CITY OF VANCOUVER
INTERNAL AUDIT REPORT
Grants Program Audit

EXECUTIVE SUMMARY   January 17, 2022

The objective of the grants program audit was to assess the overall effectiveness of existing internal controls supporting grants management and administration processes in accordance with City policies and best practices.

In general, the City has effective internal controls in place to ensure grants are managed through an accountable and objective process. Improvements in performance monitoring, review and evaluation processes will enhance accountability and strengthen the overall grants program. The findings and recommendations are:

F.1 Enhance performance monitoring and follow up of grant outcomes

The current reporting process should be improved by ensuring follow up is conducted on a timely basis with grant recipients on achieved outcomes, including organizations that do not re-apply in the next grant cycle. Obtaining supporting documentation of grant outcomes where possible would strengthen the monitoring process and complete the grants management process.

F.2 Improve conflict of interest (COI) declarations

Conflict of interest declarations by staff involved in reviewing and assessing grant applications should be formally completed annually and retained on file to further improve the evaluation process.

F.3 Improve payment file review process to ensure accuracy of grant payments

The process for preparing and reviewing grant payment files should be strengthened to reduce and minimize errors in payment data.

F.4 Review signing authority requirement for grant agreements

Grant agreement signing authority requirements should be aligned across grant streams to ensure that agreements are signed by an authorized representative of the grant recipient organization.

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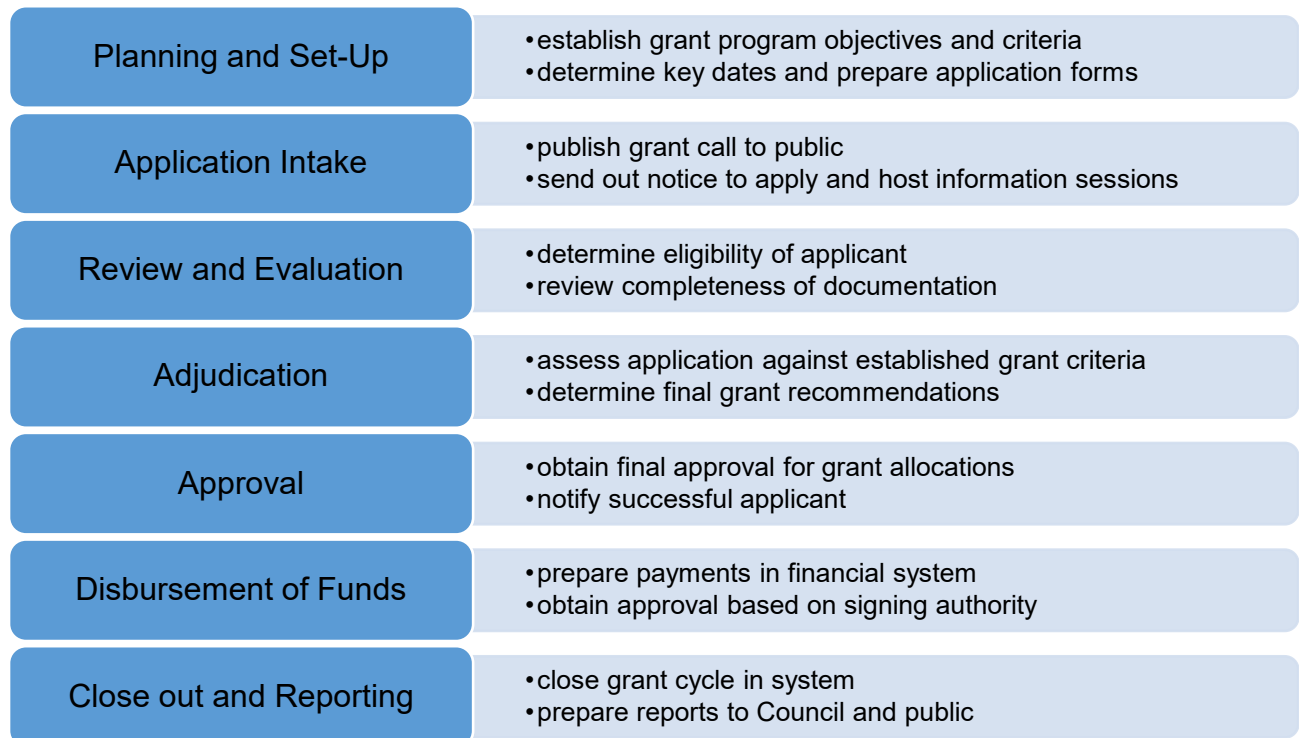**Office of the City Manager**
Internal Audit Division

A. BACKGROUND

The City provides $23 million annually in grant funding to support non-profit organizations that provide social, cultural, childcare, housing services and support in the community[1]:

Budget ($000)	2018	2019	2020	2021
Grants category				
Cultural	12,074	12,316	13,037	13,298
Social Policy	6,571	6,784	7,243	7,388
Childcare	1,538	1,962	2,152	2,196
Other grants	299	305	311	318
Total grants	**20,482**	**21,368**	**22,744**	**23,199**

Grants Program Administration

The majority of City grants are administered by the Arts, Culture and Community Services (ACCS) department. Management and staff are responsible for establishing eligibility criteria, preparing notice for application, and evaluating applications in accordance to the City's strategic priorities. Recommendations for grant allocations are approved by senior level ACCS management and submitted to Council for final review and approval. The main stages of a grant life cycle are:

Planning and Set-Up	• establish grant program objectives and criteria • determine key dates and prepare application forms
Application Intake	• publish grant call to public • send out notice to apply and host information sessions
Review and Evaluation	• determine eligibility of applicant • review completeness of documentation
Adjudication	• assess application against established grant criteria • determine final grant recommendations
Approval	• obtain final approval for grant allocations • notify successful applicant
Disbursement of Funds	• prepare payments in financial system • obtain approval based on signing authority
Close out and Reporting	• close grant cycle in system • prepare reports to Council and public

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[1] City of Vancouver 2021 Budget Service Plan

Grants Management System implementation

An online grants management system (GMS) is being implemented to streamline administrative processes both for staff and applicant organizations. The new system will enable centralized management of over 40 grant streams and enhance the online submission, review and tracking process.

B. SCOPE

The audit objective was to provide reasonable independent assurance that the existing internal controls and business processes relating to grants program administration are effective and grants are managed through accountable and objective processes. Our work included:

- Interviews with management and staff;
- Review of City Council grant reports;
- Process walkthroughs of grant cycle administration activities;
- Evaluation of key controls relating to grant evaluation, adjudication, approval and monitoring; and
- Review of a sample of 2020/2021 grants, including grant agreement terms & conditions and supporting documentation.

The audit is not designed to detect fraud. Accordingly there should be no such reliance.

C. CONCLUSION

In general, the City has effective internal controls in place to ensure grants are managed through an accountable and objective process. Improvements in performance monitoring, review and evaluation processes will enhance accountability and strengthen the overall grants program.

Findings and recommendations have been discussed with appropriate management and responses incorporated in this report.

D. RISK ANALYSIS

The potential significant risks considered if controls were not in place are:

- Grants may not be approved in a transparent, equitable and accountable manner;
- Eligibility criteria may not be clearly established;
- Grant funding may not be monitored, leading to expected outcomes not being achieved;
- Grant notice to apply process may not be adequately communicated; and
- Grant payments may be inaccurate or unauthorized.

E. POSITIVE OBSERVATIONS

Grant documentation well organized

Supporting documentation for social, cultural, childcare and housing related grants programs including grant agreements and applications were well organized and stored in an accessible manner in the City's central document storage repository.

<u>Application information clear and accessible</u>

Key information relating to the application process such as due dates and eligibility criteria are clearly outlined and posted publicly on the City website. Application forms have been streamlined to include existing contact information for the applicant. Information sessions are also held by staff to advise and assist potential applicants with inquiries relating to the grant application process.

<u>Community input and engagement included in grant process</u>

Community input on grants programs is obtained where possible to continually meet the needs of community groups and to assist vulnerable populations. External experienced members are represented on some adjudication committees to provide valuable input during the evaluation process.

F. AUDIT ISSUES, RECOMMENDATIONS AND MANAGEMENT RESPONSES

F.1 Enhance performance monitoring and follow up of grant outcomes

<u>Ensure all grant recipients report on outcomes</u>

In general, the City requires grant recipient organizations to report annually on outcomes achieved from grant funding whether the grant is a social, cultural, childcare, or housing related grant. The process for collecting information on outcomes differs across grant streams. Some grants require a report back within the current grant cycle, while other grants incorporate reporting as part of the re-application process in the next grant cycle.

Under the current process, organizations that do not re-apply may not be required to report on achieved outcomes when reporting is part of the following year's application process. To increase accountability and to complete the grants management process, follow-up on achieved outcomes should be conducted for all grant recipients regardless of re-application status. Grants of lower dollar value amounts may be exempted to minimize administration time for staff and grant recipients.

<u>Documentation to support verification of reported outcomes not required for all grants</u>

Supporting documentation is not currently requested in all grant streams to support verification of activities. While some grant recipients do provide supporting documentation such as annual reports or photos, this is not currently a requirement for all grant programs.

<u>Improving accountability in the reporting process</u>

Monitoring of outcomes supported through grant funding is critical to ensuring that intended program objectives are met and value for money is achieved. While monitoring processes are in place, strengthening the reporting requirements and related supporting documentation will enhance accountability of achieved grant outcomes. As part of the ongoing process changes for the grants management system, there may be an opportunity to explore system capability for automating the follow up process such as through email notifications.

Recommendation:

F.1.1 The General Manager, Arts, Culture and Community Services should improve the grant monitoring and reporting process to ensure that grant recipients report back on

outcomes and appropriate follow up is conducted, including for grant recipients that do not re-apply for subsequent grants. This is recommended to be in place by June 30, 2022.

Management Response:

☑ Agree with the findings   ☑ Agree with the recommendations

☐ Disagree with the findings   ☐ Disagree with the recommendations

Management Action Plan:

- One of the advantages with the new GMS is to enable more efficient reporting on outcomes and outputs of City grants.
- GM will ask new Managing Director of Departmental Services and Partner Agreements to work with granting departments to implement a consistent ACCS Departmental policy that (a) requires a final grant report and sets out minimum levels for reporting proportional to grant amount and (b) provides that if non-profits who received a grant and did not submit their report in a timely manner are not eligible for future grants. i.e., Organizations must have met or be on track to meet existing agreement commitments before we provide any additional funding.
- Implementation by June 30, 2022 may not be feasible subject to recruitment of new Managing Director.

F.1.2 The General Manager, Arts, Culture and Community Services should implement a process for grant recipients to submit supporting documentation where feasible as part of the process for reporting back on achieved outcomes. This is recommended to be in place by June 30, 2022.

Management Response:

☑ Agree with the findings   ☑ Agree with the recommendations

☐ Disagree with the findings   ☐ Disagree with the recommendations

Management Action Plan:

- See F.1.1

F.2 Improve documentation of conflict of interest (COI) declarations

A conflict of interest exists when an individual has a personal, financial or other interest which could interfere with their objectivity when carrying out their duties.

<u>COI declaration process in place for external committee members</u>

Conflict of interest declarations are required for grant adjudication external committee members who are experienced community members of the public. Members are required to complete a signed form disclosing any direct or indirect conflicts of interest with any organizations that have applied for grant funding.

<u>Improve documentation of COI declaration process for staff</u>

COI declaration for staff involved in evaluating grant applications may include verbal declarations made during the adjudication process or disclosure upon start of employment. Management indicated that staff with a declared conflict are removed from any grant approval decisions involving the non-profit organization. The existing COI declaration process for staff should be improved by ensuring all declarations are completed annually, properly documented and retained on file.

Recommendation:

F.2.1 The General Manager, Arts, Culture and Community Services should ensure that all staff involved in reviewing or assessing grant applications are required to disclose of any conflict of interest annually and that such declarations are documented and retained on file. This is recommended to be in place by June 30, 2022.

Management Response:

☑ Agree with the findings   ☑ Agree with the recommendations

☐ Disagree with the findings   ☐ Disagree with the recommendations

Management Action Plan:

- GM has confidence that staff recuse themselves as appropriate but there is clearly no formal process consistent across all ACCS granting departments that creates adequate documentation.
- GM will ask all Managing Directors to ensure such a practice is implemented by June 30, 2022.
- GM will ask new Managing Director for DSPA to work with granting departments to create a COI form for staff and adopt a positive reporting process (only if there is a conflict do they need to report it) that is consistent across all ACCS Departments. Will also ask for creation of consistent process for external adjudicators to be implemented as well.
- Implementation of Department-wide policy and protocol by June 30, 2022 may not be feasible subject to recruitment of new Managing Director, however each Department will have implemented interim measures by then.

F.3 Improve payment file review process to ensure accuracy of grant payments

<u>Grant disbursements process overview</u>

Upon approval of grants by Council, payment requisitions are prepared for upload into the City's financial system for payment. An Excel batch upload file is prepared by ACCS administrative staff based on a Director approved master listing and submitted to Accounts Payable for processing.

Payment files were reviewed for accuracy, completeness and authorized approval. Although the payment information was generally accurate overall, there were instances of errors such as incorrect vendor number or dollar amount which were identified during the Accounts Payable review phase and subsequently corrected by ACCS administration before final payments were released.

<u>Factors contributing to increased risk of inaccurate payments</u>

There are a significant number of payment installments to be prepared during a given grant cycle across multiple grant streams. This combined with the manual nature of the batch payment data entry and file preparation increases the risk of potential errors in payment data.

<u>Strengthen the current payment file preparation and review process</u>

Internal controls relating to the preparation of payment uploads should be improved through a strengthened review process and by providing additional training to staff as needed to ensure accuracy of grant payment requests. Potential enhancements may include increased use of Excel formula functionality to perform checks. It would be beneficial to engage staff in the review to determine which method would be most effective and feasible to ensure accuracy of submitted payment data.

Recommendation:

F.3.1 The General Manager, Arts, Culture and Community Services should strengthen the current grant payment file preparation and review process to ensure accuracy of payment data and reduce potential for errors. This is recommended to be in place by September 30, 2022.

Management Response:

☑ Agree with the findings   ☑ Agree with the recommendations

☐ Disagree with the findings   ☐ Disagree with the recommendations

Management Action Plan:

- General Manager: I am not sure to what extent error instances are happening – insufficient information in the report to determine whether this is a very occasional error or a larger concern, but it sounds as though they are caught through the process. The GMS system should enable a reduction in errors due to manual processing.
- GM will ask new MD of Departmental Services and Partner Agreements to work with Departments to develop standardized procedures across all ACCS Granting Departments. Please note this will not be feasible before September 30, 2022 as the new Managing Director starts on March 14, 2022 and needs some time to onboard and orient to the position.
- As an interim measure given the GMS is in incremental implementation, General Manager will ask Managing Directors to review with their teams to ensure accurate payment data. This request will happen by March 31, 2022 and wherever feasible, the discussions with staff and revisions to existing process will be determined by this date as well.

F.3.2 The General Manager, Arts, Culture and Community Services should oversee that refresher training is provided as needed to ensure accuracy of payment data and reduce potential for errors. This is recommended to be in place by September 30, 2022.

Management Response:

☑ Agree with the findings   ☑ Agree with the recommendations

☐ Disagree with the findings   ☐ Disagree with the recommendations

Management Action Plan:

- General Manager will ask Managing Directors to review training needs with their staff by March 31, 2022 and to implement training as soon as feasible after needs identified.

F.4 Review signing authority requirement for grant agreements

Non-profit organizations that have been approved for grant funding are required to sign a grant agreement with the City of Vancouver. The agreement outlines terms and conditions for funding and is required to be signed by an authorized representative of the grant recipient organization.

Grant agreement signing authority requirements vary among grant programs

The authorized signatory requirement varies among different grant programs. The following signing authority requirements were noted in grant agreements reviewed:

- Social (Direct) – at least one person who has the legal authority to sign documents on behalf of the organization must sign the signature page.
- Cultural (Annual Assistance) – the agreement must be signed by an authorized signatory of the society (Board President or Executive Director/General Manager/CEO).
- Affordable Housing (Renter Services) – the signing recipient is required to have the full right, power, and authority to enter into the agreement and to establish, run, and complete the work.

Signing authority from recipient organizations not clearly met in some instances

While the majority of grant agreements were signed by a Board member or Executive Director of the recipient organization, one Direct Social grant was signed by a staff level position (Grant Co-ordinator). In addition, one Cultural assistance grant was signed by a Grants Manager of the non-profit organization despite the agreement requiring an executive level signature.

There is an opportunity to review and further align the grant agreement signing authority requirements among grant programs. While the signing requirement may not necessarily need to be the same, all grant agreements should be signed by a representative authorized to ensure that program objectives and related work is completed. There is a potential risk that agreements not signed by an authorized representative may be void and grant funding objectives not met.

Recommendation:

F.4.1 The General Manager, Arts, Culture and Community Services should consult with Legal Services to clarify the signing authority language requirement to ensure grant agreements are signed by an authorized representative of the grant recipient organization to carry out the agreed grant funding program objectives. This is recommended to be in place by June 30, 2022.

Management Response:

☑ Agree with the findings   ☑ Agree with the recommendations

☐ Disagree with the findings   ☐ Disagree with the recommendations

Management Action Plan:

- Signatories to City financial agreements – whether in writing or electronically as per the new GMS – should be of a position that they are authorized to ensure that program objectives and related work is completed. The new signatory process for recipients was reviewed by Legal Services and requires confirmation of the authority of the recipient signatory.
- For any grant agreements still processed outside of the GMS during implementation, GM will ask Managing Directors to ensure signing authority language requires confirmation of authorized representative. This request will be sent by March 31, 2022.

F.4.2 The General Manager, Arts, Culture and Community Services should issue a reminder to staff on the requirement for all grant agreements to be signed by an authorized signatory of the grant recipient organization. This is recommended to be in place by June 30, 2022.

Management Response:

☑ Agree with the findings   ☑ Agree with the recommendations

☐ Disagree with the findings   ☐ Disagree with the recommendations

Management Action Plan:

- General Manager has reviewed this with Managing Directors and will send confirmation email to all Managing Directors who oversee Granting of this requirement by March 31, 2022.

G. OTHER OBSERVATIONS

G.1 Payment controls incorporated in Grants Management System integration

With the ongoing process changes relating to the new grants management system, there has been some preliminary work to determine whether the new GMS can be interfaced or integrated with the City's financial system (SAP) in order to automate some of the payment upload processes. If this is deemed to be feasible, there are some key internal controls that should be considered:

- Payment releaser – grant payments approved by a Director will need a payment releaser assigned in accordance with the City's signing authority limits;
- Director grant approval documentation– this should continue to be retained and filed in an accessible manner whether within or external to the GMS as supporting documentation for disbursements; and
- Grant conditions – a workflow step or similar control should be required to check that grant conditions are met before payment release.

Further, the involvement of Accounting Operations in internal control design and planning will provide additional risk mitigation for the transition to an integrated GMS and SAP grant payment process.

Management Action Plan:

- General Manager will advise the GMS project team of these requirements should integration with SAP be feasible. This notification will be sent by March 31, 2022.

G.2 Documentation of secondary level review of DSS and OCB grant applications

For the Direct Social Services (DSS) and Organization Capacity Building (OCB) grant streams, each eligible application is reviewed and scored by a Planner based on evaluation criteria, which is documented in a grant scoring tracker. A secondary high level review is conducted through weekly meetings during the adjudication period where staff with subject matter expertise can share information and discuss matters regarding grant recommendations. As this is a valuable part of the overall adjudication process, documentation such as meeting minutes or summary of impacts to recommendations resulting from these discussions is suggested to be retained for future grant cycles.

Management Action Plan:

- General Manager will confirm with Managing Director of the requirement to keep the noted documentation with the other documents arising from the related granting cycle. This notification will be sent by March 31, 2022.