The Calgary Public Library Board
Annual Report, Governance and Risk Management Processes
27 June 2019

We are pleased to present the annual Audit Governance Status report from the Calgary Public Library Board highlighting the Library's 2018 Annual Report, risk management processes and the Audit and Finance Committee terms of reference.

The Library's responses to the six items that are to be included in the annual report, and responses to the additional questions posed in the letter from the Chair of the Audit Committee are addressed in this document.

1. A brief summary on governance structure, succession planning and recruitment process, recent financial highlights and key 2019 initiatives/strategy

1.1. Governance Structure

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 Calgary.

The current bylaw, 38M2006, continues the Calgary Public Library Board as the municipal library board for the City of Calgary, pursuant to Section 3 of the *Libraries Act* (Alberta), Revised Statutes of Alberta 2000, chapter L-11. The duties, structure, procedures, budget, and independent audit requirements for an annual review of financial accounts and processes are clearly specified in the Bylaw. Additional guidelines are contained in the *Libraries Act* (Alberta) and the Libraries Regulation, Alta Reg. 141/1998.

The Library Act places the authority for full management and control of the Calgary Public Library with the Library Board. The Board assumes with that authority the duty to develop policies related to the framework, governance, and operation of the Library. Pursuant to the Act and the City Bylaw, Board members are appointed by City Council.

The Board governs itself using the Calgary Public Library Board Governance Bylaw and the Calgary Public Library Board Policies. The Library's Policies are used to provide effective parameters and direction for decisions and actions undertaken by the Board, management and staff. Policies currently exist for Board conduct, donations and naming, finance, human resources, library materials, and library premises use and safety.

The last formal review of the Governance Bylaw and Board Policies occurred in 2015, but updates are approved by the Board as needed.

Board Policies are available on the Library web site.

The following people currently sit on the Calgary Public Library Board:

Board Chair: Avnish Mehta
Board Vice-Chair: Shereen Samuels
Board Members:
- Isaac Elias
- Debra Giles
- Janet Hutchinson

- Robert Macaulay
- Jocelyn Phu
- Andrew Rodych
- Councillor Druh Farrell
- Councillor Evan Woolley

The Board elects a Chair annually.

Members of the Board sit on up to three Standing Committees based on their experience and knowledge. These committees currently are:

- Audit and Finance
- Governance
- Strategy and Community

Other ad-hoc committees may be formed on an as-needed basis. The Board elects two members to sit on the Calgary Public Library Foundation Board.

The Board employs the Chief Executive Officer who in turn implements the policies and manages the daily operations of the Calgary Public Library. The Chief Executive Officer is accountable to the Board. All other staff are accountable to the Chief Executive Officer.

1.2. Succession Planning and Recruitment Process

The Library Board enhanced its process for the recruitment of qualified Board members at the request of City Council in 2012. Our recruitment process is designed to match candidates to the Library Board's needs and provide Council with a list of qualified appointees. Attachment 2 describes the process currently in use.

The Board's Governance Committee has developed criteria, including a skills matrix, for future Board candidates to ensure that we attract qualified and committed Calgarians. This recruitment process has produced a high-functioning Board, which is diverse and open to a wide variety of perspectives. Interest in serving on the Library Board continues to be very strong.

Staggered terms of appointment ensure an appropriate balance of experience and fresh eyes. There two Board members whose terms expire in 2019.

The Governance Committee reviews and evaluates the CEO's position. The succession plan for this position is: If the position becomes vacant, the Board Chair will appoint an interim CEO and will strike a CEO Search Committee to begin the process of an Executive Search. An Emergency Succession Plan for the CEO, based on a Crisis Protocol Plan, has also been developed and provides an overview of actions to be taken if the CEO is suddenly unable to perform their duties through either temporary interruption, or an interim need for leadership transition.

The Library has positioned itself to meet other staffing requirements and transitions. We continue to predict a competitive work environment where recruiting staff with the necessary expertise to capably handle both traditional Library services and the additional services in the community will be challenging. As a result, we are investing in the training, coaching and mentoring of current staff to ensure that they are equipped to take on leadership and management roles in the future.

1.3. Recent Financial Highlights

The Library's 2018 audit was recently completed. The auditor's year end communications (Attachment 3) and full financial statements (Attachment 4) are attached to this report.

Deloitte was again able to provide an audit opinion that the financial statements present fairly, in all material respects, the financial position of the Library as at December 31, 2018, and the results of its operations, its cash flows and change in its net financial liabilities for the year then ended in accordance with Canadian Public Sector Accounting Standards.

Please reference the notes that accompany the financial statements for additional details supporting the statements and schedules.

Assets and liabilities in the Statement of Financial Position remained relatively stable; however, the accumulated surplus decreased by $2.0 million. Note 8, on page 19, contains an analysis of the reasons behind this change. The unrestricted surplus grew by $0.421 million while the restricted surplus shrank by $1.2 million. The restricted surplus was used to fund tangible capital asset purchases above the Transfer for Capital funding amount in Schedule 2. In spite of these additions to tangible capital assets, the transfer back to the City of the Old Central Library resulted in a net write down of our equity in tangible capital asset value for 2018. The asset value for the New Central Library is carried by the City and not recognized in the Library's statements.

Our revenues were $1.5 million higher than budget, due to additional funding from the City of Calgary and from additional donations made through the Calgary Public Library Foundation. Our expenses were $0.828 million less than budget. Amortization, a non cash expense, is funded from the tangible capital asset portion of accumulated surplus and not from current year revenues.

During 2018 the Library used the resources entrusted to it to continue meeting the goals of our 2015 -2018 Strategic Plan. The following increases in service to Calgarians occurred:

- the Library gained 59,249 new members, to a total of 687,485
- in person visits increased by 54,192 to 6,866,240, and
- room bookings more than doubled.

To meet our strategic goal of positioning every library in the Calgary Public Library system to be of the same caliber as the new Central Library, 2018 capital funding was directed to major life cycle work and building improvements at the Nose Hill and Crowfoot Libraries. Additional capital funds were directed to vehicle, shelving, furniture and Information and technology replacements/enhancements. In total $5.71 million was spent on life cycle needs.

1.4. Key 2019 Initiatives/Strategy

2019 is the first year of the 2019-2022 Strategic Plan, entitled Potentials Realized. Attachment 5 contains the full text of the Library's current strategic plan. In this plan the Library is seeking to use its services and programs to:

- Build inclusive and cohesive communities, by focusing on
  - Inclusion
  - Reconciliation, and
  - Connection

- Build resilient, purposeful, and inspired lives, by focusing on
  - o Early Literacy
  - o Life-long learning, and
  - o Empowerment

Key initiatives in 2019 include:

- Further reduce policy and technology barriers to access
- Increase Indigenous placemaking and resources
- Activate community hub strategies in key locations
- Increase accessibility and capacity in core programs
- Improve linkages with local technology and innovation initiatives
- Extend supports for school-aged children

These efforts are supported by a robust scorecard that is reviewed quarterly by the Board.

2. **Report on your organizations key operating and strategic risks including trends and risk management plans and processes**

In 2014 the Board supported a focused risk review led by KPMG that resulted in the Library identifying the major risks that could prevent the accomplishment of the Library's strategic plan. Risks are reviewed annually by the Audit and Finance Committee to ensure that risk factors are still relevant and that emerging risks are recognized. A quarterly review examines the most recent data available for these factors. Both the annual risk report and the most recent quarterly report are included in Attachment 6.

The Library's risk register was revised in early 2019 to ensure alignment with the new strategic plan. It now identifies 4 areas of strategic risk, each assessed by several operationally oriented measurables:

Relevance – is the risk that community indifference negatively impacts ability to improve the quality of life in Calgary through Library services and programs. Operational measures include:
- Memberships
- Customer Satisfaction
- Pace of Innovation, and
- Volunteer Support

Finance – is the risk that available funding is insufficient to address community needs or to allow the Library to adapt or grow as demand dictates. Operational measures include:
- Fraud
- Operating Fund Forecast
- Operating Cost per Use
- Municipal Grant per Capita, and
- Change in Tangible Capital Assets

Operations – is the risk that ineffective processes negatively impact the ability to successfully manage complexity and change. Operational measures include:
- Building Visits
- Digital Visits
- Circulation, and
- Staff Engagement

Security – is the risk that real or perceived safety and security concerns negatively impact organizational capacity, reputation and community support. Operational measures include:

- Security Incidents at Community Libraries, and
- Security Incidents at Central Library

The likelihood and impact of each of these measures affecting Library success is assessed on a pre-mitigation basis and on a post-mitigation basis. The most recently recorded data is assessed against the post-mitigation risk profile and reported to the Library's Audit and Finance Committee regularly. When reported data is less favourable than the post-mitigation profile, the Leadership team reviews mitigation strategies and options and increases monitoring of factors affecting that measure.

Most measures have been consistently in the low concern range over the last several years. The single exception is the **Security** risk category, where aberrant behavior, mostly affecting downtown and LRT-oriented libraries, continues to be higher than Administration would like to see. Key mitigations include the application of CPTED principles, additional, and more active, security presence, as well as a concerted effort to program these spaces more heavily.

Reputation risk is not listed as a major risk category, but it is implicit in every category listed.

3. **Analysis of the top three financial and/or operational risks that in our opinion would impact the City of Calgary and/or be of concern to the City's Audit Committee**

In our opinion the top three risks that would impact The City of Calgary and/or be of concern to the City's Audit Committee continue to be based on the service potential the Library is providing to Calgary's citizens through our library operations.

1. The amount of Library space available to Calgarians is well below the national median published by MBNCanada. According to 2017 data (the latest available), the Calgary Public Library operates 0.37 square feet per capita versus a national median of 0.62 square feet per capita. Even adjusting for the new Central Library, the Calgary total only rises to 0.45 square feet per capita.

The practical impact of this space gap is that Calgarians travel farther to a library, have fewer items to borrow, and fewer programs to enroll in. Many of the most popular children's programs fill up within minutes of being made available online. An estimated 10% of Calgarians must travel more than 3.5 km to visit a library. Facilities are over-used, resulting in accelerated wear and tear with a commensurate impact on maintenance and replacement expenses.

2. Older libraries in established neighborhoods are approaching end of life. In particular, the following four libraries:

- Louise Riley (1959) is 60 years old,
- Southwood (1966) is 53 years old,
- Judith Umbach (1974) is 45 years old, and
- Forest Lawn (1974) is 45 years old.

Each of these libraries, in addition to being at or near the end of their designed lifespan and therefore increasingly maintenance intensive, offer their neighborhoods a limited set of service

options as they lack the size and modern infrastructure of newer, suburban libraries. A disparity in the level and quality of service available is increasingly apparent.

3. Lifecycle funding committed over the 2019–2022 budget cycle is only 57% of the requested amount. The Library Lifecycle Grant supports major facility rehabilitation and renovation, renewal of furnishings and technology, and functional upgrades as service delivery models evolve. $11.2M was approved against a request of $19.8M (four-year totals), a reduction of approximately 10% from the previous budget cycle.

Library facilities are amongst the hardest working public spaces in Calgary (see item 1 above) and require consistent investment in order to remain the welcoming and safe spaces customers have come to expect. Customer satisfaction with Library facilities was rated at 4.4/5.0 in 2018.

4. **Report on internal controls including information technology and systems**

The Library Board has full management and control of the Library. Polices 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 was reviewed in 2015 by the Library's Governance Committee. 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 board orientation and training. In addition, policies which speak to control activities ensure that management directives are carried out. These address such things as signing 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:

- External auditors provide independent oversight on financial controls while testing the reliability of the financial information presented during the annual audit and pre-audit
- Financial budgeting, monitoring and forecasting ensure efficient and effective service provision using existing resources
- Procurement procedures 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
- Annual review 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
- Best practices are followed to prevent external and internal fraud, which includes camera monitoring in selected areas at each community library

- Constantly updated documentation is available online relating to procedures regarding customer service, including how to deal with a variety of patron challenges. This is supported by initial and ongoing training to ensure each employee understands the application of these procedures
- Safety training and individualized position safety assessments which are signed off each year by our staff
- The Emergency Response Plan is constantly updated and available online and at each location
- 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
- A corporate culture which expects ethical behavior, including a Standards of Conduct Handbook, which has been reviewed by all staff, and is 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

Specific controls for information technology and systems include:

- Critical systems are hosted in City-run data centres
- To ensure robust continuity
  - business-critical systems have real-time or near real-time replication and off-site back-up
  - Application failover and application recovery are tested regularly
  - Applications and services are designed to remove single points of failure whenever possible and cost effective
- Risks are reduced by using best practice policies, practices and methodologies
- The Library has an aggressive lifecycle replacement plan to ensure that critical applications and services are available and perform as expected
- Security and access control measures include
  - Access is controlled at the physical level, user level, network level, application level, and server level
  - Servers and applications are implemented with best practices in security
  - Firewalls, intrusion detection, and antivirus systems are in place and kept up to date
  - Alert systems are in place to notify and stop unusual activity
  - Security Measures are regularly tested

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

5. Most recent management letter including management responses as appropriate

Harman Gill, CA Partner, Assurance and Advisory Deloitte, and Sherri Taylor, Senior Manager, Private Client Services Deloitte, attended the March meeting of the Library's Audit and Finance Committee to present their 2018 Report to Audit and Finance Committee on the 2018 audit. This report is included as Attachment 3.

The communications and findings arising from the audit are:

- Deloitte did not identify any matters requiring communication after examining the accounting procedures and internal controls employed by the Library and issued an unmodified audit report on the financial statements after all procedures were completed
- There were no corrected or uncorrected misstatements to report
- 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
- Deloitte considered two significant audit risks. Regarding "Management Override of Controls" they were satisfied with the audit evidence to conclude there were no material misstatements. Regarding "the Review of New Accounting Standards" they made one recommendation, which has been implemented by management.
- The audit was conducted in accordance with the audit plan. There were no amendments to the audit scope and approach communicated in that plan.
- The auditors did not experience any significant difficulties in dealing with management related to the performance of the audit
- There were no concerns regarding managements competency and integrity
- Deloitte did not identify any related party transactions that were not in the normal course of operations and that involved significant judgments made by management concerning measurement or disclosure
- There were no disagreements with management
- The auditors did not identify any areas of material non-compliance with laws and regulations by the Library

6. Audit Committee 2019 Work Plan

Attachment 7 outlines the Committee's workplan and schedule of meetings.

The Audit and Finance Committee has an annual schedule that begins with the appointment of the Board each November, at which time Board members are selected to sit on this committee. An organization meeting follows soon after before the first of four quarterly meetings commencing in late January. Quarterly meetings are focused on financial reviews (budgets and results) and risk reviews.

A special meeting is held with the auditors present in late March to review the financial statements. The agenda for this meeting also includes an annual risk review.

Each meeting may include other financial or risk reports on specific topics. The Committee may schedule additional meetings if it feels they would be necessary. The committee reports to the full Board based on information that has been reviewed at their meetings and recommends motions for Board approval.

We are also pleased to present answers to the additional questions posed in the letter from Councilor Woolley.

1. What is the frequency of review and are there any recent changes to the Audit and Finance Committee Charter or Terms of Reference?

The Audit and Finance Committee is appointed annually and one of its first tasks is to review its terms of reference, which stem from the financial policies contained in the Board policies. There are no recent changes to the terms of reference.

The Committee's mandate is to monitor the financial performance of the Library by reviewing and recommending to the Board all matters relating to finance, financial results, risk and audit, including but not limited to:

1. Receive and review quarterly unaudited financial statements and accompanying notes
2. Receive and review the annual audited financial statements and auditor's report on that year's financial performance
3. Receive and review the annual budget and recommend approval to the Board, and each quarter review the budget relative to actual results
4. Receive and review quarterly risk updates and annually participate in a comprehensive risk analysis
5. Annually receive and review an external audit plan.
6. Review Board policies relating to audit and finance and ensure adherence to such Board policies
7. Review insurance and other activities related to audit and finance
8. Review of operational audits as required
9. Review of any action required to ensure the financial sustainability of the Library
10. Review of other matters related to audit and finance

2. What is the current composition of the Audit and Finance Committee and what is their relevant financial experience?

Andrew Rodych, Committee Chair: Board member since 2017

Andrew Rodych is the Business Operations Manager at Northfront Financial, a Calgary-based financial services company specializing in wealth management, insurance, and financial planning. Formerly, he was the Executive Director, Operations & Strategy at Tourism Calgary. With a background in the public, private, and non-profit sectors, he oversees the business affairs of Northfront Financial, including responsibilities for business development, finance and accounting, human resources, technology, and strategic planning. Andrew is Past Chair of the University of Calgary Master of Public Policy Alumni Council, a policy committee volunteer at the Chamber of Commerce, and gives his time to multiple political endeavours. He has a Bachelor of Arts (BA) in Political Science and a Master's degree in Public Policy (MPP) from the University of Calgary, and has completed the Harvard Business School Online CORe program.

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. 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, sports bodies at the local, provincial and national levels, and a not-for-profit society focused on increasing citizen knowledge and engagement in art, architecture and design in the built environment (Design Talks or 'd.Talks'). 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.

Shereen Samuels: Board member since 2014

Shereen is in year six as an experienced member of a senior management team in the post-secondary sector. Her role includes financial oversight for an $8M non-profit students' association. She has a Master's degree in Professional Communications, with an award winning thesis on increasing meaningful workplace inclusion. She has 14 years' progressive leadership experience, 20 years' experience facilitating multi-stakeholder community engagement and community development projects, and more than 20 years' experience in professional communication.

Jocelyn Phu: Board member since 2018

Jocelyn Phu has led a diverse portfolio spanning across the Canadian non-profit, tourism, and technology sectors. Most recently, she has provided governance support, stakeholder engagement and strategic advice on policy advocacy for the creative industries via the Calgary Chapter of Canada Learning Code and Creative Calgary. Presently, she oversees government relations activities, manages all strategic initiative projects and provides administrative support to the President & CEO at Calgary TELUS Convention Centre. Her volunteer work includes serving as Chair of the Bow Valley College School of Creative Technologies Software Development Advisory Committee and as a director on the board of the Calgary Public Library; additionally she actively volunteers for the Calgary Stampede Community Projects & Development committee, Calgary Chamber of Commerce and Calgary Foundation GenYYC, Professional Association of Canadian Theatre (PACT) Advocacy Committee, and national Canada Learning Code Diversity & Inclusion Task Force. Jocelyn holds a Master of Public Policy from the University of Calgary and is a graduate of Max Bell Foundation Public Policy Training Institute.

Avnish Mehta, Board Chair and ex-officio member: Board member since 2012

Avnish is the owner and Principal of Stand and Command, a Calgary based consulting practice focusing on presentation delivery and public speaking. He is a partner in the Village Brewery and is currently stewarding a 46MM private equity raise for a Calgary based food company. Avnish holds a BMOS (Bachelor of Management and Organizational Studies) from the University of Western Ontario and a Certified Risk Management certificate and has an extensive background in currency and commodity trading. His past work includes the development of nonprofit programs involving the Alberta Medical Association, Alberta Health, and Calgary Catholic Immigration Society. He served on the Board as the Treasurer for Youthlink

Publications Society, a nonprofit group that focuses on children's literacy, and he currently sits on the fundraising committee for the Calgary Folk Music Society.

3. Have there been any significant changes to organizational leadership

There have not been significant changes to the Board's organizational leadership.

The Board welcomed one new member with the appointment of Jocelyn Phu in November 2018. All other Board members were either reappointed or were not at the end of their term. However, a board vacancy was created with the resignation of a reappointed board member. This person's term was filled by Isaac Elias in December 2018.

The CEO has been in place since February 2014 and the people holding other executive positions have not changed during the past year.

4. Are there any regulatory or market changes that may impact the current business approach and would be relevant to share publicly with the Audit Committee?

There are no new regulatory requirements that are impacting the Library's current business approach.

The market for distribution of creative material is in the midst of significant change, which is having and will continue to have a major impact on the traditional library model of lending. This change is most apparent in the way that audio and video material is distributed. The dominant form of distribution for audio content is now streaming, at the expense of physical copies. Digital distribution of video content is rapidly approaching the same penetration rate, with the same impacts on the Library – the availability of physical forms is increasingly limited and costly. This technology-driven change is creating opportunities for publishers to re-write the terms of their relationship with libraries in ways that are not yet clear. This is a source of uncertainty in long term planning.

5. Are there any results of any regulatory or internal/external business assessments that provide assurance on the effective management of risks addressed in your presentation?

KPMG performed a best practices risk assessment for the Library in 2014 and provided additional assistance in 2015. Recommendations from these reviews are still directing our risk monitoring, reporting and assessment.

Results Based Accountability, introduced to the Library by The City, is our preferred evaluation framework because it describes the manner organizations work together to positively impact indicators that reveal success in advancing towards desired population level results. This model is used in our reporting through the One Calgary Line of Service process.

6. What initiatives are currently in progress to improve the efficiency of your processes? (e.g. sustainable operations, key performance indicators and relevance of the organization in the future)

The Library takes relevance and efficiency very seriously. As already reviewed in this document, Relevance is an entire category on our risk register (attachment 6), with 4 different indicators. In

addition, efficiency is measured in the Finance section of the risk register with the indicator of Operating Costs per Use.

Several initiatives have recently been undertaken in support of efficiency and sustainability. First, support functions have been moved from downtown space to less expensive space in Burnsland. This move not only means that prime library real estate is focused on service delivery and meeting objectives of our strategic plan, but also that support departments have the flexibility to consolidate and optimize their operations, and ultimately to provide more effective service to their stakeholders.

Secondly, the use of volunteers to augment what Library staff can do has been steadily increased. In 2018, volunteers provided over 91,000 hours of customer facing service up from 53,000 hours in 2015.

And third, a recently completed review of the Library's purchasing function resulted in the adoption of software to automate and streamline purchasing activity going forward, and in a reduction in the aggregate level of liability in our purchasing card program.

Respectfully submitted by

The Calgary Public Library