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Chief Review Services Chef - Service d'examen

CRS  CS Ex

## Review of CF Morale and Welfare (Non-Public Property) Sponsorship and Donations Program

July 2009

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Canada 

## Caveat

This review was conducted to assess the Management Accountability Framework (MAF) of the Morale and Welfare (Non-Public Property (NPP)) Sponsorship and Donations Program. While sufficient to enable the development of recommendations for consideration by management, the assessments provided and conclusions rendered are not based on the rigorous inquiry or evidence required of an audit. Accordingly, they are not represented as such.

NPP is created by the *National Defence Act* (NDA). Article 38(1) of the NDA provides that the *Financial Administration Act* does not apply to NPP. Accordingly, separate NPP policy is required to address the provision of private sector funds through donations or agreements to sponsor (fund) various NPP programs and activities. In the context of NPP programs and activities, “sponsorship” refers to the overarching private sector outreach program, whereby the private sector provides funds and/or goods in kind in support of various NPP programs and activities, and in return receives visibility and acknowledgement considered to be of equal value.

It should be noted that this review was not intended to assess the performance or content of specific sponsorship or donation agreements, but rather to assess the overarching elements of the MAF components as they apply to these programs at a strategic level.



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## List of Acronyms

|        |  |
|--------|--|
| AA     | Authorized Agent   |
| ABACIS | Automated Base Accounting Control and Information System |
| CF     | Canadian Forces  |
| CFO    | Chief Financial Officer                                  |
| CFPSA  | Canadian Forces Personnel Support Agency                 |
| CRS    | Chief Review Services                                    |
| CO     | Commanding Officer                                       |
| DAOD   | Defence Administrative Orders and Directives             |
| DGPFSS | Director General Personnel and Family Support Services   |
| DND    | Department of National Defence                           |
| FY     | Fiscal Year  |
| MAF    | Management Accountability Framework                      |
| MOU    | Memorandum of Understanding                              |
| NDA    | <i>National Defence Act</i>                              |
| NPFAM  | Non-Public Fund Accounting Manager                       |
| NPP    | Non-Public Property                                      |
| OPI    | Office of Primary Interest                               |
| PSP    | Personnel Support Program                                |



## Results in Brief

This review of the Morale and Welfare (Non-Public Property (NPP)) Sponsorship and Donations Program was conducted in accordance with the Chief Review Services (CRS) NPP Audit Work Plan for fiscal year (FY) 2007/08. The objective of this study was to determine the extent to which the internal control framework and processes in place provide effective strategic direction over the program, i.e., effective governance, and whether assurance should be provided to the Chief of the Defence Staff through the conduct of a full audit. Given the ethical, financial, legal, and public affairs aspects associated with the NPP sponsorship and donations activities, and the associated risks, this project was included in the noted Work Plan.

### Overall Assessment

The governance and strategic direction of the sponsorship and donations program could be strengthened by:

- Revising the stewardship and accountability framework; and
- Updating policies, as current iterations are not effective or well understood.

## Findings and Recommendations

**Stewardship and Accountability.** The sponsorship and donations program governance is decentralized and is made of up a multitude of locally administered and managed activities. The disbursed accountability does not reflect the risk profile of this type of activity—localized management but, national or system level risks. This inequity should be acknowledged, and the program governance should align accountability with inherent risk.

It is recommended that a consultative approach with all key stakeholders (Director General Personnel and Family Support Services (DGPFS) and Base/Wing Commanders) be undertaken to determine how to rationalize the sponsorship and donations' governance vis-à-vis the associated program risks, while maximizing revenue generating opportunities.

**Policy Direction.** The accounting policy, Chapter 29, is not well understood by the accounting staff, and even less so by the managers responsible for administering the sponsorship and donations program. Supporting policy direction, including supplementary training, is inadequate. This has led to inconsistencies in the recording of sponsorship and donations activities, and has created an inability to provide national/strategic-level reporting. Compliance with the policy is limited. With stronger policy direction and the introduction of supporting training, accounting for sponsorship and donations could be consistent and as directed. The NPP Sponsorship and Donations Policy is better understood than the accounting policy, mainly due to the accompanying training offered. The policy was written in the broadest terms so as to be as inclusive as possible, which has resulted in policy gaps or areas subject to broad interpretation. These gaps could result in unintended outcomes, putting the program at risk.

It is recommended that both policies undergo review and revision to ensure they guide the program to its intended outcomes and appropriately manages risk. Management requires sufficient time to implement their Management Action Plan. A full audit is not appropriate until such time as the revised governance structure and control framework are in place.

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

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## Introduction

### Background

In accordance with the NPP Audit Work Plan for FY 2007/08, CRS initiated a review of the NPP Sponsorship and Donations Program. This program was originally included in the NPP Work Plan for FY 2005/06, but as the program was in its infancy, the project was put on hold until the program had a reasonable opportunity to mature.

The NPP Sponsorship and Donations Policy was issued in December 2005. This policy limited NPP sponsorship and donations activities to authorized agents (AA), those individuals who had successfully completed the NPP Sponsorship and Donations Training Course. Since December 2005, DGPFSS, formerly the Canadian Forces Personnel Support Agency (CFPSA), has conducted 13 serials of this course, with over 140 AAs completing training. In this training, the rationale for sponsorship and donation activities is outlined as follows:

- To improve existing events through an increased cash flow or with the advent of product in kind;
- To offer the ability to develop new morale and welfare events and activities not previously affordable; and
- To provide a mechanism to build community relations.

Commanding officers (CO) have overall responsibility for oversight and control of sponsorship and donations activities in support of NPP activities at their units. Within DGPFSS, a national sponsor specialist, along with four other program managers (for the Military Families Fund, the CF Soldier on Fund, the Hospital Comforts Fund and the Canadian Forces Personnel Assistance Fund) provide support to sponsorship and donations activities.

### Objectives

The intent of this review was to assess the MAF, namely the governance, oversight and risk management strategies, to determine the level of compliance with internal and external policies and legislation, and to determine whether a full audit of all sponsorship and donations activities is warranted.

### Scope

All authorized and identifiable NPP sponsorship and donation activities were included in the analysis. This study was conducted over the period May to November, 2008.

### Methodology

The analysis entailed a review of all associated policies and procedures, all financial data captured by the Automated Base Accounting Control and Information System (ABACIS), interviews with responsible managers, and an analysis of a sample of sponsorship and/or donations agreements.



## Findings and Recommendations

### Stewardship and Accountability

Better oversight of NPP sponsorship and donations activities and improved communication of the underlying principles would ensure consistent program outcomes, encourage horizontal collaboration amongst stakeholders, and allow for systemic monitoring of results.

#### Stewardship

The control framework of the NPP sponsorship and donations activities is decentralized, with individual base/wing commanders, generally through their Personnel Support Program (PSP) manager, having responsibility for oversight and control. The extent to which these sponsorship and donations activities are incorporated into the local NPP morale and welfare programs is dependent on the resources assigned and the experience/expertise of those tasked with the administration and management of the sponsorship and donation program.

One consequence of this stewardship model is a huge disparity across the system in the funds and product in kind available to augment local morale and welfare programs and activities. For example, at one location sponsorship and donation activities offer over \$300,000 in additional resources annually to support local morale and welfare programs and activities. However, most locations' programs bring in less than \$5,000, which makes it a challenge to provide equitable and enduring access to NPP morale and welfare programs to Canadian Forces (CF) members, former members and their families wherever they serve.

The program is further challenged by mixed messages and erroneous public perceptions, i.e., when companies with a national profile sponsor local programs but are perceived to be sponsoring the morale and welfare program in its entirety. The reality is that only local CF members and their families benefit from these types of sponsorship arrangements. The erroneous public perceptions could lead to complaints by both sponsors and event attendees, and ultimately, a decline in support.

#### Accountability over NPP Sponsorship and Donations Activities

A key operating principle of the NPP Sponsorship and Donations Policy is the assigning of responsibility so that "all persons managing NPP sponsorship must be prepared to account, either internally or publically, for all resources provided to NPP activities by sponsors or donors."<sup>1</sup> The decentralized stewardship of sponsorship and donation activities has made adherence to this principle difficult.

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<sup>1</sup> NPP Sponsorship and Donations Policy, paragraph 16.



## Local Accountability

Local commanders have overall responsibility at their units, but within these units themselves, with a few exceptions, sponsorship and donations activities are further devolved to individual program and activity managers. Only four of the twenty units that responded to our queries reported having dedicated managers responsible for sponsorship and donation activities at their locations. At the other locations, responsibility is either assigned to the PSP Manager, or one of the management staff. Further, with only a few exceptions, neither the local PSP managers nor the local non-public fund accounting manager (NPFAM) could state with confidence that all (or most) NPP sponsorship and donations activities at their unit were accounted for appropriately. Locally, document and financial management of sponsorship and donations activities is not consistent across the NPP system.

The number of AAs who are authorized to solicit sponsorship and donations activities (more than 20 at one reporting unit), coupled with those activity managers, including volunteers, who have not completed the AA training, not only makes accountability difficult, but also raises the risk of sponsor/donor fatigue, lost opportunities for revenue maximization due to inappropriate market segmentation, the existence of non-sanctioned agreements, and NPF funds put at risk. These risks are further heightened due to the lack of horizontal communications amongst the local stakeholders, namely a “lessons learned” capability. Sponsorship and donations activities may be a local responsibility, but public scrutiny could elevate local risks to national level, putting all NPP sponsorship and donations programs at risk.

The sponsorship and donation program is at risk due to:

- An absence of a locus of control;
- Inappropriate market segmentation negating revenue maximization; and
- Donor fatigue.

Those units with dedicated sponsorship and donations managers (or a management team) were better equipped to account for their activities/resources and were able to provide agreements prepared in accordance with policies.

## National Accountability

Within DGPFS there are six key program managers with responsibility for sponsorship and donations activities:

- The national sponsorship specialist;
- The Soldier On manager;
- The senior manager Military Families Fund;
- The Hospital Comforts manager;
- The coordinator overseeing Operation Santa Claus; and
- The Canadian Forces Personal Assistance Fund manager.

Excluding the sponsorship specialist, only the coordinator is an AA. There are eight other DGPFS staff who are qualified AAs.



The national sponsorship specialist is responsible for conducting AA training, for providing advice and guidance, and is responsible for the sponsorship and donation activities of national programs, services and activities. In addition to coordinating sponsorship activities with the individual managers of the above-noted programs, the national sponsorship specialist manages the sponsorship activities for other national programs including international and national sporting events, the National Sports Awards Banquet, the Department of National Defence (DND) Photo Contest and other DGPFS-sponsored events, as they arise.

Donations do not fall under the purview of the national sponsorship specialist; funds are forwarded directly to the program managers, and the management of the funds themselves differs amongst the programs (the vetting of funds, recording, acknowledgment there of, etc.). There is no horizontal coordination or sharing of information. Further, program managers are not only responsible for managing the solicitation of donations to their funds, but must also coordinate the efforts of third-party fundraising events, over which they have little, if any, influence.

### **Stewardship—The Way Ahead**

A comprehensive re-structuring of the administration, management and accountabilities over the NPP Sponsorship and Donations Program is proposed to achieve balanced and equitable access to these types of funds. Under the “New Deal Study Directive” the Chief Executive Officer DGPFS has initiated a consultation process with NPP Board members and the base/wing commanders to address other areas in which NPP funding, administration, management, and operational arrangements do not assure that CF members, former members and their families have equitable and enduring access to NPP morale and welfare programs wherever they serve.<sup>2</sup> Sponsorship and donation activities could be added to the list of initiatives proposed in the New Deal.

### **Recommendation**

DGPFS, in consultation with the Base/Wing Commanders, should evaluate the stewardship and accountabilities framework over the sponsorship and donations program.  
**(OPI: Associate DGPFS)**

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<sup>2</sup> The New Deal Study Directive, Modernization of the Funding and Management Arrangements for NPP Programs, Activities, and Capital Infrastructures, 25 July 2008.

## Policy Direction

Policies governing the operating principles of sponsorship and donations are unclear, not well understood, and are not consistently applied.

Two NPP policies govern the activities of sponsorship and donations: A-FN-105 Accounting Policies and Procedures Manual, Chapter 29 Accounting for NPP Sponsorship and Donations; and the NPP Sponsorship and Donations Policy, issued December 2005. CF members, acting as AAs, are also subject to Defence Administrative Orders and Directives (DAOD) 7021-1 (Conflict of Interest), DAOD 7023-0 (Statement of Defence Ethics), and DAOD 7021-4 (Sponsorships and Donations – currently replaced by an Interim Partnering Guideline, while a new draft is being written).

### A-FN-105 Chapter 29

The Non-Public Funds A-FN-105 accounting policy related to sponsorship and donations was released May 2007. The policy is based on the NPP Sponsorship and Donations Policy with additional accounting-specific direction.

At the September 2008 National Accounting Conference, this policy was universally acknowledged to be unclear. This view was also supported by interviews with the national accounting manager, with several NPF accounting managers, and with select local PSP staff responsible for managing sponsorship and donations activities. Several NPFAMs also noted they had not received sufficient training related to accounting for sponsorship and donations transactions.

Inconsistent policy application puts funds at risk to loss, and limits the ability to provide local and national-level reporting of sponsorship and donations revenues.

The accounting procedures themselves are not well understood, as evidenced by the inconsistencies in the recording of sponsorship and donations revenues, both cash and product in kind. The policy requires that transactions be recorded at fair market value; an analysis of a sample of transactions revealed goods and services in kind, offered and received, were recorded at below market value. Some Bases/Wings are reporting and tracking revenues by the sponsor or donator, while others track the revenues and product in kind attributable to a specific event. There are risks and rewards to both methods. One location has developed a process that combines both the sponsor tracked and event tracked perspectives, though accounting logic has been suspended in order to provide a work-around for the current programming. These recording inconsistencies limit the ability to provide both local and national-level reporting of sponsorship and donations activities. Further, compliance with the specifics of Chapter 29 is limited, as many special interest clubs and recreation activities do not use the assigned sponsorship and donations general ledger account numbers to record receipt of funds or product in kind.

Some of the confusion stems from how sponsorship revenues have been defined, notably with the terms “deferred” and “restricted” as they have been used interchangeably in the policy, despite requiring different accounting treatments. The observed accounting treatment for deferred product in kind in no way reflects the requirement of the policy, i.e., setting these items up as fixed assets, which could put these assets at risk to loss.



## NPP Sponsorship and Donations Policy

The December 2005 NPP Sponsorship and Donations Policy is supported by a two-day training program, which is a requirement for anyone pursuing NPP sponsorship and donations activities. To date, 13 courses have been offered, the first of which in 2006, targeted all local PSP managers. At present, there are over 140 qualified AAs.

The policy is directed to sponsorship and donations activities supporting NPP events or activities. When NPP events and activities consume both public and non-public resources, the application of the policy is unclear, i.e., how the DAOD 7021-4<sup>3</sup> and the NPP policy should be applied concurrently. One event reviewed consumed both public and non-public resources (staff and facilities) in support of a third-party organization (albeit one whose purpose is to support military families), using NPP agreements solicited by non-AAs. These events could be perceived as sanctioned by the CF or NPP, when in fact they do not meet either of the policies' requirements, which could result in false public perceptions. Another area in which the policy is silent is the sponsoring of NPP-owned facilities. The policy, as written, is limited to the sponsoring of events and activities.

The intent of the policy was to provide a framework under which CF members, NPF employees, and other persons were made aware of the ethical, financial, legal, and public affairs matters that must be considered before accepting or soliciting sponsorships or donations on behalf of NPP. The policy outlines the operating principles surrounding the program, including:

The framework of the NPP Sponsorship and Donations Policy may be too broad, given the risks associated with collaborative arrangements.

- The requirement of political neutrality;
- Exchanges are of equivalent value for sponsorship arrangements;
- Arrangements are transparent and able to withstand public scrutiny;
- Arrangements are free from any expectation or perception of preferential treatment from NPP, DND or CF; and
- Agreements do not imply endorsement of any products or services.

These latter two requirements are subject to the greatest range of interpretation. The AA course expands on these two principles through case study exercises in which implied endorsements or exclusivity is offered and is deemed inappropriate. In the private sector, sponsorship arrangements commonly offer exclusivity, i.e., limiting access to sponsorship opportunities to a single company or sector, along with the implied endorsement of their product. The NPP policy requires that all solicitation of sponsorships and donations be conducted in a manner that is fair and open to the industry sector involved, which is contrary to sponsorship industry norms. The policy only infers that "exclusivity" should be avoided. In the sample of Memorandums of Understanding (MOU) reviewed, sector exclusivity was explicitly offered. The program could be perceived as "endorsing" products unintentionally. Other MOUs reviewed, while falling

<sup>3</sup> DAOD 7021-4 is superseded by the Defence Ethics Program Interim Partnering Guidelines, in force until a revised DAOD is approved.



within the broad policy parameters, appeared to extend beyond the operating principles, i.e., reciprocity that could be viewed as greater than the value of the sponsorship, or offering use of facilities normally limited to CF members, former members and their families.

The documentation requirements within the policy that support sponsorship and donations activities are quite extensive. An *NPP Sponsorship and Donation Summary and Approval Form* must be completed for each arrangement; for those arrangements valued over \$1,000, an MOU (ranging from five to eight pages in length) is also required. These requirements seem onerous, given the size of the bequests, and the associated risk, and is reflected in the comments of companies who, when operating in the private sector, offer much larger sums on a one-page, or shorter, agreement. For donations, there is no reciprocity that must be recorded, negating the requirement for many of the clauses in the MOU templates. The forms themselves are not user-friendly, as they do not record all the information required by both the administrators of the sponsorship and donations program and by the NPF accounting office, making it difficult to code the sponsorship/donation appropriately.

Select units have addressed some of the gaps (or excesses) of the two policies by issuing standing orders, one example of which offered a spreadsheet-type log as an alternative, to the MOU for transactions below a specified threshold.

A review of the proposed revisions to the NPP Sponsorship and Donations Policy indicated that the majority of the amendments anticipated would address the “documentation” concerns, including the development of more user-friendly forms. The revision also addresses some duplication and/or contradiction between this policy and the accounting policy.

## Recommendations

**A-FN-105 Chapter 29.** The policy should be reviewed, in consultation with accounting staff in the field, to address areas lacking clarity. Supporting procedural documents should be developed and appropriate training provided. (OPI: DGPFS/CFO)

**NPP Sponsorship and Donations Policy.** The policy should be reviewed to minimize the gaps in application and to ensure interpretations support operating principles. Proposed amendments to forms should be made available as soon as possible. (OPI: Associate DGPFS)

## Annex A—Management Action Plan

### Stewardship and Accountability

#### CRS Recommendation

1. **Stewardship.** Associate DGPFS, in consultation with the Base/Wing Commanders, should evaluate the stewardship and accountabilities framework over the sponsorship and donations program.

#### Management Action

The sponsorship and donations policy was designed to provide the Base and Wing Commanders with the flexibility needed to address local needs.

The consolidation of the headquarters positions currently involved in the management of national sponsorship and donations programs in one Centre of Excellence under the Associate DGPFS will enhance the visibility over these activities and improve the overall private sector outreach approach by establishing a more coordinated approach in dealing with large (national) corporate entities.

Management recognizes the ongoing need for training authorized agents and will develop appropriate plans in this regard.

**OPI:** Associate DGPFS

**Target Completion Date:** Ongoing

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### Policy Direction

#### CRS Recommendation

2. **A-FN-105 Chapter 29.** The policy should be reviewed, in consultation with accounting staff in the field, to address areas lacking clarity. Supporting procedural documents should be developed, and appropriate training provided.

#### Management Action

Concur with the recommendation. The policy will be amended to enhance clarity where required.

**OPI:** DGPFS/CFO

**Target Completion Date:** Chapter 29 will be amended by March 2009.

#### Management Action

Accounting managers at all levels will receive training on both A-FN 105 Chapter 29 and NPP Sponsorship and Donation policy.

**OPI:** DGPFS/CFO

**Target Completion Date:** Training for accounting managers will be ongoing.

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**ANNEX A**

**CRS Recommendation**

3. **NPP Sponsorship and Donations Policy.** The policy should be reviewed to minimize the gaps in application and to ensure interpretations support operating principles. Proposed amendments to forms should be made available as soon as possible.

**Management Action**

Associate DGPFSS and the National Sponsorship Specialist will draft amendments to the NPP Sponsorship Policy. Particular attention is needed in the area of financial and accounting guidelines and the interface with A-FN-105 for NPP sponsorship and donation accounting procedures and financial management. Revised training and refresher training requirements will also be addressed.

**OPI:** Associate DGPFSS

**Target Completion Date:** December 2008

**Management Action**

Consultation and feedback on proposed amendments with appropriate stakeholders (Authorized Agents, Legal, etc.).

**OPI:** Associate DGPFSS

**Target Completion Date:** January 2009

**Management Action**

Submission for review approval to chain of command.

**OPI:** Associate DGPFSS

**Target Completion Date:** May 2009

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## Annex B—Audit Criteria

### Objective

1. Ensure robust Management Accountability Framework is in place, i.e., effective governance structure is in place.

### Criteria

- Stewardship – control regime is integrated and effective, and its underlying principles are clear to all stakeholders.
  - Accountabilities – responsibilities for results are clearly assigned and consistent with resources, and are appropriate to capabilities.
  - Policy and Programs – policies are well structured, well understood, and ensure program outcomes are as intended.
  - Risk Management – the risk environment has been defined at both the tactical and strategic levels, and is managed proactively.
  - Results and Performance – relevant information on results is available and is used by management in decision making, information is transparent and easily understood.
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### Objective

2. Ensure that the program is compliant with internal and external policies and legislation.

### Criteria

- Monitoring by the program administrators and, when applicable, the accounting staff contribute to ensuring compliance.
-