

City of Mississauga
Internal Audit Report

CORPORATE SERVICES DEPARTMENT
CORPORATE BUSINESS SERVICES DIVISION
REALTY SERVICES SECTION
REALTY SERVICES AUDIT

November 15, 2023

City Manager's Department
Internal Audit Division

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City Manager

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Director, Finance & Treasurer

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Corporate Services Department

- Manager, Realty Services
- Supervisor, Land Management and Property Sales
- Supervisor, Capital Acquisitions
- Supervisor, Acquisitions

**Corporate Services Department
Corporate Business Services Division
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BACKGROUND

Realty Services is a section under the Corporate Business Services Division of the Corporate Services Department. It is responsible for the acquisition, disposal, leasing and appraisal of property and property rights for City purposes, including the granting of easements, encroachments and a variety of other property agreements. On rare occasions, Realty Services may be required to acquire property by way of expropriation.

The City's "Acquisition and Disposal of Interests in Real Property Policy" (05-04-01) establishes a framework for the acquisition and disposal of real property interests that supports Council-approved projects, programs, policies and strategic plans. Under the current policies and procedures, all property matters are approved by Council, with the exception of a few specified situations for which approval is delegated to senior staff.

The Realty Services Section delivered the following in 2022:

- Administered 1,003 agreements including leases, licences, management and operations, consent to enter, and encroachment agreements of a combined value in excess of \$7.5 million
- Acquired three properties having a combined value of approximately \$5.4 million
- Completed 238 real property appraisal tasks including internal appraisal reports and reviews of external reports for a combined real property value in excess of \$968 million

The number of active Realty files climbed from 967 in 2019 to 1,003 in 2022, representing an increase of 3.7 per cent.

Realty Services tracks, administers, and reports on a significant portfolio of leases, licences and other real estate agreements using electronic systems and paper files. The volume of agreements has increased over the past 10 years and is projected to continue to grow, adding to the administrative workload. Realty Services and Information Technology Services are collaborating to implement an SAP solution which is expected to improve the management and administration of real estate files.

The last Realty Services audit was conducted in 2015, and focused on rental and lease agreements. This review was selected as part of the 2023-2025 Internal Audit Work Plan, as approved by the Audit Committee in March 2023.

SCOPE

This audit focused on controls over the acquisition and disposal of interests in real property for the years 2021 and 2022. More specifically, the audit examined controls related to acquisition,

disposal, easements, and appraisal of property and property rights in order to assess whether controls were designed appropriately and operating effectively.

Out-of-Scope

The Realty Services Team is in the midst of performing process re-engineering and software acquisition for managing leases and licences; this entails big changes to the business environment. Therefore, it was agreed with the business that the audit would exclude the below services that are impacted by process re-engineering and software acquisition efforts:

- Leases
- Licenses
- Consents to Enter
- Encroachment Agreements

OBJECTIVES

The audit was performed in accordance with the International Standards for the Professional Practice of Internal Auditing. The audit focused on the review of the adequacy of internal controls that mitigate risks related to the following business objectives:

- A) To ensure real estate transactions are consistent with City-mandated programs, projects, policies and strategic plans.
- B) To ensure acquisitions and disposals of real estate are conducted in a transparent, fair and open manner.
- C) To ensure that transactions are conducted in accordance with applicable policies, by-laws, and federal and provincial legislation.

SUMMARY OF OBSERVATIONS

Realty Services is governed by a Delegation of Authority By-law and Corporate Policies and Procedures that provide a good governance framework for real estate transactions. The process involves multiple business units and stakeholders at different stages, which offers appropriate segregation of duties and ensures input is captured from various subject matter experts.

Tested cases revealed evidence of collaboration among members of the Realty Team to share expertise and to support each other with complex transactions. Similarly, there was effective communication with other business units/stakeholders on the realty transactions.

Our main observations relate to finalizing standard operating procedures, ensuring the quality of external appraisals, improving the monitoring and oversight of realty transactions and enhancing the management of documentation and files.

A detailed list of observations and recommendations was provided to management. Appendix A provides the detailed recommendations and corresponding management comments that include the proposed action plans to address these recommendations.

The main audit observations and recommendations are outlined below.

Finalizing and updating Standard Operating Procedures (SOPs)

The Realty Team has been working on developing SOPs for some time, and recently, the Business Improvement Services Team was involved to help expedite this activity. The three SOPs in scope for this audit were found to be at different levels of development. Some areas of improvement include establishing the roles and responsibilities for the Acquisition and Disposal SOPs, better alignment with the policy for when appraisals are needed, developing the tools and resources to support the realty transactions that were referenced in the SOPs, specifying the positions of responsibility within the Realty Team to perform certain activities, and clarifying the requirements for corporate reporting in the Acquisition SOP.

Formalized SOPs are essential to clarify how to perform specific steps of the realty processes, which will ensure consistency and compliance within the process, and is a good means for training and onboarding new staff.

Ensure the quality of external appraisals

An appraisal is a formal assessment of the fair market value of a property, developed by a certified Professional Appraiser. This value is being used by the Realty Team as a basis for negotiating with buyers/sellers. It was noted that the Realty Team has certified appraisers and accessible tools to support internal appraisals. However, reviewing the external appraisals of tested cases revealed the following:

- Some inconsistencies in the external appraisal processes among the three SOPs;
- A case in which an external appraisal was not accurate. This was detected by the Realty Team, who notified the external appraiser, who, in turn, revised his appraisal;
- No reference to using a list of qualified appraisers or evidence of utilizing an appraiser evaluation method. However, management advised that the Realty Team was reviewing the external appraisals and validating them.

Management agreed to finalize and document a consistent appraisal process and an appraisers post-performance evaluation process, which will be included in the SOPs.

Enhance the oversight and monitoring of realty transactions

The Realty Team has thousands of ongoing realty requests at any given time, and every project lead is responsible for managing and following up on more than 100 requests. Project leads track the progress of their requests using their own Excel files, and the Realty Services Requests List does not provide a holistic view of all realty transactions, which makes it challenging for supervisors/managers to oversee and monitor the status or priority of transactions.

The Realty Team would benefit from a method/tool that enables managers and supervisors to have an overall visibility about realty files including progress, delays, issues, bottlenecks, or other “flags” to prioritize transactions that warrant timely intervention.

Improve management of realty documents and files

The Realty Team handles many types of documents that include confidential, personal and financial information. It was noted that the Realty Team is currently using two different storage media to manage the realty files and documents (shared Outlook folders and Realty SharePoint site). This makes it more challenging to ensure confidentiality, and introduces operational issues such as delays in retrieving documentation/information, inability to ensure the completeness of folders, inefficient work transition among Realty Team members, etc.

The Realty team has already taken steps to address this situation (adopting a consistent folder structure for Outlook, moving folders from Outlook to SharePoint) with some success. It was agreed that the Realty Team adopt more controls for document storage in the short term, and consider acquiring a document management software as a permanent long-term improvement.

CONCLUSION

This audit identified certain areas where the Realty Services controls need improvement. These include updating and formalizing the SOPs, documenting a consistent appraisal process and an appraisers' post-performance evaluation process, establishing a tracking tool for overseeing and monitoring realty transactions, and enhancing the controls of document management. The audit also identified maturity in other aspects like governance, effective communication, adequate engagement of stakeholders and business partners, and expertise within the Realty Team.

The audit resulted in 14 recommendations. Four (4) enhance the compliance with and clarification of corporate requirements, four (4) improve the safeguarding of assets and information, four (4) promote efficiency/effectiveness of the process, and two (2) deal with operational control and financial reporting.

Management has agreed and committed to completing one (1) recommendation by the end of this year, and the remaining thirteen (13) in March and June of 2024.



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Internal Auditor

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Rec	Recommendation	Priority (H/M/L)	Comments/Status	Classification
1	<p>That the Realty Team give reasonable priority to the efforts aimed at updating and formalizing the SOP(s) mentioned below. Furthermore, ensure that the SOPs fully align with the Policy (05-04-01) and the By-law (0136-2022). The SOPs that relate to this audit include:</p> <ul style="list-style-type: none"> • SOP for Realty Services' Acquisition of Real Property/Real Property Interests SOP • SOP for Realty Services' Disposal of City Owned Real Property/Real Property Interests • SOP for Realty Services External Appraisal of Real Property/Real Property Interests 	H	<p>We agree that the SOP's should be finalized. We have been working proactively on improving the business processes, and management consultants were engaged in this exercise. It was determined that five SOPs should be developed for Realty Services. Draft SOPs were developed by Realty Services staff with the assistance of the Corporate Business Services team.</p> <p>The three SOPs that relate to this audit will be reviewed to ensure compliance with the policy and will be finalized by the Manager of Realty Services.</p> <p>To be completed by June 15, 2024</p>	Compliance with and Clarification of Corporate Requirements
2	<p>That SOPs are explicit as to which position is responsible for each task to ensure adequate segregation of duties among Realty Team members for key decision-making steps (e.g. managing the file, performing the appraisal, negotiating with buyers/sellers and recommending a price, and approving the transaction).</p>	H	<p>The SOPs will identify which position is responsible for each task.</p> <p>To be completed by June 15, 2024</p>	Compliance with and Clarification of Corporate Requirements
3	<p>That the SOPs include timelines that provide reasonable time for other business units to provide their contribution to the development of Corporate Reports.</p>	M	<p>We agree that sometimes we had no control over the timelines and we had to process transactions quickly. For example, when the property we are pursuing is listed on the open market, or when there will be a Council recess which requires that we secure approval prior to the recess.</p> <p>We will ensure that the team is sensitive to the workload of others and do whatever possible, including adding timeframes to the SOPs, to ensure they have sufficient time to provide input.</p> <p>To be completed by June 15, 2024</p>	Efficiency and Effectiveness

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4	<p>That in the short term, steps be taken to ensure security of private information and confidential documents, and consistency of the structure of the storage medium.</p> <p>Potential considerations include adjusting permission levels of shared Outlook folders; determining which documents/files need to be saved in SharePoint; providing SharePoint training to staff; and seeking IT's support to mitigate security risks, move bulk files and libraries to SharePoint, and establish pre-defined structures for SharePoint libraries and folders.</p> <p>In the long term, the business should consider engaging with IT to explore a software for managing realty documents. Due to the uncertainty of the timelines for software implementation, partially as a result of the dissolution of the Region of Peel (which may involve system integration), the timelines for the long-term action cannot be determined.</p>	H	<p>We agree that file storage is an issue which needs to be addressed. We will establish a short-term strategy with IT and Clerks office for consistent storage, and we will explore using iManage, which is a system that has been adopted by Legal Services.</p> <p>To be completed by June 15, 2024</p>	Safeguarding of Assets and Information
5	<p>That Realty Team collaborate with the Records Management team to determine the best way to manage access for "Realty Services Visitors," which should include ensuring that users' access is limited to the files/folders necessary to complete their work, and access be reviewed periodically to remove access, where necessary.</p>	H	<p>We will review the list of those who have access and assess the alternative option of sending the enquiring party the individual agreement in which they are interested, rather than giving them access to all agreements.</p> <p>To be completed by March 15, 2024</p>	Safeguarding of Assets and Information
6	<p>That granting access to realty files in CATS include the user's acknowledgment to the disclaimer.</p>	M	<p>We will work with Clerks staff to determine whether it is possible to require acknowledgement of the disclaimer every time City staff access an agreement.</p> <p>To be completed by March 15, 2024</p>	Safeguarding of Assets and Information
7	<p>Ensure that final agreements for acquisitions and disposals are saved in CATS. Include reference to these steps in the corresponding SOP.</p>	L	<p>We agree that the records should be in CATS. The team will scan previous transactions to ensure that all executed agreements are saved in CATS.</p> <p>To be completed by June 15, 2024</p>	Safeguarding of Assets and Information

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8	That the Realty Team determine a consistent appraisal selection process that defines when and how third-party appraisals should be acquired. This process should be formalized and included in the new Appraisals SOP, and the other SOPs should reference the Appraisals SOP without duplicating its steps.	H	We agree with the need to document a consistent appraisal process and include it in the Appraisal SOP which will address both acquisitions and disposals. Despite procedures not being documented in an SOP, the business has other controls to ensure the appraisal reports are reviewed and follow a due diligence process. To be completed by June 15, 2024	Efficiency and Effectiveness
9	That a process for evaluating appraisers (post completion) is in place and the list of appraisers be updated to reflect any concerns.	H	Realty Services has a process in place whereby the appraiser/analyst and, at a minimum, one of the project leaders, supervisors or the manager reviews the report and provides written comments. Appraisers who produce reports of poor quality and/or routinely submit late reports will be removed from our list. This will be reflected in the updated SOP. To be completed by June 15, 2024	Operational Control and Financial Reporting
10	That the Realty Team and the business communicate to the concerned stakeholders that the "Realty Services Process Map – Property Acquisition Protocol 02-12-21" is revoked. That the Acquisition SOP include clarification about the new approach for requirements of Corporate Reports.	H	Management will communicate with the client departments that the need for an ATN, as in previous practice, is not required. Client departments are to send all acquisition requests in writing to Realty Services, as required by the policy (updated in June 2023). To be completed by June 15, 2024	Compliance with and Clarification of Corporate Requirements
11	That the Realty Team review the Realty Services Requests List and rectify all issues (not limited to those identified by Internal Audit).	M	We will continue with efforts to close out completed assignments. We will work with IT staff to effect improvements to the Realty Services Request form. To be completed by December 15, 2023	Efficiency and Effectiveness
12	That Realty Team determine how to reflect the Legal support provided in the Realty Services Request Form, and develop a process to ensure that information is available to the Realty Team.	M	Work with IT to improve the form and activate the notification that goes to the Legal team so that they can provide the completion date directly in the form. To be completed by March 25, 2024	Efficiency and Effectiveness

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13	That SOPs include clear reference to responsibilities for updating the Service Request Forms and maintaining the Realty Services Requests List.	M	We will be creating a new SOP to cover this process. To be completed by June 15, 2024	Compliance with and Clarification of Corporate Requirements
14	That Realty Services adopt a method/tool that enables managers and supervisors to have overall visibility of realty files. To avoid additional workload for project leads, it is recommended that the method/tool build on the existing processes as much as possible (e.g. the common stages for each type of work; requests not progressing for a long period of time; too many files allocated to one person, etc.).	H	We will work with IT to establish a means to track the current status of assignments with each project leader quickly and efficiently, by using the Realty Request database. To be completed by June 15, 2024	Operational Control and Financial Reporting