

**CITY OF HAMILTON  
INTERNAL AUDIT REPORT 2012-07  
COMMUNITY PARTNERSHIP PROGRAM GRANTS  
(CURRENTLY KNOWN AS THE CITY ENRICHMENT FUND)  
FOLLOW UP**

<b>OBSERVATIONS OF EXISTING SYSTEM</b>	<b>RECOMMENDATION FOR STRENGTHENING SYSTEM</b>	<b>MANAGEMENT ACTION PLAN</b>	<b>FOLLOW UP (APRIL 2016)</b>
<p><u>Eligibility Criteria</u> The <i>Community Partnership Program (CPP) Grant Guidelines &amp; Procedures Manual</i> lists specific eligibility criteria applicants must meet in order to be considered for funding. Internal Audit identified several successful applicants who may not have been eligible to receive grant funding due to:</p> <ul style="list-style-type: none"> <li>• Holding a portion of their program / event outside the City or providing community services to residents from other municipalities;</li> <li>• Receiving funding from another City department; or</li> <li>• Submitting an incomplete application.</li> </ul> <p>These eligibility criteria were not documented in the grant file or captured in the evaluation tools used to adjudicate applications. Omission of these criteria from the evaluation process increases the risk that funds are awarded to applicants who did not meet the eligibility criteria.</p>	<p>1. That staff develop and use a checklist to assess if applicants meet the general eligibility criteria set out in the <i>Guidelines</i>. Applications that do not meet these criteria should not proceed in the adjudication process.</p>	<p>Agreed. Staff will be assessing the potential to automate the CPP application in-take process which may validate the action of requiring applicants to meet the general eligibility criteria.</p> <p>Exclusive of the above, staff will undertake the development of a checklist as recommended for the purpose of eliminating the advancement of incomplete application to the adjudication phase.</p> <p>NOTE: The recommendation will significantly impact the number of applicants proceeding to the adjudication phase. Implementation Date: 2017 CPP cycle.</p>	<p>In Progress. For the 2015 Grant Cycle onwards, the Guidelines for all program areas defined "Eligibility Criteria". Two of the program areas (Arts and Community Culture &amp; Heritage) developed a checklist to assess whether the applicants meet the eligibility criteria for applications submitted in hard copy format.</p> <p>Per management, for the 2015 Grant Cycle, all applications for 2016 grants were submitted online. Checklists and pre-screening tools designed to assess the eligibility are being developed for online applications. Expected Completion: September 2016</p>

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<p><u>Evaluation Tools</u> Grant applications are evaluated by staff volunteers, Arts Advisory Commission members or Hamilton Historical Board representatives. Marks are awarded based on the achievement of criteria defined in the evaluation tool. An applicant's score is to be used to phase out program participation, assess multi-year funding eligibility and, in most streams, allocate grant monies.</p> <p>Internal Audit reviewed the 2011 CPP evaluation tools and identified the following characteristics that may jeopardize an evaluator's ability to adjudicate applications in a consistent, fair and equitable manner.</p> <p>a) Criteria contained subjective terms which were open to interpretation. Examples include poor, satisfactory, good, sufficient and comprehensive.</p> <p>b) Marks were awarded for information or documentation that was not requested in the application form.</p>	<p>2. That the following be performed to improve the evaluation process:</p> <p>a) Define subjective terms or provide examples in the evaluation tool to illustrate what is needed to meet different levels of criteria requirements;</p> <p>b) Revise the application form to clearly reflect all required information and documentation;</p> <p>c) Provide evaluators with training and guidance with respect to assessing financial stability/controls or reallocate these assessments to staff with financial expertise; and</p> <p>d) Eliminate the use of part marks or incorporate additional criteria and mark levels in the evaluation tools.</p>	<p>Agreed. Corporate Services will lead in co-ordinating a strategy for review with:</p> <ul style="list-style-type: none"> <li>• P. Tombs, Manager, Cultural Planning and Marketing</li> <li>• S. Sevor, Manager, Sport &amp; Community Development</li> <li>• C. Bian, Sr. Policy Analyst</li> </ul> <p>Implementation Date: 2016 CPP cycle.</p>	<p>In Progress. Some program areas had adequate definitions of terms, while some utilized subjective terms without adequate definitions.</p> <p>It was unable to be determined that adjudicators were provided with sufficient training and guidance to assess financial stability and controls.</p> <p>The City Enrichment Fund is a new program. Per management, the 2017 grant year will provide better adjudicator training and guidance, along with more objective and well-defined terms.</p> <p>Expected Completion: November 2016</p>

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<p><u>Evaluation Tools (Cont'd)</u>  c) The subject matter surpassed an evaluator's level of expertise. Examples included the assessment of financial stability and controls.</p> <p>Evaluators awarded part marks at their discretion outside the evaluation tool's marking scheme.</p>			

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<p><u>Funding Recommendations</u> The Grant Sub-Committee approves a base budget for each CPP funding stream (Community Services, Special Events, Culture). Departments use their discretion to create a funding strategy that outlines how the budget is distributed amongst the grant applicants. Staff document their funding recommendation on a sheet for each applicant. Not all funding recommendations appear transparent or well supported. For example,</p> <ul style="list-style-type: none"> <li>• Community Services funding stream's approach to the distribution of their base budget was based on the prior year's grant amount rather than linking the applicant's resulting current year's score to a monetary amount;</li> <li>• Grant funding recommendations made outside the department's funding strategy were not documented; and</li> </ul>	<p>3. That the Community Services funding stream incorporate the applicant's score into their funding strategy.</p> <p>4. That staff include the department's funding recommendations to the Sub-Committee in addition to the actual Grant Sub-Committee funding approvals in minutes (communications) sent to the Audit, Finance and Administration Committee.</p>	<p>Agreed. The recommendation is the current practice and in 2011, applicant scores and priority categories were both used to determine 2011 monetary recommendations.</p> <p>Agreed. The recommendation is in place and available. Minutes of meetings are to be completed without note or comment reflecting all resolutions and decisions taken by Council. (CLERK'S OFFICE)</p>	<p>In Progress. Per Council Direction (Report FCS14024(b)), 2015 grant funding was a transition year. Per this Council direction, the Community Services funding stream based their funding on the prior year's grant amount.</p> <p>2016 grants had not yet been issued when testing was completed, so completion of this item could not fully be determined. Expected Completion: May 2016</p> <p>Completed. Staff included the department's funding recommendations to the Sub-Committee, as well as the funding approvals made by the Grant Sub-committee, in minutes to the committee (General Issues Committee in 2015).</p>

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<p><u>Funding Recommendations (Cont'd)</u></p> <ul style="list-style-type: none"> <li>• Staff did not document the rationale for awarding multi-year funding.</li> </ul> <p>In addition, grant funding as a percentage of program expenses differed significantly on the staff's recommendation sheet as compared to that calculated by Internal Audit. Although all calculations were below the 30% threshold for Council approval, staff did not outline the amount of program expenses used in their calculations.</p>	<p>5. That staff document their funding rationale, multi-year funding assessment and 30% threshold calculation on the recommendation sheet.</p>	<p>Agreed. The 2014 program information summary form will include the 30% threshold calculations. The 2015 CPP cycle for multi-year funding assessment will be amended to facilitate the identification of 30% threshold calculations to coincide with the next term of Council.</p>	<p>In Progress. Per Council direction (report FCS14024(b)), the 2015 grant funding was a transition year. Staff based their funding on the prior year's grant amount. Per management, the funding rationale is expected to be documented for 2016 grants.</p> <p>Expected Completion: May 2016</p>

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<p><u>Grant Guidelines</u> The <i>CPP Grant Guidelines &amp; Procedures Manual</i> lists eligibility and funding criteria, policies and instructions regarding the administration of applications, evaluations and payments. Differences exist between actual and documented grant processes. For example,</p> <ul style="list-style-type: none"> <li>• The Grant Sub-Committee approved funding to organizations which did not submit applications or for which staff did not evaluate the applications;</li> <li>• Late applications were considered with on-time applications rather than during the appeal process;</li> </ul> <p>The payment schedule did not include instructions for the distribution of \$10,000 - \$60,000 grants; and</p>	<p>6. That staff review and update the <i>Guidelines</i> to reflect current practices and define terms for consistent interpretation. Revised <i>Guidelines</i> should be approved by the Grant Sub-Committee and Council.</p>	<p>Agreed. At the Council Meeting of October 10, 2012, Report GRA12011, respecting the Terms of Reference for the Evaluation of City of Hamilton Community Partnership Program, was tabled until such time as the internal audit of the Community Partnership Program had been completed. Implementation Date: 2015 CPP cycle.</p>	<p>Completed. The Guidelines were updated in 2014 and 2015 to reflect the current funding practices. These new Guidelines have been approved by The Grant Sub-Committee and Council. Definitions of commonly used terms are included in the Guidelines.</p>

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<p><u>Grant Guidelines (Cont'd)</u></p> <ul style="list-style-type: none"> <li>Organizational capacity and community impact were weighted at 30% and 40% of available marks respectively, which did not match the percentages in the <i>Guidelines</i>.</li> </ul> <p>In addition, the <i>Guidelines</i> contained terms such as "deficit funding" and "market requests" which may be interpreted differently by applicants, staff and Council without an adequate definition.</p> <p>Written procedures capture Council's expectations, provide guidance to staff and keep applicants informed. Inconsistent guidelines and procedures may confuse applicants or result in grant applications being adjudicated and awarded on an inconsistent or inequitable basis.</p>			

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<p><u>Financial Information</u> Applicants submit financial statements and complete organization- and program-specific revenue and expense schedules as part of the grant application process. Application forms do not clearly state whether compiled, reviewed or audited financial statements are required and what time period should be covered by the financial information provided.</p> <p>In addition, evaluation tools used to adjudicate grant applications do not contain criteria to assess the applicant's financial statements or need for grant funding.</p> <p>Financial information should be used to effectively assess an applicant's financial capacity.</p>	<p>7. That staff update the grant applications to identify what types of financial statements are acceptable and the time period that should be covered by these statements.</p> <p>8. That evaluation tools include an assessment of the applicant's financial statements and program information as part of the evaluation process.</p>	<p>Agreed. Staff will assess the potential of requiring compiled, reviewed or audited financial statements relative to financial support or risk. Implementation Date: 2015 CPP cycle.</p> <p>Agreed. As per the Management Action Plan in response to observation 2 (c). Implementation Date: 2015 CPP cycle.</p>	<p>Completed. The grant application forms used by all current program areas identify the type of acceptable financial statements, and the time period covered.</p> <p>In Progress. The evaluation tools used by the different program areas enable the adjudicators to assess the program information, but they do not provide adequate guidance to assess the applicant's financial statements. Per management, providing this guidance to adjudicators will be part of Phase II of the new City Enrichment Fund program.</p> <p>Expected Completion: November 2017</p>

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<p><u>Financial Independence</u> Per the <i>CPP Grant Guidelines &amp; Procedures Manual</i>, one program objective is "to promote the self-sufficiency of community groups and programs by encouraging those in receipt of funding...to become self-supporting".</p> <p>To promote financial independence, the <i>Guidelines</i> contain a phase out policy where funding is reduced and eliminated to re-applying programs who score less than 60% on their application. However, the evaluation tools do not include scoring criteria which take into consideration applicants' progressive self-sufficiency.</p> <p>Of the 25 grant recipients selected for testing, 20 applicants received either the same or a 2-4% increase in CPP grant funding each year from 2007 – 2011. Several of these programs have come to rely on the City's grants as sources of guaranteed funds as they have been receiving grants for over ten years. This is in part due to:</p>	<p>9. That staff develop a plan limiting the length of time an agency or program can receive grant monies and the related phase out period. Programs which are not phased out during a reasonable period of time should be funded and administered through an operating department rather than grants from the Community Partnership Program.</p>	<p>Agreed. At the Council Meeting of October 10, 2012, Report GRA12011, respecting the Terms of Reference for the Evaluation of City of Hamilton Community Partnership Program, was tabled until such time as the internal audit of the Community Partnership Program had been completed. Implementation Date: 2015 CPP cycle.</p>	<p>Completed. Management has developed a policy recommending the discontinuance of funding to long time grant recipients. This is per Council direction contained in report GRA16002 from February 2016.</p>

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<p><u>Financial Independence (Cont'd)</u></p> <ul style="list-style-type: none"> <li>• Using last year's grant amount as the base for the current year's funding recommendation; and</li> <li>• Requiring applicants to have at least a three year history of consecutive grants to be eligible for multi-year funding.</li> </ul> <p>Lack of financial independence creates a sense of ongoing financial obligation which limits new applicants' access to grant funding.</p>			

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<p><u>Follow Up Efforts</u> All successful grant applicants must sign an agreement prior to funds being released. This agreement binds the applicant to submit financial statements for the fiscal year that the funds were received and to return unused funds to the City. Grant recipients may also be requested to:</p> <ul style="list-style-type: none"> <li>• Submit a brief report identifying how the program / activity met its goals and objectives;</li> <li>• Submit quarterly reports;</li> <li>• Make available for audit the books of account and supporting documentation for at least three years to show the receipt and disbursement of funds; and</li> <li>• Be available for an on-site meeting.</li> </ul>	<p>10. That staff develop a system to assess whether grant monies provided during the year were used for intended purposes. This system should be approved by the Grant Sub-Committee and Council.</p>	<p>Agreed. At the Council Meeting of October 10, 2012, Report GRA12011, respecting the Terms of Reference for the Evaluation of City of Hamilton Community Partnership Program, was tabled until such time as the internal audit of the Community Partnership Program had been completed. Implementation Date: 2015 CPP cycle.</p>	<p>Completed. Staff have implemented a system whereby grant recipients must submit a final report in order to receive the 10% of the grant held back by the City.</p>

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<p><u>Follow Up Efforts (Cont'd)</u>  Although grant recipients submitted financial information, staff either did not review this information due to lack of expertise or could not elaborate what steps were taken as part of the review process. Further, staff did not request grant recipients to submit any of the additional information listed above. No other evidence was found to support efforts taken by staff.</p> <p>Without proper follow up, the City is not aware whether grant monies were used for intended purposes, if any funds should be returned or if programs should be supported in the future.</p>			