

**Community Services Report to
Audit Committee
2019 April 23**

**ISC: UNRESTRICTED
AC2019-0472**

Civic Partner Audit Report

EXECUTIVE SUMMARY

Significant resources are invested in and managed by The City's Civic Partners, including operating and capital funding, land, buildings, and artifacts. The City's relationships with these partners are structured to steward public investment appropriately by balancing interdependence, mutual accountability, and autonomy; and by encouraging best practices for risk management and governance.

The Civic Partner Audit Report is one aspect of a broader accountability framework. The annual financial review of Civic Partners evaluates The City's exposure to risk related to Civic Partners and rates these organizations as low risk, elevated risk, or high risk; assesses the overall financial health of Civic Partner organizations; and provides an opportunity to work with partners as needed to improve their financial health.

Based on 2018 audited financials, the majority of Civic Partners were rated as low risk. Administration is working with the remaining partners that were rated as elevated risk to develop and implement tailored mitigation strategies. No Civic Partners were rated as high risk.

To provide a full snapshot of Civic Partners' organizational health, highlights of partners' governance and risk management practices are also included in the report, and detailed self-reported information from partners is included as an attachment.

ADMINISTRATION RECOMMENDATION:

That Audit Committee recommends that Council:

1. Receive this report for information; and
2. Direct that Attachments 2, 4 and 5 remain confidential pursuant to Sections 16 (disclosure harmful to business interests of a third party), 23 (local public body confidences), and 24 (advice from officials) of the *Freedom of Information and Protection of Privacy Act*, until such time as six years from this date.

RECOMMENDATION OF THE AUDIT COMMITTEE, 2019 APRIL 23:

That the Administration Recommendations contained in Report AC2019-0472 be adopted.

PREVIOUS COUNCIL DIRECTION / POLICY

2018 May 28 Council adopted Audit Committee Recommendations contained in AC2018-0409 as follows 1.Receive this report for information; and 2.Direct that this report and Attachments 2, 4 and 5 remain confidential under Sections 23(1) (b), 24(1)(b), and 16(1) of the Freedom of Information and Protection of Privacy Act (Alberta) until such time as six years from this date.

2017 January 29 Council adopted Audit Committee Recommendations contained in AC2017-1149. Attachment 6 of the report informed Council that five organizations would be moving to the Civic Partner Audit report starting with the 2017 financial year: The Calgary Young Men's Christian Association, North East Centre of Community Society (Genesis Centre), Nose Creek Sports and

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Recreation Association (Vivo), South Fish Creek Recreation Association (Cardel South), and Westside Regional Recreation Centre.

2017 May 8 Council adopted Audit Committee Recommendations contained in AC2017-0367, receiving the report for information; and directing that the report and all attachments remain confidential pursuant to Sections 23(1)(b), 24(1)(b), and 16(1) of the *Freedom of Information and Protection of Privacy Act* (Alberta) until such time as six years from this date.

Civic Partner Audit Reports were also adopted in 2016 (AC2016-0527), 2015 (AC2015-0572), 2014 (AC2014-0503), and 2013 (AC2013-0524).

2012 July 19, Audit Committee approved that recommendations contained in AC2012-0493 Status of Third Party Organizations Operating Not-for-Profit Facilities on Land Owned by The City of Calgary be approved after amendment, as follows: Receive the report for information; Direct that Attachments 2 and 3 remain confidential under Sections 23(1)(b), 24(1)(a), 24 (1)(g) and 25 (b)(c)(ii) of the *Freedom of Information and Protection of Privacy Act* (Alberta) until such time as six years from this date; and direct Administration to continue to report to the Audit Committee on the status of community associations and social-recreation organizations, while preparing a separate annual report to the Audit Committee on all Civic Partners (including those on City-owned land and otherwise), commencing in the third quarter of 2013 annually.

2006 January 19, Audit Committee approved that recommendations in AC2006-02 Status of Community Associations and Social-Recreation Organizations on City of Calgary-Owned Land, be approved as follows: Direct Administration to expand the report to include all third party organizations with facilities on City-Owned land that Community Services & Protective Services liaises with, and include financial exposure as it relates to an evaluation of liabilities exceeding assets available to satisfy these liabilities.

BACKGROUND

For over 20 years, Administration has conducted annual financial reviews of community associations and social recreation organizations on City-owned land. In 2006, Civic Partners that operated on City-owned land were included in the review. In 2012, Council directed Administration to create a separate audit report for Civic Partners. The first Civic Partner Audit Report was presented to Audit Committee in 2013.

The annual financial review of Civic Partners serves a number of purposes:

- evaluates The City's exposure to risk related to Civic Partners;
- assesses the overall financial health of Civic Partner organizations; and
- provides an opportunity to work with partners as needed to improve their financial health.

Financial review process

The financial review process follows established criteria and ratios that look at operating cash on hand, working capital/cash expenses, deficit level, and reserves, among other items. The same financial review tool is also used to review Community Associations and Social Recreation Groups with a Lease or License of Occupation.

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Based on the criteria, organizations are assigned a rating of low risk, elevated risk, or high risk (definitions are included in Attachment 1). Administration works with partners that receive an elevated risk or high risk rating to develop and implement mitigation strategies to improve their financial health and reduce The City's exposure to risk.

Due to the timing of the Civic Partner Audit Report, Administration has accepted draft audited financials for the review process. When available, approved audited financial statements will be provided by partners and any changes to risk ratings will be identified, and mitigation discussed if needed. Any significant changes that affect ratings will be reported to Council.

Administration also reviews financial statements for subsidiaries of related entities as Public Sector Accounting Standards require that their financial results are consolidated into The City's financial statements. cSPACE Projects, a subsidiary of Calgary Arts Development Authority, is included in this report. With the transfer of the Calgary Film Centre Ltd. (CFCL) asset to The City on 25 June 2018 (UCS2018-0791), CFCL, while being a subsidiary of Calgary Economic Development Ltd. is reported separately this year and has self-reported on their governance and risk management practices.

Attachment 3 identifies The City's investment of operating and capital funding from 2016 to 2018 and budgeted funding for 2019, including the percentage of total revenues represented by The City's operating funding.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

In 2018, non-profit organizations across Alberta, including The City's Civic Partners, continued to adjust to the challenging economic conditions that have become the new operating environment. Civic Partners continued to adjust their operations to remain sustainable, for example seeking efficiencies and managing costs.

Based on 2018 audited financials, the majority of Civic Partners are financially stable with nineteen rated as low risk and eight rated as elevated risk. Ratings for all organizations reviewed are included in Attachment 2 (confidential).

Mitigating risk

Civic Partner organizations are arms-length and separate entities from The City. In addition to their accountability to The City, they are accountable to their boards of directors, patrons and customers, partners, members, and funders. When a Civic Partner is rated as elevated or high risk during the financial review process, Administration works with them to identify mitigation strategies that can be implemented to improve the organization's financial health and reduce The City's exposure to risk. Attachment 4 provides a summary of risk mitigation strategies for the organizations rated as elevated risk in this report.

Overall organizational health

It is the responsibility of each Civic Partner organization's board of directors to oversee and strategically guide operations. Strong governance practices can help ensure an organization is sustainable and manages risk appropriately. For this reason, Administration requests Civic

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Partners to share information about governance and risk management practices as part of the audit process.

Detailed self-reported information about risk management, governance structure, strategic planning, board evaluation and education, nominations processes, succession planning, term limits, board diversity practices, and member or shareholder engagement is included in Attachment 5 (confidential).

Risk management

Civic Partner organizations have a range of risk management practices in place to effectively manage their unique operating and strategic risks. Each organization engages their board in this work, and is working to create a culture of risk management.

Top risks

While top strategic risks vary depending on the nature of partner operations, the most common reported for 2018 included:

- Financial risks including challenges securing diverse funding sources in the current economic environment, the impact of the economic conditions on earned revenues, and increased competition;
- Infrastructure Management risks related to maintaining aging City-owned infrastructure;
- Reputation risks including staying relevant to key audiences, customers, and clients in a rapidly changing and competitive environment; and dissemination of inaccurate information about operations or role;
- Operating and Process risk including disruptions, identification of major projects, and protection of clients; and
- Talent Management including recruitment and retention of skilled employees, and impact of loss of senior management.

Governance practices

Detailed, self-reported information about governance practices provided by Civic Partners is included in Attachment 5 (confidential). The following are highlights of Civic Partner governance practices:

- All boards carry out an board evaluations annually or every two years;
- Boards engage in strategic planning and ongoing education activities to stay informed about operations and trends;
- Almost all boards have code of conduct, whistleblower, and conflict of interest policies in place;
- Almost all boards have term limits of six to nine years;
- By the end of 2019, all Civic Partners will have a board nominations processes guided by a skills and experience matrix to identify gaps; and
- Organizational compensation strategies are managed through annual reviews and benchmarking against non-profit and sector specific compensation survey data.

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Across the non-profit sector, there is evolving understanding and changing practices to recognize and integrate diversity into governance structures. All Civic Partners report examples of how they are integrating diversity practices into their governance, operations and core values, but only a few have a formal policy in place. Diversity includes both identity diversity (i.e. gender, race, ethnicity, age, sexual orientation) and cognitive diversity (i.e. skills, perspectives, thoughts, worldview). Practices in the broader non-profit sector continue to evolve and Administration will continue to encourage Civic Partners to identify how they can refine their approaches to diversity.

Stakeholder Engagement, Research and Communication

Administration worked collaboratively with Civic Partners on this report and partners self-reported their governance and risk management practices (Attachment 5). As part of the review process, Administration communicates with each organization to inform them of their organization's rating, and discuss issues and potential mitigation as required.

Strategic Alignment

The recommendations in this report align with the 2019-2022 One Calgary Citizen Priorities and The City's Integrated Risk Management Framework. Civic Partners align and extend a number of key City of Calgary and Council approved strategies including *Calgary in the New Economy*: An economic strategy for Calgary; a *Cultural Plan for Calgary*, *Centre City Plan*, *Sport for Life Policy*, *Social Wellbeing Policy*, *Enough for All* poverty reduction strategy, *Living a Creative Life*, *Calgary Heritage Strategy*, *Corporate Affordable Housing Strategy*, among others.

Social, Environmental, Economic (External)

Social

Civic Partners lead and support implementation of Calgary's economic strategy, *Calgary in the New Economy*, *Enough for All 2.0* poverty reduction strategy, and provide valuable recreation, sport and cultural opportunities for Calgarians in alignment with The City's *Sport for Life Policy*, and a *Cultural Plan for Calgary*. They foster healthy physical and social environments and enrich the social fabric of Calgary.

Environmental

Through the Civic Partner Asset Management Program and organizational programs, Civic Partners continue to review and adjust their operational practices to reduce consumption of resources and their ecological footprint. They promote environmental stewardship and community sustainability strategies including public education and awareness related to public spaces and natural resources.

Economic

Guided by *Calgary in the New Economy*, the Council-approved economic strategy that is stewarded by Calgary Economic Development, a number of Civic Partners contribute to economic development in Calgary through related strategies and activities including the *Enough for All* poverty reduction strategy, *Destination Strategy*, *Living a Creative Life*, and convention centre services. The City's allocation of operating and capital funding to Civic Partner operations are strategic investments that create a diverse range of facilities and programs for Calgarians and

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visitors to enjoy. The City's investment in Civic Partner operations are multiplied and leveraged by Civic Partners through resources and funding.

Financial Capacity

Current and Future Operating Budget:

There are no implications at this time as a result of this report.

Current and Future Capital Budget:

There are no implications at this time as a result of this report.

Risk Assessment

Risks are associated with any circumstance in which a third party organization operating a City-owned facility defaults or ceases operations. In these cases, responsibility for the building's capital costs to ensure building safety for a new tenant or the public may fall on The City. Dependant on the circumstances, the operating costs of the facility may also be The City's responsibility. In addition, Calgarians would be negatively impacted through a loss or decrease in programs and/or services. Administration works closely with its Civic Partners to develop and implement strategies to mitigate these risks.

REASON(S) FOR RECOMMENDATION(S):

The City invests significant operating and capital funding in Civic Partners, and they manage and operate valuable City-owned community assets. The review of audited financial statements helps identify The City's potential financial exposure and risks, enhances accountability, and provides an opportunity to understand the current state of Civic Partners operations. Information about organizations' governance and risk management practices helps identify if they have the necessary structures and processes in place to be sustainable and effective.

ATTACHMENT(S)

1. Attachment 1 – Definition of Rating Terms
2. Attachment 2 – Civic Partner 2017 Audit Ratings (Confidential)
3. Attachment 3 – Civic Partner Grant Funding 2015-2018
4. Attachment 4 – Civic Partner Risk Mitigation Strategies (Confidential)
5. Attachment 5 – Civic Partner Governance and Risk Management Practices (Confidential)