Non-Monetary Real Estate Grants Audit – Final Report
January 2013

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Audit Department

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MANDATE OF THE CITY AUDITOR

The City Auditor is a statutory officer appointed by City Council under *The City of Winnipeg Charter*. The City Auditor reports to Council through the Audit Committee (the Executive Policy Committee) and is independent of the City's Public Service. The City Auditor conducts examinations of the operations of the City and its affiliated bodies to assist Council in its governance role of ensuring the Public Service's accountability for the quality of stewardship over public funds and for the achievement of value for money in City operations. Once an audit report has been communicated to Council, it becomes a public document.

AUDIT BACKGROUND

In March 2008 the City Auditor presented the *Grant Administration Audit* to Council. The audit examined the overall administration of the City's grant processes, with the exception of non-monetary grants (also known as "in-kind grants") of property, services, and facilities: these grants were outside of the scope of the audit. An audit of non-monetary real estate grants to non-profit organizations was included in the City Auditor's *Audit Plan 2011-2014* that was endorsed by Audit Committee.

AUDIT OBJECTIVES

The objectives of this audit were:

- To assess the adequacy of and compliance with prescribed policies and processes for non-monetary real estate grants
- To assess the effectiveness of property management and monitoring processes and practices in place for granted assets
- To assess whether appropriate information is being collected, recorded and reported for non-monetary real estate grants
- To determine the financial implications to the City of providing the real estate grants

AUDIT APPROACH

We conducted this audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. **Appendix 1** provides a flowchart of the audit process.

- We conducted interviews with staff from the Real Estate Division and Municipal Accommodations Division of the Planning, Property & Development Department; the Assessment & Taxation Department; the Legal Services Department; the Corporate Controller's Division and the Risk Management Division of the Corporate Finance Department; and the Winnipeg Housing and Homelessness Initiative to determine the processes and interconnections between these areas in the non-monetary real estate grants process.
- We reviewed Council's "Policy on the Sale/Lease of City Lands to Non-Profit Organizations" and its subsequent amendment, and related reports, to gain an understanding of the governing requirements for non-monetary real estate grants.

- We reviewed and tested transactional information, physical files, and the Yardi property management database supplied to us by the Real Estate Division detailing the information on hand for the grants given. Our tests included detailed reviews of thirteen of the ninety-nine sales-type grant files (ten WHHI; one CentreVenture; and two sales transactions to other organizations); and ten of the sixty-four lease-type grant files (six building leases, and four land leases). We believe this stratified sample was representative of the general population because of the common traits between the grant types and the proportionality of the testing for each type. We were unable to independently test the completeness of the transaction records.
- We researched property valuation methodology to gain an understanding of the process of appraising property and lease values.
- We reviewed information supplied by the Assessment & Taxation Department, and researched property value information on the City's iView software, to gain confidence over the values provided to us, as well as to develop grant values for sales and lease transactions that had not been appraised.

Our conclusions are based upon information available at the time of the report. In the event that significant information is brought to our attention after completion of the audit, we reserve the right to amend the conclusions reached.

INDEPENDENCE

The team members selected for the audit did not have any conflicts of interest related to the subject matter of the audit.

AUDIT SCOPE

The scope of our audit included grants of real estate awarded by the City, either through access and use or by outright transfer of property, where payment for the property is less than its market value. The scope was limited to real estate grants for use in services that are not directly provided by the City, but that support City goals and strategies as defined in *OurWinnipeg*, and previously in *Plan Winnipeg 2020 Vision*. The scope of the audit did not include lease arrangements that trade asset management services for access and use (such as access to sports fields or encroachments in exchange for maintenance of those spaces); we considered these types of leases to be bartered property management agreements, rather than non-monetary grants. The scope of our audit also did not include community centres because the centres are funded monetarily through the City's Universal Funding Formula.[1]

We limited the scope for leased asset grants to all currently active leases, and property sales grants were limited to five years, to examine recent trends in real estate grants.

[1] The City of Winnipeg. Council Policy: LW-005. Council Minutes. Minute 106. 14 December 2011.

AUDIT CONCLUSIONS

The audit work performed led us to the following conclusions:

- Non-monetary real estate grant awards generally follow the designated processes, with some exceptions. Prescribed eligibility criteria for the grants are not being formally considered in the grants approval process. Policies and procedures need to be expanded and updated to provide better guidance to staff that work with the grants.

- Some aspects of the real estate grants are being appropriately monitored and managed while others are not. Purchase agreement caveats are being properly followed up on to ensure that properties transferred through the Winnipeg Housing and Homelessness Initiative, and other transfer mechanisms, are met before the City releases final title to the grant recipients. Leased properties are not being properly assessed and managed. There is no process in place to ensure that leased City building spaces are regularly inspected to ensure that the space is still suitable for use, and that occupancy agreement requirements are being maintained.

- Information systems are gathering various types of data; however, since no formal reporting process has ever been developed by management, data that would be expected to be in the databases (such as the estimated market value of leases and granted property square footages) is not being captured. Formal reports required by Council policy for the annual value of real estate grants, and quarterly delegated authority usage, are not being made.

- The City has made annual property grants worth about $250,000 to the Winnipeg Housing and Homelessness Initiative over the past five years, and has granted between $0–$3 million per year to CentreVenture Development Corporation, and other Council approved projects over the same period. The City also currently provides space through lease-type grants to non-profit organizations valued at $3.67 million in annual market rents.

ACKNOWLEDGEMENT

The Audit Department wants to extend its appreciation to all of the stakeholders who participated in this audit and especially to the Planning, Property & Development Department's staff for their time and cooperation.

The Audit Team
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City Auditor

January 24, 2013
Date

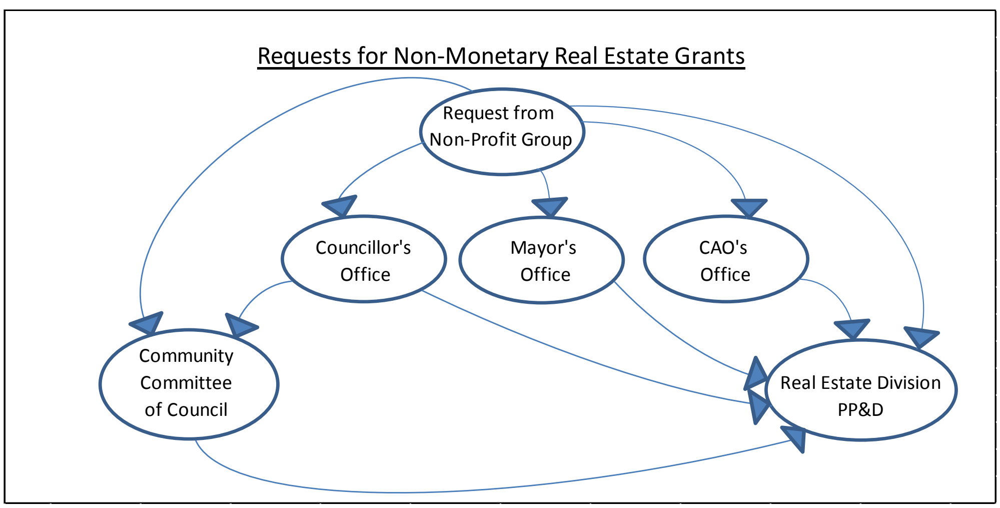
NON-MONETARY REAL ESTATE GRANTS BACKGROUND

What is a Non-Monetary Grant?
The City of Winnipeg awards grants for a wide variety of purposes. Grants are awarded to various community groups, non-profit organizations, and other entities through programs established in numerous City departments. Grants can be given in two different forms: (1) the City can provide money to organizations to support their activities, or (2) the City can provide property or services to organizations at less than their market rates. This second type of grant is a “non-monetary grant” or an “in-kind grant”. It occurs when the *use* of property or services is granted, rather than monetary funds. Our audit focuses on non-monetary grants of property or real estate; in particular, we examined the provision of City-owned land and buildings to non-profit organizations by the outright transfer of property ownership (“sales-type grants”) or by leases for less than the fair market rental values (“lease-type grants”). The City awards non-monetary real estate grants for activities such as:

- Affordable housing projects (WHHI and the Willow Park Housing Co-op)
- Special needs housing projects (S.P.I.K.E. and Tranquility Place Housing Co-op)
- Recreational facilities (Y.M.C.A.)
- Seniors’ group centres
- Day care centres
- Playgrounds
- Other recreational activities

We refer to these as “real estate grants” throughout the rest of this report.

Granting Process
Real estate grants are awarded to non-profit organizations that make requests to the City through a variety of channels. All of the requests begin with the non-profit organization and end in the Real Estate Division (“the Division”) of the City’s Planning, Property & Development Department (“PP&D”). The availability of real estate grants is not publicly advertised by the City.



~Figure 1: Grant request process

Once a request has been received by the Division, staff will survey other City departments to determine if they need access and use of the requested property. (In the case of sales-type grants, PP&D staff will also survey other public utility services, such as MTS and Manitoba Hydro, to determine if there are any reasons that the property should not be sold due to those utilities needing the space.) If the property is not needed for other uses, Division staff will then draft up a lease agreement (lease-type grants), or an "Offer to Purchase" the property (sales-type grants), that will contain any caveats and conditions of use related to the grant. The offer or agreement will then be forwarded to the requesting non-profit organization for agreement on the conditions of the grant. When the organization has agreed, the grant will be submitted to the proper City of Winnipeg authority to be finalized and approved.

In the case of sales-type grants, PP&D staff will follow up on the caveats and conditions of the purchase (e.g. organizations are normally required to build their projects within a specified period of time) and will obtain photographic evidence that the conditions have been satisfied. The evidence is kept in the physical file for that property. The staff will then request the Legal Services Department to fully release the property into the recipient's ownership. If the caveats of the purchase are not met, the City takes the property back into inventory, and the property becomes available for other future opportunities.

Governing Policies

Due to an increasing number of requests for real estate grants, City Council created the "Policy on the Sale/Lease of City Lands to Non-Profit Organizations"[1] (the "NPO Policy") in 1990 to provide a uniform approach to the consideration, approval and reporting of real estate grants. The policy is still in effect at the time of our audit report. Council also created an amending policy for grants of properties transferred to the Winnipeg Housing and Homelessness Initiative[2] (the "WHHI Policy"). These two policies are discussed further in our Observations and Recommendations section.

Resources

The majority of work relating to real estate grants is completed by PP&D's Real Estate Division. The number of real estate grants distributed is not large enough to have fully dedicated staff assigned to it; rather, the sales and leases for the grants are incorporated into the larger overall sales and lease functions of the Division.

Work relating to the sales-type grants is completed by the Division's Sales and Land Acquisition Branch, primarily by one of the Branch's four Real Estate Officers. Work relating to the sixty-four active lease-type grants is completed by the Division's Property Management and Appraisals Branch. The leases are divided between the Branch's two Real Estate Officers, who also handle all of the City's five hundred and thirteen other leases.

Over the past few years the leasing functions for City property have gone through some significant changes. Prior to the spring of 2010, both the Municipal Accommodations Division and the Real Estate Division of PP&D each had their own leasing operations. Both operations were consolidated in the Real Estate Division in 2010, and were still located in the Property Management Branch of the Real Estate Division when we conducted our audit. During the interim stage between our draft and final reports, Planning, Property & Development management restructured the divisions, moving the Property Management Branch from the Real Estate Division to the Municipal Accommodations Division. This streamlined the responsibilities of the Property Management Branch with the already existing property management responsibilities of the Municipal Accommodations Division. At the time of this final report, the Property Management Branch is currently located in the Municipal Accommodations Division, and the intended audience for our recommendations has been adjusted accordingly.

[1] The City of Winnipeg. Council Minutes. Minute 1699. 31 October 1990.
[2] The City of Winnipeg. Council Minutes. Minute 612. 17 July 2002.

Real Estate Grant Reporting
The NPO Policy requires that all subsidies and grants of real estate, and the corresponding revenues received, be clearly identified and reported back to Council on an annual basis through the Standing Policy Committee on Finance. The WHHI Policy also requires that the usage of authority to approve real estate grants to the WHHI be reported to Council on a quarterly basis through the Standing Policy Committee on Property and Development. These two reports are the only types of reporting that are required for real estate grants. The Public Sector Accounting Board ("PSAB") does not require these types of non-monetary grants to be reported in the City's financial statements.

KEY RISKS FOR NON-MONETARY REAL ESTATE GRANTS

The *potential* key risks associated with the Contract include:

- Grants may not meet the eligibility criteria set out in Council policy
- Grants may not be offered in an open and transparent manner
- Grantees may not be meeting their obligations under the grant arrangements
- Leased properties may not be properly managed, monitored and safeguarded
- The proper information may not be collected and reported to the proper persons for decision making purposes

PERFORMANCE ANALYSIS

The value of real estate grants is required to be reported annually to Council, and the use of authority in approving property sales to the Winnipeg Housing and Homelessness Initiative ("WHHI") is required to be reported on a quarterly basis. We found that the total annual values of real estate grants have never been reported to Council, and that WHHI sale authority usage was only reported between May 2005 and April 2008, and has not been reported since. Reporting processes are further discussed in our Observations and Recommendations section.

We created Exhibits 1 and 2 from internal documents kept by the Real Estate Division to illustrate the reporting requirements of the related Council policies.[1] The values for the sales-type grants in Exhibit 1 were provided by the Real Estate Division. The Audit Department developed the values shown in Exhibit 2 because the Division rarely estimates the market lease rates for lease-type grants. The valuation methodology for both exhibits is described in **Appendix 2**.

Sales

Most of the sales-type grants for the last five years were awarded to the WHHI. In 2002, Council committed to providing $3.2 million in real estate grants to the WHHI based on assessed property values.[2] The City fulfilled its $3.2 million commitment by the end of 2008. Since then the City has continued to grant property to the WHHI as it became available and was found suitable for the WHHI's purposes; however, no specific dollar-value has been committed to by Council. Several reports have been provided to Council over the years affirming that the initiative is showing positive results.

Exhibit 1: Value of Grants for Properties Sold

	WHHI		CentreVenture		Other Organizations		Total		
Year	Properties	Grants	Properties	Grants	Properties	Grants	Properties	Revenues	Grants
2007	26	$ 251,400	1	$ 30,000	1	$ 165,000	28	$ 28	$ 446,400
2008	21	225,900	6	1,204,300	1	54,900	28	28	1,485,100
2009	21	235,600	7	91,350	5	2,775,590	33	33	3,102,540
2010	15	253,400	1	463,000	1	90,000	17	17	806,400
2011	16	265,200	0	-	0	-	16	16	265,200
Total	99	$ 1,231,500	15	$1,788,650	8	$3,085,490	122	$122	$ 6,105,640

Source: PP&D Internal Documents

Exhibit 1 also shows a lesser number of other sales-type grants with a wide range of values sold to CentreVenture Development Corporation (a subsidiary of the City of Winnipeg) and other non-profit organizations. These other projects have been presented individually to Council, and approved on a case-by-case basis as they have occurred. Some of the more significant grants, based on property values assessed by the Assessment & Taxation Department, included lots used for downtown residential developments by CentreVenture in 2008 and 2010; property assessed at $165,000 for the North End Wellness Centre in 2007; and property assessed at about $2.6 million granted to the Friends of the Upper Fort Garry in 2009.

Leases

The City currently has sixty-four ongoing lease-type grants to non-profit organizations. Many of these agreements have lengthy histories with the City, and have been renewed numerous times. Due to

[1] WHHI sales have been shown annually in Exhibit 2, rather than quarterly.
[2] The City of Winnipeg. Council Minutes. Minute 688. 25 September 2002.

inconsistencies in the way that lease histories were stored in the Yardi system, we were unable to complete an analysis on the tenure of the lease grants.

The City provides lease-type grants for a variety of purposes. Included in the building spaces leased are sixteen daycare centres; eleven senior citizen activity centres; art gallery space; and office space for organizations such as the Festival du Voyageur and the General Council of Winnipeg Community Centres. The land leases include property used for Canad Inns Stadium (the Winnipeg Blue Bombers football club); CanWest Global Park (the Winnipeg Goldeyes baseball club); two Y.M.C.A. locations; several cooperative housing developments for senior citizens, low-income families, and physically and mentally challenged persons; several playgrounds; and other recreational and leisure uses.

Exhibit 2: Annual Value of Property Lease Grants

	Leases	Total Revenues	Total Grants
Leased Building Space	38	$ 38	$ 1,299,423
Leased Land			
Canad Inns Stadium	1	1	1,452,000
Other	25	25	914,944
Total	64	$ 64	$ 3,666,367

Source: Yardi & Valuation Methodology (Appendix 2)

Profitability analyses would typically be completed in the commercial leasing industry to determine whether the leases are profitable or not. These analyses would examine the costs of a lease against its rental revenues. A profitability analysis is also a mechanism to monitor whether leased premises are still suitable to be occupied by tenants, based on repairs and maintenance costs and other indicators of the asset's condition. Due to the structure of some the agreements, and the fact that there are next to nil revenues received for the lease grants, these asset analyses are not being performed by the City, and the physical condition statuses of the leased buildings are not formally being tracked by the Real Estate Division. This is discussed further in our Observations and Recommendations section. The total annual value of the current lease grants is shown in Exhibit 2.[1] The value of the land leased for Canad Inns Stadium is separately identified due to its significant value and the fact that Council (through the Standing Policy Committee on Property and Development) has accepted a conditional offer to sell the underlying property.[2]

Other Performance Indicators

Non-monetary real estate grants do not require grant recipients to meet any specific performance levels or goals to maintain eligibility for the grants; therefore, a performance analysis of the recipients' service levels was not carried out as part of this audit.

Summary

As no financial targets have been specified in the real estate grant policies (other than the $3.2 million commitment for the WHHI stated earlier) we are not able to assess whether the City's level of grant investment is performing as intended. Our figures are reported as a starting point for meeting the reporting requirement specified in Council policies, and for future decision making purposes.

[1] Grant recipients are normally required to pay a $250 administration fee to help cover the costs of preparing the agreement and administering the grant. A listing of which grants these administration fees were attached to was not readily available when we performed our audit and, therefore, was excluded from the revenues in Exhibits 1 and 2.

[2] The City of Winnipeg. Standing Policy Committee on Property and Development Minutes. Minute 127. 03 July 2012.

OBSERVATIONS AND RECOMMENDATIONS

A complete summary of the recommendations is attached as **Appendix 3.**

GRANT GOVERNANCE

Policy Analysis

There are two Council policies that govern real estate grants: the first is Council's 1990 "Policy on the Sales/Lease of City Lands to Non-Profit Organizations"[1] (the "NPO Policy"); the second is a 2002 amendment to the NPO Policy for property sales to the Winnipeg Housing and Homelessness Initiative[2] (the "WHHI Policy"). These policies establish the eligibility criteria, levels of approval authority, and reporting requirements for the grants.

We observed that the Real Estate Division is not fully compliant with the requirements of the NPO Policy and the WHHI Policy. The main reason for the Division's non-compliance in certain areas of the policies is that the policies' requirements have never been formally integrated into the Division's policies and procedures documentation. We note that the NPO Policy was authored twenty-two years before our audit was performed, and that omissions in documenting the policy's requirements at that time have carried forward to today. Also, responsibilities for the lease-type grants have now moved to the Municipal Accommodations Division due to recent divisional restructuring.

To ensure continued awareness and compliance with the policies, formally documented processes for real estate grants should be written and included in both divisions' policies and procedures manuals. Staff should be further trained on processes and procedures relating to real estate grants. The documentation should include procedures for the initiation, selection, approval, reporting, and monitoring of real estate grants, including adequate reference to the NPO Policy and WHHI Policy. The documented processes should also be reviewed and updated from time to time. This will provide management and staff with proper direction for real estate grants, which will improve consistency, compliance, and provide documentation in the case of staff turnover. We discuss the specific areas where we observed non-compliance with the policies below.

Eligibility Criteria

> Eligibility Criteria for Non-Monetary Real Estate Grants to Non-Profit Organizations
> 1. The organization must provide a facility operated in its entirety by a non-profit organization for non-profit uses.
> 2. The organization must provide for activities which are compatible with the City's needs.
> 3. The organization must provide facilities for which there is a current and projected need in that location.
> 4. The organization must provide reasonable access to all Winnipeg residents without discrimination.
> 5. The organization must provide access without the charging of initiation fees, membership fees or other costs which are incompatible with like facilities or organizations.
> 6. The organization must provide evidence of available funding and commitment to complete the project and assurance that no ongoing operating subsidies from the City will be required over the life of the development.
>
> \- *Policy on the Sale/Lease of City Lands to Non-Profit Organizations*

The NPO Policy gives six eligibility criteria that real estate grants need to be evaluated against. However, since the policy's requirements were never integrated into the Division's written policies and procedures, evaluations against these criteria have not been performed. The first four criteria are fairly

[1] The City of Winnipeg. Council Minutes. Minute 1699. 31 October 1990.
[2] The City of Winnipeg. Council Minutes. Minute 612. 17 July 2002.

broad in scope. We observed that the grants in our samples would have met the first four criteria at the time the grant was made, even though they were not formally evaluated against them. We were unable to determine whether criteria 5 and 6 would have been met as no information was gathered by the Division on these criteria.

Aside from this, we found there to be particular uncertainty with criterion 6. The first sentence of the NPO Policy is very clear that the purpose of the policy is to develop a uniform approach to all grants made by sales and leases of City land and buildings to non-profit organizations.

> A policy is required to deal with the increasing demand by non-profit organizations for the acquisition or lease of City lands and buildings and to bring a uniform approach to same (*sic*).
>
> \- *Policy on the Sale/Lease of City Lands to Non-Profit Organizations*

Therefore, it stands to reason that the eligibility criteria set out in the policy should be applicable to all real estate grants. Nevertheless, we found the wording of criterion 6 could potentially be interpreted differently. The words “project” and “development” in criterion 6 can be read in such a way that the specific criterion only applies to grants where the recipient will be constructing a development project on the granted land for a prescribed length of time. Clarity of whether criterion 6 is generally applicable to all grants, or only specifically applicable to development projects, is important because it could mean the difference between potential breaches of the policy, or not.

By analyzing the monetary grants that the City awarded in 2010, we found that, if the criterion is only applicable to organizations that constructed development projects on granted land, then there were no additional payments of operating grants to these grant recipients. However, if the criterion is generally applicable to all real estate grant recipients, then $563,000 in additional monetary grants were distributed to sixteen different real estate grant recipients in total. The applicability of the criterion six should be clarified to avoid potential policy breaches and to provide guidance for future grant award decisions.

We also observed that the eligibility criteria specified in the NPO Policy are not included in any of the grant agreements between the City and the recipient organizations. The eligibility criteria should be included in grant agreements to ensure clarity and transparency for recipients of the conditions they must maintain in order to retain eligibility for the grants.

Recommendation 1
We recommend that real estate grant requests be evaluated against the eligibility criteria, whether it is a first time grant or when a lease agreement type grant is up for renewal.

Management Response
The Planning, Property & Development Department (PP&D) concurs with the recommendation and further recommends consideration be given to periodic review (e.g., every 5 years) of the applicability of the existing criteria in concurrence with Our Winnipeg. PP&D will establish internal control systems to ensure such periodic review is performed and reported in a timely manner.

Estimated Completion Time: 4th Quarter, 2013

Recommendation 2
We recommend that the Manager of Real Estate and the Superintendent of Property Management work with the Director of PP&D to prepare a report for the consideration of Council that clarifies the applicability of criterion 6 and clarifies the language in the "Policy on the Sale/Lease of City Lands to Non-Profit Organizations".

Management Response
PP&D concurs with the recommendation as presented.

Estimated Completion Time: 4th Quarter, 2013

Recommendation 3
We recommend that the eligibility criteria for real estate grants be included in the written grant agreements.

Management Response
PP&D concurs with the recommendation as presented.

Estimated Completion Time: 4th Quarter, 2013

Approval Authority
The NPO Policy requires real estate grants to be approved by the Committee on Finance and Administration (now the Standing Policy Committee on Finance).[1] We observed that the leases in our sample were approved by the Standing Policy Committee on Property and Development instead. This was due to changes in the City's governance structure since the NPO Policy was created in 1990. We confirmed that PP&D (which was formerly known as the "Land Surveys and Real Estate Department") used to functionally report to the Standing Policy Committee on Finance and Administration in 1990.[2] However, the reporting structure was changed in subsequent years. The department now reports to the Standing Policy Committee on Property and Development, whose mandate is over asset management, civic buildings, and approving terms and conditions of leases.[3] Our conclusion is that the NPO Policy should be updated to reflect these governance changes.

> Any properties sold or leased at less than market value [shall] be approved by the Committee on Finance and Administration.
>
> - *Policy on the Sale/Lease of City Lands to Non-Profit Organizations*

Recommendation 4
We recommend the Manager of Real Estate and the Superintendent of Property Management work with the Director of PP&D to prepare a report for Council's consideration amending the "Policy on the Sale/Lease of City Lands to Non-Profit Organizations" to delegate authority over real estate grants to the Standing Policy Committee on Property and Development.

Management Response
PP&D concurs with the recommendation as presented.

Estimated Completion Time: 4th Quarter, 2013

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[1] The 2002 WHHI Policy delegates authority for property grants to the WHHI to the Chief Administrative Officer.
[2] *City of Winnipeg Municipal Manual*. The City of Winnipeg, 1990: 87. Print.
[3] *City Organization By-law 7100/97*. Consolidation Update: January 26, 2005. The City of Winnipeg. Section 11. Print.

Grant Valuation Reporting

The NPO Policy requires that the value of all real estate grants be reported to Council on an annual basis.[1] We confirmed with the Real Estate Division and the City Clerk's Department that this reporting has never occurred because the policy's requirements are not documented in the Division's policies and procedures. Real estate grants are a part of the City's overall grant awards process, and proper information is required to be reported for effective planning of the City's resources.

> All subsidies or grants and corresponding revenues under [this policy shall] be clearly identified and reported back to Council on a yearly basis through the Committee on Finance and Administration.
>
> - *Policy on the Sale/Lease of City Lands to Non-Profit Organizations*

Recommendation 5

We recommend that real estate grants, and corresponding revenues, be reported as required by the "Policy on the Sale/Lease of City Lands to Non-Profit Organizations" and that the process be documented in the Real Estate Division's and the Municipal Accommodations Division's policies and procedures manuals.

Management Response

PP&D concurs with the recommendation as presented.

Estimated Completion Time: 2nd Quarter, 2014

Winnipeg Housing and Homelessness Initiative Sales Reporting

The City of Winnipeg committed $3.2 million in real estate grants to the Winnipeg Housing and Homelessness Initiative in 2002.[2] Council also created the WHHI Policy to give further guidance on the process of land grants to the WHHI. The policy delegates sales approval authority to the CAO so that the Standing Policy Committee on Property and Development would not be required to approve every single transfer to the WHHI made under Council's commitment.[3] This authority was then further delegated internally to the Manager of Real Estate. Additionally, the policy required that the usage of the delegated authority be reported to the Standing Policy Committee on Property and Development on a quarterly basis.

We observed that the required quarterly reporting had been submitted to the Standing Policy Committee on Property and Development between May 2005 and April 2008, at which point the reports were no longer made. The reports stopped due to employee turnover and the fact that the requirement for reporting had not been documented in the Division's policies and procedures manual. This further illustrates the importance of documenting these processes in the manual.

The WHHI Policy only delegates selling authority for properties in connection with the Winnipeg Housing and Homelessness Initiative. The Memorandum of Understanding between the Federal, Provincial and City governments establishing the initiative is scheduled to expire as of March 31, 2013. If the memorandum is not renewed, the initiative will no longer exist, though each level of government will still be able to operate their own homelessness programs. In this event, Council would have to reissue the delegated authority the CAO. If the authority is reissued, it may be more appropriate for the reporting requirement to be reduced to annually, given the lower number of transactions that occur from when the delegation was first made in 2002 (see footnote 3 below).

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[1] The City of Winnipeg. Council Minutes. Minute 1699. 31 October 1990.

[2] The City of Winnipeg. Council Minutes. Minute 688. 25 September 2002.

[3] Transfers to the WHHI have averaged about twenty properties per year since 2001, with transfers exceeding fifty-five properties in each of 2005 and 2006.

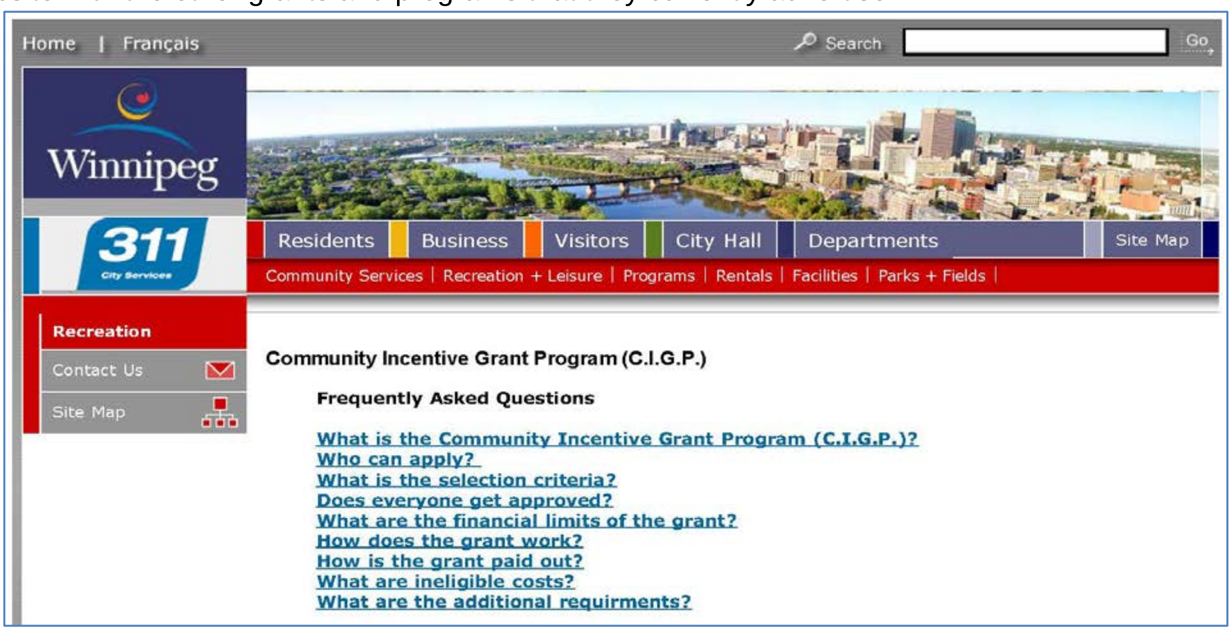
Recommendation 6
We recommend that the Manager of Real Estate work with the Director of PP&D to prepare a report for the consideration of Council making delegated authority usage reporting for WHHI transactions an annual requirement, report the usage in the annual report of non-monetary real estate grants, and document the process in the Division's policies and procedures manual, conditional upon Council's reissuance of the delegated authority.

Management Response
PP&D concurs with the recommendation as presented.

Estimated Completion Time: 2nd Quarter, 2014

Accessibility
With sixty-four active lease-type grants in place, and eight sales-type grants over the last five years to organizations in which the City has no financial stake,[1] the City effectively operates an ad hoc program for real estate grants. We believe that the intention of the NPO Policy is to make real estate grants equally accessible to non-profit organizations that provide benefit to Winnipeg residents for purposes that are compatible with the City's needs. We observed, however, that the policy does not prescribe guidance for an application process. Furthermore, the availability of these types of grants is not publicly advertised. This effectively leaves the grants only available to organizations that are resourceful enough to find out that the grants exist, and how to request one, or to organizations that are naturally bold enough to make these requests of their own volition. We do not believe this provides transparent accessibility for these grants.

The application process for monetary grants is much different. The availability of monetary grants is published in many instances (an example being Community Services' "Community Incentive Grants Program"[2]). Making this information available to the public creates an open and transparent application process. This could be achieved by listing the potential availability of real estate grants on the PP&D website with the other grants and programs that they currently advertise.[3]



[1] See Exhibit 1 on page 10 and Exhibit 2 on page 11.
[2] http://www.winnipeg.ca/cms/recreation/cigp.stm
[3] http://winnipeg.ca/ppd/programs.stm

~Information about the Community Incentive Grant Program on the Community Services Department's website

The real estate grants process also has no formally documented selection process. Some of the City's grant programs are selected based on "first come first served" principles; however, this may not be possible for real estate grants due to the infrequent nature of their availability. Management may want to determine the selection criteria based on the merits of the service that the non-profit will offer to the community. Regardless of the specific criteria chosen, having a well-defined selection process will provide a transparent verifiable rationale for why certain recipients were chosen to receive real estate grants. Documenting the selection process will provide guidance in the selection of future grant recipients.

Recommendation 7
We recommend that information about real estate grant availability and application processes be published in a manner similar to other types of grants offered by the City of Winnipeg.

Management Response
PP&D concurs with the recommendation as presented.

Estimated Completion Time: 4th Quarter, 2013

Recommendation 8
We recommend that the Manager of Real Estate and the Superintendent of Property Management work with the Director of PP&D to develop application and selection procedures for the consideration of Council to amend the "Policy of the Sales/Lease of City Lands to Non-Profit Organizations".

Management Response
PP&D concurs with the recommendation and further recommends selection procedures encompass (a) financial factors, (b) non-financial quantitative factors, and (c) qualitative factors as selection criteria commensurate with Our Winnipeg. Consideration also be given to periodic review (e.g., every 5 years) of selection procedures as to conformance with Our Winnipeg.

Estimated Completion Time: 1st Quarter, 2014

INFORMATION SYSTEMS AND DIVISION RESOURCES

Information Capture
The policies relating to real estate grants have specific reporting requirements. We observed that the Real Estate Division's information systems are fully capable of capturing and reporting the information to be reported. Policies and procedures need to be developed to instruct staff what information must be captured in the systems. Missing information required for reporting includes market leasing rates for properties and property square footages. Additionally, information that was being input into the systems was not always entered consistently. We found the following common issues in the data input into the program:

- Lease rates were inconsistently input either as monthly or annual rates
- Lease initiation dates were inconsistent in whether they were the start of the original agreement or the start of the last renewal
- Input fields for market lease rates
  - rarely contained a value (with no supporting information of how/when it was determined)
  - sometimes were listed as $1
  - were blank most of the time

- Whether the lease was a land lease or not was inconsistently captured for both land and building leases
- Square footages were kept for a little less than half of the leased properties

There is also no review process to ensure that information has been recorded into the database accurately.

Recommendation 9
We recommend that the Real Estate Division and the Municipal Accommodations Division develop policies and procedures documentation instructing staff what information is required to be captured in its information systems to properly report in accordance with the relevant real estate grant policies.

Management Response
PP&D concurs with the recommendation as presented.

Estimated Completion Time: 2nd Quarter, 2014

Recommendation 10
We recommend that a valuation methodology for leases be documented in the policies and procedures documentation for the Municipal Accommodations Division to be properly tracked in the Division's information systems.

Management Response
PP&D concurs with the recommendation as presented.

Estimated Completion Time: 1st Quarter, 2014

GRANT ACCOUNTABILITY AND ASSET MANAGEMENT

The Real Estate Division has implemented grant accountability and monitoring practices to ensure that granted properties are safeguarded and are being utilized for the purposes of the approved grant. We observed that the monitoring practices and procedures need to be developed further.

Sales-Type Grants
Monitoring for sales-type grants is done well. The monitoring requirements for these types of grants are fairly limited due to the fact that the properties granted transfer ownership to the grant recipients once the conditions of the grants have been met. The most common caveat for these grants is that proposed construction must be substantially completed within two years of the property sale. We found monitoring to be good for these types of grants. We observed in PP&D's property files that staff ensured that the caveats were met by including photographic evidence of construction in the physical files before soliciting the Legal Services Department to release the properties into the recipient's ownership. We have no recommendations to enhance the monitoring processes for sales-type real estate grants.

Lease-Type Grants
We found that the lease agreements did not have many reporting mechanisms to ensure that grant recipients were using the assets for the intended purpose stipulated in the grant. We noted that one of the grants we reviewed did require the recipient to provide copies of its annual financial statements to the City, but no statements had ever actually been received or followed up on. This illustrates that, even if the agreements contain reporting requirements, there are no monitoring mechanisms to remind staff of what information is required from the recipients, and how often.

Due to the City retaining ownership of granted properties at the end of the lease-type grants, there are additional considerations that must be monitored as well as ensuring that the property was used for the intended grant purposes. The City must be assured that the properties are appropriately safeguarded and maintained. The safeguarding and maintenance risks for long-term land leases are naturally going to be lower than for buildings because the City does not own the buildings that are constructed on the leased land. Where the lease is for building space, however, the City does have the responsibility to ensure that its buildings are suitable for tenancy and are being properly maintained.

One of the standard lease terms is that the tenants carry a prescribed amount of general liability insurance; we observed that the City regularly collects and retains evidence of the insurance and do not have any recommendations regarding this topic.

For buildings that the City owns and uses for City operations, periodic inspections are regularly completed to ensure that the buildings are compliant with safety codes and are being properly maintained. Inspections include, but are not limited to, fire alarms, sprinklers, backflow valves, gas-fired appliances, and monthly general inspections. Inspections are performed by PP&D staff from the Municipal Accommodations Division, or are contracted out; records of the inspections are tracked and monitored by Municipal Accommodations. We were unable to observe whether safety inspections are being completed for the granted spaces because inspection records are not being tracked or kept by either the Real Estate Division or Municipal Accommodations. We observed that some of the tenants have agreed to take on these responsibilities in their lease agreements. However, we also observed that the City is not monitoring the leases to determine if these responsibilities are properly being discharged.

We observed that tenants have agreed to take on the responsibility of building maintenance in numerous cases. However, similar to the inspections, we found little evidence that the City is following up with the tenants to make sure these obligations are being fulfilled to the City's standards. In cases where the City has retained the responsibility for maintenance, we found that inspections and maintenance or repairs are only being completed as issues arise (i.e. the roof is leaking or a tenant finds mould). By the time a tenant actually reports these types of issues, the resulting repair costs may be much higher than what would have occurred if regular inspections and maintenance had been completed. We do not believe that contractually obligating the responsibility for building structural maintenance to grant recipients without any monitoring mechanisms to determine that the buildings are being properly maintained manages risks appropriately.

Recommendation 11
We recommend that grant accountability reporting be added to the lease agreements to ensure that granted properties are being used for the intended purposes of the grants, and that a monitoring mechanism be added to the information systems to alert staff about when to follow up.

Management Response
PP&D concurs with the recommendation as presented.

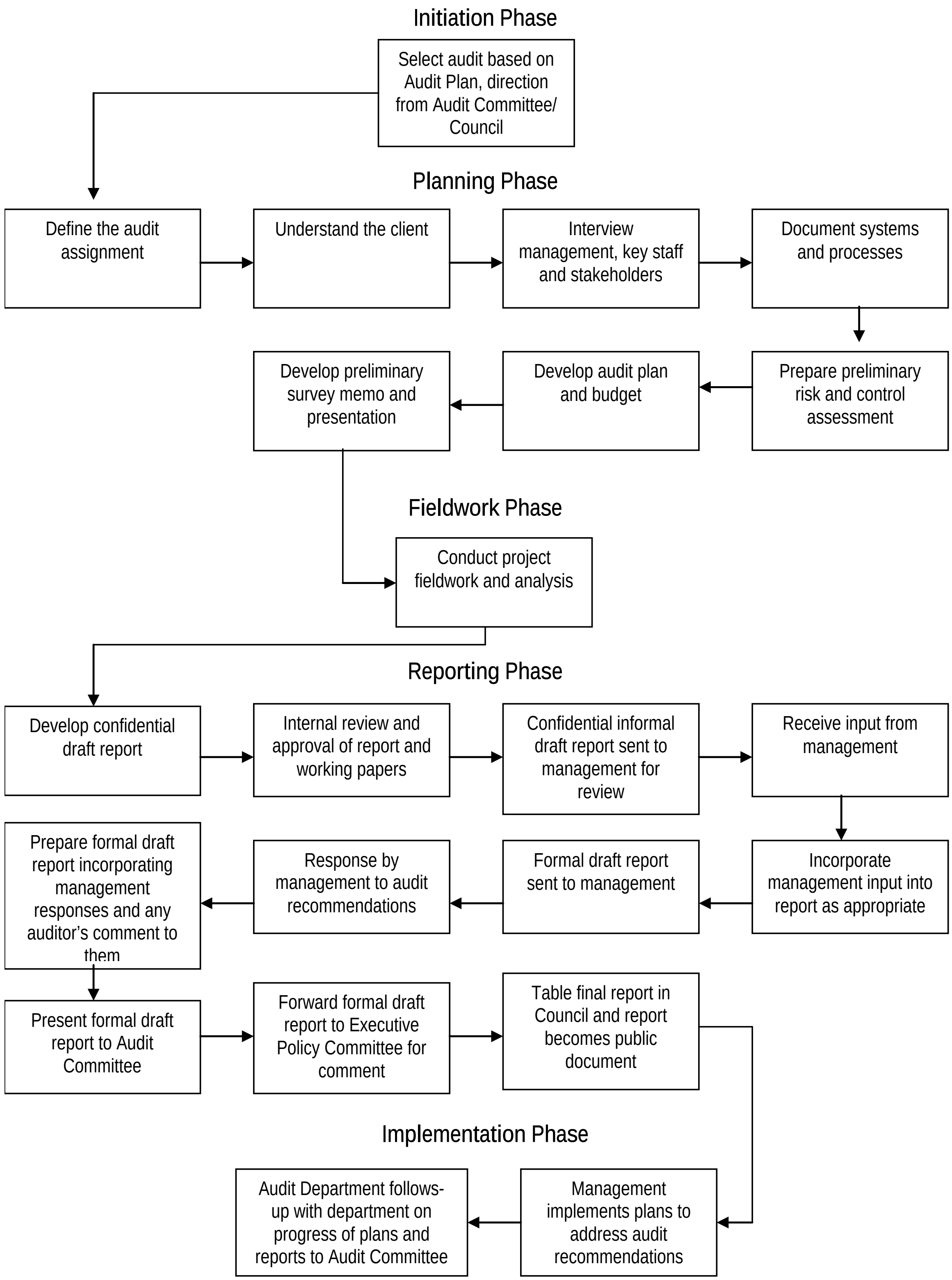
Estimated Completion Time: 1st Quarter, 2014

Recommendation 12
We recommend that the Municipal Accommodations Division complete safety and maintenance inspections for granted buildings, as they do for other City buildings.

Management Response
PP&D concurs with the recommendation as presented.

Estimated Completion Time: 1st Quarter, 2014

APPENDIX 1 - AUDIT PROCESS



APPENDIX 2 - NON-MONETARY GRANTS VALUATION METHODOLOGY

Use of Estimates
Property valuation is not an exact science. Differing values can be determined on the same property based on the experiences and professional judgment of different appraisers. The only sure method to obtain a market value for a property is to actually put the property on the market; however, this is not feasible for the granting process, and estimations must be prepared instead. Therefore, estimation gives a reasonable valuation, but not a precise value. Factors affecting an estimated property value can include location, amenities of the property, proximity to other public amenities, physical condition of the property, character, history, and numerous other considerations. Our goal in determining the grant values was to employ a reasonable, defensible, conservative, and broadly applicable methodology that would also be easily accessible for other potential users. Due to the inconsistency in the property information we were able to obtain from the City's information systems, we utilized and combined several different approaches to value the real estate grants, each of which are discussed below.

Opportunity Cost
Opportunity cost is a common concept in economics. It represents the value of choosing one alternative over another in an "either/or" scenario. The opportunity costs in our valuation model were generally determined to be the potential revenue that the City of Winnipeg could have received had it placed the property on the open market, rather than granted it. The nuances of the opportunity costs associated with different types of granted properties are discussed below.

Ongoing maintenance and refurbishment costs of the properties were considered to be required whether the properties were granted or not (also known as "sunk costs"); these were not separately considered in our valuation methods because these types of costs are generally included in open market values for properties.

Determining a Market Value—Assessment vs. Appraisal
The Field Operations Branch of the City's Assessment & Taxation Department makes fair market value property assessments in the process of of determining and levying property taxes. There may be some differences between estimations for assessed values and those of appraised values; however, we found the differences were not significant enough to reject the use of assessed values to value real estate grants. Furthermore, the Field Operations Branch already employs a complement of professionally trained and certified assessors and valuation officers. Its staff creates a database of readily available property values, on a two-year assessment cycle, as part of their daily function. The assessment values include both overall property values and square-footage lease rates.

Valuation—Property Sales
We used the Assessment & Taxation Department's property assessments wherever the assessments were available. The assessments provide readily available values for the properties without requiring redundant time and expense to be invested by PP&D by performing their own property appraisals.

Valuation—Leases

There are several different kinds of leases that the City grants to organizations and, therefore, several methodologies that were used to value the leases:

- Building leases were valued using the square footage lease rates provided to us by the Assessment & Taxation Department where they were available.
    - In the cases where the lease rates were not available, we valued some properties at a rounded average of the per-square-foot lease rates provided for other similar buildings by the Assessment & Taxation Department, or other available comparable per-square-foot rates.

- Land leases were valued at a rate of 4.8% of the leased land's most recent assessed value. This rate is the City's weighted average cost of capital on its debt as published in the City's most recent financial statements.[1] We believe that the interest expense that would be saved by selling the property and retiring an equal amount of debt in any given year is an appropriate value to attribute to the lease. This lease-valuation rate is also easily accessible and does not require extensive time and effort to research alternative rates to value the lease at.

The results of these valuation methods are presented in our Performance Analysis section.

[1] The City of Winnipeg. *Detailed Financial Statements: Companion to 2011 Annual Financial Report*. Winnipeg, MB: The City of Winnipeg, 2012. 14. Print.

APPENDIX 3 - SUMMARY OF RECOMMENDATIONS

Recommendation 1
We recommend that real estate grant requests be evaluated against the eligibility criteria, whether it is a first time grant or when a lease agreement type grant is up for renewal.

Recommendation 2
We recommend that the Manager of Real Estate and the Superintendent of Property Management work with the Director of PP&D to prepare a report for the consideration of Council that clarifies the applicability of criterion 6 and clarifies the language in the "Policy on the Sale/Lease of City Lands to Non-Profit Organizations".

Recommendation 3
We recommend that the eligibility criteria for real estate grants be included in the written grant agreements.

Recommendation 4
We recommend the Manager of Real Estate and the Superintendent of Property Management work with the Director of PP&D to prepare a report for Council's consideration amending the "Policy on the Sale/Lease of City Lands to Non-Profit Organizations" to delegate authority over real estate grants to the Standing Policy Committee on Property and Development.

Recommendation 5
We recommend that real estate grants, and corresponding revenues, be reported as required by the "Policy on the Sale/Lease of City Lands to Non-Profit Organizations" and that the process be documented in the Real Estate Division's and the Municipal Accommodations Division's policies and procedures manuals.

Recommendation 6
We recommend that the Manager of Real Estate work with the Director of PP&D to prepare a report for the consideration of Council making delegated authority usage reporting for WHHI transactions an annual requirement, report the usage in the annual report of non-monetary real estate grants, and document the process in the Division's policies and procedures manual. This recommendation is conditional upon the Council's continued extension of authority delegation due to the fact that the Memorandum of Understanding for the Winnipeg Housing and Homelessness Initiative expires on March 31, 2013.

Recommendation 7
We recommend that information about real estate grant availability and application processes be published in a manner similar to other types of grants offered by the City of Winnipeg.

Recommendation 8
We recommend that the Manager of Real Estate and the Superintendent of Property Management work with the Director of PP&D to develop application and selection procedures for the consideration of Council to amend the "Policy of the Sales/Lease of City Lands to Non-Profit Organizations".

APPENDIX 3 - SUMMARY OF RECOMMENDATIONS (CONT'D)

Recommendation 9
We recommend that the Real Estate Division and the Municipal Accommodations Division develop policies and procedures documentation instructing staff what information is required to be captured in its information systems to properly report in accordance with the relevant real estate grant policies.

Recommendation 10
We recommend that a valuation methodology for leases be documented in the policies and procedures documentation for the Municipal Accommodations Division to be properly tracked in the Division's information systems.

Recommendation 11
We recommend that grant accountability reporting be added to the lease agreements to ensure that granted properties are being used for the intended purposes of the grants, and that a monitoring mechanism be added to the information systems to alert staff about when to follow up.

Recommendation 12
We recommend that the Municipal Accommodations Division complete safety and maintenance inspections for granted buildings, as they do for other City buildings.