



Veterans Affairs
Canada

Anciens Combattants
Canada

Audit of the Federal Health Claims Processing System Service Provider Registration Process

Final April 2011



Canada 



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

Acknowledgements

The audit team would like to gratefully acknowledge the staff at Medavie Blue Cross and Veterans Affairs Canada, whose contributions were essential to the audit.

Table of Contents

EXECUTIVE SUMMARY	i
1.0 BACKGROUND	1
2.0 ABOUT THE AUDIT	3
2.1 Audit Objectives	3
2.2 Scope	3
2.3 Methodology	3
2.4 Statement of assurance	4
3.0 AUDIT RESULTS	5
3.1 Observations, Recommendations and Management Action Plans	5
3.1.1. <i>Adequacy of the service provider registration process</i>	5
3.1.2. <i>Adequacy of the establishment of service provider requirements</i>	8
3.1.3. <i>Compliance with service provider requirements</i>	8
3.1.4. <i>Efficiency of the appointment of service providers</i>	10
3.2 Audit Opinion	10
4.0 DISTRIBUTION	11
Annex A – Risk Ranking of Recommendations and Audit Opinion	12
Annex B – Audit Criteria	13

EXECUTIVE SUMMARY

Currently there are more than 170,000 service providers registered to provide a wide range of health care benefits and services to eligible Veterans and their families as specified under the authority of the Veterans Health Care Regulations. These entitlements are made available under the Treatment Benefits Program and Veterans Independence Program. Annually registered service providers are paid \$640 million for services and benefits provided to eligible program recipients.

In order to protect both program recipients and the Crown, Veterans Affairs Canada has established criteria that each registered service provider must meet. The criteria are specific to the type of health care service to be provided. For health care services governed by provincial legislation, the Department recognizes the authority and responsibilities of provincial licensing bodies to determine the eligibility of a provider to practice a profession in the province. For other types of services not governed by provincial legislation, the Department has assessed and adapted standards and best practices from other government and non government agencies.

The purpose of this audit was to provide assurance that the management control framework governing the service provider registration process is effective and that Veterans Affairs Canada's registration criteria are sufficient and in a manner consistent with the objectives of the Veterans Health Care Regulations. The scope included all registered service providers as of September 2010.

In addition to interviews, walkthroughs and documentation review, a statistically valid sample of 297 registered service providers was reviewed to verify compliance with the criteria established for registration of service providers. This sample enabled the auditors to provide a high level of assurance that process and controls established for the registration of service providers was operating as intended. Audit Planning commenced in October 2010 with the analysis completed in December 2010.

Audit Opinion

In the opinion of the audit team, the internal controls, governance and risk management framework were generally acceptable. The audit results indicated that the internal control system was operating adequately to support the management of the service provider registry. In addition, sampling confirmed that service providers were registered in accordance with the contract and there was an effective monitoring process in place.

Recommendations:

R1 It is recommended that the Director, Contract Management & Business Systems direct Medavie Blue Cross to implement a process to ensure Veterans Independence Program service providers maintain their bond/liability insurance. (Essential)		
Corrective action to be taken	Office of Primary Interest	Target date
The Director, Contract Management & Business Systems will direct Medavie Blue Cross to establish a process to periodically verify that VIP service providers have bond/liability insurance.	Contract Management & Business Systems	July 2011

R2 It is recommended that the Director, Contract Management & Business Systems direct Medavie Blue Cross to review its database on an annual basis and suspend service providers that have been inactive. (Essential)		
Corrective action to be taken	Office of Primary Interest	Target date
The Director, Contract Management & Business Systems will direct Medavie Blue Cross to establish a process which will review and suspend service providers who have not provided or will not likely provide services to VAC clients within a reasonable period of time.	Contract Management & Business Systems	July 2011

R3 It is recommended that the Director, Health Care Programs implement a documented risk assessment process to identify the action to take when future changes to service provider criteria occur. (Essential)		
Corrective action to be taken	Office of Primary Interest	Target date
The Director, Health Care Programs Directorate will establish a risk assessment process to address any future situation where a change to the criteria for registering service providers will result in existing providers not meeting the new criteria.	Health Care Programs Directorate	June 2011

Assurance Statement

In the professional judgment of the Chief Audit Executive (CAE), sufficient and appropriate audit procedures have been conducted and evidence gathered to support with a high level of assurance the accuracy of the audit opinion provided in this report. This audit opinion is based on a comparison of the situation at the time of the audit and the pre-established audit criteria that were agreed on with management. The audit opinion is only applicable to the entity, process and system examined. The evidence was gathered in compliance with Treasury Board policies, directives, and standards on internal audit and the procedures used meet the professional standards of the Institute of Internal Auditors (IIA). The evidence has been gathered to be sufficient to provide senior management with a high level of assurance on the audit opinion.

Original signed by

April 6, 2011

Orlanda Drebit
Chief Audit Executive

Date

The audit team consisted of the following members:

- Jonathan Adams, Director, Audit and Evaluation
- Bob Parsons, Manager, Audit and Evaluation
- Ian Watchman, Officer, Audit and Evaluation
- Jodi Shea, Project Officer, Audit and Evaluation

1.0 BACKGROUND

Veterans Affairs Canada (VAC) provides a wide range of health care benefits and services to eligible program recipients as specified under the authority of the Veterans Health Care Regulations. These entitlements are made available under the Treatment Benefits Program and Veterans Independence Program (VIP). The objective of these programs is to ensure program recipients are provided, according to their treatment eligibility, with reasonable and timely services that the Department considers to be an appropriate response to their assessed health needs.

Treatment benefits consist of:

- a) medical, surgical and dental examinations and treatment provided by health professionals;
- b) surgical or prosthetic devices and aids, and their maintenance;
- c) home adaptations to accommodate the use of the foregoing devices and aids;
- d) preventive health care; and
- e) prescription medications.

Services for which funding may be made under VIP include:

- a) Home Care Service;
- b) Ambulatory Health Care Service;
- c) Transportation Service;
- d) Home Adaptations Service; and
- e) Intermediate Care.

VAC has contracted the services of Medavie Blue Cross (MBC) to administer the processing of health care claims including Veterans Independence Program payments. To provide this service, MBC developed the Federal Health Claims Processing System (FHPCS). FHPCS has been designed to: provide automated health claims adjudication; process payments to health care service providers; and process reimbursements to program recipients for eligible services.

To mitigate the risk to both the Crown and to the program recipient, VAC has established criteria that each registered service provider must meet. The criteria are specific to the type of health care service to be provided. For health care services

governed by provincial legislation, the Department recognizes the authority and responsibilities of provincial licensing bodies to determine the eligibility of a provider to practice a profession in the province. For other types of services not governed by provincial legislation, VAC has assessed and adapted standards and best practices from other government and non government agencies. Before the service provider can be registered in FHCPS, MBC must screen the service provider's application to ensure VAC's standards are met.

As of October 2010, MBC had registered more than 170,000 service providers. For the year ended March 31, 2010, there were 13.5 million VAC transactions processed through FHCPS resulting in the payment of \$639 million for health care benefits and services for Veterans and their families.

2.0 ABOUT THE AUDIT

2.1 Audit Objectives

This audit was recommended for Deputy Minister approval by VAC's Departmental Audit Committee (DAC) on September 17, 2010. The objectives of the FHCPs Service Provider Audit were as follows:

1. To assess the adequacy of the service provider registration process;
2. To assess the adequacy of the requirements for service providers;
3. To determine compliance with service provider requirements;
4. To assess the efficiency of the appointment of service providers.

2.2 Scope

The scope of the audit included all the service providers registered with MBC to provide services to VAC's program recipients as of September 30, 2010.

2.3 Methodology

This audit was conducted in accordance with the Institute of Internal Auditors' (IIA) *Standards for the Professional Practice of Internal Auditing*, as required under Treasury Board Policy on Internal Audit. Audit procedures consisted of:

- Interviews with employees at MBC and VAC's contract administration and health care program staff to obtain an understanding of the service provider registration process, as well as gather the necessary data for the audit.
- Walkthroughs at MBC to obtain an understanding of the service provider registration process and to assess controls and the efficiency of the registration process.
- An analysis of the service provider demographic data by province and by Program of Choice (POC) to determine the overall number of providers in each province and for Canada as a whole.

- A review of a statistically valid sample, with a confidence level of 95%, of 297 service providers to verify compliance with the criteria established for registration of service providers. This enabled the auditors to provide a high level of assurance that process and controls established for the registration of service providers was operating as intended.
- A review of both External and Internal Auditor reports to determine if any recent audits/assessments had been conducted on the provider registry process and to determine relevance of findings.

2.4 Statement of assurance

In the professional judgment of the Chief Audit Executive (CAE), sufficient and appropriate audit procedures have been conducted and evidence gathered to support with a high level of assurance the accuracy of the audit opinion provided in this report. This audit opinion is based on a comparison of the situation at the time of the audit and the pre-established audit criteria that were agreed on with management. The audit opinion is only applicable to the entity, process and system examined. The evidence was gathered in compliance with Treasury Board policies, directives, and standards on internal audit and the procedures used meet the professional standards of the Institute of Internal Auditors (IIA). The evidence has been gathered to be sufficient to provide senior management with a high level of assurance on the audit opinion.

3.0 AUDIT RESULTS

3.1 Observations, Recommendations and Management Action Plans

3.1.1. *Adequacy of the service provider registration process*

3.1.1.1. *Establishment of a service provider account*

A combination of interviews and a walkthrough of key control activities were conducted to understand and confirm the design of internal controls for the establishment of a service provider account.

Limited formalized procedures were in place for registering service providers; however, the simplicity of the process in combination with the quality control function mitigates the risk of errors. Service provider applications were validated through provincial licensing bodies or based on supporting documentation such as education accreditation, business licences, proof of liability insurance etc. All supporting documentation are scanned and electronically filed in the provider registry database.

Unique identifier numbers are assigned to service providers through a combination of an ID number, service provider type code, and the abbreviation of the Province that the service provider is registered in. If the service provider belongs to a provincial licensing body (eg, The College of Physicians and Surgeons of Ontario, British Columbia Chiropractic Association, etc), the ID number is the health professional's registration number. This unique feature aids in validating the service provider's qualifications and for further follow-up with the provincial licensing body if required.

It was noted that adequate automated controls are in place to ensure staff with incompatible functions (i.e., approve payments) did not have the ability to create a service provider account.

3.1.1.2. *Maintenance of the service provider account*

As per section 3.1.3 "Compliance with service provider requirements", a random sample of service provider accounts were reviewed to determine compliance with the provider criteria established by VAC. Though the supporting documentation was current at the time of registration it was noted that no follow-up function existed to ensure service providers continued to meet VAC requirements.

To provide VIP home care services (i.e. Housekeeping, Grounds Maintenance, Access to Nutrition), in addition to having a valid Business or GST/HST number, the service provider must show proof of being bonded or having liability insurance. This requirement is to ensure that the Crown and the program recipient are protected in case of any bodily injury or property damaged caused by the service provider not exercising reasonable caution.

Medavie Blue Cross has approximately 7,000 registered VIP service providers. The sample contained ten (10) VIP service providers of which only one (1) had a current copy of liability insurance on file. For the other nine (9), proof of liability insurance was for the year of registration. With the trend to cut costs, there is a risk that service providers may allow their business liability insurance to lapse.

R1 It is recommended that the Director, Contract Management & Business Systems direct Medavie Blue Cross to implement a process to ensure Veterans Independence Program service providers maintain their bond/liability insurance. (Essential)

Management Response

Management agrees with the recommendation.

Management Action Plan

Corrective action to be taken	Office of Primary Interest	Target date
The Director, Contract Management & Business Systems will direct Medavie Blue Cross to establish a process to periodically verify that VIP service providers have bond/ liability insurance.	Contract Management & Business Systems	July 2011

There were also several instances where there was no activity on the service provider's account for over a year or more. Further investigation revealed that a few of these service providers were no longer in business. Having inactive service provider accounts in the database compromises the integrity of the database and increases the opportunity for fraud.

R2 It is recommended that the Director, Contract Management & Business Systems direct Medavie Blue Cross to review its database on an annual basis and suspend service providers that have been inactive. (Essential)

Management Response

Management agrees with the recommendation.

Management Action Plan

Corrective action to be taken	Office of Primary Interest	Target date
The Director, Contract Management & Business Systems will direct Medavie Blue Cross to establish a process which will review and suspend service providers who have not provided or will not likely provide services to VAC clients within a reasonable period of time.	Contract Management & Business Systems	July 2011

3.1.1.3. *Stewardship of the service provider database*

In conducting the walkthrough it was noted that adequate automated controls were in place to ensure staff with incompatible functions (i.e., approve payments) did not have the ability to create or edit a service provider account. However, a recent assessment of access control and the procedures used for change of staff was conducted by MBC's external auditors in producing the Canadian Institute of Chartered Accountants (CICA) Section 5970 report (Auditor's report on controls at a service organization). The report identified that in a number of cases, application level access provided was not approved by the respective data owner. In addition, the CICA 5970 report noted several cases where terminated employees were not removed from the system. These breakdowns in controls could potentially compromise the integrity of the provider registry database. It was reported that MBC has taken action to address this.

3.1.2. Adequacy of the establishment of service provider requirements

To mitigate the risk to both the Crown and to the program recipient, VAC has established specific criteria that the service provider must meet. The criteria are specific to the different types of health care services. To be registered as a service provider, MBC assesses the provider's application against the established VAC criteria.

In assessing the adequacy of service provider requirements, the audit noted that for health care services governed by provincial legislation, the Department recognizes the authority and responsibilities of provincial licensing bodies, pursuant to provincial enactments, to determine the eligibility of a provider to practice a profession in a province. A provider must conform to the requirements pursuant to provincial enactments to be eligible to provide health benefits. If no such criteria exist, VAC has assessed and adopted best practices from other government and non government agencies.

To ensure VAC's service standards remain current, MBC has established a Provider Relations Unit to liaison with the provincial licensing bodies. The unit is responsible for staying current on provider registration standards in each province to identify any inconsistencies with the service standards adopted by the Department. The unit also liaisons with provincial health associations to discuss operational and policy concerns or any other provider concerns regarding the provision of services to VAC program recipients.

The Provider Relations Unit collaborates with departmental staff to investigate any program recipient complaints regarding the level or quality of service received from a registered provider.

Based on audit findings, an adequate process is in place for establishing and maintaining service provider requirements.

3.1.3. Compliance with service provider requirements

To assess the operating effectiveness of the controls ensuring compliance with VAC's service provider requirements, a random sample of 297 service provider accounts were reviewed. In all instances, the service providers were in good standing with their provincial body, or had the required education accreditation, business licence, and/or liability insurance at the time of registration.

In reviewing seven (7) providers registered to provide “Foot Care”, it was noted that two (2) of the providers did not have supporting documentation on file substantiating that they had successfully completed a foot care course from university/college/institution recognized by VAC. With the introduction of new criteria for the provision of foot care, MBC was instructed by VAC to deem all previously registered providers as meeting the new standards.

It was also noted that none of the eleven (11) Medical Supply Stores reviewed had a copy of their business licence on file due to being registered prior to the new criteria being implemented. As with the “Foot Care” providers, MBC was instructed to deem all previously registered providers as meeting the new standards.

Though the practice of deeming previously registered service providers of meeting new standards may be appropriate in many cases, it is the opinion of the auditors it is not acceptable for service providers responsible for direct health care as in the case of “Foot Care”.

The criteria established by VAC are to ensure that health professionals have the training and educational standards to provide program recipients with safe, competent health care. As such, program recipients may have been placed at undue risk due to this tradition of “deeming” service providers.

R3 It is recommended that the Director, Health Care Programs implement a documented risk assessment process to identify the action to take when future changes to service provider criteria occur. (Essential)

Management Response

Management agrees with this recommendation.

Management Action Plan

Corrective action to be taken	Office of Primary Interest	Target date
The Director, Health Care Programs Directorate (HCPD) will establish a risk assessment process to address any future situation where a change to the criteria for registering service providers will result in existing providers not meeting the new criteria.	Health Care Programs Directorate	June 2011

3.1.4. Efficiency of the appointment of service providers

It was noted in the walkthrough that MBC utilized multiple methods for the registration of service providers. These included the ability of the service providers to apply on-line or by submitting their applications via email, fax, or regular post. Where possible, MBC leveraged electronic systems to validate the service provider's credentials. As an example, accessing the on-line databases of a provincial licensing body to ensure the service provider was a member in good standing.

The turnaround times for registering providers are monitored from the Lotus Notes Service Provider Request Database. All requests are time stamped upon submission into the request database and time stamped again upon completion of the requests. The database displays the requests that are on-time or overdue for follow-up by the Provider Relations Unit. Service standards of turnaround time for registering new providers is five (5) business days and for any updates to existing providers the turnaround time is one (1) business day.

Based on the findings, a robust system exists to ensure providers are registered in a timely efficient manner.

3.2 Audit Opinion

In the opinion of the audit team, the internal controls, governance and risk management framework were generally acceptable. The audit results indicated that the internal control system was operating adequately to support the management of the service provider registry. In addition, sampling confirmed that service providers were registered in accordance with the contract and there was an effective monitoring process in place.

4.0 DISTRIBUTION

Deputy Minister

Associate Deputy Minister

Veterans Ombudsman

Departmental Audit Committee Members

Assistant Deputy Minister, Policy, Communications and Commemoration

Assistant Deputy Minister, Service Delivery

Assistant Deputy Minister, Corporate Services

Director General, Service Delivery Management

Director General, Communications

Director General, Departmental Secretariat and Policy Coordination

Regional Director Generals

Executive Director, Transformation

Executive Director and Chief Pensions Advocate

Executive Director, Ste. Anne's Hospital

General Counsel, Legal Services Unit

Director, Health Care Programs

Director, Contract Management & Business Systems

Director, Strategic & Enabling Initiatives

Director, Briefing, Coordination and Liaison

Area Directors

Executive Advisors to the Deputy Minister

Office of the Comptroller General (Internal Audit Registrar)

Office of the Auditor General

Medavie Blue Cross

Director, Federal Administered Programs and Corporate Audit

Manager, Business Solutions & Services, Federal Administered Programs

Annex A – Risk Ranking of Recommendations and Audit Opinion

The following definitions are used to classify the ranking of recommendations and the audit opinion presented in this report.

Audit Recommendations	
Critical	Relates to one or more significant weaknesses for which no adequate compensating controls exist. The weakness results in a high level of risk.
Essential	Relates to one or more significant weaknesses for which no adequate compensating controls exist. The weakness results in a moderate level of risk.

Audit Opinion	
Well Controlled	Only insignificant weaknesses relating to the control objectives or sound management of the audited activity are identified.
Generally Acceptable	Identified weaknesses when taken individually or together are not significant or compensating mechanisms are in place. The control objectives or sound management of the audited activity are not compromised.
Requires Improvement	Identified weaknesses, when taken individually or together, are significant and may compromise the control objectives or sound management of the audited activity.
Unsatisfactory	The resources allocated to the audited activity are managed without due regard to most of the criteria for efficiency, effectiveness and economy.

Annex B – Audit Criteria

Objective 1 - To access the adequacy of the service provider registration process.		
Criteria	Sub-Criteria	Result
1.1 Creation of a service provider account:	a. Sufficient tools, such as software, equipment, work methodologies and standard operating procedures for establishment of service provider exist.	Met
	b. Appropriate controls are in place to ensure that service providers meet departmental requirements.	Partially Met
	c. Unique identifier numbers are established for service providers.	Met
	d. Quality assurance function ensures that data is accurately captured.	Met
	e. Online technology is used to register its service providers as well as verify their credentials.	Met
	f. There is appropriate segregation of duties to prevent incompatible functions being combined.	Met
1.2 Maintenance of the service provider account.	a. An adequate follow-up function exists to ensure service providers continue to meet VAC requirements.	Not Met
1.3 Maintenance and stewardship of the service provider database.	a. Access to data is limited to authorized individuals.	Not Met
	b. Proper change of staff procedures are in place.	Not Met

Objective 2 - To assess the adequacy of the requirements for service providers.		
Criteria	Sub-Criteria	Result
2.1 To assess the adequacy of the requirements for service providers.	a. Provincial provider registration standards are monitored to obtain information that may signal a need to re-evaluate the departmental standards.	Met
	b. Formal communication processes exist and support sharing of timely, relevant and reliable information to service providers.	Met
	c. Feedback from service providers identifies opportunities for enhancing service.	Met

Objective 3 - To determine compliance with service provider requirements.		
Criteria	Sub-Criteria	Result
3.1 To determine compliance with service provider requirements.	a. A process is in place to manage the third-party contract and to monitor their activities to ensure VAC's service provider requirements are being met.	Met
	b. Registered Service Providers fully meet VAC's criteria.	Met

Objective 4 - To assess the efficiency of the appointment of service providers.		
Criteria	Sub-Criteria	Result
4.1 To assess the efficiency of the appointment of service providers.	a. There are multiple service delivery channels to facilitate access to its services.	Met
	b. There are appropriate performance measures linked to planned results.	Met