SUBJECT: Follow Up of Audit Report 2005-05 – Grants to Outside Bodies (CM07012) (City Wide)

RECOMMENDATION:

That Report CM07012 respecting the follow up of Audit Report 2005-05, Grants to Outside Bodies, be received.

Ann Pekaruk
Director, Audit Services
City Manager’s Office

EXECUTIVE SUMMARY:

Audit report 2005-05, Grants to Outside Bodies, was originally issued in May, 2005 and management action plans with implementation dates were included in the report. In January, 2007, Internal Audit followed up the report to determine that appropriate and timely actions had been taken. Regarding the implementation of the seven (7) recommendations made in the original report, six (6) have been fully implemented (completed) and one (1) alternative has been implemented.

BACKGROUND:

Audit report 2005-05, Grants to Outside Bodies, was originally issued in May, 2005. The report indicated several recommendations to enhance the accountability for grants programs and improve the City’s stewardship in the fair and responsible distribution of monies.

It is normal practice for Internal Audit to conduct follow up reviews within a 12-18 month period following issuance of the original report in order to determine whether actions plans committed to by departmental management have been implemented. In January, 2007, Internal Audit followed up the report to confirm appropriate and timely actions had been taken.
ANALYSIS/RATIONALE:

The report attached as Appendix “A” to Report CM07012 contains the first three (3) columns as originally reported in Audit Report 2005-05 along with an added fourth column indicating Internal Audit’s follow up comments.

Six (6) of the seven (7) individual recommendations have been full implemented. Amongst the implemented recommendations are included: more precise and measurable criteria for evaluating Community Partnership Program (CPP) grant applications; an updated and Council approved policy manual; evidence of review of the financial statements of CPP applicant requests in excess of $50,000; and a follow up system for CPP grants issued during the year. For the National Child Benefit (NCB) program grants, staff efforts have minimized the amount of carryover/unspent funds and Council has continued to be updated on various matters relating to the distribution of the NCB grant funds.

In regard to limiting the length of time an agency or program can receive grant monies, an alternative was implemented with the “phase out” policy which provided a means for staff to reduce or eliminate funding on re-applications.

ALTERNATIVES FOR CONSIDERATION:

Not applicable.

FINANCIAL/STAFFING/LEGAL IMPLICATIONS:

Financial
A new strategy for the distribution of National Child Benefit (NCB) funds will see municipal NCB funds returned to Ontario Works and Ontario Disability support Program recipients with children.

Staffing
None.

Legal
None.

POLICIES AFFECTING PROPOSAL:

One of the recommendations involved updating the Grants Policy (CPP) manual and obtaining the approval of the Grants Sub-Committee and Council. This matter has been completed.
RELEVANT CONSULTATION:

The results of the follow up were discussed with the staff responsible for the CPP Grants (Corporate Services) and the NCB program grants (Community Services).

CITY STRATEGIC COMMITMENT:

By evaluating the “Triple Bottom Line”, (community, environment, economic implications) we can make choices that create value across all three bottom lines, moving us closer to our vision for a sustainable community, and Provincial interests.

Community Well-Being is enhanced. ☑ Yes ☐ No

The City’s CPP and NCB grants programs provide funding to various outside agencies and internal initiatives which contribute to the well-being of the community.

Environmental Well-Being is enhanced. ☐ Yes ☑ No

Economic Well-Being is enhanced. ☑ Yes ☐ No

City Council’s strategic commitment to “Best Practices – Best Value” under “A City That Spends Wisely and Invests Strategically” is addressed through audits and reviews and their subsequent follow up to ensure controls are in place to protect the assets of the City and promote efficient, effective and economic services and programs.

Does the option you are recommending create value across all three bottom lines? ☐ Yes ☑ No

Do the options you are recommending make Hamilton a City of choice for high performance public servants? ☑ Yes ☐ No
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<td>1.</td>
<td>Community Partnership Program (CPP) Grants&lt;br&gt;All successful grant applicants are obligated to sign the “Undertaking Agreement” prior to the funds being released. This agreement binds the grant applicant to the following:&lt;br&gt;a) Submission of a brief report identifying how the program/activity met its goals and providing a financial accounting of the Community Partnership Program (CPP) funds;&lt;br&gt;b) Submission of quarterly reports;&lt;br&gt;c) Availability of the agency’s books of account and supporting documentation for audit by the City in a reasonable time for at least three years to show the receipt and disbursement of funds;&lt;br&gt;d) No disposition of surplus CPP funds; and&lt;br&gt;e) Return of any CPP funds to the City as a direct result of the termination of all or part of the program/activity for which funding was awarded.&lt;br&gt;Note that point (a) above is a requirement while points (b) to (e) are on an “as applicable” basis.&lt;br&gt;The above items are also noted in the 2004 CPP Polices and Procedures.&lt;br&gt;During the course of the audit, no 2004 grant recipient was asked to perform any of the steps above. It was noted that no recipient in any of the different segments reviewed (Public Health &amp; Community Services, Special Events, or Arts and Culture) submitted a report as in step (a) above although such a report is required of all grant recipients.&lt;br&gt;Further, no other evidence was found for any follow up efforts of staff for any grant recipient audited. Without proper follow up, the City is not aware how grant monies were actually used or if projects/undertakings were successful or worthwhile.</td>
<td>That all areas responsible for issuing CPP grants put into place a system of follow up for grants issued during the year. The system should require recipients to provide/ carry out the items listed on the “Undertaking Agreement” and noted in the CPP Policies and Procedures. This system should be approved by the Grants Sub-Committee and Council.&lt;br&gt;Agreed. A formal process will be designed that will provide the City with additional information with respect to the uses of funds and status of the services or events. This will be developed and implemented for the 2006 Grants Process.&lt;br&gt;For 2005, staff will be directed to contact agencies on an “as required” basis.</td>
<td>Completed. The Undertaking Agreement was revised and the new Partnership Funding Program Agreement no longer makes it mandatory to account for meeting goals and explaining how funds were spent. It is now at the discretion of staff.&lt;br&gt;Other methodologies used:&lt;br&gt;• The mail base is reviewed from year to year. Organizations that do not resubmit an application are asked to submit a summary of how funds were spent to the Co-ordinating Committee contact.&lt;br&gt;• Those that receive multi-year funding are required annually to submit an “Accountability Form” with Program Information, Organization Information, and Financial Schedules.&lt;br&gt;• Submission of financial statements for the fiscal year that the funds were received is required under the CPP Funding Program Agreement.</td>
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<td>2.</td>
<td>The scoring or rating of a grant application is very important since normally a score below 60 will eliminate the applicant from receiving the grant. Also to be eligible for Multi Year Funding (MYF) an applicant must maintain a score greater than 80. Yet a review of the scoring process indicates the following:</td>
<td>That evaluation forms be modified to permit more objective scoring and evaluators be encouraged to provide comments and fully document reasons for the scores allotted. While it is appreciated that certain situations lend themselves to some subjective rating (i.e. local arts representatives’ knowledge of applicants’ standing in the arts and recreation community), the overall scoring should be tied to identifiable and supportable rating criteria.</td>
<td>Agreed. Attempts will be made in 2006 to ensure consistency and to clearly outline the reasons for the scoring in each of the categories. Staff will also attempt to identify measurable criteria or measure existing criteria, where possible.</td>
<td>Completed. Evaluation tools for three of the program streams (Social &amp; Health Services, Special Events, and Culture Arts) were revised for the 2006 grant process. Measurable criteria are now more precise in determining the numerical value placed on an evaluated characteristic. Support to face sheets and evaluation tools has been added. Applications are reviewed by a team and average scores taken. The Sports and Recreation evaluation form did not require any change as these grants are for very specific expenditures and proof of the expense is required prior to the monies being paid. No detailed criteria and valuations are necessary in these cases.</td>
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For PH&CS -

- a) The scores cannot be objectively validated;
- b) Section scores are not linked to a specific comment;
- c) Overall comments are not weighed in terms of importance.

For Special Events -

- d) The graded 2004 evaluations were lost.

For Arts & Culture -

- e) There are inconsistencies in scoring and supporting comments. One application was awarded a high score (97) yet very few comments were written on the evaluation form. Another was given a lower score but had many supporting comments.
- f) On one of the applications, the score assigned on the evaluation form (75) was not the same as on the face sheet (82.5). Yet the latter was presented to Council via reports.

Overall, the awarded scores are not always clearly reflective of identified rating criteria. As a result, the credibility of the scores assigned to the grant applications could be called into question where subjective judgments are used rather than decisions based on information actually submitted and properly rated.

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<td>3.</td>
<td>While reviewing the policies and procedures in place, it was noted that, in many instances, the same point was duplicated or repeated under different headings, making the reading cumbersome. The multi year funding policy that came into effect for the 2004 grant applications was not reflected in the policies and procedures. Up-to-date policies and procedures ensure a disciplined approach to the function as well as provide a resource to staff and interested parties.</td>
<td>That the existing policies and procedures be updated to reflect all current practices and to eliminate duplication or repetition of points. The revised policies and procedures should be approved by the Grants Sub-Committee and Council.</td>
<td>Agreed. The Policy Manual will be reviewed, updated and submitted to the Grants Sub-Committee for approval prior to the start of the 2006 Grants Process.</td>
<td>Completed. The Community Partnership Program Policy and Procedure Manual was redrafted and the Guidelines and Procedures were approved by Council on April 26, 2006. Review of the manual indicates that it has been updated and the duplication eliminated.</td>
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<td>4.</td>
<td>The policies and procedures clearly state that the City “…will be more favourable to requests from agencies that have a previous history with the City and plan to reduce dependency on the CPP”. Yet, there is no incentive offered for the agencies to do so, nor are any such efforts recognized in the rating exercise. Many of the agencies have come to rely on the City’s grants as sources of guaranteed funds as they have been receiving grants for over 10 years. Under the City’s financial restrictions, it is difficult to increase funding for grants to the extent that would allow the levels of dollars to continue for the current recipients and also allow new agencies and programs access to a greater degree than the maximum $5,000 seed money currently available.</td>
<td>That the City consider a plan limiting the length of time an agency or program could receive grant monies, thus encouraging grant recipients to seek other sources of revenues. Incentives should be considered for those organizations which consistently show an effort to reduce their dependency on grant funds.</td>
<td>Agreed. Staff will review the Policy to identify options for consideration of the Grants Sub-Committee prior to the start of the 2006 Grants Process.</td>
<td>Alternate implemented. After staff review of the policy, the deletion of restricting funding to a maximum of three years for new applicants was recommended and approved by Council for the 2005 grant process. It was replaced by a “phase out” policy which allowed staff to reduce and eliminate funding to re-applying programs which, through the assessment process, did not meet required scoring in key areas. However, this new policy places no time limit on the maximum years a program can receive City funding.</td>
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<td>5.</td>
<td>During the course of this review, the Director of Budgets and Finance indicated that he reviews the financial statements of all grant applications whose requests exceed $50,000. However, there is no physical documentation of the analysis performed and no record of reviews being done. Ensuring that there is an adequate trail of documented work completed is a good practice.</td>
<td>That a written record be maintained of the reviews carried out on grant applications which have requested grants greater than $50,000. These reviews should form part of the overall retained documentation in the evaluation of applications.</td>
<td>Agreed. This was done for the 2005 process and will continue.</td>
<td>Completed. A review of the cover sheets of the financial statements of all three applications for greater than $50,000 for the 2006 submission bore evidence of review by the Director of Budgets and Finance.</td>
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<td>National Child Benefit (NCB) Program Grants</td>
<td>That Council be informed of any changes in the allocation of NCB funds, especially as they relate to outside bodies.</td>
<td>Agreed. The Program Policy and Planning Division will provide Council with additional updates in the form of reports or memos from the General Manager of PHCS, thereby increasing the frequency of contact and provision of information.&lt;br&gt;However, Council has authorized the PHCS Department Management Team (DMT) to redirect funds within the approved 2004 National Child Benefit (NCB) Strategy as expenditures and needs change (SPH02016c).</td>
<td>Completed. There have been no changes in program spending to date. Staff have provided a number of reports and updates to Council in 2006. In early 2007, the Emergency and Community Services Committee considered a report for a new strategy for the distribution of NCB funds in 2007 which will see all municipal NCB funds returned to Ontario Works (OW) and Ontario Disability Support Program (ODSP) recipients with children.</td>
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### Observations of Existing System

7. As of December 31, 2004, the value of the carryover amount of accumulated NCB Program underspending exceeded $600,000. The Ministry of Community Services, the Provincial body responsible for overseeing the allocation of NCB funds to the municipalities and their subsequent disbursement, stipulates that carryovers greater than 10% of the annual funds received are not allowed. Yet, the City has exceeded this level for several years accumulating to the net value of $600,000.

Efforts have been made to reduce the accumulation of unspent funds. However, the amount continues to exceed the maximum. The City has been fortunate that the Province has not strictly enforced this rule. However, the City should be aware that there is a risk that the Province could withhold further funding until the carryover amount drops to the acceptable level or even ask that the excess be returned.

### Recommendation for Strengthening System

That City staff continue their efforts in reducing the amount of NCB program funds carryover to bring it in line with the 10% maximum as directed by the Province.

### Management Action Plan

Agreed. The Program Policy and Planning Division will continue to reduce the amount of unspent/carryover NCB funds through ongoing planning and implementation of NCB funded programs and communication with PHCS program managers (of funded programs).

DMT has requested NCB variances to be reported with all other budget variances and therefore this information has been requested from the managers of NCB funded programs.

Community based programs are paid by the PHCS Department in accordance with a specific payment schedule which is monitored by the Program Policy and Planning Division and the Manager of Finance. Budgets are submitted prior to the first payment and a final accounting is submitted with year end reports.

Note that the ongoing carryover resulted from funding prior to 2001. With staff dedicated to the program in years 2001 through 2004, the carryover from annual funding has been less than 3% in each year.

### Follow Up (January 2007)

Completed. There has been a significant reduction in the NCB program funds unspent/carryover amount with approximately $18,500 remaining after closing entries for the 2006 fiscal year.

Staff have been diligent in ensuring that each year’s NCB funding was expended as well as a portion of the carryover amount. For example, in 2006, approximately $2.63 million was received while $2.91 million was expensed/disbursed.

Council approved changes in the disbursement of the City’s portion of NCB dollars directly to aid child poverty and basic needs have contributed to greater distribution.