

# The Contractual Basis for Quality Assurance: The Case of Funding External Agencies to Government

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Typically quality assurance involves defining and applying standards to a direct service. However, in a broad range of government activities, external agencies are funded to provide service to key constituencies. Arts councils, sports groups, cultural organizations, and academic institutes are all examples of external agencies used by government to deliver services. Increasingly, the question of quality assurance, specifically the fairness, efficiency and effectiveness of such agency funding, is encouraging government to review how these agencies are performing and to devise new processes to increase accountability. This paper presents the results of a major review of funding mechanisms to arts, sports and cultural agencies in Manitoba, and examines how quality assurance is increased by revising the contractual between external agencies and government.

## 1.0 INTRODUCTION

Quality assurance may be defined in a technical and specific sense. A system or program is designed to produce a set of outcomes. These outcomes are intended to conform to specific standards. Quality assurance is a set of procedures, checks and remediation designed to ensure that outcomes are produced within pre-specified standards. Typical applications are in health where quantitative measures are useful in assessing discrepancies in achieving standards and pointing to the specific systems failures which require correction.

Quality assurance also may be applied broadly. A program delivery system may consist of a series of practices and traditions which are intended to achieve broad outcomes. Often these outcomes are purposely vague and are designed to encourage flexibility. Programs in arts and culture are typical of areas of public expenditures where it is argued that flexibility produces the best outcome.

Fiscal restraint has increased pressures on government to account for expenditure. This need for accountability underlies much of the interest in evaluation, comprehensive auditing and quality assurance. Specifically, is it the case that relatively loose constraints on arts grants, to take a specific example, encourages excellence and innovation? The cultural "industry" often argues vigorously in support of relatively weak guidelines -- the model is clearly that quality is assured by allowing freedoms. Others, point to alleged flamboyant excesses such as the recent acquisition of the Voice of Fire by the National Gallery as an example of the problems produced by weak guidelines.

This paper assesses how to achieve accountability and quality assurance for cultural grants. Is it possible find mechanisms to assure quality in it broadest sense? Is it possible to encourage innovation and maximize the diversity of cultural activity, while conserving scarce resources?

There are two basic arguments. First, earmarked funding,<sup>1</sup> which characterizes much of the financing to arts, sports and culture is less effective than support from general revenue. Second, financing external agencies requires an explicit contractual basis to assure quality. Only by delimiting the scope of operation in a contract can results be achieved while preserving the integrity of the recipient.

Section 2 reviews the relationship between accountability, program evaluation and quality assurance. In Section 3, I examine the nature of arts

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<sup>1</sup> Earmarked funding refers to the practice of tying a specific revenue source to a recipient. The use of gasoline taxes for road repair and lottery revenues for sports organizations are examples.

funding and evaluation of the results of funding. Section 4 presents a case study of cultural funding programs and recent revisions underway in Manitoba are presented to illustrate the nature of the problem and the proposed solution. Finally, in Section 5 I return to the basic question on how to develop reasonable quality assurance procedures in the arts and culture.

## 2.0 ACCOUNTABILITY, EFFECTIVENESS, EVALUATION AND PLANNING DEFINED

Accountability may be formally defined "as the act of binding to give account or responsibility". The essential idea of accountability is at there is an "attestation" that what was committed to be done was done. In terms of most notions of accountability there is the idea of compliance to objectives and to adherence to goals.

Accountability can be defined narrowly or broadly. This section outlines very briefly some of the common concepts underlying the term and our interpretation of accountability, effectiveness and evaluation.

### Financial Accountability

In its narrowest sense, accountability refers to the ability to determine how money was spent. In the case of the grants made by government the financial accountability test refers to the narrow task of matching of awards with receipts.

A broader question, also within the financial accountability question, asks whether the money was spent within prescribed guidelines.<sup>2</sup> Each of the grants is provided under a set of guidelines and the financial accountability question also examines whether those expenditures fall within those guidelines.

### Effectiveness and Accountability

At a more general level, the effectiveness-accountability question asks whether the money was well spent. The common framework for effectiveness accountability is known as comprehensive audit in which there are three tests:

- Economy - this examines if goods and services were purchased at the lowest possible price.
- Efficiency - this questions whether the combination of inputs to a particular program produces a high level of output.

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<sup>2</sup> Technically this is an internal audit question.

- Effectiveness - this examines whether the combination of inputs and the combination of outputs produces a desirable end and whether the activity or program (grant award) achieves its intended purposes.

Although the evaluation community has been hesitant to embrace the comprehensive audit paradigm, it is supported by many senior public servants. It often, although not always, provides a superior method for moving beyond the confines of the financial audit, and provides a strong foundation for evaluation research. Questions of effectiveness are essentially evaluation questions.

### Quality Assurance

Quality assurance is completely contained within the concepts of effectiveness and evaluation. It is possible to see quality assurance as continuous summative evaluations. The monitoring and remediation cycle is frequent and repetitive. Repeated failure to achieve standards calls forth more substantial review and evaluation.

### Evaluation

The evaluation question is the broadest and seeks to examine the rationale for a program. In the case of funding to the arts for example, the evaluation question asks to what extent do the grant programs and grants support the mission of the department.

## 3.0 FUNDING THE ARTS AND CULTURE

In 1988 and 89, a major review was undertaken of funding to the arts and culture in Manitoba. This review examined how funding was provided to the Manitoba Department of Culture, Heritage, and Recreation (CHR). Before this review is examined, it is important to review how the concept of quality assurance might apply to funding to culture areas.

It may appear curious to speak of quality assurance in cultural funding, yet fiscal restraint has brought that issue to the fore. The highly publicized criticism of the National Art Gallery and its recent acquisition illustrate the problems.

At the core of the controversy is the debate over how to encourage the "best" art. One model argues that funders must be venturesome and accept that there is a high failure rate for genius. This approach argues that culture and art are encouraged by flexible and unconstrained funding.

There is an important distinction between discovering new artists and maintaining existing artists. Also, there are important differences between performing and creating. Certainly artistic performances are creative and add subtleties to an existing work, but much of artistic endeavour is involved in the creation of a completely new sensory experience.

The question of quality assurance arises particularly because funding is derived from public sources. Funding from private sources only needs satisfy the funder's own desires, and while that is certainly quality assurance, it is far simpler than satisfying diverse tax-payers.

It appears reasonable to require that artistic activity, supported in whole or in part, be evaluated using broad and comprehensive criteria. One criteria is that performances and creations become public. Public support of purely individual and private enjoyment of art is not generally accepted. This principle leads to the use of performance and attendance as a measures of quality. This causes extreme controversy. Many cultural activities generate large paying audiences. Some artistic activity, which is believed to have intrinsic merit have small audiences. It is often argued that performance should not be a criteria for quality since these small organizations would then be eliminated from support. However, supporting solitary activity would quickly be condemned. Accordingly, performance is taken as a de facto aspect of quality assurance in artistic funding.

A second approach is the peer review. Artists judge artists. This methods has great attraction, especially to those who have never participated in the process. The advantages are that experts are judging activity and this is supposed to allow a more accurate estimate of the potential for intrinsic merit. Peer review sometimes is criticized for leading to cliques and excluding newcomers to the funding circle.

There are three basic models for funding arts organizations each providing varying degrees of accountability and quality assurance.

#### Model 1 - Pure Grant Program

This model is common to academic grant settings and is used for a broad array of initiatives in cultural, sports and recreation. It involves extensive information organization at the application stage. In the case of the Canada Council or the Social Sciences and Humanities Research Council the typical "drill" is for very comprehensive applications to be submitted. The application is then sent to at least three academic peer reviewers. Based upon the reports from academic reviewers, the grant is or is not awarded. Once that grant is awarded there is little recourse for the councils in recovering the money if the individual does not use the funds for the stated purposes of the grant. The only control is at subsequent application rounds, and the non-compliant applicant will be substantially downgraded as a candidate for a grant award.

### Model 2 - Contract/Commission

The second model is a pure contract. While there may be considerable initial effort to win the contract, the final evaluation is based upon client acceptance of the product. The adjudication does not occur the "front-end", but is emphasized at the conclusion. To manage the risk, milestones may be specified and payments made through out the life of the project. This type of approach is not used in cultural activities, except possibly for commissioned work.

### Model 3 - Negotiated Agreement

A third approach, especially useful for large projects where the looseness of the grant is undesirable, but where contracts may not be suitable, is a negotiated agreement or memorandum of understanding. Deliverables are specified and regular payments included in a general agreement. While not legally binding, these agreements can have considerable moral force and can serve as an important complement to accountability.

These approaches represent a legal spectrum of legal frameworks for assuring quality in arts activity. Since the measurement of quality in arts is so difficult and subjective, legal approaches and attention to process appears to have promise as an general approach to quality assurance.

## 4.0 A CASE STUDY IN ARTS FUNDING

The Manitoba Department of Culture, Heritage and Recreation (CHR) provided annual grants of over \$27 million in the fiscal year 1987/88. These grants ranged from a high of over \$3.2 million to the Museum of Man and Nature to \$16.00 in a Skills Transfer program to a rural recreation group. This is a very broad range of funding activity to a high diversity of recipients.

The Department provides grants to operate Manitoba's major cultural facilities, collect oral histories, support major performing arts, assist rural museums conserve local history, and assist recreation districts to acquire equipment. Of all provincial government departments, the sheer diversity of funded projects and programs is the greatest in CHR and this poses supreme challenges in planning and accountability.

The Department blends appropriations (government revenues derived from taxes and other sources and allocated in an annual "estimates" exercise) and lotteries revenues which are contained in two trust accounts (Lotteries Trust Fund and Community Place Trust Fund). The grants to various organizations are then made from appropriations or from one of the two trust funds.

CHR is a significant "partner" with many organizations in delivering service to Manitobans. The term partner is preferable over the term grant recipient or funded agency. As is argued below, accountability in its broadest definition requires this perspective. The more "adversarial" view of grant applicant/recipient is both inaccurate and counterproductive to accountability.

These partners access a broad spectrum of grant funding provided by the Department. At its most elementary level, this partnership serves to develop and conserve the quality of life in Manitoba. The Department's role is to serve as a partner in funding its beneficiary organizations and directly provide them with technical services in culture, heritage and recreation.

Table 1  
Manitoba Culture, Heritage and Recreation  
CHR Appropriations/Lottery Trust Funds Disbursements  
Year Ending March 31, 1987

	CHR \$	%	Lotteries \$	%	Total \$	%
Executive Administration	104,428	0.7	2,174,070	13.6	2,278,498	7.3
Grants Administration	6,554,924	43.0	1,226,385	7.7	7,781,309	24.9
Cultural Resources	356,107	2.3	2,366,274	14.8	2,722,381	8.7
Recreation	301,061	2.0	266,731	1.7	567,792	1.8
Public Library Services	3,095,443	20.3	679,467	4.2	3,774,910	12.1
Historic Resources	1,026,500	6.7	1,836,331	11.5	2,862,831	9.2
Regional Services	1,496,639	9.8	175,788	1.1	1,672,427	5.3
Provincial Archives	1,253,624	8.2	40,614	0.2	1,294,238	4.1
Legislation Library	648,850	4.3	-	-	648,850	2.1
Manitoba Intercult. Coun.	201,200	1.3	-	-	201,200	0.6
Manitoba Film Class.	225,874	1.5	-	-	225,874	0.7
Research and Planning	-	-	81,865	0.5	81,865	0.3
Communication&Info. Services	-	-	72,601	0.4	72,601	0.2
Cultural Industries	-	-	69,049	0.4	69,049	0.2
Community Places	-	-	7,000,000	43.8	7,000,000	22.4
TOTAL:	15,254,650	100.1	15,989,175	99.9	31,243,825	99.9

The various programs in CHR are developed to achieve particular ends.<sup>3</sup> For example, the Skills Transfer Program is designed to assist organizations to fund workshops and courses. These grants, which are typically less than \$1000, are used to reimburse the expenses associated with travel, accommodation, materials and honoraria in providing the workshop. On the other hand, the Public Events Sponsorship Program (PESP) are used to support performances, usually by a single artist. The Department uses a formula to allocate funding and the funds are applied to a percentage of the cost. Finally, a community arts council may be funded for a portion of its on-going operations from the Community Arts Councils Program. The same organization may qualify for assistance from the Manitoba Arts Council.

<sup>3</sup> For a description of the various programs see Appendix 1

These examples serve to illustrate that a single organization can easily qualify and obtain grants from the Department and the Manitoba Arts Council and not, by any reasonable definition, be "duplicating" its support.

The use of multiple programs provides an important potential to enhance financial accountability. By segmenting activities, it is possible to evaluate the extent to which funds expended conform to their stated objectives. Were an arts council provided a single block grant, the Department would have no easy way to assess how the funds were actually applied to a particular objective (such as skills). The recipient would be required to trace particular expenditures associated with a given seminar and report on separate aspects of their activities. This is a serious burden on the group.

Separate programs pose a potential application burden, especially on smaller groups. To access sufficient funding to mount a consistent program, groups may have to complete several applications with the Department. When this is coupled with the several applications that may be made to other umbrella groups, other provincial departments, federal government and private foundations, and it is not uncommon for an organization to submit over 25 applications to various funding sources.

The application process and its burden is the essence of the fund-raising "game" and the success of the board and management is determined in large part by the energy and creativity in winning grants from a diversity of resources. Therefore, the fragmented funding tends to favour the organization with the staff and information to mount the applications programs. In addition, it is apparent from the interviewing that funding success is highly correlated with access to decision-making. Therefore, corporate and governmental connections are key elements of a fund-raising campaign. Indeed, the diversity of funding programs both within the department and among all funders are clearly in the interests of the large and sophisticated organizations. They have the resources and skill to maintain their funding base from public sources.

This diversity (fragmentation) is not in the interest of smaller community (rural) groups. Several respondents, (recipients as well as program staff) argue that smaller organizations find the multiplicity of grants in the Department and from Umbrella Groups confusing. The Department has addressed this problem in part through its Regional Services Branch. The field consultant is intended to assist the applicant to complete the documentation and to identify other potential sources (federal, provincial, municipal and private). We were unable to assess the effectiveness of this function, and there appears not to have been any recent studies which reviewed the role and function of the field consultants. Based on the information provided by representatives of community groups in rural Manitoba, the extent to which these field consultants are able to assist applicants remains unknown. It is important to note that the task of assisting applicants, especially in times of restraint is formidable indeed. The simple act of referring



an applicant to another and more appropriate funding source can easily be misinterpreted as the "bureaucratic run-around."

With respect to the general issue of effectiveness, multiple funding poses three significant challenges. First, a number of respondents indicated that the segmentation of programs means that groups twist their objectives to meet funding guidelines. This can produce effectiveness problems when the funding is used to achieve ends which are not within guidelines.

Second, is the problem that it becomes difficult for a field consultant to address the needs of the entire organization. There is limited scope to assist the group and meet needs in their own terms and not force the group to meet the predefined terms of the grant program. This was mentioned by respondents and program staff in the community arts programs and the ethno-cultural programs. In this case, financial accountability is served by multiple programs, but effectiveness may be less because the funds are not used for their highest purpose. The fact that several respondents mentioned this issue suggests that it is not a trivial concern to recipients and program officers.

The third aspect of multiple funding is that it requires that expenditures be tested against program objectives. In terms of financial accountability, we have stated that this is satisfied by the department. However, the effectiveness and evaluation function is much less well developed within the Department. This is primarily because developing an acceptable model for such evaluation is extremely difficult for areas such as culture, heritage and recreation.

Based on official program materials it is easy to assume that the Department conducts annual competitions for grants. Under this view, there are discrete periods of application, adjudication and award (or rejection).

This model of the granting process applies to a small share of expenditures by the department. The more accurate description is that the department has clients, served through continuing support programs. Certainly there are new applicants, and some existing applicants (clients) may not reapply for funding, but the majority of grant recipients should be viewed as on-going clients to the Department.

This perspective of the grants program raises additional questions than simply whether the application, adjudication, and award process is efficient, effective and fair. The heart of the accountability question then becomes an examination of how the Department manages a diversified and complex client base.

### Summary

The Department funds a broad range of programs and through its Umbrella groups this scope of funding is extended even further. The issue of multiple funding is complex. In general, having multiple programs serves financial accountability. Effectiveness is served only if evaluation and outcome measures are collected and used to assess the program. It is also the case that multiple funding can serve the interests of the sophisticated and connected applicant. But, for multiple funding to serve both the interests of the grant recipients and the general public, it is essential that significant cumulative support be periodically reviewed to assure that such support is effective. We make specific recommendations in this regard below.

## 5.0 MANAGING ARTS FUNDING

It is clear that this diversity of activity makes the general problem of accountability very difficult. Further, issues of quality assurance are completely submerged in the detailed of administrative requirements of the program.

CHR provides operating grants to 16 "extra-departmental" agencies, sometimes called the majors. The Department provides these agencies with capital grants, special project grants, and other funds to operate the facility to achieve a certain mandate.

There are a number of possible models for needs identification, accountability and adjudication. These consist of (1) expert panels; (2) market demand; (3) general public opinion or consensus; and (4) strategic planning boards. All four have a place in needs identification for cultural, heritage and recreation. We now consider the features and merits of each.

### Expert Panels and Councils

The expert panel or peer review is a very frequent device in the assessment of art and other cultural activities. Peer review is cited as essential to the functioning of the Manitoba Arts Council and is frequently promoted as a useful ingredient to other areas of activity for culture, heritage and recreation. For example, respondents we interviewed argued that in the area of heritage and museums, peer review was very useful in needs identification and adjudication to assure excellence.

When a peer review panel assesses applications they are simultaneously assessing merit and establishing need. What are the advantages of the peer review process? First, it tends to produce a fairly uniform evaluation - with peer review processes there is a good chance that certain quality standards will be

achieved. Second, the potential is reduced for limited perspectives. For example, by having international artists on peer review panels, one can inject cosmopolitan views into funding decisions. Therefore, if an objective of cultural policy is to ensure that activities are "world class", peer review is one way to promote this. Third, peer review can be used to raise standards. Through a peer review process one can increase the chances of developing an activity that is unambiguously excellent.

There are some disadvantages to peer review. First, it is expensive. The peer review process requires time and energy to develop and maintain. Sending submissions or having judges visit to provide assessments is both time-consuming and expensive. Second, while peer review can ensure uniformity in standard, it may be insensitive to innovation and may result in a small group deciding what projects get awarded. Cliques can arise within peer groups and impede innovation. Third, the peer review process tends to work well for a defined discipline in which there are clear standards, but it works much less effectively when the funding is being used to develop activities across a broad spectrum of cultural affairs. Therefore, when one has activities that range from print to visual to film to community development and recreation, the peer review process can become extremely difficult. The sponsoring body must then develop a broad array of peer review panels. It is not uncommon for federal funding councils, for example, to run many peer review panels across thirty disciplines. It is apparent that the peer review process used by the Manitoba Arts Council consumes considerable energy and time on the part of many volunteers or experts.

### Market Demand

As an arbiter of needs, market demand has a value. The Applebaum and Hebert Commission noted that market demand may be used as a way of evaluating and adjudicating art that is implicitly establishing need.<sup>4</sup>

*The sharing of philanthropic burdens rather the consumer costs than be pursued by the use of matching grants. A device more commonly employed in the United States than Canada, although they have been extensively used by provinces in the distribution of lottery funds. In effect the public authority agrees to provide funds for purposes which it has designated or approved in some stated ratio the funds which have secured from other sources.<sup>5</sup>*

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<sup>4</sup> The Applebaum-Hebert Commission was roundly criticized for making many recommendations in the absence of an overall cultural policy. The fact that many key organizations refused to endorse this report demonstrates the difficulty of achieving consensus in this area.

<sup>5</sup> Report of the Cultural Policy Review Committee, Information Services, Department of Communications, Government of Canada, January 1982

Using market demand to assess an established need has some advantages. First, it provides a simple and "self-weighting" scheme assessing community consensus on worth. If a particular organization cannot develop a loyal clientele, the pressure on government to support that activity is lessened. Second, this approach provides incentives for organizations to generate revenues through private sources, whether they are corporate donations or admission fees. If the share is proportional the organization is not penalized for success.

The market approach has problems. Most importantly, this approach does not provide a particularly useful guide for new and innovative schemes that have not had a proven market. As an example, the Fringe Festival last summer by any account was a resounding success. In the absence of actual market data upon which to make an assessment, it would probably not receive funding using a market demand approach.<sup>6</sup> Second, many cultural activities do not generate large audiences. A market model rewards those who cater to mass markets.

It is difficult to decide when government should take a risk on new ventures and to what extent it should insist that performance and exhibits have private support before initiating new ventures or maintaining existing events. This question was posed to all recipients and the results were surprising. Some rejected the idea out of hand and suggested that the market test would result in catering to the mass market which is already well served. Others, accepted the notion that public funding would be linked to non-governmental sources. As one respondent reported "this would allow me to stimulate my Board and staff to do some fund-raising."

Many of the major organizations which are currently receiving significant funding through the government started very modestly with the part-time involvement of dedicated people. As a result of the growth of programming (measured partially through attendance) government shared and matched the growth of these organizations. As recipients have grown in scope, so too have requests for assistance. Ironically, the success of community groups has increased the demand on public resources. Implicitly there has been a market test as the audience and the level of activity has grown, so has government involvement. Of course, recently with funding cuts and ceilings this formula has tended to change and as the organization grows, government involvement tailors off.<sup>7</sup>

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<sup>6</sup> It is the practice in Alberta not to fund festivals in their first year simply to evaluate whether there is a market.

<sup>7</sup> An example of this would be the Winnipeg Art Gallery which has seen growth, but the share of the provincial government in their funding has declined from 50% to about 41% over the last few years.

Certainly market demand must be used with caution and funds are needed to allow new ventures. But there is the potential for making participation an element of the funding. It is important not to make universal and fixed formulas. For example, the same per capita formula for experimental and for mainstream theatre would be inappropriate. Rather, within the context of the individual organization, funding formulas based on the progress of that organization may be useful. This is the type of detail which may be negotiated between the Department and the individual recipient. Again, universal formulas should not be imposed by government.

### Public Opinion Based Assessment of Needs

A public opinion based needs assessment comprises the whole set of personal interest group interventions that have become so common in government. This includes the presentations to the Minister by individuals in person or by letter to advocate on behalf of an organization. It includes paid and unpaid lobbying, formal public opinion studies and of course the normal political process.

As a needs identification method, this approach has advantages. When influential individuals make personal representation to a senior official or politician, they are associating their name with the quality of that project. That personal representation is made even stronger when the individual argues on behalf of a third party. It is apparent that a considerable volume of mail received by the Minister is a form of needs identification and advocacy. Another advantage of this process for needs identification is that time and effort are required and this is a measure of need and perceived value.

There are disadvantages to this approach. Sophisticated organizations with special access are able to marshal key individuals and will have a decided edge in making their needs known. Community organizations and rural groups often lose from this process because of the importance of physical access to the centre of power.

The weight of the mail bag, and the volume and shrillness of personal representations can be very persuasive information for an individual decision-maker, whether they are a politician, or in the civil service. It is also undeniable that the form of needs identification is invariably biased and must be weighted with other information. It is easy for a large, well financed organization to mount the lobbying effort; it is more difficult for the smaller community organization to assemble that kind of intervention, despite the fact that their relative needs may be higher in any kind of reasonable examination of the information.

It is clear that public opinion and personal interest intervention has interceded in grant awarding within the Department of Culture, Heritage and Recreation. Repeatedly, when examining the pattern of grants and searching for

a rationale for the variation in the levels of grants there was none forthcoming. Typically, the level of the allocation is lost in the mists of history - the group got in the door early and has maintained and enhanced their presence. Also the allocation was the result of a "squeaky wheel." Throughout the interviewing, both from within and external to government, there is a pervasive consensus that this was the pattern which had been established for some period of time - being first and being loudest is a very important determination in whether one gets a grant.

This has led to a widespread questioning of the fairness within the recipient community as to the level and pattern of grants. Without a general framework to guide allocations, it is far too easy to assume the worst about allocations.

The final and most significant problem with public opinion as a device to allocate and identify needs, is that it isolates the expert and professional assessment of grant eligibility and output. Throughout the interviewing it was clear that many of the professionals in the Department felt that their adjudication decisions and their recommended funding may have had little relationship to the actual funding awarded.

It is apparent that the senior levels of the Department are subject to intense and continuous lobbying. There is a need for a third party in which could be vested a significant degree of authority with respect to adjudication and appeals. This would allow the senior officials and the Minister to distance themselves from many of the daily decisions regarding eligibility and level of award.

Of course there is political benefit to close ministerial contact with all recipients. This occurs when funds are relatively easy to obtain. In an era of fiscal restraint where the adjudication of merit becomes difficult and controversy increases there is value in a third party board. Such a board also increases the range of input into major decisions and can enhance the equity and perception of fairness in allocations.

### Strategic Planning Board

The final needs identification process is a variation on the expert panel and consists of "planning review board or commission." It is commonly believed that experts are needed to make judgments about the relative worth of a cultural, heritage or recreation project.<sup>8</sup> It seems reasonable that to assess the value of

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<sup>8</sup> This perception is not confined to these areas, but is commonly held in any area where skills are needed to perform work.

a particular dance project, professional dancers, dance instructors and dance administrators must be involved. Certainly when it comes to the adjudication of quality in a narrow specialization there is no question that expert input is essential. But, consider the broader question of a needs identification across all disciplines. One of the problems with peers that evaluate in a narrow field is that they can easily tend to become advocates for that specialization.

As explained above, the Department of Culture, Heritage and Recreation has established sixteen extra-departmental agencies (also known as the "Majors"). This section of the report briefly reviews the relationship of these agencies to government. For purposes of comparison the situation in Ontario is examined.

Two extra-departmental agencies are unique in that they are solely funded from appropriations or through lotteries revenues. The Manitoba Arts Council and the Manitoba Intercultural Council, commonly known as "Umbrella" organizations function primarily to fund various groups and individuals in the arts and multiculturalism respectively.<sup>9</sup> The relationship of the Umbrellas to the Department is extremely important and quite different from that of the other extramural departments and is treated in greater detail below.

All extra-departmental agencies are incorporated, either under the Corporations Act or a special act of the Manitoba legislature. For example the Manitoba Centennial Centre Corporation and the Centre Cultural Franco-Manitobain are both governed by special acts of the legislature, while Native Communications and the Winnipeg Art Gallery are governed by the Corporations Act.

The legislation governing these entities spells out the formal relationship between government and the agency. A general conclusion after reviewing these comparable acts is that the formal reporting and accountability lines appear closer and more direct in Ontario than Manitoba.

#### Do Board Appointments Imply Accountability?

It is tempting to assume that appointments by Cabinet mean more accountability, but this can be an illusion. First, if Cabinet makes many such appointments it is debatable whether there is much on-going contact between the

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<sup>9</sup> The Arts Council is often seen as an advisory council for government, but in fact the Act is silent on this. It is formally charged with the granting function. On the other hand, the Manitoba Intercultural Council is primarily charged with an advisory role and does not formally have a grant function as embodied in the Act. That authority arises from other directives from the Department.

minister responsible and the board. Second, with a large board composed also of elected members, the appointed members may be viewed as "outsiders" for some time and therefore they may have little influence, at least until they have "proved themselves." Third, just because a board member is appointed by Cabinet does not mean that they have been directed to either report back to the minister or to direct the rest of the board.

However, the lines of accountability between government and the agency are likely to be stronger when Cabinet appoints the senior table officers (Chair, Vice-Chair, President, etc.) and especially when the Cabinet can appoint the senior staff (Executive Director). In many cases, the Ontario government appoints the senior table officers, but in no case examined does it appoint the senior staff. In Manitoba the situation is similar, except for the Manitoba Intercultural Council where the Executive Secretary may currently be appointed by Cabinet.<sup>10</sup>

In our interviews with extra-departmental agencies we posed the question of board appointments. Most respondents felt that government appointments did not materially enhance accountability. The typical response was "they hold the purse-strings - what more accountability is there?" Some were indifferent and felt that it was inevitable that government make some appointments to act as a watchdog on the board. Some respondents made the distinction between financial accountability and the desire by government to direct the organization. Those involved with elected boards rejected any notion that government should direct the organizations. Others accepted that since government was the "major shareholder" there would be some potential for direction. It was generally agreed among respondents that government had not directed any extra-departmental agency to follow a prescribed path. The government appointees to the board typically had made little effort in this regard. Equally, some respondents reported that these appointees had not been active in lobbying government for more funds, suggesting that the relationship worked both ways.

Several respondents suggested that when government appoints the table officers it is probably the case that these individuals are closer to government policy and therefore exert at least an implicit directive function. These agencies may be closer to government and therefore could be more accountable in term of pursuing a specific government policy. In general, this direction appears to be exercised with some restraint. It is likely that many such appointees wish to demonstrate a degree of independence.<sup>11</sup>

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<sup>10</sup> This is currently under review.

<sup>11</sup> This observation is not based on the interviews, but personal experience with both recent and previous appointees with the Manitoba Transport Board and the Manitoba Lotteries Foundation Board.



### Is Financial Accountability Enough?

Given that the provincial government (specifically CHR) funds the bulk of an agency, does it have accountability especially in light of the fact that the Provincial Auditor reviews the financial operations for many of these organizations? On the face of it, it would appear that accountability is satisfied in the narrow sense of verification of financial transactions. But what of the effectiveness and program accountability cited above?

In terms of these broader issues, the Department and more generally the government has only limited ability to ensure that these institutions fulfil their mandate. The fact that there has been general and close adherence to the objectives as stipulated in legislation attests to the quality of appointments. If these appointments have been satisfactory is there any reason for more complete accountability procedures?

Briefly - yes. This is the rationale. It is a feature of funding cultural and heritage agencies in Manitoba that even a suggestion that finances could be interrupted can produce a great deal of public aggravation. Holding the "purse strings" is only accountability of the last resort. Such control must be exercised with great discretion. For government to serve the taxpayer, intermediate methods for ensuring effectiveness are mandatory. A range of diplomacy is needed to avert the need for extreme action.

The basic theme of this report is that accountability and quality assurance are best developed through a cooperative approach, where government and the recipient agree on objectives and approaches to problem resolution. Therefore, the approach should feature consultation with a mutual agreement on the objectives to accountability within the context of the act or policy governing any agency. For example, if independent engineering studies determine that a structure requires repair, and additional operating expenditures are warranted, both government and the recipient would then agree on the objectives and expenditure. Ideally such agreement should be formalized. Such a document must outline the mutual expectations for funding and what is expected from both the recipient as well as government.

A "memorandum of agreement" is a common document between government and extra-departmental agencies in Ontario (See Appendix 2 for a sample).<sup>12</sup> In federal funding programs, the device used is a "negotiated agreement" which lies between the outright grant and a contract.

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<sup>12</sup> Apparently they have been considered by the Department but not implemented.

The advantages of using this type of relationship between the recipient and government are:

- it is the result of negotiation between two independent entities;
- it provides for explicit deliverables so that government can demonstrate careful use of public resources;
- it requires certain levels of commitment from government to the future of the recipient.

Certainly, such agreements do require performance by both parties. With respect to financial arrangements, as noted above, it may be difficult for government to accept the commitment for several years of funding. But as demonstrated, the memorandum of agreement can be used to define expectations and future areas of activity. They need not mention funding in any explicit fashion.

## 6.0 CONCLUSIONS

Many public funded activities are undertaken by external agencies to government. There are strong arguments for flexibility and allowing these expert agencies to manage funding. Yet, there are sufficient cases where the public questions the value of expenditures. In these cases government would be wise to adopt a contractual relationship to clarify mutual responsibilities of both parties.

## APPENDIX 1

## PROGRAMS

## MANITOBA DEPARTMENT OF CULTURE, HERITAGE AND RECREATION

The Department has over 20 different funding programs. In addition the two Lottery Funds Umbrella Organizations provide an addition dozen grant programs. Within each funding program there may be additional activity areas defined.

The Department's programs range from Community Museums to Linguistic Support to Regional Juried Art Shows. The following is a brief description of the existing programs:

## HERITAGE

Archives Capital Facilities Grant

Grants to non-profit community based archives for minor facility modifications and equipment purchase. Up to \$7,500 is granted for facilities, up to \$4,000 for equipment. These funds are granted through the Provincial Archives.

Community Commemorative Plaque Grants

Up to \$500 for a plaque.

Community Museums

Provides operating grants to non-profit, community based museums that fulfil certain criteria. There are two levels of grants: up to \$1,500 (a matching grant to money raised locally up to 50% of operating costs) and up to \$3,500 (same stipulation).

Oral History Grants

Provides assistance to oral history projects that document the historical experience of the people of Manitoba. The total amount of assistance is not to exceed \$7,500 (\$7,750 north of the 53rd parallel, \$8000 in remote communities).

#### Provincially-Designated Heritage Building Grant

Assists owners of heritage buildings in restoration. If the building qualifies, the grant will be up to \$75,000 (in a year) on a 50-50 basis with the applicant.

#### Municipally-Designated Heritage Building Grant

Assists owners of heritage buildings in their restoration. If the building qualifies, the grant will be up to \$35,000 (in a year) on a 50-50 basis with the applicant.

### CULTURE

#### Community Cultural Councils

Provides operating and programming assistance to community arts/cultural councils outside the City of Winnipeg. Operation grant or per capital matching funds up to \$25,000.

#### Public Events Sponsorship

Assists community-based organizations (outside Winnipeg) to host public cultural and heritage events. For performing arts, 30-50% of the fees to a certain maximum (\$600-\$1,100). For public exhibitions, 70% of the costs to a certain maximum (\$750-\$1,000) depending on location. As well, public readings reimbursement for fees and travel (between \$750 and \$1,000) and performing arts subscription series.

#### Regional Juried Art Show

Support of art shows. Funding is based on 50% of eligible costs up to a maximum of \$2,000 (\$2,500 north of the 53rd parallel).

## MULTICULTURAL

### Ethno-cultural Heritage Support Program

Provides operating or project grants to non-profit community-based organizations whose prime objective is the preservation of ethno-cultural heritage. Operation grants are given to organizations fulfilling certain criteria and are based on 25% of eligible cost up to a maximum of \$15,000. Project grants are for special projects undertaken by one (up to \$2,500) or more than one organization (up to \$5,000) and are based on 50% of eligible costs. An organization can not apply for both an operational and a project grant in the same year.

### Linguistic Support

An educational support program given to non-profit community-based ethno-cultural organizations for the teaching of ancestral languages to school age (4-18) children. The teaching is outside the public school system. The grants range from \$11,250 to \$40,000 and are based on enrolment.

## RECREATION

### Grants to Provincial Recreation Organizations

These grants are to assist provincial recreation organizations in development of recreation programs. There are a number of categories of grants, with most, cost-shared between the government and the organization (on a 50-50 basis). These grants range from a maximum of \$2,000 to \$6,000.

### Recreation District Grants

Assists the hiring of a full-time Recreation Director. A grant between \$1,000 and \$3,000 based on a formula.

## LIBRARY GRANTS

### Rural Library Establishment Grants

A grant to any municipality establishing library services for the first time. The grant is \$5,000, 4/5 of which must be spent on books.

### Rural Library Operating Grant

A basic grant matching municipal funds set to a maximum of \$4.25 per capita. An equalization grant and a incentive grant are also available to help with short falls or municipalities which exceed certain criteria.

### Travelling Libraries

Public Library Services Branch will loan blocks of books to communities.

### Books By Mail

The province will pay the postage of books loaned to individuals who do not have access to a library service. The Public Library Services Branch of CHR loans books.

## OTHER/GENERAL

### Manitoba Community Places

Encourages community organizations to undertake capital projects (libraries, museums, recreation facilities, etc). The program may contribute up to 50% of the total direct cost for the project up to \$75,000.

### Equipment Grant For Remote Communities

Assists remote Northern Communities purchase cultural, recreation, fitness and sport equipment. A maximum of \$800 per community.

### Skills Transfer

Assists community-based (outside Winnipeg) with the costs of providing workshops and internships.

## APPENDIX 2

MEMORANDUM OF UNDERSTANDING

BETWEEN

THE MINISTER OF CITIZENSHIP AND CULTURE

AND

THE ART GALLERY OF ONTARIO

PREPARED BY	DATE
APPROVED BY	
DIRECTOR	
LEGAL	
FINANCE	
DEPUTY	
SEALED BY	

I. Introduction

1. The Art Gallery of Ontario, founded privately in 1900 as the Art Museum of Toronto, was established under the Art Gallery of Ontario Act 1966, as amended (the 'Act'). The objectives of the Gallery as set out in the Act are:
  - (a) to cultivate and advance the cause of the visual arts in Ontario;
  - (b) to conduct programs of education in the origin, development, appreciation and techniques of the visual arts;
  - (c) to collect and exhibit works of art and displays and to maintain and operate a gallery and related facilities as required for this purpose; and
  - (d) to stimulate the interest of the public in matters undertaken by the Gallery.
2. This Memorandum of Understanding supplements but does not supersede the provisions of the Act, or any Regulations or Orders in Council pertaining to the Gallery. In the event of any conflict between the provisions of this Memorandum of Understanding and the Act or other legislation, the legislation will prevail.
3. This Memorandum of Understanding and any subsequent renewals or revisions are subject to approval by Management Board of Cabinet and shall be tabled in the Legislature by the Minister.



4. This Memorandum of Understanding shall take effect on the date of signing by both parties and shall be in force for a period of five years from this date and shall be subject to review:
  - (a) by both parties two years from the date of signing; and
  - (b) at any time, upon the request of either party.

## II. Roles of the Gallery and the Minister

1. As stated in the Act, the "affairs of the Gallery shall be managed and controlled by a board of trustees consisting of twenty-seven trustees". The Lieutenant Governor in Council appoints ten of these trustees, with the remainder being chosen by the following means:
  - (a) five persons appointed by The College of Founders of the Art Gallery of Ontario;
  - (b) ten persons elected by the membership of the Gallery;
  - (c) two persons appointed by the council of The Municipality of Metropolitan Toronto, one of who shall be a person who is both a member of the council of the City of Toronto and a member of the council of the Municipality of Metropolitan Toronto.
2. The Minister will endeavour to ensure that there are always ten provincial appointees to the Board.
3. The Board of Trustees of the Gallery shall have full authority to determine Gallery artistic and operational policies, to set priorities and interpret Gallery objectives. The Director of the Gallery directs the operation and administration of the Gallery and is responsible to the Board of Trustees.
4. The Gallery shall establish and make available to the Minister and the public the policies and practices under which the Gallery operates and by which its priorities are set. The Gallery will also inform the Minister of major changes in policy or practice sufficiently in advance to allow her consideration of the proposed changes. The Gallery will also inform the Minister sufficiently in advance if it plans to embark on any enterprise which might impinge on the Government's policies in the cultural or other

areas (e.g., contracts with the Federal Government or any foreign government, plans for commercial enterprises, etc.).

5. As set out in the Act, the Minister is responsible for the Gallery to the Legislature. In her relationship with the Gallery, the Minister will be guided by the Act, the Ministry of Citizenship and Culture Act, the Guidelines for Cultural Development as approved by Cabinet (1973), and other policies and procedures which the Minister has approved and which will first be made available to the Gallery.
6. The Minister recognizes that the Gallery, by virtue of its history, operations, Act, and provincial objectives and mandate, is the Ontario Government's principal fine art museum and chief advisor as regards the collection and exhibition of the visual arts in general.
7. It is understood that the Ministry of Citizenship and Culture is the principal source of the Gallery's operating funds, provided annually and based on submission of an operating grant request by the Gallery. In determining the level of funding each year, the Minister will consider factors such as: resources available to the Ministry; Ministry policies and priorities; Gallery objectives, operations, and achievements throughout Ontario; proposed Gallery expenditures; other resources available to the Gallery; and the degree to which the Gallery has assisted in fulfilling the principles and objectives identified in the Guidelines for Cultural Development (1973).

### III. Financial Arrangements

1. Section 12 of the Act states: "The property and the income, revenues, issues and profits of all property of the Gallery shall be applied solely to achieving the objects of the Gallery". It is agreed that this shall be the only restriction on the Gallery and its Board as to the application of the annual operating grant awarded to the Gallery by the Ministry. The Gallery shall, however, comply with the terms and conditions imposed on any special purpose grants awarded by the Ministry to the Gallery and shall provide reports on each as required by the Ministry.

2. As part of the annual Ministry allocation process, the Gallery shall submit to the Minister:
  - audited financial statements
  - annual budgets (and multi-year plans, if requested)
  - a description of Gallery programs and activities.
3. The Gallery shall report to the Minister on the financial performance of the Gallery relative to planned performance annually, or more often if significant variances to the plan occur. Such reports shall contain details of cash flows, commitments, revenue and expenditure by standard accounting classification.
4. The Gallery shall establish and maintain financial and administrative procedures which permit the accurate recording and reporting of the operations of the Gallery and which maintain adequate administrative and financial control.
5. The Minister will on request provide to the Gallery financial and administrative advice as available within the Ministry.
6. The Gallery will suitably acknowledge the financial support of the Government of Ontario through the Ministry of Citizenship and Culture in all of its financial, educational and promotional materials.
- 7a. The Gallery shall follow sound fiscal and management practices, particularly relating to the incurring of debt of any kind.
- 7b. The Gallery shall obtain agreement of The Treasurer of Ontario before entering into any financial arrangements which could increase the Province's direct, indirect or contingent liabilities or affect the financial, cash and debt management policies of the Province.

#### IV. Operating Relationships

1. The Minister and/or her representative shall meet with the representative(s) of the Gallery from time to time and at the request of either party to discuss the affairs of the Gallery including such matters as budgets, objectives, plans, procedures, etc.
2. The Ministry and Gallery will maintain a Senior Liaison Committee which will meet at least quarterly to discuss matters of mutual interest. Agendas and minutes of these meetings will be available to both the Ministry and the Gallery.
3. The Gallery will provide the Ministry with minutes of all Board meetings.
4. The Gallery will submit information regarding the operations of the Gallery which the Ministry may request from time to time and, on an annual basis and in conjunction with the Gallery's operating grant request, will submit assessments of the impact of Gallery programs including appropriate quantitative and qualitative measures of the results of such activities.

#### V. Administrative Relationships

1. Although the Board of the Gallery has full authority for the administration of the Gallery, the Board commits itself to follow the intent of the guidelines in the Ontario Manual of Administration where relevant, (e.g., purchasing policy - Canadian preference, competitive purchasing, employment practices).
2. The conflict of interest guidelines approved by Cabinet for those persons appointed to agencies shall apply to the Gallery. The Gallery shall follow the intent of the conflict of interest guidelines set out in the Ontario Manual of Administration, Volume II with respect to employees of the Gallery.
3. Gallery staff are appointed under the Act and are not public servants.


4. The Gallery shall follow the intent of the Government's recommendations with respect to "Customer Service" and shall be responsible for fostering and improving good customer service practices.
5. The Gallery shall follow the intent of both Government and Ministry policies on French Language Services. The Gallery shall be responsible for offering services in French to the Francophone population of Ontario, as resources permit and numbers warrant.
6. The Gallery shall advise the Minister in advance of any proposed organizational changes, for her information.
7. The Ministry and Gallery will permit each other from time to time and upon request the use of each other's facilities for meetings or other events of an official nature, if the space is available. There will be no charge for the use of such space, except for special costs as agreed.

#### VI. Audit

1. The Gallery's accounts shall be audited annually by an accredited external auditing firm chosen by the Gallery, and/or the provincial auditor, and may also be audited from time to time by the Ministry's internal auditor at the request of either the Minister or the Gallery.
2. The report of the external audit will be provided to the Minister annually, along with copies of the Gallery's responses to all audit reports and recommendations. The Gallery agrees to provide promptly to the Minister its responses to any comments and recommendations made. The Gallery shall advise the Minister annually on the status of any outstanding audit recommendations.
3. The Minister will submit the annual report of the Gallery to the Lieutenant Governor in Council and the Legislature.
4. The Ministry's internal auditor when engaged in an audit of the Gallery

shall have access to any person who is currently conducting or who has completed an audit to discuss and review working papers, reports, schedules, and other documents in respect to the annual audit or any other audit or study the Gallery has requested.

5. In the event the Gallery uses the services of an auditor other than the provincial auditor to perform its annual and/or any other special audit, the Gallery shall refer the auditor to the legislative requirements contained in the Audit Act, 1977.



Minister of Citizenship and  
Culture

April 2, 1984  
Dated



President of The Art Gallery of Ontario

February 17, 1984  
Dated