



Report

Date: 25 October 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 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 sixth quarterly report (to 30 September 2021).

Executive summary

- 3 Enhancements to the upfront integrity controls for the WSSAUG21 scheme are expected to reduce the level of post-payment integrity work required.
- 4 We will continue to shift resources between benefit integrity and Wage Subsidy integrity work as required, and additional Investigators have been recruited to support this work.
- 5 Work to provide further assurance over the schemes is underway.
- 6 We are progressing WSS investigations and will continue to make further enforcement decisions in the coming weeks and months.
- 7 The next quarterly report, to 30 December 2021, will be due January 2022.

Recommended actions

- 8 It is recommended that you:
 - a) **note** our 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

Viv Rickard
DCE Service Delivery

Date

2 November 2021

Hon Carmel Sepuloni
Minister for Social Development and
Employment

Date

Integrity of the Wage Subsidy Schemes

9 In August we advised you that:

- the establishment of WSSAUG21 saw Fraud Intervention Services (FIS) staff diverted from progressing on hand WSS investigations and benefit integrity work to support the payment and integrity of new applications
- we will continue to progress key Wage Subsidy and benefit investigations and will transition further staff back on to this work
- we have commenced recruitment of additional Investigators to support ongoing demands
- work began in July 2021 to address the Office of the Auditor General (OAG) recommendations to provide additional assurance over the schemes
- investigations into Wage Subsidy misuse are ongoing
- integrity settings for WSSAUG21 were as per WSSMAR21 and included enhanced validation of sole trader information by IR at the application stage.

10 Appendix 1 provides the quarterly WSS integrity programme volumes to the end of the quarter. This is point in time operational data which is subject to change as case information or reporting processes are updated.

11 Over subsequent schemes we have continued to clarify the criteria and strengthen the controls in place to ensure we can balance making payments quickly to affected businesses and individuals alongside maintaining the integrity of the scheme. This includes increasingly improving our upfront integrity controls and supporting those applicants who can't be validated to ensure their information is correct.

12 For the WSSAUG21 scheme this included enhanced validation of sole trader information with Inland Revenue (IR), improved guidance for applicants, and routinely seeking documentary evidence to support applications from those subject to pre-payment integrity checks. These enhancements to the upfront integrity controls are expected to reduce the level of post-payment integrity work required.

We continue to balance Wage Subsidy and benefit system integrity work.

13 Since early 2021 we have been gradually transitioning investigators back to benefit integrity work, and we will continue to shift resources between benefit integrity and Wage Subsidy integrity work as required. Additional Investigators have been recruited to support this work and are currently in training, and further recruitment is underway.

14 Two factors are enabling us to more quickly move FIS resources away from WSSAUG21 integrity work and back on to existing Wage Subsidy investigations and benefit integrity work:

- application numbers for each subsequent round of WSSAUG21 have been decreasing, reducing the number of integrity checks required for each round
- following full pre-payment checks for all large employer (80+ employees) applications for the first two WSSAUG21 payments we found a high level of compliance with the entitlement criteria indicating a low integrity risk with this group. This has enabled us to introduce some automation of approvals for large employer applications who have reapplied for subsequent rounds, and to move this large employer work to other business areas freeing up FIS resources.

15 Currently, our pool of FIS investigative staff is allocated as follows:

- 15 FTE focused on pre-payment integrity checks and responding to allegations for WSSAUG21
- 50 FTE focused on progressing current WSS investigations
- 36 FTE focused on progressing benefit investigations

- 10 new FTE new staff undergoing induction and training to focus on benefit investigation work
 - 5 FTE conducting additional assurance work as recommended by the OAG.
- 16 Post-payment risk analysis for WSSMAR21 undertaken with IR was delayed due to the establishment of WSSAUG21. We are now planning to undertake this analysis across both schemes concurrently, once the WSSAUG21 scheme ends. This analysis, and the assessment of over 450 allegations received to date for the WSSAUG21 scheme, will inform post-payment integrity work and resourcing decisions through to 2022.

Work is underway to provide further assurance over the 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 that the Ministry:
- a) ensure that criteria are sufficiently clear and complete to allow applicant information to be adequately verified
 - b) put in place robust post-payment verification measures, including risk-based audits against source documentation, to mitigate the risks of using a high-trust approach
 - c) test the reliability of a sample of the post-payment assurance work it carried out against documentary evidence held by applicants
 - d) seek written confirmation from applicants (which could be targeted towards larger or risk-indicated applicants) of compliance with the eligibility criteria and the obligations of receiving the subsidy (also recommended by Audit NZ)
 - e) pursue prosecutions to recover funds and/or to hold businesses to account for potentially unlawful behaviour.
- 18 In relation to 17(a), MSD and IR have strengthened approaches for the WSSAUG21 scheme in relation to sole trader applicants. This includes working with sole trader applicants (pending applicants) to make sure they understand what information is required to enable accurate verification of their information and approval of their application:
- MSD has been undertaking significant direct engagement with sole trader applicants to support validation of their application information, including through proactive emails and outbound calling, to clarify exactly what they needed to do to verify their information with IR
 - IR have also enhanced their processes to support verification, including pulling in significant additional resources so they could work with applicants who contact them to verify their sole trader / self-employed status, so that their Wage Subsidy applications can be approved
 - where MSD and IR have not been able to adequately verify that an applicant is a legitimate sole trader / self-employed, then their application is declined as they do not qualify for the Wage Subsidy.
- 19 In relation to 17(b), the requirement for WSS applicants to prepare and retain evidence to support their application was expressly updated in the declaration for WSSMAR21 and this has continued for WSSAUG21. Pre-payment integrity checks for these schemes are based on risk and routinely sought this evidence where available. Post-payment integrity checks for both schemes will also include seeking this evidence in all cases.
- 20 In relation to 17(c), a sample of 339 early Wage Subsidy recipients (representing 486 applications), who were subject to random post-payment integrity checks, began being contacted from late July 2021 to discuss their eligibility and to provide documentary evidence to confirm their entitlement. Nine IR staff were originally seconded to MSD to assist with this work until September 2021 but were temporarily

diverted to support WSSAUG21. Five IR staff remain seconded until November 2021 to finalise this work. s9(2)(ba)(ii) OIA

21 In relation to 17(d), a sample of 1,000 early Wage Subsidy recipients, weighted towards larger employers, were contacted by email from late July 2021 to confirm their eligibility and compliance with obligations for the subsidy received. Reminder emails to non-respondents were delayed due to the establishment of WSSAUG21 and will resume once the scheme concludes. s9(2)(ba)(ii) OIA

22 In relation to 17(e), please see below.

Investigations into Wage Subsidy misuse are ongoing.

23 As at 8 October 2021, there were 1,065 WSS cases referred for investigation of which 492 have been resolved¹. Further cases may be referred for investigation because of WSSAUG21 integrity work, including from allegations received.

24 We continue to work with Police to gather evidence to support investigations, via production orders as provided for in the Search and Surveillance Act 2012.

25 The WSS Recovery and Response Panel (the Panel) was convened from 22 February 2021. All cases referred to the Panel have been reviewed by MSD's Principal Lawyer and by Crown Solicitors, Meredith Connell.

26 MSD can take civil proceedings against applicants in cases where they were not entitled to the wage subsidy and have not repaid it. This may arise where there is no suggestion of criminal behaviour or the threshold for proving criminal behaviour (beyond reasonable doubt) cannot be made based on the evidence.

27 MSD can take criminal proceedings against applicants where the evidential sufficiency and public interest tests for criminal prosecution as set out in the Solicitor-General's guidelines have been met.

28 To date, the Panel has agreed to:

- take civil recovery action in eight cases. We then engage with these debtors to provide one final opportunity to repay before court action is commenced. Of the five cases where one last repayment opportunity has been provided:
 - one debtor has fully repaid their WSS debt
 - one debtor has begun engaging in discussions around repayment
 - two debtors s6(c) OIA
 - one debtor has not engaged, and the matter has been referred to Meredith Connell to commence civil recovery action.
- prosecution in two cases. Charges have been laid in the Auckland District Court.

29 Decisions will continue to be made as further investigations are finalised.

30 The Serious Fraud Office (SFO) has formally accepted the referral of 10 medium or high complexity WSS investigation cases and have commenced initial enquiries into these. Two MSD Investigators will be seconded to the SFO to support the continuation of these investigations, and lessons learned will be fed back to support further integrity enhancements of the scheme.

¹ Resolved cases may be reopened when new information is received, as part of quality assurance processes, or where the recipient has not engaged on their wage subsidy debt and further action is being considered.

Next steps

- 31 The next quarterly report, to 31 December 2021, will be due January 2022.
- 32 MSD will continue to verbally update you on WSS integrity work at MSD Officials meetings.

RELEASED UNDER THE
OFFICIAL INFORMATION ACT

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Appendix 1: Quarterly WSS integrity reporting update*

	As at Friday 26/06/20	As at Friday 25/09/20	As at Friday 18/12/20	As at Friday 30/04/21	As at Friday 25/06/21	As at Friday 24/09/21
Total integrity checks resolved	7,448	9,760	11,172	11,517	11,614	13,274
Pre-payment integrity checks completed (80+ employees)	1,725	1,789	1,789	1,848	1,849	3,002
Pre-payment exception checks completed (WSX/WSR/WSSMAR21/WSSAUG21)	Nil	1,502	2,075	2,558	2,602	3,069
Post-payment checks completed (random and targeted)	5,723	6,469	7,308	7,111	7,163	7,203
Total complaints (MSD, MBIE, IR)	8,269	11,123	11,824	12,230	12,401	14,101
MSD complaints received	2,690	4,095	4,631	4,910	5,022	5,470
MSD complaints resolved	1,366	3,124	4,534	4,897	5,003	5,177
Referred for investigation	449	802	982	1,028	1,041	1,061
Investigations resolved	Nil	253	415	477	518	539
Total refunds requested	11,990	18,259	20,363	22,286	22,777	22,925
Employer-initiated refunds requested	11,354	16,842	17,962	19,318	19,624	19,696
MSD-initiated refunds requested	636	1,417	2,401	2,968	3,153	3,229
Value of refunds requested	\$309.7m	\$478.1m	\$594.7m	\$813.1m**	\$778.5m	\$797.9m
Repayments received	7,146	15,714	16,467	17,904	18,414	20,020
Value of refunds received	\$210.3m	\$461.5m	\$544.1m	\$705.2m	\$724.8m	\$750.3m

*This is point in time operational data which is subject to change as case information or reporting processes are updated

** An error occurred in the recording of refunds resulting in figures being overstated. This has been rectified, including in refund data on MSD's website.