

**Opportunity Calgary Investment Fund Report to
Audit Committee
2020 June 11**

**ISC: UNRESTRICTED
AC2020-0505**

Opportunity Calgary Investment Fund Annual Report

EXECUTIVE SUMMARY

This report is to provide the City of Calgary Audit Committee with an annual report from Opportunity Calgary Investment Fund (OCIF) Audit Committee.

ADMINISTRATION RECOMMENDATION:

That the Audit Committee:

1. Receive this report and presentation for the Corporate Record; and
2. Direct that Attachment 6 remain confidential pursuant to Sections 16 (Disclosure harmful to business interests of a third party) and 25 (Disclosure harmful to economic interests of a public body) of the *Freedom of Information and Protection of Privacy Act*, to be reviewed 2035 June 11.

PREVIOUS COUNCIL DIRECTION / POLICY

The City of Calgary Audit Committee Bylaw 48M2012 states that Audit Committee is responsible for:

“overseeing its governance responsibility with audit committees of The City’s major autonomous civic entities.”

Section 4(1)(i)

BACKGROUND

A letter dated 2020 February 25 was provided to the Chair, Opportunity Calgary Investment Fund from the City of Calgary Audit Committee Chair requesting a report and presentation on its 2019 Annual Report, risk management processes and the Audit and Finance Committee terms of reference.

The letter outlined the items to be provided in their annual report to The City’s Audit Committee, as follows:

- 1. Brief summary on governance structure, succession planning and recruitment process, recent financial highlights and key 2020 initiatives/strategy;**

a. Governance Structure

OCIF was incorporated under the Business Corporations Act in the province of Alberta on April 19, 2018. OCIF is a government non-profit organization under the Income Tax Act of Canada and accordingly is exempt from income taxes under section 149(1)(e) or (l). OCIF is a controlled not-for-profit (NFP) organization of The City of Calgary with 1 share issued.

OCIF was established with a mandate to manage the OCIF Reserve effectively and in a manner that creates an environment within the city of Calgary that encourages economic recovery and growth, helps reduce the impact of the economic downturn on Calgary's citizens and businesses, and capitalizes on new opportunities to support Calgary's economic success into the future.

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The Board of Directors is currently comprised of eleven (11) members including the Mayor of the Shareholder, as an ex-officio member, the Councillor of the Shareholder appointed to the CED Board of Directors, as an ex-officio member, the Chair of the CED Board of Directors, and eight (8) other members from the business community. Based on the Unanimous Shareholder Agreement and Bylaws, there can be up to nine (9) business community members, and there is currently one (1) vacant spot. A director who holds office as an ex-officio member has all the same rights, obligations and duties as a director on the Board who is not an ex-officio Director.

The Board oversees the organization's overall strategic direction while management develops strategy and manages and conducts the day-to-day business.

The Board reviews the annual business plan and the annual budget for approval by The City of Calgary as the Shareholder. It monitors risk and compliance with the fiduciary and legal requirements of the organization. It delegates to management the achievement of strategic, financial and other plans. OCIF's responsibilities to its multiple stakeholders are paramount in conducting its business. The overriding objective for the Board is to maximize the value of the work of OCIF.

In 2019 OCIF received contributions from the interest earned in the Reserve fund administered by The City of Calgary of \$987K (approved budget of \$1.35M less carried forward amount of \$366K from 2018) to sustain its operations in accordance with the operating budget approved by the OCIF Board of Directors and the City Manager and Chief Financial Officer of The City of Calgary.

1.2 Succession Planning and Recruitment Process

As the Manager of OCIF, Calgary Economic Development (CED) has a succession plan for its key leaders, who are common to the OCIF leadership team, and this includes the CEO, CFO and VP of Operations. In 2019, OCIF added three new employees to the team to support the operation of the program and in turn reduced and eliminated consultants and seconded employees, thereby reducing the succession risks.

In 2019, OCIF was engaged in succession planning for the Board of Directors by way of a detailed Board Recruitment Plan led by the Corporate Governance and Effectiveness Committee. With two Directors resigning effective June 24, 2019, OCIF commenced recruitment of new Directors, which included soliciting feedback from Council. In early 2019, the Board of Directors, at the recommendation of the Corporate Governance and Effectiveness Committee, engaged an external recruitment firm to assist with the succession and recruitment of new Directors for appointment by the Shareholder at the Annual General and Special Meeting on June 24, 2019.

The Board Manual approved by the Corporate Governance and Effectiveness Committee and Board of Directors includes a Board Recruitment Policy that sets out the steps and requirements for board recruitment and the nomination of new Directors. Under the Board Recruitment Policy, the Board reviews and approves the recruitment procedure for new Directors on an annual basis, including utilization of an open and transparent process. Under the policy, the Board delegates execution of the recruitment to the Corporate Governance and Effectiveness Committee. OCIF board recruitment is a public process open to the whole community and key

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stakeholders, including City Council for The City of Calgary, are notified of any vacancies on the Board.

The OCIF Board of Directors is carefully composed of Directors from legal, financial and key sector backgrounds. A Skills Matrix of the Board is consolidated and reviewed by the Corporate Governance and Effectiveness Committee on an annual basis, evaluating skills, diversity, and experience of individual Directors. Consideration of applications is based on areas of industry representation and experience that are identified by the Skills Matrix and Corporate Governance and Effectiveness Committee as underrepresented by the current makeup of the Board.

In February 2019, the Corporate Governance and Effectiveness Committee commenced recruitment for 2019 board appointments. The Committee prepared a Recruitment Plan which was presented to and approved by the OCIF Board of Directors on March 8, 2019. Included in the recruitment plan was joint board recruitment with CED, engagement of a recruitment firm, a search profile, and recruitment timeline. In order to preserve the corporate memory and stagger terms of the Directors, the Corporate Governance and Effectiveness Committee agreed on a recruitment scenario where two Directors are recruited in 2018, followed by one member in 2019. In March 2019, OCIF and CED engaged Boyden, a local recruitment firm, to spearhead the board recruitment process for 2019.

The 2019 board recruitment process included consultation meetings with key stakeholders, including City Council and the current OCIF Board of Directors, public advertisement online and in the Calgary Herald, targeted search for qualified candidates, review of applications, creation of a short-list, and scheduling of interviews. At the Annual General and Special Meeting of the Shareholder on June 24, 2019, Mark Blackwell and Nancy Laird were appointed as members of the OCIF Board of Directors.

In March 2020, the Corporate Governance and Effectiveness Committee commenced recruitment for 2020 board appointments, given that three board members are stepping down at the AGM in June 2020. The Committee prepared a Recruitment Plan which was presented to and approved by the OCIF Board of Directors on March 13, 2020. In order to preserve the corporate memory and stagger terms of the Directors, the Corporate Governance and Effectiveness Committee agreed on a recruitment scenario where two to four new Directors will be recruited, while maintaining the chairs of the Audit Committee and Corporate Governance Committee.

1.3 Recent Financial Highlights

OCIF's December 31, 2019 financial statement audit was reviewed by the Audit Committee and approved by the Board of Directors and completed on March 13, 2020. The December 31, 2019 audited financial statements and auditor's year end communications are attached to this report (*See attachments 1 and 2*).

MNP provided an audit opinion that the financial statements present fairly, in all material respects, the financial position of OCIF as at December 31, 2019, and the results of its operations and its cash flows for the year then ended in accordance with Canadian Public

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Sector Accounting Standards for Not-For-Profit Organizations. OCIF uses the deferral method of accounting for contributions such that restricted contributions are recognized as revenue in the year in which the related expenses are incurred.

In 2019 OCIF received contributions from the interest earned in the Reserve fund administered by The City of Calgary of \$987K (a budget of \$1.35M less the carried forward amount of \$366K from 2018) to sustain its operations in accordance with the operating budget approved by the OCIF Board of Directors and the City Manager and Chief Financial Officer of The City of Calgary.

Expenses remained within the approved 2019 operating budget. OCIF incurred expenditures of \$633K in 2019. OCIF carried the remaining \$720K of contribution from The City of Calgary as deferred revenue to be utilized in 2020.

1.4 Key 2020 Initiatives/Strategy

As a newly established entity in 2018, OCIF established key objectives and kept the funnel wide to launch the new fund quickly and to learn about the opportunities for the community.

In 2019, OCIF continued to refine its focus to concentrate on eligible projects with the highest impact and return on investment for Calgary and to ensure alignment with the Council approved Economic Strategy, *Calgary in the New Economy*. The board agreed to focus on proactive opportunities within the existing Cluster Development and Anchor Company streams in 2020. Cluster Development means Centres of Excellence, hubs and accelerators that benefit multiple companies and are foundational to shifting and diversifying the economy. The benefits of investing in Anchor Companies mean significant presence in Calgary of market leading companies with global trade and that act as hubs in supply chains. Anchor Companies often attract skilled talent from other locations, as well as new financial investment from venture capital and private equity companies. Lastly, projects that are transformational and supported by *Calgary in the New Economy*, including the pillars of Talent, Innovation and Place, will enhance the Fund's ability to make differential investments to leverage other funding.

2. Report on the organization's key operating and strategic risks including trends and risk management plans and processes;

OCIF has created and regularly updates an Enterprise Risk Matrix where risks are identified using three broad categories:

- 1) Financial;
- 2) Reputational and Relevance;
- 3) Sustainability and Operational.

Within each category identified risks are assigned as low, medium or high probability of occurrence. The most recent Enterprise Risk Matrix (Exhibit 1), identifies three high risk items, four medium risk items, and seven low risk items. Mitigating strategies are outlined for every risk identified in the Enterprise Risk Matrix, which is reviewed and updated by the Audit Committee and the Board of Directors on a quarterly basis.

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3. Analysis of the top three financial and/or operational risks that in our opinion would impact the City of Calgary and be of concern to the City's Audit Committee;

As of December 31, 2019, OCIF's top three operating and strategic risks are:

- 1) Financial Risk: Reliance on The City of Calgary as its sole source of revenue. High probability with a potentially medium impact.
- 2) Reputational Risk: The fund may be perceived as a conflict of interest with Calgary Economic Development as the manager of the fund and project submissions and referrals do not align with *Calgary in the New Economy*. High Impact with a potentially low probability.
- 3) Sustainability and Operational: Staff capacity to meet the changing needs of managing the fund. High probability with a potentially medium impact. Post December 31, 2019, uncertainty with beneficiaries' ability to achieve milestones as committed to in executed Contribution Agreements. High probability with a high impact.

OCIF is actively focused on mitigating strategies to minimize the financial and reputational risks of the top three risks noted above.

Adequate Revenue

With The City of Calgary as OCIF's sole source of revenue, OCIF works with its Audit Committee, Board of Directors and The City of Calgary City Manager to ensure the budget is submitted and approved in accordance with its Funding Agreement with The City of Calgary and that any substantial changes to forecasted costs are communicated to ensure adequate revenue is received.

Reputational Risk

There are inherent risks attached to a government grant program and the public's view regarding who qualifies versus who does not. There is also the additional risk of the program's overall reputation and in turn CED's regarding the success of applicants that do receive funding, as there is no guarantee of their success. It is CED's responsibility to make sure that we are administrating, communicating, servicing and redirecting applicants. CED has been working with the OCIF Board of Directors to ensure a strong intake process, due diligence execution, and strategic direction. As the stewards of OCIF, CED has worked with the OCIF Board and the board committees to ensure that governance best practices are implemented, that third-party due diligence is used when appropriate to review business cases prior to investment, and also acknowledge that our processes over the last year two years have matured and evolved since the program's inception.

Available Resources and Staff Capacity & Post December 31, 2019 Impact of COVID-19 on Beneficiaries & Operations

A key operational risk for OCIF is the ability to have the capacity and resources available via the CED management services agreement to operate the entity and manage the OCIF fund. OCIF operates solely on the interest generated from the OCIF fund, and therefore is reliant on the availability of that interest to be able to hire staff and have sufficient resources available to

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effectively manage the fund. OCIF submits an annual budget to its Board of Directors and the City Manager and Chief Financial Officer. Once approved, OCIF received quarterly deposits based on the approved budget requirements.

COVID-19 has and will continue to impact beneficiaries' ability to achieve the agreed milestones against which OCIF advances funds. OCIF has paused its intake of new applications and is pausing its current activities for a time when we can fully understand the impact of COVID-19 on our current and future grant recipients. OCIF is working closely with current grant beneficiaries to understand the impact of COVID-19 on their OCIF funded project and the milestones, and to support those activities wherever possible in meeting their milestones.

4. Report on internal controls including information technology and systems;

OCIF has implemented several controls as part of its fraud prevention activities, including appropriate segregation of duties and regular reviews of financial results. Approval processes and procedures are in place and reviewed regularly. As part of the audit, OCIF has an annual fraud risk assessment with the audit committee.

Via the management services agreement with CED, OCIF has outsourced its IT services to Northern Backup and adopted a cloud strategy by leveraging Microsoft's Office 365 platform. Northern Backup provides hosting services, helpdesk and technical support. CED has also expanded its Operations and Project team to support the technology suite of products.

The following services are located to the Office 365 cloud: Email, Telephone, Instant Messaging and File Storage and Sharing. The migration to a cloud-based environment was completed in early 2019. As part of CED's data loss prevention strategies, it has implemented the following:

- Adopted an IT strategy with a cloud first initiative in mind. This allows CED/OCIF to not own or have any servers onsite as part of its business continuity plan.
- Created a Data Retention and Destruction Policy, enforced by protective technologies on content stored in Office 365 using built in tools.
- Data Centres that store important CED data maintain a SOC 1 (SSAE-16/CSAE-3416/ISAE-3402) type 2 audits standard.
- All workstations and servers are regularly patched as well as managed/monitored for any problems.
- Redundant backup systems are in place protecting OCIF information.

OCIF, in conjunction with CED as its IT provider, has a disaster recovery plan, emergency response plan and a business continuity plan.

During the 2020 COVID-19 crisis, the use of O365, Microsoft Teams and shared drives located in the cloud, combined with mobile hardware, allowed the OCIF operations to easily and effectively move into a home-based work environment with no down time or loss of operations. Communication occurred daily using Microsoft Teams.

5. Most recent management letter including management responses as appropriate

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MNP LLP, auditors for OCIF, attended the March meetings of the OCIF Audit Committee and OCIF Board of Directors to present their reports for OCIF for the year ended December 31, 2019.

(See attachment 1.)

6. Audit Committee 2020 Work Plan.

(See attachment 7.)

As requested in the letter, presenters of the report will be prepared to answer the following questions:

1. What is the frequency of review and are there any recent changes to the Audit Committee Charter or Terms of Reference?

The Audit Committee meets quarterly to review financial and risk reporting and reports to the Board of Directors based on information reviewed at those sessions. The Audit Committee is responsible for stewardship of the Corporation's finances. The Audit Committee has oversight responsibility and makes recommendations to the Board on financial and risk matters.

The Audit Committee reviews its terms of reference at a minimum on an annual basis, or more often if required, and recommends changes as necessary.

In 2019 the Audit Committee Terms of Reference were last reviewed and amended at the October 18, 2019 Audit Committee meeting. *(See Attachment 3.)*

2. What is the current composition of the Audit Committee and what is their relevant financial experience?

Ian Bruce – Committee Chair, OCIF Board Director

Barry Munro – OCIF Board Director

Steve Allan – OCIF Board Director

(See Attachment 8 for Bios and Financial experience.)

3. Have there been any significant changes to organizational leadership?

Leadership of OCIF is provided by Calgary Economic Development's President & CEO and CFO. Other CED senior staff are fully dedicated to managing OCIF. The key executives remain in place since the formation of OCIF. In 2019, the program lead, who was a City secondment, left along with a CED coordinator; this team had been supported by one to two consultants/term employees. OCIF replaced these resources with a full-time Director, Manager, Analyst and Team Assistant and eliminated the consultants.

4. Are there any regulatory or market changes that may impact the current business approach and would they be relevant to share publicly with the Audit Committee?

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In 2019, the answer is no.

In 2020, the impact of COVID-19 will be material to all OCIF investees and OCIF is proceeding very carefully in order to allow time to assess the impact to business plans and milestones of clients, applicants and/or grant recipients.

5. Are there any results of any regulatory or internal/external business assessments that provide assurance on the effective management of risks as addressed in your presentation?

OCIF has established an enterprise risk matrix to identify the top risks to the strategic goals and to identify mitigating strategies.

6. What initiatives are currently in progress to improve the efficiency of your processes? (e.g. sustainable operations, key performance indicators and relevance of the organization in the future)

OCIF, through its business plan is focused on two investment streams; Cluster Development (e.g. Hubs, Centres of Excellence) and Anchor (companies) and in doing so will also directly align with the Economic Strategy, Calgary in the New Economy. OCIF has focused on supporting projects and will assist in curating key initiatives. During COVID-19, OCIF paused its intake of new applications. The organization's current efforts are focused on supporting all grant recipients, all current applicants in the pipeline, and any company currently in progress within the OCIF review process to ensure we maintained sustainable operations.

OCIF is currently undertaking an expansion of the Customer Relationship Management (CRM) which currently includes a portal that is used for applications. The CRM will include all information as an application moves through each stage gate and approval process, including business case and compliance. Adequate current processes are in place, but the enhanced CRM will lead to greater efficiencies; lower costs; and strong IT back up and support.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

This report responds to The City of Calgary Audit Committee's reporting requirements of the OCIF Board and is intended to be an ongoing dialogue between The City of Calgary and the OCIF Board.

Stakeholder Engagement, Research and Communication

No implications for this report.

Strategic Alignment

No implications for this report.

Social, Environmental, Economic (External)

No implications for this report.

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Financial Capacity

Current and Future Operating Budget:

There are no budget implications for this report.

Current and Future Capital Budget:

There are no budget implications for this report.

Risk Assessment

OCIF reviews risks on an ongoing basis. Risk reporting is one of the main topics in the report.

REASON(S) FOR RECOMMENDATION(S):

The City of Calgary Audit Committee oversees its governance responsibility with audit committees of The City's major autonomous civic entities.

ATTACHMENTS

1. MNP Report to the OCIF Audit Committee for the year ended December 31, 2019
2. Opportunity Calgary Investment Fund Financial Statements for the Year Ended December 31, 2019
3. Audit Committee Terms of Reference
4. OCIF Board Structure
5. OCIF Progress Report
6. OCIF Enterprise Risk Matrix (Confidential)
7. OCIF Audit Committee 2020 Work Plan
8. OCIF Audit Committee Bios and Financial experience