Calgary Neighbourhoods' Support of Community Associations Audit

April 18, 2017

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The City Auditor's Office completes all projects in conformance with the *International Standards for the Professional Practice of Internal Auditing.*

Executive Summary

The City of Calgary (The City) engages in partnerships with Community Associations (CAs) as a way to increase the quality of life for Calgarians and provide them with a means of formal representation and advocacy to The City. The partnerships contribute to The City's vision to create and sustain vibrant, healthy and complete communities. CAs are important contributors to the quality of life in our neighbourhoods. The City plays a role in contributing to their success, which is demonstrated through investment of land and resources. The Calgary Neighbourhoods (CN) Business Unit (BU) is responsible for providing a central line of support to CAs and several Social Recreation Groups (SRGs) as well as performing critical risk assessment and risk mitigation work to protect The City's interest.

During the planning phase of the audit we determined that CAs are all unique. However, a number of factors contribute to a successful and sustainable CA (i.e. 'good' CA), including a functional board and available volunteers. The audit objective was to assess the design of key controls in place to identify, assess, communicate and support timely mitigation of risks to CAs' sustainability (i.e. those risks that can impact the ability of a 'good' community association). The audit approach reviewed the design of controls based on the COSO Internal Control Framework[1] related to CN's processes that support the sustainability of CAs and mitigate the risk to The City.

Semi-annually, CN formally reviews CAs to assess sustainability. CN developed a sustainability checklist and process (Review Process) that is used to compare the CAs to a list of best practices for financial, facility, and organizational health. Based on the results of the review, Neighbourhood Partnership Coordinators (NPCs) create work plans to provide assistance to CAs in areas where they have challenges. We reviewed the design of CN's Review Process and determined the process to identify CAs at risk and allocate resources to those CAs is effective. In terms of the internal control system, the Review Process includes the key components related to a CA's control environment, control activities and risk assessments and is designed effectively.

Annually, Community Services reports to Audit Committee and Council on the status of CAs operating on City-owned land (Annual Status Report)[2], and provides additional details and risk mitigation strategies for CAs that have a financial status of "Organization of Concern". The audit identified that the communication and monitoring components of the internal control system should be strengthened to ensure that the system of internal control is operating effectively. Communicating relevant and complete information regarding CA sustainability in the Annual Status Report will provide all members of the oversight bodies with a common understanding of the state of CAs across The City. Equipped with information, the oversight bodies will be in a better position to create policy and allocate resources for CAs facing challenges including aging facilities. In addition, presenting concise information further supports good decisions. Using current tools, processes and accessible information, we believe it is possible for CN to address the communication and monitoring components by revising the Annual Status Report presented to Audit Committee and Council.

We raised two recommendations to improve the Annual Status Report by:
1) Communicating relevant information identified through CN's review tool in the Annual Status Report, including aging facilities, life-cycle costs and organizational health; and

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[1] The COSO internal control framework is a widely accepted internal control framework that is closely associated with accomplishing organizational objectives and is built on a foundation of five fundamental components of internal control.

[2] Status of Community Associations and Social Recreation Organizations on City-Owned Land

2) Streamlining the Annual Status Report to draw attention to areas of high risk and/or concern.

Calgary Neighbourhoods has agreed to both recommendations and committed to implementing the recommendations by October 1, 2018. The City Auditor's Office will monitor the status of commitments as part of its ongoing recommendation follow-up process.

1.0 Background

In Calgary, there are currently 151 Community Associations (CAs) registered as incorporated not-for-profit organizations. The CAs, primarily run by volunteers, have three main roles:

- Local social activities and recreation provider;
- Local planning advisor; and,
- Community organizer and advocate.

The City of Calgary (The City) engages in partnerships with CAs as a way to increase the quality of life for Calgarians and provide them with a means of formal representation and advocacy to The City. The partnerships contribute to The City's vision to create and sustain vibrant, healthy and complete communities. The City recognizes the valuable contribution of these partners to Calgary's social fabric, and to facilitate these contributions, The City provides dedicated FTE support, lands, and grants to CAs.

Dedicated FTE Support

Calgary Neighbourhoods (CN), one of seven Business Units (BUs) under the Community Services Department provides a central line of support. Within CN, there are six divisions, including Neighbourhood Connections (NC). NC provides consultation and resources to CAs and 20 Social Recreation Groups (SRGs). NC supports the CAs and SRGs with a team of 24 Neighbourhood Partnership Coordinators (NPCs) focused on six core services: Engagement, Organizational Development; Connecting City Resources; Financial Management; License of Occupation (LOC)/Lease Management, and Facility Management and Capital Construction.

Land and Grants

Under the Municipal Government Act, The City provides public land to CAs and SRGs at a nominal cost of $10 per year to allow community organizations to serve the needs of Calgarians and contribute to complete communities. The legal relationship between The City and the organizations is set out in the License of Occupation or Lease agreements. The City is responsible to hold the public land in trust and to ensure public access. CAs and SRGs are responsible for all costs associated with occupying the lands, stewarding the public land, and providing a benefit for all Calgarians.

In addition to public land, the CAs and SRGs have access to two grants, one of which is administered by the Department Capital Development (DCD) division in the Calgary Community Standards BU. The Capital Conservation Grant (CCG) assists by funding up to 75% of capital lifecycle projects to a maximum project value of $300,000 per year. Currently, the CCG provides $6 million in funding shared among more than 200 CAs and SRGs. Western Management Consultants has been retained by DCD to complete a review of the infrastructure portfolio and develop an asset management plan for long-term sustainability for community partners operating City-owned amenities[3].

The other grant is the Community Sustainability Reserve (CSR) administered by CN. As of January 2017, the maximum funding amount is $200,000 over a five year period of time. The purpose of the CSR is to provide interim support to assist community organizations in need of short term assistance to address operational shortfalls or for stabilization and redevelopment assistance to address organizational or governance issues. In order to qualify for funding, CAs and SRGs must have an active LOC and approval by the Director of CN.

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[3] The anticipated completion date is Q1 2017.

CAs are important contributors to the quality of life in our neighbourhoods[4]. The City plays a role in contributing to their success and that is demonstrated through investment of land and resources. CN provides support to the CAs, as well as performing critical risk assessment and risk mitigation work to protect The City's interest. This audit is being undertaken as part of the City Auditor's 2016 Annual Audit Plan.

2.0 Audit Objectives, Scope and Approach

2.1 Audit Objective

The original intent of this audit was to determine what makes a 'good' community association, and how The City's resources are contributing to the 'good'. During the Planning Phase of the audit, we gathered information on the role of the NPCs and other City support and resources provided to CAs, which are detailed in the Background section. We looked at the results of the 2016 NC external partner survey completed by CAs and also gained an understanding of other City projects underway involving CAs and their role in Calgary's future.

We concluded that what makes a 'good' community association has been identified through a variety of previous surveys and measures supported by City resources as well as external parties. In addition there are several current projects underway that are examining the roles and relationships between The City and CAs. To have continued our audit as originally scoped, would likely have been redundant and may have impeded the resources currently employed.

The revised audit objective was to assess the design of key controls in place to identify, assess, communicate and support timely mitigation of risks to CAs sustainability including the reporting and escalation process (i.e. those risks that can impact the ability of a 'good' CA).

2.2 Audit Scope

The audit scope included processes, data and information collected for the Annual Status Report[5] of 2015 up to the reporting date of October 20, 2016.

To avoid duplication of effort, the areas currently under review through City projects involving CAs are out of the scope. However, the results of this audit may inform projects underway.

Specifically, the following were out of scope:

- Areas under review by the Community Representation Framework project[6] (i.e. The CAs' role as advisors in local planning and development and the role of Residents' Associations);
- Alignment of City resources to support CAs covered by Community Association Practices, Processes and Participation review (formerly the "Community Association Futures" review);
- Activities of the DCD related to the CCG except as they relate to communication of risks identified through CN processes; and
- Activities of CN related to CSR except as they relate to communication of risks identified through CN processes.

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[4] Conger, Goodbrand and Gondek. "On The Role and Future of Calgary's Community Associations", University of Calgary, The School of Public Policy, Volume 9 Issue 31, October 2016 p16.
[5] AC2016-0764 Confidential Report.
[6] The Community Representation Framework Project (CRFP), created in response to a Council motion in November 2015, will examine the evolution of CAs and Residents' Associations, and specifically, if both should have an official voice on community plans, land use plans and development permits.

Data and information of SRGs was not excluded, however, these organizations were not the focus of our review. CN provides support to 20 SRGS.

2.3   Audit Approach

The audit approach reviewed the design of controls based on the COSO Internal Control Framework related to CN's processes that support the sustainability of CAs and mitigate the risk to The City. Testing included interviews with City Staff, review of supporting documentation and analysis. As we were identifying recommendations, we reached out to a sample of Councillors to gain additional understanding.

We would like to thank staff from Calgary Neighbourhoods for their assistance and support throughout this audit.

3.0   Results

Several City Departments and BUs provide some level of support to CAs, however, CN is the main point of contact between CAs and The City. CN's role as the 'connector' between CAs and The City's BUs gives it a unique position of being a partner to CAs and a source of information to The City, in regard to the challenges, opportunities and risks of CAs.

We assessed the design of key controls related to CN's processes and activities that support Calgary's CAs. The COSO Internal Control – Integrated Framework sets out 17 principles supporting the five components of internal control (Appendix A). We applied these principles to help identify strengths and weaknesses in the internal control system. The design of the process to gather information on CA sustainability (Review Process) and develop work plans and allocate resources to support CAs is generally effective. Information collected and assessed using the Review Process focuses on elements that are present in a 'good' CA.

We reviewed communication of risks associated with CAs operating on City-owned land to Audit Committee and Council and identified two areas that should be strengthened so that The City's oversight bodies have sufficient, relevant, and complete information to make decisions impacting those CAs.

3.1   Review Process

Semi-annually, CN collects and analyzes pertinent information regarding the finances, land use, facility and organizational health of CAs and SRGs to assess sustainability. CN developed a sustainability checklist that is used to compare the organizations to a list of standard characteristics. This checklist includes items such as:

- Financial best practices (e.g. audited financial statements, written financial policies and an approved operational budget);
- Facility best practices (e.g. maintenance schedule is in place); and
- Organizational practices (e.g. the Board of Directors is defined).

This information is recorded, and built upon for an in-depth analysis using a comparative and scoring worksheet, the Review Process. The Review Process incorporates the criteria from the sustainability checklist and additional concerns that aren't captured by the standard characteristics.

CAs and SRGs are surveyed annually to gather their opinion of the level and value of service received from NPCs. CN and NPCs use the survey results as a measure of the effectiveness of

their work, and as a tool to identify areas of concern. NPCs incorporate the Review Process factors and survey feedback in their work plans. Areas of concern highlighted in the factors and feedback, along with areas self-identified by CAs, are the focus of their work. Plans are designed with the purpose of improving sustainability.

We assessed the design of the Review Process and confirmed that it includes key components related to a CA's control environment, risk assessment and control activities (Appendix A). The design of the Review Process is effective. The Review Process gathers relevant information, which is analyzed by CN. In addition, we reviewed the results of CN's online survey conducted between October 20 and November 20, 2015. The survey results represented 80 organizations. One of the survey's key findings was CAs and SRGs generally feel positively about their NPCs and see them as a valuable resource and nearly 94% (88 of 94 respondents) are satisfied or very satisfied with their NPCs.

3.2   Communication of CA Risks

3.2.1   Internal Communication and Evaluations

There is communication internally to those with responsibility over objectives (CN management) and gaps are assessed. Semi-annually, NPCs meet with CAs to discuss priority areas highlighted through the Review Process. NPCs compile individual CA assessments in the Review Process' spreadsheet. The compilation is reviewed twice annually by CN management. NPCs create work plans to assist CAs in strengthening and improving items noted as deficient or in some way lacking.

In addition, NPCs discuss the review and survey results with partners such as DCD and the Federation of Calgary Communities, a non-profit third party that also provides support to CAs.

Semi-annually, the Review Process evaluates CAs and reviews trending information. We confirmed that CN has the tools and processes in place to develop ongoing evaluations of CAs to ascertain whether the components of internal control are functioning and present. The Review Process is an adequate tool, and a semi-annual review that includes trending information is evidence that the control is effectively designed to deliver ongoing evaluations. Internal communications, including objectives and responsibilities for internal control, necessary to support the functioning of internal controls is designed effectively.

### 3.2.2   External Communication

We confirmed, through interviews with CN staff and a sample of Councillors (33%), that relevant information regarding high-risks to CAs was generally communicated in an informal manner to Councillors. For CAs and SRGs operating on City-owned land, financial and organizational health information is formally reported annually and confidentially to Audit Committee and City Council. The Annual Status Report is a current-state snapshot of CAs operating on City-owned land, and its purpose is to communicate critical compliance and viability issues faced by those CAs.

Report Content

The Annual Status Report includes information on financial status and CA compliance with business plan and lifecycle plan submissions, which is a requirement of the LOC and focuses on financial risk. Further to that, some CAs are not required to submit a business plan, lifecycle plan, or financial statements if they are still in the first year of their LOC agreement; the LOC does not require this information until the end of the first year, and the Annual

Status Report may contain only a financial rating. Additionally, some CAs are not required to submit financial statements and the Annual Status Report does not provide comment on them or an assessment.

We reviewed the Annual Status Report and noted that 115 CAs operating on City-owned land, are listed by ward, as well as the status of the Lifecycle Study and Business Plan. The compliance status of Lifecycle Study and Business Plan did not identify CAs that are facing challenges in these areas.
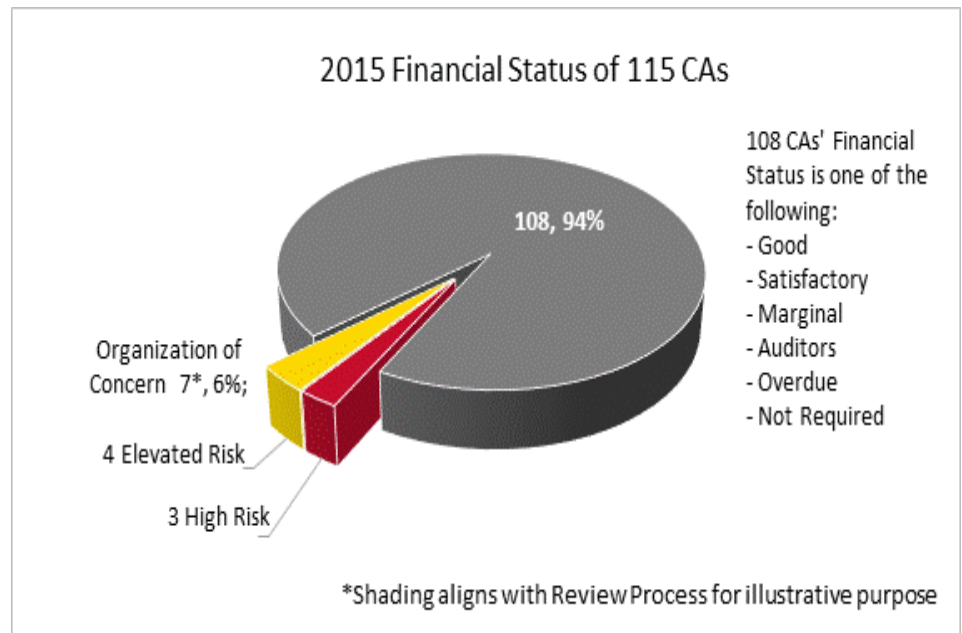
CAs with a financial rating of "Organization of Concern" received extra attention in the Annual Status Report; Attachment 4 provided additional information as to the reason the CA is a financial concern, ratio and reserves information, and actions taken by CN to assist the CA.

We reviewed the Annual Status Report, and compared it to Review Process information as well as information we obtained through interviews with CN staff and City Councillors. Seven CAs had "Organization of Concern" status in the Annual Status Report. We compared these results to the Review Process results and observed that all seven CAs were identified under both processes.
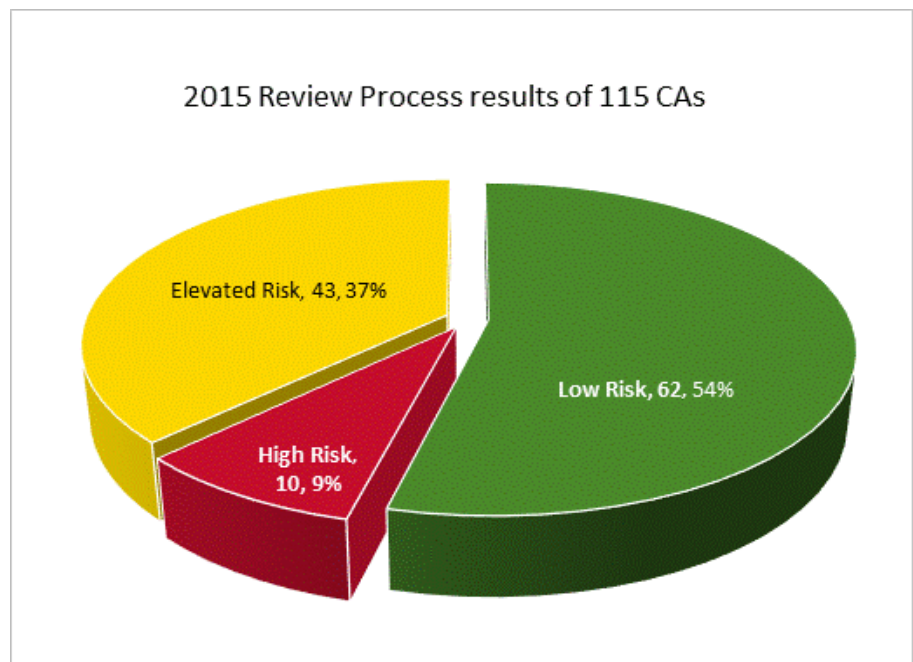
We compared the results of the two processes, and observed that the Review Process results identified seven additional "High Risk" CAs and 39 additional "Elevated Risk" CAs.

The Financial Status alone does not provide complete information on risk to CA sustainability since the 2015 Annual Status Report did not include 70% (seven out of ten) of the CAs with high sustainability risk identified through the Review Process.

Although the Annual Status Report's Executive Summary mentions general problems with aging facilities, life-cycle costs and deteriorating organizational health, information details are not included in the body of the Annual Status Report or the attachments. Data and information collected under the Review Process is comprehensive and includes the items that are the focus of the LOC (i.e. organizational health, land use, finances, and facility).

We interviewed five Councillors that receive the Annual Status Report for information. All expressed that the information is not entirely relevant and the information included does not adequately convey risk to The City or direct attention to the CAs with the greatest needs. The information that most users would like to see in the Annual Status Report:

- Land Use, Facility Management and Maintenance concerns;
- Comment on whether or not the Lifecycle Maintenance requirements are financed;
- CAs with ongoing and/or critical governance issues;
- Services and programs the CAs provide; and
- A risk-based approach that provides information on the state of the CAs and The City's risk exposure.

We compared the high risks identified by the 2015 Review Process to the results and high risks in the Annual Status Report and observed that the report provides a much narrower scope of information, in contrast to the depth and breadth of information compiled and analyzed in the Review Process. Relevant information regarding CAs' strengths and challenges as well as potential impacts to The City and the neighbourhoods, captured in the Review Process, are not always included in the Annual Status Report. We recommended the Annual Status Report include information on the risks identified in the Review Process including the state of the facility, estimated life-cycle costs, and the ability of the group to address its challenges. (Recommendation 1).

Report Format

Based on our review of the Annual Status Report we identified an opportunity to improve the effectiveness of the report by adjusting the format. Limiting the information in the Annual Status Report to the "Elevated Risk" or "Highest Risk" results of the Review Process would streamline the information and direct attention to the CAs with the greatest needs and risk to The City.

We observed 62 of 115 CAs (53.9%) were rated "Low Risk" through the Review Process. The financial ratings, in many cases, aligned with the Review Process with 47 of those 62 CAs assigned a "Good" financial rating, 14 "Satisfactory", and one "Overdue". Over half of the information presented in the Annual Status Report relates to "Low Risk" CAs. Those with "Elevated Risk" (43), and "Highest Risk" (10) could not be discerned from the "Low Risk" CAs because they were intermingled through the Annual Status Report and divided only by ward. When all CAs and all financial statuses are reported, it is difficult for the user to distinguish the CAs that need more attention.

When we asked the Annual Status Report users what the information listed above might look like in the Annual Status Report, they provided several suggestions:

- Risk rating or a heat-map that would provide an alert that intervention may be required;

- Exception-based comment and information to improve the format so that it is attention-directing and eliminates unnecessary information;
- Compliance with the LOC as well as CAs rank when compared to best practices;
- Streamlined-reporting that draws attention to high-risk areas; and
- Performance measures that monitor the CAs overall health and service to the community.

The following revised formats incorporate some suggestions for improvement identified through our review and by users.

ORGANIZATION NAME	FINANCIAL RATING 20X2	FINANCIAL RATING 20X1	FISCAL YEAR END	Financial Practices	Organizational Health	Facility Maintenance	Land Use
ABC Community Association	Satisfactory	Satisfactory	31-Dec	🟢	🟢	n/a	🟢
DEF Community Association	Good	Satisfactory	31-Mar	🟡	🟢	🟡	🟢
GHI Community Association	Good	Good	31-Dec	🟢	🟡	🔴	🟢
JKL Community Association	Satisfactory	Satisfactory	30-Apr	🔴	🟡	🔴	🟡
MNO Community Association	Satisfactory	Good	31-Dec	🟢	🟡	n/a	🟢

ORGANIZATION NAME	Memberships 20X2	Change over prior year	Number of Dwellings in Community	Volunteers	Last Lifecycle Study	Lifecycle Study - estimated cost of maintenance
ABC Community Association	1,250	↑ 125	12,000	250		
DEF Community Association	153	↓ 10	1,502	42	20X0	$850,000
GHI Community Association	209	↓ 26	2,903	15	20X9	$1,450,000
JKL Community Association	300	↑ 15	2,474	6	20X5	$450,000
MNO Community Association	25	—	7,130	8		

The Annual Status Report includes all CAs operating on City-owned land, however, more needs to be done to help the users discern which CAs are facing challenges, and how their challenges compare to CAs city-wide. We recommended the Annual Status Report provide streamlined and concise information by directing attention to CAs with challenges (Recommendation 2).

4.0 Observations and Recommendations

4.1   External Communication- Report Content

The Annual Status Report provides narrow reporting on the CAs financial and compliance status and does not include all relevant CA risks. An internal control system is strong when the organization communicates relevant and quality information to support the functioning of other components of internal control. Relevant information about the CAs operating on City-owned land has been collected by CN, and the NPCs use it to develop work plans and mitigation strategies. However, not all relevant information is communicated externally to the Audit Committee and Council to inform and recommend courses of action to limit the risks to The City while making the best use of City-owned land and resources.

The Annual Report lists seven CAs that are Organizations of Concern. The Review Process considers four additional factors, aside from financial rating, to determine high risk: facility maintenance and management, organizational health, land use, and extraordinary or unusual circumstances. The Review Process identified ten CAs as "Highest Risk", however only three of the "Highest Risk" CAs appear on the Annual Status Report because their financial rating is "Organization of Concern". The seven CAs with "Highest Risk" rating have not been highlighted in the Annual Status Report since:

- All have provided lifecycle studies;
- One CA business plan is overdue; and
- The financial rating breakdown is:
    o 3 Satisfactory
    o 1 Not required to provide financial statements
    o 1 Marginal
    o 2 Overdue

The Annual Status Report is narrowly focused on a small number of items that do not include an evaluation of aging facilities, life-cycle costs and organizational health. CN management agrees the Annual Status Report is narrow, however the intent was to provide very specific information: financial status update and LOC compliance with Business Plan and Lifecycle Study status.

Recommendation 1

The Director of Calgary Neighbourhoods broaden the "Status of Community Associations and Social Recreation Organizations on City-Owned Land" to include all relevant information on risks to The City (LOC Compliance) identified in CN's Review Process including:
- Organizational Health,
- Facility Management,
- Financial, and
- Land Use.

Management Response:

Action Plan	Responsibility
Phase 1: CN will consult with internal stakeholders to discuss the proposed report format. CN will implement a phased approach and provide a revised report format to include relevant information on risks identified in the areas of facility management, financials, and land use. **Phase 2:** CN will define relevant data on organizational health and refine the collection method as necessary. The council report format will be further revised to include information on organizational health.	Lead: NPC Team Lead Support: Partnership Coordinator Commitment Date: Phase 1: November 1, 2017 Phase 2: October 1, 2018

4.2 External Communication- Report Format

The Annual Status Report should be attention-directing, and highlight risks and mitigating strategies to Audit Committee and Council. Concise information regarding the CAs' organization, challenges, and needs should be communicated to support optimal decision-making and resource allocation at a City-wide level. There is an opportunity to revisit the Annual Status Report format and improve communication to Audit Committee.

Recommendation 2

The Director of Calgary Neighbourhoods revise the Annual Status Report format to highlight:
- CAs with a concern or sustainability issue, and
- Ratios or measures that monitor overall CA health and service to the community.

Management Response:

Action Plan	Responsibility
CN will: 1. Consult with internal stakeholders to discuss the proposed report format. 2. Work with CN Research and Reporting staff to develop several effective Results-Based Accountability (RBA) measures regarding CA health and service to the community. 3. Revise the annual status report format to include a measure on service. 4. Prepare a draft report that addresses sustainability and includes RBA measure(s).	Lead: NPC Team Lead Support: CN Partnership Coordinator and CN Research and Reporting Lead Commitment Date: October 1, 2018

5.0 Appendix A

Internal Control Component	Principles for Effective Internal Control	Audit Results	Control Design
Control Environment	**1. Demonstrates commitment to integrity and ethical values** **2. Exercises oversight responsibility** **3. Establishes structure, authority and responsibility** **4. Demonstrates commitment to competence** **5. Enforces accountability**	The Review Process is designed to assess the CA's control environment, and identify deficiencies. For example, it includes a check of items such as: - CA is in compliance with all provisions of the Societies Act; - The role of the Board of Directors is clearly defined; and - CA recruits adequate numbers of volunteers to carry out programs, services and activities.	Effective
Risk Assessment	**6. Specifies suitable objectives** **7. Identifies and analyzes risk** **8. Assesses fraud risk** **9. Identifies and analyzes significant change**	Risk Assessment activities are present. A 'Sustainability Checklist' is used to identify risks to the CA; it addresses objectives in terms of Financial Health, Land Use, Organizational Health, and Facility Maintenance and Management.	Effective
Control Activities	**10. Selects and develops control activities** **11. Selects and develops general controls over technology** **12. Deploys through policies and procedures**	CN and the NPCs review the CA activities and policies that provide reasonable assurance Control Activities are likely present, for example: - Board and staff have training on financial policies and procedures; and, - Programs and services reflect the Business Plan.	Effective
Information & Communication	**13. Uses relevant information** **14. Communicates internally** **15. Communicates externally**	The CAs' challenges are communicated internally; CN uses the results to develop work plans for NPCs to improve sustainability of CAs. Not all the challenges identified through the Review Process are formally communicated with external parties (Audit Committee and Council) regarding matters affecting the functioning of other Internal Control components. The Annual Status Report provides limited information on a few select risks.	See Rec. 1
Monitoring Activities	**16. Conducts ongoing and/or separate evaluations** **17. Evaluates and communicates deficiencies**	The Review Process is performed semi-annually. Annual formal communication to Audit Committee and Council provides some detail of deficiencies. Though limited to a few issues, the Report is not concise because it does not adequately direct attention to CAs with challenges.	See Rec. 2