

APPENDIX 1

**TORONTO EMPLOYMENT AND SOCIAL
SERVICES – INCOME VERIFICATION
PROCEDURES CAN BE IMPROVED**

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Auditor General's Office

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EXECUTIVE SUMMARY

The Auditor General's 2012 Audit Work Plan included a review of processes at Toronto Employment and Social Services Division, (TESS) for verifying reporting of income by clients.

TESS provides supports to individuals and families living in Toronto

TESS provides financial, social and employment support to individuals and families living in Toronto. TESS is the administrator of the Ontario Works program mandated by the Province of Ontario and delivers a wide range of programs and services including helping people find employment.

The Auditor General has previously conducted two reviews focused on overpayments

Over the past number of years, the Auditor General has conducted two reviews in the employment and social services area. These reviews focused on the assessment of controls and recovery of social assistance overpayments. This current review was limited and focused only on the processes related to reporting of income by clients who, while receiving social assistance at the same time, were in possession of a business license.

Income reporting is an important component of the overall service delivery program. Complete disclosure of income by clients is essential in ensuring the correct amount of benefits is provided.

TESS follows the Ontario Works Act (1997) and related directives

TESS administers Ontario Works on behalf of the Province and follows the Ontario Works Act (1997) and related directives and regulations for reviewing social assistance applications and determining the extent of eligible benefits. It has also developed its own user guide to complement policies and procedures provided by the Province.

Our review identified certain areas where controls can be further improved

Business license information should be reported and used in eligibility assessments and employment service planning

We noted instances where clients continued with ESL courses, volunteering and self directed job search for an extended period

Strengthen employment service planning through a more collaborative approach with clients

Our review identified certain areas where controls can be further improved. We noted the following:

i) Information on Business Licenses Held Could Assist in Eligibility Reviews and Employment Service Planning

We compared the information of clients who reported no business income with the information maintained at the City's Municipal Licensing and Standards Division's business license database. This comparison identified that 1,539 individuals possessed a business license. We reviewed a sample of 30 of these clients and noted that the majority of them had not advised TESS that they held a business license.

While possession of a business license is not a guarantee of additional income, it is a factor that should be considered in file reviews for eligibility and employment service planning.

ii) Monitoring of Employment Service Planning of Clients

One of TESS's main objectives is to help clients improve their chances of obtaining employment. However, client activities to achieve this goal are often self-driven.

We noted certain instances where clients continued with English as a second language courses, volunteering and self directed job search activities for an extended period of time, which in certain cases exceeded two years and as long as five years. We understand there is no time restriction provided in Ontario Works directives for these activities, however, given the focus of the program, there is a need to adopt a more collaborative employment service planning approach.

Employment service planning could be strengthened by providing adequate training to staff. Staff need to adopt a more collaborative approach for employment service planning instead of relying on the recipient's self-driven employment service planning activities.

iii) Other Issues:

Other issues identified include obtaining certain legislative clarifications and amendments. These include:

- a) definition of casual self employment income; and
- b) differences between the Ontario Works Directive and the City's records retention by-law for unsubstantiated allegations of fraud.

This report contains seven recommendations which are related to improving both income reporting and the employment service planning processes.

BACKGROUND

Ontario Works is a mandatory provincial program

Ontario Works is a mandatory provincial program delivered by municipalities under the authority of the Ontario Works Act (1997).

The Ministry of Community and Social Services oversees the administration of the program. The Province provides the City a subsidy for 80 per cent of the program expenditures and 50 per cent of the administrative costs.

274,000 people rely on social and employment assistance in Toronto

In 2011, TESS administered 170,000 cases consisting of 274,000 individuals. The average number of cases served by TESS at a given time is approximately 100,000.

The major categories of services provided by the division include:

- Employment services: delivering, planning and managing integrated employment services
- The provision of income support and health benefits to eligible residents.
- Social support: enabling residents to connect with appropriate City, community and government services.

TESS operates 18 Employment centers and has 2,245 staff

In 2011, TESS operated 18 employment centers with a total staff complement of 2,245 including 1,375 case workers. TESS case workers are primarily responsible for assessing resident eligibility for financial assistance and program supports. These responsibilities include managing recipient's information, performing eligibility reviews and, developing and coordinating employment service plans for clients.

The employment centers offer skills training and other employment services and resources to assist residents in obtaining employment.

In April 2012, TESS adopted a new mandatory Provincial eligibility verification process that assists in validating information provided by clients.

The City uses a Provincial information technology system known as Service Delivery Model Technology to manage information provided by social assistance clients. The Province is implementing a new system called Social Assistance Management System, to replace the current system in late 2013.

2011 net cost to City is \$193 million

In 2011, TESS issued approximately \$915 million in basic financial assistance. Total program costs for 2011 amounted to \$1.1 billion when \$217 million in administrative costs is included. After cost sharing with the Province, the net cost to the City was \$193 million.

AUDIT OBJECTIVES, SCOPE AND METHODOLOGY

Why we conducted this review

The Auditor General's 2012 Audit Work Plan included a review of the income reporting process at TESS.

This review was selected due to the amount of funds involved and the importance of income reporting in the overall context of employment services and the financial assistance program.

Audit objectives and scope

The objective of our review was to assess controls over the income reporting process at the TESS. We focused our review on the reporting of income by clients who were identified as having a business license.

The audit covered the period from January 1, 2010 to December 31, 2011.

Steps in the review

Our audit methodology included:

- Review of relevant legislation and Provincial directives;
- Review of eligibility verification, employment activity monitoring and income reporting procedures;
- Interviews with TESS and other City staff;
- Discussions with staff of the City's Corporate Information Management Services Division;
- Review of procedures at employment centers operated by the division;
- Review of related documents and records;
- Overview of IT systems and processes;
- Review and analysis of data from TESS's information system;
- Use of specialized audit software to analyze data from Municipal Licensing and Standards information system; and
- Other procedures as deemed appropriate.

Audit conducted in accordance with generally accepted government auditing standards

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

AUDIT RESULTS

Focused on the processes related to income reporting by TESS clients who held business licenses

Our review focused on processes related to income reporting by clients, in particular, those who had business licenses.

The City's Municipal Licensing and Standards Division maintain a database of holders of business licenses. Using an audit software package, we compared the business license data with information maintained at TESS for its clients, to identify those clients who have a business license.

1,539 TESS clients had registered business license but reported no income from a business

During 2010 and 2011, 1,539 TESS clients received social assistance for some period of time, reported no income from a business and, had a business registered under their name or were officers in a business registered with the City.

A further analysis of these 1,539 clients indicated they held licenses in various businesses as noted in Appendix 1. The most common license, held by almost 50 per cent, (759 of 1539) of these clients, was a taxi cab driver's license.

The total amount of financial assistance paid during 2010 and 2011 to the 1,539 clients was \$20 million.

Majority of the clients reviewed had not advised TESS that they held a business license.

We performed a more detailed analysis for a sample of 30 of the 1,539 instances identified for our review. Our review indicated that the majority of the clients had not advised TESS that they held a business license. Observations noted during our review are described in the following sections.

A. Verification of Income Sources of Clients Requires Strengthening

TESS staff perform monthly validation of client information with third party sources

In April 2012, TESS adopted a new Provincial eligibility verification process. This process includes automated monthly validation of clients financial information with third party sources such as credit agencies and certain government of Canada agencies. The process assists in evaluating information provided by clients, determining the amount of social assistance payable and identification of any issues on an ongoing basis.

Existing process can be improved by comparing client information with the City's business license database

TESS's processes can be enhanced by extending the automated validation process to information contained in the City's business licensing database. This comparison could assist in identifying potential business and self employed sources of income not reported during the eligibility review process. In addition, it could assist in helping clients in their search for employment by identifying for TESS staff licenses held and any related specialized expertise.

Implementing the process may require some changes to address privacy issues

We understand that such a process may be impacted by privacy legislation. Staff directly involved with this legislation provided an initial assessment that implementing this process is possible although they will need to do a more detailed analysis to determine if any changes are required to address related privacy issues.

Possession of a business license increases the potential of unreported income

While possessing a business license does not necessarily mean that income is being earned, such a situation may create a higher potential that income is being earned and not reported. In these circumstances it may be appropriate to enhance controls and procedures in the eligibility verification process.

Due to lack of hard copy documents, we could not perform a detailed review of financial information

The Ontario Works directive for maintaining recipient's information does not require retaining hard copies of banking and Revenue Canada documents, and as such, these documents were generally not maintained. TESS staff in accordance with the directive review these documents and record their observations in the system.

In the absence of copies of these documents, we were not able to perform a detailed review of financial information.

TESS consider maintaining financial information in limited defined circumstances

Although we understand that maintaining detailed supporting financial documentation for all clients would be a burden for case workers, it may be appropriate to maintain such documentation on a selective basis and for files having defined higher risk characteristics.

The Province is implementing a new social assistance management system for managing the employment and social services program. The new system may have a scanning capability making it easier to maintain copies of documents.

Recommendations:

- 1. City Council request the General Manager, Employment and Social Services, in consultation with appropriate staff, develop a process to identify social assistance clients in possession of business and trade licenses issued by the City. Such data to be considered during eligibility review and on an ongoing basis.**
- 2. City Council request the General Manager, Employment and Social Services, in consultation with the City Clerk, address any privacy issues related to the data comparison included in Recommendation 1.**

3. **City Council request the General Manager, Employment and Social Services, consider business licenses held and how related skills and abilities impact employment service plans and related activities.**
4. **City Council request the General Manager, Employment and Social Services, develop criteria and guidelines for maintaining bank and other related records for selective recipients such as those having a business license and reporting no income for an extended period of time.**

B. Monitoring of Employment Service Planning Activities of Clients Requires Improvement

TESS staff meet with clients on a periodic basis to discuss their employment service plan and changes that may have taken place in the client's circumstances.

Development of each client's employment service plan should be a collaborative process

Ontario Works directives indicate that the development of an employment service plan should be a collaborative process between the City and the client. However, it appears from our discussions with a number of TESS staff, and a review of files, that service planning activities are, in many cases, self driven by clients. The Ontario Works Directive states that "staff provide a range of employment assistance activities with a focus on engaging participants in a collaborative process to identify and take steps that help participants obtain sustainable employment".

There is a need to provide additional staff training on clarifying the Ontario Works directive that focuses on developing a collaborative approach with the clients on the employment service plan.

In certain instances, clients were involved with volunteering, English courses, and self directed job search for extended periods of time

Of the 30 files we noted six cases that included one or more of the following conditions:

- Clients holding business licenses but reporting no income were volunteering, learning English, and conducting self directed job searches for extended periods of time, at least two years and in certain instances for up to five years. We understand there are no time restrictions provided in Ontario Works directives for these activities. However, the intent of the program is to assist clients in obtaining employment. There is a need for greater caseworker involvement to ensure client activities are progressing towards finding work.

In certain instances, employment activities were not considered in light of individual client's circumstances

- In certain situations the personal circumstances of a client may preclude them from certain types of work. We noted instances where clients attended various courses paid for by the City and at the completion of the course had significant difficulty in obtaining employment. As an example, in one case a client completed the taxi driver course. On completing the course the client could not obtain the certificate due to having numerous violations and unpaid fines, a circumstance not considered prior to the individual attending the course. Resources may be better used by reviewing specific circumstances with clients in advance to clarify any potential issues and limitations with employment in the related areas and evaluate the best possible options.

Obtaining details of certifications of clients may assist in planning employment activities

- TESS often refers or enrolls clients in courses such as truck and taxi driving courses to enhance their chances of obtaining employment. Follow up was not always performed to determine course completion results. Obtaining details about the certifications that client's obtain while on assistance is important in planning employment activities.

More collaborative service planning reviews needed where the clients already have a registered business license with the City

There is a need for a more collaborative review of such cases, particularly when the clients already have a registered business license with the City. TESS should consider discussing activities with the clients in relation to these licenses. If the licence still provides a viable employment path these cases may be referred to TESS's specialized Self Employment Case Workers.

Recommendation:

- 5. City Council request the General Manager, Employment and Social Services, ensure that client employment service plans are based on a detailed review of individual's circumstances and that related activities are followed up and results documented in client files.**

C. Other Issues – Legislative Clarifications and Amendments Needed

C.1. Definition of Casual Business Income Requires Clarification

The amount of social assistance provided to clients is impacted by the type and amount of income reported by clients

Income reported by clients is updated in the system by TESS staff. The system allows staff to select the income type as either employment earnings or self employed business income. The amount of assistance is affected by the type and amount of income reported by the clients. In accordance with Ontario Works rules, the amount of monthly benefit is reduced by 50 per cent of reported employment earnings and 100 per cent of reported net business income.

TESS staff use their judgment to decide how to categorize reported income

We noted in certain instances that business income was entered as employment earnings in the system. The Ontario Works directive permits casual business income to be reported as employment earnings. However, the Ontario Works directive does not specify what constitutes casual income. Based on information provided by clients, TESS staff use their judgment to categorize reported income that sometimes result in the selection of incorrect income type. This directive needs to be clarified with the Province, and TESS staff should be advised accordingly. While the instances we identified were not significant, incorrect treatment of reported income could affect the eligibility amounts.

Recommendation:

- 6. City Council request the General Manager, Employment and Social Services, consult with the Province to clarify the definition of casual income described under Ontario Works Directive for self employed/business income.**

C.2. City's Records Retention By-Law Requires Amendment

The Ontario Works Directive and the City's records retention by-law are inconsistent in relation to unfounded allegations of social assistance fraud

The Ontario Works directive requires that all electronic and hard copy records for allegations of fraud that are deemed to be unfounded or unsupported as a result of an assessment or investigation should be purged and destroyed after one year of the determination of the allegation as unfounded or unsupported.

The City's records retention by-law does not distinguish between substantiated and unfounded or unsupported allegations. It requires that all records be kept for seven years. TESS follows the Ontario Works directive and is therefore not complying with the City's by-law. The by-law needs to be amended to reflect the provincial directive.

Recommendation:

- 7. City Council request the General Manager, Employment and Social Services, in consultation with the City Solicitor, to review and resolve the differences between the Ontario Works Directive and the Toronto Municipal Code, relating to records retention for allegations of fraud that are deemed to be unfounded or unsupported.**

CONCLUSION

This report contains seven recommendations to improve and strengthen the income reporting and employment service planning processes in the City's administration of the social assistance program.

Exhibit 1

Clients with Business Licenses Reporting Zero Income, 2010 – 2011

Business Category Name/ License	Number of Clients with License
Taxicab Driver	759
Holistic Practitioner	170
Burlesque Entertainer	104
Eating Establishment	97
Refreshment Vehicle Assistant	68
Tow Truck Driver	47
Body Rubber	38
Retail Store (Food)	37
Busker	32
Building Renovator	30
Limousine Driver	26
Taxicab Owner	21
Driving Instructor	19
Public Garage	16
Body Rub Parlour	12
Non-Motorized Refreshment Vehicle Owner	11
Hair Salon	10
Other Businesses License Category	42
Total	<u>1,539</u>