

***RESPONSE TO PORTFOLIO COMMITTEE QUESTIONS***

***03 JULY 2020***

**TO : PORTFOLIO COMMITTEE CHAIRPERSON**

**FROM : OFFICE OF THE COMMISSIONER**

**RE : PORTFOLIO COMMITTEE BRIEFING**

**DATE : 03 JULY 2020**

**Question 1**

Employees deprived payments by the system and the employers due to investigations.

**Answer 1**

Employees who are affected by cases under investigation will be paid directly once the case has been investigated to an extent where a decision can be made to pay. The process that will be followed is that of paying directly to the employees and not the employer. Once again, the confirmation of the employer-employee relationship is important before the payment can be processed.

**Question 2**

Unions raising cut -off date with regard to the April payment

**Answer 2**

Engagements have started with Social Partners at NEDLAC to close applications for April 2020. The closure will not affect the applications already in the system but not concluded due to a number of reasons including failed bank verification, declaration missing and incorrect ID numbers amongst other issues.

**Questions 3**

Fraud cases are also worrying.

**Answer 3**

The fraud cases are also keeping the leadership at UIF awake at night including the Minister, the Deputy Minister and Director General. Hence we are constantly reviewing the control environment to close the gaps. Some of the controls introduced include:

1. Locking UI Reference number where suspected fraud has been identified
2. Matters under investigation are placed on hold but enable the employer to apply and pay employees directly.
3. Introducing further controls in bank account changes to limit it to UIF staff and also managed through the company providing confirmation in writing that they are changing the account.
4. Credentials of the mandated person to claim for the company records are maintained by the system.

**Question 4**

There are also reasonable suspicions for possible collusions.

**Answer 4**

We cannot rule out the possibility of collusion with internal staff, however the investigations will advise once confirmed.

**Question 5**

Appointment of panel of service providers to follow the money, how long and what is the financial implication?

**Answer 5**

The time frame to appoint the panel of service providers is set for 21 days and the panel will be appointed for a period of Six months. Since we have not appointed the service provider, it goes against supply chain processes to make the budget available as the service provider will know and may adjust their tender documents. The service providers will be appointed once the budgeted amount is made available.

**Question 6**

Control Environment and links to the Fraud Cases

1. Explanations for the R4.7 and R5.6 million
2. Confirm if the money deposited was exactly what the employer applied for
3. Firm up on the accounts paid
4. Whether we are liquid in terms of payments
5. In terms of Fraud: who did what; who is responsible; where did the control fail and if we

are investigating how long will this take?

1. What are the turnaround times?

Answer 6

**APPLICATION FOR COVID 19 BENEFIT**

To access the COVID 19 TERS system, the applicant must first register as user.

1. **REGISTRATION AS A USER of /Employer/Bargaining Council**

The applicant must have a valid UIF reference number

**Control**: The reference number is used to validate and identify the employer profile

on the UIF database.

Create a unique password that will be linked to the UIF reference number

* **Control:** Unique password (combination of alphabets and numbers)
* No duplication of registration with the same UIF Reference Number (The system displays a message “the profile is already registered”)
* Reset of forgotten password done through security questions.

1. **LOGIN TO CREATE A PROFILE**

Unique username (UIF reference number) and password is required to login

**Control**: Verification of the username and password against the COVID 19 TERS System database. After three Incorrect password attempts the system locks the profile.

**Capture the Company/ Bargaining Council profile details**

* Trade name Contact details
* Email address
* Payment Method(Employer/Bargaining Council/Employees)
* Banking Details

1. **SUBMISSION OF THE APPLICATION**

* Acceptance of the applicable MOA
* Acceptance of legal undertaking( Correctness of the information provided)
* Upload of the Bank Statement
* Capture employee details on the CSV file or Manual ( ID number, salary, lockdown period, banking details)
* Upload the application

1. **BACK END VALIDATION (CONTROLS)**

* Validation with Home Affairs
* Validation of the employees claimed for against the reference number (Employer) on the UIF database.
* Proceed processing with validated/ confirmed employees
* Pending processing for non validated / unconfirmed employees until validated either through SARS or declared with UIF
* Verify if employees not receiving other UIF ordinary benefits (to avoid double dipping)
* Verify correctness of the calculation
* Verify no duplicate payments
* Validation of the Banking Details **(Account number vs branch code and bank name)**
* Validate the CSV file or Spreadsheet format.
* Record of the IP address on the download of the payment breakdown report.

**Two Fraud Cases on the Media**

Case Number CAS 26/13/2020, R5.7 Million (Employee, Employer, and Accountant) parties involved on this application)

• Employee of the company registered and created profile using the Company reference number of the employer.

• Captured employee banking details under the employer banking details

• Submitted the application as an employer and accepted the MOA and Legal Undertaking as the employer.

• Chose the payment method as the employer

• Captured employee details (ID number, Salary, lockdown period)

• UIF reference number confirmed on the UIF database as correct

• Employees confirmed correct because they were declared by the employer.

• Employer/Accountant attempted to register as a user after the employee submitted the application

• Employer/Accountant was blocked by the system. (The system displays a message “the profile is already registered”)

• Requested for reset of a password

• Profile accessed with the new password

• Details of the employee and the banking details of the employee displayed on the profile

• No changes made on the banking details under employer banking details

• New other employees application uploaded under the same profile

• New employees validated against all controls

• Payment of all other employees paid into the banking account provided on the profile.(Employee bank account because it was not changed on the profile )

• An Amount of R 5 688 802-20 was paid on 14 May 2020.

**Matter 2. - R4,7 Million ( Employee, Bargaining Council, Accountant) parties involved on this application)**

• Employee of the company registered as user using company reference number and created password

• Employee created a profile by capturing his name under company trading name, Email Address and Contact details.

• Captured Employee Banking details under Employer Banking Details.

• No claim was submitted only profile created.

• Employer/Bargaining Council attempted to register as a user after the employee created a profile

• System blocked Employer/Bargaining Council (The system displays a message “the profile is already registered”)

• Requested for reset of a password (Not yet determined)

• Profile accessed with the new password (Not yet determined)

• Application of the employee and the banking details of the employee displayed on the profile

• No changes on the banking details under employer banking details

• New other employees applications uploaded under the same profile (Not yet determined by whom)

• New employees validated against all controls

• Payment of all other employees paid into the banking account provided on the profile. (Employee bank account because it was not changed on the profile)

• An amount of R 4 717 285 was paid on 05 May 2020.

**Summary of 75 Cases can be categorised as follows:**

**Employer withholding/underpaying employee benefits: 26 Cases**

**Overpayment of UIF benefits to employers. 01 Case**

*Control put in place:*

*‘Follow the money’ approach – tracking all payments to make sure they ended up in the right place – with the employees.*

**Employer using incorrect UIF ref number: 02 Cases**

*Control put in place:*

*Locking UI Reference number where suspected fraud has been identified;*

**Individual claims blocking company claims: 06 Cases**

*Control put in place:*

*Deletion of incorrect company profiles created*

**Incorrect banking details: 03 Cases**

*Control put in place:*

*Introducing further controls in the bank change to limit it to UIF staff and managed through the company providing confirmation in writing that they are changing the account. Credentials of the mandated person to claim for the company records are maintained by the system.*

**Suspected fraudulent claims: 31 Cases which include subcategories listed below.**

* Ghost employees
* Work and draw (company claiming while it was fully functional)
* Company claiming for terminated employees
* Collusion between employer and employee to lodge fraudulent claims

**None compliance of employers to UIF act. 06 Cases**

*Control put in place:*

*Locking UI Reference number where suspected fraud has been identified; Matter under investigation are placed on hold but enable the employer to apply and pay employees directly.*

**IMPROVED CONTROLS**

**1. REGISTRATION AS A USER of /Employer/Bargaining Council**

* Unique UIF Reference Number which must match with the UIF source system (Siyaya)
* Unique password (combination of alphabets and numbers)
* Email notification after successful registration only sent to the email address provided on the profile
* No duplication of registration with the same UIF Reference Number (the system displays a message “the profile is already registered”)

1. **LOGIN TO CREATE A PROFILE**

Unique username (UIF reference number) and password is required to login

* **Control**: Verification of the username and password against the COVID 19 TERS System database. After three Incorrect password attempts the system locks the profile
* Reset of the password only send to the email address that was provided when the profile was created.
* The system records the IP Address of the user registering the profile
* No banking details changes will be allowed where there was previous successful Payment
* Reset of the password now limited to only 3 officials.

**Capture the Company/ Bargaining Council profile details**

* Trade name
* Contact details
* Email address
* Payment Method(Employer/Bargaining Council/Employees)
* Banking Details

**BACK END VALIDATION (CONTROLS)**

* Validation with Home Affairs
* Validation of the employees claimed for against the reference number (Employer) on the UIF database.
* Proceed processing with validated/ Confirmed employees
* Pend processing for non validated / Unconfirmed employees until validated either through SARS or declared with UIF
* Verify if employees not receiving other UIF ordinary benefits( to avoid double dipping)
* Verify correctness of the calculation
* Verify no duplicate payments
* Validation of the Banking Details**( Account number vs branch code and bank name)**
* Bank verification of the banking details( Confirmation of the owner of the account)
* Suspected fraud cases are blocked on the system.
* All cases of similar nature to the R5.7 and R4.7 million extracted in the system and handed over for Forensic Investigation.

Question 7

How much funds were set aside for COVID-19 TERS?

Answer 7

R40 billion was set aside for a period of three months namely, April, May and June.

Question 8

How do you calculate Benefits due to Employees?

Answer 8

**COVID 19 TERS FORMULA**

The minimum amount to be paid by UIF and employer to clients is R 3 500.00.

The maximum amount to be paid by UIF to clients is R 6 700.00.

As per Schedule 2 of the Unemployment Insurance Act, No 32 of 2003 the benefit due is calculated as follows:

Daily income for weekly earners = Weekly rate \*52 / 365

Daily income for monthly earners = Monthly rate \* 12 / 365

Benefit = Daily Income \* IRR

Where IRR is the Income Replacement Rate corresponding to the contributor’s daily income, which is defined as:

The Income Replacement Rate (IRR) determines the percentage of a contributor’s previous income to which the contributor is entitled in the form of benefits. The IRR is a variable, so it defines a sliding scale. A contributor who previously earned a low wage is entitled to receive benefits representing a larger proportion of her or his previous income than a contributor who previously earned a higher wage.

The IRR is at its maximum when income equals zero, and it reaches its minimum where income is equal to the benefit transition income level. The maximum IRR is fixed at 60%. The minimum IRR is currently set at 38%. However, the Minister may vary the minimum IRR in terms of section 12(3)(b).

Using current values, the IRR can be calculated according to the following formula:

IRR = 29.2 + (7173.92 / (232.92 + Yi))

Where Yi represents a contributor’s monthly rate of income. (Consistency of units is essential. To calculate IRR from daily or weekly rates of pay, please refer to the more detailed explanation of the IRR formula in the technical note below.). The following scenarios help to further clarify how the TERS benefit is calculated.

**Scenario: 1**

Worked as a contributor with the remuneration being **R 4 000 per month and the company pay R0.00** during lockdown**.** This remuneration will also be used as the average remuneration (earned R 4 000.00 for the last 6 months).

Step 1: Determine Daily Income (monthly remuneration x 12/365)

R 4 000 X 12 = 48 000/365

Daily Income: **R 131.51**

Formula: 29.2 + (7173.92 / (232.92 + DI)

29.2 + (7173.92 / (232.92 + 131.51)

29.2 + (7173.92/ 364.43)

29.2 + 19.69

**48.89**

|  |
| --- |
| Client would be paid on an IRR of 48.89% for the number of days**: R 131. 51 x 48.89%** = R 64. 29  (Daily Benefit Amount). |

|  |  |
| --- | --- |
| **30 DAYS** | |
| Benefit amount | **R 1 928.70** |

**SINCE THE BENEFIT AMOUNT CALCULATED IS LESS THAN NMW which is calculated at 115.07 per day (3500 \* 12 / 365), therefore amount to be paid is 115.07 \*30 days = R 3452.10.**

**Scenario 2**

Normal Remuneration is **R 18 640.76** which is above ceiling, therefore the calculations will be discounted as if remuneration earned is **R 17 712.** In this case the client received **R 0.00 from the employer.**

**Step 1: Determine Daily Income: 17 712 x 12/365 = R 582.31**

Formula: 29.2 + (7173.92 / (232.92 + DI)

29.2 + (7173.92 / (232.92 + **R 582.31**)

29.2 + (7173.92/ **815.23**)

29.2 + **8.80 = 38%**

**Payment to be assessed in terms of sliding scale and in particular 38%**

Client would be paid on an IRR of 38% for the number of days: R 582.31 x 38% = **R 221.28 (Daily Benefit Amount)**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| |  |  | | --- | --- | | 30 DAYS | | | **Benefit Amount** | **R 6 638.40** | |
| **NB: THE AMOUNT TO BE PAID TO THE CLIENT FOR SALARIES ABOVE R 17 712 PER MONTH IS R6 638.40 (221.28 \*30 = 6638.40) SINCE THE CLIENT RECEIVED R0.00 FROM THE EMPLOYER.**  **Scenario 3**  **From scenario 2 above;**  Normal Monthly Remuneration is **R 18 640.76**; Determine Daily Income: 17 712 x 12/365 = **R 582.31\*38% = 221.28** |

**SALARY TO THE CLIENT DURING LOCK DOWN: R 10 000.00**

|  |  |
| --- | --- |
| **30 DAYS** | |
| Benefit Amount | **R 6 638.40** |

**DAILY INCOME (221.28) + DAILY REMUNERATION DURING LOCKDOWN (328.77) IS LESS THAN DAILY NORMAL SALARY (612.85) THE BENEFIT AMOUNT TO BE PAID BY UIF TO THE CLIENT WILL BE R 6 638.40.**

**Scenario 4**

**From scenario 3 above,**

**SINCE THE CLIENT RECEIVED R 15 000.00 (493.15 DAILY SALARY DURING LOCKDOWN); THE AMOUNT TO BE PAID BY UIF TO THE CLIENT WILL BE 119.70 + 493.15 = 612.85, THEN AMOUNT TO BE PAID IS 119.70 \* 30 = 3591.00.**

Question 9

Why the delay in June payments?

Answer 9

* UIF had planned for employees to start receiving their payments as from the 25th of June 2020, to this end UIF launched June applications on the 23rd of June 2020. Within hours of the launch of the system, applicants encountered serious system instability that affected the applicants profile negatively. The June application was pulled back and the troubleshooting done to identify the problem, which was later identified as systems over- loading.
* In the end, three additional servers had to be added as it became clear that “load balancing” as a result of more users and multiple months running caused the instability. The other key consideration is that the application is too demanding on the database, as each employer application must be tested against the database for both verification of employees records and benefit calculations.
* The application was finally deployed on the 3rd of July 2020. The breakdown of the applications received to date:

**JUNE 2020 APPLICATIONS STATISTICS**

|  |  |
| --- | --- |
| **Description** | **Numbers** |
| No of Employers Applied via Capturing Directly on the Website (Individual Applications) | 16328 |
| No of Employees Applied via Capturing Directly on the Website (Individual Applications) | 217171 |
| No of Employers requested to pay for same no of employees which they applied in May without capturing employees or uploading CSV Files | 22054 |
| No of Employers applied via CSV Files | 12918 |

**NB: This is work received over the weekend since the applications were opened for June. If the application is valid and complete, the processing time is 48 hours.**

Question 10

Who is the Person the committee can talk to for Questions

Answer 10

Mr Gift Kgatle – 082 268 5035 email: [gift.kgatle@labour.gov.za](mailto:gift.kgatle@labour.gov.za)

Question 11

What are the challenges inherent to the UIF and what interventions did you put in place?

Answer 11

The Covid benefits necessitated not only new policies and directions, but also a major system change to cope with a ten-fold increase in benefit payments. Prior to the lockdown, the UIF paid benefits only to retrenched workers who had contributed to the Fund. The process was typically initiated by individual walk-ins to Labour Centres. This all had to be changed:

* We developed automated, on-line applications in order to avoid further spread of the virus from mass queueing at Labour Centres.
* At the same time, we engaged with business and labour at NEDLAC in order to make possible bulk disbursements of benefits via employers and bargaining councils. It was this agreement, which allowed us to provide benefit payments on this massive scale.
* But yes, it was a learning curve, and there were delays as we sought to repurpose the UIF and augment systems.
  + Further delays occurred in May when we picked up instances of employers who had received funds from the UIF, but failed to pay their employees, which meant we had to make changes to allow direct payments to employees.