

# **The Policy and Practice Gap**

**Federal Government Practices Regarding  
Administrative Costs When Funding Voluntary  
Sector Organizations.**

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## **The Policy and Practice Gap**

### **Federal Government Practices Regarding Funding Administrative Costs When Funding Voluntary Sector Organizations**

#### **Executive Summary**

A survey of voluntary sector organizations was undertaken as part of a larger collaborative problem-solving initiative between Social Development Canada and the Voluntary Sector Forum focusing on the *Code of Good Practice on Funding*. The survey focused on the funding of administrative costs in federal government agreements with voluntary sector organizations.

The lack of funding to cover administrative costs was identified as one of the most problematic areas of funding during the development of the Code. The Code was intended to strengthen and improve the sustainability of the Voluntary Sector – to shore up that “hollow foundation”<sup>1</sup>.

The funding of administrative costs is comprised of two main components:

- the first is the definition of allowable administrative expenses and the funding of those costs and,
- the second component is the process and practice of fund administration.

The two are interconnected. Adequate definition and funding of administration expenses can be undone by accountability and fund management practices. This survey therefore looked at the funding of administration expenses in the context of overall fund management.

#### **Key Findings**

The survey identified a small number of federal programs that are funding and managing their contribution agreements in a manner that is experienced by the voluntary sector organizations as supportive, fair and conducive to completing the funded work successfully. It is possible to fund well.

Fourteen of the seventeen programs surveyed however, were not funding, or were seriously under funding administrative costs. Moreover, their fund management practices were experienced by the voluntary sector organizations as unnecessarily onerous, seemingly arbitrary, and in some instances downright unfair. These funding practices placed extraordinary demands on the very administrative staff that the federal departments were reluctant to fund. Fund management practices created significant financial liabilities for ten of the thirteen voluntary organizations surveyed. Under funding staffing costs and inadequate notice of position reductions in particular create

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<sup>1</sup> Katherine Scott, *Summary Report Funding Matters*, 2003, CCSD, commissioned by the Sector Working Group on Finance of the Voluntary Sector Initiative

human resource liabilities, that risk exposing volunteer board members to personal liability<sup>2</sup>.

A number of federal departments are viewed by voluntary sector organizations as a partner of necessity not partner of choice. The nonprofit organizations that have a choice report they are not seeking federal funding agreements except from supportive departments. Those with existing agreements with unsupportive federal departments are seriously worried about the ongoing difficulties and risks in having federally managed projects. A few of the organizations are in serious financial difficulty precipitated, at least in part, by federal funding practices. It is not yet certain they will be able to manage their unfunded costs and outstanding liabilities successfully.

### **Recommended Next Steps**

There is a significant gap between the policy of funding the voluntary sector articulated in the *Code of Good Practice on Funding* and the operating practices in many government departments. Action needs to be taken to:

- Ensure federal government departments have a consistent interpretation of allowable “program-related” expenses that includes administrative infrastructure costs.
- Establish government performance standards for program application processes and agreement management accountability requirements that are effective, appropriate and provide value for effort for the government and voluntary sector.
- Establish performance standards for transparent and timely decision-making including sufficient notice periods for funding reductions and funding processes that allow for service continuity.
- Establish an audit and feedback mechanism that allows for ongoing dialogue between the Federal government and the voluntary sector organizations to identify federal funding practices that are working well and those that require improvement.

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<sup>2</sup> Volunteer Board members are personally liable for 6 months unpaid wages, holidays and benefits.

In the longer term, improved funding policies and practices should achieve the following positive outcomes:

- Enhanced ability for each sector to carry out its mandate;
- Greater transparency, consistency and understanding between both sectors;
- Clear and balanced accountability in the funding process;
- Good funding policies and practices that are applied widely; and
- Strengthened sustainable capacity of voluntary sector organizations.

Excerpt from the *Code of Good Practice on Funding*

## Introduction

This survey of voluntary sector organizations receiving federal funding was undertaken three years after the launch of the *Code of Good Practice on Funding* to gauge the progress of the code's implementation throughout the various departments of the federal government. It is a small survey therefore its intent is to provide a snapshot of funding practices across a range of federal departments.

This survey is part of a larger problem-solving initiative between Social Development Canada and the Voluntary Sector Forum focusing on the *Code of Good Practice on Funding*. The findings of this survey will help inform and direct subsequent activities in this area by the partners in this initiative.

One of the key indicators of movement toward achieving the goals articulated in the *Code of Good Practice on Funding* is the funding of administrative costs. The lack of funding to cover administrative costs was identified as one of the most problematic areas of funding during the development of the code. The landmark study commissioned by the Voluntary Sector Initiative, *Funding Matters*<sup>3</sup> describes voluntary sector organizations “becoming a series of projects connected to a hollow foundation.” and raised concerns about the sustainability of the voluntary sector. The Code was intended to strengthen and improve the sustainability of the Voluntary Sector – to shore up that “hollow foundation”.

*The Code of Good Practice on Funding* sets out responsibilities and funding practices for both the voluntary sector organizations and the Government of Canada. Key to achieving these responsibilities is a funding relationship that sustains voluntary sector capacity, achieves service objectives, and provides accountability for public funds. This survey of administrative funding practices will inform on these three key outcomes.

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<sup>3</sup>Katherine Scott, *Summary Report Funding Matters*, 2003, CCSD, commissioned by the Sector Working Group on Finance of the Voluntary Sector Initiative

## Survey Method

### Administrative Cost Definition

The definition of “eligible administrative costs” remains differently interpreted and one of the areas explored in this survey. For the voluntary sector, administrative costs must include the shared organizational overhead that they bring to a project such as executive management, governance as well as human resources, information technology, financial management and the other organizational systems that provide the infrastructure for program delivery. These are the components of the “hollow core” referenced earlier in this document, that benefit each and every program operated by the organization and therefore should be supported by each program or project. *The Code of Good Practice on Funding* supports funding this central administration. The Code references as allowable expenditures infrastructure-type costs<sup>4</sup> and has as an objective, the sustainability of the sector. However government use of the term “project- related” when defining eligible expenses has resulted in different interpretations in different government departments. At Social Development Canada they include “other administrative costs reasonably associated with nonprofit organizations” as a “project- related” expense. (See Appendix A.) Other departments however require the expense be directly linked to the project e.g. time spent directly in the project, leaving the shared organizational core unfunded.

### Scope of survey

The funding of administrative costs is comprised of two main components:

- the first is the definition of allowable administrative expenses and the funding of those costs and,
- the second component is the process and practice of fund administration.

The two are interconnected and both elements must be working well if the objectives of the code are to be met. Adequate definition and funding of administration expenses can be undone by accountability and fund management practices. This survey therefore looked at the funding of administration expenses in the context of overall fund management.

### Survey Sample

Telephone interviews were undertaken with 13 voluntary sector organizations that received funding from the federal government for service delivery, research and/or policy development work. Some of these organizations received funding from more than one federal department for a total of 17 reports. (When a department funded more than one program within an organization it was only counted once.) Survey respondents were selected for their diversity and represent a broad range of organizations from across Canada:

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<sup>4</sup> A Code of Good Practice on Funding, 5.2 Government of Canada Responsibilities for Funding Practices, re infrastructure type costs e.g. “information management, and information technology, memberships, facilities, human resources, and financial management obligations that are integral to successfully implementing eligible initiatives.”

- *Geography* -Eastern Canada, Central Canada, Western Canada and a sample of national organizations.
- *Size* -four organizations had organizational budgets between \$100,000 and \$500,000, six had budgets between 1-5 million dollars and three had budgets over 5 million dollars.
- *Community* -The sample included organizations serving urban, town, rural, northern and national interests.
- *Target Population*- The organizations worked with, undertook research on, or fostered responsive policies for children, youth, women, families, seniors, newcomers, and first nations people.

### **Survey Participant Confidentiality and Federal Department Reporting**

Survey participants participated only on the condition that they and their organizations would not be identified. All participants were extremely anxious their participation might become known. Many even specified that certain descriptor information not be revealed because it would allow for their identification.

The federal departments that fund the survey participants have been identified if more than one organization reported on the department corroborating the information. The exceptions were the positive funding examples. They were reported even if only one organization provided the positive report.

If a department has been identified it means that more than one organization reported similar experiences but it does not necessarily mean that all transfer funding programs in that department operate in a similar fashion. This small survey could not verify how wide spread or consistent the practices were within departments. The number of programs in each reporting category is provided to give an indication of the number of programs reporting on a practice.

### **Key Findings**

The survey identified two funding models. One model supports and recognizes voluntary sector organizational capacity as a key component of successful program delivery. Federal funders using this approach fund administrative costs and engage in fund management practices that are supportive of project outcomes. The other model focuses on detailed control and monitoring of financial expenditures. It does not fund organizational administrative costs and employs fund management processes that are not supportive of project outcomes. This second model is enormously time consuming, excessively restrictive and often create significant liabilities for the voluntary sector organizations and their Boards of Directors.

## **Federal Departments Funding Administration On A Sustainable Basis.**

These examples demonstrate that federal government departments have the ability to work with, and fund, voluntary sector organizations in a supportive fashion. The survey identified two funding agreements, one from Social Development Canada, and the other from Agriculture and Agri Food Canada, where they are providing administrative funding that is experienced by voluntary sector organizations as fair.<sup>5</sup> In addition, these funders were described as having fund management processes that facilitated the work to be accomplished.

In another project, Health Canada was also found to have supportive funding and accountability processes. The positive rating of Health Canada, despite short funding of administrative costs indicates the importance of the “process of funding” to Voluntary Sector Organizations. The receiving organization was grateful for a funding process that allowed them to do their work effectively. A small project from Justice Canada was also funded in a supportive fashion.

The three organizations in the survey that were involved in these projects reported feeling respected and supported. They identified that the functional funding relationship let them get on with their work so both their funder and their community could benefit from the results. Two of the projects funded involved collaborative community processes that would not have been possible with the financial micro-management style described by other survey participants.

The successful funding strategies found in these four departments are :

### ***A Clear and Consistent Formula for Funding Administration***

The supportive funders had formulas for determining administrative contributions that the organizations understood and perceived as fair. In one case it consisted of a series of formulas for determining the sharing of common costs across the organization’s various funders. In the other example it was a percentage on the overall grant, to reflect reasonable central administrative costs. (Many mid and large agencies use this method to allocate their central administrative costs over their various programs and they appreciate when funders support this time effective and fair allocation process.)

### ***A Funding Process that is supportive of Voluntary Sector Organizations accomplishing the funded work.***

The supportive funders focused on program quality and program results rather than the details of financial spending. That is not to say these funders did not require financial accountability but they allowed the organization to make their own decisions on spending within approved budgets to achieve program objectives. In two cases the funders have committed to multi-year funding. This allows the organizations to make longer term commitments to program delivery. Two of the funders were also responsive to resolving

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<sup>5</sup> The examples provide are descriptions of positive funding practice. It is not known from this survey if all funding from these departments have the same characteristics.



difficulties that arose. In one case the funder acknowledged they made an error, in the other the agency needed to make changes. Both disputes were resolved to the mutual satisfaction of the parties.

***Mutual Respect and Shared Commitment***

The common characteristic underlying the supportive funding arrangements is a mutual respect. All three organizations commented on mutual trust and a shared commitment to program success as key factors in the successful relationship.

The chart below summarizes the key practices of the effective funding relationships described by the survey participants. The shaded areas report on the administrative funding and the un-shaded area reports on the processes of funding which, in these examples, lessen the administrative burden and enhance the organization’s ability to rely on the administrative funding provided.

**Chart A**

**Characteristics of Effective Administrative Funding and Fund Management**

<b>Constructive and Supportive Practices</b>	<b>Number of Federally Funded Programs Identified</b>	<b>Federal Government Department</b>
Clear definition of administrative expenses that includes shared infrastructure	2	Agriculture and Agri Food Canada Social Development Canada
Negotiated “fair” administrative cost formula	2	Agriculture and Agri Food Canada Social Development Canada
Central administrative costs funded as percentage of program expenditures	2	Health Canada Agriculture and Agri Food Canada
Per Diem (inclusive of administrative overheads)	2	Health Canada Justice Canada
Multi-year Agreements	2	Agriculture and Agri Food Canada, Social Development Canada
Results focused management.	4	Agriculture and Agri food Canada Social Development Canada Health Canada, Justice Canada
Satisfactory Dispute Resolution	2	Health Canada Social Development Canada

## **Federal Departments Not Funding, Or Short Funding, Administration**

Most survey participants had negative experiences to report regarding the funding of administrative costs. Indeed, the participants commented that in the last year they were experiencing more difficulties than ever before. Twelve of the thirteen survey respondents had federally funded projects that under funded administrative expenses. They describe their federal funders as continuing to resist paying their share of the common costs of organizational infrastructure.

Organizations report the funders select them because of their connections to community, infrastructure to support programming, and specialized expertise but then refuse to support this organizational capacity. Where funders do pay for some selected administrative costs, the organizations report they require excessive documentation, and the amount of contribution appears to be governed by fixed formulae unrelated to actual costs. Organizations were often uncertain of how the formulae worked but many reported they believed there were fixed formulae guiding decision making.

The problematic areas are:

### ***Unclear and inconsistent approaches to funding administrative costs.***

- ***No funding for central administrative costs***

In 14 of the 17 programs surveyed the federal funder would not contribute to organizational capacity. Some refused outright to pay for the time of the Executive Director, Program Director, etc. while other funders who broke down tasks in detail, refused to contribute to any activity that only indirectly benefited the program or was a shared benefit of the organization e.g. governance, organizational management systems, or common space such as lunch room or reception.

- ***“Program related” administrative payments***

Many of the Federal Departments with large voluntary sector funding portfolios require a direct link<sup>6</sup> to the specific program that must be documented for inclusion in administrative funding. Thirteen programs reported this was the method in use. The “directness” of the link varied between departments with some like Heritage Canada interpreting this more loosely. Other departments were very rigid. For example, several reported that their funder had refused to contribute to the agency annual report or communications materials even though the funder’s program was included and the program benefited from the community exposure. In another instance, the funder required a program manager to keep a time log for six months to document the actual time spent on the program. When the log consistently showed more time than was included in the funding formula no adjustment was made to the formula. In another example, the funder will only pay for a room (hourly) when it was occupied by the program instead of paying its share of the rent. The organization had to rent the space 24/7 so it was available when needed for program use.

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<sup>6</sup> direct link is interpreted as *time spent directly on project specific business*

The narrow interpretation of “program related” funding of administrative costs continues to exclude the legitimate, valuable and real spin off benefits that accrue to the program/project from the agency presence in the community, from its organizational capacity and volunteer governance. Moreover, practical application of “program related” based funding creates impossible gaps in revenue for the organizations involved. The resulting patchwork is enormously taxing of the time and energy of those very administrative structures the federal funder does not support. To supply the detailed documentation required necessitates many separate calculations and special record keeping, creating an administrative nightmare.

### ***“In Project” Funding***

One federal department pays no administrative costs for the organization (e.g. financial management) they pay only the costs incurred in the course of completing the project. Other programs do not even do that. Summer student employment programs for example provide no administrative costs or program costs, only salary. While larger established organizations may be able to accommodate such funding it does not work for small organizations.

A mid-size organization reported no administrative funding at all from Status of Women Canada, while smaller organizations report that, because their organizational mission parallels the objectives of Status of Women Canada, they manage to cover some of their core staff time because they work directly on the project.

### ***Funding Processes Not Supportive of Voluntary Sector Organizations Accomplishing The Funded Work.***

As explained earlier, survey participants identify the *processes of funding and accountability* as much as the actual short funding as the cause of difficulties for the voluntary organizations. Three organizations interviewed said they no longer apply for funding from a federal funder they found particularly difficult. The cost and aggravation was too high for the organization. Other organizations receiving funding from unsupportive funders cannot walk away as easily. They are caught between their community’s need for the service, the welfare of their staff and the impossible terms and processes of the funding agreements. In some instances the organization’s very survival is in the balance.

- ***Fixed cost limits on expenses and claw back decisions***

Some federal departments have established fixed amounts they will fund for specific items. Voluntary Organizations reported they were unable to establish the basis or rationale on which these caps were established. Many funding caps seemed unduly rigid and created difficult financial and human resource issues for the organizations. A few of many examples provided by respondents: the daily traveling expense was set at significantly less than the current government rate for daily travel and arbitrary low caps were set for air travel regardless of distance to be traveled; staff salaries were capped at below market rates and well below the experience level required for the project; benefits

are limited to statutory deductions (even that amount was sometimes less than cost). The organizations were left trying to find the resources to fund actual travel costs, and make up the difference between statutory deductions and the organization's benefit plans. In another example, a federal department, after paying the full rent for over ten years, suddenly capped the rent line at half the actual rent in the new agreement without explanation. The organization has now had to squeeze staff into half the space, limiting program while it seeks to sublet the remaining space.

Voluntary Organizations not only cope with arbitrary spending limits and unanticipated cuts in funding, they also experienced expenses being disallowed after the fact. In one case an organization organized a program retreat to regroup, plan, and build team. The agency provided a modest lunch on the day. This expense was disallowed. Other respondents also complained that this "no benefit" limitation is unreasonable as it means they cannot offer tea or coffee to staff, volunteers or program participants. The amount of money is insignificant in their budgets but the extra accounting and impact on the atmosphere in the program is significant. The programs were angry they were not allowed to meet the needs of their staff, volunteers and program participants. They were particularly upset with the disallowing of bus fare for clients in urgent situations.

Some federal departments claw back funding each quarter and at year end. This process is done before all costs are known and documented so the agency is left with the outstanding bills and run a deficit even when they under spend the approved budget. Since voluntary sector organizations have little or no capacity to absorb disallowed or unfunded costs these limits, exclusions and recovery processes cause deficits for which the organization and the Board of Directors are liable<sup>7</sup> and make managing a project an administrative nightmare.

- ***Significant differences in funding and agreements for similar programs***

Not all projects receive consistent treatment from funders. There were noticeable differences between different organizations receiving funding from the same funder. The reasons for this are not known. This study found that the amount of benefits funded, amount of administrative costs funded, specific items of administration allowed, terms of purchases (lease, rent, or buy); length of the agreement, and time required for renegotiation varied between organizations.

- ***Excessive Micro-management,***

All respondents with HRSDC funding reported a recent huge increase in micro management. Respondents also reported other federal departments such as CIC and Status of Women Canada required extraordinary involvement in the details of budget and expenditure reporting. Respondents described a crushing and ineffective budget process requiring a level of detail impossible to provide with accuracy, e.g. the exact date, title and cost of training for a staff person that was not yet hired and whose training needs

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<sup>7</sup> Voluntary Boards of Directors are liable for six months of staff wages so federal short funding of benefits, holidays and basic salary costs falls to the individual board members if the organization cannot find the funds elsewhere.

were therefore not known; breakdown of purchases with costs down to the number of reams of paper, number of pencils, number of photocopies etc.

All respondents described responding to multiple and numerous urgent requests for documentation from HRSDC. One Respondent counted the pages (200 pages of additional documentation and materials) for a single grant. Another reported receiving 10 different rounds of questions, all requiring detailed, rush responses. All respondents questioned the usefulness of the information requested and described not knowing what the “phantom committees”<sup>8</sup> were after.

The budget detail invites the federal staff to supervise and interfere with project management. One respondent described being allowed to purchase two sets of business cards not three while another, was told the number of photocopies projected was too much and was cutback. Both needed what they had projected and are left to fill the gap.

Respondents find the micro-management is counter-productive and hurts program delivery by diverting management attention elsewhere. They reported that other funders let them get on with their work and as a result receive better outcomes in their projects.

- ***Discontinuity/delays in funding impact program and create liabilities for organizations***

Status of Women grants are structured so that organizations cannot receive grant renewals that provide continuity to their work. After a grant is finished the organization must submit a report that is reviewed before negotiations are begun on a new agreement. The smallest gap is two months but it can be four, six, even longer and the organization never knows. This places a great deal of stress on the organizations that typically have few alternate sources of funds. Raising funds for a grant hiatus or delay is a difficult sell. The review process for new grants is sequential so one division reviews the proposal and then another. Each division requests additional information and requests changes, and it is returned to the other division. As time elapses personnel change and the proposals get read as new and additional changes re requested. Meanwhile sufficient time has elapsed that the budget and cash flow statements all need to be reworked.

The situation is similar with HRSDC with lengthy delays in funding approvals. HRSDC does however provide short bridging agreements for anywhere from 3-8 months. These bridging agreements require the same detail of information as the full proposals. One organization had its community fall into two different areas in the revised HRSDC structure. They now have two bridging agreements (for different lengths of time) and will have to negotiate two separate agreements at different times in the future. The allocation for administrative funding split between the two grants decreased while the work required more than doubled.

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<sup>8</sup> Voluntary Organizations were not allowed to know the composition of the review committees and did not deal with them directly. The local HRSDC staff were go-betweeners.

- ***Poor negotiating practices***

The respondents describe a tremendous power imbalance. Negotiated agreements are binding on the organization but are amended at will by the federal government. The terms and conditions are changed and staff positions eliminated unilaterally. Respondents describe being given their agreement one day before the old agreement expires and discovering the funder eliminated a staff position or altered the agreement. At least four respondents had had to absorb the costs of notice and severance for the eliminated positions because they had not been given advance notice. If the agency does not sign, the whole program is not funded and the liabilities are even greater for the organization.

- ***Unsatisfactory Dispute Resolution***

There is no established process for resolving differences between voluntary organizations and their funders. Agencies complain at their peril. Never-the-less several organizations described approaching politicians or senior bureaucrats with problems and receiving a sympathetic hearing, even in some cases, getting a firm commitment. However, there was no follow through and the agreement was not honored at the local level.

**Chart B** identifies the characteristics of negative administrative funding. The shaded areas describe the treatment of administrative costs, while the unshaded area describes the funding processes that overwhelm the organizations with administrative tasks.

**Chart B**  
**Characteristics of Negative Administrative Funding and Fund Management**

<b>Unconstructive and Unsupportive Practices</b>	<b>Number of Federally funded programs identified</b>	<b>Federal Government Department</b>
No funding/under funding of common, shared organizational administration	<b>14</b>	Status of Women Canada Human Resources Skills Development Canada (HRSDC) Citizenship Immigration Canada (CIC)
Only funding of directly linked to program, documented administration	<b>12</b>	HRSDC CIC Heritage Canada
Only funding for program expenses	<b>4</b>	Status of Women HRSDC
Fixed cost limits on expenses (not related/linked to actual costs)	<b>15</b>	HRSDC Status of Women Canada CIC
Rollback decisions /disallowing expenses	<b>7</b>	HRSDC Status of Women CIC
Significant differences in funding and agreements for similar programs	<b>n/a</b>	HRSDC Status of Women Canada
Excessive Micro-management,	<b>14</b>	HRSDC Status of Women Canada CIC
Discontinuity/delays in funding, impacting program and creating liabilities for organizations	<b>10</b>	HRSDC Status of Women Canada
Poor negotiating practices	<b>5</b>	HRSDC Status of Women Canada
Unsatisfactory Dispute Resolution	<b>7</b>	HRSDC Status of Women CIC

## Feedback From the Field

*“ I am fair, I just want them to be fair with me” (Finance Manager)*

*“Please consult, they never consult.” (Executive Director)*

### **Results based management**

“They (Federal Government) should be like other funders<sup>9</sup>, who keep on top of projects through outcomes. They need to be more strategically focused and hold us accountable for managing the budget to achieve project objectives.”

### **Fair Funding**

“Revise the entire contribution process. It is fundamentally flawed and the Request For Proposal (RFP) process does nothing to help. It has not helped in HRSDC and will be problematic for CIC if they go ahead.”

“You can’t run good programs without solid administration. The Federal Government needs to recognize the importance of institutional capacity.”

“The sector is not asking for a loosening of standards. They are prepared to be accountable for public dollars and provide quality service but they need fair funding and no micro management.”

“The Federal government needs a consistent approach, and a clear, fair process. They need to have serious discussion with the sector regarding audits and administrative costs to develop reasonable processes and stick to them.”

### **Strategic Risk Assessment**

“They need to differentiate the amount of micro management they provide according to the maturity of the grantee. They should do proper due diligence on organizations before approving them for funding and then trust them, especially those organizations they have been doing business with for years.”

## Analysis

### **Reliability and Consistency of Findings**

The survey was small but the feedback provided by the respondents was consistent and their experiences similar. Those organizations with responsive, results oriented, federal funders described the same characteristics that made them a pleasure to work with. The

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<sup>9</sup> Other programs mentioned were Ontario Trillium Foundation, Ontario Colleges and Universities.



organizations having serious difficulty with federal funders had common concerns and difficulties. Their descriptions of difficult funding experiences had similar and common themes.

### **Toward a Mutually Effective Funding Model**

The description by three organizations of four federal funders that provide responsive, results oriented funding demonstrates that it is possible for federal government departments to provide funding that is supportive of voluntary sector organizations. It will be important to understand how it is that some federal departments have been able to develop mutually supportive and positive relationships with their voluntary sector partners while other departments have not.

### **Evidence of Significant Deterioration in Funding**

Most survey respondents report that many federal departments continue to short fund or not fund, administrative costs for their organization. In addition, the funding process has recently become much more onerous. Federal agreements are demanding huge amounts of time from the same unfunded and unrecognized management staff. Programs put out to competitive bidding on short notice and with tight turn around times; external audits quarterly on top of the existing agency audit; extreme micro management; anonymous reviewers; discontinuous project grants with unpredictable gapping between grants, seemingly arbitrary decision-making and one way binding agreements were themes that were reported in interview after interview.

The feedback from the respondents warns that funding of administration expenses has deteriorated from when the *Code of Good practice on Funding* was signed and is seriously flawed and problematic. Those nonprofit organizations that have flexibility are not seeking federal agreements. The remainder of the organizations are seriously worried about the ongoing difficulties and risks involved in having federally managed projects. A few of the respondents in the sample are already in serious financial distress precipitated, at least in part, by federal funding practices. It is not yet certain they will be able to manage their unfunded costs and outstanding liabilities successfully.

## **Conclusions**

If the *Accord* and the *Code of Good Practice on Funding* are to have meaning, strong direction and action needs to be taken by the Government of Canada to ensure its departments fund agency administration and programs that fairly reflect actual costs. Moreover, the process of funding needs to be improved.

There is a significant gap between the policy of funding the voluntary sector articulated in the *Code of Good Practice on Funding* and the operating practices in many government departments.

## **Recommended Next Steps**

Action needs to be taken to:

- Ensure federal government departments have a consistent interpretation of allowable “program-related” expenses that includes administrative infrastructure costs.
- Establish government performance standards for program application processes and agreement management accountability requirements that are effective, appropriate and provide value for effort for the government and voluntary sector.
- Establish performance standards for transparent and timely decision-making including sufficient notice periods for funding reductions and funding processes that allow for service continuity.
- Establish an audit and feedback mechanism that allows for ongoing dialogue between the federal government and the voluntary sector organizations to identify federal funding practices that are working well and those that require improvement.

## Appendix A

From Social Development Canada Web Site (emphasis and italics added)

### 10. ELIGIBLE COSTS

Expenditures may be reimbursed on the basis of eligible costs incurred. In order to be eligible, **expenditures must be project-related** and must be incurred during the agreement period.

Financial assistance may be provided to cover such costs as wages and employment-related costs for staff; fees for professional service; disbursements for research or technical studies; disability supports for staff of the recipient; utilities; materials; supplies; travel (including international travel where consideration will be based on the reasonableness of the request, program priorities and the availability of funds); *insurance; rental of premises; leasing or purchasing of equipment and supplies; costs of audits; evaluations and assessments; performance monitoring and reporting costs; data collection; communication; and other administrative costs reasonably associated with a non-profit organization.*

The costs related to accommodating the special needs of program participants will be approved on a case by case basis.

The purchase of real property is not an eligible expense for funding support.

Where other sources of funding are anticipated, a provision for repayment is to be included in the agreements covering the grant or contribution in case more funding than was anticipated is provided from federal, provincial and municipal sources.

Interest charges will be applied on overdue payments.