



AUDITOR GENERAL'S REPORT ACTION REQUIRED

Facilities Management Division Energy Efficiency Office – Management of Energy Loans and Grants Funded by the Ontario Power Authority

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| Date: | March 4, 2011 |
| To: | Audit Committee |
| From: | Auditor General |
| Wards: | All |
| Reference Number: | |

SUMMARY

The Auditor General's 2010 work plan included a review of the City's environmental grant and loan programs that support climate change, clean air, sustainable energy and other environmental initiatives. This report addresses the energy loans and grants funded by the Ontario Power Authority managed by the Energy Efficiency Office, Facilities Management Division. At the February 22, 2011 meeting of Audit Committee, a report pertaining to grants administered by the Toronto Environment Office was considered by the Committee.

The objective of this review is to assess the adequacy of controls and the effectiveness of the administration of the City's energy loan programs and grants administered on behalf of the Ontario Power Authority.

The report contains 10 recommendations. The implementation of these recommendations will improve the loan application and approval process, monitoring of loans to ensure that funds are achieving the proposed results and ensure that program outcomes are accurately reported to Council.

RECOMMENDATIONS

The Auditor General recommends that:

1. The Director, Energy and Strategic Initiatives, ensure that project results on individual loans are accurate and complete based on third party evaluations where available or a detailed analysis of energy savings information submitted by organizations.
2. The Director, Energy and Strategic Initiatives, ensure that annual reports are submitted to City Council on the achievements of each energy loan program. The annual report should include greenhouse gas reductions generated by the loan programs, success or failure in meeting targets, the number of loans and their dollar value.
3. The Director, Corporate Finance, should implement a formal documented credit screening process for energy loans that includes an analysis of cash flow, debt capacity and the ability to repay the loan. In addition, the credit screening analysis should be forwarded to the Energy Efficiency Office to be placed in individual loan files.
4. The Director, Energy and Strategic Initiatives consider developing a project ranking system in the event that loan demand exceeds funds available.
5. The Director, Energy and Strategic Initiatives, ensure that briefing notes presented for loan approval specify loan security terms and include accurate and complete project data supported by an appropriate level of verification by an energy consultant or engineering firm.
6. The Director, Energy and Strategic Initiatives, ensure that each project file clearly documents the project for which the loan is being approved and the energy savings attributable.
7. The Director, Energy and Strategic Initiatives, in consultation with the City Solicitor, give consideration to amending the standard loan agreement to include the charging of interest on late loan payments.
8. The Director, Accounting Services, in consultation with the Director, Energy and Strategic Initiatives, monitor the loan repayments on a regular basis and take timely action to follow up late loan payments.
9. The Director, Energy and Strategic Initiatives, require that future loan agreements include a clause relating to the ownership of carbon credits. The wording of the clause should be developed in consultation with the City Solicitor.

10. The Director, Energy and Strategic Initiatives, request that, where appropriate, future agreements with funding partners require that the City be provided with reports arising from relevant program evaluations or audits undertaken by the funding partners.

Financial Impact

The implementation of recommendations in this report will improve the reporting and monitoring of loan programs. We do not anticipate any significant financial impacts as a result of implementing the recommendations in this report.

COMMENTS

This report provides the results of the Auditor General's review of City loan programs and grants funded by the Ontario Power Authority managed by the Energy Efficiency Office, Energy and Strategic Initiatives, Facilities Management Division. This review was conducted as part of the Auditor General's 2010 Work Plan.

The Auditor General's report entitled "Facilities Management Division, Energy Efficiency Office – Management of Energy Loans and Grants Funded by the Ontario Power Authority" is attached as Appendix 1. Management's response to each of the recommendations contained in the report is attached as Appendix 2.

CONTACT

Jerry Shaubel, Director, Auditor General's Office
Tel: 416-392-8462, Fax: 416-392-3754, E-mail: jshaubel@toronto.ca

Carolyn Baird, Senior Audit Manager, Auditor General's Office
Tel: 416-392-8463, Fax: 416-392-3754, E-mail: cbaird@toronto.ca

SIGNATURE

Jeff Griffiths, Auditor General

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ATTACHMENTS

Appendix 1: Facilities Management Division Energy Efficiency Office – Management of Energy Loans and Grants Funded by the Ontario Power Authority

Appendix 2: Management's Response to the Auditor General's Review of Facilities Management Division Energy Efficiency Office – Management of Energy Loans and Grants Funded by the Ontario Power Authority