



AUDIT OF THE FORUM OF FEDERATIONS

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EXECUTIVE SUMMARY

The Forum of Federations (the Forum) is a non-profit organization based in Ottawa. It undertakes a wide range of programs designed to bring tangible improvements to the practice of federal governance around the world. The Forum's international board of directors includes members from Nigeria, India, Germany, Switzerland, Brazil and Canada.

The audit mandate included an examination of compliance with funding agreements with DFAIT, PCO and CIDA. In addition, assessments were made regarding the Forum's capacity from a financial management and program management perspective. Because the funding agreements are with three separate departments, we also considered questions of governance and the management of relationships between the Forum and the Crown.

Compliance

As a result of the detailed tests of compliance, we found that the Forum has complied with the terms and conditions of the agreements in effect, with the exception of the use of business class travel, as it relates to the contribution agreements with DFAIT and PCO.

The DFAIT/PCO contribution agreements prohibit business class travel. This is inconsistent with the CIDA contribution agreement, where business class travel is allowed in accordance with the Treasury Board's Travel Directive. The DFAIT grant agreement also permits business class travel, provided it represents a legitimate business expense, as defined by the Forum's objectives.

Discussions should occur between the Forum and DFAIT/PCO to amend these contribution agreements, in accordance with accepted practice; or to confirm the contractual condition and agree on an approach to determine the amounts and timetable for repayments due to the Crown, reflecting the difference between business and economy class air travel.

Capacity

On the question of capacity, the Forum has demonstrated continued growth in this regard and the ability to:

- Achieve program objectives and account for its results; and,
- Manage within its budget allocations.

In order to sustain itself in the longer term, the Forum is pursuing funding from international donors. We would encourage the Forum, in conjunction with DFAIT and PCO, to develop a detailed project plan for its "Internationalization".

Given the significance of travel as a cost of operations, there appear to be opportunities to obtain greater value-for-money through more rigorous scrutiny of travel and by ensuring that travel costs are subject to appropriate policy and internal control.

Governance & Managing Relationships

Current arrangements seem to both insulate and constrain the Forum's work. The potential and merit of the Forum and its work need to be more clearly aligned with public policy objectives - both domestic and international. In essence, the underlying ambiguity of the relevance of the Forum's work to public policy exposes the Forum to certain risks, as it is inherently difficult to deliver objectives and demonstrate value, when expectations are unclear. An evaluation should occur to clarify the relevance of the Forum's work.

Our observations suggest that one funding agreement, rather than four, be in place. Adoption of a single funding arrangement would reduce the administrative burden to all parties and serve to resolve the complexity and conflicting requirements imposed on the Forum. As a means to allow direction to the Forum from a stakeholder's perspective, creation of an advisory council could be considered. Working within this model, ongoing monitoring of the Forum's performance and compliance would be assigned to the department whose public policy mandate most closely matches the Forum's objectives.

Creation of an advisory council could serve to:

- provide clear and consistent direction on expectations, program activities, and alignment with public policy;
- approve the parameters of the Forum's work and the use of funds;
- serve as a vehicle to resolve differences of opinion in the interpretation of those parameters; and,
- hold the Forum accountable for the use of funds. This would include the prudent use of funds and demonstrating economies and efficiencies achieved during the year.

In response to organizational pressures recently experienced by the Forum, the Chairman of the Board was confirmed as the Forum's President, in addition to holding the position as the Chairman. We understand that this is a transitional arrangement. This situation, while not unusual, is contrary to suggested best practice,

which recommends that the offices of Chairman and President be held by two separate officers. This situation should be revisited by the Board within a year.

Recommendation Status

A total of six audit recommendations are raised in the report. Management has responded to each recommendation indicating action already taken or decisions made, as well as future action. Of the six recommendations, management has stated four recommendations have been implemented and the remaining two recommendations are in process.

BACKGROUND

1.1 The Departmental Audit and Evaluation Committee (DAEC) approved an audit of the Forum to be undertaken in fiscal year 2003-04.

1.2 The Forum is a non-profit organization based in Ottawa. It undertakes a wide range of programs designed to bring tangible improvements to the practice of federal governance around the world. The Forum's international board of directors includes members from Nigeria, India, Germany, Switzerland, Brazil and Canada.

1.3 In pursuit of its mission, the Forum focuses on three core functions:

- Acting as a clearing house for information and resources on the practice of federalism;
- Providing policy and program assistance to governments in established and emerging federations; and,
- Encouraging future practitioners of federalism (youth) to develop an interest and expertise in federalism.

1.4 In 1998, the Forum was created with Canadian government support to explore the establishment of an international network on federalism. Its board of directors consists of 14 members. Reporting to the Board is the President who is supported by research and programme staff (6), global programmes staff (5), communications staff (5) and funding and administration staff (6).

1.5 From 1999 to March 31, 2003, the Forum has received from three donor departments (PCO, CIDA & DFAIT) core funding in the amount of \$21,000,000. The initial understanding was for the Forum to secure other sources of funding and not solely rely on the federal government. In this regard, the Forum, in conjunction with support from the government, is pursuing its transformation from a Canadian-based NGO into an international entity. Work is currently underway to secure financial support from twelve federal governments (including Canada). This anticipated change in status is expected to result in changes in the Forum's structure and governance framework. The three donor departments would like to re-examine the current status and structure of the Forum in light of the pending transformation.

SCOPE OF AUDIT AND CRITERIA

2.1 Audit Objectives

2.1.1 This audit's objectives include the provision of assurance regarding:

- Strength of practices in place to manage the grant and contribution program in accordance with Treasury Board and DFAIT's, CIDA's and PCO's departmental policies; and,
- Compliance of the recipient to the terms and conditions of the three contribution agreements in place.

2.2 Scope

2.2.1 The scope of the audit considers both the aspects of time and relationships, as they relate to the Forum's activities and evolution following an international conference held in October 1999. As a result, the \$2,300,000 grant agreement with DFAIT and the \$300,000 contribution agreement with CIDA were excluded from the audit because both agreements were made prior to October 1999. Also excluded from the audit scope were two contribution agreements between the Forum and both DFAIT and CIDA (approximately \$287,000 and \$282,000 respectively) for specific project funding. The audit focussed only on core funding arrangements.

2.2.2 The Forum has been in receipt of government funding since its inception in 1998. The fiscal year ending March 31, 2002 has been selected as the base year for the audit. This was the last year for which funding was received from each of the three donor departments. While funding continued to be provided by both DFAIT and CIDA past this time, funding from PCO ended in 2002.

2.2.3 Selection of fiscal year 2001-2002 provides a basis to examine the working relationship with each donor, as well as the interface amongst the three departments (i.e. PCO, CIDA and DFAIT) and between the donor departments and the recipient. Examination of these relationships was not restricted to this time frame, as a continuing relationship has been observed with each donor.

2.3 Approach

2.3.1 For purposes of conducting the audit, three separate but interrelated lines of enquiry were pursued, which served as the basis for planning the audit. These were:

- Compliance
- Capacity Assessment
- Governance and Managing Relationships

2.3.2 **Compliance** pertains to agreements between the Crown and the Forum.¹

2.3.3 A variety of financial arrangements exist. Contribution agreements related to projects are relatively straight forward, in comparison to agreements related to “core funding.” Core funding is provided to sustain the recipient's operations or a certain level of operational capacity. Such agreements are inherently intrusive, as the underlying justification and scrutiny involves discussion of the organization's work plans and related budgets.

2.3.4 The existence of both different types of financial support arrangements and multiple funders makes audit of compliance inherently more complex, given the potential of overlapping elements.

2.3.5 To conduct the audit of compliance, the following steps occurred:

- An examination was made to determine the purpose, terms and conditions of the various agreements in effect to understand the requirements of each and identify the potential for duplicate payments, and needless administrative burden, either for the Forum or the Crown.
- Audited Financial Statements and related management letters as well as any other audit reports, evaluations, studies or reviews were examined to identify issues of compliance or risk exposures. This information was useful in the assessment of capacity. Complementary discussions occurred with the external auditor.
- Overviews of the program and financial management activities were obtained in interviews with Forum staff.
- Detailed tests of compliance were made of a sample of transactions, focusing on material areas of expenditure. Tests included reconciliations of claims filed; a review of bank statements and bank reconciliations; a walkthrough and analysis of payroll and the assignment of time charges to projects; and a sampling of transactions with a special emphasis on travel and professional services.

2.3.6 A **Capacity Assessment** of the Forum, as a component part of the audits of compliance, occurred from two perspectives.

Program Capacity

2.3.7 Program capacity was assessed based on direct examination of process steps taken in the administration of program activities, including information presented to the

¹ The original approach provided for the examination of contribution programs, as administered by the Forum, as part of its sponsorship programs. We subsequently learned that the majority of the Forum's work was project-oriented, and not contribution based.

board of directors, at the time of project approval and in the reporting and accounting for the results achieved.

Financial Management Capacity

2.3.8 Financial management capacity was assessed based on an examination of the financial planning and management practices and financial controls in place. In support of assessment of capacity, the following steps occurred:

- Descriptions of the Forum's program activities, including the related project identification and approval processes, were obtained from documentation made available by the Forum and interviews with key members of staff.
- Descriptions of the financial planning and budgeting processes were obtained and confirmed in discussions with senior management and the members of the board of directors.
- Minutes of the board meetings and subcommittees were reviewed, particularly those minutes dealing with the Forum's budget, remuneration of staff, accommodation, and other significant or sensitive expenditures.

2.3.9 The results of the analysis and tests performed to assess issues of compliance were considered in the context of the assessments of capacity.

2.3.10 ***Governance and Managing Relationships*** involved an examination of the governance framework and oversight activities considering:

- The structure and authorities of the Board, and the existence of any conflicting or incompatible functions, especially as it relates to government officials.
- The information available to and the decisions required of board members, in performance of their corporate oversight.
- Processes provided in support by the Forum's management to facilitate oversight and decision-making.
- Reports provided to the public to account for the use of public funds and explain the benefit derived for the Forum's activities and programs.

2.3.11 Discussions occurred with program officers from each of the donor departments to determine how they manage the working relationship with the Forum, coordinate their efforts with other funders and report on program results to account for the use of funds and support public accountability. Complementary discussions occurred with senior officials within the Forum, including the Chair and Vice-chair.

AUDIT RESULTS AND RECOMMENDATIONS

3.1 The detailed audit observations are organized in accordance with the three lines of enquiry. The Executive Summary, in addition to providing an overview of this section, provides overall conclusions of the audit regarding the due diligence of the Forum in the use of public funds and the substance of the relationship between the Crown and the Forum, as a context for the recommendations contained in the report.

Compliance

3.2 The Forum received core funding through three contribution agreements and one grant. While there are four separate agreements in place, all provide support for essentially the same body of work, such that the government funding has been provided in the Forum's pursuit of five objectives:

1. To improve the practice of federalism within participating countries through the sharing of experiences and best practices, and through the exchange of information related to the solution of common problems.
2. To establish a network which will facilitate the exchange of information between individuals, organizations and governments which have shared interests in the policies and practices of federal regimes.
3. To encourage research on the development of federal systems and to promote the development of international expertise on a vast number of issues related to federalism, including public policies.
4. To provide information and support to new or emerging federations as well as to countries adopting elements of federalism.
5. To encourage future practitioners of federalism (youth) to develop an interest and expertise in federalism by establishing youth networks, developing educational tools and making information and research findings on federalism easily accessible to youth in established, new or emerging federations.

3.3 These objectives are articulated differently in each agreement. Some are silent on the last objective on youth; for example the DFAIT grant mentions youth, whereas the DFAIT contribution agreement does not. The CIDA agreement, while embracing all five objectives, places the emphasis on developing countries and countries in transition, consistent with CIDA's mandate.

3.4 Core funding provided to the Forum is summarized by the following table:

Agreement	Year				
	1998-1999	1999-2000	2000-2001	2001-2002	2002-2003
PCO Contribution	\$500,000	\$ 500,000	\$ 500,000	\$ 500,000	-
DFAIT Contribution	-	\$ 500,000	\$ 2,000,000	\$ 2,000,000	\$1,500,000
DFAIT Grant	-		\$ 10,000,000	-	-
CIDA Contribution	-	\$ 250,000	\$ 1,000,000	\$ 1,000,000	\$ 750,000
Total	\$500,000	\$1,250,000	\$ 13,500,000	\$ 3,500,000	\$2,250,000

3.5 While the funding arrangements relate to the same organization for essentially complementary and overlapping objectives, being able to simultaneously satisfy the requirements for compliance for all four agreements is inherently a challenge, for the following reasons:

- DFAIT/PCO contribution funding is for “core” operations, whereas CIDA funding is project based. The parameters for projects, as agreed to by CIDA, directly relate to the Forum’s primary objectives. The difference between CIDA projects and “core” operations appears to be more a question of emphasis, reflecting CIDA’s focus on developing countries and countries in transition. As a result, the Forum has instituted a financial accounting coding structure to track costs for distinct projects and is required to report on the results of its work in two different ways.
- The PCO contribution agreement ends a full year before the DFAIT and CIDA contribution agreements, which could have resulted in the return of surplus funds as it relates to PCO’s share of its funding of core operations, depending on how claims were made or approved.²

² The Forum received funding in excess of “core” expenses for the year ending March 31, 2002 in the amount of \$80,400 (\$2,500,000-\$2,419,600). To avoid the loss of funding available under the PCO contribution agreement, the Forum claimed “core” expenses first against the PCO contribution agreement and remaining costs against the DFAIT contribution agreement. If the DFAIT and PCO contribution agreements were directly tied, such that costs were shared on a proportionate basis within the year, then a “deemed” surplus of \$16,080 (20% of \$80,400) would have been created and repayable to the Crown on behalf of the PCO.

- The CIDA contribution agreements permit travel expenses in accordance with the Government of Canada Travel Directive. DFAIT/PCO contribution agreements explicitly limit the Forum to transportation to economy class, without exception.

3.6 As a back drop to the contribution agreements, the Forum has its grant of \$10,000,000. This “fund” is intended to “assist the Forum to achieve more secure source of revenue by providing additional support for its programs and activities.” The fund has a ten year life, ending March 31, 2011, over which time draw-downs against the fund are expected to consume the balance of the fund.

3.7 Restrictions on the use of the “fund” include:

- The grant must be used in accordance with the objectives of the Forum, set out above.
- The Forum cannot “amend or alter its articles of incorporation ... without prior consultation with the representative of the Minister of Foreign Affairs.”
- “The funds provided under the grant cannot be used or applied to expenditures which have been reimbursed by the Crown under any other arrangement, or by any other level of government.”

3.8 In essence, no restrictions exist on the use of these funds, provided that the funds are used in accordance with the Forum’s objectives as defined in the grant agreement, which is essentially the same as the three contribution agreements.

3.9 Our detailed audit examination focussed on support for travel expenses, consulting fees, calculation of overhead as claimed and adjusted between the various contribution agreements in effect, and payroll, as a basis of assessing compliance. Reconciliations of claims were performed, given the timing differences between receipts of funds and program expenditures. Bank reconciliations for all four business quarters were reviewed and the deposits were traced to the bank statements. Discussions occurred with the Forum’s external auditor and copies of audited financial statements and related management letters were also reviewed and considered.

3.10 As a result of the detailed tests of compliance, we found that the Forum has complied with the terms and conditions of the contribution and grant agreements in effect, with the exception of business class travel.

Because the DFAIT contribution agreement ran an additional year, the determination of any excessive funding under that agreement would not have occurred until March 31, 2003. While the scope of the audit was focused on the fiscal year ending March 31, 2002, we understand that the Forum has made full use of the funding available under the DFAIT contribution agreement and has provided a reconciliation of funding and claims made.

3.11 Claims made against the DFAIT/PCO contribution agreements contained costs associated with business class air travel, which is explicitly prohibited under these two contribution agreements. It is estimated that the cost difference between business and economy class air travel is in the range of \$45,000 to \$75,000 of a total of \$345,800 in travel costs associated with the DFAIT/PCO contribution agreements for the year ending March 31, 2002.

3.12 Given that this is a continuing practice of the Forum, similar potential adjustments would be required for the other three years of operations, which include the fiscal years ending March 31, 1999, 2001 and 2003, in addition to claims made within the current year.

3.13 Because of the visible inconsistencies between the agreements in place, we considered the implications of the more restrictive DFAIT/PCO contribution agreements on the ability of the Forum to achieve its objectives, as intended in its creation by the Crown. We considered the Forum's stated mandate and discussions with members of its staff and Board.

3.14 Given the current activities of the Forum, as practised since its inception, a strict prohibition on the use of business class travel would appear to be detrimental to its operations and reputation. The Forum's profile is such that it is able to garner the services of recognized leaders in the field of governance, including former ministers and heads of national governments for nominal honorariums. Being able to offer such individuals business class travel shows respect and, given the rigours of long international flights, is often seen as an essential condition to accept an offer to perform work on the Forum's behalf.

3.15 Our specific tests of compliance found that the Forum's use of business class travel conformed with the TB Policy, which has been adopted by the Forum. Claims made on this basis have been accepted as reasonable and approved for payment by both DFAIT and PCO. However, despite the intended function of the Forum and "accepted" practice, the contribution agreements, as written, are at odds with current practice.

Recommendation

3.16 Discussions should occur between the Forum and DFAIT/PCO to amend these contribution agreements in accordance with accepted practice; or, to confirm the contractual condition and agree on an approach to determine the amounts and timetable for repayments due to the Crown, reflecting the difference between business and economy class air travel.

Management Action and Time Frame

3.16 Legal Services has advised CFP that an amendment to the DFAIT/PCO Contribution Agreements (CA) is not necessary. The two agreements (i.e. CIDA CA and DFAIT Grant Agreement) that allowed business class travel in conformity with the Treasury Board Directives should prevail because all four agreements (i.e. DFAIT/PCO CAs, CIDA CA, DFAIT Grant Agreement) were in effect at the same time over the same organization. In addition, as noted in the audit report, such a restriction would have been detrimental to the Forum's operations and reputation. As such, no amendment and recovery is required.

Capacity

3.17 Program and financial management practices of the Forum are linked together, in large part, because of the overarching requirements and discipline imposed on the Forum by the contribution agreements.

3.18 Based on our review of project progress reports, detailed budget information, related correspondence, Board minutes and discussions with members of management and the Board, we found that the practices adopted by the Forum have strong parallels with practices found in federal government operations for similar types of work:

- Baseline budgets are developed for core activities and project initiatives are proposed in accordance with programming priorities, along particular themes and country programming focus.
- Project proposals and detailed budget allocations are suggested for consideration by the Program Committee. All projects above a dollar threshold required the Board's approval. Projects below the threshold could be approved based on the President's discretion. The threshold has risen over time from \$20,000 to \$25,000 to \$50,000. With the movement to the higher dollar threshold, an "impact" assessment is now required to consider either political sensitivities that may exist or departures into new areas for the Forum.
- The Board, at the time of the approval of the Forum's program activities and budget for the coming year, is provided with full disclosure of all potential proposals, including those without specific fund allocations at the time of the budget. As a means to account for the use of funds and progress achieved, detailed reports are provided on all activities.
- In order to keep the Board informed of the work of the Forum, "visit" or "event" reports are required to be communicated with Board members 72 hours after the "event". This provides quick information to board members. In the case of a conference, a more detailed report would follow later on.

- In accordance with the terms and conditions in support of payment under the three contribution agreements, the Forum is required to provide:
 - in advance of the fiscal year, an annual work plan and the related estimated annual budget of the activities funded, in accordance with the Forum’s operating objectives;
 - on a quarterly basis, detailed activity progress reports and complementary financial statements on year-to-date expenditures;
 - monthly cashflow projections, which enable the donors to monitor program funding requirements and, towards year-end, anticipate the potential lapsing of funds in the current year, and to identify carryforward provisions in accordance with the contractual provisions of the respective agreements;
 - consolidated audited financial statements and the related management letter, as performed by a public accountant “that shall be mutually agreed upon by both” the Forum and the donors;
 - an annual progress report, briefly describing the Forum’s progress and results achieved in respect to the annual work plans.
- Correspondence and discussions provided by the donor departments indicated a high level of engagement in the review and scrutiny of program related and financial reports provided by the Forum, as well as a degree of engagement and consultation on the merits of individual projects and specific initiatives. Detailed project reports are prepared, complete with an assessment of lessons learned and, from time to time, follow-up actions.

3.19 Discussions with Board members indicated a confidence in the work of staff and comfort with the quality and adequacy of information made available for the purposes of project and budget approvals and to enable the members to be kept informed of actions and the achievements of staff.

3.20 From the donor departments’ perspective, correspondence on file and discussions with program officers responsible similarly indicated general satisfaction and acceptance of the reports provided. Dealings with the Forum indicated a positive attitude, openness and willingness to respond to questions raised or suggestions made.

3.21 Similarly, our review of the audited financial statements, management letters and a recent “Internal Management Audit,” coupled with our discussions with the external auditor (the Forum’s public accountant), point to an organization seeking to improve its internal program and financial management practices.

3.22 Pressures have been experienced in both domains of program management and financial operations. Delays have been experienced in keeping up with requirements for internal operations, such as related to the timely processing of financial transactions. From a program perspective, staying on top of program

commitments has placed inordinate stress on staff, and especially the management cadre, during the extended period in which the position of President was vacant.

3.23 Appropriate organizational responses occurred on several fronts, as the Forum continued to evolve from its roots as an organization concerned with international conferences to a vehicle to facilitate the sharing of ideas on federalism. Recent actions of significance included:

- Active intervention of the Chairman and Program Committee Chair in support of day-to-day management of the Forum, filling the void created first with the departure of the President and then ***.
- The commission of the broad-scope Internal Management Audit, which reviewed administrative aspects of board operations, priority setting, program operations, funding and accounting, procurement, travel, communications, organizational structure, human resources and working conditions.
- The commission of a Position Evaluation and Salary Administration study.
- Selection of Chief Operating Officer, a former provincial deputy minister, to oversee the Forum's operations.
- Reorganization of the Forum, including the creation of two program related vice-president positions, one on the global programs and conferences and the other responsible for projects and research.
- The secondment of a Swiss National, with financial support from the Swiss Government, as the VP, Global Programs. This change is expected to provide greater attention to this aspect of the Forum operations.

3.24 The initial years could be characterized as entrepreneurial, reflective of an organization seeking to establish itself, its reputation and relevance in keeping with the broad objectives determined at its outset. The Forum's close association with three donors with diverse public policy mandates has been beneficial from the perspective of its growth.

3.25 Financial management and budgeting practices of the Forum have been influenced by its ongoing relationship with its donors, such that programming activities, and scenarios for budget approval, are restricted to the funding envelope made available from the three contribution agreements and the draw down provisions of the grant. As noted in the Internal Management Audit, "while the Forum has set out its objectives and goals, and has a mechanism for priority setting, it is not undertaking long term strategic planning, but relying on one year plans, which are subject to revision during the year."

3.26 The apparent orientation of the Forum towards the year at hand may be understandable, given the initial push to establish itself. However, the grant was provided not only to supplement funding provided for program activities, but to explore alternative sources of funding, ideally sufficient to independently finance and sustain the Forum's work. Only recently have meaningful discussions in this regard been initiated

around the prospect of transforming the Forum into a truly international organization with financial support from other federal states. While the Forum and its core funders, DFAIT/PCO, are actively working together to pursue this end, the plan for “internationalization”, including its objectives (mandate and financial), time-line and the assignment of respective roles and responsibilities, needs to be more clearly articulated and agreed to by those directly involved.³

3.27 Another consequence of short-term focus of the Forum, and its entrepreneurial phase, appears to be the pursuit of opportunities as they arose. This can create situations where economies available through planning and consideration of alternatives are missed or not possible, such as discounts on air travel by advance booking. From a financial management perspective, in the absence of financial pressures alternatives may not be given due consideration.

3.28 Our detailed tests of transaction and collaborative observations made by both the author of the Internal Management Audit and by the external auditor in the management letters suggest that travel costs were high for a number of transactions tested. Travel overall represents a significant part of the Forum’s operating budget. Again as observed in the Internal Management Audit, despite the legitimate use of travel as part of the Forum’s activities and operations, the level of travel is excessive and exceptions authorized by top management have become the norm. Control over travel, despite the policy, is lax. There is no policy for hotel and other expenditures. “... Budgeting for travel needs review.” All to suggest, given the significant cost travel represents to the Forum, that it should be managed differently. This would include the pursuit of opportunities for better value-for-money through both:

- the consideration of need for and alternatives to travel; and,
- the internal control to ensure the prudent use of funds related to travel, once approved.

Recommendations

3.29 The Forum, in conjunction with its core funders, DFAIT/PCO, should draft a detailed project plan for its “Internationalization.”

3.30 The Forum, given the significance of travel as a cost of operations, should ensure that travel is duly justified in consideration of the

³ To quote DFAIT correspondence on the subject of the internationalization of the Forum, “As it was agreed in August 2002, Canada (PCO, DFAIT) and the Forum would press ahead with efforts to internationalize the Forum of Federations. In February 2003, [a] tripartite meeting (Switzerland, Belgium, Canada) was held to explore strategies for the internationalization of the Forum’s funding and governance structures. Under Canada’s leadership, another multilateral meeting was held in Brussels in July 2003 in the presence of representatives from 11 other federations.”

alternatives and subject to appropriate policy and internal control, sufficient to demonstrate the prudent use of funds.

Management Actions and Time Frames

- 3.29** **The Forum completed a new business plan in March 2004 that addresses the “Internationalization”. The Plan presents an internationalization strategy which details the nature of the effort undertaken by the Forum to convince other governments to contribute to the funding of the Forum and its activities.**
- 3.30** **The Forum agrees with the recommendation and has instituted a policy whereby all missions must receive prior approval by the Executive Committee to ensure maximum utilization of opportunities. Further, a process is underway to implement a “Forum Method” to enhance the transfer of knowledge through a variety of techniques, thus minimizing travel requirements and gaining the greatest benefit from direct contact when it is necessary.**

Governance & Managing Relationships

3.31 The Forum can be seen as a work-in-process. Arguably, the existence of four separate agreements with three separate entities, all for the purpose of establishing and sustaining the Forum and its work, inherently lends itself to complexity and, as observed under *Compliance*, conflicting messages and requirements.

3.32 It was not surprising to read in a letter from the Forum to DFAIT in June 2001, “we would deeply appreciate your sympathetic consideration to the idea of renewing the contribution under a single agreement rather than through three separate agreements as currently exist. There were important historical reasons for the separate agreements that no longer hold the same force, and a single agreement would be easier for us to administer and provide the government with a more coherent means of monitoring our activities than the current situation which imposes different reporting requirements under the different agreements.”

3.33 In the context of a mature, well-established organization, the points raised by the Forum make sense. But for an organization seeking to establish its relevance and niche within a larger community of like-minded NGOs, association with PCO, DFAIT and CIDA appears to have served well in the development of the Forum’s capacity, as exhibited in the conduct of its work.

3.34 From a human relations perspective, given the operating environment of each of DFAIT, PCO and CIDA, each organization tends to experience frequent turnover of program staff. This can create an interesting twist on the old game of

password, which each officer in succession tries to pick-up on what was learned from the previous officer. For the Forum, each hand-off leads to a new round of orientation and building of trust, as the officers involved establish a new working relationship. But again, the rapid succession of new officers assigned the Forum's file serves to confront the Forum with questions of its role, its fit and the relevance of its work. As much as this has been a source of frustration and uncertainty, it can also be seen as both instructive and instrumental in the shaping of the Forum.

3.35 The fundamental question as it relates to the Forum is essence, "how does it serve to complement the achievement of Canada's public policy objectives?"

3.36 Discussions with PCO and DFAIT suggest continued interest in the work of the Forum. CIDA, on the other hand, has found the relationship with the Forum a rough fit. Considerable effort has been made by both CIDA and the Forum to pursue and justify opportunities and projects in accordance with CIDA's program mandate. While the Forum's work has been seen as beneficial, at times the investment made by CIDA did not align that well with CIDA's priorities and program objectives. CIDA's agenda is the developing world, whereas issues of federalism have a much broader application and appeal to the first world, as it relates to emerging issues in the devolution of power from a central government to regional governments. It could be argued that bias towards the third world of the CIDA mandate may limit the Forum's ability to pursue issues closer to home, such as the effective functioning of a federation as it relates to renewal of federal-provincial arrangements, or emerging issues such as they relate to cities, aboriginal communities and institutions, or the continued transformation of territorial governments.

3.37 At the international level, considerable interest appears to have been generated in the Forum. Exploring questions of good governance within the context of workings of a national government has been acknowledge of interest to many well established democracies and by emerging and developing countries as well. Conflict resolution and accommodation of minority groups within a federal structure, renewal of constitutional arrangements and nation building can be seen as areas of continued interest and sources of potential research and programming. Coupled with this interest exists a certain willingness to provide direct financial support.

3.38 Involvement by other national governments or foreign institutions will by necessity result in changes in not only the composition of the Forum, but its governance and accountability structures. Discussions at this level have confirmed the desire to preserve the non-governmental, non-partisan orientation of the Forum. The dilemma posed to the Forum, in consideration of offers of financial support from other sources, is how it will provide its donors with a meaningful basis to account for its activities, achievements and prudent use of funds donated. The grant made by DFAIT stipulates that the Forum cannot "amend or alter its articles of incorporation ... without prior consultation with the representative of the Minister of Foreign Affairs." This provision clearly implicates DFAIT in the discussions in this regard.

3.39 The Forum has taken on and developed a certain capacity, as described previously. Current arrangements seem to both insulate and constrain its work. The potential and merit of the Forum and its work need to be more clearly aligned with public policy objectives - both domestic and international. In essence, the underlying ambiguity of the relevance of the Forum's work to public policy exposes the Forum to certain risks, as it is inherently difficult to deliver on objectives and demonstrate value, when expectations are unclear.

3.40 The Forum has reached a point in the road, whereby it has established a reputation, profile and range of services and products consistent with its objectives. It would be timely for an evaluation to occur to clarify the relevance of the Forum's work. By virtue of the discussions and interest at an international level, the evaluation should consider the Forum's relevance in the context of an international NGO and the potential for alternative sources of funding.

3.41 Regarding administrative aspects of the relationship between the Crown and the Forum, our observations suggest that one funding agreement, rather than four, be in place. Adoption of a single funding arrangement would reduce the administrative burden to all parties and serve to resolve the complexity and conflicting requirements imposed on the Forum. As a means to allow direction to the Forum from a stakeholders' perspective, creation of an advisory council could be considered. Working within this model, ongoing monitoring of the Forum's performance and compliance would be assigned to the department whose public policy mandate most closely matches the Forum's objectives.

3.42 Creation of an advisory council could serve to:

- provide clear and consistent direction on expectations, program activities, and alignment with public policy;
- approve the parameters of the Forum's work and the use of funds;
- serve as a vehicle to resolve differences of opinion in the interpretation of those parameters; and,
- hold the Forum accountable for the use of funds. This would include the prudent use of funds and demonstrating economies and efficiencies achieved during the year.

3.43 In response to organizational pressures recently experienced by the Forum, the Chairman of the Board was confirmed as the Forum's President, in addition to holding the position, as the Chairman. We understand that this is a transitional arrangement. This situation, while not unusual, is contrary to suggested best practice which recommends that the offices of Chairman and President be held by two separate officers. This situation should be revisited by the Board within a year.

Recommendations

- 3.44** The Forum, in conjunction with its core funders, DFAIT/PCO, should initiate a formal evaluation of its work, as a means to clarify its relevance and complement its planning in pursuit of its transformation into an international NGO.
- 3.45** The Forum and its core funders, DFAIT/PCO, should enter into discussions on an alternative approach to oversee the Forum's performance in compliance with its funding agreements.
- 3.46** The Forum's Board should revisit the decision to vest the positions of the Chairman and President in one officer within a year.

Management Actions and Time Frames

- 3.44** A formal evaluation has just been completed. DFA, PCO and the Forum will coordinate their efforts to ensure that appropriate and meaningful action is taken on the recommendations stemming from the final evaluation.

The Forum has adopted a results-based management planning and reporting procedure which allows for continual internal evaluation by the Executive Committee, Program Committee, and the Board of Directors.

- 3.45** The Forum agrees with this recommendation and the creation of an advisory council is under consideration.

It is anticipated that future funding agreements will be reached between only one federal department and the Forum. It is expected that the Department of Foreign Affairs will be taking that role. A decision is expected in the Fall 2004.

- 3.46** The Forum agrees with this recommendation and the Board has already acted on it. A new candidate for Chairman has been identified from the existing Board and a nomination will go forward to the Board once the full compliance of the nominee's government has been confirmed.