

January 29, 2018

## January 2018 Follow-Up of Audit Recommendations

### 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.

### 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.

### 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.

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.

Findings and recommendations have been discussed with appropriate management and work is underway to address them.