

File No.: 04-1000-20-2020-083

March 6, 2020

s.22(1)

Dear s.22(1)

Re: **Request for Access to Records under the Freedom of Information and Protection of Privacy Act (the "Act")**

I am responding to your request of February 3, 2020 for:

**Copy of full Internal Audit Summary Report titled Park Restaurant Leases dated March 26, 2018; and any subsequent records, including internal and external communications. <https://vancouver.ca/files/cov/park-restaurant-leases-internal-audit-summary-report.pdf>**

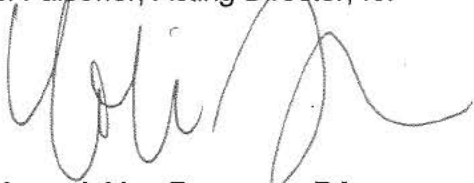
All responsive records are attached.

Under section 52 of the Act, and within 30 business days of receipt of this letter, you may ask the Information & Privacy Commissioner to review any matter related to the City's response to your FOI request by writing to: Office of the Information & Privacy Commissioner, [info@oipc.bc.ca](mailto:info@oipc.bc.ca) or by phoning 250-387-5629.

If you request a review, please provide the Commissioner's office with: 1) the request number (#04-1000-20-2020-083); 2) a copy of this letter; 3) a copy of your original request; and 4) detailed reasons why you are seeking the review.

Yours truly,

Cobi Falconer, Acting Director, for



**Barbara J. Van Fraassen, BA**  
**Director, Access to Information & Privacy**

[Barbara.vanfraassen@vancouver.ca](mailto:Barbara.vanfraassen@vancouver.ca)  
453 W. 12th Avenue Vancouver BC V5Y 1V4

\*If you have any questions, please email us at [foi@vancouver.ca](mailto:foi@vancouver.ca) and we will respond to you as soon as possible. Or you can call the FOI Case Manager at 604.871.6584.

Encl.

:ma



**CITY OF VANCOUVER**  
**INTERNAL AUDIT REPORT**  
***Parks Restaurant Leases***

**Distribution:**

Audit Committee  
KPMG

Malcolm Bromley – General Manager, Park Board  
Shauna Wilton – Deputy General Manager, Park Board  
Melanie Kerr – Director of Financial Services  
Michael Walia – Associate Director Accounting Operations  
Henry Woo – Manager, Accounting Operations  
Sev Araujo – Manager of Commercial Operations  
Tim Collins – Supervisor, Commercial Operations

**EXECUTIVE SUMMARY**

March 26, 2018

The Parks Restaurant Leases Audit was initiated to provide reasonable independent assurance that lease management processes were adequate and effective, and that payments made to the Park Board are accurate as per the restaurant lease agreements.

Internal controls over Parks restaurant leases require improvement. A lease tracking system should be implemented to ensure accuracy and completeness of lease-related information. Clarifying responsibilities between the Park Board Commercial Operations team and the central Accounts Receivable team will also be key in establishing effective business processes.

In general, we found that revenue received was consistent with the lease terms and with the financial statements provided by the restaurants. We noted the following exceptions:

1. An unresolved discrepancy of approximately \$75,000 for one restaurant was identified by Accounts Receivable and is due to increases to annual license fees not being applied. A corrective invoice has not yet been sent to the restaurant.
2. One restaurant has not provided audited annual revenue statements for 2016 and 2017. Monthly payments have been made during this timeframe, however, based on the restaurant's unaudited monthly revenue reports.

The more significant findings and recommendations regarding lease management processes are:

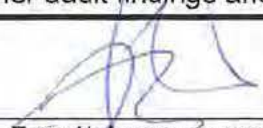
**E.1 Maintain lease information to ensure accurate billings and compliance with lease terms**


Management has agreed to establish a lease management database that is maintained going forward. Additionally, future lease information and amendments will be updated in SAP, to ensure accuracy of billings.

**E.2 Clarify roles and responsibilities between Park Board Commercial Operations and Central Accounts Receivable**

Management in Park Board Commercial Operations and central Accounts Receivable will define their departments' roles and responsibilities including establishing an escalation process for overdue reports, updating SAP with lease information, and requesting audit information from restaurants.

These and other audit findings and recommendations are contained in the report.

  
Tony Hui, CPA, CA, CRMA  
Chief of Internal Audit

  
Carmen Fuellbrandt, CPA, CMA, CIA, CRMA



## A. BACKGROUND

The Park Board currently manages 10 leases to restaurant operators and two café licenses. Restaurant leases are a subset of a larger number of commercial leases managed by the Park Board Commercial Operations team.

The Park Board Commercial Operations team is involved with initiating and negotiating leases, as well as the ongoing management of the leases and any subsequent amendments and renewals. The City's centralized Accounts Receivable team processes the lease billings and reconciles the payments received to the annual revenue reports submitted by the restaurants.

The lease agreements set out that the restaurants pay rent based on a share of the restaurant's revenue. This is typically a percentage of gross revenue or a minimum rent payment plus a percentage of gross revenue over a certain threshold. The restaurants submit revenue reports and the associated payments on a monthly basis. Annual revenue reports are also provided and are, for most restaurants, required to be independently audited as set out in their respective lease agreements. The Park Board's share of revenue from restaurant leases amounted to \$3.9 million in 2017.

## B. SCOPE

The audit objectives were to provide reasonable independent assurance that the existing internal controls and business processes related to the Park Board's restaurant leases were adequate and effective and to determine whether:

- payments made to the Park Board are accurate as per the revenue share arrangement outlined in the lease; and
- processes are in place to ensure restaurants are in compliance with lease terms.

Our work included:

- interviews with key staff and management in Park Board Commercial Operations and Financial Services;
- documentary review of related policies, process documents, and other departmental records and correspondence; and
- review of monthly and annual revenue statements for a sample of restaurant leases.

The financial processes and detailed financial records of the restaurants were not in scope.

The audit is not designed to detect fraud. Accordingly, there should be no such reliance.

## C. CONCLUSION

In our opinion, internal controls over Parks restaurant leases require improvement. A lease tracking system must be established to ensure accuracy and completeness of lease-related

information, and to assist management with ensuring compliance to lease terms. Clarifying responsibilities between the Park Board Commercial Operations team and the central Accounts Receivable team will also be key in establishing effective business processes.

Findings and recommendations have been discussed with appropriate management and responses incorporated in this report.

## **D. RISK ANALYSIS**

The potential significant risks considered if controls were not in place are:

- Unclear responsibilities may lead to inadequate management of leases;
- Incomplete or inaccurate info on leases may impact the oversight of leases;
- Leases may not be entered into with proper approval;
- Tenants or the Park Board may not be meeting their obligations under lease agreements;
- Leased properties may not be adequately maintained resulting in risk to occupant health and safety; and
- Rents may not be paid in accordance with the lease terms, resulting in loss of revenue.

## **E. AUDIT ISSUES, RECOMMENDATIONS AND MANAGEMENT RESPONSES**

### **E.1 Maintain lease information to ensure accurate billings and compliance with lease terms**

There is no comprehensive database or lease management system in place for Park Board restaurant leases. Currently, the SAP Real Estate module is used to track billings for each restaurant lease. Information such as the rent and taxes paid, lease expiry dates, and contact information are also included. This information was entered in SAP in 2017 as a pilot project given the need for a lease management system.

#### ***SAP contains some lease information, but is not comprehensive***

While SAP contains some lease information, there is a need to manage key dates and other details around utilities, maintenance, and insurance. The SAP system has the ability to run reports based on key dates such as upcoming renewals, however, this functionality is not used. Park Board staff have indicated that they are looking to implement a different system for comprehensive lease management information as SAP does not meet their needs.

#### ***Lease management system is needed to ensure compliance***

The lack of a lease management system impacts the Park Board's ability to determine whether tenants are complying with lease terms.

One recent example was raised by the Accounts Receivable team where a restaurant was not invoiced the appropriate amount for three years. The restaurant in question was to pay an additional annual license fee as set out in their lease. The lease sets out the fee amount and the timing of subsequent increases, such as after year five of the lease. The five years had elapsed but the fee increase was not flagged and was not applied. The resulting discrepancy was \$75,000. A corrective invoice has been created but has not yet been sent to the restaurant.

***E.1.1 The Manager, Commercial Operations, Park Board should establish and maintain a lease management database to track all relevant lease agreement details and meet the department's reporting needs. If this is a different system than SAP, then consideration***

***needs to be given to ensuring future lease information and amendments are updated in SAP, to ensure accuracy of billings. An interim tracking system should be in place by September 30, 2018.***

***E.1.2 The Manager, Commercial Operations, Park Board should ensure that the corrected invoice for the incorrectly billed tenant referred to above is sent to and paid by the tenant. Future rent increases for all restaurant leases should be tracked so that invoices accurately reflect the lease terms. This should be completed by July 31, 2018.***

***Management Response:***

*Please check one:*

☒ Agree with the findings

☐ Disagree with the findings

*Please check one:*

☒ Agree with the recommendation

☐ Disagree with the recommendation

**E.2 Clarify roles and responsibilities between Park Board Commercial Operations and central Accounts Receivable**

Roles and responsibilities of the Park Board Commercial Operations team and central Accounts Receivable need to be clarified and agreed to for the following areas.

***Ensuring timeliness of annual reports***

At year-end, the restaurants send annual revenue reports to Accounts Receivable for reconciliation to the billings received. For one restaurant, their annual audited sales report has not been received for 2016 or 2017. A clear escalation process is needed to ensure that these reports are issued on a timely basis and that management in both Accounting and Commercial Operations are appropriately involved and aware of any delays.

***Updating SAP information***

There is a risk that lease information in SAP will become outdated and the rental billings may no longer be accurate in the future. To update lease information in SAP the responsible department is to complete a SharePoint form, which is sent to administrative staff for SAP entry. For Parks restaurant leases, the Accounting Clerk is to receive these updates. However, the responsibility for completing and sending the SharePoint form has not been clearly assigned.

***Executing landlord's right to audit***

Some of the restaurant lease agreements set out that a full audit or supplemental review of financial records may be conducted at the Landlord's request. These audit requests have not been made to date. It is unclear which department would be responsible to determine whether the audit is needed and to initiate the request.

***E.2.1 The Manager of Commercial Operations, Park Board and the Manager, Accounting Operations should document the roles and responsibilities of both departments involved with Parks restaurant leases. The areas should include, but not be limited to, those referred to above. It may be useful to extend this exercise to include all Parks leases and the relevant stakeholders, including Accounts Payable and REFM. A DARCI matrix should be used to document clear lines of accountability for all parts of the process. This document should be in place and agreed to by both departments by September 30, 2018.***

***E.2.2 The Manager of Commercial Operations, Park Board should ensure that the annual revenue reports are received for 2016 and 2017 for the restaurant that has not yet submitted these reports. This should be completed by July 31, 2018.***

***Management Response:***

*Please check one:*

- ☒ Agree with the findings  
☐ Disagree with the findings

*Please check one:*

- ☒ Agree with the recommendation  
☐ Disagree with the recommendation

***Management Action Plan:***

*Manager, Accounting Operations: Accounting Operations will work with Park Board in clearly documenting the role and responsibilities relating to Park restaurant leases and other Park's related billings. This is to ensure that everyone understands clearly their area of responsibilities, how what they do link to other areas and escalation process, if needed.*

**E.3 Enhance accuracy of utilities billings**

The restaurant lease agreements require lessees to pay utilities such as hydro, water, and garbage collection.

In places such as Stanley Park, or for a restaurant building that is part of a larger building complex, the City or Park Board pays the entire utility bill and the tenant's share of the utilities is calculated based on its proportion of square footage. The tenant is then billed by the City to recover the cost. This is necessary because these restaurants do not have a dedicated hydro meter.

There is a risk that utilities billing may be inaccurate or incomplete. The Accounts Receivable department does not have a listing of leases that require utilities costs to be billed back to the tenant. The assumption is that tenants not currently being invoiced are paying the utilities directly. There is also no reporting of utilities billing to facilitate review by the Commercial Operations team.

Information as to which utilities are to be billed back for each tenant should be identified and maintained by the Park Board Commercial Operations team. This information should also be accessible to the central Accounts Receivable department to ensure that utilities billings are complete and accurate.

***E.3.1 The Park Board Commercial Operations team, in consultation with the Facilities and Accounting departments, should verify the accuracy of the current utilities billings by:***

- a. reviewing current billings and verifying that all utilities costs are being recovered as appropriate; and***
- b. maintaining information for each lease as to the arrangements for utilities payments and any billings that are required to recover costs.***

***This should be in place by December 31, 2018.***

***Management Response:***

*Please check one:*

- ☒ Agree with the findings  
☐ Disagree with the findings

*Please check one:*

- ☒ Agree with the recommendation  
☐ Disagree with the recommendation

*Management Action Plan:*

*Manager, Accounting Operations: Accounting Operations with work with Park Board Commercial Operations and Facilities in maintaining utilities bill-back information for each lease and ensuring that billings are accurate and recovered as appropriate.*

**E.4 Reconcile Stanley Park event fees to ensure completeness of revenue**

When a restaurant wishes to host a special event in the adjacent outdoor area, a fee of \$300 applies. The Park Board's Special Events department receives notification of the requests to hold these special events. The central Accounts Receivable department processes the fee payments and relies on reports from Special Events to ensure that the fees paid reflect the number of events held.

The lack of a reconciliation process between the records of special events held and the associated fees paid was raised in a 2014 internal audit of restaurant leases. The audit focused on internal controls related to revenue receipt and reconciliation. Park Board management subsequently implemented a process where Park Board staff provided the information to Accounts Receivable. A reconciliation was performed in 2015 resulting in nine additional events being billed.

At the time of this audit, Accounts Receivable had not reconciled special events for 2016 or 2017. The process for requesting the special events listing is not well defined and there is a lack of ownership to ensure that it is completed on a timely basis. Lack of controls over this process could result in a loss of revenue for the Park Board.

***E.4.1 The Manager of Commercial Operations, Park Board should ensure that a process is established whereby special events held by restaurants are recorded, and reported annually to the Accounts Receivable department for their reconciliation to fees paid. This should be completed by September 30, 2018.***

***Management Response:***

*Please check one:*

☒ Agree with the findings

☐ Disagree with the findings

*Please check one:*

☒ Agree with the recommendation

☐ Disagree with the recommendation

*Management Action Plan:*

*Manager, Accounting Operations: Accounting Operations will work with Park Board Accounting Operations to set up a reconciliation process on a regular basis so that Stanley Park event fees are billed completely and on a timely basis.*