

CITY OF HAMILTON

CITY MANAGER'S OFFICE **Audit Services Division**

TO: Chair and Members Audit, Finance and Administration Committee	WARD(S) AFFECTED: CITY WIDE
COMMITTEE DATE: September 21, 2011	
SUBJECT/REPORT NO: Audit Report 2011-05 - OW - Overpayments to Active Clients (AUD11025) (City Wide)	
SUBMITTED BY: Ann Pekaruk Director, Audit Services City Manager's Office	PREPARED BY: Ann Pekaruk 905-546-2424 x4469
SIGNATURE:	

RECOMMENDATION

- (a) That Report AUD11025 respecting Audit Report 2011-05, OW – Overpayments to Active Clients, be received;
- (b) That the Management Action Plans as detailed in Appendix “A” of Report AUD11025 be approved; and
- (c) That the General Manager of Community Services be directed to instruct the appropriate staff to have the Management Action Plans (attached as Appendix “A” to Report AUD11025) implemented.

EXECUTIVE SUMMARY

The 2011 Internal Audit work plan approved by Council included an audit of overpayments to clients currently in receipt of social assistance for the purpose of examining the extent of such overpayments and their causes with an aim at identifying opportunities to reduce or prevent them from occurring. Actions taken by staff to recover the overpayments as well as appropriate recordkeeping were also reviewed.

The results of the audit are presented in a formal audit report (2011-05) containing observations, recommendations and management responses. In addition, an Addendum which identifies issues, risks or inefficiencies (not necessarily control deficiencies which appear in Report AUD11025) is included and management has been asked to address the one point also. The Report 2011-05 and Addendum are attached as Appendix "A" to Report AUD11025.

Alternatives for Consideration – See Page Not Applicable

FINANCIAL / STAFFING / LEGAL IMPLICATIONS (for Recommendation(s) only)

Financial: None.

Staffing: None.

Legal: None.

HISTORICAL BACKGROUND (Chronology of events)

The Ontario Works (OW) program provides employment support and temporary financial assistance to eligible individuals (clients). The amount of funds that clients are eligible for is determined by the Benefit Eligibility Division of Community Services. Since financial assistance involves the issuance of funds to the clients, one of this program's major risks is that the amount of funds issued to the client may exceed the amount which he/she is entitled to receive. This is referred to as an overpayment. Based on a report of data extracted from the computerized Service Delivery Model Technology (SDMT) received from the Ministry of Community and Social Services (MCSS), an overpayment summary as of December 31, 2010 for the City of Hamilton's active OW clients indicated a value of \$4.62 million from 4,250 clients (\$641,409 was temporarily uncollectible).

In March 2009, the MCSS developed a directive for the recovery of Ontario Works (OW) overpayments. In regard to the recovery of overpayments to active OW clients, it sets out the following:

- ♦ The default recovery rate for overpayments is 5% of the basic financial assistance paid to the recipient each month;
- ♦ If arrears are owed to the recipient, 100% of the arrears may be used to recover the existing overpayment;
- ♦ Overpayments of \$2.50 or less are not recovered;
- ♦ Overpayments are not recovered if the recipient is receiving only a personal needs allowance; and
- ♦ For recipients receiving a personal needs allowance that also have chargeable income against their basic financial assistance, overpayment recovery may take place as long as the recipient's monthly income from all sources is not less than the amount of the personal needs allowance.

Based on SDMT figures in 2010, the City of Hamilton recovered approximately \$3.87 million of overpayments either through deductions from the clients' monthly benefits or direct payments received from active clients, of which approximately 20% is the municipal share.

The audit was scheduled as part of the 2011 Internal Audit work plan approved by Council. The audit fieldwork was completed in July 2011. The results of this audit are attached as Appendix "A" of Report AUD11025.

The Audit, Finance and Administration Committee receives and approves final audit and review reports as part of its responsibilities for the oversight of governance and control.

POLICY IMPLICATIONS

- ♦ Ontario Works Act, 1997
- ♦ Ontario Works Policy Directives – 9.3 Recovery of Overpayments, 2009

RELEVANT CONSULTATION

Appendix "A" to Report AUD11025 includes management action plans which reflect the responses of management and staff responsible for quality assurance and compliance in the City's Benefit Eligibility Division – Community Services.

ANALYSIS / RATIONALE FOR RECOMMENDATION

(include Performance Measurement/Benchmarking Data, if applicable)

The audit focused on overpayments to clients currently in receipt of social assistance for the purpose of examining the extent of such overpayments and their causes with an aim at identifying opportunities to reduce or prevent them from occurring. Actions taken by staff to recover the overpayments were also reviewed. In the investigation of the causes of overpayments, it was found that cases are mainly a result of changes to client status (change in family structure or benefit unit status) or eligibility requirements (e.g. incarceration, out of country time period) which have not been reported or have been reported late by the client or benefit unit to case workers.

A formal Audit Report (2011-05) containing observations, recommendations and resulting management action plans was issued. The implementation of the two (2) recommendations included in the Audit Report 2011-05 (attached as Appendix "A" of Report AUD11025) to strengthen and improve collection efforts are:

- Reassessing and adding notes in SDMT for any new or transferred applicants that have overpayments previously classified as temporary uncollectible.
- Reviewing temporary uncollectible overpayments every two (2) years during regular entitlement updates (Consolidated Verification Process (CVP)) with detailed notes to this effect recorded in the Service Delivery Model Technology (SDMT).

Management and staff have agreed to implement these two (2) recommendations. Specific actions plans can be found in the attached Audit Report.

Management disagreed with implementing a write-off procedure for overpayments of \$2.50 or less as noted in the Addendum of the attached Appendix "A" of Report AUD11025 due to staff time costs outweighing the benefits of carrying out this administrative housekeeping task.

ALTERNATIVES FOR CONSIDERATION

(include Financial, Staffing, Legal and Policy Implications and pros and cons for each alternative)

Not applicable.

CORPORATE STRATEGIC PLAN (Linkage to Desired End Results)

Focus Areas: 1. Skilled, Innovative and Respectful Organization, 2. Financial Sustainability, 3. Intergovernmental Relationships, 4. Growing Our Economy, 5. Social Development, 6. Environmental Stewardship, 7. Healthy Community

Financial Sustainability

- ♦ Delivery of municipal services and management of capital assets/liabilities in a sustainable, innovative and cost effective manner.

Social Development

- ♦ Residents in need have access to adequate support services.

Healthy Community

- ♦ Adequate access to food, water, shelter and income, safety, work, recreation and support for all (Human Services).

APPENDICES / SCHEDULES

Appendix "A" to Report AUD11025: Audit Report 2011-05 and Addendum

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**CITY OF HAMILTON
INTERNAL AUDIT REPORT 2011-05
OVERPAYMENTS TO ACTIVE ONTARIO WORKS CLIENTS**

#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN
1.	<p><u>Temporary Uncollectible Overpayments</u></p> <p>An overpayment is changed to temporary uncollectible and an explanation is placed in SDMT notes when it is determined that the client cannot or should not repay the amount owing through a deduction from their monthly OW entitlement. Situations such as a client being in the midst of bankruptcy proceedings or where collection of a portion of the overpayment may prejudice a criminal case or an appeal of the overpayment may result in such categorization.</p> <p>In addition, temporary uncollectible accounts are not reviewed on a regular basis to verify the client's current status still supports the temporary uncollectible rating. This may reduce the opportunity to again seek repayment.</p>	<p>That any SDMT temporary uncollectible notes in client files for new and transferred applicants with the City be reviewed for current status and appropriate changes and notes be made in SDMT.</p> <p>That temporary uncollectible overpayments be reviewed every two (2) years during regular entitlement updates (Consolidated Verification Process (CVP)) and detailed notes to this effect be recorded in SDMT.</p>	<p>Agreed. Temporary uncollectible overpayments will be reviewed for all new applicants. Implementation scheduled for November 2011.</p> <p>Agreed. The Consolidated Verification Process will include the review of all temporary uncollectible overpayment accounts. Implementation scheduled for November 2011.</p>

**CITY OF HAMILTON
INTERNAL AUDIT REPORT 2011-05
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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 appropriately.

Writing Off of Overpayments

1. Ministry Directive #9.3 states that an annual write off of active overpayments should be conducted if the individual overpayment value is \$2.50 or less or the debtor (i.e. the recipient) has had his/her overpayment debt discharged in a bankruptcy proceeding. Analysis of the overpayments that have been made temporary uncollectible indicates that fifty-nine (59) clients have overpayment values of \$2.50 or less.

It is recommended:

That, in keeping with the Ministry's Directive, temporary uncollectible amounts with a value of \$2.50 or less be written off. The exercise of writing off active overpayments of \$2.50 or less should be conducted on an annual basis.

Management Response:

Disagreed. Even though the OW Directive 9.3 gives the Administrator the authority to write off active overpayments of \$2.50 on an annual basis and to write off temporary uncollectible overpayments with a value of \$2.50 for active clients, the process of writing off debts is only administrative in nature and does not imply the debt is forgiven or that recovery can never be made. If opportunities to recover amounts owed improve, then collection efforts may resume. The benefits gained would not offset the resources required to identify and write off overpayments and subsequently re-activate overpayments should collection opportunities materialize.