



Veterans Affairs
Canada

Anciens Combattants
Canada

Task Force Audit Follow Up Report

Final - June 2009



Canada



*This report was prepared by the
Audit and Evaluation Division*

ACKNOWLEDGEMENT

We would like to acknowledge all those who assisted us with this follow-up audit. In particular, the audit team acknowledges the cooperation and assistance that was given us by Veterans Affairs Canada management and staff.

The Audit Team consisted of the following persons:

Orlanda Drebit, Director General, Audit and Evaluation Division
Roger Doiron, Auditor, Team Leader
Mike Sheen, Audit and Evaluation Manager
Tim Brown, Audit and Evaluation Officer
Tracy Hicken, Planning Officer
Amanda MacLeod, Senior Statistics Officer

Table of Contents

EXECUTIVE SUMMARY	1
1.0 SCOPE	2
2.0 OBJECTIVE	2
3.0 METHODOLOGY	2
4.0 FINDINGS	3
5.0 REPORTS RECOMMENDED FOR CLOSURE	4
5.1 Repair, Restoration and Rehabilitation of Canada's First World War Memorials in Europe Audit Report (February 2004)	4
5.2 Veterans Independence Program (VIP) Baseline II (March 2006)	6
5.3 Administered Accounts Assurance Audit - Phase II (November 2007)	9
6.0 DISTRIBUTION	13
APPENDIX - Risk Assessed Audit Reports for Follow-up	14
Audit of the Outsourcing of Health Claims Administration (January 2006)	14
Follow-up of the January 2006 Audit of Outsourcing of Health Claims Administration (December 2008)	16
Audit/Evaluation of the Organizational Governance Volume II - Veterans Services (VS) Atlantic Region (December 2006)	18
Management of Information Technology Security (MITS) Assurance Audit (November 2007)	20
Contracting Audit (December 2007)	21
Financial Management and Controls Audit - Phase II (September 2008)	24
Post Payment Verification Assurance Audit (August 2008)	27
TABLE - Summary of Audit Reports for Follow-up	28

EXECUTIVE SUMMARY

In accordance with the Government of Canada *Policy on Internal Audit* as well as the *International Professional Practices Framework*, Federal Government Departments and Agencies are required to have effective monitoring and follow-up measures to ensure that management action plans are implemented in response to internal audit recommendations.

In March, 2009, the Audit and Evaluation Division's (AED) Task Force Team for Audit and Evaluation Follow-up was requested to table reports ready for closure. In addition, for those reports that we were unable to close due to outstanding recommendations, we were asked to assign appropriate risk ratings. The risk rating scale, consisting of critical, material and non-essential ratings, had received the prior approval of the Departmental Audit Committee.

In this follow-up, nine audit reports and one combination audit and evaluation report were reviewed by the Task Force Follow-up Team. The reports contained 163 original recommendations and a related 270 corrective actions. Our follow-up, utilizing a cut-off date of March 31, 2009, has resulted in 95 recommendations, (10 of which were previously closed at the December, 2008 meeting of the Departmental Audit Committee and 41 at the March 2006 meeting of the Audit and Evaluation Committee) and 164 corrective actions, now ready for closure. The Task Force Team has deemed a further 13 recommendations as "non-essential" and six (6) recommendations were not due as of the March 31, 2009 cut-off date. Three of the ten (10) reports are being recommended by the Task Force Team for closure. The remaining 7 audit reports contain 49 recommendations, and a related 93 corrective actions requiring further follow-up by the Task Force Team. For a visual summary, please refer to the Appendix of this report and specifically to the table on page 28.

We are recommending closure of the following three reports (please see Section 5.0 for summary reports):

Repair, Restoration and Rehabilitation of Canada's First World War Memorials in Europe Audit Report (February 2004);

Veterans Independence Program (VIP) Baseline II (March 2006); and

Administered Accounts Assurance Audit - Phase II (November 2007).

An appendix is provided containing those reports for which recommendations remain outstanding. All recommendations have been reviewed and risk assessed by the Task Force Follow-up Team and those rated "non-essential", with accompanying rationale, have been highlighted.

1.0 SCOPE

The scope of this audit engagement pertains exclusively to the outstanding recommendations contained within nine audit reports and one combination audit and evaluation report, for a total of 10 reports. The Task Force Team established March 31, 2009 as the cut off date for the implementation or completion of outstanding recommendations.

2.0 OBJECTIVE

The objective of this audit follow-up is to examine all 10 audit reports and to recommend those ready for closure to the Departmental Audit Committee. In addition, appropriate risk ratings are to be assigned to all outstanding recommendations with a view to reporting those deemed as “non-essential” to the Departmental Audit Committee.

3.0 METHODOLOGY

Further to the November 2008, Follow-up Audit Report, AED has adopted as part of its criteria for follow-up, the guidance set out in *Practice Advisory 2500.A1-1 “Follow-up Process”* from the IIA’s *Professional Practices Framework*. Moreover, in Practice Advisory 2120-1: “*Management and the board are responsible for their organization’s risk management and control processes. However, internal auditors acting in a consulting role can assist the organization in identifying, evaluating, and implementing risk management methodologies and controls to address those risks.*” Each organization may choose a particular methodology with the approval of the Chief Audit Executive (CAE), which has been formally discussed with management and the board. Accordingly, with the prior approval of the Departmental Audit Committee, the following risk rating scale will be utilized in rating all outstanding recommendations:

- **CRITICAL** = Avoiding the implementation of the recommendation will have a significant impact on the Department.
- **MATERIAL** = Avoiding the implementation of the recommendation would have a moderate impact on the Department.
- **NON ESSENTIAL** = Nice to implement; however, avoiding the implementation of the recommendation would have little or no impact on the Department. There may also be cases where the recommendation has become redundant.

The methodology will also employ sound auditing procedures in examining outstanding recommendations. From the time a recommendation is identified in an audit or audit/evaluation, until it is recommended for closure by the Departmental Audit Committee, evidence of completion is required. Evidence may be in the form of: new procedures, policy, minutes, memoranda, reports, forms, etc. Supporting evidence will be reviewed by the Task Force to obtain assurance on whether such evidence is sufficient and appropriate to close the recommendation.

The follow-up procedure also considers the following criteria: whether the recommendation has been satisfactorily actioned by the auditee (or senior management has assumed the risk of not taking the corrective action); whether circumstances have changed resulting in a redundant or obsolete recommendation; whether the action taken is achieving the desired results; and, whether the adequacy, effectiveness and timeliness of actions, taken by management, on the recommendation is acceptable.

4.0 FINDINGS

In all, the Task Force Team reviewed 10 reports containing 163 outstanding recommendations. Of these recommendations, 10 were previously closed at the December 2008 meeting of the Departmental Audit Committee and 41 at the March 2006 meeting of the Audit and Evaluation Committee. Accordingly, 95 are now ready for closure. The Task Force Team has deemed a further 13 recommendations as “non-essential”. Six (6) recommendations were not due as of the March 31, 2009 cut-off date. Three of the ten (10) reports are being recommended by the Task Force Team for closure, resulting in seven (7) audit reports containing 49 recommendations (93 corrective actions) requiring further follow-up.

We are recommending the following three audit reports for closure:

- Repair, Restoration and Rehabilitation of Canada’s First World War Memorials in Europe Audit Report (February 2004);
- Veterans Independence Program (VIP) Baseline II (March 2006); and
- Administered Accounts Assurance Audit - Phase II (November 2007).

5.0 REPORTS RECOMMENDED FOR CLOSURE

5.1 Repair, Restoration and Rehabilitation of Canada's First World War Memorials in Europe Audit Report (February 2004)

Executive Summary (extracted from original report)

This report contains the results of audit work relating to the Canadian Battlefield Memorial Restoration Project (CBMRP) covering project activity from April 2002 to early March 2003. The audit fieldwork was carried out using the Audit and Evaluation Committee approved Terms of Reference and focussed on project management, controls, reporting, scheduling, risk analysis and impacts on the Canada Remembers Program.

The audit's purpose was to provide independent assurance that Veterans Affairs Canada's project management was consistent with established project management frameworks and to assess risk management strategies. The Terms of Reference for the audit are contained in Section 2.

The audit methodology included extensive review of documentation connected with the project, interviews of Veterans Affairs Canada (VAC) and Public Works and Government Services Canada (PWGSC) staff, attendance at project team meetings and physical observation at the memorial sites.

At the start of the audit it was agreed that the auditors would produce a document which would contain "Items for Management Consideration". Items which have been included in this report are a combination of issues that VAC managers were dealing with (deemed by the auditors to be important) and items identified by the internal auditors. It is the opinion of the auditors that the "Items for Management Consideration" presented in this report require the project and program managers attention to help ensure the success of the project.

"Items for Management Consideration", have been provided to the CBMRP management team (36) and to Canada Remembers (8) during the audit. The items presented for management consideration were grouped under the following categories:

- Compliance with Treasury Board Submission;
- Project Management;
- Budgets and Financial Management;
- Communications and Public Relations; and
- Canada Remembers (area responsible for actual sites in Europe).

Section 3, contains the detailed list of "Items for Management Consideration" which have been provided to the CBMRP and to Canada Remembers by the auditors.

While the CBMRP project team is dedicated to ensuring that this project is delivered on time and within budget, there is a need to address the items presented in this audit report.

Conclusion

In the original audit there are 44 recommendations identified, and by the time the extensive Follow-up Audit Report (Final March 2006) was completed there were only three (3) recommendations to warrant further follow-up.

In March, 2006, 41 recommendations were approved for closure by the Audit and Evaluation Committee. Follow-up on the remaining 3 recommendations (listed below) has resulted in the collection of sufficient evidence to request closure.

Report Recommendations

Section E - Canada Remembers:

- R E 2** An ongoing maintenance plan will need to be implemented at each of the restored sites. Coordination with the restoration project will need to take place to ensure that responsibility for the maintenance plan is transferred.
- R E 7** There is a need to ensure that the appropriate arrangements are in place for the maintenance services provided to VAC by the CWGC. The agreements for the memorials, other than Vimy (1985), could not be found. This should also include monitoring to ensure that both parties are satisfying the terms and conditions of the arrangements.
- R E 8** Future funding for ongoing maintenance, required at the memorials, needs to be secured.

Task Force Recommendation

The Task Force Follow-up Team of the Audit and Evaluation Division recommends the Repair, Restoration and Rehabilitation of Canada's First World War Memorials in Europe Audit Report (February, 2004) for closure.

5.2 Veterans Independence Program (VIP) Baseline II (March 2006)

Executive Summary (extracted from original report)

In February 2000, Veterans Affairs Canada (VAC) approved the integration of the Veterans Independence Program (VIP) payment processing into the Federal Health Claims Processing System (FHPCS). The contract to administer FHPCS was awarded to Atlantic Blue Cross Care (herein referred to as Blue Cross). Implementation of FHPCS fundamentally changed the way clients were reimbursed, resulted in the redeployment of up to 32 VAC employees, and altered the role of Regional Finance Units.

Prior to integration, the Director General, National Operations Division (NOD) requested a pre-baseline study be conducted by Audit and Evaluation Division (AED), given the cost and potential impacts of the pending transfer. An initial *VIP Baseline Study* was released in June 2004. It provided a snapshot of pre FHPCS payment processing, including key baseline measures and predominant views of specific stakeholder groups, including managers, employees, providers and clients (via proxies).

A second baseline study was approved by the Audit and Evaluation Committee (AEC) in August 2004. Its purpose was to take a snapshot of VIP payment processing following the changeover to FHPCS, to facilitate a comparison to the initial *VIP Baseline Study* results. The majority of the fieldwork for *VIP Baseline II* was conducted between October - December 2004.

The following are highlights from the study's findings:

Client Service

- VIP continues to be valued and appreciated by clients.
- Efforts to streamline the payment process are very much welcomed.
- Turnaround times for claims have improved, but delays resulting from PENDS¹ and aged accounts more than 60 days remain a point of frustration for clients and providers.
- There is a more consistent application of benefits since Blue Cross assumed responsibility for claims processing (standardization).
- Administratively, VAC employees experience frustration in having to deal with a different Blue Cross staff member when they call regarding a client's file.

Financial Stewardship

- Provides better accountability and consistency across the country in the processing of VIP payments.

¹ PENDS are noncompliant transactions such as insufficient funds or data entry errors, e.g. input of a wrong date.

- Some progress has been made to increase the percentage of clients receiving payments through client reimbursements, and in reducing the number of clients on advance payments.
- Further enhancements to program and financial accountabilities are required.
- Increased rigour in monitoring and quality assurance is required in audits and in verification processes.
- Advance payment process requires strengthening through actions such as compliance to policies, monitoring, and follow-ups.

Communications

- VAC employees participated in work terms with Blue Cross and found these exchanges very helpful. Work exchanges of this type between VAC and Blue Cross employees would promote understanding and cooperative working relationships.
- Implementation of a feedback mechanism is necessary to determine if the redesigned forms that clients submit are meeting their needs.

Technology

- Significant gains have been made through systems integration, including better tracking and management of records, and quicker access to information for decision-making and client inquiries.
- Additional information should be provided to VAC employees regarding the functionality and use of this integrated system as a working tool.
- Data must be documented properly to have reliable and complete information in the system. Accuracy and consistency in entering data must be improved.

Nine key commitments were required to be met as part of the integration of VIP into FHCPs. The study found that progress has been made in the majority of these commitment areas. Overall, there is general acceptance by VAC managers and employees of the role which Blue Cross fulfills in terms of VIP claims processing. Advantages include improved turnaround times and more consistent (standardized) application of client benefits. Specific control weaknesses are identified in the report and improvements in these areas would further enhance claims processing. Technology enhancements are clearly evident and are acknowledged in the report. Client service is an important consideration; however, many of the concerns expressed during study interviews and focus groups were more closely tied to the introduction of the National Contact Centre Network and Treatment Authorization Centres.

Conclusion

The Task Force Team has deemed recommendations 1, 3 and 5 as obsolete.

These recommendations have been addressed in two subsequent audits (Office of the Auditor General of Public Accounts Audit of Veterans Affairs Canada 2006-07 and by the Post Payment Verification Audit). Additionally, these recommendations will be revisited under the 2009-10 Audit Plan. Sufficient evidence has been gathered for the remaining recommendations.

Report Recommendations

- R 1** It is recommended that the Director General, National Operations Division implement an accountability framework to measure achievement of targeted savings expected from shifting clients from advance payment to client reimbursement.
- R 2** It is recommended that the Director General, National Operations Division in consultation with the Director General, Finance Division enhance the rigour of VIP payment verification and the audit process.
- R 3** It is recommended that the Director General, Finance Division complete VIP post-payment reviews in a timely manner.
- R 4** It is recommended that the Assistant Deputy Minister, Veterans Services Branch take appropriate corrective action to address the problems identified in the VIP post-payment reviews.
- R 5** It is recommended that in order to enhance program accountability and to minimize overpayments, the Director Generals, National Operations Division and Program and Service Policy Division in consultation with the Director General, Finance Division strengthen and enforce compliance to Advance Payment procedures.
- R 6** It is recommended that the Director General, National Operations Division ensure that employees make optimal use of the built-in FHCPS functionalities.

Task Force Team Recommendation

The Task Force Follow-up Team of the Audit and Evaluation Division recommends the Veterans Independence Program (VIP) Baseline II (March, 2006) for closure.

5.3 Administered Accounts Assurance Audit - Phase II (November 2007)

Executive Summary (extracted from original report)

The purpose of the audit was to provide management with an independent assessment of Veterans Affairs Canada's (VAC's) administered accounts, which are accounts being administered by the Department on behalf of clients. The objectives were to assess the adequacy of the Department's management control framework, the degree of compliance with governing authorities and the accuracy of financial management information related to administered and estate accounts throughout the Department.

Veterans Affairs Canada has a long history of providing services and benefits to qualified Veterans and their families. After World War One, legislation was enacted to allow the Department to administer Veterans monies when the Veteran was incapable or unable to manage their financial affairs. The Department undertakes administration as a last resort, after all other options have been exhausted.

It is recognized that there is an inherent challenge in maintaining the required policy capacity and management infrastructure for a small number of accounts. That challenge will remain as long as the Department continues to provide administration services to Veterans in need.

Site visits included Head Office, three regional and seven district offices that currently have administered accounts. Fifty-three estate accounts were reviewed and 27 administered accounts.

The audit was conducted in accordance with Standards for the Professional Practice of Internal Auditing adopted by the Government of Canada. These standards require that the audit be planned and performed to obtain reasonable assurance that the administered accounts service is being delivered in accordance with governing authorities.

In the auditor's opinion, except for the observations noted in this report, there is reasonable assurance that the administered accounts service conforms with governing authorities, in all material respects.

Audit procedures consisted of a preliminary survey, cash audits, a review of previous audits, a financial review, and interviews with management and staff.

It was evident during the audit that management is committed to moving forward with improvements to the administered and estate account services. The audit team was pleased with the participation of interviewees in this audit, as well as feedback on how to improve VAC's administered and estate accounts activities. Best practices were identified by the auditors during site visits and were subsequently shared with other offices and regions. There are a total of 16 recommendations which require management action.

Conclusion

In the original audit There are twenty-one (21) recommendations identified. Of the twenty-one recommendations, twenty have sufficient evidence to recommend closure. Based on the current intentions of the auditee, R 11 has been risk reduced to non-essential (see R11 below for *rationale*).

Report Recommendations

- R1** It is recommended that the Director General, National Operations Division in consultation with the Director General, Finance Division deliver a training plan for employees working with administered accounts to ensure that roles, responsibilities, policies and procedures relating to financial activities are clear, including proper source documentation and authorized signatures.
- R2** It is recommended that the Director General, Finance Division develop and deliver a training plan, including guidance, for area counsellors responsible for administered accounts on the creation and monitoring of financial budgets to meet the basic needs of administered clients.
- R3** It is recommended that the Director General, Program and Service Policy Division consider amalgamating and harmonizing the policies on administered accounts in the *Veterans Program Policy Manual, Volume 3 - War Veterans Allowance - Administration of Allowance* and the *Pension Policy Manual - Administration of Pension*.
- R4** It is recommended that the Director General, Program and Service Policy Division revise the policies and procedures to ensure more comprehensive guidance on administration of client monies, including guidance on managing administered accounts, terminating administration, and transitioning clients to self administration.
- R5** It is recommended that the Director General, National Operations Division ensure that all the required documentation to support administration is completed within fiscal year 2007-2008.
- R6** It is recommended that the Director General, Program and Service Policy Division remove Subsection 3.16 of the VPPM Volume 3, entitled "Agreement with the Department (alternative to administration of allowance)".
- R7** It is recommended that the Director General, National Operations Division:
- 7.1 ensure that a statement of account be provided to and discussed with clients, or client's representative, at a minimum of every twelve months; and
 - 7.2 revise section (vi) of the Application and Agreement for Departmental Administration (VAC 464) to include that accounts be

rendered to the clients, or client's representative, every twelve months, at a minimum.

- R8** It is recommended that the Director General, National Operations Division:
- 8.1 establish requirements for an annual review, which should include but not limited to:
 - (i) determining if administration is still required;
 - (ii) discussion with client or client's representative on client's future basic financial needs, including a budget;
 - (iii) discussion of client's financial statements with client or client's representative; and
 - (iv) inquiries to client's well-being and satisfaction with the service.
 - 8.2 clarify the responsibilities of staff in relation to the reporting process on the results of the annual review.

- R9** It is recommended that the Director General, Finance Division ensure that individual administered accounts are verified at least every six months.

- R10** It is recommended that the Director General, National Operations Division ensure that the trustee screens in CSDN are updated to reflect the Department as administrator of the client's monies.

- R11** It is recommended that the Director General, Finance Division explore options to improve the VAC 128 (90-12) Statement of Account so that the description of the revenue or expenditure is understandable for both the area counsellor and the client.

Rationale: *Although modifications have been, and will continue to be made, to simplify the financial Statement of Account for administered account clients, given the clients' age and ability to comprehend such statements, the recommendation has been deemed non-essential.*

- R12** It is recommended that the Director General, National Operation Division:
- 12.1 clearly state and communicate the roles and responsibilities of staff responsible for the administration of client accounts, including, the need for separate accounts for each clients; and
 - 12.2 establish functional authority where staff can seek direction on the administration of client accounts.

- R13** It is recommended that the Director General, National Operations Division, in consultation with Legal Services:

- 13.1 review the practice whereby Benefits Adjudicators may be refusing, under subsection 30(1) of the *Pension Act*, to recognize a pensioner's power of attorney; and
 - 13.2 develop a business process for Ancillary Benefits Adjudicators to follow in relation to powers of attorney.
- R14** It is recommended that the Director General, National Operations Division, in consultation with Legal Services, provide procedural guidance to address situations where both VAC and another party administer different sources of income for the same client.
- R15** It is recommended that the Director General, National Operations Division:
 - 15.1 establish a work unit that has the expertise and authority for the management and timely disposition of estate accounts; and
 - 15.2 establish, procedures and work processes for the management and timely disposition of estate accounts.
- R16** It is recommended that the Director General, Program and Service Policy Division, establish policies for the management and timely disposition of estate accounts.

Task Force Team Recommendation

The Task Force Follow-up Team of the Audit and Evaluation Division recommends the Administered Accounts Assurance Audit - Phase II (November 2007) for closure.

6.0 DISTRIBUTION

Deputy Minister

Departmental Audit Committee Members

Senior Management Committee

APPENDIX - Risk Assessed Audit Reports for Follow-up

(1) Audit of the Outsourcing of Health Claims Administration (January 2006)

Executive Summary (extracted from original report)

On July 16, 2004, the Deputy Minister, as Chair of Veterans Affairs Canada's (VAC's) Audit and Evaluation Committee, approved an audit of VAC's outsourcing of health claims administration. The purpose of the audit was to determine the reasonableness of the current Federal Health Claims Processing System (FHCPS) Contract fee structure in relation to industry standards. The audit was also to provide assurances that the outsourcing of health claims administration was properly managed and contractual obligations were being fulfilled, that an adequate control framework was in place to ensure the integrity of contract-related expenditures, and that the system met the needs of VAC users.

The scope of the audit included contract administration practices respecting the current and previous contracts for the outsourcing of health claims administration. The audit was primarily a contract audit with emphasis placed on reviewing the current Contract with Medavie Inc. The audit was VAC-focussed and did not examine contract areas specific to the partner departments (DND and RCMP). Given that the audit was focussed on the contracts, it did not include an examination of system controls and edits to validate the accuracy of benefit payments in relation to program entitlements.

FHCPS is one of the largest and most complex health claims processing systems in the country. The outsourcing of health claims administration is the result of government's desire to foster public-private partnership. Since 1989 when VAC entered into a contractual arrangement with this Contractor for the nation-wide processing of treatment benefit claims, the scope and magnitude of services provided has grown significantly.

VAC has developed and maintained a harmonious relationship with the Contractor where the parties have worked together to provide exemplary service to VAC's clients. The Contractor has demonstrated flexibility and a willingness to accommodate and respond to VAC's unique needs.

Following a preliminary review, the auditors focussed on areas deemed to be of higher risk. The auditors recognize the uniqueness of the partnerships and the complexity of FHCPS in terms of scope and nature of operations. The audit findings and recommendations are aimed at helping VAC enhance its control framework and derive better value from the Contract.

A brief synopsis of the audit's findings indicates that, based upon Aon Consulting's analysis and expert opinion, VAC is receiving fair value from the FHCPS contract and that contract costs are competitive when compared to the marketplace.

Aon (Note 1) also observed that the extent of services provided by the Contractor is larger than what is commonly included in an outsourcing contract for health claims

administration. As well, the auditors found that major steps in the FHCPs contracting steps were conducted in compliance with contracting policy. The auditors, however, did observe upon opportunities for VAC to make improvements in a number of areas such as the process to develop business cases and analyse costs and benefits in support of outsourcing decision-making; the methods and procedures employed in the development and review of Requests for Proposals; the practices used in contract administration and monitoring of Contractor performance; and the operations of the financial control framework designed to ensure the integrity of contract-related expenditures.

(2) Follow-up of the January 2006 Audit of the Outsourcing of Health Claims Administration (December 2008)

Introduction (extracted from original report)

This report is a follow-up to recommendations raised in Veterans Affairs Canada's (VAC) Audit and Evaluation Division's (AED) January 2006 report, the *Audit of Outsourcing of Health Claims Administration*.

The follow-up report provides background information, and a table (Annex A) that references the 20 recommendations (including sub-recommendations, there are 62 findings in total) contained in the original audit report. The table provides information for Senior Management Committee and the Departmental Audit Committee to consider regarding the status of corrective actions to address the recommendations.

The information presented outlines the recommendations and sub-recommendations, with summary information for both the current status and remaining actions. While detailed information has not been included for each of the 112 corrective actions resulting from the 20 original recommendations, AED will continue to track actions taken to address the recommendations contained in the report and management's proposed corrective actions.

Some of the issues raised in the audit report are complex. Actions to address the recommendations have required significant effort by program areas and corporate services. In instances where target dates for implementation of the recommendations have not been met, new target dates, and in some cases, revised action plans are needed as progress continues on management action plans committed to in the 2006 audit report.

Conclusion

- There are 20 recommendations in the original audit, 10 of which were previously approved for closure at the December 2008 meeting of the Departmental Audit Committee.
- The Task Force Follow-up Team reviewed all outstanding recommendations and assessed them using the risk rating scale as outlined in the methodology section of this report.
- The Task Force Follow-up Team of the Audit and Evaluation Division is recommending closure of two (2) outstanding recommendations which were rated as non-essential. Those deemed non-essential are as follows:

R 13 It is recommended that the Director General, Finance Division:
iii) regularly monitor accounts receivable and maximize the collection of outstanding balances; and

Rationale: *Finance is identifying accounts receivables from 2003 to present which is expected to be completed in the near future.*

R 14 It is recommended that the Director General, Finance:
l) complete the review of entries in the audit recoveries account.

Rationale: *The process has been changed so that all receivables are now redirected to VAC via the cashier's office. The audit recovery account with the contractor does not exist nor will it form, any part of the next awarded contract.*

- There are eight (8) outstanding recommendations as of March 31, 2009.

(3) Audit/Evaluation of the Organizational Governance Volume II - Veterans Services (VS) Atlantic Region (December 2006)

Executive Summary (extracted from original report)

As part of the 2005-2006 Audit and Evaluation Plan, an Organizational Governance (OG) project was approved by the Audit and Evaluation Committee (AEC). It is intended that, over the next several years, OG reviews will be conducted on a cyclical basis by Audit and Evaluation Division of the control frameworks, activities and processes for governance for each regional and affiliated district offices (DOs), and for Ste. Anne's Hospital and Head Office (HO) organizations.

Central to the concept of organizational governance is the Management Accountability Framework (MAF), introduced by Treasury Board Secretariat (TBS) in 2003. The MAF consists of ten elements that taken together, provide public service managers with a clear list of management expectations within an overall framework for high organizational performance. The framework is designed to assist managers to assess progress within their organization, strengthen accountability and improve client service. Two senior Veterans Affairs Canada (VAC) managers, the Regional Director General, Veterans Services Branch, Atlantic Region and the Chief Pensions Advocate, Bureau of Pensions Advocates (BPA) agreed to have their organizations participate in the initial pilot.

This report, titled *Audit/Evaluation of the Organizational Governance, Volume II - Veterans Services (VS) Atlantic Region*, outlines observations and findings from the study's MAF-oriented assessment of the Veterans Services (VS) Branch Atlantic Regional Office and its affiliated district offices.

The study is divided into three main sections: compliance audit, evaluation summary and highlights from the self-assessment exercise.

The compliance audit contains five recommendations, requiring management action. The focus of these recommendations is to improve the efficiency and effectiveness of VS Atlantic Region's operations.

The evaluation section of the report has three recommendations. These reflect an assessment of how VS Atlantic Region is performing with respect to organizational governance within the context of the ten MAF elements.

While observations for each MAF element relate to information gathered in Atlantic Region, the recommendations are directed to the accountable manager based on functional and/or operational responsibilities.

Results from a self-administered questionnaire completed by the majority of the Region's managers and employees is included in the report, as well as, a list of commendable practices.

At the time of this regional review, implementation of the Canadian Forces (CF) Modernization initiative was underway.

Conclusion

- The compliance audit portion of this combination audit/evaluation project, contained five (5) original recommendations.
- The Task Force Follow-up Team reviewed all outstanding recommendations and assessed them using the risk rating scale as outlined in the methodology section of this report.
- The Task Force Follow-up Team of the Audit and Evaluation Division is recommending closure of 4 outstanding recommendations - two (2) of which were closed with sufficient and appropriate evidence and two (2) which were rated as non-essential. Those deemed non-essential are as follows :

R1 - It is recommended that the Directors General, Program and Service Policy Division and the National Operations Division, in consultation with Regional Directors General, develop a formal mechanism and utilize “outside-in” information; and

Rationale: *Given that there are a number of mechanisms already in place and no plans to create additional mechanisms, the risk is low.*

R2 - It is recommended that the Director General, Program and Service Policy Division, in consultation with the Director General National Operations Division, implement a strategy to address issues relating to communication of program and policy direction to enhance citizen-focussed service.

Rationale: *A number of mechanisms are already in place and a grid of current mechanisms has been developed to enhance this service.*

- There is one (1) outstanding recommendation as of March 31, 2009.

(4) Management of Information Technology Security (MITS) Assurance Audit (November 2007)

Executive Summary (extracted from original report)

The Information Technology Security Audit was approved by the Audit and Evaluation Committee (AEC), chaired by the Deputy Minister, and was conducted during fiscal year 2006-2007. The audit's scope included an examination of Veterans Affairs Canada's Information Technology Security (ITS). The audit was conducted in accordance with the Internal Auditing Standards for the Government of Canada. Those standards require that the audit be planned and performed to obtain reasonable assurance that Veterans Affairs Canada (VAC) is in compliance with the requirements of the Operational Security Standard: Management of Information Technology Security Standard (MITS). The audit reviewed the procedures and policies used by VAC to carry out its IT Security processes.

Only the sections of the MITS that IT Security had deemed to be compliant as of December 31, 2006 were audited. Of the 153 sections in MITS, ITS deemed seventy-eight sections to be compliant by IT Security, the auditor confirmed that seventy-six were compliant with the MITS. The two deemed to be non compliant are in recommendations R2 and R4.

Conclusion

- There are five (5) original recommendations in this report.
- The Task Force Follow-up Team reviewed all outstanding recommendations and assessed them using the risk rating scale as outlined in the methodology section of this report.
- The Task Force Follow-up Team of the Audit and Evaluation Division is recommending closure of two (2) outstanding recommendations - one (1) of which was closed with sufficient and appropriate evidence and one (1) which was rated as non-essential. The recommendation deemed non-essential is as follows:

R3 - It is recommended that the Director, Security and Real Property Services Directorate arrange to have a section on Information Technology Security included in the Portfolio orientation manual for new staff.

Rationale: *IT Security and Security Services have developed a presentation which has been posted on the Orientation Website thus reducing the recommendation to non-essential.*

- There are three (3) outstanding recommendations as of March 31, 2009.

(5) Contracting Audit (December 2007)

Executive Summary (Extracted from Original Report)

This audit was carried out in accordance with the approved Veterans Affairs (VA) Portfolio Audit and Evaluation Plan. Procurement and contracting activities within the Veterans Affairs Canada (VAC) and the Veterans Review and Appeal Board (VRAB) were examined as part of the audit.

The objectives of the audit were to: review the management framework for procurement and contracting activities; provide assurance that VA was complying with government contracting regulations, directives and policies; assess satisfaction with services provided by common service organizations; review the delegated authorities associated with procurement and contracting; assess functional management relating to procurement and contracting; and assess the adequacy and accuracy of information and reporting.

The audit scope included an examination of the majority of methods used within the Portfolio to procure goods and services, such as traditional goods and service contracts, local purchase orders, call-ups against standing offers, temporary help and acquisition cards. The audit did not examine payments associated with programs which provide benefits directly to Portfolio clients.

The audit examined procurement and contracting activity during the period April 1, 2005 to September 30, 2006.

Summary information regarding Portfolio procurement and contracting activities and expenditures was obtained from corporate electronic procurement systems and is presented in Section 2. However, the audit identified concerns associated with the completeness and accuracy of the data, see Section 4.6.2.

Due to weaknesses associated with the accuracy and completeness of procurement and contracting data, judgmental sampling was used during the audit. While no major instances of non-compliance were found after reviewing 691 files/transactions, the audit is unable to provide assurance based on statistical sampling methodologies. The audit identified areas where improvements can be made to strengthen the administration of the procurement and contracting functions.

While this audit was being conducted, Finance Division was commencing work to:

- undertake a review of procurement and contracting processes used; and
- implement an integrated finance and procurement information system.

The recommendations contained in this report are intended to improve the management of the contracting and procurement function. Management responsible for contracting and procurement have indicated that all issues will be acted upon and have indicated that the review of procurement and contracting processes, as well as integrating the Department's financial and procurement system will address most of the findings contained in this report.

Conclusion

- There are 42 original recommendations in this report.
- The Task Force Follow-up Team reviewed all outstanding recommendations and assessed them using the risk rating scale as outlined in the methodology section of this report.
- The Task Force Follow-up Team of the Audit and Evaluation Division is recommending the closure of 19 recommendations - 12 of which were closed with sufficient and appropriate evidence and seven (7) which were rated as non-essential. Those deemed non-essential are as follows:

R5.4 - It is recommended that the Director General, Finance Division, in consultation with the Director General, Program and Service Policy Division and the Director General, National Operations Division establish a process to regularly report to management, information relating to medical contracts;

Rationale: *A regular reporting process has been established to disseminate information to management regarding medical contracts.*

R7.3 - It is recommended that the Director General, Finance Division in consultation with the Director, Security and Real Property Services periodically monitor contracting activity to ensure that established security requirements are being adhered to;

Rationale: *Because of the due care exercised at the beginning of a contract, the risk of reputational or monetary loss is low.*

R9.1 - It is recommended that the Director General, Finance Division establish a process to review all service contract proposals to ensure that the risk of creating an employer-employee relationship is minimized;

Rationale: *Although there is potential risk of an employer-employee relationship, the impact is mitigated as service contracts are awarded by Public Works and Government Services Canada.*

R10.1 - It is recommended that the DG Finance update the VA acquisition card policy and place it on the Intranet;

Rationale: *A policy exists, but the importance of it being placed on the Intranet relates more to convenience than risk.*

R10.4 - It is recommended that the DG Finance explore options to make greater use of acquisition cards for small dollar value purchases;

Rationale: *While useful for decreasing the need for more expensive Local Purchase Orders (LPOs), the savings and opportunities would be limited.*

R14.2 - It is recommended that the Director General, Finance Division take steps to improve the functional management associated with the procurement and contracting functions by establishing a process to monitor procurement and contracting activity, and where required take appropriate action to address identified concerns; and

Rationale: *While additional monitoring would provide consistency to functional management decisions, current processes are sufficient.*

R14.3 -Establishing a process to obtain feedback from operational units regarding satisfaction with services provided by functional units.

Rationale: *In terms of dollars and/or resources, client satisfaction surveys are not a vital aspect of the contracting and procurement process.*

- There are 23 outstanding recommendations as of March 31,2009.

(6) Financial Management and Controls Audit - Phase II (September 2008)

Executive Summary (extracted from original report)

The need for enhanced risk-based controls to support compliance with the *Financial Administration Act* (FAA) has always existed. It has taken on greater importance because of the Federal Government's move toward Audited Financial Statements (AFS) for all departments and the passing of the *Federal Accountability Act, 2006*. These new initiatives require that financial controls not only be developed based on a risk assessment process, but also be documented and tested for their efficiency.

The Financial Management and Controls Audit Phase II was approved by the Audit and Evaluation Committee (AEC) chaired by the Deputy Minister and was conducted during the fiscal year 2007-2008. This audit is one in a series of financial management and control audits to assess whether VAC's financial control framework is adequate to ensure that :

- allocated funds are spent for their intended purposes and within approval limits;
- financial information is accurate; and
- appropriate controls are maintained over expenditures.

The audit's objectives were:

- to determine the root causes of systemic financial and administrative issues that hinder compliance with respect to the control, processing or disbursement of expenditures;
- to provide an appraisal of financial and administrative compliance with legislative, central agency and Departmental directions regarding petty cash, acquisition cards and Departmental Bank Accounts; and
- to develop a systematic program of audits that examines on a cyclical basis the financial and administrative functions, activities and processes for expenditure, and identifies the audit techniques and procedures to carry out such audits.

The first objective of the assignment was conducted as an audit consultation intended to add value and improve the organization's governance, risk management and control processes. The second objective was addressed as an assurance audit, and the third has led to the development of audit guides and the identification of audit techniques and procedures for future audits and will be ongoing.

The audit examined whether the Department effectively discharges responsibilities as required under the FAA Sections 32, 33 and 34, and included an examination of Entity-level controls² that reviewed the following: departmental stewardship, employee training and employee skills to perform their responsibilities. The second objective was an audit of transaction-level controls involving the examination of processes to ensure compliance with legislative, central agency and Departmental directions regarding petty cash, acquisition cards and Departmental Bank Accounts (DBA).

² The attitudes and beliefs of management toward corporate governance, ethics, internal controls and risk management.

The audit was conducted in accordance with Standards for the Professional Practice of Internal Auditing adopted by the Government of Canada. These standards require that the audit be planned and performed to obtain reasonable assurance that the administration of the following disbursement functions: cashier, petty cash, DBA, and acquisition cards, are delivered in accordance with governing authorities.

In the auditors' opinion, except for the observations noted in this report, there is reasonable assurance that the disbursements conform with governing authorities, in all material respects.

Veterans Affairs Canada (VAC) is a Department undergoing significant changes. Organizational and demographic changes are compounded by restrictive and outdated authorities, and by a culture defined by Pricewaterhouse Coopers LLP (PwC) as "...a client-centered culture."³

The root causes affecting the efficacy of the controls are:

- Lack of an effective financial management control framework.
- Insufficient resources (administrative) and a need for additional training for financial and administrative support staff to fulfil their roles and responsibilities.
- Insufficient follow-up by the offices of primary interest regarding findings and recommendations of: internal audits, internal control reviews, and the Office of the Auditor General's Public Accounts audits (slow remediation efforts).
- No official documented challenge process regarding contentious authorization of budget resource allocation and payment issues.
- Problems with the segregation of duties re Sections 32, 33 and 34.
- A 'management culture' that sometimes struggles to balance client needs and controls.

The recommendations contained in this report are intended to improve the development, management and application of entity-level controls as well as transaction-level financial controls regarding compliance with Sections 32, 33 and 34 of the FAA.

Given the phased nature of this audit, it is acknowledged that senior management and program managers have already initiated some actions to address a number of the observations contained in this report.

Conclusion

- There are 10 original recommendations in this report.
- The Task Force Follow-up Team reviewed all outstanding recommendations and assessed them using the risk rating scale as outlined in the methodology section of this report.

3

Draft Report on Veterans Affairs Canada Audit Readiness Assessment, January 2007.

- There are 10 outstanding recommendations as of March 31, 2009, (five) 5 of which are due beyond the cut-off date of March 31, 2009.

(7) Post Payment Verification Assurance Audit (August 2008)

Executive Summary (extracted from original report)

The Post Payment Verification Assurance Audit was approved by the Veterans Affairs Canada (VAC) Audit and Evaluation Committee on March 21, 2006. The purpose of this audit is to provide assurance that VAC's management frameworks and practices regarding post payment procedures are compliant with Treasury Board Account Verification Policy, Financial Administration Act (FAA) and the Payments and Settlements Requisitioning Regulations, 1997.

VAC's post payment procedures were assessed for efficiency, effectiveness and adequacy of information used for decision-making. This report outlines observations and findings from the review of VAC's Quality Assurance Framework of the Account Verification Process. Contained within this report are ten recommendations relating to the Department's need to clarify its definition of critical errors, improve the accuracy and consistency of its post payment verification reviews, implement a follow-up process for identified errors, provide additional training for staff and develop a quality assurance process.

This audit was conducted in accordance with Standards for the Professional Practice of Internal Auditing adopted by the Government of Canada. These standards require that the audit be planned and performed to obtain reasonable assurance that the post payment verification process is in accordance with governing authorities. Based on the findings, the audit team cannot provide this assurance as, in some cases, it was determined that VAC's management frameworks and practices regarding post payment verification were not in compliance with governing authorities.

Conclusion

- There are 10 original recommendations in this report.
- The Task Force Follow-up Team reviewed all outstanding recommendations and assessed them using the risk rating scale as outlined in the methodology section of this report.
- There are 10 outstanding recommendation as of March 31, 2009, one (1) of which is due beyond the cut-off date of March 31, 2009.

APPENDIX - Risk Assessment for Audit Reports (as of March 31, 2009)

Project	REC(s) Recommendation(s)	CA(s) Corrective Action(s)	REC(s) Not Due	CA(s) Not Due	REC(s) Non Essential	REC(s) For Closure	CA(s) For Closure	REC(s) for Follow-up	CA(s) for Follow-up
Repair, Restoration and Rehabilitation of Canada's First World War Memorials in Europe Audit Report (February 2004) *	44	44	0	0	0	44	44	0	0
Veterans Independence Program (VIP) Baseline II (March 2006) *	6	17	0	0	0	6	17	0	0
Administered Accounts Assurance Audit - Phase II (November 2007) *	21	27	0	0	1	20	26	0	0
Audit of Outsourcing of Health Claims Administration (January 2006)	0	0	0	0	0	0	0	0	0
Follow-up of the January 2006 Audit of Outsourcing of Health Claims Administration (December 2008)	20	62	0	0	2	10***	45	8	15
Audit/Evaluation of the Organizational Governance Volume II - Veterans Services (VS) Atlantic Region (December 2006)	5	8	0	0	2	2	5	1	3
Management of Information Technology Security (MITS) Assurance Audit (November 2007)	5	5	0	0	1	1	1	3	3
Contracting Audit (December 2007)	42	69	0	0	7	12	26	23	43
Financial Management & Control Audit - Ph II (April 2008)	10	22	5	7	0	0	0	5	15
Post Payment Verification Assurance Audit (August 2008)	10	16	1	2	0	0	0	9	14
Total	163	270	6	9	13	95	164	49	93

Source: Veterans Affairs Audit reports

* Recommended for Closure

** 41 recommendations previously closed at AEC

*** 10 recommendations previously closed at DAC