




Hamilton

CITY OF HAMILTON
OFFICE OF THE AUDITOR GENERAL

TO:	Chair and Members Audit, Finance and Administration Committee
COMMITTEE DATE:	September 19, 2024
SUBJECT/REPORT NO:	Corporate Real Estate: Leases and Licensing Audit (AUD24005) (City Wide)
WARD(S) AFFECTED:	City Wide
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SUBMITTED BY:	Brigitte Minard, Deputy Auditor General for Charles Brown, CPA, CA Auditor General Office of the Auditor General
SIGNATURE:	

RECOMMENDATION

- (a) That the Management Response, as detailed in Appendix “B” to Report AUD24005 be approved; and
- (b) That the General Manager of Planning and Economic Development, the General Manager of Public Works, the General Manager of Finance and Corporate Services, and the General Manager of Community Services be directed to implement the Management Responses (attached as Appendix “B” to Report AUD24005) and report back to the Audit, Finance and Administration Committee by March 2025 on the nature and status of actions taken in response to the audit report.

OUR Vision: To be the best place to raise a child and age successfully.

OUR Mission: To provide high quality cost conscious public services that contribute to a healthy, safe and prosperous community, in a sustainable manner.

OUR Culture: Collective Ownership, Steadfast Integrity, Courageous Change, Sensational Service, Engaged Empowered Employees.

REPORT HIGHLIGHTS

- The Office of the Auditor General (OAG) performed an audit of Corporate Real Estate: Leases and Licences.
- The OAG finds that the City of Hamilton has significant room for improvement in the governance and administration of leases and licenses.
- The OAG made 35 recommendations in this report to address the audit findings.
- Management agreed with all 35 recommendations and provided management responses for each recommendation.

EXECUTIVE SUMMARY

The Office of the Auditor General (OAG) performed an audit that evaluated and assessed the administration of leases and licences for efficiency, effectiveness, and compliance with City policies, guidelines and legislation, including whether systems and practices are providing the City with reasonable assurance that its assets are being appropriately safeguarded, and revenues maximized.

The OAG finds that the City has many opportunities to strengthen lease and licence governance and management at the City of Hamilton.

From a systems perspective, the applications used for leases/licence administration do not offer the complete functionality of a fully integrated solution. They are vulnerable to untraceable changes to the information and do not integrate with the financial systems used corporately, which affects the efficiency, accuracy, and timeliness respecting the tracking of invoicing, receipt of payment, and account status. In all systems we observed data that was incomplete or not up to date, and data that was in disagreement when compared between applications.

In reviewing how leases/licences administration is organized, we found the administration to be inefficient, prone to error, and there are missed opportunities. The analysis in our detailed findings shows that there are numerous problems occurring in lease administration sufficient to suggest the current approach is not serving the City's needs, and should be reorganized, including serious consideration being given to a more centralized approach.

From time to time the City will lease or licence space at below market rental rates to a party that is a community group, charity, or not for profit entity. In our view, management needs to review and renew the current criteria and procedures for below market rental, looking for improvement opportunities toward achieving greater consistency and compliance with existing City policy, and toward a more transparent and accountable

process. The delegations of authority for lease/license transactions needs updating and should be maintained in official policy documents that are readily available.

For effective administration, it is important to have a comprehensive leasing policy, as some other jurisdictions have. While the City does have some procedures, roles and criteria developed for specific aspects of lease administration, they are not as robust or fulsome as they could be and are generally lacking in detailed or standard operating procedures.

In a review we conducted of data accuracy stored in the various applications used for administration, we found a large number that required adjustment as they were erroneously recorded. We concluded that the accuracy of lease information is not reliable, and not kept up to date. In addition, we found that overholds - leases that have expired and continue on a month to month basis until a new lease is signed - need to be dealt with more expeditiously.

We found the processes for collection of rents and fees for leases and licences, including overdue or unpaid amounts, to be inherently weak, and inadequate to ensure full collection and restoration of arrears on a timely basis. In analyzing the status of arrears (rental payments long past due) at the date of our audit, we found that the accumulated arrears and rental losses or revenues unlikely to be fully collected to be approximately **\$1.2 million**.

Our full report contains several case studies of administration challenges.

The OAG made 35 recommendations in this report to address the above-noted issues.

Alternatives for Consideration – Not Applicable.

PREVIOUS REPORTS SUBMITTED – Not Applicable.

FINANCIAL – STAFFING – LEGAL IMPLICATIONS

Financial: None.

Staffing: None.

Legal: None.

HISTORICAL BACKGROUND

The Office of the Auditor General (OAG) had a Real Estate Audit – Leases and Licensing Audit on the OAG Term of Council Work Plan 2023-2026 (AUD23012).

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

Real Estate Management Plan (Report CS0190)

RELEVANT CONSULTATION

Appendix “B” to Report AUD24005 includes responses for management responsible in the Corporate Real Estate Office, Financial Services Division, Financial Planning, Administration and Policy Division, Legal and Risk Management Services Division, Corporate Facilities and Energy Management Division, and Recreation Division.

ANALYSIS AND RATIONALE FOR RECOMMENDATION

The audit objectives were to assess whether the administration of leased and licensed City-owned properties is efficient and effective, and compliant with City policies, guidelines and legislated requirements. The audit also evaluated whether the systems, practices and procedures being followed are providing the City with reasonable assurance that its assets are being appropriately safeguarded and controlled, and that revenues to the City are maximized where applicable.

The Office of the Auditor General found that there is significant room for improvement in the governance and administration of leases and licenses. The Audit Report summarizing our findings can be found at Appendix “A” to Report AUD24005.

The OAG made 35 recommendations to address the key audit findings, with a focus on data collection and financial reporting, maximizing and collecting revenues, and related process improvements in the administration of leases and licences, these can be found in Appendix “B” to Report AUD24005.

ALTERNATIVES FOR CONSIDERATION – Not Applicable

APPENDICES AND SCHEDULES ATTACHED

Appendix “A” to Report AUD24005 – Corporate Real Estate: Leases and Licensing Audit Report

Appendix “B” to Report AUD24005 – Recommendations and Management Responses