



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.