



**Alberta Municipal Affairs**  
Municipal Operating  
Support Transfer and  
Municipal Stimulus  
Program COVID-19  
Response Programs



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## Related Reports:

- *Small and Medium Enterprise Relaunch Grant Program—November 2022*
- *COVID-19 Capital Stimulus Initiative—November 2022*
- *Delivery of COVID-19 Emergency Isolation Support Program—March 2022*

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# Report Highlights



**Alberta Municipal Affairs** provided financial support to municipalities and local economies harmed by the COVID-19 pandemic through:

○ **Municipal Operating Support Transfer (MOST)**

**\$606M**

for unexpected costs such as personal protective equipment, cleaning and supports for vulnerable populations. It also mitigated the impact of lost revenues from facility closures and reduced transit revenue

○ **Municipal Stimulus Program (MSP)**

**\$500M**

for new capital infrastructure projects that could start immediately to create jobs and stimulate local economies ○

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➔ The government quickly developed these programs to stimulate the economy and provide financial assistance to those affected by the pandemic. The department had effective processes to design, deliver and monitor the MOST and MSP programs.

Improvements could be made to the reporting process by including an analysis of results achieved by each program in the department's annual report.

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When the government spends

**\$1.1B**

on support programs to help municipalities in a crisis, Albertans want to know the department had effective processes to design, deliver and monitor the programs. Albertans also want the department to report the results achieved by these programs.

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# About This Audit

The COVID-19 pandemic caused wide-spread disruption to the provincial and local economies, and to all Albertans. In response, the government quickly developed and delivered various programs to provide financial assistance to those affected. It did this during an unprecedented global health emergency which placed significant limitations and pressures on government financial and human resources.

In 2020, the Alberta government announced two short-term, non-renewing programs of over \$1 billion to provide financial support to all municipalities and local economies harmed by the COVID-19 pandemic. Both programs were delivered by the Department of Municipal Affairs (the department):

- Municipal Operating Support Transfer (MOST) program—this \$606 million program ran between April 1, 2020 and March 31, 2021<sup>25</sup> and was cost shared 50/50 by the federal and provincial governments. Of the 342 municipalities eligible for this funding, 338 participated. The publicly stated objectives of MOST were to provide money to municipalities to:
  - › help cover incremental operating costs such as money spent on personal protective equipment, supplemental cleaning or supports for vulnerable populations.
  - › mitigate the impact of reduced revenue and losses from reduced economic activity, municipal facility closures and lost transit revenue.

- Municipal Stimulus Program (MSP)—this \$500 million program covered construction of eligible projects in calendar years 2020 and 2021. Municipalities identified shovel-ready capital infrastructure projects that would not have proceeded without this money and were to start working on them immediately. The goal was to help local economies harmed by the pandemic to recover.<sup>26</sup> The department approved 505 projects totaling \$499 million submitted by 329 municipalities. The publicly stated objectives of MSP were to:
  - › sustain and create local jobs
  - › enhance provincial competitiveness and productivity
  - › position communities to participate in future economic growth
  - › reduce municipal red-tape to promote job-creating private sector investment

## Objective and Scope

Our audit objective was to conclude whether the department had effective systems to design, deliver, monitor and report on MOST and MSP. We audited the department's processes to develop and manage the execution of these programs that were in place from March 1, 2020 to May 31, 2022.

<sup>25</sup> See <https://www.alberta.ca/municipal-operating-support-transfer.aspx> for more information on MOST.

<sup>26</sup> See <https://www.alberta.ca/municipal-stimulus-program.aspx> for more information on MSP.

## Criteria

The department should have effective systems to:

- design the programs to align with the government's strategic objectives and goals
- deliver the programs
- monitor the delivery of the programs and identify ways to improve program delivery
- collect relevant, timely and accurate information to evaluate and report on the financial and non-financial performance of the programs

We developed the criteria for this audit based on:

- Government of Alberta (GOA) grants best practices, 2003
- GOA Grant Accountability Framework
- Office of the Controller, Corporate Accounting Policy – Government Transfers
- Financial Management Manual Chapter 10 – Expenditures and Disbursements
- ISO 31000 – Enterprise Risk Management

The department's senior management agreed these criteria were suitable on February 22, 2022.

## What We Examined

We:

- examined management's analysis and documentation supporting the design of the programs
- interviewed department staff
- tested key controls within the systems to design, deliver, monitor, and report on the MOST and MSP programs
- tested a sample of grant Agreements, project applications, payment batches, and Statements of Funding and Expenditures

We conducted our examination from February 22, 2022 to June 7, 2022 and completed our audit on September 6, 2022.

## Conclusion

Based on our audit criteria, we conclude the department has effective processes to design, deliver and monitor the MOST and MSP programs. Improvements can be made to the reporting process by including an analysis of results achieved by the program in the department's annual report.

We are not making a new recommendation to the department on the reporting as there are outstanding recommendations we have previously reported on the need to improve performance reporting to Albertans in ministry annual reports.



### Why This Conclusion Matters to Albertans

When the government spends \$1.1 billion on support programs to help municipalities in a crisis, Albertans want to know what these programs were intended to achieve, and that relief was only delivered to eligible recipients and in a timely manner. The Department of Municipal Affairs effectively used existing systems and processes to design, deliver and monitor the MOST and MSP programs.

However, Albertans also want the department to report the results achieved by these programs.

# Detailed Findings

## Design of MOST and MSP

### Context

A proper design process is fundamental to a program's success. Good design ensures that the department understands the current environment and intended recipients; identifies the problem gap or need; gathers relevant data and determines how to proceed. Good design includes an approval process for the original design and for any changes to it.

### Criteria

The department should have effective systems to design MOST and MSP to align with the government's strategic objectives and goals. It should:

- document clear goals, objectives and requirements (including intended recipients, scale and type of assistance, eligibility criteria, application processes and reporting)
- identify and develop the processes, internal controls, resources and information systems needed to effectively and efficiently deliver, monitor and report on the programs
- develop relevant performance metrics to evaluate the efficiency and effectiveness of the programs
- obtain required approvals to implement and deliver the programs

## Our findings

### Key findings

- The department documented clear goals, objectives and requirements for each program.
- The department used existing systems, processes, and staff to design, deliver and monitor MOST and MSP.
- The department designed relevant performance measures for both programs.
- The department received required approvals to implement and deliver both programs.

### **The department documented clear program requirements**

The department created and documented clear guidelines for both MOST and MSP. These guidelines set out the terms and conditions for each program, including program objectives, key dates and contacts, funding formulas and allocations, eligibility requirements, the payment process and financial reporting requirements. The MSP guideline also detailed what types of capital project activities and assets were eligible. These guidelines were publicly posted on the department's website and emailed to all municipalities.

### **The department used existing systems, processes, and staff**

The department did not need to design or develop any new processes or systems to deliver MOST or MSP. Instead, management deployed existing systems, processes, and staff it has used for years to run various grant programs to municipalities. Specifically, the department designed MSP based on its existing Municipal Sustainability Initiative (MSI) grant program that has been running since 2007, providing almost \$15 billion to municipalities to build and rehabilitate infrastructure.



In conducting this audit, we relied on work performed on the department's processing and payment system for municipal grant programs as part of our regular year-end financial statement audit work. It was working effectively. This includes the internal controls in place to receive, assess and approve grant applications, pay funds, and monitor grant recipient progress and reporting.

The department designed both programs to be administratively simple for municipalities. MSP was designed to be flexible about project types because municipalities had different needs and priorities.

For both programs, eligible recipients were active Alberta municipalities<sup>27</sup> already known to the department.

## The department designed relevant performance measures for both programs

The department designed relevant performance measures, with measurable indicators, for both MOST and MSP. Examples for MOST include the quantity of personal protective equipment and supplementary cleaning material procured, amount of financial support provided to vulnerable populations and replacement of reduced transit revenue. Examples for MSP include number of jobs created (direct and indirect), tangible assets created, and economic support measured by the impact on Gross Domestic Product (GDP). The department plans to use the measures primarily for internal purposes to conduct a post-program evaluation.

## The department received appropriate approvals

MOST—the program was approved through the signing of the *Safe Restart Agreement* between the Government of Alberta and the Federal Government.<sup>28</sup> In this *Agreement*, the Federal Government committed to provide over \$19 billion to the provinces and territories in part to help safely restart local economies which were affected by the pandemic. The basic parameters of the program (duration, scale, type of assistance, and allocation of funds among municipalities) were set out in this *Agreement* and informed the program design.

MSP—the department submitted a summary of its design for MSP to the Treasury Board and Finance department for approval in early April 2020. It received approval in August 2020.

# Delivery of MOST and MSP

## Context

For a government program to achieve its objectives effectively, it needs processes to ensure the program is delivered effectively and efficiently to those targeted by the program. The department used existing systems and processes to deliver MOST and MSP with some tailoring to meet the specific program objectives.

## Criteria

The department should have effective systems to deliver MOST and MSP by:

- clearly communicating the programs and their eligibility criteria, conditions and application requirements to potential applicants
- evaluating and approving applications consistently against program rules to verify that only eligible applicants receive what they are eligible for
- signing grant agreements that clearly set out roles, responsibilities, conditions of funding, reporting, and audit requirements
- paying funds promptly and cost-effectively based on program requirements and agreements

<sup>27</sup> For MOST this meant a municipality had to be active as of May 1, 2020 to be eligible; for MSP this was July 1, 2020. For the purposes of these programs a municipality was defined as any city, town, summer village, specialized municipality, municipal district, improvement district, special area, Métis settlement and the Townsite of Redwood Meadows Administration Society.

<sup>28</sup> For a copy of the agreement between Alberta and Canada see <https://www.canada.ca/en/intergovernmental-affairs/services/safe-restart-agreement/letters/alberta.html>

# Our findings

## Key findings

- The department clearly communicated details about MOST and MSP to municipalities through its website and email.
- Funding consistently complied with program rules; minister's approval was required and granted in extenuating circumstances.
- Municipalities signed grant agreements with clear conditions of each program.
- The department promptly and cost-effectively paid funds for both programs once it approved submissions.

## The department clearly communicated program details

The department posted documents on its website with all the details of both programs, including an overview page, links to detailed guidelines and a full listing of funding allocated by municipality.

The department also emailed the appropriate elected official of each eligible municipality announcing and explaining the programs and including website links. The emails included the required Memorandum of Agreement (Agreement) for both programs and project application forms (for MSP only).

Department grant advisors were available to answer questions from municipalities.

## Funding complied with program rules

In a sample of municipality submissions under both programs<sup>29</sup> all were properly evaluated and approved by department staff against program rules before funds were paid. This included municipalities that did not meet the initial submission requirements—either for Agreements or MSP project applications. The department still processed these on a case-by-case basis with approval from the minister.

Examples:

**MOST**—Department staff followed up with 45 municipalities which had not responded to the program by the initial October 30, 2020 deadline. This flexible approach was approved by the minister, recognizing many of these municipalities were small with limited staff already very busy handling the pandemic's many challenges. Otherwise, these municipalities would have lost their allocated funding.

The department told these municipalities that it would accept late submissions, with an explanation of the extenuating circumstances, up to December 31, 2020, and send these to the minister for consideration. All but four municipalities ultimately received approval for MOST funding.

**MSP**—the department followed this same flexible approach for the few municipalities that applied after the October 1, 2020 deadline.

## Agreements with municipalities set out program conditions

The Agreement for each program that municipalities had to sign clearly set out the roles, responsibilities, conditions of funding, plus reporting and audit requirements.

## The department promptly paid funds once it approved submissions

The timing of each program's funding to municipalities differed. For the one-year MOST, each municipality got one up-front payment for its full allocation as soon as the department received a signed Agreement.

For the two-year MSP, payment amounts were project-specific, based on the cash flow needs a municipality set out for 2020 and 2021 in each approved project application. Money needed in 2020 was paid only after the department received a signed Agreement; 2021 money was paid only after the department received and verified the municipality's first certified 2020 Statement of Funding and Expenditures and Red Tape Reduction report<sup>30</sup> which were due on dates set out in program guidelines.

<sup>29</sup> Our sample size was 40 municipalities for each of the programs; with 112 projects associated to the MSP samples.

<sup>30</sup> The Red Tape Reduction report requirement was tied to MSP's fourth program objective to reduce municipal red-tape to promote job-creating private sector investment.

# Monitoring delivery of MOST and MSP

## Context

Monitoring is key to delivering an effective initiative. It helps prevent unnecessary road bumps and supports decisions to adjust the course to achieve the desired program objectives. In situations where initiatives are implemented quickly, as was during the pandemic, it is even more essential to rely on monitoring processes to catch and prevent issues that would have otherwise been resolved with additional time and due diligence.

## Criteria

The department should have effective systems to monitor the delivery of MOST and MSP and to identify ways to improve program delivery. It should:

- monitor the use of the grant funds to verify that recipients use funds as intended. This may include receiving required reports, post-verification reviews or audits
- identify, evaluate, and manage risks, including complaints during program delivery
- identify ways to improve the program and systems to deliver it and similar programs

## Our findings

### Key findings

- The department used financial reporting to monitor use of funds, however many municipalities were late meeting reporting deadlines for both programs.
- The department identified, evaluated and managed program risks.
- The minister responded to municipality requests to extend the MSP spending deadline.
- The department is working on internal evaluations to identify future program delivery improvements.

### Financial reporting used to monitor spending

The main way the department monitored program spending was by requiring a Statement of Funding and Expenditures (statement) from each recipient. The officials signing for each municipality certified that the financial information in the statement was a true and correct representation of actual funding and expenditures and complied with the program guidelines and funding agreement. The department uses the same verification process for its other on-going municipal grant programs.

In addition, the underlying Agreements for both programs allow for audits by the department at its discretion, including site visits for MSP related capital projects. At the time of writing of this report, no audits or site visits had been planned or conducted by the department.

MOST—Statements were due by July 2, 2021. The department provided municipalities a statement template with standardized expense categories for both the General Operating<sup>31</sup> and Transit<sup>32</sup> funding components. Municipalities had to show the amount spent in each category.

<sup>31</sup> Expenditure categories for General Operating include: personal protective equipment, supplemental cleaning, replacement of reduced revenues, supports for vulnerable populations, public health communication and enforcement, supporting remote work, capital investments to reduce transmission risk, contributions to other entities, employee compensation, public transit expenditures (in excess of MOST Transit funding if available), and other eligible expenses or reduced revenues.

<sup>32</sup> Expenditure categories for Transit include: personal protective equipment, supplemental cleaning, replacement of reduced revenues, employee compensation, and other eligible expenses or reduced revenues.

Department management told us that approximately 75 per cent of the statements were received on time, which was not unexpected. The department's experience with similar municipal grant programs is that some municipalities dealing with staff turnover or with limited staff capacity struggle to meet reporting deadlines. Because of this, the department had processes in place to have grant advisors follow up with those municipalities which had not met the MOST reporting requirement. Thirty per cent of the municipalities in our sample did not submit their statements on time, however these had all been received, reviewed, and signed off by the department by January 2022.

The department received certified statements from all 338 municipalities which had received MOST funding by the end of January 2022. From this reporting, the department identified three municipalities that did not spend all their MOST allocation by March 31, 2021, totalling \$38,037. They refunded this money to the department.

MSP—the statement template for this program required a municipality to list each approved project by name and account for its completion status, total cost and MSP money spent for each of calendar 2020 and 2021. It also required the municipality to provide quantifiable results of any capital asset built or upgraded. For a road this would be the number of kilometers; for a new building or upgrades to an existing one, the number of square meters involved; for stormwater drainage improvements the number of metres of conduit. Program guidelines required any MSP funding not spent by December 31, 2021 to be refunded.

Our testing showed that only 73 per cent of municipalities sent in their 2020 statements and 55 per cent sent their Red Tape Reduction (RTR) reports by the required dates. This submission rate mirrored the department's experience from other grant programs. All required 2020 statements in our sample were eventually received after follow-up by department grant advisors.

Similarly, for calendar 2021 reporting, just over half of the municipalities in our sample (58 per cent) had submitted their statements when we finished our examination on June 7, 2022. Department grant advisors are following up with these municipalities and those which do not comply have to refund their 2021 money. Our testing found notes and comments by grant advisors of their results in following up with delinquent reporting municipalities.

As of July 11, 2022, all but 33 municipalities had submitted statements. Of those received and reviewed, three municipalities must refund unspent money totalling \$4,500.

## **The department managed program risks**

The department identified no significant new risks for MOST because of its similarity to other existing programs, its straightforward purpose and its delivery using an established processing system for grant programs.

The department identified two significant risks for MSP: municipalities spending the money on unapproved projects and the department's capacity to efficiently process a high number of project applications from many municipalities at once. To manage the first risk, the department implemented a process to monitor spending by reviewing the certified statements submitted by municipalities. To manage the second risk, management established additional controls within existing processes to support eligibility reviews, project approvals and payments if capacity became an issue (which it did not in the end).

## **The minister responded to requests to extend MSP**

Original program guidelines gave municipalities until December 31, 2021 to spend the MSP grant. Any unspent money was to be refunded, with no extensions granted. But in August 2021 the minister received a letter from the Alberta Urban Municipalities Association (AUMA) saying that some of its member municipalities were facing various challenges meeting the original spending deadline. One challenge was getting materials for projects due to supply chain problems caused by the pandemic. AUMA asked the minister to extend the 2021 spending deadline. The department had also received similar concerns from several other municipalities.

In September, the minister made a decision which the department communicated by email to all municipalities. It said that exemption requests for (a) additional time to complete approved projects, (b) project scope changes or (c) applying surplus MSP funding to a new eligible project would be considered on a case-by-case basis. Each request had to give specifics and be approved by the minister. If granted, municipalities must submit a third certified Statement by May 1, 2023 to account for funds spent in calendar 2022.

Of the 40 municipalities in our sample, 17 submitted detailed exemption requests covering 41 projects. These requests were all approved by the minister. A total of 113 of 329 participating municipalities were granted extension requests covering all three reasons noted in the previous paragraph; no requests were denied.

## Department working on internal evaluations to identify future program delivery improvements

The department is working on internal evaluations of both programs to provide management with lessons learned, identify best practices, and make suggestions to improve program development and delivery should a similar need to quickly offer support to municipalities occur in the future. See 'Reporting' below for more details.

These evaluations had not been completed by the end of our audit.

## Reporting on MOST and MSP

### Context

Evaluating results achieved and why they are above or below targets is fundamental to learning whether a COVID-19 response program worked. Reporting and analyzing these differences and trends promptly lets management adjust the program. By understanding why these differences exist, management can better achieve the desired results for the current program and apply lessons learned to any future programs.

Also, an important element of accountability is reporting results to external stakeholders, typically in the Results Analysis section of ministry annual reports. Effective results analysis reporting of COVID-19 programs allows Albertans to understand:

- the department's strategies and programs to deal with the pandemic
- how much money the department budgeted and spent
- what the money was spent on and the results achieved

## Criteria

The department should have effective systems to collect relevant, timely and accurate information to evaluate and report on the financial and non-financial performance of the MOST and MSP programs. It should:

- collect relevant, timely and accurate information to evaluate the efficiency and effectiveness of the program
- analyze the results promptly
- report on results of the program against stated objectives

## Our findings

### Key findings

- The department collected some information to evaluate the programs, but some relevant data is missing.
- The department is working on internal evaluations of both programs.
- The department did not include results analysis reporting for either program in its 2020-21 or 2021-22 Annual Reports.

### Information collected is missing some relevant data

The department collected some information for both MOST and MSP. This can be used to evaluate the effectiveness of the programs against stated public objectives and designed performance measures. This information came from various sources, such as the signed Agreements, approved project applications, and required municipality submissions such as the certified statements and Red Tape Reduction reports.

However, we did note this information does not include data such as the number of jobs created or sustained from approved MSP projects, or the impact these projects had on supporting economic recovery from the pandemic. This type of information is important to fully evaluate the effectiveness of the program.

## Department working on internal evaluations

The department is evaluating both programs, but for internal analysis and reporting only.

MOST—although this program ended in March 2021, the department is still evaluating the processes used to deliver the program. It is focusing on assessing the efficiency and effectiveness of program processes against the performance measures it developed, such as time taken to make allocation payments after receiving signed Agreements. Management is looking for lessons learned and best practices to make improvements to existing similar programs and new program development in the future.

MSP—the department is planning a similar evaluation of the processes used for MSP when the program concludes, but also including a focus on understanding what the program achieved. Management is still finalizing plans to evaluate and report against the four program objectives (refer to ‘About This Audit’).

The department will complete the MSP evaluation in the spring of 2023 as the program ends in December 2022.

## External results analysis reporting not completed

The department has not completed interim or final results analysis reporting against stated program objectives for either MOST or MSP in either of its two most recent annual reports. Management provided high-level information about both programs in the results analysis sections of its 2020-21 and 2021-22 Annual Reports.<sup>33</sup> But there was no evaluation of whether either program achieved its objectives, such as number of jobs created or dollar impact on GDP, for the \$1.1 billion spent.

We are not making a new recommendation to the department on the reporting as there are outstanding recommendations we have previously reported on the need to improve performance reporting to Albertans in ministry annual reports.

## Audit Responsibilities and Quality Assurance Statement

Department of Alberta Municipal Affairs management is responsible for MOST and MSP.

**We are responsible to express an independent conclusion on whether the Alberta Municipal Affairs had effective systems to design, deliver, monitor, and report on MOST and MSP.**

We conducted our audit in accordance with Canadian Standard on Assurance Engagements 3001 issued by the Auditing and Assurance Standards Board (Canada). We apply Canadian Standard on Quality Control 1 and, accordingly, maintain a comprehensive system of quality control, including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements. We comply with the independence and other ethical requirements of the Chartered Professional Accountants of Alberta Rules of Professional Conduct, which are founded on fundamental principles of integrity and due care, objectivity, professional competence, confidentiality and professional behaviour.

<sup>33</sup> <https://open.alberta.ca/publications/1925-9247>