

TORONTO STAFF REPORT

April 27, 2006

To: Audit Committee
From: Auditor General
Subject: Terms of Reference – Audit Project

Purpose:

The purpose of this report is to provide the Audit Committee with the terms of reference for the Rental of City-owned Property - Facilities and Real Estate and Parks, Forestry and Recreation project included in the 2006 Audit Work Plan.

Financial Implications and Impact Statement:

There are no financial implications resulting from the receipt of this report.

Recommendation:

It is recommended that this report be received for information.

Background:

Each year the Auditor General's Office provides a work plan to the Audit Committee summarizing audit projects to be undertaken. The audit process requires the development of terms of reference for each project providing background, objectives and reporting timeframe for the respective assignment.

Comments:

The terms of reference for the Rental of City-owned Property – Facilities and Real Estate and Parks, Forestry and Recreation is provided as an appendix to this report. It should be noted that these terms of reference have been forwarded for information purposes to senior management of the respective program area and audit work has been initiated.

Conclusion:

Terms of reference for audit projects are important in providing direction and focus for the work undertaken. They also specify the background, scope and objectives of the review, as well as the expected reporting date. It should be noted that the audit process is not restricted to those areas contained in the terms of reference.

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cb/lgd
06-FRE-01

Attachment:

Appendix 1: Rental of City-owned Property

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AUDITOR GENERAL'S OFFICE
TERMS OF REFERENCE

Division/Board: Facilities and Real Estate and Parks, Forestry and Recreation
Project Name: Rental of City-owned Property
Year of Audit: 2006
Project Code: 06-FRE-01

A. Introduction/Background:

The Auditor General's 2006 Work Plan included a review of the Rental of City-owned Property. This review was selected based on criteria such as financial impact and the results of past work performed.

The City of Toronto owns various land and buildings that are leased to both private and public organizations and individuals. The Real Estate Services Unit in the Facilities and Real Estate Division is primarily responsible for the site management and leasing of City-owned property. However, the Parks, Forestry and Recreation Division also manage leases for City-owned property related to delivery of their programs. In addition, minor property holdings are leased by other City Divisions.

The City's leasing program includes lease arrangements to provide space to organizations, generally not for profits, at below-market rent in accordance with the City's "Policy for City-owned Space Provided at Below-market Rent", approved by Council in 2002. The billing and collection of rents for City-owned property are handled differently by City Divisions. Accounting Services is responsible for the billing and collection of receivables for the Facilities and Real Estate Division, whereas the Parks, Forestry and Recreation Division and other City operating divisions are primarily responsible for receivable billing and collection of rents related to properties within their portfolios.

B. Financial/Operational Highlights:

In total, the City reported \$20 million in rental income from City-owned properties in 2005, of which \$17.5 million relates to the Facilities and Real Estate Division who manage 970 properties. In addition, accounts receivable in the amount of \$1.3 million, primarily amounts arising prior to amalgamation on January 1, 1998, were written off in 2005 relating to vacated tenants.

C. Key Financial/Operational Issues and Controls:

The 2005 audit “Maintenance and Administrative Controls Review – Facilities and Real Estate” found that the decentralized control of City-owned buildings contributed to operational problems, including difficulty in determining the actual number of buildings owned by the City. As a result, there is a risk that the City may not be receiving full rental income on City-owned property. In addition, as noted above, there have been significant write-offs for uncollectible rents.

D. Audit Objectives and Scope:

The objective of this review is to assess whether leased City-owned property is being managed to maximize rental income, or other benefits to the City, in compliance with City policies and other legislative requirements.

The review will include, but is not limited to, an assessment of the following areas:

- completeness and accuracy of the inventory of income producing City-owned property;
- monitoring of compliance with lease terms and conditions;
- compliance with policy “City-owned Space Provided at Below-market Rent”; and
- billing and collection of rental income.

Our review will focus on City-owned land and buildings, leased to third parties, managed by the Facilities and Real Estate Division and the Parks, Forestry and Recreation Division. Our review will cover the period from January 1, 2005 to March 31, 2006. Leased City-owned property managed by the City’s Agencies, Boards and Commissions is excluded from this review.

Audit methodology will include a review of policies and procedures, interviews with relevant staff, site visits, examination of documents and records, review of relevant audit reports, Council, and standing committee minutes, evaluation of management control practices and measures, analysis of data and any other procedures deemed appropriate.

E. Expected Reporting Date:

Audit Committee Meeting: September 2006