



Office of the Auditor General / Bureau du vérificateur général

**FOLLOW-UP TO THE 2008 AUDIT OF GRANTS AND
CONTRIBUTIONS**

2011

**SUIVI DE LA VÉRIFICATION DES SUBVENTIONS ET
CONTRIBUTIONS DE 2008**

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EXECUTIVE SUMMARY

Introduction

The Follow-up to the 2008 Audit of Grants and Contributions was included in the Auditor General's 2011 Audit Plan at the request of the Audit Sub-Committee.

The key findings of the original 2008 Audit of Grants and Contributions included:

- As was the case during a 2003 audit, there is still no overall policy framework governing the establishment and management of grants and funding programs to external organizations at the City.
- Accounting for these various funding programs within the corporate financial system remains inconsistent and the data and reports currently available do not facilitate effective management.
- The lack of clear corporate direction on funding programs creates the risk of inequitable treatment of applicants for funding. No clear direction and guidance are provided to departments in establishing and monitoring these programs, impeding their ability to measure performance, and ensuring that value for money is received from these programs.
- The audit also identifies opportunities for further improvement in the areas of pre-screening for eligibility, conflict of interest, determination of the allocation amount, and management oversight and follow-up.

Summary of the Level of Completion

1. The table below outlines our assessment of the level of completion of each recommendation as of December 2011.

CATEGORY	% COMPLETE	RECOMMENDATIONS	NUMBER OF RECOMMENDATIONS	PERCENTAGE OF TOTAL RECOMMENDATIONS
LITTLE OR NO ACTION	0 – 24	-	-	-
ACTION INITIATED	25 – 49	-	-	-
PARTIALLY COMPLETE	50 – 74	8	1	8%
SUBSTANTIALLY COMPLETE	75 – 99	6, 12, 13	3	23%
COMPLETE	100	1, 2, 3, 4, 5, 7, 9, 10, 11	9	69%
TOTAL			13	100%

2. The table below outlines management's assessment of the level of completion of each recommendation as of February 2012 in response to the OAG's assessment. These assessments have not been audited.

CATEGORY	% COMPLETE	RECOMMENDATIONS	NUMBER OF RECOMMENDATIONS	PERCENTAGE OF TOTAL RECOMMENDATIONS
LITTLE OR NO ACTION	0 – 24	-	-	-
ACTION INITIATED	25 – 49	-	-	-
PARTIALLY COMPLETE	50 – 74	8	1	8%
SUBSTANTIALLY COMPLETE	75 – 99	6, 12	2	15%
COMPLETE	100	1, 2, 3, 4, 5, 7, 9, 10, 11, 13	10	77%
TOTAL			13	100%

Overall Management Response

Management will forward the section entitled "*Additional Areas for Management's Attention*" to the Grants and Contributions Co-ordination and Oversight Committee for consideration.

With regard to the OAG's concern of inconsistency between what is reported on the agency's reserve/surplus/deficit situation on the annual submission form and that of the agency's financial statements, it must be noted that there frequently exists a lag time between the final audited financial statements and the presentation of the completed annual submission form. As a point in time reference, amounts of surplus/deficits do fluctuate depending on that agency's year end date. All allocation decisions consider the reserve/surplus/deficit situation of the agency. Community Funding staff follow the parameters set by policy whereby at the discretion of the City, an agency may be required to submit a surplus/reserve spending plan where it exceeds six months operating expenses.

With respect to the OAG's comments regarding outdoor rink purchase of service (POS) agreements in the follow-up findings for recommendations 1, 5 and 12, it should be noted that these agreements relate to the specific provision of a service. The City does not require the right to audit the service provider's finances however, POS agreements have checks and balances in place to ensure that deliverables are met before payment is released.

Conclusion

Management has made good overall effort in fully or substantially implementing approximately 92% of the recommendations. Effective January 1, 2011, a new Corporate Policy on Grants and Contributions has now been implemented providing the framework to address key findings identified in the original audits.

Given that Management relies on a self-assessment of compliance of the overall program to the policy, we believe oversight and monitoring should include a more in-depth periodic validation of the self-assessment.

Additional Areas for Management's Attention

Through the audit work performed we also noted a few items that were beyond the scope of the original audit recommendations that require Management's attention.

We observed that reserve funds and surpluses were not always considered on funding submission summaries or checklists, were not always completely and accurately reported on funding submissions and did not always agree with amounts reported on financial statements. For the funding submissions reviewed, it was not always clear what portion including the budget pressures, was being funded. Our work on this follow-up reinforces the need for a review process for all long-standing funding agreements to ensure that funds are awarded and used in accordance with Council priorities, particularly where there are continued surpluses.

There were also project funding applications and report forms which direct that only the portion of grants directed toward the project be reflected and that do not require minutes of Board meetings. These result in the risk that all associated revenues and expenses are not reflected with the application.

Finally, we noted that across departments there were policies, procedures and forms that were inconsistent such as the number of required signatures on minutes and the disclosure of activities and involvements with the potential to create actual or perceived conflicts of interest.

These additional areas will be presented to Council as part of the 2011 Annual Report.

Acknowledgement

We wish to express our appreciation for the cooperation and assistance afforded the audit team by management.

RÉSUMÉ

Introduction

Le Suivi de la vérification des subventions et contributions de 2008 était prévu dans le Plan de vérification du vérificateur général.

Les principales constatations de la vérification de 2008 sont les suivantes :

- Comme cela a été le cas lors d'une vérification effectuée en 2003, il n'y a toujours aucun cadre politique global régissant l'établissement et la gestion des programmes de subventions et de financement aux organismes extérieurs à la Ville.
- La comptabilisation de ces divers programmes de financement dans le système financier municipal demeure inconsistante et les données et rapports actuellement disponibles n'en facilitent pas la gestion efficace.
- L'absence de direction centrale claire en ce qui concerne les programmes de financement entraîne un risque de traitement inéquitable des personnes qui présentent une demande de financement. Les services ne reçoivent aucune direction ni orientation claire pour l'établissement et le suivi de ces programmes, ce qui entrave la capacité de mesurer le rendement et d'obtenir un bon rapport qualité-prix.
- La vérification a aussi permis de déceler des occasions d'apporter d'autres améliorations dans les domaines de la présélection aux fins d'admissibilité, des conflits d'intérêts, de la détermination du montant accordé, et de la surveillance et du suivi par la direction.

Sommaire du degré d'achèvement

1. Le tableau ci-dessous présente notre évaluation du degré d'achèvement de chaque recommandation au mois de décembre 2011.

CATÉGORIE	POURCENTAGE COMPLÉTÉ	RECOMMANDATIONS	NOMBRE DE RECOMMANDATIONS	POURCENTAGE DU TOTAL DES RECOMMANDATIONS
PEU OU PAS DE MESURES PRISES	0 – 24	-	-	-
ACTION AMORCÉE	25 – 49	-	-	-
COMPLÉTÉE EN PARTIE	50 – 74	8	1	8 %
PRATIQUEMENT COMPLÉTÉE	75 – 99	6, 12, 13	3	23 %
COMPLÉTÉE	100	1, 2, 3, 4, 5, 7, 9, 10, 11	9	69 %
TOTAL			13	100 %

2. Le tableau ci-dessous présente l'évaluation de la direction concernant le degré de réalisation de chaque recommandation au mois de février 2012 en réponse à l'évaluation du Bureau du vérificateur général. Ces évaluations n'ont pas fait l'objet d'une vérification.

CATÉGORIE	POURCENTAGE COMPLÉTÉ	RECOMMANDATIONS	NOMBRE DE RECOMMANDATIONS	POURCENTAGE DU TOTAL DES RECOMMANDATIONS
PEU OU PAS DE MESURES PRISES	0 – 24	-	-	-
ACTION AMORCÉE	25 – 49	-	-	-
COMPLÉTÉE EN PARTIE	50 – 74	8	1	8 %
PRATIQUEMENT COMPLÉTÉE	75 – 99	6, 12	2	15 %
COMPLÉTÉE	100	1, 2, 3, 4, 5, 7, 9, 10, 11, 13	10	77 %
TOTAL			13	100 %

Réponse générale de la direction

La direction soumettra la section intitulée « *Autres points nécessitant l'attention de la direction* » à l'examen du Comité de coordination et de surveillance des subventions et des contributions.

En ce qui concerne la préoccupation du bureau du vérificateur général relativement aux différences dans les montants des réserves, des surplus et des déficits des organismes apparaissant inscrits dans les formulaires annuels de demande de subventions et leurs états financiers, il est à noter qu'il existe souvent un décalage entre la production des états financiers vérifiés des organismes et la soumission de leur formulaire annuel de demande de financement dûment rempli. À une période de référence donnée, les montants des surplus ou des déficits varient effectivement dépendamment de la date de fin d'exercice des organismes. Toutes les décisions de contributions prennent en compte les réserves, les surplus et les déficits des organismes. Le personnel affecté au financement communautaire suit les paramètres administratifs en vertu desquels un organisme, à la discrétion de la Ville, peut être tenu de soumettre un plan de dépense des surplus ou d'une réserve excédant six mois de frais d'exploitation.

En ce qui concerne les observations du bureau du vérificateur général formulées dans les constations de suivi des recommandations 1, 5 et 12 portant sur les ententes d'achat de services pour les patinoires extérieures, il est à noter que ces ententes concernent la prestation d'un service en particulier. La Ville ne se réserve pas le droit de vérifier les finances du fournisseur de services, mais les ententes d'achat de services comprennent des mécanismes de vérification pour s'assurer que les produits attendus sont bien livrés avant d'effectuer un paiement.

Conclusion

La direction a consacré beaucoup d'effort en général pour assurer la mise en œuvre complète ou substantielle d'environ 92 p. cent des recommandations. Une nouvelle *Politique sur les subventions et les contributions municipales* est entrée en vigueur le 1^{er} janvier 2011 et sert de cadre pour donner suite aux principales constatations des vérifications initiales.

Étant donné que la direction a recours à une autoévaluation pour déterminer la conformité du programme général à la politique, nous croyons que les mesures de surveillance et le contrôle devraient comprendre une validation périodique plus approfondie de l'autoévaluation.

Autres points nécessitant l'attention de la direction

Dans le cadre de nos travaux de vérification, nous avons remarqué quelques éléments au-delà de la portée des recommandations de la vérification initiale nécessitant l'attention de la direction.

Nous avons constaté que les fonds de réserve et les surplus n'étaient pas toujours pris en compte dans les sommaires ou les listes de contrôle des demandes de financement, qu'on ne les rapportait pas toujours en entier ou exactement et qu'ils ne correspondaient pas toujours aux montants apparaissant dans les états financiers. Pour ce qui est des demandes de financement que nous avons révisées, il n'était pas toujours clair quelle partie des pressions budgétaires était financée. Notre travail entourant ce suivi renforce la nécessité de mettre en place un processus de révision de toutes les ententes de financement de longue date pour s'assurer que les fonds sont consentis et utilisés conformément aux priorités du Conseil, notamment lorsqu'il y a des surplus récurrents.

Un certain nombre de demandes de financement de projets et de formulaires de rapport indiquaient de n'inscrire que les parties de subventions accordées au projet et n'exigeaient pas d'annexer le procès-verbal des réunions du conseil d'administration. Cela étant, il y a un risque que toutes les recettes et dépenses connexes ne figurent pas dans la demande.

Enfin, nous avons observé que les politiques, les procédures et les formulaires d'un service municipal à l'autre n'étaient pas uniformes, comme le nombre de signatures exigées sur les procès-verbaux et la déclaration d'activités et d'intérêts, ce qui pourrait entraîner des conflits d'intérêts réels ou perçus.

Ces points additionnels seront présentés au Conseil dans le cadre du Rapport annuel 2011.

Remerciements

Nous tenons à remercier la direction pour la coopération et l'assistance accordées à l'équipe de vérification.

1 INTRODUCTION

The follow-up to the 2008 Audit of Grants and Contributions was included in the Auditor General's 2011 Audit Plan at the request of the Audit Sub-Committee.

The key findings of the original 2008 Audit of Grants and Contributions included:

- As was the case during a 2003 audit, there is still no overall policy framework governing the establishment and management of grants and funding programs to external organizations at the City.
- Accounting for these various funding programs within the corporate financial system remains inconsistent and the data and reports currently available do not facilitate effective management.
- The lack of clear corporate direction on funding programs creates the risk of inequitable treatment of applicants for funding. No clear direction and guidance are provided to departments in establishing and monitoring these programs, impeding their ability to measure performance, and ensuring that value for money is received from these programs.
- The audit also identifies opportunities for further improvement in the areas of pre-screening for eligibility, conflict of interest, determination of the allocation amount, and management oversight and follow-up.

2 KEY FINDINGS OF THE ORIGINAL 2008 AUDIT OF GRANTS AND CONTRIBUTIONS

1. As was the case during the 2003 audit, currently there is no overall policy framework governing the establishment and management of grants and funding programs to external organizations.
2. Accounting for these various funding programs within the Corporate financial system remains inconsistent and the data and reports currently available do not facilitate effective management.
3. On January 24, 2005, Council directed staff to undertake a review of all grants (exempting Community Services Grants) as per the 2003 audit report. To date, this review has not taken place.
4. The impacts of a lack of clear corporate direction on funding programs include:
 - A risk of inequitable treatment of applicants for funding;
 - A lack of clear direction and guidance provided to departments in establishing and monitoring these programs;
 - Unclear roles and responsibilities;
 - A lack of clear accounting procedures and a resulting inability to capture timely, accurate and complete information;
 - The risk of ineffective use of limited corporate funds; and,

- An impeded ability to measure and compare the performance of various funding programs and ensure value for money is received from these programs.
5. No clear definition of “Grants” currently exists and as a result, accounting for these various funding programs within the corporate financial system remains inconsistent, and the data and reports currently available do not facilitate effective management. As such, a full reconciliation of current financial data related to grants and contributions is required.
 6. Cultural Services and Community Funding (CSCF) has made a number of improvements since 2003 to address much of the recommendation made at that time, including clarification of procedures for submitting and evaluating proposals under the various funding programs. Opportunities for further improvement exist in the areas of pre-screening for eligibility, conflict of interest and management oversight and follow-up.
 7. CSCF should re-examine its practice of requesting complimentary tickets to events.
 8. CSCF conflict of interest procedures should be revised to ensure any juror declaring a conflict does not participate in the assessment of other organizations requesting funding from the same envelope.
 9. Within the Protective Plumbing Devices program there is the need to ensure that all required steps are performed and documented.

3 STATUS OF IMPLEMENTATION OF 2008 AUDIT RECOMMENDATIONS

Corporate Policy and Management Framework

2008 Recommendation 1

As was recommended in 2003, that the City establish a clear and comprehensive corporate policy framework governing all mechanisms for funding to external organizations, to ensure:

- a) An appropriate control environment exists for funding programs;
- b) Corporate consistency in the use of funding mechanisms;
- c) Clear roles and responsibilities are established across the City administration;
- d) Clear direction and guidance is provided to departments in establishing, managing and monitoring these programs;
- e) The timely, accurate and complete capture of all related information;
- f) The identification and resolution of any systemic problems; and,
- g) That funding allocations accurately reflect Council priorities.

2008 Management Response

Management agrees with this recommendation.

A grant is a provision of funding to a third party or organization, not directly receiving goods or services, to further a City service, program or objective.

A review of where and how all funding grants are currently processed throughout the corporation will be initiated once the corporate re-alignment is complete. Following this review, staff will develop the scope, scale and approach for the development of a comprehensive corporate-wide policy framework governing all mechanisms for funding to external organizations for Committee and Council consideration in Q3 2009.

Although a corporate-wide framework has not been developed, the Community Funding division initiated a review of community funding processes following the City Auditor's report to Council in February 2003. This led to the development and Council approval of a Community Funding Process Review in September 2004, followed by approval of the Community Funding Framework Policy on February 8, 2006.

The Community Funding Framework Policy responded to the audit recommendations by establishing a formal, written policy identifying the purpose, goals, eligibility criteria, funding priorities, risk assessment criteria and funding contribution mechanisms of the Community Funding Program.

Management Representation of the Status of Implementation of Recommendation 1 as of May 2, 2011

Council established a clear and comprehensive corporate policy framework through the approval of the Grants and Contributions Policy on August 25, 2010 (CSEDC Report # ACS2010-COS-DCM-0005). The Policy has been in effect since January 1, 2011, and is posted on Ozone.

Management: % complete **100%**

OAG's Follow-up Audit Findings regarding Recommendation 1

We have reviewed the Grants and Contribution policy which was approved at Council August 25, 2010 with an effective date of January 1, 2011. The report presented to Council was based on the corporate-wide review of grants and contributions and referenced the sections of the Municipal Act that provide the City authority to issue grants.

The points noted in the above recommendation have been incorporated within the policy which the policy notes should result in the principle driven goals of transparency, accountability, fairness, efficiency and responsiveness.

The policy includes an Application Section which covers inclusions and exclusions. Grants and Contributions (conditional grants) are defined as types of transfer payments and include financial and non-financial (in-kind) transfers.

The policy does not apply to purchases of services or other costs associated with the delivery of City programs. Management has indicated that these transactions would be governed by different policies and procedures which would be brought forward to Committee/Council end of Q2 2012.

Outdoor Rink Agreements have been considered a Purchase of Service (POS) and thereby excluded from the Grants and Contribution policy. However, email correspondence showed that in April 2010 they were considered a Grant/Contribution by Management. Then, in May 2010, Management believed these should be categorized as a POS as the City would provide the service if not otherwise provided. However, within the Outdoor Rink Agreement, the word "grant" appears several times as well as within the City's template for the year-end report requested from operators. Therefore, there appears to be inconsistencies which should be resolved. Management has indicated that they will be doing some work to ensure that Outdoor Rink funding is not referred to as a grant.

Whether Outdoor Rink Agreements were categorized as Grants and Contributions or Purchase of Service, there were issues that we identified in recommendations 5 and 12 that should also be addressed.

Although the policy applies to all transfer payments regardless of the original source (Federal, Provincial, private), Management has indicated that the internal program manager administers funds based on the agreement with the external funder and that reporting and oversight would be defined and monitored by the external funder and not duplicated by the City. This audit follow-up did not review processes for transfer payments relating to sources other than the City.

Management has indicated that the Special Event in-kind services policy is scheduled to be developed and approved during 2012 and that the non-profit rental/lease policy has not yet been done due to resources and other higher priorities.

OAG: % complete

100%

2008 Recommendation 2

That the City complete a full reconciliation of existing financial data related to Grants and Contributions.

2008 Management Response

Management agrees with this recommendation.

Management will compile annually a full reconciliation of existing financial data related to grants and contributions by Q1 2010.

Management Representation of the Status of Implementation of Recommendation 2 as of May 2, 2011

A compilation of all existing corporate financial data related to grants and contributions for 2007, 2008 and 2009 was completed.

Management: % complete *100%*

OAG's Follow-up Audit Findings regarding Recommendation 2

Management has compiled a generally thorough summary of their review of the corporate financial data related to Grants and Contributions for 2007, 2008, 2009 and 2010.

We reviewed 2009 and 2010 and found a few items as follows:

- Although not continued in 2011, the 2010 spreadsheet analysis did not include \$1.3 million relating to the Toilet Replacement Program and Compassionate Flooding Grants that had been allocated to an incorrect cost element in SAP.
- The spreadsheet analysis provided for 2007 to 2009 had a formula error resulting in an error of \$350,000 in the total amount reported for 2009 in the August 25, 2010 Report to Council.
- Information identified as pending that was pursued when requested as part of this audit.

OAG: % complete *100%*

Cultural Services and Community Funding

2008 Recommendation 3

That the City ensure applicants identify all other sources of City funding as part of their submissions.

2008 Management Response

Management agrees with this recommendation.

All funding application forms currently ask for information on other sources of City funding. A mechanism will be built into the Corporate Framework, which will be brought forward for Committee and Council approval in Q3 2009, to perform a City-wide search to confirm whether organizations are receiving other City funding.

On page 8 of the audit report (section 4.2.1.1), the Auditor General made reference to City staff adding a special condition to one particular funding agreement, which contradicted the requirement for audited financial statements. In addition, the Auditor indicated that CSCF staff provided advice to this recipient regarding accounting principles, which conflicted with generally accepted practices. Management would like to clarify why this occurred. This change was made to

address a concern from the signing officer of an organization (food program) who was extremely reluctant to proceed with Generally Accepted Accounting Practices (GAAP) for fear of having to proceed with full inventory, including all items of food, etc. After consultation with Legal, the organization was told that they could follow the Generally Accepted Accounting Principles (GAAP), but did not have to conduct the detailed inventory of food items. The Special Condition and the Agreement, which were reviewed by both Legal and the FSU, provided the organization with that reassurance and resulted in a signed agreement.

Management Representation of the Status of Implementation of Recommendation 3 as of May 2, 2011

As noted in the management response, the funding application forms that existed at the time of the audit ask for information on other sources of City funding.

Management: % complete 100%

OAG’s Follow-up Audit Findings regarding Recommendation 3

The funding application form requests information on other sources of City funding.

An example reviewed showed an exception relating to the Cultural Funding, Arts Funding Program - Project Funding to Organizations report form. The form directs, “Do not show full amount of grants received by the organization, only show portion of grants directed towards the project.” Management indicates that the application form budget sheet requires the identification of non-City funding sources related specifically to the project for which City funds are being requested. However, the application process also requires the applicant to provide a full operating budget which includes the total amount of funding from all sources.

OAG: % complete 100%

2008 Recommendation 4

That the City carry out and retain on file a risk assessment of all proponents.

2008 Management Response

Management agrees with this recommendation.

Both Cultural Services and Community Funding staff conduct a risk assessment on all agencies receiving funding prior to issuing funds. The risk assessment looks at governance, financial stability, level of City funding, years in operation, operational and program capacity and level of collaboration and partnership with other community agencies.

Community Funding staff currently perform a risk assessment for Renewable Community Funding to determine whether the Service Agreement will be a one-year or a three-year agreement. Effective immediately, staff will also do a risk

assessment for Non-Renewable Community Project Funding. These risk assessments are currently retained in the agency's electronic file, but will also now be included in the agency's corporate file.

Cultural and Community Funding staff perform a risk assessment by reviewing all applications and annual reports, using a checklist to ensure that all documents and information are included and the file is complete. General comments are recorded and staff follows up with applicants when information is missing or clarification is required. These checklists will now be filed as part of the applicant's official file.

Management Representation of the Status of Implementation of Recommendation 4 as of May 2, 2011

Implementation of this recommendation is complete as per the management response.

Management: % complete **100%**

OAG's Follow-up Audit Findings regarding Recommendation 4

For Community Funding, we have found that there were Risk Assessments on file.

There were examples where the Risk Assessments had not been updated in accordance with the policy. Management has indicated that their practice is to only conduct a Risk Assessment before a new agreement is negotiated and that where there had been extensions to the agreement that updated Risk Assessments would not be completed. Management further clarified that risk is assessed as part of the annual submission. However, they indicated that this annual assessment and required documentation is not reflected in the policy or procedures as being an integral part of the risk assessment process. Management did confirm that the annual assessment outcome is documented in the narrative summary as well as what action is taken to mitigate any problematic situation.

The Community Funding general policy states that, "Risk Assessments will expire one year after date of completion of a one to three year contribution agreement). A new Risk Assessment may be completed during the term of a Contribution Agreement if issues arise." Consequently, the policy would require a new risk assessment in two to four years, but one could be requested more frequently.

Beyond the scope of the original recommendation, we believe that the policy, procedure and practices relating to the timing and documentation of risk assessments should be reviewed and aligned.

For Cultural Funding, the approach differs from Community Funding as they do not have a document called a Risk Assessment and instead would have a checklist of required documents to confirm eligibility. Management indicated that if the application is eligible then it would go forward to the jury who assess the

application and supporting documents and that their staff role would be determination of eligibility.

OAG: % complete *100%*

Management Representation of Status of Implementation of Recommendation 4 as of February 2012

Management agrees with the OAG's follow-up audit finding.

Although beyond the scope of the original recommendation, management concurs that the Community Funding policy, procedure and practice relating to the timing and documentation of risk assessments should be reviewed and aligned. Before the end of Q2 2012, a revised checklist and risk assessment procedure and policy will be established and put into effect immediately.

Management: % complete *100%*

2008 Recommendation 5

That the City ensure all official files contain complete evidence of checking of documentation including follow-up notes, additional commentary, etc.

2008 Management Response

Management agrees with this recommendation.

The Community Funding Policy and Procedures Manual includes a section on records management, which was developed in collaboration with corporate records management staff. In addition, a checklist is attached to all funding submissions or application forms when received by the Community Funding division. This checklist identifies all requirements and lists mandatory documents. Staff indicate whether those requirements have been met and initial the checklist. Staff note on the checklist any follow-up actions that have been taken. The checklist is included on file with each application/funding submission form.

Management Representation of the Status of Implementation of Recommendation 5 as of May 2, 2011

Implementation of this recommendation is complete as per the management response.

Management: % complete *100%*

OAG's Follow-up Audit Findings regarding Recommendation 5

Community and Cultural Funding files contain checklists relating to funding submissions and application forms identifying requirements and listing mandatory documents.

In addition to the recommendation, beyond the scope of the original audit, we noted the following:

- There was an example where in 2010 the reserve fund balance agreed to the financial statements provided for 2009, but in 2011 the amount on the funding submission did not agree to the financial statements provided. There did not appear to be supporting documentation for the reserve fund amount on the 2011 submission. Management indicated the 2010 audited financial statements were requested in a November 4, 2011 telephone call and will be a required document for this year's funding submission process which will be due January 31, 2012. Management indicated that as financial statements are acquired some time after the funding submission, it occurs frequently that it will contradict information from the submission. Amounts are not noted on the narrative summary.
- There was also an example where the amount reported as reserve funds on the funding submission did not include the complete amount reported on the financial statements. There was no reference to the reserve fund amount on the funding submission summary (checklist). However, the narrative summary included notes that the agency plans to renovate and expand services and referenced a different amount.
- There was also an example Outdoor Rink Agreement where the amount of expenses reported to the City was less than the amount of the funding provided. In response to the City's question of whether or not the operator received adequate financial support from the City, the operator noted that, "(they) could do with less". Although Management indicated that this example would be a Purchase of Service and not a Grant or Contribution, further to OAG comments in Recommendation 1, this matter should be considered.
- Findings and recommendations relating to Grants were also previously raised as part of the 2010 annual report audit reports. These included that the City "ensure the accuracy of amounts contained in Funding Submission Requests" and "further policy clarification regarding the conditions under which funding could or would be altered where continued surpluses exist." ¹
- Management indicated that each of the 2010 annual report audit changes related to Community Funding would be reflected in the next revision of the Policy and Procedure Manual. Corresponding changes should be considered corporate-wide as well as to associated forms and templates.
- For Cultural Funding, in one file, the funding checklist noted that there were surpluses but amounts do not match the funding submission or financial statements. The documents also showed that there were overall increases to expenditures particularly in compensation including executive director

¹ 2010 Audit of the Sugarbush (Action Vanier) Agreements

compensation and minutes referred to hiring the executive director's daughter. These were not specifically noted on the funding submission checklist and Management indicated that these would be up to the jury to consider.

OAG: % complete *100%*

2008 Recommendation 6

That the City ensure all Board and Annual Meeting minutes are properly signed.

2008 Management Response

Management agrees with this recommendation.

All application forms and funding submissions for 2010 will specify that the Annual Meeting minutes must be properly signed by the signing authority of the organization. Staff will ensure that this is being done on a consistent basis. The Community Funding Policy and Procedures Manual will also be revised to reflect this requirement by Q2 2009.

Management Representation of the Status of Implementation of Recommendation 6 as of May 2, 2011

This business practice has been adopted and the Community Funding Policy and Procedures Manual will be amended by the end of Q2 2011.

Management: % complete *90%*

OAG's Follow-up Audit Findings regarding Recommendation 6

For Community Funding, the funding submissions and agreements for 2011-12 do show the requirement for meeting minutes signed by two members of the organization with signing authority. A Certificate of Authority would also be required with signatures by two members of the organization certifying conditions such as the organization's non-profit status, minimum membership, that the majority of members are Ottawa residents and not related, that a minimum of four meetings are held per year and that the Annual General Meeting is open to the public.

For Community Funding, there was an example where signed minutes were not available as there was no formal meeting process. There was another example which showed that there can be delays of over one year to obtain signed minutes based on the timing of the next meeting where minutes would be adopted.

Management has indicated that the Community Funding Policy and Procedures Manual will be revised to make this process clearer.

For Cultural Funding, as of 2010 and forward, the requirement for signed minutes is reflected in the guidelines and application forms. An exception would be the Arts Funding Program, Project Funding to Organizations which does not include this requirement. Community Funding requires signatures from two authorized members, however Cultural Funding does not specify this requirement. As noted previously, Cultural Funding Management indicated that City staff would not assess the content of the minutes and would leave content issues to be addressed as part of the jury process.

OAG: % complete *90%*

Management Representation of Status of Implementation of Recommendation 6 as of February 2012

Management agrees with the OAG's follow up audit finding.

The Community Funding Policy and Procedures Manual will be amended by the end of Q2 2012.

Management: % complete *90%*

2008 Recommendation 7

That the City re-assess the practice of requesting complimentary tickets to events.

2008 Management Response

Management agrees with this recommendation and has re-assessed the practice of requesting complimentary tickets to events.

Management believes that requesting a complimentary ticket to attend performances, art shows and other cultural events of organizations that receive cultural funding from the City is an important part of the monitoring process. Management has reviewed the Corporate Gifts, Entertainment and Hospitality Policy and does not believe that this practice is a conflict of interest and will, therefore, continue to ask for one complimentary ticket for monitoring purposes.

Management Representation of the Status of Implementation of Recommendation 7 as of May 2, 2011

Implementation of this recommendation is complete as per the management response.

Management: % complete *100%*

OAG's Follow-up Audit Findings regarding Recommendation 7

This recommendation only applied to Cultural events. Management for this area has indicated that since the audit they have stopped requesting complimentary tickets in the letters that they send out to advise groups of their funding. However, Management indicated they don't have funds available to purchase tickets for monitoring purposes. Occasionally the groups will offer tickets. The City's "*Gift, Entertainment and Hospitality Corporate Policy*" indicated that, "*City representation at cultural events, where the City is a sponsor or partner, is considered permissible....Where there are admission fees for such events, the City should endeavour to pay for those staff attending the event.*"

OAG: % complete

100%

2008 Recommendation 8

That the conflict of interest procedures be revised to ensure any juror declaring a conflict does not participate in the assessment of other organizations requesting funding from the same envelope.

2008 Management Response

Management agrees with this recommendation for Community Funding but disagrees for Cultural Services Funding.

The Community Funding Policy and Procedures Manual includes a procedure that requests Allocations Committee members for the Community Project Funding (Non-Renewable) program sign a confidentiality/conflict of interest agreement. The Allocations Committee for the 2008 Community Project Funding program also recommended that any agency applying for Community Project Funding not be included on the Allocations Committee. This revision will be made to the Community Funding Policy and Procedures Manual by Q2 2009.

Cultural Funding staff makes every effort to recruit assessors who are free of conflict of interest with all applicants. However, the purpose of the peer assessment system is to select qualified and knowledgeable assessors from the field and these assessors may have contacts with one or more of the applicants. It would be extremely difficult to recruit and retain jurors if they were completely excluded from a jury because of a declared conflict. The City follows the example of other grants agencies such as the Canada Council and has established strict protocols to address the issue of conflict.

All potential Cultural Funding jurors and independent assessors sign confidentiality and conflict of interest agreement that requires them to declare any current or former involvements that could influence or appear to influence the objectivity and impartiality of their judgements. Where an actual or potential conflict of interest exists, it must be disclosed and the assessor must abstain from any and all participation related to it, and leave the meeting for the duration of the

discussion. The Cultural Funding juror must also refrain from attempting to directly or indirectly influence the decision of the jury with respect to the application. Cultural Funding jury notes record the juror's disclosure of interest, their withdrawal from the meeting and the fact that they did not take part in the discussion.

Management Representation of the Status of Implementation of Recommendation 8 as of May 2, 2011

This recommendation has been implemented with respect to Community Project Funding. The Community Funding Policy and Procedures Manual was changed to reflect that any agency applying for Community Project Funding will not be included on the Allocations Committee.

This recommendation has not been implemented with respect to Cultural Funding for reasons provided in the management response.

Management: % complete *50%*

OAG's Follow-up Audit Findings regarding Recommendation 8

For Community Funding this only applies to Non-Renewable Community Project Funding. The policy and procedures manual was updated in 2010 to state that, "The Non-Renewable Community Project Funding Allocations Committee will not include as members anyone who is either staff or Board members of any agency applying for project funding. Exception may be made if sufficient committee members cannot be found to represent a particular group." The policy and procedural manual included an example illustrating where this type of exception occurred in 2010.

The Cultural Funding program form includes a section for jurors to disclose whether or not they have any activities or involvements "which have the potential of creating actual or perceived conflicts in relation to my duties as a juror/independent assessor." The Community Funding form does not include a section to declare/disclose interests.

OAG: % complete *50%*

Management Representation of Status of Implementation of Recommendation 8 as of February 2012

Management agrees with the OAG's follow-up audit finding.

The first portion of the recommendation has been implemented with regard to Community Funding as indicated in the management response.

Management: % complete *100%*

The second portion of this recommendation has not been implemented due to the reasons outlined in the management response. Specifically, Cultural Funding staff makes every effort to recruit assessors who are free of conflict of interest with all applicants. However, the purpose of the peer assessment system is to select qualified and knowledgeable assessors from the field and these assessors may have contacts with one or more of the applicants. It would be extremely difficult to recruit and retain jurors if they were completely excluded from a jury because of a declared conflict. The City follows the example of other grants agencies such as the Canada Council and has established strict protocols to address the issue of conflict.

Further, the conflict of interest policy does elaborate that any juror declaring a conflict does not participate except in certain circumstances. Cultural Funding's Confidentiality and Conflict of Interest Policy stipulates that individuals with the following involvement may not participate in the assessment process:

- if a juror has financial interest in the success or failure of an applicant's programme or project;
- if a juror has an interest based on the fact that an applicant's programme or project involves a spouse/live-in partner or an immediate family member;
- if a juror has a personal interest in specific applications other than what is normally expected of interested members of the cultural community; or,
- if, for any other reason, a juror is unable to objectively assess an application.

Other non-direct conflicts such as being a member of the applicant organization will be reviewed by Cultural Funding staff and decided on a case-by-case basis.

The policy ensures that each juror and independent assessor reads and signs the policy document prior to participating in any funding program allocation process.

No further action is planned to be undertaken.

Management: % complete 0%

2008 Recommendation 9

That all documentation related to allocation determination be retained on file.

2008 Management Response

Management agrees with this recommendation.

The records management section of the Community Funding Policy and Procedures Manual was developed in collaboration with corporate records management staff. Files include the funding applications / submissions as well as the letters to agencies confirming decisions.

For Cultural Services, documentation related to funding determination includes the funding applications/submissions as well as the letters to agencies confirming

decisions. In addition, the original copy of the signed jury recommendation sheet from each Cultural Funding program jury is retained in an official file. The Cultural Funding staff records the decisions and grants recommended by the committee, ascertaining with the committee that these records accurately reflect their views and ensures that members attest to their accuracy by signing-off on the records.

Management Representation of the Status of Implementation of Recommendation 9 as of May 2, 2011

Implementation of this recommendation is complete as per the management response.

Management: % complete 100%

OAG's Follow-up Audit Findings regarding Recommendation 9

We confirmed that documentation, as noted in the management response, was retained on file for both Community and Cultural Funding.

Beyond the original recommendation, we noted some items as follows:

For Community Funding renewable program funding, we noted examples where it was not clear from the funding submission summary what portion of the amount requested, including budget pressures, was funded. Management indicated that the amount funded was last year's amount plus a cost of living increase as detailed in the results letter to the agency. For one file, Management also indicated that staff failed to revisit the summary form once all pressures were allocated and that amounts of dollars via pressures were indicated in a separate addendum letter sent to the agency and attached to the legal file.

Community Funding Management indicated that they have an informal practice where they "audit" approximately five agency files each quarter which would be 20 out of approximately 151 per year. We see this as a positive step that perhaps could be more formally documented and retained as part of their monitoring processes. Management indicated they would further revise and formalize into the Community Funding Policy and Procedures Manual as part of the Policy and Procedure Manual in Q4 2011 & Q1 2012.

Findings and recommendations relating to Grants were also previously raised as part of the 2010 annual report audit reports. These included the City "undertaking a review of "grandfathered" funding agreements to ensure funds are still required and continue to meet Council's funding priorities".² Our work on this follow-up reinforces the need for this review process for all long-standing funding agreements.

² 2010 Audit of the Sugarbush (Action Vanier) Agreements

As noted previously, Management indicated that each of the 2010 annual report audit changes related to Community Funding would be reflected in the next revision of the Policy and Procedures Manual.

OAG: % complete 100%

2008 Recommendation 10

That the City ensure all legal documentation is completed in a timely manner.

2008 Management Response

Management agrees with this recommendation.

Service Agreements (prepared pursuant to the Community Funding Framework Policy approved by Council on February 8, 2006) for the allocation of funding from the renewable funding envelope are sent to Legal Services for review and approval of content before being sent to agencies and management for signature. Once all signatures have been obtained, the Service Agreements are filed. All attempts are made for Service Agreements to be renewed prior to their date of expiry. If that is not possible, a letter of extension, as approved by Legal Services, is sent to the agency to extend approval for a maximum of three months, until such time as a new Service Agreement can be signed. This process ensures that funding is not allocated to agencies in the absence of a binding Service Agreement.

Management Representation of the Status of Implementation of Recommendation 10 as of May 2, 2011

Implementation of this recommendation is complete as per the management response.

Management: % complete 100%

OAG's Follow-up Audit Findings regarding Recommendation 10

This recommendation relates to Community Funding Programs. We confirmed that there were signed service agreements retained on file.

There was an example relating to a file being transferred to another area within the City where there was a Service Agreement for the period from 2006 to 2009 where there were letters of extension for 2010 and 2011. Management indicated that there were delays in developing the new agreement due to the pending realignment.

OAG: % complete 100%

2008 Recommendation 11

That all files retain narrative summaries of follow-up undertaken including site visits, attendance at meeting, telephone calls and email correspondence.

2008 Management Response

Management agrees with this recommendation.

Narrative summaries for Community Funding agencies are currently stored electronically. Effective immediately, staff will also print and file a copy of the summaries on the agency's official file.

As indicated in recommendation 5, Cultural Funding staff use a checklist to ensure that all requirements have been met and to note any follow-up actions that have been taken. Staff will also ensure that all other supporting correspondence is included on file.

Management Representation of the Status of Implementation of Recommendation 11 as of May 2, 2011

Implementation of this recommendation is complete as per the management response.

Management: % complete *100%*

OAG's Follow-up Audit Findings regarding Recommendation 11

For Community Funding, narrative summaries show meeting attendance, site visits, emails and telephone calls. There was an example where there was a reserve amount noted on the narrative summary which differed from supporting documentation on file.

For Cultural Funding, as noted in the above Management Response, there was no specific narrative form but rather an application checklist with notations. For 2011, Management indicated that they have implemented a new form entitled, "Record of Communications".

OAG: % complete *100%*

2008 Recommendation 12

That the City ensure oversight and monitoring processes are consistent and equitable for all recipients.

2008 Management Response

Management agrees with this recommendation.

The Community Funding Policy and Procedures Manual ensures that there is appropriate oversight and monitoring and that these processes are consistent with all staff and all agencies (applicants and recipients). The new corporate-wide funding framework will ensure that clauses for insurance, audit and occupational health and safety are consistent in the various agreements across programs and will also establish a standardized monitoring template to be used by staff. The corporate-wide funding framework will be developed for Committee and Council consideration in Q3 2009.

Management Representation of the Status of Implementation of Recommendation 12 as of May 2, 2011

Implementation of this recommendation is complete as per the management response. Council established a clear and comprehensive corporate policy framework through the approval of the Grants and Contributions Policy on August 25, 2010 (CSEDC Report # ACS2010-COS-DCM-0005). The Policy has been in effect since January 1, 2011 and is posted on Ozone.

Management: % complete

100%

OAG's Follow-up Audit Findings regarding Recommendation 12

For Community and Cultural Funding, issues relating to oversight and monitoring processes have been identified with recommendations 3 to 11, as applicable. The following comments relate to the overall Corporate-wide oversight and monitoring processes.

The initial analysis of Grants and Contributions by Management was based on questionnaires completed by departments and included information such as authority, right to audit, in-kind services or benefits, etc. We found some of these fields were not completed in the questionnaires.

Management indicated that the questionnaires were used as a starting point and read through to ensure consistency with the reports to Committee and Council and descriptions on ottawa.ca. However, terms and conditions in agreements were not reviewed to validate that they were consistent with the questionnaire. We found an example (Outdoor Rink Agreement) where the questionnaire indicated that there was a right to audit clause, however the agreement did not contain this clause. Although Management indicated that this example would be a Purchase of Service and not a Grant or Contribution, further to OAG comments in Recommendation 1, the agreement should be updated to contain a right to audit clause.

Management indicated that the Grants and Contributions Oversight and Coordination Committee discussed the use of standardized audit, health and safety, and insurance clauses and requested Legal to bring standardized clauses forward to

the next meeting scheduled for Spring of 2012. Management anticipates that the Committee will move to include any standard clauses in an appendix to the Grants and Contributions Policy to become part of this reference document used by programs to review and update their programs.

Management has also indicated that a compliance questionnaire is being sent out in Q4 2011 which they believe should be a sufficient review for most programs. Where changes are required or a comprehensive review has been scheduled, a report would come forward to Committee.

Given that Management relies on a self assessment of compliance of the overall program to the policy, we believe that the oversight and monitoring should include a more in-depth periodic validation of the self-assessment. As such we cannot consider this recommendation to be fully implemented.

OAG: % complete

75%

Management Representation of Status of Implementation of Recommendation 12 as of February 2012

Management agrees with the OAG's follow-up audit finding.

The compliance checklist was recently revised and now requires staff to check off basic elements such as MFIPPA and audit elements, and to attach supporting information such as applications, policy guidelines, and relevant agreements. Further refinements are expected with the introduction of standardized audit, health and safety, and insurance clauses.

Going forward, compliance checklists will be completed for all new programs and transfers, and at the time of review for programs, which is proposed to take place at least once per term of Council.

This recommendation will be fully implemented with the finalization of the new checklist, and the first year of reviews which are expected to be complete by the end of Q2 2012.

Management: % complete

75%

Protective Plumbing Devices

2008 Recommendation 13

That the City ensure all required actions are performed and that all necessary documentation is collected and retained on file.

2008 Management Response

Management agrees with this recommendation.

Staff will develop a checklist identifying all of the required documentation that will be placed on each file in order to ensure compliance with the program requirements through the application and approval processes. Staff will also add a requirement to its processes that when someone acts on behalf of a property owner for the grants program, there is authorizing documentation from the property owner in place. These procedural changes will be completed prior to the end of Q1 2009.

Management Representation of the Status of Implementation of Recommendation 13 as of May 2, 2011

The City continues to ensure that all required actions are performed and that all necessary documentation is collected and retained on file. The steps outlined in the management response have been implemented.

Management: % complete

100%

OAG's Follow-up Audit Findings regarding Recommendation 13

The OAG have confirmed that staff have developed a comprehensive checklist identifying all of the required documentation for the Protective Plumbing Grant Program that will be placed on each file.

However, a review of example files showed that the checklist is not completed through the application and approval processes as indicated in the 2008 Management Responses but rather is completed as a final check resulting in the risk that payments could be released prior to the completion of required steps and documentation. This matter has been reviewed with Management who have indicated that in the interim they could modify their process to complete the checklist and initial and date the checklist as they complete each of the steps.

There was an example file which we requested October 5, 2011 as part of this audit and which was missing until located November 2, 2011. The file related to one application for a condominium corporation covering 45 addresses and was initiated in 2007 prior to the original audit and process changes in early 2009. There were payments made in 2010 relating to 21 of the addresses.

The file did not contain the checklist, proof that taxes were checked to see if paid, or authorization that the condominium corporation was acting on behalf of owners. Management indicated that this is an old file that was opened much earlier than the time the new process was implemented. Management indicated that they did not review and request updates for all of the old open applications and that it was their understanding that any old files, open prior to the updated procedure, were exempt and they were not required to seek a new application from the customers. The file also did not contain proof that taxes were checked to see if paid in the format that would have been in place at the time. In our view, since the file remains open and payments are ongoing the new procedures should be applied going forward.

OAG: % complete 75%

Management Representation of Status of Implementation of Recommendation 13 as of February 6, 2012

Management agrees with the OAG’s follow-up audit finding, however further progress has been made.

The City continues to ensure that all required actions are performed and that all necessary documentation and authorization is obtained and retained on file, regardless of when the application was received.

The documentation checklist and process has been modified to include a date and sign-off as a recorded receipt to ensure that the file contains all required documentation prior to reimbursements being made. These steps are followed for all open files whether they are old or recent.

Management considers implementation of this recommendation to be complete.

Management: % complete 100%

4 SUMMARY OF THE LEVEL OF COMPLETION

1. The table below outlines our assessment of the level of completion of each recommendation as of December 2011.

CATEGORY	% COMPLETE	RECOMMENDATIONS	NUMBER OF RECOMMENDATIONS	PERCENTAGE OF TOTAL RECOMMENDATIONS
LITTLE OR NO ACTION	0 – 24	-	-	-
ACTION INITIATED	25 – 49	-	-	-
PARTIALLY COMPLETE	50 – 74	8	1	8%
SUBSTANTIALLY COMPLETE	75 – 99	6, 12, 13	3	23%
COMPLETE	100	1, 2, 3, 4, 5, 7, 9, 10, 11	9	69%
TOTAL			13	100%

2. The table below outlines management’s assessment of the level of completion of each recommendation as of February 2012 in response to the OAG’s assessment. These assessments have not been audited.

CATEGORY	% COMPLETE	RECOMMENDATIONS	NUMBER OF RECOMMENDATIONS	PERCENTAGE OF TOTAL RECOMMENDATIONS
LITTLE OR NO ACTION	0 – 24	-	-	-
ACTION INITIATED	25 – 49	-	-	-
PARTIALLY COMPLETE	50 – 74	8	1	8%
SUBSTANTIALLY COMPLETE	75 – 99	6, 12	2	15%
COMPLETE	100	1, 2, 3, 4, 5, 7, 9, 10, 11, 13	10	77%
TOTAL			13	100%

Overall Management Response

Management will forward the section entitled “Additional Areas for Management’s Attention” to the Grants and Contributions Co-ordination and Oversight Committee for consideration.

With regard to the OAG’s concern of inconsistency between what is reported on the agency’s reserve/surplus/deficit situation on the annual submission form and that of the agency’s financial statements, it must be noted that there frequently exists a lag time between the final audited financial statements and the presentation of the completed annual submission form. As a point in time reference, amounts of surplus/deficits do fluctuate depending on that agency’s year end date. All allocation decisions consider the reserve/surplus/deficit situation of the agency. Community Funding staff follow the parameters set by policy whereby at the discretion of the City, an agency may be required to submit a surplus/reserve spending plan where it exceeds six months operating expenses.

With regard to the OAG’s comments regarding outdoor rink purchase of service (POS) agreements in the follow-up findings for recommendations 1, 5 and 12, it should be noted that these agreements relate to the specific provision of a service. The City does not require the right to audit the service provider’s finances however, POS agreements have checks and balances in place to ensure that deliverables are met before payment is released.

5 CONCLUSION

Management has made good overall effort in fully or substantially implementing approximately 92% of the recommendations. Effective January 1, 2011, a new Corporate Policy on Grants and Contributions has now been implemented providing the framework to address key findings identified in the original audits.

Given that Management relies on a self-assessment of compliance of the overall program to the policy, we believe oversight and monitoring should include a more in-depth periodic validation of the self-assessment.

Additional Areas for Management's Attention

Through the audit work performed we also noted a few items that were beyond the scope of the original audit recommendations that require Management's attention.

We observed that reserve funds and surpluses were not always considered on funding submission summaries or checklists, were not always completely and accurately reported on funding submissions and did not always agree with amounts reported on financial statements. For the funding submissions reviewed, it was not always clear what portion including the budget pressures, was being funded. Our work on this follow-up reinforces the need for a review process for all long-standing funding agreements to ensure that funds are awarded and used in accordance with Council priorities, particularly where there are continued surpluses.

There were also project funding applications and report forms which direct that only the portion of grants directed toward the project be reflected and that do not require minutes of Board meetings. These result in the risk that all associated revenues and expenses are not reflected with the application.

We noted that across departments there were policies, procedures and forms that were inconsistent such as the number of required signatures on minutes and the disclosure of activities and involvements with the potential to create actual or perceived conflicts of interest.

These additional areas will be presented to Council as part of the 2011 Annual Report.

6 ACKNOWLEDGEMENT

We wish to express our appreciation for the cooperation and assistance afforded the audit team by management.