



Calgary






City Auditor's Office

Opportunity Calgary Investment Fund Administration Audit

July 14, 2020

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The City Auditor's Office conducted this audit in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

Executive Summary

In 2017, in response to prolonged economic challenges, Council approved the establishment of a \$100M Opportunity Calgary Investment Fund (OCIF Reserve) from The City of Calgary's (The City's) reserves. The OCIF Reserve is intended to support projects that will stimulate growth in targeted sectors of Calgary's economy, and serve as a catalyst for economic growth, diversification, and increased employment. In 2018, Council approved the creation of Opportunity Calgary Investment Fund Ltd. (OCIF), a wholly-owned subsidiary of The City to administer the OCIF Reserve. OCIF's mandate, as stated in the Operating and Funding Agreement with The City, is to manage the OCIF Reserve effectively to encourage economic recovery and growth, help reduce the impact of the economic downturn on Calgary's citizens and businesses, and capitalize on new opportunities. As at December 31, 2019, OCIF received 217 ideas, and granted funding for nine projects with a total value of \$23.5M.

The objectives for this audit were to assess the alignment of OCIF's fund administration process, to requirements established in the Operating and Funding Agreement and OCIF Reserve goals, and the effectiveness of process controls to mitigate the significant financial and reputational risks that could impact the achievement of OCIF's mandate.

The fund administration process consists of five main phases:



Based on our review across all five phases of the OCIF fund administration process we concluded current process controls are aligned to OCIF Reserve goals. Recommendations were provided to improve the consistency and transparency of OCIF's evolving fund administration processes and mitigate associated financial and reputational risk. These included process improvements through increased use of quantifiable scoring parameters and consistent document management of key decisions in Phase 1 (project idea submission), as well as additional governance controls to manage potential conflicts of interest.

Although we observed existing process controls were operating as designed to ensure milestones were met prior to fund disbursement, our testing was limited to the total population of disbursements (\$7.05M) as at December 31, 2019. Since all nine approved projects were in the early stages of fund disbursements and the final reports had not been submitted, we encourage OCIF management to periodically assess the effectiveness of the OCIF team's process to monitor and report on the achievement of the objectives and expected benefits specified in the contribution agreements.

OCIF management have agreed with our five recommendations and have set action plan implementation dates no later than May 31, 2020. The City Auditor's Office will follow-up on all commitments as part of our ongoing recommendation follow-up process.

1.0 Background

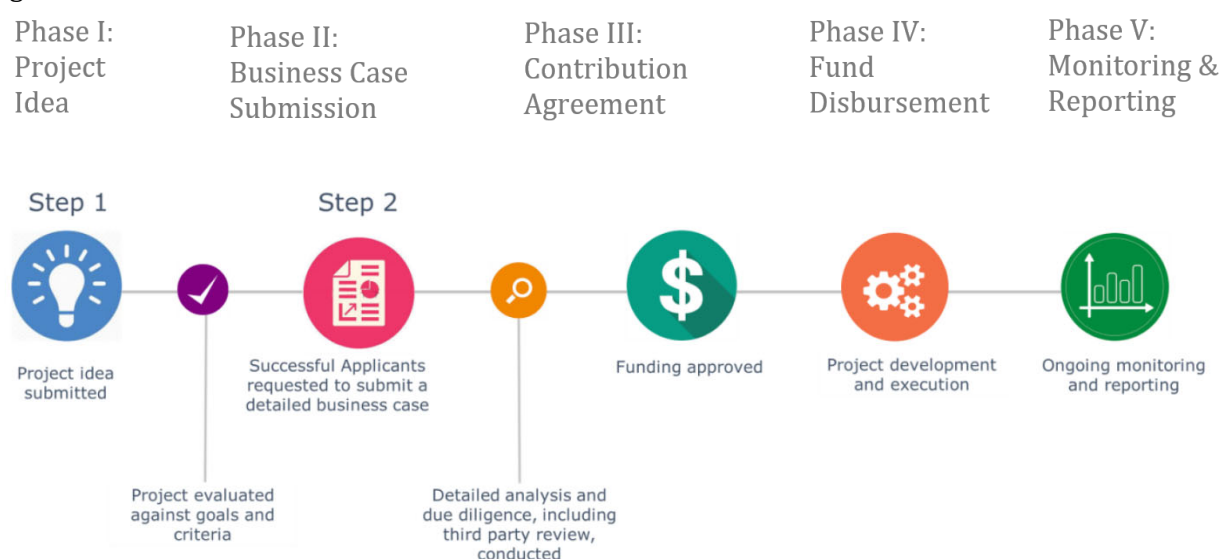
In 2017, in response to prolonged economic challenges, Council approved the establishment of a \$100M economic development fund (OCIF Reserve) from The City of Calgary's (The City's) reserves. The OCIF Reserve is an interest-bearing capital and operating reserve fund managed by The City. In 2018, Council approved the creation of Opportunity Calgary Investment Fund Ltd. (OCIF), a non-profit wholly owned subsidiary of The City. OCIF's mandate is to manage the OCIF Reserve effectively and in a manner that creates an environment within The City 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.¹

OCIF's obligations were outlined in an Operating and Funding Agreement with The City to meet Council developed OCIF Reserve goals (i.e. Terms of Reference):

- Help create the right conditions for growth;
- Diversify the local economy;
- Leverage municipal funds for additional private and public sector investments;
- Create and stimulate employment;
- Create a return on investment (both direct and indirect);
- Support the City's downtown vacancy challenges; and
- Increase the City's tax assessment base.

Under the terms of the Operating and Funding Agreement, OCIF entered into an administrative services and fund management agreement with Calgary Economic Development (CED) effective April 19, 2018 to administer the intake and review of applications. OCIF's fund administration process includes five phases in a two-step process as outlined in Figure 1.

Figure 1 - Fund Administration Process²



¹ Recital B of Operating and Funding Agreement between The City of Calgary and Opportunity Calgary Investment Fund Ltd. effective as of the 11th day of May 2018.

² The Opportunity Calgary Investment Fund Program Guide with additional description of the five phases.

The OCIF team began accepting applications on April 25, 2018. OCIF received 217 ideas as at December 31, 2019. Of these 10 were in-progress/on hold, 163 were declined, and 44 were approved for business case submission, including those that received funding approval. The OCIF Board and/or Senior Management Team (SMT) approved nine projects for funding totaling \$23.5M and approved the disbursement release of \$7.05M in project payments³.

Per established processes, the OCIF team evaluates each application independently based on eligibility requirements and expected benefits. To meet eligibility requirements, applicants must be registered to conduct business in Canada and the project must be located in Calgary. Project benefits must also be realized in Calgary. Applicants must also demonstrate that proposed projects are financially sound and sustainable without ongoing funding from OCIF.

The OCIF team evaluates ideas and business cases based on the following criteria:

1. Economic benefits;
2. Job creation;
3. Alignment with key industry and emerging sectors;
4. Innovation and sector benefits;
5. Alignment with strategic initiatives; and
6. Social benefits.

The OCIF administration process includes funding approval by either the OCIF Board (up to \$10M) or Council (more than \$10M) and ongoing monitoring and reporting of approved projects. OCIF's Board of Directors currently consists of eleven members.

An operational audit of OCIF's fund administration was included in the City Auditor's 2020 Audit Plan to provide assurance on the effectiveness of the fund administration process to facilitate decision making regarding utilization of the \$100M OCIF Reserve.

³ OCIF Q4 2019 Quarterly Report.

2.0 Audit Objectives, Scope and Approach

2.1 Audit Objectives

The objectives of this audit were to assess:

- Alignment of OCIF's fund administration process to requirements established in the Operating and Funding Agreement and OCIF Reserve goals; and
- Effectiveness of key process steps and controls to mitigate the following three significant financial and reputational risks that could impact the achievement of OCIF's mandate:
 - Investments selected do not provide benefits or meet expectations of the OCIF Reserve;
 - Fund contributions disbursed exceed delivered value; and
 - Processes are not consistent and/or transparent.

2.2 Audit Scope

This audit focused on fund management processes for the period from April 25, 2018 to December 31, 2019 based on applications received by October 31, 2019.

2.3 Audit Approach

Our audit approach included:

- Interviews with the OCIF team and SMT; and
- Reviewing a sample of 22, which was 10% of submitted applications. The sample included all nine approved projects and a representative sample of accepted/declined idea submissions and rejected business cases.

3.0 Results

Results reflect testing across the five phases of the fund administration process as well as evaluation of the governance process that supports the effective delivery of the fund administration process.

Based on our review of OCIF's fund administration process and test results, process controls are aligned to OCIF Reserve goals. Specifically, existing process controls were operating as designed within three (business case submission, contribution agreement and fund disbursement) of the five phases of the process.

Process controls within the monitoring and reporting phase were designed effectively, however, given the early stage of funding disbursements, we were not able to conclude whether projects were continuously evaluated to ensure fund requirements continued to be met or would achieve objectives and expected benefits. We encourage OCIF management to periodically assess the effectiveness of the OCIF team's process to monitor and report on the achievement of objectives and expected benefits specified in contribution agreements.

Specific to the project idea submission phase, process control improvements are recommended to enhance process transparency and consistency.

In addition, we identified opportunities to enhance OCIF's governance framework to further support process transparency. Recommendations are intended to support OCIF's evolving processes and mitigate reputational and financial risk.

3.1 Fund Administration Process (Five Phases)

The following sections outline positive results related to the business case submission, contribution agreement, fund disbursement, and monitoring and reporting phases. We raised two recommendations to address control gaps in the project idea submission review and approval phase which focused on maintaining documentation reflecting all assessment factors to fully support the rationale for decisions (Recommendation 1) and enhancing quantifiable scoring parameters to further demonstrate the consistency and transparency of the scoring process (Recommendation 2).

3.1.1 Project Idea Submission (Phase I)

The OCIF team evaluates ideas based on eligibility, initial scoring against six defined assessment criteria noted previously in 1.0 Background, and an evaluation of due diligence and overall assessment factors.

Idea Submission

OCIF developed a website to provide OCIF program information to applicants including an OCIF program guide, an application guide, contact information, and a link to an online submission portal. Based on our review of a sample of 22 ideas, all but one applicant submitted their application through the portal, which is discussed further under 3.2.2 Exception Management.

We tested the online application process and observed there were no barriers to complete the application and controls to obtain mandatory information were built into

the application process and were operating effectively as designed. We also noted applicants must complete an idea submission form that provides a high-level overview of the project and includes information required to assess eligibility, the six criteria and due diligence, and overall assessment factors. In addition, controls were in place to ensure all submissions were reviewed.

Assessment Criteria-Scoring

The OCIF team advised that they developed a scoring guide upon the launch of the OCIF program, to assist in evaluating over 100 applications received between April 25 and June 30, 2018. Based on refinements identified during this evaluation phase, the OCIF team updated and documented the scoring guide in August of 2018, while maintaining the foundational elements (i.e. six assessment criteria). The purpose of the scoring guide is to set a framework to ensure consistent scoring of assessment criteria. The scoring guide provides descriptions, definitions, and things to consider for the six criteria, including the following eight measurements:

1. Job creation: number of direct jobs;
2. Job creation: quality of the direct jobs;
3. Direct economic benefits;
4. Indirect economic benefits;
5. Innovation and sector benefits;
6. Key industries and emerging sectors;
7. Strategic initiative alignment; and
8. Social benefits.

Per our review of the scoring guide and a sample of 22 ideas, scores for direct jobs created and direct economic benefits were quantifiable and scores for key industries and emerging sectors were clearly defined and supported consistent scoring. Although scores assigned for the remaining criteria were similar, to the extent applicant information was similar, we could not assess overall consistency since quantitative scoring parameters were not clearly defined for all established measurements where applicable. Given the variety and complexity of ideas submitted, some subjectivity is expected to allow flexibility and professional judgment. The consistency of the scoring process can be further enhanced by incorporating quantifiable criteria, where possible, to manage the level of judgment applied for the remaining criteria (Recommendation 2).

Due Diligence and Overall Assessment:

Due diligence is an evaluation of an applicant's ability to implement the project and achieve the stated objectives and benefits. OCIF defined due diligence and overall assessment factors in the OCIF program guide and scoring guide as the following⁴:

- Managerial, technical and workforce capability;
- Technical feasibility;
- Financial and operational risk; and
- Applicant's track record completing projects of a similar type and scope.

The overall assessment is an evaluation of a project's probability of success or failure and the risk versus reward. If a project has a low chance of success, financial red flags,

⁴ The Opportunity Calgary Investment Fund Program Guide Version 1.0

or if the project benefits are not directly flowing to Calgary, an applicant may not move forward.

Once ideas are scored, the OCIF team performs due diligence, considers overall assessment factors and makes recommendations to decline the idea or move it forward to the business case submission phase.

Our review of the idea assessment for 207 finalized ideas between April 25, 2018 and December 31, 2019 indicated that most of the idea decisions were supported by alignment with assessment criteria, while due diligence and overall assessment factors were also evaluated as part OCIF's established process per the following results:

- 163 declined ideas of which:
 - 148 (90%) were supported by lower alignment scores⁵; and
 - 16 (10%) had higher alignment scores⁶ indicating additional factors were considered.
- 44 ideas approved to move forward to business case, of which:
 - 31 (70%) were supported by higher alignment scores; and
 - 13 (30%) had lower alignment scores indicating additional factors were considered.

We reviewed a sample of 22 ideas focused on declined ideas with higher alignment scores and approved ideas with lower alignment scores and noted, although decisions were documented, the evaluation of due diligence and overall assessment factors and the rationale for decisions was not retained consistently during the audit period under review. (Recommendation 1).

Decision Approval:

When the program commenced in April of 2018, the Board made the decision to decline an idea or move it to the business case submission phase based on SMT recommendations and support information. In April of 2019, the Board agreed to allow SMT to make idea decisions to improve the efficiency of the application process. We observed approximately 80% of idea decisions were approved by the Board per the board meeting minutes. Subsequent to April 2019, we observed in the board meeting minutes SMT brought forward the decisions for information.

Communication with Declined Applicants:

OCIF created a declined letter template to advise applicants of the decision, express appreciation for their ideas, and provide available services and support from other organizations that might benefit the applicant's company and project, where applicable. The OCIF team advised they communicate with declined applicants by letter, emails, phone conversations or in a meeting based on OCIF's and the applicant's preference.

3.1.2 Business Case Submission (Phase II)

An applicant is required to submit a business case when their idea is accepted. OCIF has established a business case template to facilitate business case submission. In addition, OCIF implemented an internal due diligence process to analyze and review projects, including factors to consider when hiring third-party reviewers, and an internal due

⁵ Lower alignment scores where less than 60% of assessment criteria were met.

⁶ Higher alignment scores where more than 60% of assessment criteria were met.

diligence report template that is completed and presented to the Board. Per our review of a sample of 12 approved ideas, defined templates were utilized, and third-party reviews were performed for projects with funding over \$1M in accordance with OCIF factors.

Business Case Submission:

The business case template outlines required information from an applicant to enable OCIF to conduct a comprehensive analysis of the six assessment criteria and perform due diligence and an overall assessment of a project. Per our review of a sample of 12 business cases, applicants submitted support information for six assessment criteria, as well as the following required information⁷:

- Organization overview (e.g. overview and financial summary);
- Project overview (e.g. problem or opportunity being addressed, response or solution to the opportunity, OCIF request and project outcomes and deliverables);
- Environment scan (e.g. major demographic, economic, social and political factors, industry trends, target market and competitive environment and regulations);
- Project location (e.g. address of project site, lease agreement);
- Project budget and funding (e.g. confirmed funding, outstanding funding and current debt levels);
- Project milestones (e.g. project activities and GANTT Chart);
- Operational plan (e.g. financial plan and analysis, marketing plan);
- Assumptions, risks and constraints (e.g. key assumptions, risks and contingency plan);
- Additional organization information (e.g. organization ownership, management team, board of directors and advisors, compliance support);
- Disclosures (e.g. legal, conflict of interest and taxes);
- Appendix (e.g. current project jobs, project milestones, project activities and GANTT Chart); and
- Attachments (specified in the Appendix).

Internal Analysis:

The internal analysis has been an evolving process. When OCIF's program first initiated, the OCIF team performed analysis guided by a due diligence checklist. Subsequent to July 2018, the due diligence report template was implemented to capture the results of internal analysis. Of 12 reviewed samples, two were analyzed per the due diligence checklist, while 10 were analyzed per the due diligence report.

The OCIF team advised they verified the applicant provided information for reasonableness, for example, funding from other investors and audited financial statements. The OCIF team also conducted site visits, online research, and had discussions with industry experts to support their comprehensive analysis, which was included in a due diligence report presented to the Board.

The due diligence report provides an overview of:

- Summary;
 - Company and project description
 - Key benefits

⁷ Opportunity Calgary Investment Fund Business Case Template Version 1.4

- Key risk
- Recommendation to the Board
- 3-Year project funding and costs;
 - Sources of funding
 - Project budget details
- Assessment criteria;
- Due diligence;
- Pro-forma income statement;
- Risk ranking;
- Third-party review (where applicable); and
- Media scan.

Third-Party Review:

As part of due diligence, OCIF may hire third party reviewers taking the following factors into consideration:

- Size of project;
- Complexity of project;
- Political sensitivity; and
- Industry or their expertise not available on the OCIF team.

The OCIF team advised that the third party reviewers provide an independent evaluation of the business case and an ability to access subject matter expertise. Per our observation of all nine approved projects, five projects that had funding over \$1M were reviewed by a third party commissioned by OCIF and evaluated against defined assessment criteria. A third-party review for one project with funding over \$1M was completed by a third party commissioned by the applicant. We observed the Board was informed of the exception, and considered the third party review in their decision. However, the rationale for the exception was not documented, which is discussed further under 3.2.2 Exception Management.

3.1.3 💰 Contribution Agreement (Phase III)

OCIF has developed a contribution agreement template that includes all specified requirements in Section 5.7 of the Operating and Funding Agreement, Contribution Agreements with Beneficiaries. The contribution agreement includes specified terms and conditions that ensure beneficiaries can be held accountable to project timelines and objectives, which mitigates financial risk. The following are key terms and conditions:

- Deliverables and Milestones – a payment schedule (Schedule C) includes milestone dates, description and contribution amount upon milestone completion;
- Reports – a beneficiary must provide reports (Schedule D) certified by a senior officer of the beneficiary by the submission deadline (e.g. milestone report and final report);
- Covenants of the Beneficiary – compliance requirements (e.g. federal, provincial and municipal law specifications in the contribution agreement), and commercial general liability insurance to name OCIF and The City as additional insureds; and
- Contribution Payments – events (e.g. misrepresentation or overpayment) during the period of funding that require the beneficiary to return OCIF funding.

We observed that the contribution agreement for all nine approved projects was developed per the defined template, reviewed by a designated lawyer, signed by the beneficiary's representatives, and authorized by the OCIF Board Chair and Vice Chair, for funding amounts between \$150K and \$10M, or the OCIF CEO and CFO for funding amounts under \$150K.

Prior to finalizing a contribution agreement, the OCIF team and beneficiaries work together to develop a non-binding term sheet that lays out all detailed information and requirements prior to initiating a contribution agreement. The negotiations and term sheets are directed and approved by the Board and signed by the Board Chair and CFO. The OCIF team may further review the funding amount versus project achievement and negotiate with the beneficiary to obtain a better return from the investment. OCIF's funding was between 3% and 31% of the total project costs, which met the contribution requirements of less than 50% of the proposed project's budget.

In addition to the specifications in the contribution agreement template, the term sheet also indicated when and what information was used to make the public announcement of the funding. Per our review, the announcements for nine approved projects were made between 5 and 200 days per contribution agreement execution dates. The timeline between contribution agreement execution and announcement date was dependant on a number of factors including the beneficiary requests. To increase the transparency of the program, OCIF advised they will define a timeline for public announcement and deal with exceptions required to balance beneficiary needs through the exception management process. (Recommendation 4).

3.1.4 Fund Disbursement (Phase IV)

Contribution agreement specified project deliverables and milestones, and reporting requirements facilitate fund disbursement. OCIF has established internal review and/or evaluation procedures to ensure defined milestones are met prior to authorizing the disbursement. As at December 31, 2019, five disbursements were authorized for payment in the amount of \$7.05M. Per our review of all five disbursements, the controls for disbursement were operating effectively as designed, which included the following process:

- Beneficiaries submitted a written claim form (first part of Written Claim & Officer's Certificate) along with a project milestone report with supporting information indicating the project deliverables and milestone requirements were met;
- OCIF's CFO and two OCIF team members signed the officer's certificate form (second part of Written Claim & Officer's Certificate) as acceptance of the written claim, once the OCIF team had completed a milestone progress evaluation report indicating verification of the milestone report and supporting information;
- Beneficiaries provided a commercial general liability insurance certificate that added OCIF and The City as additional insured parties; and
- The request for funds form was authorized⁸ and submitted to The City who disbursed the funds to the beneficiary.

⁸ Payments up to \$150K were authorized by the OCIF CEO and the CFO and payments of more than \$150K were authorized by the OCIF Board Chair and Vice-Chair.

3.1.5 Monitoring and Reporting (Phase V)

Each contribution agreement specifies requirements for submitting progress reports. Mandatory reports included milestone reports and a final report, usually six months to one year after the completion of the project to ensure specified requirements were continuously met during defined period (e.g. created jobs will exist six months after the project completion date). In addition, OCIF may request interim reports and other reports during the term of the contribution agreement and for a period of three years afterwards.

Per our review of nine approved projects, five were required to provide at least one report by December 31, 2019. We observed that required reports were submitted per dates specified in contribution agreements. One beneficiary requested an adjustment to milestone requirements, which was authorized by the OCIF Board Chair and Vice Chair and included in an amended contribution agreement. Another beneficiary requested an extension to a milestone date, which was approved by an OCIF officer and the Board Chair.

Per contribution agreement execution dates, all nine projects were initiated between September of 2018 and October of 2019. Monitoring and reporting requirements were met as at December 31, 2019 and processes were designed effectively. However, testing of operating effectiveness was limited to the first fund disbursement milestone requirements for five projects. Since all nine approved projects were in the early stage of progress, we were not able to test whether projects were continuously evaluated to ensure fund requirements continued to be met or would achieve objectives and expected benefits specified in the contribution agreement.

3.2 Governance Framework

Per our review of the fund administration process and sample testing, we identified opportunities to enhance OCIF's governance framework to further support process transparency in three areas:

- Maintaining documentation reflecting the sub-committee's review and SMT decisions;
- Defining an exception management process; and
- Aligning OCIF officer's conflict of interest declaration to current OCIF Board standards.

3.2.1 Sub-committee's Advice

OCIF established a formal review requirement by a Sub-committee, which is comprised of OCIF board members. The Sub-committee is responsible to review SMT's idea recommendations and business case analysis conducted by the OCIF team and can also be involved, as required, in discussions and negotiations with the applicant and the review and recommendation to proceed with funding a project. The Sub-committee reviews key documents including term sheets that will be brought forward to the Board for decisions on project funding. The intent of the Sub-committee is to serve as an advisory committee to provide feedback and guidance. To that end, meetings are also attended by the SMT and the OCIF team along with external subject matter experts if required.

Although sub-committee meeting agendas included idea recommendations and business case analysis, and attendees indicated the Sub-committee provided independent beneficial advice, there were no meeting minutes. We recommended OCIF

record the Sub-committee's advice and SMT's responses and actions that guide investment decisions to further support an effective governance process (Recommendation 3).

3.2.2 Exception Management

OCIF has established frameworks to facilitate the fund administration process as discussed above. Per our review of a sample of 22 ideas, we observed three instances that didn't follow the established process and the rationale to support the exceptions was not documented. As with any business process, exceptions to OCIF processes are expected, especially given the variety and complexity of applicants and projects. To support process consistency and mitigate reputational risk, OCIF should establish a defined exception management process that includes documentation of the rationale for exceptions and approval required (Recommendation 4).

3.2.3 Declaration of the Conflict of Interest

OCIF implemented processes to effectively manage director conflict of interest in accordance with the OCIF Bylaw Section 4.18 - Conflict of Interest, which states: *"A director or officer who is a party to, or who is a director or officer of or has a material interest in any person who is a party to, a material contract or material transaction or proposed material contract or proposed material transaction with the Corporation shall disclose the nature and extent of his or her interest at the time and in the manner provided by the Act."*

OCIF requires the following declarations for directors:

- Directors' consent, code of conduct and conflict of interest form declaring the director has no present conflict of interest; and
- Conflict of interest declaration including:
 - A list of current boards and committees on which the director serves; and
 - A declaration when a conflict of interest arises, which is a standing item at each board and committee meeting to dynamically identify conflict of interest.Directors shall not vote where there is a conflict of interest.

Per our review, all directors (both current and past) signed the declarations noted above.

We observed the OCIF business case template required the following disclosure from an applicant:

- Conflicts of interest: *"Does the applicant or its directors have any potential conflicts of interests with The City of Calgary or Calgary Economic Development?"*
- Material contracts: *"Is the applicant in default under any significant contract or any financing arrangement?"*

We compared the conflict of interest declarations to the applicants' disclosure for nine approved projects, and reviewed the decision making process from the board meeting minutes when conflict of interest existed and noted:

- Two applicants disclosed their board members were also OCIF board members, which agreed with OCIF board members' declarations; and
- Of these two projects, one had funding less than \$150K, which was approved by OCIF's CEO, while another was approved by the Board and the board member who

declared a conflict of interest “abstained from voting” per the board meeting minutes.

We noted officers were not required to sign conflict of interest declarations where there was no conflict of interest to declare. We recognized an opportunity to enhance controls and recommended an annual declaration by officers of any conflict of interest, including instances where an officer has no conflict of interest to declare, which is aligned to good practice (Recommendation 5).

We would like to thank OCIF and CED staff for their assistance and support throughout this audit.

4.0 Observations and Recommendations

4.1 Idea Submission Due Diligence and Assessment

Although the OCIF team performs due diligence and considers overall assessment factors when evaluating ideas, the results of the evaluation of these factors and rationale for recommendations to decline or move forward to the business case submission phase were not consistently documented during the audit period under review. OCIF should formally incorporate the results of due diligence and overall assessment evaluations into the process to evaluate ideas to support the consistency and transparency of recommendations. Decisions that are fully supported by documentation mitigate reputational and financial risk.

The OCIF team's recommendation to decline ideas or move to business case is based on scoring against six assessment criteria, and an evaluation of due diligence and overall assessment factors. Due diligence is an evaluation of an applicant's ability to implement the project and achieve the stated objectives and benefits while the overall assessment is an evaluation of a project's probability of success or failure and the risk versus reward.

The OCIF team advised that the six assessment criteria were evaluated per the scoring guide along with due diligence and overall assessment factors, and the evaluation results were discussed by the OCIF team and the SMT to determine whether ideas should move forward to the business case submission phase. However, documentation to support the decision to move forward or decline ideas based on an evaluation of due diligence and overall assessment and the assessment criteria was not consistently maintained.

We reviewed a sample of 22 ideas that included 12 that moved forward to business case submission and 10 that were declined:

- 10 declined ideas of which:
 - Five (50%) were supported by the evaluation results due to lower alignment scores; and
 - Five (50%) had higher scores indicating due diligence and overall assessment factors were taken into consideration in addition to the evaluation results:
 - One was due to ineligibility since the project would not be located in Calgary; and
 - Four did not have rationale documented that clearly aligned to due diligence and overall assessment factors.
- 12 ideas approved to move forward to business case submission, of which:
 - Nine (75%) were supported by the evaluation results due to higher alignment scores; and
 - Three (25%) had lower alignment scores indicating due diligence and overall assessment factors were taken into consideration. In addition to the evaluation results:
 - One included comments that were aligned to due diligence and overall assessment factors; and
 - Two did not have rationale documented that clearly aligned to due diligence and overall assessment factors.

When ideas meet assessment criteria but do not meet due diligence and overall assessment factors or vice versa, adequate documentation to support the decision to move forward or

decline will increase process consistency and transparency. OCIF should also consider whether additional criteria should be included based on lessons learned to date.

Recommendation 1

The OCIF Chief Financial Officer incorporate additional rigour to ensure decisions are fully supported by documentation reflecting the due diligence and overall assessment factors in the evaluation of ideas, including documentation of results and rationale to support recommendations to decline ideas or move forward to business case submission.

Management Response:

Agreed.

Action Plan	Responsibility
<p>1) The format of the Ideas evaluation was redesigned in 2019 to better reflect the critical items that would lead to a decision, but to also keep pace with the momentum of a perpetually open-call program. The next step in this evolution is to incorporate space within the form for documentation of SMT questions and corresponding answers that are considered action items the OCIF team must report upon that support decisions made.</p> <p>Currently, the OCIF SMT has authority to move an application to business case. Materials presented at the SMT meetings enable proper decision making and include a comprehensive but short-form application scoring evaluation, based on the six Shareholder approved OCIF criteria and an initial internal due diligence report that includes advice on total project assessment factors and the application. The forms are circulated in advance, and the discussion and decisions are made at SMT OCIF meetings.</p> <p>We have commenced minute taking for the SMT meetings to document these decisions. In rare situations where meeting in person is difficult, SMT are sent the materials by email and decisions by each member are provided to the team via reply all. This decision is then documented in the minutes and then addressed at the next SMT meeting.</p>	<p><u>Lead:</u> VP, Operations & Corporate Projects</p> <p><u>Support:</u> OCIF Corporate Governance & Administrative Analyst OCIF Analyst OCIF Team Assistant</p> <p><u>Commitment Date:</u> 1) April 30, 2020 - Minute-taking at both the sub-committee and SMT meeting level have already commenced (and will be ongoing) 2) May 31, 2020 - Decision date and rationale documentation</p>

Action Plan	Responsibility
2) The dates of the decisions made will not only be noted in the minutes, it will be incorporated in the internal due diligence report including any specific rationale, including any decisions that override the recommended actions as documented from one stage gate to the next.	

4.2 Idea Scoring Criteria

Although OCIF developed an idea scoring guide to provide guidance on scoring ideas based on six criteria, the parameters should be further defined to support effectiveness and consistency of application. OCIF should improve the scoring process by incorporating quantifiable criteria where possible to manage the level of judgement applied, facilitate new staff training, and consider applicability of existing criteria included in the ideas scoring process. Quantifiable measurement and criteria that can be easily assessed provide more objective results to support process consistency and transparency and mitigate reputational risk.

Based on our review of the six assessment criteria outlined in the idea scoring guide and a sample of 22 ideas, evaluation for the number of direct jobs created and direct economic benefits were quantifiable and consistently measured. Key industries and emerging sectors were clearly defined, which supported consistent evaluation.

Per our review, parameters to evaluate for the following criteria could be further defined:

- Job creation - quality of direct jobs: Although "low level" is defined as a job that requires little to no education and traditionally pays lower wages, the "high level" definition does not specify the years of experience or education to be considered senior level, and there is no guidance for mid-level jobs.
- Economic benefits - indirect: Shifting economics from one beneficiary to another is defined as "minimal" when for example, benefits shift from one Calgary supplier to another Calgary supplier where there are no expected volume increases and no new benefits. There is no specific guidance on parameters to measure "medium", "high" or "very high" benefits.
- Social benefits: A score is given based on the order of magnitude and number of people affected based on minimal to significant benefits and a few to a large number of people. There were no defined parameters for these magnitude and number ranges.
- Strategic initiative alignment: A score is given based on alignment with other public or private sector initiatives, which may include other government and private funding. We noted that alignment could be defined from minimal to significant and funding from some to significant, however, there were no defined parameters for these ranges.

The innovation and sector benefits criterion rates the impact or "catalytic effect" that the project will have on its sector and is a subjective rating that requires in-depth knowledge of the current state of the sector. The impact is categorized as "low", "medium" and "high" in the idea scoring guide along with guidance on parameters. There may be value in simplifying the ideas scoring for this criterion, given in-depth knowledge is required. We noted that this criterion was assessed more comprehensively by the OCIF team during the due diligence and overall evaluation of ideas once scoring is complete, and the analysis of business case stage.

One option might be to not score this criterion during initial scoring and include it in the evaluation of due diligence and overall assessment factors discussed under Observations and Recommendations 4.1.

Recommendation 2

The OCIF Chief Financial Officer increase effectiveness and objectivity of the scoring process by:

- Incorporating quantifiable parameters where possible; and
- Evaluating whether current criteria should remain in the idea scoring process and/or moved later in the evaluation process.

Management Response:

Agreed.

Action Plan	Responsibility
<p>As the program has evolved, it has been identified that a certain degree of qualitative interpretation is necessary, while addressing the variability of submissions. OCIF will address the diverse Applications by adding additional parameters with guidance on how to use the evaluation to maintain flexibility.</p> <p>The OCIF team will supplement the short form scoring evaluation with a quantitative checklist that will calculate the scores for each of the criteria, this will provide information to support consistency, transparency and mitigate reputational risk. To facilitate the need for judgement and flexibility for unique circumstances and the catalytic effect; the process will allow the score to be overridden with any deviations explained. This information will be provided to the SMT as part of their decision-making process to approve or decline applications.</p>	<p><u>Lead:</u> VP Operations & Corporate Projects</p> <p><u>Support:</u> OCIF Analyst</p> <p><u>Commitment Date:</u> May 31, 2020</p>

4.3 Sub-committee's Review Process

Although idea recommendations and business case analysis were included on sub-committee meeting agendas, there were no sub-committee minutes documenting the Sub-committee's advice or the OCIF team's responses and follow-up actions. OCIF should implement a process to ensure documentation is maintained, particularly where SMT action is different than the original recommendation. Documenting the Sub-committee's advice and SMT's responses will support appropriate segregation of duties between the Sub-committee and SMT. In addition, documentation supports an effective governance process, which mitigates reputational risk.

We reviewed 11 sub-committee meeting agendas between September 7, 2018 and November 25, 2019, and observed the following information was included in the agenda items:

- The OCIF program overview:
 - Program and application summary
 - Application approval:
 - Red: declined
 - Green: moved to business case
 - Yellow: application review
- Business case update:
 - Internal review and recommendations
 - Due diligence report
 - Draft term sheet and term sheet
 - Draft contribution agreement
 - Contribution agreement

Per our review of sub-committee meeting agendas, the OCIF Board Chair and Vice Chair attended most of the meetings, along with the SMT, internal (i.e. OCIF team) and external (i.e. guest) subject matters experts to review SMT's idea recommendations and business case analysis. OCIF sub-committee meeting attendees indicated the Sub-committee provided independent advice on idea recommendations, as well as advice related to business case analysis, including OCIF's internal due diligence reports and third-party review reports. However, there were no meeting minutes indicating the advice and SMT's responses and actions.

Recommendation 3

The OCIF Chief Financial Officer implement a process to record the Sub-committee's advice and SMT's responses and follow-up actions.

Management Response:

Agreed.

Action Plan	Responsibility
<p>We have commenced minute-taking at both the OCIF SMT and OCIF sub-committee meetings, which will include action items to be executed. We also now maintain an ongoing 'Bring Forward List' of Sub-committee action items that are tabled at each Sub-committee meeting to demonstrate progress and completeness of previous action items. We will also implement an OCIF SMT Bring Forward List and minutes to be tabled at the following OCIF Sub-committee meeting.</p> <p>The roles and the responsibilities of the OCIF SMT and the OCIF Sub-committee will be added to the corporate policies.</p>	<p><u>Lead:</u> VP, Operations & Corporate Projects</p> <p><u>Support:</u> OCIF Corporate Governance and Administrative Analyst (Sub-committee Recording Secretary) OCIF Team Assistant (OCIF Senior Management Team Recording Secretary)</p> <p><u>Commitment Date:</u> May 31, 2020</p>

4.4 Exception Management Process

OCIF has not established a formal process to manage exceptions to established fund administration processes. As with any business process, there will be exceptions to OCIF processes, especially given the variety of applicants and projects. OCIF should establish an exception management process, to ensure the exception does not provide an applicant with an unfair advantage. A defined process that includes documentation of rationale and approval required, supports consistency, transparency and mitigates reputational risk.

During fieldwork we noted three exceptions to established OCIF fund administration processes. OCIF advised they do not have an exception management process and the rationale for these exceptions was not documented.

Applicants are expected to complete an idea submission form through OCIF's online portal. Submitted information is maintained in the portal, while project information and scores are retained in a master spreadsheet. OCIF accepted one application that was not submitted through the portal. We reviewed the master spreadsheet and observed scores for that project were not included on the spreadsheet. OCIF advised these exceptions were at the request of the applicant based on confidentiality concerns.

In addition to OCIF's business case analysis and internal due diligence, OCIF may send a business case to a third-party reviewer. The decision to request a third-party review is based on the size and complexity of the project, political sensitivity, and industry or other expertise not available in CED. We reviewed nine approved projects during our audit period and observed that OCIF commissioned third-party reviews for all but one project with funding over \$1M (six in total). Although the applicant had commissioned a project review by an independent third party, which was communicated to OCIF's Board, the review did not follow OCIF's standard third party format evaluating six OCIF criteria.

When a project is approved for funding, the OCIF team works with the beneficiary to lay out all the terms and conditions including the public announcement date in the term sheet before finalizing the contribution agreement. We reviewed the execution date of the contribution agreement for all nine approved projects and observed that five of them were announced within two months (between 5 days and 38 days), two were announced within three months (62 days and 70 days, respectively), and two were announced over three months later (113 days and 200 days, respectively). OCIF's objective is to announce on a timely basis while balancing beneficiary needs and reporting requirements. However, OCIF has not specified public announcement timelines for approved projects.

Recommendation 4

The OCIF Chief Financial Officer establish an exception management process including:

- Documentation of rationale for the exception; and
- Level of approval required.

Management Response:

Agreed.

Action Plan	Responsibility
<p>OCIF will create a public announcement policy (within 60 days of execution of contribution agreement) and third-party review policy to support consistency and mitigate risk.</p> <p>This will be further supported by an exception policy for the entire program requiring approval by the OCIF SMT, Sub-committee or Board as appropriate.</p>	<p><u>Lead:</u> CFO, OCIF VP, Operations & Corporate Projects</p> <p><u>Support:</u> OCIF Corporate Governance and Administrative Analyst OCIF Manager OCIF Analyst</p> <p><u>Commitment Date:</u> May 31, 2020</p>

4.5 Officers' Disclosure of Conflict of Interest

OCIF did not maintain documentation when OCIF officers, CEO and CFO, had no conflict of interest to disclose. OCIF should require officers to explicitly declare they have no conflict of interest and retain this disclosure in their records to mitigate reputational risk.

The OCIF Bylaw Section 6.10 - Conflict of Interest states: *"An officer shall disclose his or her interest in any material contract or material transaction or proposed material contract or proposed material transaction with the Corporation in accordance with section 4.18"*. Upon our inquiry, OCIF advised there was no record of the disclosure since OCIF officers didn't have a conflict of interest as described in the bylaw. Per our review of OCIF's Board approved business plan document, all agreements up to \$150K can be signed by OCIF's CEO and CFO. Of nine approved projects, two were \$100K and signed by OCIF's officers.

It is good practice to require an annual declaration by officers of any conflict of interest, including instances where an officer has no conflict of interest to declare.

Recommendation 5

The OCIF Chief Financial Officer require officers to sign-off on a conflict of interest declaration annually, including instances where there is no conflict to declare.

Management Response:

Agreed.

Action Plan	Responsibility
<p>The OCIF officers as listed under the management services agreement, will annually acknowledge all policies, including a conflict of interest policy.</p> <p>At the commencement of every OCIF SMT meeting, the OCIF officers will declare any conflict of interest and it will be a standing agenda item. There will be a running report tabled at each OCIF SMT meeting, which will also be reflected in the official meeting minutes.</p>	<p><u>Lead:</u> CFO, OCIF VP, Operations & Corporate Projects</p> <p><u>Support:</u> OCIF Corporate Governance & Administrative Analyst OCIF Team Assistant</p> <p><u>Commitment Date:</u> April 30, 2020</p>