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ASSISTANT DEPUTY MINISTER (REVIEW SERVICES)



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## Follow-up Audit of Non-Public Property Governance, Strategic Management, and Business Planning



August 2016

7055-21-27 (ADM(RS))

Canada

## Caveat

Non-Public Property (NPP) is created under the *National Defence Act*. The purpose of NPP is to provide benefit to serving and former members of the Canadian Armed Forces (CAF), and their dependants or for any other purpose designated by the Chief of the Defence Staff (CDS). Each unit's NPP is vested in the commanding officer of that unit.

NPP is a unique type of crown property, the governance of which is assigned to the CDS. Pursuant to subsection 41(1) of the NDA, the CDS shall exercise his authority subject to any directions that may be given to him by the Minister.

Article 41(3) of the *National Defence Act* provides that the *Financial Administration Act* does not apply to NPP. Revenues from NPP operations constitute non-public funds pursuant to section 2 of the NDA.

The result of this work does not constitute an audit of Non-Public Property Governance, Strategic Management, and Business Planning project. Rather, this report was prepared to provide reasonable assurance that management actions that resulted from the 2012 Audit of Non-Public Property Governance, Strategic Management and Business Planning effectively addressed the recommendations.

## Table of Contents

Acronyms and Abbreviations .....	ii
1.0 Introduction .....	1
2.0 Methodology .....	2
3.0 Overall Assessment .....	3
Annex A—Assessment Criteria .....	A-1
Annex B—MAP Scorecard.....	B-1
Annex C—Summary of MAP Status.....	C-1

## Acronyms and Abbreviations

ADM(RS)	Assistant Deputy Minister (Review Services)
ASD	Alternative Service Delivery
CAF	Canadian Armed Forces
CDS	Chief of the Defence Staff
CFMWS	Canadian Forces Morale and Welfare Services
CMP	Chief Military Personnel
DGMWS	Director General Morale and Welfare Services
DND	Department of National Defence
HR	Human Resources
MAP	Management Action Plan
MD NPP	Managing Director, Non-Public Property
MW	Morale and Welfare
NPF	Non-Public Funds
NPP	Non-Public Property
OPI	Office of Primary Interest
TOR	Terms of Reference

## 1.0 Introduction

The Internal Auditing Standards for the Government of Canada require Assistant Deputy Minister (Review Services) (ADM(RS)) to conduct a follow-up to monitor and ensure that management actions have been effectively implemented in response to previous audit recommendations. The purpose of this follow-up is to determine the progress made on the implementation of the management actions in response to the 2012 Audit of Non-Public Property Governance, Strategic Management, and Business Planning. This follow-up was included in the ADM(RS) Risk-based Audit Plan (Non-Public Property and Military and Family Services) for fiscal years 2014/15 to 2016/17.

The objective of the 2012 audit was to provide assurance to the CDS on the effectiveness of NPP governance structure, risk management, and management controls. The results of the 2012 audit are outlined as follows:

**Governance.** All levels of the CAF chain of command needed to be apprised of their roles and responsibilities with respect to NPP and Morale and Welfare (MW) programs and services. The role and participation of NPP Board members, including in the Terms of Reference (TOR), needed to be revisited. Furthermore, financial and human resources (HR) delegation instruments and other foundational governing documents required strengthening.

**Strategic Management.** The organization was working toward a long-term vision approved only on a conceptual basis; however, a long-term strategy was absent, which placed NPP at risk. Further, strategic plans were also out of date or key elements were absent.

**Business Planning.** The Canadian Forces Morale and Welfare Services' (CFMWS) public business plan was of excellent quality and could have served as a benchmark for other organizations. The NPP business planning process needed to be augmented to better reflect the spirit and intent of public standards. Furthermore, the NPP Contracting Policy and Procedures did not protect NPP resources to an equivalent level of public resources.

**Risk Management.** CFMWS' Corporate Risk Summary provided comprehensive risk identification and assessment components. The document formed the basis for a much-needed NPP Corporate Risk Profile, which would include risk mitigation strategies.

**Performance Management.** The development of appropriate organization-wide performance measures was an ongoing challenge for CFMWS. Measures developed at the operational level for select lines of business should have been validated and incorporated into a NPP Performance Management Framework.

In order to address these issues, nine recommendations were put forward (see [Annex C](#)). To address these recommendations, the CDS and the Managing Director, NPP (MD NPP) developed Management Action Plans (MAP) to address the audit findings specific to their area of responsibility.

## 2.0 Methodology

This audit follow-up is the outcome of a review of documentation and evidence to assess the progress made in implementing the MAPs, based on the assessment criteria in [Annex A](#). The following methods were used:

- interviews with the Associate Director General Morale and Welfare Services (DGMWS) and other key stakeholders within CFMWS;
- interviews with Department of National Defence (DND) staff within the Assistant Chief Military Personnel (CMP)/Directorate of Military Personnel Planning and Program Coordination;
- research, assessment, and review of relevant information and documentation pertaining to the MAPs; and
- follow-up questions and interviews based on the results of the analyses.

### 3.0 Overall Assessment

The original audit contained nine recommendations. The follow-up found that four recommendations had been fully implemented. Improvements have been made in several areas, as follows:

- Base and wing commanding officers and employees with delegated authority have been provided with training on their roles and responsibilities with respect to NPP and MW programs and services.
- NPP Board authorities were documented and approved by the CDS in 2012, and they are currently being updated. In addition, a strategic plan was developed in response to the audit in 2012; that plan is currently being updated.
- Delegated financial authorities have been updated for CDS approval, and CFMWS has committed to present hospitality expenditures to the NPP Audit Committee.
- An NPP Corporate Risk Profile has been developed and updated by CFMWS, and it is presented to the NPP Board annually for endorsement.

Progress has been made in all other recommendations with one exception. One recommendation was divided into two sections; no action had been taken to address the second part of that recommendation, which involves revising/renewing the Alternative Service Delivery (ASD) Framework and the associated policy in order to ensure that it reflects current morale and welfare requirements.

MAPs in the following areas have not been fully implemented:

- **Governance.** The two primary governance documents are outdated. The ASD Framework (VCDS Instruction 3/96) and the Policy Governing Operation of Personnel Support Programs in the CF (A-PS-110), which defines the personnel support programs and the level of those services to be provided by CFMWS, may not reflect the current environmental realities.
- **Contracting.** Until compliance controls are enforced and the NPP Contracting Policy is amended to reflect the spirit and intent of the public regulation, there is an increased risk of misuse of NPF and unauthorized transactions.
- **Performance Management.** The absence of a corporate NPP performance management framework encompassing CFMWS' operations and delivery model reduces the ability of the NPP Board to ensure that objectives are effectively implemented.

The Office of Primary Interest (OPI) concurs that not all MAPs are fully completed and indicated that staff will continue to work on outstanding actions.

A scorecard of the MAP items can be found at [Annex B](#), and a more detailed assessment of progress with updated target dates of completion can be found at [Annex C](#).



## Annex A—Assessment Criteria

### Line of Enquiry: Progress Made on the May 2012 Audit Recommendations

Progress has been made on the implementation of the MAPs identified in the May 2012 audit. The following criteria were used to assess the level of completion for each recommendation:

#### 1. **Obsolete or Superseded**

Audit recommendations that are deemed to be obsolete or that have been superseded by another recommendation.

#### 2. **No Progress or Insignificant Progress (0-24% complete)**

No action taken by management or insignificant progress. Actions such as striking a new committee, having meetings, or generating informal plans are considered insignificant progress.

#### 3. **Partial Implementation (25-74% complete)**

The entity has begun necessary preparation for implementation, such as hiring or training staff, or developing or acquiring the necessary resources to implement the recommendation, and/or the actions taken have not fully addressed the associated risks/gaps.

#### 4. **Substantial Implementation (75-99% complete)**

Structures and processes are in place and integrated in some parts of the organization, and some achieved results have been identified. The entity has a short-term plan and timetable for full implementation.

#### 5. **Full Implementation (100% complete)**

Structures and processes are operating as intended and are fully implemented in all intended areas of the organization.

### Annex B—MAP Scorecard

Recommendation #	OPI	ADM(RS) Assessment of Progress on MAPs		
1. Improve NPP knowledge and awareness.	CDS	Full Implementation		
2. Clarify role of NPP Board.	CDS	Full Implementation		
3. Review delegation instruments and oversight framework.	CDS	Full Implementation		
4a. Develop foundation documents.	CDS	Full Implementation		
4b. Revise and seek approval of the ASD Framework and associated policy (A-PS-110).		No Progress or Insignificant Progress		
5. Improve NPP Board strategic direction and financial oversight.	CDS	Full Implementation		
6. Better align the public and NPP business planning processes.	CDS	Full Implementation		
7. Revised NPP Contracting Policy and improved tools.	MD NPP	Partial Implementation		
8. Develop NPP Corporate Risk Profile.	MD NPP	Full Implementation		
9. Develop NPP Performance Management Framework.	MD NPP	Partial Implementation		
Obsolete or Superseded	No Progress or Insignificant Progress	Partial Implementation	Substantial Implementation	Full Implementation

**Table B-1. MAP Scorecard.** This table shows the ADM(RS) assessment of progress on the MAPs.

### Annex C—Summary of MAP Status

MAP Legend	
	Full Implementation
	Substantial Implementation
	Partial Implementation
	No Progress or Insignificant Progress
	Obsolete or Superseded

Recommendations	OPI	Target Date	Progress to Date	Status of Action Item
<p><b>Recommendation 1.</b> Ensure that all levels of the CF<sup>1</sup> chain of command are fully cognizant of their roles and responsibilities with respect to NPP and MW programs and services in general. Incorporate NPP awareness courses into the appropriate CF leadership and training establishments.</p>	CDS	April 2013	<p>Since 2011, NPP workshops have been provided to base and wing commanders annually. Commanders are also given the opportunity to have a one-on-one interview with the DGMWS or the Associate DGMWS to discuss specific key elements concerning their respective base or wing.</p> <p>The MD NPP launched two on-line certification courses in 2011 that are mandatory prior to granting delegated signing authority for NPP.</p> <p>CFMWS partners with the different CAF Environmental Commands and with various DND officials to enhance NPP awareness across the DND/CAF community.</p> <p>In 2013, CMP tasked the Canadian Defence Academy to determine the remaining NPP Individual Training and Education requirements and develop the appropriate NPP Individual Training and Education plan. The Canadian Defence Academy has determined that NPP knowledge is not an institutional requirement. As such, CFMWS has had limited success in institutionalizing NPP training across the CAF.</p>	<p><b>Full Implementation</b></p>

<sup>1</sup> CF (Canadian Forces) is the former designation of the CAF. The new name came into effect in March 2013.

Recommendations	OPI	Target Date	Progress to Date	Status of Action Item
<p><b>Recommendation 2.</b> To ensure an effective, strategically focused oversight mechanism, the NPP Board's role, scope, and TOR should be clarified, ensuring the focus remains on setting the desired outcomes and overseeing the achievement of results.</p>	CDS	July 2012	The MD NPP developed the NPP Board authorities/responsibilities/accountabilities, which were approved by the CDS in 2012. The NPP Board TOR (Defence Administrative Order and Directive 9003-1) are being updated based on the NPP Board governance framework, which the CDS in 2012.	<b>Full Implementation</b>
<p><b>Recommendation 3.</b> Delegation instruments, and accompanying processes, should be reviewed to ensure that the CDS can demonstrate he is managing his financial and human resources to the same level of stewardship as a deputy head of a department. Specifically:</p> <ul style="list-style-type: none"> <li>• where appropriate, MD NPP authorities should be more closely aligned to that of other Level Ones; and</li> <li>• mechanisms and processes should be established to ensure the CDS has appropriate oversight over the Staff of NPF, CF.</li> </ul>	CDS	November 2012	<p>The CDS Delegation of Authority for Financial Administration of NPP was updated to align the level of authorities between the DGMWS and public counterparts. Although key expenditures such as hospitality, contracting, and capital are not the same as in the public sector, they remain consistent with the spirit and intent of the public sector frameworks.</p> <p>CFMWS Vice President HR tables an annual HR report with the NPP Board that provides the CDS with an overview of all aspects of the Staff of the NPF, CAF, such as the CFMWS HR Strategy, achievements, initiatives, strategic objectives, and priorities.</p>	<b>Full Implementation</b>

Recommendations	OPI	Target Date	Progress to Date	Status of Action Item
<p><b>Recommendation 4a.</b> To ensure critical foundation documents are revised and/or developed in an expedient manner:</p> <ul style="list-style-type: none"> <li>• an NPP policy development, amendment, and approval process should be documented and presented to the NPP Board for endorsement; and</li> <li>• NPP policies referred to in CDS Direction of 2004 should be developed without delay.</li> </ul>	CDS	September 2012	<p>CFMWS implemented its Policy Management Framework in 2013. The Framework has not been endorsed by the NPP Board as it is considered administrative in nature.</p> <p>All NPP policies referred to in the CDS Direction of 2004 have been developed and implemented.</p>	<p><b>Full Implementation</b></p>
<p><b>Recommendation 4b.</b> To ensure critical foundation documents (including VCDS Instruction 3/96 and A-PS-110) are revised and/or developed in an expedient manner. Deliverables and timelines should be specified.</p>	CDS	September 2012	<p>Revisions to the ASD Framework have not yet been implemented. A letter to VCDS recommending changes that would reinforce the intent of APS-110 was staffed May 5, 2016. Consultations are ongoing with VCDS and C Prog Staff to address Public Support to Non Public Property operations. CFMWS will update the NPP Audit Committee regularly on progress in this area.</p>	<p><b>No Progress or Insignificant Progress</b></p>

Recommendations	OPI	Target Date	Progress to Date	Status of Action Item
<p><b>Recommendation 5.</b> NPP Board participation in setting strategic direction and financial oversight, including capital infrastructure plans, should be systematically programmed into meeting agendas; the use of a forward planning agenda ... can facilitate this process. Once strategic direction is established, the NPP Board should set timelines for the delivery of the following:</p> <ul style="list-style-type: none"> <li>• a comprehensive medium (3 to 5 year) and long-term (5 to 10 year) Strategic Plan; and</li> <li>• an NPP Capital Infrastructure Plan that responds to both national and local requirements and links back to approved strategic direction and NPP Board priorities.</li> </ul>	CDS	December 2012	<p>CFMWS has developed an NPP Board Forward Planning Agenda for the NPP Board, which is currently in use.</p> <p>CFMWS developed a five-year strategy in 2012 which is currently being renewed.</p> <p>CFMWS has developed an NPP Real Property Management Policy, and a three-year NPP Capital Infrastructure Plan that is integrated into the annual NPP business plan.</p>	<p><b>Full Implementation</b></p>

Recommendations	OPI	Target Date	Progress to Date	Status of Action Item
<p><b>Recommendation 6.</b> To better align the public and NPP business planning processes and maintain the operational flexibility afforded to NPP, the following recommendations are made:</p> <ul style="list-style-type: none"> <li>• for all NPP Board submissions seeking approval for funding new shared programs, services, or new infrastructure where public support may be warranted, a formalized process for engagement of business planning analysts from CMP or other DND financial stakeholders, should be documented and implemented;</li> <li>• the NPP business planning process needs to be documented to the same level as the public business planning process; and</li> <li>• a process for systematic NPP Board engagement when setting NPP strategy and priorities requiring the CDS’ authority to spend NPP on MW initiatives not specifically identified as part of the MW realm should be determined.</li> </ul>	<p>CDS</p>	<p>November 2012</p>	<p>Since the time of the audit, no new shared programs have been developed; as such, there has been no opportunity to implement this recommendation. CFMWS is committed to engaging analysts should this situation arise in the future.</p> <p>The NPP business plan is now the equivalent to the public plan. The NPP Board has been engaged in the renewal of the strategic plan.</p>	<p><b>Full Implementation</b></p>

Recommendations	OPI	Target Date	Progress to Date	Status of Action Item
<p><b>Recommendation 7.</b> In order to meet CDS direction regarding the spirit and intent of public regulations, the NPP Contracting Policy should be revised to include clarification or amplification of bid solicitation processes, including exemptions, and specifying the documentation requirements to support such decisions. Tools, such as a contract database, need to be put in place to strengthen accountability and compliance with policy.</p>	MD NPP	April 2013	<p>An amendment to the NPP Contracting Policy was published in March 2015, and an NPP contracting guideline was published on the CFMWS internal website in April 2015. However, these are not fully compliant with the CDS Direction of 2004 in the following two areas:</p> <ul style="list-style-type: none"> <li>• While required qualifications may be identified, the contracting firm must not be told, directly or indirectly, whom to hire or to assign to a given task.</li> <li>• Public guidelines on limiting the length of contracts for services of individuals must be respected.</li> </ul> <p>Tools to ensure compliance with NPP Contracting Policy have not been put in place.</p> <p>CFMWS has been and is continuing to “operationalize” its contracting policy through the promulgation of a comprehensive contracting directive which will address the operational issues described above. Increased contracting education and the introduction of a formalized NPP corporate contracting committee will ensure compliance with the policy. Management expects to have these actions completed by September 1, 2016.</p>	<p><b>Partial Implementation</b></p>
<p><b>Recommendation 8.</b> An NPP Corporate Risk Profile, including risk mitigation strategies, risk thresholds, and timeframes for management action, should be produced without delay and presented to the NPP Board.</p>	MD NPP	July 2012	<p>An NPP Corporate Risk Profile has been developed by CFMWS and is updated and presented to the NPP Board annually for endorsement. In addition, CFMWS began a risk review whereby one risk mitigation measure is reviewed by the NPP Audit Committee.</p>	<p><b>Full Implementation</b></p>



Recommendations	OPI	Target Date	Progress to Date	Status of Action Item
<p><b>Recommendation 9.</b> The development of a corporate-wide NPP Performance Management Framework encompassing the entire Director General Personnel and Family Support Services management and delivery model should be a priority. In the interim, the NPP Board should be consulted to assess its minimum requirements for performance reporting.</p>	<p>MD NPP</p>	<p>April 2013</p>	<p>CFMWS has developed a performance framework to oversee the implementation of the corporate strategy. However, the performance indicators developed prevent the organization from effectively evaluating its performance since the performance indicators are not specific, measurable, achievable, realistic, time-related, and can only be answered yes or no.</p> <p>A corporate-wide NPP performance framework has not yet been developed, and there is no evidence that the NPP Board has been consulted regarding the minimum performance reporting expectations.</p> <p>New key performance indicators are being developed that will be introduced with the new CFMWS Strategy for 2017-20. That strategy will be presented to the NPP Board for approval in the Fall of 2016. Management expects to have this item completed by April 1, 2017.</p>	<p><b>Partial Implementation</b></p>

**Table C-1. Summary of MAP Status.** This table provides an overview of progress to date made on the recommendations in the 2012 report.