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## Audit of Canadian Armed Forces Museums



October 2016

1259-5-001(ADM(RS))

## Caveat

Non-Public Property (NPP) is created under the *National Defence Act*. The purpose of NPP is to provide benefit to current and former members of the Canadian Armed Forces (CAF) and their dependants or for any other purpose approved by the Chief of the Defence Staff (CDS). Each unit's NPP is vested in the commanding officer (CO) 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 *National Defence Act*, the CDS shall exercise his authority subject to any directives that may be given to him by the Minister of National Defence.

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

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## Acronyms and Abbreviations

CAF	Canadian Armed Forces
CDS	Chief of the Defence Staff
CFAMS	Canadian Forces Artifact Management System
CFMWS	Canadian Forces Morale and Welfare Services
CIP	Consolidated Insurance Program
CO	Commanding Officer
DA	Distribution Account
DHH	Directorate of History and Heritage
DND	Department of National Defence
FY	Fiscal Year
MD NPP	Managing Director, Non-Public Property
NPP	Non-Public Property
OPI	Office of Primary Interest

## Results in Brief

The purpose of any museum or historical collection is to preserve, protect, display and interpret a segment of our cultural heritage. The role of the CAF museums is to preserve and interpret Canadian military heritage in order to increase the sense of identity and esprit de corps within the CAF and to support the goals of the Department of National Defence (DND). CAF museums operate under a unique governance arrangement, with accountability divided between DND, through the Directorate of History and Heritage (DHH), and NPP.

### Overall Assessment

The effectiveness of Canadian Armed Forces (CAF) museum administration could be improved by clarifying and communicating roles and responsibilities, better managing strategic risk and improving controls over asset management.

This audit was included in the NPP Risk-Based Internal Audit Plan for fiscal years (FY) 2015/16 to 2017/18. Although this engagement was originally planned as a risk-assessment that would identify specific museums to audit, a decision was made after the completion of the planning phase to undertake a full audit of the CAF museum management framework in order to assess the adequacy of governance, risk management and internal controls.

### Findings and Recommendations

**Governance.** The complex governance structure in place over museums is not well documented, and roles and responsibilities of the different stakeholders are unclear. This lack of clarity creates a risk that those managing the day-to-day museum operations may not be aware of the accountability framework, which directly affects their ability to comply with it. Guidelines regarding governance mechanisms for museums are in place, but are not implemented consistently across museums. The blurring of lines between museums and cooperating associations increases the liability risks to the Crown.

It is recommended that DHH, which maintains accountability for governance within the public accountability framework, define and document the roles and responsibilities related to CAF museums, including accountability for program risk management and operational oversight. This should be communicated to all stakeholders, for example the Managing Director, Non-Public Property (MD NPP) and base/wing/unit COs in order to clarify their accountabilities.

**Risk Management.** As is the case with governance, the responsibility for managing program-level risks, or strategic risk management, is shared between DHH and NPP, as well as a number of other public stakeholders. At present, no strategic risk profile has been developed, meaning that there is not a clear understanding of or agreement on the highest risks faced by museums at the program level. The lack of formal risk management practices at the strategic level increases the chance that these risks are not being mitigated appropriately.

It is recommended that DHH, with the support of MD NPP, undertake a strategic risk assessment of the national CAF museum program to identify common risks and develop mitigation strategies that can be implemented nationally or communicated to museums for implementation.

**Asset Management.** At present, CAF museum assets are not registered and recorded in accordance with operational guidance. This means that control over artifacts is not appropriately exercised, and that a thorough assessment of insurance requirements has not been conducted. In addition, there is evidence of NPP assets being alienated (the title transferred) without proper delegated authority.

It is recommended that the MD NPP and DHH provide enabling direction and tools, coupled with oversight mechanisms, and ensure that base/wing/unit COs formally account for all artifacts, including those on loan. The MD NPP should then use a cost-benefit analysis to determine the most appropriate approach for insuring NPP artifacts and should issue guidance to base/wing/unit COs. Lastly, the MD NPP should develop an approach to manage the alienation of NPP artifacts and memorabilia.

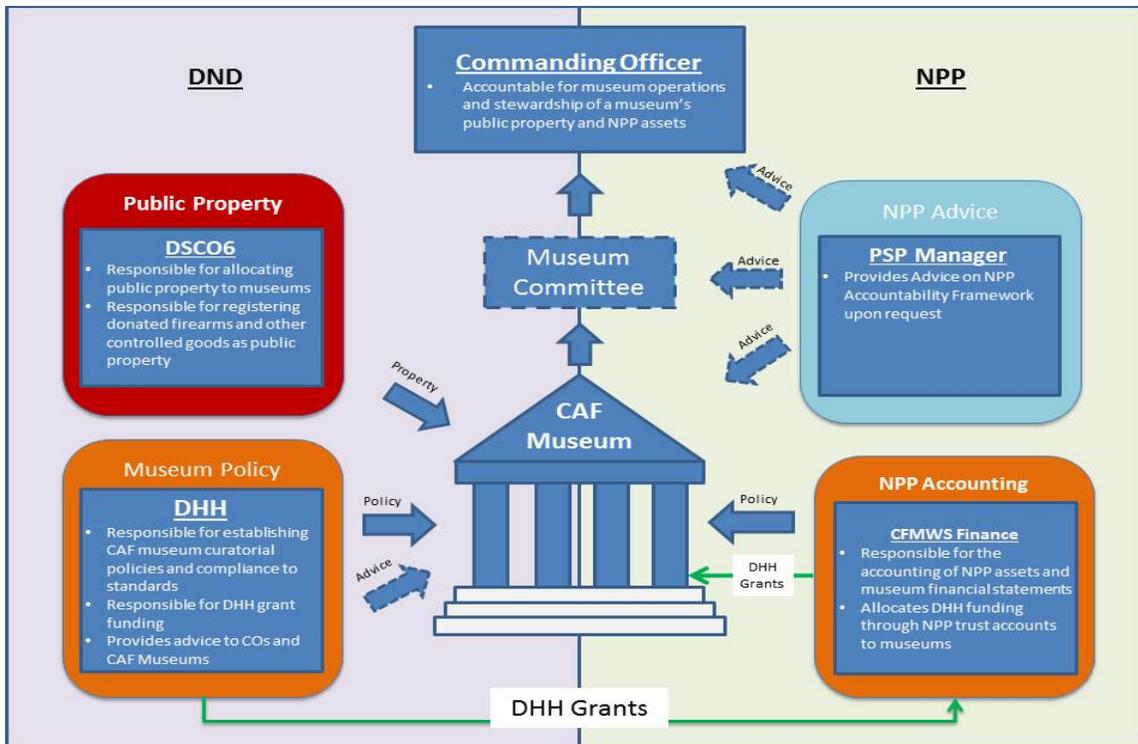
## 1.0 Introduction

### 1.1 Background

CAF museums preserve and interpret Canadian military heritage to increase a sense of identity and esprit de corps within the CAF. There are currently 70 CAF museums (29 Regular Force and 41 Reserve Force museums) accredited by DHH located within Regular Force and Reserve Force units across the country. Each museum is a self-financed NPP activity that operates under the authority and direction of its supporting CO. The museum system relies heavily on a large network of passionate volunteers who administer the majority of the smaller museums.

The governance structure of museums is unique within NPP in that program responsibility was not transferred to Canadian Forces Morale and Welfare Services (CFMWS) as part of the Alternate Service Delivery framework implemented in 1996. The DHH is responsible for program governance, including policy development. It accredits CAF museums, at which time the museums become eligible to receive public funding through grants. CAF museums are not considered a morale and welfare program; however, they are considered an NPP program and are subject to the NPP accountability framework. The MD NPP is responsible for NPP accounting policy and associated compliance, including NPP asset (artifact) management in accordance with the NPP Accountability Framework. This complexity is compounded by the fact that museum curators report to base/wing/unit COs who are accountable for the operations of the CAF museum.

The CAF museum governance structure is summarized in Figure 1.



**Figure 1. CAF Museum Governance Structure.**<sup>1</sup> This figure illustrates the CAF museum governance structure.

## 1.2 Objective

The objective of the audit is to assess the adequacy of the following:

- governance mechanisms over museum operations;
- risk management and internal controls within CFMWS and CAF museums to ensure that NPP assets are appropriately managed and safeguarded; and
- controls in place to ensure that DHH funding is only spent on approved project activities and within a timely manner.

## 1.3 Scope

The scope of the audit was limited to NPP, and did not include public property retained within museums. Public property can include controlled goods such as firearms, radioactive materials and other DND materials and supplies allocated to museums by Director Supply Chain Operations 6. It also includes controlled goods (usually firearms) that have been donated to the museum. The audit also excluded public governance arrangements, including the museum accreditation process, related oversight mechanisms and the allocation of DHH museum development funds, referred to in this report as grants. The audit did not include controls related to cash management and kit shop inventory management in part because the majority of CAF museums do not have cash or kit shop inventory that would be considered material and in part because the inventory they do have is reviewed for compliance on a risk basis by the CFMWS

<sup>1</sup> DSCO6 = Director Supply Chain Operations 6. PSP = Personnel Support Program.

Chief Financial Officer through the CFMWS's Compliance and Assurance section. The audit examined financial and non-financial information including relevant governance documentation from FY 2013/14 to FY 2015/16.

## **1.4 Methodology**

The following methodology was used to conduct the audit:

- Reviewed and analyzed relevant DND policies and directives;
- Reviewed and analyzed DHH site visit reports, financial reports of museums, museum committee meeting minutes, Consolidated Insurance Program (CIP) insurance appraisal information, and Delegation of Authority documents;
- Conducted preliminary site visits to three museums in the National Capital Region and Cornwall, followed by site visits to 16 museums in Kingston/Trenton, Calgary and Vancouver/Victoria. In total, these represent over 75 percent of recorded NPP fixed assets;
- Conducted interviews with various stakeholders responsible for CAF museums, both at National Defence Headquarters and on bases/wings;
- Examined 28 artifacts using a judgmental sampling methodology (as statistical sampling techniques were not used, any findings resulting from the examination of these artifacts cannot be generalized to all artifacts across all CAF museums); and
- Examined a sample of 11 invoices charged against DHH accounts for FY 2013/14 to FY 2015/16.

## **1.5 Criteria**

The audit criteria can be found at [Annex B](#).

## 2.0 Findings and Recommendations

### 2.1 Governance

The roles, responsibilities and accountabilities of the MD NPP and DHH are unclear. Guidelines regarding governance mechanisms are in place for CAF museums; however, implementation within CAF museums is inconsistent.

The complex governance structure described in the Background section is not formally documented. Furthermore, the roles and responsibilities of DHH and the MD NPP were not defined explicitly in policy or guidance documents. Interviews confirmed that roles and responsibilities were not well understood. This lack of clarity limits the ability of the museum committee members, management and operational staff to effectively seek advice and information in order to conduct day-to-day operations, and it also increases the likelihood of non-compliance with the policies and procedures governing CAF museum operations.

There are two primary documents that provide operational guidance to museums. The first is the Operations and Administrative Manual produced by DHH in 1998 (updated in 2002) that provides guidance for the operation, administration and management of CAF museums. The primary governance mechanism identified in this manual is a museum committee or board of directors established by COs that guides and directs the museum's policies and long-term goals and provides oversight on museum operations.

Museum committees were established by the COs in 12 of 19 museums. The committees of three additional museums were established by cooperating associations, contrary to DHH guidance. The guidance identifies the need for the museum and cooperating associations to remain separate legal entities, and to ensure that cooperating associations are independent of the museum and the CAF. It also states that they cannot exercise command or control over the museum. Only 1 out of 19 museums visited had an agreement in place with the cooperating association, which represents a best practice. The blurring of accountability between CAF museums and cooperating associations presents potential liability risks to the Crown, including misuse of Crown Assets, improper accounting of NPP funds, improper administration of the museums and failure to comply with rules regarding the administration of museums and NPP.

#### Good Practices

The use of agreements with cooperating associations reduces risks to the Crown.

The second guidance document is the Museum Reference Guide produced by the MD NPP in 2013. The guide was developed in order to provide an easy to use reference document on NPP accounting requirements. Just over half of the museum curators interviewed were aware of the Museum Reference Guide.

#### ADM(RS) Recommendation

1. DHH should define and document roles and responsibilities related to CAF museums, including accountability for program risk management and operational oversight. This should be communicated to all stakeholders (e.g., MD NPP, base/wing/unit COs) in order to clarify their accountabilities.

**OPI:** DHH

## 2.2 Risk Management

There are no formal strategic risk management practices in place within the CAF museum program.

The responsibility for managing program-level risks, or strategic risk management, is shared between MD NPP and DHH and includes public stakeholders as well (e.g., Director Supply Chain Operations 6, Assistant Deputy Minister (Infrastructure and Environment)). At present, no formal strategic risk profile has been developed, meaning that there is not a clear understanding of or agreement on the highest risks faced by museums. The lack of formal risk management practices at the program level increases the chance that these risks are not being mitigated appropriately.

Individual museums are not required by policy or guidance to undertake any form of risk assessment. Because the museums reviewed were housed in public facilities, business continuity planning is a public responsibility and therefore falls outside the scope of this audit. However, when asked about risk management, some museums stated that they practiced elements of risk management related to physical security and/or had disaster recovery plans. The military museums located in Alberta, for example, had a disaster recovery and emergency plan to which all CAF museums located within the complex contributed and referenced when asked. Given that many individual museums are staffed by volunteers, there is limited capacity to undertake more formal risk management practices. However, their input to a program-level strategic risk assessment would strengthen the results of any such assessment.

### ADM(RS) Recommendation

2. DHH, with the support of MD NPP, should undertake a strategic risk assessment of the national CAF museum program to identify common risks and develop mitigation strategies that can be implemented nationally or communicated to museums for implementation.

**OPI:** DHH

## 2.3 Asset Management

CAF museums' NPP and loaned artifacts are not registered and recorded in accordance with operational guidance. Control over artifacts is not appropriately exercised, and a thorough assessment of insurance requirements has not been conducted. There is evidence of NPP assets being alienated without proper delegated authority.

The DHH Operations and Administrative Manual requires that museums record artifacts in the Canadian Forces Artifact Management System (CFAMS) in order to ensure comprehensive records that preserve information, while fostering information exchange within the military museum community. The Manual also requires that museums establish an NPP distribution account (DA) to record artifacts in order to ensure that the total value of artifacts is known, which avoids problems in claim settlements should a loss occur. The majority of museum artifacts (NPP assets) are not being recorded and tracked on DAs, nor in CFAMS. Further, only one museum visited actively registered donated artifacts with the National Fixed Asset Office as required by the NPP accountability framework. Of the 19 museums visited, 6 were aware that they had NPP artifacts. Of these, only 4 had artifacts listed on the DA; however, none of these DAs accurately reflected the museum's collection of artifacts.

Due to the significant under-recording of NPP assets by CAF museums, CIP insurance coverage was significantly under the total dollar value of the assets that museums had in their possession. Three out of eight Regular Force museums visited did not have any CIP coverage, as they had no assets recorded with the CIP Manager. Based on interviews with the CIP Manager, Director of Finance and museum curators, there is lack of clarity regarding fixed asset documentation and reporting requirements in order to be eligible for insurance coverage.

The vast majority of CAF Reserve Force museum artifacts belonged to cooperating associations and were not considered NPP. While not NPP, the accountability framework still requires museums to register loaned items with the National Fixed Asset Office and to record items on a DA. None of the Reserve Force museums were compliant with this requirement. Moreover, none of the museums within the audit sample had a current loan agreement in place with the cooperating association specifying insurance requirements or procedures for lost, stolen or damaged artifacts.

Due to the fact that the majority of NPP assets and loaned artifacts in a museum's collection are not registered and recorded on a DA, CFMWS Finance does not have a complete inventory of the artifacts and memorabilia that are in the possession of museums. This creates a number of issues related to insurance and liability for loaned items and also increases the likelihood that valuable NPP assets may be lost, misplaced or stolen.

Finally, only the CDS has the authority to alienate, or transfer the title, of non-public property including artifacts and memorabilia. However, between the 1960s and the 1990s, seven Reserve Force museums and one Regular Force museum indicated that they had alienated their NPP artifacts to cooperating associations. The rationale for these bulk alienations was to protect the assets from being reallocated to other regions and units in case the Reserve Force or Regular Force unit were to be disbanded. The museums that had alienated their artifacts were unable to

produce any documentation identifying the artifacts that were alienated or the authority under which this alienation occurred. The artifacts currently under the control of cooperating associations are not considered NPP assets, and are not being managed according to the NPP accountability framework. Evidence of more recent alienation was also observed.

Disposal of artifacts and memorabilia through unauthorized alienation may result in the loss of assets that should be used to benefit the CAF. CAF museums face a number of operational pressures. There is a risk that museums may sell artifacts for short-term operational benefits that could negatively impact the overall objective of the DHH CAF museum program.

#### **ADM(RS) Recommendation**

3. MD NPP and DHH should provide enabling direction and tools, coupled with oversight mechanisms and ensure that base/wing/unit COs formally account for artifacts, including those on loan.

**OPI:** MD NPP, DHH

#### **ADM(RS) Recommendation**

4. MD NPP should use cost-benefit analysis to determine the most appropriate approach for insuring NPP assets. Guidance should be issued to base/wing/unit COs.

**OPI:** MD NPP

#### **ADM(RS) Recommendation**

5. MD NPP should develop an approach to manage the alienation of artifacts and memorabilia.

**OPI:** MD NPP

## **2.4 DHH Allocations**

While limited NPP pre-payment controls were in place to ensure that expenditures charged to DHH accounts were appropriate, all DHH account expenditures reviewed were appropriate.

DHH chairs the Canadian Forces Museum Committee, which is allotted an annual budget to provide financial assistance to accredited museums and to develop the museum system. No funding has been allocated to DHH for grants to date this fiscal year; however, the budget in FY 2015/16 was \$4.6 million, and in FY 2014/15 it was \$991,212. Based on priorities established by the Committee, DHH public allocations in the form of Museum Development Fund grants are approved. Once an allocation for projects has been approved, the money is transferred into an NPP Trust account. As the allocation process is public, it was out of the scope of this audit. Instead, the audit focused on the expenditures from the NPP trust accounts.

Of the 19 CAF museums examined, 4 provided the audit team with information on expenditures in the FY 2013/14-2015/16 timeframe against the DHH grants received. A judgmental sample of 11 expenditures was reviewed. This file review determined that all expenditures in the sample had been used for purposes consistent with the initial allocation. However, there were very limited pre-payment controls applied to DHH related expenditures. The NPP accounting officers interviewed stated that they did not verify or scrutinize whether expenditures charged to DHH accounts were related to the allocation, as this was the responsibility of the museum's delegated authority. This issue is being addressed in response to other audit recommendations.<sup>2</sup>

In addition to the sample, there was one instance of a DHH allocation not being spent in a timely manner. In this case, the DHH allocation was for a construction project. It is the responsibility of DHH to interact with the museum to determine when DHH allocations will be spent by the museum. It is also DHH's decision to reallocate the funds if the museum cannot spend the money in a timely manner. As part of the DND Infrastructure and Environment transformation initiative, the management of all public construction projects has now been centralized under Assistant Deputy Minister (Infrastructure and Environment), therefore similar projects will be undertaken within the public accountability framework.

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<sup>2</sup> Follow-up Audit of Non-Public Property Information Management / Information Technology Rationalization: Phase 1 – Governance, recommendation 16.

### 3.0 General Conclusion

CAF museums play a vital role in preserving and interpreting Canadian military heritage, with the goal of increasing the sense of identity and esprit de corps within the CAF and supporting the goals of DND. The effectiveness of CAF museum administration could be improved by clarifying and communicating roles and responsibilities, which would serve to increase the likelihood of compliance with policies and procedures governing CAF museum operations. Better management of strategic risk would ensure a clear understanding of the highest risks faced by museums and ensure that these risks are being mitigated appropriately. Improving controls over asset management will serve to ensure that artifacts are being managed appropriately, thereby improving the museums' ability to achieve their objectives.

## Annex A—Management Action Plan

ADM(RS) uses recommendation significance criteria as follows:

**Very High**—Controls are not in place. Important issues have been identified and will have a significant negative impact on operations.

**High**—Controls are inadequate. Important issues are identified that could negatively impact the achievement of program/operational objectives.

**Moderate**—Controls are in place but are not being sufficiently complied with. Issues are identified that could negatively impact the efficiency and effectiveness of operations.

**Low**—Controls are in place but the level of compliance varies.

**Very Low**—Controls are in place with no level of variance.

### Governance

#### ADM(RS) Recommendation (Moderate Significance)

1. DHH should define and document roles and responsibilities related to CAF museums, including accountability for program risk management and operational oversight. This should be communicated to all stakeholders (e.g. MD NPP, base/wing/unit COs) in order to clarify their accountabilities.

### Management Action

DAOD 5040-Museum is in the development process and will replace CFAO 27-5 – Canadian Forces Museums. This document will clearly identify strategic roles and responsibilities related to CAF museums, with an anticipated promulgation date of March 31, 2017. Following issuance of the DAOD, a complete review of the A-AD-266/AG-0001 Canadian Forces Museums: Operations and Maintenance document will be completed by December 2018 and will include a clarification of roles and responsibilities. In the interim, DHH, with the support of MD NPP, will issue communication to COs clarifying roles and responsibility of all stakeholders by March 31, 2017. Following the issuance of A-AD-266/AG-0001 Canadian Forces Museums: Operations and Maintenance, MD NPP will also utilize the Fundamentals of NPP course as a means to communicate key museum governance.

**OPI:** DHH

**Target Date:** December 2018

## Risk Management

### ADM(RS) Recommendation (Moderate Significance)

2. DHH, with the support of MD NPP, should undertake a strategic risk assessment of the national CAF museum program to identify common risks and develop mitigation strategies that can be implemented nationally or communicated to museums for implementation.

### Management Action

DHH, with the support of MD NPP, will undertake and document a strategic risk assessment and develop mitigation strategies that will be communicated to all stakeholders by March 31, 2018.

**OPI:** DHH

**Target Date:** March 2018

## Asset Management

### ADM(RS) Recommendation (High Significance)

3. MD NPP and DHH should provide enabling direction and tools, coupled with oversight mechanisms and ensure that base/wing/unit COs formally account for artifacts, including those on loan.

### Management Action

The requirement to record artifacts, including those on loans, in the CFAMS and within the accounting records will be enforced by DHH and by MD NPP. As a first step, communication will be issued to COs to that effect with a requirement to have both NPP DAs and CFAMS updated by March 31, 2018 for artifacts with a value of \$5,000 or more. A requirement to confirm that this action has been taken will be included in the base/wing NPP Financial Management Attestation for FY 2017/18 for CAF Regular Force museums. Reserve Force museums will be requested to confirm compliance with the requirement by March 31, 2018. The second and final step in the process will take place within 12 months of the roll-out of the CFAMS replacement, or no later than March 31, 2019 when a requirement to have all artifacts entered in both the CFAMS or its replacement and in the NPP DAs will be enforced. The confirmation process utilized in step one will be replicated.

Note: Information gathered in both the CFAMS and its replacement will be leveraged to populate the NPP DAs.

**OPI:** MD NPP, DHH

**Target Date:** March 2018

### ADM(RS) Recommendation (High Significance)

4. MD NPP should use cost-benefit analysis to determine the most appropriate approach for insuring NPP assets. Guidance should be issued to base/wing/unit COs.

### **Management Action**

MD NPP will conduct a cost-benefit analysis once all museum artifacts have been identified. This cost analysis will be undertaken in FY 2018/19.

**OPI:** MD NPP

**Target Date:** April 2019

### **ADM(RS) Recommendation (High Significance)**

5. MD NPP should develop an approach to manage the alienation of artifacts and memorabilia.

### **Management Action**

MD NPP will develop an effective and efficient approach to manage the alienation of NPP artifacts. As a first step, COs will be reminded of the requirement to safeguard, protect and properly dispose of NPP artifacts by December 30, 2016. Personnel Support Program Policy Chapter 11-1 Artifacts and Memorabilia will be amended by March 31, 2017.

**OPI:** MD NPP

**Target Date:** March 2017

## **Annex B—Audit Criteria**

### **A. Appropriate governance mechanisms are in place to oversee museum operations.**

1. Authority, responsibility and accountability for CAF museums are clear, communicated, understood and formalized through appropriate delegation of authorities.
2. Museum oversight bodies are established that oversee museum operations, as well as a museum's long term plans and strategies.
3. Mechanisms are in place between museums and assisting organizations that define legal separation and outline the support provided and asset ownership and control.

### **B. Museum risks to assets are identified, assessed and mitigated through a formal and systematic risk management process.**

1. Management has a documented approach with respect to risk management, and it assesses and mitigates identified risks to assets.

### **C. NPP assets are safeguarded in accordance with the NPP accountability framework.**

1. Donations to museums are appropriately accounted for, and tax receipts issued for donated items reflect the value of the donated item.
2. NPP and loaned assets are appropriately catalogued and tracked by CAF museums through inventory checks every two years, or annually in the case of loaned artifacts.
3. NPP and loaned assets are appropriately safeguarded from loss, damage and destruction.
4. NPP assets and items on loan are covered by insurance against loss, damage and theft.
5. NPP assets are disposed of appropriately and in accordance with delegation of authorities.

### **D. DHH funds are only used for approved project activities, used for the purposes intended and expended in a timely manner.**

1. DHH funds are only spent on approved project activities and are expended in a timely manner.