

# Calgary Housing Company

## Internal Control Environment Self-Assessment Report

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### BACKGROUND

On September 19, 2016, Calgary Housing Company (CHC) Administration presented through report CHC2016-A09 to the CHC Audit and Risk Management (ARM) Committee, recommended and received approval that CHC adopt the Committee of Sponsoring Organizations (COSO) of the Treadway Commission: Integrated Framework to guide future internal control environment assessment and reporting. This is the most widely used framework for Sarbanes-Oxley Act (SOX) compliance and is the model of choice in many North American jurisdictions, including Canada. It is also currently utilized by The City of Calgary and the Calgary Parking Authority. This report also included an implementation process and schedule to conduct a self-assessment of current internal control environment at the entity level of CHC.

The implementation of an internal control environment framework, assessing of internal controls effectiveness and reporting is to provide the ARM Committee and CHC Board with an overview of CHC's current internal control environment controls, an assurance that adequate controls are in place and a commitment to ongoing continuous improvement.

The 2018 Internal Control update (CHC2018-A11) was received for information at the 2018 September 14 ARM committee meeting. At this meeting, Administration was directed to bring forward an update in 2019 rather than the full assessment. On September 13, 2019 administration provided to ARM committee a progress report on internal controls improvement opportunities that have been undertaken since the 2018 report.

The approved internal control framework is intended to continuously evolve with the needs of CHC and any changes in the industry as well as mirror The City of Calgary current framework and assessment. CHC Administration anticipates continuing to conduct a bi-annual internal control assessment report and annual status update on the internal controls actions taken and their performance. With the review of the internal controls to be undertaken as part of the 2020 internal audit, CHC anticipates follow-up action to begin in 2021-2022.

### CHC INTERNAL CONTROL ENVIRONMENT SELF-ASSESSMENT INVESTIGATION

#### Objective:

The objective of the CHC Internal Control Environment Self-Assessment is to identify CHC's existing system of internal controls at the entity level.

#### Methodology:

The following procedure was performed:

- Engaged senior level management representing each operational division of CHC to identify existing internal controls and their owners
- Conducted one on one interviews with senior management regarding current status of internal controls of CHC at the entity level. This is a top-down assessment of critical internal environment controls

Internal Control Evaluation criteria used when completing the 2018 CHC Internal Control Self-Assessment Questionnaires:

- ✓ Present: Does a control exist (designed & implemented)? Answer: Yes or No
  - ✓ Functioning: Does the control operate as intended to achieve objectives? Answer: Yes or No
  - ✓ Major Deficiency: Management comment if a control exist and is there a major deficiency in the way the control operates to extent that one or more principles is omitted or effectively nonfunctional.
- Reviewed supporting documentation
  - Consolidated management responses into one assessment report and opportunities for improvement list.

### **Limitations of the Self-Assessment:**

Internal control can be expected to provide only reasonable assurance to management and board of directors of the achievement of CHC's objectives. No system of internal control will always do what it is designed to do or provide absolute assurance for any of the objective categories. While there are internal control limitations, management must be aware of these when selecting, developing and deploying controls that can practically minimize these limitations.

Types of limitations to internal control are:

- Preconditions of Internal Control such as weak governance
- Flawed human judgment in decision making
- External events outside the organization's control
- Breakdowns due to human errors
- Management can override the system of internal control
- Circumvent controls through collusion by staff

### **Resources:**

The project is supported with resources provided internally by CHC pending availability and direction for CHCMT and ARM Committee.

### **Testing of Internal Controls:**

This project is a review of the entity level internal controls at CHC. No testing was performed at the operational or functional level. CHC is currently, through the implementation of the Enterprise System Solution (ESS) is undergoing a systems, processes and procedures review in all areas of the organizations as it is preparing to transition to new technology in 2019/2020. As such, further scoping of work of a consultant resource to test CHC internal controls could be reviewed in the next phase as instructed by the ARM committee and CHCMT.

## **INTERNAL CONTROL FRAMEWORK RECOMMENDATION**

Based on the 2018 assessment, CHC Administration's conclusion and recommendation is that the overall system of internal controls is effective. The conclusion is based on the professional experience and judgement of the Administration. CHC division managers and the President self-assessed whether the internal controls they are accountable for are present and functioning.

In 2019, CHC Administration focused its efforts on opportunities of improvement. Work is progressing well for many of the previously identified opportunities:

- CHC continues to work on a comprehensive update of CHC policies.
- CHC continues to follow best practices in public sector procurement and introduced changes to comply with new trade agreements. CHC Management has established clear guidelines related to responsibilities of all contracted vendors. CHC is working with internal staff and suppliers for ways to improve quality of proposals and strengthen the contract management process.
- CHC is closely working with The City and Province of Alberta to ensure operational and economic sustainability, and continued alignment between the Provincial Affordable Housing Strategy, the Corporate Affordable Housing Strategy and CHC's Strategic Plan. In 2019, a project team was assembled to work on Transforming Calgary Housing. Renegotiating expired operating agreements with the Province is part of the team's main objectives. Due to the provincial election, negotiations were placed on hold. The parties are expected to reconvene in September 2019 to continue negotiations, with the revised timeline for a new agreement expected in 2020.
- The implementation of an Enterprise System Solution (ESS) has been the focus for CHC as the company will transition to a new technology process in Q4 2019. This project team is working closely with City Information Technology and all CHC divisions to evaluate and develop processes, procedures and controls throughout the whole organization in preparation of a new system implementation.