Report - Executive Policy Committee - July 9, 2008

Item No. 7 Grant Administration Audit
File FA-2

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

On July 9, 2008, the Executive Policy Committee concurred in the recommendation of the Audit Committee and submits the following to Council:

1. That the Grant Administration Audit dated March 2008 be received as information.

2. That the Proper Officers of the City be authorized to do all things necessary to implement the intent of the foregoing.

Report - Executive Policy Committee - July 9, 2008

DECISION MAKING HISTORY:

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

On July 9, 2008, the Executive Policy Committee concurred in the recommendation of the Audit Committee and submitted the matter to Council.

AUDIT COMMITTEE RECOMMENDATION:

On July 3, 2008, the Audit Committee recommended that the Grant Administration Audit dated March 2008 be received as information, and submitted the matter to the Executive Policy Committee and Council.

Winnipeg

Audit Department

Grant Administration Audit

March 2008

Leaders in building public trust in civic government

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MANDATE OF THE CITY AUDITOR

The City Auditor is a statutory officer appointed by City Council under the City of Winnipeg Charter Act. The City Auditor reports to Council through the Audit Committee (Executive Policy Committee) and is independent of the City's Public Service. The City Auditor conducts examinations of the operations of the City and its affiliated bodies to assist Council in its governance role of ensuring the Public Service's accountability for the quality of stewardship over public funds and for the achievement of value for money in City operations. Once an audit report has been communicated to Council, it becomes a public document.

AUDIT BACKGROUND

The City of Winnipeg awards grant monies for a wide variety of purposes. Grants are awarded to community groups, non-profit organizations, and others through grant programs established within the various City departments. An audit of the Grant Oversight process was identified in the department's 2007-2009 Audit Plan and approved by the Audit Committee.

From a review of the grants awarded in 2006 we determined that nine City departments issued the majority of grants in the 2006 fiscal year. Our audit was limited to grants awarded in 2006 because the 2006 financial data was available when we started the audit and we wanted a period under audit to encompass a full fiscal year. The grants awarded in 2006 were $26.7million and were comprised of several different grant programs. Exhibit 1 provides a breakdown of grant awards by department for 2006. Each City department is responsible for implementing controls over the grant application and disbursement processes and for monitoring and managing the grant programs within their departments. The miscellaneous category is comprised of several smaller groups, such as EPC Secretariat that issued grants during the calendar year.

Exhibit 1: Total Grant Awards as Distributed by Functional Area for 2006 fiscal year.[1]

Functional Area	Total Grant Awards
CAO'S Office	$9,500
City Clerks	$4,456,458
Corporate Finance	$8,835,236
Public Works	$717,366
Water & Waste	$308,567
Winnipeg Police Service	$168,373
Transit	$69,722
Community Services	$6,733,100
Planning, Property & Development	$3,995,953
Museums	$741,311
Other miscellaneous	$662,111
Totals	**$26,697,697**

Note 1: Data for the review was provided by Corporate Finance and was not audited for completeness.

A separate grants review project was initiated in 2006 by the Corporate Finance Department to review the granting processes and to identify potential concerns over the political approval, financial transparency, and administrative accountability of the grant programs. The key findings from this report "Grants and Contributions: Administrative Procedures" were as follows:

- Need to establish clear definition of the different types of grant activities being performed.
- Goals and objectives of each major type of granting activity (Special Event, Recurring Grants and Contributions, Funding Agreements, Other Grants and Contributions) should be clearly defined.
- Comprehensive listing of grants by department or type should be developed and approved by Council annually.
- In addition to initial approval of recurring grants, grants should be approved either annually or on a cyclical nature to determine whether the grant continues to meet the nature of the grant program.

From this review and report dated September 1, 2006 an oversight committee was established to further look at the individual department granting processes and to begin addressing the findings and recommendations from that report. To date, the CFO has implemented an annual reporting process to gather data from all departments on the grants awarded during the previous year. Efforts are also ongoing to improve the transparency of information and to ensure the consistent categorization of grant awards.

AUDIT OBJECTIVES

The audit objectives were to review the oversight of grants including determining whether

- The provision of grants are made in accordance with By-laws and Council Policy.
- The accountability framework (administration, measurement, reporting) provides sufficient oversight.
- Grantees are in compliance with established terms and conditions.
- Grants are properly recorded in the City's financial systems.

In addition to the above objectives a sample of grantees were selected to further assess whether the information provided by grantees supported the specific terms and conditions outlined in each selected grant agreement, and that based on these criteria being met, City staff appropriately approved the release of grant funding.

FINANCIAL SIGNIFICANCE OF GRANTS

The focus of the audit was on the departments with a high volume and high dollar value of grants paid out. A number of the programs classified as "grants" by the City departments included items such as taxes rebates and housing credits. Money distributed through these programs is defined by formula specific eligibility requirements and therefore were determined to be out of scope for the purposes of this audit.

In addition to providing monetary grants, the City also provides grants in-kind to organizations, festivals, and events. Grants in-kind typically include the use of City property, services, and/or facilities. These grants were considered out of scope for this audit. Exhibit 2 provides a breakdown of in scope and out of scope grant awards by department.

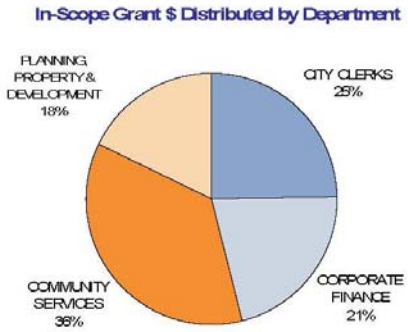
Exhibit 2: Breakdown of In-Scope and Out of Scope Grant Awards.

Department	In-Scope Awards [1]	Out of Scope Awards [1]
CAO'S Office		$10
City Clerk's	$4,240	$105
Corporate Finance	$3,664	$5,170
Public Works		$717
Water and Waste		$309
Winnipeg Police Service		$168
Transit		$70
Community Services	$6,202	$490
Planning, Property & Development	$3,050	$1,100
Museums		$741
Other miscellaneous		$662
Totals	$17,156	$9,542

Note 1 – figures are in thousands of dollars.

From the 2006 grant data, it was determined that four City departments (Corporate Finance, City Clerk's, Community Services, Planning, Property & Development) accounted for $17.1 million of the total grant dollars paid out. As a result, the audit scope was limited to these four departments. Exhibit 3 below provides a breakdown of the grants awarded by these four departments.

Exhibit 3: Total In-Scope Grant Awards as Distributed by Department



GRANT DESCRIPTIONS

Each department distributes a variety of grants which, in most cases, are unique to the individual department. The granting activities of the four in-scope departments are detailed in the following paragraphs.

Corporate Finance

Corporate Finance provides leadership in managing the financial operations of the City by developing and supporting corporate financial policy, systems, and processes. The Corporate Finance Department acts as administrator for a variety of grants. These disbursements are primarily to a select number of large organizations. In 2006, Corporate Finance administered approximately $4.2 million in grants with the Winnipeg Convention Centre and Destination Winnipeg receiving 92% of that total.

City Clerk's

The City Clerk's Department supports Council and its committees. A key responsibility of the department is to ensure an accurate recording of the proceedings of City Council, Committees and public hearings and communicating any decisions to elected officials, senior administrators and the public.

The City Clerk's Department administers approximately $4.2 million in grants per year. The $4.1 million grant to the Winnipeg Arts Council (WAC) accounts for most of the grants disbursed by City Clerk's. The other organizations receiving grants include the Festival du Voyageur and Art City.

Community Services

The Community Services Department provides public services that contribute to neighbourhood development and sustainability through the provision of recreation and leisure services such as fitness and aquatic programs. The public services contribute to healthy communities through partnerships, promotion, prevention, protection and enforcement such as insect control and the regulation of food service establishments.

Through its programs, Community Services is also responsible for administering a variety of grant programs that are geared towards the betterment of community programs which promote the accessibility of recreation facilities to the general public. The grant funding allocated in the yearly operating budget is approved by City Council. Within this budget, funds are distributed to a number of programs that then distribute the grants to the end users. In 2006 the Community Services Department awarded $6.2 million in grants. The grant programs that are administered through the Community Services budget are:

- Recreational Grants - funding to a variety of local non-profit organizations providing recreational services and other programs in the community;
- Social Grants – funding to formally organized, not for profit organizations to provide a social service, social development program, health, education, recreation or other similar service that

they could not otherwise provide without aid from the City and that the City would then be obligated to provide this service in whole or in part;
- Community Incentive Grants - designed to encourage non-profit community recreation and sport organizations to undertake capital projects; and
- Community Club Operational Grants - funding provided to the General Council of Winnipeg Community Centres (GCWCC) intended to off-set the operating costs of community centres.

Planning, Property and Development

The Planning, Property and Development Department provides a diverse bundle of services. It manages urban development for business interests, environmental concerns, heritage matters, local neighbourhoods and the downtown. It ensures an acceptable quality of building construction and maintenance of properties through enforcement of construction codes, building standards and by-law. It facilitates economic development by providing services for the approval of all land development plans, the application and enforcement of zoning by-laws and the processing of building permit applications.

The main grant funding programs that are supported by the Planning, Property and Development budget are:

- Building Communities Program - joint program with Province of Manitoba that focuses on capital projects. Funding is based on a 50/50 cost-shared basis for renovation of residential properties; and
- Re-occurring grants - funding for initiatives such CentreVenture.

AUDIT APPROACH

The Audit Department engaged the assistance of KPMG for the grant oversight audit. An overview of the audit process is attached as Appendix 1.

Through a series of interviews with key City staff, the team identified the key in-scope processes for each in-scope City department. An internal control matrix was developed against the objectives of the review. These controls were tested to determine whether they were working as intended and to identify potentially missing controls.

We used a sample of 25 grants selected on a judgmental basis to evaluate the effectiveness of the identified controls. In addition, a selection of grantees was chosen to determine the extent to which the City has evaluated whether the grantee has complied with the terms and conditions as specified in the grant agreement.

ACKNOWLEDGEMENT

The City of Winnipeg Audit Department would like to acknowledge the assistance of the following departments: Corporate Finance Department, City Clerks, Community Services, and Planning, Property and Development, along with all other individuals who were involved in the project, for their assistance in providing time, information, expertise, co-operation and resources throughout the duration of the project. In addition, we acknowledge the assistance provided by KPMG.

Member of the Audit Team
Bryan Mansky, MBA, CMA, CIA Audit Manager



Shannon Hunt, FCGA, CFE

March 2008

Date

SUMMARY OBSERVATIONS

Strengths

The following strengths were identified:

- Approval for the funding of a grant or grant program was properly documented in Council minutes or by-law. On an annual basis, each department reviews the grants proposed for the following year as part of the budget process. That information is then communicated to Council.

- The authorization for the amounts and timing of the release of grant funds was properly supported.

- Evidence of holdbacks, where applicable, had been applied and appropriate evidence of completion of work was obtained before release of final grant payment.

Areas for Improvement

The following opportunities to improve the effectiveness of the controls were identified through this audit:

- Although City staff and grant administrators appear to be very knowledgeable about the grant programs, in many instances the purpose, scope and eligibility criteria of the grant program were not defined and documented. Without having formalized documentation, there may be potential for misinterpretation or manipulation of the program away from the originally intended scope and purpose.

- A number of cases were identified where there was no grant agreement or legal contract identifying the specific terms and conditions of the grant. Without a clear definition of the terms and conditions, it is difficult to evaluate the grantee's performance and to hold grantees accountable for their use of funds.

- We noted that, although there was evidence that City staff were monitoring grantee performance and collecting information (such as financial statements) required in the agreements, there was not always evidence of review of the documentation for appropriateness or that other terms and conditions were being monitored. These included requirements for grantees such as operating hours, program content, staffing, etc.

  The Audit Department was requested by a City department to become involved in one instance which emphasizes the need to perform adequate review and follow-up to mitigate the misuse of grant funding. In this instance, staff from a City department determined that a grantee could not substantiate the expenditure of all funds forwarded by the City. City staff notified the organization that the City of Winnipeg's Audit Department was to become involved in the matter and the organization subsequently returned the funds in question in the amount of $30,500. During this review, we also identified a number of opportunities for improvement to further reduce risk of fraud.

- Although the payment process is similar in all of the departments, each department has its own processes for approving grants and varying policies on payment/holdbacks for payment amounts. To improve consistency and the ability for greater oversight, consistent control activities should be implemented at all stages of the grant process including grant budgeting, approval, recording, disbursement, and monitoring.

- There currently is no central database or tracking system to identify, in a timely fashion, if organizations are applying for multiple grants from different City departments. Although the City grant

programs each have specific intentions and requirements, there is potential for organizations to receive multiple grants for one project.

Conclusions

Overall, we found that all grants were awarded in accordance with the applicable Council minute or By-law. For a number of grants we reviewed there was either no grant agreement or unclear/undefined terms and conditions. The City must ensure that all grants have a signed grant agreement that defines specific terms and conditions and that City staff document their compliance monitoring of the grantee.

In any financial program there is a risk of misappropriation of funds. While the City has implemented a number of strong controls over the grant approval and payment processes, there are no oversight controls that identify potential multiple grant payments to the same organization from different City departments.

Monitoring of grantee performance also needs to be improved. We observed that when terms and conditions were identified, City staff did not always adequately review information to ensure the grantee was in compliance with the terms and conditions. In other cases, where City staff did perform a proper review, adequate evidence of the review was not always available. Through further inspection we did not identify any issues of non-compliance.

For the grants that we reviewed as part of our sample, all financial amounts were properly recorded in the City's financial system.

SUMMARY OF RECOMMENDATIONS AND MANAGEMENT RESPONSES

We provided the four departments that had grants reviewed for this audit with a detailed report that included the controls we tested, our observations on the functioning of these controls and recommendations to enhance controls where we believe improvement is required. An excerpt of these reports is attached as Appendix 2.

Provided below are the recommendations to enhance control in each of the identified departments and the responses to our recommendations.

Corporate Finance

Control Objective: All grants are appropriately approved by City Council

Recommendation 1
We recommend that the CFO, in consultation with Departmental Controllers, define a mandate and criteria for each grant program or major recurring grant. The criteria should include the purpose of the grant and eligibility requirements. The mandates, criteria and other requirements should be approved by Council as necessary.

Management Response
For significant recurring grant programs, the Chief Financial Officer ("CFO"), in consultation with Departmental Controllers, will define grant mandates and criteria. Where reasonable opportunity is present, this will be done in advance of grants being awarded.

Recommendation 2
We recommend that the CFO request the approval of Council to formally adopt the recommended definitions provided in the "Grants and Contributions: Administrative Procedures" report. Grant activities should be classified into the categories identified by the report and be used as the basis for

establishing formalized procedures for each grant category.

The definitions and procedures should be communicated to all staff involved in grant processes to enhance their overall understanding of the different categories and procedures.

Management Response
At a meeting of September 21, 2006, the Public Service tabled with Executive Policy Committee the report *Grants and Contributions: Administrative Procedures*. The CFO has directed Departments to classify grant activities into the categories identified in the report.

Recommendation 3
We recommend that the CFO prepare an administrative report for the consideration of the CAO, to request the approval of Council to implement a process to approve recurring support grants on an annual or multi-year basis. The approval process should include a report that provides a consolidated summary of all grants to be made to each organization so that Council is aware of the total amount of financial support each organization will receive from the City. If the approval is for more than one year of funding, then the report should disclose the amount of grants to be disbursed to each organization for each year covered by the report.

Management Response
As part of the annual Operating Budget process, the Public Service will present a reporting of grants included in the budget. Already part of the Operating Budget disclosure, the Public Service will provide a more comprehensive reporting for Council's consideration.

Control Objective: All grants have specific terms and conditions attached to them and there is an appropriate accountability framework (administration, measurement) which provides sufficient oversight of grantees to ensure they are meeting the terms and conditions of the grant.

Recommendation 4
We recommend that the CFO explore the feasibility of developing or leveraging existing financial systems to develop a centralized process to gather activity reporting from departments and to monitor overall grant activity. Reporting could include, but is not limited to, reporting the number of grants received by grantee, total dollars and number of grants distributed by department and by type of grant program, and number of grants applied and approved.

We also recommend that the CFO assign oversight responsibility for grant activities to an individual with the appropriate skills and experience, such as the Corporate Controller.

Management Response
The Corporate Controller's Division has implemented an annual reporting of grants activities. This report includes information referred to by the Internal Auditor.

City Clerk's

Control objective: All grants are appropriately approved by City Council

Recommendation 5
We recommend that the City Clerk's Department, in consultation with the CFO and Legal Services, develop a standardized grant agreement. The grant agreement should have areas for staff to include specific criteria, performance terms and conditions and payment schedules and amounts.

Management Response
In consultation with the CFO and Legal Services, the Public Service will, for significant grants, develop and use standardized grant agreements to include any specific criteria, performance terms and conditions, and payment schedules and amounts.

Control objective: All grants are monitored to ensure that terms and conditions of the grant are met prior to disbursement of funds.

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Recommendation 6
We recommend that the City Clerk's Department implement a procedure to review the requirements of the WAC grant agreement to ensure all documents are received and reviewed. Evidence of the review should be documented and retained.

Management Response
The City Clerks Department will develop a more formal, evidenced review of the Winnipeg Arts Council ("WAC") grant to ensure all documents are received and reviewed prior to the release of the WAC grant.

Community Services

Control objective: All grants are appropriately approved by City Council

Recommendation 7
We recommend that the Community Services Department, in consultation with the CFO and Legal Services, develop a standardized grant agreement. The grant agreement should have areas for staff to include specific criteria, performance terms and conditions and payment schedules and amounts.

Management Response
In consultation with the CFO and Legal Services, the Public Service will, for significant grants, develop and use standardized grant agreements to include any specific criteria, performance terms and conditions, and payment schedules and amounts.

Control objective: All grants are monitored to ensure that terms and conditions of the grant are met prior to disbursement of funds.

Recommendation 8
We recommend that the Community Services Department implement a procedure to review the Universal Funding Formula data and calculations annually prior to payment. Evidence of the review should be documented and retained.

Management Response
The Community Services Department has already implemented a more formal, evidenced review of the Universal Funding Formula calculation prior to release of any community centre grants.

Recommendation 9
We recommend that the Community Services Department develop a standardized checklist that could be used to track grantee reporting requirements for each type of grant activity to ensure all documents are received and reviewed before funds are released. This checklist could be used to track and document the grant control procedures and reviews from time of application/approval through to disbursement of funds.

Management Response
The Public Service will develop a standardized checklist, for significant grants, to track and document grant control procedures and reviews prior to grant disbursement.

Planning, Property and Development

Control objective: All grants are appropriately approved by City Council

Recommendation 10
We recommend that the Planning, Property and Development Department, in consultation with the CFO and Legal Services, develop a standardized grant agreement. The grant agreement should have areas for staff to include specific criteria, performance terms and conditions and payment schedules and amounts

Management Response
In consultation with the CFO and Legal Services, the Public Service will, for significant grants, develop and use standardized grant agreements to include any specific criteria, performance terms and conditions, and payment schedules and amounts.

Control objective: All grants are monitored to ensure that terms and conditions of the grant are met prior to disbursement of funds.

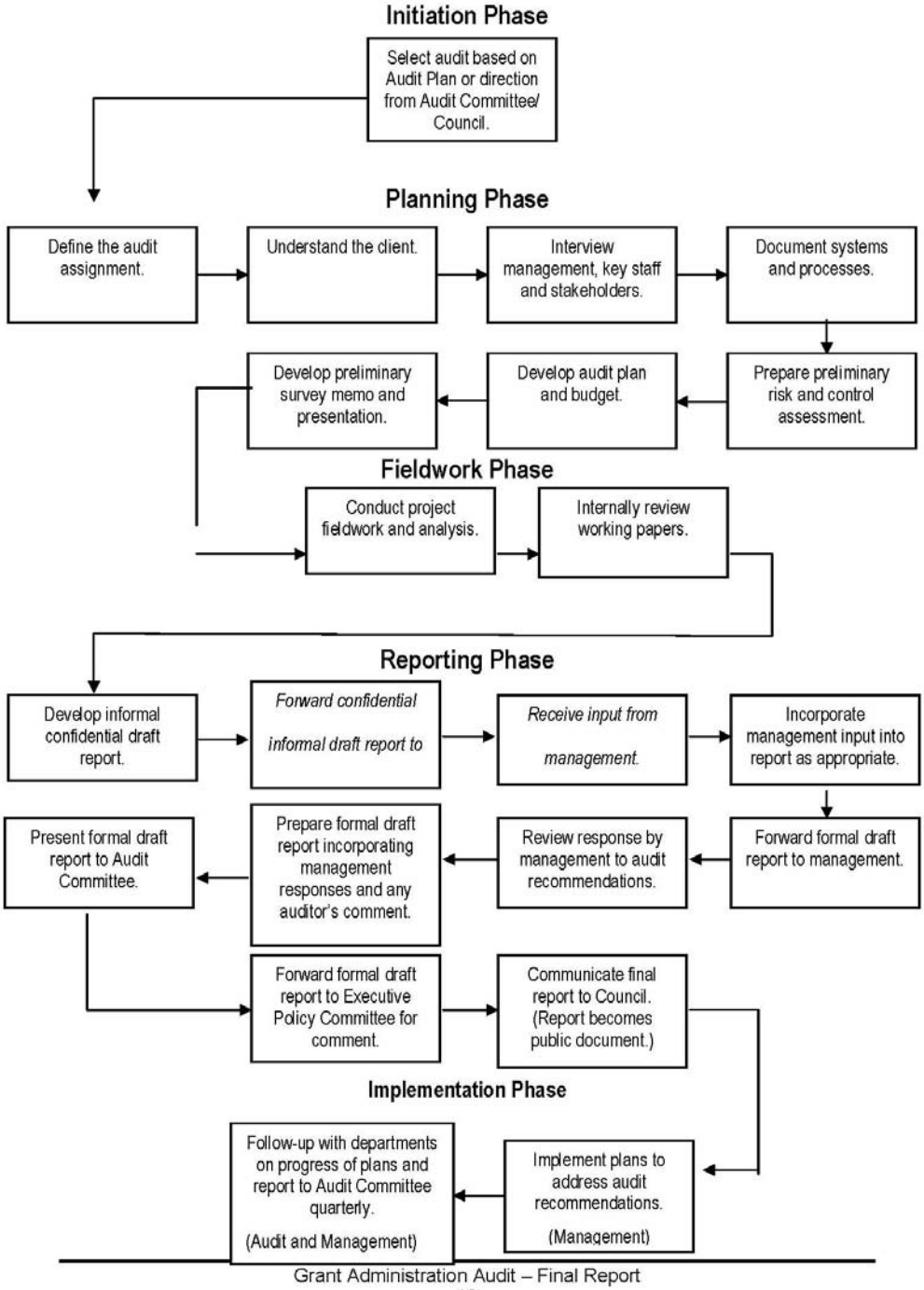
Recommendation 11
We recommend that the Planning, Property and Development Department develop a standardized checklist that could be used to track grantee reporting requirements for each type of grant activity to ensure all documents are received and reviewed before funds are released. This checklist could be used to track and document the grant control procedures and reviews from time of application/approval through to disbursement of funds.

Management Response
In consultation with the CFO and Legal Services, the Public Service will, for significant grants, develop and use standardized grant agreements to include any specific criteria, performance terms and conditions, and payment schedules and amounts.

Recommendation 12
We recommend that the Planning, Property and Development Department maintain evidence of the site visits to confirm completion of work and release of holdback payments be documented on a checklist or form. Evidence should include a brief description of what was observed on site, the date of the visit, and signoff from the person who performed the site visit

Management Response
The Planning, Property and Development Department will develop procedures to evidence review of site visits confirming completion of work under Building Communities grant program.

APPENDIX 1 – AUDIT PROCESS



APPENDIX 2 – EXCERPT FROM GRANTS ADMINISTRATION REPORT TO DEPARTMENTS

Corporate Finance

Corporate Finance includes the following grant sub processes:

- Re-Occurring (RO) - grants that are issued as re-occurring line items within their budget year after year. Includes grants to the Winnipeg Convention Centre, Destination Winnipeg, Children's Museum and Winnipeg Harvest
- One-offs (OF) - single one time occurring items
- General Administration – Observations that apply to all departments and therefore assigned to corporate finance as the key financial oversight.

#	Control Objective	Sub-Process	Control	Control Activity	Work Performed / Observation	Recommendation	Management Response
3	All grants are monitored to ensure that terms and conditions of the grant are met prior to disbursement of funds.	RO,OF	C29	Funds are distributed based on By-Law No. 8164/2002 which has been approved by City Council and states that only 30% of prior years budgeted funds may be released prior to approval of budget.	We inspected a selection of Corporate Finance grants for evidence that the payments were made in accordance with the by-law. No discrepancies were identified.	None – Control Operating as intended	None required.
4	All grant amounts agree to approved grant agreements or contracts	RO,OF	C25	Terms and conditions describing the amounts and timing of disbursements are documented in the grant agreement. The funds will only be released based on the terms of this agreement.	We noted that payment amounts agreed to approved grant agreements or contracts. Where grant agreements or contracts were not in place the amounts were agreed to budgetary approvals or Council minutes. No exceptions were noted.	None – Control Operating as intended	None required.
5	All payments to grantees are appropriately authorized.	RO,OF	C10	The funds will only be released by A/P once a Request for Payment (RFP) is forwarded with the appropriate signatures of an authorized employee.	We inspected a selection of RFP's and noted that appropriate authorizing signatures were documented authorizing payment release.	None – Control Operating as intended	None required.