



Report

Date: 2 June 2021

Security Level: IN CONFIDENCE

To: Hon Carmel Sepuloni, Minister for Social Development and Employment

Wage Subsidy Scheme: quarterly update on our on-going approach to audits and integrity

Purpose of the report

- 1 This report provides an update on the Ministry of Social Development's (MSD) approach to integrity of the Wage Subsidy Schemes (WSS).
- 2 This is the fourth quarterly report (to 31 March 2021).

Executive summary

- 3 Our integrity approach continued for the March 2021 Wage Subsidy (WSSMAR21) and included some additional integrity measures.
- 4 We strengthened pre-payment integrity checks to include requiring some verification, and are progressing further analysis to provide assurance over our integrity programme, in line with recommendations from the Auditor-General.
- 5 Wage Subsidy investigations are ongoing, and enforcement and recovery decisions are being taken.
- 6 The next quarterly report, to 30 June 2021, will be due August 2021.

Recommended actions

- 7 It is recommended that you:
 - a) **note** the Ministry's continuing approach to WSS integrity, as outlined in this report
 - b) **agree** to forward a copy of this report to the Minister of Finance.

agree / disagree


Liz Jones
DCE Service Delivery (Acting)

2/6/21
Date


Hon Carmel Sepuloni
Minister for Social Development and
Employment

9/6/21
Date

Audit and integrity of the Wage Subsidy Schemes

- 8 In February we advised you that:
- a WSS enforcement and recovery framework had been developed and WSS investigations were progressing
 - between 40 and 50 Fraud Intervention Services (FIS) staff would continue to manage ongoing WSS investigations
 - WSS investigations were expected to continue for 12 to 18 months due to the complex nature of some investigations, and where criminal and civil enforcement and recovery action is contemplated
 - the majority of WSS integrity checks identified at that time had been completed
 - FIS resources were beginning to transition back to benefit integrity work from early 2021.
- 9 Appendix 1 provides the quarterly WSS integrity programme volumes. Because of system changes for WSSMAR21, operational reporting as at 31 March 2021 (quarter end) may be unreliable and figures have instead been provided as at 30 April 2021.

Our integrity approach continued for WSSMAR21...

- 10 On 1 March 2021, Cabinet agreed to activate the COVID-19 Wage Subsidy March 2021 Scheme (WSSMAR21). This agreement included that MSD would apply the following existing integrity measures to WSSMAR21:
- pre-payment validation of application details with Inland Revenue
 - publishing the names of businesses who receive the subsidy
 - a pre-payment exceptions process where applications meet one or more integrity risk criteria supported by analysis with Inland Revenue
 - a coordinated complaints process with post-payment integrity checks as required
 - an investigation process
 - a repayment process
 - undertaking criminal prosecution and civil recovery proceedings where appropriate.
- 11 Additional integrity measures were put in place for WSSMAR21, including:
- including a requirement in the WSSMAR21 declaration for applicants to prepare and retain evidence that their revenue decline was attributable to the change to Alert Level 3 on 28 February 2021
 - reminding applicants two weeks after the application period that they must retain this evidence and provide it when requested (especially if the revenue drop was predicted at the time of application)
 - increased transparency and visibility of the integrity programme (improved guidance for applicants with high level public reporting in development)
 - enhanced post-payment integrity checks based on joint analysis with IR – to commence from June 2021 and include seeking verification in line with the Office of the Auditor General (OAG) recommendation.
- 12 Appendix 2 provides a summary of the integrity settings for WSSMAR21.
- ... but this impacted our transition back to benefit integrity work.*
- 13 With the establishment of WSSMAR21, FIS staff were diverted from progressing on hand WSS investigations and benefit integrity work to support the payment and integrity of new applications.

- 14 FIS are responsible for all pre-payment integrity checks of large employers (more than 80 employees) as well as conducting pre-payment integrity checks for those applications excepted out where they met one or more risk criteria.
- 15 Pre-payment integrity checks for WSSMAR21 were strengthened in line with the updated declaration, and initial recommendations from Audit NZ and the OAG, to routinely include that applicants provide evidence of their revenue drop attributed to the change in Alert Levels. This meant the pre-payment integrity checks for WSSMAR21 took longer to resolve than for previous schemes, while we waited for evidence to be provided.
- 16 WSSMAR21 pre-payment integrity checks are now primarily finished, with WSS integrity work reverting to focus on ongoing WSS investigations. As at 3 May 2021:
- around 45 FIS staff (out of around 100 investigators) continue to manage ongoing WSS work including investigations
 - the balance of investigative resources have returned to benefit integrity work. This includes reviewing cases that were paused during COVID to reassess in each case the appropriate action going forward, considering the delays.

We are progressing analysis to provide further assurance over our WSS integrity programme.

- 17 Audit NZ and OAG made recommendations in their assessments of the WSS to seek further assurance over our integrity programme, including:
- 17.1 that the Ministry seek positive confirmation (which could be targeted towards larger or risk-indicated recipients) that recipients confirm compliance with eligibility criteria and obligations (Audit NZ)
- 17.2 that the Ministry sample clients with whom we did a random post payment audit to seek documentary confirmation that they met the criteria (OAG).
- 18 To address 17.1, we are taking a statistically significant sample of all original Wage Subsidy recipients (excluding those being investigated or who have made a full repayment) to seek positive confirmation of their eligibility for that scheme. This sample will be weighted towards larger employers but will still include a range of business sizes.
- 19 To address 17.2, we are taking a statistically significant sample of all original Wage Subsidy recipients subjected to a random post-payment 'audit' (excluding those being investigated or who have made a full repayment) to seek verification that they met the eligibility criteria. This sample will also be weighted towards larger employers, noting that those with more than 80 employees were already subjected to pre-payment checks and therefore weren't typically subject to post-payment checks.

20 9(2)(f)(iv) OIA, 6(c) OIA

21

- 22 We are also seeking expressions of interest from IR staff to assist MSD with this integrity checking. We estimate up to 15 IR Compliance Specialists will be required for three to four months.

Investigations into Wage Subsidy misuse are ongoing.

- 23 As at 30 April 2021, there were 1,028 WSS cases referred for investigation. Of these, 371 were underway, and 180 cases were waiting to be assigned.
- 24 We continue to work with Police to gather evidence to support the investigations, via production orders as provided for in the Search and Surveillance Act 2012. A

dedicated team of 6 FTE are assigned to manage production orders and engage with Police for all investigation cases.

- 25 Of the 371 investigations underway, [REDACTED]
6(c) OIA

- 26 Gathering evidence to support potential prosecution referrals for these cases is ongoing. It is likely, for the more complex cases, that multiple production orders will be required.
- 27 The WSS Recovery and Response Panel was convened from 22 February 2021. The Panel has so far considered seven cases for civil recovery where MSD has confirmed to the Wage Subsidy applicant (through multiple communications) that repayment is required but this has not been forthcoming. No cases recommended for prosecution have been considered by the panel to date, and further decisions will be made in the coming weeks and months.

Next steps

- 28 The next quarterly report, to 30 June 2021, will be due August 2021.

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Author: Out of scope [REDACTED] Team Manager Information and Advice, Integrity and Debt

Manager: Warren Hudson, General Manager, Integrity and Debt

Appendix 1: Quarterly WSS integrity reporting update*

*This is operational data - data points may change as systems and processes are improved

	As at Friday 26/06/20	As at Friday 25/09/20	As at Friday 18/12/20	As at Friday 30/04/21
Pre-payment integrity checks completed (80+ employees)	1,725	1,789	1,789	1,848
Value of pre-payment checks (80+ employees)	\$2.9b	\$3.0b	\$3.0b	\$3.0b
Pre-payment exception checks completed (WSX/WSR/WSSMAR21)	Nil	1,502	2,075	2,558
Post-payment checks completed (random and targeted)	5,723	6,469	7,308	7,111
Total integrity checks resolved	7,448	9,760	11,172	11,517
Total complaints (MSD, MBIE, IR)	8,269	11,123	11,824	12,230
MSD complaints received	2,690	4,095	4,631	4,910
MSD complaints resolved	1,366	3,124	4,534	4,897
Referred for investigation	449	802	982	1,028
Investigations underway	91	331	345	371
Investigations resolved	Nil	253	415	477
Total refunds requested	11,990	18,259	20,363	22,286
Employer-initiated refunds requested	11,354	16,842	17,962	19,318
MSD-initiated refunds requested	636	1,417	2,401	2,968
Value of refunds requested	\$309.7m	\$478.1m	\$594.7m	\$813.1m
Repayments received	7,146	15,714	16,467	17,904
Value of refunds received	\$210.3m	\$461.5m	\$544.1m	705.2m

Appendix 2: WSSMAR21 integrity controls

