



Heritage Grant and Downtown Housing Reinvestment Grant Investigation

October 23, 2007

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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1. Introduction

Beginning in mid-2006 and continuing through early 2007, an individual contacted the Office of the City Auditor (OCA) with a series of allegations regarding the manner in which Heritage Grant and Downtown Housing Reinvestment Grant funding was awarded to a developer of a particular building (Project B).¹ The individual included all his contact information when he also submitted information through the City's hotline process in early 2007.

The materials submitted identified potential issues regarding the propriety of grants made to the developer under the terms of the City's Heritage Grant and Downtown Housing Reinvestment Grant programs, both of which were administered by Planning and Development Department.

2. Background

2.1. Heritage Grant Program

The City's Heritage Grant program is enabled by City Policy C450A – *Policy to Encourage the Designation and Rehabilitation of Municipal Historic Resources in Edmonton*. This policy provides a means for designating historical resources as municipal historic resources. The policy requires City Council to pass a bylaw detailing the requirements for preservation of the façade and other historic features for each resource. Historic resource designations often include funding to assist the owner with restoration and/or preservation of the resource (e.g., an historic building).

2.2. Downtown Housing Reinvestment Grant Program

On July 15, 1997, City Council approved the Downtown Housing Reinvestment Program, which would provide funding incentives of "\$4,500 for each housing unit built within the Downtown Plan boundary." These incentives were further formalized with slight modifications to the program criteria on May 11, 2000 when Council incorporated the changes into the *Capital City Downtown Plan*.²

¹ Projects are referenced in this report by letter, not by name.

² On May 11, 2000, City Council approved Bylaw 12296 – *A Bylaw to amend Bylaw 11400, as amended, The Downtown Area Redevelopment Plan*.

The goal of the Downtown Housing Reinvestment Grant program was to increase the number of people living in the downtown area by increasing the number of available housing units. At the time the program was initiated in 1997, the Planning and Development Department had determined that a subsidy of \$4,500 per housing unit would encourage developers to create new housing units in buildings and areas that would otherwise remain vacant. By the end of the program, the City had paid out all of the \$4.5 million allocated by City Council and had subsidized 1,000 newly-created housing units.

3. Objectives

The objectives of this investigation were:

1. To confirm or dispel the allegation that Heritage Grant funds were improperly awarded to the developer.
2. To determine whether or not Downtown Housing Reinvestment Grant projects were funded in accordance with program criteria.

4. Scope and Methodology

We reviewed available documentation related to the tip including Heritage Grant and Downtown Housing Reinvestment Grant awards for Project B. We also evaluated compliance with the relevant program requirements. Since the Downtown Housing Reinvestment Grants were available in limited supply and for a limited time, we reviewed each of the funded projects and potential projects to determine whether or not the available funding was distributed in accordance with the program goals and objectives.

This investigation included the following activities:

- Searched relevant Corporate Registries data
- Interviewed City staff and other individuals as required
- Obtained and reviewed relevant policies, bylaws, and provincial legislation
- Obtained and reviewed relevant program documentation
- Conducted extensive electronic document searches to locate documents not available from department paper files

5. Observations and Analysis

5.1. Heritage Grant

During our review of the records associated with the Heritage Grant, we identified two opportunities to improve the department's grant administration processes: 1) ensuring that each process step specified by the policy and procedures is supported by complete documentation and 2) ensuring that sufficient portions of the allocated grant funding are held back to make sure that restoration work is completed in a timely manner. Through further review of current practices, we determined that the City's heritage planning group had already implemented a checklist and new contract wording to address these deficiencies.

When we reviewed the documentation in the Heritage Grant file, we found a few incomplete records, but those items were not critical to the overall process and did not impact the legitimacy of the grant payments. We were able to confirm that department records supported the award of Heritage Grant funding to the developer of Project B.

5.2. Downtown Housing Reinvestment Grant

As mentioned previously, the Downtown Housing Reinvestment Grant program was intended to inspire interest in the development community for creating new downtown housing units. Council authorized developer subsidies of up to \$4,500 per housing unit created (based on the actual costs of development) for up to 1,000 housing units (\$4.5 million total allocation) that satisfied the established criteria. Program funds were to be distributed to the first projects satisfying all the program criteria. Ultimately, the program received 30 applications. Of those 30 potential housing projects, 15 were subsidized by the Downtown Housing Reinvestment Grant program.

5.2.1. Program criteria and procedures

These seven criteria are a combination of the 1997 and 2000 versions of the criteria. Grant performance criteria and administration procedures included:

1. Grant and development permit applications are made at the same time
2. Grant application form is submitted with a set of construction drawings
3. Eligible projects are given preliminary approval (i.e., conditional approval based on qualifying ahead of competing projects)
4. Construction will commence within one year of the development permit (prior to May 11, 2000) or within one year of preliminary approval (after May 11, 2000)
5. Units must be completed within two years of initial application (up to May 11, 2000) or preliminary approval (after May 11, 2000)
6. Grant funds to be paid once all the conditions of the development permit are met and an (unconditional) occupancy permit is issued ("unconditional" added effective May 11, 2000, but stated in correspondence with applicants prior to that)

7. Allocation of grants is based upon the order in which the unconditional occupancy certificates are issued (effective May 11, 2000)

5.2.2. Performance anomalies

Some of the 15 projects received Downtown Housing Reinvestment Grant funding although they did not satisfy the program criteria:

- Projects A, B, C, and D were not completed within the two-year limit (criterion 5)
- Projects A and B did not start construction within the one-year limit (criterion 4)
- Projects A, E, and F had no record of preliminary approval (criterion 3)

Since the criteria on the application forms were not completely clear about requiring a preliminary approval letter (criterion 3) and Projects A, E, and F were included as part of the program in the earliest available project status updates, we interpreted criterion 3 as non-mandatory.

As noted above, four of the Downtown Housing Reinvestment Grant projects that received grant payments were not completed within the two-year window (criterion 5). For those four projects, the actual time elapsed between initial applications and construction completion ranged from slightly over 2 years to over 3 years. In addition, developers did not start construction on two of those four projects within the required one-year timeline.

The City paid out a total of \$2.3 million to the four projects that did not satisfy the construction timeline performance criteria.

5.2.3. Payment process anomalies

We found that Projects B, C, E, F, and G received Downtown Housing Reinvestment Grant funding prior to or without evidence of final occupancy permits for all housing units in the project (criterion 6).

As required by the process, 10 of the 15 projects that received Downtown Housing Reinvestment Grant funding received an unconditional occupancy certificate or permit prior to payment. The other five projects (Projects B, C, E, F, and G) had either conditional occupancy permits or permits for some, but not all, of the funded housing units at the time of payment.

In addition to the payments for Projects B and C (\$940,500 that is included in the \$2.3 million above), the City paid out \$333,000 in grant funding to projects E, F, and G either prior to final occupancy permits or with no records of occupancy permits for specific units.

5.2.4. Summary observations

Records

We experienced significant difficulty in locating records during this project. Although department personnel were very open and provided much assistance, most of the required records for the Downtown Housing Reinvestment Grant program were not readily available. Consequently, we had to conduct extensive electronic records searches to create document files for each of the Downtown Housing Reinvestment Grant program applicants.

We observed several incomplete POSSE³ records during this investigation. For example, there were several instances in which there was no record that final inspections were performed on properties, but the permits were eventually closed with notes such as, “Old file,” or with no explanatory note. In addition, the permit fee balances in POSSE were not zero on several projects that were completed several years ago.

Management needs to be satisfied that each permit file is complete prior to closing it. In addition, Management needs to ensure that supervisors validate POSSE entries (perhaps on a sample basis) as a regular part of their quality assurance role.

Grant expenditures

The department used all of the money allocated by Council for Downtown Housing Reinvestment Grants (\$4.5 million) to subsidize 1,000 new housing units, as Council had intended. However, four projects that did not satisfy the construction timeline criteria received grant funding. Five other projects that satisfied the program criteria were not complete until after the available funding was exhausted.

Both the Heritage Grant and the Downtown Housing Reinvestment Grant programs were administered by the organizational units responsible for both inspections and authorizing payments. As noted above (Section 5.2.3), five of the funded projects were not completed at the time of payment. For any future programs, assigning an independent business unit to oversee payment authorization would help ensure that all the required process steps are completed in accordance with the program criteria prior to payment.

³ POSSE (Permit One Stop SErvice) is a core City of Edmonton computer application used to develop electronic workflows, allow data entry and maintenance by multiple users, develop and track data relationships, and enable user-defined interfaces.

Recommendation

The OCA recommends that the Planning and Development Department ensure: 1) that its current and future grant programs are administered in a manner that ensures adequate segregation of duties and complete and accurate record-keeping and 2) that the grant payment release process is managed to ensure that required program criteria are fully satisfied.

Management Response and Action Plan**Accepted****Comments:**

The Department understands the value of separating operational aspects and due diligence checks for its programs and supports the recommendation. We will separate grant program administration and operations to ensure that the administrators are not the same people or organizational units that are charged with grant program operations. We further agree to implement program requirements checklists for each grant program to help ensure that record-keeping is complete and program criteria are satisfied before payment is issued.

Planned Implementation Date: December 31, 2007

Responsible Party: Development Compliance Branch Manager

6. Conclusions

The Heritage Grant was properly awarded to the developer for its restoration of Project B.

The Downtown Housing Reinvestment Grant program was not administered in strict accordance with the program criteria. Projects A, B, C, and D did not satisfy the program criteria at the time of payment.

We believe that tighter controls on future subsidy program expenditures would help ensure that those projects that fully qualify for funding receive it in a timely manner. In this instance, Council established a program that was designed to provide subsidies to developers to add 1,000 units of new downtown housing. The program goal was satisfied. However, the anomalies noted in this report did not provide assurance that the program funds were distributed in strict accordance with the program criteria.