



# Control of Large Program Expenditure Items Audit

**Final: June 2009**



Canada 



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

## **ACKNOWLEDGEMENT**

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This report was prepared by:  
Bob Parsons, Audit and Evaluation Manager  
Lindy McQuillan, Audit and Evaluation Manager  
Shannon Hartigan, Audit and Evaluation Officer

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## Executive Summary

This audit was carried out in accordance with the approved Veterans Affairs (VA) Portfolio Audit and Evaluation Plan.

The objectives of the audit were to:

1. Review large program expenditure transactions and assess the internal control framework applicable to those transactions.
2. Assess the accuracy of accounting (classification of transactions) for large transactions.
3. Evaluate the appropriateness of the delegated authorities of positions which approved these payments.
4. Analyse and validate the post or pre-payment verification process for selected large transactions.
5. Perform an analysis of the line objects created to capture capital expenditures and capital contributions

The audit examined large program expenditure activity (grant and contribution payments over \$25,000 made to individuals as well as capital contributions made to institutions) during the period April 1, 2007, to March 31, 2008.

The following table shows the number of clients in each of the programs and the total expenditure, and average expenditure for the programs examined in the course of this audit, based on the current information in the Corporate Information System (CIS). VAC has many other programs, such as Veterans Independence Program, Health Care Benefits and the Rehabilitation Program, whose payments did not meet the criteria for this audit.

Program	Number of Clients as of March 2008	Total Expenditures for the year ending March 2008
Disability Pensions	179,755	\$ 1,800,710,436
Disability Awards	5,851	\$ 156,948,026
Economic Loss	734	\$ 11,707,082
Job Placement	74	\$ 824,152
Residential Care *	10,644	\$ 344,000,000

\*CIS does contain expenditure information for Long Term Care. The Departmental Performance Report for 2007/2008 indicates that \$344 million is spent on this program.

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 control frameworks in place for Disability Benefits, Long Term Care, Job Placement Program, and Earnings Loss Benefit are likely to prevent and/or detect material errors before they are placed in VAC's financial information.

In the auditors' opinion, except for the observations noted in this report, there is reasonable assurance that the control framework in place at VAC is likely to prevent and/or detect material errors before they find their way into financial systems and reports. The risk of a material error occurring is low.

### **Summary of Recommendations**

- R1     It is recommended that Director General, Service Delivery Management, introduce strong and consistent controls for handling changes to clients' direct deposit information. (Essential)**
- R2     It is recommended that the Director, Program Policy, ensure that all disability benefit policies and business processes that appear on the Departmental intranet site are the final approved versions. (Important)**
- R3     It is recommended that the Director General, Policy and Programs Division, in consultation with the Director General of Service Delivery Management, and in consultation with the Director General of Centralized Operations, strengthen the policies and business processes applicable to the verification of client income. (Critical)**
- R4     It is recommended that the Director General, Service Delivery Management, in consultation with the Director General, Policy and Programs Division, take measures to ensure that case plans are established and kept up to date in a timely fashion for rehabilitation program participants in receipt of Earnings Loss Benefit. (Essential)**
- R5     It is recommended that the Director, New Veterans Charter, ensure that all Earnings Loss Benefit business processes that appear on the Departmental intranet site are the final approved versions. (Important)**
- R6     It is recommended that the Director, New Veterans Charter, undertake measures to ensure that each Job Placement Program participant's return-to-work plan is placed on the client's file so that program staff can monitor how well the program is working. (Important)**

- R7** It is recommended that the Director General, Policy and Programs Division, monitor the new National Long Term Care Strategy to ensure that Long Term Care clients residing in community facilities receive nursing assessments to ensure the client's needs are being met. (Important)
- R8** It is recommended that the Director General, Policy and Programs Division, implement and monitor the new National Long Term Care Strategy to ensure that, as demand for contract beds diminishes, Veterans Affairs Canada is not paying for beds that are not needed by Veterans. (Essential)
- R9** It is recommended that the ADM Service Delivery and Commemoration, in consultation with the Senior ADM, Policy, Programs and Partnerships, and the ADM Corporate Services Branch, clarify the roles and responsibilities associated with the conduct of operating cost reviews, improve the policies and procedures for operating cost reviews, and improve the timeliness of the conduct of these reviews. (Essential)
- R10** It is recommended that the Director General, Finance Division, modify the procedures outlined in the Delegated Authorities Manual for signature cards to ensure that signature cards are dated when marked void. (Important)
- R11** It is recommended that the Director General, Finance Division, improve the quality assurance function of the operating cost reviews. (Essential)

## **1.0 Purpose**

The purpose of the audit was to assess the design and functioning of internal controls to flag higher risk program transactions for focussed attention and verification. This report provides recommendations to address issues identified through the audit.

## **2.0 Objectives, Scope, and Methodology**

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 program-related financial transactions are following governing authorities.

### **Objectives**

The objectives of the audit were to:

1. Review large program expenditure transactions and assess the internal control framework applicable to those transactions.
2. Assess the accuracy of accounting (classification of transactions) for large transactions.
3. Evaluate the appropriateness of the delegated authorities of positions which approved these payments.
4. Analyse and validate the post or pre-payment verification process for selected large transactions.
5. Perform an analysis of the line objects created to capture capital expenditures and capital contributions

### **Scope**

The scope of objectives one through four included an examination of payments greater than \$25,000 made to individuals or on behalf of individuals (grant or contribution payments). Payments for Operations and Maintenance were excluded as they relate to Veterans Affairs Canada (VAC) operating costs. The scope for Objective 5 included all capital expenditures and capital contributions identified through financial coding.

The audit focussed primarily on payments made during the 2007/2008 fiscal year within the following program areas: Disability Awards, Disability Pensions, Long Term Care, Earnings Loss Benefits, and the Job Placement Program. Historically, the Federal Health Claims Processing System (FHCPs) and War Veterans Allowance (WVA) have issued large program expenditures, however there were no transactions meeting the \$25,000 criteria during the fiscal year under review. Therefore, audit work was not conducted for these programs.



## Methodology

The audit was conducted from August 2008 to March 2009. The following approach was followed in conducting the audit:

- Auditors reviewed relevant documentation in order to gain a sound understanding of VAC's policies, procedures, and reporting mechanisms as they related to internal controls.
- Interviews were conducted with key individuals within the programs under review as well as within the Finance Division.
- A small sample of client files was reviewed to verify the documentation of controls.
- Specific audit criteria were developed to assess the appropriateness of the internal control framework (control mechanisms and processes) and the extent to which key elements of sound financial and program management frameworks were in place (see Appendix A).
- Auditors visited the Winnipeg Management Centre and the Atlantic Regional Office as well as the Winnipeg District Office and the Halifax District office to conduct interviews and to walk through, review, and document program management controls.
- Auditors reviewed a statistical sample of financial transactions for the programs included in the scope to verify internal controls, assess the accuracy of accounting and evaluate the appropriateness of the delegated authorities of positions which approved these payments. The sample was drawn randomly from the 3389 transactions greater than \$25,000 paid in the fiscal year 2007-2008 and gives a 95% confidence level (see Appendix B). The \$25,000 threshold was chosen because it is considered material in other areas of the Department, such as the procurement of sole-sourced contracts and the pre-payment verification of disability benefit payments.
- Audit findings were discussed with program managers and finance officials for validation.

The purpose of the audit was to identify and document key internal controls to determine the adequacy of the overall control framework. Audit work in support of objective 1 was based on interviews, review of documentation, and walkthroughs. Statistical sampling was used to meet audit objectives 2, 3, and 4. Audit objective 5 was met through an analysis of two accounts.

### 3.0 Background

Some VAC programs can involve large payments to individuals. These payments are accompanied by varying levels of control and attached risk. This audit was initiated in order to determine whether VAC's higher dollar value program expenditures were governed by appropriate controls.

### **3.1 Types of Control**

There are two fundamental types of control in government: financial controls and program controls.

Financial controls are designed to ensure that payments comply with the rules and regulations of government; the right person is being paid the right amount at the right time.

Program controls are designed to ensure that government programs are working properly; clients are receiving the benefits they are entitled to on a timely basis.

#### **3.1.1 Risk**

The main risk associated with financial controls is the risk that financial information will contain a material error which will affect decisions made by users of this information.

With respect to program controls, the main risk is that clients will receive benefits to which they are not entitled or, conversely, that they will not receive a benefit to which they are entitled.

### **3.2 Key High Level Controls**

The key high level controls that VAC has in place at the corporate level to prevent or detect errors occurring in its payments and programs are described below.

#### **3.2.1 Estimates**

The Portfolio must present cost and expenditure estimates on an annual basis to Treasury Board. Treasury Board reviews VAC's estimates for reasonableness and, after any required changes are made, they are approved.

VAC has a number of payment programs that provide benefits to all eligible clients. It can be more difficult to make accurate forecasts for these types of programs than programs that have a fairly predictable pattern such as the purchase of computers.

If the expenditures are going to exceed the original estimates, then VAC must request supplementary funding from Treasury Board.

#### **3.2.2 Policies and Procedures**

VAC maintains the Veterans Programs Policy Manual (VPPM) which contains detailed information on all its key programs. VAC has also produced a number of key business process documents that contain detailed procedures for staff to follow. These documents aid staff in administering VAC's programs.

### **3.2.3 Staff Training**

VAC provides on the job training for a number of positions because of the unique nature of its programs. For example, pension adjudicators require up to six months of training before conducting adjudications on their own.

### **3.2.4 Segregation of Duties**

The Delegated Signing Authorities Manual provides authority for staff to enter into transactions on behalf of the Minister. The manual covers section 32 (Commitment of Funds), section 34 (Receipt of Goods) and section 33 (Approval of Payment) of the Financial Administration Act (FAA). The manual, which also covers Expenditure Initiation, is designed to help ensure proper delegation and accountability and to ensure that staff do not perform incompatible functions.

Section 33 certification must be performed by a finance officer who is in the FI category, a group with specialized training in accounting. These officers are independent of program operations.

### **3.2.5 Pre Audit and Post Audit**

Finance Division conducts risk assessments for various payment streams. Those that are felt to entail higher risk or higher dollar values are pre-audited to ensure they meet all the criteria of the program and the FAA. If any problems with the payment are detected, the payment is held until the matter is corrected.

The remainder of payment streams are post audited to ensure they meet all the criteria of the program and the FAA. If problems are detected, program management is notified so that corrective action can be taken to prevent the future occurrence of such errors.

### **3.2.6 Reports**

VAC has created two main reporting systems, the Reporting Data Base System (RDB) and the Corporate Information System (CIS), for providing program performance information on a regular basis. The RDB mainly provides daily and monthly operating reports. The CIS contains information that tracks client trends over time. In addition, Finance Division prepares reports that help managers monitor and control their budget.

VAC provides annual financial information for the Public Accounts of Canada, which are audited by the Auditor General of Canada, and produces an annual Departmental Performance Report.

### **3.2.7 Quality Assurance**

The Department has established a quality management unit whose function is to ensure that VAC is complying with its policies and procedures and providing consistent high quality service to its clients.

### **3.2.8 Internal and External Audits**

The Auditor General conducts annual public accounts audits as well as periodic value-for-money audits on various VAC programs. Starting in 2010, the Auditor General will be auditing VAC's Financial Statements. The Office of the Comptroller General conducts horizontal audits of elements common to all federal departments.

VAC's Audit and Evaluation Division performs assurance audits based on annual risk-based audit plans.

### **3.2.9 Redress Process**

Clients have access to redress if they feel they have not been treated fairly. For Disability Pensions, Disability Awards and War Veterans Allowance, Veterans can apply for a Departmental Review. If they are still not satisfied they can file for an appeal with the Veterans Review and Appeal Board (VRAB), which is an independent body. VAC's other programs provide for departmental review only.

### **3.2.10 Ombudsman**

The Office of the Veterans Ombudsman (OVO) reports directly to the Minister of Veterans Affairs. The OVO can investigate client concerns and make recommendations for improvements.

## 4.0 Observations and Recommendations

The following sections present the findings and recommendations for the control of large program expenditure items audit, organized by audit objective.

### 4.1 Objective: Review large program expenditure transactions and assess the internal control framework applicable to those transactions.

The following four program areas were reviewed: disability benefits (including disability pensions and disability awards), long term care, the earnings loss benefit, and the job placement program. The review consisted of an overall assessment of the set of program controls in order to identify areas of weakness in the internal control framework.

#### 4.1.1 Disability Benefits

Disability benefits include both disability pensions and disability awards. There are two primary differences between the two benefits. These relate to military service and form of payment.

- A disability pension is a monthly payment made under the Pension Act (1985) for death or disability that is related to service prior to April 1, 1947, as well as Korean War service and other military service identified in the Act.
- A benefit under the Canadian Forces Members and Veterans Re-establishment and Compensation (CFMVRCA) Act, a disability award is a lump-sum payment to Veterans and is meant to recognize and compensate for the non-economic impacts of a service-related disability, including pain and suffering, functional loss, and the effects of permanent impairment on their lives and the lives of their families. It is available to CF members and Veterans who served from April 1, 1947, until the present and excludes those already covered through the Pension Act.

Disability benefits are not designed to replace lost income and are not taxable. Payments are calculated in increments of five percent based on the extent of the disability, ranging from one percent to one hundred percent.

#### Disability Benefits - Key Controls

The tables below present the internal control framework for disability benefits. Each table describes a set of controls and presents each key control along with a description and the supporting documents that are required for the controls to function.

Interviews as well as document review and walkthroughs were used to assess if controls were adequate, efficient, and effective. The assessment of controls was supported by substantive tests of a sample of transactions.

The VPPM is the primary source for policies and procedures for the administration of disability benefits. In addition, the Table of Disabilities, the Entitlement Eligibility Guidelines, and the Pension Policy Manual are also used to provide guidance on processing pension applications. There are also several national business processes in place for various types of applications and applicants. Some operational areas have also developed desktop procedures.

<b>A. Determination that the application meets minimum requirements</b>		
For a typical claim, a pension officer begins by determining the client's service history, identifying the disability, and determining how the client relates the disability to service. The pension officer can then determine if the basic criteria have been met to initiate the claim.		
<b>Key Control</b>	<b>Description</b>	<b>Supporting Documentation</b>
Creation of unique client notebook	The client notebook in CSDN contains all client records related to disability benefits as well as other programs. Duplicate notebooks can result in errors. District office staff perform a variety of checks to ensure the client does not already have an electronic notebook.	<ul style="list-style-type: none"> <li>- Client identification information such as service number, SIN, phone number, etc.</li> <li>- Pension Officer Reference Manual</li> </ul>
Pre-decision counselling	VAC pension officers provide assistance and guidance to clients with respect to the disability benefits application processes. Counselling involves communicating documentation requirements, referral to Bureau of Pension Advocates if client has already claimed for the same condition, and other guidance.	<ul style="list-style-type: none"> <li>- CSDN client history</li> <li>- CSDN client notes</li> </ul>
Determination if complete application meets minimum requirements	The pension officer reviews the application form and supporting documentation to determine if there is a basis to the claim (e.g. a diagnosed disability, military service).	<ul style="list-style-type: none"> <li>- Signed and dated application form</li> <li>- (if applicable) Signed application for additional pension</li> <li>- Client authorizations to release medical information and compensation information</li> <li>- Service medical records</li> <li>- Injury reports</li> <li>- Client questionnaires and client impact statement</li> <li>- Medical exam reports</li> </ul>
SURVIVORS AND DEPENDENT CHILDREN of members or Veterans who die under circumstances related to an injury or disease for which the member or Veteran would have been entitled to a disability benefit may be eligible to receive that benefit. The controls listed above apply to survivor and dependent applicants, as do the controls identified below.		

<p>Eligibility - circumstances of member or Veteran's death</p>	<p>A disability benefit (DB) is payable to an eligible survivor and/or eligible dependent child(ren) in respect of</p> <p>(a) a member or Veteran who dies as a result of an injury or disease for which a DB has been or would have been paid, if the death occurs more than 30 days after the date of the occurrence or aggravation of the injury or disease;</p> <p>(b) a new service-related condition unrelated to the member's or Veteran's death for which the member or Veteran did not apply for a DB prior to death;</p> <p>(c) a member or Veteran in receipt of a DB whose condition permanently deteriorated between time of award and death;</p> <p>(d) a member or Veteran who had an application for DB or an increase in award pending at the time of death.</p>	<ul style="list-style-type: none"> <li>- Copy of death certificate</li> <li>- Medical reports documenting cause of death</li> <li>- Medical reports</li> </ul>
<p>Eligibility of applicants</p>	<p>The eligibility criteria for survivor and dependent child(ren) must be established at the time of the member/Veteran's death, regardless of when the application is made.</p>	<ul style="list-style-type: none"> <li>- Application for Disability and/or Death Benefit for Survivor and Dependent Children form, signed and dated by applicant(s)</li> <li>- Statement that all known beneficiaries have been identified</li> <li>- Proof of schooling for each child who was between 18 and 25 and attending school at the time of the Member's/Veteran's death</li> <li>- Official adoption papers for adopted children</li> <li>- Details of living arrangements of each child of a spouse/common-law partner of the member/ Veteran who was ordinarily residing with the member/ Veteran at time of death</li> </ul>

<b>B. Verification of eligibility screening</b>		
Upon arrival at VAC headquarters, the application package is quality checked and pre-screened by Client Records Operations unit (CRO) staff and is matched with the client's service documents and head office file.		
<b>Key Control</b>	<b>Description</b>	<b>Supporting Documentation</b>
Assignment of unique identifying number	The CRO unit in head office assigns file numbers and performs a series of checks to ensure the client does not already have a file number or CSDN notebook.	<ul style="list-style-type: none"> <li>- Client information (name, service number, date of birth, phone number, etc.)</li> <li>- CSDN</li> </ul>
Pre-screening of application	The CRO unit receives the disability benefit application package and ensures that the application form is complete with all supporting documentation.	<ul style="list-style-type: none"> <li>- Client's application package</li> </ul>
Assembly of client file	The CRO unit matches the application with the client's existing file or creates a new file.	<ul style="list-style-type: none"> <li>- Application package</li> <li>- Client's head office file</li> <li>- Service documents</li> </ul>

<b>C. Adjudication of disability claim</b>		
At the adjudication stage, the client's claim and all supporting documentation are examined closely to determine entitlement and to assess the extent of the disability.		
<b>Key Control</b>	<b>Description</b>	<b>Supporting Documentation</b>
Determination of entitlement	In determining entitlement, the adjudicator relies on his or her training, the pension policy manual, and peer review to quantify the degree to which a diagnosed disability is related to service. Legislation determines eligibility based on service. Entitlement is expressed in fifths. The adjudicator also verifies that VAC has not already issued a ruling on the same disability.	<ul style="list-style-type: none"> <li>- Pension Act</li> <li>- CFMVR Act</li> <li>- VPPM</li> <li>- Military medical records</li> <li>- Disability diagnosis</li> <li>- Client statement</li> <li>- Client history of previous claims</li> <li>- Letter of decision</li> </ul>
Assessment of disability	The assessment is based on medical tests to determine the level and extent of the disability. The assessment is established by the medical information provided in the application.	<ul style="list-style-type: none"> <li>- Completed medical questionnaires</li> <li>- Specialist reports</li> <li>- Table of Disabilities</li> </ul>



Determination of effective date	As a lump sum payment, the disability award is not affected by the date of application or decision. As monthly payments, pension benefits are effective as of the date on which a Veteran initiates an application with a representative of the Department. However, the effective date cannot be made retroactive more than three years from the date of decision. Pension payments are retroactive to the effective date.	<ul style="list-style-type: none"> <li>- Date of application recorded in CSDN</li> <li>- Letter of decision</li> </ul>
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#### **D. Processing of benefit**

When a favourable disability benefit decision has been rendered, the file is forwarded to the Benefits Processing Unit for calculation of payment.

<b>Key Control</b>	<b>Description</b>	<b>Supporting Documentation</b>
Calculation of benefit payable	A payment officer performs a review of all the information that has been entered in the CSDN and compares this information with the adjudicator's decision letter. If the material appears to be consistent and correct, then the payment officer approves it, which allows the CSDN to calculate the payment	<ul style="list-style-type: none"> <li>- Signed application</li> <li>- Effective date</li> <li>- Legislation</li> <li>- Number of dependents and proof of relationship (for pension only)</li> </ul>
Peer review of calculation	The entire package is peer reviewed by a second payment officer.	
Section 34 signature	A payment officer certifies that the payment is in compliance with the legislation and policies.	<ul style="list-style-type: none"> <li>- Signature on document</li> </ul>

#### **E. Payment of disability benefit**

Once Finance Division approves the payment, the final decision letter is sent to the client and the payment is made through Public Works and Government Services Canada (PWGSC).

<b>Key Control</b>	<b>Description</b>	<b>Supporting Documentation</b>
Pre-payment verification	Finance Division performs pre-payment verification of all disability award first applications that are greater than 10% as well as all disability pension payments greater than \$25,000. If errors are detected, the payment is withdrawn until corrected.	<ul style="list-style-type: none"> <li>- Quality Assurance Framework of the Account Verification Process</li> </ul>

## **Disability Benefits - Observations**

- National Client Contact Network (NCCN) employees had the ability to change client direct deposit information. In certain processing centres, the direct deposit update function was routinely actioned by an employee, without other interventions or compensating controls, resulting in a lack of segregation of duties. Misdirected payments could result in client hardship, loss of funds to the Department, and loss of client trust.
- District and regional offices made extensive use of CSDN “work items” to record the status of disability benefit applications. The CSDN work items enable the Department to identify past due work items and generate reports to identify backlogs in the system and to track progress toward productivity targets. Up-to-date CSDN information also allows the NCCN to respond to client enquiries and allows district and regional office staff to track the progress of files they have originated. It was noted that the adjudication area in head office did not always update the status of client application. As a result, NCCN staff ability to determine the cause of delays was limited.
- The VPPM, other manuals, and national business processes establish the Department’s requirements and standards of practice. Some of these policies appeared on the departmental intranet site in draft format. Placing draft documents in the VPPM can lead to inappropriate procedures been followed that could in turn result in errors in the benefits clients receive.

## **Disability Benefits - Recommendations**

### **Recommendation 1 (Essential)**

**It is recommended that the Director General, Service Delivery Management, introduce strong and consistent controls for handling changes to clients’ direct deposit information.**

### **Management Response:**

Management agrees with this recommendation. A review of the controls and segregation of duties is currently underway to strengthen controls in handling changes to client’s direct deposit information. In addition, alternate formats for notifying the Department of changes in direct deposit information are being explored to better meet the needs of VAC clients.

**Management Action Plan:**

<b>Corrective Actions to be taken</b>	<b>OPI (Office of Primary Interest)</b>	<b>Target Date</b>
SDM Division will finalize the review initiated in April 2009 and complete a comprehensive review of the controls that are in place for handling changes to clients' direct deposit information.	SDM	June 2009
SDM Division will investigate the controls that are in place in other federal government departments to identify best practices.	SDM	September 2009
SDM Division will implement best practices so that strong and consistent controls are in place	SDM	December 2009

**Recommendation 2 (Important)**

**It is recommended that the Director, Program Policy, ensure that all disability benefit policies and business processes that appear on the Departmental intranet site are the final approved versions.**

**Management Response:**

An initial review of the related policies and procedures identified four sections of one disability policy that appear as drafts. Two disability-related national business processes were identified as "interim".

Program Policy will collaborate with program management and operational colleagues to ensure that only finalized policies and procedures appear.

### **Management Action Plan:**

<b>Corrective Actions to be taken</b>	<b>OPI (Office of Primary Interest)</b>	<b>Target Date</b>
PPD and SDM will complete a comprehensive review of posted disability related policies and procedures to identify draft and/or interim documents	PPD/SDM	Summer 2009
PPD and SDM will finalize and post the relevant policies and procedures	PPD/SDM	Fall 2009
PPD and SDM will ensure that the existing approval process is followed to ensure finalized policies and procedures are posted in a timely manner	PPD/SDM	Ongoing

#### **4.1.2 Earnings Loss Benefit**

The Earnings Loss (EL) Benefit is one of the New Veterans Charter benefits and is payable in recognition of the economic impact of a military career ending or a service related disability may have on the Veteran's ability to earn income following release from the Canadian Forces (CF). The program is intended to be for a relatively short duration (approximately 2 years or less). Clients usually continue to receive the benefit until completion of a rehabilitation plan, unless deemed totally and permanently incapacitated (TPI).

#### **Earnings Loss Benefit - Key controls**

The tables below present the Earning Loss Benefit program internal control framework. Each table describes a set of controls and presents each key control along with a description and the supporting documents that are required for the controls to function.

Interviews as well as document review and walkthroughs were used to assess if controls were adequate, efficient, and effective. The assessment of controls was supported by substantive tests of a sample of transactions.

The VPPM is the primary source for policies and procedures for the administration of the EL benefit. There are also national business processes in place for various types of applications and applicants. The Centralized Processing Centre (CPC) has also developed desktop procedures.

<b>A. Determination of eligibility for the Earnings Loss Benefit</b>		
VETERAN: A client's eligibility for the EL benefit is determined by his or her eligibility for the rehabilitation program. This eligibility decision is recorded in CSDN.		
Key Control	Description	Supporting Documentation
Proof of military service	Entitlement to the EL benefit is limited to the following client categories: - All Regular Force Members - All Class C Reservists - All Primary Class A Reservists - All Primary Class B Short Term Reservists (less than 180 consecutive days) - All Primary Class B Long Term Reservists (greater than 180 consecutive days)	- Members Personnel Record Resume (MPRR)
Determination by area counsellor if medically released Veteran's application is made within 120 days of release	A medically-releasing CF member is automatically eligible, provided application is submitted within 120 days of release.	- Rehabilitation Services and Vocational Assistance Program Application for Veteran form, completed, dated and signed by client - Medical Examination on Release - MPPR
Determination by District Health Care Team if Veteran is eligible based on a rehabilitation need	Rehabilitation need refers to disabilities in day-to-day functioning or barriers to re-establishment in civilian life that are attributable to a physical or mental health problem resulting primarily from service in the Canadian Forces. The District Health Care Team may include doctors, nurses and other health care professionals who rely on professional standards as well as Departmental policy in determining eligibility.	- Rehabilitation Services and Vocational Assistance Program Application for Veteran form, completed, dated, and signed by client - Current medical reports - Other relevant supporting medical reports - Medical Examination on Release - Additional assessments requested by VAC, as required - Health Care Team Decision Sheet - Rehabilitation Record of Decision (RROD)
When the Area Counsellor registers a favourable Rehabilitation Record of Decision (RROD) in the CSDN, a system-generated work item is sent to notify the Central Processing Centre that the client is eligible for the EL benefit.		
SURVIVORS/ORPHANS: EL benefits may be payable as of the day following the Veteran's death. However, if there is a delay in making the required application, benefits are only retroactive to a maximum of one year prior to the date of approval of the application.		
Determination that CF member or Veteran has	An EL benefit is payable to a CF member's or a Veteran's survivor or	- Complete, signed, and dated Application for Earnings Loss

died as a result of (a) a service-related injury or disease or injury or (b) an injury or disease that was aggravated by service.	orphan, if the member's or Veteran's death was related to an injury related to or aggravated by service, provided the application is submitted within one year of the death.	Benefit - Survivor and Orphan(s) (under 18 years only) form - Copy of death certificate - Medical and other relevant information regarding the death - Other death benefits payable - Names of all known potential beneficiaries
Proof of survivor's relationship to Veteran	Survivors must prove their relationship to the Veteran.	- Marriage certificate (if applicable)
Proof of orphan eligibility	Orphans must prove their relationship to the Veteran and are eligible to receive a portion of the EL benefit until they reach age 18. Receipt of benefit will continue to age 25 provided the orphan is enrolled in an educational program.	- Orphan date of birth - Proof of relationship (birth certificate, adoption papers) - Proof of enrolment in an educational program
Proof that orphan is unable to earn a livelihood.	An EL benefit is payable to orphans prevented from earning a livelihood due to an incapacity which occurred before their 18 <sup>th</sup> birthday or before their 25 <sup>th</sup> birthday while following an approved course of instruction.	- Medical report documenting orphan's physical or mental incapacity - Proof of dependents' physical or mental incapacity to earn a living

<b>B. Determination of amount of Earnings Loss Benefit payable</b>		
The level of EL benefit is calculated as seventy-five per cent (75%) of the Veteran's CF monthly imputed income as determined by VAC less the sum of the monthly amounts from prescribed sources that are payable to the Veteran.		
<b>Key Control</b>	<b>Description</b>	<b>Supporting Documentation</b>
Verification of client's military salary	CF monthly imputed income is the greater of the client's monthly military salary (MMS) at time of release or the MMS for a senior private in the standard pay group at that time. The MMS is indexed to the date the benefit becomes payable.	- MPRR
Identification of income from prescribed sources	Client is asked to declare all income from sources such as employment insurance, pensions, worker's compensation benefits, superannuation, employment income, self-employment income, etc. (see first bullet, page 19).	- Client identification of income from prescribed sources - Cheque stubs

Calculation of EL entitlement	Client income information is recorded in the CSDN, which performs the calculation. A work sheet is prepared and signed by the adjudicator in the CPC showing the detailed calculation of the EL benefit. The benefit commences on the date that the Minister determines a rehabilitation plan should be developed.	<ul style="list-style-type: none"> <li>- Client income information (above)</li> <li>- Date of RROD</li> </ul>
<p><b>SURVIVORS, ORPHANS:</b> If the member of Veteran dies after implementation of the CFMVRC Act as a result of a service related injury or disease or of a non-service related injury or disease that was aggravated by service, survivors and/or orphans can receive the EL benefit payable. Benefits become payable on the later of (a) the day after the member's or Veteran's death and (b) one year before the day on which the EL benefit application is approved for the survivor or orphan.</p>		
Calculation of benefit for survivor only	If there are no orphans, the survivor is entitled to 100% of the earnings loss payable.	- See Calculation of EL entitlement (above)
Calculation of benefit for survivor and orphans	If there is a survivor and orphans, the benefit is apportioned with 60% going to the survivor and 40% split equally among the orphans. Once there are no remaining eligible orphans, the survivor shall receive 100% of the benefit.	- See Calculation of EL entitlement (above)
Calculation of benefit for orphans only	Each orphan is entitled to the lesser of 40% of the EL benefit or the total amount of the benefit divided by the number of orphans.	- See Calculation of EL entitlement (above)

<b>C. Ongoing monitoring of client entitlement</b>		
<p>The client will continue to receive the EL benefit until the earlier of (a) the date of completion or cancellation of his or her rehabilitation program as long as he or she provides income documentation on a monthly basis or (b) the date the client reaches the age of 65. The benefit continues if the client is determined to be totally and permanently incapacitated for the purposes of suitable gainful employment as a result of the health problem for which he or she would have been eligible for a rehabilitation plan.</p>		
<b>Key Control</b>	<b>Description</b>	<b>Supporting Documentation</b>
Monitoring of participation in rehabilitation program	VAC area counsellors are responsible for case management of client's rehabilitation program.	<ul style="list-style-type: none"> <li>- VAC/Client Agreement Form</li> <li>- CSDN Client notes</li> <li>- Rehabilitation service provider reports</li> <li>- Client date of birth</li> </ul>
Monitoring of monthly client income from prescribed sources	To remain eligible for the EL benefit, the client is required to submit monthly income information (See first bullet page 18).	- Proof of employment earnings, self-employment earnings and operating expenses

Determination that client is totally and permanently incapacitated (TPI) for the purposes of suitable gainful employment as a result of the health problem for which he or she would otherwise have been eligible for a rehabilitation plan.	If the VAC area counsellor, in consultation with district and regional interdisciplinary team members, determines the Veteran to be totally and permanently incapacitated, the EL benefit is payable until the Veteran reaches age 65. The decision is based on medical reports, rehabilitation reports, functional capacity assessment, and other assessments as required.	<ul style="list-style-type: none"> <li>- TPI decision recorded in CSDN</li> <li>- Yearly contact with client to review TPI</li> <li>- Client date of birth</li> </ul>
<b>SURVIVORS, ORPHANS</b>		
Determination that survivors and orphans remain eligible to receive the earnings loss benefit.	Earnings Loss benefits cease to be payable to a survivor or orphan on the day: a) the member or Veteran, if alive, would have reached age 65, regardless of the age of the survivor or orphan at that time, or b) the orphan no longer meets the required criteria.	<ul style="list-style-type: none"> <li>- Monthly identification of income from prescribed sources</li> <li>- Monthly provision of cheque stubs from prescribed sources</li> <li>- Client date of birth</li> <li>- Orphan date of birth</li> <li>- Proof of orphan enrolment in an educational program (age 18 to 25)</li> </ul>

<b>D. Completion, termination or suspension of Benefit</b>		
The EL benefit is terminated when the client's rehabilitation plan is completed. The benefit may be suspended or cancelled if the client fails to comply with requests for information required to administer the benefit, or if the client fails to notify VAC of any changes to his or her rehabilitation plan or financial, employment or medical circumstances relevant to the administration of the EL benefit program.		
<b>Key Control</b>	<b>Description</b>	<b>Supporting Documentation</b>
Communication to CPC of completion or cancellation of rehabilitation plan	When the VAC area counsellor determines that the client has completed his or her rehabilitation program, or if the client is not actively participating and the suspension procedure has been followed, the completion or cancellation is recorded in the CSDN and a system-generated work item is sent to the CPC.	<ul style="list-style-type: none"> <li>- "Completed" or "Cancelled" decision is entered in CSDN</li> <li>- Date of cancellation or completion</li> </ul>



Termination of EL benefit due to non-compliance with EL benefit program requirements	If client does not provide income information for one month, the EL benefit can be suspended. If, after three months, such information continues to be withheld, the benefit can be cancelled. EL benefits may be cancelled if, at least six months after the effective date of the suspension, the client continues to fail to provide the required information without a suitable explanation, or if the client provides false or misleading information which impacts on the client's eligibility to or degree of entitlement to the EL benefit.	<ul style="list-style-type: none"> <li>- Written notification of reason and effective date of suspension</li> <li>- Written notification of reason and effective date of cancellation</li> </ul>
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### Earnings Loss Benefit - Observations

- Clients eligible for the EL benefit are requested to provide documentation substantiating their income from prescribed sources. However, VAC does not have verification processes in place to obtain assurance that clients disclose all sources of income (recipient auditing, or data transfers with other organizations, for example). Without independent verification, the Department remains at risk of not identifying possible situations where overpayments may occur.
- Monthly EL benefit payments are calculated based on monthly income statements provided by the client. In addition, the Regulations (the *Canadian Forces Members and Veterans Re-establishment and Compensation Regulations*) give VAC the authority to suspend payments to clients who fail to provide requested statements of income from prescribed sources.
- Ensuring ongoing eligibility for the EL benefit is a responsibility shared between the area counsellor and CPC analyst. As described in the preceding control tables, CPC staff are responsible for monitoring client income on a monthly basis. Area counsellors develop and monitor case plans which contain rehabilitation objectives, activities and time lines. Area counsellors and CPC analysts are each responsible for responding in an appropriate and timely fashion when a client is no longer upholding his or her responsibilities under the program, such as actively participating in the rehabilitation plan and disclosing income. If an area counsellor is not monitoring client participation and keeping client case plans up to date, the Department is not aware of the client's health situation. Any intervention, such as referral to specialized treatment, could start later than it should. Likewise, the need to disengage a client from the rehabilitation program, and therefore the earnings loss benefit, could also be delayed. This situation is further complicated in cases where it is taking a long time to develop a case plan because of complex health needs and the need to involve specialized health professionals. Under these circumstances, it may be possible for a client to continue to receive EL benefits to which he or she is not

entitled. This is why it is important that case plans are established and kept up to date in a timely fashion, for all rehabilitation program participants, but even more so for those in receipt of the Earnings Loss Benefit. At the time of report-writing for this audit, the Department had completed a review of case management, the response to which is expected to help address this issue.

- Most policies and procedures for the EL program are finalized. One national business process was still in draft format and another indicated that the policy governing the application process for survivors and orphans was still under development. Promulgation of business processes in draft form can lead to inappropriate procedures been followed, which in turn could result in errors in the benefits clients receive.

### **Recommendation 3 (Critical)**

**It is recommended that the Director General, Policy and Programs Division, in consultation with the Director General of Service Delivery Management, and in consultation with the Director General of Centralized Operations, strengthen the policies and business processes applicable to the verification of client income.**

### **Management Response:**

Management agrees with the recommendation. Policy and Programs Division will work closely with Service Delivery Management, Centralized Operations and Finance Divisions to review and strengthen where applicable, the various Financial Benefits (FB) policies and business processes to provide for greater efficiencies in obtaining and verifying accurate financial information related to the client's various prescribed sources of income.

### **Management Action Plan:**

<b>Corrective Actions to be taken</b>	<b>OPI (Office of Primary Interest)</b>	<b>Target Date</b>
PPD in consultation with SDM, Finance and Central Operations will complete a comprehensive review of all FB policies and business processes to identify and amend as required in order to provide for greater efficiencies in obtaining and verifying timely and accurate income information	PPD in collaboration with SDM and Central Operations	February 2010
PPD and SDM will finalize and post all relevant amended policies and procedures	PPD and SDM	March 2010

### **Recommendation 4 (Essential)**

**It is recommended that the Director General, Service Delivery Management, in consultation with the Director General, Policy and Programs Division, take measures to ensure that case plans are established and kept up to date in a timely fashion for rehabilitation program participants in receipt of Earnings Loss Benefit.**

**Management Response:**

Management agrees that all client records, including rehabilitation case plans, must contain up-to-date and accurate information to allow the Department to effectively meet the needs of its clients. SDM will conduct a review of clients in receipt of Earnings Loss Benefits and confirm cases where up-to-date information is lacking in case plan documentation. Following this assessment, SDM will develop a plan to address client information requirements in context of Case Management Review.

**Management Action Plan:**

Corrective Actions to be taken	OPI (Office of Primary Interest)	Target Date
Conduct a review to determine where case plan information may not support current earnings loss status.	SDM	August 2009
Perform analysis to determine scope of issue and develop approach to address information gaps that may affect program eligibility.	SDM	September 2009

**Recommendation 5 (Important)**

**It is recommended that the Director, New Veterans Charter, ensure that all Earnings Loss Benefit business processes that appear on the Departmental intranet site are the final approved versions.**

**Management Response:**

Management agrees with the recommendation. Business processes had initially been published in draft to support staff in the early implementation of the NVC, and have since been finalized. The business process for Applying for Earnings Loss Benefit - Veteran is accurate as is and the “draft” will be removed.

## **Management Action Plan:**

<b>Corrective Actions to be taken</b>	<b>OPI (Office of Primary Interest)</b>	<b>Target Date</b>
Review all Earnings Loss business processes on the Departmental intranet site	Director, NVC Programs	Completed
Remove the “draft” watermark from the PDF version of the business process <u>Applying for Earnings Loss Benefit - Veteran</u> .	Director, NVC Programs in consultation with others as required.	June 2009

### **4.1.3 Job Placement Program**

The average age of members releasing from the Canadian Forces is 36—an age at which they and their families need assurance of a secure future. To help CF members transfer their specialized military career skills to a new career, VAC has created the Job Placement Program (JPP), which offers job-finding support to CF Veterans. The provision of JPP services is administered by a national service provider under contract with VAC. Medically releasing members do not generally participate in the JPP as job placement assistance is available through VAC’s Rehabilitation Program.

Interviews as well as document review and walkthroughs were used to assess if controls were adequate, efficient, and effective. The assessment of controls was supported by substantive tests of a sample of transactions.

#### **Job Placement Program - Key Controls**

The tables below present the Job Placement Program internal control framework. Each table describes a set of controls and presents each key control along with a description and the supporting documents that are required for the controls to function.

The VPPM is the primary source for policies and procedures for the administration of the JPP. The Centralized Processing Centre has also developed desktop procedures for the processing of applications and payment of invoices.

<b>A. Determination of client eligibility and referral of client to service provider</b>
The JPP is offered to honourably discharged Veterans or CF members in the process of releasing.

Key Control	Description	Supporting Documentation
Verification of service	The following are the categories of eligible clients: - All releasing CF members and Regular Force Veterans, - Reservists who served 21 of 24 consecutive months or those whose special duty or emergency service resulted in the loss of their civilian job or a lower rate of pay than prior to their service.	- Application for Job Placement Program form, completed, signed, and dated by client - Proof of completion of Basic Training (if at rank of Private or equivalent) - Proof of Reserve Force service (if applicable)
Verification of release date	To be eligible, the client must apply for the JPP within two years of release.	- Application for Job Placement Program form, completed, signed, and dated by client - Copy of release instruction
Verification of CFIS eligibility	Veterans and survivors to whom the Canadian Forces Income Support (CFIS) benefit is payable are eligible to apply for the JPP at any time.	- CPC files - CSDN
Verification of survivor eligibility	The survivor of a CF member or regular or reserve force Veteran who would have been eligible for job placement assistance but for the occurrence of death.	- Application for Job Placement Program form, completed, signed and dated - Proof of Veteran's service - Death certificate

**B. Client progress reporting and program closure**

The following are the three services that comprise the JPP: job-search training, career counselling, and job-finding assistance.

Key Control	Description	Supporting Documentation
Provider provides regular client updates to VAC	Together, the JPP provider and the client will prepare a Personal Return-to-Work Plan detailing the client's background, goals, obstacles, strategies for overcoming obstacles, and specific action steps for achieving goals.	- Data transfers from Job Placement Program provider imported into the CSDN
Acknowledgement of successful completion	Successful completion of the JPP means that suitable employment has been obtained by the client or that the client has undertaken everything in the job assistance plan with the allowance of appropriate time to find suitable civilian employment.	- Acknowledgement form is completed and signed by client
Suspension of Job Placement Program services	The JPP services will be suspended if it is determined by VAC staff, in consultation with the provider, that the individual is no longer actively participating in the program.	- VAC provides client with written pre-notification of suspension, which will occur in thirty days
Cancellation of client's receipt of Job Placement Program services	A client is afforded a period not to exceed six months from the effective date of JPP suspension before cancellation of services will occur.	- VAC provides client with written notification of the reason(s) for the cancellation and the effective date.

**C. Payment of provider invoices**

The contractual agreement between VAC and the Job Placement Program service provider includes a statement of work and details the basis of payment. These two elements clearly define the provider's responsibilities for contract deliverables and how these deliverables will be paid for by VAC.

Key Control	Description	Supporting Documentation
The provider is paid a flat rate for workshops.	The Base/Wing Personnel Selection Officer (PSO) refers individuals to the introductory workshops, which are conducted on CF Bases and Wings by the JPP provider.	- Documentation of planned workshops - Workshop attendance list signed by VAC representative
The provider is paid an hourly rate for one-on-one counselling and assistance	An individualized return-to-work plan, including a job-search strategy is mutually developed by the client and the provider.	- Client progress notes imported to the CSDN - Detailed invoices

Reconciliation of invoices and VAC client information	The provider provides regular updates on activities with each client and these are imported to CSDN.	<ul style="list-style-type: none"> <li>- CSDN</li> <li>- Detailed invoices</li> </ul>
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### **Job Placement Program - Observations**

- To date, the level of uptake of the JPP has been lower than originally forecast. A review of procedures and files revealed no weaknesses in internal control.
- The JPP service provider is required to prepare, in collaboration with the client, a personal return to work plan, which lists the client's goals and action steps and time lines for reaching each goal. A copy was being sent to VAC's contract administration group but not to the program management group. A copy should be placed in the clients file so that program management staff can see the nature and types of plans been put in place. This can help them to determine how well the program is working.

### **Recommendation 6 (Important)**

**It is recommended that the Director, New Veterans Charter, undertake measures to ensure that each Job Placement Program participant's return-to-work plan is placed on the client's file so that program staff can monitor how well the program is working.**

### **Management Response:**

This recommendation has been actioned. Return-to-work plans were being received by VAC's Contract Administration section for contract purposes. A copy is now forwarded to the Program Management Directorate and is being placed on the client's file.

### **4.1.4 Long Term Care**

VAC's long term care program is a key pillar of Canada's commitment to provide quality care to injured, disabled, and aging Veterans. Beginning at the end of the First World War, the Department established acute health care facilities and long-term care facilities to meet the treatment and rehabilitation needs of war service Veterans. In 1963, the Department began transferring all departmental health care institutions to provincial jurisdiction. Ste. Anne's Hospital is the one exception, as it remains a VAC facility. In accordance with the transfer agreements, a fixed number of contract beds remain available to VAC to accommodate eligible Veterans.

Currently, VAC provides funding for qualified Veterans who occupy a contract bed or entitled Veterans who reside in a community care facility. This audit reviewed the program and financial controls associated with payments in support of Veterans occupying beds in contract facilities as well as in community facilities.

## Long Term Care - Key Controls

The Veterans Health Care Regulations (VHCR) describe eligibility requirements for each distinct client group to long term care benefits. Eligibility requirements are also outlined in the VPPM as well as in regionally developed documents used by regional and district office staff.

Interviews as well as document review and procedure walkthroughs were used to assess if controls were adequate, efficient, and effective. The assessment of controls was supported by substantive tests of a sample of transactions.

<b>A. Determination of client eligibility for Long Term Care benefits</b>		
Admission to long term care facilities generally falls under provincial jurisdiction, however VAC determines Veterans' eligibility for coverage of associated costs as well as eligibility and access to a contract bed. The District Nursing Officer holds approval authority for care in community and contract facilities within VAC's maximum rates.		
<b>Key Control</b>	<b>Description</b>	<b>Supporting Documentation</b>
Determination of service eligibility	The VAC client service agent examines the Veteran's military service to determine the client's entitlement to long term care benefits.	<ul style="list-style-type: none"> <li>- Departmental eligibility profile table (VPPM)</li> <li>- Eligibility tables created by regional or district offices</li> <li>- CSDN client notes</li> </ul>
Assessment of level of care to which the eligible client is entitled	The district nursing officer reviews the client's admission information to determine the federal level of care the client requires.	<ul style="list-style-type: none"> <li>- Completion of residential care decision form</li> <li>- District nursing officer signature on Residential Care Decision Form</li> <li>- CSDN client notes</li> </ul>
Determination if admission to facility is related to a pensioned condition	If the district medical officer determines that the client's need for long term care is related to a pensioned condition, then VAC will pay the accommodation and meal rates on behalf of the client.	<ul style="list-style-type: none"> <li>- District medical officer signature on Residential Care Decision Form</li> </ul>
Determination if client is "income qualified" for benefits	If, after exemptions for comforts and, if applicable, spousal support and dependent support are subtracted, a client does not have sufficient income to pay accommodation and meal fees, then VAC will cover these costs on behalf of the client.	<ul style="list-style-type: none"> <li>- Client income statements</li> <li>- Proof of spousal relationship</li> <li>- Proof of dependent relationship and status</li> <li>- Accommodation and meal rates</li> </ul>
<b>B. Management of admission to VAC contract beds and departmental facilities</b>		



When it has been established that a client is eligible for a VAC contract bed and the client has expressed the desire to move to a contract facility, VAC is responsible for recommending priority of Veteran admission to these beds.

Key Control	Description	Supporting Documentation
Application of priority of admission policy	Those with the greatest health needs are given first priority. When health assessments indicate that clients have similar health needs, the following order of priority is used: first, Veteran pensioners who need the care for a war-related pensioned condition; second, income-qualified Veterans; and third, overseas service Veterans and Veteran pensioners for care not related to war-related pensioned conditions.	<ul style="list-style-type: none"> <li>- Client health assessment</li> <li>- Residential Care Decision Form (where SDMO indicates relationship to pensioned condition)</li> <li>- Client income information</li> <li>- CSDN service information</li> <li>- RCSS</li> </ul>

### C. Payment within approved rates

For clients who are eligible for contract beds or whose admission to a facility is linked to a pensioned condition, VAC pays up to the maximum cost of care provided. The costs associated with clients occupying contract beds are paid directly to the contract facility. The remainder of client categories are reimbursed a portion (up to 100%) of their long term care costs.

Key Control	Description	Supporting Documentation
Reimbursement of actual costs to clients in community facilities (non-contract beds)	Clients occupying a bed in a community facility normally pay their portion of the per diem rate and submit the receipt to VAC for reimbursement. In some regions, VAC is also issued a bill for the provincial portion of the per diem rate by the facility.	<ul style="list-style-type: none"> <li>- Receipt for payment</li> <li>- Departmental per diem rates</li> <li>- RCSS - record of client placement and facility rates</li> </ul>
Reconciliation of monthly bulk invoices and operational budget payments	Contract facilities issue monthly bulk occupancy-based invoices as well as monthly or semi-monthly invoices based on a fraction (1/12 or 1/24) of the agreed upon annual budget. The final payment of the year is based on annual hospital review.	<ul style="list-style-type: none"> <li>- Facility transfer agreements</li> <li>- Operational agreements</li> <li>- Annual operational budgets</li> <li>- Annual enhancement agreements</li> <li>- Health care facility reviews</li> <li>- Monthly or semi-monthly invoices based on annual budget and pro-rated</li> </ul>
Assurance of quality care	District nursing officers conduct annual facility reviews.	- Long-term Care Facility Questionnaire

## Long Term Care - Observations

- VAC policy allows for a degree of client contact as necessary at the time of admission to determine the level of care a client requires and its relationship to a condition for which he or she may be receiving a pension. Clients residing in contract facilities may have contact with a VAC nurse on the premises. Clients deemed frail pensioners normally have a case plan according to which the area counsellor follows up with the client on a regular basis. However, there were no other processes in place to allow for regular client contact to determine the quality of services or monitor level of care required after a client was admitted to long term care in a community facility. In September, 2008, VAC senior management approved a National Long Term Care Strategy according to which a biennial client visit and VAC Nursing Assessment will be phased in nationally for targeted Veteran clients in long term care facilities. If this activity is implemented, it should address the need for monitoring of service quality and improved communication between VAC and clients residing in long term care facilities.
- VAC's agreements with contract facilities result in long term commitments to fund a static number of contract beds even as demand for these beds declines, which it is expected to do starting in 2012. This may, in some cases, result in the Department spending more than is necessary to provide adequate care to Veterans. In September, 2008, VAC senior management approved a renewed National Long Term Care Strategy. According to the strategy, "VAC will identify opportunities on a province by province and facility by facility basis to decommission contract beds where there is a diminishing or apparent lack of demand for the beds or services." It is expected that, if it is implemented, this approach will reduce the number of unneeded contract beds paid for by the Department.
- The Department issues advance payments to the contracted health care facilities based on agreements governing the cost sharing arrangements which outline the forecasted costs to be incurred in providing care to clients. The primary responsibility for ensuring that the payments conform with the FAA and the relevant contract rests with the program manager exercising section 34 FAA who certifies that the funds were used in accordance with the terms and conditions of the agreement and that they fairly reflect the cost of health care provided. Due to the complexity and specialization required to provide this assurance, the program managers have been utilizing the financial officers to conduct the annual operating cost reviews. This has resulted in financial officers, who do not report to the program manager, carrying out a significant part of section 34 FAA verification. This obscures the responsibility and accountability associated with the verification and payment process for these payments and weakens the segregation of duties required by the separate exercise of sections 33 and 34.

- The Department does not appear to be consistently and adequately managing the function of certifying conformity with terms and conditions of operating agreements and the fair reflection of the cost of health care provided. The policies and procedures to guide the reviews of the health care facilities are outdated and insufficient and the reviews are not being completed in a timely manner. Integrated management of the function would help ensure that it is staffed with a sufficient number of competent and professional employees and that reviews are completed in a timely manner with a standardized process.

#### **Recommendation 7 (Important)**

**It is recommended that the Director General, Policy and Programs Division, monitor the new National Long Term Care Strategy to ensure that Long Term Care clients residing in community facilities receive nursing assessments to ensure the client's needs are being met.**

#### **Management Response:**

Management agrees with the recommendation. VAC is committed to providing Veterans with high quality residential care, when and where they need it, and to improving the monitoring of all clients in facility-based care to ensure that they receive quality care and specialized services (as required), and to help identify and address any unmet needs. In support of this commitment, VAC has developed an enhanced Quality Assurance Framework as a key component of the National Long Term Care Strategy.

As part of the Quality Assurance Framework, a Nursing Assessment Initiative is underway, which will have Registered Nurses complete nursing assessment visits to Veterans residing in *long-term community care facilities*. Assessments are to be completed for 50 percent of targeted residents in year one and the remaining 50 percent in year two. This initiative **excludes** Veterans residing in large facilities with contract beds where VAC has a presence and frequent contact with residents. The Initiative will result in completion of nursing assessments for approximately 3,922 Veterans per year.

**Management Action Plan:**

Corrective Actions to be taken	OPI (Office of Primary Interest)	Target Date
Implementation of the Quality Assurance Framework component of the National Long Term Care Strategy including the Nursing Assessment Initiative	CCPD(Continuing Care Program Division)/National Nursing Officer/ Quality Assurance Nursing Assessment Working Group	Nursing Assessment Initiative is implemented and ongoing in Atlantic and Ontario Regions;  Full nationwide implementation by June 30, 2009

**Recommendation 8 (Essential)**

**It is recommended that the Director General, Policy and Programs Division, implement and monitor the new National Long Term Care Strategy to ensure that, as demand for contract beds diminishes, Veterans Affairs Canada is not paying for beds that are not needed by Veterans.**

**Management Response:**

Management agrees with the recommendation. The Director General, Policy and Programs Division is responsible for the implementation and monitoring of the new National Long Term Care Strategy, approved by the Minister of Veterans Affairs in August 2008. The new Strategy is a needs-based approach to meeting Veteran needs for long-term care, based on client choice and future forecasts for bed demand, and will help VAC capitalize on the evolving range of provincial care options. It provides a framework to ensure appropriate capacity and programming in contract facilities to meet the needs of eligible Veteran clients.

Through the National Long Term Care Strategy's Contract Bed Transition Working Group, VAC has identified opportunities by facility, and by province, to transition contract beds where there is reduced need, or an apparent lack of demand for either the beds or the services. Individual facility action plans are being developed to identify, in order of priority, a list of immediate transition opportunities by region, with options and corresponding risk assessments and mitigation strategies. These activities support a phased approach to implementation of the Strategy.

VAC will continue to maintain contract bed arrangements in locations where there is a demonstrated need for specialized care, where provincial gaps exist, or where clients are unable to access required services on a timely basis.

**Management Action Plan:**

Corrective Actions to be taken	OPI (Office of Primary Interest)	Target Date
Identification of opportunities to transition contract beds	CCPD (Continuing Care Program Division) Contract Bed Transition Working Group	completed
Consultations with stakeholders to explore the opportunities identified for transition of contract beds	CCPD	3 year plan 2009-2012

**Recommendation 9 (Essential)**

**It is recommended that the ADM Service Delivery and Commemoration, in consultation with the Senior ADM, Policy, Programs and Partnerships, and the ADM Corporate Services Branch, clarify the roles and responsibilities associated with the conduct of operating cost reviews, improve the policies and procedures for operating cost reviews, and improve the timeliness of the conduct of these reviews.**

**Management Response:**

Management agrees with this recommendation. A framework was developed by Finance Division staff and communicated through an internal control workshop that was held in October 2007. It outlines the key objectives that each review must address to ensure compliance with the FAA and central agency policy requirements. Finance is in the process of preparing a template with assistance from the Western Region.

**Management Action Plan:**

Corrective Actions to be taken	OPI (Office of Primary Interest)	Target Date
Conduct analysis to determine possible changes to operational roles and responsibilities that would improve the operating cost review process	SDM/PPP	December 2009
Determine resource impacts of implementing these changes	SDM/PPP	December 2009
Implement changes by updating operational policies and procedures in support of the operating cost review process	SDM/PPP	March 2010

#### **4.2 Objective: Assess the accuracy of accounting (classification of transactions) for large transactions.**

Financial coding forms the foundation of the federal government's financial reporting system. Financial codes are the building blocks by which financial information can be built into meaningful financial reports. Accurate coding allows for an accurate portrayal of the Portfolio's expenditures and is useful in budget preparations. The Portfolio coding block can be found in the Financial Coding Manual.

The review of transactions in the statistical sample entailed verification of proper line object coding. Line object codes are used to classify all accounting transactions and provide a framework for budgeting and control by activity.

##### **Observation**

- Of the 297 transactions verified, one transaction had an incorrect line object code. This is not statistically significant. The error was brought to the attention of management during the audit.

#### **4.3 Objective: Evaluate the appropriateness of the delegated authorities of positions which approved these payments.**

##### **Background**

Responsibility for the control and spending of public money is assigned to the Minister and Deputy Heads by Parliament through the annual appropriation acts, the Financial Administration Act (FAA), and regulations made under the FAA. Financial signing authorities are organized into the following two classes:

##### **Spending Authority:**

- *Expenditure Initiation* represents that authority to initiate a transaction against a budget subject to availability of funds and specific policies and restrictions.
- *Commitment Certification (section 32)* ensures availability of funds and reserves funds in the financial system.
- *Performance Certification (section 34)* deals with the need to certify that goods and services were received or that a recipient is eligible for payment. Section 34 signature ensures compliance with all relevant statutes, regulations, orders in council, TB or departmental policies and certifies the transaction is accurate and financial coding is complete.

## Payment Authority

- *Payment Authorization (section 33)* ensures all requirements of section 34 have been carried out and that the transaction is a lawful charge against an appropriation.

These sections of the FAA are critical to ensuring that controls are in place over expenditures made from parliamentary appropriations.

Because the Minister and the Deputy Heads cannot carry out personally all the responsibilities assigned to them by legislation and regulation, the FAA prescribes that they may delegate authority to positions in the Portfolio, the incumbents of which may exercise financial authority on their behalf. The Delegated Authorities Manual outlines the appropriate positions in the portfolio where section 32, 34, and 33 responsibilities can be most effectively exercised and where accountability for results can be established.

Specimen signature cards identify the incumbent of a position that has been delegated financial signing authority and the effective date of the delegation. It is authenticated by the superior of the incumbent and is used to verify the signature appearing on the financial documents in process.

## Observations

- It was noted in the sample that students were performing section 34 authority on payments. One of the principal tenets of the Delegated Authorities Manual is the concept that financial authorities are delegated to positions not to individuals. The Public Service Labour Relations Act, states that “a person who is employed under a program designated by the employer as a student employment program” is not considered an employee. Because students are not employees occupying a position in the public service they can not perform delegated signing authority under VAC’s current Delegated Authorities.

In the sample reviewed of 2007-2008 data, 4% of section 34 certifications were performed by students. This is greater than the allowable error rate for the statistical sample. This issue had already been addressed by the Financial Services Charlottetown unit during the year under review. There was no evidence of students exercising section 34 in the second half of the year under review.

- Thirteen of the signature cards reviewed showed a two month span between the date of signature by the incumbent and authentication by the superior of the incumbent. During this two month period the incumbents in question were exercising signing authority. The thirteen transactions that did not have

authenticated signature cards and yet were exercising signing authority represent 4.38% of the sample.

- While reviewing the payments and applicable signature cards for the statistical sample, it was noted that, when signature cards are marked void, the date is not recorded. This makes it difficult to determine if a signature card was valid when the payment was processed.

#### **Recommendation 10 (Important)**

**It is recommended that the Director General, Finance Division, modify the procedures outlined in the Delegated Authorities Manual for signature cards to ensure that signature cards are dated when marked void.**

#### **Management Response:**

The DG, Finance agrees with this recommendation. The procedures outlined in the Delegated Authorities Manual for specimen signature cards will be modified to ensure that specimen signature cards are dated when marked void (cancelled).

#### **Management Action Plan:**

<b>Corrective Actions to be taken</b>	<b>OPI (Office of Primary Interest)</b>	<b>Target Date</b>
An email message will be sent to Directors of Finance directing them to ensure that specimen signature cards are dated when marked void ( cancelled ).	Finance	Completed (April 20, 2009).
The procedures outlined in the Delegated Authorities Manual for specimen signature cards will be modified to ensure that specimen signature cards are dated when marked void ( cancelled ).	Finance	September 2009

#### **4.4 Objective: Analyse and validate the post or pre-payment verification process for selected large transactions.**

##### **Background**

The Department has developed the Quality Assurance Framework of the Account Verification Process for the Portfolio's payment transaction streams. The objective of the framework is to determine compliance with Treasury Board Payment Requisitioning



Regulations and to determine the existence adequate control procedures over expenditures.

The quality assurance plan profiles transactions based on risk to determine which would be subject to 100% re-performance of the account verification process and those that will be subject to statistical sample. Most large dollar value payments included in the scope of this audit were pre-payment verified because they are considered high risk according to the transaction profiling of the quality assurance framework.

Due to the risk of material loss, all monetary awards for disabilities greater than 10%<sup>1</sup> are considered highly sensitive. Therefore, all such transactions are 100% pre-payment verified by Financial Services prior to approval under section 33 FAA.

For the same reason, all disability pension payments over \$25,000 are considered highly sensitive. Based on past error rates, the level of confidence in the account verification process is moderate. Therefore, all such transactions are 100% pre-payment verified by Financial Services prior to approval under section 33 FAA.

The CFMVRC Act came into force April 2006. The Job Placement Program and the Earnings Loss Benefit are programs resulting from the Act and have minimal transaction history. Until error rates are consistently low, all transactions are pre-payment verified.

## **Observations**

- The statistical sample revealed that pre-payment verification of disability awards, disability pensions, and earnings loss benefit payments was being conducted as dictated by the Quality Assurance Framework of the Account Verification Process.
- Reviews of policies and observation of documented procedures for pre-payment verification of disability awards, disability pensions, job placement program and earnings loss benefit payments revealed no issues.
- Due to the complexity of long term care billings and the specialization required to provide assurance that the contract and payments for the health care facilities conform with the FAA, financial officers have been utilized to conduct operating cost reviews on behalf of the program manager exercising section 34. The work conducted by the financial officers has been misunderstood by some as being prepayment verification. However, this is not the case. There is very little quality assurance being completed on payments for health care facilities.

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<sup>1</sup> Under the Canadian Forces Members and Veterans Re-establishment and Compensation Act (CFMVRC), a new disability award program was introduced. The amount payable is based on the extent of disability. The assessment of the disability is expressed on a 0 to 100% scale with monetary lump sum awards ranging from 1 to 100%.

**Recommendations 11 (Essential)**

**It is recommended that the Director General, Finance Division improve the quality assurance function of the operating cost reviews.**

**Management Response:**

VAC issues advance payments to long term health care facilities to provide services to clients in contract beds. Regional Finance staff conduct operating cost reviews at these facilities to determine (1) the actual costs of providing these services as per agreement between the facility and VAC and (2) a final settlement payment for the fiscal year under review. The payment can be made to the facility for an underfunding of services or a refund to VAC for an overpayment.

VAC makes large program expenditures to contracted health care facilities for long term care. Operating cost reviews account for these expenditures. The Director General, Finance Division will help to improve the quality assurance function of operating cost reviews by taking the following action.

**Management Action Plan:**

<b>Corrective Action to be taken</b>	<b>Office of Primary Interest</b>	<b>Target Date</b>
1. Develop a risk assessment strategy to incorporate into operating cost reviews. The strategy will be tailored to reflect the risk level of the payments made to the various contracted health care facilities.	Corporate Internal Control	November 2009
2. Develop, subject to available resources, detailed procedures for conducting operating cost reviews.	Corporate Internal Control	November 2010
3. Establish a process to ensure that the Director, Continuing Care Programs acts upon recommendations contained in operating cost reviews.	Continuing Care Program	November 2009
4. Review annually, subject to available resources, an operating cost review from each region.	Corporate Internal Control	November 2010

#### **4.5 Objective: Perform an analysis of the line objects created to capture capital expenditures and capital contributions.**

### **Background**

A statutory item is an item included in the estimates for information purposes only, for which legislative approval already exists. A vote indicates the amount of money required by the government for a particular program or function. Veterans Affairs Canada has four votes.

### **2007-2008 Departmental Performance Report**

**Table 2: Voted Items**

(\$ millions)					
Vote Item	Truncated Vote	Main Estimates	Planned Spending	Total Authorities	Actual
1	Veterans Affairs - Operating expenditures	905.9	907.7	966	867.7
5	Veterans Affairs - Capital expenditures	22.8	23.2	26.6	26.3
10	Veterans Affairs - Grants and contributions	2397.6	2397.6	2397.6	2250.2
15	Veterans Affairs - Veterans Review and Appeal Board - Operating expenditures	9.5	9.5	10.3	10.2

Two line objects have been identified for analysis for the purpose of this audit. Line object 3431 is construction and line object 3432 is furniture and equipment. Both of these line objects are contained within vote 1 - Veterans Affairs operating expenditures.

The four digit line object code is used to report all accounting transactions. They are a departmental classification for the purpose of describing the expenditure or revenue. The classification system provides a framework for budgeting and control by both activity and responsibility centre.

The purpose of the analysis was to determine the nature and extent of expenditures going through these line objects to help senior management decide on what course of action it will take to deal with these types of transactions. Ongoing meetings are occurring with Treasury Board Secretariat to deal with these issues.

### **Observations**

- During the 2007/2008 fiscal year \$4,763,022 was processed through line object 3431. All transactions greater than \$25,000 were reviewed to confirm they are

capital in nature. \$4,139,732 can be confirmed as being spent on construction related activities.

- For the same fiscal year \$930,720 was processed through line object 3432 for equipment. Transactions greater than \$25,000 total \$255,006 and can be confirmed to be capital in nature.

These transactions were brought to the attention of management during the course of the audit.

## **5.0 Conclusion**

In the auditors' opinion, except for the observations noted in this report, there is reasonable assurance that the control framework in place at VAC is likely to prevent and/or detect material errors before they find their way into financial systems and reports. The risk of a material error occurring is low.

## **6.0 Distribution**

Deputy Minister  
Chief of Staff to the Minister  
Senior Assistant Deputy Minister, Policy, Program and Partnerships  
Assistant Deputy Minister, Service Delivery and Commemoration  
Assistant Deputy Minister, Corporate Services  
Director General, Human Resources Division  
Director General, Communications Division  
Director General, Departmental Secretariat and Policy Coordination  
Director General, Audit and Evaluation Division  
General Counsel, Legal Service Unit  
Executive Advisers to the Deputy Minister  
Director, Briefing, Coordination and Liaison  
Director General Finance Division  
Director General, Service Delivery Management,  
Director General, Centralized Operations  
Director General, Policy and Programs Division  
Departmental Audit Committee  
Office of the Comptroller General (internal audit registrar)  
Office of the Auditor General

## **Appendix A - Audit Criteria**

- The Department has adequate, effective, and dependable policies, procedures, and guidelines in place that are communicated, understood, and followed.
- The Department's policies regarding classification of accounts are complied with.
- Expenditure management responsibilities, authorities, and spending limits are clearly identified, communicated, understood, and followed.
- Internal controls surrounding delegation of authority, account verification, and payment authority take into account materiality, public sensitivity, and risk.

## Appendix B - Sampling Methodology

A random sampling methodology of financial transactions greater than \$25,000 was applied selecting from the entire population of transactions from the fiscal year 2007-2008. The sample size(297) was determined according to the level of confidence required in the same proportion as the number of transactions in the database. The following criteria determine required sample size:

1. Confidence Level - The degree of certainty with which the error rate in the sample matches the error rate of the population. The higher the level of confidence, the larger the sample size required.
2. Maximum Tolerable Error Rate (MTER) - The maximum acceptable occurrence of critical errors. If a significant variance exists between the resulting error rate and MTER, the sampling parameters would be adjusted with a view to establish which area(s) is causing the errors.
3. Margin of Error or Precision Level - Is a measure of the possible difference between the resulting estimated error rate and the true error rate in the total population.
4. Population Size - Total number of financial transactions greater than \$25,000.

The random sampling selection process was completed by using a software program known as Audit Command Language (ACL) which retrieved the samples from the transaction's database.

<b>Population:</b>	<b>3389</b>
<b>Confidence Level:</b>	<b>95%</b>
<b>Maximum Tolerable Error Rate:</b>	<b>5%</b>
<b>Margin of error:</b>	<b>± 3%</b>

## Appendix C - Abbreviations

CF	Canadian Forces
CFIS	Canadian Forces Income Support
CFMVRC Act	Canadian Forces Members and Veterans Re-establishment and Compensation Act
CRO	Client Records Operations
CSDN	Client Service Delivery Network
DA	Disability Award
EL	Earnings Loss
FAA	Financial Administration Act
JPP	Job Placement Program
MMS	Monthly Military Salary
MPRR	Members Personnel Record Resume
NCCN	National Client Contact Network
PSO	Personnel Selection Officer
PWGSC	Public Works and Government Services
RCSS	Residential Care Support System
RROD	Rehabilitation Record of Decision
SDMO	Senior District Medical Officer
SIN	Social Insurance Number
TB	Treasury Board
TPI	Totally and Permanently Incapacitated
VAC	Veterans Affairs Canada
VHCR	Veterans Health Care Regulations
VPPM	Veterans Programs Policy Manual



## Appendix D

<b>Control of Large Program Expenditure Items Audit</b>	
<b>Background:</b> Segments of VAC programs such as acute care, home modifications, hospital charges and Type 2 & 3 care can involve large payments to individuals with various levels of control and attached risk.	
<b>Rationale:</b> To determine whether VAC's higher dollar expenditures are governed by appropriate controls.	
<b>Proposed Statement of Work:</b> To assess the design and functioning of controls to flag higher risk program transactions for focussed attention and verification. Step one would be to determine the dollar level of "large expenditures".	
<b>Objectives:</b> 1. Review large program expenditure transactions and assess the internal control framework applicable to those transactions. 2. Assess the accuracy of accounting (classification of transactions) for large transactions. 3. Evaluate the appropriateness of the delegated authorities of positions which approved these payments. 4. Analyse and validate the post or pre-payment verification process for selected large transactions. 5. Perform an analysis of the line objects created to capture capital expenditures and capital contributions.	
<b>Cost:</b> 15 person months (3 people x 5 months)	
<b>Target Date:</b> Fiscal Year 2008-09 <b>AEC Decision:</b>	
<b>Risk Analysis:</b> Overall rating = 12 Medium priority	
<u>Likelihood</u>	<u>Impact</u>
<b>Complexity</b> Rating: 3 / 3 * • Highly regulated by laws and policies • Stakeholders: large number/moderate variety • Quickly changing environment	<b>Damage &amp; Liability</b> Rating: 3 / 3 * • Potential violation of law • Program \$ > 1M. Operating > 100K
<b>Audit &amp; Performance Information</b> Rating: 2/3* • Little audit work has been done in this area • Little performance information available for use	<b>Operational Effects</b> Rating: 2 / 3 * • Client service disruption 1 to 4 days • Underachievement of operational objectives (quality, TAT)
* Rating Scale 3 = High 2 = Medium 1 = Low	<b>Reputational Loss</b> Rating: 2 / 3 * • Setback in building client trust • Unfavourable media attention • Unfavourable observations by review groups
Overall rating = 12 Medium priority (Score: 5-8 = Low; 9-12 = Medium; 13-15 = High)	

## Appendix E Significance of Recommendations

To assist management in determining the impact of the observations, the following definitions are used to classify observations presented in this report.

<b>Risk Rankings for Audit Recommendations</b>	
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.
Important	Relates to one or more significant weaknesses for which some compensating controls exist. The weakness results in a low level of risk.