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Audit of Outreach, Non-Public Property (NPP) Sponsorship and Donations Programs

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Caveat

Non-Public Property (NPP) is created under the *National Defence Act* (NDA). The purpose of NPP is to provide benefit to serving and former members of the Canadian Armed Forces (CAF), and their families or for any other purpose designated by the Chief of the Defence Staff (CDS). NPP of each unit 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. The Minister of National Defence (MND) has authority to make regulations with respect to liability and restitution for loss of or damages to NPP. MND also has authority to ensure good governance and to ensure NPP is being used as intended.

Article 38(1) of the NDA provides that the *Financial Administration Act* (FAA) does not apply to NPP. Revenues from NPP operations are retained as Non-Public Funds.



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Acronyms and Abbreviations

AA	Authorized Agent
B/W/U	Base/Wing/Unit
CAF	Canadian Armed Forces
CDS	Chief of the Defence Staff
CFLA	Canadian Forces Legal Advisor
CFMWS	Canadian Forces Morale and Welfare Services
CMP	Chief Military Personnel
COI	Conflict of Interest
CRS	Chief Review Services
DGMWS	Director General Morale and Welfare Services
DND	Department of National Defence
DSOI	Director of Strategic Outreach and Initiatives
FY	Fiscal Year
GCWCC	Government of Canada Workplace Charitable Campaign
MFRC	Military Family Resource Centre
MND	Minister of National Defence
MOU	Memorandum of Understanding
MWS	Morale and Welfare Services
NDA	<i>National Defence Act</i>
NPF	Non-Public Funds
NPP	Non-Public Property
OPI	Office of Primary Interest
PIK	Product in Kind
S&D	Sponsorship and Donations
SDPM	Sponsorship and Donations Program Manager
SME	Subject Matter Expert
SOT	Support Our Troops



Results in Brief

In accordance with the Chief Review Services (CRS) Audit Work Plan (NPP and Morale and Welfare Services, and Staff of Non-Public Fund (NPF) Employees) for fiscal years (FY) 2010-2013, an audit of Outreach, NPP S&D Programs was conducted.

The purpose of this audit was to provide assurance to the Chief of the Defence Staff (CDS) on the effectiveness and adequacy of risk management strategies and practices, management control frameworks, systems and practices, and governance processes over the NPP S&D Programs and associated outreach activities. The NPP S&D policies were assessed, along with applicable Department of National Defence (DND) policies and other relevant guiding documents. The scope also included both internal and external events, and third-party groups and activities associated with NPP S&D.

NPP S&D has augmented morale and welfare programs, activities, and events for several decades. Since 2003, the S&D Program has grown by more than 450 percent, with almost \$6 million of financial and in-kind support now generated annually through a variety of initiatives utilizing the NPP S&D framework. Contributions come from several sources, including Canadian citizens, corporate Canada, and other third-party groups.

Key Findings

- The purpose and intent of soliciting sponsorship and donations is not clear, and a bona fide need has not been identified.
- Solicitation of sponsor support requires a strategic approach with central coordination at the national level.
- Policies and administrative frameworks have gaps and do not support the operational realities facing stakeholders.
- The commanding presence of third-party groups initiating external activities to support the military and their families is having negative effects on the defence organization.

Note: For a more detailed list of CRS recommendations and management response, please refer to Annex A—Management Action Plan.

Overall Assessment

Significant growth of Non-Public Property (NPP) Sponsorship and Donations (S&D) has benefited numerous morale and welfare activities; however, there are insufficient controls in place to ensure long term success of the program.

Introduction

Background

Sponsorship is commonly used to support and offset finances for new events or to enhance current ones. It is defined by the International Events Group Glossary (2010) as a “cash and/or in-kind fee paid to a property (typically a sports, entertainment, non-profit event or organization) in return for access to the exploitable commercial potential associated with that property”. Organizations, individuals or groups approach companies to sponsor an event financially, through product-in-kind (PIK), or services, in return for recognition of the support provided by them in the form of a benefit of similar value.

The Canadian sponsorship industry is valued at 1.57 billion dollars, and has been on a steady increase since 2006, according to the Canadian Sponsorship Landscape Study. However, the study also indicates that economic and budget concerns are one of the larger challenges facing respondents (sponsors, sponsees and agencies).¹ In times of fiscal restraint, program resources may be limited, and without assurance of the long term sustainability of sponsorship, there are risks associated with an overreliance on these funds to accomplish objectives.

NPP, a distinct form of Crown property, is a resource used to provide morale and welfare benefits to serving and former members of the Canadian Armed Forces (CAF), and their dependents² as designated by the CDS. The Canadian Forces Morale & Welfare Services (CFMWS) is the organization responsible for the administration and delivery of NPP operations. CFMWS also delivers publicly funded morale and welfare programs as a line of operation under Chief Military Personnel (CMP).³ The CAF, DND and CFMWS will henceforth be referred to as the “defence organization.”

Nationally, the CFMWS manages an umbrella Support Our Troops (SOT) Program, which includes several internal initiatives that raise and provide funds for the military and their families to address identified hardship or support needs. The SOT Program includes: Operation Santa Claus, Soldier On Program, Military Families Fund, SOT Fund, Hospital Comforts Fund, and Program Rebates Fund. The Canadian Forces Personnel Assistance Fund is a registered charity that is not part of SOT but is co-managed within the program. Locally, Military Family Resource Centres (MFRCs) are provincially registered third-party not-for-profit organizations, and deliver a variety of support programs and services, with some funding and oversight provided by Director Military Family Services.⁴ Direct contributions may be made to the various official SOT funds (i.e., online, by phone, mail, or through fundraising events). Additionally, personnel throughout the defence organization may solicit support for events or activities that contribute to the morale and

welfare of the established group of beneficiaries through the NPP S&D Program.

¹ 7th Annual Canadian Sponsorship Landscape Study (CSLS), by Dr. Norm O'Reilly, University of Ottawa and Elisa Beselt, TrojanOne, August 2013.

² The *National Defence Act* (NDA) identifies dependents of current and former CAF members as beneficiaries, although in this report the term “families” will be used.

³ See Annex C—Abbreviated Organizational Chart.

⁴ <https://www.cfmws.com/en/SupportOurTroops/Pages/default.aspx>.

Throughout this audit report SOT may also be used in general terms to reference the concept of support for our troops, and not necessarily the official SOT Program.

Objectives

The objective of this audit was to assess the effectiveness of the NPP S&D policies established in response to the July 2009 Review of Canadian Forces Morale and Welfare (NPP) S&D Program. The intent was to provide assurance to the CDS on the effectiveness and adequacy of risk management strategies and practices, management control frameworks, systems and practices, and governance processes over NPP S&D Programs and associated outreach activities. Annex B outlines the audit criteria assessed in this audit.

Scope

The NPP S&D policies were assessed, and other applicable policies were reviewed. In order to provide assurance to the CDS, the scope included both internal and external events, third-party groups and activities associated with sponsorship and donations, and any affected areas of the CAF/DND/CFMWS.

Internal aspects of the SOT Program were not reviewed in this audit, as they will be reviewed in a future audit. S&D solicited for events that support the SOT Program were included in audit samples.

This audit focused primarily on sponsorship activity. A risk assessment of the S&D Program deemed donations to be lower risk at the base/wing/unit (B/W/U) level, and will be reviewed in greater detail during the course of the SOT Corporate Outreach Program audit. Additionally, donations to CAF Museums will be reviewed as stated in the Audit Work Plan NPP Morale and Welfare Service (MWS) FYs 2012-2015.

Methodology

The following methodology was used by the audit team to gather information necessary to apply the audit criteria:

- Pre-conduct interviews with key stakeholders and personnel involved in the governance, accountability, risk management, and delivery of sponsorship, donations, and outreach activities. This included senior leadership and staff responsible for program delivery.
- Review of relevant policies, legislation, and directives, as well as industry literature.
- Research on the S&D landscape within Canada, specifically as it relates to support for the military and their dependents, along with a cursory view of similar programs in other nations.
- Site visits to the following CAF bases: Esquimalt, Suffield, Winnipeg, Bagotville, and Cold Lake.
- A sample of events, activities, and programs at the local and national level were reviewed and analyzed.
- Follow-up questions and interviews based on results of site visits and analyses.



- Periodic audit updates and post-conduct meetings with Director General Morale and Welfare Services (DGMWS), Associate DGMWS, and other appropriate stakeholders.

Description of Program

Individuals (CAF members, Staff of the Non-Public Funds, or any other persons on behalf of the CFMWS) assigned a sponsorship and donations function may obtain sponsorship to support morale and welfare events and activities. Such support may be solicited or unsolicited and resources received in the form of cash or PIK. The exchange of benefits in these arrangements must be approximately of equal market value. Donations may also be made and accepted through NPP, for which no exchange of benefit occurs. Official tax receipts may be issued for any donation over ten dollars, as NPP donations are considered gifts to the Crown. Funds and PIK received through the NPP framework are accounted for through the base, wing, unit, or station fund at the various locations where S&D activities take place, and are administered under the authority of the relevant Commanding Officer.

Prior to solicitation, designated individuals must become certified Authorized Agents (AAs) by taking the NPP Corporate Outreach AA certification course. This course is intended to educate individuals on the purpose of S&D, applicable policies and processes, the AA's role, along with the role of the CFMWS. Certification is valid for three years.

In the last ten years, the NPP S&D Program has experienced significant growth. In FY 2003/04, a total of approximately \$1 million in NPP sponsorship, donations, and PIK was generated nationwide. S&D was solicited by 68 AAs located at 25 of 31 B/W/Us to support CAF sporting events, banquets, and small-scale local activities for the military and their families. By FY end 2012/13, more than \$5.5 million was generated annually by more than 250 AAs.



Findings and Recommendations

Purpose and Intent of Sponsorship

Sponsor and donor contributions have helped fund numerous morale and welfare programs; however, the need for many of the events and activities, and justification for seeking external support, has not been identified.

The purpose and intent of sponsorship for morale and welfare initiatives has not been clearly defined or articulated and is not well understood throughout the defence organization. Prior to 2004, S&D was typically used to support CAF sporting events, banquets, and smaller-scale local activities for the military and their families. In recent years, the scale of events and activities has grown exponentially, to include multi-day military and family appreciation days that are open to the public, offering a wide range of higher-cost entertainment and providing a general revenue source that may be used to offset operating costs of existing programs.

Since FY 2003/04, revenues from S&D have grown more than 450 percent from approximately \$1 million to over \$5.5 million. There is a growing attitude, mostly at the local base level, that “bigger is better.” However, senior leadership within the defence organization has acknowledged the physical, financial and reputational risks that are inherent with both hosting large-scale events and entering into contribution arrangements of a significant value. Bases and wings that engage in high-volume, locally managed sponsorship activities may well experience temporary revenue increases, but there is nothing to support the sustainability or viability of this approach over a longer term. A coordinated plan outlining events and activities that address the identified needs of CAF members and their families is not in place. Further, it has not been demonstrated to senior leadership that events of this scale and nature are needed or justified in order to enhance the morale and welfare of the CAF, or that they contribute to the defence organization’s mandate.

The Morale and Welfare Programs in the Canadian Forces - Public Support to Morale and Welfare Programs and Non-Public Property Manual (or CFP110) outlines provisions for public support to morale and welfare programs. Its current issue does not provide the necessary distinction between acceptable uses of public and non-public funds to support morale and welfare programs and activities. Throughout the CAF, there are vast differences in interpretation of the definitions of morale and welfare and, consequently, about which types of activities are eligible to receive public and/or non-public support. The notion that S&D may be used for anything that heightens morale is a risky ideology and sets a precedent that could dramatically diminish the integrity of not only the S&D Program, but morale and welfare programs in general. Also, there is evidence of support being used to fund higher-profile events or activities that target only a limited audience. For example, B/W/Us of the CAF have solicited and received sponsor and donor support to fund or augment the cost of holiday parties, golf tournaments, anniversary celebrations, and other occasions that may not be for the collective benefit of their military members. Societal and organizational trends have changed, and while it may once have been commonplace to provide these types of activities to employees at no cost, it is no longer standard practice. Wide use of S&D in instances such as these could likely

be viewed as excessive, thereby damaging the reputation of the defence organization and reducing the availability of funding for other morale and welfare programs in need.

Unless specifically authorized, S&D solicited or received under the NPP framework should be strictly for the benefit of current or former military members and their families (collectively known as NPP Beneficiaries).⁵ The NPP framework has increasingly been used to fund or offset the costs of events or activities beyond its initial purpose. This includes those that ought to be administered under the public framework, and those that should not be funded using public or non-public resources and initiatives for which the government has no mandate or responsibility to fund or deliver. Armed Forces Days, or similarly named events, are an opportunity for the CAF to connect with Canadians by allowing them access to military bases and to display defence resources and capabilities. These events engage the public so that they may gain an appreciation for the role of the CAF, while also providing a recruitment tool and fostering community relations. Similar outreach activities of this nature are often seen in conjunction with large-scale public events, such as the Canadian National Exhibition, the Calgary Stampede, large Canada Day celebrations, or in communities that are home to a CAF base. The CAF and the DND are responsible for and use public resources to run these events aimed at connecting with Canadians.

Alternatively, non-public resources are reserved to provide morale and welfare support exclusively to the group of beneficiaries, or where the CDS (or delegate) may in special cases authorize alienation⁶ of NPP for other purposes. Large-scale events have transformed into a combination of public outreach and a method of providing morale and welfare support, resulting in unclear lines of responsibility and improper uses of financial and accountability frameworks. Quite apart from the potential physical risks associated with large events being hosted on military bases and wings (e.g., concerts, public air shows, or other high-tempo thrill-inducing activities), the reputation of the defence organization could be damaged if losses occur or if the use of resources is viewed to be excessive or inappropriate, especially in the current political and economic environments of fiscal restraint.

Relying on sponsorship and donations from corporate Canada and the general public to fund the delivery of mandated programs and activities presents a host of other risks that must be managed in a controlled manner. Any over-reliance on outside support raises the potential for gaps in service or diminished programs if the contributions are reduced and public or non-public resources have not been appropriately dedicated to deliver on their respective mandates.

It is critical to ensure that external collaboration with sponsors or donors preserves the integrity of the S&D Program. Solicitation and receipt of contributions should be strategically planned with the highest regard for any potential ethical or conflict of interest (COI) situations.

⁵ NDA Part II, Sections 38-39.

⁶ This is where funds are used for atypical purposes, for which they were not originally intended. "Alienation" is defined in Section 39(3) of the NDA.

Recommendation

1. Issue CDS direction and guidance to:
 - State the purpose and intent of NPP S&D;
 - Provide clarification on which types of events and activities S&D may and may not be solicited and used for; and
 - Outline which events and activities ought to be funded using public funds, non-public funds, a combination of both, or neither. Further guidance should be provided to assist stakeholders in understanding the appropriate policy framework(s) to follow in various scenarios.

OPI: CDS

Policy Factors

Existing policy and process gaps place the S&D Program at risk; however the CFMWS is making significant progress in addressing potential conflict of interest and control gaps as it develops a new NPP S&D policy.

Since the 2009 CRS Review of the Canadian Forces Morale and Welfare NPP S&D Program was completed, several policy, program, and organizational changes have been implemented. CFMWS staff has collaborated with regional and central stakeholders and made significant improvements to the Program as a whole. Efforts continue to be made to establish a central element of oversight, control and subject matter expertise to support field operations and leverage national opportunities for maximum benefit to all stakeholders concerned. This includes the creation of a Sponsorship and Donations Program Manager (SDPM) position under the Director of Strategic Outreach and Initiatives, as shown in Annex C. CFMWS staff is currently developing an updated NPP S&D policy and a guidance document to complement the policy, thereby ensuring a consistent interpretation and implementation by all stakeholders. The new policy was deemed necessary to address emerging realities in field operations and to close process gaps that exist. While the NPP policy is being revised, the Defence Ethics Program is, simultaneously, revising Defence Administrative Orders and Directives 7021-4 – Public Solicitation, Sponsorship and Donations. These two policy documents should remove any uncertainty surrounding the use of public vs. non-public frameworks. Fieldwork for this audit provided evidence of the following key policy and process gaps:

Dealings with Defence

There is no process to determine if a potential sponsor or donor has official business dealings with the defence organization, or if association with them would present any real or perceived COI. The US Army has a similar morale and welfare S&D Program, and to mitigate potential COI risks, it limits solicitation to consumer goods and services companies. While this may not eliminate all companies that have dealings with the defence organization, it is viewed as a best practice as it encourages strategic S&D relationships with companies that market to the general population within the defence community. Limiting sponsor support to consumer goods and services companies would not necessarily preclude defence industry companies from contributing to the SOT Program and other internal initiatives through donations. In situations where donor support is received or expected to be received from these groups, a higher level of oversight should be in place through the SDPM.

Hospitality Policy

There is no NPP hospitality policy. On occasion, there will be legitimate cause for staff to spend funds on hospitality for the provision of meals, beverages or refreshments to non-federal government persons for activities necessary for the effective conduct of government business. Expenses of this nature are often subject to increased levels of public or general scrutiny, and therefore must have robust levels of transparency, accountability, and oversight. Treasury Board has a policy to govern such expenses of

public funds throughout government departments, and although non-public funds are not subject to Treasury Board policies, having an equally robust policy in place is expected.⁷

Endorsement of Outside Charities

The defence organization is directly and indirectly supporting outside charitable groups through fundraising campaigns or providing exposure and resources at special events and activities. Members of the CAF and their families throughout Canada have benefited from the generous support of various charitable organizations in their communities, and are also valuable contributors to these organizations through volunteer work or providing financial and in-kind support. Examples include community not-for-profits, hospitals, and illness-related charities, among others. As private citizens, this activity is certainly encouraged; however, the defence organization, as a government entity, must remain impartial and not provide real or perceived endorsement or preferential treatment of one outside group over others.

The Government of Canada Workplace Charitable Campaign (GCWCC)/National Defence Workplace Charitable Campaign was established as a vehicle to provide a coordinated level of support that engages all employees for the potential benefit of any registered charity. When B/W/Us selectively support certain charities or causes, there is a risk of setting a precedent; other groups may seek support, and it could be detrimental to the defence organization's reputation if causes are declined without a transparent and accountable process for selecting which to endorse. Deferring to the GCWCC and other official charities ensures fairness and transparency at the local and national level. There are cases where an outside charity or foundation is established with the primary purpose of supporting the beneficiaries of NPP and contributing to their morale and welfare. The CFMWS is exploring opportunities for collaborative arrangements with these groups to meet shared objectives.

Recommendations

2. Limit sponsorship solicitation only to consumer goods and services companies in order to reduce the risk of real or perceived COI. Issue guidance and establish a process to identify and manage partnerships where potential sponsors and donors have dealings with the defence organization. This may include a tracking, monitoring, and proactive disclosure reporting mechanism.

OPI: CDS

3. Develop an NPP Hospitality Policy, as recommended in the 2012 CRS NPP Governance, Strategic Direction and Business Planning audit.

OPI: CDS

4. Issue communication to base and wing commanders and other stakeholders re-emphasizing the restrictions on endorsing outside charities and provisions for support.

OPI: CDS

⁷ CDS Direction – Canadian Forces Personnel Support Agency 15 December 2004.

Sponsorship and Donations Environment and Third-Party Activity

Larger third-party groups have a commanding presence in the SOT landscape,⁸ and in many cases are competing with the defence organization's mandate and objectives, rather than supporting them.

For the purpose of this audit, the term “third parties” includes, but may not be limited to:

- CAF members undertaking SOT-type initiatives on their own accord outside of their assigned duties;
- Members of the general public, including CAF family members who undertake SOT-type initiatives;
- Defence community partners (e.g., MFRCs, other government departments, etc.); and
- Charitable and not-for-profit organizations and foundations with an SOT-type mandate.

“Support Our Troops” invokes an image of the CAF in the minds of Canadians and is an institutional brand. When people contribute to this cause, there may be assumptions about where their support is going. It is very difficult to identify and even harder to control legitimate vs. potentially fraudulent external SOT undertakings. When external groups state that they are fundraising for SOT, there is no way to know how much, if any, of the funds are directed towards the SOT cause.

Interviews conducted during this audit provided clear evidence that the various stakeholders are confused about the role that different groups play in providing support for the military and their families. For all internal initiatives under the SOT Program and those delivered through, or in collaboration with, community and strategic partners, there ought to be a capability to manage the communication to determine which SOT activities are officially sanctioned and which are not. Enhanced communication should provide users and supporters with such clarity about SOT initiatives.

The support and generosity of external groups is invaluable, although these groups also present risks to internal programs and those provided by community and strategic partners. Many third-party groups offer financial or in-kind support, and some have established their own morale and welfare programs and services targeting the CAF community. In the current environment of fiscal restraint, management within the defence organization may be tempted to accept this support or to consider endorsing and leveraging third parties as a cost-saving alternative means of service delivery. Internal and partnered programs are established to address identified needs, and provide necessary fairness, transparency, internal controls, and oversight to ensure the ongoing ability to meet organizational objectives. Third-party groups, however, are not obliged to provide continuing service, and it would therefore be risky for the defence organization to enter into relationships that create a dependence on external sources for ongoing support. If the defence organization were to rely upon third parties that subsequently withdrew their

⁸ In this context, the SOT landscape refers to the general concept of fundraising or initiatives aimed at generating financial and in-kind, moral support for the military community. This is distinct from the official SOT program managed by the CFMWS.

support or changed their mandate, there is a risk that the beneficiaries will face gaps in important programs or disruption of services. Further, increased competition in solicitation of support for this cause by third parties may weaken the SOT brand and diminish the availability of direct support to the cause, due to market saturation.

Larger third-party groups have a commanding presence in the SOT landscape, and in many cases are competing with the defence organization's mandate and objectives, rather than supporting them. These groups have access to key stakeholders within corporate Canada, the media, political groups, senior government bureaucrats and military leadership. Third parties leverage this access, while not subject to the same restrictions over conflict of interest and accountability as government entities, to carry out large-scale SOT events, activities and initiatives. Companies, politicians, senior bureaucrats and military leaders engaged by these organizations for support, and subsequently provide real or implied endorsement, may not appreciate the possible negative effect that third parties are having on internally mandated and managed programs and services. There are designated officials to coordinate third-party engagement within the defence organization (CFMWS and/or Strategic Joint Staff), and when others directly lend support to or align themselves with third parties it undermines the accountability and transparency of access to government resources. This direct access could also lead to potential ethical or COI situations.

CAF members and their families are frequently invited to speak or participate in externally organized events to emphasize the needs or perceived gaps in service in supporting our troops. External parties value the presence of a uniformed CAF member because it adds credibility to their initiatives. Additionally, individual CAF members and their families frequently spearhead their own SOT-type initiatives. These undertakings are typically initiated out of compassion for the cause; however, these individuals may be unaware of potentially negative consequences of their efforts. Without appropriate vetting, delegation and direction from designated officials, the defence organization may not be appropriately represented. Unauthorized representation of the CAF presents risks to the reputation and brand, which could prevent the defence organization from achieving its objectives relating to support the military, and could damage partnerships built throughout the community.

Key stakeholders in the defence organization have indicated that significant time and resources are spent dealing with the negative effects of third-party groups, such as preparing briefings for senior leadership, repairing relationships with corporate partners, and reinforcing the official role of the defence organization as it relates to outreach and SOT.

Contributions from all sources are essential to the ongoing success of the SOT cause, yet established policies and processes must be respected. The defence organization must exercise caution when aligning or associating with external groups.

High-dollar contributions or support activities triggered by events in emotionally-charged issues must not override the need for organizational control over SOT, nor should they influence program and resource decisions by senior management. It is critical for the defence organization to have adequate risk management, accountability, governance, and control frameworks in place to ensure optimal outcomes. With adequate centralized control, the defence organization will maintain the brand and reputational integrity that make the SOT cause so valuable.

Recommendations

5. Collaboration with third-party groups should, at a minimum, require a memorandum of understanding, whereby the defence organization maintains control and where OPIs are designated. Collaborative arrangements with third parties which present higher stakes such as provisions for the use of intellectual property, high-value exchanges, or those having a high level of public visibility should be agreed to in a legally binding format to allow the Department to exercise greatest control. Input should be provided by a Canadian Forces Legal Advisor (CFLA) in the development of collaborative arrangements.

OPI: CDS

6. Communication regarding support for the military and their families should be delivered (internally and externally) at each point where it will have the necessary impact in order to:

- control CAF members using the brands/logos and conducting unofficial SOT activities;
- inform the public on how they may provide support directly or through other sanctioned groups that provide support indirectly;
- educate political, bureaucratic, and corporate stakeholders on internal vs. external SOT initiatives and the impact of each one on the government's objectives and subsequent programs; and
- reinforce that all engagements by or contact with third parties ought to be directed to the designated OPIs.

OPI: CDS

Authorized Agent Certification

There are too many individuals soliciting sponsor and donor support without a national plan or control to ensure integrity of the program.

The CFMWS has an AA certification program that provides basic training and prepares personnel who have been designated and appropriately delegated to solicit NPP sponsor and donor support. Pursuant to the NPP S&D policy, solicitation of NPP S&D support without certification is prohibited. AA certification is valid for a period of three years, after which recertification is necessary if the individual is still responsible for solicitation of S&D.

The CFMWS has acknowledged that management of the AA program required improvements, and has taken measures to exercise better control and oversight. The unique reporting structure within the defence organization is such that while DGMWS has delegated operational authority over NPP, the CAF members in the field do not report to her/him. Many individuals (mostly CAF members) have regularly solicited S&D support from the community without the requisite AA certification. At the beginning of this audit, some locations had dozens of AAs, while others had none. Until recently, AA certification was only provided upon request, with very little central oversight to ensure that all locations had appropriate coverage by way of individuals authorized to solicit.

The DGMWS took measures to control the AA program in May 2013, by directing all base and wing commanders to appoint one primary AA.⁹ Reserve units of the CAF and those located off a base or wing are more difficult to control as they are not exposed to or knowledgeable of the supporting frameworks that are in place to govern NPP. Presently, there are few restrictions on who may become an AA, or parameters to indicate when solicitation may be conducted. For example, if a person becomes a certified AA for the purpose of soliciting support for a specific event or activity, and this is not their primary responsibility, they remain permitted to conduct solicitation for the duration of the three years simply because they are certified. Further, for individuals who are selected to solicit S&D, a clear segregation of duties should be in place to avoid potential conflicts. For example, if an employee has responsibilities for procurement on behalf of the defence organization, they should not be permitted to also solicit S&D.

Since 2003, the number of AAs has risen from 69 to more than 250. Having more AAs than necessary soliciting support from the community could tarnish the reputation of the defence organization and weaken the integrity of the S&D Program when efforts are not coordinated and controlled. AAs who only sporadically solicit S&D may not be aware of policy, legislative changes or political considerations affecting the defence organization.

The limited level of training that is provided through the AA certification process does not educate individuals to the extent that they would become experts in the field of S&D. Therefore, extreme caution should be exercised before allowing AAs to solicit from numerous national and international organizations or large dollar values. In these circumstances, there should be greater involvement of the SDPM, who has the expertise

⁹ 7000-1 (DGMWS) Non-Public Property (NPP) Sponsorship and Donation Policy – Interim Direction, 25 May 2013.



and national perspective. Consideration should be given to approaching AA certification with similar rigour as the CDS Delegations of Authority for the Financial Administration of NPP.

Recommendations

7. Revise the AA program to control the number of AAs, and state restrictions regarding who may not be eligible for certification to ensure that there is no conflict between an individual's primary duties and solicitation of S&D.

OPI: DGMWS

8. Distribute the forthcoming revised S&D policy and AA certification requirements to all Level 1 organizations to ensure widest communication to all personnel, especially those who may be outside of a base or wing commander's area of responsibility.

OPI: CDS



Employment of Sponsorship Specialists

Commission-based and “off-the-top” compensation models for sponsorship specialists places the national S&D Program at risk.

Increasingly, bases and wings are developing a sponsorship specialist function within the local Personnel Support Programs organizations. The employment type and method of compensation varies, although several locations have opted to hire personnel through a contract for services and compensate them through fees and/or percentage-based commissions, which are paid out of funds generated through, and received by, their sponsorship solicitation (“off-the-top”). While commission and “off-the-top”-based compensation may be standard practice in for-profit/private sector sponsorship environments, the concept is not the norm for not-for-profit-type organizations and government entities.

Commission-based models present a risk that the individual may be financially motivated to generate higher personal income rather than “working for the cause,” or altruistically. This compensation model could also lead to uncontrolled and unnecessary S&D Program growth and saturation of the S&D market aimed at supporting the military and their families. Further, when managed locally, high-volume solicitation presents a risk of undermining potential S&D opportunities from other B/W/Us. While this model may be attractive as a low-cost method of generating S&D revenue, the associated risks likely outweigh any potential benefit.

To mitigate real or perceived COI or potentially unethical behaviour, a more widely accepted practice is to avoid percentage-based compensation and compensate sponsorship personnel through a salary or wages derived from operating budgets, rather than out of the funds they solicit. This model is supported by the Defence Ethics Program, the Association of Fundraising Professionals Ethics Committee,¹⁰ and a Treasury Board position paper on collaborating with the federal government.¹¹ Lastly, the use of outside contractors could limit the ability for local management to have access to and control over information, and communication between hired specialists and prospective/existing sponsors and donors. This could prove critical for effective ongoing management of the S&D Program.

In specific circumstances, it may be appropriate to recover event- or sponsorship-specialist costs from the proceeds that were contributed. This would be limited to situations where unsolicited contributions are made and there are additional and unexpected expenses associated with processing or executing the transaction or specified use of the contributions. For example, there may be a situation where a local company approaches a base or wing, unsolicited, indicating that they would like to sponsor a movie night for the military and their families. There would be costs to have a sponsorship specialist handle the administration related to processing and executing the sponsor support agreement and subsequent deliverables. Since this event was not planned, there may be unexpected expenses that were not budgeted for. In exceptional situations such as

¹⁰ Professional Compensation – A Position Paper. AFT Ethics Committee, Adopted March, 1992, Revised October 2001.

¹¹ The Federal Government as ‘Partner’: Six Steps to Successful Collaboration, November 1995.



this, it may be acceptable to include these amounts in the sponsor support agreement whereby a portion of the money contributed may be used to pay for some of the sponsorship specialist's wages.

Recommendation

9. Cease percentage-based compensation and “off-the-top” remuneration and take immediate measures to terminate contracts for services that include either of these methods of compensation.

OPI: CDS



Performance Management and Oversight

The S&D Program does not have sufficient oversight, and performance measures are not in place to support program and policy decisions.

The SDPM, within the CFMWS, is the subject-matter expert responsible for oversight and the provision of advice and guidance to all stakeholders regarding NPP S&D. However, this position does not have functional authority over users of the program. The CFMWS continues to implement improvements to the S&D Program, however systemic and targeted changes are necessary to mitigate risks that may prevent the defence organization from reaching its objectives. Performance measures have not been established, which limits the ability to identify problems or conduct evaluations of the Program. While some stakeholders are intent on increasing S&D opportunities to the maximum extent possible, senior leadership has recognized that any growth must be done in a contained manner and with centralized control. NPP Managers throughout the country are engaging their counterparts at bases and wings with high-volume S&D activity for advice and guidance, rather than seeking support from the SDPM. Local delegation of authority shouldn't outweigh the need for a national strategy. Empowering B/W/U Commanders to exercise their authorities should not be at the expense of the S&D Program. When bases circumvent the SDPM, national and political perspectives are often not considered, which could be detrimental to the program and the defence organization. Given the commercial nature of sponsorship arrangements, it would be prudent for the defence organization to engage their CFLA in the process.

The NPP S&D policy stipulates that documentation of sponsor support arrangements must be maintained. However, the existing process does not provide the SDPM with sufficient time and data to make informed business decisions, provide adequate advice and guidance, or to manage and monitor the implementation of the S&D policies and procedures. The CFMWS has taken measures to enhance communication with the stakeholders in the field, and the SDPM is working towards enhancing regular communication with the primary AA at each base and wing.

Presently, reporting, tracking, and monitoring of S&D activity is insufficient, in that there is no central oversight of local solicitation and sponsor engagement. This missing link has led to misinterpretation and incorrect applications of the S&D policy, and could become problematic when an AA from a B/W/U in one part of Canada solicits sponsor support from a company, and then several other B/W/Us subsequently solicit support from the same company. Although companies in the municipalities where a B/W/U is located may want to support that specific B/W/U, there ought to be a greater appreciation of the national implications to the S&D Program and to the Department or government as a whole. Allowing each B/W/U to solicit from wherever they'd like, could be diluting the program. There may be opportunities to approach or deal with companies from a national perspective to yield greater benefits. This approach is particularly important when dealing with well-known national companies or organizations that are predominantly known as defence contractors or that conduct a significant amount of business with defence. Increased oversight by the SDPM would help ensure that S&D is being restricted to events and activities that are in keeping with the purpose and intent under the NPP framework.



The objectives of the S&D Program from a national and local perspective have not been identified, agreed upon, or communicated. There isn't a nationally aligned, coordinated, strategic approach to solicitation. If the defence organization does not attain a higher level of oversight and program control, objectives that may be established will be difficult to achieve and could result in continued inconsistent program delivery. Also, relationships with sponsors and donors may be weakened, and policy or legal considerations may be overlooked, which could lead to negative public and political outcomes.

Recommendations

10. Improve national oversight of the S&D Program, by:

- Providing direction that places the subject matter expert (SME) within the CFMWS (i.e., an SPDM) in an authoritative position over the S&D Program; and
- Developing S&D Program performance measures, including an S&D activity database to monitor solicitation and receipt of contributions nationally. If required, additional resources should be allocated accordingly.

OPI: CDS

11. Ensure that designated CFLA personnel provides a legal review of a standardized S&D agreement and any agreements thereafter in situations where the terms differ.

OPI: CDS

Non-Public Funds Accounting of Sponsorship and Donations

The Finance Division is a support division within the CFMWS that is based out of Ottawa and has staff embedded at each base and wing to support local NPP operations. When program management and operational staff are planning, executing, or managing morale and welfare events and activities where non-public funds will be used, personnel from the Finance Division should be engaged from the onset to permit them to exercise their financial oversight functions. Within the S&D Program, the Finance Division is also responsible for processing financial or in-kind transactions, verifying that documentation is complete and has been appropriately signed by individuals with the delegated authority, and for preparing financial reports.

In some situations, where ad-hoc committees were established to plan and execute larger events, the operational stakeholders did not engage the Finance Division. Not seeking early engagement of the Finance Division increases the risks that NPF could be alienated, improperly used, or that policy and legislative violations could occur. It may also be more difficult to hold individuals accountable if poor decisions are made which place the defence organization at greater financial and reputational risk. Active measures are being taken to address this matter, and in an effort to see early engagement of the Finance Division, CFMWS is in the process of issuing a guidance document for morale and welfare events, which should provide clarity to stakeholders on the expected accounting and administrative processes when executing events and activities.

Financial reporting of S&D at the national level is not requested or conducted on regular basis. Although the accounting system has the capability for data extraction to create reports on S&D activity throughout the country, there is not a reasonable level of assurance on the integrity of data. It is suspected that S&D PIK contributions may be received without being appropriately entered into the accounting system, or, in the case of cash, may be coded incorrectly and therefore the information generated in financial reports may be unreliable. Greater collaboration between operational management and the Finance Division is required to enhance the reliability of information and to improve financial reporting capabilities as a useful management tool.

Recommendation

12. Regularize, in policy or directives, collaboration between the Finance Division and other stakeholders to improve financial reporting of S&D. Reinforce that the NPF Accounting Manager and/or the Regional Accounting Manager must be included in committees or planning phases of events and activities.

OPI: DGMWS



Conclusion

The NPP S&D Program has grown substantially over the last ten years. The growth has been generated through an increase in solicitation at CAF B/W/Us throughout the country, and a willingness of various external parties to show their appreciation for Canada's military and their families through financial and in-kind contributions. The scale of events and activities that S&D is used to support has also grown, which has presented a host of opportunities and risks. Morale and welfare programs stand to benefit through the additional resources generated by external support and collaboration. However, as the S&D Program progresses, and the new NPP S&D policy is developed, management must introduce and maintain a level of control that protects the defence organization, while delivering on its objectives. The S&D Program will be strengthened by:

- defining and communicating the purpose and intent of sponsorship resources;
- closing policy gaps and developing S&D Program performance measures;
- Instituting parameters surrounding the AA Certification Program and employment of S&D specialists;
- establishing parameters for working with third-party groups; and
- collaborating with NPF Accounting for the planning of and financial reporting on S&D activity.

The outpouring of support from Corporate Canada and individual citizens should be embraced through a centrally controlled and managed S&D Program.

Annex A—Management Action Plan

Purpose and Intent of Sponsorship

CRS Recommendation

1. Issue CDS direction and guidance to:
 - State the purpose and intent of NPP S&D;
 - Provide clarification on which types of events and activities S&D may and may not be solicited and used for; and
 - Outline which events and activities ought to be funded using public funds, non-public funds, a combination of both, or neither. Further guidance should be provided to assist stakeholders in understanding the appropriate policy framework(s) to follow in various scenarios.

Management Action

Agreed.

The Managing Director, NPP will produce a policy document that states the purpose and intent of the NPP S&D Program; details events and activities that ought to be funded using public funds, non-public funds, a combination of both or neither; and presents a list of events and activities for which NPP S&D may and may not be solicited and used to support. The policy will be issued under a covering letter by the CDS.

OPI: CDS

Target Date: September 2014

The Managing Director, NPP will develop an NPP S&D guidebook to support the management of the NPP S&D Program. The guidebook will be issued under a covering letter by the CDS.

OPI: CDS

Target Date: April 2015

Independent from the NPP S&D policy requirement, but closely related, the Managing Director, NPP will develop and publish an NPP Advertising Policy which will be used to support Base/Wing activities.

OPI: CDS

Target Date: April 2015

Policy Factors

CRS Recommendation

2. Limit sponsorship solicitation only to consumer goods and services companies in order to reduce the risk of real or perceived COI. Issue guidance and establish a process to identify and manage partnerships where potential sponsors and donors have dealings with the defence organization. This may include a tracking, monitoring, and proactive disclosure reporting mechanism.

Management Action

Partially agreed.

The CDS will authorize B/W Commanders to accept sponsorship from consumer goods and services companies within their existing delegation of authority, notwithstanding restrictions imposed by DGMWS, where warranted. Additionally, sponsorships below a specific threshold may be authorized from “defence industry” companies. Approval amounts above the threshold must be sought from CFMWS HQ.

OPI: CDS

Target Date: September 2014

The Managing Director, NPP will develop a Risk Management Strategy to support ethically sound sponsorship and donation arrangements. The Strategy will establish a process to identify and manage partnerships with the “defence industry” and provide guidance on control mechanisms such as tracking, monitoring and proactive disclosures.

OPI: CDS

Target Date: September 2014

CRS Recommendation

3. Develop an NPP Hospitality Policy, as recommended in the 2012 CRS NPP Governance, Strategic Direction and Business Planning audit.

Management Action

Agreed.

The Managing Director, NPP will develop and implement an NPP Hospitality Policy.

OPI: CDS

Target Date: September 2014

CRS Recommendation

4. Issue communication to base and wing commanders and other stakeholders re-emphasizing the restrictions on endorsing outside charities and provisions for support.

Management Action

Agreed.

The CDS has recently issued communication to L1s re-emphasizing the restrictions on endorsing outside charities and provision for support:

- Letters entitled *Support our Troops Program and Third Party Outreach Initiatives*, 21 Oct 2013 and *Charitable Organizations and Campaigns for which Soliciting is Permitted*, 13 September 2013.

OPI: CDS

Target Date: Completed

This direction will be included within the broad educational package and plan that have been developed by CFMWS.

OPI: CDS

Target Date: April 2015

Sponsorship and Donations Environment and Third-Party Activity

CRS Recommendation

5. Collaboration with third-party groups should, at a minimum, require a memorandum of understanding, whereby the defence organization maintains control and where OPI are designated. Collaborative arrangements with third parties which present higher stakes such as provisions for the use of intellectual property, high-value exchanges, or those having a high level of public visibility should be agreed to in a legally binding format to allow the Department to exercise greatest control. Input should be provided by a CFLA in the development of collaborative arrangements.

Management Action

Agreed.

The CDS has recently issued communication to third-party groups advising of the requirement to complete a memorandum of understanding (MOU), or like document, with CFMWS where applicable.

- Letter entitled *Charitable Support to the Canadian Armed Forces – Members and Families*, 21 Oct 2013.

OPI: CDS

Target Date: Completed

The Managing Director, NPP will ensure that third-party MOUs are completed with advice and input by CFLA and agreements will be in a legally binding format, as required.

OPI: CDS

Target Date: April 2014

On an annual basis, the Managing Director, NPP will provide the NPP Board with a report on the status of relationships with external charities/foundations.

OPI: CDS

Target Date: April 2014

CRS Recommendation

6. Communication regarding support for the military and their families should be delivered (internally and externally) at each point where it will have the necessary impact in order to:

- control CAF members using the brands/logos and conducting unofficial SOT activities;
- inform the public on how they may provide support directly or through other sanctioned groups that provide support indirectly;
- educate political, bureaucratic, and corporate stakeholders on internal vs. external SOT initiatives and the impact of each one on the government's objectives and subsequent programs; and
- reinforce that all engagements by or contact with third parties ought to be directed to the designated OPIs.

Management Action

Agreed.

The Managing Director, NPP will develop a comprehensive strategy to inform, educate, and update key stakeholders on the SOT Program in order to:

- control CAF members using the brands/logos and conducting unofficial SOT activities;
- inform the public on how they may provide support directly or through other sanctioned groups that provide support indirectly;
- educate political, bureaucratic, and corporate stakeholders on internal vs. external SOT initiatives and the impact of each one on the government's objectives and subsequent programs; and
- reinforce that all engagements by, or contact with, third parties ought to be directed to the designated OPIs.

OPI: CDS

Target Date: April 2015

The Managing Director, NPP will develop a fundraising policy document that will provide clarity and specify processes to B/W Commanders to support their efforts in conducting and supporting fundraising activities.

OPI: CDS

Target Date: April 2015



Authorized Agent Certification

CRS Recommendation

7. Revise the AA program to control the number of AAs, and state restrictions regarding who may not be eligible for certification to ensure that there is no conflict between an individual's primary duties and solicitation of S&D.

Management Action

Agreed.

The Managing Director, NPP has issued direction that B/W Commanders are responsible for all local NPP S&D activities. In addition, B/W Commanders were asked to appoint a Principal Authorized Agents which provides a hierarchical structure to support the local management of AAs.

OPI: DGMWS

Target Date: Completed

The Managing Director, NPP will:

- revise the AA program to control the number of AAs and state restrictions regarding who may not be eligible for certification to ensure that there is no conflict between an individual's primary duties and solicitation of S&D;
- include these controls and restrictions in the NPP S&D policy and guidebook; and
- develop and roll-out an on-line training capability to enhance the management and control of AA training.

OPI: DGMWS

Target Date: April 2015

CRS Recommendation

8. Distribute the forthcoming revised S&D policy and AA certification requirements to all Level 1 organizations to ensure widest communication to all personnel, especially those who may be outside of a base or wing commander's area of responsibility.

Management Action

Agreed.

The Managing Director, NPP will:

- develop and implement a communication plan for the release of the NPP S&D Policy to ensure widest communication to all stakeholders at various levels and all personnel, including those outside of a B/W Commander's area of responsibility;

OPI: CDS

Target Date: September 2014

- distribute the AA certification requirements to ensure widest communication to all stakeholders at various levels and all personnel, including those outside of a B/W Commander's area of responsibility; and

OPI: CDS

Target Date: April 2015

- provide an annual report to the NPP Board on the status of the NPP S&D Program.

OPI: CDS

Target Date: June 2015 (for FY 2014/15)

Employment of Sponsorship Specialists

CRS Recommendation

9. Cease percentage-based compensation and “off-the-top” remuneration and take immediate measures to terminate contracts for services that include either of these methods of compensation.

Management Action

Agreed.

The Managing Director, NPP will:

- immediately direct the cessation of percentage-based compensation and contracts for services that include percentage based or “off-the-top” remuneration; and

OPI: CDS

Target Date: April 2014

- introduce an incentive-based compensation model, where appropriate, for staff soliciting NPP S&D.

OPI: CDS

Target Date: April 2015

Performance Management and Oversight

CRS Recommendation

10. Improve national oversight of the S&D Program by:
- Providing direction that places the SME expert within the CFMWS (i.e., an SPDM) in an authoritative position over the S&D Program; and
 - Developing S&D Program performance measures, including an S&D activity database to monitor solicitation and receipt of contributions nationally. If required, additional resources should be allocated accordingly.

Management Action

Agreed.

The Managing Director, NPP will:

- develop an NPP S&D governance structure to include an SME within CFMWS as an authoritative position over the NPP S&D Program;

OPI: CDS

Target Date: April 2014

- develop a performance measurement framework to actively monitor and assess the performance of the NPP S&D Program; and

OPI: CDS

Target Date: April 2015

- utilize a customer relationship management system to monitor solicitation and receipt of contributions.

OPI: CDS

Target Date: April 2015

CRS Recommendation

11. Ensure that designated CFLA personnel provides a legal review of a standardized S&D agreement and any agreements thereafter in situations where the terms differ.

Management Action

Agreed.

The Managing Director, NPP will:

- seek support from CFLA to develop a standardized format for NPP S&D agreements; and
- solicit CFLA support to review agreements where terms differ.

OPI: CDS

Target Date: April 2014

Non-Public Funds Accounting of Sponsorship and Donations**CRS Recommendation**

12. Regularize, in policy or directives, collaboration between the Finance Division and other stakeholders to improve financial reporting of S&D. Reinforce that the NPP Accounting Manager and/or the Regional Accounting Manager must be included in committees or planning phases of events and activities.

Management Action

Agreed.

The Managing Director, NPP will update regulations, policies and directives to improve the financial reporting of NPP S&D.

The Managing Director, NPP will ensure that these documents specify the requirement for the early involvement of NPP Accounting Managers and or Regional Accounting Manager in committees or planning phases of events and activities.

OPI: DGMWS

Target Date: April 2015

Annex B—Audit Criteria

Objective

1. An appropriate governance structure over the Corporate Outreach Program is in place and is working effectively.

Criteria

- Decision making processes relating to corporate outreach include effective oversight and governing bodies.
 - Elements include oversight, transparency and fairness.
 - NPP AA program is adequate.
 - Policies are sufficient to govern processes and practices effectively.
 - Stakeholders comply with all relevant policies and processes.
 - Strategic planning for overall program, as well as local/national events and activities, are documented and vetted by SMEs with appropriate performance measures and after action.
 - Intent of the Corporate Outreach Program is understood by all stakeholders, having clearly defined mandate, goals and objectives – and that program delivery is in keeping with the Program's intent/mandate.
 - Adequate corporate outreach training is provided to ensure that delegated personnel are able to execute the Program effectively.
-

Objective

2. An effective accountability framework is established for corporate outreach, whereby accountabilities for results are clearly assigned and consistent with resources, and delegations are appropriate to capabilities.

Criteria

- Delegations of authority instruments are adequate, and that duties have been appropriately segregated.
 - Roles related to corporate outreach have been appropriately assigned with subsequent accountability frameworks in place.
 - Designated AA personnel have the requisite training and knowledge to perform the function effectively.
-

Objective

3. The CAF/DND/CFMWS has established a comprehensive and documented approach for risk management as it relates to the Corporate Outreach Programs and activities.

Criteria

- Stakeholders are not engaging in any activities or partnerships that may be considered controversial or high-risk by nature.
 - Actions by personnel and organizations are free from real or perceived conflicts of interest or ethical conflicts.
 - Existing policies and procedures encompass COI/ethical considerations, and policy, procedures, and practices do not contradict one another.
 - Use of social media is managed effectively to protect the defence organization.
 - CAF/DND/CFMWS brands and logos are safeguarded from misuse.
 - Risks associated with activities carried out by third-party individuals and groups attempting to raise funds under the auspices of supporting the military and/or their families are mitigated.
-

Objective

4. The CAF/DND/CFMWS exercises stewardship over public and non-public resources in the planning and execution of Corporate Outreach Programs and activities.

Criteria

- Data is effectively safeguarded.
- Stakeholders within the Corporate Outreach Program have the capabilities required to negotiate and evaluate exchanges in a manner that safeguards and makes prudent use of organizational financial, human and material resources.
- Adequate oversight and accountability over funds is in place.

Annex C—Abbreviated Organizational Chart

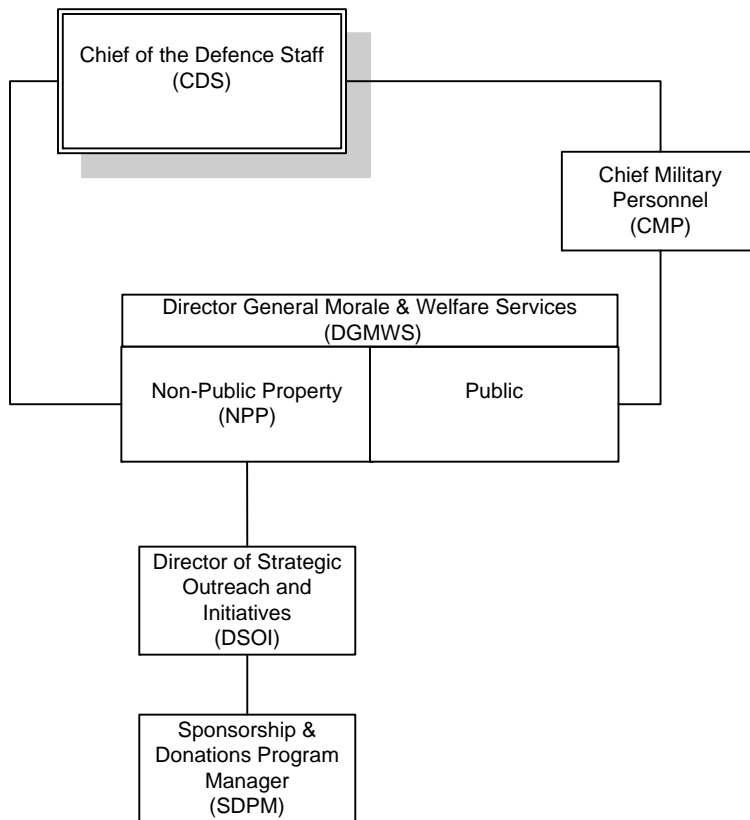


Figure 1. Abbreviated Organizational Chart. This chart demonstrates the hierarchical relationships involved in the delegation of NPP by the CDS and publicly funded morale and welfare programs under CMP. It also shows the NPP S&D Program reporting relationships.