

The logo for the City of Edmonton, featuring the word "Edmonton" in white text on a blue square background.

**OFFICE OF
THE CITY AUDITOR**

REPORT GRANTS AND SUBSIDIES AUDIT

APRIL 24, 2023

Report Summary

BACKGROUND

Grants and subsidies are funding the City gives to external agencies, organizations, and individuals. The City uses these funds to support Council priorities, City strategies, and goals. In 2022, the City provided \$15 million in grants and \$181 million in subsidies.

The two documents that govern the City's administration of grants and subsidies are *Municipal Funding Arrangements (an administrative policy)* and *Grants and Other Contributions (an administrative directive)*. Branch managers are accountable for following the governing documents when they administer these payments.

The Financial Services Branch, in the Financial and Corporate Services Department, is responsible for:

- Providing guidance and training to staff who administer grants and subsidies
- Monitoring compliance with the governing documents

AUDIT OBJECTIVES & SCOPE¹

The objective of this audit was to determine if Administration is managing grants and subsidies to achieve value for money invested in the community.

We reviewed grants and subsidies the City provided in 2021. This audit does not include the grants and subsidies we reviewed in the Social Development Branch Audit we completed in 2020.

WHAT WE FOUND

The City's governing documents for grants and subsidies align with best practices. As well, the grants and subsidies we reviewed have clearly defined objectives and align with the City's strategic plan, stated corporate outcomes, and other approved corporate plans.

¹ We conducted this engagement in conformance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

However, we found that most business areas do not consistently comply with the City's governing documents (the *Municipal Funding Arrangements Administrative Policy* and *Grants and Other Contributions Administrative Directive*). They are not aware of these governing documents and lack training on how to use them to properly administer grants and subsidies. The Financial Services Branch is also not monitoring and reporting on business area compliance with the governing documents.

The governing documents include the requirement for business areas to evaluate the results of overall grant programs and subsidy payments. However, the documents do not include guidance on how to do this. We found most business areas do not comply with this requirement. The Financial Services Branch is also not monitoring and reporting on the evaluations business areas are completing.

RECOMMENDATIONS

- Recommendation 1 We recommend that the Financial Services Branch train business areas on the requirements of the grants and subsidies governing documents.
- Recommendation 2 We recommend that the Financial Services Branch monitor and report on business areas' compliance with the grants and subsidies governing documents.
- Recommendation 3 We recommend the Financial Services Branch develop guidance for evaluation of and reporting on the outcomes of grant programs and subsidy payments, and monitor and report on the evaluations that business areas conduct.

WHY THIS IS IMPORTANT

Compliance with grants and subsidies governing documents, including evaluating their outcomes, allows Administration and Council to assess whether grants and subsidies achieve value for money invested in the community. The organizations who receive funding from the City through grants and subsidies will be required to comply with reporting requirements embedded in grant and subsidy agreements.

Grants and Subsidies Details

WHAT ARE GRANTS AND SUBSIDIES?

Grants and subsidies are funding the City gives to external agencies, organizations, and individuals. The City uses these funds to support Council priorities, City strategies, and goals.

Grants must meet the following criteria:

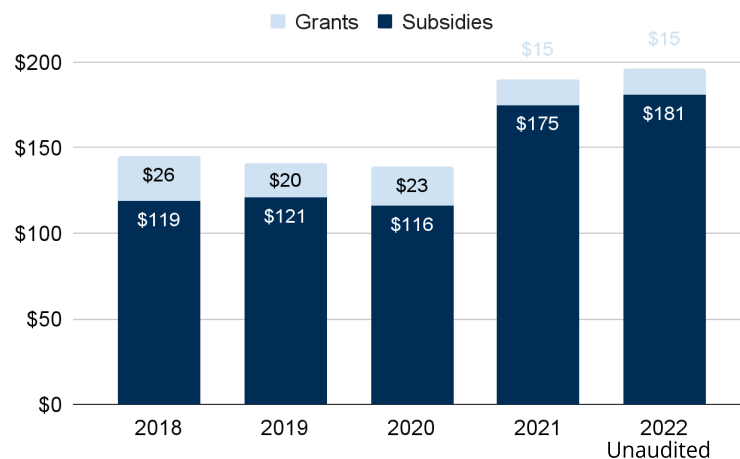
- Administration selects an applicant based on whether they meet specific eligibility criteria
- Applicants must follow a formal application process
- Administration uses a formal selection process to decide who to give the funding to

Subsidies are funding contributions that don't meet the definition of a grant, donation, sponsorship, or rebate. Subsidies are more discretionary than grants and are often approved by Council as part of the budget process. They generally include funding for agencies, boards, and commissions including Edmonton Public Library, Explore Edmonton, Edmonton Arts Council, Reach Edmonton, and the Greater Edmonton Foundation.

FINANCIAL INFORMATION

Over the past 5 years the City has provided \$811 million in grants and subsidies.

2018 to 2022 Total Grants and Subsidies (in millions of \$)



The increase in subsidies from 2020 to 2021 mostly relates to homelessness and affordable housing related subsidies that were provided to specific providers to increase the number of shelter spaces throughout the pandemic. The decrease in grants in the same period mostly relates to a reduction in the COVID-19 grant program.

GRANTS AND SUBSIDIES GOVERNING DOCUMENTS

The City has two governing documents related to grants and subsidies:

1. Administrative Policy A1476: *Municipal Funding Arrangements* sets guiding principles for developing funding programs and approving funding proposals and agreements.
2. Administrative Directive A1460: *Grants and Other Contributions* and its administrative procedures establish practices for administration of grant programs and other contributions. These procedures ensure accountability, effective oversight, and reporting of outcomes achieved.

RESPONSIBILITIES

Branch managers are accountable for following the governing documents when they administer grants and subsidies payments within their departments. The Financial Services Branch is responsible for training and providing guidance to City staff who administer grants and subsidies.

Recipients of grants and subsidy payments are responsible for complying with the terms and conditions of the funding arrangements. Where applicable, the terms include reporting on the use of funds.

Recommendations 1 & 2: Provide Training and Monitor Compliance

RECOMMENDATIONS

We recommend that the Financial Services Branch train business areas on the requirements of the grants and subsidies governing documents.

We recommend that the Financial Services Branch monitor and report on business areas' compliance with the grants and subsidies governing documents.

KEY FINDINGS

We evaluated 30 grants and subsidies² for compliance with the governing documents. We found that business areas clearly defined the objectives and outcomes of each funding arrangement and aligned the funding to City strategy.

However, we found that the Financial Services Branch has not:

- Provided formal training on how to administer grants and subsidies by following the governing documents.
- Performed checks or assessments of compliance with the governing documents.
- Reported to City management on which grant programs and subsidies do not comply with the governing documents.

As a result of this lack of oversight:

- Some grant and subsidy administrators are not aware of the City's grant and subsidy governing documents

² We reviewed a sample of 15 grants valued at \$774,000 out of total 2021 grants of \$15 million and 15 subsidies valued at \$34.6 million out of total 2021 subsidies of \$175 million.

and are not fulfilling their related roles and responsibilities.

- Administration of grants and subsidies is inconsistent.
- Business areas are not following all the requirements of the governing documents.

We also found instances where Administration did not:

- Understand their roles and responsibilities in the administration of the City's grants and subsidies.
- Justify and properly document decisions for selecting grant recipients.
- Design and use proper agreements.
- Record the funding in the proper account (i.e., grants and subsidies).
- Monitor recipient compliance with the terms and conditions of the funding agreements.

ROLES AND RESPONSIBILITIES Four key stakeholders support the delivery of grants and subsidies in the City:

- Business areas are accountable for establishing and implementing grants and subsidies as outlined in the governing documents.
- The Financial Services Branch is responsible for providing guidance and training on the administration of grants and subsidies as outlined in the governing documents.
- The Social Development Branch Grants Unit provides:
 - Oversight to Branch funding allocated to community organizations.
 - Advice and support to assist other Community Services Department business areas for grants and subsidies administration, upon request.
 - Help in identifying key deliverables from agreement terms and conditions.
- The Legal Services Branch supports business areas by drafting and reviewing grant and subsidy agreements

based on direction and decisions made by the business areas and City Council.

In several of the grants and subsidies we reviewed, the business areas were unclear as to who was responsible for the proper recording, monitoring, and evaluation of the intended outcomes. The governing documents clearly assign accountability for all of these activities to business areas.

JUSTIFY RECIPIENTS

The governing documents require justification for grant recipient selection. In four of the grants we reviewed, business areas did not justify and document why the recipient was selected.

AGREEMENTS

To hold recipients accountable, the governing documents require agreements with terms and conditions that align with City strategies and objectives. In six of the samples we reviewed, agreements were incomplete (e.g., did not include terms and conditions) or did not exist.

RECORDING FUNDING

The governing documents provide criteria to business areas for properly recording grants and subsidies in the City's financial systems. Business areas incorrectly recorded six of the grants we looked at. These payments did not meet the criteria of grants as stated in the grants and subsidies governing document because the business areas did not:

- Advertised them to the public
- Have eligibility criteria
- Use a defined process to support the objective selection of recipients

The business area should have reported them as a subsidy or a sponsorship.

MONITOR RECIPIENT COMPLIANCE

The governing documents require that business areas monitor recipients' compliance to terms and conditions in their funding agreements. For subsidies this includes requiring the recipient

to provide reporting that shows how the funds were spent. In 13 of the grants and subsidies we looked at, business areas did not review and monitor recipients' compliance to terms and conditions.

WHY THIS IS IMPORTANT

Improving consistency and compliance in grants and subsidies administration will provide the City with a better understanding of the value for money it receives in return for its grants and subsidies.

RECOMMENDATION 1 MANAGEMENT RESPONSE

Provide training on the requirements of the grants and subsidies governing documents to business area staff.



Responsible Party

Deputy City Treasurer and Financial Services Branch Manager



Accepted by Management

Management Response

Administration is working to update governing documents to better integrate the Administrative Directive on Municipal Funding Arrangements to enhance the guidance for the various types of funding arrangements. As part of this work the Financial Services Branch will develop training that will be delivered to department staff involved in managing grant programs and subsidies.

In the interim, Financial Services will work to bring awareness of the current policy and directive to departments involved with grants and subsidies.



Implementation Date

March 31, 2024

**RECOMMENDATION 2
MANAGEMENT RESPONSE**

Monitor and report on business area compliance with the grants and subsidies governing documents.



Responsible Party

Deputy City Treasurer and Financial Services Branch Manager



Accepted by Management

Management Response

Administration will develop a process to monitor and report compliance with the governing documents. This will include both compliance with developing grant programs or subsidies, and following the agreed upon reporting requirements.



Implementation Date

March 31, 2024

Recommendation 3: Evaluate Grant Programs and Subsidies

RECOMMENDATION

We recommend the Financial Services Branch develop guidance for evaluation of and reporting on the outcomes of grant programs and subsidy payments, and monitor and report on the evaluations that business areas conduct.

KEY FINDINGS

The City's governing documents for grants and subsidies have requirements for evaluating and reporting on the outcomes of grant programs and subsidies. However, the City does not have clear guidance on who should perform the evaluations, how to do them, and how and when to report on them.

The Financial Services Branch is not monitoring grant programs and subsidies to determine whether business areas have evaluated them. As a result, this information is also not reported on to City management.

This has led to most business areas not evaluating grant programs and subsidies to determine whether they achieve the intended outcomes. This finding includes 100 percent of the subsidies to boards and authorities that we reviewed.

LACK OF EVALUATION GUIDANCE

Although the governing documents include requirements for grant program and subsidy evaluation and reporting, the City does not have documented guidance for how to perform evaluations and prepare reports.

Many of the grants and subsidies we reviewed had good financial output information (e.g., counts of actions, items, and summary of funds spent). However, for most of the grants we reviewed business areas were not evaluating and reporting on whether they achieved the intended outcomes (outcome reporting). As well, for most of the subsidies we reviewed, the

reporting provided by the recipients did not show if they achieved the intended outcome of the funding. During our discussions with the business areas, they were not clear on the differences between output reporting and outcome reporting.

Evaluation of subsidies to boards and authorities

We reviewed seven subsidies the City gave to boards and authorities. Each of these subsidies aligns with a City strategy and City Council renews the funding to these entities through the budget process. However, the business areas do not assess if these organizations are providing outcome based reporting to the City. This reporting is used by Council to decide on future funding amounts for these organizations.

WHY THIS IS IMPORTANT

Without evaluation and outcome reporting, business areas cannot determine if the City has achieved the desired results or outcomes from the grant programs and subsidies. They also cannot determine if the City should continue to provide funding to the recipients.

RECOMMENDATION 3 MANAGEMENT RESPONSE

Develop guidance for evaluation of and reporting on the outcomes of grant programs and subsidy payments, and monitor and report on the evaluations that business areas conduct.



Responsible Party

Deputy City Treasurer and Financial Services
Branch Manager



Accepted by Management

Management Response

Financial Services will include guidance in the governing documents related to outcome reporting and alignment with City of Edmonton goals and strategies. This could include standard reporting templates that would be required to be completed by external groups receiving funding.

**Implementation Date**

March 31, 2024

ACKNOWLEDGEMENT

We would like to thank the staff in the Financial Services Department and the department staff who administered the grants and subsidies we reviewed for their cooperation during the audit.