

**PERFORMANCE AUDIT REPORT  
OF THE MINISTRY OF LABOUR AND SOCIAL SECURITY  
STRATEGY IN PREVENTING, DETECTING AND INVESTIGATING  
BENEFIT FRAUD**

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## FOREWORD


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The Ministry of Labour and Social Security, made benefit payments of approximately \$54B under the Programme of Advancement Through Health and Education, National Insurance Scheme and Rehabilitation Programmes during the financial years 2005/06 to 2010/11. The Programmes annual payments increased from \$4.1B to \$13.5B or 70% over the periods 2005/06 to 2010/11. It is estimated that the payments under these three programmes will increase, in aggregate, to \$25.3B over the next year. The Ministry must institute adequate systems, policies and procedures to maintain the integrity of the social programmes, while not creating bureaucratic systems that are burdensome to the beneficiaries. Despite this, the Ministry's personnel have the fiduciary responsibility to ensure that payments made from the various social funds are made only to bona fide persons and to implement an adequate system of internal control to reduce and prevent the occurrence of fraud and abuse. Benefit fraud involves individuals receiving payments from the Ministry through the various programmes under false pretences. Fraudulent schemes may involve, among others, deliberately not informing the Ministry of death of bona fide beneficiary or misusing a valid national insurance number. I commissioned a performance audit study to determine whether the Ministry's risk management strategy was sufficient to militate against fraudulent activities.

The performance audit revealed that the risk response of the Ministry was not commensurate with the large sums paid out on an annual basis under the various social programmes. It is my view that despite some measures taken by the Ministry to counteract irregular activities, it can do more by implementing a formal risk management strategy. This report refers to fraud cases involving sums totalling \$8.7M. However, the real extent of fraudulent activities within the Ministry is unknown. Further, the results of this audit provide no assurance that the Ministry's internal control system is capable of detecting fraudulent activities on a timely basis.

This report offers recommendations that will fortify the current system of internal controls to reduce the opportunity for the perpetration of fraud whilst at the same time ensuring its early detection.

I wish to express sincere thanks to the Ministry of Labour and Social Security for the cooperation and assistance given to my staff.



Pamela Monroe Ellis, FCCA, FCA, CISA  
Auditor General

## EXECUTIVE SUMMARY

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The Government of Jamaica seeks to provide a social safety net for members of the society through the administration of the National Insurance Scheme (NIS) and two non-contributory Public Assistance Programmes namely, the Programme of Advancement Through Health and Education (PATH), and the Rehabilitation Programme. The Social Security Division of the Ministry of Labour and Social Security (MLSS) has the responsibility for the administration of the three social security programmes.

For the past six years 2005-06 to 2010-11, the Ministry spent \$54 billion for the payment of social security benefits under the three social programmes. It is therefore important that the Ministry preserves the integrity of the benefit system, to ensure that payments are only made to bona fide beneficiaries.

Our audit of the social security programmes of the Ministry was limited to assessing the efficiency and effectiveness of the systems, policies, and procedures employed by the Ministry to prevent, detect and investigate benefit fraud.

### Key Findings

#### PREVENTING BENEFIT FRAUD

1. The Ministry does not have a risk profile for its benefit programmes, which identifies associated risk exposures to benefit fraud and the likelihood of its occurrence. The absence of a risk management profile has contributed to the Ministry's failure to prevent or detect earlier, seven cases of fraud totalling \$8.7 million over the period 2006-07 to 2009-10; of which, \$5.7 million involved the fraudulent re-encashment of PATH cheques.
2. When the \$5.7 million fraud was discovered, the related bank reconciliation statements were 24 months in arrears. The Ministry, acting on the authority of the Ministry of Finance and the Public Service, closed the bank account and opened a new one. The reconciliation statements of the closed account showed unidentified withdrawals amounting to \$11.2 million as at October 2010, while, the new account showed unidentified withdrawals amounting to \$7.3 million as at January 2011.
3. The Ministry adopts a more reactive rather than a proactive approach in its mitigation activities against fraud. We found that, internal control deficiencies are predominantly identified and enhanced after irregularities are detected.

4. The Ministry does not have an adequate public education programme to raise staff and clients' awareness of benefit fraud and the related penalties.
5. The Ministry uses three computerized systems to administer benefits under NIS and PATH programmes. However, the Ministry has not integrated the systems to better facilitate data matching<sup>1</sup> in order to assist in the identification and prevention of fraudulent benefit payments. As a result, information is transferred manually between systems resulting in irregularities and oversight. For example, the overpayment of \$63,089.52 (\$4,853.04 per fortnight) to a NIS beneficiary who was still in receipt of widow's pension 13 fortnights after the specified cessation date of the entitlement and PATH benefit payments totalling \$225,150 to individuals who were already in receipt of NIS benefit.
6. The Ministry does not monitor direct payments to PATH beneficiaries' bank accounts, resulting in the payment of \$2.8 million to 111 beneficiaries' bank accounts, which were inactive for periods up to 44 months.

#### **DETECTING BENEFIT FRAUD**

7. The Ministry does not have a formal system in place that encourages staff and members of the public to report suspected cases of benefit fraud. Neither does the Ministry have an established procedure to record information received in a manner to ensure that the initial information collected are relevant and sufficient to enable successful investigations.
8. The Ministry does not enforce the requirement to submit a life certificate for the 92,000 (95 per cent of the pension population) pensioners residing in Jamaica. The requirement is enforced only for the 5,000 (5 per cent) pensioners residing overseas. The Ministry spent approximately \$190,000 to print the 100,000 life certificates procured in January 2011.
9. The Ministry does not reconcile pension vouchers encashed at post offices to facilitate the early detection of fraud. The absence of reconciliation of pension vouchers encashed at post offices opens the system to the possibility of fraud going undetected for protracted periods.

#### **INVESTIGATING BENEFIT FRAUD**

10. The Ministry has no formal system for assigning and managing benefit fraud investigation except those related to PATH. In addition, officers are not provided with the necessary training in the collection of information, relating to suspected benefit fraud, to ensure that it is sufficient to facilitate further investigation.

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<sup>1</sup> Data matching is the electronic comparison of personal records held on the different systems within or by other agencies to determine if benefit fraud has been committed.

## Recommendations

1. The Ministry should immediately conduct risk assessments of its social benefit programmes and thereafter, periodically, to ensure the integrity of the benefit systems. The findings of the assessments should be used to develop and implement strategies to mitigate against potential risks. This involves:
  - a. Identification of the risks
  - b. Assessing the risks (likelihood and impact of the risks)
  - c. Implementation of risk response strategies
  - d. Monitoring the effectiveness of the strategies
2. The Ministry should comply with Part IV Sub-section J(2) of the PATH's operational manual which states that bank accounts remaining inactive for two consecutive payment periods (4 months) must be investigated, and the necessary corrective actions taken to protect the programme's funds.
3. The Ministry should design and implement a system to encourage the reporting of suspected cases of benefit fraud by staff and members of the public. It should also establish procedures to ensure that initial information collected is relevant and sufficient to enable successful investigation.
4. The Ministry should develop and implement a public education programme to raise staff and clients' awareness of benefit fraud and the related penalties. For example, highlighting fraudulent social benefit transactions and the Ministry's stance against such fraud on posters and pamphlets displayed and distributed at NIS and post offices. The Ministry should also seek to establish a benefit fraud hotline and encourage persons to report suspected cases of benefit fraud.
5. The Ministry should enforce the requirement for the submission of life certificates by NIS beneficiaries and the necessary action taken in cases where beneficiaries failed to comply within the given period. This will assist in safeguarding the integrity of the social security programme.
6. The Ministry should continue to explore the possibilities of conducting data matching with other government entities such as the Registrar General's Department and the Tax Administration Jamaica to assist in the detection of benefit fraud. The Ministry can recover the cost to acquire the necessary computer software and hardware to facilitate the data matching activities from financial savings realised from the reduction of benefit fraud.
7. The Ministry should consider obtaining third party confirmation of beneficiaries' details from financial institutions, current/past employers, family and friends.

8. The Ministry should check and compare encashed pension vouchers returned by post offices, with accompanied statements, to identify suspicious transactions.
9. The Ministry should develop a formal procedure to facilitate successful internal investigation of suspected cases of benefit fraud.

## **Conclusion**

The Ministry of Labour and Social Security, which has the responsibility to manage the Country's social benefits, did not assess the risks associated with the administration and payment of benefits. Consequently, it does not have a benefit fraud mitigation strategy to ensure the integrity of the benefit systems. The absence of records reflecting the total amount of suspected benefit fraud reported and the cases that were successfully investigated and prosecuted has prevented the Ministry from quantifying the negative impact these fraudulent activities are having on the Country's social programmes. The lack of direct interface between the computer systems used to administer and pay benefits increases the risk of fraud and errors as information has to be transferred manually between systems.

The aforementioned deficiencies have resulted in at least seven cases of fraud committed over the last five years totalling approximately \$8.7 million.

The Ministry of Labour and Social Security, as it seeks to "effectively manage social protection programmes", should consider the recommendations contained within this report in order to protect the integrity and ensure the sustainable operation of the social security programmes under its control.



1.1 We conducted a performance audit of the Social Security Programmes administered by the Ministry of Labour and Social Security. The objective was to determine whether the Ministry has adequate and appropriate systems to protect the integrity of its benefit programmes by preventing and reducing benefits fraud. The audit assesses the effectiveness of the Ministry's systems, policies, and procedures for preventing, detecting and investigating benefit fraud. For the purpose of this report the term "benefit fraud" refers to incidences in which individuals knowingly and intentionally obtained or attempted to obtain benefits to which they are not entitled, through activities such as;

- making false declarations about the circumstances of a claim;
- failing to report a change of circumstances;
- colluding with others to commit fraud; and
- any other criminal actions for the purpose of facilitating the commission of fraud<sup>2</sup>.

### Audit Scope and Methodology

1.2 Our audit was planned and conducted in accordance with the Government Auditing Standards, which are applicable to Performance Audit and issued by the International Organization of Supreme Audit Institutions (INTOSAI). Our audit mainly focused on assessing the efficiency and effectiveness of the systems, policies and procedures applied by the Ministry to prevent, detect and investigate benefit fraud. The planning process involved gaining a thorough understanding of the various social security programmes administered by the Ministry and assessing the processes used in selecting beneficiaries and disbursing benefits. We conducted an issue analysis to determine whether:

1. *There are defined strategies to identify benefit fraud risks*
2. *The Ministry has implemented measures to prevent the misuse of the benefit data system*
3. *There are clearly defined criteria for the selection of beneficiaries*
4. *Adequate and competent staff are assigned to benefit administration units to ensure efficiency in operation*
5. *Effective systems are in place for the preparation and disbursement of benefit claims*
6. *There are systems in place to facilitate the investigation of actual and suspected benefit fraud.*

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<sup>2</sup>

<http://www.glasgow.gov.uk/en/Residents/YourHome/BenefitFraud/counterfraudpolicydefinitionoffraud.htm>

- 1.3 Our assessment is based on the review of internal and external documents, interviews with senior officers and staff of the Ministry of Labour and Social Security.

## **Background**

- 1.4 The Social Security Division of the Ministry of Labour and Social Security has the responsibility to provide a social safety net for various persons within the society through the administration of the National Insurance Scheme and two non-contributory Public Assistance Programmes namely, the Programme of Advancement Through Health and Education and the Rehabilitation Programme. The Ministry administers 23 categories of benefits under its three Social Security Programmes: 13 under NIS, 6 under PATH and 4 under the Rehabilitation Programme. **(Appendix 1)**

- 1.5 The objectives of the Ministry's Social Security Division are to:

- 1. Modernize and improve the administration of the Social Security system for more efficient operation*
- 2. Strengthen the social protection system in keeping with government's policy to reduce poverty*
- 3. Adopt a developmental approach in the provision of social assistance benefits to promote human capital investment and thereby reduce dependence on the state; ensure the operation of an efficient, objective and transparent Beneficiary Identification System for social assistance*
- 4. Expand coverage under the National Insurance Scheme by ensuring compliance, in accordance with the provisions of the National Insurance Act*
- 5. Ensure prudent management of the National Insurance Fund for long term sustainability and provision of improved benefits*
- 6. Promote social integration of vulnerable groups and groups with special needs*
- 7. Ensure equalization of opportunities for persons with disabilities*
- 8. Promote active and productive ageing and ensure the full participation of senior citizens in all aspects of national life*

### **National Insurance Schemes (NIS)**

- 1.6 The NIS is a compulsory contributory-funded social security scheme for all employed persons in Jamaica. It offers financial protection to the worker and his/her family against loss of income arising from injury on the job, sickness, death and old age.
- 1.7 Benefits are paid from contributions to the NIS and investment income from the National Insurance Fund. The Ministry of Finance and the Public Service has responsibility for the

National Insurance Fund, while the Ministry of Labour and Social Security has responsibility for the administration of the benefits and collection of contributions<sup>3</sup>.

***Programme of Advancement Through Health and Education (PATH)***

1.8 PATH was introduced island wide in 2002. This programme is aimed at delivering benefits by way of cash grants to the most needy and vulnerable in the society. It is funded jointly by the Government of Jamaica and grant funding from the World Bank. There are 5 broad categories of beneficiaries, all of which must satisfy the criteria of poverty to qualify for benefits. These are:

- Children: from birth to completion of secondary education
- Elderly: 60 years or over, and not in receipt of a pension
- Persons with disabilities
- Pregnant and lactating women
- Poor adults 18-59 years

***Rehabilitation Programmes***

1.9 There are four main benefits under this Programme: Rehabilitation Grants; Compassionate Grants; Emergency Relief and Education and Social Intervention. Rehabilitation Grants provide opportunities for individuals to improve their economic status, generally, through income generating projects. Compassionate grants provide support to persons who are in need of speedy assistance and are not entitled to benefits under any other scheme. Emergency Relief assists persons affected by natural or manmade disasters. Education and Social Intervention provides funding for children attending educational institutions who are financially disadvantaged.

1.10 As shown in **figure 1**, over the past six years 2005-06 to 2010-11, the Ministry's aggregate budget was \$53.6 billion for benefit payments, increasing from \$5.1 billion in 2005-06 to \$14 billion 2010-11. While, over the same period the aggregate disbursement to beneficiaries was \$54 billion increasing from \$4.1 billion to \$13.5 billion. There were 418,715 beneficiaries under the three Social Programmes as at March 2011 increasing from 214,553 as at March 2006. **(Figure 2)**

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<sup>3</sup> Information obtained from Ministry's brochure

**Figure 1 Budgeted and Actual Payment for Social Security Benefits 2005-06 to 2010-11**

| Financial Years | NIS               |                   | PATH              |                   | Rehabilitation  |                 | Total             |                   |
|-----------------|-------------------|-------------------|-------------------|-------------------|-----------------|-----------------|-------------------|-------------------|
|                 | Budget (\$'000)   | Actual (\$'000)   | Budget (\$'000)   | Actual (\$'000)   | Budget (\$'000) | Actual (\$'000) | Budget (\$'000)   | Actual (\$'000)   |
| 2010-11         | 10,333,230        | 10,436,802        | 3,383,565         | 3,006,516         | 235,650         | 94,356          | 13,952,445        | 13,537,674        |
| 2009-10         | 9,053,449         | 8,831,782         | 2,703,193         | 2,539,555         | 57,251          | 54,071          | 11,813,893        | 11,425,408        |
| 2008-09         | 6,453,427         | 8,515,896         | 2,378,236         | 1,976,771         | 60,000          | 48,148          | 8,891,663         | 10,540,815        |
| 2007-08         | 5,964,997         | 6,258,390         | 1,250,099         | 1,348,086         | 45,000          | 36,987          | 7,260,096         | 7,643,463         |
| 2006-07         | 5,279,600         | 5,457,500         | 1,294,868         | 1,212,967         | 24,000          | 18,862          | 6,598,468         | 6,689,329         |
| 2005-06         | 4,210,000         | 3,292,750         | 827,654           | 856,922           | 60,000          | 15,601          | 5,097,654         | 4,165,273         |
| <b>TOTAL</b>    | <b>41,294,703</b> | <b>42,793,120</b> | <b>11,837,615</b> | <b>10,940,817</b> | <b>481,901</b>  | <b>268,025</b>  | <b>53,614,219</b> | <b>54,001,962</b> |

Source: Auditor General's Department compilation of Ministry's data

**Figure 2 Number of Beneficiaries under the Social Security Programmes (2005-06 to 2010-11)**

| Programmes     | 2010-11        | 2009-10        | 2008-09        | 2007-08        | 2006-07        | 2005-06        |
|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| NIS            | 92,029         | 90,482         | 78,263         | 105,215        | 94,931         | 85,318         |
| PATH           | 320,617        | 264,993        | 271,463        | 211,828        | 192,384        | 154,488        |
| Rehabilitation | 6,069          | 3,660          | 4,297          | 2,846          | 1,848          | 1,747          |
| <b>TOTAL</b>   | <b>418,715</b> | <b>359,135</b> | <b>354,023</b> | <b>319,889</b> | <b>289,163</b> | <b>241,553</b> |

Source: Auditor General's Department compilation of Ministry's data

- 1.11 The National Insurance Act, Sections 10 to 23 and PATH operations manual clearly defined the criteria for the payments of benefits under the National Insurance Scheme (NIS) and PATH, respectively. The Ministry uses pamphlets and posters to communicate to the public the eligibility criteria for beneficiaries under NIS and PATH.

**The Ministry Does not Have a Risk Management Strategy to Mitigate Against Risks Associated With Benefit Payments**

2.1 We found that the Ministry does not have a risk profile for its benefits programmes, which identifies associated risk exposures to benefit fraud and the likelihood of its occurrence. Therefore, the Ministry did not have the requisite tool to develop and implement the appropriate strategies in order to prevent or reduce benefit fraud. The Ministry’s aggregate benefit payment for financial years 2005-06 to 2010-11 was \$54 billion. **(Figure 3)**

**Figure 3 Expenditure on Social Welfare Programmes 2005-06 to 2009-10**

| Programmes     | 2010-11<br>(\$'000) | 2009-10<br>(\$'000) | 2008-9<br>(\$'000) | 2007-08<br>(\$'000) | 2006-07<br>(\$'000) | 2005-06<br>(\$'000) | Total<br>(\$'000) |
|----------------|---------------------|---------------------|--------------------|---------------------|---------------------|---------------------|-------------------|
| NIS            | 10,436,802          | 8,831,782           | 8,515,896          | 6,258,390           | 5,457,500           | 3,292,750           | 42,793,120        |
| PATH           | 3,006,516           | 2,539,555           | 1,976,771          | 1,348,086           | 1,212,967           | 856,922             | 10,940,817        |
| Rehabilitation | 94,356              | 54,071              | 48,148             | 36,987              | 18,862              | 15,601              | 268,025           |
| <b>TOTAL</b>   | <b>13,537,674</b>   | <b>11,425,408</b>   | <b>10,540,815</b>  | <b>7,643,463</b>    | <b>6,689,329</b>    | <b>4,165,273</b>    | <b>54,001,962</b> |

Source: Auditor General’s Department compilation of Ministry’s data

2.2 The Ministry has been more reactive than proactive in its mitigation activities against benefit fraud, in that, internal control deficiencies are predominantly identified and enhanced after irregularities are detected.

2.3 The absence of a risk management profile has contributed to the Ministry’s failure to prevent or detect earlier, seven cases of fraud totalling \$8.7 million over the period 2006-07 to 2009-10; of which, \$5.7 million involved the fraudulent re-encashment of PATH cheques. Significantly, the Ministry did not identify the unauthorised withdrawals made from its bank account(s). We are of the view that this fraud would have gone unnoticed by the Ministry, for a protracted period, had it not been identified by the relevant bank. Further investigations revealed that fraudsters were “washing the cheques”<sup>4</sup>.

2.4 There is no evidence that the Ministry has made any meaningful effort to identify the origin and extent of the fraud. It is apparent that the Ministry was not open to the possibility that the fraud, which its internal control failed to detect, could have originated internally. Despite these cases of fraud, there was no evidence that the Ministry has made meaningful efforts to conduct a thorough assessment of its exposure to fraud, in order to respond appropriately to either eliminate or reduce the likelihood of its occurrence.

<sup>4</sup> **Cheque washing** is the process of erasing details from cheques to allow them to be rewritten, usually for criminal purposes such as fraudulent withdrawal from the victim’s bank account.

- 2.5 It is probable that the extent of the loss to the Government, through the washing of cheques, is far in excess of the \$5.7 million identified to date. Further, at the time the fraud was discovered the related bank reconciliation statements were 24 months in arrears. The Ministry acting on the authority of the Ministry of Finance and the Public Service closed the account and opened a new bank account. The closed account was reconciled up to October 2010, while, the new account was reconciled up to January 2011 (3 months in arrears). The reconciliation statements of both the closed and new accounts showed unidentified withdrawals amounting to \$11.2 million and \$7.3 million respectively.
- 2.6 **Figure 4** shows that five of the cases amounting to \$2.9 million were committed by persons within the organization between April 2006 and October 2010. The perpetrator(s) of the other two cases totalling \$5.8 million was unknown to the Ministry. The Ministry has since recovered \$5.8 million from the bank and \$1 million from the fraudster. The police are investigating Cases 3 and 4.

**Figure 4 Actual Fraud Cases Committed between 2006 and 2011**

| Cases  | Amount Defrauded (\$) | Amount Recovered (\$) | Origin   | Nature of Fraud  |
|--------|-----------------------|-----------------------|----------|--|
| Case 1 | 5,774,860             | 5,774,860             | Unknown  | Fraudulent re-encashment PATH cheques                    |
| Case 2 | 2,100,000             | 1,020,000             | Internal | Fraudulent production and encashment of pension vouchers |
| Case 3 | 725,920               | -                     | Internal | Unauthorised payments of benefits                        |
| Case 4 | 55,787                | -                     | unknown  | Alteration of pension vouchers                           |
| Case 5 | 46,640                | 46,640                | Internal | Stolen cheques fraudulently encashed                     |
| Case 6 | 33,920                | 33,920                | Internal | Stolen cheques fraudulently encashed                     |
| Case 7 | 8,400                 | -                     | Internal | Stolen cheques fraudulently encashed                     |
|        | <b>8,745,527</b>      | <b>6,875,420</b>      |          |  |

Source: Auditor General's Department compilation of Ministry's data

#### **Case Study 1: Largest internal fraud identified by the Ministry**

A former officer of the Ministry who had unrestricted access to the Ministry's computer systems defrauded the NIS Scheme approximately \$2.1 million over five years. The officer reactivated several deceased persons' accounts and inserted his name and that of other family members as agents for the deceased beneficiaries. The fraud was discovered in October 2006 during the preparation of the bank reconciliation statements. The matter was reported to the police and the officer was arrested, charged and imprisoned. The officer made restitution of \$1,020,000.

- 2.7 The Ministry does not have an adequate public education programme to raise staff and clients' awareness of benefit fraud and the related penalties; for example, by highlighting fraudulent social benefit transactions and the Ministry's stance against such fraud, on posters and pamphlets displayed and distributed at NIS and post offices.

## **Non- Integration of Computerized Systems Contributes to Inefficiencies.**

- 2.8 The Ministry uses three computerized systems to administer benefits under NIS and PATH programmes. These include the National Insurance Management System (NIMS) and the Pension Payment System (PPS) for NIS and the Beneficiaries Management Information System (BMIS) for PATH. We found that the systems were not integrated to better facilitate data matching to assist in the identification and prevention of fraudulent benefit payments.
- 2.9 The NIMS is used to administer beneficiaries' entitlements. The beneficiary's information is transferred manually to the PPS to facilitate payment of the related NIS Benefits. The absence of an integrated system can result in errors and facilitate irregularities.
- 2.10 In certain instances, benefits payable to the following categories of persons are limited to specific periods: widow, widower, special child, orphan, maternity and disablement. However, we found that the PPS does not have embedded controls to identify and deactivate/remove beneficiaries whose benefit entitlement has expired. Hence, officers are required to check manually voluminous pensioners' listings to identify and deactivate/remove ineligible pensioners.
- 2.11 We found that the inadequacies of the system resulted in the overpayment of \$63,089 (\$4,853 per fortnight) to a NIS beneficiary who was still in receipt of widow's pension 13 fortnights after the specified cessation of the entitlement.
- 2.12 We further found that although individuals are not entitled to NIS and PATH benefits simultaneously, the absence of a direct interface between the PATH and NIS databases and poor internal controls resulted in erroneous benefit payments totalling \$225,150 to 11 individuals remaining undetected for two years. The Post and Telecommunication Department discovered the erroneous payments.

## **Lack of Supervisory Approval and Review Resulted in Benefit Fraud**

- 2.13 The Management Information System (MIS) Department is responsible for data entry, checking and verification of records on the Ministry's computerized systems. The Department is divided in three units namely; Data Entry, Control and Operations Units. The Data Entry Unit enters pensioners' data on the systems; the Control Unit updates pensioners' record, while the Operations Unit functions include managing users' accounts.
- 2.14 We found that officers within the Operations Unit are able to create, modify and remove user accounts. In addition, officers in the Control Unit are able to reactivate pensioners' accounts that were inactive or flagged as "deceased". Both units carried out these activities without supervisory approval or review.

## Poor Monitoring of PATH Beneficiaries' Accounts Resulted in Millions Being Lodged to Inactive Accounts

- 2.15 Direct bi-monthly electronic payments are made to some beneficiaries under the PATH programme to bank accounts established for this purpose. The PATH's operational manual Part IV Sub-section J(2) states that bank accounts remaining inactive for two consecutive payment periods (4 months) must be investigated, and the necessary corrective actions taken to protect the programme's funds.
- 2.16 We found that the Ministry was not faithfully monitoring beneficiaries' bank accounts. **Figure 5** shows that for the period June 2007 to February 2011 the Ministry continued to lodge PATH benefits totalling \$2.8 million to 111 accounts, which were inactive for periods up to 44 months. Further, we found no evidence to indicate that the Ministry investigates these accounts to determine whether benefit payments should continue and amounts, if any, recovered.

**Figure 5 Inactive PATH Beneficiary Accounts**

| Number of Inactive Accounts | Period Inactive | Value Accumulated in Inactive Accounts as at February 2011 (\$) |
|-----------------------------|-----------------|---|
| 6                           | 38 – 44 Months  | 281,850   |
| 22                          | 25 – 37 Months  | 810,308   |
| 59                          | 13 – 24 Months  | 1,349,010   |
| 17                          | 09 – 12 Months  | 264,283   |
| 7                           | 06 – 08 Months  | 123,063   |
| <b>111</b>                  |                 | <b>2,828,514</b>  |

Source: Auditor General's Department analysis of Ministry's data



### The Ministry Does not Have a System in Place to Encourage the Reporting of Suspected Benefit Fraud

- 3.1 We found that the Ministry does not have a formal system in place that encourages staff and members of the public to report suspected cases of benefit fraud. Neither does the Ministry have an established procedure to ensure that the initial information collected is relevant and sufficient to enable successful investigations.

### The Ministry Fails to Enforce Life Certificate Requirement for Local Pensioners

- 3.2 A “*note to pensioners*” printed on the pension booklets, states in part, “*Before you go to the Post Office to get a new Pension Order Book you must fill out the “Life Certificate” card at the back of this book and have it signed by any of the qualified persons listed on the Certificate. You must not tear off the card from the book. You should then take to the Post Office:*

- (i) *This book with the life certificate filled in;*
- (ii) *Satisfactory proof of your identity; and*
- (iii) *The Notice of Arrival of Registered Mail”*

Failure of beneficiaries to submit completed life certificates should result in the suspension of benefits. However, we found that the Ministry only suspends payments to the pensioners residing overseas for non-submission of the required certificate.

- 3.3 The Ministry was only able to produce 1,631 completed life certificates for the approximately 92,000 pensioners residing in Jamaica, of which 186 are over 100 years old. We found that the Ministry spent \$190,000 to print the last set of 100,000 life certificates procured in January 2011.

### The Ministry is not Conducting the Required Verification of PATH Beneficiaries and Special Pensioners

- 3.4 Part A section V of the PATH operation’s manual states that “*Social Workers in each parish will be assigned to specific areas/zones and will be required to visit and report on the circumstances of each beneficiary family at least twice per year.*” We found that the social workers were not undertaking these routine visits; the Ministry reported that there were not sufficient Social Workers to undertake the stipulated routine verifications.

- 3.5 We were informed that the Ministry's internal audit unit conducts verification for Special Anniversary, Orphans and Special Child pensioners which is only 118 (0.13 per cent) of the total 92,000 local pensioners. The last Internal Audit verification of Special Anniversary Pensioners (SAP)<sup>5</sup> was conducted between March and May 2008. There was no evidence that similar verifications were undertaken for Orphans and Special Child pensioners.
- 3.6 **Figure 6** shows that of the 36 homes visited by the auditors, 22 of the pensioners were confirmed as being alive, 8 as deceased based on third party evidence and 6 could not be located. The report also indicated that pension vouchers amounting to \$48,500 were paid for periods subsequent to the reported death of the pensioners. The Ministry advised that the pension vouchers for the Special Anniversary Pensioners were hand delivered by the NIS Inspectors.

**Figure 6 Findings of Ministry's Internal Audit verification of Pensioners under the SAP**

| Parish                  | Date of Visit | No. of Visits | No. Confirmed Alive | No. Confirmed Deceased | No. Not verified | Losses        |
|-------------------------|---------------|---------------|---------------------|------------------------|------------------|---------------|
| Trelawny & Westmoreland | May 2008      | 9             | 8                   | -                      | 1                | -             |
| Kingston                | March 2008    | 4             | 3                   | 1                      | -                | -             |
| St Catherine            | March 2008    | 4             | 3                   | -                      | 1                | -             |
| Portland                | March 2008    | 6             | 3                   | 3                      | -                | 19,500        |
| Kgn. & St. Andrew       | March 2008    | 13            | 5                   | 4                      | 4                | 39,000        |
| <b>Total</b>            |               | <b>36</b>     | <b>22</b>           | <b>8</b>               | <b>6</b>         | <b>48,500</b> |
| <b>Percentage</b>       |               |               | <b>61%</b>          | <b>22%</b>             | <b>17%</b>       |               |

## Procedures to Detect Benefit Fraud Being Ignored

- 3.7 We found that the Ministry does not review pension vouchers encashed at post offices and the accompanied statements to aid in the detection of benefit fraud. **Picture 1** shows encashed pension vouchers being stored at the Ministry. The absence of such review could allow fraud to go undetected for protracted periods.

<sup>5</sup> Special pension to persons born before January 1906

**Picture 1 Encashed pension vouchers returned by Post Offices stored in disorganized manner.**



3.8 The Ministry's failure to implement a fraud detection strategy may result in the award of benefits to ineligible beneficiaries thereby reducing intended benefits to legitimate beneficiaries.

**The Ministry Does not Have a Mechanism in Place That Assigns and Manages Benefit Fraud Allegations for all Social Programmes.**

- 4.1 We found that although the Ministry has a formal system for assigning and managing benefit fraud allegations for PATH, there was no such system for the other programmes. Part V of the PATH's Operational Manual states:

*“All allegations of Corruption should be referred to the Parish Manager. If allegations involve other agency staff, a report should be sent to the head of Department of the Agency for investigations to be carried out. Allegations involving members of staff of Parish Offices should be investigated by the Manager and findings submitted to the Director Operations for actions (if any) to be taken.”*

- 4.2 We found that the Ministry did not provide officers with the necessary training in the collection of information, relating to suspected benefit fraud, to ensure that it is sufficient to facilitate further investigation.
- 4.3 The Ministry indicated that all cases of benefit fraud are reported to the police for investigation and possible prosecution as prescribed by the Ministry of Finance and Public Service Circular No. 9, dated May 21, 2007. However, the Ministry did not maintain records to log all reported cases of suspected fraud, and to indicate follow up actions taken, thereby facilitating a comparison between the reported cases and the cases that were successfully investigated and prosecuted. We were therefore unable to analyze the trend in reported cases to determine the Ministry's success, if any, in the clearing of cases and mitigating benefit fraud.

## Appendix 1 Categories of Benefits Under the Three Social Security Programmes

| Social Security Benefits                                     |  |
|--|--|
| No.  | National Insurance Scheme Pension                |
| 1  | Retirement (Old Age) benefit and Grant           |
| 2  | Invalidity benefits and Grant                    |
| 3  | Widow's and Widower's benefit and Grant          |
| 4  | Special Orphan benefit                           |
| 5  | Special Child benefit                            |
| 6  | Special Anniversary pension                      |
| 7  | Disability Benefit                               |
| 8  | Maternity benefit ( <i>Maternity allowance</i> ) |
| 9  | Employment injury benefit ( <i>EIB</i> )         |
| 10   | Employment injury disablement pension            |
| 11   | Employment injury death benefit                  |
| 12   | Sugar workers                                    |
| 13   | Funeral Grant                                    |
| Programme of Advancement Through Health and Education (PATH) |  |
| 1  | Education Grant for Children 6-17 years old      |
| 2  | Health Grant for Children 1-6 years old          |
| 3  | Pregnant and lactating women                     |
| 4  | Poor Adults 18-59 years                          |
| 5  | Elderly 60 and over                              |
| 6  | Disability Grant                                 |
| Rehabilitation Programme                                     |  |
| 1  | Compassionate Grant                              |
| 2  | Rehabilitation Grant                             |
| 3  | Emergency Grant                                  |
| 4  | Education and Social Intervention Grant          |

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