



3.2.

Management of the Emergency Assistance Program for Small and Medium-Sized Businesses by PME MTL

April 8, 2022

2021 ANNUAL REPORT

Auditor General of the Ville de Montréal

3.2. Management of the Emergency Assistance Program for Small and Medium-Sized Businesses by PME MTL

Management of the Emergency Assistance Program for Small and Medium-Sized Businesses by PME MTL

Background

Since March 2020, businesses have been exposed to numerous financial challenges due to the restrictive measures instituted by the Québec government in the context of the COVID-19 public health crisis, resulting in an exceptional and circumstantial economic situation. In order to support businesses with cash shortages due to the COVID-19 pandemic, the Ministère de l'Économie et de l'Innovation (MEI) set up the Emergency Assistance Program for Small and Medium-Sized Businesses (PAUPME) and concluded a \$150 million loan with the Ville de Montréal (the City) to offer the PAUPME to Montréal-based businesses, including the Assistance for Businesses in Regions on Maximum Alert (AERAM) component. In turn, through its Fonds d'aide d'urgence (FAU), the City delegated the management of the PAUPME to PME MTL, a network of six independent non-profit organizations in place since 2016 to support Montréal businesses. The delegation to PME MTL does not relieve the City of its obligations to the MEI. Failure to comply with these conditions could result in the City being forced to repay all or part of the MEI's loan prior to the maturity of the loan in March 2030. As of September 30, 2021, the total loans granted amounted to \$117.6 million for a total of 3,453 files.

Purpose of the audit

To ensure that the Emergency Assistance Program for Small and Medium-Sized Businesses granted by the PME MTL network to beneficiaries is managed in accordance with the management frameworks established by the Ville de Montréal.

Results

The management of the PAUPME by the PME MTL network is not fully compliant with the management frameworks established by the City.

Of a sample of 81 files reviewed that received a loan, 19% did not meet at least one of the PAUPME's eligibility criteria. The assessment of the overall financial condition of the businesses receiving financial assistance was not sufficiently documented to support the decision to award loans in several of the files reviewed. Due to the use of loan agreements that do not comply with the requirements of the MEI and the City, as well as irregularities in the disbursement of financial assistance, PME MTL is in breach of its delegation agreements with the City.

On the one hand, the lack of follow-up on the aid disbursed does not contribute to PME MTL respecting its obligations towards the City as stipulated in the delegation agreements, nor to the beneficiaries' contractual obligations. On the other hand, the Service du développement économique (SDÉ) does not monitor the management of the PAUPME, which means that it cannot identify non-compliance with the commitments pursuant to the delegation agreements.

Finally, the information in the accountability report is often erroneous, including the information sent to the MEI, and is limited to the volume of activity, which does not allow the City's decision-makers to have an appropriate vision to ensure that the obligations towards the MEI regarding the management of the PAUPME—the City's responsibility—are respected.

Main Findings

Evaluation of Loan Applications

- At least one eligibility requirement is not met for 19% of the selected financial assistance files. This is due to insufficient evidence of a causal link between financial or operational problems and the COVID-19 pandemic.
- Documentary requirements are not met in 44% of the selected financial assistance files.
- Comments made in support of the loan authorization do not always indicate that an assessment of the business's overall financial situation was conducted for the selected files.
- Also, the amortization of the loan over a period of more than 36 months, allowed by the PAUPME on an exceptional basis, is not justified for 85% of the selected files.

Implementation

- Two of the three PME MTL centres audited did not respect their commitments to the City, since their loan agreements, which were nevertheless validated by the SDÉ, did not inform the business that it was being financed by the City and the MEI.
- The disbursement dates entered in the loan management system do not always correspond to the disbursements' effective dates. In the case of PAUPME loans, gaps ranging from a few days to more than two months were observed, which penalizes businesses in terms of interest charges due to capitalization of the loans after the first six months of moratorium.
- The financial assistance from the AERAM component was disbursed to businesses by PME MTL before the City adopted the addition of the AERAM component to the MEI-City loan agreement for 17% of the files observed.

Monitoring and Oversight

- There is no monitoring mechanisms to obtain financial statements from the businesses that benefited from the PAUPME, which is contrary to the delegation agreement with the City.
- The SDÉ does not adequately monitor compliance with the various obligations stipulated in the delegation agreement, which allows shortcomings to persist.

Accountability

- Incorrect and inconsistent information was found during the reporting of the cumulative claims to the status of the PAUPME.
- Accountability to the City's decision-makers is limited to the volume of activity and fund balance and not to compliance with the FAU's obligations as stipulated in the delegation agreement.

In addition to these results, we made various recommendations to the business units, which are presented in the following pages.

Please note that although several shortcomings were observed in the management of the program and the granting of loans by PME MTL, due to the uncertain future of this MEI program, a single recommendation was made to PME MTL. If a similar new program is implemented in the future, the Bureau du vérificateur général could audit PME MTL again in this regard.

List of Acronyms

ACEST	Assistance for Some Businesses in the Tourism Sector
AERAM	Assistance for Businesses in Regions on Maximum Alert
ARPII	<i>Act respecting the protection of personal information in the private sector</i>
BVG	Bureau du vérificateur général
CIE	comité d'investissement exceptionnel
City	Ville de Montréal
FAU	Fonds d'aide d'urgence
MEI	Ministère de l'Économie et de l'Innovation
PAUPME	Emergency Assistance Program for Small and Medium-Sized Businesses
PME CE	PME MTL Centre-Est
PME CV	PME MTL Centre-Ville
PME GSO	PME MTL Grand Sud-Ouest
SDÉ	Service du développement économique

Table of Contents

1. Background	61
2. Purpose and Scope of the Audit	66
3. Audit Results	67
3.1. Insufficient Assessment of the Overall Financial Situation of the Businesses that Received Financial Assistance	67
3.1.1. Failure to Meet Certain Eligibility Requirements	68
3.1.2. Documentary Requirements not Met and Insufficient Rationale to Support the Assessment and Granting of the Loan	71
3.1.3. Reservation of the Bureau du vérificateur général to Conduct Future Work	80
3.2. Non-Compliance of Loan Agreements and Insufficient Due Diligence Regarding Loan Disbursements	80
3.2.1. Non-Compliance with Certain Clauses of the Delegation Agreement between PME MTL and the Ville de Montréal in the Loan Agreements	80
3.2.2. Irregularities in the Disbursement of Financial Assistance	83

3.3. Follow-up	85
3.3.1. Mechanisms for Tracking Disbursed Emergency Assistance Not Defined and/or Not Applied	85
3.3.2. Inadequate Oversight of the Delivery and Management of the Emergency Assistance Program for Small and Medium-Sized Businesses by the Service du développement économique	87
3.4. Accountability	89
3.4.1. Incorrect Information for External Reporting on Cumulative Claims (Status)	89
3.4.2. Accountability to Ville de Montréal Decision-Makers Limited to the Volume of Assistance Granted by the Emergency Assistance Program for Small and Medium-Sized Businesses	91
4. Conclusion	93
5. Appendices	95
5.1. Objective and Evaluation Criteria	95
5.2. Distribution of the Sample	96

1. Background

Emergency Assistance Program for Small and Medium-Sized Businesses of the Ministère de l'Économie et de l'Innovation

Since March 2020, the restrictive measures implemented because of the COVID-19 pandemic have exposed businesses to many financial challenges. In this context, the Ministère de l'Économie et de l'Innovation (MEI) set up the Emergency Assistance Program for Small and Medium-Sized Businesses (PAUPME) to support businesses with cash-flow problems as a result of these measures and the ensuing economic slowdown.

The PAUPME is aimed at for-profit businesses, including cooperatives and social economy enterprises that have been in business for at least six months. As the COVID-19 pandemic evolved, the MEI made several changes to the terms and conditions of the PAUPME. For example, until December 2020, only enterprises that had been in business for at least one year were eligible for the program. This period was later reduced to six months. The PAUPME seeks to support the working capital of businesses affected by the COVID-19 pandemic to enable them to maintain, consolidate or relaunch their operations. According to the MEI,¹ the funding is intended to address the cash shortage caused by:

- the inability or significantly reduced capacity to deliver products (goods and services) or merchandise;
- problems in obtaining raw materials or products (goods or services).

The PAUPME comprises the following components:

1. PAUPME loan

- Assistance in the form of a loan of up to \$50,000, at a 3% interest rate with an automatic six-month moratorium on principal and interest, including three months offered by the Ville de Montréal (the City). The loan is repayable over 36 months following the moratorium. On an exceptional basis, the repayment period can be extended to 60 months;

2. Assistance for Businesses in Regions on Maximum Alert (AERAM) component

- As of October 1, 2020, businesses located in areas affected by a closure order by decree of the Québec government could benefit from a maximum of \$50,000 in financial assistance to cover cash-flow needs. In addition, as of December 2020, these businesses could receive up to \$50,000

¹ Based on clause 3 of the PAUPME's intervention framework ("Projets admissibles") of the loan agreement between the MEI and the City.

3.2. Management of the Emergency Assistance Program for Small and Medium-Sized Businesses by PME MTL

in additional financial assistance, not to exceed the PAUPME's \$150,000 cap. The AERAM component provides for loan forgiveness, i.e., the conversion of a portion of the loan granted, subject to certain conditions defined in the PAUPME's intervention framework, into a non-repayable contribution,² which would then be the equivalent of a subsidy;

- Enhancement of the AERAM component to promote the resumption of activities by businesses that have had to cease operations in compliance with a closure order by providing additional assistance of up to \$50,000 to businesses that benefited from the AERAM component, without exceeding the PAUPME's \$150,000 cap. This assistance is a non-repayable contribution to offset some of the losses accumulated during the closure.

3. Assistance for Some Businesses in the Tourism Sector (ACEST)

- Ability to convert a loan to forgiveness for up to 40% of the amount repaid (principal and interest) in the first 24 months after repayment begins, to a maximum of \$20,000 per establishment with an automatic 12-month moratorium. The loan is repayable over 36 months following the moratorium, and on an exceptional basis, the amortization period could be extended to up to 60 months.

Implementation of the Emergency Assistance Program for Small and Medium-Sized Businesses by the Ville de Montréal

The MEI and the City entered into a \$150 million loan agreement³ to delegate the establishment and management of the PAUPME on the territory of the island of Montréal. The purpose, terms, roles and responsibilities of the City in adapting the PAUPME, as well as the terms and conditions for granting assistance to businesses, are described in the agreement. The City agrees to repay the full amount of the loan by March 31, 2030. The City may not have to repay the entire loan to the MEI if:

- the City demonstrates that it will not be able to recover the funds due to the permanent closure of the businesses receiving assistance, in which case the MEI would eventually write off a portion of the loan;
- businesses are granted a loan forgiveness under the AERAM component, in which case the City would not have to repay the forgiven portion.

However, conversely, the City may be required to repay the MEI in whole or in part for the PAUPME loan prior to the end of the term (March 2030) if it fails to meet its obligations under the agreement with the MEI.

² A business eligible for this component could convert a portion of its loan into a loan forgiveness (100% of the allowable fixed costs for a maximum of 80% of the amount of the loan granted), which is the equivalent of a subsidy, according to specific conditions established by the PAUPME.

³ Amount of the loan as of September 30, 2021. In March 2022, the MEI added \$15 million to this contract.

In turn, the City has entrusted the responsibility of granting financial assistance to businesses and managing the PAUPME to the PME MTL network,⁴ which is made up of the following six independent non-profit organizations, based on the territories served:

- PME MTL Est-de-l'Île;
- PME MTL Centre-Est;
- PME MTL Centre-Ville;
- PME MTL Centre-Ouest;
- PME MTL Grand Sud-Ouest;
- PME MTL Ouest-de-l'Île.

As a result, the City has entered into delegation agreements with each of the PME MTL centres, pursuant to which the City delegates to the PME MTL centre the requirements it has with the MEI. However, this does not relieve the City of its obligations under the law or under the loan agreement⁵ with the MEI.

The MEI's PAUPME has been renamed in these agreements between the City and each of the PME MTL centres as the Fonds d'aide d'urgence (FAU). These agreements describe the obligations and administrative terms and conditions of the PME MTL centres with respect to the FAU loan granted to them by the City to establish, implement and manage the PAUPME. The FAU loans total \$150 million for the six PME MTL centres and correspond to the total amount of the loan between the MEI and the City. The terms and conditions of the PAUPME emergency assistance are described in the FAU's intervention framework within the delegation agreement.

The amount of the FAU (\$150 million) to be managed by PME MTL, over a 16-month period since the launch of the PAUPME, is significant considering that, as of March 2021, this network has had to manage contributions and loans for the City with a total value of \$138.5 million,⁶ since 2015.⁷ As of September 30, 2021, i.e., 16 months after the PAUPME was implemented within the City, the PME MTL centres had granted \$117.6 million in assistance from the program's various components out of the \$150 million delegated by the City (see Table 1).

⁴ In 2016, the agglomeration of Montréal delegated to these non-profit organizations the exercise of its powers relating to supporting entrepreneurship provided for in s. 126.2 of the *Municipal Powers Act* (agglomeration council meeting of April 21, 2016, resolution CG16 0347).

⁵ Sections 3, 7 and 9 of the loan agreement.

⁶ Source: SDÉ, overview of the PME MTL network.

⁷ In 2015, the City created the PME MTL network, replacing the network of local development centres in Montréal that had played a local development role on the territory.

TABLE 1

Statistics on the Files Accepted by the PME MTL Centres for the Emergency Assistance Program for Small and Medium-Sized Businesses

	PME MTL Centre-Est	PME MTL Centre-Ville	PME MTL Grand Sud-Ouest	PME MTL Centre-Ouest	PME MTL West-Island	PME MTL Est-de-l'Île	Total
Total applications analyzed	584	1,868	516	401	419	409	4,197
Applications accepted	563	1,611	382	274	347	276	3,453
Amount granted	\$20,982,600	\$47,555,400	\$12,155,900	\$11,780,100	\$13,565,000	\$11,570,000	\$117,609,000
Applications denied	21 ^[a]	257	103	60	60	67	568
Withdrawal	-	-	31	67	12	66	176
Percentage of files accepted	96%	86%	74%	68%	83%	67%	82%

[a]

Depending on whether a report from the Service du développement économique (SDÉ) sent to the MEI or an accountability report from PME MTL Centre-Est (PME CE) is used, the number of files refused for this PME MTL centre stands at 21 or 165. The data quality issue is detailed in Section 3.4.1. of this report.

Source: Data compiled by the City's Bureau du vérificateur général (BVG) using documents provided by the SDÉ. Follow-up on PAUPME loans as of September 30, 2021. This file is periodically compiled by all of the PME MTL centres in a shared directory.

As the COVID-19 pandemic evolved, the MEI made several amendments to the terms and conditions of the PAUPME. As of September 30, 2021, there had been nine amendments. This has resulted in changes to the loan agreement between the MEI and the City, including increasing the amount of the City's loan to assist businesses and reflecting changes to the terms and conditions of the assistance provided to businesses. Multiple amendments have been made to the delegation agreements with the PME MTL centres to reflect the changes brought about by the MEI. Amendments to delegation agreements must be adopted by the City before they can be implemented.⁸

At the time of the audit, the moratorium for PAUPME loans ended on September 30, 2021. For the assistance granted under the AERAM component of the PAUPME, the moratorium for the repayment of principal and interest has been extended until March 31, 2022.⁹ Businesses were required to submit the necessary documentation to the PME MTL centres by November 30, 2021, to enable the latter to proceed with the evaluation and confirmation of loan forgiveness by January 31, 2022.

Roles and Responsibilities of the Parties in Managing the Fonds d'aide d'urgence

The role of the City's SDÉ is to establish the City's economic development strategy, strategic plan and development guidelines. The SDÉ maintains relationships with the MEI and other government departments and acts as an intermediary between the MEI and PME MTL. In this capacity, it manages delegation agreements, including those for the FAU. It also provides the PAUPME frameworks and guidelines to PME MTL and forwards the information received from the MEI. It further acts as a guide and coach to PME MTL in implementing the PAUPME and participates in an observatory capacity in certain meetings of the boards of directors of the PME MTL centres.

As far as PME MTL is concerned, its centres carry out the mandate given to them by the City through a bylaw or agreements—including delegation agreements—and manage financial assistance according to the applicable frameworks. The responsibility for evaluating and authorizing applications for financial assistance within each PME MTL centre is assumed by its comité d'investissement exceptionnel (CIE). This committee is composed of the director general of the PME MTL centre and the centre's director of investments or financing, who reports to the director general concerned.

⁸ These various amendments needed to be adopted by the executive committee, the city council and the urban agglomeration council.

⁹ Information from the Québec government's website, "Emergency Assistance for Small and Medium-Sized Businesses (COVID-19)" section, updated on January 11, 2022.

2. Purpose and Scope of the Audit

Under the provisions of the *Cities and Towns Act (CTA)*, we completed a performance audit mission of the Management of the Emergency Assistance Program for Small and Medium-Sized Businesses by PME MTL. We performed this mission in accordance with the *Canadian Standard on Assurance Engagement (CSAE) 3001*, described in the *CPA Canada Handbook – Certification*.

The objective of this audit was to ensure that the PME MTL network's management of the PAUPME granted to the beneficiaries was carried out in compliance with the frameworks established by the City.

The role of the Auditor General of the Ville de Montréal is to provide a conclusion regarding the objectives of the audit. To do so, we collected a sufficient amount of relevant evidence on which to base our conclusion and to obtain a reasonable level of assurance. Our assessment is based on criteria we have deemed valid for the purposes of this audit. They are presented in Appendix 5.1.

The Auditor General of the Ville de Montréal applies *Canadian Standard on Quality Control (CSQC) 1* from the *CPA Canada Handbook – Certification* and, accordingly, maintains a comprehensive system of quality control, including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements. In addition, it complies with the independence and other ethical requirements of the *Code of ethics of chartered professional accountants*, which are founded on fundamental principles of integrity, professional competence and due diligence, confidentiality and professional conduct.

Our audit work covered the period from April 1, 2020, to September 30, 2021. However, with respect to certain aspects, data from before and after this period was also taken into consideration. Our work consisted of conducting interviews with employees, reviewing various documents and conducting surveys that we deemed appropriate to gather the necessary evidence. Our work was mainly carried out between May and December 2021, but we also took into account information that was sent to us up to April 2022.

The work on the files reviewed is based on the documents recorded in the audited files provided by the PME MTL centres. We requested the full documentation having led to the decision to authorize each of the selected emergency assistance loans granted and to the disbursement of the loan. Follow-up was done to confirm that all of the documents had been sent. We carried out our tests on the basis of documents transmitted by the PME MTL centres.

We excluded from the scope of our mission the evaluation and confirmation of the loans forgiven under the AERAM component, as the moratorium on the repayment of principal and interest was in effect until November 30, 2021. The MEI's loan forgiveness evaluation procedure was communicated after September 30, 2021. In addition, the ACEST component was excluded from the audit due to the low number of loans granted.

Most of the work was carried out with the following business units:

- Service du développement économique (Direction Entrepreneuriat);
- PME MTL centres:
 - PME MTL Centre-Est (PME CE);
 - PME MTL Centre-Ville (PME CV);
 - PME MTL Grand Sud-Ouest (PME GSO).

At the end of our work, a draft audit report was presented for discussion purposes to the relevant managers in the audited business units. The final report was then sent to the management of each of the business units concerned for the purpose of obtaining action plans and timelines for the implementation of the recommendations that concerned them. A copy of the final report was also sent, for information purposes, to the Direction générale, the acting deputy director-general – Qualité de vie and the directors general of the PME MTL centres not directly concerned by our audit, the goal being to enable them to implement the recommendations when the situation warrants it.

3. Audit Results

3.1. Insufficient Assessment of the Overall Financial Situation of the Businesses that Received Financial Assistance

When assessing files and granting emergency financial assistance, PME MTL must ensure that the businesses adequately meet the requirements set out in the PAUPME's intervention framework. In order to verify whether the evaluation of the files ensured that the assistance granted complied with the intervention framework and the applicable management frameworks, a random sample¹⁰ of 81 (4%) of the 2,039 files accepted by the three PME MTL centres audited between April 1, 2020, and September 30, 2021, was used. This sample represented an amount of nearly \$3.3 million, or 5% of the total amount granted in assistance by the three PME MTL centres. The distribution of the sample is presented in Appendix 5.2. The objective of the audit was not to express an opinion on the credit risk and the appropriateness of granting assistance to the beneficiaries, but rather to ensure compliance with the PAUPME's management frameworks.

¹⁰ The sample was selected based on the extractions of the PAUPME and the AERAM component received from the three PME MTL centres and not on all of the active loans in the loan management system (Margill) or any other system. The assistance granted through the AERAM component of PME CV is entered in Excel files rather than in the Margill system. For these reasons, we do not have the assurance of having obtained all of the loans.

3.1.1. Failure to Meet Certain Eligibility Requirements

Table 2 presents a profile of the deficiencies observed in relation to compliance with the eligibility requirements for the sample of financial assistance files pursuant to the FAU on behalf of the PAUPME. The files represent loans granted pursuant to the PAUPME and assistance provided pursuant to the AERAM component. A total of 19% of the files making up this sample did not meet at least one of the eligibility requirements based on the information obtained during the work.

TABLE 2

Profile of the Deficiencies Observed in Relation to Compliance with the Eligibility Requirements for a Sample of Financial Assistance Files Pursuant to the Fonds d'aide d'urgence

Non-compliant files by audited centre	PME MTL Centre-Est	PME MTL Centre-ville	PME MTL Grand Sud-Ouest	Total
Number of files analyzed	31	34	16	81
Emergency Assistance Program for Small and Medium-Sized Businesses	14	20	7	41
Assistance for Businesses in Regions on Maximum Alert component	17	14	9	40
ELIGIBILITY NOT MET^[a]				
Number of files that did not meet the eligibility criteria	6	8	1	15
Emergency Assistance Program for Small and Medium-Sized Businesses	2	4	1	7
Assistance for Businesses in Regions on Maximum Alert component	4	4	0	8
Proportion of files that did not meet the eligibility criteria	19%	24%	6%	19%
Emergency Assistance Program for Small and Medium-Sized Businesses	14%	20%	14%	17%
Assistance for Businesses in Regions on Maximum Alert component	24%	29%	0%	20%

^[a] Some files may have multiple cases of non-compliance.

Source: Data compiled by the City's BVG on the basis of information recorded in the audited files provided by the PME MTL centres.

Eligibility Requirements Applicable to Businesses

The FAU's intervention framework details the PAUPME's eligibility requirements that must be met, including that the business must:

- have operated in Québec for at least 6 months;
- not be under the protection of the *Companies' Creditors Arrangement Act* (R.S.C., 1985, c. C-36) or the *Bankruptcy and Insolvency Act* (R.S.C., 1985, c. B-3);
- be closed temporarily, be liable to close or display early warning signs of closing;
- be in the process of maintaining, consolidating or relaunching its operations (which excludes start-ups);
- have demonstrated¹¹ a causal link between its financial or operational problems and the COVID-19 pandemic.

To be eligible for the AERAM component, the business must first be eligible for the PAUPME and be located in a region on high alert. Also, its cash flow must be affected by a closure order for a certain number of days for specific months.

Overall, for the files sampled, all of the businesses financed by the PME MTL centres as part of the PAUPME operate in eligible sectors of activity. Also, all of the sampled businesses that benefited from the AERAM component operate in sectors of activity affected by a closure order.

However, among the assistance granted, there were files that did not meet one or more of the eligibility requirements presented above (see Table 2 above), including, for example:

- one business had been operating for less than six months at the time the application for financial assistance was filed. There was no documentation on file regarding the business's context and financial situation, since the analysis was based on the parent company (PME CV);
- in two cases, the causal link was not commented on in the analysis grid, other than by a box checked to that effect, and for which there is no document showing that the business's financial problems are related to the COVID-19 pandemic (PME CE and PME CV);
- for 9 (11%) of the 81 assistance files observed, there is no justification for the eligibility requirement relating to operations, i.e., whether the business is in the process of maintaining, consolidating or relaunching its activities. It is therefore impossible to determine whether these businesses, which received assistance, complied with this requirement.

¹¹ Definition of demonstrate according to *Le Petit Robert*: to establish the truth of something in an obvious and rigorous way.

Errors or omissions in the information were observed on the assistance file analysis grid approved by the CIE, such as:

- the assistance was granted to a business whereas the analysis grid makes no mention of the causal link (the box is not checked in this regard);
- in the case of another business, it is clearly indicated in the analysis grid that the financing requested is not to meet short-term cash-flow needs to fulfil financial obligations, which corresponds to working capital needs. There are no further arguments as to how the business will use the loan. The loan is nevertheless granted.

In the context of the program's emergency management, the boards of directors of PME CE and PME GSO were informed by their respective directors general in March 2021 that the implementation of the mandate to manage the PAUPME and its AERAM component could have been a source of errors due to the high volume of files processed in an emergency context, combined with the numerous changes the PAUPME underwent, which made the analysis and follow-up very complex. In the case of PME GSO, a resolution was unanimously adopted by its board of directors acknowledging this situation.

Project Eligibility

In addition to qualifying as a business, the organization must demonstrate that the purpose of its application for financing (the project) addresses its working capital needs, determined on the basis of justified and reasonable expenses, whose financial situation is precarious due to cash-flow problems caused by:

- the inability or significantly reduced capacity to deliver products (goods and services) or merchandise;
- problems in obtaining raw materials or products (goods or services).

For the vast majority of the files, evidence of working capital needs was provided. However, for 2 of the 41 PAUPME loan files and 5 of the 40 AERAM component loan files (total of 9%) observed, these needs related to a precarious financial situation due to the COVID-19 pandemic are not clearly demonstrated. The assistance provided was to support businesses whose financial situation became precarious due to the COVID-19 pandemic. Of these 7 files, some did not contain comments in the analysis grid that were supported by reliable and evidentiary information to conclude that the business was facing a cash shortage due to the COVID-19 pandemic. Among the cases raised in the sample was a \$50,000 AERAM component loan that was granted in May 2021 to a restaurant that was not experiencing working capital difficulties, as its forecast showed a cash surplus of between \$500,000 and \$600,000 for the period from January to June 2021.

3.1.2. Documentary Requirements not Met and Insufficient Rationale to Support the Assessment and Granting of the Loan

Insufficient Documentation to Support the Analysis of the File

As prescribed by the SDÉ and the MEI, specific documents are required to assess the business's cash-flow needs, as these documents provide an understanding of the client's profile, including sales and expenses, profitability history (viability), financial structure (e.g., assets, liabilities, equity), obligations to the various governments and the monetary impact of the COVID-19 pandemic.

Although the analysis grid used by PME MTL to evaluate an application for financial assistance indicates the presence of documents supporting the application, these were not tracked for 36 (24 PAUPME and 12 AERAM component) of the 81 files selected (i.e., 44%), as shown in Table 3.

3.2. Management of the Emergency Assistance Program for Small and Medium-Sized Businesses by PME MTL

TABLE 3

Number of Files in the Sample with Insufficient Documentation to Support the Loan Decision

Missing documentation to support the application	PME MTL Centre-Est	PME MTL Centre-Ville	PME MTL Grand Sud-Ouest	Total ^[a]
EMERGENCY ASSISTANCE PROGRAM FOR SMALL AND MEDIUM-SIZED BUSINESSES				
12-month financial statements at 12/31/2019 or more recent are missing or incomplete	3	5	0	8 (10%)
Lack of evidence of the impact of the crisis	4	6	0	10 (12%)
Missing or incomplete proof of payment (GST/QST, payroll deductions, income taxes) (analyzed for the Emergency Assistance Program for Small and Medium-Sized Businesses only)	9	5	3	17 (21%)
Number of files with at least one missing or incomplete document	10	11	3	24 (30%)
ASSISTANCE FOR BUSINESSES IN REGIONS ON MAXIMUM ALERT COMPONENT				
Missing or incomplete annual financial statements and recent interim financial statements	4	5	1	10 (12%)
Lack of evidence of the impact of the crisis	4	2	1	7 (9%)
Absence of the schedule of allowable fixed costs	1	0	1	2 (2%)
Lack of a cash budget	1	0	0	1 (1%)
Number of files with at least one missing or incomplete document	6	5	1	12 (15%)

^[a] Percentage based on the 81 files making up the sample and rounded.

Source: Data compiled by the City's BVG based on information recorded in the audited files provided by the PME MTL centres.

The result is that 18 (8 PAUPME and 10 AERAM component) of the 81 financial assistance files observed (i.e., 22%) had incomplete or missing financial statements. As an example, here are some of the types of problematic situations observed in the evaluation of the application concerning the financial statements:

- Absence of a balance sheet in the annual and/or interim financial statements (3 cases);
- Presence of obsolete financial statements (3 cases);
- No financial statements of the business receiving assistance (2 cases), but presence of financial statements of the parent company on which the analysis is based (1 case).

Evidence of the impact of the crisis linking the business's financial or operational issues and the COVID-19 pandemic is not supported by documentation for 17 (10 PAUPME and 7 AERAM component) of the 81 files observed (i.e., 21%). On many occasions, PME MTL relies on the client's declaration on the application form without any documentary evidence of the impact of the crisis. For cases where the evidence was adequately documented, there was, for example, a comparative sales statement for March 2019 and March 2020 or a comparative income statement for the same period along with the previous year or, for instance, documents indicating that orders had been cancelled.

In addition, 17 (41%) of the 41 PAUPME loan files observed did not have proof of complete payment of government debt, even though this is a requirement on the assistance application file for this type of loan. Businesses with debts owed to governments are eligible for the PAUPME, provided they can demonstrate that a payment agreement has been reached with the government and that a comprehensive analysis of their financial health is conducted during the review of the file. In the case of almost half of the PAUPME loans, PME MTL could not know whether the business had debts owed to governments and was therefore not able to conduct the overall financial analysis required by the MEI.

During our audit work, PME CV was not able to provide us with documents for 4 PAUPME loan files, because, according to the justification provided, these documents had not been archived and would no longer be available after the electronic platform had been replaced in June 2020. Thus, PME CV cannot in fact demonstrate to the City and the MEI that the program was properly managed in the case of these files.

Considering the number of files in the sample for which the required documents were missing, according to the program requirements, we wonder how the PME MTL centres were able to determine that these businesses were eligible for the PAUPME. It should be noted that the annual or interim financial statements make it possible to evaluate, among other things, the company's financial problems in relation to the COVID-19 pandemic and its cash-flow needs, as well as the business's financial situation.

Lack of Consent to Conduct Personal Credit Checks on the Shareholder

In a complementary document intended to help PME MTL with the PAUPME titled “Questions et réponses,” the SDÉ recommended that PME MTL carry out a personal credit investigation of the business’s shareholder when evaluating the file. This is a sound management practice, as it allows the lender to shed light on the shareholder’s credit behaviour by looking at how the shareholder repays credit obligations to various creditors.

While our work shows that this recommendation was applied by PME MTL for nearly 60% of the files audited, it nevertheless reveals that for 13 (27%) of the 48 loan files in the sample that had been subject to such a personal credit check, the check was carried out without first obtaining the written consent of the person concerned. According to the *Act respecting the protection of personal information in the private sector* (ARPP),¹² PME MTL was required to obtain the shareholder’s consent¹³ to collect and use personal information¹⁴ for the purpose of evaluating the business’s application for financial assistance. Table 4 shows the distribution of cases in which a personal credit check was conducted without consent.

¹² The object of the *Act respecting the protection of personal information in the private sector* (ARPP) (chapter P-39.1) is to establish particular rules with respect to personal information relating to other persons which a person collects, holds, uses or communicates to third parties in the course of operating an enterprise within the meaning of article 1525 of the *Civil Code* (section 1).

¹³ Section 14 of the ARPP: “Consent to the collection, communication or use of personal information must be manifest, free, and enlightened, and must be given for specific purposes. Such consent is valid only for the length of time needed to achieve the purposes for which it was requested. Consent given otherwise than in accordance with the first paragraph is without effect.”

¹⁴ “Personal information is any information which relates to a natural person and allows that person to be identified” (Section 2 of the ARPP).

TABLE 4**Proportion of Sampled Files with a Personal Credit Check**

Personal consent to conduct a personal credit check	PME MTL Centre-Est	PME MTL Centre-Ville	PME MTL Grand Sud-Ouest	Total
EMERGENCY ASSISTANCE PROGRAM FOR SMALL AND MEDIUM-SIZED BUSINESSES				
Number of loans granted pursuant to the Emergency Assistance Program for Small and Medium-Sized Businesses with a personal credit check	10	17	3	30
Number of loans granted pursuant to the Emergency Assistance Program for Small and Medium-Sized Businesses without evidence of a signed consent	1	0	2	3
ASSISTANCE FOR BUSINESSES IN REGIONS ON MAXIMUM ALERT COMPONENT				
Number of loans granted pursuant to the Assistance for Businesses in Regions on Maximum Alert component with a personal credit check	4	12	2	18
Number of loans granted pursuant to the Assistance for Businesses in Regions on Maximum Alert component without evidence of a signed consent	1	8	1	10
Percentage of loans granted pursuant to the Emergency Assistance Program for Small and Medium-Sized Businesses and the Assistance for Businesses in Regions on Maximum Alert component without evidence of consent	14%	28%	60%	27%

Source: Data compiled by the City's BVG on the basis of information recorded in the audited files provided by the PME MTL centres.

The irregularities observed are detailed as follows:

- One individual's consent was obtained whereas the personal credit check was conducted for a different individual (2 cases);
- Consent was obtained after the personal credit check was conducted (1 case);
- Lack of consent to conduct a personal credit check for AERAM component loans whereas a check was indeed conducted (9 cases);
- A personal credit check was conducted in the case of an additional application pursuant to the AERAM component without evidence of consent (1 case).

The majority of the irregularities (9 out of 13 cases, or 69%) can be explained by the fact that the application form used at the time for the AERAM component (developed by PME MTL on the basis of an MEI template) did not provide for obtaining the consent of the person concerned for the purpose of conducting a personal credit check. In fact, the AERAM component application form asks for consent to be obtained to check whether the shareholders had previous convictions and to check the credit rating of the business, unlike the PAUPME form, which asks for consent to check personal credit. Thus, for the AERAM component loans, the shareholder did not consent to a personal credit check. The form has since been modified. As for the other situations of irregularities, PME MTL states that the consents may have been obtained verbally in certain cases or for other related business files but is, however, unable to provide evidence of this.

Insufficient Rationale to Support the Assessment and Granting of the Loan

Table 5 presents a profile of the deficiencies observed in relation to the assessment and granting of loans for the sample of financial assistance files pursuant to the FAU. The files represent loans granted pursuant to the PAUPME and assistance provided pursuant to the AERAM component. Regarding the analysis of the business's overall financial situation, the arguments for authorization do not demonstrate that the analysis's various elements were taken into consideration in the case of 74 (91%) of the 81 files selected. Our work was based on the arguments documented in the analysis grid used to demonstrate that the elements were evaluated by the PME MTL centre. While these elements may have been taken into consideration during the evaluation, we were not able to find any evidence that they had been commented on by the analysts of the PME MTL centre, which raises questions about granting assistance in the context of a large volume of files.

TABLE 5

Proportion of Sampled Files with Insufficient Analysis of the Overall Financial Situation of the Business to Support the Decision to Grant the Loan

Non-compliant files by audited centre	PME MTL Centre-Est	PME MTL Centre-ville	PME MTL Grand Sud-Ouest	Total
Number of files analyzed	31	34	16	81
Total number of files examined under the Emergency Assistance Program for Small and Medium-Sized Businesses	14	20	7	41
Total number of files examined under the Assistance for Businesses in Regions on Maximum Alert component	17	14	9	40
Elements of analysis considered^[a]				
Reconciliation of expenditures (justified and reasonable) not demonstrated	24	32	11	67
Medium-term prospects of profitability not demonstrated (based on history)	11	13	4	28
Very limited comments on the business's financial health	16	26	3	45
Unjustified amortization of more than 36 months	6	1	4	11
Number of files with an insufficient overall analysis	28	33	13	74
Emergency Assistance Program for Small and Medium-Sized Businesses	12	20	7	39
Assistance for Businesses in Regions on Maximum Alert component	16	13	6	35
Proportion of files with insufficient analysis	90%	97%	81%	91%
Emergency Assistance Program for Small and Medium-Sized Businesses	86%	100%	100%	95%
Assistance for Businesses in Regions on Maximum Alert component	94%	93%	67%	88%

^[a] Some files may have multiple cases of non-compliance.

Source: Data compiled by the City's BVG on the basis of information recorded in the audited files provided by the PME MTL centres.

Insufficient Demonstration of Expenditure Reconciliation

Of the 67 files for which expenditure reconciliations were not demonstrated, 34 (83%) of the 41 PAUPME loans reviewed did not have sufficient evidence to demonstrate that funding was determined on the basis of justified and reasonable expenditures. For example, a \$40,000 PAUPME loan was granted to a business selling food products that was unable to participate in trade shows. The loan authorization does not demonstrate a reconciliation between the expenditures reported at the time the application was filed and the expenditure history in the financial statements. In fact, annual sales total \$46,000 in February 2020 and \$51,000 in August 2020 (six months later). There is no history of profitability on file and no comment on the business's repayment capacity and the outlook of its financial viability. For the AERAM component, the analyses carried out by the audited PME MTL centres do not show a reconciliation between the allowable fixed costs (equivalent to expenses) submitted by the business and its financial statements. Under the program, non-allowable fixed costs will not be forgiven and must be repaid at maturity. It is therefore important that these two types of fixed costs be clearly distinguished during the analysis of the application.

Also, of these 67 files, for 33 AERAM component loans (i.e., 83% of the 40 files reviewed), the loan amount granted was mainly based on the expenses presented by the business in the monthly expense table (including allowable fixed costs) without any argument for the reasonableness of the expenses, despite certain visible inconsistencies. As an example, \$50,000 in AERAM component assistance was granted to a business with expenses that are not eligible for the loan forgiveness but were included in the estimate of the forgivable amount, including \$6,000 used to pay for vehicle leasing costs and to make monthly payments on a commercial loan to a financial institution for the period of October through December 2020. Also, in the case of another AERAM component loan of \$39,000 granted to a restaurant, the authorization refers to incompatible charges for allowable fixed costs including mortgage interest charges and three months' rent.

Medium-Term Prospects of Profitability Not Demonstrated

In general, the comments entered in the analytical grid were not sufficient to conclude that the PME MTL centre had adequately assessed the borrower's medium-term viability. When the viability assessment was presented, either the financial information was incomplete or the link between the business's financial structure and its ability to repay the loan was not explicit. For example, in the case of a \$50,000 AERAM component loan granted to a business, the authorization concludes that the business has an excellent repayment capacity. Nonetheless, according to the 2019 financial statements, the business had experienced financial losses of 5% to 10% for the past 2 years, directly impacting its ability to repay.

Based on the additional analysis performed, for 28 (35%) of the 81 loans audited, borrowers were in deficit in the year prior to the COVID-19 pandemic (i.e., 16 [39%] of the 41 firms that received a PAUPME loan and 12 [30%] of the 40 firms that received assistance from the AERAM component). Two examples can illustrate this:

- A \$25,000 PAUPME loan to a business that had had no revenue since August 2019, i.e., more than eight months before the COVID-19 pandemic. The business says the COVID-19 pandemic reduced its ability to find revenue streams following a change in the business model;
- A \$50,000 PAUPME loan is granted to a business for which the authorization mentions serious doubts about the business's ability to repay, since the business is in arrears with various governments and the shareholder has a poor credit history. In addition, the financial statements for the last 12 consecutive months were not tracked because the application platform was changed.

While the financing program does not preclude lending to businesses in deficit, the assessment of the business's viability is a factor to be considered, primarily in the case of PAUPME loans, as these cannot be forgiven.

Very Limited Comments on the Business's Financial Health

For 45 (55%) of the 81 files reviewed, the comments on the business's financial health were brief. The financial analysis was either limited to reproducing a few items from the balance sheet and income statement, without drawing any conclusions about the business's financial risk, its medium-term viability and its ability to meet its obligations, or to identifying inconsistencies. For example, a \$24,000 AERAM component loan was granted to a business incorporated less than 6 months before the date of the application. The analysis of this file focused only on the financial statements of the parent company, without any financial information on the new daughter company.

Also, a loan from the AERAM component to a restaurant that was initially refused because of its precarious financial situation was reconsidered by the CIE without any argument and subject to certain conditions defined in the analysis grid, which we were not able to demonstrate were met.

Unjustified Amortization of More than 36 Months

For 13 (32%) of the 41 PAUPME loans, the loan amortization, excluding the program's repayment moratorium, exceeded the 36-month standard and went up to a period of 60 months. Also, for 11 of these 13 files (85%), no evidence of an analysis of the client's ability to repay was found, nor was there any justification provided in the analysis grid to support this exception.

An incomplete or poorly documented assessment may miss risks that should otherwise have been factored into the decision to grant the loan and possibly adjust the amount as well as the terms and conditions to mitigate the impacts of such risks.

For the three PME MTL centres audited, the comments justifying the financial analysis are of variable geometry and do not always make it possible to properly capture the business's risk and support granting the loan. In addition, the insufficiency of the analyses, particularly with regard to compliance with eligibility requirements, as well as the supporting documentation, does not provide assurance that the assistance granted to the beneficiaries was analyzed and authorized in compliance with the applicable management frameworks.

It should also be noted that in its 2021–2022 report to the National Assembly,¹⁵ the Auditor General of Québec notes a different interpretation of the eligibility criteria and the varying requirements concerning the information requested to process financial applications under the PAUPME by the audited regional county municipalities.

3.1.3. Reservation of the Bureau du vérificateur général to Conduct Future Work

Although several shortcomings were observed in PME MTL's management of the program and granting of loans, due to the uncertain future of this MEI program, no recommendation was made to PME MTL regarding the findings raised in this section of the report. Should a similar program be introduced in the future, the City should put in place more stringent controls to ensure its sound management. The BVG could re-audit PME MTL to ensure that it has changed its practices, thereby reducing the risk to the City of not meeting its commitments to the Québec government.

3.2. Non-Compliance of Loan Agreements and Insufficient Due Diligence Regarding Loan Disbursements

3.2.1. Non-Compliance with Certain Clauses of the Delegation Agreement between PME MTL and the Ville de Montréal in the Loan Agreements

Waiver of Certain Commitments in the Ville de Montréal-PME MTL Delegation Agreement in the Contract Templates

The delegation agreement requires that the terms and conditions for the disbursement and repayment of aid to businesses be specified in a loan agreement signed with the beneficiary businesses. The agreement must specify the terms and conditions of the loan and forgiveness of the loan, the terms and conditions of repayment of the financial assistance and the responsibilities of both the lender and the beneficiary.

¹⁵ Chapter 5 of the 2021–2022 report of the Auditor General of Québec to the National Assembly, November 2021.

The agreement also provides a systematic six-month moratorium on all loan contracts.

Although the PME MTL centres have committed in the delegation agreement to mention to the beneficiary that it is funded by the City and the MEI, the PME CE and PME GSO do not indicate this in their loan agreements. Also, the common loan agreement templates for the PME MTL centres validated by the SDÉ do not indicate that the funding is provided by the City and the MEI. However, PME CV has customized its PAUPME loan contract template to specify the source of the funding.

Reconciliation of Loan Agreements with Comité d'investissement exceptionnel Approvals

In the delegation agreement, the PME MTL centres have committed to having the CIE approve the financing of businesses that meet the eligibility requirements. Therefore, the loan agreements must reflect the terms and conditions of the CIE's loan.

The terms and conditions for repayment of the CIE-approved loans were met for 94% of the selected loans.

Justifications for changes to the terms and conditions approved by the CIE were not tracked for files that did not meet those terms and conditions.

Incorrect Valuation of Interest and Duration of the Moratorium in the Loan Agreements

To establish the loan repayment schedule, the PME MTL centres use the disbursement date entered in the Margill application.¹⁶ This schedule shows the amounts to be paid by the beneficiaries on specific dates. The calculation of the repayment (principal and interest) is based on the date of disbursement, the interest rate as well as the amount and amortization period of the loan.

The loan disbursement dates entered in the loan management software do not always correspond to the effective dates of the transfers of funds to the businesses. For example, in the case of:

- PME CE, 11 (35%) of the 31 loan files in the sample (4 PAUPME loans and 7 AERAM component loans) showed a gap of between 7 and 18 days for PAUPME loans and between 7 and 102 days for AERAM component loans, between the date of disbursement recorded in the loan management software and the actual date on which the funds were disbursed to the beneficiaries;
- PME GSO, the only two files audited show a difference of 74 days for the PAUPME loan and 21 days for assistance from the AERAM component, between the date of transfer to the beneficiary and the date of disbursement in the loan management software.

¹⁶ Loan management software used to establish the terms of repayment of loans, i.e., the calculation of monthly payments (principal and interest).

This has an impact on the interest charges for PAUPME loans due to their capitalization after the first six months of the moratorium. For the AERAM component, no interest had been capitalized at the time of our audit.

As for PME CV, the situation was different because it disbursed financial assistance by issuing cheques. These were to be signed by a board member in batches of several cheques at a time and remitted to the beneficiaries in exchange for the signed agreements. Because of this process, we were unable to verify that the beneficiary had possession of the cheque on the day the agreement was signed.

Table 6 illustrates three cases of PAUPME loans for which the date the cheque was remitted to the client cannot be determined with certainty.

TABLE 6

PME MTL Centre-Ville PAUPME Loan Files with Inconsistent Disbursement Dates

	Date of disbursement entered in the system (A)	Date of the cheque	Date of signature of the agreement (B)	Date of check cashing by the beneficiary	Months of interest overpayment capitalization (B-A) ^[a]
Case A	05/30/2020	05/30/2020	07/27/2020	09/30/2020	2
Case B	05/30/2020	05/31/2020	07/16/2020	07/24/2020	1
Case C	05/30/2020	05/30/2020	07/08/2020	07/17/2020	1

^[a] The number of months in excess for interest capitalization is rounded to the nearest whole number, and the cases observed used the 10th day of the month following the date of disbursement in the system (column A) as the start date for the calculation.

Source: Data compiled by the City’s BVG on the basis of information recorded in the audited files provided by the PME MTL centres.

Since a moratorium on the repayment of principal and interest applies for the first six months, if the loan is entered into the loan management software before the beneficiary signs the agreement, the actual moratorium to which he or she will be entitled will be shorter and they will have to pay more interest than required. This situation remains despite the fact that the moratorium on the repayment of principal was extended to September 30, 2021.

By not adhering to the terms and conditions of the loan as set out in the delegation agreement and as approved by the CIE, the PME MTL centres are in breach of one of their commitments to the City.

3.2.2. Irregularities in the Disbursement of Financial Assistance

By virtue of the delegation agreements, the PME MTL centres undertake to use the assets of the FAU solely for the purposes of carrying out the activities of this program, in accordance with the conditions set out therein. Due diligence prior to the disbursement of the loans extended to the businesses helps to meet this commitment, particularly by ensuring that the loan agreement is signed by the beneficiary and that authorization is obtained to disburse the loan.

Loans Disbursed with Authorizations

The vast majority of the financial assistance was disbursed after the loan agreements had been signed by the beneficiaries and the disbursements had been approved by the authorized persons. This approval is part of the control system established by the PME MTL centres. All approved disbursements were tracked for PME GSO and PME CE.

For PME CV, payments were made by cheque, and there was a request for the preparation of the cheque by a person who had not authorized the loan and could not sign the cheque. Such a request acts as a control mechanism, as the director general authorizes the loan with a member of the CIE and signs the cheque along with a director. Although all of the cheques in the sample were traced and signed by the director general of the PME MTL centre, the cheque preparation request was traced for 17 of the 20 PAUPME loan files analyzed. We did not find evidence of the full implementation of this control mechanism for 3 (15%) of the 20 files analyzed.

Assistance for Businesses in Regions on Maximum Alert Disbursed by PME MTL before the Adoption of the Agreements by the Bodies of the Ville de Montréal

The addition of the AERAM component to the PAUPME entrusted to the City by the MEI led to the updating of the contract signed by these two parties and adopted¹⁷ on December 17, 2020, by the City's decision-making bodies. This constitutes the City's acceptance of the terms and conditions of the AERAM component proposed by the MEI.

Amendments to the delegation agreements must usually be adopted by the City before they can be implemented. However, a review broader in scope than the sample used for our audit reveals that 237 (17%) of the 1,400 AERAM component loans (see Table 7) in the AERAM component loan portfolio of the three PME MTL centres audited were disbursed prior to¹⁸ the adoption by the City of the decision to delegate the management of the FAU.

¹⁷ December 17, 2020, resolution of the urban agglomeration council.

¹⁸ Based on the dates of the disbursements entered in the loan management software.

TABLE 7

Proportion of the Assistance for Businesses in Regions on Maximum Alert Component Loans Disbursed Before December 17, 2020 by PME MTL Centre Audited

Loans disbursed by audited centre	PME MTL Centre-Est	PME MTL Centre-Ville	PME MTL Grand Sud-Ouest	Total
Total loans disbursed as of 08/30/2021	316	930	154	1,400
Loans disbursed before 12/17/2020	106	68	63	237
Percentage of loans disbursed before 12/17/2020	34%	7%	41%	17%
Loans disbursed between 12/17/2020 and 01/28/2021	0	207	0	207
Percentage of loans disbursed between 12/17/2020 and 01/28/2021	0%	22%	0%	15%

Source: Data compiled by the City’s BVG on the basis of information recorded in the audited files provided by the PME MTL centres.

No evidence of written communication from the SDÉ to PME MTL was provided indicating that the PME MTL centres were not to sign or disburse AERAM component loans prior to the adoption by City authorities of the updated loan agreement between the MEI and the City. Similarly, PME MTL was unable to demonstrate that it had obtained authorization to disburse the loans prior to the adoption of the updated agreement by the City.

Moreover, given the crisis context, the SDÉ made the decision to allow the PME MTL centres to sign loan agreements and disburse loans between December 17, 2020, and January 28, 2021, i.e., without waiting for the update of the City’s delegation agreement with PME MTL, which was adopted on January 28, 2021. Only PME CV disbursed 207 additional AERAM component loans (based on the disbursement date provided by the PME MTL centre) during this period.

Prematurely signing loan agreements with businesses may not fully reflect the terms and conditions required by the MEI and creates a risk that the City may have to repay the loan to the MEI if the business is unable to do so.

3.2.2.A. Recommendation

We recommend that the Service du développement économique implement control mechanisms to ensure that the PME MTL centres make use of the powers delegated to them as part of the Fonds d’aide d’urgence only after the adoption of the delegation agreements by the Ville de Montréal’s authorities.

3.3. Follow-up

3.3.1. Mechanisms for Tracking Disbursed Emergency Assistance Not Defined and/or Not Applied

No Tracking Mechanisms in Place to Obtain Financial Statements from the Beneficiaries of Emergency Assistance

Sound loan management practice requires that the portfolio be monitored periodically, as risk changes over time. Borrowers' financial statements are obtained through rigorous monitoring to ensure that the borrowers' financial situation does not deteriorate. Considering the exceptional and circumstantial economic situation brought on by the COVID-19 pandemic, such monitoring could proactively identify signs of deterioration and make it possible to act accordingly.

The PAUPME loan agreement and that of the AERAM component of PME MTL contain a section detailing the borrower's commitments. Among the commitments, it is specified that:

"l'Emprunteur déclare et s'engage à:

Fournir au Prêteur des états financiers à tous les 12 mois suivant le versement (ou au plus tard 90 jours après la fin d'année financière pour le prêt PAUPME de PME CE) ainsi que les preuves des remises gouvernementales (TPS/TVQ/DAS) et ce durant la durée de la convention;"

In addition, the loan agreement provides that in the event of the occurrence of a case of default referred to in the appropriate section of the loan agreement:

"l'Emprunteur [...] sera déchu du bénéfice du terme et le solde entier (capital et intérêt) deviendra immédiatement dû et exigible et mis en demeure."

Among the cases of default identified in the agreement, it is specified that:

"Si l'Emprunteur fait défaut de déposer ou de soumettre au Prêteur dans les délais prescrits, tout document ou rapport dont le dépôt est requis aux termes des présentes.

Si l'Emprunteur fait défaut de respecter une quelconque de ses obligations aux termes des présentes."

As stipulated in the delegation agreement, PME MTL is responsible for taking all measures to ensure the proper administrative operation of the FAU and to ensure that the terms and conditions and the clauses of the loan agreement are respected and that the Borrower does not become in default. For this reason, each PME MTL centre must have follow-up mechanisms in place to obtain financial statements annually and process the information received.

However, according to the information obtained, there were no mechanisms in place to follow up on the financial statements and government receivables

of the businesses benefiting from the PAUPME before September 30, 2021, for PME CE and PME CV. As for PME GSO, there is a documented tracking mechanism in place, but its application could not be demonstrated for the period before September 30, 2021. For the three PME MTL centres, the treatment of the information received, such as assessing an update or a documented annual review, is not yet determined. The same is true when it comes to the documented analysis report format.

In short, contrary to the expectations of the delegation agreement, the PME MTL centres are not able to enforce certain conditions of the loan agreement seeing as they do not obtain the requested documentation. Thus, the PME MTL centres are not aware of the evolution of the PAUPME aid portfolio, which hinders the possibility of a proactive intervention in the event of signs of deterioration.

Procedure for Recovery of Defaulted Loans Not Defined Since Implementation of the Emergency Assistance Program for Small and Medium-Sized Businesses

As a result of the delegation agreement, the PME MTL centres must undertake all steps and remedies, including legal action, to ensure that the businesses comply with the loan agreements and any other commitments they have entered into under the FAU. The City did not require a guarantee (e.g., a bond, security interest) to mitigate the risk of business default for the PAUPME subsidies.

Typically, any lender will have collection guidelines and procedures in place to recover money from borrowers who fall behind in their payments. In addition, the implementation of management tools helps to monitor cases of delinquency. Although the PME MTL centres audited had collection procedures for all the funds they manage, they are not specifically applicable to the PAUPME and AERAM component loans, particularly since no guarantee is taken on these loans.

The PME MTL centres use the Perceptech application¹⁹ to manage preauthorized monthly loan repayments. This application provides management tools to track loan portfolio delinquency. The PME MTL centres we met with use management reports (rejects-anomalies) to identify missed payments. These reports are provided to the deputy director-general to follow up on the delinquency and contact the clients involved to remedy the situation.

At the time of our audit, moratoriums on the repayment of financial assistance under the PAUPME remained in effect. The moratorium on the repayment of principal for PAUPME loans ended on September 30, 2021, while the moratorium for AERAM component loans was extended to March 31, 2022.

Although the moratoriums were in effect at the time of our audit, the PME MTL centres we met with and the SDÉ stated that they did not have defined collection processes and procedures for handling delinquent loans under the PAUPME. It should be noted that PAUPME emergency loans differ from the loans usually extended by PME MTL

¹⁹ Preauthorized payment management system for monthly loan payments (transfers of funds in lieu of payments by cheque).

in that they are not accompanied by a bond or security (the equivalent of a guarantee) to mitigate the risk of financial loss. As of September 30, 2021, the total loans granted amounted to \$117.6 million for a total of 3,453 files.

3.3.1.A. Recommendation

We recommend that PME MTL Centre-Est, PME MTL Centre-Ville and PME MTL Grand Sud-Ouest implement a follow-up mechanism to obtain the financial statements and other documents indicated in the loan agreement and process the information obtained, for example through an annual review or an update of the file, for unfunded financial assistance, in order to monitor the emergency assistance portfolio and identify signs of deterioration so that they can take proactive action.

3.3.1.B. Recommendation

We recommend that the Service du développement économique obtain from the PME MTL Centre-Est, PME MTL Centre-Ville and PME MTL Grand Sud-Ouest centres the collection procedure established for the Emergency Assistance Program for Small and Medium-Sized Businesses, detailing, in particular, the various activities involved in collecting defaulted loans and the related supporting documents in order to demonstrate the collection procedures applied in an optic of sound management.

3.3.2. Inadequate Oversight of the Delivery and Management of the Emergency Assistance Program for Small and Medium-Sized Businesses by the Service du développement économique

The development of work tools and the implementation of the PAUPME were done in an emergency context for which the SDÉ accompanied the PME MTL network. The volumes of applications analyzed and of assistance awarded under the FAU are significant for the years 2020 and 2021, not including the multiple changes made to the PAUPME by the MEI. Although the City delegated the establishment and management of the PAUPME to PME MTL, it is not relieved of its contractual obligations towards the MEI. Consequently, the SDÉ would be expected to monitor the management of the FAU to ensure compliance with the intervention framework, as well as PME MTL's contractual obligations as prescribed in the delegation agreement.

Although the SDÉ was planning to conduct random audits of the PAUPME files, according to the information received, it has yet to implement monitoring mechanisms to ensure compliance with the delegation agreement with respect to managing the FAU. At most, it has requested periodic, mostly weekly, accountability reports from the PME MTL centres.

Our work shows that there are deficiencies in compliance with the obligations and administrative clauses of the delegation agreement with respect to the FAU, including the following:

- The contract with the MEI specifies that if the management of the PAUPME is contracted out to a delegated organization, that entity will be required to adopt a code of ethics and professional conduct that meets the City's requirements. When PME MTL was created, its centres adopted rules of ethics and professional conduct to the satisfaction of the City. The SDÉ participates in several meetings of the boards of directors of the PME MTL centres to ensure governance. However, according to the documents obtained, it appears that the rules of ethics and professional conduct are not applied by the PME MTL centres as indicated in their general regulations. Consequently:
 - PME CV was unable to demonstrate that it obtains annual signatures on codes of ethics and declarations of interest for employees involved in processing the PAUPME, and the conflict of interest policy for the two assistant directors was signed in 2015 and 2016;
 - the code of ethics and professional conduct at PME GSO is not signed annually by employees and directors as prescribed in the general regulations.
- The presentation of the monthly summary of applications for financial assistance approved by the CIE for ratification by the board of directors, as prescribed by the administrative procedure of the FAU's intervention framework, is not respected by any of the three PME MTL centres audited;
- PME GSO, although it has had a separate bank account for the FAU since November 30, 2020, uses the bank account of the PME MTL fund (as well as the bank account of the Fonds locaux d'investissement [FLI] for 2020, a fund used to finance entrepreneurship projects) to disburse aid to businesses and deposit preauthorized debits. PME GSO maintains separate accounting for the FAU but uses inter-fund transfers between different funds to record these transactions. This means that the clause²⁰ of the delegation agreement which states "*...tenir une comptabilité distincte et un compte bancaire distinct des sommes inscrites au crédit du Fonds d'Urgence*" is not respected. As of April 1, 2022, the situation had been resolved, and PME GSO was making its first transfers directly from the separate bank account for the FAU.

By not adequately monitoring compliance with the various obligations of the FAU delegation agreement, the SDÉ cannot intercept management shortcomings and non-compliance with the terms and obligations of the FAU by PME MTL.

²⁰ Section 2, Clause #2.9 (titled "Engagement de l'organisme") of the loan to PME MTL for the establishment of the FAU in the 2021–2025 delegation agreement.

3.3.2.A. Recommendation

We recommend that the Service du développement économique implement monitoring mechanisms to ensure that the requirements and administrative provisions relating to the Fonds d'aide d'urgence detailed in the delegation agreement concluded with the PME MTL centres, including the intervention framework of the Fonds d'aide d'urgence, are respected, in order to ensure that the Ville de Montréal properly manages financial assistance under the Emergency Assistance Program for Small and Medium-Sized Businesses.

3.4. Accountability

3.4.1. Incorrect Information for External Reporting on Cumulative Claims (Status)

The delegation agreement between the City and PME MTL details the reports, accounts and other documents to be submitted to the City in terms of deadlines and format, as well as the requirements and tools made available to the PME MTL centres by the City or the MEI.

Since the implementation of the FAU for the PAUPME from May 2020 to September 2021, several of the City's accountability requirements have been removed or simplified, in part because the PAUPME was implemented in an emergency context and the SDÉ claims to have relied on the accountability requirements already in place for other programs included in the delegation agreement. Thus, over a 16-month period, the changes represent:

- 6 changes in the required reports and documents;
- 8 withdrawals of required reports and documents;
- 4 changes in the content of the required reports and documents;
- 2 withdrawals in the content of the required reports and documents;
- 8 changes to deadlines.

However, some of the initial accountability requirements were required by the City in order to implement controls for the PAUPME managed by the PME MTL centres.

The SDÉ has a mechanism in place for tracking accountability requirements for 2020 and 2021. However, in 2020, the SDÉ analyzed five of the eight accountability requirements, whereas in 2021, six of the seven existing requirements were assessed. The incompleteness of these mechanisms for tracking requirements are said to be explained by the fact that the SDÉ was not able to validate all the requirements requested and by PME MTL not being able to provide all of the information requested. It should be noted that the SDÉ took steps at the beginning of 2021 to obtain the resources and specific expertise required to carry out monitoring for the management of the FAU by the PME MTL centres.

3.2. Management of the Emergency Assistance Program for Small and Medium-Sized Businesses by PME MTL

Among the accountability requirements, a cumulative summary of the financial assistance granted under the FAU is required on a weekly basis,²¹ which is the status as prescribed by the MEI. This document presents the loans and forgivenesses granted by business under the PAUPME. The assistance is compiled and recorded in a spreadsheet file provided by the MEI, which is updated weekly by the PME MTL centres. The SDÉ verifies that each PME MTL centre enters the required information in its respective section. It does not, however, verify the data entered or establish whether loans were granted in compliance with the program. In the event of errors identified by the SDÉ, corrections could be made by the PME MTL centres.

Based on the work performed during our audit, the following irregularities were identified in the data presented in the September 30, 2021, status report for the entire PME MTL network submitted to the MEI:

- the cumulative amount of the assistance granted is incorrect because columns have been shifted for 54% of the rows in the file, with the result that the column showing the amount of assistance does not contain all the numbers;
- there are 9 cases where the date of approval (decision) by the CIE is prior to the implementation of the program;
- there are 42 cases where the date of creation of the business is missing, of which 41 with PME CE;
- there are 18 cases in which there is less than 6 months between the date of the creation of the business and the date of the CIE's decision, whereas a condition of eligibility for the program is that the business have been in operation for at least 6 months.

In addition, the PME MTL centres were late in submitting their weekly monitoring reports to the SDÉ, which indirectly involved the transmission of information to the MEI that was either incomplete or not up to date. Among 14 status transmissions to the MEI between January and September 2021, there are six overdue situations for all PME MTL centres combined. As a result, the accountability report provided by the SDÉ to the MEI does not reflect the true status of the program, and the City is not meeting some of its obligations towards the MEI.

²¹ The loan agreement between the MEI and the City requires monthly accountability status reporting. However, this accountability was produced weekly at the request of the MEI during the period of our audit. Since October 2021, the status report has been produced monthly as prescribed.

3.4.1.A. Recommendation

We recommend that the Service du développement économique implement mechanisms for monitoring and validating the accountability documents received from the PME MTL centres, to ensure that the accountability requirements are met in full and that the information transmitted to the Ministère de l'Économie et de l'Innovation and the Ville de Montréal provides a picture that ensures the integrity and reliability of the data.

3.4.2. Accountability to Ville de Montréal Decision-Makers Limited to the Volume of Assistance Granted by the Emergency Assistance Program for Small and Medium-Sized Businesses

A weekly report²² is made to the City's decision-makers (i.e., to the economic development officer, a member of city council and the deputy director-general – Qualité de vie) by the SDÉ, which sends a cumulative report of the assistance granted from all of the emergency programs. This report includes the number of applications received, analyzed, refused and disbursed for the PAUPME, as well as the balances of funds available in the FAU program.

In March 2021, the SDÉ made an annual accounting to the urban agglomeration council and the MEI by filing the "Rapport annuel des activités réalisées du 1^{er} janvier au 31 décembre 2020," as required under the financial contribution agreement.²³ This report mainly reflects activities related to the "Montréal All Geared up for tomorrow"²⁴ strategy and emergency measures in the context of the pandemic. Of these measures, the volume of activity of the MEI's PAUPME is presented in terms of budgeted loans and loans made as of December 31, 2020 (in amounts and numbers).

According to the information obtained, accountability to the decision-makers for the FAU is focused on the volume of activity of financial assistance granted and not on the management of the FAU. With the delegation of the management of the FAU to the PME MTL network (\$150 million to date), good governance practices would dictate that the SDÉ periodically report to decision-makers on the management of the FAU, given this fund exceeds the \$138.5 million in contributions and loans managed by PME MTL for the City since 2015. This accountability should not be limited to the volume of activity and fund balances, but rather to compliance with the obligations stipulated in the delegation agreement for the FAU.

²² The frequency of reporting to the City's decision-makers was weekly for the audited period. Since October 2021, the frequency of reporting to the City's decision-makers has been biweekly.

²³ Financial assistance agreement to provide financial assistance to implement the City's economic development strategy (Réflexe agreement between the MEI and the City) dated March 2018.

²⁴ The City's economic development strategy, titled "2018–2022 Economic Development Strategy – Montréal All Geared up for tomorrow," has five orientations.

3.2. Management of the Emergency Assistance Program for Small and Medium-Sized Businesses by PME MTL

Considering that the City has obligations towards the MEI and although it delegates the management of the FAU to PME MTL, accountability to decision-making bodies limited to the volume of activities is insufficient. As a result, decision-makers are not in a position to ensure that obligations towards the MEI for the \$150 million loan are being met and to have all the information they need to make informed decisions regarding the management of the FAU.

3.4.2.A. Recommendation

We recommend that the Service du développement économique carry out periodic accountability reporting in order to inform the decision-making bodies and, by extension, the City's elected officials and managers concerned of the management of the Fonds d'aide d'urgence and of compliance with the obligations of the PME MTL centres under the delegation agreement, in order to favour informed decision-making.

4. Conclusion

We conclude that the management of the Emergency Assistance Program for Small and Medium-Sized Businesses (PAUPME) granted by the PME MTL network to beneficiaries is not carried out in accordance with the frameworks established by the Ville de Montréal (the City).

The audit results show that 19% of the files reviewed that were granted a loan did not meet at least one of the eligibility criteria for the program established by the Ministère de l'Économie et de l'Innovation (MEI).

Furthermore, the comments justifying the financial analysis are of variable geometry and do not always make it possible to properly capture the business's risk and support granting the loan. Thus, the issues raised do not provide assurance that the assistance granted to the businesses has been evaluated and authorized in compliance with the applicable frameworks. Discrepancies were observed between the assistance authorized by the comité d'investissement exceptionnel and the loan agreements signed by the businesses. Shortcomings in the monitoring of disbursed assistance do not contribute to compliance with the contractual obligations the beneficiaries have committed to. In fact, the lack of follow-up by PME MTL to obtain financial statements from the businesses does not meet the expectations of the delegation agreements and may lead businesses to be in default of their obligations described in the loan agreement.

Although several shortcomings were observed in the management of the program and the granting of loans by PME MTL, due to the uncertain future of this MEI program, a single recommendation was made to PME MTL. Should a similar program be introduced in the future, the City should put in place more stringent controls to ensure its sound management. The Bureau du vérificateur général could audit PME MTL again in this regard.

More specifically, the major findings that we draw in relation to the evaluation criteria are as follows:

Evaluation Criterion – Evaluation of the Financial Assistance According to the Management Frameworks

Documentary requirements are not met in several financial assistance files.

At least one of the eligibility requirements of the MEI is not met in 19% of the files reviewed.

Comments made in support of the loan authorization analysis do not always indicate that an assessment of the business's overall financial condition was conducted for 91% of the selected files. Also, authorizing the amortization of the loan over a period of more than 36 months, allowed on an exceptional basis, is not justified for 85% of the selected files.

Evaluation Criterion – Implementation of Financial Assistance (Validation of Loan Agreements and Disbursements)

Two of the three PME MTL centres audited did not respect their commitments to the City, since their loan agreements, which were nevertheless validated by the Service du développement économique (SDÉ), did not inform the business that it was being financed by the City and the MEI.

The dates of actual disbursements do not always match the dates entered into the loan management system used to calculate interest charges. The observed discrepancies range from a few days to more than two months in the case of the PAUPME loans. This has the consequence of penalizing the beneficiaries of these loans by impacting the calculation of the interest due to their capitalization after the first six months of moratorium. For the assistance provided by the Assistance for Businesses in Regions on Maximum Alert (AERAM) component, no interest had been capitalized at the time of our audit.

Prior to the adoption by the City of the addition of the AERAM component to the MEI-City loan agreement, 17% of the AERAM component files had been disbursed. We did not find evidence of any communication allowing this practice.

Evaluation Criterion – Monitoring the Financial Assistance Portfolio

The mechanisms for monitoring the assistance disbursed to borrowers are not clearly defined, and those for monitoring the granting and management of PAUPME loans by the SDÉ are inadequate.

The collection process and procedures for dealing with delinquent loans had not yet been defined 16 months after the launch of the PAUPME.

The SDÉ does not adequately monitor compliance with the various obligations stipulated in the delegation agreement, which allows shortcomings to persist.

Evaluation Criterion – Accountability

Incorrect and inconsistent information was found during the reporting of the cumulative claims to the status of the PAUPME.

Accountability to the City's decision-makers is limited to the volume of activity and fund balance and there is no mention of compliance with the obligations pursuant to the delegation agreement for the Fonds d'aide d'urgence.

5. Appendices

5.1. Objective and Evaluation Criteria

Objective

To ensure that the management of the Emergency Assistance Program for Small and Medium-Sized Businesses (PAUPME) granted by the PME MTL network to beneficiaries is carried out in accordance with the frameworks established by the Ville de Montréal.

Evaluation Criteria

- The financial assistance granted to the beneficiaries is analyzed and authorized in accordance with the management frameworks applicable to the PAUPME.
- The authorized financial assistance is disbursed to the beneficiaries when all applicable conditions for disbursement are met.
- Periodic monitoring mechanisms are in place to ensure portfolio oversight.
- Accountability mechanisms are in place to inform decision-makers on the management of the mechanisms for granting financial assistance to the beneficiaries.

5.2. Distribution of the Sample

Details of the Sample of the Loans to be Analyzed

	PME MTL Centre-Est	PME MTL Centre-Ville	PME MTL Grand Sud- Ouest	Total
Applications accepted	511	1,260	268	2,039
Applications accepted – Assistance Program for Small and Medium-Sized Businesses	195	331	108	634
Applications accepted – Assistance for Businesses in Regions on Maximum Alert component	316	929	160	1,405
Amount loaned	\$19,741,600	\$39,827,600	\$9,846,100	\$69,415,300
Amount granted – Assistance Program for Small and Medium-Sized Businesses	\$7,890,000	\$15,055,200	\$4,179,000	\$27,124,200
Amount granted – Assistance for Businesses in Regions on Maximum Alert component	\$11,851,600	\$24,772,400	\$5,667,100	\$42,291,100
Selected files				
EMERGENCY ASSISTANCE PROGRAM FOR SMALL AND MEDIUM-SIZED BUSINESSES				
Number of files selected	14	20	7	41
Percentage of files accepted by the centre	7%	6%	6%	6%
Amount granted	\$616,000	\$913,000	\$245,000	\$1,774,000
Percentage of the amount granted by the centre	8%	6%	6%	7%
ASSISTANCE FOR BUSINESSES IN REGIONS ON MAXIMUM ALERT COMPONENT				
Number of files	17	14	9	40
Percentage of files accepted by the centre	5%	2%	6%	3%
Amount granted	\$764,000	\$404,800	\$341,000	\$1,509,800
Percentage of the amount granted by the centre	6%	2%	6%	4%

Source: Data compiled by the City's BVG on the basis of information obtained from the PME MTL centres.