

# Federation of Canadian Municipalities

## Performance Audit of the Green Municipal Fund **Final Report**

September 2019



Building a better  
working world



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13 September 2019

## Report on the Performance Audit of the Green Municipal Fund

Dear Mr. Carlton:

We have now completed the engagement noted above and are pleased to present our report for your consideration. We trust the report will meet with your requirements and needs.

We have debriefed management on our findings and recommendations and will present the results of our report to the Green Municipal Fund ("GMF") Council on 20 September 2019.

This report is intended solely for the information and use of the Federation of Canadian Municipalities ("FCM"), parties to the Funding Agreement of the Green Municipal Fund, management, and Ministers and Parliamentarians. While we recognize that this report will be posted on the FCM website, we caution any readers other than those outlined above that it may not be appropriate for their purposes, and that they rely upon it at their own risk.

We would like to thank you and your team for the cooperation, assistance and courtesy extended to the EY team over the course of the project.

If you have questions or would like to discuss, please do not hesitate to contact the undersigned.

Sincerely,

A handwritten signature in black ink that reads "Ernst &amp; Young LLP".

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# Executive Summary

# Executive summary

## Introduction

EY was engaged by the Federation of Canadian Municipalities (“FCM”) to conduct a Five-year Review and Performance Audit of the Green Municipal Fund (“GMF”), which is mandated by their Funding Agreement (“FA”) with the federal government. EY conducted the Review and Performance Audit in parallel. The scopes of the Review and Performance Audit span April 1, 2014 to March 31, 2019. FCM supported the Review and Performance Audit’s planning, conduct and reporting.

## Objectives

The Performance Audit aimed to address key performance areas related to GMF economy, efficiency and effectiveness. The following objectives were developed through preliminary document review and interviews.

Objective #1	GMF is appropriately structured to achieve its objectives.
Objective #2	Application, disbursement and monitoring processes are effective and efficient in ensuring funded projects are consistent with GMF’s objectives.
Objective #3	Mechanisms exist to help ensure sustained funding and support for GMF’s continued operations.
Objective #4	GMF management has access to adequate information and data systems to enable effective and efficient program administration.

## Methodology

Our audit work included:

- ▶ Document and file review
- ▶ Over 20 key informant interviews with FCM management and staff, GMF Council and FCM Board members
- ▶ Bilingual web-based survey distributed to over 400 recipients and non-recipients, yielding 87 responses (20.1% response rate) to assess the degree to which they are satisfied with GMF programming
- ▶ Three case studies in Sherbrooke (Quebec), Qualicum Beach (British Columbia), and Montague (Prince Edward Island) designed to assess GMF program operations and impact across sectors, and regions
- ▶ Quantitative data analysis of administrative data

Although distinct, the lines of evidence are mutually reinforcing, i.e. the document and file review informed the interviews, and the interviews, in turn, clarified concepts or questions that emerged out of the document and file review. Multiple lines of evidence were jointly employed to assess each objective.

## Key findings and recommendations

#1

### GMF is appropriately structured to achieve its objectives.

Criteria 1.1: GMF's governance framework effectively and efficiently supports GMF's purpose outlined in Article II of the Funding Agreement ("FA").

Document review and interviews found that GMF's governance structure, through its Board, Council and Committees, is consistent with the requirements of the FA. GMF's Five-Year Strategic Plan from 2018-2023 and interviews emphasized the importance and need to continuously tell a clear and compelling story of GMF-funded projects through long term performance measurement. In 2018, the GMF developed a new Performance Measurement Framework ("PMF") that was approved by Council and implemented, but several indicators are still under development and not yet tracked.

- ▶ Observation 1: Several indicators in the new PMF are not yet tracked, preventing GMF from telling a holistic story of project benefits and fund performance.
- ▶ Recommendation 1: FCM should focus efforts on the continued development of indicators in the PMF, as they are critical to realizing Key Result Areas in the Five-Year Strategic Plan.
- ▶ Management response 1: FCM agrees with this recommendation. As outlined by GMF Management in the ASPO 2019-2020 and approved by GMF Council and FCM Board of Directors, GMF will complete the data-tracking systems and associated management dashboard development for the majority of its new Performance Measurement Framework indicators (target is 80% completion by end of fiscal year 2019-20). The balance of these dashboards will be completed in the following year. The slate of indicators will be reviewed on a regular basis to ensure they are the most appropriate for measuring GMF performance in key mandate areas.

Criteria 1.2: Processes for setting funding priorities and programs are efficient and effective in meeting GMF's stated objectives.

Funding and program priorities are recommended by the GMF Council to the Board for approval per the Funding Agreement. The GMF most recent strategic planning exercise was the 5-year strategic plan from 2018 to 2023, which was informed through stakeholder consultation and shaped the development of Key Result Areas ("KRAs") and a new PMF. There are no recommendations for criteria 1.2.

#1

GMF is appropriately structured to achieve its objectives.

Criteria 1.3: Retention and succession planning are key elements of 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.

During the audit period, FCM did not have systems in place to quantitatively monitor and report meaningful Human Resources ("HR") metrics, such as retention rates, time taken to fill open positions and time to onboard new recruits.

Interviews indicated that although not an issue to date, succession planning is currently not formalized and is in the beginning stages of creation at FCM. Without a formal approach to succession of leadership positions, there is a risk that critical decision-making roles are not filled with the right individuals in a timely manner. This risk will heighten when GMF receives the \$950 million in increased funding announced in Budget 2019 that will lead to the introduction of three new initiatives and increase operations.

- ▶ Observation 2: Meaningful metrics are not tracked and reported to allow for the HR function to self-evaluate its performance and identify areas that require improvement.
- ▶ Recommendation 2: FCM should continue focusing efforts on implementing systems that improve monitoring of HR performance and considers metrics such as retention rates, time taken to fill open positions and time to onboard new recruits.
- ▶ Management response 2: FCM agrees with this recommendation in part as it relates to Functional or Program specific HR metrics. FCM HR metrics have/are being measured and reported to the Executive Committee of the FCM Board several times a year including; headcount, hiring, turnover by area, equity/gender splits, engagement scores, and exit interview summaries. Fiscal-year 2019-20 will see the integration of more Human Capital Management modules with Payroll/Finance providing a reporting/analytics platform that will allow custom reporting at the Functional or Program levels (part of the IT Strategy). The new Ceridian Dayforce Integration will also provide a Recruitment/Onboarding module to FCM which will help add more process metrics. In anticipation of the new integration and as part of our process review, the People and Culture team is tracking through spreadsheets the length of time each recruitment campaign takes. A copy of the Board Level Dashboard was provided as part of this audit.



# #1

## GMF is appropriately structured to achieve its objectives.

Criteria 1.3: Retention and succession planning are key elements of 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.

- ▶ Observation 3: FCM lacks a formal succession planning approach to support the continuity of critical positions throughout the organization.
- ▶ Recommendation 3: A formal succession planning approach should be developed for critical positions considering leadership qualities, technical skills, experience, and knowledge. The approach should cover existing as well as new positions that will be created with the introduction of three new initiatives to GMF.
- ▶ Management response 3: FCM agrees with this recommendation. In May 2019, HR launched a formal 9-box succession planning approach including the identification of critical and vulnerable positions within FCMP. GMF was the first area reviewed and the GMF Senior Management Committee were directly involved in identifying the key roles and talent.

Criteria 1.4: GMF programming is designed to maintain and distribute the level of funding outlined in the Funding Agreement.

On an annual basis, FCM's Board approves an Annual Statement of Plans and Objectives ("ASPO") for GMF that outlines goals for fund allocation in compliance with the Funding Agreement. The ASPOs and Annual Reports published during the Audit Period show that balance is monitored and reported against using relative population as a basis. The applications process at GMF ensures that projects are reviewed and approved as per considerations outlined in the FA. There are no recommendations for criteria 1.4.

# #2

## Application, disbursement and monitoring processes are effective and efficient in ensuring funded projects are consistent with GMF's objectives.

Criteria 2.1: Processes to determine project and recipient eligibility are efficient and effective.

A clear application process is developed that includes an application eligibility review and incorporates the requirements set out in the FA. Interviews indicated that staff assist proponents with completing applications and clarifying the eligibility requirements. Representatives from the projects chosen for case study expressed that they were satisfied with the level of assistance provided by GMF for the application. File review did not find any instances where an ineligible project received funding approval. There are no recommendations for criteria 2.1.

#2

Application, disbursement and monitoring processes are effective and efficient in ensuring funded projects are consistent with GMF's objectives.

Criteria 2.2: Processes to assess, evaluate, and approve applications for funding are consistent with GMF's stated objectives.

GMF has developed an applications process that is compliant with the terms in the FA and defines roles, responsibilities and tasks from the receipt of an application to the ultimate decision on whether it is approved for funding. File review supported that the developed process is consistently followed by GMF. The survey found that client satisfaction with the application process is strong. GMF's Funding Services tracked opportunities for improvement and implemented changes to the applications process within the Audit period that improved efficiency.

- ▶ Observation 4: Changes made to the applications process for plans and studies have yielded positive results. However, interviews indicate that proposed changes take a long period of time to implement.
- ▶ Recommendation 4: GMF should consider leveraging the groundwork done by Funding Services when reviewing its applications process in order to identify efficiencies and opportunities for further improvement.
- ▶ Management response 4: FCM agrees with this recommendation. As outlined by GMF Management in the ASPO 2019-2020, the GMF Client and Funding Services team is working to streamline its processes through targeted improvement initiatives and a continuous improvement approach based on opportunities identified by clients and Client and Funding Services staff. More broadly, FCM is continuously looking for opportunities to be more efficient in responding to emerging improvement opportunities.

Criteria 2.3: GMF has developed service-level targets related to applications, contract and disbursement processing to promote efficiency and effectiveness.

Service level targets ("SLTs") have been developed but file review found that they were not consistently met. It is important to note the results of the SLT review do not indicate non-compliance with the FA as the SLTs are an internal benchmark set by GMF to evaluate service quality. Survey results showed a high degree of satisfaction with GMF's client service.

- ▶ Observation 5: Response rate for post-completion surveys is low. The insight gathered through this exercise would be highly valuable and allow for the improvement of their service quality.
- ▶ Recommendation 5: GMF should consider alternate methods to increase collection of post-completion survey responses.
- ▶ Management response 5: FCM agrees with this recommendation. The GMF Client and Funding Service team is exploring new ways to improve engagement with clients post completion of their initiative. One of the primary client engagement initiatives for the current fiscal year is to conduct post-completion interviews with the clients to capture lessons learned from the initiative as well as service feedback in order to ease the reporting burden on the client. The team will adjust its methodology if the pilot demonstrates the approach to be efficient and effective.

#2

Application, disbursement and monitoring processes are effective and efficient in ensuring funded projects are consistent with GMF's objectives.

Criteria 2.4: Mechanisms exist and are followed to ensure that GMF is being administered in compliance with Funding Agreement terms and conditions.

The Governance team at GMF ensures that the governance framework is consistent with the terms and conditions in the FA. The FCM Board of Directors is ultimately responsible for the approval of project funding, monitoring the Fund's performance, and overseeing the GMF Council, Peer Review Committee and the GMF Council's Investment Committee. Comprehensive process documentation, templates and tools ensure that GMF is being administered in compliance with the FA. There are no recommendations for criteria 2.4.

#3

Mechanisms exist to help ensure sustained funding and support for GMF's continued operations.

Criteria 3.1: Stakeholder engagement has been effective with respect to advancing GMF objectives.

An extensive communications strategy and workplan containing outreach campaigns and outlining activities and events to engage stakeholders have been developed. Interviews found that the development of GMF's Five-Year Strategic Plan was informed through stakeholder engagement at the national level. GMF consulted potential investment partners, endowment funds, non-governmental organizations ("NGOs"), municipal officials and thought leaders in sustainable infrastructure. This helped uncover Key Result Areas ("KRAs") identified in their strategic plan. There are no recommendations for criteria 3.1.

Criteria 3.2: Risk management processes exist and are effective.

Document review found that the Risk Management Framework covers three main risk categories: credit risk, market risk and operational risk. Each risk area is addressed and managed through respective policy documents that define roles, responsibilities and risk management activities.

Interviews and document review found that credit risk and market risk considerations are integrated into application review processes and RMU activities. The Operational Risk Policy was an interim policy for GMF that provided a foundation to be built upon as FCM's understanding of organization-wide operational risk develops. These activities were not observed during the audit period. Interviews indicate that the implementation of an organization-wide approach to operational risk management is currently underway and is transitioning under the responsibility of the Legal, Risk and Compliance Unit at FCM.

### #3

## Mechanisms exist to help ensure sustained funding and support for GMF's continued operations.

Criteria 3.2: Risk management processes exist and are effective.

- ▶ Observation 6: Organization-wide operational risk management activities have been identified in policy documentation but were not executed as stated within the Operational Risk Policy.
- ▶ Recommendation 6: FCM should collect results from risk self-assessments conducted by each business line to inform the development of an operational risk register. The register should map identified risks to the controls that mitigate them and identify control owners.
- ▶ Management response 6: FCM agrees with this recommendation. FCM has recently created an organization wide risk management mandate within its legal services unit and has engaged external expertise to elaborate an organizational risk framework. This will be further built -out over the coming years. Furthermore, GMF has developed a risk scenario planning tool for its new programs which it will implement as standard practice going forward.

### #4

## GMF management has access to adequate information and data systems to enable effective and efficient program administration.

Criteria 4.1: Expected program 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.

Project performance is monitored via Environmental Results Reports ("ERRs") (for Capital Projects only) and completion reports. GMF's new PMF consists of leading and lagging indicators that consider triple-bottom line benefits, service quality performance, and fund sustainability, and roll-up into a dashboard for reporting to management. Several of these indicators have yet to be deployed and monitored.

- ▶ Observation 7: GMF has gone through the exercise of identifying appropriate leading and lagging indicators and established a dashboard reporting system. However, not all indicators are currently being tracked.
- ▶ Recommendation 7: GMF should continue to develop the indicators in the PMF to enable effecting and timely management decision making.
- ▶ Management response 7: FCM agrees with this recommendation. As outlined by GMF Management in the ASPO 2019-20 and approved by GMF Council and FCM Board, GMF will complete the data-tracking systems and associated management dashboard development for the majority of its new Performance Measurement Framework indicators (target is 80% completion by end of fiscal year 2019-20). The balance of these dashboards will be completed in the following year. The slate of indicators will be reviewed on a regular basis to ensure they are the most appropriate for measuring GMF performance in key mandate areas.

#4

GMF management has access to adequate information and data systems to enable effective and efficient program administration.

Criteria 4.2: GMF management has access to systems that support effective and efficient program administration.

The Information Technology (“IT”) group has experienced high turnover recently and lacked the resources to appropriately address all IT issues throughout the organization. A strategic plan for 2019-2023 was put together with assistance from a 3rd party consultant which defines a path to modernization of IM and IT at FCM. A recently established IT Steering Committee governs over IT initiatives and will hold regular meetings to review the status of ongoing projects and course-correct as necessary. Project updates will be provided to senior management on a bi-annual basis.

- ▶ Observation 8: Interviews indicated that IT system limitations have affected the administration of GMF over the past five years. An IT roadmap identifies several key projects that will improve the effective and efficient administration of the GMF. Successful implementation of these projects will enhance readiness for anticipated growth in operations at GMF.
- ▶ Recommendation 8: FCM should ensure that IT transformation initiatives have appropriate oversight to carry out the priorities identified in the 2019-2023 roadmap to ensure issues are addressed in a timely manner with sufficient organizational support.
- ▶ Management response 8: FCM agrees with this recommendation. FCM has approved the IT Strategic Plan, Roadmap and associated budget, which will be reviewed every 6-8 months to ensure alignment with FCM Corporate priorities. An IT Steering Committee has been established to oversee the implementation of 18 initiatives as outlined in the IT Strategic Plan and an updated IT organizational chart containing new team members to support priority initiatives has been approved to begin hiring. Additionally, for each significant IT project, FCM forms a project team containing subject matter experts from GMF and representatives from other affected departments to ensure end-user requirements are captured correctly.



# Introduction

# Introduction

## Overview

Established in 2000, the Green Municipal Fund (“GMF”) is a \$625 million revolving fund administered by the Federation of Canadian Municipalities (“FCM”) and overseen by Natural Resources Canada, Environment and Climate Change Canada, and Infrastructure Canada. GMF provides grants, loans, and knowledge services to municipalities and their partners to support investment in projects designed to realize environmental and social benefits for Canadians.<sup>1</sup> GMF funds projects and produces knowledge services in five main sectors: energy, transportation, waste, water, and land use and integrated planning. The table below offers a breakdown of GMF’s main components.

Table 1: Overview of the GMF's main components

Project name	Organizational Review
Repayable loans	<p><b>Project types:</b> Municipal or partner capital projects</p> <p><b>Eligibility criteria:</b> Capital projects are eligible for below-market loans up to 80% of eligible costs not to exceed \$10 million.</p> <p><b>Disbursed since inception:</b> \$518 million<sup>1</sup></p>
Non-repayable grants	<p><b>Project types:</b> Technical and financial feasibility studies, field tests/pilot projects, plans, and municipal or partner capital projects</p> <p><b>Eligibility criteria:</b> Plans, studies and pilots are eligible for grants covering up to 50% of eligible project costs and capital projects are eligible for up to 15% of the loan value. Grants are capped at \$175,000 for plans and studies and \$350,000 for pilots.</p> <p><b>Disbursed since inception:</b> \$145 million<sup>1</sup></p>
Knowledge services	<p><b>Project types:</b> Publications, webinars, workshops, GMF funded projects database, peer learning</p> <p><b>Project example:</b> Partners for Climate Protection (“PCP”), Leadership in Brownfield Renewal (“LiBRé”), FCM Sustainable Communities Conference</p>

Source: FCM website.

<sup>1</sup> Amounts disbursed in 2018-2019 not included

Budget 2019 announced a further \$950 million in funding to increase energy efficiency in residential, commercial and multi-unit buildings. The federal government proposed to allocate the new funds towards three new initiatives as follows:

Table 2: Description of new initiatives to increase energy efficiency in residential, commercial, and multi-unit buildings

Project name	Organizational Review
Collaboration on Community Climate Action	Provide municipalities and non-profit community organizations with financing and grants to retrofit and improve the energy efficiency of large community buildings as well as community pilot and demonstration projects in Canadian municipalities, both large and small. FCM and the Low Carbon Cities Canada Initiatives will create a network across Canada that will support local community actions to reduce GHG emissions.
Community EcoEfficiency Acceleration	Provide financing for municipal initiatives to support home energy efficiency retrofits. Homeowners could qualify for assistance in replacing furnaces and installing renewable energy technologies. The FCM will use innovative approaches like the Property Assessed Clean Energy (“PACE”) model that allows homeowners to repay retrofit costs through their property tax bills.
Sustainable Affordable Housing Innovation	Provide financing and support to affordable housing developments to improve energy efficiency in new and existing housing and support on-site energy generation.

Source: Federal Budget 2019.

## Approach and timelines

EY was engaged by FCM to conduct a Five-year Review and Performance Audit of GMF, which is mandated by their Funding Agreement with the federal government. EY conducted the Review and Performance Audit in parallel. The scope of the Review and Performance Audit spans April 1, 2014 to March 31, 2019. FCM supported the Review and Performance Audit’s planning, conduct and reporting.

This Performance Audit assesses economy, efficiency and effectiveness of GMF as well as overall FA compliance. The Review evaluates GMF relevance (i.e. alignment with stakeholder priorities) and the extent to which funding and knowledge services realized social, economic and especially environmental benefits. Together, the reports provide evidence-based insight into the impact and value-for-money achieved by FCM and its partners during the in-scope period covering April 1, 2014 to March 31, 2019 and offers recommendations for improving the performance of the Fund going forward.





## Audit objectives and criteria

# Audit objectives and criteria

A Review plan was developed to address key performance areas related to GMF outcomes, design and relevance. Review questions and associated criteria resulted from a preliminary document review and key informant interviews. The specific review questions and associated criteria appear below.

Table 3: Audit objectives and associated criteria

Audit objectives	Audit criteria
Objective #1 - GMF is appropriately structured to achieve its objectives.	1.1. GMF’s governance framework effectively and efficiently supports GMF’s purpose outlined in Article II of the Funding Agreement. 1.2. Processes for setting funding priorities and programs are efficient and effective in meeting GMF’s stated objectives. 1.3. Retention and succession planning are key elements of 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. 1.4. GMF programming is designed to maintain and distribute the level of funding as outlined in the Funding Agreement.
	2.1. Processes to determine project and recipient eligibility are efficient and effective. 2.2. Processes to assess, evaluate, and approve applications for funding are consistent with GMF’s stated objectives. 2.3. GMF has developed service level targets related to applications, contract and disbursement processing to promote efficiency and effectiveness. 2.4. Mechanisms exist and are followed to ensure that GMF is being administered in compliance with Funding Agreement terms and conditions.
Objective #3 - Mechanisms exist to help ensure sustained funding and support for GMF’s continued operations.	3.1. Stakeholder engagement has been effective with respect to advancing GMF objectives. 3.2. Risk management processes exist and are effective.
Objective #4 - GMF management has access to adequate information and data systems to enable effective and efficient program administration.	4.1. Expected program 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. 4.2. GMF management has access to systems that support effective and efficient program administration.

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Federation of Canadian Municipalities

Performance Audit of the Green Municipal Fund

The complete audit program including audit criteria and lines of evidence are included in Appendix A. The criteria were designed to assess the efficiency and effectiveness of key practices, procedures and activities in place within GMF to achieve the Fund's objectives.

Our audit work included:

- ▶ Document and file review
- ▶ 20 key informant interviews with FCM staff, GMF Council and FCM Board members
- ▶ Bilingual web-based survey distributed to 432 recipients and non-recipients, yielding 87 responses (20.1% response rate) to assess the degree to which they are satisfied with GMF programming
- ▶ 3 case studies in Sherbrooke (Quebec), Qualicum Beach (British Columbia), and Montague (Prince Edward Island) designed to assess GMF program operations and impact across sectors, and regions
- ▶ Quantitative data analysis of administrative data

The following section outlines the core components of each line of evidence and describes our approach to integrating them.



# Methodology

# Methodology

This section describes the lines of evidence used to assess the Audit objectives and associated criteria. Although distinct, the lines of evidence are mutually reinforcing, i.e. the document and file review informed the interviews, and the interviews, in turn, clarified concepts or questions that emerged out of the document and file review. Multiple lines of evidence were jointly employed to assess each objective. The process of integrating lines of evidence to assess criteria associated with each of the audit objectives is also described below.

## Document and file review

FCM's Project Authority provided the project team with an initial round of documents primarily related to governance, i.e. annual reports, the Funding Agreement, and a collection of strategic planning documents. Key informant interviews, an initial document scan, and consultations with the Project Authority identified additional documents, which the project team requested and the Project Authority promptly provided.

The examination of applicant files, reports and review checklists supported analysis related to relevance, program success and value-for-money analysis. Processing times, review process compliance, and consistent application of the selection criteria across files were addressed through the file review.

A non-statistical, risk-based judgmental sampling strategy was adopted to review GMF project files to evaluate the following criteria:

- ▶ Processes to determine project and recipient eligibility are efficient and effective
- ▶ Processes to assess, evaluate, and approve applications for funding are consistent with GMF's stated objectives
- ▶ GMF has developed service level targets related to applications, contract and disbursement processing to promote efficiency and effectiveness
- ▶ Mechanisms exist and are followed to ensure that GMF is being administered in compliance with Funding Agreement terms and conditions

The approach to selecting files for review was informed by consultations with GMF and documentation review. GMF provides grants (with the exception of brownfields) and below-market loans to finance sustainable capital projects. Of the 333 Board approved initiatives totaling roughly \$301M, 57 were capital projects totaling roughly \$269M.

Capital projects represented 90% of all approved funding in the last 5 years. Completed capital projects were prioritized as the Review and Performance assessed files throughout the application, contracting and benefits reporting phases. 10 samples, 8 capital projects and 2 feasibility studies, were selected across sectors and regions.

## Key informant interviews

Key informant interviews were designed to provide qualitative information related to economy, efficiency and effectiveness of GMF. The project team developed interview guides, including questions relevant for both the Review and Performance Audit, and provided to the Project Authority for review and approval. Interviews

were conducted with 20 key informants drawn from GMF Council and FCM staff, including the Managing Director and all senior management at GMF. The interviews were conducted in person and by telephone (as required). Information gathered through the interviews was leveraged when assessing economy, efficiency and effectiveness. The questions posed to each key informant were based on their role within FCM/GMF, and they were provided with copies of the questions in advance to prepare.

## Web-based survey

To assess recipients and non-recipients' experience with GMF's funding and knowledge services, a bilingual, web-based survey was distributed by EY to all lead applicants who applied for GMF funding across all sectors and funding types covered under the scope of this Audit. This included 432 GMF recipients and non-recipients. 87, including 20 in French, were collected following an email invitation sent by the GMF Governance team. The survey combined open and closed-ended questions to gather information related to satisfaction with GMF programs, program design, experience with program administration, administrative efficiency, service delivery, benefit realization and opportunities for improvement.

## Case studies

The case studies offer contextual insight into GMF-funded projects through interviews and site visits. The case vignettes targeted capital projects completed between fiscal years 2014 and 2019. GMF strategic priorities outlined in various Annual Statements of Plans and Objectives guided the judgmental sample. Selection considerations included: (1) sector focus without duplication, (2) at least one rural project, (3) regional balance between the six distinct regions, and (4) the inclusion of at least one project in Quebec. Although randomly selecting projects would reduce potential case selection bias, it would also reduce the opportunity to explicitly explore areas of strategic interest to GMF, and thus add comparatively less value to the organization going forward.

## Capital projects reviewed

- ▶ GMF 13091 – Qualicum Beach's Energy Efficient Fire Hall. The Town of Qualicum Beach built a new, energy, efficient fire hall that included solar photovoltaic panels, LED lighting and a heat recovery ventilation system to increase the building's overall performance without compromising operational functionality. This project is in the British Columbia region. The project was approved for a \$4.64M loan and a \$464,467 grant from GMF accounting for 73% of total project funding.
- ▶ GMF 13027 - Construction of a sorting centre for waste going to landfill in the region of Haut-Saint-François and Sherbrooke. The Valoris Intermunicipal Board built a sorting centre for waste going to landfill to achieve a diversion rate of over 60% for the municipalities of the Haut-Saint-François RCM and Sherbrooke. This project is in Quebec and was approved for a \$7.5M loan and a \$750,000 grant from GMF and accounted for 26% of total project funding.
- ▶ GMF 15047 – Montague Sludge Dewatering System. The Town of Montague installed a geotextile dewatering system that increased the quality of wastewater effluent and optimized facility performance. This project is in the Atlantic region (Prince Edward Island) and was approved for a \$307,270 loan and a \$46,090 grant from GMF, which accounted for 80% of total project funding.

## Integration of lines of evidence

Integrating the lines of evidence requires a structured, systematic approach to ensure the evidence base adequately addresses the Audit criteria. A matrix approach was used to link relevant components of each line of evidence to the Audit criteria. Findings against the Audit criteria were developed based on the integration of the lines of evidence.



Performance audit  
findings



# Performance audit findings

## Objective 1: GMF is appropriately structured to achieve its objectives.

### Criteria 1.1. GMF's governance framework effectively and efficiently supports GMF's purpose outlined in Article II of the Funding Agreement.

Article II of the Funding Agreement outlines GMF's purpose as:

*"The Fund is to assist Municipal Governments to lever investments in Municipal Environment Projects and to provide grants, loans and/or loan guarantees to Eligible Recipients for Eligible Projects."*

To aid in achieving its purpose, GMF is governed by the FCM Board of Directors and GMF Council. The Board is ultimately responsible for the approval of project funding, monitoring the Fund's performance, and overseeing the GMF Council, Peer Review Committee and Investment Committee.

The GMF Council consists of 15 members and is equally divided into the following member categories:

- ▶ Members representing the Canadian Federal Government;
- ▶ Members with technical or financial expertise from the public, academic, environmental and private sectors; and,
- ▶ Elected officials of Canadian municipalities.



Canadian Federal  
Government  
Representatives



Elected officials from  
Canadian municipalities



Experts from public  
and non-profit sectors

The GMF Council advises the FCM Board about and oversees all GMF-related matters arising out of the Funding Agreement with support from its two sub-committees, the Audit Committee and the Governance Committee. This includes making project funding recommendations to the Board, maintaining an appropriate balance of approved projects among regions and between urban and rural communities within Canada, and monitoring the Fund's sustainability and stewardship. Interviews found that Council members are engaged in their duties and in coordinating with the GMF Governance team and operations.

The Peer Review Committee consists of members who bring an understanding of technical or financial best practices for innovative technologies and processes. They assess project applications and supporting materials to inform funding recommendations. Select members individually conduct an initial analysis and then arrive at a consensus by considering projects' anticipated environmental, economic, and social benefits. The reviewers use a Peer Review Scorecard that allows for an effective and aligned approach to application review.

The Investment Committee reports to the Board and advises GMF Council on all matters related to the investment management of the Fund. The Funding Agreement mandates that members must be financially literate and have broad knowledge or experience in investment matters. The Committee is responsible for ensuring that the Board is regularly made aware of any significant financial risks facing the Fund, including the consequences of potentially significant losses of investments for any portion or for the entirety of the Fund.

GMF's governance structure, through the Council, Board and Committees identified, is consistent with the framework described in the FA.

GMF's Five-Year Strategic Plan from 2018-2023 and interviews with Staff and Council emphasized the importance and need to continuously tell a clear and compelling story of GMF-funded projects through long term performance measurement. In 2018, GMF developed a new Performance Measurement Framework ("PMF") that groups leading and lagging indicators into the following common themes based on strategic areas:

- ▶ Impact and future-focused
- ▶ Collaborative and influential
- ▶ Responsible, solution-based and enabling
- ▶ Sustainable, well managed and credible

Observation 1: Several indicators in the new PMF are not yet tracked, preventing GMF from telling a holistic story of project benefits and fund performance.

Upon the approval of the PMF in September 2018, GMF did not have the appropriate data systems in place to monitor all identified indicators and has since undertaken efforts to build the required systems. At the time of the Review and Performance Audit, several of the indicators have yet to be deployed and monitored. Objective 4 of the Performance Audit will explore and address information management at FCM in greater detail.

- ▶ Recommendation 1: GMF should focus efforts on the continued development of indicators in the PMF, as they are critical to realizing Key Result Areas in the Five-Year Strategic Plan.
- ▶ Management response 1: FCM agrees with this recommendation. As outlined by GMF Management in the ASPO 2019-2020 and approved by GMF Council and FCM Board of Directors, GMF will complete the data-tracking systems and associated management dashboard development for the majority of its new Performance Measurement Framework indicators (target is 80% completion by end of fiscal year 2019-20). The balance of these dashboards will be completed in the following year. The slate of indicators will be reviewed on a regular basis to ensure they are the most appropriate for measuring GMF performance in key mandate areas.

GMF, as part of FCM, operates within a matrix model. FCM provides several support services to GMF, most notably Human Resources ("HR") and Information Technology ("IT") services. IT initiatives are governed through a recently established IT steering committee; however, HR does not have a similar governance body overseeing new initiatives with the FCM / GMF structure.

**Criteria 1.2 Processes for setting funding priorities and programs are efficient and effective in meeting GMF's stated objectives.**

The GMF Council provides recommendations regarding funding and program priorities to the Board for approval per the Funding Agreement. GMF conducts routine strategic planning and its most recent exercise was the Five-year strategic plan from 2018 to 2023, which was informed through stakeholder consultation and shaped the development of KRAs and a new PMF.

The strategic plan highlights GMF's new subsector visions and intermediate outcomes based on guidance in GMF's revised funding agreement and its past experience. Of note, GMF identified five strategic opportunities targeting funding, capacity building, and partnerships to support the acceleration of promising sustainability solutions from idea generation to broad mobilization. The opportunities are as follows:

- ▶ Position GMF as a thought leader;
- ▶ Empower innovation;
- ▶ Accelerate the replication and aggregation of opportunities;
- ▶ Enhance GMF's ability to attract investment in the municipal sector; and,
- ▶ Enable GMF to better serve the municipal sector and make its processes better serve municipalities.

Each of the identified opportunities are broken down further into actionable work packages or KRAs with relevant outputs and expected five-year outcomes. Progress against the KRAs are reported in the Annual Statement of Plans and Objectives.

There are no recommendations for criteria 1.2.

**Criteria 1.3 Retention and succession planning are key elements of 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.**

FCM has been on a journey to continuously improve its HR function. Yearly department overview documents from 2014-2015 to 2018-2019 focus on activities such as employee recognition, increased recruitment, and the implementation of a 360o feedback program. Although a formal retention policy has not been developed, FCM has several policies in place that contribute towards employee retention such as employee recognition, employee performance management, professional development, and telework.

FCM routinely conducts an organization-wide employee engagement survey to gauge overall engagement and employee experience. The two most recent surveys were held in January 2015 and January 2018 and showed high overall employee engagement, with the latest survey at 80%. Areas of improvement are related to professional growth, performance feedback and work/life balance.

Observation 2: Meaningful metrics are not tracked and reported to allow for the HR function to self-evaluate its performance and identify areas that require improvement.

During the audit period, FCM did not have systems in place to quantitatively monitor and report meaningful HR metrics, such as retention rates, time taken to fill open positions and time to onboard

new recruits. Interviews and review of FCM's IT Strategic Plan found that a new human capital management system will be implemented to allow for greater monitoring in these areas.

- ▶ Recommendation 2: FCM should continue focusing efforts on implementing systems that improve monitoring of HR performance and considers metrics such as retention rates, time taken to fill open positions and time to onboard new recruits.
- ▶ Management response 2: FCM agrees with this recommendation in part as it relates to Functional or Program specific HR metrics. FCM HR metrics have/are being measured and reported to the Executive Committee of the FCM Board several times a year including headcount, hiring, turnover by area, equity/gender splits, engagement scores, and exit interview summaries. Fiscal-year 2019-20 will see the integration of more Human Capital Management modules with Payroll/Finance providing a reporting/analytics platform that will allow custom reporting at the Functional or Program levels (part of the IT Strategy). The new Ceridian Dayforce Integration will also provide a Recruitment/Onboarding module to FCM which will help add more process metrics. In anticipation of the new integration and as part of our process review, the People and Culture team is tracking through spreadsheets the length of time each recruitment campaign takes. A copy of the Board Level Dashboard was provided as part of this audit.

Observation 3: FCM lacks a formal succession planning approach to support the continuity of critical positions throughout the organization.

Interviews indicated that although not an issue to date, succession planning is currently not formalized and is in the beginning stages of creation at FCM. Without a formal approach to succession of leadership positions, there is a risk that critical decision-making roles are not filled with the right individuals in a timely manner. This risk will heighten when GMF receives the \$950 million in increased funding announced in Budget 2019 and will lead to the introduction of three new initiatives and increase operations.

- ▶ Recommendation 3: A formal succession planning approach should be developed for critical positions considering leadership qualities, technical skills, experience, and knowledge. The approach should cover existing as well as new positions that will be created with the introduction of three new initiatives to GMF.
- ▶ Management response 3: FCM agrees with this recommendation. In May 2019, HR launched a formal 9-box succession planning approach including the identification of critical and vulnerable positions within FCMP. GMF was the first area reviewed and the GMF Senior Management Committee were directly involved in identifying the key roles and talent.

#### Criteria 1.4 GMF programming is designed to maintain and distribute the level of funding outlined in the Funding Agreement.

The Funding Agreement places certain requirements on the distribution of funds as follows:

- ▶ Distribute funds to Eligible Projects in one or more of the identified sectors;
- ▶ Maintain an appropriate balance in the number of approved Eligible Projects between urban and rural communities within Canada; and,

- ▶ Maintain an appropriate balance in the number of approved Eligible Projects among regions within Canada.

To ensure that funds are only distributed to Eligible Projects in one or more of the identified sectors, submitted applications first undergo an eligibility review that considers the eligibility requirements set out in the Funding Agreement and is conducted by GMF Project Officers ("POs"). Ineligible projects do not proceed to subsequent stages of review. The FA is not prescriptive regarding sector allocation and interviews with GMF Staff indicated that there are no internally set targets for approved funding.

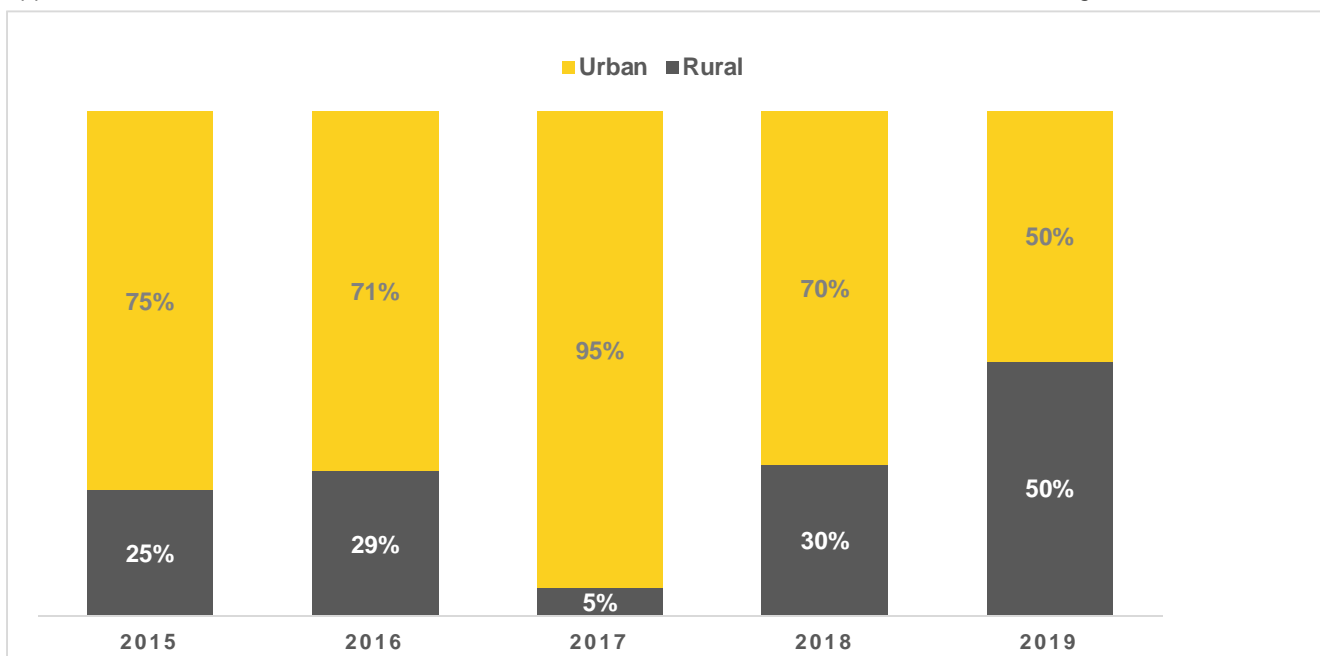
The GMF Council oversees funding recommendations and advises the FCM Board on appropriate urban-rural balance in Canadian communities and appropriate regional balance across Canada. To efficiently provide insight into the location of a project and whether they serve urban or rural communities, GMF staff provide Council with a Council Recommendation Sheet ("CRS") that summarizes the project and highlights this information.

On an annual basis, FCM's Board approves an Annual Statement of Plans and Objectives ("ASPO") for the GMF that outlines goals for fund allocation in compliance with the Funding Agreement. The ASPOs and Annual Reports published during the Audit Period show that balance is monitored and reported against using relative population as a basis.

Review of GMF administrative data and interviews with FCM staff and Council found that the GMF is designed to maintain and distribute the level of funding outlined in the Funding Agreement.

GMF's latest available Annual Report, FY 2017-18, indicates that the total net approved funding since inception of the Fund is within 2% of their desired target balance for urban and rural communities at 81.1% and 18.9% respectively.

Figure 1: GMF administrative data between FY 2015 - FY 2019 showed that the annual balance of funding approved between urban and rural communities shifts to facilitate the achievement of GMF's target balance.



Source: EY analysis of GMF administrative data from FY 2014-15 to FY 2018-19.

There are no recommendations for criteria 1.4.

## Objective 2: Application, contracting, disbursement and monitoring processes are effective and efficient in ensuring funded projects are consistent with GMF's objectives.

### Criteria 2.1 Processes to determine project and recipient eligibility are efficient and effective.

Sections 2.03 and 2.04 of the Funding Agreement describe the characteristics of eligible projects that may receive GMF funding. These sections define:

- ▶ The sector(s) in which a project has potential to result in environmental improvement;
- ▶ Potential economic and social benefits as a result of the project.

GMF's Funding Services has developed a clear application process that includes an application eligibility review conducted by POs. This eligibility review incorporates the requirements set out in the Funding Agreement. The application process documentation also emphasizes the importance of the eligibility review and the rigor with which it should be conducted.

Interviews indicated that staff work with applicants to assist them with completing applications and clarifying the eligibility requirements set out in the Funding Agreement. Representatives from the projects chosen for case study expressed that they were satisfied with the level of assistance provided by the GMF for the application.

There are no recommendations for criteria 2.1.

### Criteria 2.2 Processes to assess, evaluate, and approve applications for funding are consistent with GMF's stated objectives.

GMF has developed an application process defining roles, responsibilities and tasks from the receipt of an application to the ultimate decision on whether it is approved for funding. Project eligibility and application completion are reviewed by GMF's POs prior to submission for peer review. Once submitted, select peer reviewers individually assess the projects using a Peer Review Scoresheet and then arrive at a consensus.

Prior to April 2018, the Funding Agreement required that the peer review be performed by two reviewers if the Eligible Project was seeking less than \$500,000 and three reviewers if seeking \$500,000 or more. The 2018 Funding Agreement removed this requirement and outlined that the number of peer reviewers shall be determined by Council and approved by the Board. The application process was updated accordingly to reflect the changes in the Funding Agreement.

Once the peer review process is complete, GMF staff create the CRS which summarizes the project, peer review results and recommendation for funding. The recommendations are reviewed by Council and subsequently submitted to the Board for final approval of funding.

The 2019 Review and Performance Audit administered a survey to funding recipients and non-recipients in order to understand their

File review did not find any instances where an ineligible project received funding approval. The eligibility review operates effectively due to a clearly outlined process and early involvement of GMF staff.

Document and file review supported that the application process is defined as specified in the Funding Agreement and consistently followed.

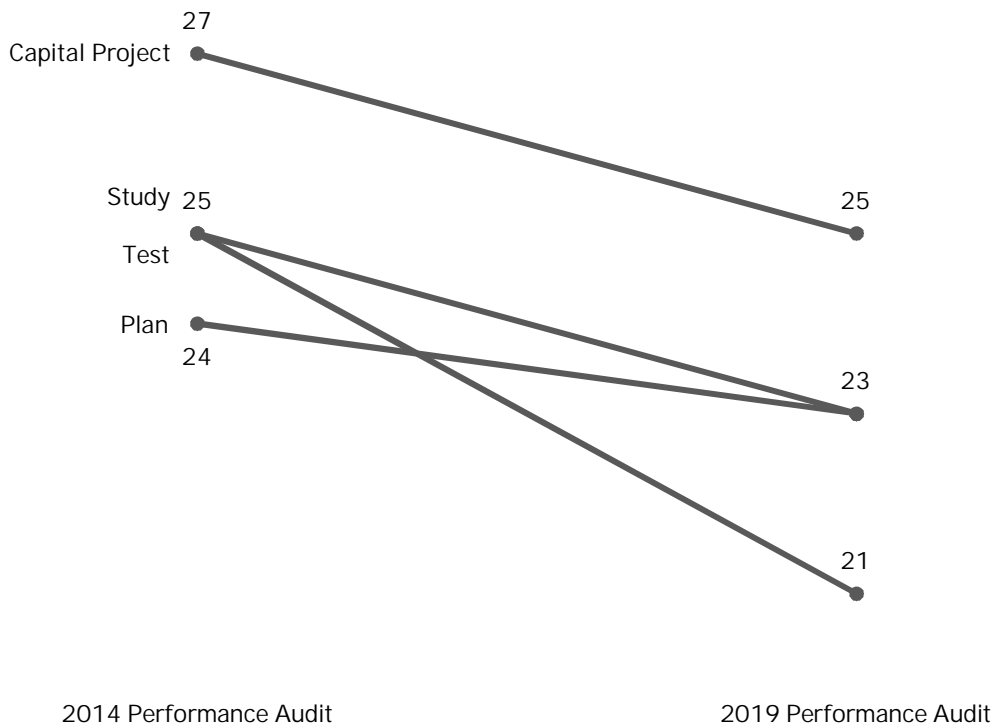
experience with the GMF application process. The results were compared to those collected in the 2014 Review and Performance Audit. The survey included questions around client's satisfaction with the communication of application processing timelines, GMF's support during the application process and their overall satisfaction. Survey results found that client satisfaction has slightly increased when compared to the 2014 results. there were slight increases in client satisfaction in each area.

**88%** of 2019 survey respondents agreed or strongly agreed that **they are satisfied with the support they received from GMF** during the application process, similar to 2014 (Source: EY Survey of Recipients and Non-Recipients, 2019 (N=87), 2014, (N=107)).

**79%** of 2019 survey respondents agreed or strongly agreed that their **applications were processed in a timely manner** based on timelines communicated by GMF, similar to 2014. (Source: EY Survey of Recipients and Non-Recipients, 2019, 2014 (N=87), (N=107)).

EY reviewed GMF's administrative data to understand overall approval processing timelines in the last five years.

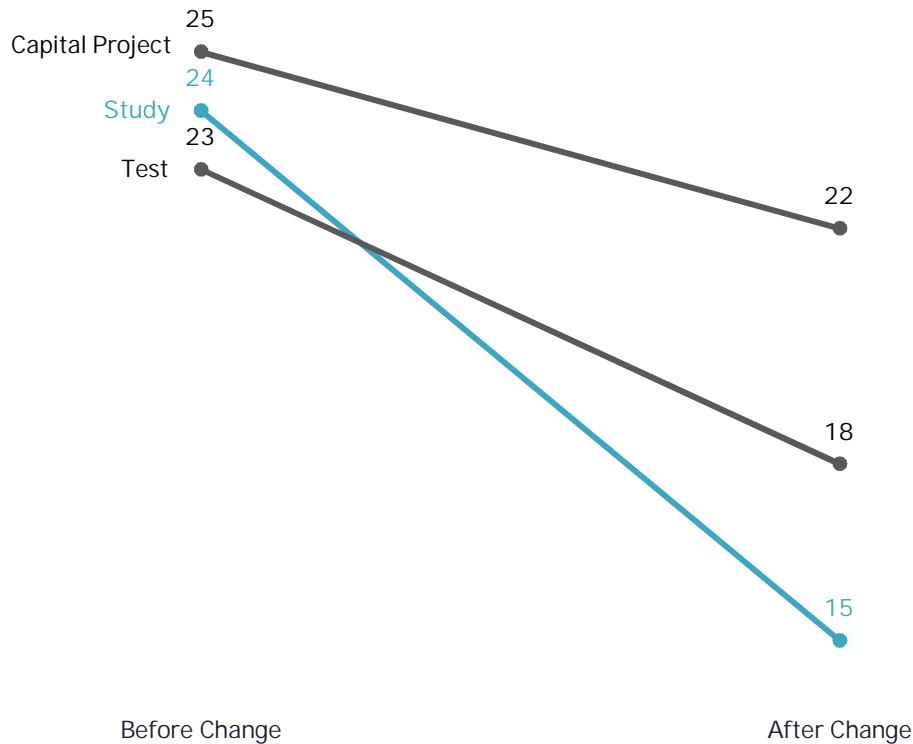
Figure 2: Average processing timelines (measured in weeks) have improved for each type of initiative when compared to results from the 2014 Performance Audit.



Source: EY analysis of GMF administrative data.

The 2014 Audit found that applications' approval processing time for large capital projects is similar to smaller-scale feasibility studies. As illustrated above, that observation remains true for applications since the previous Audit, although timelines have generally improved overall. Document review found that in April 2018, in conjunction with the new Funding Agreement, Council provided the approval authority for plans and studies to the GMF Managing Director. Interviews with GMF staff indicated that this change was brought upon thanks to opportunities recognized by the Funding Services team to alleviate the approval burden on Council and reduce approval time for low-risk projects. Upon review of administrative data for approved projects since April 2018, this change was effective in reducing timelines across all initiative types.

Figure 3: The average processing timeline (measured in weeks) for Studies has reduced by 9 weeks due to changing the approval authority for Plans and Studies in April 2018. Timelines for other initiative types also decreased.



Source: EY analysis of GMF administrative data.



Observation 4: Changes made to the applications process for plans and studies have yielded positive results. However, interviews indicate that proposed changes take a long period of time to implement.

Since the Funding Services group is highly involved throughout the execution of the applications, contracting and disbursement processes, they recognize and document issues and improvement opportunities. However, interviews indicate that it takes a long period of time to obtain approval to implement proposed changes to address these issues.

- ▶ Recommendation 4: GMF should consider leveraging the groundwork done by Funding Services when reviewing its applications process in order to identify efficiencies and opportunities for improvement.
- ▶ Management response 4: FCM agrees with this recommendation. As outlined by GMF Management in the ASPO 2019-2020, the GMF Client and Funding Services team is working to streamline its processes through targeted improvement initiatives and a continuous improvement approach based on opportunities identified by clients and Client and Funding Services staff. More broadly, FCM is continuously looking for opportunities to be more efficient in responding to emerging improvement opportunities.

### Criteria 2.3 GMF has developed service-level targets related to applications, contract and disbursement processing to promote efficiency and effectiveness.

The following Service Level Targets (“SLTs”) have been developed for the processing of applications:

- ▶ A target of four months for feasibility studies, plans, and field tests from when a complete application is received to when it is ready for GMF Council’s review.
- ▶ A target of six months for capital projects from when a complete application is received to when it is ready for GMF Council’s review.



Five out of the 10 files reviewed met the applications processing targets outlined above.

Once an application has been approved for funding by the FCM Board, FCM has set a target of 30 days to send contracts to the applicants.



File review found that contracts were sent to approved projects outside of the 30 day timeframe for all but one out of the 10 files review.

The 2014 Audit recommended that FCM make SLTs more explicit through CRM workflows. Document review found that the monitoring of the applications, contracting, and disbursement processes was implemented in 2016-17. A majority of the files selected for audit contained applications that were processed prior to 2016-17 because completed projects were prioritized as indicated in the “Methodology” section of this Report.

It is important to note the results of the SLT review do not indicate non-compliance with the Funding Agreement as the SLTs are an internal benchmark set by FCM to evaluate service quality. To understand the experience of funding recipients, GMF has implemented a post-completion survey mechanism. Survey results

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showed a high degree of satisfaction with GMF's client service for the respondents as shown below. There is a high degree of satisfaction among respondents, but a relatively low response rate overall.

**86%** of 2019 survey respondents agreed or strongly agreed that **GMF personnel provided excellent client service during the application process.** (Source: EY Survey of Recipients and Non-Recipients, 2019 (N=87), 2014 (N=107)).

**82%** of 2019 survey respondents agreed or strongly agreed that **GMF provided excellent client service during the contracting process.** (Source: EY Survey of Recipients and Non-Recipients, 2019 (N=87), 2014 (N=107)).

Observation 5: Response rate for post-completion surveys is low. The insight gathered through this exercise would be highly valuable and allow for the improvement of their service quality.

Interviews with FCM staff have indicated that funding recipients are surveyed after project completion to better understand that their experience with GMF and improve service quality, but the response rate is low. They have since considered implementing an interview-based completion report so that the GMF interviewer can dip deeper into issues experienced by the funding recipient. However, GMF staff noted that this would require a significant time and resource requirement.

- ▶ Recommendation 5: GMF should consider alternate methods to increase collection of post-completion survey responses.
- ▶ Management response 5: FCM agrees with this recommendation. The GMF Client and Funding Service team is exploring new ways to improve engagement with clients post completion of their initiative. One of the primary client engagement initiatives for the current fiscal year is to conduct post-completion interviews with the clients to capture lessons learned from the initiative as well as service feedback in order to ease the reporting burden on the client. The team will adjust its methodology if the pilot demonstrates the approach to be efficient and effective.

#### Criteria 2.4 Mechanisms exist and are followed to ensure that GMF is being administered in compliance with Funding Agreement terms and conditions.

The Funding Agreement (“FA”) outlines requirements for:

- ▶ The structure of GMF’s governance framework
- ▶ Funding recommendation and approval authorities
- ▶ Applications review and processing

The Governance team at GMF ensures that the governance framework is consistent with the terms and conditions in the FA. The FCM Board of Directors is ultimately responsible for the approval of project funding, monitoring the Fund’s performance, and overseeing the GMF Council, Peer Review Committee and GMF Council’s Investment Committee.

Comprehensive process documentation outlines the application review process at GMF. These process documents integrate the requirements of the FA as it relates to the review of applicant and project eligibility, peer review, GMF Council recommendation and Board approval. The Funding Services team at GMF is primarily responsible for reviewing eligibility, with involvement from the Credit Risk team as required.

Overall interviews, file review, and case studies found that GMF is being administered per the FA and did not identify instances of non-compliance.

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The Peer Review makes use of a Peer Review Scoresheet that allows for a uniform approach to application review and requires identification of projects' type, region and sector as set out in the FA. Once an application review is complete, a Council Recommendation Sheet is created that synthesizes the Peer Reviewers' comments and considerations of the strategic goals of the GMF.

There are no recommendations for criteria 2.4.

## Objective 3: Mechanisms exist to help ensure sustained funding and support for GMF's continued operations.

### Criteria 3.1 Stakeholder engagement has been effective with respect to advancing GMF objectives.

FCM's Communications and Marketing Logic Model identifies their ultimate outcome as "Target audiences engage with FCM to address local government priorities and initiatives" and an intermediate outcome as "Programs and initiatives are shaped by communications, outreach and stakeholder engagement". The Logic Model then illustrates that the achievement of these outcomes will be supported by activities such as external communications and market research and outputs such as strategic advice, plans and frameworks.

An extensive communications strategy and workplan containing outreach campaigns, outline activities and events to engage stakeholders has been developed. Interviews and document review found that FCM collects information on external stakeholders' needs through surveys, feedback from the Sustainable Communities Conference, interviews and informal conversations.

Interviews found that the development GMF's Five-Year Strategic Plan was informed through stakeholder engagement at the national level. GMF consulted potential investment partners, endowment funds, non-governmental organizations ("NGOs"), municipal officials and thought leaders in sustainable infrastructure. This helped uncover Key Result Areas ("KRAs") identified in their strategic plan.

A critical component of the Strategic Plan and ASPO is for GMF to enhance its ability to attract investment in the municipal sector. GMF has in-turn engaged with potential investment partners to understand their needs and concerns and they intend to hire a business case analyst to help translate the value of GMF projects into language understood by the private-sector.

Peer learning initiatives such as Leadership in Asset Management Program ("LAMP") and Leadership in Brownfield Renewal Program ("LiBRé") are highlighted in the GMF Annual Reports and FCM website. These initiatives provide opportunities for capacity-building by organizing workshops and connecting representatives from different municipalities across Canada.

Network development is also fostered by GMF funding and its stakeholder engagement activities. In the case study conducted with the Town of Qualicum Beach, the representative reported that they were contacted by several other municipalities interested in building energy-efficient fire halls to understand challenges and benefits experienced with their project. The representative was also invited by FCM to a formal working session that brought together municipalities with similar interests.

There are no recommendations for criteria 3.1.

### Criteria 3.2 Risk management processes exist and are effective

Document review found that the Risk Management Framework covers three main risk categories: credit risk, market risk and operational risk. Each risk area is addressed and managed through respective policy documents that define roles, responsibilities and risk management activities.

The Risk Management Unit ("RMU") was set up five years ago and originally reported to the COO and was intended to support the credit and underwriting team. They now report to the Senior Manager of Finance and support the investment team as well. They have a portfolio-wide view and are responsible for ensuring the

balance between loans and investments in terms of return and risk exposure. They also assist with credit risk assessments for capital projects, which is an integral component of application assessment.

Interviews indicated that GMF has historically taken a low-risk approach to funding projects, which has allowed for the organization to avoid a loss on any deals made to-date. However, there was also concern that this may limit the value that is delivered by GMF to municipalities by funding less innovative projects and collecting fewer lessons learned via new projects. Follow-up discussions with the RMU found that the low-risk approach was taken due to the sustainability requirement of the Funding Agreement. The incoming additional funding will increase the ability to take “smart” risks when funding new projects.

**Observation 6: Organization-wide operational risk management activities have been identified in policy documentation but were not executed as stated within the Operational Risk Policy.**

Interviews and document review found that credit risk and market risk considerations are integrated into application review processes and RMU activities. The Operational Risk Policy was an interim policy for GMF that provided a foundation to be built upon as FCM’s understanding of operational risk develops. The policy specifies that a robust framework for the identification, analysis, monitoring, and reporting of operational risks across FCM in its role as Trustee of GMF shall be designed. Operational risk management activities identified in the policy include the implementation of a risk self-assessment process for each business unit, and the mapping of risk factors in each unit. These activities were not observed during the audit period. Interviews indicate that the implementation of an organization-wide approach to operational risk management is currently underway and is transitioning under the responsibility of the Legal, Risk and Compliance Unit at FCM.

- ▶ Recommendation 6: FCM should collect results from risk self-assessments conducted by each business line to inform the development of an operational risk register. The register should map identified risks to the controls that mitigate them and identify control owners.
- ▶ Management response 6: FCM agrees with this recommendation. FCM has recently created an organization wide risk management mandate within its legal services unit and has engaged external expertise to elaborate an organizational risk framework. This will be further built out over the coming years. Furthermore, GMF has developed a risk scenario planning tool for its new programs which it will implement as standard practice going forward.

## Objective 4: GMF management has access to adequate information and data systems to enable effective and efficient program administration.

**Criteria 4.1 Expected program 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.**

For Capital projects, environmental, economic, and social benefits are monitored via Environmental Results Reports (“ERRs”) upon project completion. They are then verified by a Project Verification Specialist at GMF. Plans, studies, and field tests submit completion reports identifying potential triple-bottom line benefits, but they are not tracked by GMF as they are not realized benefits. The environmental benefits of approved and completed capital projects are monitored by sector-specific metrics and reported in GMF’s Annual Reports. However, economic and social benefits are generally highlighted in case studies done on select projects.

Observation 7: GMF has gone through the exercise of identifying appropriate leading and lagging indicators and established a dashboard reporting system. However, not all indicators are currently being tracked.

GMF’s new PMF consists of leading and lagging indicators that consider triple-bottom line benefits, service quality performance, and fund sustainability and roll-up into a dashboard for reporting to management. Interviews indicated that GMF is confident that the right indicators have been identified to enable alignment with its objectives and priorities. Several of these indicators have yet to be deployed and monitored.

Current systems to track relevant data for the indicators largely use independent spreadsheets making it difficult to aggregate. IT has recognized this as a priority and will carry out a project to capture the data from various sources and allow for timely results and outcome reporting.

- ▶ Recommendation 7: GMF should continue to develop the indicators in the PMF to enable effective and timely management decision making.
- ▶ Management response 7: FCM agrees with this recommendation. As outlined by GMF Management in the ASPO 2019-20 and approved by GMF Council and FCM Board, the GMF will complete the data-tracking systems and associated management dashboard development for the majority of its new Performance Measurement Framework indicators (target is 80% completion by end of fiscal year 2019-20). The balance of these dashboards will be completed in the following year. The slate of indicators will be reviewed on a regular basis to ensure they are the most appropriate for measuring GMF performance in key mandate areas.

**Criteria 4.2: GMF management has access to systems that support effective and efficient program administration.**

Previous sections in this report have touched on areas affected by IT limitations. Interviews found that in general, systems at GMF could be improved to better support program administration. The IT group has experienced high turnover recently and lacked the resources to appropriately address all IT issues throughout

the organization. A strategic plan for 2019-2023 was put together with assistance from a 3rd party consultant which defines a path to modernization of IM and IT at FCM.

Observation 8: Interviews indicated that IT system limitations have affected the administration of GMF over the past 5 years. An IT roadmap identifies several key projects that will improve the effective and efficient administration of GMF. Successful implementation of these projects will enhance readiness for anticipated growth in operations at GMF.

A recently established IT Steering Committee governs over IT initiatives and will hold regular meetings to review the status of ongoing projects and course-correct as necessary. Project updates will be provided to senior management on a bi-annual basis.

IT has identified priority projects that will be implemented throughout the upcoming years. One such project is the replacement of the grants and loans system. The current system exists as part of a highly customized CRM workflow and is difficult to further customize without affecting other processes contained within the workflow. The project will seek a 3rd party product that is able to integrate with CRM. IT is also focusing on bolstering results-based reporting and performance measurement, which will aid in effective implementation of GMF's new PMF and enable timely management decision making.

- ▶ Recommendation 8: FCM should ensure that IT transformation initiatives have appropriate oversight to carry out the priorities identified in the 2019-2023 roadmap to ensure issues are addressed in a timely manner with sufficient organization support.
- ▶ Management response 8: FCM agrees with this recommendation. FCM has approved the IT Strategic Plan, Roadmap and associated budget, which will be reviewed every 6-8 months to ensure alignment with FCM Corporate priorities. An IT Steering Committee has been established to oversee the implementation of 18 initiatives as outlined in the IT Strategic Plan and an updated IT organizational chart containing new team members to support priority initiatives has been approved to begin hiring. Additionally, for each significant IT project, FCM forms a project team containing subject matter experts from GMF and representatives from other affected departments to ensure end-user requirements are captured correctly.





# Conclusion

# Conclusion

## **Objective #1: GMF is appropriately structured to achieve its objectives.**

GMF's governance structure, through the Council, Board and Committees is consistent with the framework described in Article II of the FA. GMF conducts routine strategic planning for the future and prepares an Annual Statement of Plans and Objectives. The FA also describes considerations for distribution of funds, which GMF is compliant with through its governance structure and reporting mechanisms.

To allow for the continuous achievement of GMF's objectives, opportunities for improvement have been identified regarding the development of indicators in the new PMF and the definition of a formal succession planning approach.

## **Objective #2: Application, disbursement and monitoring processes are effective and efficient in ensuring funded projects are consistent with GMF's objectives.**

File review supported that the application process is defined as specified in the FA and consistently followed to ensure that funded projects are consistent with GMF's objectives.

Opportunities for improvement have been identified to increase compliance with internally set SLTs and improve service quality.

## **Objective #3 - Mechanisms exist to help ensure sustained funding and support for GMF's continued operations.**

Stakeholder engagement and Risk Management are key areas to help ensure sustained funding and support for GMF's continued operations. Stakeholder engagement activities are built into FCM's Communications and Marketing Logic Model and its knowledge products.

Risk management processes for market and credit risk have been developed and implemented into the RMU's activities. However, organization-wide operational risk management activities were not executed as stated within existing policy documentation.

## **Objective #4 - GMF management has access to adequate information and data systems to enable effective and efficient program administration.**

GMF has identified appropriate leading and lagging indicators and established a dashboard reporting system. However, not all indicators are currently being tracked.

IT system limitations have affected the administration of GMF over the past 5 years. An IT roadmap identifies several key projects that will improve the effective and efficient administration of GMF. Successful implementation of these projects will enhance readiness for anticipated growth in operations at GMF.



Appendix A:  
Audit program

# Appendix A: Audit program

Review Objectives	Review Criteria	Document and File Review	Analysis	Interview and Case Vignettes	Survey
Objective #1 - GMF is appropriately structured to achieve its objectives	1.1. GMF is aligned with key stakeholder priorities	X	X	X	X
	1.2. GMF addresses an actual need		X	X	X
Objective #2 - Application, disbursement and monitoring processes are effective and efficient in ensuring funded projects are consistent with GMF's objectives.	2.1. GMF initiatives have generated environmental benefits related to air quality, water quality, soil quality, and climate protection	X	X	X	X
	2.2. GMF initiatives have generated economic benefits	X	X	X	X
	2.3. GMF initiatives have generated social benefits	X	X	X	X
Objective #3 - Mechanisms exist to help ensure sustained funding and support for GMF's continued operations.	3.1. GMF Knowledge Services promote environmental benefits	X			X
	3.2. GMF Knowledge Services promote economic benefits	X		X	X
	3.3. GMF Knowledge Services promote social benefits	X		X	X
	3.4. Recipients of GMF Knowledge Services are satisfied with the GMF	X		X	X
Objective #4 - GMF management has access to adequate information and data systems to enable effective and efficient program administration	4.1. Expected program 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.	X		X	
	4.2. GMF management has access to systems that support effective and efficient program administration	X		X	

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