



Veterans Affairs
Canada

Anciens Combattants
Canada

Audit of the Federal Health Claims Processing System's National Investigative Unit

Final: October 2012



Canada 

Acknowledgements

The audit team would like to gratefully acknowledge the staff at Medavie Blue Cross, and at the Service Delivery Division and Finance Division of Veterans Affairs Canada. Their contributions were essential to this audit.

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EXECUTIVE SUMMARY

The Federal Health Claims Processing System is the automated system that processes health claims for Veterans Affairs Canada, the Department of National Defence and the Royal Canadian Mounted Police. To administer this large and complex system, Public Works and Government Services Canada contracts the services of a private health insurer, Medavie Blue Cross. Of the three departments, Veterans Affairs Canada is the largest user accounting for 87% of the total volume of claims processed. In 2010/11, there were 13.5 million claims processed for Veterans Affairs Canada at a value of \$640 million.

To protect the financial integrity of the claims processed, Medavie Blue Cross is contractually obligated to conduct investigative services of the 170,000 health care providers registered to deliver benefits or services to Veterans. The National Investigative Unit, within Medavie Blue Cross, conducts various audit activities to ensure that the health care providers are complying with the requirements. These activities include:

- analyzing claims data to identify providers whose billing practices may not comply with the requirements;
- distributing letters to Veterans to verify that benefits and services billed were actually received;
- mail audits requesting providers to submit additional documentation to support a claim submitted; and
- on-site audits where investigators will travel to the health care provider's business to meet with the staff and review the supporting documentation on location.

The purpose of these audit activities is to identify potential recoveries, educate health care providers on the billing requirements and act as deterrent to improper billing practices.

In 2005/06, Veterans Affairs Canada conducted an internal audit of the Federal Health Claims Processing System contract. One of the objectives of this audit was to assess the adequacy of the National Investigative Unit's operations and audit results identified several opportunities for improvement. Since the 2005/06 audit, the contract has been amended and all recommendations have been addressed.

The purpose of this audit was to conduct a more detailed assessment of the National Investigative Unit's operations to determine whether there is an effective planning process, adequate management of collectibles and if resources are effectively expended. This audit focused on the operations of both Medavie Blue Cross and Veterans Affairs Canada but did not assess activities related to the Department of National Defence and the Royal Canadian Mounted Police. Planning commenced in October 2011 with the analysis completed in May 2012.

Overall results

In the opinion of the audit team, the operations of the National Investigative Unit have made progress since the 2006 audit. The planning process was found to be well developed, Medavie Blue Cross was meeting all contract requirements and resources were effectively expended. However, the audit did identify some areas for improvement as it relates to governance within Veterans Affairs Canada and the process for reporting and collecting recoveries. Overall, the activities were determined to be “Generally Acceptable” with no significant weaknesses identified.

<p>Recommendation 1</p> <p>The Director General, Service Delivery and Program Management Division, collaborate with Medavie Blue Cross to develop a multiyear plan that includes enhanced audit coverage of the Programs of Choice. (Essential)</p>		
<p>Corrective action to be taken</p>	<p>OPI</p>	<p>Target date</p>
<p>Service Delivery and Program Management Division will, in partnership with the DND and the RCMP, work collaboratively with Medavie Blue Cross to develop a multiyear audit plan with enhanced audit coverage of the Programs of Choice which will meet the needs of all three partner departments.</p>	<p>Service Delivery and Program Management Division</p>	<p>April 2013</p>

Recommendation 2

The Director General, Service Delivery and Program Management Division and the Director General, Finance Division, determine the reporting requirements and ensure these reports are shared with staff who require the information to monitor and provide direction to the National Investigative Unit. (Essential)

Corrective action to be taken	OPI	Target date
Service Delivery and Program Management Division, in collaboration with MBC and Finance Division, will determine the reporting requirements and update the list of individuals who require these reports.	Service Delivery and Program Management Division Finance Division	April 2013

Recommendation 3

The Director General, Finance Division, direct Medavie Blue Cross to return all stale-dated cheques on a quarterly basis. (Essential)

Corrective action to be taken	OPI	Target date
In consultation with Service Delivery and Program Management Division, MBC will be advised verbally to return funds from stale-dated cheques on a quarterly basis.	Finance Division	May 2012
Confirm in writing to MBC the requirement for the contractor to return funds from stale-dated cheques on a quarterly basis.	Finance Division	July 2012

Recommendation 4

The Director General, Service Delivery and Program Management Division, in consultation with the Director General, Finance Division, institute a process for aged files to either collect the money in a timely manner or to take action to close the files. (Essential)

Corrective action to be taken	OPI	Target date
Service Delivery and Program Management Division will work closely with Finance Division to outline a process to ensure the collection of monies and/or closure of files in a timely manner.	Service Delivery and Program Management Division Finance Division	December 2012

Recommendation 5

The Director General, Service Delivery and Program Management Division, in consultation with the Director General, Finance Division, improve the Client Verification Letters process to enhance its value. (Essential)

Corrective action to be taken	OPI	Target date
Service Delivery and Program Management Division will work with MBC to refine the current Client Verification Letter process by: <ul style="list-style-type: none"> • Setting a dollar threshold for sending client verification letters. • Targeting client verification letters in line with the enhanced POC coverage in lieu of a generic random sample. 	Service Delivery and Program Management Division	September 2013
Service Delivery and Program Management Division will work with MBC to establish an appropriate turnaround time for mailing Client Verification Letters.	Service Delivery and Program Management Division	October 2013

Recommendation 6

The Director General, Service Delivery and Program Management, and the Director General, Finance Division, direct Medavie Blue Cross to review the content of audit results letters to ensure the appropriate terminology is used and applied, and appropriate action is taken in instances beyond basic noncompliance issues. (Essential)

Corrective action to be taken	OPI	Target date
Service Delivery and Program Management Division will engage MBC in reviewing and adjusting the current on-site audit process including the current threshold for initiating an on-site audit to ensure continued relevance and effectiveness.	Service Delivery and Program Management Division	December 2012
Service Delivery and Program Management Division will engage MBC and VAC Finance Division to develop standardized terminology and letter formats to communicate audit results and outcomes to VAC providers.	Service Delivery and Program Management Division Finance Division	April 2013

Service Delivery and Program Management Division and Finance Division, in collaboration with MBC will develop a process for resolving individual audit findings in an effective and appropriate manner.	Service Delivery and Program Management Division Finance Division	June 2013
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Statement of Assurance

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

Chief Audit Executive's Signature

Murielle Belliveau
Chief Audit Executive

Date

The Audit Team consisted of:

- Jonathan Adams, Audit and Evaluation Director
- Michael Spidel, Audit and Evaluation Manager
- Adrienne Van Lunen Gallant, Audit and Evaluation Officer
- Sivajan Nagulesapillai, Audit and Evaluation Officer

1.0 BACKGROUND

1.1 Introduction

The Federal Health Claims Processing System (FHPCS) is the automated system that processes health claims for three government departments: Veterans Affairs Canada (VAC), the Department of National Defence (DND) and the Royal Canadian Mounted Police (RCMP). To administer this large and complex system, Public Works and Government Services Canada contracts the services of a private health insurer, Medavie Blue Cross (MBC). MBC has 170,000 health care providers registered to deliver benefits and services to Veterans.

Of the three departments, VAC is the largest user: its claims account for 87% of the claims. In 2010/11, 13.5 million transactions were processed for over 100,000 eligible Veterans¹ valued at over \$640 million. These claims related to two programs: Treatment Benefits and Veterans Independence.

The Treatment Benefits Program provides the health care benefits and services that Veterans require. Benefits and services are made available through fourteen Programs of Choice (POC), which allow Veterans to obtain their benefits from the health care provider of their choosing. The following are the services provided under the fourteen POCs:

- Aids to daily living
- Ambulance/Health Related Travel
- Audio services
- Dental services
- Hospital services
- Medical services
- Medical supplies
- Nursing services
- Oxygen therapy
- Prescription drugs
- Prosthetics and orthotics
- Related health services
- Special equipment
- Vision care

¹ In this report, unless otherwise specified, the term "Veterans" includes not only all eligible Veterans, but also Canadian Forces members, spouses and survivors.

For more detail on the POCs and associated annual expenditures see Appendix A.

The Veterans Independence Program (VIP) is designed to help Veterans remain healthy and independent in their own homes and communities. To this end, the VIP provides Veterans the financial assistance to obtain the services they need. The VIP is tailored to their individual needs, and is divided into nine “service elements”:

- Personal care
- Housekeeping
- Access to nutrition
- Grounds keeping
- Health and support
- Ambulatory health care
- Transportation
- Home adaptations
- Nursing-home care

In 2005/06, VAC conducted an internal audit of the FHCPS contract. One of the objectives of this audit was to assess the adequacy of the NIU’s operations and audit results identified several opportunities to improve operations. In 2007, amendments were made to the FHCPS contract. One of these amendments revised the billing for resources in the NIU. Prior to this contract amendment VAC paid for 4 resources with additional resources provided as required. Following the 2007 contract amendment, there are now 10 full-time resources comprised of management, investigators and analysts. In addition, all recommendations from the 2005/06 internal audit of the FHCPS contract have been addressed.

1.2 Overview of the National Investigative Unit

The National Investigative Unit (NIU) provides investigative services for the over 170,000 health care providers registered with MBC. This unit is part of MBC with direction provided from VAC, DND and the RCMP. The NIU conducts various activities to ensure that its health care providers are complying with the requirements. These activities include:

Profiling Activities

This is various forms of data analysis used to initiate investigations. The primary focus of profiling is prescription drugs to analyze high dollar payments and billing practices to identify potential duplicate invoices, overcharging or even fraud. The results of this data analysis will determine if a mail audit or on-site audit is required.

Client Verification Letters

In 2010/11, 21,000 letters were mailed to Veterans requesting them to verify that the benefit or service was provided. If the Veteran's response to the letter indicates that he or she did not in fact receive the goods or services, or not for the price indicated, the NIU will investigate further and potentially initiate a mail audit or on-site audit.

Mail Audits

Letters are mailed to health care service providers requesting them to submit additional documentation to support a claim submitted. All mail audits are subject to VAC approval prior to initiation. Between April 1, 2007 and March 31, 2011, 475 mail audits were conducted; however, in 2009/10 and 2010/11 a special project of 345 mail audits were conducted to further investigate billing discrepancies for hearing aid batteries. This particular project resulted in over \$1 million in identified recoveries.

On-site Audits

In some cases, an investigator will travel to the health care provider's business to meet with the staff and review the supporting documentation on location. These on-site audits are generally reserved for providers with higher volume providers. All on-site audits are subject to VAC approval prior to initiation. Between April 1, 2007 and March 31, 2011, 197 on-site audits were conducted. The main purpose of these on-site audits is to identify any funds that were inappropriately paid to health care providers. But they serve other purposes as well. In addition, these are an opportunity to educate providers on billing requirements and program components and to provide a deterrent effect against fraud, since providers are made aware that their billing practices are being reviewed.

2.0 ABOUT THE AUDIT

2.1 Audit Objectives

The objectives of the audit were to determine whether there is:

- An effective planning process for provider audits;
- Adequate management of identified collectibles; and
- Effective resources expended in the pursuit of service provider audits.

The audit criteria relevant to each objective are outlined in Appendix B. The audit criteria were sourced from the *Audit Criteria related to the Management Accountability Framework: A Tool for Internal Auditors* (March 2011) published by the Treasury Board Secretariat's Internal Audit Sector, Office of the Comptroller General.

2.2 Scope

As referenced in Section 1.3, the contract amendment in 2007 included changes relating to the NIU. As a result, the scope of this audit covers the fiscal years from 2007–08 to 2010–11. Operations within VAC and MBC were assessed; however, any NIU activities related to DND or RCMP were not included in the scope of this audit.

2.3 Methodology

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

Interviews were conducted with VAC staff responsible for administering the FHCPS contract, managing the Treatment Benefits and Veterans Independence Programs, processing payments to the contractor, receivables management and staff from various divisions of MBC. These interviews provided an understanding of key activities, the governance framework, internal controls related to the audit and identified data requirements and documents for review.

A review of central agency, departmental, contractor and industry documentation was conducted to determine compliance with Treasury Board Secretariat and VAC policies and procedures, and the requirements of the contract; the adequacy of the management control framework around decision making on receivables and write-offs; the quality and completeness of documentation and reports used for decision making;

and other industry information and practices for health care provider audits. In addition, the audit team analyzed program, financial, and contract data to obtain an understanding of the audit entity and oversight and monitoring of the NIU.

The audit team observed an audit planning session involving VAC Service Delivery and MBC's NIU personnel to enhance understanding of the planning process. Also, observation exercises were conducted with VAC Finance personnel to demonstrate the receivables management process and with NIU personnel to demonstrate the profiling and other key activities.

A file review of service provider audits was performed to assess the management of identified collectibles and compliance with procedures. The assessment was based on a sample of the total population of service provider investigations during the fiscal years 2007–08 to 2010–11. Approximately 700 investigations were initiated during the time period; however, 345 of these pertain to a national audit of hearing-aid batteries in 2010–11. Several battery audit files were reviewed separately; therefore they were removed from the sample to minimize any skewing of the data when drawing the sample. Eighty-one files were chosen randomly, from the remaining population, for review. This represented approximately 20% of the population of files within the scope period. For files in the file review that had audit recoveries, the audit team matched the amounts the audits recovered to amounts returned to VAC. Also, the amounts recovered were matched to amounts recorded by both VAC Finance and the NIU.

2.4 Statement of Assurance

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

Not all assurance engagements are designed to provide or result in the provision of a high level of assurance. When this is the case, the auditor's statement of assurance shall identify the circumstances (e.g. limited procedures, inconclusive evidence) that affect the level of assurance and shall indicate the auditor's caution on reliance on these opinions or conclusions.

3.0 AUDIT RESULTS

3.1 Development of the Audit Plan

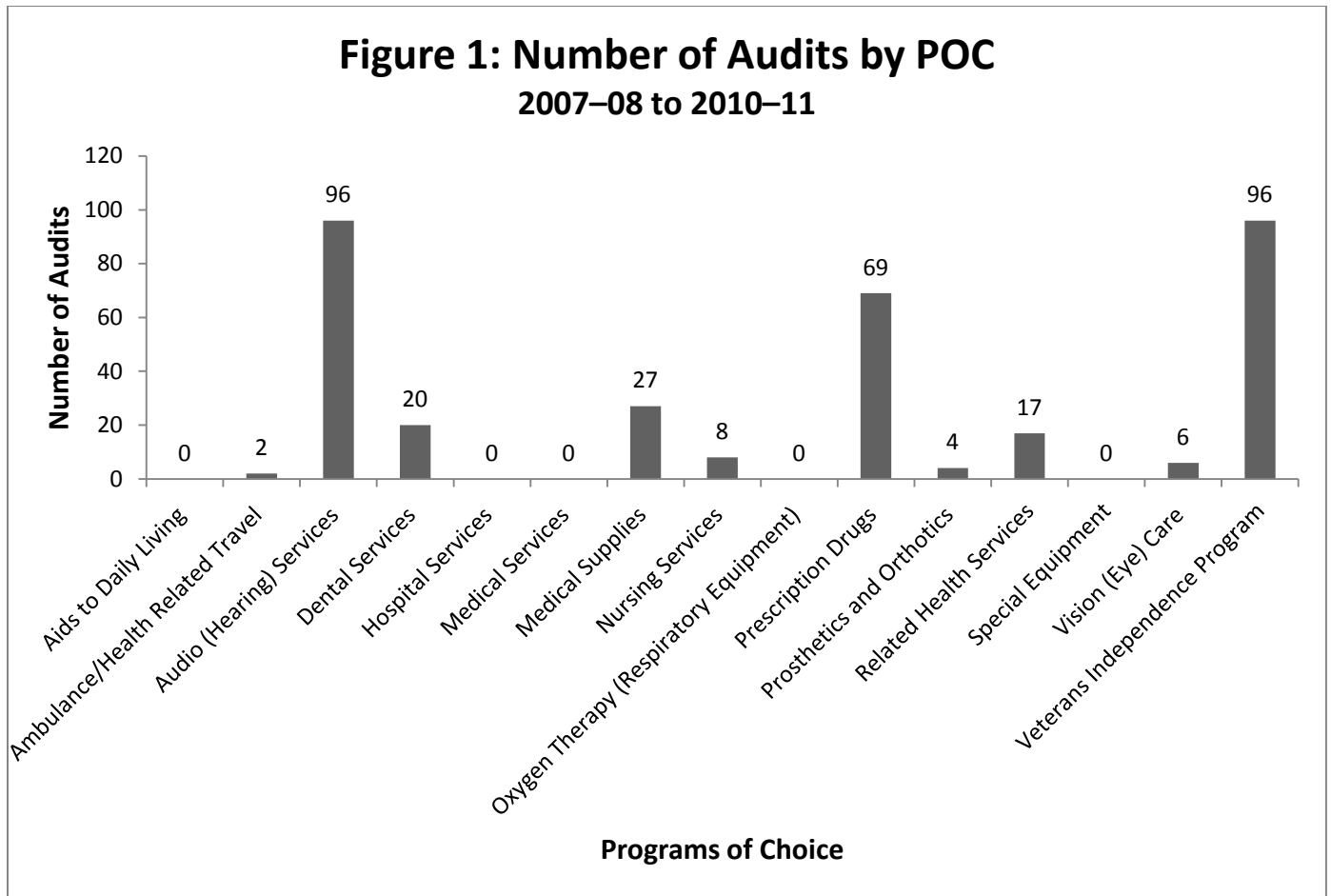
As a result of earlier changes, the process for developing the NIU's annual plan has significantly improved. In the fall 2011, VAC and MBC began working on the 2012/13 plan with the intent of finalizing the plan prior to the start of the fiscal year. In past years, the planning process did not start until nearly year-end; and was not finalized until midway through the year.

The development of the audit plan is based on a risk assessment process. This process is very detailed and resource intensive drawing information from multiple sources. One source of information are trends in the health care industry, as one of the senior investigators sits on the board of the Canadian Health care Anti-fraud Association. Another key source is the analysis of financial data to determine what audit activities have been and should be expended on each POC. Some additional risk factors that could be considered in the future include historical coverage of POCs, particular trends in a POC, new health care providers or follow-up audits of health care providers.

VAC is overall responsible for providing direction and approving the annual audit plan. Historically it has been the Contract Management section of VAC who has been primarily involved in the development of the plan. Recently, managers of the Treatment Benefits Program and the VIP have become more engaged. Additionally, other areas such as VAC's Finance Division, Audit & Evaluation Division and the Business Systems section could all provide valuable contributions to the planning process.

One drawback of the current planning cycle is that the focus tends to remain on the highest dollar value POCs. For many years, the NIU's resources were primarily focused on VAC's largest POC in terms of expenditures. However, this focus has meant that many other POCs have had very little attention. For example, between 2007 and 2011, 76% of mail audits or on-site audits² concentrated on audio services, prescription drugs and VIP. Figure 1, below, outlines the number of audits (both on-site and by mail) conducted in the period from April 1, 2007 to March 31, 2011.

² This figure does not include the 2010-11 hearing-aid battery audits, which resulted in an additional 345 mail audits.



Special Equipment is an example of a POC that has had almost no audit coverage beyond some limited profiling. At one time, audits were conducted of this POC although audit activity stopped once VAC staff in the district offices began pre-approving these expenditures. However, VAC is still exposed to financial risk as it relates to Special Equipment and warrants consideration in the future. It should also be noted that the need for enhanced coverage of other POCs was previously reported in the 2005/06 internal audit.

One opportunity to improve audit coverage would be to develop a multi-year audit plan. This would allow the NIU to be more strategic by reducing the repetition of work completed year after year and instead allowing the flexibility to prioritize activities each year.

Recommendation 1

The Director General, Service Delivery and Program Management Division, collaborate with Medavie Blue Cross to develop a multiyear plan that includes enhanced audit coverage of the Programs of Choice. (Essential)³

Management Response

Management agrees that a multi-year plan would enhance the current audit process. Service Delivery and Program Management Division will engage MBC to provide enhanced audit coverage of the POCs and the VIP. The audit plan for the 2012/13 fiscal year has been approved and is currently being carried out by the NIU. Planning for the new multi-year plan will begin in the Fall 2012.

Medavie Blue Cross Response

MBC welcomes the introduction of a multi-year plan and looks forward to working with VAC on developing the planning document.

Management Action Plan

Corrective action to be taken	OPI	Target date
Service Delivery and Program Management Division will, in partnership with the DND and the RCMP, work collaboratively with MBC to develop a multiyear audit plan with enhanced audit coverage of the POCs which will meet the needs of all three partner departments.	Service Delivery and Program Management Division	April 2013

3.2 Communication

A two way communication of information between MBC and VAC and also within VAC is essential to the success of the NIU. This communication ensures that all responsibilities and obligations are fulfilled. Sharing of information allows VAC and MBC to stay informed, make decisions, work together more effectively and stay on top of any issues that may need to be addressed.

In 2006, VAC developed a “roles and responsibilities” document, detailing all the key functions that were required to manage the FHCPS contract. This document was later

³ See Appendix C for detailed risk ranking definitions.

revised in early 2010. One section of the document outlines the procedures for approving mail audits or on-site audits. However, some of those roles and responsibilities do not match the current practice; the document also does not encompass the full range of roles and areas of VAC that have responsibilities relating to the operations of the NIU.

In the Fall 2011, the NIU developed a presentation session to raise awareness among VAC staff of what the unit is and does. The presentation also discussed the larger issue of health care fraud, including warning signs of fraud and what VAC personnel should do if they suspect fraud. These informational sessions were held with various VAC staff and should be continued to reach more staff.

Over the past few years, much of VAC's communication with the NIU has been through VAC's Contract Management section. This section is primarily responsible for providing direction to MBC and, as previously described, has played a significant role in guiding the NIU's activities. Recently, managers of the Treatment Benefits Program and the VIP have become more involved and this engagement needs to continue as it is their overall responsibility to approve the start and close of mail audits or on-site audits as well as identify trends in the programs which require further investigation. The role of VAC's Finance Division has varied over the past several years. At the time of the audit, Finance Division's involvement with the NIU was minimal. As mentioned later in this report, Finance Division does play a part in recoveries; however, more involvement is required to provide guidance concerning audit planning and potential fraud.

3.3 Reporting and Analysis

VAC requires and receives regular reports from MBC on NIU activities. These include:

- The annual audit plan;
- The annual audit report;
- Quarterly updates on the NIU's progress against the plan;
- Data provided by the NIU as part of monthly FHCPS reports;
- The monthly Case Status and Audit Recoveries Report;
- Monthly spreadsheets detailing human resources;
- Reports on audit recoveries and stale-dated cheques;
- Routine profiling reports.

All these reports provide valuable information that help VAC to monitor the NIU's activities and make decisions. However, for maximum usefulness, the reports need to be in the right format, contain the right level and type of information and go to the right people.

Presently, some reports meet these criteria while others do not. One example is the monthly case status and audit recoveries report. This is a large spreadsheet which details ongoing and past audit activities. This spreadsheet was used as a working document resulting in some inconsistencies and the information was not always complete. This spreadsheet is a key source of information and was widely distributed within VAC; however, some staff who received the reports do not know why nor did they use the information. As well, many VAC staff found the presentation of the information too cumbersome to be of any value to them. There have been some attempts by VAC and the NIU to rationalize the data in the report, to increase its value but this remains an issue.

Another area that requires improvement is reporting on the NIU's activities. For example, Finance Division does not generate reports on the amounts received for audit recoveries and stale-dated cheques. Ideally, this information should be shared with VAC managers in the Finance Division, as well as Contract Management section and with the managers of the Treatment Benefits Program and the VIP. As mentioned in Section 3.1, the annual audit plan and annual report are not widely shared within the Department. Also, Program Management staff who approve audits need to improve their sharing of information with their colleagues, both in their own division and in Contract Management. Other VAC divisions should also determine their reporting requirements.

In summary, relevant and usable reports, distributed to the right people, in a timely manner, are all essential for VAC to properly oversee and monitor the NIU and its activities. Improvement in these areas would result in improved awareness and decision-making.

Recommendation 2

The Director General, Service Delivery and Program Management Division and the Director General, Finance Division, determine the reporting requirements and ensure these reports are shared with staff who require the information to monitor and provide direction to the National Investigative Unit. (Essential)

Management Response

Management agrees that it is essential to refine the current data reporting requirements to ensure that all information is meaningful and useful and that it is shared with the most appropriate staff. The audit plan for the 2012–13 fiscal year has already been approved

and the NIU is currently at work on it. Work on the new multi-year audit plan will begin in late 2012 and this recommendation will be included in the planning.

Medavie Blue Cross Response

MBC agrees with the recommendation and will add, to the distribution list for NIU reports any additional names identified by VAC. In addition, we will work in conjunction with VAC to enhance existing reports as required.

Management Action Plan

Corrective action to be taken	OPI	Target date
Service Delivery and Program Management Division, in collaboration with MBC and Finance Division, will determine the reporting requirements and update the list of individuals who require these reports.	Service Delivery and Program Management Division Finance Division	April 2013

3.4 Audit Recoveries and Stale-Dated Cheques

As stated in Section 1.2, the NIU conducts audits of health care providers with the aim of recovering any funds that were paid as a result of non-compliance with policy or through fraudulent activity. The health care provider is informed of any errors identified by the audit and is required to either return the funds directly to MBC or to have the funds deducted from future claims. If the provider chooses deduction from future claims then the original cheque issue is stopped and two new cheques are issued: one to the health care provider for the new reduced amount and one to the VAC Audit Account (used by MBC to hold funds until they are returned to VAC). Funds returned directly to MBC by the provider are also deposited into the VAC Audit Account. All audit recoveries are returned to VAC on a quarterly basis.

Stale-dated cheques are cheques which have not been cashed by the health care provider within six months. MBC is responsible for returning the funds associated with stale-dated cheques back to VAC. On a quarterly basis, Blue Cross Affiliates in British Columbia, Alberta, Saskatchewan and Manitoba send MBC all stale-dated cheques which are then forwarded to VAC. However, MBC’s practice is to return stale-dated cheques funds from Ontario, Quebec and the Atlantic to VAC on an annual basis. While there is no specific requirement in the contract outlining the frequency to return funds from stale-dated cheques, it is reasonable to assume that common practice should be utilized for all funds.

Funds received from both audit recoveries and stale-dated cheques are sent by MBC to the VAC's Finance Division for processing. These cheque amounts are then verified against the supporting documents provided by MBC. Line object codes are then assigned to record the amounts in VAC's financial system and to distinguish amounts relating to the DND or RCMP. All amounts are then returned to the appropriate departments through interdepartmental settlements. However, it should be noted that there is no separate line object code for audit recoveries. As a result, staff use the "stale-dated cheque" code for both cheques and audit recoveries. While this is technically not the correct manner to record audit recoveries, all funds relate to previous years and cannot be respent. Table 1 below shows quarterly recoveries and stale-dated cheques by fiscal year.

Table 1: Audit Recoveries and Stale-Dated Cheques¹				
	2007–08	2008–09	2009–10	2010–11
Audit Recoveries	\$30,071	\$217,556	\$165,343	\$1,207,302 ²
Stale-Dated Cheques	\$500,240	\$506,302	\$238,586	\$619,120
Total	\$530,311	\$723,858	\$403,929	\$1,826,422

Sources: VAC Finance Division Report, and Medavie Blue Cross Audit Recoveries Account Report

Notes: 1. Amounts listed are for VAC only.

2. The hearing-aid battery audits in 2010/11 recovered \$1,175,697, which accounts for the majority of that year's recoveries.

The main method the NIU uses to record its audit activity and related recoveries is the Case Status and Recoveries Report. This report includes an explanation of why the amounts identified during audits may vary from the amounts actually collected. The NIU has the authority to reduce the recoverable amounts owing, based on additional information submitted by health care providers. When this is done, the NIU sends letters to providers advising them of the change and VAC Program managers and Finance Division receive copies of these letters. A review by the audit team showed that some files contained information on why the amount was reduced; however, there is no single report that focuses specifically on such variances.

As well, there should be improved reporting by the NIU or VAC on outstanding amounts owed by health care providers. NIU investigators ensure that all funds are collected before they close the files; the Senior Investigator receives information from MBC Finance on recoveries and shares it via the Case Status and Recoveries Report. However, VAC's review should ensure that the recoveries amount is correct. In the absence of this practice, for the fiscal year 2010/11, the audit team tested a sample of recovery cheques returned to VAC to verify that the amounts returned matched both MBC's and VAC's records. This audit test confirmed that all amounts matched the records of both MBC and VAC Finance.

Audit files are not closed until all funds have been fully collected, some may stay open for years. The reasons for this vary: the provider may have gone out of business or he may be appealing the decision to VAC, or he may have been suspended and does not submit any claims from which to deduct the amount owing. Such files remain open, but receive little attention after a while, since the NIU's main focus is on current work.

Recommendation 3

The Director General, Finance Division, direct Medavie Blue Cross to return all stale-dated cheques on a quarterly basis. (Essential)

Management Response

Management agrees with the recommendation. Finance Division will work with Service Delivery and Program Management to negotiate a desirable outcome with the contractor.

Medavie Blue Cross Response

MBC will initiate the return of funds associated with all stale-dated cheques from Atlantic, Quebec and Ontario on a quarterly basis, beginning with the quarter ended June 30, 2012, to be consistent with the current practice followed for the Western Regions. Funds will be returned in the month following the end of the applicable quarter.

Management Action Plan

Corrective action to be taken	OPI	Target date
In consultation with Service Delivery and Program Management Division, MBC will be advised verbally to return funds from stale-dated cheques on a quarterly basis.	Finance Division	May 2012

Confirm in writing to MBC the requirement for the contractor to return funds from stale-dated cheques on a quarterly basis.	Finance Division	July 2012
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Recommendation 4

The Director General, Service Delivery and Program Management Division, in consultation with the Director General, Finance Division, institute a process for aged files to either collect the money in a timely manner or to take action to close the files. (Essential)

Management Response

Management agrees and is working on immediate compliance.

Medavie Blue Cross Response

MBC agrees with the recommendation and welcomes direction from VAC on how they would like us to proceed with aged files. We would be pleased to provide recommendations for the process to be followed with respect to closing aged files and the collection of outstanding money.

Management Action Plan

Corrective action to be taken	OPI	Target date
Service Delivery and Program Management Division will work closely with Finance Division to outline a process to ensure the collection of monies and/or closure of files in a timely manner.	Service Delivery and Program Management Division Finance Division	December 2012

3.5 Measures of Effectiveness

The NIU is a contracted service conducted on behalf of the Department. As a result, it is important for VAC to monitor the effectiveness of the NIU's performance to ensure that resources are utilized effectively and value for money is achieved. The annual audit report prepared by the NIU provides detailed operational information that summarizes the activities for the fiscal year, including aspects such as:

- a description of profiling activities;
- the number of Client Verification Letters sent out;
- the number of Client Verification Letters returned by Veterans;
- the number of mail audits and on-site audits performed;
- the dollar amount of the funds recovered.

While this operational information is important, VAC was not assessing the overall effectiveness of the NIU nor had it defined key performance measures. During the audit, the audit team heard repeatedly that mail audits and on-site audits are conducted with a view to "return on investment". From that perspective, Table 2, below, depicts VAC's direct costs recoveries relating to the NIU from April 1, 2008 to March 31, 2011. It is important to note that in 2010/11, \$1,175, 698 in recoveries was collected as part of the hearing-aid battery project.

Table 2: NIU Costs and Recoveries (2008 – 2011)¹				
	2008/09	2009/10	2010/11	Total
Recoveries ²	\$310,960	\$196,191	\$1,236,072	\$1,743,222
Costs ³	\$572,724	\$586,985	\$590,918	\$1,790,871

Source: MBC Government Financial Services, Medavie NIU and VAC Contract Management

- Notes: 1) 2007/08 is included in this table due to the contract amendment in June 2007.
 2) Total recoveries include amounts from the prescription-drug claims review.
 3) Estimate based on the percentage of fixed operational costs attributable to VAC.

Audit recoveries are one important aspect of measuring the effectiveness; however, the NIU contributes more than just recoveries. The NIU also plays an important role in educating providers on both proper billing practices and on VAC's programs. In addition, mail audits and on-site audits also provide an effective deterrence effect. While these contributions are difficult to quantify they are important.

3.6 Opportunities to improve effectiveness

3.6.1 On-site Audits

On-site audits were determined based on a minimum threshold of expenses for the year. This threshold was instituted in an attempt to ensure that sufficient funds would be recovered in order to warrant the expenses of the trip. However, this method of selection is not effective as evidenced by the fact that 40% of on-site audits did not result in any recoveries. A more effective method of determining whether an on-site audit is required would be based on the billing discrepancies identified from profiling activities.

It was also noted that the number of on-site audits has been declining in recent years. In the fiscal year 2008/09, the NIU made 16 on-site audits and in 2010/11 the number of on-site audits had dropped to only 4, although it should be noted that this was partially due to the focus on the hearing aid battery project. There has also been a recent change to send only one investigator, unless two are required. The shift to fewer on-site audits, with only one auditor, has not only reduced travel costs it has also freed up resources to conduct more mail audits. Mail audits generated average recoveries of \$3,800 per audit compared to an average of \$2,500. On the surface, some may suggest that this demonstrates that mail audits are a more effective use of resources than on-site audits. However, on-sites audits provide an opportunity to educate providers on both proper billing practices and on VAC's programs. On-site audits also provide an effective deterrence effect. These factors need to be considered by VAC in determining the appropriate balance between mail audits and on-site audits in order to maximize the effectiveness of the NIU.

3.6.2 Client Verification Letters

In 2010/11, 21,000 letters were mailed to Veterans requesting them to verify that the benefit or service was provided. If the Veteran's response to the letter indicates that he or she did not in fact receive the good or service, or not for the price indicated, the NIU will investigate further. These letters are randomly generated based on 0.5% of all claims. However, this method of selection resulted in 84% of all Client Verification Letters sent out were for Prescription Drugs and only 13% sent out for the remaining POCs and 3% for the VIP. In 2010/11, 16,800 letters were returned with only 75 identifying a negative response. While Client Verification Letters can be an effective measure, the audit team noted several weaknesses with the current process.

First the method of random selection is not effective. There are already significant profiling activities focussed on Prescription Drugs creating some redundancy in audit activity leaving other POCs without sufficient coverage. Other risk criteria based on high dollar claims, new providers, targeted coverage of the POCs, providers with a history of billing discrepancies could improve the effectiveness of the Client Verification Letters.

Second, the audit team was informed that many of the Prescription Drug letters were for co-pays of less than ten dollars for Veterans whose provincial coverage paid for most of the drug cost and VAC was the second payer. As a result, some Veterans were confused by the amounts identified in the letter. VAC and MBC were already aware of this issue and, at the completion of fieldwork, were working on a resolution by instituting a minimum threshold amount.

Finally, the timeliness could be improved. Client Verification Letters are generated based on previously paid claims which can create a significant delay from the time of service until a letter is received. For example, in the VIP, Veterans may only submit claims for personal care or grounds keeping every three of four months making it very difficult to recall the specific dates service was provided creating unnecessary work for the NIU to follow up on mistaken negative responses.

Recommendation 5

The Director General, Service Delivery and Program Management Division, in consultation with the Director General, Finance Division, improve the Client Verification Letters process to enhance its value. (Essential)

Management Response

Management agrees. In April 2012, the Department announced that as part of the “Cutting Red Tape” initiative, Veterans will no longer be required to submit receipts for VIP House Keeping and Grounds Maintenance services, removing the requirement for the verification of those services. In addition, Service Delivery and Program Management are working with MBC to further improve the client verification letter process for all other elements of the program and acknowledge that this improvement is ongoing and will continue in the future. The audit plan for the 2012–13 fiscal year has already been approved; however, when planning for the new multi-year audit plan begins in late 2012, this recommendation will be incorporated.

Medavie Blue Cross Response

MBC agrees with this recommendation and looks forward to supporting VAC on this change should they choose to submit a change control request for system enhancements relating to the generation of client verification letters.

Management Action Plan

Corrective action to be taken	OPI	Target date
Service Delivery and Program Management Division will work with MBC to refine the current Client Verification Letter process by: <ul style="list-style-type: none"> • Setting a dollar threshold for sending client verification letters; • Targeting client verification letters in line with the enhanced POC coverage in lieu of a generic random sample. 	Service Delivery and Program Management Division	September 2013
Service Delivery and Program Management Division will work with MBC to establish an appropriate turnaround time for mailing Client Verification Letters.	Service Delivery and Program Management Division	October 2013

3.6.3 Communicating Audit Results

Results of a mail audit or an on-site audit are communicated to health care providers by letter informing the provider of any issues such as missing prescriptions, services not rendered, missing signatures, etc. These letters also identify the identified recoveries based on these discrepancies. Providers then have an opportunity to submit additional information to substantiate their claims and most times, documentation was submitted that reduced the amount owing (often to zero dollars owing or a minimal amount). The reason for this reduction in potential recoveries is that the documentation may not have been on site at the time of the audit or the provider may not have known what information the auditor was looking for and therefore was not able to supply it at the time. Subsequent letters from the NIU to the providers reflected the results of the additional documentation submitted, and there may be three or more letters that go out before the NIU concludes its work. After the exchange of information, either an amount is determined to be recovered or there no longer is an amount owing.

One issue identified is that the terminology used to describe the issues of non compliance may not be appropriately defined nor applied. The audit team found in some instances, if the terminology applied in the letters is accurate, then the nature of the offence is more serious than how MBC handles it and further involvement from VAC and/or action against the provider may be required.

Recommendation 6

The Director General, Service Delivery and Program Management, and the Director General, Finance Division, direct Medavie Blue Cross to review the content of audit results letters to ensure the appropriate terminology is used and applied and appropriate action is taken in instances beyond basic noncompliance issues. (Essential)

Management Response

Management agrees. The audit plan for the 2012–13 fiscal year has been approved, and is currently being carried out by the NIU. Planning for the new multi-year audit plan will begin in late 2012, and this recommendation will be incorporated into that process.

Medavie Blue Cross Response

MBC agrees with this recommendation and will develop a new template for its initial letter to providers regarding the audit findings (subject to VAC's approval before implementation). The NIU will also ensure that appropriate action is taken in proven cases of fraud, regardless of the dollar amounts, and will notify the Director General of Finance.

Management Action Plan

Corrective action to be taken	OPI	Target date
Service Delivery and Program Management Division will engage MBC in reviewing and adjusting the current on-site audit process including the current threshold for initiating an on-site audit to ensure continued relevance and effectiveness.	Service Delivery and Program Management Division	December 2012
Service Delivery and Program Management Division will engage MBC and VAC Finance Division to develop standardized terminology and letter formats to communicate audit results and outcomes to VAC providers.	Service Delivery and Program Management Division Finance Division	April 2013
Service Delivery and Program Management Division and Finance Division, in collaboration with MBC, will develop a process for resolving individual audit findings in an effective and appropriate manner.	Service Delivery and Program Management Division Finance Division	June 2013

3.7 Audit Opinion

In the opinion of the audit team, the operations of the NIU have made progress since the FHCPS Contract was audited in 2006. Results from this audit identified some further opportunities for improvement relating to governance; however, overall the NIU's and VAC's activities were determined to be generally acceptable with no significant weaknesses identified.

4.0 DISTRIBUTION

Veterans Affairs Canada

Deputy Minister

Associate Deputy Minister

Deputy Minister, Service Delivery

Assistant Deputy Minister, Human Resources and Corporate Services

Assistant Deputy Minister, Policy, Communications and Commemoration

Director General, Service Delivery and Program Management

Director General, Departmental Secretariat & Policy Coordination

Director General, Communications

Director General, Finance

Director General, Human Resources

Director General, Transformation

Executive Director and General Counsel, Legal Services Unit

Executive Director, Bureau of Pension Advocates

Executive Director, Ste. Anne's Hospital

Director, Statistics

Strategic Advisor to the Deputy Minister

Senior Communications Advisor

Office of the Comptroller General of Canada (Internal Audit)

Office of the Auditor General of Canada

Medavie Blue Cross

Director, Federal Administered Programs and Corporate Audit

Manager, Corporate Audit Services

Team Leader, National Investigative Unit

Appendix A: Expenditures by Program of Choice (2010/11)

POC Number	POC Name	Program Expenditures
1	Aids to Daily Living	\$2.8M
2	Ambulance/Health-Related Travel	\$2.5M
3	Audio (Hearing) Services	\$41.2M
4	Dental Services	\$18.6M
5	Hospital Services	\$1.8M
6	Medical Services	\$0.4M
7	Medical Supplies	\$6.3M
8	Nursing Services	\$10.7M
9	Oxygen Therapy (Respiratory Equipment)	\$2.6M
10	Prescription Drugs	\$110.9M
11	Prosthetics and Orthotics	\$2.6M
12	Related Health Services	\$24.0M
13	Special Equipment	\$32.1M
14	Vision (Eye) Care	\$6.4M
15	Veterans Independence Program	\$354.4M

Appendix B: Audit Criteria

Objective 1: An effective planning process for provider audits.	
Audit Criteria	Result
The National Investigative Unit (NIU) has clearly defined and communicated strategic direction and objectives, aligned with its mandate.	Met
The NIU has a plan in place aimed at achieving its strategic objectives.	Partially met
External and internal environments are monitored to obtain information that may signal a need to re-evaluate the annual audit plan.	Met
VAC requests and receives sufficient, complete, timely and accurate information on NIU key activities.	Partially met
Feedback from users and other stakeholders informs strategic and operational planning.	Partially met
The NIU and VAC assess the risks it has identified.	Partially met
Planning and resource allocations consider risk information.	Partially met
Formal channels of communication exist for people to report suspected improprieties to VAC and MBC.	Partially met

Objective 2: Adequate management of identified collectibles.	
Audit Criteria	Result
Financial management policies and authorities are communicated and understood.	Partially met
Compliance with financial management laws, policies and authorities is monitored regularly.	Partially met
Transactions are coded and recorded accurately and in a timely manner to support information processing.	Partially met
Records and information are maintained in accordance with laws and regulations.	Partially met
Reviews are conducted to analyze, compare and explain financial variances between amounts owed and amounts collected.	Partially met
Authority, responsibility and accountability are clear and communicated.	Partially met
VAC and the Contractor provide employees with the necessary tools, resources and information to support the discharge of their financial responsibilities.	Partially met

Objective 3: Effective resources expended in the pursuit of service provider audits.	
Audit Criteria	Result
External and internal environments are monitored to obtain information that may signal a need to re-evaluate the NIU's objectives and control environment.	Met
VAC has identified appropriate performance measures linked to planned results for the work of the NIU.	Partially met
The NIU provides employees with the necessary training, tools, resources and information to support the discharge of their responsibilities.	Partially met
A clear and effective organizational structure is established and documented within VAC's Service Delivery and Program Management Division and the Contractor.	Partially met
The NIU leverages, where appropriate, collaborative opportunities to enhance audit services.	Partially met
The activities, schedules and resources needed to achieve objectives have been integrated into the budget.	Partially met
Integrity of VAC's programs is protected.	Partially met
The NIU reallocates resources to facilitate the achievement of objectives/results.	Met
Appropriate and timely financial and non-financial reporting is communicated between the Contractor and VAC.	Partially met

Appendix C: Risk Ranking of Recommendations and Audit Opinion

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

Audit Recommendations

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

Audit Opinion

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