



Report

Date: 27 August 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 fifth quarterly report (to 30 June 2021).

Executive summary

- 3 Wage Subsidy investigations are ongoing, and enforcement and recovery decisions are being taken.
- 4 Work to address recommendations made by Audit NZ and the Office of the Auditor-General (OAG) has commenced, and initial results are expected in three months.
- 5 Integrity settings for the Wage Subsidy August 2021 scheme (WSSAUG21) are as per those for the Wage Subsidy March 2021 scheme (WSSMAR21), and include improvements made following receipt of the OAG recommendations.
- 6 The next quarterly report, to 30 September 2021, will be due October 2021.

Recommended actions

- 7 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

Hon Carmel Sepuloni
Minister for Social Development and
Employment

Date

Integrity of the Wage Subsidy Schemes

- 8 In June we advised you that:
- the establishment of WSSMAR21 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
 - around 45 FIS staff (out of around 100 investigators) continue to manage ongoing WSS work
 - the balance of these staff have returned to benefit integrity work, including reviewing cases that were paused during COVID-19
 - work was underway to address recommendations made by Audit NZ and the OAG, and that this would inform future integrity work across the schemes
 - investigations into WSS misuse are ongoing.

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

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

- 10 Since early 2021 we have been gradually transitioning investigators back to benefit integrity work.
- 11 Around 1,000 benefit investigations were paused from March 2020, however investigations of serious fraud and those nearing prosecution stages continued. To support the transition back to benefit integrity work, we have been reassessing these cases, and new allegations received, and responding accordingly.
- 12 Prior to WSSAUG21, our pool of around 100 FIS investigative staff were allocated as follows:
- around 60 investigators are focused on progressing WSS investigations
 - around 40 investigators are managing benefit integrity work.
- 13 With the initiation of WSSAUG21, we have had to quickly revert investigator resources into supporting pre-payment integrity checks for large employer applications, and integrity checks for previously identified risk areas. We are also responding to allegations relating to WSSAUG21.
- 14 The Ministry will continue to progress key Wage Subsidy and benefit investigations and will transition further staff back on to this work depending on the workload associated with WSSAUG21.
- 15 The Ministry is considering recruitment of additional investigators to support ongoing demands.

Work is underway to provide further assurance over the WSS integrity programme.

- 16 Audit NZ and OAG made recommendations in their assessments of the WSS to seek further assurance over our integrity programme, including:
- 16.1 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
- 16.2 that the Ministry sample clients with whom we did a random post payment integrity check to seek documentary confirmation that they met the criteria.
- 17 From July 2021, work began to address these recommendations. A sample of 1,000 early Wage Subsidy recipients, and weighted towards larger employers, were contacted by email to confirm their eligibility and compliance with obligations for the subsidy received. A further sample of 339 early Wage Subsidy recipients (representing 486 applications), who were subject to random post-payment integrity

checks, are being contacted to discuss their eligibility and asked to provide documentary evidence to confirm their entitlement.


- 18 Nine Inland Revenue (IR) staff have been seconded to MSD to assist with this work, until September 2021.

Investigations into Wage Subsidy misuse are ongoing.

- 19 As at 20 August 2021, there were 1,058 WSS cases referred for investigation of which 541 have been resolved. Further cases may be referred for investigation because of WSSAUG21 integrity work.
- 20 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.
- 21 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.
- 22 MSD takes 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.
- 23 MSD takes 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.
- 24 Decisions will continue to be made as further investigations are finalised.

Integrity settings for the Wage Subsidy August 2021 payment are as per the March 2021 payment.

- 25 MSD has continually improved integrity settings for the WSS and for each subsequent scheme since its inception in March 2020. This has included enhancing integrity check processes.
- 26 Integrity improvements made for WSSMAR21, including to address the recommendations made by the OAG, are being applied to WSSAUG21.
- 27 These settings were outlined to you in the memo *Legal framework and integrity measures for the Wage Subsidy August 2021*, dated 23 August 2021 (REP/21/8/866).

- 28 s6(c) OIA
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Next steps

- 29 The next quarterly report, to 30 September 2021, will be due October 2021.
- 30 MSD will continue to verbally update you on WSS integrity work at MSD Officials meetings.

File ref: REP/21/8/810

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OFFICIAL INFORMATION ACT

Appendix 1: Quarterly WSS integrity reporting update*

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

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

* 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.