

**A Report and Recommendations on a Seminar of
the Association of Finance Officers of Macedonia**

July 22-24, 2004

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Association of Finance Officers Seminar on Association Governance

A seminar was organized by LGRP on non-profit association governance for the Association of Finance Officers of Macedonia. The seminar was held in Ohrid on July 22-24. The agenda for the seminar is shown as Appendix 1. An outline of the various discussion topics is shown in Appendix 2..

The AFO attendees at the meeting included board members, invited regional coordinators, the executive director and assistant and invited members, a total of 26. The following represents the highlights of the seminar.

The LGRP members were Kelmend Zajai, Mirjana Makedonska and Alan Beals.

Background

The seminar was organized by LGRP to provide a framework for resolving questions on AFO governance and financial integrity arising over the past six months in the media, a preliminary audit of LGRP institutional funding, and LGRP discussions with the Board and AFO members. An independent auditor, **KPMG, completed a financial audit of the LGRP grant to AFO for the previous 12 months of 2003. KPMG recommended a complete audit of all the AFO finances and management system.** Awaiting the audit, it was deemed desirable by LGRP to undertake a governance seminar to discuss roles in association governance **and financial management**, assess AFO Board and member understanding of governance roles and determine a commitment to governance improvement.

Major Findings and Issues

The Position of President - AFO has two positions with the title of President. One is the President of AFO and the other is the President of the **Executive** Board. There is, at the least, considerable confusion over the roles and responsibilities of each of these positions. In a seminar exercise each of the attendees was requested to take the model role statement of a President (Appendix 2) and determine which of the "Presidents" fulfilled that role and who should. Some could not answer because they did not know. Others chose one or the other of the "Presidents". Some chose a former President of the organization. The prevailing view is that the President of the **Executive** Board is fulfilling all of the responsibilities accorded to the president of a model association.

AFO Executive Board – An **Executive** Board was appointed with the founding of AFO in 1997, seven years ago. The initial Board was eight members selected at an annual meeting (General Assembly) by the members for a four-year term. Members may be reelected for additional terms. Two years ago the by-laws were amended to expand the Board to 11 persons, the current composition.

Currently, the original eight members of the Board are still serving. In an analysis completed prior to the meeting the LGRP consultant determined that four of the original eight Board members are from the same city in which the AFO offices are located. These four AFO Executive Board members are:

- a. The President of the Executive Board, a local Communal Services employee
- b. The founding organizer of AFO as a municipal employee, now serving in a major position with the central government Audit Agency; this agency has major oversight and audit responsibility over municipal accounts
- c. The accountant of AFO, who also serves as an Executive Board member and is an employee of the Communal Services under (a)
- d. An additional general member from the same municipality.

Thus, until two years ago representatives from one municipality controlled 50 % of the governing body seats. Today, that proportion still represents more than one third of the seats. According to AFO leaders and staff there are some 300 members of the association. Yet, one municipality controls a significant membership on the governing body of the association. This would be a problem in most NGO's.

To compound the problem, one long-standing member declared during the seminar discussion of the role of an association president that the "real President" was the employee of the central government audit agency (Item b – above). Verbal assents suggested others agreed. The survey instrument documented this perception. (See Appendix 3). The survey instrument also documented the confusion over who is the "real;" president of the association in the eyes of the Board members, voting regional coordinators and members at large.

Who are voting Members of AFO? It was stated by the participants that there are 300 members of AFO, representing local finance officers and communal finance officers, central government finance employees of various agencies and private utility company finance officers. Approximately half of the members pay dues, generally from personal resources.

On the question of *voting members* at annual General Assembly meetings, only a select group can actually vote. The voting members are the current Board of Director members and the Regional Coordinators, a total of approximately 35 members. This is a small self-perpetuating group. Many dues paying members do not even have the right to vote at an annual meeting, highly unusual in a democratic NGO.

Issues of membership that need to be resolved include:

- Is AFO a professional association of local finance officials only? Is it desirable that AFO should be?
- Should central government finance officials be entitled to membership in the current state of fiscal decentralization and potential conflicts of interest?

- Should private sector members be eligible for full membership, in view of potential conflicts of interest (one utility representative was participating at the seminar)
- Should private citizens be granted full membership (one private sector person was participating at the seminar)?

It was concluded that major by-law changes were needed to clarify the roles of “President”, representation on the Board, terms of office, the role and responsibilities of the Executive Director (silent in the current by-laws), definition of members, and the amending process.

The LGRP consultant presented a set of four possible board and member committees common to a professional association, two with an internal focus – ethics and professional conduct and budget, finance and audit; and two with an external focus – legislative and regulatory and planning and product (services) development. (They are found in Appendix 4)

A major element of the first day discussion was the audit function within the association.. After a major presentation on the role of the association audit and the process of conducting an audit, there appeared to be a consensus on the importance of the audit function. This has been an issue of LGRP for the past year. Earlier, AFO was only willing to have the LGRP grant accounts audited, while LGRP desired a comprehensive fiscal and management audit of all accounts. **The President of the Executive Board stated at the conclusion of this discussion that a “comprehensive financial and management audit should be initiated.”**

(AB comment ---This paragraph can be deleted as the audit would expose it)During the training seminar, it was also stated that there were instances of nepotism, family members receiving compensation, involving Board leaders and members from Veles. It is viewed as highly likely that these payroll items were charged to other grantees. It has been established that there is a family relationship between the two professional staff members. These issues raise important concerns about the integrity of the management system. Hence the importance of a comprehensive fiscal and *management system* audit to protect LGRP as the largest funding donor.

On the closing day, Kelmend Zajai conducted a session on **prevention of** conflicts of interest for association leaders and boards of directors. Included in the discussion were issues of avoiding nepotism among association board members. **A set of policy standards to address these issues was recommended.**

The concluding session was on the subject of AFO Next Steps. Since numerous issues were raised over the duration of the seminar, the discussion focused on next steps in association governance and possible timetables for resolving issues. The first issue discussed was the possible need for a by-laws committee. It was brought up that such a committee had been appointed at the past General Assembly by the voting members.. However, no one could remember who was the chair person or the names of committee

members, including the staff, and the nature of the mission and/or time table for reporting back to the General Assembly. During this discussion one of the board members stated to the facilitator that it was none of LGRP's business to know these and other "private" matters. Exception to this view was taken by several board members. The outcome was inconclusive due to the limits of time. The President of AFO and others requested LGRP to attend a follow-up board meeting the second week in September to bring closure to the issues discussed.

LGRP distributed a packet of materials to all participants on the various roles of Association Presidents and Board Members, sample questions for board members to ask, board agenda development, and identifying conflicts of interest.

Recommendations

1. LGRP funding should **be postponed** until a comprehensive audit is completed.
2. LGRP funding should **be postponed** until a **plan to overhaul the Executive Board** is **approved by LGRP**.
3. Future LGRP funding should be based on an AFO commitment to a set of action steps and time table for By-laws changes to be made at the next General Assembly meeting, to include:
 - a role for only one president of the organization – with a cap on term duration of one or two years
 - two year terms for Board members, overlapping, with 50% elected each year, and a maximum **of two terms**
 - all members of the association shall have the right to vote on by-law changes and election of president, board of director members and regional coordinators.