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Audit of the Management and Administration of Canada's International Social Security Agreements

March 2017

Canada

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1. Background

1.1 Context

Canada has two large statutory public pension programs, the residence-based Old Age Security (OAS) and the contributory Canada Pension Plan (CPP). Social Security Agreements (SSA) are a component of the OAS and CPP programs. OAS and CPP legislation provide the mandate for the Minister of Families, Children and Social Development to enter into SSA with other countries. SSA are bilateral treaties in international law that coordinate the operation of the OAS and CPP programs with certain comparable social security programs of another country that provide pensions for retirement, old age, disability, and survivorship. Since 1977, Canada has signed 59 SSA; of those agreements 58 are in force.

One of the main objectives of most SSA is to help individuals who have lived or worked in Canada and another country to qualify for benefits based on their affiliation to each country's pension system. By adding together their periods of social security coverage under the social security systems of both countries, individuals may meet the minimum eligibility requirements for benefits from one or both countries.

In 2015, through the OAS and CPP programs, Employment and Social Development Canada (ESDC) paid the following benefits:

OAS and CPP programs	Benefits paid under SSA		Benefits paid under domestic OAS/CPP legislation	
	Amount	Number of Beneficiaries	Amount	Number of Beneficiaries
Payments in Canada	$41 M	19,500	$86.7 B	7.1 million
Payments outside Canada	$169 M	98,000	$1.1 B	347,000

The Income Security and Social Development Branch of ESDC is accountable for leading the negotiation of Canada's SSA with other countries, overseeing the legislative entry into force of SSA in collaboration with Global Affairs Canada, and providing SSA policy guidance and interpretation.

Within ESDC, Service Canada (SC) is responsible for implementing and administering the benefit provisions of SSA. International Operations (IO), within Benefits Delivery Services (BDS), Transformation and Integrated Service Management Branch located in National Headquarters (NHQ), serves as the main Canadian liaison agency office responsible for the implementation, coordination and general oversight of all of Canada's SSA. IO provides operational functional guidance to IO Centres of Specialization and the SC network relating to Canada's SSA. IO is also responsible for the development and maintenance of all SSA

processing tools and procedures, and remains the key Canadian contact for foreign SSA partners related to on-going SSA administration.

SSA processing functions (i.e. benefit application processing and client service delivery) are performed by two dedicated IO Centres of Specialization located in Edmonton and Fredericton. Key processing responsibilities include:

o   OAS and CPP benefits adjudication under Canada's SSA: Determine eligibility, entitlement and on-going revised benefit processing for individuals that do not meet the minimum OAS residence or CPP contributory eligibility requirements in order to qualify for benefits and have lived or worked in a country that Canada has an SSA in force (this includes individuals residing in Canada or abroad); and

o   Liaison functions to facilitate the processing of foreign benefits paid under the SSA by foreign partners. This includes assisting residents of Canada and persons living in the SSA country to apply for benefits from foreign SSA partner countries and providing the necessary information required under the SSA by the foreign social security authorities to determine eligibility to their benefits. While IO is not responsible for determining eligibility or making payments of foreign benefits, IO is the primary contact for persons living in Canada who wish to apply for benefits from the other country.

Dealings with multiple countries, interpretation of technical documents, communication with clients residing in various countries, unique SSA processing systems and the manual nature of work, together contribute to the complexity of SSA activities. Given the complexity and relatively low volume of work associated with Canada's SSA (in comparison to the OAS and CPP processing workloads) the adjudication and maintenance of international SSA has been identified by the Department as specialized processing.

1.2   Audit Objective

The objective of the audit was to assess the adequacy of the eligibility, adjudication, payment and maintenance processes, the stewardship of personal information, as well as the application of SSA.

1.3   Scope

The scope of this audit included key controls related to the management, eligibility, adjudication, payment and maintenance of SSA benefits processed by both regional offices.

1.4   Methodology

This audit used a number of methodologies including document review, interviews, on-site observations, walkthroughs, as well as sampling and testing. The audit was conducted between June and July 2016 in two processing centres located in Edmonton and Fredericton. The audit team examined five SSA at each processing centre and selected a statistically valid sample of 801 files for which payment activity took place from January 1, 2015 to December 31, 2015. The sample included various benefit payments such as OAS, CPP death, CPP Survivor, and

CPP children's benefits paid under SSA. In addition, the audit team reviewed 50 files for maintenance and 50 files for liaison processing files.

2.   Audit Findings

2.1   Guidance for eligibility and adjudication processing is not followed consistently

In general, the SSA process requires that Service Canada Benefits Officers (SCBO) review the OAS or CPP application and documentation provided by the client to determine eligibility. Additional information is needed from the client to help the SCBO with eligibility assessment.

Once SCBO have received all supporting documentation, they determine if the applicant is eligible or not, and establish the effective date for benefit entitlement.

Under an SSA, a person's periods of residence in Canada after age 18 and foreign creditable periods (i.e.: periods of residence and/or contributions) in the SSA partner country are added together (totalized) to meet the minimum eligibility requirements to qualify for an OAS benefit. For CPP benefits, a person's periods of contribution to the CPP and foreign creditable periods (i.e.: periods of residence and/or contributions) in the SSA partner country are added together (totalized) to meet the minimum eligibility requirements to qualify for a CPP benefit.

Payment information is encoded in the legacy system and a letter providing details on the decision is sent to the client. Under many of Canada's SSA, a liaison is sent to the agreement partner providing the decision, benefit rates, and Canadian creditable periods.

BDS has developed functional guidance, procedures, policies, directives and regulations that are readily available to staff. The audit team used this guidance in conducting the file review.

To test the adequacy of the eligibility, adjudication and payment processes, the audit team reviewed a total of 801 files and held discussions with various key individuals. The audit team found these irregularities during the file review which indicate that functional guidance is not followed consistently:

o   Out of 200 CPP files reviewed, the audit team found 50 irregularities, such as:

   o   No evidence of verification by Business Expertise Advisor (BEA) and Team Leader on file;

   o   Approver does not have Section 34 of the *Financial Administration Act* (FAA) authority;

   o   On the client application form, "For office use only" section was not properly completed by SCBO; and

   o   Missing relevant client information in the Information Technology Renewal Delivery System Note.

o   Out of 601 OAS files reviewed, the audit team found 183 irregularities, such as:

   o   Application not dated by client;

- On the client application form, "For office use only" section was not properly completed by SCBO;

- SC award letter sent to applicant contained errors; and

- Application was not date stamped by SC processing centres (may be used to determine the eligibility date).

Where possible, the audit team performed additional procedures to determine whether these irregularities triggered an over/under payment. We found that, in most cases, there was no monetary impact as indicated below.

- Seven overpayments (1.4%) totalling approximately $5,609 and four underpayments (0.8%) totalling approximately $5,431 were attributed to NHQ; and

- Six overpayments (1.9%) totalling approximately $45,999 and one underpayment (0.3%) of $100 were attributed to regions.

The audit team provided a list of all overpayments and underpayments to IO for any necessary action. It is the audit team's opinion that irregularities mentioned above only indicate a lack of adherence to approved SSA processing procedures.

Recommendation

1. The Assistant Deputy Minister (ADM) of BDS, in collaboration with the ADMs of Western Canada - Territories and Atlantic regions, should ensure that both processing centres adhere to approved SSA processing procedures.

Management Response

Management agrees with the recommendation. BDS will work in collaboration to leverage best practices and identify and update guidance documents to support national consistency. Actions are expected to be completed by April 2017.

Inventory

The regionalization of SSA processing in April 2015, involved a significant transfer of files from NHQ to both regional processing centres. This transfer occurred while the regions were still addressing resourcing requirements to deal with the expected influx of files. As a result, there was a significant inventory created at the outset of this transition.

IO does not have formal service standards. During our audit fieldwork, IO officers told us they use a guidance document to assist in reviewing and finalizing SSA various work types for OAS, CPP and liaisons. This internal reference document, on the IO Sharepoint, indicates that "the service standard for processing SSA OAS and CPP benefits is 365 days".

The audit team noted, at the time of the fieldwork, a total of approximately 78,000 work items recorded in the work item inventory distribution. The audit team also noted that OAS processing time at NHQ was on average 368 days pre-regionalization. Processing time has increased to 476 days in one region and 443 days in the other region post-regionalization. For

CPP, processing time has increased from 418 days in NHQ to 503 days in one region and decreased to 344 days in the other region.

While both regions made attempts to address the inventory, the number of work items continued to increase over time. In cases where there are overpayments to be recovered from individuals, delays in processing these files can significantly impact the ability to recover these overpayments. Additionally, delays in processing underpayments may cause undue hardship on individuals. The audit team was informed in February 2017 by the management of BDS that a strategy for inventory reduction already exists.

Recommendation

2. The ADM of BDS, in collaboration with both regional ADMs, should develop an action plan to accelerate the inventory reduction activities for SSA.

Management Response

Management agrees with the recommendation. BDS with regional Centres of Specialization will develop a plan to address the SSA inventory. Actions are expected to be completed by April 2017.

2.2 Existing controls in place are adequate

The audit team mapped SSA process flowcharts for both processing centres with the objective of identifying the controls in place to prevent and detect errors in the application and payment processes. Controls, which are highly manual in nature, for processing SSA benefits were adequate. These included:

o   Mandatory training was provided to all staff processing SSA benefits;

o   Functional guidance and procedures, policies, directives, regulations and laws were readily available to staff;

o   For CPP benefits under SSA, all payments need to be approved by another SCBO or Team Leader before payments can be processed in the legacy system;

o   For OAS benefits under SSA, payments over $5,000 need to be approved by Team Leader before payments can be processed in the legacy system;

o   A detailed delegation of authority chart was in place for each position;

o   Appropriate segregation of duties existed among staff for input and authorization; and

o   Signature cards under Section 34 of the FAA were in place for the majority of SCBO.

With respect to the delegation of authority, the audit team noted a few instances, in both regions, of individuals approving payments that did not have the required signature cards under Section 34 of the FAA, or had expired signature cards. During the conduct of this audit, both regions were informed of the situation and took corrective action to remedy this issue.

We observed through our audit tests that staff were not consistent in their interpretation of delegation instruments when benefits over $25,000 were to be paid. Although benefit payments

over $25,000 occur infrequently, it is expected that delegations would be consistently and appropriately applied. We also noted a good practice in one processing centre, whereby payments over $15,000 are cross reviewed by another SCBO or BEA prior to being approved.

Finally, prior to November 8, 2016, Section 33 approvals under the FAA were performed by a Director in BDS who did not have Section 33 delegation of authority. At the conclusion of our audit fieldwork, we were informed that Section 33 approvals are being performed by the Chief Financial Officer Branch who has the appropriate delegation of authority.

2.3 Quality assurance needs to be implemented

Quality Review

The objective of a quality review (QR) is to assess whether claim processing is done in a consistent manner and in accordance with standard policies and procedures. QR for IO is managed by each regional processing centre.

Based on our discussions with regional officers and our understanding of the processes in place, the audit team noted some issues with the existing QR:

o   With respect to the initial QR conducted while a SCBO is being trained on a new task, there is a requirement for 100% of the work performed by the SCBO to be reviewed by a BEA. This requirement exists until the SCBO reaches a 95% accuracy rate in the performance of the new task. We noted that one region met this requirement, while the other region has opted to decrease the acceptable error rate to 85%. There was no written rationale presented to explain this change, nor was the audit team presented with any evidence of approval from NHQ to drop the acceptable error rate from 95% to 85%;

o   Once the files from SCBO are no longer subject to 100% review, the internal audit team was informed that there is no random QR being performed on any of the SCBO's files. In our opinion, the absence of an ongoing QR mechanism greatly increases the risk of errors in file processing not being detected in a timely manner; and

o   The audit team also noted there is no random QR on any of the work performed by the BEAs. The BEAs are an important component of the process to ensure that any complex issues are addressed in the appropriate manner. Having no QR on their work may also contribute to the risk of errors in file processing.

Quality Assurance

Quality Services (QS), within BDS, manages the Quality Assurance (QA) process, which includes reviews for OAS and CPP. QS objective is to assess the quality of claims processing to identify areas for improvement and provide senior management with information that measures incorrectly paid benefits for remedial action.

The efficient delivery of CPP and OAS is measured through public and internal indicators. Public indicators are used to report performance to Canadians, parliamentarians and government executives while internal indicators are used to measure achievement of program

objectives as a means of achieving results-based outcomes. These measures are obtained through National Payment Accuracy Reviews (PAAR) and National Processing Accuracy Reviews (PRAR).

The audit team noted that PAAR and PRAR are not performed on SSA files. As these functions are an important component of maintaining a high standard of quality in file processing, there is a risk that errors may go undetected and that opportunities to improve quality and reduce errors may be missed. It is the audit team opinion that implementing a QA process would address QR issues mentioned above.

Recommendation

3. The ADM of BDS, in collaboration with both regional ADMs, should implement a QA process on the work performed by SCBOs and BEAs for SSA activities.

Management Response

Management agrees with the recommendation. BDS, in collaboration with Regions, will develop an action plan to strengthen quality assurance measures related to the administration of International SSA. Actions are expected to be completed by April 2017.

2.4 Maintenance of files is adequate

Review of maintenance files

Events that take place may, sometimes, impact payment amounts that have been approved. For example, a change of address will not impact payment amounts, but a change in marital status or a death could trigger a monetary impact.

In addition to our file review (801 files), the audit team also reviewed 50 maintenance files (25 per region). Maintenance files selected included death notifications and payment advice notices[1].

Most of the time, when IO received a death notification, action is taken immediately to stop the payment in order to avoid an overpayment situation. Based on the audit results, we conclude that the maintenance file process is adequate.

Review of liaison files

Periods of CPP contribution, OAS and CPP benefit rates, and other client personal information are shared with foreign partners under the terms of an SSA and the accompanied Administrative Arrangement.

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[1] As per the reference policy manual, the legacy system generates a payment advice notice for each returned payment. This notice provides the following information: status of the returned payment, whether the legacy system automatically cancelled the returned payment, and whether the legacy system requires further instructions.

SCBO use a liaison form to exchange information between Canada and each country with which ESDC has an International Agreement. SCBO may need to provide client information to the foreign liaison agency where:

o   A liaison is received from the foreign liaison agency requesting information. The liaison may be received alone or attached to an application for a Canadian benefit;

o   A client is applying for a foreign benefit. SCBO will provide the necessary information when forwarding the application to the foreign liaison agency;

o   The terms of the agreement require the SCBO to advise the foreign country of the decision on an application for a Canadian benefit; and

o   Confirmation of Client Information has to be provided to the foreign liaison agency.

The audit team reviewed an additional 50 liaison files (25 per region). Overall, the audit team identified three administrative irregularities that had no monetary impact on benefits (Canadian or foreign). These errors were shared with ESDC managers for review and corrective action, where appropriate.

2.5   Application of Social Security Agreements is effective

Departmental policies and procedures to guide the administration of benefits under Canada's SSA respected the provisions contained in the CPP and OAS legislation, as well as the provisions of the respective SSA.

In consultation with the International Policy and Agreements (IPA) team, the IO team developed an implementation package to support adjudication of benefits under any new agreement. Documented procedures, tools and resources are in place to guide IO staff in adjudicating and processing CPP and OAS benefits in both processing centres. In addition, training is provided by the regional BEA to the staff.

Within IO, informal processes exist to guide interpretation of SSA. For example, if a SCBO needs clarification on an element of an agreement, the SCBO will contact their BEA or make a request via the Business Expertise Request Tool[2](BERT). If the BEA is not able to provide clarification, the BEA will ask IO in NHQ. If further clarification is required, the IPA team will be contacted.

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[2] All requests for BEA assistance must be made to business expertise using the BERT. BERT provides access to advice and guidance from business expertise and is a medium to provide suggestions and feedback.

2.6   ESDC "Clean Desk" guideline was not implemented at the processing centres visited

The audit team observed that all employees had access to the departmental policy on Privacy, in conjunction with the *Privacy Act* and the *Department of Employment and Social Development Canada Act*. General communications were used to advise employees of these privacy policies and management conducted activities to ensure staff understands personal information that has to be appropriately protected and safeguarded.

The clean desk guideline was established by the Department in October 2014. It is expected that the guideline be followed by all staff to prevent the unauthorized disclosure of sensitive information and the loss of departmental assets. At the time of our on-site visits to both processing centres between June and July 2016, the clean desk guideline was not yet implemented. The audit team observed that all SSA files being processed were kept on SCBOs' desks or in an unlocked common filing cabinet although both locations were on a secure floor and in a secure building.

Furthermore, there is no file retention policy in place and a large number of files are located in off-site storage areas. We were informed that work is underway to draft and implement a file retention policy.

The audit team had previously made a recommendation in the 2015 Audit of Canada Pension Plan Disability Program – Benefits Authorization and Payment with respect to the safeguarding of personal information. We expect that the approved corrective actions from the 2015 audit will include SSA, where applicable.

3.   Conclusion

The audit concluded that controls to support SSA benefits eligibility, adjudication, payment and maintenance processes are in place. There is a need to implement a QA process and there are opportunities to strengthen adherence to SSA approved procedures. Personal information is protected and safeguarded during its exchange with the applicants. The audit identified an opportunity to further protect paper files while applications are being processed.

4.   Statement of Assurance

In our professional judgement, sufficient and appropriate audit procedures were performed and evidence gathered to support the accuracy of the conclusions reached and contained in this report. The conclusions were based on observations and analyses at the time of our audit. The conclusions are applicable only for the Audit of the Management and Administration of Canada's International Social Security Agreements. The evidence was gathered in accordance with the *Internal Auditing Standards for the Government of Canada* and the *International Standards for the Professional Practice of Internal Auditing*.

Appendix A: Audit Criteria Assessment

AUDIT CRITERIA		RATING
Eligibility	Controls (manual and/or automated) are in place to ensure that only eligible applicants receive benefits under each SSA.	◉
	Eligibility criteria are applied in a consistent manner between both processing centres.	◉
Adjudication and Payment	Administrative processes, within IO, accurately reflect the requirements of the various SSA.	◉
	International benefits are adjudicated and processed in a consistent manner between both processing centers.	◉
	Relevant information and documentation are available, either paper or electronic, to support the adjudication, approval and payment of CPP and OAS benefits under Canada's SSA.	◉
	Controls (manual and/or automated) are in place to ensure the accuracy of transaction coding and processing.	◉
	Appropriate segregation of duties and delegation of authority are in place.	●
Maintenance	A quality assurance program is in place to monitor and detect incorrect and/or inconsistent decisions regarding eligibility, adjudication and payment.	○
	Continuing eligibility factors (death, income, marital status) are assessed and actioned in a timely manner, to detect over- or underpayments.	●
Application of Social Security Agreements	Operational policy guidance, procedures and processes applicable to SSA are implemented in a consistent manner by both processing centres.	●
	An adequate monitoring framework is in place to timely identify situations where the implementation of a policy decision or agreement does not meet needed requirements.	◉
Protection and Safeguarding of Personal Information	Controls are in place to properly safeguard personal information.	◉

✪ Best practice
● Sufficiently controlled, low risk exposure
◉ Controlled, but should be strengthened, medium risk exposure
○ Missing key controls, high risk exposure

Appendix B: Glossary

ADM	Assistant Deputy Minister
BDS	Benefits Delivery Services
BEA	Business Expertise Advisor
BERT	Business Expertise Request Tool
CPP	Canada Pension Plan
ESDC	Employment and Social Development Canada
FAA	*Financial Administration Act*
IO	International Operations
IPA	International Policy and Agreements
NHQ	National Headquarters
OAS	Old Age Security
PAAR	Payment Accuracy Reviews
PRAR	Processing Accuracy Reviews
QA	Quality Assurance
QR	Quality Reviews
QS	Quality Services
SC	Service Canada
SCBO	Service Canada Benefits Officers
SSA	Social Security Agreements