHODOLOGY | 10 |
| AUDIT RESULTS..... | 12 |
| A. QUALITY CONTROL AND ASSURANCE UNIT | 12 |
| A.1. Costs to Recover Inactive Overpayments | 12 |
| B. RECOVERIES OF OVERPAYMENTS | 14 |
| B.1. Control and Accounting for All Inactive Files | 14 |
| B.2. Increasing the Recovery of Overpayments | 15 |
| B.3. Effective Case Management Requires Supervisory Review | 18 |
| B.4. Inadequate Information Systems..... | 18 |
| C. FINANCIAL ADMINISTRATION OF OVERPAYMENTS AND RECOVERIES | 21 |
| C.1. Improving Timeliness of Bank Deposits | 21 |
| C.2. No Authorization Required to Defer Recovery of Overpayments..... | 22 |
| C.3. Account Reconciliations | 23 |
| C.4. Monitoring Overpayments and Recoveries | 23 |
| C.5. Impact of Portability on Overpayments and Recoveries | 26 |
| C.6. Operational Impact of Portable Overpayments..... | 27 |
| C.7. Building on Toronto Social Services' Performance Measurement System..... | 29 |
| CONCLUSION..... | 30 |

EXECUTIVE SUMMARY

Toronto Social Services is responsible for the administration of public funds in the delivery of the provincially mandated Ontario Works Program for the City of Toronto. The Ontario Works Program provides temporary financial assistance to eligible individuals. The Ministry of Community and Social Services oversees the administration of the program in accordance with the Ontario Works Act (1997). The Province provides subsidy for 80 per cent of program expenditures and 50 per cent of administrative costs.

Inherent in the administration of public funds for social assistance is the potential for the issuance of overpayments. Under the Ontario Works Act (1997) overpayments may be recovered at the discretion of the Administrator of the program, even after a person is no longer receiving social assistance. The City refunds 80 per cent of overpayment recoveries to the Province.

The City of Toronto Auditor General's Work Plan included a review of the Quality Control and Assurance Unit, Toronto Social Services. One of the functions of the Quality Control and Assurance Unit is the administration and recovery of overpayments made to individuals no longer receiving social assistance. The scope of this review was primarily limited to the administration and recovery of "inactive" overpayments (those overpayments due from individuals not currently receiving social assistance).

Due to the size and complexity of the administration and recovery of social assistance overpayments, this audit is the Phase One of two separate audits. Overpayments are generally recovered from individuals receiving social assistance (active cases) and from individuals currently not receiving assistance (inactive cases). The recovery of overpayments relating to active cases is relatively straight forward to administer as the recovery is generally deducted from ongoing social assistance payments. Overpayments and the recovery from inactive cases are much more difficult and complex to manage and are the focus of this review. It is anticipated that Phase Two of our audit will be deferred until the recommendations contained in this report have been addressed.

The key objectives in conducting this audit were to determine whether the Quality Control and Assurance Unit is in compliance with provincial legislation and City policies and procedures in recovering inactive overpayments. In addition, our review included an assessment as to whether or not improvements could be made to the City's financial management and administrative procedures for overpayments and any recoveries.

In summary, our audit identified the following findings regarding the recovery of social assistance overpayments from individuals not currently receiving assistance:

- in general, Toronto Social Services is in compliance with provincial legislation and City policies and procedures;
- the resources allocated to the Quality Control and Assurance Unit to administer and recover inactive overpayments requires evaluation;
- there is a need to develop organizational performance targets and measures for the recovery of inactive overpayments;
- criteria needs to be developed in terms of prioritizing efforts in regards to the collection of inactive overpayments;
- there is a need to evaluate whether or not collection agencies be retained for specific predetermined overpayments;
- there is a need for improved information technology support;
- internal controls need to be strengthened in areas such as;
 - retention and management of files;
 - daily processing of funds recovered;
 - improvements in management reporting; and
 - supervisory review and approvals;

- Toronto Social Services is responsible for the recovery of overpayments of those individuals who have moved to Toronto from other jurisdictions, irrespective of where the overpayment was made. This requirement has an impact on resources particularly in view of the net increase of individuals with overpayments on file moving to Toronto. This issue requires evaluation and discussion with the Province, particularly in the context of additional funding requirements; and

- Toronto Social Services needs to develop divisional performance indicators for overpayments and recoveries to measure and report administrative effectiveness and accountable program management.

Further information on each of the above issues is contained in the body of the report. The implementation of the recommendations contained in this report will improve internal controls in the City's administration of social assistance funds and assist in strengthening program efficiency and effectiveness.

RECOMMENDATIONS

The following is a list of recommendations contained in the body of the report. A more detailed explanation of the recommendations is provided on the page number shown to the right of each recommendation.

- 1. The General Manager, Toronto Social Services, review and develop appropriate performance measures and targets in relation to program costs and recoveries. Such performance measures be used to evaluate the financial results and performance of the Inactive Overpayment Unit and determine an appropriate allocation of resources to the Unit.**

Page 13

- 2. The General Manager, Toronto Social Services, establish appropriate controls over the custody, retention and location of all inactive case files where overpayments have been identified. All such files be appropriately tracked and accounted for.**

Page 15

- 3. The General Manager, Toronto Social Services, establish appropriate performance measures in relation to collection follow-up procedures for all overpayments relating to Ontario Works clients. Such performance measures be subject to supervisory review and appropriate management action. The ongoing monitoring of collection activities be reviewed and evidence of such review be contained in all files.**

Page 16

- 4. The General Manager, Toronto Social Services, establish criteria to identify high priority cases where overpayments exist. Priority be established on accounts in excess of a predetermined threshold. Collection efforts be focussed on those high priority cases.**

Page 17

5. **The General Manager, Toronto Social Services, evaluate the use of collection agencies in recovering outstanding overpayments on certain predetermined inactive cases. Specific criteria for determining overpayment accounts to be referred to collection agencies be established along with adequate policies and procedures for monitoring such cases.**

Page 17

6. **The General Manager, Toronto Social Services, take steps to ensure case management staff and related supervisors review all files relating to overpayments in order to ensure that compliance with policies and procedures and to ensure the accuracy and timeliness of recovery efforts.**

Page 18

7. **The General Manager, Toronto Social Services, evaluate the reporting capabilities of the current management information systems in order to ensure that the needs of the Inactive Overpayments Unit are addressed. The functionality of such a system should include:**

- **automated receipt issuance when a recovery is processed;**
- **automated consolidation of daily funds received and processed;**
- **outstanding overpayment account balance information;**
- **standardized collection letters;**
- **automated bring forwards;**
- **tracking of post-dated repayment cheques;**
- **automated priority ranking of accounts; and**
- **performance reports indicating key financial ratios such as overpayment recoveries compared to outstanding overpayments.**

Page 19

- 8. The General Manager, Toronto Social Services, request the Province to review the feasibility of centrally coordinating the development of information management systems pertaining to the accounting and administration of the recovery of all social assistance overpayments.**

Page 20

- 9. The General Manager, Toronto Social Services, take steps to ensure that funds are forwarded to the Revenue Accounting Unit at the end of each business day for immediate deposit.**

Page 21

- 10. The General Manager, Toronto Social Services, take appropriate steps to ensure:**

- overpayment recovery deferrals receive supervisory review and authorization;**
- policies and procedures are developed with criteria to guide staff in deferring recovery; and**
- management reports are developed and reviewed to ensure cases where recovery is deferred are correctly classified.**

Page 22

- 11. The General Manager, Toronto Social Services, ensure that the accounting for the recovery of overpayments and reimbursements relating to other programs is accurate. Reconciliation between the City's SAP financial system and the Province's Management Information System be conducted on a monthly basis and where appropriate, corrections be made on a timely basis. All such reconciliation be subject to supervisory review.**

Page 23

12. The General Manager, Toronto Social Services, establish reporting requirements for social assistance overpayments and recoveries. At a minimum, reports should include the following information for active and inactive cases administered by Toronto:

- annual overpayments issued;**
- annual automated and repayment recoveries collected;**
- a summary of the cumulative year-end balance of overpayments, recoveries and outstanding overpayments to be recovered; and**
- performance indicators measuring overpayments created and the effectiveness and efficiency of recovery activities.**

These reports should be submitted annually to Senior Management and the Community Services Committee.

Page 25

13. The General Manager, Toronto Social Services, review and measure the impact created by the implementation of full portability of overpayments on the administration of social assistance and report the current and projected operational impact to the Community Services Committee and the Ministry of Community and Social Services.

Page 29

14. The General Manager, Toronto Social Services, expand its current performance management process to include performance measures related to overpayments for both active and inactive overpayments and recoveries.

Page 29

BACKGROUND

Toronto Social Services is responsible for the administration of public funds in the delivery of the Ontario Works Program for the City of Toronto. The General Manager of Social Services is the Administrator for this provincially mandated social assistance program. A primary mission of this program is to provide temporary financial assistance to individuals satisfying certain eligibility requirements.

The number of individuals receiving financial assistance from Toronto Social Services in 2004 and 2003, along with benefits issued by the Toronto Social Services under the Ontario Works Program are summarized as follows:

| | 2004 | 2003 |
|--|----------------|----------------|
| Number of Individuals Receiving Financial Assistance | 120,000 | 121,000 |
| Financial Assistance Provided | \$ 465,160,000 | \$ 466,039,000 |

The provincial Ministry of Community and Social Services provides a subsidy for 80 per cent of social assistance expenditures claimed by the City of Toronto. The Province also funds 50 per cent of reasonable administrative costs related to the delivery of the Ontario Works Program. In addition, the Ministry of Community and Social Services oversees the administration of the Ontario Works Program and performs regular program compliance reviews.

The Auditor General's work plan included a review of the Quality Control and Assurance Unit, Toronto Social Services. One of the functions of the Unit is the administration and recovery of overpayments made to individuals no longer receiving social assistance. Any overpayments recovered are refunded to the Province on the same basis as the original funding arrangement (80 per cent).

An inherent risk in the administration of public funds for social assistance is the issuance of overpayments. An overpayment occurs when a person receives a payment greater than the benefit the person was entitled to receive. The overpayment of social assistance funds can be recovered from individuals receiving assistance through automated deductions from future social assistance payments. The recovery of overpayments from individuals no longer receiving social assistance is generally more difficult, time consuming and requires more effort.

The recovery of overpayments is at the discretion of the Administrator of the Ontario Works Program. The recovery of overpayments takes into consideration whether the recovery would cause extreme financial hardship and in certain cases, the collection of overpayments may be deferred and the account identified as temporarily uncollectible.

Revisions to the Ontario Works Act (1997) included provisions to allow for the portability of overpayments across government programs and jurisdictions. This allows Administrators of Ontario Works to recover overpayments incurred under other programs such as the General Welfare Assistance Act, the Family Benefits Act, and the Ontario Disability Support Program Act. In addition, the implementation of the Ontario-wide provincial management information system, known as the Service Delivery Model Technology System, has facilitated the recovery of any overpayment irrespective of the jurisdiction where it was issued.

The Provincial Auditor (now the Provincial Auditor General) conducted an audit of the Ontario Works Program as part of the office's 2002 Annual Audit Plan. The Provincial Auditor found that municipalities' efforts in collecting overpayments from inactive accounts were not adequate. The Provincial Auditor also found that, on average, only two per cent of outstanding overpayments were recovered in 2001. In November 2004, the Provincial Auditor conducted a follow-up on the audit findings of his 2002 audit of the Ontario Works Program. The response by the Ministry of Community and Social Services indicated that "it was examining how overpayments are recovered with a view to increasing efficiencies in debt recovery."

AUDIT OBJECTIVES, SCOPE AND METHODOLOGY

The objective of this audit was to assess whether Toronto Social Services complies with relevant provincial legislation and City policies in relation to its administration of social assistance overpayments on inactive cases. The assessment includes a review of procedures designed to ensure the effective and efficient recovery of overpayments from inactive cases.

In addition, the review also included an assessment of administrative controls in relation to the recording, accounting, monitoring and recovery of overpayments. The Financial Administration Unit in the Social Development and Administration Division provides accounting services for Toronto Social Services, including provincial subsidy claim filing.

Our review did not include an assessment of the cheque issuing process to Ontario Works clients and consequently did not include an evaluation of the reason and extent for overpayments made.

Our audit covered activities carried out during 2003 and 2004 and was conducted in accordance with generally accepted government auditing standards.

Our audit methodology included the following:

- review of relevant regulations, directives, policies and procedures, and current divisional practices;
- interviews with appropriate staff in the Toronto Social Services Division, Financial Administration Unit, Legal Services Division, Accounting Services Division and the provincial Ministry of Community and Social Services;
- review of inactive case files;

- review of controls relating to the recovery of funds, the processes relating to bank deposits and generally accepted accounting procedures relating to the recording of recoveries;
- analysis of overpayment and recovery data maintained by the Toronto Social Services;
- review of recording, reporting and monitoring requirements established by the Toronto Social Services for the financial administration of overpayments and recoveries including settlement with the Province;
- review of audit reports issued by the Provincial Auditor (now the Provincial Auditor General) in relation to the Ontario Works Program; and
- various communications with other municipalities delivering the Ontario Works Program including Halton Region, Hamilton, London, Ottawa, Peel Region and York Region.

This report summarizes the results of our audit work and provides a number of recommendations which, in our view, will improve the effectiveness and efficiency of the administration of social assistance overpayments and recoveries.

AUDIT RESULTS

A. QUALITY CONTROL AND ASSURANCE UNIT

The Quality Control and Assurance Unit provides professional support services, the purpose of which is to preserve and enhance program integrity, promote best practices and facilitate operational efficiency and effectiveness. The Unit is comprised of three organizational units:

- Internal Control and Compliance
- Fraud Review and Appeals
- Inactive Overpayment Unit

Collectively, these units are responsible for monitoring program integrity and internal controls by reporting on the effectiveness of and compliance with divisional processes, policies and procedures. As well, these units provide analytical reports related to service delivery improvements and attend to program requirements related to Fraud, Appeals and Inactive Overpayments.

In early 2000, the Division undertook a comprehensive review of social assistance overpayments in order to develop a revised business model to enable the Division to better manage overpayment recovery on inactive cases in a more efficient and effective manner. In November 2002, the Inactive Overpayment Unit was restructured to centralize the function of recovering outstanding overpayments on inactive cases. The “Inactive Overpayment Recovery Model” was the new business process which became operational in May 2003.

A.1. Costs to Recover Inactive Overpayments

The Inactive Overpayment Unit deals primarily with the recovery of funds from inactive cases with outstanding overpayments greater than \$200. The Unit maintains a staff of 24 including one Manager, two supervisors, eight caseworkers and 13 administrative positions. Based on information available, approximately \$15 million of overpayments related to inactive social assistance payments were outstanding as of December 31, 2004.

According to records maintained by the Inactive Overpayment Unit, \$713,000 was recovered in 2004 and \$862,000 was recovered in 2003. Total operating costs for the Inactive Overpayment Unit in 2004 and 2003 were approximately \$1.5 and \$1.4 million respectively. Based on current funding arrangements with the Province, 80 per cent of any recoveries are refunded to the Province. In turn, amounts of approved funding for 2004 and 2003 were capped at \$580,000 and \$584,000 respectively.

The net costs to administer the program at the City are as follows:

| | 2004 | 2003 |
|--|-------------------------|-------------------------|
| Recoveries to the City | \$713,000 | \$862,000 |
| Refund to the Province (80%) | 570,000 | 690,000 |
| Net Recovery to the City | 143,000 | 172,000 |
| Operational Costs to the City | 1,500,000 | 1,400,000 |
| Approved Funding by the Province | 580,000 | 584,000 |
| Net Cost to the City | 920,000 | 816,000 |
| Excess of Costs Over Recoveries | <u>\$777,000</u> | <u>\$644,000</u> |

From a City perspective, the costs to operate the program are in excess of the amounts recovered. While we appreciate the necessity of ensuring that there is an administrative process in place to follow-up overpayments, consideration be given to an evaluation as to the appropriate level of resources dedicated to this function. In addition, performance measures and goals, and adequate monitoring of organizational performance should be established to ensure an appropriate allocation of resources.

Recommendation:

- 1. The General Manager, Toronto Social Services, review and develop appropriate performance measures and targets in relation to program costs and recoveries. Such performance measures be used to evaluate the financial results and performance of the Inactive Overpayment Unit and determine an appropriate allocation of resources to the Unit.**

B. RECOVERIES OF OVERPAYMENTS

Our review identified a number of control and administrative issues specifically related to the recovery of overpayments from individuals no longer receiving social assistance. The issues identified include:

- the need to ensure that all files are adequately controlled, accounted for and available for review;
- the need to develop a monitoring system to identify cases in default;
- the need to develop criteria to prioritize recovery efforts;
- the development of a collection program including the possible use of collection services for predetermined cases in default; and
- the need to enhance current information technology systems.

B.1. Control and Accounting for All Inactive Files

Standard Divisional reports are used to identify and track inactive case files transferred from the local area offices to the Inactive Overpayment Unit. In 2004, approximately 5,000 inactive case files were identified for transfer to the Unit. Divisional controls need to be developed in order to ensure that all inactive case files scheduled for transfer to the Inactive Overpayment Unit are accounted for and available for review. Missing inactive case files present a risk for fraud. A concern relating to misplaced files was identified during a recent provincial compliance review at Toronto Social Services.

Recommendation:

- 2. The General Manager, Toronto Social Services, establish appropriate controls over the custody, retention and location of all inactive case files where overpayments have been identified. All such files be appropriately tracked and accounted for.**

B.2. Increasing the Recovery of Overpayments

As part of our audit we selected a sample of 61 case files. These cases were inactive as of February and March of 2004 and were transferred to the Inactive Overpayment Unit for collection purposes. We reviewed these cases in February 2005, approximately one year later to assess the effectiveness of the collection activity on these particular files.

The audit sample of 61 cases identified a total of 334 overpayments. Overpayment dates on the cases ranged from 1990 to 2004. The outstanding overpayments to be recovered on these cases were approximately \$413,000. At the end of 2004, the total recoveries on these files were \$12,960, or three per cent of the outstanding overpayment amount.

The audit sample included cases with outstanding overpayments to be recovered ranging from less than \$200 to approximately \$26,000. A summary of the overpayments is provided as follows:

| Overpayments on Each Case | Per cent of Cases |
|----------------------------------|--------------------------|
| Less than \$5,000 | 38% |
| \$ 5,001- 10,000 | 39% |
| \$10,001- 20,000 | 18% |
| \$20,001- 26,000 | 5% |

Documentation in certain files we reviewed was not adequate in relation to the contact follow-up and negotiation with individuals. In one case, despite notes in the file to bring information forward in three months, no evidence of follow-up existed on the case since August 2004. In two of the cases where contact was made, a repayment plan was negotiated. Of the two repayment plans, only one repayment of \$100 had been received one year after each case became inactive.

In addition, our file review found that overall there was a significant turnaround time in contacting and negotiating repayment plans. From the time files were received until either a negotiated repayment plan was established or the re-payment was received required between two to seven months. This lag in time may be in part due to a variety of factors including a lack of defined performance standards, and in particular, the lack of a comprehensive monitoring system of collection activity by supervisory staff.

Recommendation:

- 3. The General Manager, Toronto Social Services, establish appropriate performance measures in relation to collection follow-up procedures for all overpayments relating to Ontario Works clients. Such performance measures be subject to supervisory review and appropriate management action. The ongoing monitoring of collection activities be reviewed and evidence of such review be contained in all files.**

The May 2003 “Inactive Overpayment Recovery Model” prescribes procedures relating to the recovery of overpayments from inactive cases. The model provides that cases with the largest overpayments terminated within the last five years are to be processed first by the Inactive Overpayment Unit. In practice, there is no process in place to prioritize outstanding overpayments. All newly transferred cases are treated equally in terms of client contact and collection effort. For example, a newly terminated inactive case with an outstanding overpayment of \$200 may be followed up with the same level of effort as an older existing overpayment of \$3,000 or more.

According to provincial directives on the collection of overpayments on inactive municipal files, cases with an outstanding overpayment of greater than \$3,000 are to be a high priority. To date, the backlog of these high priority cases has not been addressed by the Toronto Social Services.

Recommendation:

- 4. The General Manager, Toronto Social Services, establish criteria to identify high priority cases where overpayments exist. Priority be established on accounts in excess of a predetermined threshold. Collection efforts be focussed on those high priority cases.**

The May 2003 “Inactive Overpayment Recovery Model” prescribing procedures for the efficient and effective recovery of overpayments from inactive cases identifies and considers the use of collection agencies for overpayment recovery in certain predetermined instances. The 2003 Model identifies the possibility of using collection agencies for certain outstanding overpayments. In actual fact, certain cases have been identified for future referrals to a collection agency. However, a formal process for identifying those accounts which should be referred to a collection agency have not been established. Such a process should take into account income and asset level, the outstanding amount, as well as the individual's capacity to make repayments.

Recommendation:

- 5. The General Manager, Toronto Social Services, evaluate the use of collection agencies in recovering outstanding overpayments on certain predetermined inactive cases. Specific criteria for determining overpayment accounts to be referred to collection agencies be established along with adequate policies and procedures for monitoring such cases.**

B.3. Effective Case Management Requires Supervisory Review

We noted during our review of a sample of inactive case files that 25 per cent of files showed no evidence of supervisory review. Established policies require supervisory review of overpayments. This observation is consistent with an internal review conducted by the Toronto Social Services Quality Control and Assurance Unit which found similar levels of non-compliance.

Recommendation:

- 6. The General Manager, Toronto Social Services, take steps to ensure case management staff and related supervisors review all files relating to overpayments in order to ensure that compliance with policies and procedures and to ensure the accuracy and timeliness of recovery efforts.**

B.4. Inadequate Information Systems

In order to manage and control information related to overpayments, the Inactive Overpayment Unit uses an internally developed management information system. This system supports the overpayment recovery function by capturing the status of each case during the collection process. From our file review, we noted that staff do not consistently enter data in the system regarding client contact and information relating to decisions pertaining to repayment negotiations. In addition, the system is not capable of producing standard reliable reports. Instead, management makes use of ad hoc reports as necessary. The reliability of the information in the system is further compromised by the existence of duplicate records and, as a result, management has discontinued reporting on overpayments and recoveries.

Because of the limitations of the information system, the Unit uses manual tracking systems to compensate for the lack of adequate reporting information available from the system.

We contacted a number of Ontario municipalities to determine the use and availability of alternative management information systems to support the administration relating to the recovery of inactive overpayments. Each of the other municipalities were using other information systems in addition to the Province's to support the recovery of inactive overpayments. Other municipalities expressed concerns on the limitations of the Province's information system regarding its ability to efficiently support the recovery of inactive overpayments.

Two of the municipalities contacted were using currently developed information systems to support recovery of overpayments. Functionality available in these other systems includes collection letters, bring forwards, pay history, post dated cheque tracking for repayments and bank deposits. These systems also provide functionality related to reimbursements and other cost shared programs. Such automated reporting capabilities would significantly contribute to the accuracy, efficiency and effectiveness of the activities related to inactive overpayment recovery.

In its response to the report of the Provincial Auditor, the Ministry of Community and Social Services indicated that it "is currently reviewing more efficient overpayment recovery methods." In this context, opportunity may exist for collaborative system development on a Province-wide basis.

Recommendations:

7. The General Manager, Toronto Social Services, evaluate the reporting capabilities of the current management information systems in order to ensure that the needs of the Inactive Overpayments Unit are addressed. The functionality of such a system should include:

- **automated receipt issuance when a recovery is processed;**
- **automated consolidation of daily funds received and processed;**
- **outstanding overpayment account balance information;**

- **standardized collection letters;**
- **automated bring forwards;**
- **tracking of post-dated repayment cheques;**
- **automated priority ranking of accounts; and**
- **performance reports indicating key financial ratios such as overpayment recoveries compared to outstanding overpayments.**

8. The General Manager, Toronto Social Services, request the Province to review the feasibility of centrally coordinating the development of information management systems pertaining to the accounting and administration of the recovery of all social assistance overpayments.

C. FINANCIAL ADMINISTRATION OF OVERPAYMENTS AND RECOVERIES

The scope of this audit included a review of the reporting and recording of both overpayments and recoveries, including the refund of recoveries to the Province. Our review of the business processes in this area identified a number of internal control concerns that should be addressed.

C.1. Improving Timeliness of Bank Deposits

The Inactive Overpayment Unit is the front end for the receipt of funds recovered from inactive overpayments. On average, the Inactive Overpayment Unit is recovering funds in the range of \$3,000 to \$3,500 per day. Once funds are received, the banking and accounting responsibilities are fulfilled by the Revenue Accounting Unit in the Financial Administration Unit of the Social Development and Administration Division.

The complete cycle beginning with the receipt of funds at the Inactive Overpayment Unit and ending with the bank deposit and recording in the SAP accounting records required, on average, eight business days. While established procedures in the Inactive Overpayment Unit require cash repayments to be transmitted to Revenue Accounting the next business day, there is an allowance for cheques to be sent “twice a week.”

Funds should be deposited immediately on receipt and, as a result, should be forwarded to Revenue Accounting daily.

Recommendation:

- 9. The General Manager, Toronto Social Services, take steps to ensure that funds are forwarded to the Revenue Accounting Unit at the end of each business day for immediate deposit.**

C.2. No Authorization Required to Defer Recovery of Overpayments

The legislation contains provisions to defer the recovery of overpayments in the event of undue hardship. Caseworkers make determinations to defer overpayment recoveries and adjust financial information records accordingly. This responsibility and decision is performed without supervisory review.

During our file review, we found cases with incorrect classifications in the financial information system. In two cases, each with overpayments greater than \$5,000, staff notes indicated the overpayment should be recovered. However, these cases were misclassified and incorrectly deferred. The risk of these types of errors is that there is no recovery activity on these cases while inactive. When these cases become active, as happened in one instance we reviewed, the automated recovery is not triggered due to the incorrect classification.

Recommendation:

10. The General Manager, Toronto Social Services, take appropriate steps to ensure:

- **overpayment recovery deferrals receive supervisory review and authorization;**
- **policies and procedures are developed with criteria to guide staff in deferring recovery; and**
- **management reports are developed and reviewed to ensure cases where recovery is deferred are correctly classified.**

C.3. Account Reconciliations

Recoveries from Ontario Works overpayments are being recorded along with reimbursements from other programs in the SAP financial information system. As a result, it is difficult to reconcile funds recovered and recorded in the SAP system to the information contained in the provincial management information system. The reconciliation of this information is required to ensure that all recovered funds have been appropriately accounted for in each system.

Recommendations:

- 11. The General Manager, Toronto Social Services, ensure that the accounting for the recovery of overpayments and reimbursements relating to other programs is accurate. Reconciliation between the City's SAP financial system and the Province's Management Information System be conducted on a monthly basis and where appropriate, corrections be made on a timely basis. All such reconciliation be subject to supervisory review.**

C.4. Monitoring Overpayments and Recoveries

The Revenue Accounting Unit is also responsible for filing monthly subsidy claims to the Province. Overpayments and recoveries are recorded and reported by the Revenue Accounting Unit when filing the monthly subsidy claim to the Province. Any overpayments made in a given month increase program expenditures reported on the monthly subsidy claim to the Province. Recoveries received during the month reduce program expenditures reported on the monthly subsidy claim. This administrative process is in compliance with provincial requirements.

Receivables relating to recoveries and the corresponding revenue from recoveries are accounted for on a cash basis. The accounts for the cumulative outstanding overpayments related to social assistance are recorded in the Province's management information system but are not recognized in the City's financial records as an accounts receivable.

Although highly unlikely, even if the City were to fully recover all outstanding overpayments, only 20 per cent of the funds would be retained by the City. The funds, in the opinion of both the City's external auditors and internal financial and accounting staff, would be immaterial relative to the established level of financial statement materiality and, in any event, the extent of these recoveries would be difficult to determine.

We have discussed the recognition of outstanding overpayments in the City's financial records with both the City Treasurer and the City's external auditors who agree that given the circumstances there would be no added value in the recognition of the outstanding receivables in the financial statements. While there may be no real benefit in reporting outstanding overpayments in the financial statements, there is an operational benefit in monitoring and reporting on overpayments and recoveries in a given year as indicators of program performance.

Toronto Social Services distributed approximately \$466 million in 2003 and again in 2004 to individuals and families in need of social assistance. The complexity of the regulatory environment, combined with the dynamic nature of case circumstances, creates an inherent risk for overpayments in the administration of the Ontario Works Program.

An adequate monitoring and reporting system is required to effectively identify and control the inherent risk of overpayments in the administration of social assistance. The most current report on Social Assistance Overpayments was submitted to the Community Services Committee in 2000. This report addressed steps taken by the Toronto Social Services Division to improve management practices and procedures in the area of overpayments. Although the subject of overpayments has since been reviewed by the Toronto Social Services, at the time of our audit there had been no report submitted to the Community Services Committee on social assistance overpayments. In addition, no standard reporting requirements for either overpayments or recoveries have been developed by the Division.

The development and implementation of adequate monitoring and reporting requirements are necessary for management to evaluate if: (1) current practices and procedures are adequate to reduce the risk of issuing overpayments; (2) corrective action is required to further minimize and prevent the occurrence of overpayments. Management can also monitor the efficiency and effectiveness of overpayment recovery. Reports should be developed which allow management to monitor both the annual and cumulative amount of overpayments created, percentage of overpayments recovered and trends.

12. The General Manager, Toronto Social Services, establish reporting requirements for social assistance overpayments and recoveries. At a minimum, reports should include the following information for active and inactive cases administered by Toronto:

- **annual overpayments issued;**
- **annual automated and repayment recoveries collected;**
- **a summary of the cumulative year-end balance of overpayments, recoveries and outstanding overpayments to be recovered; and**
- **performance indicators measuring overpayments created and the effectiveness and efficiency of recovery activities.**

These reports should be submitted annually to Senior Management and the Community Services Committee.

C.5. Impact of Portability on Overpayments and Recoveries

Revisions to the Ontario Works Act (1997) authorized portability of overpayments across programs and the implementation of the provincial financial information system enabled the recovery of overpayments across jurisdictions. Once a municipality begins to administer a case with an overpayment, the recovery is administered by that municipality irrespective of where the overpayment was originally issued. In simple terms, this means that for active Ontario Works cases, Toronto Social Services may recover an overpayment created by another program or another municipality.

In 2004, the Toronto Social Services issued approximately \$18 million in overpayments. The cumulative dollar value, for overpayments created by the Toronto Social Services from 1979 through 2004, was approximately \$188 million, with approximately \$54 million (29 per cent) having been recovered as of December 31, 2004, leaving \$134 million in outstanding cumulative overpayments to be recovered.

The cumulative outstanding overpayments of \$134 million to be recovered reflect only overpayments issued by the Toronto Social Services. The portability of overpayments among Ontario Works providers and between programs allows municipalities to recover overpayments they may not have issued. Individual overpayment records are contained in the provincial information system and cases can move from one jurisdiction to another making overpayments mobile across the Province. The cumulative effect of portable overpayments on Toronto is the outstanding overpayments to be recovered are increased to approximately \$207 million as at December 31, 2004. Although the Toronto Social Services may not have issued the overpayment, if responsibility for the administration of benefits on the case is assumed by the City then responsibility for recovering the outstanding overpayment is also assumed.

C.6. Operational Impact of Portable Overpayments

The issues surrounding portability were repeatedly raised for discussion by the Toronto Social Services and other jurisdictions we contacted as part of this review. Based on information provided by the Toronto Social Services, we conducted an analysis of the operational and financial impact of portability for 2003 and 2004. The analysis involved a comparison of the number of cases with overpayments moving into and out of Toronto.

We found more social assistance cases with overpayments coming into Toronto when compared to cases leaving. The cases transferring to Toronto represented an average of six per cent of total caseload receiving service in 2003 and 2004. While Toronto Social Services has not measured the impact of these cases on operations, it would be reasonable to expect that this increased volume and associated workload has an impact on existing operations.

The overall impact of portability on both active and inactive cases at December 31, 2004 is presented in the table below. The portability analysis highlights a significant level of movement into and out of Toronto. The movement of cases is continuous and this analysis represents only one point in time. There were far more cases moving into Toronto bringing more overpayments to manage than cases leaving with overpayments. The end result for the Toronto Social Services is an increased number of cases with overpayments to be recovered for both active and inactive cases. There is a responsibility to review and collect overpayments on active cases, whereas for inactive cases, this responsibility may be uncertain depending on whether Toronto is the last service provider to issue a payment on the case.

2003-2004 Operational Impact of Overpayment Portability

| | Active | Inactive |
|--|------------------|--------------------|
| <u>Operational Impact</u> | | |
| Cases with Overpayments Issued by TSS | 34,168 | 44,683 |
| Cases Transferred IN | 7,158 | 11,781 |
| Cases Transferred OUT | <u>(1,837)</u> | <u>2,706</u> |
| Increased Impact on Caseload | 5,321 | 9,075 |
| Cases with Overpayments to be Recovered | 39,489 | 53,758 |
| <u>Financial Impact</u> | | |
| Overpayments Issued and Owned by TSS | \$14,177,797 | \$ 24,143,042 |
| Overpayments Transferred IN | 10,853,424 | 17,490,474 |
| Overpayments Transferred OUT | <u>(697,756)</u> | <u>(1,155,011)</u> |
| Increased Outstanding Overpayments | 10,155,668 | 16,335,463 |
| Outstanding Overpayments to be Recovered | \$24,333,465 | \$40,478,505 |

It is important to note that operationally, it is the combination of both cases leaving and coming to Toronto that increases overall administrative workload. This movement of cases with overpayments requires the location where the case is owned to request required documentation from the location where the overpayment originated. Although Toronto Social Services has not measured the impact of portability on operations, it is obvious that portability has increased the responsibilities of administering cases with overpayments and has resulted in operational constraints that should be evaluated. The redeployment of resources to address the administrative burden created by overpayment portability presents a risk for non-compliance in other program areas which may compromise provincial subsidy revenues.

Recommendation:

- 13. The General Manager, Toronto Social Services, review and measure the impact created by the implementation of full portability of overpayments on the administration of social assistance and report the current and projected operational impact to the Community Services Committee and the Ministry of Community and Social Services.**

C.7. Building on Toronto Social Services' Performance Measurement System

According to the 2003-2005 Ontario Works Service Plan, Toronto Social Services designed and implemented an organizational performance measurement system. The system uses performance indicators to measure and report on administrative effectiveness, program integrity and accountable program management. Performance measures related to overpayments and recoveries are not addressed in the performance measurement system developed by the Toronto Social Services.

Recommendation:

- 14. The General Manager, Toronto Social Services, expand its current performance management process to include performance measures related to overpayments for both active and inactive overpayments and recoveries.**

CONCLUSION

Our audit work found that, in general, the Toronto Social Services is in compliance with relevant provincial legislation and City policies when recovering overpayments from inactive cases.

A key finding was that given the current funding arrangement, municipal costs to recover overpayments exceed revenue generated. The feasibility of the City to sustain current inactive overpayment recovery operations should be evaluated to ensure efficient use of resources.

A number of recommendations are provided to improve the effectiveness of recovering inactive overpayments. Suggestions for improvement include the establishment of performance targets, development of criteria to prioritize overpayment cases for recovery, reports for monitoring performance and, for certain cases, the use of specialized collection services. In addition, the Inactive Overpayment Unit does not have adequate information systems. These improvements would contribute significantly to more effective and efficient overpayment recovery operations.

The audit has also identified a number of areas where internal controls for recording and reporting of overpayments and recoveries should be either strengthened or developed and implemented. Implementation of recommendations provided in this report will assist in ensuring efficient and effective financial administration of overpayments and recoveries, and will assist in ensuring the integrity of program data in the Province's management information system and financial data in SAP.

In addition, the development of performance measures related to overpayments and recoveries is essential in providing management with information to demonstrate the success of the program and accountability in the administration of public funds for social assistance.