

Audit and Evaluation Division

AUDIT OF INCOME REPLACEMENT BENEFIT

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Executive summary

Why we performed this audit

The Income Replacement Benefit (IRB) recognizes and compensates Veterans for the economic impact that health problem(s) resulting primarily from service have on their ability to earn income and save for retirement. The IRB is calculated by taking 90 per cent of a Veteran's salary at the time they were released from the military (indexed annually to the present day to account for inflation), less offsets. In 2021-22, there were over 26,000 IRB clients, and total expenditures of almost \$963M¹, which represents approximately 22 per cent of Veterans Affairs Canada (VAC's) annual grants and contributions expenditures. IRB clients and expenditures have been growing on an annual basis.

This audit assessed the internal controls for calculations of IRB monthly payments, as well as the risk management of the income offset piece of the IRB calculation. Some areas were excluded from the scope of the audit, as described in Section 2.

Key findings

The complexity of the IRB program means VAC employees may be continuously involved with each IRB recipient's file. This is because each time a recipient's circumstances change, such as a change in employment income, VAC employees need to obtain supporting documentation and recalculate the monthly IRB amount. Internal controls for the calculation of benefits are key to ensuring accurate, consistent benefits. The audit found that there are policies and business processes in place, however, various documents that guide decision making (known as "functional direction") are not approved or kept in a standardized format or central location. Training provided to employees also does not follow a set training plan and consists mainly of peer-to-peer job shadowing. There are minimal quality control processes in place. The information technology (IT) tools provided to employees are not adequate, as they are working in three separate IT systems to process the IRB.

With respect to risk management, the audit team could not find evidence regarding who was accountable for risk management at the program level, which should include risk management of income offsets. Risks related to income offsets have been identified, however there is no risk management process in place. The internal controls to mitigate risks around income offsets require improvement.

¹ [Public Accounts of Canada 2022, Volume II](#)

Highlights of our recommendations

The audit identified recommendations which include:

- updating, approving and centralizing storage of functional direction documents
- implementing a formal training plan and a quality control process
- implementing system enhancements to eliminate the need to work in multiple systems for the processing of IRB decisions
- defining and implementing responsibilities for program risk management
- implementing a more defined and complete process to verify income offsets.

Chief Audit Executive's signature

Lindy McQuillan, CPA, CMA
Chief Audit Executive
Veterans Affairs Canada

1.0 Background

The Income Replacement Benefit (IRB) is a taxable, monthly financial benefit available as part of the Pension for Life (PFL) package released in 2019. The benefit recognizes and compensates Veterans for the economic impact that health problem(s), resulting primarily from service, have on their ability to earn income and save for retirement. Survivors and orphans may also be eligible for IRB.

The IRB ensures that Veterans will receive a total income of at least 90 per cent of their gross pre-release military salary until they reach the age of 65, for as long as they are taking part in the Rehabilitation Services and Vocational Assistance Program, or if they have a Diminished Earnings Capacity (DEC²). It is calculated by taking 90 per cent of a Veteran's salary at the time they were released from the military (indexed annually to the present day to account for inflation), less offsets.

A Veteran who is participating in VAC's Rehabilitation Program will be evaluated before turning 65 or after the completion of the rehabilitation or vocational assistance program. If the permanent physical or mental health problem results in a DEC, then the benefit will be extended for the Veteran's lifetime or until they no longer have a DEC. If a Veteran has a DEC and has reached 65, their benefit will be reduced and they will receive 70 per cent of the IRB amount payable prior to age 65 (minus offsets).

Veterans must apply for the IRB before age 65. A member of the Canadian Armed Forces (CAF) may apply for the IRB before their release, however the IRB will not be payable until the day following their date of release.³

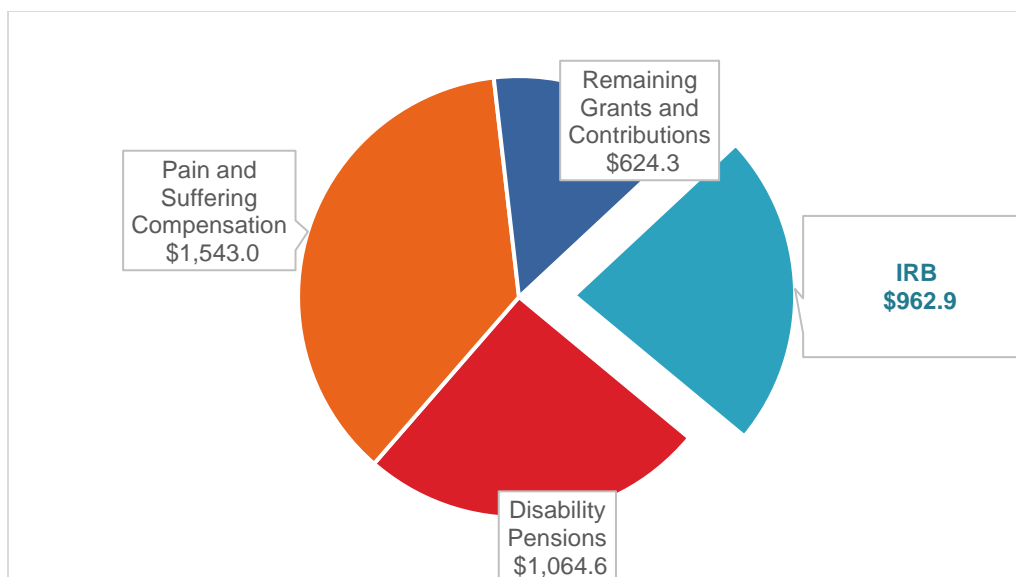
The IRB is a substantial program, with 26,697 clients in receipt of the benefit as of 31 March 2022, and total expenditures of \$962.9M⁴ for 2021-22. This represents approximately 22 per cent of VAC's annual grants and contributions expenditures for the 2021-22 fiscal year. IRB recipients and expenditures have consistently grown since the program began in 2019 and are forecasted to continue to grow. This is the first internal audit of the IRB.

² The Veteran is incapacitated by a permanent physical or mental health condition that resulted primarily from service, preventing them from performing any occupation that would be considered suitable, gainful employment.

³ The IRB also offers different payment scenarios for survivors and orphans of Veterans.

⁴ [Public Accounts of Canada 2022, Volume II](#)

Figure 1
2021-22 Grants and Contributions Expenditures (in \$ millions)



Source: Data extracted from Public Accounts of Canada 2022, Volume II

Application

An application for the IRB must include information about the Veteran's eligibility for the IRB, as well as information for the purposes of the calculation of the monthly IRB amount.⁵ A VAC Case Manager determines IRB eligibility in conjunction with their decision regarding the Rehabilitation Program, as generally, eligibility for the IRB is dependent upon eligibility for the Rehabilitation Program (unless the Veteran has a DEC).

Following a favourable eligibility decision, a Benefits Program Officer (BPO) reviews the application. If the application does not include all information required to calculate the benefit, the BPO contacts the Case Manager and/or Veteran to obtain the missing information. Once all information is obtained, the BPO calculates the IRB payment and advises the Veteran in writing of the IRB decision. This process is internally known as the First Application.

Calculation

For simplicity, there are two figures that are used in the calculation of the monthly IRB amount: the imputed income and income offsets (see Appendix D for definitions). To calculate imputed income, the value of the monthly military salary (MMS) must be known. Once the imputed income is calculated, amounts payable to the Veteran for a month (as defined in the *Veterans Well-being Regulations* (income offsets)), are deducted to arrive at the monthly IRB payment amount. These income offsets include income such as military pension, long-term disability insurance, employment income,

⁵ [Veterans Well-Being Regulations, SC. 17](#)

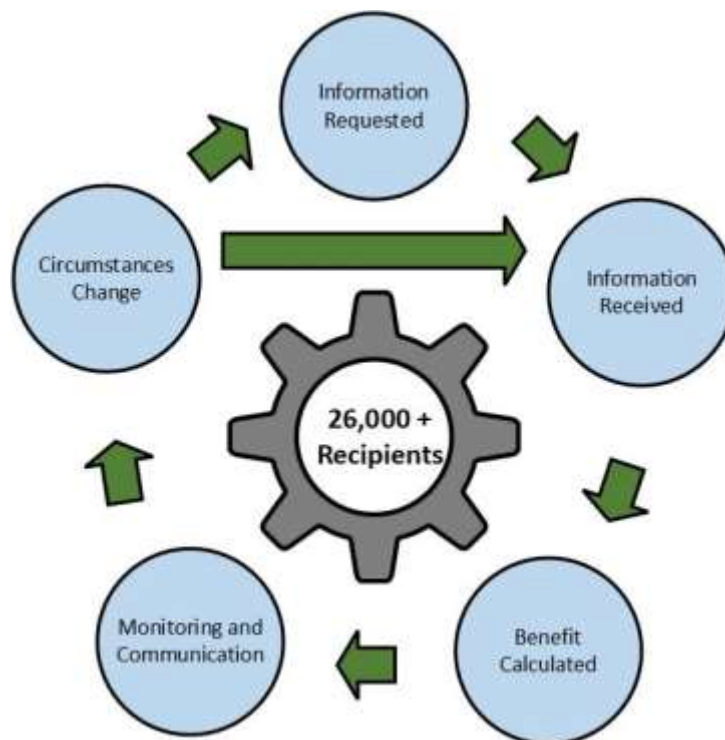
plus numerous other items listed in the regulations. Employment income is only deducted once a Veteran has earned more than \$20,000 in a calendar year.

Monitoring, communication and subsequent recalculations

Once IRB payments are calculated, an eligible Veteran continues to receive the monthly payment (provided their income sources do not exceed their maximum monthly entitlement). The amount is recalculated when there is an adjustment to the MMS, annual indexation or income offsets. Section 25(1)(b) of *The Veterans Well-being Regulations* states that a person entitled to the IRB shall notify the Minister of any changes to their income offsets.⁶

VAC relies on Veterans to inform them of any such changes. This can result in a larger workload for VAC employees, who must remind IRB recipients of their obligations to submit documentation for the benefit. Regular monitoring of responses and performing recalculations means VAC employees may be continuously involved with each IRB recipient's file. The continuous nature of this involvement is depicted in the figure below.

Figure 2
IRB Recalculation Cycle



SOURCE: AED Analysis based on interviews and a review of documentation.

⁶ [Veterans Well-Being Regulations, SC. 25](#)

2.0 About the audit

2.1 Audit objectives and scope

Audit objectives

The objectives of the audit were:

- 1) To assess whether VAC had adequate controls in place to ensure entitled Veterans' IRB for both first applications and recalculations is calculated in accordance with policy; and
- 2) To assess whether VAC has adequately managed risks concerning income offsets.

Scope

The scope of the audit included the internal controls, legislation, policies, business processes, decisions and other documentation related to an entitled Veteran's IRB calculation and the support for income offsets between 1 April 2020 and 31 March 2022. The audit excluded entitlement decisions for the IRB and decisions regarding the Rehabilitation Program and DEC. Also excluded from the audit were any applications by survivors and orphans, appeals and financial payment controls over IRB payments.

The findings and conclusions in this report are based on sufficient and appropriate audit evidence gathered in accordance with procedures that meet the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing as supported by the results of the quality assurance and improvement program.

The opinions expressed in this report are based on conditions as they existed at the time of the audit and apply only to the entity examined.

The audit criteria are provided in Appendix A.

3.0 Audit results

3.1 Internal controls for the calculation of benefits

Policies and procedures – calculation of benefits

Why it's important

Policies and procedures are key to ensuring proper internal controls. They help ensure consistency, accuracy and efficiency in the work to be performed. Monitoring the implementation of policies and procedures through a quality control process helps ensure quality decisions by VAC employees.

It would be expected that policies and procedures for the IRB calculation of benefits would be documented with an adequate level of detail to provide guidance for both first applications and recalculations. In addition, it would be expected that senior management would determine what level of approval is required for functional direction (See appendix D for definition), and ensure those approvals are obtained. Due to the rapidly changing environment that IRB decision makers are working in, regularly scheduled reviews of procedures to determine if updates are necessary would be beneficial. In addition, it would be expected that there would be a quality control process in place to ensure decisions are being made in accordance with policy and procedures.

What we found

An IRB policy guides IRB calculation decisions, as well as multiple business processes and other functional direction documents.

The IRB policy provides a formula for IRB calculations, which is the same for both first applications and recalculations, as well as definitions for the variables to be used in the formula. VAC's "How to Process Income Replacement Benefit Applications" business process does not fully support the policy in that it does not provide the steps for VAC employees to follow when calculating the benefit.

In addition to the IRB policy and business processes, there are other functional direction documents to guide IRB calculation decisions. This includes a manual, emails, checklists, etc. There are different formats used and they are not stored in central location. The IRB manual for first applications is not an approved document, but it does get updated by BPOs based on other functional direction the BPOs receive. Thus, there is a document in regular circulation and used by BPOs which may not be meeting management's expectations for how to conduct the work. The audit team was unable to determine who was responsible for approving that document, as there was no guidance available and interviewees did not know. There was no IRB manual for recalculations. Not all of the functional direction documents are available in French.

There are minimal quality control processes in place for either first applications or recalculations to ensure calculation decisions are being made correctly and using proper supporting documentation (in accordance with approved policy and business processes).

To help test the internal controls that were in place for the calculation of benefits, a sample of 264 first application decisions was reviewed. Our audit testing began with:

- ensuring an eligibility decision was made for IRB;
- ensuring that the applicant signed for the truthfulness of information provided; and
- ensuring that the applicant was only being paid for one health condition.⁷

⁷ The [IRB policy](#) states that if a Veteran has more than one mental or physical health problem resulting primarily from service that is creating a barrier to re-establishment, the Veteran should apply for IRB for each health problem, to ensure the Department can consider each health problem for the purpose of DEC determination. However, it also states that a Veteran will receive only one IRB payment regardless of how many mental or physical health problems are included in the entitlement for IRB.

The test then went on to:

- re-calculate the monthly IRB payment for the first application, ensuring documentation was obtained to support the decision, and
- determine whether follow-up requests were sent for missing information.

An IRB eligibility decision had been made for all files in our review. With the exception of one IRB application during our review, all applicants had signed their application, providing a statement as to the truthfulness of the information provided.

In addition, for all files, Veterans received payment for only one health condition. The application form for the IRB did not request all information required to determine the MMS at time of release or completion of service to be used in the IRB calculation. The audit team was informed that this was because any information submitted by the Veteran requires verification by the BPO. It is easier for the BPO to gather the verification on behalf of the Veteran. However, there is no business process or functional direction for how to obtain or verify the MMS, and the IRB policy indicates that the Veteran is required to submit this information with their application.

Despite these gaps, IRB decision makers are diligent in obtaining MMS verification, and our audit work concluded that they are using the accurate MMS as of the time that the decision is made to calculate IRB first application payments.

The second component to an IRB calculation decision is income offsets. Our file review noted 11 first application decisions (4.2 per cent) that were missing documentation to support some income offsets. As described later in this report, the lack of clarity between the policy and the business process made it difficult to precisely determine through a file review whether supports for income offsets aligned with Departmental expectations.

It was determined through interviews, a review of documentation and the first application file review, that the recommendations from this report will help improve internal controls for both first applications and recalculations, so it was not considered necessary to review a sample of recalculation decisions.

What is the effect/impact?

The weaknesses described above may lead to a risk of incorrect or inconsistent IRB calculation decisions. There is also a risk of inefficiencies as VAC employees must sort through many sources of functional direction, or consult with peers, to obtain guidance for their work. A lack of documentation to support income offsets will create problems if errors arise and/or questions are raised. For example, if an applicant has questions about their benefit but supporting documentation is missing in VAC's files, it will be difficult for VAC employees to respond to questions.

Training, tools, and information

Why it's important

Training, tools, and information prepare VAC employees to make decisions in accordance with policies and procedures and guide them when questions or difficulties arise. Together, they help ensure consistency, accuracy, and efficiency in the work to be performed. It would be expected that a comprehensive training plan would be in place and kept up to date with changes in processes. After training, it would be expected that the proper tools and information technology systems would be available to support decision makers in doing their job.

What we found

Through interviews, BPOs felt they were adequately trained. Training, as described by BPOs, was mainly peer-to-peer job shadowing, with some trainees receiving ad hoc documents prepared by peers to use as reference documents.

Training modules exist, however they cover only basic applications and calculations, are short, and not updated regularly to reflect changes in processes. There is no documented training plan. Some tools exist to supplement the training, such as checklists and quick reference charts.

The tools available to guide decision making were discussed in the previous section on business processes and other functional direction. As a brief recap, functional direction needs improvements to ensure it is complete, accurate, approved, consistently presented, stored in a central location and available in both official languages.

VAC implemented GCcase, a new information technology system for managing client applications, in April 2019. GCcase was intended to process IRB applications, however BPOs are required to use both the old IT system (Client Service Delivery Network (CSDN)) and GCcase due to the limited functionality developed with GCcase. In addition, GCdocs, a Government of Canada repository for electronic information, was being used to store supporting documents. This was also due to GCcase's limited functionality. It should be noted that this practice of storing supporting documents in GCdocs was discontinued while the audit was ongoing. However, BPOs are still using both CSDN and GCcase to process IRB applications.

Interviews with staff and management revealed a common theme: working in multiple systems is difficult and inefficient, and GCcase needs better functionality to better support staff to do their work.

What is the effect/impact?

Relying mainly on peer-to-peer training and job shadowing may help BPOs feel comfortable with their job responsibilities. However, it could result in inconsistencies in terms of how applications are processed and/or create bad practices during training (i.e., bad habits being passed on). In addition, it may be more efficient to have a training

plan in place for new employees. Working in multiple systems makes it difficult for employees to do their work in an efficient and accurate matter.

There is potential for decisions not to be made as quickly or accurately if VAC employees are not properly trained and equipped with the proper tools to perform their duties.

Roles and responsibilities

Why it's important

VAC employees need to understand expectations to perform their job to the best of their abilities. Clearly documented roles and responsibilities specific to the job being performed provide employees with an understanding of expectations. It also helps them determine priorities when workload management conflicts arise. The audit team expected to see roles and responsibilities, key deliverables, and timelines that were clearly defined for BPOs calculating IRB payments.

What we found

The audit team was not able to identify a specific document that clarified the roles and responsibilities of employees. However, this seemed to have minimal impact on BPOs' ability to do their job.

BPOs generally felt their roles and responsibilities for calculations of benefits were clear and well communicated, however documents provided to the audit team were general in nature, and not specific to the IRB. The audit team was informed that a team in one location processes mostly first applications, while a team in a different location processes mostly recalculations. The intention is to have everyone cross-trained on both types of applications. There is no documentation that distinguishes roles and responsibilities between these two roles.

When roles are not clearly defined, there is the potential for unsatisfactory job performance and/or job satisfaction due to lack of clarity or the inability to properly evaluate performance.

Recommendations

1. *Essential:* The Director General, Service Delivery and Program Management, should work in collaboration with the Director General, Centralized Operations Division, to update the business processes "How to process IRB applications for Veterans" and ensure the IRB manual and other functional direction documents are formalized, approved, stored in a central location and available in both official languages. The documents and their location should be shared with employees. A schedule should be implemented for reviewing and making updates, if necessary, to these documents.

Management response

The Director General, Service Delivery and Program Management in collaboration with the Director General, Centralized Operations Division, will review and update functional direction materials. The updated materials and existing “How to process IRB applications for Veterans” business process will be posted to a central location and available in both official languages. An email will be sent to all employees advising of the changes and location of the IRB guidance documents. Functional direction documentation will be reviewed every three years and on an as needed basis.

Target completion date: March 2024

2. *Essential:* It is recommended that:
 - A) The Director General, Service Delivery and Program Management, should work in collaboration with the Director General, Centralized Operations Division, to develop a quality control process for IRB decisions; and
 - B) The Director General, Centralized Operations Division, should work in collaboration with the Director General, Service Delivery and Program Management, to implement the quality control process for IRB decisions.

Management response

The Director General, Service Delivery and Program Management and Director General, Centralized Operations Division, will collaborate to develop and implement a quality control process for IRB decisions. Quality control requirements and parameters for the framework will be determined. A sample of completed IRB decisions will be reviewed using the new framework; results from the review will be analyzed to identify trends. The findings, and any associated recommendations, will be shared with management, staff, and key stakeholders.

Target completion date: November 2024

3. *Essential:* The Director General, Service Delivery and Program Management, should work in collaboration with the Director General, Centralized Operations Division, to develop and implement a training plan for IRB decision makers that includes updated training materials for both first applications and recalculations.

Management response

The Director General, Service Delivery and Program Management, in collaboration with the Director General, Centralized Operations Division, will develop a curriculum and update the current training materials based on IRB decision makers’ feedback and implement new training materials for IRB recalculations and first awards. An IRB training schedule (or map) will be available online in both official languages. A communication will be sent to IRB decision makers promoting the new tools and training products.

Target completion date: December 2024

4. *Essential:* The Director General, Information Technology, Information Management & Administration (ITIM & Admin), in collaboration with the Director General, Service Delivery and Program Management, should implement system enhancements to eliminate the need to work in multiple systems for the processing of IRB claims (including supporting documentation).

Management response

The Director General, Information Technology, Information Management, Administration and Privacy Division in collaboration with the Director General, Service Delivery and Program Management, will collaborate to document the system requirements required to eliminate the need to work in multiple systems to process IRB claims. The priority of this effort will be reviewed in relation to other Departmental priorities to ensure alignment and prioritization of initiatives. A roadmap will be created that will identify the steps required to get to the point where employees are processing IRB claims from a single user interface. Once all the steps are complete, the required system enhancements will be implemented.

Target completion date: March 2028

3.2 Risk management of income offsets

Income offsets risk assessment

Why it's important

Income offsets represent a significant component of the calculation of IRB payments and are sometimes a complex figure to determine. It can also be difficult to obtain supporting documentation for income offsets. The audit team expected to see a documented approach to risk management for IRB – including a risk assessment for income offsets – at the planning stage for the program, and VAC's risk tolerance toward income offsets.

The audit team also expected that income offset risks were being mitigated and monitored and that the risk assessment was being updated as the program evolved, and as new risks were identified. Risk management discussions and decisions should be documented on a regular basis, should consider the controls that are currently in place, and the resulting impact and likelihood of the occurrence of fraud or error.

What we found

The audit team could not determine who was accountable for risk management at the program level, which would include income offsets risk. The areas responsible for program delivery identify risks, which is one step in risk management. However, they indicated during interviews with the audit team that they are not tasked with the responsibility of a formal risk management process as it relates to IRB. We were unable to find documented responsibility for risk management at the program level, and therefore unable to find documented responsibility for risk management of income offsets.

The audit team wanted to determine whether VAC had completed a risk assessment for income offsets when planning and developing the IRB program. It was found that VAC identified risks for Pension for Life, however it was a wide ranging risk identification for a broader initiative that did not include the detailed levels to the individual program level of IRB, let alone for the income offsets component of the program.

Service Delivery and Program Management (SDPM) informed the audit team that during the audit scope period, an informal risk assessment was completed for income offsets. SDPM held meetings and discussions but no minutes or documentation of meetings were produced. There was no documented process for identifying the likelihood and/or impact of risks. SDPM did identify and document risks as part of a Treasury Board submission in 2022.

Overall, the audit team found little evidence to show that program risks, including income offset risks, are being managed. Had responsibilities for risk management been identified and documented, and a process put in place at the outset of the IRB program, it would be expected that better controls would be in place for income offsets (see the next section of audit report for more information).

The identification of risks by SDPM is a good starting point, but it lacks the level of depth expected for effective risk management. Identifying risks as part of a Treasury Board submission does not lend itself to regular monitoring and updating of risks. It would be preferable to have clearly identified who is responsible for risk management, how it should be undertaken and documented, and how the monitoring and follow up should happen.

Some risk management factors that should be considered include, but are not limited to:

- Consideration for the controls that are currently in place;
- The resulting impact and likelihood of occurrence of fraud or error under the current program
 - For example, what are the chances of over or under payments because of this risk?
 - What is the potential dollar impact of over or under payments?
- Consideration of how this aligns with VAC's overall risk tolerance.

What is the effect/impact?

When there is no clear line of accountability for the risk management process at the program level, and no documented and clear process in place for risk management, it is difficult to manage the risks to the program. It is also difficult for management to determine whether risks are being mitigated in accordance with expectations and risk tolerance. In particular, income offsets was identified to the audit team as an area of risk, but it does not have formal risk management processes in place.

If risk discussions are not documented, the transfer of knowledge will be more difficult when there is employee turnover. In addition, there could be a duplication of effort regarding challenges and issues that have already been identified and assessed.

There may be limited resources available to address competing priorities. Lack of documented risk tolerance and assessment of risks will lead to less informed decision making concerning where resources should be prioritized.

Response to income offsets risk

Why it's important

Proper internal controls regarding income offsets would help ensure consistent and efficient decision making, while decreasing the likelihood of an overpayment or underpayment of IRB. It would also ensure compliance with the requirements per the *Regulations*, while ensuring good financial stewardship.

The audit team expected to see that VAC had implemented clear requirements for BPOs to obtain supporting documentation for income offsets and that these requirements aligned with the *Veteran Well-being Regulations*. We expected that these requirements would lead to BPOs obtaining supporting documentation for income offsets that was complete and appropriate.

What we found

IRB applicants and recipients are required to report their income offsets to VAC. They are also required by the *Veterans Well-being Regulations* to submit an annual (at any time during the year) statement of income to VAC.⁸ The Department relies on the Veteran to identify, report and submit supporting documentation for their income offsets. If all income is not reported or there are changes to income that are not reported, it could result in IRB over or under payments. Relying on the applicant to submit supporting documentation for their income offsets could also lead to an accuracy risk, if the documentation submitted is inadequate.

It would be expected that VAC would implement internal controls to reduce these risks to an acceptable level. The controls identified included requesting a statement of income upon initial application and if the application was over six months old at the time of calculation of the IRB first application. As the information to support income offsets often is not provided with the application or is insufficient, VAC program employees work with several external stakeholders, such as Manulife, the Canadian Armed Forces (CAF), and/or the Veterans and their family to obtain the required permissions and documentation to support an IRB payment. There are short training modules and a checklist provided to BPOs on the sources of income offsets and acceptable forms of verification. In addition, there is a business process that BPOs can follow for suspension and cancellation of IRB due to a lack of financial information.

The above noted processes show that an effort is being made to obtain support for income offsets, however, it is inadequate from an internal controls perspective. The requirements of the *Veterans Well-being Regulations*, which indicate that IRB recipients are to submit an annual statement of income, are not being met by the current

⁸ [Veterans Well-Being Regulations, SC. 25](#)

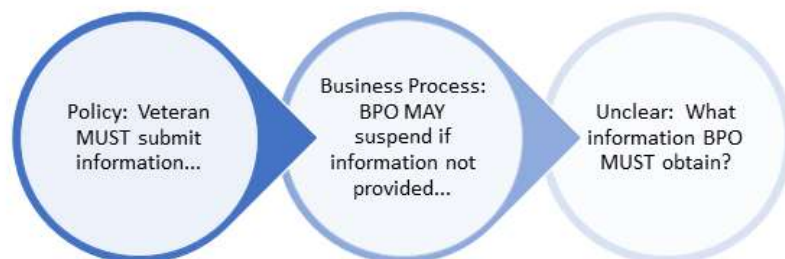
processes in place. There is no business process that directs staff to request or obtain an annual statement of income. Currently, BPO's request statements of income upon initial application, and on an ad hoc basis after initial application.

Secondly, the processes in place to reach out to stakeholders to obtain required information are not documented in any business process, and do not ensure the income reported is complete. There should be a business process in place that provides guidance for employees on income offsets. Finally, there is no evidence of approval for the business process "Suspension, Reinstatement and Cancellation of the IRB-Due to Lack of Financial Information." The business process can't be easily accessed by employees on VAC's internal website, and it is not available in French. The business process should be approved in both official languages and be easily accessible for employees.

To further expand upon these issues, the business process "Suspension, Reinstatement and Cancellation of the IRB-Due to Lack of Financial Information" indicates that if the Veteran does not provide support for income offsets, their IRB may be suspended or cancelled. The requirements for BPOs to obtain the supporting documents are not clear, as the policy indicates that the Veteran "must" provide information for the purposes of the calculation, yet the business process indicates the BPO "may" suspend or cancel IRB. This leaves a gap for what actions a BPO is required to take to obtain supporting documentation. If they do not obtain it, they do not have to suspend or cancel based on the business process. BPOs should have very clear requirements for when they are to suspend IRB.

Figure 3 below notes the variations in functional direction for providing/obtaining documentation.

Figure 3
Comparison of Approved Functional Direction
for Income Offsets



SOURCE: AED Analysis based on review of documentation

Due to the lack of clear processes and policies, it was difficult to precisely determine through a file review whether supports for income offsets aligned with expectations of the Department. It was evident through interviews and our file review procedures that

that Department's intentions were to obtain support for all income offsets prior to the first application for IRB being calculated. As mentioned earlier in this report, 96 per cent of files reviewed contained support for first application income offsets.

Generally, BPOs are not following the business process to suspend or cancel due to lack of supporting information. In many cases, BPOs issue letters to Veterans to obtain the documents to support both the IRB first application, as well as subsequent recalculations. There are several different letters being issued to Veterans which differ from those listed in the business process, and the timelines (as written in the business process) are generally not followed. There is a reluctance to suspend the IRB, with Veterans being given longer than the timelines suggest prior to suspension or cancellation.

What is the effect/impact?

These issues pose many risks to the organization. Some of them include:

- *Compliance risk:* There is a risk that VAC will continue in its non-compliance with government regulations.
- *Financial risk:* VAC is at risk of making under or overpayments. Further, there is a risk that overpayments may go unidentified or may not be collected on a timely basis.
 - Without a process in place to verify the completeness of the income offset information submitted, VAC may not be maintaining a system of internal control to provide assurance that public resources are used prudently and in an economical manner as required by Treasury Board Policy on Financial Management.⁹
- *Reputational risk:* Once identified, the under or over payment has the potential to cause the Veteran unnecessary stress and impact their health and well-being if it is determined that they have received incorrect payments.
 - In addition, introducing a new component (i.e., annual income verification) to a program that has been in effect since 2019 poses a reputational risk, as Veterans and stakeholders may ask what has changed to require this additional effort by the Veteran (when in reality, it was required since the program began).
- *Reputational risk:* Another reputational risk involves equitable treatment.
 - If there is a lack of clarity for when a BPO must suspend the IRB, there is a risk that applicants are not being given an equal amount of time to submit required information for income offsets before being suspended.
- *Operational risk:* Operational documentation that isn't properly approved leads to a risk of following direction that is not the intent of management.

⁹ [Treasury Board Policy on Financial Management](#)

Recommendations

5. *Critical:* The Assistant Deputy Minister, Service Delivery, in collaboration with the Director General, Strategic Planning, Results & Cabinet Business (SPRCB), should define and communicate responsibilities for risk management at the program level. A risk management process should be developed for the IRB that includes documented identification of risks, assessment of risks, risk response and regular updating and monitoring of the risks.

Management response

The Director General, SDPM, has been identified as the position responsible for program level risk management. Using resources available through SPRCB, the Director General, SDPM, will identify and document the top risks facing the IRB program. The risks will be assessed and mitigation strategies, where necessary, will be developed and implemented. Going forward, the program's risk profile will be reviewed annually taking into consideration current risks facing the program.

Target completion date: December 2024

6. *Critical:* The Director General, Service Delivery and Program Management, in consultation with the Director General, Centralized Operations Division, should improve the verification of income offsets to include:
 - a. Requirements of the *Veterans Well-being Regulations*;
 - b. A completeness check to ensure Veterans have reported all income offsets for the year;
 - c. Clear direction for BPOs on processes and requirements for income offsets to aid in decision making; and
 - d. Impacts to the applicants' IRB if they do not provide an annual statement of income, information required for the completeness check on income offsets, and/or sufficient support for income offsets.

Management response

The Memorandum of Understanding in place with the Canada Revenue Agency has been updated to include the provision of IRB data that will be used to validate income offsets. The Director General, SDPM, in consultation with the Director General, Central Operations Division, will ensure the annual income verification process encompasses the *Veterans Well-being Regulation* requirements and create a streamlined process for the submission and processing of income offsets. To aid in the efficiency of the process, system updates will include

- The automated distribution of the IRB Annual Verification Form;
- The ability for Veterans to update income offset information through My VAC Account; and
- Auto populating updated income offset information within CSDN.

Target completion date: December 2024

3.3 Audit opinion

The audit opinion is provided based on the scope of the audit, which was identified as the internal controls, legislation, policies, business processes, decisions and other documentation that relate to an entitled Veteran's calculation of the IRB and the support for income offsets (between 1 April 2020 and 31 March 2022).

Controls in place over the calculations of the IRB require improvement. There is a need to improve the clarity and authority for key functional direction. There is a need to implement a quality control process, additional, consistent training for all decision makers, and system enhancements to eliminate the need to work in multiple systems.

Risk management practices at the program level require improvement. Although risks related to income offsets have been identified, there is a lack of clarity over roles and responsibilities for risk management over income offsets and at the program level. There are no documented IRB risk management practices in place. Internal controls for income offsets do not address all requirements of the *Veterans Well-being Regulations*, are ambiguous in terms of the requirement to obtain verification for income offsets, and do not ensure the completeness of offsets reported for IRB.

Appendix A – Audit criteria

Objective 1

To assess whether VAC had adequate controls in place to ensure entitled Veterans' IRB for both first applications and recalculations is calculated in accordance with policy.

Criteria

- A. VAC has established IRB policies for the calculation of benefits, as well as procedures that put the policies into action.
- B. VAC provides employees with the necessary training, tools, and information to support the discharge of their responsibilities for the calculation of benefits.
- C. Roles and responsibilities for the calculation of benefits are clear and properly communicated.

Objective 2

To assess whether VAC has adequately managed risks concerning income offsets.

Criteria

- A. VAC has assessed the risks to the organization regarding income offsets.
- B. VAC has responded to assessed risks concerning income offsets by implementing internal controls to reduce the risk to an acceptable level.

Appendix B – Methodology

Methodology	Purpose
Interviews	The audit team held interviews with employees in SDPM, Centralized Operations Division, Finance and Program Policy to understand internal controls, training, roles and responsibilities, compliance with policies, risk assessment process regarding income offsets, and to corroborate the document review.
Direct observation	The audit team conducted virtual direct observation of processes with selected VAC employees for first applications and recalculations to obtain an understanding of and assess the effectiveness and adequacy of the controls and compliance with policies, guidelines, and processes.
Documentation review	<p>The audit team reviewed documentation to determine whether VAC employees have access to the appropriate tools and training (guidance, methodologies, and procedures) for making IRB calculation decisions.</p> <p>The audit team reviewed documentation to determine if employee roles and responsibilities for IRB calculations are clear and properly communicated.</p> <p>The audit team reviewed departmental legislation and regulations to understand key requirements.</p> <p>The audit team reviewed documentation to determine whether VAC has adequately documented its risk management practices related to income offsets and whether they have appropriately responded to the identified risks by implementing internal controls.</p>
File review	The audit team conducted a review of IRB first applications to assess compliance with key components of the IRB policy, and to determine if proper documentation was obtained to support the calculations.

Appendix C – Risk ranking of recommendations and audit opinion

This report uses the following definitions to classify the ranking of recommendations and the audit opinion presented in this report.

Audit recommendations

Critical

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

Essential

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

Audit opinion

Well-controlled

Only insignificant weaknesses relating to the control objectives or sound management of the audited activity are identified.

Generally acceptable

Identified weaknesses when taken individually or together are not significant, or compensating mechanisms are in place. The control objectives or sound management of the audited activity are not compromised.

Requires improvement

Identified weaknesses, when taken individually or together, are significant and may compromise the control objectives or sound management of the audited activity.

Unsatisfactory

The resources allocated to the audited activity are managed without due regard to most of the criteria for efficiency, effectiveness, and economy.

Appendix D – Glossary

Definition	Description
Pension for Life	A combination of benefits that provide recognition, income support and stability to members and Veterans who experience a service related illness or injury. Source: Pension for life - Veterans Affairs Canada
Diminished Earnings Capacity	The Veteran is incapacitated by a permanent physical or mental health condition that resulted primarily from service, preventing them from performing any occupation that would be considered suitable gainful employment. Source: Income Replacement Benefit - Veterans Affairs Canada
Benefits Program Officer	VAC employees who are responsible for IRB payment decisions.
Business process	A document that provides an overview of how the Department implements or operationalizes a program, service or function. It lays out the complete sequence of activities to be completed, along with the roles and responsibilities of those individuals assigned to complete each activity.
Income offsets	Other income sources which offset the monthly IRB amount, as prescribed by the <i>Veterans Well-being Regulations</i> . Some examples include: amounts payable under the Canadian Forces Superannuation Act (military pension), benefits payable under any employer-sponsored long-term disability insurance plan, and employment income in excess of \$20,000 earned in a calendar year. Source: Income Replacement Benefit - Veterans Affairs Canada
First application	The initial application made for IRB. Once the application and all required information to make a decision has been obtained, the monthly IRB payments are calculated and the applicant is notified in writing of the IRB decision.
Recalculation	A calculation made subsequent to the first application decision, due to a change in the applicant's circumstances, such as a change in income offsets. This often results in a change to the monthly IRB payment.
Annual indexation	The monthly military salary is indexed annually on 1 January in accordance with the percentage increase to the Consumer Price Index, rounded to the next 0.10 per cent for the year ending on 31 October of the previous year.
GCcase	The tool that Departments and Agencies in the Government of Canada use to track client information, cases and a multitude of critical business intelligence.
Client Service Delivery Network (CSDN)	CSDN is an information system used by VAC employees to assist in the delivery of services to Veterans, including Veterans' benefits and case management.
GCdocs	A web-based tool and an official repository used for managing, organizing and sharing electronic information.

Definition	Description
Quality control process	Quality control is a process through which a business seeks to ensure that product quality and/or the quality of service is maintained or improved.
Functional direction	Organizational direction, requirements and advice given to staff to assist them in decision making. It includes all documents utilized to ensure the effective and efficient delivery of benefits and programs to Veterans and their families.
Risk management process	A series of inter-connected and inter-related steps that are repeatable and verifiable. It is a systematic way to structure the identification, assessment, response, communication and monitoring of significant risks through an established governance structure. Source: Guide to Integrated Risk Management - Canada.ca
Risk identification	The process to recognize the risks that the organization is exposed to in its operating environment. Risk is about the effect of uncertainty, and therefore future-oriented risks are distinct from existing issues, problems or business conditions. Source: Guide to Integrated Risk Management - Canada.ca
Risk assessment	Assessing the likelihood of a risk occurring and the impact on objectives should the risk occur. The likelihood and impact can be quantified as appropriate. Source: Guide to Integrated Risk Management - Canada.ca
Risk tolerance	Risk tolerance is the willingness of an organization to accept or reject a given level of residual risk. Risk tolerance should be clearly understood by the individuals making risk-related decisions on a given issue. Clarity on risk tolerance at all levels of the organization is necessary to support risk-informed decision-making and foster risk-informed approaches. Source: Guide to Integrated Risk Management - Canada.ca