

January 2021

AUDIT OF THE VETERAN AND FAMILY WELL-BEING FUND

Audit and Evaluation Division



Veterans Affairs
Canada

Anciens Combattants
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1.0 BACKGROUND

The Veteran and Family Well-Being Fund (VFWBF, the Fund, or the Program) is a relatively new Veteran Affairs (VAC) grant and contribution program. A December 2017 Order in Council authorized VAC to pursue the Program.

The Fund provides grants and contributions to private, public or academic organizations to conduct research and implement initiatives and projects that support the well-being of Veterans and their families. Funding agreements are to a maximum of \$250,000 per fiscal year for grants and up to \$1 million per fiscal year for contributions.

The objectives of the Fund are to:

- Drive progress on new knowledge and understanding of Veteran and family well-being using the determinants of health model;
- Build capacity within the non-profit and volunteer sectors on issues specific to Veterans and their families such as homelessness, careers and employment, transition to civilian life, etc.;
- Encourage coordination between multiple players: agencies, institutions, associations and other levels of government; and
- Support new ideas for adapting existing programs and/or forming new programs and services to address ill-and-injured Veterans' treatment and care needs.

VAC's annual budget is around \$5 billion. The Fund has an annual budget of \$3M and is managed by the department's Strategic Policy and Commemoration Branch. Its first two rounds of funding had been administered by the Veterans Priority Program Secretariat. The Fund's management now rests with the Program Policy and Litigation Coordination division. At the time of writing, a third call for applications had commenced in January, 2021. This round of funding is not included in the scope of this audit.

The Fund receives applications online after VAC puts out a call for applications. There have been two rounds of funding

- First round: Call for applications in May 2018 which resulted in 155 applications and 21 projects selected for funding totaling \$7.6M over 5 years.
- Second round: Call for applications in February 2019 which resulted in 114 applications and 22 projects selected for funding totaling \$7.3M over 5 years.

Treasury Board Secretariat (TBS) has issued guidance to help departments administer grant and contribution programs: *Policy on Transfer Payments* and *Directive on Transfer Payments*. Through this guidance, government directs that grant and

contribution payments are managed in a manner that respects sound stewardship and with the highest level of integrity, transparency, and accountability. Further, it dictates that transfer payment programs are designed, delivered and managed in a manner that is fair, accessible and effective for all involved – departments, applicants and recipients.

The TBS guidance requires that transfer payments be managed in a way that is sensitive to risks, that strikes an appropriate balance between control and flexibility. Departments should also have the right combination of good management practices, streamlined administration, and clear requirements for performance.

VAC staff are responsible to communicate the Program, accept and assess applications, make funding decisions, enter into funding agreements with successful applicants, manage payments, monitor projects, and measure results in accordance with the Terms and Conditions of the Program and financial authorities.

2.0 ABOUT THE AUDIT

2.1 Audit Objectives and Scope

The objectives of the audit were to determine whether VAC had adequate controls in place to ensure the Veterans and Family Well-Being Fund's

- application assessment process was consistent and transparent;
- grant and contribution disbursements respected relevant Treasury Board direction; and
- program recipients' projects were actively monitored, ensuring funding agreement terms and conditions were met.

Scope:

The Fund has had two calls for application (i.e. two rounds of funding). The scope of the audit is defined in terms of both the process as well as the round of funding. In this regard, the audit testing covered:

- The assessment and cash disbursement phases of round two of funding; and
- The monitoring phase of both rounds one and two up to March 31, 2020.

The audit findings and conclusions contained in this report are based on sufficient and appropriate audit evidence gathered in accordance with procedures that meet the

Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing as supported by the results of the quality assurance and improvement program. The opinions expressed in this report are based on conditions as they existed at the time of the audit and apply only to the entity examined.

Additional information including the audit criteria and methodology are provided in Appendices A and B.

3.0 AUDIT RESULTS

3.1 Application Assessment

Call for Applications

The Veteran and Family Well-Being Fund invites eligible organizations to submit an on-line application for grants and contributions. This invitation to apply is referred to as a call for applications. The Fund is a relatively new VAC program and, at the time of the audit, VAC had processed two rounds of funding. Per VACs website, eligible organizations may contact VAC to get notification of future calls for applications. Once a call for applications is made, organizations have several weeks to submit the online application.

For this stage in the process, the audit scope included only the second round of funding. We expected that VAC would have taken steps to ensure that potential recipients had access to information about the Program including application eligibility requirements and the criteria against which applications would be assessed.

We found that the application form itself was not available publicly (unless the applicant was registered to the online application portal); however, the Program objectives, assessment criteria, and other pertinent details were readily available on VACs website. Further, the team noted that VAC followed its standard communication processes at the time of call-out, including news releases, social media outreach, information for the National Contact Centre Network to answer questions, website promotion, and stakeholder outreach.

Assessment of Applications

The second call for applications was held from February 28, 2019 to March 29, 2019 and resulted in 114 applications. Once the call for application closed, VFWBF staff reviewed and assessed each one. Two staff conducted the assessments, and they worked together to ensure consistency in assessments. After assessing projects for eligibility, VFWBF staff used a scoring tool which included supplemental guidance to assist in its application.

The scoring tool included a ranking scale of 1-5, from poor to excellent, on eight criteria: efficacy and safety, fit, resource availability, regulatory considerations, readiness, impact, cost, and need. The applicant's score was the sum of the scores of each criteria. Program staff indicated that they had two weeks to assess the applications.

We expected VAC to be consistent in its application of the scoring mechanism, and we found that it was. However, we noted that the scoring tool allowed for much subjectivity and the guidance was too vague. Given the subjectivity of the scoring tool, coupled with minimal time to review applications, many projects received high marks. For example, one third of the applicants scored 30 or higher out of a potential of 40 points. This did not allow for a large enough differentiation between projects when deciding on where to allocate limited funds.

Recommendation 1:

It is recommended that the Director General, Policy and Research Division improves the scoring tool and related guidance such that it results in greater distinction between projects.

Management Response

The Director General, Policy and Research Division, agrees with this recommendation. The Policy and Research Division will either keep and update the current scoring tool or develop a new tool. Any changes made will include clear scoring definitions as well as consistent and objective measurement content which will ensure greater distinction between projects. The scoring tool and related guidance will be reviewed to ensure the criteria used in the evaluation links to the Fund's stated objectives. Training will be provided to affected Program staff.

Target Date: August 1, 2021.

Once the initial assessment and scoring was completed, the Fund's staff briefly consulted with VACs Research Directorate on the applicants that were more research in

nature. The Research staff described the consultation as a high-level, cursory review because of the limited time available. A package of material was then prepared for the Directors General Steering Committee. This committee was tasked with assessing the information and providing recommendations on which projects to fund. The information package highlighted 32 projects recommended by the Program staff for consideration by the committee. The committee members were also provided with a brief description and scoring of all applicant projects. The committee met for approximately two hours to go over the information and identify which projects it recommended move forward for funding.

Interviews with staff and committee members revealed a common theme: the assessment process was rushed and there was little time for back and forth with applicants or for consultation with subject matter experts. Further, committee members indicated they were not aware of the final funding recommendations being put forward by the committee or of the ultimate funding decisions.

Recommendation 2:

It is recommended that the Director General, Policy and Research Division adjusts its processes to allow for adequate time for assessment and consultation.

Management Response

The Director General, Policy and Research Division, agrees with this recommendation. The Policy and Research Division will develop a standard critical path with updated steps and timeline for each Call for Applications, taking into consideration the time required for assessment and consultation with VAC staff which are considered Subject Matter Experts.

Target Date: November 1, 2021

Funding Decisions

The ADM of Strategic Policy and Commemoration Branch has been delegated the authority to approve projects for funding. We expected the department to maintain a record of decisions on funding projects in line with the application assessment results and in keeping with the Fund's terms and conditions.

The audit found that the department maintained a record of decisions on approved funding projects up to the DG Steering Committee level:

- a master spreadsheet with the assessment and scoring of each application;

- a detailed information package with highlighted projects for the steering committee;
- meeting minutes from the steering committee; and
- a listing of the final recommendations made by the steering committee.

In addition, there were documented ADM approvals for each successful project. However, the Program area was not able to provide us with records supporting funding decisions between the DG steering committee recommendation and the ADM's final approval and seven of the 22 approved projects were not recommended by the steering committee. The lack of record keeping diminishes the transparency & credibility of the process and documentation to support decisions is lost for both future reference and to provide feedback to denied applicants.

Recommendation 3:

It is recommended that the Director General, Policy and Research Division ensures that documentation exists to support the rationale for final funding decisions.

Management Response

The Director General, Policy and Research Division, agrees with this recommendation. The Policy and Research Division will review and assess what additional documents are required to improve record keeping.

Target Date: August 31, 2021

In general, approved projects met the Program's terms and conditions. The audit did note a few instances where projects did not completely meet all requirements. Further, almost all of the applications did not demonstrate self-sufficiency post VAC funding, which is a requirement of the Program. The audit team questioned whether that requirement was still relevant given that essentially none met it.

One final note on documentation. The audit team expected that the department would document its rationale for decisions on the type of transfer payment, a grant versus a contribution, taking into account the application ask, the Program budget, and the stacking limits established under the Program's terms and conditions. The audit found that the Program area does not document its rationale for grants versus contributions to support their decision and many organizations that applied for a contribution received a grant and vice-versa. The decision between a contribution or a grant is important and should be based on a risk assessment of the project. Projects deemed higher in risk

would be awarded a contribution which would hold the organization to certain contractual obligations such as the submission of financial claims for reimbursement and progress reports. Projects awarded a grant would be of lower risk and, as such, have few requirements of the organization post funding. Documenting these decisions results in transparency in this step of the process.

Recommendation 4:

It is recommended that the Director General, Policy and Research Division ensures that documentation exists to support the rationale for decisions on transfer payment type.

Management Response

The Director General, Policy and Research Division, agrees with this recommendation. The Policy and Research Division will develop a risk-based decision tool to be used to facilitate determining whether a grant or contribution will be used.

Target Date: February 28, 2021

3.2 Payments and Ongoing Monitoring

Once a project receives approval, a funding agreement is created and signed by both parties. Separate funding agreements exist for grants and for contributions. Many clauses are the same, but there are distinctions. The biggest difference between a grant and a contribution centres around the disbursement of funds.

Grants are paid up front and the recipient is not required to fulfill any future obligation. For the VFWBF, if a grant was a multi-year arrangement, the recipient did have to provide a progress report before any further disbursement of funds.

Contributions are typically paid after the fact, and the recipient submits a financial claim for reimbursement. Contribution agreements typically require certain milestones be met before funds are disbursed. For the VFWBF, typical milestones revolved around the submission of interim reports and financial claims. Many of the contribution projects were multi-year initiatives. Treasury Board policy does allow for advance contribution payments in certain situations, and there were three projects that received advanced contribution payments.

When projects are multi-year initiatives, the ongoing monitoring and the payments go hand-in-hand. Monitoring involves ensuring the project is going forward as intended and is on track with its plans, timelines, and commitments. It also includes reviewing

submitted progress and final reports, reviewing financial claims for reimbursement, and communicating with recipients to validate and clarify information.

Payments

Grants and contribution payments have some internal controls in common. For example, regardless of whether a funding arrangement was a grant or a contribution, we expected that the department would have a signed funding agreement in place prior to any disbursements. We also expected payments to be made in a timely manner to avoid any unnecessary burden on the recipients. In all cases, we found that these expectations were met.

With contribution agreements, there are additional controls over disbursements of funds. Specifically, prior to any disbursement (or additional disbursement) of funds, recipients were required to submit progress reports, financial claims for expenditure reimbursement, and financial forecasts. We found that financial claims were always submitted; however, the department did little in the way of validating the expenditure claims, often taking information at face value. Further, stacking limits were not reassessed post-application as no revenue data is disclosed in financial claims. Even though financial forecasts were an explicit requirement of the funding agreement, Program staff only requested them for advance payment arrangements.

The Program area recognized the need to have greater scrutiny over expenditures and projects and had put forward tools / templates to guide these processes. We were advised that these changes were not implemented due to the Program's lack of resources, staff turnover, and competing priorities. Without any validation of the project's financial claims and progress reports, there is a risk that Program funds are not being used as intended and that VAC is funding Federal dollars in excess of Program expenditures. The Program area needs to balance its stewardship responsibilities with the administrative costs of increased monitoring.

Advanced contribution agreements are the riskiest form of transfer payment, and as such, the TBS directive outlines additional controls over these types of payments. The audit found that the Program area managed advance contributions in line with the requirements of the directive. However, as with all contribution payments, little was done to validate of the accuracy of the financial requests.

Recommendation 5:

It is recommended that the Director General, Policy and Research Division develops a risk-based approach to assess the accuracy and validity of information and claims submitted by recipients.

Management Response

The Director General, Policy and Research Division, agrees with this recommendation. The Policy and Research Division will develop and implement a standard monitoring process for high risk projects pursuant to the Treasury Board Directive on Transfer Payments.

Target Date: March 1, 2022

On-going Monitoring

On-going monitoring of projects is an important part of any grant and contribution program. It ensures that funding recipients are using the funds as intended, that they are on track with their projects, and fosters relationship building.

We expected VAC to have monitoring practices to ensure the funding recipients complied with the obligations and performance objectives in their funding agreements. The audit found that VAC obtained progress reports and monitored the progress of the projects. Audit team members noted evidence of correspondence with recipients to request clarification when needed. In general, all terms of funding agreements were met prior to disbursement of funds. The audit did note that there was a lack of guidance on appropriate monitoring procedures. Without documented procedures, there is no communication of approved and consistent processes and practices. In addition, corporate knowledge is lost when staff turnover occurs.

Given the number of multi-year projects, each call for application results in more and more projects to monitor at any one time. The Fund is maturing in its practices and now is the time to put more rigor around the monitoring processes.

Recommendation 6:

It is recommended that the Director General, Policy and Research Division documents the approved monitoring processes for grants and contribution agreements.

Management Response

The Director General, Policy and Research Division, agrees with this recommendation. The Policy and Research Division will develop and document a standard monitoring process for projects.

Target Date: November 1, 2021

A complementary monitoring practice referred to in the TB guidance is recipient audits/on-site visits. We expected that the Fund would have determined when recipient audits were necessary to complement other departmental monitoring activities and to have developed/executed a risk-based plan for these recipient audits. The audit found that the Program area had not incorporated audits into its monitoring activities. Further, no criteria had been developed to identify when an audit/on-site visit would be warranted. Having criteria for site visits/ audits allows for stronger stewardship of taxpayer dollars. Further, the department is missing the opportunity for outreach and relationship building with stakeholders/ Veteran organizations.

Final recipient reports were to be published to VACs external website. The intention was to share knowledge within the Veteran community and to foster relationships and networking. The audit noted that the recipient final reports were not published to the website, but there was a brief description of the project.

Recommendation 7:

It is recommended that the Director General, Policy and Research Division develops guidelines/criteria for recipient audits/ site-visits for higher risk contribution agreements.

Management Response

The Director General, Policy and Research Division, agrees with this recommendation. In conjunction with the actions taken to address Recommendation 6, Policy and Research Division will develop guidelines for monitoring projects, including outlining guidelines for recipient audits / site-visits (in-person or virtual).

Target Date: November 1, 2021

Recommendation 8:

It is recommended that the Director General, Policy and Research Division determines whether publishing of final reports is necessary to the Veteran and Family Well-Being Fund's objectives and updates the external website accordingly.

Management Response

The Director General, Policy and Research Division, agrees with this recommendation. Policy and Research Division will be publishing one page summaries on VAC's external. Work is currently underway to develop these products.

Target Date: April 1, 2021

3.3 Audit Opinion

The Program Policy and Litigation Coordination division has controls in place to manage the day-to-day operations of the Veteran and Family Well-Being Fund. Opportunities exist to strengthen controls, specifically as they relate to documenting decisions and implementing more robust monitoring processes. The Veteran and Family Well-Being Fund is a relatively new program, and strengthening the controls that promote transparency and stewardship is important as the Program continues to develop.

Appendix A - Audit Criteria

Objective	Criteria
<p>Whether VAC had adequate controls in place to ensure the Veterans and Family Well-Being Fund's application assessment process was consistent and transparent, resulting in decisions that support the Fund's objectives.</p>	<p>A. The Department ensures that potential recipients have ready access to information about the Program and that a description of the Program is made public, including application and eligibility requirements and the criteria against which applications will be assessed. (Source: Treasury Board Directive on Transfer Payments).</p>
	<p>B. The Department assesses the applications in accordance with the terms and conditions of the programs (eligible recipient, eligible project, eligible expenses, standardized scoring system, etc) and such assessments are documented and kept on file. (Source: ESDC internal audit: Grant and Contribution Control Framework, November 2018).</p>
	<p>C. The Department is consistent in its application of scoring of scheme. (Source: internally developed).</p>
	<p>D. The department maintains a record of decisions on approved funding decisions, which are in line with application assessment results. (Source: internally developed).</p>
	<p>E. The department documents its rationale for grant vs contribution and the funding amount, taking into account the application ask, the Program budget, and stacking limits established under the Program's terms and conditions. (Source: internally developed).</p>
<p>Whether VAC had adequate controls in place to ensure the Veterans and Family Well-Being Fund's grant and contribution disbursements respected</p>	<p>A. The Department issues payments in a timely manner to legitimate recipients for eligible expenditures and activities. (Source: ESDC internal audit: Grant and Contribution Control Framework, November 2018).</p>
	<p>B. The Department ensures that a funding agreement is executed with each recipient before the provision of a transfer payment.(Source: Directive on Transfer Payments).</p>

Objective	Criteria
<p>relevant Treasury Board direction.</p>	<p>C. The Department assesses the accuracy and validity of expenditure claims submitted. (Source: ESDC internal audit: Grant and Contribution Control Framework, November 2018).</p>
	<p>D. For Contributions, the Department ensures terms and conditions of funding agreement are met prior to subsequent disbursements. (Source: internally developed).</p>
	<p>E. The Department ensures that a grant in excess of \$250,000 is paid in instalments, unless the full amount is required in a single payment to meet the objectives of the grant. (Source: Directive on Transfer Payments).</p>
	<p>F. Detailed requirements re: advanced payments of contributions outlined in Directive. To be included if advance contributions are noted in the audit. (Source: Directive on Transfer Payments).</p>
<p>Whether VAC had adequate controls in place to ensure the Veterans and Family Well-Being Fund's program recipients' projects were actively monitored, ensuring funding agreement terms and conditions were met.</p>	<p>A. Ensuring, through the timely assessment of recipient reports and other monitoring activities deemed necessary, that the recipient of a contribution has complied with the obligations and performance objectives in the funding agreement. (Source: TBS Directive on Transfer Payments).</p>
	<p>B. Determining when recipient audits are necessary to complement other departmental monitoring activities, and developing and executing a risk-based plan for these recipient audits. (Source: TBS Directive on Transfer Payments).</p>
	<p>C. The Department has taken corrective actions, when necessary, as identified by monitoring activities. (Source: ESDC internal audit: Grant and Contribution Control Framework, November 2018).</p>
	<p>D. Final Reports of recipients are published to VACs external website (Source: VAC website Program information).</p>

* The audit team confirmed that all of the above criteria were met unless otherwise stated in this audit report.

Appendix B - Methodology

Methodology	Purpose
Interviews	Interviews were conducted with current and former Program staff and with members of the advisory committee. Interviews were conducted to gather information about the program and its activities, to ensure proper understanding of application of controls, and to validate audit observations.
Documentation Review	Documentation reviews were conducted supporting each of the audit's three objectives. The audit team examined applications, scoring information, meeting minutes, approvals, payment information, funding agreements, organization reports and financial claims, and correspondence documentation.
File Review	Three separate file reviews were conducted to assess controls over applicant assessments, payments, and monitoring activities. The file reviews included both approved and denied applications.