
Performance Audit of the
Real Estate Services Section

September 7, 2021

Final Report



OBJECTIVE

To assess the effectiveness of the Real Estate Services Section.

BACKGROUND

The Real Estate Services Section (Section) has 5 staff who provide services related to the management of the City's real estate assets which include 1760 properties. The services provided include property acquisitions and divestitures; leasing; licensing; land use permits; property appraisals; and providing support and advice to operating departments on real estate related matters. The Section's current level of service allows for 100 real estate appraisals annually, 40 reports to Council and Planning Committee and the negotiation and closure of 30 real estate transactions. In addition, Sectional staff are accountable for the administration of approximately 160 leases, licenses of occupation and land use permits and the City's owned properties. The Section's financial results are summarized below.

Table 1 – Revenues and Expenses in (\$ 000s)	Dec 31 2017		Dec 31 2018		Dec 31 2019		Dec 31 2020		2021
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget
Revenues	(532)	(1279)	(532)	(652)	(522)	(571)	(511)	(565)	(511)
Salaries & Benefits	568	574	577	600	613	618	626	638	551
Materials	88	54	88	55	78	57	82	78	101
Energy Costs	119	128	123	107	80	89	83	93	138
Purchased Services	30	91	40	354	40	35	40	58	40
Financial Expenses	5	11	5	6	5	0	5	12	5
Capital Contribution	270	1032	270	45	270	283	270	262	270
Internal Recoveries	37	50	59	71	60	80	66	80	40
Total Expenses	1117	1940	1162	1238	1146	1162	1172	1221	1,145
Net Expenses	585	661	630	586	624	591	661	656	634

METHODOLOGY & SCOPE

This audit included staff interviews, site visits, analysis of policies, processes and reports and tests of controls for the period January 1, 2017 to June 30, 2021. Table 2 contains our assessment criteria for effectiveness.

EXECUTIVE SUMMARY

Most of the processes followed by the Real Estate Services Section to manage the City's real estate assets are effective. This audit identified opportunities to improve the land acquisition process for road construction projects, administration of leases and utilization of real estate inventory.

AUDIT STANDARDS

We conducted our audit in accordance with Generally Accepted Government Auditing Standards which require that we adequately plan audits; properly supervise staff; obtain sufficient, appropriate evidence to provide a reasonable basis for audit findings and conclusions; and document audits. For further information regarding this report, please contact Ron Foster at the City of Greater Sudbury at 705-674-4455 extension 4402 or via email at ron.foster@greatersudbury.ca

OBSERVATIONS AND ACTION PLANS

A. Land Acquisition for Road Construction Projects

Between 2016 and 2020, there were 14 to 23 acquisitions of property per annum. Negotiations for land acquisitions and expropriations of land for new road construction projects are not always timely. As a result, the City could face legal risks and incur costs that are not insured and could be avoided.

Recommendation

Negotiations for the acquisition of land or, if necessary, the commencement of expropriation proceedings, should be completed prior to the commencement of construction of road projects.

Management Response and Action Plan

It is agreed that as a general rule these negotiations should be completed or the expropriation process commenced prior to commencing project work. The land acquisition process for most road construction projects is straightforward. Through direct discussion with abutting land owners, expectations and interests are shared and a negotiation ensues. These negotiations are subject to some clear and objective standards which guide the negotiated outcomes. The City has negotiating strength because of its ability to commence expropriation proceedings and the vast majority of acquisitions are timely and within a reasonable range of expected outcomes. Some more complex, larger road construction projects require more lengthy negotiations and it benefits the City to make sure every attempt at reasonable outcome is made during the negotiations process prior to commencing the expropriation process. The timeframe for tendering road construction projects and completing project work within a construction season is tight. There may be instances when the risks associated with commencing project work while concluding negotiations are worth taking when balanced with the project risk of being unable to complete a set of project activities in a timely fashion. Real Estate staff will continue to work with all City departments to promote a more proactive approach identifying real estate requirements prior to construction.

B. Utilization of Real Estate Inventory

One of the main functions of the Real Estate Services Section is to manage the City's real estate inventory with a focus to achieve full utilization. Real Estate staff anticipate that more than one floor of the provincial tower at Tom Davies Square (TDS) will become vacant in 2023 when the lease with the province expires. This space could be used to accommodate City staff that presently occupy the first floor of the TDS. As a result, an opportunity exists to negotiate a mutually beneficial shared service agreement with the Greater Sudbury Police Services (GSOS) for facilities in the TDS.

Recommendation

The City should resume negotiations with the GSPS for renovated space at TDS in order to minimize vacancies and funds required for capital projects.

Management Response and Action Plan

Staff will continue to determine office space requirements post – pandemic. With the increase in staff working from home and the expected vacancies at 199 Larch Street in 2023, staff expect that there will be changes in office space allocation. Staff will include all City departments and boards, including GSPS in order to determine office space requirements and reallocations. Real Estate will continue their discussions with Infrastructure Ontario to determine their requirements for office space post –pandemic and prepare a new lease for their tenancy at 199 Larch Street. The execution of a new lease will require city council approval.

C. Lease Renewals

The City presently administers 131 leases where the City is the landlord. This audit indicated that in recent years, a number of leases have not been renewed on a timely basis which may compromise the City's ability to recover rental payments at their fair market value. Most of these delays are tied to the pandemic.

Recommendation

Leases should be renewed on a timely basis to ensure that appropriate contractual agreements are in place which entitle the City to rents that are priced at fair value.

Management Response and Action Plan

Staff ensure that the major leases are renewed in a timely manner. Most of the existing leases that require renewal contain an over holding provision allowing the tenant to remain on a month to month basis. Staff focus on the leases that minimize risk to the City in the form of liability and financial benefit and will continue to renew any outstanding leases as the influence of the pandemic declines.

D. Performance Monitoring and Reporting

Benchmarks are not available in the annual studies by Municipal Benchmarking Network Canada (MBCAN) and BMA Consulting Inc. to enable comparisons between the City's real estate services section and its municipal peers which are often organized differently or have different responsibilities. The number of real estate transactions undertaken by the City's real estate service section can vary from one year to the next. Consequently, staff do not include performance measures in the annual budget to allow Council to assess the efficiency of the Section.

Recommendation:

Provide year over year comparisons of the number of properties owned and leased as well as the number of staff in the Section to demonstrate management is presently making efficient use of its resources.

Management Response and Action Plan

Agreed. Staff will continue to monitor efficiency in the section and continue to allocate resources accordingly. The 2021 real estate section budget has been reduced by one FTE to coincide with a review of roles and responsibilities within the section. Staff will include this data in the annual budget document.

Table 2 - Assessment Criteria for the Effectiveness of Real Estate Services

12 Attribute of Effectiveness	Assessment Criteria¹
Management Direction	The extent of alignment of real estate services with the mission and goals in the corporate strategic plan and the principles in the long-term financial plan approved by Council
Relevance	The extent to which real estate services continue to make sense in regard to the problems or conditions they were intended to address
Appropriateness	The extent to which real estate services and the level of effort being made to implement them, are logical in light of their objectives.
Achievement of Intended Results	The extent to which goals and objectives of the real estate services section have been realized
Acceptance	The extent to which relevant municipal stakeholders to which real estate services are directed judge them to be satisfactory
Secondary Impacts	The extent to which other significant consequences, either intended or unintended and either positive or negative, have occurred
Costs and Productivity	The relationship between costs (inputs) and outputs. Management and Council must be able to demonstrate that the City is using its scarce resources to best advantage and that the City is constantly looking for opportunities to free up resources so that they can be re-invested where they will do the most good
Responsiveness	How well the real estate services respond to changes in factors such as markets, competition, available funding, and technology. How well these processes respond to the public with which it interacts, and to the various forces that are pertinent to the City's objectives and goals
Financial Results	The accounting for revenues and costs as well as the valuation of assets, liabilities and surpluses/deficits as reflected in approved budgets or financial statements
Working Environment	The extent to which the City provides an appropriate work atmosphere for its employees; provides opportunities for development and achievement; and promotes commitment, initiative and safety
Protection of Assets	The extent to which important assets are safeguarded so that the City is protected from the danger and risk of losses that could threaten its success, including key personnel, sources of supply, valuable property agreements, and important systems and information
Monitoring and Reporting	The extent to which key matters pertaining to performance and organizational strength and weakness are identified and carefully monitored

¹ Accountability, Performance Reporting, Comprehensive Audit - An Integrated Perspective, Canadian Accounting and Auditing Foundation, 1996.

Table 3 – Summary of Significant Risks

Risk	Total No. of Risks	Risks (Before Controls)			Residual Risk (After Controls)		
		High (15 to 25)	Med (9 to 14.99)	Low (1 to 8.99)	High (15 to 25)	Med (9 to 14.99)	Low (1 to 8.99)
Reputation (R)	1	1	0	0	0	1	0
Operational (O)	3	3	0	0	0	1	2
Financial (F)	4	4	0	0	0	1	3
Legal (L)	2	2	0	0	0	2	0
TOTAL	10	10	0	0	0	5	5

Table 4 – Significant Risks

Risk Type	Description of Risk	Inherent Risks	Residual Risk*
L1	Legal and regulatory obligations may not be managed effectively.	20	12
F2/O2	Real estate services may not be provided with due regard for effectiveness.	25	12
L2	Real estate purchases may not be in accordance with the City's By-laws.	20	12
R1	Issues that are not managed effectively may damage the City's reputation.	20	12
F1/O1	Real estate services may not be provided with due regard for economy.	25	8
F3/O3	Real estate services may not be provided with due regard for efficiency.	20	8
F4	Real estate transactions may not be at fair value determined by appraisals.	25	8

**Note that it is not cost-effective to eliminate all residual risks.*

Appendix 1 – Risk Assessment Criteria

Impact	Services	Technology	Technology	People	Strategic	Legal/Reputation	Financial
Very Minor (1)	<ul style="list-style-type: none"> • Less than 90% of service objectives achieved. 	<ul style="list-style-type: none"> • Minor performance issues or lack of availability of secondary systems or data loss or corruption. 	<ul style="list-style-type: none"> • Minor disruptions of secondary systems or data loss or corruption. 	<ul style="list-style-type: none"> • Minor reportable employee injury. • Increase in number of union grievances. 	<ul style="list-style-type: none"> • Minor instances of actions that are at odds with strategic priorities. 	<ul style="list-style-type: none"> • Small amount of negative media coverage or complaints to City. • Non-lasting damage or no reputational damage • Theft or Fraud under \$1,000. 	<ul style="list-style-type: none"> • Uninsured loss, cost overruns or fines < \$10K • Insured loss <\$100K • Loss of replaceable asset.
Minor (2)	<ul style="list-style-type: none"> • Less than 75% of service objectives achieved. • Unable to perform non-essential service. 	<ul style="list-style-type: none"> • Performance or availability issues with secondary systems or data loss or corruption • Disclosure of non-confidential but embarrassing information. 	<ul style="list-style-type: none"> • Disruption, data loss or corruption of systems. • Disclosure of non-confidential but embarrassing information. 	<ul style="list-style-type: none"> • Reportable employee injury. • Loss of key staff but able to recruit competent replacements • Significant increase (>10%) in number of union grievances. 	<ul style="list-style-type: none"> • Instances of actions at odds with strategic priorities. 	<ul style="list-style-type: none"> • Complaints elevated to the Director level. • Short-term repairable damage to City's reputation • Public outcry for discipline of employee. • Moderate amount of negative media coverage • Theft or Fraud of \$1,000 to \$10,000. 	<ul style="list-style-type: none"> • Uninsured loss, cost overruns or fines of \$10K to \$100K • Insured loss < \$100K - \$1M • Inefficient processes • City's actions result in reduced economic development.
Moderate (3)	<ul style="list-style-type: none"> • Less than 60% of service objectives achieved. • Unable to perform essential service but alternatives exist. 	<ul style="list-style-type: none"> • Disruptions or performance issues with significant systems or data loss or corruption • Recoverable data loss from an important system. • Minor disclosure of confidential information. 	<ul style="list-style-type: none"> • Disruption, data loss or corruption of significant systems. • Recoverable loss from important system. 	<ul style="list-style-type: none"> • Multiple employee injuries or long-term disability from one incident. • Inability to retain or attract competent staff. • Increase in stress leave, sick leave or WCB claims. • Work-to-rule union disagreement or short-term strike. 	<ul style="list-style-type: none"> • Numerous actions are at odds with strategic priorities. 	<ul style="list-style-type: none"> • Public/media outcry for removal of management • Long-term damage to City's reputation • Citizen satisfaction survey indicates unacceptable performance. • Complaints elevated to Council level. • Results inconsistent with commitments made to citizens • Theft or Fraud under \$100,000. 	<ul style="list-style-type: none"> • Uninsured loss, cost overruns or fines of >\$100K to \$1M • Insured loss >\$1M to \$10M • Having to delay payments to contractors/suppliers • City's actions results in lost revenue for significant number of City businesses.

Impact	Services	Technology	Technology	People	Strategic	Legal/Reputation	Financial
Major (4)	<ul style="list-style-type: none"> • Less than 45% of service objectives achieved. • Unable to perform an essential service where no alternative exists. 	<ul style="list-style-type: none"> • Unrecoverable loss or corruption of data from an important system • Unavailability or major performance issues with significant systems • Disclosure of sensitive or confidential information 	<ul style="list-style-type: none"> • Unrecoverable loss or corruption of data for important system. • External exposure of important information • Unavailability of significant systems 	<ul style="list-style-type: none"> • Serious injury of one or more employees • Legal judgment against the City in workplace matter. • Turnover of key employees • Sustained strike of staff. 	<ul style="list-style-type: none"> • Numerous actions are significantly at odds with the strategic priorities. 	<ul style="list-style-type: none"> • Public/media outcry for change in CAO or Council • Public or senior officials charged or convicted • Legal judgment against the City in a workplace matter • Integrity breach resulting in decreased trust in City Council or Administration. • Theft or Fraud >\$100,000 	<ul style="list-style-type: none"> • Uninsured loss, cost overruns or fines of >\$1M - \$10M • Insured loss of >\$10M - \$100M • Unable to pay employees and contractors on time. • City's actions impair local economic conditions.
Extreme (5)	<ul style="list-style-type: none"> • Less than 30% of service objectives achieved. • Unable to perform several essential services where no alternatives exist. 	<ul style="list-style-type: none"> • Unrecoverable loss or corruption of data from a critical system • Unavailability of critical systems • Major disclosure of sensitive or confidential information 	<ul style="list-style-type: none"> • Unrecoverable loss or corruption of data for critical system. • External exposure of confidential information • Unavailability of critical systems 	<ul style="list-style-type: none"> • Death of an employee • Major legal judgment against the City in workplace matter. • Significant turnover of key employees with ELT • Sustained strike of staff supporting key services 	<ul style="list-style-type: none"> • Many actions are significantly at odds with the strategic priorities. 	<ul style="list-style-type: none"> • Public/media outcry for change in CAO or Council • Senior officials criminally charged or convicted • Severe legal judgment against the City in a workplace matter • Major integrity breach resulting in complete loss of trust in City Council or Administration. • Theft/Fraud >\$1,000,000 	<ul style="list-style-type: none"> • Uninsured loss, cost overruns or fines >\$10M • Insured loss > \$100M • File for bankruptcy • Failure to maintain financial capacity to support current demands. • City's actions significantly impair local economic conditions.

Likelihood	Unlikely (1)	Possible (2)	Probable (3)	Likely (4)	Very Likely (5)
	Less than 20%	>20% but < 40%	>40% but < 60%	>60% but < 80%	80% or more
	Less frequent than every 10 years	May occur in the next 2 years	Will occur this year or next year at least once	May occur regularly this year	Will occur within months may reoccur often