



Office of the
Auditor General
City of Hamilton

Appendix "A" to Report AUD25003

Transfer Payments and Grants Audit



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Executive Summary

- 1 The City of Hamilton received between \$450 million and \$510 million annually in incoming transfer payments and contributions from upper levels of government in the last 5 years (2018-2022), based on available City records.
- 2 The City of Hamilton was also responsible for the management and distribution of about \$200 million in annual outgoing transfer payments and grants in recent years.
- 3 Effective governance and administration transfer payment funds requires a governance model that provides leadership, strategic policy guidance for program and service areas that have responsibilities in administering transfer payments.
- 4 The audit set out to answer the following questions:
 - **Governance** – Are there sufficient structures, tools, and systems in place to ensure that transfer payments are managed effectively, efficiently and consistently across the City?
 - **Program Design and Evaluation** – Does the City routinely assess the effectiveness of transfer payment and grant programs?
 - **Funding Allocation and Award** – Is due diligence being exercised when conducting budgetary planning and funding assessments to ensure that taxpayer dollars are allocated in an equitable and transparent manner?
 - **Monitoring and Oversight** – Are appropriate processes being utilized to ensure that transfer payment and grant recipients remain compliant with program terms, and that funds are used as intended?
- 5 We found that an effective governance structure for transfer payment administration does not exist at the City of Hamilton. Additionally, there is a lack of corporate level strategic policy and planning to effectively oversee transfer payment and grant programs, ensuring transparency and accountability to the public.
- 6 There is also a distinct lack of policy to provide corporate direction to ensure prudent transfer payment management/administration. The City of Hamilton should have:
 - A Funding Agreement template that ensures fund recipients are held accountable for service delivery and protects the interests of the City.
 - Clearly defined roles and responsibilities, with respect to transfer payments, particularly for corporate functions, program operations, and vendor oversight.

- Clearly defined funding eligibility criteria.
- Transparent application evaluation processes.
- Risk-based performance monitoring of fund recipients.
- Mechanisms for validating fund spent as intended.
- Data collection, tracking and monitoring for achievement of outcomes as required by funding agreements.
- Effective reporting on outcomes.

7 In the absence of governance structures and corporate policies, transfer payment administration and management at the City of Hamilton is left to individual program and service areas. We reviewed a sample of transfer payment funded programs: Child care and EarlyON, Reaching Home, and Small Business Enterprise Center (SBEC). We found the following:

- Fund recipient risk profiles have not been established, contributing to lack of risk-based monitoring of fund recipient performance.
- Lack of mechanisms to verify and validate that recipients have used the money as intended.
- Lack of metrics and meaningful data to inform reporting on outcome achievement.

8 The City of Hamilton provides various grants to external organizations. Even though operational staff believed there was a corporate policy related to grant administration, we found there is not such a policy in existence. While some grant programs have developed a handbook or guidelines, we however, found these programs lack a systematic approach for administering the grant program through its lifecycle that incorporates the following key aspects:

- Intended outcome of a grant designed at launch.
- Clear criteria and evaluation process.
- Monitoring of fund use as intended.
- Reporting on outcomes.
- Effective agreement/contract management.

9 The three grant programs we sampled are Protective Plumbing Program, Sports and Recreation grants, City Enrichment Fund. Each program was created for different reasons, and the administration of the program also varies widely.

10 Any grant program should be able to answer the following questions:

- What outcome(s) does the grant program intend to achieve?

- What is the current status with regards to the intended outcome(s)?
- Were the funds used as intended?

11 The OAG found that these basic questions were unable to be answered unambiguously by the program areas responsible for the administration of these three grant programs that were sampled as part of this audit.

12 The City of Hamilton is accountable for the effective governance, management and administration of transfers payments and grants, which requires the City establish a governance mechanism to ensure transfer payments achieve the intended outcome. The City also has a responsibility to ensure grant programs are administered prudently and value of the investment is realized.

Introduction and Background

13 The Council-approved 2023-2026 Office of Auditor General Workplan included a Transfer Payments and Grants value for money audit.

14 Fieldwork for this audit was completed in early 2024, and then the City of Hamilton was impacted by the ransomware attack on February 25, 2024. This delayed the reporting phase of this audit. Additionally, as of February 2025 the City of Hamilton's 2023 Audited Financial Statements had not been released, which is why the report generally refers to figures from the 2022 Audited Financial Statements. 2023 final numbers from the City's PeopleSoft Financial System were also not available to the Office of the Auditor General due to the ransomware attack.

15 According to the Province of Ontario's "Transfer Payment Accountability Directive",

"Transfer payments are a mechanism used by the Ontario Government to fund activities that benefit the public and are designed to achieve public policy objectives. Transfer payments are transfers of money to individuals, external organizations or to other governments for which the Ontario government does not:

- Receive goods or services directly in return, as would occur in a purchase or sales transaction.

What is a Transfer Payment?

The City of Hamilton does not have a policy definition of what a transfer payment is or guidelines to support effective administration. Given that under the Constitution Act, 1867 municipalities are creatures of the Province, for the purposes of the audit, we adopted the definition of "Transfer Payments" utilized by the Province of Ontario.

- Expect to be repaid in the future, as would be expected in a loan; or
- Expect a direct financial return, as would be expected in an investment.”

16 Based on the above definitions, incoming funds received by the City of Hamilton from the Government of Canada and Province of Ontario would be categorized as follows:

- **Time limited payments:** Contracted programs such as Reaching Home (RH), Community Homelessness Prevention Initiative (CHPI), Starter Companies and Small Business Enterprise Center, and other infrastructure funding.
- **Ongoing payments:** transit, policing, court security, waste diversion, ambulance services, child care, long-term care homes, housing, and public health etc.
- **Support payments:** social assistance, child care fee subsidies, housing subsidies etc.

A transfer payment belongs to one of the three categories:

- Time-limited payments
- Ongoing payments
- Support payments

17 Outgoing transfer payments paid out by the City of Hamilton could also be classified using the above categories.

Characteristics of Transfer Payments with Service Delivery by External Organizations

18 The OAG finds external organizations tasked with service delivery funded by transfer payments also typically have the following common characteristics:

- The vast majority of these external organizations are not-for-profit organizations.
- These external organizations are substantially funded by government funding and charitable contributions.
- Objective is to service the public or community interest
- Work is not completed solely on a fee for service basis, funding is provided to deliver a program.

- The receiving organization is expected to be a “steward” of public money

Reporting to the Province of Ontario

- 19 In addition to the City’s annual audited financial statements, the City is required to submit a Financial Information Return (FIR) annually to the Province of Ontario.
- 20 “The FIR is the main data collection tool used by the Ministry of Municipal Affairs and Housing to collect financial and statistical information on municipalities.”
<https://data.ontario.ca/dataset/financial-information-return-fir-for-municipalities>
- 21 Financial Information Returns are publicly available via the Province’s website. It is the OAG’s opinion that the FIRs are not particularly user friendly and are more suited for research purposes rather than communicating with the public for transparency and accountability purposes.
- 22 The OAG has questions regarding whether or not “Contracted Services” reported in the FIR were classified appropriately, as many of them appeared to be related to transfer payments (social housing, social and family services, etc.). The OAG did not pursue this in the audit because it was not the purpose of the audit. The purpose of the audit was to ensure adequate accountability of transfer payments.
- 23 **Principles of the Province’s Transfer Payment Accountability Directive¹**
- A. Accountability** – Ministries are accountable for protecting the public interest. Ministries hold recipients responsible for delivering the activities for which the funds were received.
 - B. Value for money** – Ministries are efficient and effective in using public resources for transfer payments.
 - C. Risk-based approach** – Transfer payment oversight is in proportion to any risks associated with the activity and the recipient.
 - D. Fairness, integrity and transparency** – The decision to provide transfer payments and the oversight of transfer payment activities is fair, impartial and transparent and conforms to applicable legislation and corporate policy direction.
 - E. Focus on outcomes** – Transfer payment activities are clearly defined and contribute to the achievement of public policy objectives.

¹ [Transfer Payment Accountability Directive | ontario.ca](#)

F. Common processes – Ministries use common processes, tools and templates as appropriate to create administrative efficiencies and support consistency in the oversight of transfer payments.

G. Information sharing – Relevant and appropriate information and data are collected, managed and shared across the Ontario government.

H. Communication – There is respectful, open and ongoing communication between ministries and transfer payment recipients.

24 The directive aims to ensure that public funds are managed responsibly, with a focus on achieving desired outcomes, minimizing risk, and maintaining transparency throughout the process.

25 The Province of Ontario has established strong governance and oversight expectations with their Transfer Payment Directive as strong governance structure and expectations for the oversight and management of transfer payments. The Office of the Auditor General believes a similar model could be used at the City of Hamilton to improve the administration of transfer payments to third parties.

What Transfer Payments Did the City of Hamilton Receive?

26 Incoming transfer payments are referred to as Government Grants and Contributions, and Government Transfers in the City of Hamilton's Annual Financial Report, which includes the audited financial statements. As according to the 2022 Consolidated Statement of Operations (income statement), Government Grants and Contribution received was \$511.7 million.

Table 1 – Government Transfers Received

Government Transfers Received	2022 (in millions)	2021 (in millions)
Social assistance	\$150.5 M	\$158.4 M
Child Care	\$96.2 M	\$79.3 M
Public Health	\$56.3 M	\$65.2 M
Federal and Provincial gas tax	\$47.2 M	\$34.7 M
Ambulance services	\$37.7 M	\$34.8 M
Long term care homes	\$34.3 M	\$31.7 M
Housing	\$27.7 M	\$41.1 M
Infrastructure	\$24.4 M	\$39.1M
Other	\$11.3 M	\$25.9 M
Transit	\$8.1 M	\$8.5 M
Waste diversion	\$7.0 M	\$6.6 M
Policing	\$6.1 M	\$5.8 M
Court security	\$4.9 M	\$5.2 M
Total received:	\$511.7 M	\$536.3 M

Source: City of Hamilton 2022 Financial Report, Notes to Consolidated Financial Statements, Note 16. All numbers are in millions.

How Much in Transfer Payments Did the City Pay Out?

27 According to Note (16) Government Transfers were paid out under three categories of services in a total of \$201.1 million, which is 39% of what was received during the year. See Table 2 for details.

Table 2 – Government Transfers Paid Out

Government Transfers Paid Out	2022 (in millions)	2021 (in millions)
Social Assistance	\$123.6 M	\$99.9 M
Social Housing	\$57.1 M	\$58.0 M
Grants	\$20.4 M	\$39.9 M
Total Paid	\$201.1 M	\$197.8 M

Source: Source: City of Hamilton 2022 Financial Report, Notes to Consolidated Financial Statements, Note 16. All numbers are in millions.

How Does the City Manage Transfer Payments?

- 28 “Flat” is how the management of transfer payments at the City of Hamilton can be described, meaning that individual program areas administer the incoming and outgoing transfer payments, and the corresponding programs, either based on the agreement with the Provincial or Federal government, or the legislation that governs the program.
- 29 Some of the services and programs funded by outgoing transfer payments are provided by the City directly to individuals, such as Ontario Works income support, Housing Rent Supplements, etc., while others have service delivered by external organizations, such as child care operators, an accessible transportation provider (DARTS), and numerous social housing providers. Per the City of Hamilton’s 2022 Financial Information Return submitted to the Province of Ontario, contracted services for social housing, and social and family services were \$134.2M. This is a significant amount of money.
- 30 Even with over \$134M worth of transfer payments spent on service delivered by external organizations in 2022, the OAG was unable to locate a corporate policy or guidelines regarding managing/administration of government transfer payments, either incoming or outgoing.
- 31 Our audit work found that some City management generally are of the opinion that transfer payments are a form of purchase of service, which should fall under Procurement By-law. However, City of Hamilton Procurement By-law No. 22-255 Schedule B specifically exempts services funded by transfer payments from the requirements of procurement policies.

32 According to Schedule (B) of the City of Hamilton Procurement By-law No. 22-255 Professional Services and Special Services are exempt from the City of Hamilton's procurement requirements as follows (excerpt):

a) Providers of community support services including:

- Counselling, individual assessments, training;
- Residential care facilities for vulnerable persons and emergency shelters;
- Children with special needs resourcing, licensed child care service providers and the system support of the Ontario Child Care Management System, Early On service providers, planned parenthood, prenatal care and education;
- Ontario Works recipients;
- Long Term Care Facilities nursing;
- Homemakers and funeral services, including funerals, burials, cremations.

33 The OAG finds that there is a significant gap in both governance and policy for the administration of transfer payments at the City of Hamilton.

34 The OAG researched other municipalities, and senior levels of government regarding transfer payment management strategy. We note, in addition to the Province of Ontario having established a sound transfer payment management methodology and clear expectations and training of its fund managers, some municipalities also have relatively mature strategies for managing transfer payments and administrating grant programs.

35 These include:

- City of Ottawa established a Grants and Contribution Policy for programs funded by City of Ottawa.
- Township of Cramahe established a Municipal Grant and Donation Policy for funding to support non-profit groups and organizations that provide programs, services or events to the community.
- City of Toronto established City of Toronto Grants Policy.

36 While most municipalities call funding to support services and programs at the community level "grants", the funding is in fact a type of transfer payment.

37 We further note some common elements in these municipalities' grants policy, which make grant programs management more mature. These include:

- A requirement to define funding outcome(s).

- A requirement to define eligibility criteria.
- A requirement to have a transparent application process.
- A requirement for a signed funding contract with recipients.

Lack of Corporate Policies, Directives and Systems

- 38 Unlike the Province that has internal policies and directives, tools and training program for transfer payment fund managers, the City of Hamilton does not have a corporate policy on managing transfer payments, and consequently there is a gap in guidelines and directions for staff in administering the funds to ensure transfer payments achieve the intended outcomes.
- 39 The OAG would not expect the City of Hamilton to have anything of the scale and complexity of the Province, but it is reasonable to expect that there would be a corporate policy and related guidelines and standard operating procedures for the management of such a large amount of money, particularly when this is an annual responsibility of the City of Hamilton and is not a one-time occurrence. Such a policy and guidelines would strengthen transparency and accountability for a significant portion of City spending.
- 40 In the absence of corporate policy or guidelines for transfer payment administration, operational areas developed their own procedures to support the transfer payment program administration. Our audit found that this is not always the case. While some developed division procedures, outdated in some cases, others follow the agreement with the upper-level government without specific policy or procedures.

What is a Grant?

- 41 The OAG found that City of Hamilton does not have an official definition of Grant. However, we used the definition from the Government of Canada. A Grant is a form of unconditional transfer payment, and grants are payments made to an individual or organization as long as eligibility and entitlement criteria are met. In most cases, recipients are not required to account for how the grant is used and the department will not usually subject them to an audit.

What is a Grants Did the City Pay Out?

- 42 The City provides various grant programs across the organization, for example: City Enrichment Fund (CEF), Protective Plumbing Program (3Ps), and One Time Enhancement Grant Relief Program for impact of COVID-19 pandemic.

43 According to City of Hamilton 2022 FIR Schedule (42), City of Hamilton disbursed \$20.4 million in grants. We found that Grants at the City of Hamilton can generally be grouped into four categories:

1. **Grant that is a Federal or Provincial flow through grant**, e.g., Wage Enhancement Grant (WEG), General Operating Grant (GOG) in child care.
2. **Grants supported by Council**, e.g., City Enrichment Fund Grants and the Hamilton Future Fund.
3. **Operational Grants**, e.g., 3Ps (Protective Plumbing Program) and Recreation and Sports grants.
4. **One-time Grants**, e.g., One-Time Enhancement Grant Relief Program.

How Does the City Manage Grants?

44 Our findings for Grants governance and administration were similar to our findings for transfer payment governance and administration overall. Some grant programs have a handbook and an agreement, such as the CEF. There are guidelines for the 3P (Protective Plumbing Program). While there are still other grant programs such as sports and recreation grant programs that do not have any formally documented procedures or SOP for the administration of the grant.

45 Some program staff communicated to the OAG that it was their opinion that they managed their specific grant program to be following corporate policy, but the OAG found that a corporate policy for grant administration does not exist.

Audit Objective

- 46 The audit objective was to assess whether the City has adequate systems and controls in place to support effective and accountable delivery of its transfer payment and grants, with a primary focus on outgoing transfer payments.

Lines of Inquiry

- 47 We sought to answer the following questions:
- **Governance** – Are there sufficient structures, tools, and systems in place to ensure that transfer payments are managed effectively, efficiently and consistently across the City?
 - **Program Design and Evaluation** – Does the City routinely assess the effectiveness of transfer payment and grant programs?
 - **Funding Allocation and Award** – Is due diligence being exercised when conducting budgetary planning and funding assessments to ensure that taxpayer dollars are allocated in an equitable and transparent manner?
 - **Monitoring and Oversight** – Are appropriate processes being utilized to ensure that transfer payment and grant recipients remain compliant with program terms, and that funds are used as intended?

Audit Scope

- 48 The scope of the audit included all outgoing transfer and grant payment programs from January 1, 2020 to December 31, 2022 (3 years), except those noted below.
- 49 Incoming transfer payments received from Province and Federal government for services that are directly delivered by the City of Hamilton were excluded from the scope of the audit as they are governed and managed by the Government of Canada and the Province of Ontario. The OAG made the decision to focus on the transfer payment and grant programs where the City of Hamilton is in a lead role for the governance and accountability of the transfer payment and grant programs.
- 50 The City Enrichment Fund was last audited in 2014. Given that some Fraud and Waste hotline data indicated some emerging risks, the OAG included the City Enrichment Fund in the scope of the audit.

What the Scope Did Not Include

- Support payments (e.g. social assistance payments paid to individuals, such as Ontario Works)
- Non-monetary/in-kind grants
- Previously audited areas (DARTS accessible transit, SHARP and SHIP programs for Social Housing Capital Funds, Hamilton Future Fund, Strong Communities Rent Supplement, Commercial Rent Supplement, Ontario Community Housing Assistance Program)

What We Did and How We Did It

- Researched Federal and Provincial policies, directives and best practices on transfer payment administration.
- Reviewed relevant documentation such as Procurement Policy Bylaw No. 22-255, corporate policies, divisional Standard Operating Procedures (where available), agreements, Council Reports, City organizational charts, job descriptions of key positions, etc.
- Reviewed City of Hamilton webpages for services and programs funded by transfer payments and grants.
- Interviewed staff and management at both the corporate level and operational level.
- Reviewed available data, metrics, and performance measures, as applicable.
- Performed relevant testing to verify/validate the processes.
- Reviewed transfer payment contracts with the Government of Canada and Province of Ontario in areas sampled.

51 We selected three programs funded by outgoing transfer payments from the City of Hamilton and three outgoing grant programs for review to gain an understanding of how funding is being administered.

52 As multiple services and programs receive and administer transfer payments and grants, some areas had been audited in the past by the OAG and had varying results. We considered these audits and the audit results in our sample selection process. We selected the following six areas for sampling to evaluate whether each area has effective processes to manage and administer the transfer payments or grants to achieve the outcome intended.

Transfer Payments

1. Children's Services - Wage Enhancement Grant (WEG) and General Operating Grant (GOG).
2. Housing Services - Reaching Home (RH) program.
3. Economic Development - Starter Company Plus in Small Business Enterprise Centre (SBEC) program.

Grant Programs

1. Hamilton Water - Protective Plumbing Program (3P).
2. Recreation - Operating grants.
3. Government and Community Relations - City Enrichment Fund (CEF).

Key Terms

- 53 **Transfer payment**² - are transfers of money from ministries to an individual, external organization or government for which the Ontario government does not:
- receive goods or services directly in return, as would occur in a purchase or sales transaction;
 - expect to be repaid in the future, as would be expected in a loan; or
 - expect a direct financial return, as would be expected in an investment.
- 54 **Services**³ - all professional, consulting, construction or maintenance services, as well as any other services described in a Contract or in a Request for Quotations (RFQ), Request for Tenders (RFT) or Request for Proposals (RFP).
- 55 **Purchase of Service** - means monies expended for the provision of specific units of time and effort rather than an end product.
- 56 **Grant** - a form of unconditional transfer payment. Per the Government of Canada's definition: Grants are payments made to an individual or organization based on eligibility and entitlement criteria. In most cases, recipients are not required to account for how the grant is used and the department will not subject them to an audit; however, there can be exceptions depending on program requirements. Recipients may be required to report on the results achieved with the grant.

² Source: Province of Ontario: Transfer Payment Accountability Directive 3 Application and Scope.

³ Source: Procurement Policy, City of Hamilton Bylaw-22-255 Definition and Interpretation Section 3.

57 **Controllershship** - Modern controllershship as determined by a federal panel known as the "Independent Review Panel on Modernization of Comptrollership in the Government of Canada" has four Key Elements (Principles):

- Integrated performance information.
- Appropriate control systems.
- A sound approach to risk management, and
- A shared set of ethical practices and organizational values.

Source: City of Brampton Corporate Policies, Finance Controllershship.

Systems or Applications Utilized to Manage Transfer Payments and Grants

58 The OAG found that Microsoft Excel spreadsheets are a popular tool for staff across the organization to record and track transactions for both grants and transfer payments. Peoplesoft Financial was the system for all financial matters, including disbursements of grants and transfers.

59 There is not a separate system for grants or transfer payments management. Staff at operational areas that administer transfer payments or grants use Excel to record, track, analyze their payments and vendor information. Some areas such as Children Services use OCCMS, a system to manage children and child care operator information, financial matters such as payments and reconciliation, as well as financial analysis are performed in Excel.

Detailed Findings

60 Overall, we find the City of Hamilton has a significant opportunity to improve the governance, oversight and management structure required for the effective management of transfer payments and grant programs. There is a lack of corporate level of strategic planning and policy to direct effective administration of transfer funds received and grant program.

Accountability Framework Needs Improvement

61 A formalized accountability framework for the management of transfer payments and grants provides rigour and transparency to the processes for City Council, City staff and transfer payment and grant recipients.

62 Formalized processes and procedures ensure that transfer payments and grants are managed in accordance with sound governance principles in order to ensure that City goals and specific program objectives are achieved.

Controllershship Mindset and Structures are Needed

63 Controllershship is the centralized leadership that provides overall oversight and strategic direction for various corporate functions including financial management and accounting to departments and divisions across the organization.

64 We found a lack of controllershship for the governance and management of transfer payments and grants, which is reflected in lack of policy and directives, lack of strategic planning and oversight of funds administration and subsequent monitoring and outcome reporting.

65 It is our view that it is important that Corporate Finance exercises its oversight responsibility and provides strategic direction and oversight for transfer payments and grant programs. This should include developing strategy and corporate policy that clearly defines the role of corporate finance and operational management, putting in place tools and system to support effective fund administration and overseeing performance outcome reporting.

No Corporate Policy for Transfer Payments

66 We found there is no corporate policy to provide guidance on the governance, management and administration of transfer payment and funds and other contributions received from the Province of Ontario and the Government of

Canada. Additionally, there is no policy to provide guidance for the management of outgoing transfer payments that are the responsibility of the City of Hamilton.

67 Additionally there are no procedures/directives on elements essential for prudent management of transfer payments. It is our view that the City of Hamilton is accountable for effective and prudent management of transfer funds to benefit the public. In addition to putting in place policy and directives, the City should also ensure those tasked with managing transfer payments are sufficiently trained on implementing the policy.

68 Elements built into transfer payment policy/directive should include:

- Defining clear roles and responsibilities with regards to corporate, operational management.
- Developing tools and system to support efficient administration such as agreement template.
- Requirement on transparent application review and fund awarding processes.
- Requirement on risk assessment and up-to-date risk profile of fund recipient to inform performance monitoring.
- Developing oversight mechanism to ensure funds are spent as intended by recipients.
- Requirement of performance measure metrics and reporting on outcomes.

No Policy For Grant Administration

69 In addition to lack of a transfer payment policy, there is no overall corporate policy for grant program administration. The OAG found that City of Hamilton does not have a definition of grant. In the Key Terms section, we considered what the Government of Canada uses as a definition of a grant.

70 Effective grant administration should consider the lifecycle of a grant, from inception to closing, and a process should be in place to ensure grant money is spent as intended.

71 While some grant programs, e.g. City Enrichment Fund, have a handbook as guidelines for both fund applicants and fund administrator/manager, there are other operational grant programs such as sports and recreation grants that do not have any guideline, even though fund managers in these areas believe they are compliant with corporate policy, they could not identify which policy they were complying with. This is likely because there is no corporate policy for grants.

- 72 Based on Schedule 42 of City of Hamilton's 2022 Financial Information Return (FIR), the City of Hamilton awarded approximately \$20 million of grants to charitable, non-profit organizations, universities, and colleges in 2022. With no further information available to the OAG at a corporate level, based on the wording, we can only conclude the total amount of grants listed on the 2022 FIR did not include operational grants such as 3P (Protective Plumbing Program), and sports and recreation grants, which could make the total grant amount distributed much larger.
- 73 The OAG does not know what the total amount of grants administered by the City of Hamilton in 2022 was, based on the information available to us. Regardless of what the actual amount of grants distributed was, a policy on prudent management of grant program is required. Such policy should consider grant administration through the entire lifecycle of a grant.
- 74 Grant program administration should also consider the following:
- Value for money: what outcomes is the grant to achieve?
 - Transparency: clear criteria, and a fair application and adjudication process.
 - Accountability: performance metrics and monitoring.

Financial Reporting on Transfer Payments

- 75 The City of Hamilton's annual Audited Financial Statements (AFS) follows the Public Sector Accounting Board (PSAB) standards, which have specific requirements on items reported. Notes to the financial statements are where users of the audited financial statements can obtain additional information about the financial statements. However, financial statements are not the only method for a municipality to disclose information about its spending and program accomplishments.
- 76 As noted earlier in this report, the City is required to submit a Financial Information Return (FIR) annually to the Province of Ontario. It is the OAG's opinion that the FIRs are not particularly user friendly and are more suited for research purposes rather than communicating with the public for transparency and accountability purposes. There is an opportunity for the City of Hamilton to do annual performance reporting that discloses all transfer payment and grant recipients to the public via the City's website and open data portal. Annual performance reporting and disclosure in an easy to understand format would improve transparency and accountability to Hamilton residents.

Performance and Outcome Reporting Needs Improvement

- 77 Reporting is two ways: The City reports aggregate results, most often to the accountable Ministry of the Provincial/Federal government on outcome; and fund recipients report to the City on relevant information that informs the City outcome reporting.
- 78 We noted reporting on outcomes has been inconsistent. It appears when it comes to monitoring and reporting, the first thing staff think about is collecting of audited financial statements. In some area, this has been problematic as not all fund recipients can afford auditor's services. In other areas such as some grant programs, there was no available evidence of collecting information to evaluate if the desired outcome(s) have been achieved. In addition, as discussed above, audited financial statements do not provide information that informs transfer payment or grant outcome and programs lack a consistent approach to evaluating financial statement information in the absence of audits.
- 79 Reporting on outcomes should focus on information and metrics that inform effective outcome achievement, it should further support the City in reporting to the accountable Ministries at Government of Canada and Province of Ontario what the City of Hamilton's needs are. It is our view performance metrics, KPIs towards achieving the intended outputs and/or outcomes are the ones that should be collected and reported.

Roles and Responsibilities

- 80 One of the results from the lack of governance structures and corporate policy for transfer payments and grants administration is a lack of clarity regarding roles and responsibilities.

81 Specifically, the following is not clearly defined:

82 **At the Corporate level:**

- Who is responsible for the governance structures and general controllership accountability for transfer payment and grant program at the City of Hamilton?

It is unclear who is or should be responsible for providing direction and oversight for transfer payment and grant programs across the organization.

- Who is responsible for sound accounting practices to ensure transfer payment and grant program administration follows good record-keeping practices throughout the lifetime of transfer payment/grant?

83

At the Operational level:

- Who is responsible for strategic planning regarding the outcomes the transfer payment/grant is intending to achieve?
- Who is responsible for monitoring funds were spent as intended and monitoring fund recipient compliance with the terms and conditions of the funding or grant agreement?
- Who is responsible for reporting the performance and outcomes?

84

It is our view that corporate policy should clearly define the roles and responsibilities to ensure accountable administration of transfer payment and grant programs. It is also an opportunity to elevate the importance of controllership, and adapt its focus from transactional to strategic outcomes.

Funding Agreement/Contract

85

Transfer payments and grants are designed to achieve intended outcomes and public benefits, for example: ending homelessness, revitalizing local economic areas, etc. Similar to the City being held accountable for achieving the intended outcomes by the Government of Canada and the Province of Ontario, the City, in turn, should hold those who receive fund from the City accountable for using the funds to achieve the intended outcomes and provide data for the City to measure the outcomes. This could be accomplished through rigorous funding agreements with fund recipients.

86

We noted various programs areas developed their own agreements for transfer payments with the support of Legal and Risk Management Services. There is not a consistent template or level of rigour used in the organization. Some agreements are five pages long, while others are 52 pages long. Some areas have either outdated agreement or no agreement existing at all. The funding agreements do not always optimally protect the interests of the City with adequate liability insurance requirements.

87

The agreement is the binding document that holds fund recipients accountable for delivering the services per the agreement's terms and conditions. It is our view that having various agreement templates available from Legal and Risk Management Services would be beneficial in terms of efficiency and consistency and cost savings and may reduce the use of legal resources in the longer term.

Risk-Informed Monitoring

- 88 Risk assessment of fund recipients should be a requirement of all program areas that administer funds redistributed to third-party service providers.
- 89 A risk assessment of fund recipients informs the approach and degree of oversight that needs to be provided. Instead of exercising the same degree of monitoring for all fund recipients, proportional monitoring based on fund recipient risk profile is the most effective way to use the City resources in dispositioning of its responsibility.
- 90 Risk assessment should consider:
- Recipients' governance structure and control structure that directs the work and processes of the organization.
 - Recipients' performance history
 - Recipients' ability and records of outcome achievement
- 91 We found generally found that risk assessment of fund recipients was not being performed with the exception of the Reaching Home transfer payment program in Housing Services, however the risk assessment was not kept current. No program areas were found to have developed a risk-informed mechanism to monitor recipient performance. Even though right-to-audit clauses are included in some funding agreements, based on the information available to us, audits were rarely conducted, if at all.
- 92 One key aspect of both transfer payments and grants is determining what outcomes a transfer payment or grant is intended to achieve. Staff tend to think monitoring is about requiring fund recipients to submit a set of audited financial statements. It needs to be understood that audited financial statements do not serve the purpose of validating whether funds have been used as intended. Monitoring mechanisms based on recipient risk profiles is an effective use of limited staff resources to ensure funds are used as intended and the intended outcomes are being achieved.

Ensuring Value for Money in Transfer Payments in Third-Party Service Delivery

- 93 We found both transfer payments and grants administration at the City currently in a paradoxical situation. On the one hand, transfer payment administration is thought by various management to be a purchase of services that should follow Procurement By-law, while on the other hand, the Procurement By-law exempts transfer payments funding community support services and grants from the

requirements of Procurement By-law No. 22-255, according to Schedule B Exemptions 1(d) and 3(a).

- 94 It is our view that transfer payment and grant administration being exempted from the Procurement by-law is appropriate. However, prudent management of financial resources can only be accomplished by putting in place the proper governance and oversight.

Records Retention

- 95 We found that the City of Hamilton's Record Retention By-law (By-Law 11-040, subsequently amended under By-Law 18-310) states that documents relating to the receipt and provision of grants/loans must be retained for at least seven years. It states that the department responsible is Finance. The reality is that transfer payment and grant administration are residing with both Finance and operational areas, and documents are retained by individual program areas. The By-law should be reviewed and revised to reflect current business practices.

Technology Improvements Needed to Improve Data Confidence and Reliability

- 96 During the audit, the OAG requested enterprise-wide transfer payment and grants financial data from Finance. We found that this information cannot be derived without significant manual manipulation of the data extracts from PeopleSoft Financial by staff. This is concerning to the OAG, particularly regarding data confidence.
- 97 PeopleSoft Financial is a powerful enterprise resources planning (ERP) system when accounts are properly set up and functions are explored. However, the OAG found that the coding of transfer payments and grants was not well executed, and we found it quite challenging to identify all transfer payments and grants. We still have concerns about the completeness of the data we were provided for our data analysis. Our selection of audit samples was based on the information available to us.
- 98 With regards to transfer payments and grants specifically, we found there is no documented policy for naming and numbering conventions for Account IDs and Dept IDs in PeopleSoft Financial. The current set up and coding does not allow users to extract needed information quickly. The organization should have a set of rules and conventions when setting up accounts or entering information in the system, and the rules and conventions should be adhered to by staff.
- 99 In the aftermath of the February 2024 ransomware attack, it is the OAG's understanding that a procurement is needed and is being planned for a

replacement ERP system, including the financial system (a replacement for the PeopleSoft Financial system). The OAG notes that there is an opportunity to "get it right" with the implementation of a new ERP system, and there is an opportunity for the Transfer Payments and Grants to be set up in the system in a way that reports can be easily obtained. This would enable better management and oversight of transfer payments and grants.

Program Area Findings

100 In the absence of corporate policies, guidelines and standard operating procedures for transfer payment and grant administration, operational areas that manage transfer payments and grant programs have been filling this gap by developing their own practices to manage the funds.

101 We noted, as evidenced by audit sampling of the six areas across the organization:

- Not every program area has developed policies and/or procedures for transfer payments and/or grant program administration.
- The objectives or outcomes of the funding were not consistently defined.
- There had been inconsistent practices in selecting and awarding funds.
- Most areas had not conducted a risk assessment to inform monitoring of fund recipient performance.
- There are few mechanisms to validate funds were used as intended.
- Audit rights not consistently utilized.
- Inconsistent reporting of outcomes.
- Funding agreements do not consistently protect the interests of the City.
- Funding agreements are in various different formats and have varying degrees of involvement and review by Legal and Risk Management Services. Some grant programs do not even have an agreement in place.
- Without corporate definitions of grants or transfer payments.

Program Case Studies

A) Children’s Services

102 Child care in Ontario is legislated by Child Care and Early Years Act 2014. It is a flow through transfer payment program where child care operators are licensed by the Province of Ontario, and the City of Hamilton is the Service Manager. Service Manager responsibilities can be summarized as followed:

- Develops and administers local policies respecting the operation of child care and early years programs and services.
- Coordinates the planning and operation of child care and early years programs and services with the planning and provision of other human services delivered by the service manager.
- Administers the delivery of financial assistance provided by the Province, in accordance with the regulations.
- Assess the economic viability of child care and early years programs in the service area and facilitate changes as needed.

103 There are a few main funding streams that flow from the Province of Ontario and Government of Canada through to the City of Hamilton as the local Service Manager:

- Funding to assist child care operators with general operations and system support (General Operating Grants or GOG).
- Funding to close wage gaps for eligible educators and eligible staff (Wage Enhancement Grants, or WEG).
- Fee subsidy for eligible children/families (Fee Subsidy).
- New in 2022, the Canada-Wide Early Learning and Child Care (CWELCC) Agreement is known as the national child care plan, which aims to reduce child care fees to an average of \$10 per day for children under the age of 6 by March 2026⁴.

104 For each stream of funding, the City issued a set of guidelines outlining eligibility requirements, and funding formulas. The guidelines are also used by City of Hamilton staff in administration the funding.

⁴ [Canada-Ontario early years and child care agreement | ontario.ca](https://www.ontario.ca/gov/topics/canada-ontario-early-years-and-child-care-agreement)

105 The Service System Manager, represented by Children and Community Services Division at the City of Hamilton, administered and redistributed a total of \$98.3 million transfer payments according to the City’s 2022 Financial Information Return.

Table 3 – City’s 2022 Financial Information Return: Child Care

	Contract Services	External Transfers	Administration Cost (Rent, materials and amortization)	Total Expenses (Before adjustment)
Child Care	\$75,456,038	\$22,842,513	\$662,093	\$98,960,644

Source: FIR 2022 Schedule 40 Consolidated Statement of Operations: Expenses

106 Funding was distributed in the following categories:

- Wage Enhancement
- GOG for Wages
- GOG System Priority Fee Subsidy Special Needs Resourcing
- EarlyON
- Indigenous Led Funding
- System Supports (Resource Centres Capacity) as part of Canada-wide Early Learning and Child Care (CWELCC) Agreement.

107 As shown in Table 3, \$75.5 million was paid out to child care operators under Contracted Services to provide child care services, with the bulk of the remaining monies paid out to children and families as fee subsidies.

108 The City, as the Service Manager, signs an umbrella funding agreement with licensed child care operators to provide funding, both child care centre-based and home-based settings. Under the umbrella agreement, there is no need to sign a separate agreement for each stream of funding. However, an agreement is required when one-time funding is awarded, such as for building repairs or playground development, etc.

109 Being licensed by the Province of Ontario and being able to produce proof of required insurance coverages are the eligibility criteria for funding. In 2022, there

were about 90 licensed child care operators receiving funding from City of Hamilton.

- 110 Child care operators who signed the agreement with the City are required to participate in the City's quality program, which is a mechanism that documents and monitors the quality of child care services. It is not a mechanism to monitor if funds were spent as intended. The City of Hamilton as the Service Manager has the right to audit records and books of operators that have signed an umbrella agreement, however there are no specific details such frequency of audits included.

Audit Findings

- 111 The evidence that staff provided to the OAG demonstrated that oversight is being provided with regards to whether operators had allocated the grants in accordance with the guidelines. Some operators were required to take action to address the findings. However, we found no specific timeline was outlined that operators must be taking actions in most cases.

Audit Rights Not Utilized Consistently

- 112 The Children's Services website states "Child care operators with a Funding Agreement are subject to random auditing to ensure compliance.". Staff provided OAG evidence of six audits conducted by in 2022-2023. During the audit, the OAG was also informed of current plans was to select four child care operators each year for audit. The OAG finds this plan to be inadequate, as it will take 22.5 years to complete one round of audits, and it will take even longer if more child care operators are brought on to receive funding from the City of Hamilton.

Risk Assessments Need to Be Formally Incorporated into Service Manager Oversight Efforts

- 113 To effectively use the available staff resources to achieve the goal of monitoring operators' performance and evaluating if funds are being used as intended, the use of a risk assessment would enable the Service Manager to develop an effective audit work plan for each year. Operators found to be high-risk can be prioritized for audit accordingly. We found that operator risk profiles informed by risk assessment have not been established.

B) Housing Services: Ending Homelessness – Reaching Home Program (Federal)

- 114 Under Government of Canada's "Reaching Home" program, the City of Hamilton received \$29.4 million funding over the 5-year period from 2019-2024. The Government of Canada contribution agreement stipulated the purpose of the funding, and how the funds should be used. The funding was specifically not to fund capital projects/items.
- 115 The City of Hamilton Reaching Home (RH) program is part the Federal Reaching Home program funded by the Government of Canada. The Reaching Home Program also required cost matching at the Provincial and Municipal Levels. This was achieved at the City of Hamilton with various Province of Ontario funding programs (Community Homelessness Prevention Initiative and Home For Good).
- 116 The "Coming Together to End Homelessness - Hamilton's System Planning Framework" (the Framework) is the guidelines aiming to achieve the goal of "Hamilton will end chronic homelessness by 2025".
- 117 In January 2020, the result of Call for Applications (CFA) that was completed in 2019 was presented to Emergency and Community Services Committee in Report HSC20004. The Report recommended 12 successful community service providers be awarded with a total funding of \$6,205,120, to provide intervention services aiming to reduce the burden on emergency shelter system and to support families and individuals in imminent risk of losing their homes. Among the 12 successful applicants recommended, Good Shepherd Centers received the highest amount, approximately \$2.5 million.
- 118 An agreement was signed between the City and each of the 12 successful organizations. Services each provider was to provide were prescribed in the Schedule "A" Service Plan that formed part of the agreement. The City's right to audit books and records was included in the Agreement Part III – Financial Provision (19):
- "The General Manager shall have the right to require an audit of the books of account and records of the Service Provider in relation to the services provided under this Agreement."
- The City of Hamilton will be responsible for regular monitoring, inspection and program evaluation. The City of Hamilton will at its sole discretion audit, monitor, and take necessary steps to monitor program performance, and financial expenditures. The Program agrees to fully participate in any audit, monitoring or such process."

COVID-19 Impact

- 119 According to the HSC20004 Report "An additional call for applications for this intervention will be required to occur in calendar year 2020, with new contracts in place by April 1, 2021." Staff however stated to OAG, the 2nd CFA was not carried out because continued funding to the providers would ensure continuation of services, unless providers performance is not remediable, which staff regularly monitored. The OAG recognizes that continuity of services was important during this time period because of the ongoing COVID-19 pandemic.

2022 Federal Government Audit – Areas for Improvement Identified

- 120 In June 2022, Samson, a Federal government appointed auditor, conducted an audit⁵ of City Reaching Home program in accordance with the Contribution Agreement to:
- Validate funds disbursed to the City have been used for the intended purpose.
 - Assess whether the City has an adequate financial and internal control framework in place to ensure appropriate management of the financial activities of the project.
 - Assess whether the City monitors sub-agreement Holders to ensure compliance with the Contribution Agreement.

Audit Findings

Financial Tracking Systems Could be Improved

- 121 The Housing Services Division uses Federal Homeless Management Information System to collect data for reporting, coordinate intake, perform assessment, and make referrals and service coordination. For funds distribution and records tracking, the project team uses Excel spreadsheets and follows corporate payment request processes.
- 122 At the time of the audit, the program was in the 2nd year of the funding cycle. There was no documented evidence provided to us that audits or inspections have been conducted since the implementation of the program, nor documented

⁵ Auditor's Report Department of Employment and Social Development Canada Reaching Home: Canada Homelessness Strategy - Designated Communities - Community Entity Program Audit of the Contribution Agreement Signed on March 22, 2019 with City of Hamilton RH 2019-2024 - Hamilton (Project 16408569) June 2022.

evidence of performance monitoring of fund recipients in accordance with the agreement.

Accountability Practices Need Improvement

123 According to the Eligible Costs outlined in the "Call for Application (CFA) 2019 Guidelines and Overviews", much of the Reaching Home program is to pay for providers' staff time in providing prevention and intervention services, such as case management, street outreach, housing placement etc. Funds are released to sub-contractors each quarter at the receipt of invoices. The invoices contain no itemized cost, nor accompanied with supporting documents. According to staff, such practice was accepted because the invoices and payments are governed by the contract/agreement.

Federal Audit Findings Remain Unaddressed

124 In 2022, the auditor (Samson), the appointed auditor of the Ministry of Employment and Social Development Canada, conducted an audit of City of Hamilton's Reaching Home program to assess if it was being managed in accordance with the agreement 2022. The Federal auditor determined the City has used the funds for the intended purpose and the City had an appropriate internal control framework to carry out the activities. The Federal auditor however made several observations and recommendations related to:

- City not undertaking periodic audits and inspections of the sub-agreement holders' financial records.
- Invoices without supporting documents were accepted for fund disbursement.
- City not verifying cost claims are eligible according to the agreement.

125 At the time of audit, there was no evidence the Federal auditor's observations were addressed.

126 The OAG agrees with the Government of Canada's auditor that service providers' invoicing should be accompanied with supporting documents such as payroll registers, timesheets, as well as evidence of the time allocated to the funded project, proof of payments and the methodology used to allocate the overhead costs to the Project.

City of Hamilton Not Conducting Audits to Ensure Accountability and Transparency

127 At the time of the audit, the program was in the 2nd year of the funding cycle. Based on the information and evidence available to us, it appears that no audits or inspections have been conducted since the implementation of the Reaching Home program. There is also no evidence of performance monitoring of fund recipients to ensure they are delivering in accordance with the agreement.

C) Small Business Enterprise Centre (Incoming Transfer Payment, Outgoing Grants)

128 The Small Business Enterprise Center (SBEC) is a Provincial Program that supports small businesses and offers entrepreneurs tools they need to start and grow their businesses. The SBED Core includes:

- Training/Inquiries
- Business advisory and coaching
- Business skill development
- Resources

129 As part of the SBEC program, two types of micro-grants are available for qualified business and entrepreneurs: Starter Company Plus and Summer Company.

130 In 2019, Council passed Bylaw 19-261 to authorize the City to participate in the Provincial SBEC program. The Commercial District and Small Business section in Economic Development division is leading the City SBEC program since 2019.

131 The agreement with the Ministry of Economic Development, Job Creation and Trade is a 2-year program that funds SBEC Core, 26 Starter Company Plus grants to a \$5,000 maximum and 13 Summer Company grants to a \$3,000 maximum each year. The total funding for the SBEC is \$745,000 for the two-year program.

132 The eligibility criteria for the Starter Company Plus grant include:

- 18 years of age or older Ontario resident and Canadian citizen or permanent resident,
- not attending school full-time or returning to school,
- Sole Proprietor, Partnership or Corporation with majority share, registered with Hamilton address,
- In operation for 6 months – 2 years, can provide investment of 25% of the grant amount,

- Completed 12 hours of entrepreneurship training.

- 133 The City hosts three cohorts of online grant applications each year, each cohort focuses on different priority industries and sectors. Grant applicants must have participated and completed the required entrepreneurship training.
- 134 Applications for the grant are evaluated by three volunteers from local communities, following a set of predefined high-level criteria. The average of the three evaluation scores determines whether grant will be awarded. According to staff, no grant will be awarded if there is no quality application in any one cohort to ensure the quality of the program is not compromised.
- 135 The Transfer Payment Agreement with the Province of Ontario prescribes detailed activities and components the SBEC program that are to be delivered. The City signs a grant agreement with grant recipient, even though the grant is more of a reimbursement of eligible expenses. At the end of the funding cycle the Ministry will conduct an audit of the program. The Provincial system SCREEN is used for program reporting. Grant payment disbursement is processed through the corporate PeopleSoft Financial system.

Audit Findings

- 136 The OAG finds that the SBEC program is implemented in accordance with the agreement with the Ministry of Economic Development, Job Creation and Trade.
- 137 We found the program implementation compliant with the agreement with the Province of Ontario, and business processes are well documented.
- 138 We note one general item for continuous improvement, the volunteer consultants who evaluate grant applications are local business experts. There are no specific qualification requirements and/or guidelines in recruiting these volunteers. We believe it would be beneficial to put in place the qualification guidelines. This will contribute to consistent quality of training and mentoring services, and efficiency of recruitment process.

D) Protective Plumbing Program

- 139 Per Council Report PW11056, the City of Hamilton created the Protective Plumbing Program (also known as 3P) in 2010 to encourage property owners to mitigate basement flooding risks. The ultimate goal of the program is “To make it possible for each Residential Property within the City of Hamilton to have a backwater valve (BWV) installed in order to help prevent basement flooding.”
- 140 The maximum grant available is \$2,000 plus the permit fee and is intended to assist property owners with the cost of installing a backwater valve (BWV) and disconnecting up to five downspouts from City wastewater collection system. 3P is an expense reimbursement program, where the property owner must first pay for the cost and is then reimbursed for eligible costs.
- 141 Between 2009 to 2012, the grant was limited to owner-occupied residential properties built prior to January 1, 2012. By adopting a community improvement plan titled “Water and Wastewater Infrastructure Support Community Improvement Plan” in 2013, 3P grant was extended to residential rental properties.
- 142 Based on information tracked by the 3P project team in Hamilton Water, and statistics from the Municipal Property Assessment Corporation (MPAC), the following Table 4 is a portrait of the 3P program and cost to the City:

Table 4 – Portrait of the 3P Program and Cost to the City

3P Program and Cost to the City	
Total 3P grant spending 2010-2022	\$24,074,646
Total permits issued 2010-2022	12,096
Average grant per residential property	\$1,990
Estimated number of Hamilton residential properties meeting the criteria that have not yet received a grant	137,666
Estimated future maximum program costs (\$1,990/property)	\$274 million

Source: MPAC July 2023, Teranet October 2023, Planning Property Inventory (PPI) 2023. Annual – Protective Plumbing Program Total NC.

- 143 Hamilton Water records and tracks the grant applications in the Hansen system. A system ID number is assigned to an approved application. When the property owner sends in proof that work has been completed by one of the City's prequalified contractors, a supervisor reviews and approves the payment, and sends a request for reimbursement to Corporate Finance, who prepares and arranges payment via cheque through the PeopleSoft Financial system.

Audit Findings

- 144 The OAG found that the 3P program uses an in-house application developed within the "Hansen" system. We found that there are no data entry controls that limit the payout amount (e.g. a maximum limit of \$2,265 to reflect the grant and permit maximums for 2022). We found seven payments that exceeded the program maximum in 2022. These variances were for small dollar amounts (under \$100). The cause of this is a combination of human error and a lack of built-in system controls.
- 145 During audit testing in the Protective Plumbing Program (3P), the OAG identified 10 duplicate payments made to various grant recipients in 2022. Our investigation into the matter found the duplicate payments were made due to human error in the manual payment process and also due to a lack of review. In addition, the financial system was found to be lacking the needed built-in controls to identify and reject transactions that have all the same attributes except for one. The total amount of the duplicated payments is over \$18,400.
- 146 The OAG issued an urgent memo to management requesting immediate action be taken to recover the duplicate payments and to further review transactions processed in this manual process. Management reported back to the OAG that no further duplicate payments were found. Collection efforts were being led by Finance and Legal Services.

E) Sports and Recreation Grants

147 The Recreation Division administers a total of 15 grants, of which 13 grants are for amounts of \$60,000 or less. The 13 grants are for seven rural communities and six other organizations or programs for “which the City of Hamilton was originally and directly involved in planning/organizing and have evolved to partner organizations”. These grants are long-standing dating as far back as amalgamation and are based on a By-law enacted at the time of amalgamation. When the OAG requested the By-law, it was unable to be located by Recreation Division staff.

148 The following grants are administered by the Recreation Division:

Table 5 – Rural Sub-Committee Grants

Grant Sub-Committee Recipient	Grant Amount
Freelton	\$11,480
Lynden/Troy	\$16,000
Rockton	\$55,000
Strabane	\$14,760
Valens	\$17,530
Sheffield	\$16,000
Millgrove	\$15,700

Source: City of Hamilton Recreation Division, “2023 Recreation Operating Grants” spreadsheet.

Table 6 – Grants to Organizations

Grant Recipient	Grant Amount
International Children’s Games	\$15,000
Sport Hamilton	\$16,500
CANUSA	\$41,200
Catholic Youth Organization	\$10,140
Jewish Social Services	\$15,680
Wesley Urban Ministries	\$38,270
Kiwanis Boys and Girls Club	\$233,080
YWCA (2 locations)	\$286,508

Source: City of Hamilton Recreation Division, “2023 Recreation Operating Grants” spreadsheet.

- 149 Of all the grant recipients listed above in Tables 5 and 6, only two organizations have an agreement with the City of Hamilton, one of which dates to the late 1990’s. Another four of the grant recipients submit a letter requesting funds. There is no grant application process and/or grant agreements for the rural sub-committee grants. For all grants, the amounts have remained the same since they were established.
- 150 The grants listed in Tables 5 and 6 total to \$802,848 and are considered annual operating expenses that are included in the Recreation Division’s annual operating budget that is put forward for Council approval each year. When Council approves the City’s Operating Budget, the grants are considered approved. Grants are remitted to recipients in the first quarter of the year, except for Kiwanis and YWCA, who receive quarterly payments.

Audit Findings

Lack of Strategic Planning or Processes for Recreation Grants

- 151 There is no documented strategic planning and/or business processes in the Recreation Division for grant administration. The desired/expected outcomes for the grants and how funds are to be spent are not documented. The grant recipients do not need to apply for the grants, nor is there a periodic evaluation of

the grants and their effectiveness. Staff are confident of grant recipient performance because of regular interactions and participating in board meetings, but there is a lack of documentation of these monitoring actions.

Limited Review and/or Monitoring for Extended Time Periods

- 152 There is one agreement (Kiwanis) where the Recreation Division are aware of the older agreement, per the Recreation Division, renewing the agreement is not currently a priority. However, when requested, evidence of performance monitoring and verifying the Club has used funds as intended was unable to be provided.
- 153 The Agreement with the YWCA is more recent, signed in 2020 and is still in effect. Per the Recreation Division, the current grant amount of \$286,508 has remained the same since the original agreement was signed many years ago, the exact date was unable to be provided to the OAG when requested. Similar to the Kiwanis agreement, evidence of performance monitoring and verifying the Club has used funds as intended was unable to be provided.
- 154 The Recreation Division's grants to rural sub-committees were put in place in 1998, during the City of Hamilton's amalgamation process. However, these grants have not been reviewed since then. The OAG was unable to determine if the City's goals and objectives for recreation are being met. It is our opinion that, at a minimum, the following be documented for the Recreation Division's various grants:
- What outcome(s) is the grants program intended to achieve?
 - Standard operating procedures for administration and management of the grants.
 - How success is measured?

F) City Enrichment Fund

155 The City Enrichment Fund (CEF) represents the City of Hamilton’s investment in a wide range of program areas that support the City’s Strategic Plan and 25-year Community Vision priorities. CEF invests in local charities, not-for-profit and grassroots organizations across seven sectors: Agriculture, Arts, Communities Culture and Heritage, Community Services, Digital (initially a pilot, made permanent in 2024), Environment, and Sports and Active Lifestyles. Our audit sample was from 2022, and one item for each sector was selected for review by the OAG.

Table 7 – Total Grants under City Enrichment Fund From 2019 to 2023

Total Grants under City Enrichment Fund From 2019 to 2023		
Year	CEF Grant Approved⁶	CEF Grant Paid/Released⁷
2019	\$6.11M	\$6.03M
2020	\$6.09M	\$5.36M
2021	\$6.09M	\$5.59M
2022	\$6.09M	\$5.94M
2023	\$6.61M	\$6.51M

Process

156 Each year in November the applications are invited from organizations and people in the City of Hamilton for each program area of CEF. CEF Information sessions and applicant information workshops are conducted by the CEF staff to educate Hamiltonians about CEF eligibility criteria, submission requirements, timelines, etc. Such presentations and Handbooks are also posted on the City website for public education and information. Grant applications undergo review by the Program Managers, Adjudication panel, the Grants and Strategic Partnerships Coordinator and the Advisor, City Enrichment Fund. A summary of CEF Grants is presented to and approved by the Grant sub-committee, Audit, Finance and Administration

⁶ Source: GRA files obtained from Advisor, City Enrichment Fund.

⁷ Source: CEF Master Files obtained from Business Administrator, Corporate Services.

Committee and finally by the City Council. Funds are released to the approved applicants in accordance with the CEF Guidelines.

- 157 Grant recipients are required to submit a final report to demonstrate that grant funds were spent on programming as described in their application. Such reports are due February 1st annually, except for the Community Services area where the due date is April 30th. Final reports must be submitted before subsequent grants are released. Program surplus/deficit reported in the final report is considered in assessing the CEF overall application for the next year.

Policies, Procedures and System

- 158 City Enrichment Fund General Guidelines and program area handbooks are updated/issued every year, are posted on the City of Hamilton Website and are available to the applicants/public as well as the staff. There are six handbooks attributed to program areas of CEF i.e. Agriculture, Arts, Communities Culture and Heritage, Community Services, Environment, and Sports and Active Lifestyles.
- 159 Program Area Handbooks list all requirements of applications including eligible and ineligible expenses for individual program areas. When read in conjunction with the CEF General Guidelines these program area handbooks provide guidance necessary to assess the CEF applications.

Applications and Data Collection

- 160 CEF applications are collected and assessed in the software portal, Survey Monkey Apply (SMA). The application has necessary fields built as detailed in the CEF General Guidelines and the Program Area Handbooks. The Budget Section has some typical categories (such as salary, administrative expense) and 'other' expense categories where applicant can enter various expense items.

Grant Applications Review and Funding Assessment

- 161 Each year from September to early November CEF Grant applications are collected within SMA portal from individuals and organizations in the City of Hamilton for the following year's CEF grant. The applications are reviewed/adjudicated by an adjudication panel that is comprised of external assessors and COH staff with knowledge of specific program area/sector of CEF grant. The adjudication panels assess the applications based on the assessment criteria specific to CEF program area and determine final score and findings. The CEF Advisor develops funding recommendations based on the adjudication scores and findings. These fundings recommendations are then submitted to and approved by Director, followed by the Grant Sub-Committee, the Audit, Finance and Administration Committee and finally by City Council.

CEF Funding Agreements and Fund Release

162 Subsequent to approval, CEF agreements signed by the applicants are obtained via the SMA portal. Such agreements are made on a pre-established template. Finance prepares the journal entry based on grant approval and vendor list (notepad file in PeopleSoft) and sends this off to Accounts Payable (AP). AP prepares the payment file and sends it to Finance to confirm the accuracy of payment. Corporate Finance reviews the journal entry for vendors, amount paid to each vendor, and the batch total, and then informs AP to release the payment.

Audit Findings

No System In Place to Track Total Funding From All City Sources

163 Per CEF Guidelines, the City funding/investment to CEF recipients should not exceed 30% of the total initiative/program budget per calendar year. Total funding from all programs within CEF is tracked by the City. However, there is no system in place to track total funding from all City sources.

164 The reliance is on CEF recipients to report City funding from all sources. There is risk of over-funding of recipients that may lead to waste of City funds/resources and lack of prudence over public money spent. Additionally, City's investment in community may not achieve its intended objectives.

Increased Due Diligence Needed

165 The OAG found some instances where increased levels of due diligence are needed in the CEF Administration process, including:

- Formal agreements are necessary for legally valid contracts that establish clear responsibilities, accountabilities, and obligations of both parties. The CEF Agreement template has not been updated since 2014. Based on the information available to the OAG, it was unclear if Legal Services has ever reviewed the template. The agreement template is not detailed enough to establish rights and responsibilities of parties to the contract.
- CEF Agreements are not signed by City Officials.
- Specific provisions to safeguard City's interest such as a right-to audit clause, funding recovery and hold back provisions are included in the agreement, however they do not stand out and are less prominent, potentially reducing their effectiveness in ensuring compliance.

- Evidence to support of the legal status of CEF applicants, such as Ontario Business Registration Number were not obtained. None of the six files sampled contained evidence of this.
- Requiring the most current financial statements to be provided with the application. The timeline of the financial statements to be provided with the CEF application are not specified in the CEF guidelines. The OAG found 2022 grant applications with financials ranging from 2018-2020. We expected more recent financial statements to be provided, such as from 2020 year end as the 2022 applications were submitted in late 2021, and for the 2021 financials to be provided prior to the release of the final portion of 2022 grants.
- Improved quality of financial assessments of fund applications. We found the financial assessments to be of poor quality. Funding decisions were made without due consideration to financial and operational viability of the applicants.
- Funding Assessment based solely on an applicant's budget. Analysis is not performed to ensure the reasonability of the numbers reported as program budget.

Final Reporting Process Needs Improvement

- 166 The OAG noted several irregularities in the final reports submitted by CEF fund recipients:
- Funding claw-back/recovery provisions are not clearly defined in policies and procedures. As a result, the impact of surplus/deficit reported in the final report on the CEF grant amount cannot be clearly determined.
 - In three of the six samples, the required final report for 2022 CEF funding was not submitted by the grant recipient.
 - Final report numbers do not contain evidence to support their accuracy. The surplus or deficit reported are not given due consideration when determining CEF eligibility for subsequent year.

Program Effectiveness Is Unknown

- 167 Regular and timely evaluation of program effectiveness is essential for ensuring that program is achieving the intended objectives. Feedback from program participants, both internal (i.e. City staff and management) and external (i.e. Adjudicators, grant recipients and end users/community members who

attended/benefitted from the CEF programs) is an effective tool to inform decision-making necessary to enhance program effectiveness and delivery.

168 We find there is no formal review process in place to collect feedback from internal and external program participants. Further, there are no performance evaluation criteria defined in CEF policies and procedures. There are informal discussions at the team meetings of CEF staff, but the results of such discussions are not documented.

Recommendations

169 Please refer to Appendix "B" to Report AUD25003 for a list of Recommendations and the related Management Responses that will address the key audit findings.

Conclusion

170 The OAG would like to thank the staff across the organization who we interviewed and provided information for this audit. We look forward to following up with management in the future to see the progress of their action plans and their impact on improving the governance and administration of transfer payments and grants as well as generally improving controllership at the City of Hamilton.



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