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Audit of Old Age Security Program Eligibility

Audit Report

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EXECUTIVE SUMMARY

The Old Age Security (OAS) program provides Canadians 65 years of age and over with a monthly pension if they have lived in Canada for at least ten years after the age of 18. For those with little or no income, the OAS program provides a Guaranteed Income Supplement (GIS) benefit. The OAS program is governed by the *Old Age Security Act* and Regulations and financed through the Government of Canada's Consolidated Revenue Fund.

When determining eligibility for OAS program benefits, processing officers review applications with supporting documentation to prove periods of residence and legal status. The OAS program has access to the Canada Revenue Agency (CRA) data to verify income when calculating GIS benefits. Human Resources and Skills Development Canada (HRSDC) regional processing centres receive direction from National Headquarters (NHQ) through established functional guidance and procedures (FGPs), the OAS Operations manual and the national training packages.

Audit Objective

The objective of this audit was to provide assurance that due diligence is applied throughout the OAS eligibility process.

Summary of Key Findings

- File review results indicated that OAS, GIS and revised benefits were processed in accordance with the requirements established by the Department.
- Existing controls for assessing initial and ongoing eligibility for higher risk benefits such as GIS and non-portable OAS could be strengthened.
- National quality assurance activities and regional quality review activities could be streamlined.

Audit Conclusion

The audit concluded that, overall, there are moderate issues requiring management attention (refer to Appendix A). Although file review results indicated the majority of eligibility transactions for new GIS benefits and revised benefits and all eligibility transactions for new OAS benefits were processed in accordance with departmental requirements, opportunities were identified to strengthen controls for eligibility assessment, to reduce the level of effort in collecting eligibility documentation, and to streamline quality assurance activities and regional quality review activities.

Summary of Recommendations

- The Assistant Deputy Minister (ADM), Processing and Payment Services Branch (PPSB) should further simplify the GIS application process.
- The ADM, PPSB and the ADM, Income Security and Social Development Branch, in collaboration with the ADM, Integrity Services Branch (ISB) should explore alternate ways to confirm legal status and if possible, periods of residence information for OAS applicants.
- The ADM, PPSB, in collaboration with the ADM, ISB should develop a risk-based process to confirm ongoing entitlement for non-portable OAS pension and GIS benefits on a periodic basis.
- The ADM, PPSB should review the CRA self-reported marital status, and find ways to increase the accuracy of the current self-reported marital status of GIS recipients, where applicable.
- The ADM, PPSB should review quality activities to ensure these are standardized and consistent across the processing network.

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1.0 BACKGROUND

1.1 Context

The OAS program is a first pillar of Canada's retirement income system whose benefits include: the OAS pension, the GIS, the Allowance, and the Allowance for Survivor. The OAS program pays benefits monthly, with quarterly adjustments for increases in the cost of living. The program began in 1952 when Parliament passed the *Old Age Security Act*.

The OAS program is financed from the Government of Canada's Consolidated Revenue Fund, and totalled \$35.6 billion in payments to 4.7 million individuals for the fiscal year 2009-2010¹. The program is administered by Service Canada through regional processing centres across the country.

There are eligibility conditions for each benefit, and the amounts to which beneficiaries are entitled depend on their age, periods of residence, income, and marital status.

- OAS pension: A monthly pension, payable at age 65 or later, to all individuals who have completed a minimum period of residence in Canada and met the legal status requirements. Disbursements for 2009-2010 were \$27.3 billion¹.
- GIS: An additional monthly benefit payable to low-income OAS pensioners residing in Canada. Disbursements for 2009-2010 were \$7.7 billion¹.
- Allowance and Allowance for the Survivor: A monthly benefit payable to low-income individuals, aged 60 to 64 years, residing in Canada, who are the spouse or common-law partner of an OAS pensioner or the surviving spouse or surviving common-law partner. Disbursements for 2009-2010 were \$0.5 billion¹.

1.2 Risk Environment

According to PPSB 2010-2011 Integrated Business Plan, the OAS recipient base is projected to increase by 9.4% over the next three years and by 42.3% over the next ten years. In the 2010-2011 Corporate Risk Profile, the program identified the potential risk that service to Canadians could deteriorate in trying to meet the anticipated increase in workload as the number of applications increases.

Furthermore, with an increased workload and a higher number of OAS recipients, there is a greater risk of overpayments or underpayments of OAS benefits to recipients.

¹ Public Accounts of Canada, 2010 (www.tpsgc-pwgsc.gc.ca/recgen/pdf/44-eng.pdf).

1.3 Audit Objective

The objective of this audit was to provide assurance that due diligence is applied throughout the OAS eligibility process.

1.4 Scope

The scope of this audit included an assessment of key internal controls in the following three main areas to determine:

- eligibility for full and partial OAS pensions, excluding pensions where eligibility is determined by the International Operations processing sites for foreign benefits²;
- eligibility for GIS benefits; and
- continued eligibility to receive benefits.

The OAS program also contains Allowance benefits. Expenditures related to these benefits were not significant in comparison to the OAS pension and GIS expenditures and were therefore excluded from the audit.

Field work included site visits to four regional processing centres: Québec, Victoria, Edmonton and Scarborough. These sites were chosen because they represented the majority of OAS and GIS transactions processing.

1.5 Methodology

The principal audit techniques used during the conduct of the audit included:

- File reviews and analysis;
- Data analysis related to continuing eligibility;
- Process observation and analysis;
- Documentation review and analysis; and,
- Interviews/discussions with staff and senior management.

Auditors drew a stratified random sample of OAS and GIS applications and revised benefits from each of the four processing centres. File review results were obtained from a statistically valid random sample of 806 transactions³ made from March 2010 to March 2011, with a confidence interval of 95%, a presumed error rate of 2% and a precision interval of $\pm 2\%$ for each of the samples.

² An internal audit of the "Management and Administration of Canada's International Social Security Agreements" was conducted in November 2008.

³ An error was defined as any item that could cause the payment to be incorrectly calculated.

2.0 AUDIT FINDINGS

2.1 Existing controls to confirm eligibility require attention

The Department has some controls in place to assess initial and ongoing eligibility for OAS and GIS. There are opportunities to obtain data from other departments that would improve the efficiency of the application and renewal processes, and may reduce the number/frequency of incorrect payments.

Analysis

The audit team conducted a file review that included an assessment of the eligibility and payment accuracy of new OAS and GIS applications as well as revised benefits. Revised benefits were defined as any actions to update an existing recipient's file that have a financial impact (e.g. income change, account suspension or cancellation).

File review results indicated that OAS, GIS and revised benefits were processed in accordance with the requirements established by the Department. Auditors noted that seven files from the sample could not be located by the processing centres. These files were subsequently replaced by additional randomly selected files. During the reporting phase of the audit, processing centres were able to locate five of the seven missing files. Internal Audit will follow up with the processing centre on the status of the two missing files.

Table 1 shows the results of our file review. Based on these results, the audit team concluded that established guidelines and policies are consistently applied. The file review focused on the appropriate qualifying factors (i.e. documentation on file, age, legal status, changes in residence, income, marital status, notification of death and residence periods). When one or more qualifying factors were missing on file, the auditors verified if the missing qualifying factor could have caused the payment to be incorrectly calculated. The results below, for example, outline that the error rate for OAS was zero percent, this means that all appropriate qualifying factors were used and documented on file to support eligibility decisions. These qualifying factors, where appropriate, are further elaborated on in the following pages.

Table 1: File Review Results

Transaction Type	Files Reviewed	Error Rate
OAS	162	0%
GIS	278	1.8 %
Revised benefits	366	2.1%

While performing the audit tests, the auditors found that errors in processing GIS applications were predominately due to a lack of evidence that GIS forms had been mailed to recipients who requested them. This issue, which can be disadvantageous for affected recipients, could be resolved with simple improvements to the GIS application process.

The current process, described below, does not allow an applicant to apply for both GIS and OAS at the same time on a single form. Applicants must first apply for the OAS pension, indicating they are interested in GIS, which triggers the Service Canada Benefit Officer (SCBO) to send the applicant a GIS form. The audit team observed that, in addition to increasing processing time, this resulted in a high number of GIS recipients who were not put into pay when their OAS benefits began. Once the GIS application form is processed, if an applicant anticipates or experiences a decrease in income, due to retirement for example, an option form is sent. Since the information contained within the option form could increase the GIS beneficiary's entitlement, auditors observed that the current process may result in initial GIS underpayments and additional processing time to revise the client's benefits once the option forms are received.

We were informed by PPSB that national outreach activities endeavour to inform recipients of their entitlements to additional benefits. We were also informed by PPSB that pre-filled GIS applications are sent to certain individuals based on CRA income data and GIS forms are sent to individuals identified as eligible for benefits on the "year-to-year variance report" produced by the OAS system.

Documentation to determine eligibility

Audit results indicate that all pertinent qualifying factors, including age, legal status and periods of residence, are assessed when processing OAS applications. Applicants born in Canada can receive full OAS benefits without submitting any documentary evidence, since their birth certificates have been verified during the Social Insurance Number (SIN) application process. These are subsequently used for processing OAS and GIS applications. By receiving this information, resources are saved, processing time is minimized and the risk of errors is diminished.

Conversely, the application process for individuals not born in Canada and for Canadian-born applicants who have numerous absences from Canada can be onerous. Although the applicant's age may be verified through the Social Insurance Register (SIR) individuals must submit proof of Canadian legal status and proof of periods of residence in order to confirm their eligibility. While the audit revealed that documentary evidence was on file, applicants often submitted dozens of pages of source documentation, creating a challenging and lengthy process where the SCBO must sift through documents to identify the pertinent

facts related to an applicant's periods of residence. It could be more efficient if legal status confirmation was obtained directly from Citizenship and Immigration Canada (CIC), the only department that could provide confirmation of legal status. With legal status data, documentation would need to be requested only to confirm periods of residence in Canada. Currently, Service Canada relies on an individual's history of Canada Pension Plan (CPP) contributions and self disclosure to identify gaps in an applicant's periods of residence.

Changes in residence

To minimize overpayments, the Department must be aware of any changes in residence for GIS and non-portable OAS recipients (periods of residence in Canada of less than 20 years). Only Canadian residents are eligible to receive GIS and non-portable OAS benefits, whereby a departure for more than six months suspends entitlement. Thus, overpayments can accrue quickly and recovery may be difficult. There are also detective controls employed by ISB to identify residence ineligibility.

During the audit, data tests were conducted to determine the source of OAS and GIS overpayments in order to identify control weaknesses. Analysis revealed that more than 40% of overpayments were from individuals or couples who owed more than \$25,000.

A thorough analysis was conducted on all outstanding overpayments exceeding \$99,000 to determine what eligibility factors contributed to these large overpayments. We selected a sample of 124 overpayments for review. 116 (93.5%) of these overpayments were directly attributed to residence ineligibility with the vast majority being cases where the recipient continued to receive GIS or non-portable OAS despite not meeting the ongoing residence requirements. Given that residence-related overpayments are typically uncovered by third-party information or through detective controls employed by the ISB, it is likely that some residence violations have not been uncovered, thereby understating reported overpayments.

Income

Information-sharing agreements are leveraged to access CRA information for income verification while assessing initial applications and renewals. Results from the file review suggest that this control ensures the GIS benefit is based on CRA-reported income.

The audit team identified that national FGPs established an income variance tolerance. If previously reported income for a recipient varies more than the established threshold with the following year CRA-reported income, an automated report is generated. This report should prompt follow-up with the recipient to verify the discrepancy.

Despite a national “income variance tolerance” established by PPSB, we observed that processing sites have developed their own benchmarks for follow-up.

Marital status

A financial risk exists whereby a married GIS recipient could indicate he or she is single in order to receive a higher GIS benefit amount. Program legislation specifies that single recipients receive more GIS benefits than married individuals. Currently, the OAS program requests that applicants send copies of their marriage certificates. However, since the CRA requires recipients to report their marital status each year, the Department could cross-reference on the CRA data to validate an individual’s marital status indicated on the respective GIS application. Cross-referencing CRA data could help ensure that discrepancies in marital status are investigated during the GIS renewal process. This control could reduce the risk associated with recipients incorrectly reporting marital status.

Notification of Death of Recipients

Once portable OAS applications (definition is provided in Appendix B) have been approved, recipients receive an indexed payment for the duration of their lives. Given that the initial application is correctly processed, there remains a risk of overpayment (for portable OAS benefits) which stems from the unreported death of the recipient.

Currently, processing centres rely on notification from family and trustees for the clients as well as arrangements with funeral homes, CPP, SIR, CRA and the provincial vital statistics offices for Ontario, Alberta, British Columbia, Quebec and Nova Scotia to notify Service Canada of a client’s death. We were informed by ISB that arrangements are underway to receive death data from Manitoba effective August 2011, from Prince Edward Island in June 2012, and from Newfoundland and Saskatchewan in 2013. We were also informed by ISB that discussions are on-going with the remaining province (New Brunswick) to obtain death data. It is expected through these agreements with provincial vital statistics offices, that death notification will be received on a more consistent, secure and timely basis which will allow for increased efficiencies and reduction of duplicative activities.

Protected

Second Party Verification

Properly assigning the handling of the eligibility assessment process among two or more qualified individuals in a way that provides reasonable assurance that the process is sound is a good management practice. This is especially important when the process relates either to large one-time payments or ongoing payments where eligibility is not automatically re-examined.

Currently, SCBOs are responsible for determining and approving eligibility. The auditors did not find any audit trail suggesting that SCBOs decisions were subjected to a verification by a second party before the benefit is put into pay. Although the file review results are positive, the auditors believe that program management should verify on a periodic basis, as a best practice, SCBO eligibility decisions for complex files (e.g. GIS and non-portable OAS).

Recommendations

1. The ADM, PPSB should further simplify the GIS application process.
2. The ADM, PPSB and the ADM, Income Security and Social Development Branch, in collaboration with the ADM, ISB should explore alternate ways to confirm legal status and if possible, periods of residence information for OAS applicants.
3. The ADM, PPSB, in collaboration with the ADM, ISB should develop a risk-based process to confirm ongoing entitlement for non-portable OAS pension and GIS benefits on a periodic basis.
4. The ADM, PPSB should review the CRA self-reported marital status, and find ways to increase the accuracy of the current self-reported marital status of GIS recipients, where applicable.

2.2 Operational risks for OAS and GIS could be better defined

The audit found there is a risk management regime in place at the national level. Corporate risks are identified and managed. We were also informed that strategies were developed in certain areas to address some operational risks applicable to OAS and GIS eligibility/continuing eligibility assessment.

Analysis

In the 2010-2011 Corporate Risk Profile, the Department identified “there is a risk that our services to Canadians could deteriorate if there were insufficient resources to modernize the OAS, CPP and CPP Disability programs to meet the anticipated demographic shift.” The key mitigation strategy outlined is to modernize and transform the administration and delivery of OAS. The goal of this strategy is to improve the recipient and stakeholder experience as well as streamline and simplify the application process.

Furthermore, PPSB 2010-2011 Integrated Business Plan identified three areas of risk: competing priorities, change management, and human resources. However, the risks and respective mitigation strategies are not specific to OAS eligibility and continuing eligibility.

We were informed by ISB that effective December 2009, activities and initiatives were undertaken as part of the “OAS and CPP integrity modernization strategy” to identify key program integrity operational risks. This strategy, which included the “OAS/ CPP integrity stewardship review”, was carried out to identify key program integrity risks and to test means to address these risks. We were also informed that regular updates on this strategy, the identified risks and pilots results were provided to various departmental committees, such as Program and Service Delivery Committee and Legal Issues Management Committee.

During our regional fieldwork, we found that regions could identify the types of transactions that pose the greatest risk. However, the regions could not provide evidence of a formal strategy to mitigate them. We were informed by regional Senior Management that the Quebec region has a formal risk management strategy. Of note, the Western Canada and Territories (W-T) region has recently begun preliminary analysis of overpayment data to identify risk areas. The ability to manage the complexity of the OAS eligibility rules and protect against error and fraud could be enhanced by a solid understanding of program risks, especially at the operations and processing levels.

2.3 Oversight activities could be streamlined

The audit found that the Department conducts national quality assurance activities and regional quality review activities. There may be an opportunity to examine these activities to determine whether they can be streamlined.

Analysis

Within PPSB, the Quality Services Division at NHQ is responsible for conducting and reporting on OAS payment and processing accuracy using the Payment Accuracy Review (PAAR). The OAS PAAR was introduced in 2007 to serve as a measurement tool for the Department to determine the “most likely value” of incorrectly paid OAS benefits. The PAAR team performed two independent reviews of the same files in 2010-2011.

Within the current process, the audit team observed that:

- results are not sub-divided by regional processing centre;
- results are not categorized by benefit type; and
- file review does not focus on high-risk transactions.

During the audit, regions expressed the need for PAAR results to be presented by region. This gap led each of the processing centres we visited to undertake their own file review and quality activities. For example, the W-T and Quebec regions each conduct their own file reviews while ISB performs reviews to assess continuing eligibility. Even though these reviews aim to provide additional information not captured by the PAAR methodology, a substantial amount of duplication of work occurs.

The Office of the Auditor General (OAG), in their 2006 audit, recommended that sampling be conducted by benefit type. The May 2011 audit follow-up indicated this recommendation has not yet been fully implemented. Its implementation would allow the second and third audit observations outlined above to be addressed.

The third observation illustrates that PAAR is not risk-based. We were informed by PPSB that, effective April 2011, the OAS PAAR methodology was expanded to include review of all OAS benefit types, i.e., OAS pension, GIS and Allowance/Allowance for the Survivor. This change in methodology addresses the OAG's recommendation to conduct reviews by benefit type. Over time, this will assist in the categorization and identification of payment error trends by benefit.

In order to accomplish these reviews and maintain the statistical validity of the results at the national level, the OAS PAAR sample size has been increased accordingly.

Recommendation

5. The ADM, PPSB should review quality activities to ensure these are standardized and consistent across the processing network.

3.0 CONCLUSION

The audit concluded that, overall, there are moderate issues requiring management attention (refer to Appendix A). Although file review results indicated the majority of eligibility transactions for new GIS and revised benefits and all eligibility transactions for new OAS benefits were processed in accordance with departmental requirements, opportunities were identified to strengthen controls for eligibility assessment, to reduce the level of effort in collecting eligibility documentation, and to streamline quality assurance activities and regional quality review activities.

4.0 STATEMENT OF ASSURANCE

In our professional judgement, we are confident that sufficient and appropriate audit procedures were performed and evidence was gathered to support the accuracy of the conclusions reached and contained in this report. The conclusions were based on observations and analyses of the situations as they existed at the time against the audit criteria. The conclusions are applicable only for the Audit of Old Age Security Program Eligibility. 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

The conclusions reached for each of the audit criteria were developed according to the following definitions.

Numerical Categorization	Conclusion on Audit Criteria	Definition of Conclusion
1	Significant Improvements Required	<p>Requires significant improvements (at least one of the following three criteria need to be met):</p> <ul style="list-style-type: none"> financial adjustments material to line item or area or to the Department; or control deficiencies represent serious exposure; or major deficiencies in overall control structure. <p>Note: Every audit criterion that is categorized as a “1” must be immediately disclosed to the Chief Audit Executive (CAE) and the client Director General or higher level for corrective action.</p>
2	Moderate Issues	<p>Has moderate issues requiring management focus (at least one of the following two criteria need to be met):</p> <ul style="list-style-type: none"> control weaknesses, but exposure is limited because likelihood of risk occurring is not high; control weaknesses, but exposure is limited because impact of the risk is not high.
3	Controlled	<ul style="list-style-type: none"> well managed, but minor improvements are needed; and effective.
4	Well Controlled	<ul style="list-style-type: none"> well managed, no material weaknesses noted; and effective.

The following table outlines the audit criteria and examples of key evidence and/or observations noted which were analyzed and against which conclusions were drawn. In cases where significant improvements (1) and/or moderate issues (2) were observed, these were reported in the audit report.

It is expected that the Department:	Conclusion	Observations/Examples of Key Evidence
has appropriate controls in place to ensure that only eligible applicants receive OAS benefits.	2	<ul style="list-style-type: none"> There is a lack of preventive controls to assess initial and continuing eligibility for program benefits, specifically for GIS and non-portable OAS. The auditors did not find any audit trail suggesting that SCBOs decisions were subjected to a verification by a second party before the benefit is put into pay. GIS applications are only sent to recipients after their OAS application has been processed.
has a formal risk management regime in place.	3	<ul style="list-style-type: none"> There is a formal risk management regime in place at the national level. Activities and initiatives were undertaken as part of the OAS and CPP integrity modernization strategy to identify key program integrity operational risks. Auditors were informed by the regions that some activities are being undertaken, but we did not find evidence of a process to identify operational risks.
has an adequate and effective oversight function in place.	2	<ul style="list-style-type: none"> Quality Services Division at NHQ is responsible for conducting and reporting on OAS payment and processing accuracy using the Payment Accuracy Review (PAAR). During the audit, regions expressed the need for PAAR results to be presented by region. This gap led each of the processing centres we visited to undertake their own file review and quality activities.

APPENDIX B: Glossary

ADM	Assistant Deputy Minister
CAE	Chief Audit Executive
CIC	Citizenship and Immigration Canada
CPP	Canada Pension Plan
CRA	Canada Revenue Agency
FGP	Functional guidance and procedures
GIS	Guaranteed Income Supplement
HRSDC	Human Resources and Skills Development Canada
ISB	Integrity Services Branch
NHQ	National Headquarters
OAG	Office of the Auditor General
OAS	Old Age Security
PAAR	Payment Accuracy Review
PPSB	Processing and Payment Services Branch
SCBO	Service Canada Benefit Officer
SIN	Social Insurance Number
SIR	Social Insurance Register
W-T	Western Canada and Territories

OAS pension outside of Canada (portability): The years of residence in Canada after age 18 will usually determine if the recipient can receive an OAS pension outside of Canada. There are three different possibilities:

- When a recipient has resided in Canada for 20 years or more after age 18 – if the recipient leaves Canada, the OAS pension will continue to be paid indefinitely outside of Canada.
- When a recipient has less than 20 years of residence in Canada after age 18 - if the recipient leaves Canada, the OAS pension will be paid for the month of departure from Canada and the following six months only.
- When a recipient has less than 20 years of residence in Canada after age 18 but has lived or worked in a country with which Canada has an

international social security agreement in force, the recipient may be eligible to export that OAS pension, regardless of the 20-year rule under that social security agreement.