

Mr. John Williamson, M.P.
Chair
Standing Committee on Public Accounts
House of Commons
Ottawa, ON K1A 0A6

Dear Colleague:

The following information is further to the Government's Response (tabled in the House of Commons on June 8, 2022, pursuant to Standing Order 109) to the Sixth Report of the Standing Committee on Public Accounts – 44th Parliament, 1st Session – entitled: *Report 6, Canada Emergency Response Benefit, of the 2021 Reports of the Auditor General of Canada in February 2022*.

I am pleased to provide the final report on progress in response to recommendation 1 of the Sixth Report.

The Government thanks the members of the Committee for their continued interest and attention to the Canada Revenue Agency's (CRA's) efforts to address the issues identified in the Auditor General's audit.

Please find enclosed the CRA's report on progress.

Sincerely,

The Honourable Diane Lebouthillier, P.C., M.P.

**FINAL REPORT ON PROGRESS: SIXTH REPORT OF THE
STANDING COMMITTEE ON PUBLIC ACCOUNTS – 44th PARLIAMENT, 1st SESSION
(RESPONSE TO RECOMMENDATION 1)**

INTRODUCTION

On behalf of the Government of Canada, on June 8, 2022, the Minister of National Revenue tabled the Government's Response to the recommendations contained in the Sixth Report of the Standing Committee on Public Accounts entitled: *Report 6, Canada Emergency Response Benefit, of the 2021 Reports of the Auditor General of Canada in February 2022*.

As requested, the Canada Revenue Agency (CRA) is pleased to provide its final report on progress related to recommendation 1.

Recommendation 1: *“That, by 31 May 2022, the Canada Revenue Agency provide the House of Commons Standing Committee on Public Accounts with an interim report on the preliminary findings of its post-payment verification work for the Canada Emergency Response Benefit, including amounts recovered; and that a final report be provided by 31 May 2023.”*

Government Response (as tabled on June 8, 2022): *“The Canada Emergency Response Benefit (CERB) was an important and necessary temporary emergency response to support Canadian workers, including the self-employed, who stopped working due to COVID-19. In designing the benefit, it was determined that, due to the expected volume of applications, rules that usually apply to Employment Insurance and other grant programs would result in unacceptable delays in issuing benefits to workers who urgently needed them. Therefore, the risk-based analysis was completed and the decision was made to simplify the initial application process and put a stronger focus on post-payment verification, recognizing that this approach meant that some recipients could later be found ineligible, and need to repay benefits. That is why ESDC and CRA engaged in proactive planning for post-payment integrity action throughout the pandemic.*

The Government has indicated from the outset that there will be no penalties or interest in cases where CERB needs to be repaid, and where the overpayment did not arise from fraud or misrepresentation. The Government is committed to providing an empathetic, people-first approach to all Canadians in consideration of the various circumstances they may be facing. Therefore, post-payment integrity activities will be risk-based and attuned to the current socio-economic context. Following confirmation of funding in the 2020 Fall Economic Statement, ESDC developed a comprehensive four-year operational plan for post-payment integrity activities and has begun investigation of cases of suspected fraud alongside law enforcement. This is in addition to the \$42 million in suspected fraudulent payments that were prevented at the time of application.

In order to maintain public confidence in the integrity of the COVID-19 benefits programs, and to confirm that individuals were indeed eligible for the benefits they received, the CRA performs regular validation reviews.

The CRA started to conduct pre-validation reviews in July 2020 to ensure that high-risk applications are reviewed prior to issuing a payment. The CRA has developed a post-verification plan to address the remaining risks identified that was originally planned to begin in late 2021. However the extensions to the Recovery benefits, the introduction of the Canada Worker Lockdown Benefit and subsequent adjustments to the program to respond to the spread of the Omicron variant, and, in parallel, the corresponding extension to the ongoing pre-validation activities meant that it was necessary to delay the start of post-verification. The prevention of further payments to potentially ineligible individuals was prioritized, and the start of post-verification was delayed to January 2022 to allow the Agency to focus on pre-validation activities.

The CRA and ESDC used a risk-based approach to establish prioritized post-verification workloads, however plans remain evergreen to respect the impact of the current economic situation and the state of the ongoing public health crisis.

With respect to Recommendation 1, the CRA agrees and will, as requested, provide to the House of Commons Standing Committee on Public Accounts a report on the findings of its post-payment verification work for the CERB, including amounts recovered, by May 31, 2023. Since post-verification was delayed to January 2022 and that, as of April 5, 2022, the CRA has not required any individuals to repay the CERB, the CRA will not be providing a preliminary report by May 31, 2022, as there are limited results to report on at this time. Furthermore, with respect to Recommendation 2, ESDC agrees and will provide to the House of Commons Standing Committee on Public Accounts interim reports on the preliminary findings of its post-payment verification work for the CERB, including amounts recovered. ESDC began following up on high-risk flags, including those requiring identity validation, by summer 2020; however, ESDC was only able to begin investigations into compliance with benefit criteria in March 2022. Similar to the CRA's situation, ESDC has limited results to report at this time. ESDC will be in a position to provide the committee with an interim report by May 31, 2023. This will be followed by another interim report to be provided by May 31, 2024, with a final report provided by May 31, 2025."

Report on Progress:

In recognition of the unprecedented financial impact of the pandemic, and that money needed to be delivered extremely quickly to millions of Canadians, an attestation-based application process was used for the COVID-19 individual benefits, beginning with the CERB. Based on the design of the program, it was expected that some benefit recipients would be ineligible for the benefits they received.

From the start, the CRA made it clear that verification efforts with respect to the eligibility for the COVID-19 income support benefits would be conducted post-payment, given that the attestation-based application process selected only allowed for certain pre-payment verifications. There was no recent (2019 or 2020) income data available at the time as the pandemic fell at the start of a tax season and income is only reported on an annual basis. Once the 2020 income tax returns were filed and/or employers provided T4 slips over the course of the 2020 calendar year, it became evident that potentially ineligible applications were being submitted, and pre-payment blocks were placed on these accounts. Between July 2020 and July 2022, the CRA blocked approximately 700,000 individuals, which resulted in \$378 million in direct payments stopped and an estimated \$5 billion in future benefits from being issued. This intervention prevented high-risk applications from proceeding until documents were submitted, and were manually reviewed to confirm eligibility.

Further ongoing compliance work is planned to continue until 2025, with a projected cost of \$431 million encompassing fiscal year 2020-21 to 2025-26. The CRA plans to review a total of approximately 875,000 recipients of all COVID-19 income support benefits for individuals. As of April 7, 2023, the CRA had made determinations on the eligibility of recipients of the COVID-19 income support benefits for individuals representing approximately \$4.87 billion in ineligible payments. The ineligibility rate cannot be projected on the entire population that received COVID-19 benefits because the CRA has taken a risk-based approach (where individuals who appear to be at the highest risk of not meeting the eligibility criteria are selected for further review) in the selection and review of claimants.

Of note, to select the recipients of high-risk ineligibility, all recipients were assessed through a risk-based model, resulting in the assessment of all amounts paid. High-risk individuals are identified using business intelligence and the analysis of tax data. Selected individuals receive an Initial Contact Letter (ICL) requesting additional documentation for manual review to substantiate the applicant's eligibility for the benefits received. Receipt of an ICL is neither confirmation that the individual is ineligible nor does the ICL request repayment.

Key Compliance Results

	Progress	Value (Approx.)
Pre-Payment Validation	Blocks on 700,000 individuals, completed August 2022.	\$378 million in direct payments stopped and \$5 billion in future benefits prevented.
Eligibility Reviews	875,000 planned reviews and of these 394,000 eligibility determinations have been completed as of April 7, 2023 with 307,279 of those deemed ineligible.	\$4.87 billion ineligible payments as of April 7, 2023.
“Double Dippers” (individual recipients receiving more than one benefit per period)	Approximately 800,000 notices of redetermination have been issued advising Canadians of the redetermination of their eligibility as they received benefits from both the CRA and ESDC (via Service Canada) for the same period.	N/A
Identity Protection	27,000 cases	\$154 million
Repayment and Collections	As of March 31, 2023, approximately \$1.4 billion has been applied against COVID-19 individual debt. 17% of repayments have been paid through the application of tax refunds and/or other available credits (also referred to as offsetting).	

The work planned and underway represents various eligibility criteria, identified as high-risk, that the CRA plans to address. These include:

- Applicants who were identified as not meeting the \$5000 net income threshold
- Applicants who made more than \$1000 and received the CERB in a 4-week period
- Canada Recovery Benefit (CRB) recipients who did not have a 50% reduction in income
- Individuals who were incarcerated during the application period for benefits received
- Canada Recovery Caregiver Benefit (CRCB) recipients with no evidence of dependants on file
- Multiple CRCB applicants at the same address.

Establishing Debt

The CRA began issuing Notices of Redetermination (NoR) in May 2022. While similar, the NoR being sent from the CRA should not be confused with the Notice of Debt that Employment and Social Development Canada (ESDC) began sending in November 2021, to CERB recipients who received an advance payment of \$2,000. ESDC's compliance work is not covered in this response.

As of March 31, 2023, approximately 1.1 million NoRs with an outstanding debt representing \$5.6 billion have been issued advising Canadians of their need to make a repayment. These notices represent the compliance work that has been completed to date. NoRs will continue to be sent as reviews and redeterminations are completed.

In October 2022, the CRA began offsetting personal income tax refunds to recover outstanding debt from COVID-19 benefits and as of February 27, 2023, the CRA also began addressing COVID-19 individual debt by proactively applying other government payments such as the GST/HST credit.

Fraud/Identity Theft

Throughout the duration of the COVID-19 relief programs, the CRA implemented and adopted new measures and controls to address suspicious activity. In particular, the CRA built safeguards into application processes to verify the identity of applicants, and introduced additional controls that required further review of certain applications before they were processed.

At the start of the COVID-19 relief programs, the CRA created a dedicated team to help individuals validate their identity, and address their concerns about identity theft issues. In order to confirm unauthorized use of taxpayer information, each account deemed as high risk of unauthorized access must be reviewed; the result may confirm the unauthorized use of the taxpayer information, or the case can be deemed unfounded. In both scenarios, the taxpayer's account will remain monitored and any subsequent changes will be analyzed to determine the associated risks.

Suspected cases are complex and may require several months of review and verification. The CRA does not disclose specific information related to its examination strategies, as disclosure could compromise its compliance activities and the integrity of the Canadian tax system. Identity theft can happen when scammers acquire taxpayers' personal information, including SINs, through a variety of means, such as third party phishing scams, data leaks, and breaches. Information from these breaches can be collected and combined to allow bad actors to impersonate someone online or over the phone, in the hope of fraudulently obtaining unwarranted credits or benefits from the Government of Canada.

The CRA has robust systems and tools in place to monitor, detect and examine potential threats, and to neutralize threats when they occur. The CRA works diligently to identify and correct unauthorized use of taxpayers information before there would be any monetary loss to the Crown or a loss of integrity for the CRA.

The impact of preventive actions are difficult to quantify, but through the early detection of suspicious activity on affected accounts and the implementation of additional controls and safeguards, the CRA prevented the issuance of COVID-19 benefits and tax credits to bad actors. The CRA is consolidating a methodology to quantify these savings.

The CRA has processes in place to recover money lost due to fraudulent activity, including working with the Royal Canadian Mounted Police, the Canadian Anti-Fraud Centre, and local police to investigate the incident.

The total number of cases of identity theft and unauthorized access represents a very small percentage of total applications. Similarly to that for businesses, unauthorized access to taxpayer information represents less than 0.18% of the total envelope of individual COVID-19 benefits. Nevertheless, this is of concern to the CRA.

Repayment

The CRA is currently developing a reporting solution. Given the number of payments received prior to debts being assessed, the CRA does not have the reporting capabilities and solution at the present time that will track recoveries on each of the emergency benefits separately. Once the development of the solution is finalized, the CRA will be able to report on repayments with greater clarity.

The CRA highlights the fact that more than 150,000 phone calls have been received at the Debt Management Call Centre, to assist Canadian in resolving their COVID-19 benefit overpayments. The CRA understands that, due to a variety of a factors, individuals may find it challenging to meet their financial obligations and it remains committed to supporting Canadians during these challenging times.

The CRA is committed to help impacted individuals resolve any issues and CRA agents will work with them on a case-by-case basis. Further, payment arrangement parameters have been expanded to give Canadians more time and flexibility to repay based on their individual financial situation. The CRA strives to support those experiencing financial hardship. If an individual is unable to repay ineligible CERB amounts due to unforeseen circumstances, the CRA will evaluate their situation and could defer payment. The CRA would then follow-up at a later date to re-evaluate their situation.