



City of Edmonton Office of the City Auditor

Edmonton Economic Development Corporation Audit

September 30, 2019



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Objectives

- Objective 1:**
To determine if Edmonton Economic Development Corporation’s Articles of Association are up-to-date and clear.
- Objective 2:**
To determine if Edmonton Economic Development Corporation has an effective risk management process.
- Objective 3:**
To determine the effectiveness of Edmonton Economic Development Corporation’s Innovation System in achieving its objectives.
- Objective 4:**
To determine whether key controls over the Accounts Payable Vendor Master File are adequately designed, established, and operating as intended.

Scope

We reviewed the business information and operational processes from January 1, 2014 to June 30, 2019. We also reviewed Edmonton Economic Development Corporation’s (EEDC’s) originating and currently registered governing documents (i.e., Memorandum of Association (1992) and the Articles of Association (2007)).

Statement of Professional Practice

This project was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.



Audit Summary

Why We Did the Audit

The City of Edmonton's Audit Committee passed a motion that the City Auditor include an audit of the EEDC in its 2019 City Auditor Work Plan. The Board of the EEDC then invited us to conduct a value for money audit of the organization. However, as the EEDC is such a large and complex organization, we still needed to determine where to focus the efforts of our audit in order to add the most value. We conducted a variety of risk identification and assessment activities, including:

- Interviewing staff from all areas of the EEDC;
- Interviewing City staff involved in economic development for the City of Edmonton;
- Reviewing governance documents;
- Reviewing City Council and EEDC board meeting minutes;
- Performing site visits; and,
- Reviewing documents around the cyber security phishing scheme that defrauded EEDC of \$375,000 in December of 2018.

As a result of this risk assessment, we developed the audit objectives relating to the following four areas:

Governing Documents

EEDC's governing documents include its Memorandum of Association (created in 1992) and Articles of Association (created in 1992 and updated in 2007).

We reviewed the governing documents, consulted with the City's Law Branch and Office of the City Clerk, and surveyed the EEDC's shareholder (i.e., Council), board, and stakeholders.

Recommendation 1 Update EEDC's governing documents

EEDC should work with the shareholder to 1) Update the Articles to clarify the roles and responsibilities of the shareholder, board, and management; and 2) Develop one mandate for the EEDC and update the Memorandum of Association and other strategic documents with this mandate.

Risk Management

EEDC's risk management program consists of a variety of activities to support this effort.

We assessed the effectiveness of the program based on how well it aligned with external standards (COSO and ISO).

Recommendation 2

Align risk management process with best practices

EEDC's risk management activities should be organized into a corporate wide program that is based on best practices. EEDC should ensure existing and future activities align with best practices.

Innovation System

The EEDC's Innovation System is a mix of business units, programs, and marketing platforms that supports the creation of new tech-enabled businesses, facilitates the acceleration of high potential companies and founders, and inspires action to fuel economic growth through innovation and entrepreneurship communities. Its objectives have changed multiple times over the past 18 months.

We reviewed the effectiveness of the EEDC's Innovation System based on interviews with staff, reviews of strategic and operational documents, and surveys of EEDC's Innovation System stakeholders, EEDC's shareholder (Council), and EEDC's board.

Recommendation 3

Review and update objectives of EEDC's Innovation System

The objectives of EEDC's Innovation System should be reviewed and updated to be clearer, more understandable, and more distinct from those of other City of Edmonton funded organizations, such as TEC Edmonton, Health City, and Edmonton Global.

Recommendation 4

Track resource use and review resource allocation in EEDC's Innovation System

EEDC should track the revenues, expenses and staff time used for all components in its Innovation System on a consistent basis.

It should also review the components in the EEDC Innovation System and how resources are allocated to each of these to ensure that they are aligned to EEDC's objectives.

Recommendation 5

Ensure performance measures are sufficient, reliable, understandable and comparable

EEDC should ensure that reported performance measures are sufficient to conclude on the progress of its objectives, based on reliable data, and reported in an understandable manner with comparable prior year results and targets.

Vendor Master File

The Vendor Master File is a key element of EEDC's procurement and accounts payable processes. It contains the necessary information on individuals and organizations that EEDC uses to pay for goods and services.

We reviewed the Vendor Master File data, as well as the related policies, procedures, and controls.

Recommendation 6

Clean up and maintain the Vendor Master File

The EEDC should clean up the Vendor Master File and implement a process to regularly review and maintain the ongoing accuracy and validity of the Vendor Master File.

Recommendation 7

Document and implement procedures

The EEDC should document and implement procedures for the Vendor Master File setup and changes. This includes ensuring that vendor setup and changes are properly authorized, supported, and validated, determining setup and change authorizations, establishing and enforcing data entry formats, and periodically reviewing employee access to the Vendor Master File.



Background

The Edmonton Economic Development Corporation (EEDC) is a not-for-profit company established by the City to carry out a broad range of economic development activities on behalf of the citizens and tax payers of Edmonton. The City of Edmonton, represented by City Council, is the sole shareholder of the EEDC. They appoint the Board of Directors, comprised of the Mayor and business and community leaders.

On January 31, 2019, Audit Committee passed a motion that the City Auditor add an audit of EEDC in its 2019 City Auditor Work Plan, and that it be included as a high priority.

The Office of the City Auditor does not have the authority to audit the EEDC. Therefore, we required the permission of the Board of the EEDC in order to complete this audit.

On February 15, 2019 the Board of the EEDC passed a motion inviting us to conduct a value for money audit of EEDC and providing assurance that the Board will address any recommendations.

EEDC Organizational Structure

The organizational structure of EEDC is very dynamic. This picture represents the structure as at September 2019.

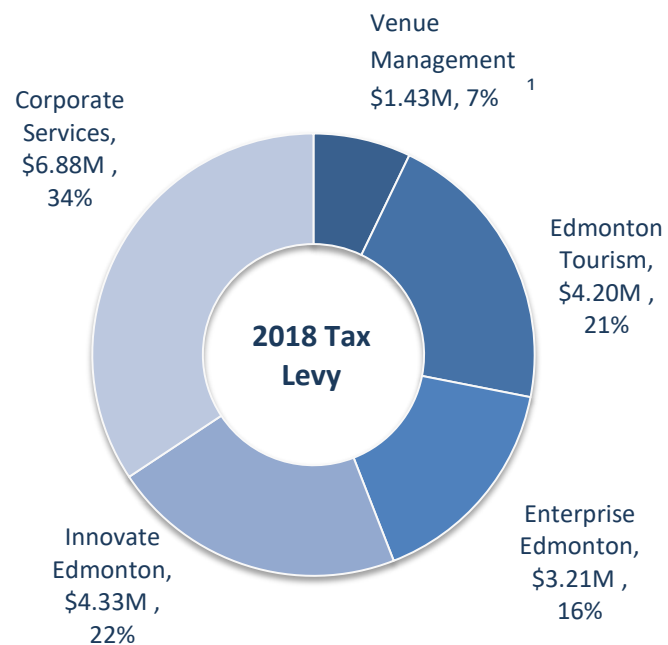


EEDC Revenues

EEDC receives funding from the City of Edmonton as well as revenues from other sources including convention centre rentals, membership fees, lease agreements, and other external sources (i.e., contributions from the Edmonton Destination Marketing Hotels group). In 2018, EEDC's revenue included \$20 million from the tax levy and \$50.8 million from other sources.

The funding from the City of Edmonton for 2018 was allocated for various uses within the EEDC.

In 2018, the tax levy made up 28% of the EEDC's revenues.



¹ Only the Edmonton Convention Centre received tax levy funding in 2018; the Edmonton EXPO Centre did not receive any tax levy funding in 2018. The City assigned operations of the Edmonton EXPO Centre to EEDC on January 1, 2018.



Governing Documents

EEDC’s Governing Documents

EEDC’s governing documents include its Memorandum of Association and Articles of Association. The Memorandum of Association was formulated in 1992 and describes the official mandate of EEDC. The Articles of Association were formulated in 1992 and updated in 2007 and describe the role of EEDC’s shareholder, board, and management. In this report we refer to the Memorandum of Association and the Articles of Association collectively as “the Articles”.

Summary of Findings

Our review of the governing documents, consultations with the City’s Law Branch and Office of the City Clerk, combined with survey results from EEDC’s shareholder (i.e., Edmonton City Council), board, and stakeholders revealed that the governing documents should be updated in the following ways:

1. The Articles of Association need to clarify, in a consistent way, the roles and responsibilities of the shareholder, board, and management.
2. The Memorandum of Association should be updated to reflect an agreed upon mandate. EEDC could then use this mandate to update and clarify the scope of its current services.

Clarify Roles and Responsibilities

We reviewed the Articles and surveyed EEDC’s board members² to determine the clarity of roles and responsibilities for the shareholder, board, and management.

Percent of board members agreeing that the Articles clearly define the role of the:

Board members felt that the Articles clearly defined the role of the shareholder, the board, and management.



However, not all agreed; indicating that more clarity of the roles in the Articles is required.

² We achieved a 92% response rate with 11 out of 12 board members responding.

Our review of the Articles also found that an update to the clarity would be useful. An example is Section 73.

Section 73:

A resolution of the municipal council of The City of Edmonton in the exercise of any shareholder right shall only be binding on the Company as an exercise of that right when a copy of that resolution is certified by the City Clerk and deposited with the Secretary.

It appears to give Council the ability to act as shareholder at Council meetings. In practice, however, the shareholder should only direct EEDC to perform business activities at shareholder meetings.

Existing controls, such as the presence of the City Clerk and Law Branch at Council meetings, combined with the current board's competency ensure that Council does not act shareholder during Council meetings. However, a more permanent control would be to update the Articles by clarifying, in a consistent way, the roles and responsibilities of the shareholder, board, and management.

(See Recommendation 1)

Clarify Mandate

Issues of clarity around EEDC's overall role and purpose in Edmonton's economic development industry (mandate) also exist. In our review, we identified two different descriptions of EEDC's mandate that may create confusion.

22% of Councilors and 55% of board members surveyed felt that the EEDC should no longer attract new investment to the Edmonton market. However it remains a stated objective in the registered mandate.

1. The registered mandate included in the Articles from 1992.
2. A new mandate approved by the shareholder at a special shareholder meeting in March of 2019.

These are provided in Appendix 1.

82% of board members surveyed felt that the mandate from the Special Shareholders' Meeting best reflects EEDC's roles and responsibilities.

The mandate described in the Articles is much more prescriptive, detailing activities EEDC should engage in as an economic development organization.

The recently approved mandate however is more flexible, allowing the shareholder to direct EEDC to pursue a wide and diverse array of activities.

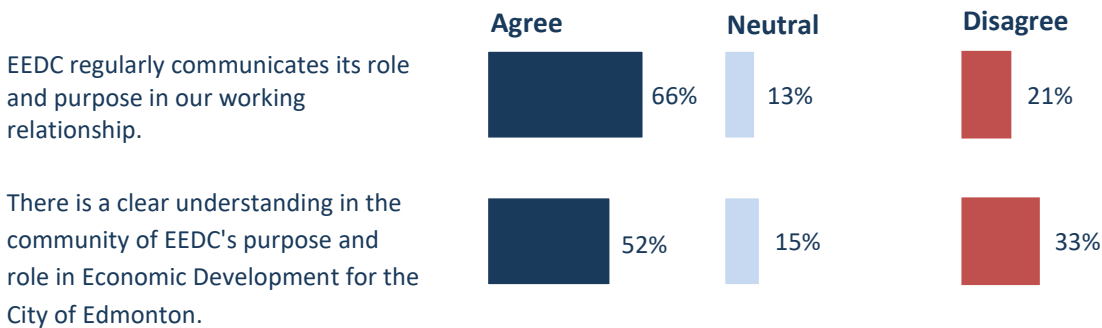
The differences in the mandates, combined with the survey results from the board and Councilors indicate that clarification and agreement about EEDC's mandate is needed. This is necessary and critical for ensuring that taxpayer dollars are appropriated to the right activities. Once this agreement has been reached, EEDC's governing documents, as well as its strategic documents, should be updated to reflect this new mandate.

(See Recommendation 1)

Stakeholder Survey

We surveyed more than 400 of EEDC's stakeholders to determine clarity and understanding of the EEDC's mandate and plans to accomplish them. We received responses from 108 respondents.

The stakeholder survey also revealed challenges with the clarity of EEDC's mandate.



"It would be nice to know what they are actually doing!"
Stakeholder survey respondent

"Our general meetings and events community does not understand the role EEDC plays in our industry."
Stakeholder survey respondent

"... Communication is not clear or regular."
Stakeholder survey respondent

Together, these findings demonstrate that clarifying EEDC's mandate and subsequently communicating it to stakeholders is needed in order to create a clearer understanding of EEDC's role and purpose in the community.

Recommendation 1

Update EEDC's governing documents

Recommendation:

Work with the shareholder to:

1. Update the Articles to clarify the roles and responsibilities of the shareholder, board, and management.
2. Develop one mandate for the EEDC and update the Memorandum of Association and other strategic documents with this mandate and communicate changes to stakeholders.



Responsible Party:

Vice President Corporate Relations



Accepted by Management

Management Response:

Clarity regarding EEDC's mandate and the various roles of Shareholder, Board, and management are key to EEDC's future success. In accordance with defined Shareholder Meeting rhythms, management will propose changes to the Articles of Association and Memorandum of Association for Shareholder consideration at the Spring 2020 EEDC Annual General Meeting.



Implementation:

April 22, 2020



Risk Management

EEDC's Risk Management Program

Risk management is a formalized process of identifying, assessing, managing and controlling the occurrence of potential events or situations. EEDC's risk management program consists of a variety of activities to support this effort.

Comparison to Best Practices

To determine the effectiveness of EEDC's risk management program we assessed how well it aligned with guidance from COSO's³ Enterprise Risk Management Framework (2017) and ISO's⁴ 31000 Enterprise Risk Management Standard (2018).

Summary of Findings

EEDC can improve the overall effectiveness of its risk management program by ensuring existing and future activities align with best practices.

The EEDC's risk management program aligns with several of the best practice activities. These include:

1. Processes and tools that facilitate the analysis and selection of risks.
2. The development of mitigation plans to address significant risks.
3. The implementation of tools to track, monitor, and report on mitigation plans for selected risks.

However, we also identified gaps between the EEDC's risk management program and best practice. Appendix 2 contains the comparison of the EEDC's risk management process to best practices.

We found the most pervasive gap to be in the area of risk identification activities. At the time of the audit, risk identification only occurred at the senior management level with contributions from board members during board meetings. Middle management, despite being senior management's connection to daily activity, was not involved in this process.

³ COSO refers to the Committee of Sponsoring Organizations of the Treadway Commission.

⁴ ISO refers to the International Organization for Standardization.

Our interviews with staff from middle management revealed an intricate understanding and awareness of the risks facing their operations. Not engaging them in the risk identification process means that senior management may miss pertinent operational concerns in the overall assessment of EEDC's risks.

Engaging middle management, by formally assigning responsibility to them to contribute to EEDC's risk identification activities, will help to ensure that all relevant risks are identified and assessed in EEDC's risk management process. As importantly, it will encourage a corporate culture that is risk-aware and actively engaged in risk identification.

Recommendation 2

Align risk management process with best practices

Recommendation:

Organize risk management activities into a corporate wide program that is based on best practices.



Responsible Party:

Vice President Corporate Services



Accepted by Management

Management Response:

EEDC management understands the importance of having a robust ERM in place and will align its current ERM program to best practices. Although elements are already in place, we have an opportunity to build out a more robust process, system and tools and to entrench behaviors at all levels within the organization.



Implementation:

December 31, 2020



EEDC's Innovation System

EEDC's Innovation System

The EEDC describes its Innovation System as “supporting the creation of new tech-enabled businesses, facilitating the acceleration of high potential companies and founders, and inspiring action to fuel economic growth through innovation and entrepreneurship communities.”

Summary of Findings

We found that the effectiveness of the EEDC's Innovation System can be improved by:

1. Enhancing the understandability of its business objectives by ensuring they are clear, easy to understand, and better differentiated from other organizations that receive City funding.
2. Prioritizing funding and/or staff time to activities that directly align with EEDC's Innovation System's objectives.
3. Creating processes to track financial and operational information on a component by component basis.
4. Ensuring that sufficient performance measures to conclude on the objectives of the system are used, based on reliable data, and these are presented in an understandable way with comparable data.

Innovation System Components

At the time of this audit EEDC's Innovation System was known as Innovate Edmonton. Innovate Edmonton is a mix of business units, programs, and marketing platforms (components). These have been evolving over the last 18 months and are described by the EEDC as follows:



Delivers foundational programs that help creators and founders start and grow new tech enabled businesses. They bring together developers, mentors, talent and investors to help shape and support ideas into successful companies.



Provides a collaborative work environment, with short term leases, for growth-stage technology companies. They offer accelerating partner programs and community support services.



A marketing platform that connects local businesses with consumers beyond Edmonton. They offer members access to community and resources to help them grow and scale.



A campaign designed to increase global awareness of Edmonton as a top city for technology, talent, innovation and investment. Innovateyeg.com tells the stories of what innovation is, who is innovating and where innovation is happening in Edmonton.

The System also involves strategic partnerships working collaboratively with municipally funded organizations that work in the innovation space. This includes TEC Edmonton – a joint venture between the City of Edmonton and the University of Alberta – and Health City. In addition, EEDC’s Innovation System supports community initiatives that are led by entrepreneurs including Edmonton Advisory Council on Startups (ECOS) and Rainforest Alberta – Edmonton.

We reviewed the effectiveness of EEDC’s Innovation System based on interviews with its leadership and staff and reviews of strategic and operational documents (divisional documents). We also surveyed EEDC’s shareholder and board, and Innovation System stakeholders.

Innovation System Objectives

We reviewed the latest objectives of EEDC’s Innovation System to determine if they are clear, understandable, tied to the overall mandate of EEDC, and unique from other organizations that receive City funding.

The objectives of EEDC’s Innovation System and EEDC’s work in the overall Edmonton innovation ecosystem could be clearer and more understandable.

Information about the objectives of EEDC’s Innovation System is presented inconsistently, creating confusion about its purpose and role amongst stakeholders.

We found the objectives of EEDC’s Innovation System were presented inconsistently between 7 different sources over the past 18 months. Examples of inconsistencies include:

- **Business creation** – The terms “new tech” and “new tech-enabled” were used interchangeably, even though the former refers to technology companies while the latter refers to companies that use technology to enhance and/or deliver the core business.

- **Community action** – Is described inconsistently: in one statement the focus is broad supporting Edmonton’s economic growth through innovation and “...entrepreneurship communities,” while in another statement it is limited to supporting growth through innovation and “... [the] technology business community.”
- **Business growth** – The current Business Plan for EEDC’s Innovation System describes accelerating “high potential companies and founders”, while the remaining six sources describe helping scale “high potential businesses” or “high potentials”. This could create confusion over whether or not it is a people-focused or business-focused approach.

Confusion exists about who EEDC’s Innovation System serves and what it is doing in the community.

“I did not really know that Startup was part of EEDC.”

“Most of us involved in the Innovation/Tec sector have a hard time understanding where EEDC’s involvement starts and ends.”

Stakeholder survey respondents

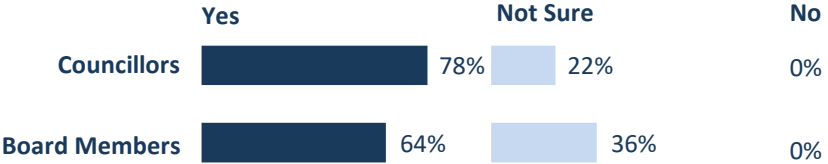
This issue is consistent with findings from the Stakeholder survey where only 55% of respondents that engage with EEDC’s Innovation System agreed that the community had a clear understanding of EEDC’s role.

Agreement is needed on which services EEDC’s Innovation System should provide.

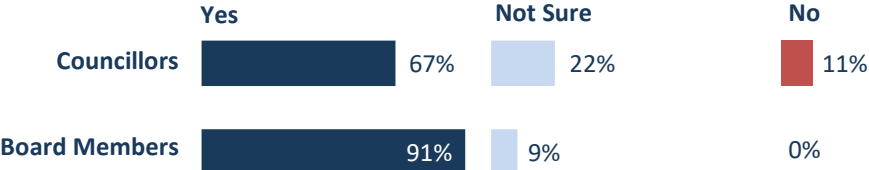
The objectives of EEDC’s Innovation System are provided through a variety of services. At the time of our Council survey (April 2019) Councillors varied in their opinions as to which services EEDC’s Innovation System should continue to provide. As well, respondents to our board survey (July 2019) also felt differently on what services EEDC’s Innovation System should provide.

Councillors and EEDC board members have different opinions on what services EEDC’s Innovation System should provide.

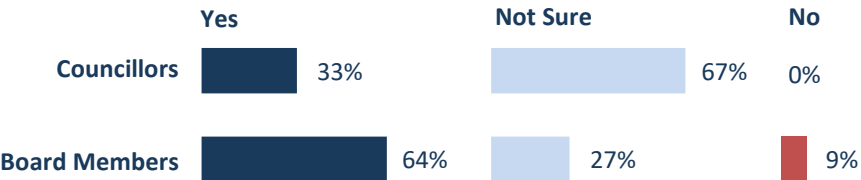
Should EEDC provide workspace and services for creation of new tech businesses through **Startup Edmonton?**



Should EEDC provide marketing for growing businesses through **Edmonton Made brand?**



Should EEDC provide workspace and services for growing businesses through the **Advanced Technology Centre** (Edmonton Research Park)?



Fundamentally, the results from both surveys indicate that agreement on which services EEDC’s Innovation System should be providing is lacking. Determining and agreeing upon a scope of services for EEDC’s Innovation System will provide clarity of its purpose and role to its stakeholders. As importantly, it will ensure that tax dollars are targeted to the right activities.

(See Recommendation 3)

There is overlap or perceived overlap of services with other City of Edmonton funded organizations.

Since its founding in 1993, the EEDC has taken charge of multiple innovation initiatives, such as the Advanced Technology Centre (1993) and Startup Edmonton (2014). Other City of Edmonton funded organizations, specifically TEC Edmonton, Health City, and Edmonton Global, have been developed more recently and their objectives overlap or are perceived to overlap with those of EEDC's Innovation System.

Table 1 describes our assessment of the overlap.

Table 1: Assessment of Overlap with Other City Funded Organizations

Over the past four years the City has contributed an additional \$10.5 million to these other organizations.

Organization Objectives	City Involvement	City Funding ⁵	Assessment of Overlap
<p>TEC Edmonton</p> <p>The objectives of TEC Edmonton are to help its clients get funding, grow as entrepreneurs, scale their business and protect their intellectual property.</p>	<p>TEC is joint venture contractual entity between EEDC and the University of Alberta formed in 2006.</p> <p>The City funds TEC Edmonton through EEDC.</p>	<p>\$6 million</p>	<p>Objectives are similar to EEDC's Innovation System.</p> <p>Certain initiatives such as TEC Centre Labs, TEC Launch Program and the space TEC Edmonton offers appear to be similar to the services offered by Startup Edmonton, and the function and space EEDC's Advanced Technology Centre at the Edmonton Research Park.</p>
<p>Health City</p> <p>The organization acts as a broker connecting parties in the health innovation ecosystem, engages with innovators and is creating a platform for analyzing data.</p> <p>It works to enable innovators, especially companies.</p>	<p>Mayor Iveson announced in 2016.</p> <p>City provided full funding in 2018.</p>	<p>\$2 million</p>	<p>Some overlap with EEDC's Innovation System objectives.</p> <p>Both members of Council and EEDC's board mentioned Health City as an example of an organization duplicating EEDC work.</p> <p>The way it describes itself as an economic development initiative and its description of the health innovation ecosystem is suggestive of possible overlap with EEDC's Innovation System and other areas of the EEDC.</p>
<p>Edmonton Global</p> <p>The organization aims to attract investment and jobs to the Edmonton Metropolitan Region.</p> <p>Its strategy focuses on three main themes: collaboration, focus, and innovation.</p>	<p>City is shareholder of Global, along with 14 other municipalities in the region.</p> <p>Formed in 2017.</p>	<p>\$2.5 million</p>	<p>Perceived overlap by some Councilors and board members, as well as management at the EEDC.</p> <p>The overlap with EEDC's Innovation System is to a lesser extent than TEC Edmonton and Health City.</p>

⁵ Total of 2016 to 2018 actual City contributions and 2019 budgeted contributions.

The confusion expressed by stakeholders, as to the role of the EEDC in the overall innovation ecosystem, may be a result of the overlap with work being done by other City funded organizations.

However, having clear, easy to understand business objectives that are communicated to stakeholders will reduce confusion and the perceived overlap with the services provided by other organizations.

The implications of not clearly differentiating the objectives and services provided by EEDC's Innovation Systems from other organizations funded by the City is that stakeholders will not know how its work fits in with these other organizations, nor will they know how to navigate the overall Edmonton innovation ecosystem. Financially, it also creates the perception that taxpayer dollars are being used to fund duplicating efforts.

Recommendation 3

Review and update objectives of EEDC's Innovation System

Recommendation:

Review and update the objectives and services of the EEDC's Innovation System to ensure that they are clear and understandable. This should involve working with other City of Edmonton funded organizations involved in the innovation ecosystem (such as TEC Edmonton, Health City, and Edmonton Global) to attempt to eliminate or minimize overlap with their objectives and communicating the results to stakeholders.



Responsible Party:

Vice President Innovate Edmonton



Accepted by Management

Management Response:

EEDC management recognizes the need for clear, understandable objectives that are distinct from objectives and services already being provided by other City of Edmonton funded organizations.

Since its inception in 1993, the EEDC has been asked to assume leadership accountabilities for a number of

initiatives, such as the Edmonton Research Park and Advanced Technology Centre, Startup Edmonton, among others. As the Edmonton Research Park Authority, the EEDC has had accountability for managing the covenant, ATC building and tenant programming since 1993. Although created in 2009, the EEDC was approached by Startup Edmonton to take on the management and operations of the company in 2014. These entities represent only few of the many entities that exist within the complex Innovation ecosystem in Edmonton. These entities currently fall within the Innovate Edmonton division of the EEDC. Other City of Edmonton funded organizations, specifically TEC Edmonton, Health City and Edmonton Global were developed more recently with governance and management outside of the EEDC. Due to the different governance structures, the entities' objectives do not align or are perceived to not align. Over the past 18 months, Innovate Edmonton has been working to identify the players in the ecosystem, highlight the work they do, and align their efforts to create value.

We are actively working with TEC Edmonton, Health City and Edmonton Global to create clear and understandable descriptions of the objectives and services provided by our organizations. This work has been further mandated by Councillor Andrew Knack's motion on August 27th, 2019 with a report back date to Council of December 2nd, 2019.



Implementation:





December 31, 2019

EEDC Innovation System's Component Alignment and Resource Allocation

We reviewed the underlying objectives and analyzed the allocation of funding and staff to each component of EEDC's Innovation System. Our goal was to determine if EEDC was targeting resources to activities that support its current objectives.

Component Alignment

Not all EEDC Innovation System components align to its objectives.

Startup Edmonton		Aligned as it encourages the creation and growth of tech-enabled businesses.
Advanced Technology Centre		Aligned as it caters to growth-stage tech companies.
Edmonton Made		Somewhat aligned to economic development given its objective to connect local entrepreneurs with foreign markets. However, this effort has no direct link to the EEDC's Innovation System's objective to support tech and tech-enabled businesses.
Make Something Edmonton ⁶		Not aligned as it had no clear link to economic development.

Resource Allocation

When we looked at how resources (e.g., staff, budget) are allocated between the different components of EEDC's Innovation System we found the following:

1. Processes to track financial and operational information on a component by component basis did not exist. As a result it was difficult to understand how EEDC was using funds and staff time between the components of the Innovation System.
2. The operations of the Advanced Technology Centre fully align with the objectives of EEDC's Innovation System; however EEDC allocated less marketing time

⁶ Make Something Edmonton is an open project platform showcasing the work of engaged citizens who are shaping Edmonton. It was mentioned as being a part of the EEDC's Innovation System in 3 out of 7 sources over the past 18 months, including the EEDC website as of June 2019 and EEDC's 2018 Annual Report. The platform is no longer active and EEDC management is considering options to transition or wind down the platform.

Resources are not allocated to the components that directly support the objectives of EEDC's Innovation System.

to it than to Edmonton Made (objectives only somewhat aligned). We also found a lack of awareness regarding the offerings of the Advanced Technology Centre. This could be due to the limited amount of marketing time EEDC has allocated to it.

Aligning and allocating resources to the components that directly support the objectives of EEDC's Innovation System will help ensure that EEDC's overall objectives are achieved. Implementing processes to track financial and operational activities of the components will further assist in assessing the resources required to ensure objectives are properly met.

Recommendation 4

Track resource use and review resource allocation in EEDC's Innovation System

Recommendation:

Ensure that resources, including revenues, expenses, and staff time, are tracked for each of the components in the EEDC's Innovation System on a consistent basis and review the resource allocation within the EEDC's Innovation System to ensure it is aligned to EEDC's objectives.



Responsible Party:

Vice President Innovate Edmonton



Accepted by Management

Management Response:

EEDC implemented the project management tool, Asana on June 25, 2019 in order to track staff time and gain further insight into what projects Innovate Marketing and Communications employees are working on and how much time they allocate to it. Senior leadership will review the allocations quarterly to ensure alignment against key objectives and program priorities.



Implementation:

January 31, 2020

Innovation System Performance Measures

We assessed whether the EEDC's Innovation System performance measures are sufficient to be able to conclude on the achievement of its objectives. We also reviewed a sample of the measures to see if they are reliable, comparable, and understandable.

To complete this work we used the objectives and measures in the most recent version of EEDC's Innovation System business plan (from June 2019).

The newest business plan does not have sufficient performance measures to conclude on all of its objectives. There are sufficient measures for Startup Edmonton, but not the Advanced Technology Centre or Edmonton Made.

It is important to have sufficient measures relating to objectives so that stakeholders are able to tell if EEDC is making progress on achieving its objectives.

The four performance measures we reviewed had issues with the reliability of the data, are not presented (to the shareholder or the board) in a way that makes them understandable, and two were not presented with any comparable data (the other two were presented with targets only).

When the EEDC reports information to the public, to the board, or the shareholder, it is important that they use reliable data to calculate the measures. It is also important that they present the measures in a way that makes them understandable to the reader and with some comparable data. This will ensure any decisions made with the information are fully informed.

Recommendation 5

Ensure performance measures are sufficient, reliable, understandable, and comparable

Recommendation:

Once objectives relating to the EEDC's Innovation System are established ensure performance measures used to report publicly, to the shareholder, or to the board are sufficient to conclude on the progress of the objectives. For the measures reported on, ensure reliable data is used and that they are reported in an understandable manner with comparable prior year results and targets.



Responsible Party:

Vice President Innovate Edmonton



Accepted by Management

Management Response:

Reliable, understandable and transparent reporting was also a key recommendation in the entrepreneurial engagement work. Once objectives relating to EEDC's role in the Innovation Ecosystem are established, predictable reporting will be established to share performance measures and benchmarking transparently to the shareholder, board and community at Edmonton Innovation Ecosystem Community (EIEC) meetings, as well as at semi-annual shareholder meetings beginning in 2020.



Implementation:

February 1, 2020



Vendor Master File

What is the Vendor Master File and why is it important?

The EEDC's Vendor Master File contains 3,800 vendors.

The Vendor Master File is a key element in EEDC's procurement and accounts payable processes. The Vendor Master File contains all the necessary information on individuals and organizations that EEDC uses to pay for goods and services (such as name, address, contact information, and electronic payment information). The integrity and accuracy of the Vendor Master File is the foundation for valid, efficient, and effective payment processing.

Summary of Findings

The Vendor Master File contains duplicate vendors, inactive vendors, and potentially incorrect information. This is due to a lack of policies and procedures that guide the use and protection of the Vendor Master File.

Vendor Master File Controls

All new vendor set up and changes to existing vendor information should be:



Properly authorized - reviewed and approved by responsible personnel.



Complete - should contain all required vendor data.



Accurate - correct in all details and recorded in a timely manner.



Valid - justified and supported by appropriate documentation.










Safeguarded - appropriately controlled and restricted to authorized personnel.

If these controls are not operating effectively there are risks that could lead to unauthorized or inappropriate activity, duplicate payments, inefficiencies, or fraud.

Table 2 shows these risks, the controls associated with them, and the findings from our analysis of the data in the EEDC's Vendor Master File.

Table 2: Vendor Master File Risks and Findings

Risk	Associated Controls	Audit Findings
The Vendor Master File may contain duplicate vendors.	 Properly Authorized  Accurate  Valid	<ul style="list-style-type: none"> 19 vendors with at least one duplicate entry in Vendor Master File. 16 vendors with a similar sounding name to at least one other vendor. 80 vendors sharing 41 addresses.
Users may make unauthorized banking changes in the Vendor Master File.	 Properly Authorized  Accurate  Valid	<ul style="list-style-type: none"> 10 vendors with the same banking information as at least one other vendor. 9 employees can add or change vendor Electronic Funds Transfer (EFT) information and approve the change in the system.
The Vendor Master File may contain dormant vendors.	 Accurate  Valid	<ul style="list-style-type: none"> No requirement to regularly review and maintain the vendor master file. Over 2,000 vendors in the master file that the EEDC had not paid since 2016.
The Vendor Master File may contain missing or incorrect information.	 Complete  Accurate  Valid	<ul style="list-style-type: none"> No requirements for data entry formats. Vendor Master File contains: <ul style="list-style-type: none"> 87 vendors with no addresses 3 vendors with no short names 3,642 vendors with no GST numbers 3,323 vendors with no legal name
Unauthorized employees may enter, change, and/or delete data in the Vendor Master File.	 Authorized  Safeguarded	<ul style="list-style-type: none"> No process to review and update access to the Vendor Master File on a regular basis. 11 employees can add or change vendor information in the Vendor Master File.

The findings from our testing show that opportunities exist to improve operating effectiveness of key controls over the vendor master file. This includes:

1. Cleaning up the Vendor Master File; and
2. Developing policies and procedures that guide the use and protection of the Vendor Master File.

Vendor Master File Clean Up

Vendor Master File contains duplicate vendors, inactive vendors and potentially incorrect information.

The EEDC should clean up the Vendor Master File to remove duplicate vendors, inactive vendors, and to ensure all information is accurate. They should also develop and implement a management monitoring process to ensure the ongoing accuracy and validity of the Vendor Master File.

We identified the following in the Vendor Master File:

- 2000 vendors that EEDC had not worked with (i.e., paid) since 2016.
- 80 vendors sharing 41 addresses.
- 19 vendors with at least one duplicate entry in Vendor Master File.
- 16 vendors with a similar sounding name to at least one other vendor.

We also reviewed accounts payable transactions from January to June 2019 for duplicate payments as these would be an indicator that the Vendor Master File data is not properly authorized, accurate, and valid. We found one duplicate payment. The payment was for \$172 and EEDC has contacted the payee to have it refunded.

Cleaning and maintaining the Vendor Master File regularly will help mitigate the risk of unauthorized or inappropriate activity, prevent duplicate payments, reduce inefficiencies, and reduce the risk of fraud.

Recommendation 6

Clean up and maintain the Vendor Master File

Recommendation:

Clean up the Vendor Master File and develop and implement a management monitoring process to ensure the ongoing accuracy and validity of the Vendor Master File.



Responsible Party:

Vice President Corporate Services



Accepted by Management

Management Response:

EEDC management agrees with the findings and recommendations, will work to clean up the vendor master file, and continue developing consistent and repeatable tests to ensure data integrity and accuracy. Although elements of these processes currently exist, we recognize the opportunity to solidify and formalize structured processes moving forward.



Implementation:

November 30, 2019

Vendor Master File Policies and Procedures

Need documented policies, procedures, and work instructions for the Vendor Master File.

Fundamentally, the root cause of our findings with the Vendor Master file is that policies and procedures that guide the use and protection of the Vendor Master File do not exist. EEDC needs to document and implement policies, procedures, and work instructions for the Vendor Master File. These new procedures should, at a minimum, include:

- A requirement to review appropriate supporting documents.
- Using forms to support and validate set up of, or changes to, Vendor Master File data.
- A requirement for independent verification of the legitimacy of changes including approval of new vendors.
- Establishing and enforcing procedures for data entry formats (e.g., naming conventions, record structure, physical address required, direct communication information required, etc.).
- Periodically review employee access to the Vendor Master File to ensure it is appropriate.

Policies and procedures can help employees understand what they can and cannot do when working with the Vendor Master File. Well written policies and procedures further ensure appropriate segregation of duties by clarifying roles and responsibilities for every type of staff. Ultimately, policies and procedures help to ensure consistency and efficiency in an organization's day-to-day operational activities.

Recommendation 7

Document and implement procedures

Recommendation:

Document and implement procedures for Vendor Master File set up and changes that, at a minimum:

- Require requests for vendor set up or changes to be properly authorized (including use of forms).
- Require independent validation of the legitimacy of vendor or vendor changes prior to setting up or changing Vendor Master File information.
- Require review of appropriate supporting documentation prior to setting up or changing Vendor Master File information.
- Determine set up and change authorizations in the Vendor Master File database.
- Establish and enforce procedures for data entry formats (e.g., naming conventions, record structure, physical address required, direct communication information required).
- Require periodic review of employee access to the Vendor Master File to ensure it is appropriate.

A process should also be established to periodically review and update the procedures and work instructions to ensure they stay accurate and relevant with the current operating environment.



Responsible Party:

Vice President Corporate Services



Accepted by Management

Management Response:

EEDC understands the importance of having a robust, documented Vendor Setup Process in place. Since January 2019 we have implemented new effective preventative, detective and corrective internal controls to authenticate vendor banking information prior to releasing payments. In addition, we have already begun the process of developing standards and practices relating to all aspects of vendor setup. We recognize the opportunity for continuous improvement to further strengthen the effectiveness of our internal controls, documentation and implementation processes surrounding those controls.



Implementation:

December 1, 2019



Conclusion

What did we find?

In this audit, we assessed four areas of EEDC:

1. Whether the Organization's Articles of Association are up-to-date and clear.
2. The effectiveness of EEDC's risk management process.
3. The effectiveness of EEDC's Innovation System in achieving its objectives.
4. Whether key controls over the Vendor Master File are adequately designed, established, and operating as intended.

The EEDC's Articles of Association and Memorandum of Association are not up-to-date and should be clarified.

The Articles of Association were formulated in 1992 and updated in 2007. They lack clarity on the current roles and responsibilities of the shareholder, board, and management.

The Memorandum of Association was formulated in 1992 and describes the official mandate of EEDC. However a new mandate has recently been approved by the shareholder. The mandates are similar, but the new one is less prescriptive than the old one. This is causing confusion on which services the EEDC should be providing.

EEDC's risk management process should be aligned to best practices.

EEDC can improve the overall effectiveness of its risk management program by ensuring existing and future activities align with best practices. Specifically, the most pervasive gap is in risk identification activities and the involvement of the directors who report to senior management in the process.

The effectiveness of EEDC's Innovation System can be improved.

The objectives of the EEDC's Innovation System have changed multiple times over the past 18 months. They are not clear and understandable to stakeholders. There is also a lack of agreement on what services should be included in EEDC's Innovation System. This may have contributed to the actual and perceived duplication of objectives and services with other City funded organizations.

EEDC's Innovation System has not prioritized funding and/or staff time for the activities that directly align with its objectives.

This is difficult to do right now as they do not track financial and operational information on a component by component basis.

EEDC does not have sufficient performance measures to conclude on the objectives of its Innovation System.

Key controls over the Vendor Master File can be improved.

We found duplicate vendors, inactive vendors, and inaccurate information in the Vendor Master File. It should be cleaned up and a management monitoring process developed and implemented to ensure the ongoing accuracy and validity of the Vendor Master File.

The state of the Vendor Master File can be attributed to the lack of documented policies and procedures related to the Vendor Master File.

We would like to thank the staff and Board of EEDC for their cooperation and support during this audit.



Appendix 1: EEDC's Mandates

EEDC's Mandate Description 1: **Registered Mandate - Memorandum of Association (1992)**

- 2.1 *to promote the economic development and growth of the City of Edmonton;*
- 2.2 *to promote, co-ordinate, facilitate and carry out studies, activities, projects and programs to attract and retain investment, create employment and enhance the economic development and growth of the City of Edmonton;*
- 2.3 *to formulate and thereafter revise and refine from time to time the economic development strategy for the City of Edmonton;*
- 2.4 *To actively promote and assist in the promotion of the City of Edmonton as an attractive place to invest, carry on business, gain productive employment, reside and visit;*
- 2.5 *to participate in and support public and private projects to enhance the reputation, image and goodwill of the City of Edmonton both locally, provincially, nationally and internationally;*
- 2.6 *to establish, construct, maintain, manage and operate facilities to assist and encourage the economic development and growth of the City of Edmonton; and*
- 2.7 *to engage in any lawful act or activity which, in the opinion of the Board of Directors, can be advantageously carried on by the Company in connection with or as ancillary to any of the objects of the Company set out in this Memorandum of Association.*

EEDC's Mandate Description 2: **Special Shareholders' Meeting March 8, 2019**

"EEDC is a board governed agency of the City of Edmonton as represented by City Council as the sole shareholder. EEDC's mandate is to recommend economic development policy and strategy for the City of Edmonton, execute strategy as assigned by the Shareholder, and conduct a broad range of economic development initiatives in collaboration with the City of Edmonton and other partners."



Appendix 2: EEDC’s Risk Management Process Compared to Best Practices

Best Practice	EEDC’s Current State	Gap
Risk Management Governance Structure		
Risk Culture & Awareness		
<p>The beliefs, knowledge, attitudes and understanding about risk shared by a group of people with a common purpose.</p>	<p>Middle management is not yet involved in risk discussions. These discussions currently occur at the senior management level.</p> <p>Culture of active risk awareness has yet to be fully appreciated by the entire organization.</p>	<p>Risk management should be culturally understood as a critical business activity.</p>
Risk Philosophy		
<p>Clarification of how the goals of the risk management program align to the entity’s vision, mission, and business strategy (e.g., a policy statement on risk).</p>	<p>EEDC has not yet developed a formal risk philosophy.</p>	<p>A definitive statement describing the alignment of EEDC’s risk management program to its objectives will rationalize and validate the effort.</p>
Defined Risk Tolerance/Appetite		
<p>The level of risk a company is willing to accept in order to achieve its business strategy.</p>	<p>The EEDC has yet to define its formal risk appetite</p>	<p>EEDC’s current activities articulate the level of risk the organization will tolerate in order to pursue its objectives. However, a stated, clear, and communicated definition would provide an organization-wide reference for business decision-making and its risk management program.</p>
Roles & Responsibilities		
<p>Identifiable, clear, and distinct roles for risk management exist and are understood.</p>	<p>Roles of Audit and Finance Committee clear. Others are not defined.</p>	<p>Roles and responsibilities for risk management should be defined and assigned at the governance senior management, and middle management levels.</p>

Best Practice	EEDC's Current State	Gap
Risk Management Policies		
Policies/procedures communicating the organization's process/method to gather and assess risk.	An organizational wide Risk Management Policy/Manual does not exist.	Create a Risk management policy that includes: <ol style="list-style-type: none"> 1. EEDC's risk philosophy 2. Roles & responsibilities 3. Risk methodology 4. Tools & processes used 5. Reporting and communication methods
Risk Management Infrastructure		
Methodology		
COSO Framework, ISO 31000 Framework, etc.	Not yet defined.	The EEDC's Risk Management program should be based on a best practice risk management framework.
Tools		
Tools (e.g., meetings, risk registers) and technologies used (if any) to identify, assess, and monitor risk.	Current activities at EEDC align with this best practice.	No gap identified.
Procedures		
Procedures are in place to identify, assess, and monitor risks consistently.	Current activities at EEDC align with this best practice.	No gap identified.
Risk Management Process		
Identification & Assessment		
Relevant risks are identified.	Not always. Risk identification and gathering process occurs at the senior management level. Middle management is not yet involved in the discussion of risk despite the fact that they would be in a good position to identify operational and other risks.	Assign middle management the responsibility to identify risk. This will support the completeness of the risk identification stage and will help create a corporate culture that is actively risk-aware.
Assess Risk		
Identified risks are assessed in a consistent way.	Current activities at EEDC align with this best practice.	No gap identified.

Best Practice	EEDC's Current State	Gap
<p>Manage Risk</p> <p>Mitigation plans are developed for each identified risk.</p>	<p>Current activities at EEDC align with this best practice.</p>	<p>No gap identified.</p>
<p>Monitoring & Reporting</p> <p>Identified risks are monitored on an ongoing basis by management and regularly reported to the Board.</p>	<p>Current activities at EEDC align with this best practice.</p>	<p>No gap identified.</p>