



City of Edmonton
Office of the City Auditor

Real Estate Branch Audit

March 29, 2021



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Audit Objectives

Objective 1

To determine if the Branch is effectively managing City property.

Objective 2

To determine if the City's Land Inventory Database is effectively administered.

Objective 3

To determine if the Branch is effectively and efficiently managing the City's surplus property holdings.

Scope and Methodology

The scope of this audit includes all Real Estate Branch activities from January 2018 until January 2021.

In late-2019 and early-2020, the Branch went through a program optimization, which included process updates and internal reorganization. As a result, portions of our work focused on activities in place after the optimization.

We performed a Branch-wide risk assessment during the planning phase of the audit to identify and inform areas of focus for the fieldwork phase. The audit objectives for this audit reflect the identified areas of focus from this risk assessment. Fieldwork activities included reviews of Corporate and Branch information, Branch internal processes, and interviews/surveys with senior management in Real Estate and other Branches.

Detailed testing of Property Management roles and responsibilities focused on City-owned properties leased to third parties, and did not look at properties occupied by City operations.

We did not perform audits of the monitoring of property condition or performance of maintenance as these processes reside outside the Real Estate Branch. As well, we did not review the overall portfolio of property holdings to try to answer the question “does the City own more property than it should?”, as this is being done as part of the City’s Reimagine project.

Statement of Professional Practice

This project was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.



Report Summary

Conclusion

The Real Estate Branch can reduce legal and financial risk to the City by improving specific management practices. This includes defining and documenting roles, responsibilities, and processes to ensure appropriate and consistent record-keeping.

Risks

There are specific legal and financial risks associated with property management and leasing. This includes scenarios such as tenant or ownership disputes.

These risks are significantly mitigated by ensuring there are consistent processes and procedures and that documentation and record-keeping is accurate and complete.

Key Findings

There is an opportunity for the Branch to improve the effectiveness of its management of City property. Property Manager roles and responsibilities can be clarified to ensure consistent application. The Branch is creating leases with appropriate terms, however it needs to standardize requirements related to performing and documenting lease creation activities, and to centralize data storage. The Branch does not have performance measures in place for all sections and those in place have not been updated since early-2020.

The Branch is effectively managing the City's Land Inventory Database. We found no issues with the reliability of the information in the Land Inventory Database or the timeliness of items being updated. However, the Branch can strengthen documentation related to processes as part of managing the Land Inventory Database.

Overall, the Branch is effectively and efficiently managing the City's surplus property holdings. The process to identify and manage surplus properties is clear and documented, and the Branch is following processes to review properties for best use. However, the Branch did not produce an annual report of land holdings as required by the City's Land Management Guidelines, which would be useful in providing information for high-level governance activities.

Recommendations

We made five recommendations:

Recommendation 1

Update Property
Manager Roles and
Responsibilities

Update and document Property Manager roles and responsibilities to ensure they are clear and consistently performed. Include standardized requirements relating to the documentation of work performed and where it is stored.

Recommendation 2

Update Lease Creation
Process Requirements

Update lease creation requirements, including standardized documentation filing structures and centralize data storage, to improve information retained for each file, and to ensure they are clear and consistently performed.

Recommendation 3

Complete and Implement
the Performance
Measurement
Framework

Complete and implement the performance measurement framework including: developing measures for the goals of each service area, documenting measure methodology, and reviewing targets.

Recommendation 4

Improve Process
Documentation

Document processes for managing the Land Inventory Database.

Recommendation 5

Produce an Annual
Report of Land Holdings

Produce an annual report of the City's land holdings, as outlined in the Land Management Guidelines, to help guide senior management decision making.



Branch Profile

Real Estate Branch

The Real Estate Branch (the Branch) is a part of the Financial and Corporate Services Department, and is responsible for governing real estate with a strategic and integrated city-wide lens. They assist the City with planning and development, land acquisition and sales, real estate inventory and governance, appraisals, leasing and property management.

In the Fall of 2019 the Branch underwent a program optimization to better align their business areas. The optimization resulted in the Branch having four major areas of responsibility:

Business Strategy and Operations – Provides analytical, financial, IT, communications, and strategic support to the Branch.

Property Services – Provides services to the Corporation in property, facility, and land management. They provide in-house real estate valuation, corporate land inventory management, and property management services.

This Section houses the Real Estate Valuation and Advisory Services, and the Facility and Land Inventory Management groups. They maintain a Land Inventory Database to assist in managing City properties (including those deemed surplus to City needs), and lead reviews of City land holdings to ensure they are still required.

Property Transactions – Leads the acquisition and sale of real property to support the City's immediate and long-term real estate requirements, and negotiates leases.

The range of properties marketed and sold includes newly serviced residential, industrial and commercial lots, surplus inventoried for municipal purpose sites with or without improvements, surplus right of ways, utility lots, and tax recovered properties. This is where the City's Real Estate Agents are based.

In 2020, the Branch had an approved budget for 89 Full-Time Equivalent employees and an annual tax levy requirement of \$25.1 million.

Land Development – Is split into Surplus Land Development and Enterprise Land Development.

Surplus Land Development transforms land that is surplus to the City's needs, but still requires work prior to sale. Depending on the property, they might go through processes such as subdividing or rezoning, or create detailed designs for servicing infrastructure. The group also manages the City's First Place Program and assists other City groups by providing them with feasibility information for certain properties.

Enterprise Land Development acts as a for-profit private developer for the city. They plan and service land for residential, industrial, commercial and mixed-uses. The Branch pays a dividend of 25% of the land development activity net income to the City. Over the past 5 years the average annual dividend was \$2.4 million, with the most recent dividend being \$2.7 million.



Management of City Property

Key Findings

Overall, the Branch can improve the effectiveness of its property management function.

Property Manager roles and responsibilities can be clarified to ensure consistent application.

The Branch is creating leases with appropriate terms. However it needs to standardize requirements related to performing and documenting lease creation activities, and centralize data storage.

The Branch does not have performance measures in place for all sections, and those that are in place have not been updated since early-2020.

Property Manager Roles and Responsibilities

The Property Management team resides within the Property Service Section. Property Managers are responsible for acting as the landlords for City-owned properties. These are the people who are the main points of contact with tenants in the various properties that the City owns. They collect rent, perform inspection walkthroughs, reconcile operating costs and enforce the terms of leases.

Property Manager roles and responsibilities are not clearly documented.

Property Manager roles and responsibilities are not clearly documented. The documented roles and responsibilities of the Property Managers are dispersed among a number of documents, some of which are out of date. They are outlined in various job descriptions and RACI charts (outlining who is Responsible, Accountable, Consulted and Informed). Some requirements are dictated by the Alberta Residential Tenancy Act.

When there are not clearly documented roles and responsibilities, Property Managers may have different expectations of the activities they should be performing, which increases the risk of inconsistency and error. This, in turn, increases the legal and financial risks for the City.

Examples



It was unclear who should be obtaining and reviewing copies of subleases from non-profit organizations. Some leases with non-profit organizations allow them to sublease some of their space, after approval from the City. These subleases need to be reviewed to ensure that the organization is not profiting from the sublease.



It was unclear who should be obtaining benchmarking reports for facilities. Job descriptions indicated this as a responsibility of Property Managers, however we were told that the work was being performed by a different group within the Branch.



It was unclear who should be determining appropriate collection or legal action for late payments. Some Property Managers were tracking related information and making these determinations, however one Property Manager indicated it was the responsibility of another group.



It was unclear who should be enforcing non-standard lease terms. In some lease agreements, business areas may include additional terms that require monitoring. For example, the lease with one non-profit organization requires that group to contribute a set amount to a capital reserve account on an annual basis. Another example are leases that have a specific cleaning schedule included as part of the lease, where the schedule specifies the frequency of how often certain cleaning activities must be completed.

Documentation Requirements

Property Managers do not store information and data consistently.

Property Managers do not store information and data consistently.




The Branch was unable to provide documentation to test for the consistent performance of Property Management roles and responsibilities. Examples of documentation we were looking for included emergency plans, maintenance and repair programs, and logs of claims, inspections, and maintenance calls.

The business area does not have standards for document management relating to the work of Property Managers. We were unable to determine if required actions had or had not taken place.

Not having standardized and centralized data storage can lead to decreased efficiencies, it makes data less readily available, there is the potential for data loss during periods of staff turnover, and there is no way to monitor the performance of individual staff or the program area as a whole. This, in turn, increases the legal and financial risks for the City.

Recommendation 1

Update Property Manager Roles and Responsibilities

	<p>Recommendation Update and document Property Manager roles and responsibilities to ensure they are clear and consistently performed. Include standardized requirements relating to the documentation of work performed and where it is stored.</p>
	<p>Responsible Party Real Estate Branch Manager</p>
	<p>Accepted by Management</p>
	<p>Management Response This work is currently underway and was initiated as part of a Branch service optimization project. As part of the project, the Branch completed analysis of service provision and shifted organizational structure to enhance role clarity and balance portfolios. Updated and standardized process documentation, as well as centralized data storage, are anticipated outcomes of this project. Recruitment for permanent section leadership to provide project sponsorship was postponed due to COVID-19. With permanent team leadership now in place, as well as completed service assessments from internal stakeholders, this project is near completion.</p>
	<p>Implementation Date December 31, 2021</p>

Lease Creation

The Property Transactions Section performs the functions of lease negotiation and creation for City properties. In order to perform their work, they need to liaise with other City business areas that have interest in either the leased properties or the tenants of those properties. There are currently 1,610 active lease agreements that the City looks after.

The Branch is creating leases with appropriate terms. They have standard templates for each specific lease type, the Law Branch reviews the leases for non-standard terms, and they complete appraisals to determine appropriate rental rates for commercial leases.

Staff are not consistently completing and documenting the work required to create a lease.

The lease creation process is not well-defined and requirements for documentation of lease files are not standardized. As a result, staff are not consistently completing and documenting the work required to create a lease including: documentation of important contextual information such as conversations with stakeholders (tenants or staff in other City business areas), and retention of formal approvals or supporting documentation such as appraisals.

Not consistently performing and documenting lease creation work could lead to the City not having the records in place to defend any disputes with a tenant. There is also the possibility that information around the lease file is lost if the employee who created the lease leaves the City.

Recommendation 2

Update Lease Creation Process Requirements

Recommendation

Update lease creation requirements to improve information retention and consistency. This should include:

- Standardized documentation
- Standardized, centralized filing structures
- Centralized data storage



Responsible Party

Real Estate Branch Manager



Accepted by Management

Management Response

A standardized process has recently been created to form the basis of documentation and information required within each lease. Additional improvements to be made include the creation of a standardized lease

request form for internal clients to submit when requesting support. This will ensure that specific information that is required prior to approval is considered at the beginning of the process. Options for standardized and centralized filing structures and data storage are currently under review for operational efficacy and user experience.



Implementation Date

September 30, 2021

Performance Measurement

The purpose of a performance measurement framework is to provide a consistent approach for systematically collecting, analyzing, utilizing, and reporting on the performance of programs and activities in achieving established goals and intended outcomes. The Branch's performance measurement framework is incomplete.

The Branch does not have performance measures for all its sections.

The Branch does not have performance measures for all its sections. It has 9 measures related to Property Services and 12 related to Land Development. It does not have any measures related to the activities of the Property Transactions Section. A complete performance measurement framework includes measures for all key activities.

Performance measures haven't been reported on since quarter one of 2020.

Performance measures haven't been reported on since the first quarter of 2020. The Branch intended to monitor and report on the formal performance measures on a quarterly basis; however, management informed us that due to a staffing departure and operational priorities during the Covid-19 pandemic, this has not occurred. By not producing current performance measure results, Branch management cannot assess whether program performance is improving, deteriorating, or meeting the target.

Performance measure methodology is missing.




Performance measure methodology is missing. There is no formal process in place to ensure supporting documentation is retained. With the departure of the staff member that was responsible for preparing the performance measure report, these processes need to be rebuilt. As a result, we were unable to assess the reliability and completeness of the measures.

Performance measure targets should be reviewed.

Not all the targets set for the performance measures have been reviewed to ensure they make sense. For instance, 2 measures that relate to activities mandated by the Residential Tenancy Act had targets set at below 100%, which would make the Branch noncompliant with the Act. As well, 1 measure included a description with a target as greater than a threshold when it should have been described as being less than that threshold.

Recommendation 3

Complete and Implement the Performance Measurement Framework

	<p>Recommendation Complete and implement the performance measurement framework including: developing measures for the goals of each service area, documenting measure methodology, and reviewing targets.</p>
	<p>Responsible Party Real Estate Branch Manager</p>
	<p>Accepted by Management</p>
	<p>Management Response Enterprise Performance Measurement was paused in the Financial and Corporate Services (FCS) department due to COVID-19, and additionally in the Real Estate Branch as a result of strategic resource adjustments made through the Corporate Strategy Transformation Program. Updated and improved measures are anticipated through a coordinated refresh of measure development, benchmarking, additional documented measures and continual target review.</p>
	<p>Implementation Date December 31, 2021</p>

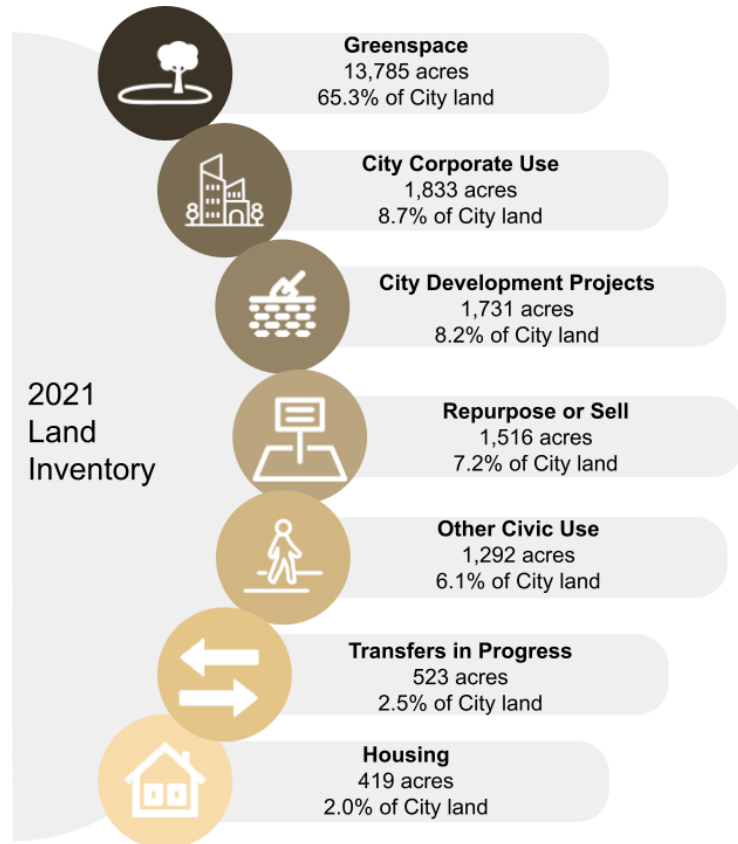


Administration of Land Inventory Database

City Property

The City owns over 21,000 acres of land, split amongst approximately 8,400 individual parcels. The majority of this land is greenspace such as river valley or park areas. The remainder is for: City corporate use such as recreation centres and office towers; land set aside for City development projects or to repurpose or sell; undevelopable land such as sidewalks or utility lots; land waiting to be transferred; and land for housing programs.

Information about the City's property is maintained in the Land Inventory Database.



Key Findings

Overall, the Branch is effectively managing the City's Land Inventory Database. The information in the Land Inventory Database was reliable and entered and updated in a timely manner. The information also matched information from Provincial Land Titles.

Although the Branch is effectively managing the Land Inventory Database, some processes in use as part of managing the database are not currently documented.

Land Inventory Database

The Land Inventory Database contains information on the status of all City-owned property such as whether it is in use by a specific City department, held for a capital project, or is available for other municipal use. Other branches within the City use maps and reports with information from this database when planning for future City needs. If this information is not accurate or up to date, the other branches in the City may make plans for future operations based on bad information. This could increase the operational and financial risks for the City.

When the City acquires property through land dedication as part of a subdivision, the Land Inventory Management database should be updated. Currently this occurs as the result of a staff member in the Facility and Land Inventory Management group running a system report to reconcile acquisitions with the Land Inventory database.



Processes are not documented.

There is no documentation around when and how to run this system report and do this reconciliation. To date, the database reconciliation has been successful due to that individual staff member performing the process without documented guidance.

During periods of staff turnover, not having documented processes can lead to decreased efficiencies.

Recommendation 4

Improve Process Documentation

	Recommendation Document processes for managing the Land Inventory Database.
	Responsible Party Real Estate Branch Manager
	Accepted by Management

Management Response

The Real Estate Branch will document the established process of updating the Land Inventory Management Database. This will support contingency planning and enable the continued accuracy and efficiency of the Database.



Implementation Date

September 30, 2021



Management of Surplus Holdings

Surplus Holdings

When City-owned property is no longer needed for municipal purposes, it is declared surplus and is available to be sold. The Branch may make improvements to the property prior to listing it for sale if it believes that spending money to upgrade the property will increase its value or make it more marketable.

While selling surplus property may be a source of revenue for the City, the first priority is future municipal use. If the City may have a need for the property in the future, it will not be declared surplus.

Management of surplus holdings is administered primarily by staff within the Real Estate Valuation and Advisory Services group and the Facility and Land Inventory Management group.

Approved in 2019, the Land Management Guidelines are intended to provide a framework for the effective governance of City-owned property, including surplus holdings. The guidelines provide a clear set of expectations around acquisitions, disposals (sales or leases), regular review of inventory, transfers between City business areas, and a dispute-resolution process when there are competing interests within the Corporation.

The inventory review process outlines the steps taken to identify underused property which, if it cannot be repurposed for other City use, may be declared as surplus and eventually sold to generate revenue. Part of the process to declare a property as surplus includes circulating details of the property to other business areas. This is done to ensure that business areas have an opportunity to identify possible future needs for the property, prior to it being sold.

Key Findings

Overall, the Branch is effectively and efficiently managing the City's surplus property holdings.

The process to identify and manage surplus properties is clear and documented.

The Branch is following processes to review properties for best use, including performing broad internal and external consultation when trying to assess potential options for the property. They circulate details as an organization-wide check when contemplating repurposing, leasing or selling, and processes around those circulations are followed.

While the Branch performs ongoing inventory reviews, it did not produce an annual report of the City's land holdings as required by the City's Land Management Guidelines. This type of report is useful in providing information for high-level governance activities.

Annual Report of Land Holdings

One of the key deliverables included within the Guidelines is an annual Holding Status Report. This report is intended to provide senior management with information to help "guide decision making about retaining or disposing of City-owned real estate."

The Branch should have prepared the first version of the Holding Status Report in 2020. This annual report should include information around the City's underutilized assets, a record of properties claimed and held by business areas (including the property's market value), reasons and timeframes for holding property (as well as the costs of holding), the status of surplus property (relative to sale), and new properties designated as surplus since the last report.




The Branch did not produce an annual report of land holdings.

To date, the Branch has not prepared the report.

This report can be an important source of information for senior management in performing their roles related to governance of City property. Without regular reporting, decision makers may not have available and timely information regarding the retention and disposal of City-owned land. This could lead to the City incurring extra costs due to retaining land that is not needed and potentially preventing the development of marketable land.

Recommendation 5

Produce an Annual Report of Land Holdings

	Recommendation Produce an annual report of the City's land holdings, as outlined in the Land Management Guidelines, to help guide senior management decision making.
	Responsible Party Real Estate Branch Manager
	Accepted by Management
	Management Response The initial phase of producing an annual holdings status report was initiated in 2020 and included building a spatial tool to support operational needs. This tool will contribute to the production of the first report and allow for accurate and timely information, as well as historic reference points, in order to support informed decision making and to review progress.
	Implementation Date March 31, 2022



Conclusion

The Real Estate Branch can reduce legal and financial risk to the City by improving specific management practices. This includes defining and documenting roles, responsibilities, and processes in the areas identified to ensure appropriate and consistent record-keeping.

The Branch can improve on the effectiveness of its management of City property. Property Manager roles and responsibilities can be clarified to ensure consistent application. The Branch is creating leases with appropriate terms, however it needs to standardize requirements related to performing and documenting lease creation activities, and to centralize data storage. The Branch does not have performance measures in place for all sections and those that are in place have not been updated since early 2020.

By implementing these changes, the Branch will be in a better position to consistently govern City property, measure its performance against targets, and internally identify areas for improvement.

The Branch is effectively managing the City's Land Inventory Database. We found no issues with the reliability of the information in the database or the timeliness of items being updated. However, we found the Branch can strengthen documentation related to processes in use as part of managing the database. Doing this will reduce the possibility of missed steps or errors that could impact the reliability and accuracy of the database.

Overall, the Branch is effectively and efficiently managing the City's surplus property holdings. The process to identify and manage surplus properties is clear and documented, and the Branch is following processes to review properties for best use. However, the Branch did not produce an annual report of land holdings as required by the City's Land Management Guidelines, which would be useful in providing information for high-level governance activities. Without regular reporting, decision makers may not have accurate and timely information

regarding the retention and disposal of City-owned land. This could lead to the City incurring extra costs due to retaining land that is not needed and potentially preventing the development of marketable land.

Acknowledgment

We would like to thank staff from the Branch, as well as other areas of the City, who assisted us in planning and performing this audit.