

## ATTAINABLE HOMES ACQUISITION AND DEVELOPMENT CYCLE AUDIT

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### EXECUTIVE SUMMARY

The City Auditor's Office issued the Attainable Homes Acquisition and Development Cycle Audit Report to Attainable Homes Calgary Corporation's (AHCC's) management and to the City Manager's administration on April 6, 2016. The report includes AHCC's response to 12 recommendations raised by the City Auditor's Office to mitigate risks in the acquisition and development cycle, with commitment dates no later than September 30, 2016.

#### RECOMMENDATIONS:

1. That Audit Committee receive this report for information; and
2. That Audit Committee recommend that Council receive this report for information.

#### RECOMMENDATION OF THE AUDIT COMMITTEE, DATED 2016 APRIL 14:

That Council receives this report for information.

### PREVIOUS COUNCIL DIRECTION / POLICY

Bylaw 30M2004 (as amended) established the position of City Auditor and the powers, duties and functions of the position. Under the City Auditor's Office Charter, the City Auditor presents an annual risk-based audit plan to Audit Committee for approval. The City Auditor's Office 2015 Annual Audit Plan was approved on November 6, 2014. The City Auditor is accountable to Council and subject to the oversight of Audit Committee under Bylaw 48M2012 (as amended).

### BACKGROUND

This audit was undertaken as part of the approved City Auditor's Office 2015 Annual Audit Plan. Our audit objective was to provide assurance on the effectiveness of acquisition and development cycle processes. These processes support AHCC's mandate, by providing quality homes at affordable prices and ensuring discounted land, obtained from The City of Calgary (The City), is appropriately leveraged. AHCC purchased eight sites from The City at book value of \$6 million, which represents a discount of \$11 million on market value at the time of sale.

AHCC acquire inventory (apartment condos and townhomes) through land developments and unit acquisitions. In a land development AHCC provide land to a developer and in return receive future units priced below market and payment for the land. Unit acquisitions are bulk purchases of units from a developer's existing or planned development.

### INVESTIGATION: ALTERNATIVES AND ANALYSIS

Our audit evaluated controls that supported unit acquisitions and land development contracts signed from October 1, 2014 to September 30, 2015. Under these contracts AHCC acquired 185 units. Acquisition and development processes were effective in supporting acquisition of units for the program during this period. However, processes and controls in place were not sufficient to mitigate risk in partner selection for land developments and ensure the long term financial sustainability of the subsidiary.

We assessed controls in place to mitigate risk in the land development process of conflict of interest in developer selection, partnering with a developer that does not provide optimum value,

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and/or has insufficient financial capacity to complete a project. Competitive procurement processes mitigate many of these risks as they are open and transparent and provide a range of development options. Although AHCC has established procurement and conflict of interest policies, these policies do not provide sufficient direction to management to mitigate land development risks.

Management provides reporting to the Board to support evaluation of a given land development or unit acquisition prior to giving approval. These reports do not include sufficient information to evaluate return on investment. However, they do provide relevant information on the qualitative aspects of a transaction such as location and proposed design.

### **Stakeholder Engagement, Research and Communication**

This audit was conducted with the Development Manager acting as the principal audit contact within AHCC.

### **Strategic Alignment**

Audit reports assist Council in its oversight of the City Manager's administration and accountability for stewardship over public funds and achievement on value for money in City operations.

### **Social, Environmental, Economic (External)**

N/A

### **Financial Capacity**

#### **Current and Future Operating Budget:**

N/A

#### **Current and Future Capital Budget:**

N/A

### **Risk Assessment**

The activities of the City Auditor's Office serve to promote accountability, mitigate risk, and support an effective governance structure.

Acquisition and develop cycle controls contribute to the acquisition of units that provide appropriate return on investment and to the management of conflict of interest. In turn, mitigating financial and reputational risks supports AHCC's sustainability.

### **REASONS FOR RECOMMENDATIONS:**

Bylaw 48M2012 (as amended) states: "Audit Committee receives directly from the City Auditor any individual Audit Report and forwards these to Council for information."

## **ATTACHMENT**

AC2016-0278 Attainable Homes Acquisition and Development Cycle Audit