



**Calgary**

City Auditor's Office

# Clean Energy Improvement Program Audit

August 21, 2024



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## Audit Objective

The objective of this audit was to assess the effectiveness of the administration of the Clean Energy Improvement Program (CEIP).

The objective was achieved by reviewing the design and operating effectiveness of City of Calgary (City) processes and controls that mitigate the risk The City is unable to recover financing from participants and non-compliance with legislation.

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## Why it Matters

In 2022, Calgary City Council included climate resilience as a foundation of their strategic direction for 2023-2026. The City implemented CEIP with a \$20.6M budget to provide low-interest financing to Calgarians for efficient and renewable residential upgrades that save energy and reduce GHG emissions.

Effective CEIP administration supports achieving the program's climate objectives and mitigates financial and reputational risks by ensuring:

- Ineligible applicants do not receive CEIP financing and incentives;
- Legislated financing limits are not exceeded;
- The CEI Agreement accurately captures project costs and financing; and
- Property owner payout notices are accurate.

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## What We Concluded

The processes and controls established to administer CEIP were effectively designed. However, given a number of processes are manual and rely on accurate data entry, enhancements are required to review processes and spreadsheet controls to ensure only eligible property owners receive financing and incentives, and final agreements include accurate financing and costs.

CEIP was a new program The City offered to Calgarians in 2023. Calgarians showed great interest in the first intake of applications such that Climate & Environment had to establish limits in three subsequent intakes. Climate & Environment established Program Process Guidelines, developed tracking spreadsheets, and coordinated with other business units to administer CEIP in compliance with legislation and Terms & Conditions. They generally had well-designed processes in-place for verifying program eligibility and preparing CEI Agreements and payout notices. They also ensured financing was within the legislated financing limits and had good overall program management in-place.

Based on testing of 530 applications, there were eight ineligible applicants that received financing. To enhance the operating effectiveness of processes and controls, we recommended following established guidelines when conducting the applicant financing eligibility evaluation and reviewing the results prior to making financing decisions. Further, since there were five agreements with errors, we recommended reviewing final agreements to supporting documents prior to execution to detect errors. Although the overall program management was effective, we identified improvements to further support program objectives.

Climate & Environment immediately responded to opportunities for improvement identified. Climate & Environment agreed with our recommendations and plans to implement by September 30, 2024.

## Background

In 2022, Calgary City Council included climate resilience as a foundation of their strategic direction for 2023-2026. This signified The City's commitment to make climate action a strategic priority where all departments contribute to efforts to invest in and accelerate emission reduction opportunities.

The City developed the Green Investments and Financing Program to support the improvement of energy performance in buildings and reduce GHG emissions by tackling access to capital, which was one key barrier. The first program under this portfolio was the CEIP.

CEIP and the Clean Energy Improvement Program Bylaw 53M2021 were approved by Council in December 2021. CEIP is a financing initiative designed to make energy efficiency and renewable energy upgrades more accessible to homeowners. CEIP leverages Alberta's version of an innovative financing solution known as Property Assessed Clean Energy (or PACE), which allows property owners to access flexible, long-term financing through their municipality. Repayment is facilitated through an added charge to the property owner's property tax bill.<sup>1</sup>

The City was approved for a \$10 million low-interest loan and \$5 million grant through the Federation of Canadian Municipalities' (FCM) Community Efficiency Financing initiative. The City also allocated \$5 million from the Fiscal Stability Reserve to finance CEIP projects.

Calgarians have shown great interest in the CEIP such that Climate & Environment had to establish application intake limits due to the overwhelming response. In 2023, three CEIP application intakes were offered (January, July and November). By the end of 2023, there were 131 approved projects and 27 completed projects resulting in an average annual reduction of approximately 30% in both GHG emissions and energy consumption.<sup>2</sup>

The Alberta Municipal Services Corporation (AMSC), a subsidiary of Alberta Municipalities, is designated through the Clean Energy Improvements Regulation as the provincial program administrator for CEIP. The responsibilities of The City and the AMSC are outlined in the Master Program Agreement. The City is responsible for applicant financial pre-qualification, financing agreements with property owners, and providing and collecting CEIP financing, with Climate & Environment the leading business unit. Roles of business units in the CEIP process are outlined in Figure 1 below.

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<sup>1</sup> Public Hearing Meeting of Council June 20, 2023, C2023-0481 Attach 1 – Previous Council Direction and Background

<sup>2</sup> Clean Energy Improvement Program Quarterly Report Q4 2023

City Team (Business Unit)	Financial Pre-Qualification	Execute Initial CEI Agreement	Approve CEI Payments	Execute Final CEI Agreement	Issue CEI Levy Payout Notices (April)	Send Property Tax Bills (June)
Clean Energy Improvement Program (Climate & Environment)	√	√	√	√		
Credit & Collections (Finance)	√					
Local Improvements (Public Spaces Delivery)					√	
Billing (Assessment & Tax)						√

Figure 1: City business unit responsibilities in CEIP

**Scope & Approach**

We assessed the design and operating effectiveness of processes and controls that supported CEIP during the period of January 1, 2023, to March 15, 2024.

Billing’s role of issuing CEI tax bills was excluded from the scope of the audit, as this was the first year of CEIP and the process had not yet advanced to this stage at the time of the audit. Also out of scope are City processes related to CEIP loan and grant requests from FCM and CEIP loan and interest repayments to FCM.

The audit did not provide assurance on the role of other parties involved in the administration of CEIP, such as AMSC and the FCM.

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## Results

We assessed the effectiveness of the administration of CEIP by reviewing applications as they progressed through the stages of CEIP: financial pre-qualification, execute CEI Agreements, and issue payout notices. We also reviewed the overall effectiveness of program management.

## Financial Pre- Qualification

We reviewed the process to assess eligibility and approve applicants for financing and determined the design and operation of the financial pre-qualification process was partially effective. Given the inherent risk associated with manual processes and data entry, enhancements are required to review processes and spreadsheet controls to prevent and detect errors and ensure only eligible applicants receive CEIP financing to mitigate the risk The City may be unable to recover CEIP financing and non-compliance with legislation.

Once AMSC has completed their legislated eligibility review, the CEIP Team pulls the Pre-Qualification Application Forms from AMSC (PDF output) to complete the financial pre-qualification review. An automatic process transfers relevant fields in the forms into the Pre-Qualification Submission Reviews Spreadsheet (Pre-Qualification Spreadsheet). The CEIP team confirms the information transferred and manually adds additional information to the Pre-Qualification Spreadsheet, such as the Ward number and the Property Tax Number. The Pre-Qualification Spreadsheet is used to record the financial evaluation and decision results.

As applications are ready, the CEIP Team notifies the Credit & Collections (C&C) Team who will complete an evaluation focused on eligibility requirements in the CEIP Bylaw, CEIP Terms and Conditions, and Process and Program Guidelines and make a recommendation to the CEIP Team whether to approve the applicant for financing. For example, under the Bylaw, the property must be a residential property, and the property owner cannot be in bankruptcy or receivership and must be in good standing on their property tax payments (e.g., property owner cannot be in tax arrears on the property currently or within the previous five years).

To complete their review, the C&C Team accesses systems, such as The City's PTWeb for property tax information (e.g., residential class, property tax standing, and annual property tax levy), and Equifax for reports on bankruptcy/receivership, and manually enters results in the Pre-Qualification Spreadsheet. The process is designed to stop once an eligibility criterion is not met. The C&C Team makes a recommendation of "Yes" or "No" based on their eligibility review. The CEIP Team then approves or declines the application.

We reviewed eligibility recommendations and approvals for CEIP financing for all 530 applications (received January 1, 2023-March 15, 2024) to verify applicants were not approved for financing if they did not meet eligibility requirements. We noted eight applicants that did not meet the eligibility requirements were approved for financing. Although process guidelines were established, the C&C and CEIP Teams did not follow all of the steps in the process to make recommendations and approve applicants. We recommended enhancing process design by implementing a C&C Team review of the eligibility criteria evaluation results prior to making a financing recommendation and sending to the CEIP Team (Recommendation #1). We also recommended enhancing operating effectiveness by ensuring established

Program Process Guidelines are updated (per Rec #1) and followed (i.e., staff are trained on the process, review instructions are clear) (Recommendation #2).

We tested a sample of 25 CEIP applications to verify all applications from AMSC were received and the application information was completely and accurately transferred to the Pre-Qualification Spreadsheet. We determined the process was effective since the transfer of information followed the established process and information on the Pre-Qualification Application Forms from AMSC reconciled to the Pre-Qualification Spreadsheet. There were two minor data entry errors (e.g., incorrect Ward).

To verify the accuracy of the C&C Team's eligibility data entries, we compared the data results in the Pre-Qualification Spreadsheet for the same sample of 25 applications to applicable supporting system information and noted three data entry errors. In addition, our review of eligibility decisions for all applications on the Pre-Qualification Spreadsheet identified another nine data entry errors. Although none of the data errors impacted the outcome for our sample of 25, errors could result in ineligible applicants being approved for financing. We recommended improving Pre-qualification Spreadsheet controls (e.g., access controls, locked fields, conditional formatting, drop down menus) to prevent and detect future errors. (Recommendation #3).

## **Final CEI Agreement**

Although the process to prepare final CEI Agreements was designed effectively, improvements are required to ensure controls are operating effectively and final CEI Agreements are complete and accurate to enable The City to recover financing.

The final CEI Agreement includes schedules to capture preliminary project costs and financing (Schedule A), project changes (Schedule B - Change Orders) and final project costs and financing (Schedule C - Final Project and Financing Summary). The CEIP Team enters information manually into the CEI Agreement based on information provided by AMSC and prepares supporting calculation spreadsheets containing key improvement information used by Local Improvements to prepare CEI payout notices. The process includes a review by the CEIP Team before issuing the agreement to AMSC for execution.

We tested 10 of the 58 completed final CEI Agreements and noted the CEIP Team completely and accurately included all project change orders. In addition, a delegated signing authority and all parties to the agreement executed the final CEI Agreement, and a record of the date and time for each was maintained as part of the agreement. We noted the financing recorded in calculation spreadsheets used to support the final CEI Agreement accurately tied to the information provided to Local Improvements to prepare CEI payout notices.

However, there were errors in five final CEI Agreements. To ensure errors are detected prior to execution, we recommended the CEIP Team review and clarify the established process for completing final CEI Agreements and ensure all final CEI Agreements and supporting documentation are reviewed prior to issuing for execution (Recommendation #4). We also recommended the CEIP Team review

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the 48 final CEI Agreements not included in our sample for accuracy and amend and re-issue agreements if errors are identified. In addition, to the extent there is an impact to payout notices, we recommended notifying Local Improvements (Recommendation #5).

### **Eligible Financing Limits**

We reviewed the process and controls to ensure CEIP financing was within CEIP allowable financing limits and determined they were designed and operating effectively.

Alberta Regulation 212/2018 states in Section 10(1), total financing must not exceed \$50,000 and annual repayment amounts excluding interest cannot exceed the most recent annual property tax levy for the year in which the pre-qualification form was submitted. The CEIP Team incorporated these limits in the Terms & Conditions and Program Processes and Guidelines. They utilized tracking spreadsheets to monitor compliance with applicant financing limits at preparation of the initial CEI Agreement, incorporation of project change orders, and preparation of the final CEI Agreement. We compared the financing approved for 315 applications (total population of applications where the CEIP Team received a Project Application Summary from AMCS in the audit period) to the maximum financing amounts permitted and noted limits were not exceeded.

### **CEI Payout Notices**

The process to prepare and issue CEI payout notices to CEIP participants was designed and operating effectively to ensure billing information and payout notices are accurate and complete.

The CEIP Team provides Local Improvements with CEIP improvement information, which Local Improvements adds to the associated property in their billing system. Information includes a list of improvements for each property, which are added as projects to enable separate tracking, principal payout amount, annual financing repayment, financing term and interest rate. Local Improvements generate payout notices to property owners in the year following the completion of each improvement. Property owners can choose to payout improvements as a lump sum or have the levy added to their property tax bill.

We tested payout notices for the same sample of ten used for Final CEI Agreement testing above. We noted established guidelines were followed and payout notices accurately and completely captured information for all 21 projects related to our sample.

### **Program Management**

Overall CEIP management was effective. However, there were opportunities to improve risk assessment and performance measurement processes to further support achieving program objectives. The results of our review of key CEIP management practices that support delivering the program's intended value are outlined below:

Risk Assessment: The CEIP Team identified risks and mitigating actions in March 2022 including risk level (High, Medium, Low) in a CEIP Program Design Study and updated risks in March 2023, after the first application intake as part of the CEIP Reopening Plan. We noted risk management can be enhanced by



implementing a structured risk assessment process to ensure the highest risks are effectively managed (Recommendation #4).

Funding and Costs: The process to track, monitor and address funding and cost issues was effective. We reviewed a spreadsheet used to track and monitor the program budget (funding available) and program costs and confirmed the CEIP Team estimated financing available to offer additional intakes based on pre-qualification estimates and the total committed financing. We noted the program budget is nearing full spend faster than initially anticipated and the CEIP Team is developing a plan to address this.

Resourcing: The process to monitor and manage resource capacity to meet program demand was effective. We reviewed email communications between the CEIP and C&C Teams supporting discussions on resourcing, training, program progress, workload expectations, turnaround timelines, and personnel changes. We noted that the C&C Team was unable to achieve the 10-day turnaround time required to review applications. Once the issue was identified, it was immediately addressed. The CEIP Team also communicated with supporting groups, such as Local Improvements, Communications and Law as required.

CEIP Status: The process to discuss, make decisions and report on program status was effective. We reviewed the agenda and minutes of meetings with AMSC and confirmed the CEIP Team met with them every three weeks to discuss the program. In addition, we confirmed the CEIP Team met formally bi-weekly and met with other City areas involved in the process to discuss program status. We noted key program decisions were effectively documented and retained. We reviewed documents that track major program issues and decisions, such as property tax billing approach and November in-take application issues, which outlined the issue, concerns and an action plan. Decisions on program-wide issues and exceptions to policies, procedures, CEIP Bylaw or regulations regarding CEIP projects were documented and retained.

We reviewed CEIP status reports, such as the CEIP Quarterly Reports, CEIP Update presentation, and the Monthly Programs Newsletter for the Climate Mitigation Manager and Climate & Environment Director. Status reporting was effective since the CEIP Team accurately reported program status quarterly and brought forward issues as required.

CEIP KPI: The establishment and monitoring of CEIP KPI was partially effective. The CEIP Team established eight KPI as indicators of the program's performance and tracked and reported on six of these in CEIP Quarterly Reports to Climate & Environment leadership (emissions reductions, energy savings, qualified contractors, renovations, investment, and participant satisfaction). Since Climate & Environment are currently developing a methodology to best collect and provide meaningful information on the remaining two KPI (number of jobs generated and cost effectiveness) and have not established KPI targets, we recommended monitoring all KPI and establishing and monitoring KPI targets (Recommendation #6).

Lessons Learned: The process to track and address lessons learned was effective. The CEIP Team identified and tracked Lessons learned each quarter in the CEIP Quarterly Reports to the Climate Mitigation Manager and Climate & Environment Director. Program issues encountered during the quarter were explained and the actions taken or planned to be taken were noted. These lessons learned helped to better define program processes, such as determining in-take amount and frequencies. We shared an opportunity to enhance the process by implementing a formal Lessons Learned tracking mechanism that consolidates lessons learned, completed and outstanding actions with expected timelines to ensure process improvements are implemented.

**Observations & Recommendations**

#1: Ineligible Applicants Approved for CEIP Financing	
<b>OBSERVATION</b>	<b>RECOMMENDATION</b>
<p>Bylaw 53M2021, a Bylaw to establish CEIP (paragraphs 8-9), states the CEIP eligibility requirements for property owners. The City’s CEIP Terms and Conditions include additional conditions to be considered. There should be established processes and controls to ensure only eligible applicants receive CEIP financing and incentives to mitigate the risk The City may be unable to recover costs from program participants and non-compliance with legislation, the AMSC Master Agreement and CEIP Terms and Conditions.</p> <p>We tested The City’s eligibility review and decision processes for the entire population of 530 applications (received January 1, 2023-March 15, 2024) to verify applicants were not approved for financing if they did not meet eligibility requirements.</p> <p>Based on a review of the Pre-Qualification Spreadsheet, the C&amp;C Team recommended pre-qualification approval for thirteen applications that did not meet eligibility requirements outlined in the Bylaw or the Terms and Conditions. Of those, five applications were cancelled by the applicant. The CEIP Team approved financing for the remaining eight totaling \$271,926 (financing plus incentives). We noted the following:</p> <ul style="list-style-type: none"> <li>• One applicant was not in historical good standing, which is a requirement under the Bylaw (i.e., was in tax arrears on the property in the previous five years). However, the C&amp;C Team’s recommendation was “Approved”. The C&amp;C Team advised the recommendation was based on the applicant’s overall good standing.</li> <li>• Seven applicants did not have an assessed property value greater than the total property tied debt. Although this is not a requirement under the Bylaw, the CEIP Terms and Conditions (Section 3.2g) indicate if there is property-secured debt registered on the title to the property and that amount is equal to or greater than the most recent assessed value of the property, the Municipality reserves the right to reject the application. The Program Process Guidelines indicate the C&amp;C Team stop the review and the recommendation for financing should be “No” if the property-tied debt is equal to or more than the assessed value.</li> </ul> <p>The C&amp;C Team did not follow Program Process Guidelines when reviewing eligibility criteria and making recommendations for these applications. In addition, the process was designed to stop the review once an eligibility criterion was not met. However, the C&amp;C Team continued to complete all steps in the process, which took additional time and impacted their ability to meet review timelines of 10 days.</p>	<p>1. The Finance Leader, Credit &amp; Collections, implement a process to review eligibility criteria evaluation results prior to making a financing recommendation and sending to the CEIP Team.</p> <p><b>MANAGEMENT RESPONSE</b>        Agreed.</p> <p><b>ACTION PLAN</b>        Process guidelines will be reviewed and updated and enhanced controls will be implemented.</p> <ul style="list-style-type: none"> <li>• Credit &amp; Collections will review and update the process to review eligibility criteria evaluation results to ensure recommendation for financing is within program guidelines before sending to CEIP Team.</li> <li>• Evaluate options for enhanced control processes in the spreadsheet as part of the Credit &amp; Collections review process, such as adding a visual indicator of color in the spreadsheet to highlight positive or negative responses in evaluation and recommendation.</li> </ul> <p><b>LEAD</b>        Finance Leader, Credit &amp; Collections, Finance</p> <p><b>COMMITMENT DATE</b>        September 30, 2024</p> <p>2. The Leader, Community Energy Program, ensure established Program Process Guidelines are updated (per Rec #1) and followed, i.e., staff are trained on the process, review instructions are clear, a CEIP Team final review is conducted prior</p>

<p>The C&amp;C Team advised processes were not followed due to evaluator misunderstanding of the process.</p> <p>We noted the C&amp;C Team’s process did not include a final quality review of the eligibility criteria and recommendation to ensure alignment before sending the Pre-Qualification Spreadsheet to the CEIP Team.</p> <p>In addition, the CEIP Team did not review the C&amp;C Team’s results prior to making approval decisions, which is part of the established process. A review would have identified the instances noted above where the recommendation for financing was “Yes” even though eligibility criteria were not met.</p>	<p>to approving financing and evidence of review is maintained.</p> <p><b>MANAGEMENT RESPONSE</b>  Agreed.</p> <p><b>ACTION PLAN</b>  Additional controls will be implemented on the Pre-Qualification Spreadsheet as well as additional steps included in the Program Process Guidelines to reduce application errors.</p> <ul style="list-style-type: none"> <li>• Program Process Guidelines will be reviewed and updated to address any current shortcomings related to pre-qualification reviews and staff will be trained on the guidelines. Specifically, a step will be integrated into the Program Process Guidelines requiring a CEIP team member review all responses from Credit &amp; Collections to confirm the approval/denial is accurate prior to submitting the review response to Alberta Municipalities, and a step for the CEIP team reviewer to record completion of their review.</li> <li>• Automated functions will be added to the Pre-Qualification Spreadsheet to lock cells when Credit &amp; Collections records data disqualifying an application.</li> </ul> <p><b>LEAD</b>  Corporate Environmental Specialist – Climate Financing, Climate &amp; Environment</p> <p><b>COMMITMENT DATE</b>  September 30, 2024</p>
<p><b>#2 Spreadsheet Controls</b></p>	
<p><b>OBSERVATION</b></p> <p>The CEIP Team needs to improve Pre-Qualification Spreadsheet controls to support decisions and prevent and detect data entry and formula errors. Since manual processes are prone to error, implementing additional controls will help mitigate the risk ineligible applicants are approved or eligible applicants are declined.</p>	<p><b>RECOMMENDATION</b></p> <p>3. The Leader, Community Energy Program, improve Pre-Qualification Spreadsheet controls (e.g., access controls, locked fields, conditional formatting, drop down menus).</p>

<p>During testing outlined under Observation #1, we noted nine data entry errors that indicated the applicants were ineligible in error:</p> <ul style="list-style-type: none"> <li>• The CEIP Team entered the Total Property-tied Debt Reported in the incorrect format, which resulted in an error to a calculated cell.</li> <li>• The C&amp;C Team made data entry errors in the Pre-Qualification Spreadsheet during their eligibility review for eight applicants:       <ul style="list-style-type: none"> <li>• One applicant’s property was not listed as residential (i.e., No entry under “Is the property’s assessment class residential?”); and</li> <li>• Seven applicants identified as not in good financial standing (i.e., three bankrupt and four in tax arrears).</li> </ul> </li> </ul> <p>There was no impact to the outcome since the applicants did meet eligibility criteria and were approved for financing. As noted above under Observation #1, a review by the C&amp;C Team and the CEIP team would identify some of the data entry errors.</p> <p>In addition, we tested a sample of 25 applications to verify information entered in the Pre-Qualification Spreadsheet was accurate and identified additional data entry and decision errors that had limited to no impact on the outcome of these applications (i.e., cancelled applications). We also noted there was an error to conditional formatting in the spreadsheet designed to identify duplicate entries.</p> <p>The Pre-Qualification Spreadsheet did not contain access controls to prevent changes to specific cells (e.g., formulas), or controls to prevent data entry errors, such as using drop-down menus to ensure fields are completed. The spreadsheet could also be improved by including a formula in the C&amp;C Team’s recommendation cell to be an automatic “No” where any eligibility criteria are not met.</p>	<p><b>MANAGEMENT RESPONSE</b>        Agreed.</p> <p><b>ACTION PLAN</b>        Additional automated controls will be added to the Pre-Qualification Spreadsheet to reduce the occurrence of data entry errors.</p> <p>In addition to the response to Recommendation #2, other spreadsheet controls will be implemented to reduce the risk of errors. Pending technical feasibility within Excel, these may include:</p> <ul style="list-style-type: none"> <li>• Drop-down selections for cells that have a limited number of responses (e.g., Yes, No, N/A).</li> <li>• Conditional formatting to highlight responses indicating an applicant is ineligible (e.g., cell is highlighted "red").</li> <li>• Lock formatting of cells to ensure drop-down and conditional formatting cannot be over-ridden.</li> </ul> <p><b>LEAD</b>        Corporate Environmental Specialist – Climate Financing, Climate &amp; Environment</p> <p><b>COMMITMENT DATE</b>        September 30, 2024</p>
<p><b>#3: Inaccurate CEI Agreements</b></p>	
<p><b>OBSERVATION</b></p> <p>CEI Agreements highlight the obligations and expectations of each party, including details of financing and repayment, and are legally binding. Agreements and associated Schedules should be accurate to ensure The City is able to recover the financing provided to mitigate financial risk. In addition, payout notices should be accurate to mitigate reputational risk and loss of confidence in City programs.</p> <p>When CEIP property improvements are completed, AMCS provides a Project Completion Summary to the CEIP Team, which is utilized to populate a calculation spreadsheet and finally Schedule C (Final Project and Financing Summary) of the CEI Agreement. Schedule C confirms the project details and CEIP financing at the completion of all upgrades and is used to finalize the CEI tax to be levied on the property’s tax roll.</p>	<p><b>RECOMMENDATION</b></p> <p>4. The Leader, Community Energy Program, review and clarify the established process for completing final CEI Agreements and ensure all final CEI Agreements and supporting documentation are reviewed prior to issuing for execution and executed CEI Agreements are retained.</p> <p><b>MANAGEMENT RESPONSE</b>        Agreed.</p>

We tested a sample of ten final CEI Agreements (Schedule C) from a total of 58 and noted five errors:

- Total tax amount was recorded as \$129.63 rather than \$2,592.61 and the annual tax amount was recorded as \$1,937.52 rather than \$129.63;
- Payment start date was noted as June 30, 2023, instead of June 30, 2024;
- Recorded financing amount was \$1,562.54 instead of \$1,564.03;
- Total financing cost was recorded as \$12,253.63 instead of \$12,235.63; and
- Approved financing of \$23,904.37 in CEI Agreement and calculation spreadsheet should match the AMSC Project Completion Summary of \$23,419.27.

Four of these errors had no impact on the 2024 payout notices sent to property owners since the supporting calculation spreadsheet was accurately completed and provided to Local Improvements for preparation of the payout notices.

One CEI Agreement and its supporting calculation spreadsheet that had incorrect financing and repayment amounts would have impacted the 2025 payout notice since information from the AMCS Project Completion Summary was inaccurately recorded in the calculation spreadsheet. The CEIP Team indicated they will update the financing and repayment amounts in the CEI Agreement and supporting calculation spreadsheets and inform Local Improvements.

Preparing the final CEI Agreement is a manual process of entering data into a calculation spreadsheet and transferring the information to Schedule C of the CEI Agreement. The final CEI Agreements, Schedule C were 'Approved as to content' and signed by a CEIP Team member prior to execution. However, the Schedule C content and supporting documentation (CEI Agreement Schedule Calculation spreadsheets, LI Financing & Amortization Calculation Check spreadsheet, and AMSC Project Completion Summary) were not reviewed for accuracy prior to execution. There was also one signed final CEI Agreement missing from the agreement folder. Since errors were noted for testing on a sample basis, we expect errors in the other 48 final CEI Agreements, some of which could impact payout notices.

In addition, the established Program Process Guidelines for preparing the final CEI Agreement were unclear and contradicted other instructions in places. The established process guidelines did not correspond with the Instructions tab in the templates, did not have the revised name of the templates (e.g., Updated CEI Agreement Schedules and CEI Agreement Schedule C) and lacked clarity in some steps (#4 – unclear on proper tab, #5 – no detail on where to

#### **ACTION PLAN**

The addition of a second Community Energy Program Assistant will increase the capacity for the team to implement additional quality control checks into the Program Process Guidelines.

The Program Process Guideline will be reviewed and updated to include clear roles and responsibilities, including implementing additional steps to ensure CEI Agreements go through a secondary review process prior to circulation for signatures and to ensure executed CEI Agreements are retained.

#### **LEAD**

Corporate Environmental Specialist – Climate Financing, Climate & Environment

#### **COMMITMENT DATE**

September 30, 2024

5. The Leader, Community Energy Program:
  - a) Review all issued final CEI Agreements and supporting documentation for accuracy and amend and re-issue the CEI Agreement if errors are identified; and
  - b) Notify Local Improvements to the extent there is an impact to payout notices.

#### **MANAGEMENT RESPONSE**

Agreed.

#### **ACTION PLAN**

An internal review of CEI Agreements was completed by CEIP team members identifying all completed CEI Agreements with errors that need to be investigated further or require further attention/ action.

The results of the internal review will be assessed and criteria will be created to

<p>complete or what document/ location to get information, #9 – unclear rationale provided for second bullet instruction).</p>	<p>determine if CEI Agreements need to be amended and re-issued or notification to the participant is sufficient based on the error identified.</p> <p>Local Improvements will be engaged if there are any impacts to payout notices and adjustments will be made where required.</p> <p><b>LEAD</b>          Corporate Environmental Specialist – Climate Financing, Climate &amp; Environment</p> <p><b>COMMITMENT DATE</b>          September 30, 2024</p>
<p><b>#4: Program Management Enhancements</b></p>	
<p><b>OBSERVATION</b></p>	<p><b>RECOMMENDATION</b></p>
<p>One of CEIP’s objectives is to offer an innovative financing mechanism to property owners to support GHG reductions and generate energy cost savings. Effective program management practices support delivering CEIP’s intended value by optimizing resource utilization, monitoring available funding, proactively managing risks, and monitoring and reporting on performance.</p> <p>Although CEIP management practices were generally effective, we noted enhancements to risk management, and performance measurement to further support the achievement of program objectives.</p> <p>Climate &amp; Environment identified risks and mitigation actions in March 2022, including risk level (High, Medium, Low) in a Program Design Study. They updated risks in March 2023, after the first application intake as part of planning to re-open application intake. We noted the risks were not ranked considering impact and probability, there was no risk owner or review dates, and risks did not always have mitigation actions. Risk management can be enhanced by conducting a structured risk assessment to ensure resources can be prioritized to address the highest risks.</p> <p>Although Climate &amp; Environment has established CEIP KPI, which were tracked and reported in quarterly reports to Climate &amp; Environment leadership, there were two established KPIs that were not tracked:</p> <ul style="list-style-type: none"> <li>• Jobs- # of jobs generated through total investment: and</li> <li>• Cost effectiveness- Dollars spent to achieve emission reductions and energy savings.</li> </ul>	<p>6. The Leader, Community Energy Program, enhance CEIP management by:</p> <ol style="list-style-type: none"> <li>a) Implementing a structured risk assessment process; and</li> <li>b) Monitoring all KPI and establishing and monitoring KPI targets.</li> </ol> <p><b>MANAGEMENT RESPONSE</b>          Agreed.</p> <p><b>ACTION PLAN</b>          Updated risk management practices will be implemented. KPI monitoring and reporting is currently being reviewed and will be addressed.</p> <p>The risks identified in the Program Design Study will be re-examined and actioned accordingly relating to impact/probability, owner and review dates, and mitigating actions. A structured risk assessment will be conducted and scheduled on an annual basis.</p> <p>KPI targets will be established for the KPI with a methodology and available data. On-going monitoring and reporting to these targets will be established.</p>

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<p>Climate &amp; Environment advised they needed to develop a methodology to track jobs, and cost effectiveness would be reported once more improvements were completed to provide meaningful results. In addition, there are no KPI targets. Since this was a new program, Climate &amp; Environment did not know what to expect and had not set targets at this stage. Setting KPI targets would assist in measuring if the CEIP is delivering the expected level of success for the financing and incentives provided.</p>	<p>Once a methodology and data are available for the Jobs and Cost Effectiveness KPI, they will be included in the KPI monitoring and reporting process.</p> <p><b>LEAD</b> Corporate Environmental Specialist – Climate Financing, Climate &amp; Environment</p> <p><b>COMMITMENT DATE</b> September 30, 2024</p>
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**Acknowledgements**

The City Auditor’s Office conducts projects, including this audit, in conformance with the International Standards for the Professional Practice of Internal Auditing.

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