

**The Calgary Public Library Board
Audit Governance Status
21 May 2015**

We are pleased to present the annual Audit Governance Status report from the Calgary Public Library Board. This section contains the Library's responses to the eight items that are to be included in the annual report.

1. A summary of Calgary Public Library's Audit Committee's charter or terms of reference

The Calgary Public Library is governed by the *Libraries Act* (Alberta), which places the responsibility for the establishment of a municipal library board with the council of that municipality. This same statute provides library boards with full management and control of libraries.

The history of the Calgary Public Library has been intertwined with The City of Calgary since 1908 when Bylaw 859 provided for the establishment of a Public Library in the City of Calgary. The current *Calgary Public Library Board Bylaw* was enacted in 2006 as Bylaw 38M2006, and clearly specifies the duties, structure, procedures, budget, and independent audit requirements for an annual review of financial accounts and processes. These requirements also respond to the directions contained in the *Libraries Act* (Alberta).

Recognizing the need to augment financial and audit direction with an added emphasis on risk management, the Calgary Public Library Board created an Audit Committee in 2012, replacing a previous committee that combined financial oversight and audit responsibilities. The Audit Committee's terms of reference were to oversee risk direction at the Library as well as retaining responsibility to review and direct external and internal audit reports and their findings.

After the establishment of this committee, financial oversight became the responsibility of the full board. However, effective 2015, the oversight of financial condition returned to the Audit Committee, which was renamed the Audit and Finance Committee. This Committee has the following mandate for 2015:

1. Receive and review quarterly unaudited financial statements and accompanying notes, and review the annual audited financial statements and auditor's report on that year's financial performance
2. Review the annual budget and recommend approval to the Board, and each quarter review the budget relative to actual results
3. Receive and review quarterly risk updates
4. Annually receive and review an external audit plan. Review the results of the external audit with auditors
5. Review Board policies relating to audit and finance and ensure adherence to such Board policies
6. Review insurance and other activities related to audit and finance
7. Review of operational audits as required

This mandate was approved by the Board at the January 28, 2015 meeting.

2. Calgary Public Library's Audit Committee's Planned Governance Activities and/or work plan for 2015, with a focus on risk management activities.

In November 2014, the Library's Audit Committee discussed its mandate and set the year's work plan. The committee reports to the full Board based on information reviewed at those sessions.

The following work plan was adopted for 2015.

January, April, July, and October: Quarterly risk review and quarterly financial review

Additional items included in the mandate have been scheduled as follows:

January: Preliminary Year End financial review, review of budget adjustments and adoption of mandate and detailed work plan.

March: Presentation and review of Audited Financial Statements and the auditors' *Year-end Communication*. The auditors provide comments based on their review of internal control at the Library, and, when required, provide advice on areas where controls are weak.

The Library's most recent audited financial statements and Deloitte's year end communication report are attached to this report.

April: Discussion of materials to be provided to The City's Audit Committee Annual Governance Status report.

July: 2016 budget review.

October: Review of external auditor's audit plan for 2015.

Risk Report on Key Operating and Strategic Risks

A KPMG study, *Risk Management Leading Practice Overview*, was completed in early 2014. As a result, a Strategic Level Risk Register was created that year. The Risk Register analyzes impacts that are specific and measureable, identifies risk owners for each risk factor, and expands risk discussion beyond financial risk. The register is regularly updated and reviewed by the Library's Executive Leadership Team. The results of the risk register are reported to the Audit and Finance Committee quarterly.

The four risk categories determined to be of highest importance to the Library are Strategic, Safety and Security, Operational and Financial. Mitigation plans are in place to manage each of these risk areas.

The Calgary Public Library Board has a Governance Committee that is also actively involved in risk mitigation at the Board level. Their mandate addresses the possibility of changes to organizational leadership and to advise the Board on matters regarding overall governance on policies, including, but not limited to:

1. The process of selection, performance evaluation, compensation and succession planning for the CEO position

2. Recruitment, nomination and evaluation of Board and Committee members
3. Development of Board and Committee members including orientation for new members
4. Periodic review of the Board's bylaws and policies. In 2015 a full review of all Board policies is being conducted
5. The practices of the Board and its Committees

3. An overview of the Audit Committee members' qualifications and experience

Debra Giles, Committee Chair: Board member since 2014

Debra Giles is a recent retiree from the banking profession, most recently with Royal Bank of Canada, as a Managing Director and an Industry Committee Chair with RBC Capital Markets. She also held senior industry positions in international project finance, business development and investor relations. She served on the Board of the Calgary Society of Financial Analysts as Treasurer, Vice President and President. Debra completed the CMA and CFA designations and also holds a Bachelor of Commerce degree. She brings a strong sense of leadership, partnership and teamwork to the Board.

Robert Macaulay: Board member since 2013

Robert Macaulay is a director and executive with a background in leadership, business development and petroleum engineering in a variety of international settings. He believes in employing a mixture of relationship building, creativity and analytical ability to generate value. His other board and committee experience has included public oil and gas companies undergoing dramatic rehabilitative efforts, a not-for-profit bare-land condominium project, and sports bodies at the local, provincial and national levels. Robert holds BSc (Chemical Engineering) and MBA degrees from Queen's University, and an MBA with distinction from Cornell University. He brings extensive experience and skills to the Board in areas of planning, budgets and governance.

Temina Lalani-Shariff: Board member since 2014

Temina Lalani-Shariff is a management professional with experience building global brands and advocacy programs. For the past six years, she has been working in higher education in Canada, East Africa and South and Central Asia. Temina has worked with the University of Calgary, Aga Khan University, and imagineCalgary, as well as a wide variety of civil society organizations to support knowledge sharing and evidence-based policy advocacy in education and community development. She holds MBA degrees from the Kellogg School of Management at Northwestern University and York University, an MA in Communication Studies from the University of Calgary, and a BA from the University of Alberta. An avid community volunteer, Temina also serves as the chair for Communications and Community Relations for the Ismaili Council for the Prairies.

Janet Hutchinson, Board Chair and ex-officio member: Board member since 2011

Janet currently works in two libraries – the Doucette Library of Teaching Resources at the University of Calgary and the school library at Clear Water Academy, where her favorite part of both jobs is finding the perfect book for a reader. Janet has many years' experience in the not-for-profit sector, including 3 years with the Alberta Science Literacy Association as Executive Director and 17 years with Calgary Family Services. Janet's volunteer positions have included 8

years as board member, President, and Past President of the YWCA of Calgary, and 6 years as Board member and President of the Developmental Disabilities Resource Centre Board of Directors. In addition to her position on the Calgary Public Library Board, she is a member of the Calgary Women's Centre Board of Directors. Janet is an avid reader and user of the Calgary Public Library.

4. An overview of the Risk Management process at Calgary Public Library

The Library Board's policy on risk management recognizes that risk is best "managed through the introduction of systematic processes for identifying, evaluating, and managing risk in the most cost effective and efficient manner." (*Calgary Public Library Board Policy, Risk Management*)

CPL's risk management process is tied to the Strategic Plan, which is developed to allow us to fulfill our Strategic Targets and to meet the expectations of the Libraries Act and the Municipal Bylaw.

The Library provides many different opportunities and venues for use by the citizens of Calgary. Risk is inherent in all of these opportunities. Examples of how our services open the Library to risk are:

- Access to the Calgary Public Library is unrestricted and results in more than 5.0 million in-person visits per year.
- Access to our online resources is available to Library members remotely 24 hours a day and within our buildings during open hours.
- The Library employs in excess of nine hundred staff requiring a broad range of skill sets, in a variety of full-time, part-time and substitute positions.
- There are 18 branches located in Calgary.
- Increasingly staff are transporting library services to venues outside of the Library. For example, introducing pre-school literacy to every registered daycare in Calgary is a 2015 goal.
- There is a small fleet of vehicles in use during the day and evening.
- The breadth of materials in the Library's collection reflects the diversity of our growing community.

While the Library continues to mitigate the risks that can arise in each of these through training, maintenance, insurance, security and other measures, under the Audit and Finance Committee's oversight we are now placing a focus on risk management through a top down policy that will ensure each action is given a risk consideration within a larger organizational framework.

Risks in the next ten-year period framed the discussion for the development of the Library's Strategic Plan for 2015–2018. Not surprisingly, alignment with The City's goals, especially around community building, was prominent in the discussion. Each of the goals and activities developed to realize the Strategic Plan contains a risk analysis component.

These measures continue to ensure that:

- Better decisions are made when supported by a systematic approach to risk management

- Risk management will be integrated into existing long-term strategic and business planning, as well as informed decision-making in the day-to-day management of activities
- Risk management is consistently applied to the development and implementation of policy, programs, plans and future directions of the Library
- The integration of risk management at the Library is supported by a corporate philosophy and culture that encourages everyone to manage risks proactively and to communicate openly about risk.

At operational levels, risk is part of our daily procedures. The Calgary Public Library's proactive, continuous process to identify, measure, and manage risk is reinforced by a high degree of thoroughness in our risk evaluation and reporting and reinforcing.

5. An overview of the internal control environment at Calgary Public Library

The Library Board has full management and control of the Library. Policies are used to provide effective parameters and direction for decisions and actions undertaken by the Board, management, and staff. The Board employs the Library's Chief Executive Officer, who implements the policies and manages the daily operations of the Library, and who, in turn, is accountable to the Board. The employees who implement these programs and services are accountable to the CEO.

A comprehensive set of policies is currently under review by the Library's Governance Committee. In particular, policies that set the tone of the internal control environment address Board governance, Board orientation and education, the annual audit, risk management, a code of conduct, and staff orientation and training. In addition, policies which contribute to control activities, ensuring that management directives are carried out, address the delegation of authority, debt, insurance, expense claim reimbursement, investing, and donations.

All internal processes are documented, actively monitored, and continuously updated as changes occur. Continuous improvement practices are in place in all parts of the organization.

A representative list of some of the many ways in which the Library uses internal control to address risk includes:

- Periodic environmental scanning
- Disaster procedures, which are documented and available at each location, and have been tested by fire and flood in the recent past. An update is in progress.
- Documented procedures available to each employee to deal with difficult patrons, coupled with initial and ongoing training to ensure understanding of the procedures, which are supported by constantly updated documentation available on the Library's SharePoint at all times
- Emergency backup procedures to minimize loss of data and downtime through loss of access to a site. The flood of 2013 accelerated the move to City sites that are less susceptible to the type of disaster that occurred in 2013
- Annual review and discussion with our insurer to discuss the adequacy of our physical and nonphysical insurance, discussion of past insurance history, and understanding of new requirements that may form part of new coverage

- Safety training and individualized position safety assessments which are signed off each year by our staff
- Best practices to prevent external and internal fraud, which includes camera monitoring in selected areas at each community library
- A corporate culture which expects ethical behavior, including a Standards of Conduct Handbook, which is familiar to all staff, and part of each new hire's training
- A corporate culture which expects every area of the Library to be award winning and innovative, and create or follow best practices
- A volunteer program that is managed to augment Library services, while not adding additional risk to the organization
- Financial budgeting, monitoring and forecasting that ensure efficient and effective service provision using existing resources
- Procurement procedures that follow all legal requirements, but also ensure best value in the purchase process
- Division of duties to prevent fraud
- Asset oversight to ensure that assets are effectively and efficiently used, and loss or damage is minimal
- Use of security services where and when warranted
- Suspending Library privileges of patrons who pose a risk to our staff, our patrons, our assets, or themselves

All of the Library's risk management procedures have been put in place to avoid, reduce, or minimize the negative consequences of risk.

6. Summary of the 2014 external auditor reports to the Calgary Public Library Board

Harman Gill, CA Partner, Assurance and Advisory Deloitte, and Nicole Whyte, CA Manager, Private Client Services Deloitte, attended the March meeting of the Library's Audit and Finance Committee to present their *Year-end Communication* to the Calgary Public Library Board for the year ended December 31, 2014. This report is included as Attachment 3.

The communications and findings arising from the audit are:

- An unqualified opinion was issued on the financial statements after all procedures were completed
- The auditors did not experience any significant difficulties while performing the audit, neither through delays in receiving information from management, nor through an unnecessarily brief timetable to complete the audit
- The audit was conducted in accordance with the audit plan, which was communicated to the Library on October 20, 2014
- There were no significant amendments to the audit scope and approach communicated in that plan
- In the auditors' judgment, the significant accounting estimates made by management were free of possible management bias and of material misstatement, and the disclosure in the financial statements around estimation uncertainty is in accordance with PSAS and is appropriate to the particular circumstances of the Library
- There were no disagreements with management
- The auditors did not identify any areas of material non-compliance with laws and regulations by the Library

- The auditors did not rely on internal controls, but applied a substantive audit approach to testing of the financial statements. When obtaining an understanding of internal controls, they did not identify any significant weaknesses in internal control
- There were no uncorrected misstatements
- There were no disclosure deficiencies
- There were no issues noted relating to management override of controls in the context of the financial statements taken as a whole

7. 2014 Annual Financial Statements

The Calgary Public Library Board's Financial Statements for the year ended December 31, 2014 are included as Attachment 4.

Note 1 to our financial statements includes a Reconciliation of Financial Plan (Budget) to Financial Statements. The schedule reconciles our budget, which is still being developed on the modified accrual basis, to our financial statements, which are being presented on a full accrual basis. The major reconciling items occur in the reporting of non-financial assets, particularly the expenditures relating to the purchase of tangible capital assets, the funding applicable to those purchases, the depreciation of all tangible capital assets, the repayment of debt, and in the presentation of surplus and accumulated surplus. Amortization of assets as an annual expense is a significant change from the full expensing of capital purchases that occurred under the modified accrual basis, and has altered the reporting of surplus and accumulated surplus.

The year-end accumulated surplus amount in the Statement of Operations and Accumulated Surplus indicates that the Library is able to enter 2015 as a viable entity, although still largely dependent on government funding to maintain future operations. However, the Accumulated Surplus table in Note 8 indicates that, of the total surplus, only \$79,797 is unrestricted.

Comparison of major changes 2014 versus 2013, with both years reported on a full accrual basis follows:

Statement of Financial Position – December 31, 2014

- Financial assets have decreased by \$1,185,019. These numbers reflect decreased cash \$1,511,536 and increased accounts receivable \$326,517.
- Financial liabilities have decreased by \$1,141,976. This is due to the final retirement of the Library's debt \$293,720, a decrease in accounts payable and accrued liabilities of \$747,248 and a decrease in deferred revenue of \$101,008.
- Net financial assets have decreased by \$43,043.
- Non-financial assets have increased by \$1,002,333. The largest increase \$700,350 was in net tangible capital assets, which represents the growth in our asset base minus the growth in the amortization of all assets under stewardship as follows:
 - Increase in assets under stewardship (including the books portion of the collection) - \$1,773,419
 - Increase in accumulated amortization of assets under stewardship - \$1,073,069Inventory decreased by \$13,903 and prepaid expenses increased by \$315,886

- Accumulated Surplus increased by \$959,290. The comparison of each component of accumulated surplus is described in Note 8 to the financial statements.

Statement of Financial Operations and Accumulated Surplus – for year ended December 31, 2014

- Revenues increased by \$924,999 from 2013. This increase was the combined result of:
 - An increase of \$920,366 in additional funding from The City of Calgary. Both years include insurance proceeds for damages relating to the 2013 flood
 - A decrease of \$25,005 in funding from the Province of Alberta
 - A decrease of \$257,536 in fines and fees revenue. Fees were eliminated in November 2014
 - An increase of \$148,240 in investment and other revenue,
 - An increase of \$138,934 in donation, grants and sponsorships to offset the elimination of fees
- Expenses, including amortization, increased by \$1,884,253 from 2013. These expenses resulted in the following:
 - An increase of \$1,186,742 was from salary and benefit expenses
 - An increase of \$90,807 was from the non-asset component of the collection
 - An increase of 62,510 in building and equipment expenses
 - An increase of \$281,470 was from general operating costs
 - An increase of \$214,954 was due to increased amortization costs
 - Occupancy costs increased by \$76,586
 - Interest charges on The City of Calgary financing decreased by \$28,816
- Other changes were mainly for government transfers for capital representing the funding by The City of lifecycle infrastructure approved in the City's capital budget

8. Other pertinent information Calgary Public Library would like to provide to The City's Audit Committee:

From its beginnings in 1912, the Calgary Public Library has played a key role in enhancing quality of life for all of Calgary's citizens. Providing a diverse range of resources for information, learning, inspiration, and enjoyment, the Library is proud to be providing a second century of service excellence to the City of Calgary and its residents.

The Library has responded to the challenges of growth, technological change, increasing diversity, and rising patron expectations. Today, it is an award-winning library system and a leader in public library service delivery in North America, providing innovative and responsive collections, service, and programs that enrich lives and build community. In 2015, the Calgary Public Library is an integrated network of 18 locations throughout the city, working together to develop, implement, and evaluate services that meet the needs of the growing and increasingly diverse population of Calgary. By partnering with The City, we are already planning for two library relocations, three growth libraries, and a New Central Library, all of which will be accomplished by 2018.

The Library's mission positions it at the nexus of all of City Council's priorities, with the result that the Library is strategically and physically situated to play a large and important role in community life in Calgary.

The Calgary Public Library is Calgary's most public institution, with well over 5 million in-person visits per year, more than 16 million items circulated annually (including an increasing array of digital items), a diverse complement of publicly attended programs, and a website that provides remote access 24 hours a day.

Although the Library is available to all, and provides service for all, it has directed services to meet the needs of several important and often overlooked groups. These populations include those who are new to Canada and new to Calgary, young children and the families of young children, and residents with physical and economic barriers.

The Library is providing tools to assist all of these Calgarians in reaching their potential.

Strategic Plan 2015–2018

In 2015, the Calgary Public Library enters the first year of its new four-year strategic plan. The Strategic Plan is designed to strengthen neighbourhoods in a growing city, bring the Library into more people's lives, and focus on services that make a difference.

The Library developed a list of actions (63 and growing) that will assist in achieving these goals. Approximately one third of these have been achieved before May 2015. We are increasing the number of hours our buildings are open, sending our staff to venues outside of our buildings, especially to provide early literacy opportunities to day cares in Calgary, and preparing for mobile services to outlying communities that do not have community libraries to visit. The Library has partnered with schools to provide increased awareness to students, and eliminated fees and other barriers to access. The goal of these and other actions is to double Library membership by 2018.

To demonstrate the positive and lasting contributions made by the Library to the social and economic growth of our city and the well-being of its citizens, the Library is developing an innovative system of Impact Evaluation. It will hold us accountable and ensure that we continue to evolve in tandem with Calgary and the imagineCalgary goals. The Impact Evaluation Framework will allow us to meet our Strategic Directions listed above. If our efforts do not meet those goals the gaps that occur will prompt us to look for new ways to reach them. Impact Evaluation is our way to ensure that we continue to serve Calgarians in a manner that supports their personal and professional lives and provides us with the answers to how does the Library make a difference in people's lives.

Major challenges and opportunities facing the Library at this time

Simultaneous changes impacting all areas of the Library: Technology, Publishing and e-books, Society and demographics

There is perhaps no more comprehensive driver of change in the Library than technology. Much has already happened, as e-books and e-readers have entered the mainstream. The Library also continues to face challenges in acquiring e-content, as some publishers choose not to sell their material to libraries, or sell the content at a significant premium over individual purchases.

But in terms of service delivery, these new formats and devices are merely the beginning. A deeper study of trends in technology reveals unprecedented opportunities to reach new customers in new ways, and to transform the way that library work itself is performed.

At the same time as this rapid technological change, the population of the Library's service area has continued to increase. Underlying this growth are significant trends for library planning:

- The number and proportion of young children and youth will increase significantly over the next ten years
- The number and proportion of seniors will increase even more significantly
- The number of people entering the work force will shrink, while the number of migrants will increase. Most of this increase will be from regions in Asia
- All of the above will result in a decrease in the working age population (15 - 64)
- This growth will be split between established areas and suburban green fields

Lifecycle replacement and infrastructure needs

In a city with pre-existing unmet service needs caused by past population growth, the funding challenge has two parts: stretching funding to maintain and refresh existing facilities, and providing service to areas of population growth.

Ongoing maintenance and replacement activity on existing Library space is essential to maintain standards of safety, efficiency, functionality and comfort. Many of the Library's existing branches are small, overcrowded and operating at over-capacity levels.

During the 2015–2018 budget cycle, The City is providing significant commitments of capital funding, which is allowing the Library to fill previously unfunded lifecycle maintenance capital needs, and plan libraries to open in previously underserved areas.

Discussions are also occurring to reinvigorate inner city areas, including well-loved, but out-of-date, Library locations. The Library is pleased to be part of this discussion.

Calgary continues to grow, spread outward and increase in its diversity. There is need for an additional 54,000 ft² of space. Matching the opening of the planned new branches with forecasted population increases will still result in a deficit of 36,500 ft² in 2018. Studies indicate that overall library use is 44% lower among residents who live more than 3.5 km away from a library service point. Presently, an estimated 220,000 Calgarians live beyond this service threshold. These numbers have not been updated from our previous report as there has not been a change in the amount of Library space available to Calgarians.

At the same time, the Library has set an ambitious goal of doubling our pre-2015 membership level. This will result in additional demands for collections, programs, and services. There are already very significant wait-lists for programs for the youngest Calgarians. However, currently there is no other group in Calgary that can provide pre-school literacy programs to all young Calgarians and ensure that they can enter school prepared to learn and succeed.

The core central functions that support essential system operations are presently at capacity, and must be strengthened for the Library to sustain its operations and to position it for continuing future success. As we enter another unstable economic climate, Calgarians continue to turn to the Library to borrow books and DVDs, instead of buying or renting; to attend a free

program on tax preparation, legal rights and obligations; to get job search and career advice from expert volunteers; to learn new computer skills; to practice speaking English; or simply to find meaning in an increasingly complex and noisy world.

Increases in use and use by new customers are imbedded in our goals and activities, but place significant pressure on resources already stretched to their limits. The inclusion of the Library in planned regional recreation centres and transit-oriented developments will help the Library respond to growing service demands.

Succession Management

Like many organizations, the Library is positioning itself to meet anticipated staffing challenges and transitions. We foresee a competitive work environment where recruiting staff with the necessary expertise to capably handle the simultaneous changes mentioned above is becoming increasingly more difficult. As a result, we are investing in the training, coaching and mentoring of current staff in order to ensure that they are able to take on leadership and management roles in the future. The essential skills required to deliver 21st century library service are not the same as those required in the past. An organizational restructuring was completed in 2014 and all senior positions were successfully filled, primarily with existing staff. However, many of our staff in leadership positions are also of an age where it is likely the Library will see turnover at a rate we have not experienced previously.

Increasing regulatory requirements

Lawful access legislation is placing increased responsibility on libraries to monitor and record patron access to the internet. As well as the human rights issues this presents, it will also require a greatly enhanced IT presence to ensure legislated requirements are met and retrievable.

Digital rights management and copyright reform are issues that impact libraries and will shape the content of libraries of the future. Legislation is currently tipping rights from users of created works to their creators.

Many other regulatory and stewardship functions present staffing challenges. Examples are

- Added complexity of financial reporting and stewardship since the PSAB mandated changes on reporting of tangible capital assets. This process is further complicated due to the complex relationship between the Library and various units of The City with respect to stewardship of some larger assets.
- Ongoing maintenance of an asset management system
- Integrating a risk framework throughout the organization
- Public and employee health and safety requirements

Respectfully submitted by

The Calgary Public Library