

**OFFICE OF
THE CITY AUDITOR**

REPORT
CITY GOVERNANCE
OF FORT EDMONTON
PARK AUDIT

October 3, 2022

Project Summary

BACKGROUND

Fort Edmonton Park (Fort Edmonton) is a living museum and tourist attraction that includes more than 80 original and reconstructed historical structures representing the history of Edmonton. Accredited by the Alberta Museum Association, Fort Edmonton combines the use of buildings, streetscapes, artifacts, and programs offered by costumed historical interpreters to allow visitors to experience life as it was.

The City of Edmonton (the City) owns the land, buildings, and artifacts in Fort Edmonton. It is responsible for maintenance of these assets.

In 2009, City Council approved the creation of the Fort Edmonton Management Company (FEMCo) to operate and manage Fort Edmonton. City Council set the mandate and long-term strategic goals for FEMCo. The City is the sole shareholder of FEMCo, with the City Manager acting as proxy.

The City has an agreement with FEMCo to manage and operate Fort Edmonton. The Community Recreation and Culture Branch (Branch) is responsible for managing this agreement. In 2021, the City provided \$4.2 million in operational funding to FEMCo.

AUDIT OBJECTIVES¹ & SCOPE

To determine if the Community Recreation and Culture Branch:

1. Has a governance framework for Fort Edmonton that achieves the long-term strategic goals set out by City Council.
2. Is managing the City's support of Fort Edmonton at the appropriate level.

¹ We conducted this engagement in conformance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

This audit focused on the City of Edmonton's governance of Fort Edmonton and how the Branch manages, monitors, and coordinates the City's support of Fort Edmonton. We did not audit FEMCo or its operations.

WHAT WE FOUND

The governance framework of Fort Edmonton is generally consistent with best practices. As a separate and distinct entity from the City, FEMCo has an independent Board of Directors and is managed by its own CEO, who is appointed by the Board.

However, the governing documents for FEMCo are outdated and have unclear roles and responsibilities. As well, the City's management agreement with FEMCo includes unclear roles and responsibilities, funding approaches, and service provisions.

The governing documents for FEMCo include clauses that are no longer accurate and/or no longer consistent with the City's current practices. As well, the long-term strategic goals of FEMCo are not aligned within the documents.

In addition, unclear roles and responsibilities within FEMCo's governing documents and the City's management agreement with FEMCo has contributed to some uncertainties between the parties.

Finally, the management agreement is unclear on what the City should include in the revenues and expenditures used to calculate the operational funding it gives FEMCo and how the City should distribute the funds. As well there is a lack of detail around all the services provided by the City to FEMCo and the total costs of these services.

RECOMMENDATIONS

Recommendation 1

We recommend that the City Manager facilitate the updating of the Fort Edmonton Management Company governance documents to set clear long-term strategic goals.

Recommendation 2 We recommend that the City Manager clarify the roles and responsibilities of the various stakeholders involved in Fort Edmonton Park.

Recommendation 3 We recommend that the City Manager clarify the City's approach to funding the Fort Edmonton Management Company.

Recommendation 4 We recommend that the City Manager develop detailed agreements for the services the City provides to the Fort Edmonton Management Company.

WHY THIS IS IMPORTANT

Without clear and consistent expectations shared among City Council, City Administration, and FEMCo, there are uncertainties, inefficiencies, and confusion in overseeing and managing Fort Edmonton.

Fort Edmonton Park Details

Fort Edmonton Park (Fort Edmonton) is a living museum and tourist attraction. It originally opened in 1974. It includes more than 80 original and reconstructed historical structures representing the history of Edmonton. Accredited by the Alberta Museum Association, Fort Edmonton combines the use of buildings, streetscapes, artifacts, and programs offered by costumed historical interpreters to allow visitors to experience life as it was.

CITY GOVERNANCE OF FORT EDMONTON PARK

In 2009, the City created the Fort Edmonton Management Company (FEMCo) as a separate corporation with the City as the sole shareholder. Then it transferred the operations and management of Fort Edmonton to FEMCo. The City retained the ownership of the land, buildings, and artifacts in Fort Edmonton.

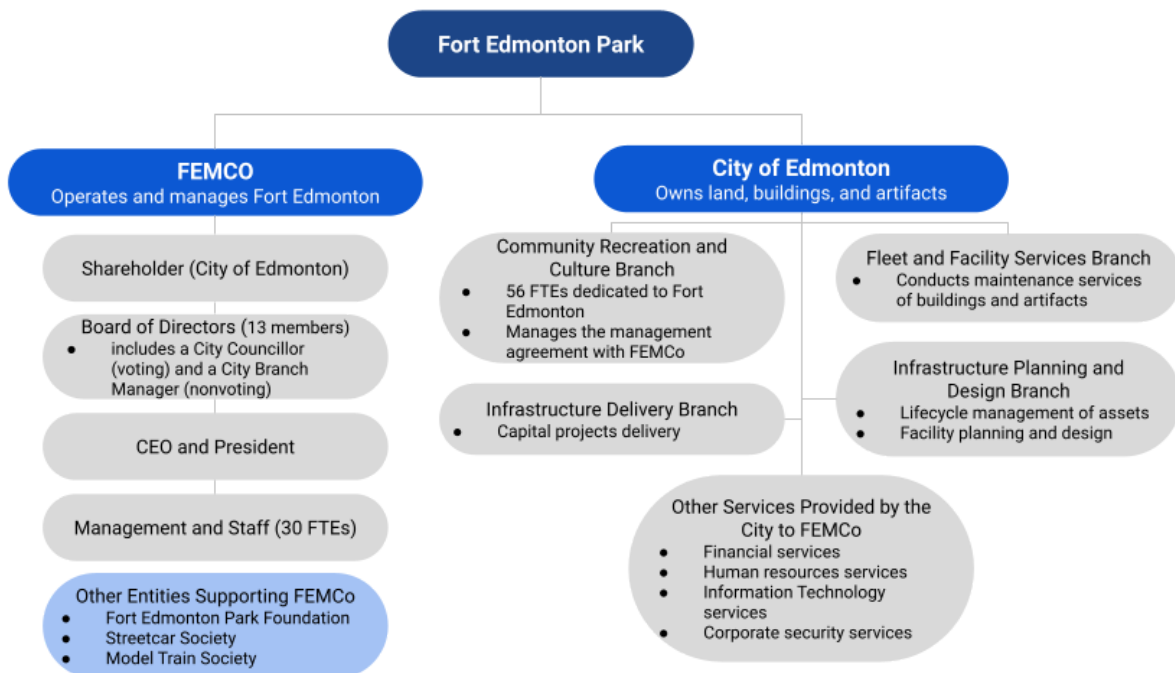
The governing documents for FEMCo include the Memorandum of Association and the Articles of Association. These documents set the shareholder's long term strategic goals for FEMCo and Fort Edmonton.

In addition, the City has a management agreement with FEMCo. This agreement sets out the general principles for management and operations of Fort Edmonton for FEMCo. It also sets out the City's obligations. This includes providing operational funding to support FEMCo. The Community Recreation and Culture Branch (Branch) is responsible for managing this agreement.

Timeline of Governing Documents for Fort Edmonton Park from 2009 to Present



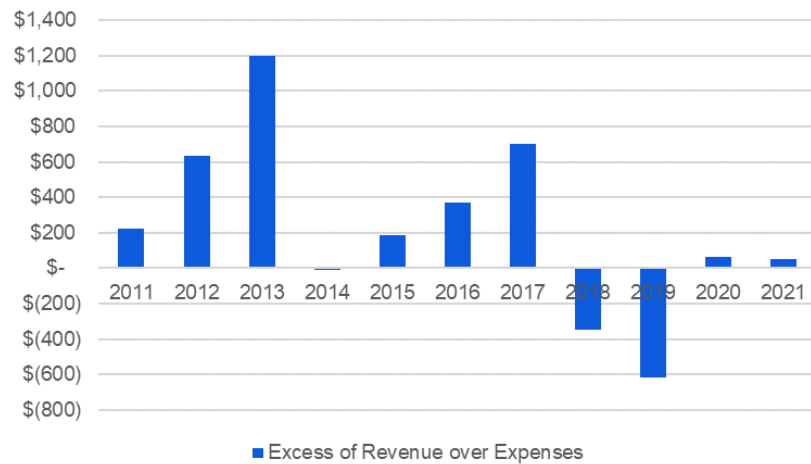
Although FEMCo manages and operates Fort Edmonton on behalf of the City, many City business areas also provide services and staff to support FEMCo. In addition, the City is responsible for all preventative building maintenance, repair and rehabilitation of City-owned assets at Fort Edmonton. As well there are third party entities that support Fort Edmonton.



Fort Edmonton Financial Information

The graph below shows the result of the total operations of Fort Edmonton from 2011 to 2021. This includes all the revenue Fort Edmonton generates (for example, public admission fees, rental, special event revenue, and operational funding provided by the City). As well as FEMCo expenses (for example, FEMCo staffing, special event expenses) and City expenses (for example, City staff working at the park, fleet and facility maintenance services).

Fort Edmonton Financial Results 2011 to 2021
(\$ thousands)

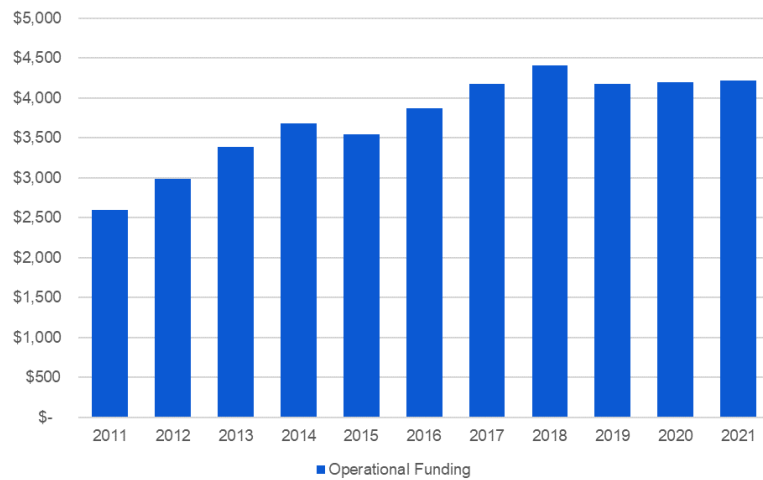


During the summer of 2018, the train, one of Fort Edmonton's major attractions, was not running. In addition, Fort Edmonton was closed from October 2018 to July 2021 for renovations and due to Covid-19 restrictions. Fort Edmonton re-opened in July 2021 after the completion of the Enhancement Project, which included a new front entry plaza, major utility upgrade, expanded midway, and a new venue: the Indigenous Peoples Experience. As a result, financial results for 2018 through to 2021 were lower.

CITY FUNDING PROVIDED TO FEMCO

The City provides operational funding to FEMCo to help cover the costs of City services provided to the park. The amount of operational funding the City provided FEMCo has gradually increased over the past 10 years from \$2.6 million in 2011 to \$4.2 million in 2021 in part because of collective agreement settlements and inflationary operating cost increases.

**City of Edmonton Operation Funding to FEMCo
2011 to 2021 (\$ thousands)**



Recommendation 1: Governance Documents

RECOMMENDATION 1

We recommend that the City Manager facilitate the updating of the Fort Edmonton Management Company governance documents to set clear long-term strategic goals.

KEY FINDINGS

The governance documents for FEMCo include the following:

- Articles of Association
- Memorandum of Association
- Fort Edmonton's 2010 Master Plan
- FEMCo's 2018 Strategic Plan

These documents created FEMCo, established the rules for governance, and set the long-term strategic goals for FEMCo.

However, we found that some of these documents are outdated and do not align with the City's current practice. As well, there is a misalignment between goals and objectives for FEMCo in the founding documents and FEMCo's current strategic plan.

OUTDATED ARTICLES OF ASSOCIATION

Some sections in the Articles of Association are outdated and are no longer consistent with current practices, as follows:

- The Articles require the Board to appoint, as advisors, representatives for each union with employees at Fort Edmonton. City Administration and FEMCo agree that this is not appropriate as unionized employees working at Fort Edmonton are City of Edmonton employees. FEMCo is an independent entity from the City.
- The City Manager acts as the proxy for FEMCo's sole shareholder: City of Edmonton. This is not consistent with the City's current practice. FEMCo is the only company owned by the City that uses a proxy to

represent the shareholder. Other boards report directly to the shareholder.

- The Articles require at least one member of the Board to be a City Councillor. To avoid potential conflicts of interest, the City no longer appoints councillors to sit on City owned corporation boards in a voting capacity. FEMCo is currently the only City owned corporation board that has a councillor in a voting capacity.

MISALIGNED GOALS OF FEMCO

The long-term strategic goals for FEMCo do not fully align across the governing documents. This has led to FEMCo and City Administration interpreting the goals differently. Example:

- The Memorandum of Association and Fort Edmonton Park's 2010 Master Plan call Fort Edmonton a living museum. FEMCo's strategic plan calls it a premier cultural tourism attraction. This is a broader term than a living museum and has implications on the type of programming and events within Fort Edmonton and the use of historic assets. For example, FEMCo uses some historic assets for revenue generating activities that are not historical in nature (e.g., FEMCo's Halloween event - DARK). This use is in line with FEMCo's strategic plan. Some City staff feel that historic artifacts and buildings were given in public trust for preservation and to use for historic education only based on the Memorandum of Association. The terminology used should be consistent in all governing documents and be representative of the mandate given to FEMCo.
- FEMCo's strategic plan describes FEMCo's aspirations of growing the company and "enriching the product mix internal and external to Fort Edmonton." The Memorandum of Association states that the City established FEMCo to manage Fort Edmonton and does not refer to activities external to Fort Edmonton. This has implications for whether FEMCo can look outside

Fort Edmonton for revenue generating ideas. For example, in 2019, FEMCo formed a partnership with Edmonton Nordic Spa Ownership Structures Ltd. to develop a Nordic Spa on the City's overflow parking lot adjacent to Fort Edmonton. This project aligned with FEMCo's strategic plan. The project was canceled before it was presented to City Council for approval as a result of misaligned commercial interest between the two companies. However, City Administration indicated that the project was outside of FEMCo's mandate per the Memorandum of Association.

WHY THIS IS IMPORTANT

Clear, updated, and accurate governance documents will provide a mechanism for accountability, oversight, and clear decision making.

RECOMMENDATION 1 MANAGEMENT RESPONSE

Facilitate the updating of Fort Edmonton Management Company governance documents to set clear long-term strategic goals.



Responsible Party

City Manager



Accepted by Management

Management Response

The Articles of Association and Memorandum of Association are important governance documents that created FEMCo and set long term strategic goals for the company. Administration agrees that these documents are outdated and need to align. Updated documents are also critical in helping to define roles and responsibilities that reflect current

practice.

Administration will work with FEMCo to review and update the governance documents. The first step will involve collaborating with FEMCo to review the current operating and partnership model, explore other possible models and determine the most effective model moving forward. Updating of the governance documents will follow in stages as appropriate.

Review of operating and partnership model -
September 30, 2023

Articles of Association and Memorandum of
Association - April 30, 2024

Updating the 2010 Fort Edmonton Park Master Plan
and FEMCo Strategic Plan - December 31, 2024



Implementation Date

December 31, 2024

Recommendation 2: Roles and Responsibilities

RECOMMENDATION 2

We recommend that the City Manager clarify the roles and responsibilities of the various stakeholders involved in Fort Edmonton Park.

KEY FINDINGS

The governance documents and the management agreement have created inconsistencies in the understanding of the roles and responsibilities of each party and of individual City representatives involved with Fort Edmonton. This has led to questions about whether there is a representative of the shareholder on the Board, how information should be shared between FEMCo and the City, and who within the City can make decisions on asset acquisition.

UNCLEAR ROLES AND RESPONSIBILITIES

The City is FEMCo's sole shareholder. The City is also a service provider, and asset owner at the Park. The governance documents and the management agreement do not provide enough clarity on the roles and responsibilities of the parties involved. This relates to:

- City Council, as lead governance body of the sole shareholder: City of Edmonton
- A City Councillor, as a voting member of the Board
- The City Manager, as the shareholder's proxy and employee of the shareholder
- The Branch Manager, as a non-voting member of the Board
- City Administration (for example, Deputy City Managers, Branch Manager, Branch Director, and staff), as service providers, contract administrators, and decision-makers
- FEMCo Board and FEMCo staff

The following situations illustrate where unclear roles and responsibilities have created or are creating challenges.

Shareholder's Board representatives and proxy

There are two people who work for the City on the FEMCo Board: the Branch Manager and a City Councillor. A number of FEMCo Board members and the City interpret whether they are representatives of the shareholder differently.

These FEMCo Board members view both of them as representatives of the shareholder. However, the Branch Manager represents City Administration (as service provider and contract manager). In addition, according to the City Clerk, councillors serving on corporate boards owe a legal duty of loyalty and confidentiality to that corporation and therefore are not representatives of the shareholder.

Information sharing

There is a lack of understanding on how some information is shared between FEMCo and the City. Example:

- Can the Branch Manager share information that they received from the Board with the branch staff members? To avoid potential conflicts of interest the Branch Manager has not been providing the staff who manage the contract with all the information received as a FEMCo Board member. FEMCo Board members and management thought the information was being shared.
- Should the people who work for the City who are on the Board be providing the Board with information obtained through their jobs with the City? For example, City Administration proposed to Council to make the Fort Edmonton parking lot a paid lot. This parking lot is not part of Fort Edmonton and managed by the City. The City members on the Board did not share this information with FEMCo prior to the proposal going to Council. It would not have been inline with FEMCo's

internal strategic goal to improve accessibility to Fort Edmonton. City Council rejected the proposal.

Asset acquisition

A company has offered to donate two historic buildings to Fort Edmonton. FEMCo wants to take the offer as they believe they can use the buildings to generate revenue. However, there is misalignment within City Administration on whether this acquisition fits within Fort Edmonton's 2010 Master Plan. In addition, the City would be responsible for the ongoing maintenance costs of the buildings. The unclear roles within City Administration, and between FEMCo and City Administration, have made it difficult to determine who should make this decision.

WHY THIS IS IMPORTANT

Clearly defined roles and responsibilities will provide appropriate accountability and oversight in an organization. In addition, clarity will reduce the potential for misunderstanding and conflict between different stakeholders.

RECOMMENDATION 2 MANAGEMENT RESPONSE

Clarify the roles and responsibilities of the various stakeholders involved in Fort Edmonton Park.



Responsible Party

City Manager



Accepted by Management

Management Response

Administration agrees that clarifying the roles and responsibilities of the various internal and external stakeholders will provide appropriate accountability and oversight. Administration will work with FEMCo and other stakeholders to clarify roles and responsibilities in the appropriate

governance documents including an updated Management Agreement.



Implementation Date

April 30, 2024

Recommendations 3 and 4: Operational Funding and Service Agreements

RECOMMENDATION 3

We recommend that the City Manager clarify the City's approach to funding the Fort Edmonton Management Company.

RECOMMENDATION 4

We recommend that the City Manager develop detailed agreements for the services the City provides to the Fort Edmonton Management Company.

KEY FINDINGS

The City has an agreement with FEMCo to manage and operate Fort Edmonton. The management agreement sets out the general principles for management and operations of Fort Edmonton.

However, the management agreement lacks clarity on the City's approach to operational funding. For example, it does not say how the City will determine and distribute the amount of operational funding it gives to FEMCo.

In addition, the management agreement states that any services to be provided by the City must be detailed within separate service level agreements.

However, the City business areas that provide services to FEMCo have not all negotiated the required detailed agreements or agreed on the associated costs.

OPERATIONAL FUNDING

Operational funding is provided for in the City's management agreement with FEMCo. However, the details of how the City will determine the amount and disburse the funds to FEMCo are vague and ambiguous. The operational funding the City provides FEMCo has increased by 62 percent, from \$2.6 million

in 2011 to \$4.2 million in 2021, in part because of collective agreement settlements and inflationary operating cost increases.

Operational funding amount

The management agreement states that the amount of operational funding the City gives FEMCo each year will be based on the tax levy support approved under the City's operating budget guidelines. As per the operating budget guidelines, the tax levy is calculated based on the budgeted expenditures less estimated revenue for each year.

However, it is not clear what expenditures or revenue the City should include to calculate the operational funding amount for Fort Edmonton. This has led to the budgeted expenditures and revenues that do not accurately reflect the costs and revenues associated with Fort Edmonton. Example:

- Budgeted expenditures currently include the cost of services the Branch provided when FEMCo was created. Regardless of whether the City still provides these services or if a third party is providing them.
- Budgeted expenditures include City expenditures for Fort Edmonton. It does not include FEMCo expenditures (for example, FEMCo staffing and special event expenses). However, it is not always clear what expenditures should be included where, as this is not documented.
- Other services (information technology, corporate security services, asset management, and ground maintenance) provided by the City are not included as expenditures. The expenditures are absorbed by the respective business areas.
- The estimated revenue is based on the general public admissions, education programming, and some retail revenue. All other revenue streams (for example, rental income, special event revenue, food and

hospitality revenue) are not included, even though some of the related expenditures are included.

2021 Operational Funding Breakdown

The following table shows the actual revenue received by the City (general public admissions, education programming, and some retail revenue) and the actual expenses paid by the City for services provided to Fort Edmonton in 2021. It also shows the excess operational funding provided to FEMCo.

Revenue recorded \$2.10 million

City expenditures \$5.61

Net Operating Requirement \$(3.51) million

Operational funding \$4.20

Disbursement to FEMCo \$0.69 million

As mentioned above, the City provides other services that are not included in the expenditures. Instead of negotiating detailed agreements and tracking the costs of providing these services, the business areas absorb these expenses in their own budgets.

Disbursement of funds

The City does not provide the operational funding amount as a grant or a subsidy. It retains the amount to fund some of the services the City provides to FEMCo. If FEMCo consumes less of the City services than budgeted for, the City gives them the remaining funds at year-end. The management agreement does not specify how FEMCo can use these remaining funds. In case of any year-end deficits, meaning FEMCo consumed more City services than budgeted, FEMCo would need to pay the City for those services. The rationale for this process is not documented.

As well, on a regular basis, FEMCo submits expenses to the City for reimbursement using the City's internal payment requisition request form. These expenses are for costs FEMCo has paid but, according to FEMCo, should be paid from the operational funding amount. This approach has resulted in the inappropriate use of City's payment requisitions by FEMCo and the Branch. Branch management signs off on payment requisitions for expenditures it has no line of sight to or influence over. They also do not have the required supporting documentation, such as verifiable itemized invoices attached to payment requisition forms.

In addition, some City staff working at Fort Edmonton have City corporate credit cards. City supervisors, who have no line of sight to the operations at Fort Edmonton, approve payment of these City credit cards. In some cases, the expenses included FEMCo expenses for special events.

DETAILED SERVICE AGREEMENTS

Although FEMCo manages and operates Fort Edmonton, many City business areas provide services to Fort Edmonton. In addition, Branch staff work at Fort Edmonton to provide core services, performing roles such as historic interpreters, midway operators, cashiers, and groundskeepers.

The management agreement intended that City business areas that provide services to FEMCo would negotiate detailed agreements for the specific services they provide. However, this has not occurred for all services.

The lack of detailed agreements, including costs, for these services is leading to inefficiencies, confusion, and operational risk to the City. The next sections provide examples.

Branch staff working at Fort Edmonton

There are about 45 permanent City staff working at Fort Edmonton. With seasonal staff, this number increases to about 140 during the summer. FEMCo employs about 30 staff members.

This hybrid staffing model is unique in the City, no other City attraction or facility operates using this model. Without a service level agreement this arrangement leads to conflicting priorities, confusion, and non-compliance with City policies by City staff.

One of the unions that represents a portion of City staff at Fort Edmonton has applied to the Alberta Labour Relations Board for a common employer declaration.² The Board's ruling will be binding and set the direction for the staffing model.

In addition, the Branch takes care of the historic artifacts at Fort Edmonton. The cost of the curators is not charged to FEMCo. However, there are 13 original buildings and over 40,000 historic items on display at Fort Edmonton. The Branch's lack of a service level agreement has led to uncertainty about the use of the artifacts and who is accountable for artifacts if they go missing or are damaged.

Information Technology Services

The Open City and Technology Branch provides installation, configuration, and support services for some hardware and software applications used by FEMCo. As well, the City owns certain information technology hardware and servers used by FEMCo staff. FEMCo staff have City of Edmonton email addresses and access to the City of Edmonton network.

The Open City and Technology Branch does not track any of its costs associated with providing services to FEMCo. The lack of a service level agreement has created risks from an information technology, privacy, and data integrity perspective.

Security

The management agreement states that FEMCo and the City are jointly responsible for ensuring that effective security procedures are in place to preserve the buildings and artifacts

² A common employer declaration is a finding by the Alberta Labour Relations Board that includes a determination that two or more entities (in this case the City and FEMCo) do operate under common control and direction. A common employer declaration binds the associated entities as one employer for all purposes under the Alberta's Labour Relations Code.

at Fort Edmonton. The City's Corporate Security area is responsible for ensuring City assets are properly protected. With the exception of the external security guards, corporate security costs are absorbed by the City.

Without a service level agreement between FEMCo and Corporate Security there have been disagreements on the amount of security required to protect City assets. For example, the City's Corporate Security area does not agree with the number of nighttime security guards FEMCo uses. If assets are damaged by vandalism, the City would be responsible for any related costs, as it owns the assets.

Asset stewardship

The City is responsible for all preventative building maintenance, repair and rehabilitation of City-owned assets at Fort Edmonton. FEMCo is not responsible for costs associated with these assets. However, the City determines priorities for renewal based on life-cycle management which may not align with FEMCo's operational opportunities and priorities. This also means that any capital improvements or additions to assets located at Fort Edmonton have to be approved by the City and must follow City procurement and project governance practices. The lack of a detailed agreement to specify how assets at Fort Edmonton will be maintained, replaced, and renewed has created operational consequences for FEMCo.

- FEMCo had to close the popular Northern Lights Show at the Capital Theatre in May 2022 because there was a disagreement on whether audio and visual technology upgrades were in the purview of FEMCo or the City.
- FEMCo wished to capitalize on Hawrelak Park closing for renovations by offering Fort Edmonton as an alternative venue for concerts and festivals. This would require the City to renovate the band shell in Fort Edmonton. It is not up for renewal in the City's life-cycle management process.

- FEMCo wanted to expand the use of the train barn so it could utilize the train almost all year round and conduct various renovations of other train cars in the building. The City's train barn replacement plan only looked at how the building was used at the time (to store the steam train over the winter when it is not operational). It did not consider a change in use, which would be considered a growth project. Growth projects require additional funds not budgeted for in asset life-cycle management. Administration has to prioritize growth projects against other growth projects in the City and the available budget for such projects. As a result, the train barn replacement project did not include a change in use. This has operational consequences for FEMCo.

WHY THIS IS IMPORTANT

Without a clear understanding of what services the City will provide to FEMCo and at what cost, the City may be paying for resources that should come out of FEMCo's budget or vice versa.

RECOMMENDATION 3 MANAGEMENT RESPONSE

Clarify the City's approach to funding the Fort Edmonton Management Company.



Responsible Party

City Manager



Accepted by Management

Management Response

Administration will review, update and document the financial practices under the current model.

As part of the work in Recommendation 1, a review of the operating and funding models is required to determine the approach to a future funding model.

**Implementation Date**

December 31, 2024

**RECOMMENDATION 4
MANAGEMENT RESPONSE**

Develop detailed agreements for the services the City provides to the Fort Edmonton Management Company.

**Responsible Party**

City Manager



Accepted by Management

Management Response

Administration agrees that within the current operating model clarity on services being provided, as well as the level of services, is required.

The subject of service level agreements is being reviewed by Administration and intends to work with FEMCo to complete agreements.

As part of the work in Recommendation 1, a review of the operating and funding models is required. This will determine if service level agreements need to be further updated.

**Implementation Date**

September 1, 2023

ACKNOWLEDGEMENT

We would like to thank the staff and management of the Community Recreation and Culture Branch for their cooperation during the audit. We would also like to thank FEMCo's management and Board, as well as the staff and management of other City' branches that helped to inform our work through interviews and survey responses.