CITY OF HAMILTON

CITY MANAGER'S OFFICE
Audit Services Division

TO: Chair and Members Audit, Finance and Administration Committee	**WARD(S) AFFECTED:** CITY WIDE
COMMITTEE DATE: May 13, 2013	
SUBJECT/REPORT NO: Audit Report 2012-07 - Community Partnership Program Grants (AUD13019) (City Wide)	
SUBMITTED BY: Ann Pekaruk Director, Audit Services City Manager's Office -------------------------- **SIGNATURE:**	**PREPARED BY:** Ann Pekaruk 905-546-2424 x4469

RECOMMENDATION

(a) That the Management Action Plans as detailed in Appendix "A" of Report AUD13019 be approved; and

(b) That the Acting General Manager of Finance and Corporate Services be directed to instruct the appropriate staff to have the Management Action Plans (attached as Appendix "A" to Report AUD13019) implemented.

EXECUTIVE SUMMARY

The 2012 Internal Audit work plan approved by Council included an audit of Community Partnership Program Grants. The audit included a review of the application evaluation process for awarding grants and the measurement of success in meeting objectives and realizing benefits in the community. Recommendations were made to strengthen these processes and identify opportunities for administrative and accountability improvements.

The results of the audit are presented in a formal Audit Report (2012-07) containing observations, ten recommendations and management responses. Audit Report 2012-07 is attached as Appendix "A" to Report AUD13019.

Alternatives for Consideration – Not Applicable

FINANCIAL / STAFFING / LEGAL IMPLICATIONS (for Recommendation(s) only)

Financial: None.

Staffing: None.

Legal: None.

HISTORICAL BACKGROUND (Chronology of events)

The audit was scheduled as part of the 2012 Internal Audit work plan approved by Council. The audit fieldwork was completed in September 2012. The results of this audit are attached as Appendix "A" of Report AUD13019.

The Audit, Finance and Administration Committee receives and approves final audit and review reports as part of its responsibilities for the oversight of governance and control.

POLICY IMPLICATIONS/LEGISLATED REQUIREMENTS

- Ontario Municipal Act, 2001 – Section 107

RELEVANT CONSULTATION

Appendix "A" to Report AUD13019 includes action plans which reflect the responses of staff of various departments responsible for the Community Partnership Program Grants, coordinated by the Corporate Services Department.

OUR Vision: To be the best place in Canada to raise a child, promote innovation, engage citizens and provide diverse economic opportunities.
OUR Mission: WE provide quality public service that contribute to a healthy, safe and prosperous community, in a sustainable manner.
OUR Values: Accountability, Cost Consciousness, Equity, Excellence, Honesty, Innovation, Leadership, Respect and Teamwork

---

ANALYSIS / RATIONALE FOR RECOMMENDATION

(include Performance Measurement/Benchmarking Data, if applicable)

The Community Partnership Program (CPP) provides grant funding to community groups and organizations engaged in activities within the City which promote the general well-being of the community. The main funding categories within the CPP are social and community services, special events, arts and culture, event road closures and committed grants that were assumed upon amalgamation. Approximately $3.1 to $3.3 million of grants have been awarded in each year between 2010 and 2012 inclusive.

A formal Audit Report (2012-07) containing observations, recommendations and resulting management action plans was issued. Ten recommendations were included in Audit Report 2012-07 (attached as Appendix "A" of Report AUD13019). The recommendations made include:

- Develop and use a checklist to assess eligibility criteria;
- Improve the evaluation process, the transparency for funding recommendations and the review of financial statements;
- Update the Grant Guidelines & Procedures Manual to reflect current practices;
- Provide adequate documentation regarding Grant Sub-Committee decisions;
- Develop a plan to limit the length of time an agency or program receives grant monies and the related phase out period; and
- Develop a system to assess whether grant monies provided were used for the intended purposes.

ALTERNATIVES FOR CONSIDERATION

(include Financial, Staffing, Legal and Policy Implications and pros and cons for each alternative)

Not applicable.

OUR Vision: To be the best place in Canada to raise a child, promote innovation, engage citizens and provide diverse economic opportunities.
OUR Mission: WE provide quality public service that contribute to a healthy, safe and prosperous community, in a sustainable manner.
OUR Values: Accountability, Cost Consciousness, Equity, Excellence, Honesty, Innovation, Leadership, Respect and Teamwork

ALIGNMENT TO THE 2012 – 2015 STRATEGIC PLAN:

Strategic Priority #2
Valued & Sustainable Services

WE deliver high quality services that meet citizen needs and expectations, in a cost effective and responsible manner.

Strategic Objective
2.1   Implement processes to improve services, leverage technology and validate cost effectiveness and efficiencies across the Corporation.

Strategic Priority #3
Leadership & Governance

WE work together to ensure we are a government that is respectful towards each other and that the community has confidence and trust in.

Strategic Objective
3.4   Enhance opportunities for administrative and operational efficiencies.

APPENDICES / SCHEDULES

Appendix "A" to Report AUD13019

ap:tk

OUR Vision: To be the best place in Canada to raise a child, promote innovation, engage citizens and provide diverse economic opportunities.
OUR Mission: WE provide quality public service that contribute to a healthy, safe and prosperous community, in a sustainable manner.
OUR Values: Accountability, Cost Consciousness, Equity, Excellence, Honesty, Innovation, Leadership, Respect and Teamwork

CITY OF HAMILTON
INTERNAL AUDIT REPORT 2012-07
COMMUNITY PARTNERSHIP PROGRAM GRANTS

#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN
1.	Eligibility Criteria The *Community Partnership Program (CPP) Grant Guidelines & Procedures Manual* 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: • Holding a portion of their program / event outside the City or providing community services to residents from other municipalities; • Receiving funding from another City department; or • Submitting an incomplete application. 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.	That staff develop and use a checklist to assess if applicants meet the general eligibility criteria set out in the *Guidelines*. Applications that do not meet these criteria should not proceed in the adjudication process.	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. 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. NOTE: The recommendation will significantly impact the number of applicants proceeding to the adjudication phase. Implementation Date: 2017 CPP cycle.

COMMUNITY PARTNERSHIP PROGRAM GRANTS
OCTOBER 2012

#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN
2.	Evaluation Tools 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. 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. a) Criteria contained subjective terms which were open to interpretation. Examples include poor, satisfactory, good, sufficient and comprehensive. b) Marks were awarded for information or documentation that was not requested in the application form. c) The subject matter surpassed an evaluator's level of expertise. Examples included the assessment of financial stability and controls. d) Evaluators awarded part marks at their discretion outside the evaluation tool's marking scheme.	That the following be performed to improve the evaluation process: a) Define subjective terms or provide examples in the evaluation tool to illustrate what is needed to meet different levels of criteria requirements; b) Revise the application form to clearly reflect all required information and documentation; c) Provide evaluators with training and guidance with respect to assessing financial stability/controls or reallocate these assessments to staff with financial expertise; and d) Eliminate the use of part marks or incorporate additional criteria and mark levels in the evaluation tools.	Agreed. Corporate Services will lead in co-ordinating a strategy for review with: • P. Tombs, Manager, Cultural Planning and Marketing • S. Sevor, Manager, Sport & Community Development • C. Bian, Sr. Policy Analyst Implementation Date: 2016 CPP cycle.

COMMUNITY PARTNERSHIP PROGRAM GRANTS
OCTOBER 2012

#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN
3.	<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,		
	• 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;	That the Community Services funding stream incorporate the applicant's score into their funding strategy.	Agreed. The recommendation is the current practice and in 2011, applicant scores and priority categories were both used to determine 2011 monetary recommendations.
	• Grant funding recommendations made outside the department's funding strategy were not documented; and	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.	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)

COMMUNITY PARTNERSHIP PROGRAM GRANTS
OCTOBER 2012

#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN
	Funding Recommendations (Cont'd) • Staff did not document the rationale for awarding multi-year funding. 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.	That staff document their funding rationale, multi-year funding assessment and 30% threshold calculation on the recommendation sheet.	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.
4.	Grant Guidelines The *CPP Grant Guidelines & Procedures Manual* 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, • The Grant Sub-Committee approved funding to organizations which did not submit applications or for which staff did not evaluate the applications; • Late applications were considered with on-time applications rather than during the appeal process; • The payment schedule did not include instructions for the distribution of $10,000 - $60,000 grants; and	That staff review and update the *Guidelines* to reflect current practices and define terms for consistent interpretation. Revised *Guidelines* should be approved by the Grant Sub-Committee and Council.	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.

COMMUNITY PARTNERSHIP PROGRAM GRANTS
OCTOBER 2012

#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN
5.	Grant Guidelines (Cont'd) • Organizational capacity and community impact were weighted at 30% and 40% of available marks respectively, which did not match the percentages in the *Guidelines*. In addition, the *Guidelines* contained terms such as "deficit funding" and "market requests" which may be interpreted differently by applicants, staff and Council without an adequate definition. 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. Financial Information 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. 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. Financial information should be used to effectively assess an applicant's financial capacity.	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. That evaluation tools include an assessment of the applicant's financial statements and program information as part of the evaluation process.	Agreed. Staff will assess the potential of requiring complied, reviewed or audited financial statements relative to financial support or risk. Implementation Date: 2015 CPP cycle. Agreed. As per the Management Action Plan in response to observation 2 (c). Implementation Date: 2015 CPP cycle.

**COMMUNITY PARTNERSHIP PROGRAM GRANTS
OCTOBER 2012**

#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN
6.	<u>Financial Independence</u> Per the *CPP Grant Guidelines & Procedures Manual*, 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". To promote financial independence, the *Guidelines* 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. 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: • Using last year's grant amount as the base for the current year's funding recommendation; and • Requiring applicants to have at least a three year history of consecutive grants to be eligible for multi-year funding. Lack of financial independence creates a sense of ongoing financial obligation which limits new applicants' access to grant funding.	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.	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.

COMMUNITY PARTNERSHIP PROGRAM GRANTS
OCTOBER 2012

#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN
7.	<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: • Submit a brief report identifying how the program / activity met its goals and objectives; • Submit quarterly reports; • 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 • Be available for an on-site meeting. 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. 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.	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.	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.