



Office of the Auditor General / Bureau du vérificateur général

FOLLOW-UP TO THE 2005 AUDIT OF REAL ESTATE MANAGEMENT

2009

SUIVI DE LA VERIFICATION DE LA GESTION

DES BIENS IMMOBILIERS DE 2005

Table of Contents

EXECUTIVE SUMMARY	i
RÉSUMÉ.....	iii
1 INTRODUCTION	1
2 KEY FINDINGS OF THE ORIGINAL 2005 AUDIT OF REAL ESTATE MANAGEMENT	1
3 STATUS OF IMPLEMENTATION OF 2005 AUDIT RECOMMENDATIONS ...	4
4 SUMMARY OF THE LEVEL OF COMPLETION	25
5 CONCLUSION.....	26
6 ACKNOWLEDGEMENT.....	27

EXECUTIVE SUMMARY

Introduction

The Follow-up to the 2005 Audit of Real Estate Management was included in the Auditor General's 2009 Audit Plan.

The key findings of the original 2005 audit included:

- Clear guidelines for real estate transactions are required to ensure transparency and consistency in the disposal of City properties. The audit did not uncover any evidence of inappropriate activity in the sale of properties.
- The audit also revealed a lack of formal policies and procedures in many areas, placing excessive reliance on the knowledge and expertise of existing staff. This lack of documented procedures adds further challenges to ensuring effective staff training.
- Currently Real Estate Services Division (RESD) has contracts with several consultants in order to carry out its daily work due largely to the inability to find qualified replacements for vacancies.

Summary of the Level of Completion

The table below outlines our assessment of the level of completion of each recommendation as of Fall 2009.

CATEGORY	% COMPLETE	RECOMMENDATIONS	NUMBER OF RECOMMENDATIONS	PERCENTAGE OF TOTAL RECOMMENDATIONS
LITTLE OR NO ACTION	0 – 24	1, 3, 9	3	25%
ACTION INITIATED	25 – 49	-	-	-
PARTIALLY COMPLETE	50 – 74	2, 12	2	17%
SUBSTANTIALLY COMPLETE	75 – 99	4, 5, 8, 11	4	33%
COMPLETE	100	6, 7, 10	3	25%
TOTAL			12	100%

Conclusion

Substantial effort has been made by management to address the issues identified in the audit. In some cases management is in the process of investigating or implementing a solution, but the implementation is not complete. In some cases, management has not implemented the Council approved recommendation, but has initiated corrective action that, according to management, addresses the issues.

Policies and procedures are formally documented in the "Real Estate Partnerships and Development Office (REPDO) Handbook." Although work on policies in the handbook began in 2006, the development of the Handbook including procedures

and guidelines spanned over two years. The REPDO Handbook addresses some, but not all, areas identified in the 2005 audit, and some areas were not addressed adequately. For example, the disposal process continues to lack a clear objective and guidance on priorities, and some clarification is required in the criteria that have been established to assist in determining when to use various methods of sale. Although the option to sell and develop land through the use of a City owned corporation such as the Community Lands Development Corporation was approved in 2007, the Corporation was not established until late in 2009. As such, it is not referenced in the Handbook. Management has expressed the intention of updating the Handbook with this information. The creation of the Handbook is a significant step toward mitigating the risk of undue reliance on the existing knowledge base that was identified in the 2005 audit. However, it should be noted that some policies contained in the Handbook have yet to be considered by Council.

A comprehensive inquiry tracking process has been developed and documented. It serves to clearly assign responsibility, accountability, and service expectations. Although the tracking process is fairly comprehensive, it does not flow to a monitoring process that would clearly demonstrate the impact of inquiries on operations. In general, monitoring procedures have not been improved to ensure efficient and effective operations, to ensure on-going operational consistency, and to more clearly identify and validate potential future impediments to organizational effectiveness. Management is working with industry groups to address the challenge of developing performance measurement indicators. However, that complete and formalized indicators have not yet been devised leads to continued impairment in management's ability to demonstrate organizational stewardship.

The significant improvement in documentation of procedures will contribute to staff training and succession, however a clear strategy to respond to succession concerns has still not been developed. Although a business case, and a budget pressure justification argued for the creation of new permanent positions to address the excessive use of consultants, more formalized outsourcing was not considered as an alternative solution. Management explained that outsourcing was not a possible consideration, and therefore management took an alternate approach to addressing the concerns expressed in the audit related to excessive use of consultants.

Overall, progress has been made toward implementing the recommendations related to defining and documenting procedures, and assignment of responsibilities. Efforts are still required in areas of strategic management, from long term planning, to aligning performance monitoring to departmental objectives.

Acknowledgement

We wish to express our appreciation for the cooperation and assistance afforded the audit team by management.

RÉSUMÉ

Introduction

Le Suivi de la vérification de la gestion des biens immobiliers de 2005 était prévu dans le Plan de vérification du Bureau du vérificateur général de 2009.

Les constatations principales de la vérification initiale de 2005 sont les suivantes :

- Des lignes directrices claires pour les transactions immobilières sont nécessaires afin d'assurer la transparence et l'uniformité dans l'aliénation des biens immobiliers de la Ville. La vérification n'a découvert aucune preuve d'activités inappropriées dans la vente des biens immobiliers.
- La vérification a également révélé un manque de politiques et de procédures officielles dans de nombreux domaines, trop de confiance étant placée dans les connaissances et l'expertise du personnel actuel. Ce manque de procédures documentées pose d'autres défis quant à garantir une formation du personnel efficace.
- Actuellement la Division des services immobiliers (DSI) a des contrats avec plusieurs consultants afin d'effectuer son travail quotidien en raison notamment de l'incapacité de trouver du personnel qualifié pour doter les postes vacants.

Sommaire du degré d'achèvement

Le tableau ci-dessous présente notre évaluation du degré d'achèvement de chaque recommandation à l'automne 2009 :

CATÉGORIE	POURCENTAGE COMPLÉTÉ	RECOMMANDATIONS	NOMBRE DE RECOMMANDATIONS	POURCENTAGE DU TOTAL DES RECOMMANDATIONS
PEU OU PAS DE MESURES PRISES	0 - 24	1, 3, 9	3	25 %
ACTION AMORCÉE	25 - 49	-	-	-
COMPLÉTÉE EN PARTIE	50 - 74	2, 12	2	17 %
PRATIQUEMENT COMPLÉTÉE	75 - 99	4, 5, 8, 11	4	33 %
COMPLÉTÉE	100	6, 7, 10	3	25 %
TOTAL			12	100 %

Conclusion

La direction a déployé des efforts soutenus pour remédier aux problèmes décelés par la vérification. Dans certains cas, la direction a entrepris une enquête ou est en train de mettre en œuvre une solution, mais cette mise en œuvre n'est pas complète. Dans d'autres cas, la direction n'a pas mis en œuvre la recommandation approuvée par le Conseil municipal, mais elle a amorcé une mesure corrective qui, selon elle, remédie aux problèmes. Les politiques et les procédures sont officiellement

documentées dans le « Manuel du BPD (Bureau des partenariats et du développement en immobilier) ». Bien que le travail d'élaboration des politiques et des procédures contenues dans le Manuel ait commencé en 2006, la création du Manuel qui regroupe des politiques et des procédures s'est échelonnée sur deux ans. Le Manuel du BPD aborde certains domaines, mais pas tous les domaines dégagés dans la vérification de 2005, et certains n'ont pas été traités de façon adéquate. Par exemple, le processus d'aliénation manque toujours d'un objectif clair et de directives concernant les priorités, et des éclaircissements sont requis quant aux critères établis en vue d'aider à déterminer quand utiliser différentes méthodes de vente. Bien que l'option de vente et d'aménagement de terrains par le biais d'une société appartenant à la Ville, par exemple la Société d'aménagement des terrains communautaires, ait été approuvée en 2007, la Société n'a pas été créée avant la fin de 2009. Elle n'est pas citée nommément dans le Manuel. La direction a exprimé son intention de mettre à jour le Manuel afin qu'on y trouve cette information. La création de ce Manuel constitue une étape importante aux fins d'atténuation du risque d'accorder une confiance excessive aux connaissances actuelles, qui avait été discerné dans la vérification de 2005. Il est à noter, cependant, qu'il reste encore certaines politiques du Manuel au sujet desquelles le Conseil doit délibérer.

Un processus complet de suivi des demandes de renseignements a été élaboré et documenté. Il sert à définir clairement les responsabilités, la reddition de comptes et les attentes en matière de service. Bien que le processus de suivi soit assez complet, il ne débouche pas sur un processus de contrôle qui démontrerait clairement l'incidence des demandes sur les opérations. De manière générale, les procédures de surveillance n'ont pas été améliorées afin d'assurer des opérations efficaces et efficientes, une uniformité opérationnelle continue, ainsi que la détection et la validation plus précises de futurs obstacles possibles à l'efficacité organisationnelle. La direction collabore avec des groupes de l'industrie afin de relever le défi de la mise au point d'indicateurs de mesure du rendement. Toutefois, le fait que des indicateurs complets et officialisés n'ont pas encore été conçus entraîne un risque continu en matière de capacité de la direction de faire preuve d'une gérance organisationnelle.

L'amélioration appréciable dans la documentation des procédures profitera à la formation et à la succession du personnel; toutefois, une stratégie claire, qui aurait comme objectif de régler les inquiétudes relatives à la succession, n'a pas encore été développée. Bien qu'une analyse de rentabilité et la justification d'une pression budgétaire fassent valoir la création de nouveaux postes permanents pour traiter la question de l'utilisation excessive de consultants, une impartition plus officielle n'a pas été retenue comme solution. La direction a expliqué que l'impartition n'était pas une solution envisageable et a adopté une autre approche pour répondre aux préoccupations soulevées dans la vérification en ce qui concerne l'utilisation excessive de consultants.

Dans l'ensemble, des progrès ont été réalisés dans la mise en œuvre des recommandations liées à la définition et à la documentation de procédures et à la charge de responsabilités. Des efforts doivent encore être fournis dans les domaines de la gestion stratégique, de la planification à long terme à l'harmonisation du contrôle du rendement aux objectifs du service.

Remerciements

Nous tenons à remercier la direction pour la coopération et l'assistance accordées à l'équipe de vérification.

1 INTRODUCTION

The Follow-up to the 2005 Audit of Real Estate Management was included in the Auditor General's 2009 Audit Plan.

The key findings of the original 2005 audit included:

- Clear guidelines for real estate transactions are required to ensure transparency and consistency in the disposal of City properties. The audit did not uncover any evidence of inappropriate activity in the sale of properties.
- The audit also revealed a lack of formal policies and procedures in many areas, placing excessive reliance on the knowledge and expertise of existing staff. This lack of documented procedures adds further challenges to ensuring effective staff training.
- Currently RESD has contracts with several consultants in order to carry out its daily work due largely to the inability to find qualified replacements for vacancies.

2 KEY FINDINGS OF THE ORIGINAL 2005 AUDIT OF REAL ESTATE MANAGEMENT

Property Disposals

Our audit found that overall disposals were in compliance with the existing policy. Although in some instances a lack of complete documentation was noted, in our view, these instances did not impact on the overall integrity of the process used in the disposals we reviewed. Our findings indicate that management should review the policy and related procedures to more clearly provide guidance in the following areas:

- Clarifying the overall objective of property disposals;
- Clear guidelines should be established regarding the selection of the various sales methods in order to ensure that a consistent and effective method of sale is used and that appropriate negotiation protocols are adhered to; and
- A standardized process similar to the City's approach to public tendering should be required for disposals where multiple bids are anticipated.

Acquisitions, Leasing, Appraisals and Remediation

While the Division does tend to adhere to municipal best practices in these areas, the lack of formal policies and procedures places excessive reliance on the knowledge and expertise of existing staff to consistently and appropriately undertake these activities. The absence of documented procedures also creates challenges in maintaining effective staff training and succession.

Inquiries

The Division is currently dealing with a considerable number of inquiries from various sources regarding the status of individual transactions. A standard protocol and monitoring system for addressing these inquiries is needed to manage this work efficiently and consistently and to clearly demonstrate its operational impacts.

Roles and Responsibilities

RESD currently has responsibility for managing a number of City-owned properties. It would be more appropriate to assign the responsibility for managing these properties to either the Program Properties or Venture Properties Division within RPAM.

The current mandate of RESD also includes all leasing activity for the City. RESD should pursue opportunities to align these responsibilities within a single part of its operation.

Management Information

The Real Estate (RE) module of SAP was implemented as part of the City's Integrated Business Solution (IBS) initiative. The module is used in managing the inventory of City-owned properties. However, currently within RESD, a variety of stand-alone tools continue to be used to monitor all activity and a complete database management tool is not in use. There has been a reluctance to utilize tools available within SAP to assist in this area. Discussions with Information Technology Services should be undertaken to ensure these tools are introduced and utilized.

A system of formal performance indicators and standards is not currently in place. Such measures are an important internal control mechanism that can provide management with early warning on potential issues and required management intervention.

Documentation Standards

Based on our review of a sample of transaction files, no evidence of any inappropriate activity was noted, however we concluded that approximately one-third of the files were incomplete in terms of containing all required documentation. The establishment of a checklist and sign-off procedure should be established within each file for each milestone as a trigger to ensure all steps are completed and properly documented. This would assist management's ability to monitor performance and facilitate the transfer of files between staff when necessary.

Long-Term Planning

By nature of its role, RESD is dependent upon other departments to forecast their requirements in such a way as to allow the Division to take action in a timely and

effective manner. Information generally appears to be provided to RESD within a reasonable timeframe. However, no evidence was found that strategic work planning, i.e., setting annual or multi-year targets, was being conducted.

Service Delivery Model

Currently RESD includes six (6) positions identified as “Consultants”. Management has indicated that the use of these consultant resources has been necessitated by workload demands and the inability to find qualified replacements for vacancies. The use of on-site consultants and contract staff has continued for long periods of time and raises significant employment issues for the City.

Management has also identified an emerging challenge in succession planning. No clear strategy has yet been developed to respond to this concern, which is an issue that will require a more coordinated corporate-wide effort in the near future. Given RESD’s long-term use of external consultants, its continuing struggle to attract acceptable candidates when vacancies occur and the associated succession planning issues this is raising, it is appropriate at this point for management to pursue more formalized outsourcing in the future.

2005 Overall Management Response

The Audit Report dated 11 October 2005, indicates that overall the performance and management of the Real Estate Services Division (RESD) has successfully:

- Created a skilled, experienced and dedicated team with strong and knowledgeable leadership to fulfill its mandate and responsibilities;
- Promoted positive teamwork and customer service delivery;
- Fostered positive working relationships with other areas of the City;
- Followed municipal real estate best practices;
- Created a property disposal policy and bylaw that remains a leader when compared to other municipal organizations;
- Remained on track with original direction and intent for RESD; and
- Responded capably to the disposal of facilities arising from amalgamation.

After reviewing the recommendations contained in the audit report, RESD management has the following observations:

- General agreement with observations and recommendations;
- Findings confirm RESD’s strength in filling Centre of Expertise (COE) role;
- Interviews have identified technology weaknesses that need to be addressed;
- The information that was captured recognizes succession, staffing, contracting issues and challenges;

- Certain Recommendations confirm that more in-depth review and development and approval of an appropriate go-forward service delivery strategy is warranted. This will be looked at during the Branch Process Review that is targeted to be complete Q3 2006.

3 STATUS OF IMPLEMENTATION OF 2005 AUDIT RECOMMENDATIONS

2005 Recommendation 1

That the overall objective of property disposals be clarified, including clarification of the relative priorities regarding sale versus other potential uses for the property.

2005 Management Response

Management agrees with this recommendation.

The Disposal Policy approved in October 2001 by Council, will be reviewed for clarity of wording as part of the annual review of disposal procedures to be completed in 2006.

Ultimately, Management's goal is to present objective information to aid Council in setting priorities specific to surplus property. The review of the Disposal Policy will address the need to develop a more formal approach for land exchanges. The objective would be to ensure that any surplus real estate is viewed as an asset and utilized in a manner that recognizes its financial value and rationalizes its use in relation to the City's overall requirements.

Management Representation of the Status of Implementation of Recommendation 1 at December 31, 2008

Implementation of this recommendation is 100% complete.

Management: % complete ***100%***

OAG's Follow-up Audit Findings regarding Recommendation 1

The current Policy continues to lack clarity as to whether the objective of property disposals is to maintain use in the City if possible, to achieve fair market value or to maximize returns to the City.

The policies and procedures require external circulation to be initiated only if no internal departments express interest. However, whether internal departments, public agencies, or the general public are to be given priority to purchase the property remains unclear. The following inconsistencies were noted:

1. According to the Procedures Manual, circulation should first be to internal departments, then to public agencies, and then to the public;

2. The Disposals By-law requires a notice to the public prior to the disposal of any real property; and,
3. The disposal procedures for “marketing” described in the By-law require public marketing prior to the final approval of any offer by the City.

Improvements have not been made in describing how the potential for significant returns to the City from selling the property on the open market compares to other possible uses for the property. The objective of maximizing returns to the City may frequently be in conflict with the requirement to circulate first to internal departments. Discussions with Management provided clarification of the objective and priorities for disposals. However, the clarification has not been documented in the Policy.

In 2007, Council approved the creation of the Community Lands Development Corporation (CLDC) to purchase, develop, and sell City land. Although documentation was subsequently provided by management on this initiative, no indication of its creation was given in the original status provided.

Council also approved the incorporation of the Manotick Mill Quarter Corporation (MMQC) to purchase and maintain the City’s heritage site. Because the corporation was not established until late in 2009, it was not considered in assessing the degree to which this recommendation has been implemented. Management should ensure the policies and procedures make reference to the relative priority, the process to follow, and the criteria that warrant the consideration of the use of such a corporation to help ensure the transfer of corporate knowledge. The following other concerns were not considered in assessing the degree to which this recommendation has been implemented, but should be explored when formalizing the implementation of the CLDC and the MMQC:

1. Management should consider, when and if it is necessary, to create a new corporation to satisfy the goals of unique projects, or if costs and efficiencies can be saved by using the CLDC for most projects;
2. The “Business Case Study” for both corporations lack analysis of the costs and benefits of the creation and use of a corporation, do not include comparisons of results against other methods, and do not provide details on why the decision was made to implement these particular projects through the creation of a corporation;
3. Management has explained that the use of a corporation will help to ensure the end result of the development project matches the City’s intention. Management should consider whether the current policies and procedures can be altered to better ensure agreements made with the City are more easily enforced. Similarly, management should consider whether the risk and cost of not being able to enforce an agreement with the City permeates other types of sale and partnerships;

4. If efficiencies can be gained by Council delegating more control to the Board of Directors of the corporations, management should consider whether the efficiencies can be incorporated into the REPDO policies and procedures;
5. If the intention is that the corporations are bound by the policies and procedures of the City, management should ensure this is specifically noted in the agreement.

The Disposal Policy and procedures have not been approved. The By-law was last approved in 2001. When asked for documents to demonstrate that the disposal policies were approved, management explained that updates are included in a report that will be presented for approval in 2010.

OAG: % complete

20%

Management Representation of Status of Implementation of Recommendation 1 as of Winter 2010

Management disagrees with the OAG's follow-up audit finding that there has been little or no action taken to implement this recommendation.

A best practices review related to municipal property disposal was conducted by an independent consultant (Strategic Assessment – Corporate Research Group) in 2004. The consultant reviewed 12 municipalities and concluded that the City of Ottawa's Real Property Disposal practices and accompanying policy for disposal were the most current and among the most comprehensive reviewed. It also confirmed that the City of Ottawa's "integration" of a proactive, structured asset rationalization process with a comprehensive disposal strategy is leading edge. It should be noted that in 2001 Council approved the Integrated Asset Rationalization and Disposal Strategy for Real Property which outlines the steps that lead to decisions that verify whether an asset is to remain part of the property inventory of the City, for either a current or future need, or whether it is a candidate property for retirement or disposition on the basis of measured performance, overall cost and value to the Corporation. This process was approved in conjunction with the "Disposal of Real Property – Policy, Procedures & Disposal By-law".

In dealing with surplus properties, the order of priority with respect to internal departments, public agencies, or the general public is clear in the order of circulation as described in the Procedure Manual. The first circulation is internal; hence priority is with the City and then utility companies. If there is no internal interest in the property, it is then circulated to all public agencies at the same time. The priority within this category of purchaser is given to the highest price/greatest return to the City. If there is no public agency interested in the property it is exposed to the open market as described in the REPDO Handbook using the most appropriate method of disposal to satisfy any strategic objectives the City may have for the property.

The follow-up audit noted that “the objective of maximizing returns to the City may frequently be in conflict with the requirement to circulate first to internal departments.” It is important to understand that maximizing returns to the City may not include only a financial return. These returns are a balance of the four pillars – social, economic, environmental and cultural.

The City has a myriad of changing programs, policies, and needs (short and long term) that span across a wide range of business lines that have a real estate element. The circulation and asset rationalization process is paramount to the disposal process and is not in conflict with the objective of maximizing returns.

When the circulation process reveals an interest in retaining a property, the rationale is reviewed by the Disposal Unit. If a property is required directly in support of an Official Plan requirement (i.e., for a future arterial road or to meet the Housing First Policy) or in support of any of the City’s Master Plans, it is not considered further for disposal.

In the event that a client department expresses an interest in the retention and continued use of any property under disposal consideration, it is first required to assess and demonstrate the fiscal and operational viability associated with continued use or modification in support of a defined program or service delivery need.

This requires that the Corporate Realty Value Analysis Unit (formerly part of the RPAM Comprehensive Asset Management Division and now aligned with the Real Estate Partnership and Development Office) first prepare a Suitability Assessment Review with and for the ‘interested’ client. The outcome of the Suitability Assessment review determines the ability of the client to support and afford the property and provides an overview of the facility condition and sustaining costs going forward. An example of a suitability assessment has been provided to the OAG.

If the client still remains interested after this process is completed, and if funding is identified in the client LRFP, CRVA will require development of a more formal business case which clearly demonstrates a sustainable program and the ability and willingness of both the client department and the corporation to fund the continued operation of the property over the defined program horizon.

That maximizing financial returns to the City can be in conflict with utilizing the property to satisfy other City objectives is indicative of how real estate is managed in a municipal environment as the goals and objectives are different than in a market driven business environment that is focused on maximizing financial returns. The two environments cannot be compared to each other. In support of this, it should be noted that the Vision Statement of REPDO is *“To excel in providing innovative property solutions and expert real estate leadership to the City of Ottawa that ensures long-term fiscal and community sustainability.”*

In the post-audit review, there was also some confusion over the Disposal Policies and Procedures and the activities of the Ottawa Community Land Development Corporation (OCLDC) and the Manotick Mill Quarter Corporation (MMQC). It is management's opinion that this is outside of the scope of this audit as both Corporations were just recently approved by Council as a vehicle for management and disposal of real property assets. Furthermore, the establishment of the development corporations was supported by a best practices survey on development corporations in the Municipal Sector completed by P3 Advisor and an academic review completed by Professor James McKellar. The Corporations were established in 2009 with the initial board meetings scheduled for March/April 2010. Specific projects were approved with the OCLDC but Council approval also allows for the addition of other development projects should Council wish to do so. As an example, the Longfields subdivision was included within the OCLDC which is a land development project established by Council to implement a demonstration community on a 50 hectare parcel of City-owned land.

The Disposal Policy and REPDO Handbook will be updated by the end of Q3 2010 to include the OCLDC as a disposal method and provide guidance on the circumstances where the OCLDC would be the appropriate disposal tool. As the OCLDC is a Corporation separate from the City, it is not appropriate for the REPDO Handbook to include or dictate the policies and procedures of that Corporation.

Management disagrees with the OAG's finding that the Disposal Policy and the Disposal By-law which were both approved by Council in 2001 have not been updated since that time. On January 23, 2008, City Council approved the Policy Statements on the Disposal of Road Allowances. In addition, Council approved a further amendment to the Disposal Policy and Disposal By-law to address changes to delegated authority to declare real property surplus on October 14, 2009. It is important to note that the Disposal Policy is a living document and as circumstances change, City policies are modified and developed, and Provincial Acts are amended, the Disposal Policy will be refined.

The above-mentioned amendments to the Disposal Policy were provided to the OAG on September 29, 2009. The management comment that updates will be included in a report that will be presented for approval in 2010 was misinterpreted. The 2010 document will be a consolidated Disposal Policy and By-law that incorporates the above-mentioned Council approved amendments and recognizes the most recent amendments to the Municipal Act.

Management considers implementation of this recommendation to be substantially complete.

Management: % complete ***80%***

2005 Recommendation 2

That Management establish clear guidelines on the appropriate selection of various methods of sale and associated negotiation protocols.

2005 Management Response

Management agrees with this recommendation.

Management proposes the development of a sale and negotiations handbook to be completed by Q4 2006, that documents disposal options available and outlines the criteria to be considered when selecting a marketing method.

Management Representation of the Status of Implementation of Recommendation 2 at December 31, 2008

Implementation of this recommendation is 100% complete.

Management: % complete ***100%***

OAG's Follow-up Audit Findings regarding Recommendation 2

Criteria have been established and documented in the disposal procedures and guidelines to provide guidance on when each method of sale (Direct Sale by Realty Services, Request for Proposal, Listing Agreement. Etc.) is appropriate. However, not all guidance is clear. For example, the guidelines stipulate the following criteria for selecting "marketing by Realty Services", and selecting "request for tender":

- Marketing by Realty Services: When there is a good market for the property and there are no unusual requirements or restrictions.
- Request for Tender: When the City can obtain the best value with an award selection made on the basis of highest responsive bid, and predetermined City requirements can be fully defined.

It is not clear in the Policy how the circumstances that warrant the use of marketing by Realty Services differs from those for use of a request for tender. Although discussions with Management lead to a more clear delineation between the two methods, the Policy remains unclear.

The guidelines do not provide guidance on associated negotiation protocols, and are incomplete in that the process and criteria for land exchanges is "to be provided at a later date". As well, guidance is not provided on when to use the Community Lands Development Corporation.

Management explained that the updates to the Disposal Policy (including the guidelines on selecting methods of sale) are in a report that has yet to be approved (to be approved in 2010).

OAG: % complete ***65%***

Management Representation of Status of Implementation of Recommendation 2 as of Winter 2010

Management disagrees with the OAG's follow-up audit finding that implementation of this recommendation is only partially complete.

The REPDO Handbook provides guidelines for selecting the method of disposal.

Providing specific instruction on when to use any method of disposal would limit flexibility and the ability to provide innovative property solutions. A best practice survey of the Ontario Association of Municipal Real Estate Association undertaken in March 2010 demonstrates that the City of Ottawa is following best practices as most municipalities determine the method of disposal on a case-by-case basis and generally use the Request for Proposal (RFP) process when the municipality wants to maintain some control over the disposal.

At the time of the original management response, consideration was given to developing a land exchange policy but after investigation and consultation with other municipalities, the decision was made not to proceed as it is typically done on a case-by-case basis and a formal policy is not considered to be appropriate. The Procedures Manual will be updated by the end of Q3 2010 to reflect that land exchanges, as a method of disposal, will only be considered on a case-by-case basis, considering the strategic value (four pillars – environmental, social, economic and cultural) of the exchange.

As part of the Q3 2010 update to the REPDO Handbook, the guidelines for the various methods of disposal will be further developed to provide additional clarity and include the OCLDC as a method of disposal. It is important to recognize that the REPDO Handbook is a living document and will need to be revised from time to time to account for changes in policy, practice and procedures.

The OAG indicated that it was unclear how the circumstances that warrant the use of marketing by Realty Services differs from those for use of a request for tender. As discussed in greater detail in Recommendation 3, the method of disposal is determined based on any strategic objectives to be satisfied with the disposal. Marketing by Realty Services is generally used when there are no strategic objectives and it is considered that general marketing will target an appropriate audience and generate an offer to purchase. A request for tender is generally used when the City's strategic objectives can be well defined and an evaluation will ensure that the offer that best satisfies the objectives will be awarded.

Management considers implementation of this recommendation to be substantially complete.

Management: % complete **85%**

2005 Recommendation 3

That Management establish a requirement for the use of a proposal call or public tender process for all disposals involving high dollar values and/or multiple bidders.

2005 Management Response

Management agrees with this recommendation.

Current practices and procedures with regard to the use of proposal calls and/or public tenders will be reviewed and revised as part of the annual review of the current disposal procedures and incorporated into the sale and negotiations handbook, addressed under Recommendation 2, to be completed by Q4 2006.

Management Representation of the Status of Implementation of Recommendation 3 at December 31, 2008

Implementation of this recommendation is 100% complete.

Management: % complete 100%

OAG's Follow-up Audit Findings regarding Recommendation 3

The requirement to use a proposal call or public tender process is not stipulated in the Policy, the procedures and guidelines, or the By-law. The guidelines provide guidance on when to use various methods of sale. Although the request for proposal and request for tender are listed as options, there is no instruction to use either method when disposals involve a high dollar value or multiple bidders.

OAG: % complete 0%

Management Representation of Status of Implementation of Recommendation 3 as of Winter 2010

Management disagrees with the OAG's follow-up audit finding that there has been little or no action taken to implement this recommendation.

Management's original interpretation of this recommendation did not recognize that this represented a commitment to use only proposal calls or the public tender process for high dollar and/or multiple bidder disposals, but rather that these were two of a number of disposal methods that could be applied, depending on the specifics of the property and the City's strategic objectives, if any, for the property.

As discussed in the response to Recommendation 2, best practices demonstrate that flexibility is necessary in selecting the most appropriate method of sale based on the City's strategic objectives, if any, to be achieved by the disposition. For example, the City may want to protect environmental and/or heritage features of a property. The result of ensuring the protection of these features is that the financial value of the property may be significantly reduced. However, it is the "value" of those features that drive the City's strategic objectives for the disposal. In this case, a proposal call might be considered as the City would have the opportunity to

evaluate the best methods to protect the strategic objectives and the dollar value of the sale would be of less weight in the decision-making process. Alternatively, if the City has no strategic objectives for a property but is only interested in the highest financial return available, the public tender process or appropriate advertising/marketing by Realty Services could both be considered, depending on the current market for that type of property.

Management considers implementation of this recommendation to be complete.

Management: % complete **100%**

2005 Recommendation 4

That Management ensure appropriate policies and procedures are put in place for Acquisitions, Leasing, Appraisals and Remediation to ensure a consistent and effective approach that reflects best practices is maintained

2005 Management Response

Management agrees with the recommendation.

The development of an Acquisition Policy, including leasing, will be completed by Q2 2006.

The need for appraisals and environmental site assessments is currently captured in the Disposal Policy and will be entrenched in other policies and practices as developed.

Management Representation of the Status of Implementation of Recommendation 4 at December 31, 2008

Implementation of this recommendation is 100% complete.

Management: % complete **100%**

OAG's Follow-up Audit Findings regarding Recommendation 4

At the time of the status report from Management (December 31, 2008), policies and procedures had been documented for disposals and for acquisitions, but were not documented for leasing, appraisals, or environmental remediation. A "Leasing Flow Chart and Process" and an "Agreement Out Process" were documented, but were not comprehensive enough to ensure a consistent approach to leasing. The Leasing Process for Non-City Owned Real Estate was well documented at that time.

A Real Estate Services Division (RESO) Policy manual was compiled in 2006. Corresponding procedures were not completed until 2009. The policies and corresponding procedures and guidelines are now housed in the "REPDO Policies and Procedures Handbook" which was created in March 2009. The Handbook includes policies and procedures for Acquisitions; Disposal, Environmental Remediation; Public-Private Partnerships; and Corporate Realty Value Analysis. It also describes the Process for dealing with Inquiries; and a "Procedures and

Guidelines for Leases – Revenue and Acquisition” document. It should be noted that not all policies and procedures in the handbook have been considered or approved by Council.

The Procedures and Guidance for Leases documented in the REPDO Handbook are quite extensive and include definitions, roles and responsibilities, authorities, process descriptions, checklists, delegated authorities, and flow charts.

To date, an Appraisals Policy and Procedures manual has not been created, although appraisals are included in various policies.

OAG: % complete

85%

Management Representation of Status of Implementation of Recommendation 4 as of Winter 2010

Management agrees with the OAG’s follow-up audit finding.

A Real Estate Services Division (RESO) Handbook was completed for all staff in 2006 and has been provided to the OAG. Since that time, the handbook has evolved into the REPDO Handbook to account for the realignment of RESO within the Real Estate Partnership and Development Office in 2009. The REPDO Handbook includes policies and procedures for acquisitions, disposals, leasing, environmental remediation, as well as processes for dealing with inquiries and the draft P3 Policy and Procedures (this particular item still requires the approval of Council). The REPDO Handbook is considered to be leading edge and the City has received numerous requests from other municipalities to obtain a copy of it for reference purposes.

The requirements to undertake an appraisal are stated in the various policies for disposal, and acquisition, etc. The appraisal/valuation process is defined in the professional guidelines administered by the Appraisal Institute of Canada under the Canadian Uniform Standards of Professional Appraisal Practise (CUSPAP). The requirement to follow these guidelines, which outline a universal standard for reporting for professional appraisers, is identified in the Request for Standing Offers (RFSO) for Professional Appraisal Services. This RFSO prequalifies the external appraisers used by the Realty Services Division and establishes the terms of reference for the appraisal services.

Internal appraisals must also follow the CUSPAP guidelines with regard to research and valuation, however, the report format is intended for internal use only and is abbreviated accordingly. This report template was developed to meet specific needs of various client groups both inside REPDO and for other departments. These reports are used in budgeting for public works projects, parkland acquisition, etc.

The REPDO Handbook will be updated by the end of Q3 2010 to reflect the professional standards for appraisals as discussed above.

Consistent with Council’s approach to most City operations, Council approves overarching policies, by-laws or mandates. Operational procedures and guidelines are delegated to staff and do not normally rise to Council for approval. It was never the intent to have Council approve the REPDO Handbook. While the Handbook includes all of the policies that have been approved by Council, it also includes step-by-step procedures and documents examples for various real estate transaction types, including appropriate examples of documents. These procedures are intended to provide a succession planning tool that will enable a new Real Estate Officer to undertake various transactions with reduced guidance and to ensure that all REPDO staff are consistent in the application of the various procedures. These procedures also illustrate lessons learned in order to avoid repeated difficulties in similar transactions.

Management considers implementation of this recommendation to be substantially complete.

Management: % complete *85%*

2005 Recommendation 5

That Management implement a standard protocol for responding to inquiries as well as an improved tracking mechanism to capture all relevant information including the source, the staff assigned and the time committed to resolving each request.

2005 Management Response

Management agrees with the recommendation.

An upgrade to the Corporate Inquiry Tracking application is currently underway and is anticipated to be completed by Q4 2006.

Management Representation of the Status of Implementation of Recommendation 5 at December 31, 2008

Implementation of this recommendation is 100% complete.

Management: % complete *100%*

OAG’s Follow-up Audit Findings regarding Recommendation 5

Implementation of this recommendation did not begin until late in 2009. An Inquiry Response Process and Procedures document, completed October 7, 2009 is contained in the REPDO Handbook. The document is comprehensive, covering “formal”, “significant”, “informal” and phone inquiries. The procedures promote accountability to response times, and for maintaining an inquiry database.

Although a protocol and tracking system are in place for responding to inquiries, the tracked data is not regularly used to assess operational impact. The “Performance Measurement Indicators for RESD” reports the number of inquiries tracked in the “MAP” system, and those not tracked in “MAP” each year. There is no analysis of time spent responding to inquiries, nor is there evidence of analysis of the resulting impact on operations. (See recommendation 9.) Management explained that analysis consists of comparing the number of inquiries in the current year to those in prior years, and conveyed the intention to improve the tracking and subsequent monitoring of data related to the inquiry response process.

The October 2009 procedures do not specify that the source of the inquiry, and staff assigned to the inquiry be tracked. However, the process includes regular communication between the staff assigned and the Inquiry Administration Assistant, who is responsible for updating the database. For phone inquiries, the staff provides the Inquiry Administration Assistant with the name and contact information of the source.

OAG: % complete

85%

Management Representation of Status of Implementation of Recommendation 5 as of Winter 2010

Management agrees with the OAG’s follow-up audit finding that implementation of this recommendation is only substantially complete; however, wishes to clarify that tracking of inquiries in MAP commenced in 2005.

The OAG states that “The October 2009 procedures do not specify that the source of the inquiry, and staff assigned to the inquiry be tracked.” As illustrated in the examples of the logged MAP inquiries provided to the OAG during the course of the follow-up audit, the source of the inquiry and the staff assigned to respond are included in the tracking data. In addition, SAP time tracking includes a category for inquiries that are non-project specific.

The OAG identifies that there is no analysis of time spent responding to inquiries. Management agrees with this finding and confirms that this will be addressed in future tracking of inquiries. Management will be working with the IT Services Branch in 2010 in order to derive a method of time tracking to link SAP and MAP data. Once this is completed, REPDO will be able to complete an analysis related to the time spent responding to inquiries and the resulting impact on operations.

Management: % complete

85%

2005 Recommendation 6

That the property management responsibilities currently assigned to the Real Estate Services Division be transferred to either the Program Properties Division or the Venture Properties Division of Real Property Asset Management.

2005 Management Response

Management agrees with the intent of this recommendation.

A review of the alternative service delivery options and the required resourcing will be completed by Q3 2006. Any resourcing issues, additional FTEs or contract dollars, will be addressed in time for the 2007 budget process.

Management Representation of the Status of Implementation of Recommendation 6 at December 31, 2008

Implementation of this recommendation is 100% complete.

Management: % complete **100%**

OAG's Follow-up Audit Findings regarding Recommendation 6

Management indicated that property management is currently the responsibility of the Public Works department. Independent verification was obtained from management of Public Works, who confirmed that the property management function falls under the Parks, Buildings, and Grounds branch of Public Works.

Note: Management indicated that the transfer of property management responsibilities for vacant land is retained in Realty Services per the 2009 corporate restructuring.

OAG: % complete **100%**

2005 Recommendation 7

That Real Estate Services amalgamate its leasing responsibilities within its internal structure.

2005 Management Response

Management agrees with this recommendation.

The organizational structure in place at the time of this audit aligned leasing-out activities (revenue leases) with disposals, and lease-in activities with acquisitions. The intent of this alignment was to balance workloads within RESD. As an interim step to an organizational review, revenue and acquisition leasing will be consolidated in Q1 2006, to allow for standardized business processes and increased focus of knowledge and expertise.

Real Estate Services Division will be reviewing the alignment of positions during the Branch Process Review Program, which is targeted to be completed in Q3 2006.

Management Representation of the Status of Implementation of Recommendation 7 at December 31, 2008

Implementation of this recommendation is 100% complete.

Management: % complete **100%**

OAG's Follow-up Audit Findings regarding Recommendation 7

Management indicated that amalgamation of the leasing function with the Leasing and Valuation unit took place as part of the 2009 organizational realignment.

“Leasing and Valuation” is a function under Realty Services on the organization chart.

OAG: % complete 100%

2005 Recommendation 8

That Management, in concert with the Information Technology Services Branch, implement the use of available corporate system tools to provide required database management support.

2005 Management Response

Management agrees with this recommendation.

The RPAM Business Case, Version 1.0, indicated that Real Estate Services Division (RES) would be included in the Project System (PS) Module implementation. However, as the Real Estate Services Division had to concurrently develop and implement the Real Estate Module, it was determined that there was not enough capacity within the Division to develop the PS Module as well. At that time, the Comprehensive Asset Management Division (CAM) was substituted for RES in the PS module implementation. A review of the potential application of the PS module to address project management-tracking requirements and costs associated with the application is planned for Q2 2006.

Management Representation of the Status of Implementation of Recommendation 8 at December 31, 2008

Implementation of this recommendation is 100% complete.

Management: % complete 100%

OAG's Follow-up Audit Findings regarding Recommendation 8

The 2005 audit found that a variety of stand-alone tools were used to monitor activity, and that a complete database management tool was not in use. To date, per management representation, SAP has been expanded to include time reporting and analysis, reporting on all agreements including leases, and to provide timelines for renewal. However, several corporate system tools continue to be used in place of a complete database management tool. Management described the following systems and their uses:

- a) SAP (as indicated above);
- b) The COAMS/RIVA applications are used to forecast capital renewals, and have been upgraded to include operational planning, valuation of assets, to support sustainability assessments, and to manage renewal events;

- c) Filemaker Pro is used in the management of appraisals; and,
- d) Excel is used for cost estimates for lab proposals.

As an example of reports used, Management provided a cost estimate for a lab proposal prepared using Excel. The program uses a price listing to include the extended and total costs on the proposal. However, the costs extended on the proposal provided did not match the price listing. Management explained that the discrepancy was because the current price list (effective January 2008) was provided while the parameter selection and estimator were for a 2007 project. A parameter selection and estimator for a current project was provided, and agreed with the price list. The mistake of selecting the wrong file for review is an example of the increased risks associated with not using a complete database management tool.

Additional Considerations: When a variety of systems are used to provide database management support there is an increased need for controls over the completeness, accuracy, and reconciliation of the data in each system. Management should ensure accountability is assigned for ensuring data is current, accurate, and reconciled among each system, and that system access and security is effective in guarding against manipulation of the data.

Management should be aware of potential inefficiencies such as the need to enter the same data in each system, and whether some systems should be linked.

Tracking data in one database would facilitate cross-referencing and reconciling, and would be more conducive to using automation in analysis.

OAG: % complete **75%**

Management Representation of Status of Implementation of Recommendation 8 as of Winter 2010

Management disagrees with the OAG's follow-up audit finding that implementation of this recommendation is only partially complete.

One universal database management tool is over and above what was required by the recommendation and does not fit the specific needs of the department.

SAP is the core database management support and it is the core management tool of the department. As previously mentioned, SAP has been modified to better meet operational needs. Specific needs within the Corporate Realty Value Analysis unit require the use of COAMS and RIVA and significant resources have been expended to create these databases. Filemaker Pro is a database used by the real estate appraisal industry to complete appraisals. It is considered the best tool to meet the specific needs of the unit.

A universal database management tool does not meet the department's unique operational needs; however, management is continuing to enhance our SAP system to add appraisal reports and environmental studies to ensure that the database

includes more complete property data. Management will continue to look at the use of technology for improving other areas within the department.

Management considers implementation of this recommendation to be substantially complete.

Management: % complete *75%*

2005 Recommendation 9

That Management develop and implement a system of key performance indicators based on operating standards to facilitate efficient service delivery and validate potential workload issues.

2005 Management Response

Management agrees with this recommendation.

Management agrees that meaningful performance indicators are required to estimate and budget for resource requirements and to track divisional performance.

The development of these indicators and appropriate planning standards will be completed by Q4 2006.

Management Representation of the Status of Implementation of Recommendation 9 at December 31, 2008

Implementation of this recommendation is 100% complete.

Management: % complete *100%*

OAG's Follow-up Audit Findings regarding Recommendation 9

Data tracked and reported provides information on activities, but not indicators. Data such as number of disposals, acquisitions, inquiries tracked in MAP, and inquiries not tracked in MAP are reported on the "Performance Measurement Indicators for RESD" document. However, key performance indicators based on operating standards have not been developed. For example, although the number of disposals is reported, there is no indication of whether the number indicates that the process is running efficiently and effectively, or if it indicates an unusual strain on resources. Likewise, although the number of inquiries is tracked and reported, the time spent responding to the inquiries is not reported. Therefore the information cannot be used to assess the impact of inquiries on operations, and therefore cannot address the related issues.

A revenue forecast is prepared each year, and the current data is compared to the forecast, and to that of the prior years. However there is no comparison of actual figures against forecasted revenue over the years to assess whether the department consistently meets, exceeds, or falls short of expectations. In addition, the forecast is for revenue only, and not the related expenses. A large increase in revenue may be misleading if the related expenses show an even larger increase.

Furthermore, the forecasts do not include expected values for performance indicators. Therefore, sufficient information for decision-making is not available to ensure efficient service delivery and to validate potential workload issues. In addition, an annual analysis may not provide timely detection of issues requiring intervention, or the ability to assess workload issues and operating sustainability in a timely manner.

OAG: % complete

20%

Management Representation of Status of Implementation of Recommendation 9 as of Winter 2010

Management disagrees with the OAG's follow-up audit finding that there has been little action taken to implement this recommendation.

The elements to create performance standards have been in place since Q2 2007. As noted in the follow-up audit, the results of core activities are now tracked annually, including: the number of inquiries, disposals, acquisitions, leases, and appraisals, environmental studies, etc. The labour component is being recorded in SAP time tracking which identifies time spent on tasks within core activities (i.e., inquiries, planning, negotiations, etc.).

MAP is used to track external and Councillor inquiries. As discussed in Recommendation 5, the MAP tracking system will be updated by the end of Q4 2010 to include the time spent to resolve inquiry issues. SAP time tracking captures time spent on external, Councillor and general inquiries as well as inquiries specific to individual projects. Discussions will be held with IT to determine if there is a way to link the MAP and SAP data.

Measuring real estate performance is, by its very nature, difficult to benchmark. There is no industry standard or best practice to compare outputs (i.e. volume of disposal, acquisitions, leases) against the inputs of labour time and costs. The operational variables are numerous as the department deals with a myriad of property types, sizes, locations, condition, and age (layered over these real estate variables are unique City policies, programs and Council directives that can dictate operational outcomes).

In addition, there are often circumstances outside of the control of the department that impact on performance. For example, in a recent disposal file, a significant amount time was spent to initiate and complete an agreement of purchase and sale, including obtaining Council approval, only to have the purchaser withdraw prior to closing. The "time averaging" of activities is critical to developing meaningful performance measures.

City management made a presentation to the Ontario Association of Municipal Real Estate Administrators (OAMREA) at the fall conference in 2006 on Performance Measurement Indicators (PMIs) and it was apparent that all municipalities in Ontario are struggling with developing PMIs for real estate. The City of Ottawa is

in line with industry norms with respect to performance measurement and is currently working with the National Executive Forum of Public Property (NEFPP) to develop PMIs for public sector real estate across Canada.

The department sees the merit of developing PMIs as it will facilitate efficient service delivery and validate potential workload issues.

Management will continue to work with OAMREA and NEFPP to develop PMIs for public sector real estate. As industry measures evolve, REPDO will adopt them where applicable and appropriate.

Management considers implementation of this recommendation to be partially complete.

Management: % complete *50%*

2005 Recommendation 10

That Management establish a checklist and sign-off procedure to ensure that documentation of all activity is complete and accurate.

2005 Management Response

Management agrees with the intent of this recommendation.

A review of similar issues from a previous disposal audit in 2004 indicated that the majority of the issues associated with files did not warrant a significant amendment to practices.

To ensure that files are fully and properly documented, a checklist has been developed and implemented.

Management Representation of the Status of Implementation of Recommendation 10 at December 31, 2008

Implementation of this recommendation is 100% complete.

Management: % complete *100%*

OAG's Follow-up Audit Findings regarding Recommendation 10

Templates for "Acquisitions File Information Checklist", and "Disposal File Information Checklist" have been created. The templates include fields for file name, file number, account number, and various tasks. Each task has a field to indicate either "yes" or "N/A" along with a comment. The checklist is to be signed by the Property Officer. Three completed checklists were provided for review. All three checklists were completed fully, except for one, which did not have the date indicated by the Property Officer's sign off.

OAG: % complete *100%*

2005 Recommendation 11

That Management undertake, in concert with key client departments, an annual or multi-year planning process to identify and plan for future real estate service requirements.

2005 Management Response

Management agrees with this recommendation.

It is currently difficult to pre-plan RESD's client-driven workload within one budget cycle. The capital budget process tends to be completed in a compressed timeframe, often in isolation. This issue occurs mainly with acquisitions for major capital infrastructure projects.

RESD staff will initiate a semi-annual workload review and analysis with clients to review project timing to allow input for resource costs in capital project budget preparation. These reviews, coordinated with the corporate budget cycle, will allow RESD to identify staffing pressures as part of the annual operating budget pressure identification.

Management Representation of the Status of Implementation of Recommendation 11 at December 31, 2008

Implementation of this recommendation is 100% complete.

Management: % complete **100%**

OAG's Follow-up Audit Findings regarding Recommendation 11

Evidence was not provided until May 2010 to demonstrate annual or multi-year planning for service requirements. Management explained that short term planning began in 2006, while long term strategic planning did not begin until 2009.

The REPDO Work Plans for 2009 and 2010 demonstrate an annual planning exercise is in effect that considers the timeline and priority of each project, along with the human resource requirements. Management provided an example of the longer term "portfolio" planning that has begun to take place in concert with key client departments. The portfolio plan indicates the time frame for projects or initiatives (short term, mid term and long term) along with other information such as the escalated project cost and the budget plan. The portfolio plan does not identify the corresponding human resource requirements.

OAG: % complete **75%**

Management Representation of Status of Implementation of Recommendation 11 as of Winter 2010

Management disagrees with the OAG's follow-up audit finding that action has been initiated to implement this recommendation but it is not yet considered partially complete.

Real Estate Services, as part of RPAM, completed annual 'operational work plans' since 2006 which was acknowledged in the OAG's 2006 Property Management Audit. This practice has been adopted in REPDO as well, and operational work plans were completed for 2009 and 2010. The annual work plan addresses the requirement for short-term operational planning and copies of these operational plans have been submitted to the OAG.

With respect to long-term planning and strategic planning, in the first quarter of 2009 as part of the organizational realignment undertaken between October 2008 and 2009, the Real Estate Partnerships and Development Office acquired the former "Strategic Asset Management Group" from the (RPAM) Comprehensive Asset Management Division.

Consolidated within REPDO as the Corporate Realty Value Analysis (CRVA) section, this group is responsible for the following functions and processes: property solutions development, asset rationalization, portfolio planning and client liaison with respect to acquisition, disposition, retirement and replacement of structures and property elements in support of client program.

Five "Strategic Asset Rationalization Analysts" (SARA's) joined former Real Estate Services staff. Each analyst continues to liaise directly with and provide support to key client departments typically requiring property solution services. These include:

- Parks, Recreation and Cultural Services
- Public Works, Municipal Fleet & Transit Services
- Ottawa Fire Services, Paramedic Services and Emergency Measures
- Ottawa Public Library
- Ottawa Police Services.

Throughout 2009 and into 2010, the group continues to meet regularly with representatives of its client group and has completed or is engaged in several key projects relating to the future real property requirements of these clients. For example, the CRVA team have:

- Completed a Portfolio Plan for the Public Works department, identifying all major property requirements, including projected expenditures and realty requirements to 2020. A copy of the Public Works Portfolio Plan has been provided to the OAG.
- Initiated a similar Portfolio Plan for Fleet Services Property Solutions over a similar period.
- Engaged with Ottawa Public Library on the development of a Master Facility Plan for a 10 to 15 year period commencing in 2010.

- Completed a consolidated Campus plan for the South Barrhaven Corporate Property and established a prototype Shared Usage Agreement for managed engagement of multiple client groups on this site over a period of five years.
- Designed, developed and implemented a fully functional replacement for the former COAMS (City of Ottawa Asset Management System) intended to support both the business requirements of the Asset Management Division and the Real Estate Partnerships and Development Office.
- Applied site selection methodology and solution costing in support of the Ottawa Police Services West Patrol facility and are currently applying the same concepts for the South Patrol facility.
- Developed and implemented a formal process to manage the property issues associated with the pending retirement of facilities subsequent to client disengagement.

The relationships between the client departments and the SARA team are well established and are documented in the OAG's 2006 Property Management Audit. Development of the long-term property requirements for portfolio departments assists management with preparing for resource issues.

Management recognizes that it had not previously supplied copies of the necessary supporting document to demonstrate that implementation of this recommendation is complete.

Management: % complete **100%**

2005 Recommendation 12

That Management pursue opportunities for more formal outsourcing of services to minimize the ongoing use of consultants and address succession planning limitations.

2005 Management Response

Management agrees with the intent of this recommendation.

To address the balance of the workload currently being provided by internal staff, RESD is currently using individual contractors, acquired through a standing offer, to meet day-to-day workload requirements.

RESD's lines of business and mandate will be reviewed as part of a Branch wide Process Review Program including an organizational assessment and staffing strategy planned for Q3 2006.

Management Representation of the Status of Implementation of Recommendation 12 at December 31, 2008

Implementation of this recommendation is 100% complete.

Management: % complete **100%**

OAG's Follow-up Audit Findings regarding Recommendation 12

The "Operating Budget Pressures" indicates that the Auditor General's report requires the creation of new positions to achieve cost effective operations. This is a misrepresentation of this recommendation.

Management has addressed the issue of ongoing use of consultants by creating permanent positions. However, Management did not consider outsourcing as a possible solution as was the Council approved recommendation.

A "business model analysis" for the additional positions is referenced in the Branch Process Review (BPR). However, the analysis lacks perspective. The justification provided for the new positions operates on the premise that the only alternative to extensive use of consultants is to hire the consultants as employees. The business model presents the benefits of this action, but does not consider potential issues. Nor does the model weigh the downfalls and benefits of alternative solutions to determine the optimal course of action.

Benefits identified include: cost savings; expertise and skills; improved service levels; contribution to the succession plan. Given that a succession plan has not been developed, the degree to which this benefit will be realized is questionable.

The new positions discussed in the BPR and the business model analyses are Real Estate Officer, and Environmental Remediation Specialist. However, the positions "justified" in the budget pressures are Administrative Clerk, and Real Estate Officer. The tasks described for the Administrative Clerk have no correlation to the tasks described or the benefits purported to be gained from hiring an Environmental Specialist. Benefits identified include: professional experience, able to challenge the scope of work and cost of proposals; in house expertise to enable research of specific items rather than an entire Phase 1 Environmental Site Assessment.

OAG: % complete

50%

Management Representation of Status of Implementation of Recommendation 12 as of Winter 2010

Management disagrees with the OAG's follow-up audit finding that action has been initiated to implement this recommendation but it is not yet considered partially complete.

It is management's opinion that there are no opportunities to pursue more formal outsourcing and therefore, management looked at other options to minimize the use of consultants and address succession planning. The strategies reviewed demonstrated that creating permanent positions was the best plan of action in terms of more efficient service delivery and cost savings.

The resource base for trained municipal real estate officers is extremely limited. It includes real estate staff from other levels of government such as the Ministry of

Transportation and utility companies such as Hydro One. The reason for this is that it is this sector that manages infrastructure real estate which is guided by legislation including the Expropriations Act, the Municipal Act, the Planning Act, etc. The objectives and practices are unlike a private sector real estate office. The available resource pool is often limited to retired staff who have worked in this sector. Therefore, succession planning is very important for this type of work since 1/3 of the staff currently in REPDO are eligible for retirement within the next 3 years.

It is management's opinion that in order to address succession planning issues, we need the opportunity to create junior FTE positions and provide the training necessary to develop these resources in the immediate future.

Management is currently working with the Human Resources department to develop a three-year Human Resource Plan, which includes a succession plan which is expected to be completed by Q4 2010.

Management considers implementation of this recommendation to be substantially complete.

Management: % complete *80%*

4 SUMMARY OF THE LEVEL OF COMPLETION

The table below outlines our assessment of the level of completion of each recommendation as of Fall 2009.

CATEGORY	% COMPLETE	RECOMMENDATIONS	NUMBER OF RECOMMENDATIONS	PERCENTAGE OF TOTAL RECOMMENDATIONS
LITTLE OR NO ACTION	0 – 24	1, 3, 9	3	25%
ACTION INITIATED	25 – 49	-	-	-
PARTIALLY COMPLETE	50 – 74	2, 12	2	17%
SUBSTANTIALLY COMPLETE	75 – 99	4, 5, 8, 11	4	33%
COMPLETE	100	6, 7, 10	3	25%
TOTAL			12	100%

5 CONCLUSION

Substantial effort has been made by management to address the issues identified in the audit. In some cases management is in the process of investigating or implementing a solution, but the implementation is not complete. In some cases, management has not implemented the Council approved recommendation, but has initiated corrective action that, according to management, addresses the issues.

Policies and procedures are formally documented in the "Real Estate Partnerships and Development Office (REPDO) Handbook." Although work on policies in the handbook began in 2006, the development of the Handbook including procedures

and guidelines spanned over two years. The REPDO Handbook addresses some, but not all, areas identified in the 2005 audit, and some areas were not addressed adequately. For example, the disposal process continues to lack a clear objective, and guidance on priorities, and some clarification is required in the criteria that have been established to assist in determining when to use various methods of sale. Although the option to sell and develop land through the use of a City owned corporation such as the Community Lands Development Corporation was approved in 2007, the Corporation was not established until late in 2009. As such, it is not referenced in the Handbook. Management has expressed the intention of updating the Handbook with this information. The creation of the Handbook is a significant step toward mitigating the risk of undue reliance on the existing knowledge base that was identified in the 2005 audit. However, it should be noted that some policies contained in the Handbook have yet to be considered by Council.

A comprehensive inquiry tracking process has been developed and documented. It serves to clearly assign responsibility, accountability, and service expectations. Although the tracking process is fairly comprehensive, it does not flow to a monitoring process that would clearly demonstrate the impact of inquiries on operations. In general, monitoring procedures have not been improved to ensure efficient and effective operations, to ensure on-going operational consistency, and to more clearly identify and validate potential future impediments to organizational effectiveness. Management is working with industry groups to address the challenge of developing performance measurement indicators. However that complete and formalized indicators have not yet been devised, leads to continued impairment in management's ability to demonstrate organizational stewardship.

The significant improvement in documentation of procedures will contribute to staff training and succession, however a clear strategy to respond to succession concerns has still not been developed. Although a business case, and a budget pressure justification argued for the creation of new permanent positions to address the excessive use of consultants, more formalized outsourcing was not considered as an alternative solution. Management explained that outsourcing was not a possible consideration, and therefore management took an alternate approach to addressing the concerns expressed in the audit related to excessive use of consultants.

Overall, progress has been made toward implementing the recommendations related to defining and documenting procedures, and assignment of responsibilities. Efforts are still required in areas of strategic management, from long term planning, to aligning performance monitoring to departmental objectives.

6 ACKNOWLEDGEMENT

We wish to express appreciation to the staff and management for their cooperation and assistance throughout the audit process.