

**APPENDIX 1**

**TORONTO ENVIRONMENT OFFICE**

**REVIEW OF ADMINISTRATION OF  
ENVIRONMENTAL GRANTS**

**January 17, 2011**



**Auditor General's Office**

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Jeffrey Griffiths, C.A., C.F.E.  
Auditor General  
City of Toronto

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## EXECUTIVE SUMMARY

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***Audit review  
divided into two  
phases***

The Auditor General's 2010 Audit Work Plan included a review of the City's environmental grant and loan programs. The review is divided into two phases each of which will be reported separately. Phase One, which is the subject of this report, is the review of grants managed by the Toronto Environment Office (TEO). Phase Two will be loan and grant programs managed by the Energy Efficiency Office, Facilities Management Division.

***TEO has a major  
role in  
implementing the  
Climate Change  
Action Plan***

A major responsibility of the TEO is the implementation of the Climate Change Action Plan which was adopted in 2007 by Council to reduce greenhouse gas emissions in the City of Toronto.

***Various diverse  
environmental  
grant programs  
exist in City  
operations***

This report focuses on grants managed by the Toronto Environment Office. There are various other environmental grant based programs throughout the City, most notably the Toronto Atmospheric Fund (TAF), an independent Agency of the City, and the Energy Efficiency Office of Facilities Management division.

In reviewing the activities of TAF at its meeting of January 17, 2011, the City's Executive Committee referred the matter, "...to the City Manager for a general review, including the achievement of the fund's original goals, operational processes and the economic benefits of the fund." While we support the need for such a review, the proposed review should also consider an evaluation of all other environmental grant programs at the City. Such a review should address not only TAF but also the possibility of consolidating all other programs particularly in the context of minimizing duplication of effort and reducing costs.

***Issues identified  
in this report***

Our audit identified opportunities for improvement in the administration of the TEO grant program as follows:

***Monitoring of  
individual grants  
can be improved***

- Opportunities exist to improve the monitoring of individual grants to ensure that they are being used for the purpose intended. Late progress reports due from grant recipients are not being followed up on a timely basis.

***City has little leverage***

- There is little incentive in the funding agreement for organizations to submit progress reports on time. For the Live Green program, 90 per cent of the grant is paid to applicants following execution of the agreement. The early advance of the majority of the grant leaves the City with little leverage to ensure compliance with agreement terms and conditions.

***Program results are not yet available***

- The results of the grant programs, such as the amount of greenhouse gas emissions reduced, are not yet available and will not be reported to Council until 2011.
- Documenting grant decisions such as explaining whether projects are still viable if funding approved is less than the requested amount needs improvement.

***No process in place to recover grants***

- Grants are provided for the installation of green roofs. Green roofs require a follow-up inspection to ensure they are properly maintained. Where maintenance is not in accordance with agreements a process needs to be put in place to recover grants.
- The lack of an adequate information system for managing grants makes the tracking of overdue reports and issues difficult.

**Conclusion:**

For the most part the issues identified in this report represent areas for improvement. The one issue that requires priority would be the review of the various environmental grant programs offered by City entities. There may be an opportunity to coordinate and/or consolidate the roles and responsibilities of each organization in order to avoid duplication and potentially reduce costs.

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## BACKGROUND

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***Climate Change Action Plan was adopted by Council***

In June 2007, City Council adopted the report entitled “Climate Change, Clean Air and Sustainable Energy Action Plan: Moving from Framework to Action”, (the Climate Change Action Plan”). This report is an environmental framework aiming to reduce Toronto’s greenhouse gas emissions from the 1990 level of approximately 22 million tonnes per year for the Toronto urban area by:

- (i) 6% by 2012 (the “Kyoto target”)
- (ii) 30% by 2020
- (iii) 80% by 2050

***TEO provides environmental expertise in the City***

The Toronto Environment Office’s (TEO) mandate is to provide expertise in developing, coordinating and implementing action plans, policies and programs in the City that address environmental issues. In 2010, a key objective of TEO was to facilitate the implementation of all recommendations in the Climate Change Action Plan.

The Climate Change Action Plan is a comprehensive document outlining a wide range of Council initiatives. This report focuses on the management and administration of the grant components of the Plan that are the responsibility of TEO.

***Over four years, TEO is managing \$20.9 million in grant programs***

Over four years (fall 2008 to December 2012), TEO will manage \$20.9 million in grant programs as follows:

- Live Green Toronto Community Investment Program, a \$1 million program intended to build capacity within local communities and neighbourhoods to identify, develop and initiate actions that will reduce greenhouse gas and smog-causing emissions. The minimum grant is \$1,000 and the maximum grant available in any one year is \$25,000.
- Live Green Toronto Capital Project Program, an \$8.5 million program providing funds for implementing capital projects that result in significant reductions in greenhouse gas and smog causing emissions. The minimum grant is \$10,000 and the maximum grant available in any one year is \$250,000.

- Eco-Roof Incentive Program, a \$2.4 million program providing incentives to commercial, industrial and institutional property owners to install a green roof or a cool roof. A maximum grant of \$100,000 is available towards the installation of a green roof and \$50,000 for cool roofs. For these projects, the City grant only represents a portion of the cost with the balance being borne by the building owner.
- Home Energy Assistance Toronto Program (HEAT) that began in late 2009. This is a \$7 million program providing grants up to \$1,000 to homeowners of low-rise properties to upgrade insulation.
- Home Energy Help. Launched in October 2010, this \$2 million program is a collaboration between the City, Enbridge Gas and Toronto Hydro that provides additional financial assistance to allow low income households living in single family dwellings to participate in HEAT.

***Audit is divided into two phases***

The Auditor General’s 2010 Audit Work Plan included a review of the administration and management of City’s environmental grant and loan programs. Phase One of the review, which is the subject of this report, is the review of grants managed by the Toronto Environment Office.

Phase Two will include a review of the management of loan and grant programs administered by the Energy Efficiency Office, Facilities Management Division.

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## **AUDIT OBJECTIVES, SCOPE AND METHODOLOGY**

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***Why we conducted this review***

The Auditor General’s 2010 Audit Work Plan included a review of the management of environmental grant and loan programs at City divisions that support climate change, clean air, sustainable energy and other environmental initiatives.

Based on the extent of expenditures in relation to the program, we selected for review grant programs administered by the Toronto Environment Office. A separate report will be issued on the loan and incentive programs managed by the Energy Efficiency Office in the Facilities Management Division.

***Audit Objectives***

The objective of this review is to assess the adequacy of controls and the effectiveness of the administration of the City's environmental grant and loan programs. Our review focused on the following areas:

- Grant program design
- Project selection and approval
- Project monitoring
- Measuring and reporting results

This audit covered the period from January 1, 2008 to September 30, 2010.

***Audit methodology***

Our audit methodology included the following:

- review of policies and procedures
- review of Committee and Council minutes and reports
- interviews with staff
- examination of documents and records
- evaluation of management controls and practices
- review of audit reports of other jurisdictions in Canada and the U.S.
- review of the financial statements of the Toronto Atmospheric Fund
- review of internal audit reports of Natural Resources Canada.

***Compliance with generally accepted government auditing standards***

We conducted this audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence that provides a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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## AUDIT RESULTS

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### A. VARIOUS CITY OPERATED ENVIRONMENTAL EFFORTS MAY HAVE SIMILAR ROLES AND RESPONSIBILITIES

*Various entities  
and/or programs  
focused on  
environmental  
initiatives*

While this report focuses on TEO, we are also performing an audit on the operations of the City's Energy Efficiency Office and have, in the past, performed audits on the Toronto Atmospheric Fund (TAF). While these are the most significant City funders of environmental initiatives, there are also a number of other divisions at the City who provide grants for a wide range of environmental programs.

*TAF is a separate  
Board of the City*

TAF, an independent local board of the City, provides grants to municipal and non-profit partners to help develop and accelerate strategic opportunities for the reduction of greenhouse gas emissions and air pollution in Toronto. TAF supports leading edge technologies and strategies that have the potential to help the City of Toronto meet its emission reduction targets.

Funded with an endowment of \$23 million by the former City of Toronto, in 2009 TAF approved grants of over \$750,000 (2008 - \$617,000) to a wide range of organizations. In addition, there were loans outstanding at December 31, 2009 to TAF for almost \$1.5 million. These loans generally were made to organizations for climate change initiatives.

In reviewing the activities of TAF at its meeting of January 17, 2011, the City's Executive Committee referred the matter, "...to the City Manager for a general review, including the achievement of the fund's original goals, operational processes and the economic benefits of the fund."

*Review for  
effective delivery  
to meet  
environmental  
objectives*

The City is dealing with significant environmental issues through a number of different grant programs. To ensure effective coordination of these efforts there is merit in expanding Executive Committee's request of the City Manager to encompass the broader issue of the overall effectiveness of the City's various environmental grant programs to ensure they are as efficient and effective as possible.



**Recommendation:**

- 1. The City Manager review the City’s various environmental grant programs to ensure they are structured and managed as efficiently and effectively as possible. The results of the review, along with any recommendations, be reported to Executive Committee.**

**B. LIVE GREEN PROGRAM GRANT APPLICATIONS - DOCUMENTATION SUPPORTING GRANT DECISIONS NEEDS IMPROVEMENT**

*Live Green grants of \$1.5 million have been paid to community groups*

The Live Green programs provide grants to community groups and environmental and not-for-profit organizations to reduce greenhouse gas emissions, improve air quality or help adapt to climate change. This is a four year grant program where the funding is scheduled to end in December 2012. Grants range from \$1,000 to \$25,000 for community investment projects and grants from \$10,000 to \$250,000 for capital projects. As of September 30, 2010, the City has paid \$1.5 million in Live Green grants to community groups.

*Selection and approval of grant applications*

The selection and approval of grant applications is a three stage process as follows:

- TEO staff pre-screen applicant proposals for feasibility and compliance with eligibility guidelines. The result of this pre-screening is documented and provided to a Review Committee for their evaluation.
- A three member Review Committee formally evaluates and make recommendations as to which proposals to fund and the amount of each grant. The Committee consists of a senior staff person from each of Toronto Hydro; the City’s Executive Environment Team; and a community foundation/granting agency in Toronto.
- The Director, TEO reviews the recommendations of the Review Committee and approves the grants for payment. The Director, TEO has been delegated authority to award grants under the Live Green Community Investment Program and the Live Green Capital Projects Fund.

***Documenting grant decisions requires improvement***

The documentation supporting the award of grants requires improvement.

Comments and issues arising from the pre-screening process are documented and eventually placed in the grant file. However, we noted 3 instances out of 11 project files where issues were identified in the grant file but there was no evidence of staff follow-up to ensure the issue was addressed.

***Need to document in the grant file, the details pertaining to adjustments made to requested grant amounts***

In addition, we noted that for 5 out of 11 files, the actual grant recommended was less than the grant requested by the organization. In four of those five instances, there was no explanation as to the viability of, or effect on, the project as a result of the reduced level of funding. It is important to document an assessment of the impact of any reductions to grant requests on the organization's ability to complete the project as proposed. Where the full amount of the grant requested is not approved it is not possible to determine if the project is viable or in fact should not be approved in its entirety.

Although grant proposals are evaluated according to program guidelines and priorities, Review Committee comments do not provide information on the relative merit or ranking of individual proposals. A numerical scoring of individual proposals based on program criteria would make the evaluation process more objective and transparent.

**Recommendations:**

- 2. The Director, Toronto Environment Office, ensure that each grant file is complete and contains all relevant documentation. Further, the Director, Toronto Environment Office document in each project file the assessment of the impact of any reductions to grant requests on the organization's ability to complete the project as proposed.**
- 3. The Director, Toronto Environment Office, revise the process for evaluating project proposals to include a numerical scoring of individual proposals based on program guidelines and priorities. The results of the evaluation process should be documented in the project file.**

## **C. PROJECT MONITORING REQUIRES REFINEMENT**

Following execution of agreements with grant recipients, 90 per cent of the grant is paid to the applicant and the balance is paid when a final report on the particular project is received. The City's grant agreement requires that applicants submit a progress report on the status and financial condition of the project at six month intervals. The Director, TEO may approve a written request for late submission of the final report. Failing that, grant agreements stipulate that failure to submit a final report will result in the loss of the final 10 per cent of the grant.

*One project had a significant scope change that was not escalated for action within the Division*

In our review of individual grant files, we found that four out of nine projects were late in submitting progress reports. An interim report for one project received in May 2010, which was overdue by 11 months, indicated that scope and location for the project had changed significantly. The scope change was not highlighted within the TEO for required approval. As of November 2010, TEO staff are reviewing the project as amended to determine what action should be taken related to the project and the \$135,000 that has been advanced.

*No formalized project monitoring*

Project monitoring is mainly limited to reviewing progress reports submitted by applicants to ensure that projects are on track to achieve objectives and results. There are no regular meetings with project teams or site visits to determine whether projects are proceeding as planned.

Since the Live Green program started in late 2008, one staff member has been responsible for in excess of 300 grant applications, (70 of which have been approved). These responsibilities include assessing grant applications, making recommendations for appropriate grants, ensuring recipients receive funds, and monitoring progress on successful projects.

*Lack of grant management software*

TEO staff have also advised that the lack of grant management software makes tracking of overdue reports difficult. Currently, TEO staff use a spreadsheet which is not updated on a regular basis. As a result, follow-up of overdue reports by TEO staff is not timely.

**Recommendation:**

- 4. The Director, Toronto Environment Office, ensure adequate resources are applied to implement a more effective grant monitoring system that includes:**
  - a. timely follow-up of overdue progress reports;**
  - b. regular communication and visits with grant recipients;**
  - c. ensuring funds are being used in accordance with conditions of the grant;**
  - d. taking appropriate action where monitoring highlights problems or deficiencies in the use of funds;**
  - e. a determination as to the appropriateness of providing ninety per cent of the grant at the commencement of the project; and**
  - f. ensuring adequate resources are allocated to the management of all facets of the grant management process.**

**D. LIVE GREEN PROGRAM – NON-PERFORMANCE  
PENALTIES IN FUNDING AGREEMENTS ARE NOT  
EFFECTIVE**

***Little incentive to  
submit reports on  
time***

There is little incentive for organizations to submit progress reports on time. For the Live Green program, 90 per cent of the grant is paid following execution of the agreement. The agreement states however that the City will not pay the balance of the grant if a final report is not submitted.

The hold back of only 10 per cent of a grant to the completion of a project provides little incentive for applicants to comply with reporting requirements.

*No consequence if interim report is not received*

Progress reports were submitted as much as one year late on four of nine grants we reviewed where such reports were due. In two of those cases, the reports were up to three months late and had not been submitted by the time we completed our review. We have been advised that these have since been received.

Since 90 per cent of the grant is issued up front, TEO has little leverage to compel recipients to comply with agreements. Interim reports are needed to determine whether projects are on track and funds are being used as intended. Tying the advance of funds more closely to project progress and compliance with the funding agreement would encourage increased compliance. Changes in the funding approach will need to be balanced with the funding needs of grantees, many of whom are volunteer organizations who require start up money to proceed with their projects.

**Recommendation:**

- 5. The Director, Toronto Environment Office, amend the conditions in all funding agreements so that the release of funding is more closely tied to the progress of each individual project.**

## **E. MEASURING AND REPORTING PROGRAM RESULTS**

*Outcomes of grant programs are not yet available*

The four grant programs that are the subject of this report all require an annual report to Council that would address “outcomes, issues of concern and recommendations for modifications and changes to the program”. However, as of October 2010, according to TEO staff, the outcomes of the programs are not yet available but will be reported to Council to the extent possible in 2011.

*Analysis of green house gas emission data is needed*

The main purpose of the Live Green Toronto grant program is to reduce greenhouse gas and smog causing emissions. As a result, each project funded has both qualitative and quantitative performance measures that include emission reduction estimates.

***Update report for Live Green program***

A Live Green program status report on types of activities, funding requested and funding approved was provided to Council in the fall of 2009. The report indicated that information was not available on results because “not all funded projects lend themselves to easy quantification of the greenhouse gas emissions avoided and all are at the early stages of implementation. Therefore, it is too early to articulate in this report the factors like the amount of greenhouse gases reduced but this will be reported on in the next annual report once project reports have been provided for the completed projects”.

***Only one project out of 11 is complete. It did result in reductions in greenhouse gas emissions***

For the Live Green program, one project out of 11 we reviewed is complete and according to staff has achieved the expected reduction in greenhouse gas emissions. Included in the 11 projects are two projects awarded in 2010 where the results are not expected until 2011. We also found that some projects are delayed or are feasibility studies that will only achieve emission reductions if subsequent capital projects are undertaken. Even though it may be premature to report on actual results for each project, progress to date should be reported as specified when the various programs were approved by Council.

**Recommendation:**

- 6. The Director, Toronto Environment Office, ensure grant program progress and results are reported to Council during 2011.**

**F. ECO-ROOF INCENTIVE PROGRAM - REQUIRE FOLLOW-UP TO ENSURE GREEN ROOFS ARE PROPERLY MAINTAINED**

***Eco-roof incentive program mitigates climate change***

The Eco-Roof Incentive Program provides funds to certain industrial, commercial and institutional owners to install green and cool roofs to mitigate climate change by reducing storm water flows and urban heat and help increase biodiversity. Green roofs use plant gardens, which can absorb storm water, as a roof covering. Cool roofs have a white or reflective coating to reflect the sun's heat.

***Green Roof By-law requires building permit***

The Green Roof By-law enacted in January 2010 requires a building permit to construct a green roof. The By-law also includes the Green Roof Construction Standard which governs the construction of green roofs in Toronto. Issuance of a building permit requires inspection and sign-off by a building inspector.

***Green roofs should be inspected periodically to ensure they are properly maintained***

Green roofs require ongoing maintenance to function as intended, which can vary depending on the type of plants grown. City standards require that green roofs be maintained for “the duration of their design service lives” which would vary with each roof. Although building owners make a significant investment in the green roofs, the benefits of the investment in the roof are only realized over many years. The agreement with grant recipients allows the City access within six months from date of installation to inspect the roof. Since a green roof’s service life could be as much as 30 years, it would be prudent to ensure the City has the right to perform inspections over a longer period of time should staff consider this necessary.

Recipients of green roof grants make a commitment to maintain the roof for a specified period, the service life. Since the full benefits of the roof, and the funds provided by the City, are only recognized if the roof is properly maintained, grant recipients should expect to reimburse the City a portion of funds granted where the roof is not maintained as required. Current grant agreements do not include provisions for appropriate reimbursement of funds to the City in instances where there is failure to fulfill the terms of the agreement.

**Recommendation:**

- 7. The Director, Toronto Environment Office, in consultation with the City Solicitor, amend the standard agreement for the Eco-Roof Incentive Program to allow City staff to periodically inspect green roofs in accordance with the roofs specific design service life. Such amendment also allow for the repayment of grants, if green roof inspections determine that a roof has not been satisfactorily maintained.**

## **G. HOME ENERGY ASSISTANCE TORONTO PROGRAM – AGREEMENT WITH NATURAL RESOURCES CANADA**

*Efficient and cost effective arrangement with Natural Resources Canada to deliver HEAT program*

TEO has partnered with Natural Resources Canada to deliver the Home Energy Assistance Toronto Program (HEAT). This program provides grants to homeowners for energy efficiency improvements such as insulation. Natural Resources Canada through its EcoEnergy Retrofit Homes Program administers the grant application process and monitors the eligibility of homeowners who receive grants from the federal and provincial governments and the City of Toronto. This arrangement has reduced the administrative cost to the City and has allowed homeowners to apply for three grants through one application process.

*Continuous monitoring of HEAT program*

Natural Resources Canada has contracted with home energy service organizations to deliver the EcoEnergy Retrofit Homes Program. The pre and post energy evaluations performed by the service organizations qualifies the homeowner for grants. Natural Resources Canada has implemented a continuous monitoring program to assess the quality of work performed by service organizations.

Although internal audit reports are available on Natural Resources Canada's web site, we were not able to review the results of the continuous monitoring program to determine whether program risks are being adequately addressed. It would be helpful for the City to review these reports to determine if any recommendations are relevant to the City's component of the program and warrant action by the City.

*Federal incentive program ended*

The EcoEnergy Retrofit Homes Program is scheduled to end on March 31, 2011. However, TEO staff have advised that administrative support to the City will continue and that there may be opportunities in the future for the City to work with the federal and provincial governments on a shared program delivery.

### **Recommendation:**

- 8. The Director, Toronto Environment Office, ensure that, where appropriate, future agreements with funding partners require that the City be provided with the results of any audits of the grant program undertaken by the funding partners.**



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## **CONCLUSION**

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This report presents the results of our review of grant programs managed by the Toronto Environment Office to support climate change, clean air, sustainable energy and other environmental initiatives.

Addressing the recommendations in this report will improve monitoring of grant programs to ensure funds are being used for the purpose intended, enhance project success rates, and ensure that program results are accurately reported to Council.