



Office of the City Auditor

1200, Scotia Place, Tower 1
10060 Jasper Avenue
Edmonton, Alberta T5J 3R8

edmonton.ca/auditor



Façade Improvement Program and Development Incentive Program Review

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The Office of the City Auditor conducted this
project in accordance with the
*International Standards for the
Professional Practice of Internal Auditing*

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Executive Summary

The City of Edmonton uses the Façade Improvement Program and Development Incentive Program to encourage the revitalization of commercial areas in Business Improvement Areas and City Council supported initiative areas.

The objectives for this audit were to determine if the governance structure is effective, and to assess whether program policies and procedures are being followed.

We assessed that the Economic & Environmental Sustainability Branch (“The Branch”) within the Sustainable Development Department has an effective governance structure to ensure the programs meet their intended objectives. However, we identified challenges associated with the effectiveness of the grant policies and improvement opportunities in the area of program outcomes monitoring.

We also found the Branch generally followed the policies and procedures. However, the Branch could improve its record keeping and compliance with the policies and procedures.

We are making three recommendations in this report to:

1. Review and develop action plans to address challenges we identified with the Façade Improvement Program and Development Incentive Program policies and procedures;
2. Improve the monitoring and reporting process by ensuring the accuracy of the grants data, and developing and reporting on qualitative performance measures; and
3. Improve compliance with the Façade Improvement Program and Development Incentive Program policies and procedures.

Façade Improvement Program and Development Incentive Program Review

1 Introduction & Background

The City of Edmonton uses the Façade Improvement Program and Development Incentive Program to encourage the revitalization of commercial areas in Business Improvement Areas¹ and City Council supported initiative areas. The City achieves this by providing grants to small businesses, property owners, and developers. The Façade Improvement Program and Development Incentive Program are administered through the Economic & Environmental Sustainability Branch (“the Branch”) in the Sustainable Development Department.

The Office of the City Auditor (OCA) included an audit of the City’s Façade Improvement Program and Development Incentive Program in its approved *2016 Annual Work Plan*. This report sets out the audit objective and a summary of the audit that was performed with respect to the Façade Improvement Program and Development Incentive Program. Appendix 1 contains the scope and methodology for this audit.

1.1 Façade Improvement Program

The Façade Improvement Program provides grants to property owners/businesses to upgrade the physical appearance of their storefronts. The goals of the Façade Improvement Program include:

- Promoting the viability of retail and commercial businesses;
- Helping building owners to attract and retain tenants;
- Contributing to the quality of life of residents, workers, and visitors to the city;

¹ Business Improvement Area (formerly Business Revitalization Zone) is a special assessment district where business owners officially join and work together to promote and improve the economic vitality of a business area.

- Making the city shopping streets more inviting and interesting places to work and shop; and
- Building local community and civic pride among the business community and citizens of Edmonton.



Taipan Restaurant before Grant



Taipan Restaurant after Grant

The Façade Improvement Program began in 2003; however, no grants were awarded in that year. The City has awarded over \$4.8 million in grants to 158 businesses and property owners since 2004. Table 1 shows the number and the value of grants issued to applicants from 2004 to 2015 for the Façade Improvement Program.

Table 1: Façade Improvement Program Grants Awarded (\$ in 000s)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
# of grants	10	1	15	16	12	12	7	5	17	23	25	15
\$ of grants	\$ 265	\$ 5	\$ 275	\$ 351	\$ 331	\$ 430	\$ 214	\$ 185	\$ 610	\$ 769	\$ 844	\$ 532

1.2 Development Incentive Program

The Development Incentive Program provides grants to support renovating vacant commercial space and creating new commercial and residential spaces. There are three specific types of grants under the Development Incentive Program:

1. New Commercial Business Interior Improvement Grants – These are available to applicants wanting to improve a commercial space that has been vacant for longer than six months, and that a new commercial business will occupy after construction is complete.

2. Multi-unit Residential Development Reinvestment Grants – These are available to applicants who want to develop and/or convert a property for mixed-use and/or multi-unit residential occupancy.
3. Commercial Development Reinvestment Grants – These are available to applicants who are developing a new property for commercial use.



Jasper Gate before Grant



Jasper Gate after Grant

The Development Incentive Program began in 2010; however, no grants were awarded in that year. Since 2011 the City has awarded more than \$600,000 in grants to 22 property owners and developers for new commercial business interior improvement and multi-unit residential development reinvestment. The City has not issued any grants for the commercial development reinvestment. Table 2 shows the number and the value of grants issued to applicants from 2011 to 2015 for the Development Incentive Program.

Table 2: Development Incentive Program Grants Awarded (\$ in 000s)

	2011	2012	2013	2014	2015
New Commercial Business Interior Improvement					
# of grants	1	0	5	6	7
\$ of grants	\$ 15	\$ 0	\$ 75	\$ 93	\$ 126
Multi-unit Residential Development Reinvestment					
# of grants	1	1	0	1	0
\$ of grants	\$ 24	\$ 240	\$ 0	\$ 36	\$ 0

2 Audit Objectives

Based on our risk assessment, we developed the following audit objectives:

Objective 1: The governance structure is effective to ensure grant programs meet their intended objectives.

Objective 2: Program policies and procedures are being followed to ensure grants are properly administered.

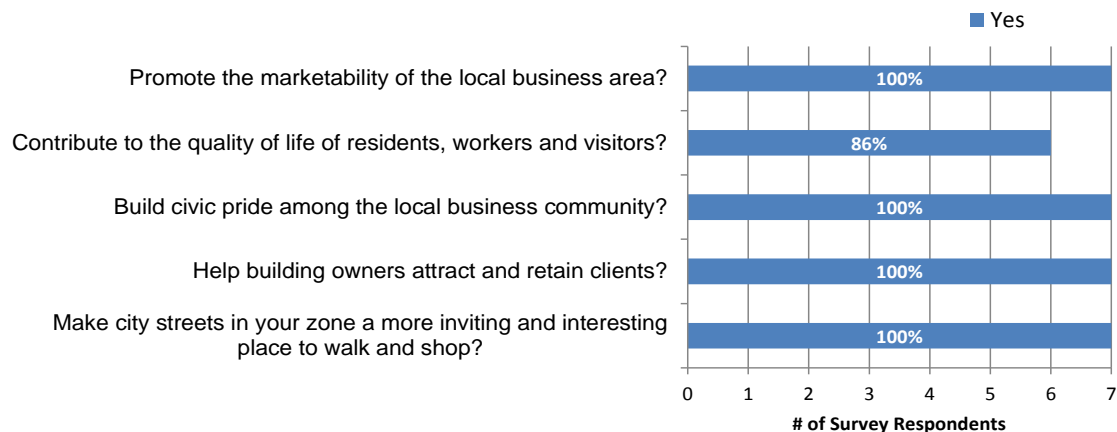
3 Observations and Recommendations

Objective 1: Effective Governance Structure

A good governance structure ensures grants are administered in a transparent and fair manner. It also ensures the objectives of the grant programs are met.

Business Improvement Area executive directors act as the liaison between the business owners and City Council. They assist property owners with business and property improvement projects including the grant processes for Façade Improvement Program and Development Incentive Program. To assess the effectiveness of the Façade Improvement Program and Development Incentive Program, we surveyed 13 executive directors of the Business Improvement Areas. The 7 responses received are shown in Chart 1.

Chart 1: Did the Façade Improvement Program and Development Incentive Program achieve the following:



The survey results demonstrated that the programs are achieving intended objectives. To further assess the effectiveness of the governance structure, we looked at:

1. Public awareness of the programs;
2. Effectiveness of the grant programs' policies; and
3. Monitoring and reporting of the program outcomes.

We found that the Branch has an effective governance structure to ensure the programs meet their intended objectives. We found that the public is informed of the programs and there is adequate segregation of duties. However, we identified challenges associated with the effectiveness of the grant policies and improvement opportunities in area of program outcomes monitoring.

3.1 Public awareness the grant programs

To assess whether information was available to the public about the Façade Improvement Program and Development Incentive Program, we reviewed information from the City's website, pamphlets, media coverage, and other communication resources. We found that there was information readily available about the purpose, program goals, design guidelines, eligibility criteria, application process, and City contact information.

As shown in Chart 2 and 3, all of the 7 Business Improvement Area executive directors who responded to the survey indicated that they felt informed or somewhat informed about the two programs.

Chart 2: How well informed are you regarding the Façade Improvement Program?



Chart 3: How well informed are you regarding the Development Incentive Program?



The majority of the Business Improvement Area executive directors felt very informed regarding the Façade Improvement Program and tended to be somewhat informed regarding the Development Incentive Program. This is because the Façade Improvement Program has been in place for a longer time. Furthermore, the Development Incentive project requirements are more complicated and complex.

3.2 Effectiveness of grant program policies

The Branch is responsible for selecting grant recipients, awarding grants, and ensuring that the intended purposes of the grants awarded are achieved. The City has policies and procedures that staff must follow to ensure they only award the grants to eligible recipients.

To assess the effectiveness of the Façade Improvement and Development Incentive Policies² we looked at the following:

1. Consistency of the grant program documents; and
2. Requirements of the policies and procedures.

We found that the policies and their corresponding procedures are generally effective to ensure the City awards the grants to eligible applicants. The Branch has an effective, formal process in place to amend the policies and procedures when necessary to ensure the City's best interests are protected. However, we identified opportunities for

² C216B Façade Improvement Program Policy and C553B Development Incentive Program Policy

improvement to address the inconsistencies amongst grant program documents and challenges for applicants to meet the grant requirements.

3.2.1 Consistency of the grant programs documents:

When Branch staff make an amendment to the policies or procedures, they update the online information packages, pamphlets, and templates to ensure consistent information is provided to the grants applicants. We found that all of the documents for the Façade Improvement Program are consistent. However, we found the following inconsistencies in the Development Incentive Program documents:

- Post-funding maintenance requirements and property use restrictions in the grant agreement are not disclosed in policy or procedures.
- In the *Development Incentive Policy*, one section requires the commercial store front to be vacant for 6 months. However, a different section of the same policy requires the property to be vacant for 12 months.

Consistency of grant documents is necessary so that staff can correctly apply application requirements. Also it adds clarity to the application process for the potential applicants.

3.2.2 Policy and Procedures requirements challenges

To assess the Branch's compliance with grants policies and procedures, we examined 26 Façade Improvement projects that received grants from 2013 to 2015, and all 22 Development Incentive projects that received grants from 2011 to 2015.

We observed instances of non-compliance with the policies and procedures. Branch staff indicated that these were due to challenges faced by applicants in meeting the requirements of the policies and procedures. These challenges are discussed below.

Eligibility requirements of the applicants: The Branch reviews the required application documents to assess eligibility of the grants applicants. The policy requires applicants to not be in default of taxes owing. However, when applicants pay their taxes in monthly

installments, they do not have the documentation to demonstrate that they have paid all the taxes for the year.

Support for cost estimation: Applicants submit cost estimations with their applications to support the requested grant amount. The policies and procedures require three quotes to support the cost estimations. During our review, less than half of the projects had three quotes in place. As per discussion with Branch staff, it is difficult for applicant to obtain three quotes for small projects; therefore in some cases one quote was viewed as acceptable by staff to support the cost estimations.

Licensed contractor: Licensed contractors are contractors licensed by Service Alberta to receive upfront payments. There are currently 165 licensed contractors in Edmonton. These contractors are from different fields such as windows, doors, blinds, concrete, etc. The policies and procedures require construction work be done by these licensed contractors. During our review, only one Façade Improvement project used a licensed contractor for the construction work. Branch staff indicated that applicants are not always able to use licensed contractors because the list of licensed contractors who are available for small projects is limited.

Lease agreement prior to payment: The policy requires a lease agreement to be in place prior to providing payments for the Development Incentive Program. We found that six of the Development Incentive projects did not have a lease agreement in place.

Reasons provided were:

- It can be difficult for property owners to secure lease agreements when there are multiple commercial spaces available.
- Potential tenants can back out of the lease agreement during the construction stage.

Based on our review, we did not identify the above challenges as critical control deficiencies with the Façade Improvement Program and Development Incentive Program.

However, we made the following recommendation to address these challenges associated with the requirements in the policies.

Recommendation 1 – Façade Improvement Program and Development Incentive Program Policy Improvements

The OCA recommends that the Economic & Environmental Sustainability Branch Manager reviews and develops action plans to address the following challenges we identified with the Façade Improvement Program and Development Incentive Program policies and procedures:

- Consistency of the grant program documents;
- Eligibility requirements of the applicants;
- Support for cost estimations;
- Licensed contractor requirement; and
- Lease agreement requirement.

Management Comments and Proposed Action Plan:

Accepted Accepted with modification Rejected

Comments/Planned Action:

By the end of the third quarter of 2017, the Economic & Environmental Sustainability Branch will review and update all existing policy, procedures, and information materials for the Façade Improvement Program and Development Incentive Program. This will include:

- A review and update of online and paper reference, and communication materials to ensure accuracy and consistency.
- A review of policies and procedures for both programs. Changes to policy and procedure will be initiated where necessary. This will include:
 - The eligibility requirements that applicants must demonstrate that they have paid annual taxes. When applicants pay their taxes in monthly installments, they do not have the documentation to demonstrate they have paid all taxes for the year.
 - The procedural requirement that three quotes are required to support project budgets. It can be difficult for applicants to obtain three quotes for small projects and an alternative solution will be explored.
 - The procedural requirement that licensed contractors must be used. Given that there are approximately 165 licensed contractors in Edmonton, this requirement will be reviewed.
 - The procedural requirement for lease agreements.

Responsible party: The Economic & Environmental Sustainability Branch

Planned completion date: End of Q3, 2017.

3.3 Monitoring and reporting of grant program outcomes

Monitoring and reporting on grant program outcomes helps the Branch to ensure they are consistently achieved in an efficient and effective manner.

We found that the Branch is effectively monitoring and reporting on grant program outcomes. The Branch's budget process is effective to ensure effective use of grant funds. The Branch has a process in place to track quantitative measures. The Branch also keeps stakeholders informed of the outcomes of the grant programs. However, we did identify opportunities for improvement in the areas of data accuracy and qualitative performance measures.

3.3.1 Improve data accuracy

We found discrepancies between the grant program data kept by the Branch and the City's financial system. Some of the differences are due to:

- Coding errors. For example, a Façade Improvement Program grant was coded as a Development Incentive Program grant in the finance system.
- Timing issues. For example, Branch staff record a grant as paid when they notify the applicants. It takes some time for Finance staff to process the payment and enter the information into the financial system. At the end of the year, the different recording times led to differences in the annual grant total between the two systems.

We did not identify any instances of misuse of City funds; however, the Branch staff and Finance staff were unable to reconcile the two records. Inaccurate grants information impacts the Branch's forecast of the available funds for future projects.

3.3.2 Addition of qualitative performance measures

The Branch monitors its performance by tracking:

1. The amount and number of grants approved and paid in the year;

2. Private investment stimulated through the grant programs; and
3. Business Improvement Areas' satisfaction of services provided by the grant staff.

We reviewed the Branch's performance measures and found these measures only provide assessments of the operational performance. The Branch does not have measures in place to assess the qualitative objectives of the grant programs such as:

- Did the grant program promote the marketability of the local business area?
- Did the grant program contribute to the quality of life for resident, workers and visitors?
- Did the grant program help building owners attract and retain clients?

During our review, we found that the Branch is effectively monitoring and reporting on grant program outcomes. However, we made the following recommendation to improve the accuracy of grant data and performance measures.

Recommendation 2 – Improve Grant Program Monitoring		
The OCA recommends that the Economic & Environmental Sustainability Branch Manager improves the monitoring and reporting process by ensuring the accuracy of the grants data and developing and reporting on qualitative performance measures.		
Management Comments and Proposed Action Plan:		
<input checked="" type="checkbox"/> Accepted	<input type="checkbox"/> Accepted with modification	<input type="checkbox"/> Rejected

Comments/Planned Action:

The Economic & Environmental Sustainability Branch will review the monitoring and reporting process, and develop qualitative performance measures by the end of the third quarter of 2017. This will include:

- Improving grant tracking through a quarterly reconciliation process that will match the grants data in the internal Façade Improvement Program and Development Incentive Program tracking system with the City's financial systems. Currently, Façade Improvement Program and Development Incentive Program staff record grants as dispersed once agreements are signed and grant payment is requested. It then takes some time to release the grants, leading to discrepancies between internal tracking system and the City's financial systems. A regular reconciliation process will resolve these discrepancies and will also correct coding errors which contribute to differences between the two systems.
- The Branch will introduce a review of the purpose of the Façade Improvement Program and Development Incentive Program, and will apply relevant qualitative performance measures included in the Business Improvement Area Health Indicators (see CR_3065, presented to City Council June 21, 2016), and other qualitative performance measures as standard performance measures. This will include review and assessment of projects upon completion.

Responsible party: The Economic & Environmental Sustainability Branch

Planned completion date: End of Q3, 2017

Objective 2: Compliance with Policies and Procedures

Compliance with grant policies and procedures encourages consistent processes and objective grant decisions.

We reviewed the selected projects for compliance with the following procedures:

- Review and approval of grant applications;
- Grant payments; and
- Monitoring post payment requirements.

We found the Branch generally followed the policies and procedures. We did not find any instances where staff awarded a grant to an ineligible applicant. However, the Branch could improve its record keeping and compliance with the policies and procedures.

3.4 **Improve record keeping**

Documentation provides a written record of activities as they happen. It also provides evidence and support for each of the grant decisions.

During our review of the projects, we found the following instances where the Branch did not keep adequate records:

Documented rationale for email approval: The Project Review Committee meets approximately once every four months to make grant approval recommendations. The committee uses a standard evaluation form to ensure the recommendations are based on consistent criteria. The Branch occasionally requires email approval for urgent projects in between committee meetings. We found six projects had email approval without documenting the rationale for using email approval instead of committee meeting evaluation forms.

Documented rationale and approval for additional work: The City only reimburses work as specified in the grant agreement. Payment of any additional work needs further approval. We found three projects did not have documented rationale and approval for increased construction costs due to additional work done.

Documented rationale and approval for delayed construction: The policy requires all projects to be completed in a timely manner. Applicants should provide rationale and obtain approval for delayed constructions. During our review, we found eight projects did not complete their construction on time. Out of those projects, only three had documented rationale and approval for their delays.

Tracking pre and post construction inspection dates: The Branch performs pre-construction and post-construction inspections. The Branch enters a batch of activities in the system at the same time. This resulted in inaccurate inspection date for seven projects.

Tracking reimbursement agreement sign off dates: The policy only allows the Branch to reimburse work that is done after the signing of the grant agreement and with proper invoices. The Branch only tracks the date when the City signs off the agreement and does not track the date when the applicant signed the grant agreement. Therefore, it appears that the Branch reimbursed work done prior to the agreement sign off date for 20 projects.

Without proper record keeping grant decisions may not appear objective and in compliance with the grant approval process.

3.5 Areas of noncompliance

During our review of the Façade Improvement Program and Development Incentive Program projects, we found the following instances where the Branch did not comply with the related policies and procedures:

Completeness of the grants application documents: We found that applicants had submitted all the required documents for 92% of the Façade Improvement projects. We also found that the Branch was unaware of the New Commercial Business Interior Improvement grants' affidavit requirement to declare that the applicant's storefront has been vacant for at least 12 months. None of the New Commercial Business Interior Improvement projects had an affidavit in place. In addition, 50% of the Development Incentive projects did not have other required application documents due to administrative errors such as missing project description, or before- photos were not dated.

Required permits: Grant applicants are responsible for securing all required construction permits prior to payment of funds for work where a permit was required. We found 92% of the Façade Improvement projects and 73% of the Development Incentive projects had all required permits in place. The Branch is now collaborating with the City's building inspectors to ensure all required permits are in place for all applicants.

Grant Agreement Sign-offs: Once an application is approved, the applicant is required to enter into an agreement with the City. This Reimbursement Agreement is a legal binding document that has to be signed by both the City and the applicants. We found that 85% of the Façade Improvement projects and 82% of the Development Incentive projects had adequate signoffs.

Post Payment Monitoring: We found that the Branch does not have a formal process to monitor the post payment requirements. The Façade Improvement Program policy requires grant recipients to maintain the exterior condition of the improvement. The Development Incentive Program policy requires applicants who received funding for a multi-unit residential redevelopment to retain the commercial use space for at least five years after receiving the funding.

Without maintaining the post payment requirement, the benefits of the grant program may seem temporary rather than long term. Therefore, the Branch should ensure a formal monitoring process is in place to ensure grant recipients meet the post disbursement requirement.

In conclusion, we identified issues with documentation and instances of non-compliance during our review of the Branch's grant administration practices. We are making the following recommendation.

Recommendation 3 – Compliance with Policies and Procedures

The OCA recommends that Economic & Environmental Sustainability Branch Manager improves compliance with the following Façade Improvement Program and Development Incentive Program policies and procedures:

- Documentation of rationale and approval for policy deviations;
- Record keeping of process dates;
- Completeness of grant application documents;
- Completeness of required permits;
- Grant Agreement sign offs; and
- Post payment monitoring.

Management Comments and Proposed Action Plan:		
<input checked="" type="checkbox"/> Accepted	<input type="checkbox"/> Accepted with modification	<input type="checkbox"/> Rejected
<p>Comments/Planned Action:</p> <p>With respect to the Development Incentive Program affidavit requirement, the Economic & Environmental Sustainability Branch utilized alternative methods to determine vacancy. The Development Incentive Program application includes a question regarding length of vacancy and an application declaration as a program control. The Branch used the information on the signed application noting vacancy, and would confirm with the area BIA Executive Director during site visits. Program staff also utilized observations from past site visits, and cross referenced this information internally against business license information to qualify the vacancy declaration. During the audit when the affidavit requirement area of non-compliance was identified, the Branch took immediate steps to address compliance on the affidavit requirement.</p> <p>In 2016, the Branch, in collaboration with the Law Branch, developed a control checklist to ensure that all projects that enter into contract meet the requirements of the program policies and procedures. This checklist has improved compliance for the projects that have been undertaken since it was introduced. The Audit did not review any projects completed in 2016. The Branch will review this checklist and other Façade Improvement Program and Development Incentive Program procedures by the end of the third quarter of 2017 and make required process changes to ensure ongoing compliance with existing policies and procedures based on the recommendations identified in the Office of the City Auditor report. This will include:</p> <ul style="list-style-type: none"> • A review to ensure the checklist captures grant application documents and required permits for completeness. • A review to ensure the checklist and program document management systems record process dates, including grant agreement sign off. • A review of Façade Improvement Program and Development Incentive Program procedures to ensure that documentation and rationale for any policy deviations are maintained. • A review of Façade Improvement Program and Development Incentive Program monitoring through a quarterly status update of all projects and the implementation of a bi-weekly grant operations meeting. • The implementation of a post-payment monitoring process to ensure that grant recipients meet post disbursement requirements. <p>Responsible party: The Economic & Environmental Sustainability Branch</p> <p>Planned completion date: End of Q3, 2017</p>		

4 Conclusions

Based on our review, we conclude that the governance structure for Façade Improvement Program and Development Incentive Program to be effective. The grant programs have met their intended objective. However, there are challenges associated with the effectiveness of the grant policies and improvement opportunities in area of grant program outcomes monitoring.

We also conclude that the Branch generally followed the policies and procedures. However, the Branch could improve its record keeping and compliance with the policies and procedures.

The Office of the City Auditor would like to thank the management and staff of the Economic and Environmental Sustainability Branch for their cooperation and assistance during this audit.

Appendix 1: Scope and Methodology

Scope

The scope of this review included the documentations, controls, processes and procedures related to the Façade Improvement Program and the Development Incentive Program. Our detailed testing included the Façade Improvement Program grants issued from 2013 to 2015. We also tested Development Incentive Program grants issued from 2011 to 2015.

Methodology

We used the following methods to gather evidence to conclude on the above objective:

- Reviewing documentation;
- Discussions with management and supervisory employees;
- Analysis of data;
- Site visits;
- Testing samples relating to compliance with applicable policies and procedures;
and
- Surveying the Business Improvement Areas' Executive Directors.