

File No.: 04-1000-20-2020-084

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:

A copy of the full report of the Audit of the Property Endowment Fund referenced in this January 2018 Summary Report:

<https://vancouver.ca/files/cov/property-endowment-fund-audit.pdf>

Date range: January 1, 2018 to February 3, 2020.

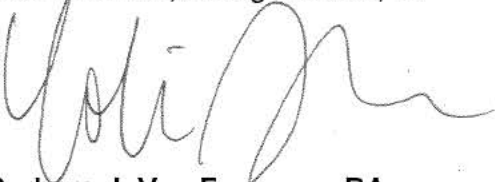
All responsive records are attached.

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 or by phoning 250-387-5629.

If you request a review, please provide the Commissioner's office with: 1) the request number (#04-1000-20-2020-084); 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
453 W. 12th Avenue Vancouver BC V5Y 1V4

*If you have any questions, please email us at 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
Property Endowment Fund Audit

Distribution:
Audit Committee
KPMG

Bill Aujla - GM, Real Estate & Facilities Management
Patrice Impey - General Manager, Finance, Risk & Supply Chain Management/CFO
Jerry Evans - Director, Real Estate Services
Patrick Murphy - Associate Director, Real Estate Services
Gregory Krueger - Associate Director, Financial Services
Gregory Hamilton - Property Endowment Fund Manager

EXECUTIVE SUMMARY

January 29, 2018

Internal Audit reviewed the internal controls supporting the processes around the Property Endowment Fund (PEF) and determined that creating Standard Operating Procedures around property acquisitions, property dispositions, lease tenant selection and license issuance, and improving file documentation standards will strengthen controls around the processes.

The more significant findings and recommendations are:

E.1 Create Standard Operating Procedures for Property Acquisitions and Dispositions, Leases and Licensing Process to Support Consistency and Standardization

The Property Negotiators are responsible for acquisition and disposition of property, leasing to commercial and residential tenants, and issuing licenses involving PEF properties. The Real Estate and Facilities Management Property Negotiations team should develop Standard Operating Procedures for involved processes to minimize the risk of knowledge loss.



E.2 Improve File Documentation Standards to Ensure Documented Information is Complete

There are opportunities to improve documentation for:

1. Tenancy selection for residential leases
2. Price reasonability for property acquisitions and dispositions
3. Licensing Fees

Formalizing templates would ensure consistent and relevant information is presented to the approver and would also ensure the completeness of analysis performed to support decision-making.

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

 _____ Tony Hui, CPA, CA, CRMA Chief of Internal Audit	 _____ Carrolyn Lok, CPA, CA, CIA Senior Internal Auditor
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A. BACKGROUND

The Property Endowment Fund (PEF) holds assets that are not immediately required for delivery of City services but are held for other purposes, such as investment or future civic uses, and is one of two major property asset pools owned by the City. As of the end of 2016, properties under the PEF had a cost of \$1.155 billion and an assessed value of \$5.743 billion as per BC Assessment Authority.

Property Endowment Fund Review

In 2010, the City engaged Ernst & Young, an external consultant, to perform a **Property Endowment Fund** review around the management of the PEF portfolio and its performance against its current mandate. A number of governance-related observations and issues for consideration were raised.

Third Party Expert Advisory Panel

As a result of the review, in 2014, a PEF manager was hired to provide advice and guidance regarding the performance and value of the real estate assets of the PEF, including the development and implementation of a long range real estate portfolio asset management strategy and strategic plan. In addition, a **Third Party Expert Advisory Panel** was established to optimize the oversight of the PEF and advise staff and Council on various aspects of PEF's management. This panel plays an advisory role and includes external expertise with backgrounds including financial, real estate and legal.

Property Negotiations Team

The Property Negotiations team under Real Estate Services is responsible for representing the City for negotiations relating to asset acquisitions and dispositions, leasing out properties when needed and issuing licenses for the PEF properties.

B. SCOPE

The audit objectives were to review the City's management practices around acquisitions, dispositions, leases, licenses for properties in the Property Endowment Fund to determine if the processes are:

- Effective and efficient;
- In compliance with established policies; and
- Appropriately developed, approved and documented.

Our work included:

- Review and assessment of the current processes around property acquisitions, dispositions, leases and license process for PEF properties;
- Sample review of PEF properties acquired and disposed of;
- Sample review of PEF properties leased; and

- Review of the Ernst & Young May 2010 Property Endowment Fund Report recommendations.

The focus of the sample review was to ensure payments involved aligned with the City's PEF objective of increasing the real value of the PEF and maximizing the economic return.

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

C. CONCLUSION

There is a need to create Standard Operating Procedures around property acquisitions, property dispositions, lease tenant selection and license issuance, and improve file documentation standards.

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

D. RISK ANALYSIS

Risks if controls are not in place:

- Fund objective is not met;
- Loss of knowledge resulting in an interruption to operations due to a lack of Standard Operating Procedures; and
- Risk exposure due to undisclosed conflict of interests.

E. AUDIT ISSUES, RECOMMENDATIONS AND MANAGEMENT RESPONSES

E.1 Create Standard Operating Procedures for Property Acquisitions, Dispositions, Leases and Licensing Process

The Property Negotiators are responsible for property acquisition and disposition, leasing to commercial and residential tenants, and issuing licenses involving PEF properties. There are no Standard Operating Procedures and documentation of processes by the Property Negotiations team within the Real Estate and Facilities Management department. Reliance is placed on employee's experience and knowledge which increases the risk of knowledge loss in the event of staff turnover.

Creating Standard Operating Procedures for property acquisitions, dispositions, leases and licensing processes would create a more structured approach, minimize the risk of knowledge loss or possible delays and interruption to operational work.

Recommendation:

E.1.1 The Director of Real Estate Services should create Standard Operating Procedures for the following processes:

Standard Operating Procedure:	Potential Information to Include (Not Limited to):
1. Property Acquisitions	- How acquisitions are initiated
2. Property Dispositions	- Process-flow

	<ul style="list-style-type: none"> - How to document comparable properties to justify final price - Delegation of authority - Approval requirements
<p>3. Leasing to Commercial Tenants</p> <p>4. Leasing to Residential Tenants</p>	<ul style="list-style-type: none"> - Process Flow - Delegation of authority and approval requirements - Selection criteria - How to track lease expiries and renewals - Approval requirements
5. License Issuance	<ul style="list-style-type: none"> - Delegation of authority and approval requirements - Standard Price List for the various properties to ensure consistent amounts are charged to different licensees - How the various types of licenses are handled (including environmental, crane-swinging, film, etc.)

This should be completed by August 30, 2018.

E.1.2 The Director of Real Estate Services should distribute the Standard Operating Procedures to all respective team members and ensure it is accessible to staff. This should be completed by August 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:

Assign a Negotiator to each process to document each step in process and best practices / policy references. To be reviewed and confirmed by the Supervisor, Property Negotiations and Associate Director by August 30, 2018.

E.2 Improve File Documentation Standards to Ensure Documented Information is Complete

Opportunities to improve documentation are stated below to ensure consistent and relevant information is presented to the approver and to ensure adequacy of analysis performed to support decision making.

Create Approval Template for Tenancy Selection for Residential Leases

During the selection process for residential lease tenancies, the negotiator from the Property Negotiations Team reviews the applications, selects the most suitable tenant, and recommends the tenant to the Director of Real Estate Services for approval. Information presented to the Director at that time may include salary, pets, previous landlord issues, timeliness of past rent payments, references, etc.

Currently, these notes are hand-written at the end of the Credit Score Report with standard format, along with the Director's approval signature. This may lead to inconsistent and incomplete information being presented to the approver which could affect the final decision. This process should be formalized and a template should be created to ensure all pertinent information required for approval is provided and documented.

Retain Supporting Documentation to Justify Price Reasonability for Property Acquisitions and Dispositions

During the acquisition and disposition process of properties, negotiators are required to obtain a third-party appraisal valuation of the property or conduct an analysis of price reasonability by researching comparable property sales. In recent years, the Property Negotiations team has been following the general rule of obtaining third party appraisals for properties valued at greater than one million dollars. Market value analysis is performed internally by the Property Negotiations team on properties valued below one million dollars.

The market value analysis should be documented in the supporting file to justify reasonability of the final price. 20 samples were tested for property acquisition and disposition documentation:

Adequacy of Documentation	Samples Tested	Comment
Adequate	8	Third-party appraisals were documented or internal market analysis was sufficient to support final negotiated price
Inadequate	6	Information was retained but the documented level of detail was insufficient to support final negotiated price
N/A	6	Related to nominal value land exchanges where extensive valuation was not required
TOTAL	20	

Insufficient documentation could create the perception of overvalued property acquisitions or undervalued property dispositions if prices are challenged in the future.

Creating and utilizing a template for internal market value analysis would improve documentation standards and maintain consistency and adequacy of information on the justification of the final negotiation price.

Deviations from Licensing Fees Should be Documented

The Property Negotiations team maintains a License Agreement Rates List that tracks the daily rate of properties being rented through licenses. Out of 20 license samples tested:

License Fee Consistent with License Agreement Rates List?	Samples Tested	Comment
Yes	11	Fee is consistent to License Agreement Rates List.
No	1	One license fee was supposed to be \$61,000 for the duration of the license but was instead charged \$30,000 with no explanation documented.
N/A - Environmental License	8	Nominal fees are charged for environmental licenses because company was engaged by the City to perform environmental testing.
TOTAL	20	

Deviations from the License Agreement Rates List should be explained and documented in the file in the event that rates are challenged in the future. In addition, all deviations should be summarized and documented in a file so it can be considered if a similar scenario arises with other licensees.

Recommendation:

E.2.1 The Associate Director of Real Estate Services should create a template used to summarize information on recommended residential lease tenants to ensure consistent and complete information is presented during the approval process for proper decision-making. The approval sign-off should be included in this template. This should be completed by June 30, 2018.

E.2.2 The Associate Director of Real Estate Services should create a market rate analysis template to ensure completeness of all pertinent information to support a final negotiated price. The purpose of the template is to tie appraisal evidence to the final negotiated price. This should be completed by June 30, 2018.

E.2.3 The Associate Director of Real Estate Services should note in the Standard Operating Procedures for licenses that all deviations from the License Agreement Rates List must be documented. This should be completed by June 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:

Assignment for Property Negotiator 1 overseeing the residential portfolio. To be reviewed and confirmed by the Supervisor, Property Negotiations and Associate Director by June 30, 2018.

E.3 Increase Assurance Around Employee Conflicts of Interest

City staff are required to follow City policies, including policy “AE-028-01 - Code of Conduct” which requires staff to disclose any actual or potential conflict. Staff were not aware of the existence of this policy as there is no formal mechanism to:

- Review the Conflict of Interest section with Property Negotiations staff upon hire;
- Verify there is no actual or perceived conflict of interest; or
- Monitor compliance through an annual Conflict of Interest declaration.

The risk around conflicts of interest is high given the nature of the Property Negotiation team’s work and the high-value transaction amounts. Having a credit check process in place could mitigate the risk for the City not maximizing financial gains.

Recommendation:

E.3.1 The GM of Real Estate & Facilities Management should consider implementing a formal conflict of interest declaration for staff upon hire and annually, and credit checks for new staff. This should be completed by March 31, 2018.

E.3.2 The Director of Real Estate Services should ensure the Conflict of Interest policy is brought to the attention of new Property Negotiations staff upon hire and an email reminder is sent to staff annually around the policy.

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:

This item will be brought forward to the next Negotiator Meeting February 8, 2018 and will be discussed further with Director and GM to consider implementing checks upon hiring.

E.4 Implement Regular PEF Portfolio Performance Reviews

There is no regular review of metrics or trend analysis for the PEF portfolio to assess performance. Monthly metrics reported to the GM of Real Estate & Facilities Management are not specific to PEF and include:

- Number of licenses processed
- Number of leases approved
- Number of new approvals
- Number of changes or termination of leases
- Number of lease renewals

Real Estate Services and Financial Planning and Analysis are currently developing a quarterly PEF performance dashboard and the first draft is expected to be presented to the GM of Real Estate & Facilities Management and the GM of Finance, Risk and Business Planning by the end of 2017. The regular review of PEF metrics and trend analysis will improve data analysis and strategic decision making.

Recommendation:

E.4.1 The GM of Real Estate & Facilities Management and the GM of Finance, Risk & Supply Chain Management/CFO are to ensure the PEF Performance Dashboard is regularly presented and reviewed to facilitate decision making. Ongoing improvements to the dashboard is also recommended. This should be completed March 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:

Ongoing Action Item.

F. OTHER OBSERVATIONS

F.1 Align Current Practices with PEF Goals and Objectives

The PEF came into existence in 1975 with the following Council approved guidelines:

Purpose

- *To preserve and increase the real estate value of the PEF assets and to increase the PEF's ownership of strategic sites.*

Priorities

- *In making operating decisions, the financial criteria must first be met, however, where possible, preference will be given to development, acquisition or disposal opportunities that can also meet public criteria.*

The priority of the PEF is to “generate a reasonable economic return”¹. However, as of November 2017, approximately 25 of the 2,502 PEF leases are contracted with not-for-profit organizations. In these cases, lower-end of market values are charged and returns may not be maximized.

The City is planning to procure an external consultant to support the development of a long term plan for the PEF in 2018. While developing the long term plan, the consultant will be benchmarking the PEF's performance and practices to comparable endowments and leading practice. The consultant will also identify beneficial changes to the PEF governance, management framework and policies for enabling decision making aligned with the PEF mandate and ensuring the endowment is well-positioned to achieve the PEF Strategy objectives and targets, and appropriate risk management mechanisms are in place. This engagement will help address the alignment of current practices with PEF goals and objectives.

F.2 Create a Plan to Manage Long-term Leases Upon Expiry

The City has long-term leases with approximately 2,000 leasehold tenants in leasehold strata units whereby the City must purchase the leasehold tenant's interest in the strata lot when the leases eventually expire. These leases are set to expire between 2036 to 2080, and as stipulated in the leases, the City has sole discretion around whether or not to renew the leases.

How these leases will be managed will fall under the scope of the 2018 PEF Strategic Review.

F.3 Improve Legal Language in Environmental Licenses Issued

Although environmental licenses often pertain to environmental testing work requested by the City, the environmental company must still request a license to test. In the contract between the City and environmental company, consideration is required for the contract to be legally sound. Often for license agreements, consideration is most commonly provided in the form of money at a nominal amount (\$1) in the agreement.

During sample testing of licenses issued by Property Negotiation staff for PEF properties, 7 out of 20 samples related to environmental testing. Out of the 7 environmental licenses, 5 were charged a nominal \$1 fee for consideration and the fee section of the contract was removed for the 2 remaining licenses.

In the two license contracts lacking the nominal fee consideration, the legal language provided that the consideration will be covenants and agreements contained in the license. While this is legally sound, to avoid doubt that consideration has been given by the licensee, it would be best practice to have a nominal payment of money as consideration in all environmental licenses going forward.

¹ July 15, 1980 PEF Board Minutes

The Solicitor Team Lead of Legal Services is working with the Associate Director of Real Estate Services to ensure this is implemented.

F.4 Retain Electronic Copies of All Pertinent Documents in VanDocs

The Lease Negotiations File Maintenance Checklist was implemented in early 2017 with the intention of ensuring all pertinent information relating to leases is complete and documented in the file. The Property Negotiations Team will continue to utilize this checklist to ensure all relevant documents have been retained.

In recent years, efforts have also been made to scan these documents into VanDocs and are ongoing. Proper electronic record management is important to reduce the risk of incomplete, misplaced or damaged paperwork.