



# **Internal Audit of the Escalation Process for Veterans Affairs Canada's Disability Pension**

Published: 2020-09-28

© Her Majesty the Queen in Right of Canada,  
represented by the President of the Treasury Board 2020,

Published by Treasury Board of Canada, Secretariat  
90 Elgin, Ottawa, Ontario, K1A 0R5, Canada

Catalogue Number: BT39-58/2020E-PDF  
ISBN: 978-0-660-36856-6

This document is available on the Government of Canada website, [Canada.ca](https://www.canada.ca)

This document is available in alternative formats upon request.

Aussi offert en français sous le titre : Audit interne du processus d'indexation des pensions d'invalidité  
d'Anciens Combattants Canada

# Internal Audit of the Escalation Process for Veterans Affairs Canada's Disability Pension

---

From [Treasury Board of Canada Secretariat](#)

## Notice to readers

This report contains personal and confidential information which has been redacted in accordance with both the *Access to Information Act* and the *Privacy Act*.

September 2020

Office of the Comptroller General

## On this page

- [Executive summary](#)
- [Conformance with professional standards](#)
- [Background](#)
- [Detailed findings](#)
- [Conclusion](#)
- [Management response](#)
- [Appendices](#)

# Executive summary

The objective of this internal audit was to examine, and to provide insights into, an error affecting Veterans Affairs Canada's (VAC's) Disability Pension, <sup>1</sup> the actions taken to correct the error for Veterans, <sup>2</sup> and the controls in place to prevent a similar error from occurring again.

The error was in the calculation of the rate at which the Disability Pension is adjusted annually to account for cost-of-living increases. Specifically, changes in provincial income tax regimes in the early 2000s were not factored into VAC's calculations. As a result, Veterans received lower monthly payments than they were entitled to under the *Pension Act*. These underpayments continued until 2010, when the Office of the Chief Actuary, <sup>3</sup> as part of its annual actuarial valuation of Veterans' benefits, identified an anomaly in the escalation rate used for that year's payments and reported it to VAC. After looking into the anomaly, VAC confirmed that it was in fact an error and corrected the calculation used for the rates starting in 2011.

## Why this is important

VAC's mandate is to support the well-being of Veterans, and to promote recognition and remembrance of the achievements and sacrifices of those who served Canada. As a result of serving Canada, Veterans may have developed an illness or sustained an injury. Disability benefits are financial recognition of the impact of these service-related illnesses or injuries. The Disability Pension, a monthly benefit paid to Veterans, is a component of these disability benefits.

## Conclusion

Between 2000 and 2010, there were limited controls, guidance and training to support the process for calculating the Disability Pension escalation <sup>4</sup> rates. Moreover, the limited oversight/challenge functions exercised over the inputs used in the escalation calculation factors contributed to the error going undetected by VAC during that time, which affected the Disability Pension amounts paid to Veterans.

VAC has since put in place additional controls to help prevent similar errors from occurring in the future and to detect any that may occur. Although these controls have increased the rigour in the oversight of the escalation process, opportunities remain to further improve the controls with respect to roles and responsibilities, internal and external consultation, the inventory of escalated programs, and documentation of senior management decisions. Making these changes will contribute to improving VAC's alignment and compliance with the expectations set out in the *Policy on Transfer Payments* and in the *Directive on Transfer Payments* of administering, delivering and managing the Disability Pension in a manner that respects sound stewardship and the highest level of integrity, transparency and accountability.

[Redacted] Based on the information available, the internal audit could not make a conclusion with respect to whether a distinct decision was reached at the time to not issue retroactive payments to correct the error dating back to the early 2000s.

## Conformance with professional standards

This internal audit engagement was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

Mike Milito, MBA, CIA, CRMA

Assistant Comptroller General and Chief Audit Executive

Internal Audit Sector, Office of the Comptroller General

## Background

### Why this topic is important

The focus of this audit was the Disability Pension <sup>5</sup> administered by Veterans Affairs Canada (VAC). The Disability Pension is a transfer payment. <sup>6</sup> Like other transfer payments, the Disability Pension serves to meet a specific Government of Canada policy objective and priority, namely, to compensate Veterans in recognition of service-related disabilities. This specific objective fits within VAC's broader

mandate to support the well-being of Veterans, and to promote recognition and remembrance of the achievements and sacrifices of those who served Canada in times of war, military conflict, and peace. <sup>7</sup> It is a tax-free, financial payment that is escalated annually. In addition to the Disability Pension, VAC administers several other disability benefits program components that are to be escalated using the same escalation rate as the Disability Pension.

In the 2017 to 2018 fiscal year, VAC supported Veterans through \$1.26 billion in Disability Pension payments. <sup>8</sup> This amount represented 33% of VAC's \$3.81 billion in total transfer payments for the same period.

Because the Disability Pension is a transfer payment, it must be managed in accordance with the Treasury Board *Policy on Transfer Payments* and the *Directive on Transfer Payments*. As stated in the policy, the Disability Pension must be designed, delivered, and managed in a manner that respects sound stewardship and the highest level of integrity, transparency and accountability. Managing the Disability Pension in this manner helps avoid concerns about program performance and accountability, and increases public confidence in VAC's ability to support Veterans on behalf of all Canadians.

## About the error

The Disability Pension is escalated annually based on the greater of two options: the Consumer Price Index (CPI) calculation <sup>9</sup> or the composite wage calculation. <sup>10</sup> The *Pension Act* and associated regulations describe how these calculations are to be completed.

The error occurred in the composite wage calculation. To complete this calculation, income tax for a single person in the province with the lowest combined provincial and federal income tax rate must be calculated. This requires gathering federal and provincial tax rates, as well as basic personal amounts. <sup>11</sup> In the early 2000s, the newly introduced provincial personal amounts were separated from the single federal personal amount. <sup>12</sup> VAC staff responsible for completing, reviewing and approving the escalation calculations and the resulting rate increases did not identify

and incorporate this change into their work. VAC included the federal personal amount in the calculation, but it did not include the corresponding provincial personal amount. Consequently, VAC's calculation of combined provincial and federal income tax was incorrect, resulting in lower payments to Veterans than required.

## **Departmental context**

From 2006 to 2014, VAC made extensive program and organizational changes. These changes were in response to the changing demographics of Veterans, recommendations from a privacy breach investigation, <sup>13</sup> processing compensation payments to those who suffered from Agent Orange testing, <sup>14</sup> the Strategic Operating Review of 2008, and the implementation of the Deficit Reduction Action Plan in 2012. <sup>15</sup> VAC's five-year Transformation Agenda, initiated in 2010 and implemented in 2011, included, but was not limited to, process re-engineering, changing decision-making processes, delegating authorities to front-line staff, investing in technology, transforming processes and services to become paperless, and reducing regional services to Veterans. From 2010 to 2014, there were multiple changes at the management and senior management levels, including in areas responsible for the escalation calculation.

During the interviews conducted for this audit, interviewees expressed the importance of taking into account the context at VAC during the audit scope period, particularly the convergence of multiple events around 2010. Interviewees explained that some of these events began before the error was first identified, continued afterwards, and required significant attention from senior management.

## **Source of the internal audit**

On November 5, 2018, the Office of the Veterans Ombudsman (OVO) issued a news release <sup>16</sup> concerning an accounting error in the Disability Pension at VAC. According to the release, "VAC estimates that this error could total around \$165 million for the period of 2003 and 2010. The error has deprived thousands of Veterans of indexation increases to their monthly disability pension."

The OVO identified the error in 2017 <sup>17</sup> when it was analyzing the calculations behind the implementation of an unrelated change to VAC's Disability Award. <sup>18</sup>

The OVO noted that lower Disability Pension payments resulted from the provincial basic tax credit not having been properly factored into the escalation calculations.

<sup>19</sup> Subsequently, VAC conducted a detailed review of the error and found that upwards of 270,000 Veterans required retroactive compensation as a result. <sup>20</sup>

On November 6, 2018, the Clerk of the Privy Council requested that the Comptroller General of Canada examine the circumstances leading to the error, the reason the error was not corrected earlier, the decision-making approach for the changes made in 2010 (the prospective correction), the controls in place to prevent a future error, as well as any lessons learned from the incident that could be applied to similar situations.

This internal audit was formally launched in December 2018.

## **Authority for the internal audit**

The Office of the Comptroller General conducted this internal audit under the authority of the *Financial Administration Act* and the Treasury Board *Policy on Internal Audit*.

## **Internal audit objectives**

The objectives of this internal audit were to provide insight into the following:

1. The circumstances/causes that:
  - a. led to the error;
  - b. resulted in the error being undetected for several years;
2. The reasons behind the decision in 2010 to correct the error prospectively, rather than retroactively; <sup>21</sup>
3. Whether the necessary controls are in place to prevent the issue from occurring again; and
4. What measures/lessons learned would help prevent a similar situation in the future.

The audit had three lines of enquiry to support the overall internal audit objectives. In addition, a summary of lessons learned can be found under “[Lessons learned for VAC and others](#)”. The expectations for this internal audit were based, among other things, on the Treasury Board *Policy on Transfer Payments*. A detailed description of each line of enquiry and criterion, as well as the sources for the criteria, can be found in Appendix B.

## **Internal audit scope**

The internal audit scope included the governance and control processes over the escalation calculation process for VAC’s Disability Pension from 2000 to 2013, as well as those in place for the 2019 rate year. <sup>22</sup> The internal audit also examined the decision-making process surrounding the correction of the error from 2010 to 2012.

Although the internal audit focused on VAC’s Disability Pension, it also examined other programs to determine whether they were or could be affected by the error identified in the Disability Pension escalation calculation. The additional programs were included based on the method used in calculating the escalation rate (if applicable). Appendix C lists the key programs included in the audit.

## **Scope exclusions**

The internal audit did not assess individual transactions, recalculate the escalation calculations, reassess the retroactive amounts possibly owing, or assess the corrective actions VAC planned to take to issue retroactive repayments as announced in November 2018.

## **Internal audit approach and methodology**

Based on an objective examination of the evidence available, for the purpose of providing an independent assessment of governance and control processes, this audit was designed to provide management with reasonable assurance on the lines of enquiry outlined in Appendix B.

To reach a conclusion on the internal audit's objective and related criteria, a number of activities were completed:

- process walk-throughs with individuals involved in the current escalation process
- interviews with current and former public servants (the participation in interviews by former public servants was voluntary) 23
- review of memos, correspondence, worksheets and other documents available from 2000 to 2019 (electronic and hard copy)

The internal audit focused on VAC. Other government departments that may have had knowledge of the circumstances surrounding the error and/or of the decision-making process for correcting it were also consulted:

- Treasury Board of Canada Secretariat
- Privy Council Office
- Office of the Veterans Ombudsman
- Department of Finance Canada
- Department of Justice Canada
- Office of the Superintendent of Financial Institutions Canada (including the Office of the Chief Actuary)

## **Other considerations and factors impacting the internal audit**

Given the time elapsed since the error occurred, the following factors affected the team's ability to provide audit-level assurance in certain areas:

- There was limited historical documentation available (for example, retention periods for relevant records may have passed, documentation may have been lost, etc.). As a result, some findings are based solely on interviews. These types of findings are identified accordingly in the report.
- Some individuals who held key positions during the audit scope period could not recall relevant information from that time.
- Some former public servants who held key positions during the audit scope period declined invitations to participate in interviews. 24

The internal audit's findings and conclusions are based on the information obtained during the examination phase. As a result, subsequent audits, investigations or litigation that may occur in relation to this matter may not draw the same conclusions, identify the same issues, or articulate the findings in the same manner.

## Detailed findings

### ► In this section

#### Factors contributing to the error and its delayed detection

##### Process followed before the error was detected

The *Policy on Transfer Payments* requires that cost-effective oversight, internal control, performance measurement and reporting systems be in place to support the management of transfer payments. The *Directive on Transfer Payments* requires that administrative processes and procedures for the delivery of transfer payments be standardized within departments. These requirements exist to help departments ensure that all the steps identified in a process are completed and contribute to achieving the objective of the transfer payment. Multiple internal control types are available for managers (for example, documented roles and responsibilities, standardized tools and guidance).

Documented roles and responsibilities for those involved in a specific process help ensure that they understand what is expected of them. Documented and standardized tools and guidance help reduce the risk of errors. They also help those who have responsibilities to fulfill them consistently and with minimal direction, facilitate the transfer of knowledge so that others can carry out these responsibilities during absences, organizational changes, or when the responsibility for a specific process is transferred between departmental units. With a comprehensive process that includes defined roles and responsibilities, standardized tools and guidance, management can identify and assign accountability for the achievement of the process objectives and can exercise its responsibility to provide oversight over the entire process.

In the context of calculating the Disability Pension escalation rate, documented and communicated roles, responsibilities, tools and guidance help ensure that Veterans receive payments that are accurate and aligned with the *Pension Act* and related regulations. More broadly, all of these elements help ensure the sound management of, control over, and accountability for a transfer payment program. In alignment with the *Policy on Transfer Payments*, the internal audit expected to find documented and standardized processes for calculating the escalation rates from 2000 to 2010, including documented roles and responsibilities, as well as standardized tools, training and guidance.

Interviewees described a standard process that VAC used to calculate, review, approve and implement the escalation rate for the Disability Pension from 2000 to 2010. The process involved multiple functions in the department completing a variety of activities. The process was undertaken annually, starting in the fall. It needed to be completed in early December to ensure that Veterans received their revised payments effective January 1. VAC initiated the process when Statistics Canada published the October <sup>25</sup> CPI rate. Numerical inputs were then gathered and transcribed into the worksheets that were used to complete the calculation. Subsequently, a review of the calculation was performed. The review focused on the transcription of the inputs and the mathematical accuracy of the calculation. Following that, VAC checked that the escalation rate was applied across Veteran types and was correctly processed in the payment system. Once the rate was approved and incorporated into the payment system, payments starting January 1 included the calculated increase. At the time, this process was not documented.

From 2000 to 2010, some controls were in place at VAC over the process used to calculate escalation rates. These controls included standard Lotus 1-2-3 and Microsoft Excel worksheet templates. Interviewees indicated that the escalation rates were reviewed and approved at multiple levels [Redacted]. Interviewees also noted that, in order to ensure that payments were escalated for the various recipient types, VAC manually verified that the escalation rates were processed and applied by the department's payment system. Other program operations groups participated in this verification process.

## Control gaps identified in the process

There were, however, weaknesses throughout the process used to calculate the escalation rate. The internal audit found no evidence of documented roles and responsibilities relating to the process used to calculate the escalation rate for the period of 2000 to 2010. Staff who completed the calculations learned the process through informal training and following the available worksheets.

In addition, there was limited information on the type and level of challenge and oversight exercised over the escalation rate calculation process. Limited evidence was found of any challenge or review activity carried out to confirm the mathematical accuracy of the calculations or to validate the inputs and assumptions used in the calculation. Interviewees indicated that the reviews were most likely to verify the mathematical accuracy of the calculations but not the underlying assumptions and inputs. Assigning accountability for the review and challenge of inputs and assumptions through documented roles and responsibilities could help mitigate the risk of errors in calculating the escalation rate.

Although standard worksheets were available to complete the calculation, there was limited guidance and support for their use. Interviewees indicated that training was done informally, and in some cases not at all, and that there were limited interpretations of the relevant sections of the *Pension Act* and related regulations governing the calculations. Moreover, no evidence was provided of documented interpretations from this time period. Interviewees also noted that an individual completed the calculations in the worksheets in isolation and would then submit them for approval without discussion or feedback from each approval level. Furthermore, the responsibility for completing the calculations moved within VAC from the Research Directorate to the Statistics Directorate around 2006. The informal training (or lack thereof), limited feedback, and intra-organizational transfer of responsibilities may explain why changes to the income tax regimes (in other words, the basic personal amount) were overlooked and not detected for several years. In addition to these factors, there were limited opportunities for collaboration and discussion with other stakeholders, contributing to an increased risk of an error in the calculation. Collaboration and discussion would help ensure that the process is

consistent and that interpretations made are correct and aligned with the original objectives of the Disability Pension.

## Detection of the error

In 2010, the Office of the Chief Actuary (OCA), within the Office of the Superintendent of Financial Institutions, provided actuarial valuation and advisory services to VAC on its programs, pensions and benefits, including the Disability Pension. <sup>26</sup> The actuarial valuations were prepared based on information VAC provided, as well as on the OCA's internal models. While comparing the OCA's models with VAC information, the OCA identified an anomaly in the escalation calculations for the 2010 rate year <sup>27</sup> and informed VAC accordingly. After performing additional analysis of this anomaly, VAC confirmed to the OCA that there was in fact an error in the calculation affecting the Disability Pension, specifically, the exclusion of provincial basic personal amounts (in other words, the error described earlier). <sup>28</sup>

### *Factors contributing to the error and its delayed detection*

The lack of a comprehensive process that included documented and complete roles and responsibilities with defined review and challenge accountabilities, as well as the lack of training and of standard tools and guidance, resulted in non-compliance with the *Policy on Transfer Payments* and the related directive. These factors also contributed to the error in calculating the escalation rate and to the error being undetected in the department. The next findings section of this report describes the additional controls that have been put in place over the escalation calculation process since this time.

## Governance and controls in place to reduce the risk of a similar error

### Governance and controls over the escalation process in 2019

The internal audit expected that after the error was discovered, VAC would have improved its governance and control processes in order to reduce the risk of a

similar error occurring. More specifically, improvements were expected in the following areas:

- documentation of the process for calculating the escalation rate
- documentation of roles and responsibilities
- oversight over the escalation rates (including of changes to assumptions)
- creation and maintenance of a record of how all benefits are to be escalated per legislation

To ensure consistency and harmonization across transfer payment programs, the internal audit also expected that VAC would have reviewed all of its programs that were subject to escalation to determine whether similar errors had occurred and would have reported the results of this review to its senior management committees and forums.

The internal audit reviewed the controls in place to ensure that the calculated escalation rate is properly applied to the monthly payment amounts for the various Veteran types. The focus of the following findings is the controls over calculating the escalation rate (for example, those activities undertaken before testing and actual payments to Veterans) for the 2019 rate year. 29

As of the 2019 rate year, the process followed to calculate the escalation rate follows the same general steps described in the “[Factors contributing to the error and its delayed detection](#)” section. The control process over the escalation calculations includes both controls similar to those in place between 2000 and 2010, as well as new controls introduced in the years following the discovery of the error in 2010.

Since 2010, additional controls were gradually introduced into the process. For example, VAC’s Finance Division documented the process and the related roles and responsibilities for the calculation and implementation of the escalation rate. A walk-through with staff involved in the process confirmed that the content of the roles and responsibilities document aligned with their understanding of their assigned duties. The Finance Division also documented specific procedures for the individuals responsible for completing the initial calculations. To increase the level of rigour exercised over the escalation process, since the 2016 rate year, VAC has used its

Chief Financial Officer Attestation Unit to review and validate the calculation worksheets prepared by the Statistics Directorate. Following this review and validation, documented approval is obtained [Redacted], and the final results are formally submitted [Redacted] for information using a standard memo.

Opportunities were identified to strengthen the roles and responsibilities document and how the department ensures specific activities are completed. There was no evidence of a process to periodically review and update the documented roles and responsibilities to ensure continued relevance. In addition, this document provided limited direction for and expectations on what each role and activity listed in it includes. For example, the document noted that a Chief Financial Officer Attestation Unit Officer is responsible for "Review/validating the calculation to ensure it accurately reflects the regulations." However, it provided limited detail on what that includes, specifically, which regulations need to be considered, and that statutes also need to be considered (for example, it did not identify responsibility for assessing validity of assumptions and inputs). There was evidence demonstrating that a challenge function was being exercised by the Chief Financial Officer Attestation Unit as part of the process (for the 2016 rate year). However, there was limited additional evidence to confirm that all individuals with specified roles and responsibilities completed their duties in accordance with documented expectations (for example, through a checklist). VAC continues to ensure that there are various levels of review and approval for the escalation rate, but the documented roles and responsibilities do not consistently differentiate types and levels of review between different stakeholders (for example, to ensure that the calculations comply with statutes and regulations, in addition to confirming the mathematical computations).

Since the escalation calculation for the Disability Pension and associated benefits is set out in Part V of the *Pension Act*, the internal audit expected VAC to have a formal, documented legal interpretation of that part of the Act, with input from other VAC business units. The internal audit further expected to find any assumptions required for the calculations to be documented in the relevant control processes and related worksheets. While there was no evidence of any formal interpretations of the applicable legislation for this purpose, there was evidence of some assumptions

(both documented and undocumented) being used in some inputs used in the composite wage calculation. There was, however, no formal process to proactively consult with internal (e.g. Strategic Policy, Program Management) or external sources (e.g. Legal Services, central agencies, Canada Revenue Agency) on such interpretations or assumptions that could impact the inputs to the composite wage calculation. [Redacted] [30](#)

The internal audit found that VAC does not have an up-to-date record of how all benefits are to be escalated in accordance with the legislation. VAC noted that this information is included in its standard approval memo. In addition, the majority of VAC's worksheets identify the statutes and regulations that define how the escalation is to be calculated. Although these documents could be compensating controls, the internal audit identified opportunities to improve the accuracy, consistency and completeness of the information. A record of applicable statutes and regulations that identifies which VAC programs and benefits are escalated and how they are escalated could reduce the risk of errors in escalations and ultimately reduce the risk of over- or underpayments to Veterans.

## Review of other programs subject to escalation

Following the OVO's identification of the error in 2017, [31](#) VAC reviewed and reported to senior management in fiscal year 2017 to 2018 on the impact of the error on the Disability Pension and the Disability Award. Interviewees indicated that the department had also considered the potential impacts of the error on other VAC programs [Redacted].

[Redacted] [32](#) [33](#) [34](#)

### *Governance and controls in place to reduce the risk of a similar error*

Although VAC has implemented a number of changes to the escalation process to improve the accuracy of its calculations since the error was first identified in 2010, there remain areas for improvement to address in the process used to calculate the escalation rate. There were limited direction and expectations for each role, and there were gaps in the tools used to list programs and benefits

that are escalated. [Redacted] These observations demonstrate that there are opportunities to improve alignment and compliance with the *Policy on Transfer Payments* and the related directive through strengthened processes and procedures in VAC for the administration of the Disability Pension and other benefits. [Redacted]

## **Recommendations: governance and controls in place to reduce the risk of a similar error**

1. Veterans Affairs Canada should ensure that roles and responsibilities for calculating escalation rates for all of its benefits:
  - a. are further defined
  - b. identify accountabilities for the escalation process, including for review or challenge of inputs and assumptions affecting the escalation calculation
  - c. are periodically reviewed, updated and communicated to those with roles and responsibilities in the escalation process; this review could consider duplicate or overlapping control responsibilities, organizational changes, and continued relevancy and accuracy
  - d. are implemented and their completion is documented
2. Veterans Affairs Canada should ensure that interpretations of legislation used in the escalation calculation are:
  - a. obtained from, as well as regularly confirmed and validated with, relevant internal and external sources
  - b. documented and approved
  - c. used when determining assumptions for and inputs to the escalation calculation, and are incorporated in the supporting tools
  - d. considered as part of any changes to the calculation methods
3. Veterans Affairs Canada should ensure that:
  - a. a record of all of its programs and benefits subject to escalation is:
    - i. developed and specifies, in a consistent way, the manner in which the benefits are escalated, as well as the applicable legislation

- ii. periodically reviewed, updated and communicated to those involved in the escalation process
- b. any errors or discrepancies between legislative requirements and the ways in which its programs are currently being escalated that are found as a part of the identification and maintenance processes in (a) above are reported to senior management governance bodies and addressed in a timely manner

## **Decision-making process to correct the error**

### **Actions taken following the initial identification of the error**

As mentioned earlier, the OCA identified and communicated to VAC an anomaly with respect to the escalation rate for the Disability Pension in 2010. Subsequent to further analysis, VAC confirmed the existence of an error. Following this confirmation, VAC undertook a number of actions to address the error. These actions were aimed at correcting the calculation prospectively, impacting the amounts Veterans were paid starting in the 2011 rate year. VAC also considered actions to correct the error retroactively.

The internal audit expected that, in determining how the error needed to be addressed and corrected (in other words, prospectively, retroactively or both), VAC's internal governance and oversight structures would have been engaged to support the decision-making process. The internal audit also expected that before determining whether and how to correct for the underpayments, VAC would have consulted internal and external sources (for example, other sectors within VAC, central agencies) to inform its decision-making by determining VAC's obligations and options for correcting the error. There was also an expectation that a decision to correct the error would have considered both prospective and retroactive aspects, would have been documented and would have been approved by senior management (in other words, at the Assistant Deputy Minister level or above).

### **Governance and oversight structures to support decision-making**

During the scope period, there were multiple internal governance bodies at VAC to support management and the Deputy Minister. These bodies were both committees

and forums. The objectives of these governance bodies were to provide direction and oversight to the management of VAC's strategic objectives, operational objectives, and compliance with government policy, and to share information. The members of these bodies represented various parts of the department. Interviewees noted that the error was unlikely to have been presented to these governance bodies. They further noted that it was common for managers to resolve issues at-level (for example, director general to director general) in informal ways. This way of operating could explain why evidence was not found demonstrating that the error, once confirmed, was brought to the attention of these governance bodies, and that the governance bodies were consulted or informed of any decision on whether to make retroactive payments to Veterans. This is further supported by interviewees who noted that the escalation process and error was and still is regarded as an issue specific to VAC's Finance Division.

The internal audit found that Finance Division followed the internal oversight structure in the Corporate Services Branch (for example, from working level to Assistant Deputy Minister) to support that branch's decision-making process regarding prospective and retroactive corrections. [Redacted] The internal audit did not find any evidence demonstrating whether a decision was made at that time on whether to make retroactive payments.

### **Internal and external consultations**

As mentioned earlier, no evidence was found to support that departmental governance bodies were consulted as part of the decision-making process for corrections. This finding also extends to VAC's other internal sectors. Interviewees who worked in other VAC branches between 2010 and 2012 confirmed that they were not consulted about the error or the error's prospective correction. The audit found that there was limited internal consultation on other areas [Redacted]. This finding about internal consultations was further supported by some individuals who held key positions [Redacted] at that time [Redacted]. The internal audit was unable to find documentation demonstrating that internal consultations related to the error had occurred, thereby supporting these assertions. [Redacted] 35

There was limited evidence available with respect to external consultations on the error, how to correct it moving forward, and how to address the retroactive aspects. Based on interviews, no evidence of consultations on the error with the Department of Finance Canada or the Privy Council Office was found. With respect to the Treasury Board of Canada Secretariat, [Redacted]. Interviewees at both VAC and the Treasury Board of Canada Secretariat indicated that they were not aware whether the error [Redacted], was communicated to the Secretariat.

### *Decision-making process to correct the error*

Based on interviews and on documents received, the internal audit could not conclude whether a decision to make retroactive payments was made before the OVO identified the error again in 2017. Since that time, VAC has made a commitment to make retroactive payments to those affected by the error. 36

**Recommendation:** [Redacted]

4. [Redacted]

### **Lessons learned for VAC and others**

Through analysis of interviews and documentation, the internal audit identified lessons learned for both VAC and other government departments. These lessons could contribute to preventing a similar error from happening again and to addressing such an error if one were to reoccur.

- [Redacted]
- [Redacted]
- [Redacted]
- An issue-escalation mechanism should be in place to raise matters with senior management or governance bodies. Such a mechanism should be used when:
  - responses to critical requests are not forthcoming in sufficient time for decision-making

- decisions that have broad-ranging impacts on operational issues are presented and discussed to allow for a challenge function by those outside the applicable operational sector
- an error is identified that has both retroactive and prospective aspects to ensure that program objectives will continue to be met when corrective actions are taken, and that other internal sectors have the opportunity to provide input on proposed corrective actions
- Corrective actions should be taken as soon as possible following the identification of an error to ensure that recipients receive the benefits to which they are entitled, to minimize impacts on other programs [Redacted].

Although these lessons learned apply to past actions and events, the internal audit has made specific recommendations to VAC for future operations.

## Conclusion

Between 2000 and 2010, there were limited controls, guidance, and training to support the process for calculating the Disability Pension escalation <sup>37</sup> rates. Moreover, the limited oversight/challenge functions exercised over the inputs used in the escalation calculation factors contributed to the error going undetected by VAC during that time, which affected the Disability Pension amounts paid to Veterans.

VAC has since put in place additional controls to help prevent similar errors from occurring in the future and to detect any that may occur. Although these controls have increased the rigour in the oversight of the escalation process, opportunities remain to further improve the controls with respect to roles and responsibilities, internal and external consultation, the inventory of escalated programs, and documentation of senior management decisions. Making these changes will contribute to improving VAC's alignment and compliance with the expectations set out in the *Policy on Transfer Payments* and in the *Directive on Transfer Payments* of administering, delivering and managing the Disability Pension in a manner that

respects sound stewardship and the highest level of integrity, transparency and accountability.

[Redacted] Based on the information available, the internal audit could not make a conclusion with respect to whether a distinct decision was reached at the time to not issue retroactive payments to correct the error dating back to the early 2000s.

## Management response

The findings and recommendations of this internal audit were presented to VAC. Management has agreed with the findings and recommendations included in this report and started taking action to address them during the audit.

VAC is responsible for ensuring that the actions necessary to address the findings and recommendations included in this report are implemented in a timely manner. For additional details on the actions undertaken by management, refer to [VAC's](#) website.

## Appendices

### ► In this section

### Appendix A – Applicable acts, regulations and policy instruments

The acts, regulations and policy instruments listed below establish expectations for and support VAC in fulfilling its mandate to support Veterans, its Disability Pension obligations and its responsibilities for managing transfer payment programs.

Act, Regulation or Policy Instrument	Description
1. <a href="#"><u><i>Department of Veterans Affairs Act</i></u></a>	This act establishes a department of the Government of Canada called the Department of Veterans Affairs over which the Minister of Veterans Affairs presides.
2. <a href="#"><u><i>Pension Act</i></u></a>	An act to provide pensions and other benefits to or in respect of

members and Veterans of the Canadian naval, army and air forces and of the Canadian Forces.

**3. Pension and Allowance Adjustment Regulations**

These regulations define in further detail how the basic pension is to be adjusted annually, pursuant to subsection 75(1) of the *Pension Act*.

**4. Veterans Well-being Act**

The purpose of this act is to recognize and fulfill the obligation of the people and Government of Canada to show just and due appreciation to members and Veterans for their service to Canada. This obligation includes providing services, assistance and compensation to members and Veterans who have been injured or have died as a result of military service and extends to their spouses or common-law partners or survivors and orphans.

**5. Veterans Health Care Regulations**

These regulations establish health care related benefits and services for eligible pensioners and other persons.

**6. Income Tax Act**

This act establishes that an income tax shall be paid on the taxable income for each taxation year of every person resident in Canada at any time in the year, and establishes rules for the computation of income and tax.

**7. Financial Administration Act**

This act provides for the financial administration of the Government of Canada, the establishment and maintenance of the accounts of Canada and the control of Crown corporations.

**8. [Redacted]**

[Redacted]

**9. Policy on Transfer Payments (effective October 1, 2008; updates effective April 1, 2012)**

The objective of this policy is to ensure that transfer payment programs are managed with integrity, transparency and accountability in a manner that is sensitive to risks; are citizen- and recipient-focused; and are designed and delivered to address government priorities in achieving results for Canadians.

**10. Directive on Transfer Payments (effective October 1, 2008)**

This directive supports the objectives of the *Policy on Transfer Payments* by providing operational requirements for departmental managers who have been assigned responsibilities for the management of transfer payments.

**Appendix B – Lines of enquiry and criteria**

The criteria are presented by line of enquiry.

**Objective 1: To provide insight into the circumstances/causes that:**

- led to the error;
- resulted in the error being undetected for several years.

Line of enquiry	Criteria	Related source(s)
<b>1. What were the factors contributing to the error and its detection?</b>	<p>1.1 There were control processes in place over the process to calculate escalation rates from 2000 to 2010.</p> <p>1.2 Guidance, direction, tools and support were provided to employees who were responsible for calculating the escalation rates from 2000 to 2010.</p> <p>1.3 A standard, documented process for calculating escalation rates was in place from 2000 to 2010.</p>	<p>Policy on Transfer Payments: 5.2.1 and 6.5.6</p> <p>Directive on Transfer Payments: 5.2 b; Appendix B, 3 and 15</p>

**Objective 2: To provide insight into the reasons behind the decision in 2010 to correct the error prospectively, rather than retroactively.**

Line of enquiry	Criteria	Related source(s)

<p><b>2. What was the process supporting the decision to correct the error prospectively and/or retroactively?</b></p>	<p>2.1 Governance and oversight structures were followed to support the decision-making process around the correction of the error.</p> <p>2.2 Senior management sought and considered advice from various internal and external sources as part of its decision-making process for whether to correct the error prospectively or retroactively.</p> <p>2.3 The decision to correct the error considered both prospective and retroactive corrections.</p> <p>2.4 A decision on how to correct the error was documented and approved by senior management, and included relevant supporting materials.</p>	<p>Policy on Transfer Payments: 5.2.1 and 6.5.6</p> <p>Directive on Transfer Payments: 5.2 b; Appendix B, 3 and 15</p> <p>Policy on Information Management: 6.1.2 and 6.1.3</p> <p>Directive on Information Management Roles and Responsibilities: 6.3.2 and 6.3.4</p>
--	--	--

**Objective 3: To provide insight into whether the necessary controls are in place to prevent the issue from occurring again**

Line of enquiry	Criteria	Related source(s)
<p><b>3. VAC has put in place governance and control processes over its programs subject to escalation to reduce the risk of a similar error occurring in the future.</b></p>	<p>3.1 There are formal governance and control processes for the escalation of rates for the Disability Pension as at January 1, 2019, and this includes:</p>	<p>Policy on Transfer Payments: 5.2.1 and 6.5.6</p> <p>Directive on Transfer Payments:</p>

	<ul style="list-style-type: none"> <li>○ a documented process for calculating escalation rates</li> <li>○ documented roles and responsibilities</li> <li>○ a formal review, challenge, and approval process for escalation rate changes and assumptions</li> <li>○ a record of how all programs are to be escalated per legislation.</li> </ul> <p>3.2 VAC has reviewed all programs subject to escalation to determine whether similar errors occurred and reported on results to governance bodies.</p>	<p>5.2 b; Appendix B, 3 and 15</p>
--	---	--

**Objective 4: To provide insight into what measures/lessons learned would help prevent a similar situation in the future.**

Through its analysis in lines of enquiry 1-3 above, the internal audit team will develop a summary of lessons learned that can be applied to similar programs and help prevent a similar situation in the future.

**Appendix C – Key programs**

The following table provides further details on the various key programs offered by VAC and included in this audit.

Program	Description
<p><b><u>Disability Benefits Program: Disability Pension</u></b></p>	<ul style="list-style-type: none"> <li>• Monthly tax-free payments to eligible War Service Veterans, civilians who served in close support of the Armed Forces during wartime, current and former members of the Royal Canadian Mounted Police, and Canadian Armed Forces members and Veterans</li> <li>• The Disability Pension provides for both economic and non-economic support to injured Canadian Armed Forces Members and Veterans</li> <li>• The amount of a Disability Pension depends on the degree to which that disability is related to service (entitlement) and the extent of the disability (assessment)</li> <li>• A number of related benefits/allowances are also available under the Disability Pension program</li> </ul>
<p><b>Disability Benefits Program: Disability Award</b></p>	<ul style="list-style-type: none"> <li>• Introduced on April 1, 2006, the Disability Award is a tax-free award for a disability resulting from a service related injury or disease or for a non-service related injury or disease that was aggravated by service</li> <li>• The amount of the award depends on the degree to which the disability is related to service (entitlement) and the extent of the disability (assessment)</li> <li>• Flexible payment options: a lump-sum payment, annual payments over the number of years of the recipient's choosing, or a combination of these two payment options</li> <li>• The Disability Award was replaced by the <a href="#">Pain and Suffering Compensation</a> on April 1, 2019</li> </ul>
<p><b>[Redacted]</b></p>	<p>[Redacted]</p>

[Redacted]

## Appendix D – Recommendations

1. Veterans Affairs Canada should ensure that roles and responsibilities for calculating escalation rates for all of its benefits:
  - a. are further defined
  - b. identify accountabilities for the escalation process, including for review or challenge of inputs and assumptions affecting the escalation calculation
  - c. are periodically reviewed, updated and communicated to those with roles and responsibilities in the escalation process; this review could consider duplicate or overlapping control responsibilities, organizational changes, and continued relevancy and accuracy
  - d. are implemented and their completion is documented
2. Veterans Affairs Canada should ensure that interpretations of legislation used in the escalation calculation are:
  - a. obtained from, as well as regularly confirmed and validated with, relevant internal and external sources
  - b. documented and approved
  - c. used when determining assumptions for and inputs to the escalation calculation, and are incorporated in the supporting tools
  - d. considered as part of any changes to the calculation methods
3. Veterans Affairs Canada should ensure that:
  - a. a record of all of its programs and benefits subject to escalation is:
    - i. developed and specifies, in a consistent way, the manner in which the benefits are escalated, as well as the applicable legislation
    - ii. periodically reviewed, updated and communicated to those involved in the escalation process
  - b. any errors or discrepancies between legislative requirements and the ways in which its programs are currently being escalated that are found as a part of the identification and maintenance processes in (a) above are reported to senior management governance bodies and addressed in a timely manner
4. [Redacted]

1 For the purpose of this report, “Disability Pension” refers to the Disability Pension and other allowances identified in the [Pension Act](#) and is recorded as such in the Public Accounts of Canada.

2 For the purpose of this report, “Veterans” refers to all recipients of the Disability Pension (Veterans, their dependants and survivors, former Royal Canadian Mounted Police members, and so on).

3 The Office of the Chief Actuary is an independent unit within the Office of the Superintendent of Financial Institutions.

4 Escalation is the annual adjustment of pensions and allowances, as prescribed by the [Pension Act](#). This adjustment is intended to ensure that the pension and related allowances reflect cost-of-living increases. “Escalation” is used in this report to reflect the language used at VAC.

5 The Disability Pension is subject to the [Pension Act](#). For a list of relevant acts, regulations and policy instruments, refer to Appendix A.

6 As defined in the [Policy on Transfer Payments](#), a transfer payment is a monetary payment, or a transfer of goods, services or assets made, on the basis of an appropriation, to a third party, that does not result in the acquisition by the Government of Canada of any goods, services or assets.

7 [Mandate, Mission, Vision, Values and Ethics](#), Veterans Affairs Canada.

8 [Public Accounts of Canada 2017-2018](#), Public Services and Procurement Canada.

9 For the purpose of this report, “Consumer Price Index calculation” is used to summarize the wording of paragraph 75(1) (a) of the [Pension Act](#).

10 For the purpose of this report, “composite wage calculation” is used to summarize the wording of paragraph 75(1) (b) of the [Pension Act](#).

11 [Redacted]

- 12 From 2000 to 2001, a change in the method of provincial income tax resulted in the introduction of provincial non-refundable tax credits (or the “provincial personal amount”). This provincial personal amount is required to calculate provincial income tax.
- 13 [Veteran’s complaint highlights significant privacy issues](#), Office of the Privacy Commissioner of Canada, October 7, 2010.
- 14 [Agent Orange ex gratia payment](#), Veterans Affairs Canada, October 23, 2014.
- 15 [Chapter 5: Responsible Management to Return to Balanced Budgets](#), Budget Plan, Budget 2012.
- 16 [Veterans Ombudsman uncovers an estimated \\$165 million accounting error shortchanging thousands of Veterans receiving a disability pension](#), November 5, 2018.
- 17 This error was originally identified in 2010 when the Office of the Chief Actuary informed VAC of an anomaly in its escalation calculations.
- 18 [Veterans Ombudsman uncovers an estimated \\$165 million accounting error shortchanging thousands of Veterans receiving a disability pension](#), November 5, 2018.
- 19 Ibid.
- 20 [Minister of Veterans Affairs issues statement on compensation for corrective adjustments to annual Disability Pension calculations between 2003 and 2010](#), November 5, 2018.
- 21 At the time of planning, the internal audit team did not know whether a decision not to make retroactive payments had been made.
- 22 Initiatives undertaken subsequently and observed during the fieldwork and reporting phases were also considered.

23 The internal audit was performed under the authorities of the *Financial Administration Act* and the *Policy on Internal Audit*. These instruments do not apply to former public servants, so their participation was voluntary.

24 As indicated earlier, the participation of former public servants in interviews was voluntary.

25 Pursuant to Part V of the *Pension Act*, the 12-month period used for calculating the CPI calculation ends on October 31.

26 This is an activity that has been undertaken annually since 2006 under an agreement between VAC, the Office of the Comptroller General, and the OCA. It was still being undertaken at the time of the audit. Interviewees from the OCA noted that the OCA's role is unrelated to the administration of VAC's benefits and that the OCA is not responsible for calculating or verifying VAC's escalation rates for the Disability Pension.

27 For the purpose of this report, "rate year" refers to the calendar year in which the escalated rates take effect. The escalation calculation for a given rate year occurs during the previous calendar year. In other words, the escalation rate applied to payments for the 2010 rate year, which starts January 1, 2010, were calculated during the 2009 calendar year.

28 The "[Decision-making process to correct the error](#)" section of this report outlines what happened at VAC following confirmation of the error.

29 Following the sharing of detailed preliminary internal audit findings, VAC initiated further corrective actions.

30 [Redacted]

31 As mentioned earlier, this error was originally identified in 2010, when the OCA informed VAC of an anomaly in its escalation calculations.

32 [Redacted]

33 [Redacted]

[34](#) [Redacted]

[35](#) [Redacted]

[36](#) [Minister of Veterans Affairs issues statement on compensation for corrective adjustments to annual Disability Pension calculations between 2003 and 2010](#), November 5, 2018.

[37](#) Escalation is the annual adjustment of pensions and allowances, as prescribed by the [\*Pension Act\*](#). This adjustment is intended to ensure that the pension and related allowances reflect cost-of-living increases. “Escalation” is used in this report to reflect the language used at VAC.

[▶ Report a problem or mistake on this page](#)

[↻ Share this page](#)

Date modified: 2020-11-18

[Contact us](#)

[Departments and agencies](#)

[Public service and military](#)

[News](#)

[Treaties, laws and regulations](#)

[Government-wide reporting](#)

[Prime Minister](#)

[About government](#)

[Open government](#)

[• Social media](#)

[• Mobile applications](#)

• [About Canada.ca](#)

• [Privacy](#)

• [Terms and conditions](#)

[Top of page](#) 

**Canada** 