Advisory Services

Federation of Canadian Municipalities

Performance Audit of the Green Municipal Fund

Final Audit Report

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Executive Summary

Under the terms of its Funding Agreement with Environment Canada and Natural Resources Canada, the Federation of Canadian Municipalities (FCM) is required to have a performance audit of the Green Municipal Fund (GMF) completed by September, 2009. This report presents a summary of the approach followed in planning and conducting the performance audit as well as our detailed observations and recommendations for improvement.

Audit Objectives and Scope

The audit plan was developed using a risk-based approach through which key risks facing the achievement of the GMF's objectives and expected results were identified and analyzed. Risks were identified based on interviews with representatives of management and the GMF Council and through documentation review. These risks were then linked to the core processes and practices in place within the GMF that are designed to mitigate the risks identified. This information was used to determine the specific objectives, criteria, and scope of the audit.

The overall objectives of the audit are to provide an independent assessment of the GMF's operations to help ensure the economy, efficiency, and effectiveness of funds used. The specific audit objectives as developed based on the risk assessment process are to assess the extent to which:

- the GMF's organizational structure and funding model enables the delivery of programs and services to achieve the GMF's objectives in an economical, efficient and effective manner;
- processes for reviewing and approving applications for funding, for disbursing funding, and for monitoring approved projects are conducted efficiently and provide reasonable assurance that projects are consistent with the GMF's objectives, are approved in a transparent manner, and that funding is used for intended purposes; and
- mechanisms exist to help ensure sustained funding and support for the GMF's continued operations.

The scope of the audit covered the GMF's management controls, processes, practices and other means in place related to the audit objectives above. The audit was conducted concurrently with a performance review. As such, information obtained and analyzed in conjunction with the review was considered and included in our audit findings where appropriate and relevant. Our fieldwork was completed on August 21, 2009. Our work was limited to, and our recommendations are based on, the audit procedures conducted, and the observations and recommendations should be considered in the context of the procedures performed. We relied on information and representations of management and other stakeholders for the completeness of background information and other assertions provided.

Overview of Findings

Overall, we found that the GMF has implemented and follows practices and processes to achieve each of the audit objectives stated above. A summary of our consolidated findings, categorized by economy, efficiency, and effectiveness, is provided below:

- **Economy** – We found that the GMF is structured and managed with due regard for economy. In particular, the organization leverages resources from the FCM in support areas such as Finance and Human Resources to manage costs and reduce the need for duplicate roles within the organization. The GMF is also managed and delivered through four dedicated organizational units that provide for specialized expertise and skills sets of relevance to the delivery of GMF funding, such as loan monitoring and risk management. In addition, the GMF was one of six case studies used to obtain insights into the appropriateness, effectiveness, and costs of foundations in the 2007 Treasury Board

Secretariat's Evaluation of Foundations, completed by KPMG. An analysis of the GMF's administrative and operating costs was conducted through this case study, including a comparison to the cost structures of similar government programs. The report concluded that the GMF's operating and administrative costs were reasonable and as a percentage of total funding, were decreasing each year.

- **Efficiency** – We found that, in general, the GMF's processes and management practices have been designed and implemented to promote efficiency in the use of resources. The GMF leverages its relationship with the FCM to access Canadian municipalities, federal representatives, private and public sectors, and provincial and territorial associations to identify collaboration and partnership opportunities to further the awareness, interest and promotion of environmental projects and practices at the municipal level. The GMF also adopts a risk-based approach to monitoring funded projects, which helps to ensure that staff's time and effort is directed to areas of higher risk and priority to the GMF. Inefficiencies were identified in the timeliness with which some contracts have been finalized in the past. Management has taken a number of steps to improve the timeliness of the contract finalization process and has also engaged an external party to review its internal processes with a view to identifying areas to improve process efficiency. We encourage management to continue its efforts to further improve the efficiency of internal processes on a go forward basis.
- **Effectiveness** – We found that, in general, the processes and practices examined through the audit were effective in supporting the achievement of the GMF's objectives and expected results. Specifically, the practices and processes examined through the audit were found to be effective in helping to ensure that approved projects are consistent with the GMF's objectives, are approved in a transparent manner, and are monitored to help ensure that project funding is used for intended purposes. The GMF's investment in creating a dedicated Credit and Risk Management Unit and a dedicated Knowledge Management Unit as well as efforts to restructure internal roles and responsibilities have also contributed to the effectiveness of the GMF in identifying and responding to stakeholder needs and monitoring and managing the overall success of funded projects. In addition, the GMF's active engagement of key stakeholders to identify needs and align GMF funding priorities and programming with these needs are a key means of helping to ensure the ongoing relevance of the GMF. Some areas for improvement were noted with respect to the effectiveness of internal processes and policies, including: modifying GMF policies to allow for interim disbursements on all capital projects to reduce the need for recipients to secure higher interest bearing bridge loans to finance projects prior to project completion; and, continuing the GMF's ongoing piloting and implementation of a new performance measurement system that will enable the GMF to measure and report on the impacts and outcomes of GMF funding based on environmental, economic, and social indicators.

Although some minor areas for improvement were identified through the audit, in most cases, these areas relate to issues or challenges that have been previously identified by management and for which management has initiated actions to improve its processes and procedures. A summary of our findings, categorized by the specific audit objectives to which they relate, is provided below.

A) Organizational Structure

- We found that the GMF's organizational structure is consistent with the requirements of the Funding Agreement and leverages both dedicated GMF resources as well as shared resources from the FCM to help optimize economy, efficiency, and effectiveness. Key features of the structure include: the implementation of a two tiered governance structure to oversee the GMF's operations and performance results, consisting of the GMF Council and the FCM National Board of Directors; the administration of the operations of the GMF through four dedicated organizational units that provide specialized expertise and skills sets of relevance to the delivery of GMF funding; and the participation and involvement of the FCM Finance unit in many aspects of the administration of the GMF's operations.

- We found that the GMF actively engages and responds to key stakeholder needs through GMF funding priorities and programming. A key mechanism supporting these activities is the operations of

the Knowledge Management Unit. This unit identifies the knowledge and lessons learned from GMF-funded initiatives through studies, surveys, needs assessments and other research. This information is in turn used by the GMF to leverage changes in municipal practices as well as to inform future funding directions and priority areas. Other key initiatives led by the Knowledge Management Unit that help to inform GMF programming are the annual webinar series, Sustainable Community Missions, and Capacity Building workshops and consultations through which stakeholders have been directly engaged to understand the needs of municipal governments and their existing capacity for sustainable development projects.

- We found that the Knowledge Management Unit oversees the consistent identification and monitoring of partnership and stakeholder collaboration opportunities in conjunction with the annual business planning process.

- We found that, over the past few years, the GMF has worked to strengthen the formality and awareness of its human resource policies and practices in areas including employee performance evaluation, training and development, recruitment, and planning. However, formal retention and succession planning to help provide for the continuity of critical positions has not been implemented to date. As such, it is recommended that the GMF increase its focus in these areas in conjunction with its corporate and human resource planning exercises.

B) Project Approval and Monitoring

- We found that practices and processes are in place to help ensure that approved projects are consistent with the GMF's objectives, are approved in a transparent manner, and are monitored to help ensure that project funding is used for intended purposes. Key mechanisms relied upon by management to provide reasonable assurance that projects have been approved in a transparent manner and are free from conflicts of interest include: the use of predefined and communicated evaluation criteria to assess applications for funding; the use of an expert independent Peer Review Committee to evaluate applications on a consensus basis; and requirements for Board members, GMF Council members, and Peer Review Committee members to sign conflict of interest declarations. Transparency is further enhanced through the provision of project funding decision letters that describe the rationale for the approval and rejection of applications to applicants.
- We found that the GMF has well documented policies and procedures in place that are accessible to applicants and stakeholders. This documentation includes: clearly defined eligibility requirements; application procedures and evaluation criteria; contract finalization requirements; and project reporting requirements. We did note that, in some cases, the finalization of contracts has exceeded the GMF's targeted timelines, often due to delays experienced by applicants in fulfilling all requirements prior to contract execution. Management has taken a number of steps to improve the timeliness of the contract finalization process, including: designing and implementing a project backlog report to monitor the status of outstanding contracts; re-allocating the roles and responsibilities between Application and Contract Officers; and improving the funding agreement templates to provide greater clarity with respect to accountability requirement clauses. We encourage management to continue its efforts to monitor and reduce the time frame required to finalize contracts.
- The GMF helps to ensure that funding is used for intended purposes by clearly outlining the eligibility of project costs on their website and through the review and analysis of documentation in support of disbursements.
- We found that the GMF follows a risk-based approach to monitoring and follow-up on the progress of funded projects. Key mechanisms employed by the GMF include: monitoring project backlogs through disbursement reports; establishing more frequent financial reporting for projects of higher risk; formally assessing project risk against pre-defined risk ratings at the outset of the project; monitoring changes in project risks by the Credit and Risk Management Unit; and developing and monitoring the GMF loan portfolio risk profile.
- We noted some delays in the timeliness with which recipients received GMF funding, primarily due to the fact that in the past, GMF has primarily disbursed funds upon project completion as well as due to

delays experienced by applicants in providing the required documentation in support of disbursements. It is recommended that management continue its efforts to monitor and reduce the time frame required to review and issue disbursements. Management has engaged an external consulting firm to review its disbursement process to identify areas to improve its efficiency, and has also introduced procedures through which capital project funding can be disbursed upon the receipt of an auditors report in lieu of the submission of invoices and receipts for the project. In addition, results of our interviews with recipients of capital project funding noted instances in which the bridge financing required to progress the implementation of their project was secured at higher lending rates than those offered by the GMF. In its 2008 guidelines for transportation and brownfields projects, the GMF has indicated that it will consider providing interim disbursements where appropriately supported. Consideration should be given to expanding the GMF disbursement policy to enable the provision of interim payments for all capital projects, based on project risk levels.

C) Sustained Funding and Support

- We found that the GMF has communication plans and strategies to help secure sustained public and federal support for the GMF that are based on the measurement, analysis and reporting of performance information. Key performance measurement mechanisms employed by the GMF include: the implementation of a formal communications strategy to inform communications activities; the establishment of a dedicated Knowledge Management Unit responsible for conducting studies, evaluations, and reviews of the impacts of GMF funding; and the review and analysis of Project Completion Reports and Environmental Results Reports to identify outcomes and impacts of funding at a project level.
- We noted that the GMF is currently updating its environmental results reporting system by pilot testing a new performance measurement system based on a number of environmental, economic, and social indicators and measures. This new system is expected to help the GMF measure and report on the impacts and outcomes of GMF funding at a global level.

Our detailed observations and recommendations are categorized under each of the three audit objectives in the "Observations and Recommendations" section of this report. The FCM's responses follow each recommendation in the "Observations and Recommendations" section of the report.

Overall Management Response: *FCM is pleased with the overall result of the report and is in general agreement with its observations and recommendations. FCM will continue to make improvements, particularly in response to KPMG's recommendations and observations, which will be reflected and comprised in future Annual Statements of Plans and Objectives and workplans.*

Background

The Federation of Canadian Municipalities (FCM) has been the national voice of municipal governments since 1901. The FCM fosters sustainable communities enjoying a high quality of life by promoting strong, effective, and accountable municipal government. The FCM allows municipal governments to maintain a strong advocacy role in lobbying the federal government to include municipal concerns in policy development and national decision-making.

Since 2000, the Government of Canada has endowed the FCM with a total of $550 million to establish the Green Municipal Fund (GMF) through a federal funding agreement with Natural Resources Canada and Environment Canada. The initial funding agreement and related amendments provided for the establishment of two separate funds: the Green Municipal Investment Fund and the Green Municipal Enabling Fund. A new funding agreement was signed in 2005 through which these two funds were combined to form the Green Municipal Fund. The purpose of the fund is to assist municipal governments in Canada to lever investments in municipal environmental projects and to provide grants for feasibility studies, assessments, sustainable community plans and field tests, and grants and loans to eligible recipients for project implementation. The fund accomplishes this through the provision of low-interest loans and grants, as well as education and training services, to support municipal initiatives that improve air, water and soil quality, and protect the climate.

Since 2008, GMF funding has been provided through three different streams:

- **Grants to Develop Sustainable Community Plans** - Grants of up to 50% of eligible costs to a maximum of $350,000 are provided for the development of plans that must consider environmental, social, and economic objectives, and include specific targets for environmental performance.
- **Grants to Conduct Feasibility Studies and Field Tests** – Grants of up to 50% of eligible costs to a maximum of $350,000 are provided under this stream to fund feasibility studies and field tests which seek to demonstrate the potential of a project to improve the environmental effectiveness of municipal operations related to specific sectors.
- **Long-term, Low-interest Loans and Grants to Support Capital Projects** - Loans at fixed interest rates for up to twenty years are provided for capital projects that have the potential to result in significant environmental improvement on air, water and soil quality, including green house gas emissions reduction. Loans range from up to twenty-five percent (25%) of eligible costs to up to eighty percent (80%) of eligible costs, depending upon the expected environmental benefits.

Funding for feasibility studies and field tests and capital projects must be directed to one of the following six sectors of municipal activity: energy; water; waste; sustainable transportation; brownfields; and integrated community projects. For capital projects in sectors other than the brownfields sector, GMF offers below-market loans, in combination with grants. Eligible applicants can currently request up to $4 million in loans and $400,000 in grants for each project, up to a percentage of eligible costs based on the environmental benefits. For capital projects within the brownfields sector, GMF offers below-market loans of between 50% and 80% of eligible project costs. For municipal governments, GMF offers interest rates 1.5% to 2% lower than the Government of Canada bond rate for the equivalent term.

The GMF is located in the National Capital Region and is administered through four dedicated organizational units - the Governance and Compliance Unit (GCU), the Credit and Risk Management Unit (CRMU), the Operations and Development Unit (ODU), and the Knowledge Management Unit (KMU) – with the assistance of the FCM Finance unit. The GMF is overseen by a GMF Council that advises the FCM Board regarding the provisions of the federal Funding Agreement, approval and allocation of eligible projects, and GMF investment priorities, among other things. The Council is composed of fifteen members appointed by the FCM consisting of representatives from the federal government, public and private sectors, as well as elected officials of Canadian municipalities.

Audit Approach and Objectives

A performance audit plan was developed using a risk-based approach through which key risks facing the achievement of the GMF's objectives and expected results were identified. Risks were identified based on the results of interviews with representatives from FCM and GMF management and GMF Council members, as well as documentation review. The risks were then linked to the core processes and practices in place within the GMF that are designed to mitigate these risks. This information was used to determine the specific audit objectives and related criteria to be assessed through the examination as illustrated below:

Audit Objective	Audit Criteria
Audit Objective #1: **The GMF's organizational structure and funding model enables the delivery of programs and services to achieve the GMF's objectives in an economical, efficient and effective manner.**	Criteria 1.1: The GMF's organizational structure effectively and efficiently supports the GMF's mandate and principles outlined in the Funding Agreement.
	Criteria 1.2: Processes for setting funding priorities and programs are efficient and effective in meeting the GMF's stated objectives and responding to identified stakeholder needs.
	Criteria 1.3: Partnership and collaboration opportunities are consistently identified, considered, and managed across the GMF.
	Criteria 1.4: Retention and succession planning are key elements of the GMF's planning process to help ensure human resource plans are in place and implemented and monitored to support the continuity of critical positions throughout the organization.
Audit Objective #2: **Processes for reviewing and approving applications for funding and for disbursing funding and monitoring approved projects are conducted efficiently and provide reasonable assurance that projects are consistent with the GMF's objective, are approved in a transparent manner, and that funding is used for intended purposes.**	Criteria 2.1: Processes to assess, evaluate, and approve applications for funding are effective in: promoting transparency of the process to relevant stakeholders; aligning funding decisions with the GMF's stated objectives and to projects of merit; and helping to ensure that approvals are free from bias and conflicts of interest.
	Criteria 2.2: Processes exist and are followed to enable the timely assessment and approval of applications.
	Criteria 2.3: Processes for disbursing funds help to ensure the ongoing availability and timeliness of funding to eligible recipients, in a manner that considers credit and loan risks.
	Criteria 2.4: Mechanisms exist and are followed to help ensure that funding is used in compliance with funding agreement terms and conditions.
	Criteria 2.5: A risk-based approach to the monitoring of and follow up on the progress of funded projects exists and is followed.
Audit Objective #3: **Mechanisms exist to help ensure sustained funding and support for the GMF's continued operations.**	Criteria 3.1: Communication plans and strategies have been developed and implemented to help secure sustained public and partner support for the GMF.
	Criteria 3.2: Expected outcomes (at the aggregate level) are monitored, communicated and reported on a regular and timely basis and support effective and timely management decision-making at both the project and organization-wide levels.

The audit criteria were developed with reference to recognized models of control, Treasury Board Secretariat's *Core Management Controls: A Guide for Internal Auditors*, and audit criteria used by the Office of the Auditor General as listed in publicly available reports. The audit planning phase was completed between April and May 2009. The criteria are designed to enable the assessment of key practices, procedures and controls in place within the GMF to mitigate the key areas of risk to the achievement of its objectives as identified in the Performance Audit Plan.

The criteria focus on assessing the efficiency and effectiveness of the GMF's management practices for each audit objective. Some reliance is being placed on the 2007 Treasury Board Secretariat's Evaluation of Foundations, completed by KPMG, for the assessment of economy. Through this evaluation, the GMF was one of six case studies used to obtain insights into the appropriateness, effectiveness and costs of foundations. An analysis of the GMF's cost structures, trends and cost drivers and was compared to the cost structures of similar government programs through this case study. The report concluded that the operating and administration cost structures of the GMF were reasonable. In particular, the study found that although the GMF's administration and total operating expenses had increased year over year in response to a steady rise in the GMF's active project portfolio, the percentage of operating expenses and general administrative expenses as a percentage of grants and loans disbursed has decreased. Overall, the GMF's multi-year funding model was considered to be an appropriate and cost-effective method of addressing the federal government's national objectives.

The scope of the audit covered the GMF's management controls, processes, and practices related to the audit objectives identified in the table above.

Our audit work included the conduct of:

- 23 interviews with representatives of GMF and FCM staff and management, members of the GMF Council, and Peer Reviewers;
- an examination and analysis of documentation of relevance to the each of the audit objectives, which included the examination of a sample of 10 funded projects representing 12.5% of total Board approved funding;
- an online survey of 71 recipients of study funding to assess the degree to which the GMF funded studies have been used as well as aspects of the administration and delivery of the GMF. Studies included both the development of community plans and the conduct of feasibility studies and field tests;
- 21 interviews with capital funding recipients from a population of 40 completed capital projects to discuss the environmental, economic and social impacts resulting from GMF project funding, as well as recipient experience with the GMF with respect to fulfilling application and reporting requirements; and
- three case studies in British Columbia (Vancouver), Alberta (Edmonton), and Ontario (Peterborough) that focused on assessing GMF program operations and impacts of funding (environmental, economic, and social).

Our work was limited to, and our recommendations are based on, the procedures conducted, and the findings and recommendations should be considered in the context of the procedures performed. We relied on information and representations of management and others for the completeness of background information provided.

Observations and Recommendations

Our observations from the audit fieldwork and related recommendations for improvement are categorized below under each of the three audit objectives as stated in the performance audit plan.

1) Organizational Structure

The achievement of the GMF's national objectives is, in part, dependent upon having an organizational structure that facilitates and enables the delivery of funding in an economical, efficient and effective manner, and that also allows for the identification and consideration of the needs of key stakeholder groups to align GMF funding and programming with these needs. We examined the GMF's organizational structure, including human resource capacity, and the practices and mechanisms employed by the GMF to determine if their stakeholder and partnership strategies effectively support the achievement of the GMF's objectives.

The GMF is structured in a manner that is consistent with the requirements of the Funding Agreement and that leverages both dedicated GMF resources as well as shared resources from the FCM to help optimize economy, efficiency and effectiveness.

The GMF's federal Funding Agreement requires a two tiered governance structure to oversee the GMF's operations and performance results, consisting of the GMF Council and the FCM National Board of Directors. The FCM's National Board of Directors has overarching responsibility for: reviewing the financial operations of the Fund; providing final approval for funding of projects; appointing GMF Council, Peer Review Committee and Investment Committee members; and ensuring that GMF funded projects achieve an appropriate balance between urban and rural communities and between geographical regions across Canada. Members of the GMF Council, Peer Review Committee and Investment Committee include representatives from the federal government, public and private sectors, as well as elected officials of Canadian municipalities, thereby allowing for a diverse mix of backgrounds and experience. The GMF Council is a 15 member group appointed by the FCM National Board that is specifically tasked with overseeing the GMF's operations, including: the review and assessment of proposals for funding; funding priority areas of investment; nominating experts and Peer Reviewers for the proposal assessment process; identifying and responding to complementary or duplicate programs provided by other organizations; ensuring an appropriate balance in approved projects between urban and rural communities; and approving any adjustments to proposal evaluation criteria. Based on our review of a sample of GMF Council and FCM Board minutes and our interview process, the GMF governance structure appears to be operating as intended under the terms of the Funding Agreement.

The GMF also falls under the oversight of Natural Resources Canada and Environment Canada, its federal funders. The GMF's governance structure requires the representation of both of these departments on the GMF Council and Peer Review Committee, and as such, provides a key means by which changes in government priorities, key issues facing the GMF, and the status of funding can be shared.

The operations of the GMF are administered through four dedicated organizational units: the Governance and Compliance Unit (GCU), the Credit and Risk Management Unit (CRMU), the Operations and Development Unit (ODU), and the Knowledge Management Unit (KMU). These units share common objectives for the GMF on which they focus their resources and activities. They also provide for specialized expertise and skills sets of relevance to the delivery of GMF funding, such as knowledge and experience in credit risk management, loan and contract administration, governance, knowledge management, communications, and outreach. In addition, support for human resources management, finance and other corporate services is received from FCM staff. This structure provides the GMF with the resources and skill sets necessary to distribute and monitor funding, as well as enables the leveraging of FCM capacities and relationships in support of the GMF's objectives.

The GMF's funding model, through which multi-year funding is received, further enables the GMF to focus on the overall and longer term priorities and results of GMF funding, and reduces the need to adjust actions in the short term to respond to risks related to lapsing of funds that may be experienced under annually funded programs.

The GMF actively engages key stakeholders to identify and respond to needs in the community through GMF funding priorities and programming.

Based on our discussions with management and our review of supporting documentation, a number of mechanisms were identified through which the GMF engages and obtains input from key stakeholders regarding their needs. The Knowledge Management Unit plays a key role in identifying the knowledge and lessons learned from GMF-funded initiatives and using this information to leverage changes in municipal practices as well as to inform future funding directions and priority areas. The KMU has conducted a number of studies, needs assessments, and research projects since its inception in 2005 through which specific questions related to the impacts of GMF funding are analyzed and used to both assess the performance of funding against expected results, as well as inform changes that may be required in future funding to fill gaps or needs not currently being met. Based on our review of supporting documentation, we observed that the KMU consolidates and analyzes the information it receives through its various studies and publications to help inform the KMU's planned annual activities and to help maximize the GMF's understanding of the needs of its key stakeholders.

The KMU also produces an annual webinar series. The webinars are interactive, web-based workshops through which representatives from the federal, provincial, municipal and other public or private sectors present experiences, lessons learned, and strategies related to the GMF's priority funding sectors. The webinars provide a strong mechanism through which the GMF can both obtain input and feedback from stakeholders as well as share lessons learned and sound practices with key stakeholders. In the 2008/2009 fiscal year, 11 webinars were developed. The results of the 2008 – 2009 webinar evaluations indicate a high level of satisfaction with this series, with 93% of respondents indicating that the webinars met or exceeded their expectations and increased their knowledge of the topic area, and 86% indicating that they would apply some of the ideas, strategies and tools discussed in the webinar.

The GMF, through the KMU, contributes to organizing annual Sustainable Community Missions to learn from municipal experiences across Canada regarding how policies, programs, and technologies have been used to create more sustainable communities and to identify gaps related to GMF funding in priority sectors. Similarly, the KMU organizes Capacity Building workshops and consultations for GMF-funded sectors through which stakeholders are directly engaged to understand the needs of municipal governments and their existing capacity for sustainable development projects. The results of some of these sessions have been used to report on municipal needs and develop a consultation plan and environmental database for the Capacity Building program.

The results of the consultations and reports provided by the KMU are an input for consideration by the GMF management team to help to ensure its funding is targeted to areas of relevance to both the federal government and stakeholders from the municipal communities across Canada. As an example of this, the GMF developed its sector-based program design based on the requirements of the Funding Agreement as well as the results of input from the stakeholder community at large.

In addition to the above, the KMU's Capacity Building program tracks, monitors and reports on capacity building activities that are conducted in support of the Annual Statement of Plans and Objectives (ASPO).

Partnership and stakeholder collaboration opportunities are consistently identified and managed across the organization.

Although the GMF is not the only source of municipal infrastructure funding support, it is a key player in supporting environmentally sustainable municipal infrastructure investments and offers municipalities a valuable opportunity to leverage funding in conjunction with other federal and provincial infrastructure programs. In this regard, management explores partnership and collaboration opportunities with complementary federal, provincial and municipal funding programs as a means of aligning with partners having common municipal investment objectives and as a means to leverage the use of funding to

increase the overall resource base through which municipalities can apply to advance their municipal infrastructure objectives.

In addition to the key mechanisms described previously to engage stakeholders and partners, such as Sustainable Communities Missions and Capacity Building workshops and consultations, the GMF obtains and encourages partner and stakeholder input on areas of funding needs and priorities through a number of practices. One key means by which partnership and collaboration opportunities are identified is through the annual business planning process. As part of this process, the KMU identifies specific strategic activities and initiatives that the GMF intends to pursue, including the identification and assessment of potential partners to assist in developing or implementing new initiatives. Since 2007, over 35 individual partner organizations have collaborated with the GMF to pursue common goals and interests. These partner organization range from federal government departments and provincial ministries to not for profit councils and associations. Partnerships have been formed to assist in developing and delivering training workshops, conducting research, issuing publications, providing sponsorships, and performing communications and outreach activities. The GMF's partnership framework provides a consistent means by which partnerships and collaboration activities can be tracked and reported. In addition, as a component of the FCM, the GMF is able to access provincial and territorial associations through their representation on the FCM Board as well as the numerous Canadian municipalities represented by the FCM.

An example of a partnership strategy that has continued to evolve is the GMF's strategy to increase the representation and participation of Quebec in GMF funded projects. In support of this goal, the GMF has partnered with the Union des municipalitiés du Quebec (UQM) and the Fédération Québécoise des Municipalitiés (FQM) to better market the GMF within Quebec and contribute towards capacity building. This partnership provides the GMF a means through which Quebec municipalities can be reached via established networks and communication channels.

Another notable partnership activity is the Partners for Climate Protection (PCP) program. This program is funded by the GMF and represents a network of Canadian municipal governments that have committed to reducing greenhouse gases and acting on climate change. The program represents the Canadian component of the ICLEI - Local Governments for Sustainability Cities for Climate Protection (CCP) network, which involves more than 900 communities worldwide. Under the program, participating municipalities follow a performance-based model through which five milestones are strived for, such that each milestone provides an opportunity for municipal capacity building.

The GMF, through the FCM, is also a supporting organization of the Canadian Brownfields Network (CBN). The goal of the CBN is to develop a national network that works with existing not-for-profit associations and organizations to provide a forum for communication and discussion on brownfields redevelopment and site remediation in Canada. The GMF actively encourages brownfields redevelopment and supports CBN initiatives. The GMF is a Gold sponsor of the Canadian Urban Institute's Canadian Brownfields 2009 Conference and will be hosting two sessions geared toward the needs of municipal governments: the first will be on funding sources for brownfield remediation and redevelopment, featuring speakers from the private and public sectors and will provide participants with information on existing funding opportunities as well as successful innovative funding approaches from Canadian municipalities; and the second session will showcase the accomplishments of smaller communities that have remediated and redeveloped brownfield sites. This is but one example of the GMF's active engagement in facilitating and promoting the sharing of information and practices related to brownfield projects among municipalities and the private and public sectors.

The biennial Sustainable Communities Conference is yet another means through which the GMF identifies partnership and collaboration opportunities and increases awareness and understanding among key stakeholders of the GMF and its products and services.

In addition to the above, each unit within the GMF has regular group meetings involving representatives from other business units to discuss their activities. This allows each unit to be informed of potential

partnership and collaboration opportunities and promote consistency in how they are addressed across the organization.

The GMF has worked to improve the formality and scope of its human resource plans and policies.

Human resource management activities are guided by the GMF Three Year Human Resource Plan. Over the past few years, the GMF has worked to strengthen the formality and awareness of its human resource policies and practices. In this regard, a number of documents have been developed and communicated, including: policies for employee performance, training and development, and recruitment; performance evaluation guidelines; salary comparator; and an updated Code of Ethics.

The GMF employee performance appraisal system was revised to an online system in 2009 and is supported by performance evaluation guidelines. The employee performance system is intended to: assess employee performance against objectives, expected results and competencies; provide opportunities for regular feedback and support; and identify professional development and/or learning plan objectives and opportunities. Management recognizes the value of providing training and career development opportunities to personnel at all levels as a means of retaining and building the skills sets of its employees. The organization's training and development policy requires employees to complete an annual professional development plan that includes the identification of training and development needs and is discussed with their supervisor at the time of their annual performance assessment. Through this process, training options are also prioritized according to career development needs, and are expected to contribute to measurable improvements in either job performance, knowledge of a domain area and/or capability to further grow and contribute to the FCM's mandate.

Observation #1: Formal retention and succession planning to help provide for the continuity of critical positions has not been implemented to date.

It is our understanding based on discussions with management that the GMF has not undertaken formal succession planning activities to identify critical and at-risk positions, assess workforce demographics, and identify potential successors. The GMF has experienced approximately 14% turnover at various levels throughout the past two years. This turnover was primarily due to the loss of employees to the federal government, often as a result of the additional employee benefits provided by the federal government. Given its small size, the GMF may feel the impacts of both unforeseen and anticipated departures more acutely, as it has less capacity to backfill positions than in larger organizations.

Recommendation #1: It is recommended that the GMF increase its focus on retention and succession planning in conjunction with its corporate and human resource planning exercises. Through this process, the core skills, experience, knowledge and leadership competencies required for critical and at-risk positions could be identified and potential internal successors identified. This information can then be used to inform career development and training opportunities.

Management Response: *FCM agrees with this recommendation. FCM's 2010-2011 Human Resources Plan includes the development of a retention and succession planning program.*

2) Approval and Monitoring of Projects

Under its federal Funding Agreement, the GMF is responsible for reviewing and approving eligible applications for funding and ensuring that funding is used for intended purposes. Through the performance audit, we examined the efficiency and effectiveness of practices and processes in place to determine whether approved projects were consistent with the GMF's objectives, were approved in a transparent manner, and were monitored to help ensure that project funding was used for intended purposes. Our audit focused on examining the practices in place for approving and monitoring capital projects. Capital projects represent the majority of total GMF funding, are inherently more risky and complex as they relate to the construction of infrastructure, and result in more time required by GMF to

evaluate applications, execute contracts, and disburse funds due to their more complicated nature when compared to the time and effort required for studies and plans.

Practices are in place to assess, evaluate, and approve applications for funding that: promote transparency of the process to relevant stakeholders; help to ensure that approvals are free from bias and conflicts of interest; and help to align funding decisions to projects of merit and consistency with the GMF's stated objectives.

Documented application forms and guidance are provided on the FCM website, along with details on how applications will be evaluated. The Operations and Development Unit performs a preliminary review of applications received to assess eligibility, followed by a technical review to verify the completeness of each application. Applications are then assessed by a Peer Review Committee, whose members have recognized technical and/or financial expertise, and who are supported by Peer Review Committee assessment guidelines, score sheets and other instructional documentation. These documented procedures and tools are also used by GMF staff, thereby enabling a consistent communication of the application submission, approval and funding process to all key stakeholders.

The Peer Review Committee assesses eligible project proposals referred to it by GMF management using pre-defined decision tools and project selection criteria, including: financial information; expected environmental, economic and social benefits; and the alignment of the project with the applicant's long-term infrastructure plan. A minimum of two members of the Peer Review Committee will assess any eligible project proposal that seeks less than $500,000 from the GMF and a minimum of three members will assess any eligible project proposal that seeks $500,000 or more from the GMF. The Peer Review Committee assesses applications using criteria-based score sheets for each stream. Based on the results of the evaluation, a consensus peer review assessment is then submitted for review and consideration by the Council. Each Council recommendation is forwarded to the FCM Board for review and a decision on whether to approve or reject the project.

In our sample of project files examined, the Peer Review Committees were made up of members with expertise in municipalities and infrastructure. In all cases examined, the Peer Review Committee evaluated applications for funding against pre-determined criteria and made recommendations for funding approval consistent with documented guidelines and evaluation criteria. The use of a committee structure allows for a consensus on application assessments and project funding decisions and helps to ensure that project approvals are free from bias and conflicts of interest. The GMF also requires that a conflict of interest and confidentiality declaration be signed by all individuals with responsibility for project approvals, including the GMF Council, FCM National Board, and Peer Review Committee members. In addition, 66% of respondents to our survey of study funding recipients and results of our interviews with recipients of capital project funding consistently indicated that the application funding approval process was clearly communicated.

The Peer Review Committee is provided with guidelines and other documentation describing the committee's roles and responsibilities as well as the method and the general and sector-specific criteria and related ranking system to use when evaluating applications. The evaluation criteria align directly with the GMF's objectives and include assessments of the approach, potential benefits, knowledge value, quality, project management, and public engagement factors of the project. Findings from our interviews with representatives of past Peer Review Committees support the clarity of the GMF's application assessment process, with all reviewers stating that the guidelines are clear or very clear. The transparency and equity of the application assessment process is further supported by the survey results, through which 65% of respondents rated the GMF's funding approval process as clear and transparent. The results of our interviews with capital project funding recipients also consistently identified the clarity and transparency of the process as a success factor.

It is noted that the results of a 2008 study commissioned by the GMF indicated that out of a sample of applicants whose applications has not been approved, close to 43% did not believe they knew the rationale for the rejection of their application. Based on our discussions with management and our review

of supporting documentation, it is acknowledged that the GMF does provide a rationale for rejections in letters to applicants; however, many applicants may not agree with the rationale or understand the rationale. Based on our review of recent rejection letters, we confirm that the GMF is working to provide more details on the rationale for any projects not approved to improve the clarity of the applicaton assessment process. We encourage management to continue with these efforts.

Processes and procedures are in place to guide the consistent assessment and approval of applications.

As noted in the previous section, the GMF application and approval process is well documented and communicated. For each funding stream, the GMF has documented practices and policies to help to ensure a consistent, merit-based and transparent process for the review and approval of applications for funding. The GMF Operations Manual identifies the expected timelines for processing applications and finalizing contracts. In the past, targeted timelines were defined for both the Opportunity Cycle (approval of the application) and Project Cycle (finalization of the contract) as being between 80 and 100 working days for the Opportunity Cycle, and between 60 and 80 working days for the Project Cycle. In response to challenges identified in meeting these targeted timelines, management has reviewed and re-designed its processes and procedures to enable these timelines to be met.

Observation #2: The contract finalization process has not consistently met the GMF's targeted timelines.

The GMF recognizes that the time frame to finalize contracts has at times exceeded the target that they have set for contract finalization. Based on our discussions with management and our review of a sample of project files, only 2 out of 10 projects met the expected targeted processing timeframes. For many of the files we reviewed, the time period to finalize contract agreements exceeded 6 to 9 months. However, we did note that in many files, there was supporting documentation on file regarding the rationale for the delays. In many instances, observed delays were due to project changes considered to be outside of the GMF's control, including: revisions required to engineering studies, provincial / partner changes, and other delays.

GMF management has recognized this as an area for improvement, and as at the end of the audit fieldwork, had taken a number of steps to improve the timeliness of the contract finalization process, including: designing and implementing a project backlog report to monitor the status of outstanding contracts; splitting the roles of Application and Contract Officers in the summer of 2008 to help reduce the project backlog; flowcharting the application and contract processes to identify key activities, decision and control points; updating the Operations Manual to include revised application, contract and disbursement process timeline targets; and implementing revised funding agreement templates to provide greater clarity with respect to accountability requirement clauses to help increase the timeliness of the contract finalization process.

Recommendation #2: Management should continue its efforts to monitor and reduce the time frame required to finalize contracts.

Management Response: *FCM agrees with this recommendation. As observed by KPMG, FCM recognizes that the time frame to finalize contracts has often exceeded the target set for contract finalization and is an area for improvement. All new funding contracts must be now signed by the applicant within a maximum timeframe of six months following the date of its approval. As also observed by KPMG, FCM has taken a number of steps to improve the timeliness of the contract finalization process. FCM will continue to make improvements in this area as necessary.*

Mechanisms are in place and are followed to help ensure funding provided to recipients is used in compliance with loan agreements and to monitor credit loans and risks. Monitoring is conducted in accordance with a risk-based approach.

The GMF Operations Manual outlines the expectation that Project Officers and / or Project Verification Officers should be monitoring and performing follow-up disbursement procedures with recipients at a minimum on a quarterly basis. As part of these procedures, Officers are required to update the Seibel database to reflect any changes in disbursements and cash flows.

The GMF has introduced the use of a disbursement report to help manage backlogs in project disbursements and to facilitate project monitoring. The report is generated via the Seibel database on a monthly basis and helps to identify the upcoming planned three month cash flow forecast. The report is generated based on planned disbursements, and management initially focuses on those that are equal to and greater than $100,000. It is the expectation that Contract Officers will follow-up with these recipients in advance of the disbursement date to remind recipients of the upcoming disbursement date along with the supporting documentation requirements that must be submitted. In conjunction with the disbursement report, the Operations and Development Unit produces a contracting report to monitor the status of year to date committed, signed, and disbursed funding to assist the GMF with project cash flow forecasting. Prior to disbursement, recipients must submit supporting back up in the form of invoices or an auditors report to validate that claimed expenses are eligible per the funding agreement, along with any required reporting, if applicable. In addition to the ODU, both the Credit and Risk Management Unit and Finance functions have specific loan management and monitoring responsibilities.

The CRMU was created in March 2006 to help improve risk assessment and monitoring processes and procedures, including the development and monitoring of the loan portfolio risk profile. In accordance with documented CRMU procedures, a project credit risk assessment is required for all loans. Six risk levels are used to define the risk profile of the total loan portfolio (disbursed and committed loans): low-risk (risk level A), low-to medium- risk (risk level B), medium-risk (risk level C), medium- to high-risk (risk level D), high-risk (risk level E), and unacceptable risk (risk level F). The CRMU monitors the changes in the risk levels of recipients as new information and project reports are received. Based on the results of our file review, we observed evidence of completion of a loan risk assessment for all non-grant files.

The CRMU is also responsible for tracking recipient compliance with loan covenants and following up on any late loan repayments and or loan defaults. Recipient monitoring is usually performed on an annual basis unless the organization is considered a high risk or if there is a breach of loan covenants, in which case monitoring is performed more frequently (semi-annual, quarterly or monthly).

The CRMU uses operating indicator reports that detail the percentage of loan per risk category as well as loan specific information on a quarterly basis. These reports are expected to be reviewed to help ensure that the total loan portfolio risk is aligned with the GMF's annual objectives and priorities. The information in these reports can be used to adjust monitoring practices or to assist in the decision to accept the project. Risks are further managed through the annual transfer of funds to a reserve for non-performing loans equivalent to 5% of the GMF's annual investment revenue. It is our understanding that, to date, the GMF has not had to use this reserve.

The Finance Manager is responsible for assisting in tracking, following-up, recording and reporting on the GMF loan recipient repayment schedule. As noted previously, Finance will follow-up with the recipient one month prior to the disbursement date via a reminder letter signed by the Finance Manager. Finance will track if recipient loan repayments are made on time.

In the event of late repayment, Finance will notify the recipient of the late payment, and will communicate with the CRMU if the repayment delay exceeds five days. At this point, the recipient will be considered in default of its funding agreement loan terms, and the recipient will be required to repay the outstanding loan amount. Based on the results of our file review, we observed only one instance where a recipient was determined to be in violation of its funding agreement. We observed communications to the recipient from Finance and the CRMU requesting that the outstanding loan amount be repaid in full. The recipient complied with the request in advance of the repayment due date and the issue was resolved.

Recipients of capital project funding were consistent in their view that the GMF's reporting requirements (Project Completion Reports) were reasonable. Few recipients noted that the level of effort required to gather and complete information to support reporting requirements was onerous and/or time consuming.

Observation #3: Delays in the timeliness of disbursements have been experienced in the past, and in limited instances, disbursements were made in advance of all required conditions being met.

We noted some delays in the timeliness with which recipients received GMF funding in the past. This is primarily due to the fact that in the past, the GMF has primarily disbursed funds upon project completion as well as due to delays experienced by applicants in providing the required documentation in support of disbursements. In limited instances, we noted disbursements that had been made in advance of all required conditions being met, such as having receipt of a Certificate of Incumbency. The GMF has acknowledged that this has likely occurred in the past as a result of a high volume of project backlog and has taken steps to improve the timeliness of contract management procedures through the splitting of Application and Contact Officer responsibilities, and through the use of the backlog and the Seibel monitoring and disbursement reports to more proactively monitor the timeliness of disbursements and project progress. In addition, management has developed and implemented more formal disbursement procedures and checklists that are now in place to help prevent these instances from recurring. It is further noted that management has engaged an external consulting firm to review its disbursement process to identify areas to improve process efficiency, and has also introduced procedures through which capital project funding can be disbursed upon the receipt of an auditors report in lieu of the submission of invoices and receipts for the project. Based on our review of supporting documentation, we note that there have been reductions in the number of projects in backlog over the past year. Moreover, Application and Contract Officers have commented they have seen an improvement in the amount of time they are able to spend on their respective files and project oversight roles and responsibilities.

In addition, results of our interviews with recipients of capital project funding noted instances in which the bridge financing required to progress the implementation of their project was secured at higher lending rates than those offered by the GMF. In its 2008 guidelines for transportation and brownfields projects, the GMF has indicated that it will consider providing interim disbursements where appropriately supported. Consideration should be given to expanding the GMF disbursement policy to enable the provision of interim payments for all capital projects, based on project risk levels.

Recommendation #3: Management should continue its efforts to monitor and reduce the time frame required to review and issue disbursements. Consideration should also be given to revisiting the GMF disbursement policy to enable the provision of interim payments in all sectors to support the progress of capital projects, based on project risk levels.

Management Response: *FCM agrees with this recommendation. As observed by KPMG, FCM has taken steps to improve the timeliness of contract management procedures through the separation of Application and Contract Officer responsibilities, along with the use of the backlog and the Seibel database monitoring and disbursement reports to more proactively monitor the timeliness of disbursements and project progress. In addition, FCM has developed and implemented more formal disbursement procedures and checklists that are now in place to help prevent these instances from recurring. FCM has engaged an external consulting firm to review the GMF disbursement process to identify areas to improve its efficiency, and has also introduced procedures through which capital project funding can be disbursed upon the receipt of an auditors report in lieu of the submission of invoices and receipts for the project. As*

observed by KPMG, where disbursements are made prior to and during construction, FCM will be assuming more of the the project risk. Analysis of risk will be key in the assessment of the interest rate and the timing of the loan disbursements. Staff will review documentation and project information requirements as well as the disbursement process to estimate and monitor the project risk during project construction.

3) Sustained Funding and Support

The GMF's ability to secure additional funding in the future and solidify interest in its existing products and services is influenced, in part, by the extent to which the GMF's objectives align with the priorities of the various levels of government and its ability to demonstrate the value and benefits of its funding to Canadians. We examined the practices and mechanisms employed by the GMF to obtain ongoing support for its initiatives among key stakeholders.

Communication plans and strategies have been developed and implemented to help secure sustained public and federal support for the GMF. These plans and strategies include measuring, monitoring and reporting on the achievement of expected outcomes and benefits of GMF funding.

The audit observed that the GMF has been proactive in its efforts to secure support for its mandate via a number of key communication and stakeholder engagement plans and strategies.

In February 2009, the GMF Council approved a three-year communications strategy to serve as a strategic framework for the Communications function. The strategy's scope of activities includes all GMF promotional activities (including funding announcements, protocols, etc), outreach strategies (including the Quebec strategy), communication of any GMF knowledge products (KMU reports, case studies, etc), website related information, and program support to communicate changes to program applications and guidelines. This strategy provides a consistent and documented approach to communicating GMF successes and results to targeted audiences. In addition, the GMF incorporates federal representation in conjunction with funding announcements, consistent with the requirements of its federal Funding Agreement.

It is acknowledged that GMF funding has historically been underutilized in the province of Quebec. In response to this, in 2003, a GMF-Quebec Agreement was implemented that sets out the terms between the GMF and the Ministry of Municipal Affairs, Sports and Recreation for instances where the GMF would be in a position to fund projects within a Quebec municipality. In accordance with the terms of the agreement, the Ministry will manage the application process and will forward promising applications to the GMF. The GMF will communicate to those municipalities whose projects have been accepted and received approval for funding. This agreement has facilitated the GMF's funding of Quebec-based projects.

In June 2009, the GMF Council approved the "Enhanced Quebec Strategy: 2009-10" to respond to a number of issues viewed as barriers to promoting the GMF within the province of Quebec. These issues had been confirmed by the GMF via a number of sources including direct contact with Quebec municipalities as well as the results of an April 2008 Ipsos Reid report. In the Strategy, the GMF has identified a series of objectives-based actions to: 1) identify target audiences and increase awareness about the GMF; 2) identify and explore ways to work with key stakeholders for greater leverage and benefit; and 3) streamline application processes to further improve the awareness, understanding and appreciation of GMF funding in Quebec.

During fiscal year 2008-09, the GMF also undertook a renewal of its website to provide visitors with better access to funding information and knowledge resources, such as Mission reports and case studies, Capacity Building consultation reports, webinar podcasts, and other sector-specific educational documents. The website also contains a database where users can obtain information on approved projects by category, type, province, project value, and other project-specific parameters.

Processes are in place to measure the impacts and outcomes of GMF funding at a project level.

As mentioned previously under the Organizational Structure section of this chapter of the report, a key mechanism in securing ongoing support for GMF programming among stakeholders is the communication and dissemination of information produced by the Knowledge Management Unit that identifies the knowledge and lessons learned from GMF-funded initiatives through studies, surveys, needs assessments and other research. Activities such as the annual webinar series, Sustainable Community Missions, and Capacity Building workshops and consultation sessions enable the GMF to directly engage stakeholders to understand the needs of municipal governments and their existing capacity for sustainable development projects, and facilitate a two-way sharing of information. The KMU tracks the knowledge management material it produces in support of the GMF's objectives.

Based on our review of a sample of current recipient funding agreements with the GMF, each requires the recipient to complete a Project Completion Report and an Environmental Results Report in order to receive a project disbursement. The Project Completion Report requires a description of: the project; project implementation; and any lessons learned / challenges experienced during the project. The Environmental Results Report is intended to validate the intended environmental impacts as defined in the project application. These reports are prepared by third parties who are independent of the funding recipient, which helps to reduce the potential for bias or inaccuracy in these reports.

The information generated by the KMU in addition to project performance results as identified through Project Completion Reports and Environmental Results Reports are key mechanisms by which the outcomes and impacts of GMF funding are identified for specific funding elements and projects. Information gathered through these mechanisms, among others, is used to inform municipalities, partners, Parliamentarians, and the public at large on the contributions and benefits of GMF funding.

Observation #4: There is currently no central repository to collect, analyze and report on performance information regarding the impacts and outcomes of GMF funding at a global level.

The GMF has had an environmental results reporting system in place since 2004. It is our understanding that the GMF has invested in new processes to better measure and report on the impacts and outcomes of its project funding. The GMF is currently pilot testing a new performance measurement system based on a series of results-based environmental, economic, and social indicators and measures. This new system was developed by the International Institute for Sustainable Development (IISD).

Once the pilot test period is completed and the system has been validated internally, a results-based measurement and reporting framework using environmental, economic, and social indicators will be developed and aligned with the GMF's logic model approach and key results areas. Prior to the development of this new performance measurement system, the GMF was not able to consistently and systematically report on the tangible economic and social outcomes of its project funding. The development of this new system is expected to help the GMF measure and report on the impacts and outcomes of its funded projects at a consolidated level and will enable the GMF to satisfy an important accountability condition of its Funding Agreement.

Recommendation #4: Management should continue its plans to implement a more robust performance measurement system.

Management Response: *FCM agrees with this recommendation. As observed by KPMG, FCM is developing new processes to better measure and report on the impacts and outcomes of GMF project funding. FCM is currently pilot testing a new performance measurement system based on a series of results-based environmental, economic, and social indicators and measures, developed by the International Institute for Sustainable Development (IISD), and aligned with the GMF's logic model approach and key results areas. This new system will allow FCM to measure and report on the impacts and outcomes of GMF-funded projects at a consolidated level and will enable the GMF to satisfy an important accountability condition of the Funding Agreement.*