

## REPORT

Report Date: June 20, 2024  
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Meeting Date: July 9, 2024  
[Submit comments to Council](#)

TO: Vancouver City Council

FROM: Chair of the Auditor General Committee

SUBJECT: Auditor General Committee Recommendations Transmittal Report

### Recommendation

THAT Council approve the recommendations from the June 20, 2024, Auditor General Committee meeting as follows:

- A. THAT the Auditor General Committee receive the Auditor General's Report dated June 13, 2024, entitled "Follow-Up Report: Update on the Status of Previous Audit Recommendations";

FURTHER THAT the Auditor General Committee request that the Auditor General continue to follow-up and report back to the Committee on the status and implementation of the recommendations specific to the Park Board Revenue Management report;

FURTHER THAT the Auditor General Committee request that the Auditor General continue to follow-up and report back to the Committee on the status and implementation of the recommendations contained in the VPD Enterprise Risk Management report;

AND FURTHER THAT the Auditor General obtain a copy of the risk register and report back to the Committee on his assessment of it.

- B. THAT the Auditor General Committee receive the Auditor General's Report dated June 2024, entitled "Childcare, Cultural and Social Non-Profit Leases";

FURTHER THAT the above-noted report's ten recommendations be endorsed.

### Council Authority/Previous Decisions

- Per the [Auditor General By-law 3.14](#), the Office of the Auditor General will report directly to Council on any investigations or inquiries conducted by the Auditor General.

- On [November 4, 2020](#), pursuant to [Section 161](#) of the *Vancouver Charter*, Council established an Auditor General Committee to provide oversight to the Office of the Auditor General on behalf of Council.
- Pursuant to the [Procedure By-law 5.9](#), each standing committee is to report to Council on all matters resolved.

## Background

At the Auditor General Committee meeting on June 20, 2024, the Committee considered two reports, received two presentations, and made the recommendations identified above.

The audit reports are attached for reference:

- Appendix A: “Follow-Up Report: Update on the Status of Previous Audit Recommendations”, dated June 13, 2024; and
- Appendix B: “Audit of Childcare, Cultural and Social Non-Profit Leases”, dated June 13, 2024.

## Conclusion

This report transmits the recommendations made by the Auditor General Committee at its meeting on June 20, 2024, for Council’s consideration.

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## FOLLOW-UP REPORT

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# Update on the Status of Previous Audit Recommendations



A follow-up report on the implementation status of management action plans for recommendations made in previous audit reports

June 2024

## Message From the Auditor General

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To the Mayor and Council of the City of Vancouver,

I am pleased to present my second follow-up report on the status of previous audit recommendations.

Where my audits identify opportunities for improvement in the economy, efficiency and/or effectiveness of the City's operations I make recommendations aimed at addressing root causes. As Auditor General I, quite appropriately, have no ability to compel the City to implement my recommendations, so I ask Council to endorse them. And on behalf of Council's Auditor General Committee, every six months I follow-up on the status of these recommendations.

It is important to note that the status updates contained in this report have been provided by, and are the representations of, City management. My team has conducted no work to verify the information provided and we offer no assurance or any form of comment regarding its completeness or accuracy. As part of their oversight responsibilities and to ensure robust accountability, I encourage the Auditor General Committee to ask questions of audited departments concerning their representations, and to seek clarification or further information.

It is gratifying to see audited departments report that half of the 33 recommendations made by my office to date have been fully or substantially completed. I look forward to seeing further progress in the next semi-annual follow-up report to be presented to Council in December 2024.



Mike Macdonell, FCPA, FCA  
Auditor General  
Vancouver, B.C.

13 June 2024

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## Report Contents

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<b>Message From the Auditor General</b> .....	<b>2</b>
<b>Definitions</b> .....	<b>4</b>
<b>Summary of Reported Results</b> .....	<b>5</b>
<b>Initial Follow-Ups</b> .....	<b>6</b>
Audit of Park Board Revenue Management .....	7
Audit of the Vancouver Police Department's Enterprise Risk Management .....	11
<b>Subsequent Follow-Ups</b> .....	<b>17</b>
Audit of the Permitting Program Cost Recovery Model .....	18
Audit of Office Furniture Purchases .....	22
Audit of Building Permit Fees .....	25

## Definitions

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### SELF-ASSESSED STATUS CATEGORIES

**Alternative Action Taken:** The department has taken actions that were not anticipated by the recommendation but address the underlying issues.

**Fully or Substantially Implemented:** The department has fully or substantially addressed the recommendation and plans no further work.

**No Substantial Action Taken:** the department has not, or has not yet, taken actions in response to the recommendation.

**Partially Implemented:** The department's actions to address the recommendation are in process.

## Summary of Reported Results

Audit Report	Report Release Date	Total	Audit Recommendations					
			Completed or Alternate Action Taken	Partially Implemented	No Action Taken			
<b>2023 - Initial Follow-Ups</b>								
Vancouver Police Department's Enterprise Risk Management	Dec 2023	9	4	44%	5	56%	0	0%
Park Board Revenue Management	Nov 2023	6	0	0%	6	100%	0	0%
<b>Total</b>		<b>15</b>	<b>4</b>	<b>27%</b>	<b>11</b>	<b>73%</b>	<b>0</b>	<b>0%</b>
<b>2023 - Subsequent Follow-Ups</b>								
Permitting Program Cost Recovery Model	May 2023	8	3	38%	4	50%	1	12%
Office Furniture Purchases	Feb 2023	5	3	60%	2	40%	0	0%
Building Permit Fees	Jan 2023	5	1	20%	4	80%	0	0%
<b>Total</b>		<b>18</b>	<b>7</b>	<b>39%</b>	<b>10</b>	<b>56%</b>	<b>1</b>	<b>5%</b>
<b>Grand Total</b>		<b>33</b>	<b>11</b>	<b>33%</b>	<b>21</b>	<b>64%</b>	<b>1</b>	<b>3%</b>

INITIAL FOLLOW-UPS

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## Management Progress Reports



## Audit of Park Board Revenue Management

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**Progress as at:** May 24, 2024

**Audit report released:** [November 7, 2023](#)

**Discussed by City Council:** December 7, 2023

**Self-assessment conducted by:** the Vancouver Board of Parks and Recreation

### MANAGEMENT'S OVERALL COMMENTS

“Park Board management, with the support of an assigned Project Manager, have determined roles, responsibilities, and a schedule for advancing actions responding to the recommendations of the Office of the Auditor General. Generally, this work is moving through the planning stages, with two consultancies in procurement to address the Business Plan and Comprehensive Fee-Setting Framework recommendations.

Due to resource constraints and the lack of incremental funding provided for this work, assignment of a Project Manager was delayed until April of Q2 2024. Prior to this, the costs for external consultants to deliver the most significant actions in the absence of staff capacity were required to be absorbed within the broader range of Park Board's project and service delivery.

Across Q2-Q4 2024, recommendations 1, 3, and 6 are expected to be delivered. Progress for actions responding to remaining recommendations will be made through a test case developed for recommendation 2 and incorporating recommendations 4 and 5 for efficiencies. This test case will provide a process and templates for application to other service areas in subsequent years.”

**RECOMMENDATIONS**

Recommendations	Self-Assessed Status	Actions taken, results and/or actions planned
<p><b>Recommendation 1</b></p> <p>To help ensure that funding is made available for implementation of its strategic priorities, the Park Board should proactively engage with City Council as it develops current and future strategies.</p>	<p><b>Partially Implemented</b></p>	<p>“Staff are developing a process map to guide decision-making and responsibilities for the proactive engagement of City Council in the development of current and future strategies, plans, and other work with potential to inform or impact future Capital funding requests. This is expected to be completed in Q2 2024 with consideration of Council engagement on current plans and strategies in the interim.”</p>
<p><b>Recommendation 2</b></p> <p>For revenue-generating service areas, the Park Board should define and document service delivery objectives to guide operational decision-making and future investment. Plans should provide short to medium-term outlooks for service areas and be regularly reviewed and updated.</p>	<p><b>Partially Implemented</b></p>	<p>“Based on staff capacity and resource limitations, Park Board is taking a phased approach to this recommendation. A Business Plan for Bloedel Conservatory is planned for delivery in 2024 as part of the first phase. Staff distributed an RFP for consulting services and selected a successful proponent to create this Business Plan, including service delivery objectives, across Q2-Q3 2024. Note that this work will incorporate actions responding to Recommendations 4 and 5 to achieve efficiencies.</p> <p>Following completion of this test case, a general Business Plan framework will be derived and used for the development of Business Plans that apply to other revenue-generating service areas across Park Board.”</p>

Recommendations	Self-Assessed Status	Actions taken, results and/or actions planned
<p><b>Recommendation 3</b></p> <p>The Park Board should strengthen its fee-setting processes by implementing a comprehensive fee-setting framework that includes:</p> <ul style="list-style-type: none"> <li>• Principles for determining revenue categories where user fees should and should not be charged;</li> <li>• Criteria to categorize services based on various factors such as the types of services, users and uses, affordability and accessibility;</li> <li>• Methods for determining service cost-recovery ratios to enable metrics for target setting and tracking of operational and financial performance;</li> <li>• Rationale and conditions for fee reductions or waivers; and,</li> <li>• A periodic process to reassess service categorizations and revenue objectives for existing services.</li> </ul> <p>The revised framework should account for differences in the types of services provided between the Recreation Services and Business Services departments. The Park Board should also update its Fees and Charges Policy to reflect adjustments to the fee-setting processes outlined above.</p>	<p><b>Partially Implemented</b></p>	<p>“Staff are reviewing proposals for a consultancy to support the delivery of a Comprehensive Fee-Setting Framework, scoped to include the above principles, criteria, methods, rationale, and plan for periodic reassessment. This framework is scheduled to be delivered in Q4 2024.</p> <p>As the yearly Fees and Charges update will be in development before completion of the comprehensive fee setting framework, there will be limited opportunity in 2024 for updates to be made that reflect adjustments to fee-setting processes. Fees and Charges policy will be updated more fulsomely in 2025 after completion of the Comprehensive Fee-Setting Framework.”</p>
<p><b>Recommendation 4</b></p> <p>The Park Board should incorporate in its updated fee-setting framework an evaluation of full costs for each service area to strengthen the correlation between fees charged and the underlying costs, and define the types of costs it intends to recover through its fees.</p>	<p><b>Partially Implemented</b></p>	<p>“Ahead of development of the Comprehensive Fee-Setting Framework in Recommendation 3, an evaluation of full costs for Bloedel Conservatory will be incorporated within the Business Plan to address Recommendation 2. Drawing from this process and its findings, the implementation plan for the Comprehensive Fee-Setting Framework will include a methodology for evaluation of full costing and cost per service and is expected to be delivered in Q4 2024.”</p>

Recommendations	Self-Assessed Status	Actions taken, results and/or actions planned
<p><b>Recommendation 5</b></p> <p>The Park Board should define performance metrics for all revenue-generating service areas to enable monitoring and tracking of progress toward service delivery, revenue objectives and overall strategies.</p> <p>Performance metrics should:</p> <ul style="list-style-type: none"> <li>• Be meaningfully designed to align with the performance and strategic objectives of the service area;</li> <li>• Have defined targets with timeframes for completion;</li> <li>• Have defined intervals and audiences for reporting;</li> <li>• Include up-to-date documented procedures for calculation; and,</li> <li>• Include a process to ensure that performance metrics are accurately calculated.</li> </ul>	<p><b>Partially Implemented</b></p>	<p>“With the support of Finance &amp; Performance Measurement staff, performance metrics for Bloedel Conservatory are being developed from Q2-Q3 2024 in coordination with the Business Plan responding to Recommendation 3.</p> <p>Definition of performance metrics for other service areas will follow thereafter, using the template developed for Bloedel.”</p>
<p><b>Recommendation 6</b></p> <p>The Park Board should report on actual revenues versus expenditures including all relevant costs to track the achievement of revenue objectives by service areas.</p>	<p><b>Partially Implemented</b></p>	<p>“The yearly Fees &amp; Charges report currently being developed by Finance staff is being structured to include information that reports on actual revenues versus expenditures, including all relevant costs.</p> <p>This report will be presented to the Board in Q4 2024 with following years continuing to include this process.”</p>

# Audit of the Vancouver Police Department's Enterprise Risk Management

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**Progress as at:** May 24, 2024

**Audit report released:** [December 7, 2023](#)

**Discussed by City Council (AGC):** January 16, 2024

**Self-assessment conducted by:** the Vancouver Police Department and the Vancouver Police Board

## VANCOUVER POLICE BOARD'S OVERALL COMMENTS

“The Vancouver Police Board welcomes the opportunity to provide an update on the progress being made to formalize and centralize enterprise risk management (ERM). In particular, progress has been made in collaboration with the VPD to begin proposing enterprise risk categories to be used in a revised enterprise risk register. At the same time the Committee will also review a draft risk appetite statement (RAS). If the Committee approves the enterprise risk categories and RAS, these will be considered at the next Board Meeting on June 20, 2024.”

## VANCOUVER POLICE DEPARTMENT'S OVERALL COMMENTS

“The Vancouver Police Department (VPD) welcomes the opportunity to provide an update on its progress towards formalizing and centralizing enterprise risk management (ERM). In addition to the information provided to the five VPD recommendations in this template, the following important updates are provided:

- 1) The Vancouver Police Board's (Board) Finance and Risk Committee (Committee) will discuss a VPD report that proposes enterprise risk categories for a revised enterprise risk register. At the same time the Committee will review a draft risk appetite statement (RAS) for the VPD. If the Committee approves the enterprise risk categories and RAS, then these will be discussed and considered for approval by the Board on June 20, 2024.
- 2) The VPD has established valuable contacts with the City of Vancouver's and the University of British Columbia's respective ERM managers. These contacts will be helpful to identify best practices.

Finally, the VPD is regularly communicating with, eliciting feedback from, and seeking approval from the Committee and the Board on ERM developments.”

**RECOMMENDATIONS FOR THE VANCOUVER POLICE BOARD**

Recommendations	Self-Assessed Status	Actions taken, results and/or actions planned
<p><b>Recommendation 1</b></p> <p>The Vancouver Police Board should clarify and expand sections of its Board Governance Manual relating to oversight of enterprise risk management such as:</p> <ul style="list-style-type: none"> <li>• A statement that identifies the Board as the overseer of enterprise risk management for the Vancouver Police Department and describes what this entails;</li> <li>• A definition of risks including key risk categories the Board oversees such as: hazards, material, strategic, financial, reputational, governance, operational and other;</li> <li>• The roles of the Board and Chief Constable in defining and communicating the levels and types of risks the organization is willing to accept;</li> <li>• The Board's expectations for when and how the Department should seek Board guidance or approval on managing enterprise risks; and,</li> <li>• The Board's Standing Committee responsibilities for the oversight of financial and non-financial risk management.</li> </ul>	<p><b>Partially Implemented</b></p>	<p>“Preliminary work to clarify and formalize the Board's role and monitoring of ERM is underway. The Board's Finance and Risk Committee is scheduled to review a draft policy for ERM in the VPD on June 6, 2024. That policy recognizes the governance and oversight role of the Board regarding ERM. The Board's Governance Manual and the terms of reference of the Committee will be adjusted to reflect this reality. Also on June 6th, the Committee will discuss, with the aim of recommending to the Board, the approval of enterprise risk categories for the VPD.</p> <p>As the ERM program matures, a defined relationship between the Board and Chief Constable will evolve and be incorporated into it.”</p>
<p><b>Recommendation 2</b></p> <p>The Vancouver Police Board should require that the Chief Constable establish, maintain and obtain Board feedback on and approval of an enterprise risk management framework, including a policy and risk register.</p>	<p><b>Fully or Substantially Implemented</b></p>	<p>“In April, the Board discussed and approved ISO 31000 as the ERM Standard for the organization. On June 6, 2024, the Committee will consider a draft ERM policy that, if approved, will be considered by the Board at its meeting on June 20, 2024. The VPD developed its initial risk register in the Q4 of 2023, and its ERM Section (ERMS) will review the register and make any recommendations to the Board for revising it in Q3 of 2024.”</p>

Recommendations	Self-Assessed Status	Actions taken, results and/or actions planned
<p><b>Recommendation 3</b></p> <p>The Vancouver Police Board should introduce consistent mechanisms to implement the Board's risk management direction, such as:</p> <ul style="list-style-type: none"> <li>• A process for the Board's involvement in the development of an enterprise risk management policy and processes, and the development and management of departmental risk registers;</li> <li>• A schedule to review and approve the Vancouver Police Department's enterprise risk register at least annually; and,</li> <li>• Processes through which the Board can obtain reasonable assurance that the Department's risk management, internal control systems, and information systems are properly designed, reliable and operating effectively to prevent and mitigate risks, including elements such as: <ul style="list-style-type: none"> <li>○ Reporting, testing and third-party validations; and,</li> <li>○ Regular reporting from management or direct oversight of the Department's internal audit function.</li> </ul> </li> </ul>	<p><b>Partially Implemented</b></p>	<p>"Preliminary work is underway on Board policies that include Board risk management direction and consistent mechanisms for implementation. The policies will formalize requirements for the VPD to present ERM developments, such as changes to the approved ERM standard, policy, and risk register to the Committee and then Board for consideration and approval, as well as require reviewing the risk register at least twice a year, risk controls, monitoring and reporting."</p>
<p><b>Recommendation 4</b></p> <p>The Vancouver Police Board should include enterprise risk management as a knowledge area in the curriculum of its annual board development program.</p>	<p><b>Partially Implemented</b></p>	<p>"Board directors undertook initial ERM orientation in January of 2024 and the Board is considering a workshop in the second half of 2024. As well, the provincial government will be mandating training for all police boards that is anticipated to include ERM. The Board will augment its ERM training accordingly and formalize its curriculum by Q4 of 2024."</p>

**RECOMMENDATIONS FOR THE VANCOUVER POLICE DEPARTMENT**

Recommendations	Self-Assessed Status	Actions taken, results and/or actions planned
<p><b>Recommendation 5</b></p> <p>The Vancouver Police Department should:</p> <ul style="list-style-type: none"> <li>• Develop an enterprise risk management framework. This framework should include, at a minimum: <ul style="list-style-type: none"> <li>○ Clearly documented procedures to identify, assess, manage, and oversee its enterprise risks;</li> <li>○ Communication procedures to enable consistent understanding of enterprise risk by all relevant stakeholders; and,</li> </ul> </li> <li>• Develop an enterprise risk management policy that includes: <ul style="list-style-type: none"> <li>○ A requirement for management to apply enterprise risk management principles in managing department-wide risks;</li> <li>○ Policy aims such as how risk management will assist the Department; and,</li> <li>○ Specific responsibilities and accountabilities related to managing enterprise risks for units and individuals throughout the Department.</li> </ul> </li> </ul>	<p><b>Fully or Substantially Implemented</b></p>	<p>“Regarding the first bullet point, at its April 25, 2024 meeting, the Board approved ISO 31000 as the ERM Standard for the VPD. The VPD will follow the risk management framework, process, and principles that are established by the ISO 31000 Standard.</p> <p>Re: the second bullet point, an ERM policy has been drafted and it is scheduled to be reviewed by the Committee on June 6, 2024. If the Committee approves the policy then it will be submitted to the Board for its consideration and approval at its June 20, 2024 meeting. The policy covers the third bullet point.”</p>
<p><b>Recommendation 6</b></p> <p>The Vancouver Police Department should assign responsibility for managing and overseeing enterprise risk management to a position or unit within the Department.</p>	<p><b>Fully or Substantially Implemented</b></p>	<p>“The VPD established the Enterprise Risk Management Section (ERMS) and appointed the Director of the Section, Drazen Manojlovic, who began work on February 5, 2024.”</p>



Recommendations	Self-Assessed Status	Actions taken, results and/or actions planned
<p><b>Recommendation 7</b></p> <p>The Vancouver Police Department should support the successful implementation of enterprise risk management by:</p> <ul style="list-style-type: none"> <li>• Ensuring it has sufficient resources, expertise and capacity to effectively develop, and implement enterprise risk management; and,</li> <li>• Exploring training opportunities for senior leaders and other relevant Department personnel to ensure there is a consistent vision for what enterprise risk management can bring and commitment to its implementation throughout the Department.</li> </ul>	<p><b>Partially Implemented</b></p>	<p>“The plan is to expand the ERMS by one or two civilian professionals with risk management experience. The Director of the Section is analyzing the risk management needs of the VPD in order to assess what specific risk management skills are required (e.g., financial vs operational vs strategic).</p> <p>The ERMS is researching what cost-efficient training options exist that can be delivered to VPD senior managers. This training may be delivered by consultants, or a professional risk management association, or through in-house expertise. It is the goal to deliver this training by the end of 2024. As the ERM program matures, training to supervisors and front-line staff will be considered.”</p>
<p><b>Recommendation 8</b></p> <p>The Vancouver Police Department should develop a risk register that includes:</p> <ul style="list-style-type: none"> <li>• Risks identified by internal and external stakeholders during its strategic planning sessions and facilitated unit-level risk assessment sessions;</li> <li>• Risks identified at Vancouver Police Board planning sessions and risk assessments conducted at these sessions;</li> <li>• Assignment of identified risks into categories to ensure that risks affecting similar functions, units and areas are clearly flagged to highlight areas of focus;</li> <li>• Units and individuals that are accountable for and contribute to the management of individual risk items;</li> <li>• Documentation on the effectiveness of risk treatments; and,</li> <li>• Risk thresholds, as developed with the Board.</li> </ul>	<p><b>Fully or Substantially Implemented</b></p>	<p>“In the fall of 2023 the VPD developed a risk register that contains identified risks, inherent and residual risk scores, risk mitigation strategies, risk treatment actions, and risk owners. As the ERMS has begun operations, the risk register’s categories will be reviewed and built upon (where required or desirable). Moving forward the ERMS will, in the second half of 2024, develop a process to expand the identification of risks across all organizational Sections of the VPD.”</p>

Recommendations	Self-Assessed Status	Actions taken, results and/or actions planned
<p><b>Recommendation 9</b></p> <p>The Vancouver Police Department should use enterprise risk management assessments to help set objectives, make strategic decisions and allocate resources.</p>	<p><b>Partially Implemented</b></p>	<p>“The ERMS has assessed draft 2024 Strategic Business Planning Strategies, all revisions to policy and procedures, and about 20 individual projects/initiatives. ERM considerations will be a part of the development of the 2024 Strategic Business Plan and its Report-back to the Board. When the current Strategic Plan concludes at the end of 2026, ERM considerations will be a foundational piece of the development of the new Strategic Plan's Goals. Regarding allocating resources, that can be a type of risk treatment and that option may be appropriate for any individual enterprise risk. Additionally, ERM will be a consideration in any future discussions about VPD-wide resource allocation.”</p>

## SUBSEQUENT FOLLOW-UPS

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# Management Progress Reports

## Audit of the Permitting Program Cost Recovery Model

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**Progress as at:** May 24, 2024

**Audit report released:** [May 25, 2023](#)

**Discussed by City Council (AGC):** June 1, 2023

**Self-assessment conducted by:** Finance and Supply Chain Management

### **MANAGEMENT'S OVERALL COMMENTS**

"We extend our sincere appreciation to the Auditor General's Office for its role in facilitating a review of progress with respect to the audit recommendations. This process represents a critical aspect of our ongoing accountability measures.

Regarding the 5 remaining audit recommendations set for completion by 2024, we are pleased to provide the following status update:

- Three recommendations are on track to be fully completed within 2024.
- Two recommendations have been partially implemented. Our staff remains dedicated to these, with full implementation expected to extend beyond 2024. Future audit reports will detail the progress of specific projects tied to these recommendations.

By the end of 2024, we anticipate that six of the original eight recommendations will have been fully implemented. The audit recommendations will continue to be a key consideration in the 2025 Fee review process as further policy guidance is sought from Council in this area."

**COMPLETED RECOMMENDATIONS**

Recommendations Addressed in Previous Follow-Up Report	Reported Completion Date
<p><b>Recommendation 1</b></p> <p>The City should annually review and document its fees for subdivision permits and rezoning applications against the actual cost of processing those applications to ensure the fees charged do not exceed the average cost of processing similar applications.</p>	November 2, 2023
<p><b>Recommendation 3</b></p> <p>The City should accurately calculate the projected and actual level of permit fee cost recovery using earned revenues and adjust permit fees accordingly to ensure it meets its full cost recovery objective, in alignment with policy direction from Council.</p>	November 2, 2023
<p><b>Recommendation 8</b></p> <p>The City should develop cost and revenue projections that extend beyond one year in order to support analysis of the permitting program's long-term self-sufficiency.</p>	November 2, 2023

**OUTSTANDING RECOMMENDATIONS**

Recommendations	Self-Assessed Status	Actions taken, results and/or actions planned
<p><b>Recommendation 2</b></p> <p>The City should establish and document clear, detailed guidance for the permitting program. In developing this guidance, management should seek policy direction from Council and consider:</p> <ul style="list-style-type: none"> <li>• The permitting program's alignment with the authorities set out in the <i>Vancouver Charter</i> and relevant by-law requirements;</li> <li>• The timeframe over which the City intends to meet its objectives (e.g., over one year or over several years);</li> <li>• Whether it intends to recover the full cost of providing permitting services and under what circumstances the City might set a fee at more or less than 100 per cent of the full cost of service;</li> </ul>	<p><b>June 2024 Partially Implemented</b></p> <p><b>December 2023 No Substantial Action Taken</b></p>	<p>"This action is not due for completion until Q4 2024. However, the City has confirmed the permitting program's alignment with legal authorities as part of the recent Audit. Also, during the 2024 fee review process a timeline for achieving cost recovery was approved by Council alongside the City's intention to achieve 100 per cent full cost recovery. These elements of the recommendation and all remaining items will be agreed and drafted by staff and communicated to council for policy direction in 2024."</p>

Recommendations	Self-Assessed Status	Actions taken, results and/or actions planned
<ul style="list-style-type: none"> <li>The roles and responsibilities of each department with respect to permit fee-setting, administration and meeting the permitting program's cost recovery objective;</li> <li>A target balance range for the permitting program reserve;</li> <li>The appropriate or targeted level of cost recovery for each permit category; and,</li> <li>A periodic review of this guidance.</li> </ul>		
<p><b>Recommendation 4</b></p> <p>The City should annually calculate the projected cost of unprocessed permit applications and compare it to the deferred revenue balance. The City should develop a plan to address the surplus or deficit revealed by this comparison.</p>	<p><b>June 2024</b> <b>Partially Implemented</b></p> <p><b>December 2023</b> <b>Partially Implemented</b></p>	<p>“One of the actions being taken under the Permit Improvement Program (PIP) is to deploy permit review time tracking across the Permitting Program. The resulting data, when available, will enable the City to calculate the projected cost of unprocessed permit applications. This action was initiated in Q2 2023 for Development Permits and is still in progress. Over time the process will be deployed to other permit types. Staff will provide further updates on this item on future Audit Report follow-ups.”</p>
<p><b>Recommendation 5</b></p> <p>The City should develop guidance on the appropriate target level of cost recovery for each permit category at the permit by-law level. Then, the City should assess the level of cost recovery for each permit category against the target and recommend to Council to adjust fees. This would improve the City's fee-setting ability and support public transparency.</p>	<p><b>June 2024</b> <b>No Substantial Action Taken</b></p> <p><b>December 2023</b> <b>No Substantial Action Taken</b></p>	<p>“This action is not due to be completed until Q4 2024. These targets and related actions will be agreed and drafted by staff and communicated to council for policy direction in 2024 alongside the program guidance in recommendation 2.”</p>

Recommendations	Self-Assessed Status	Actions taken, results and/or actions planned
<p><b>Recommendation 6</b></p> <p>The City should publish additional information about the permitting program including the reserve opening balance, net surplus/deficit, closing balance for the year, and levels and sources of subsidization, if any.</p>	<p><b>June 2024 Partially Implemented</b></p> <p><b>December 2023 Partially Implemented</b></p>	<p>“As part of the 2024 annual fee setting process staff published information on sources of subsidization for the program. Staff will publish additional information about the reserve opening balance, net surplus/deficit and closing balance for the year as part of the 2025 process.”</p>
<p><b>Recommendation 7</b></p> <p>The City should enhance the cost and revenue components of its cost recovery model to enable more effective analysis by adding:</p> <ul style="list-style-type: none"> <li>• A breakdown of costs by factors such as development type, size or complexity that aligns with the defined permit categories; and</li> <li>• Revenue projections that consider future economic factors, the City's development plans and industry trends.</li> </ul>	<p><b>June 2024 Partially Implemented</b></p> <p><b>December 2023 No Substantial Action Taken</b></p>	<p>“As previously stated, permit review time tracking is being deployed across the Permitting Program. The resulting data, when available, will enable the City to breakdown its costs by the above factors. Staff will provide further updates on this item on future Audit Report follow-ups.</p> <p>Staff are also proposing an updated forecasting process for the program which will take account of future economic factors, the City's development plans and industry trends. If approved and resourced this process may be deployed in 2024.”</p>

## Audit of Office Furniture Purchases

Progress as at: May 24, 2024

Audit report released: [February 22, 2023](#)

Discussed by City Council (AGC): March 2, 2023

Self-assessment conducted by: Real Estate & Facilities Management and Supply Chain Management

### MANAGEMENT'S OVERALL COMMENTS

"In November of 2023, an RFP was issued for an external consultant to help review the City's current furniture guidelines, complete new Furniture Fitting and Equipment (FF&E) specifications and to develop guidelines on how and when to reassess office furniture to ensure best value.

The RFP was issued to 6 consultants. Out of the six, three declined to submit proposals and confirmed they would not be bidding. No feedback was received from the remaining three; however, the closing date was extended to January 23. No proposals were received. The City then reached out to one additional proponent who submitted a proposal which was reviewed and approved in late February.

We are currently in the process of establishing specifications for the evaluation and selection of FF&E, including a list of preferred and standardized items. The FF&E specifications will be completed in July 2024 at which time the intent is to go out to the market publicly to obtain options and pricing from furniture vendors in order to establish pre-qualification contracts. There will be an approximate 2-month period to review, test and sample products submitted by the vendors. Approvals from Bid Committee and Council will be required given the anticipated value of furniture purchases for the duration of the new contracts."

### COMPLETED RECOMMENDATIONS

Recommendations Addressed in Previous Follow-Up Report	Reported Completion Date
<p><b>Recommendation 1</b></p> <p>In the City's next review of its Procurement Policy, scheduled for 2023, the Supply Chain Management and Legal Services department should make updates to ensure the policy addresses all trade obligation obligations.</p>	November 7, 2023
<p><b>Recommendation 2</b></p> <p>The Real Estate and Facilities Management, and Supply Chain Management departments should update the City's procurement strategy for office furniture in preparation for the next procurement of office furniture.</p>	November 7, 2023



Recommendations Addressed in Previous Follow-Up Report	Reported Completion Date
<p><b>Recommendation 3</b></p> <p>The Supply Chain Management and Legal Services departments should review and revise the RFQ templates, guidelines, and processes to ensure:</p> <ul style="list-style-type: none"> <li>• Compliance with trade agreements;</li> <li>• The use of consistent language and clauses throughout; and</li> <li>• That suppliers are provided with sufficient detail on how the selection process and ordering will proceed.</li> </ul> <p>The Supply Chain Management department should ensure that guidelines on how to use the templates include the appropriate length of time for suppliers to respond to procurement opportunities, and a requirement to publish opportunities for suppliers to be added to a pre-qualification list. In addition, the Supply Chain Management department should ensure that guidelines require that any deviations from policy be properly justified and documented.</p>	November 7, 2023

### OUTSTANDING RECOMMENDATIONS

Recommendation	Self-Assessed Status	Actions taken, results and/or actions planned
<p><b>Recommendation 4</b></p> <p>The Real Estate and Facilities Management department should develop guidelines on when and how often to conduct assessments and reassessments on office furniture items and systems to ensure best value. The guidelines should require consideration of new and evolving information relating to factors such as the City's needs, ergonomics, quality and pricing; including their relative impacts in a weighted evaluation process. Additionally, the Real Estate and Facilities Management department should ensure adequate documentation linking assessments to decisions is developed and retained.</p>	<p>June 2024 Partially Implemented</p> <p>December 2023 Partially Implemented</p>	<p>"Development guidelines on when and how often office furniture assessment should be conducted, and the methodology for the assessments to ensure value to the City will be ready for final review in December 2024."</p>

Recommendation	Self-Assessed Status	Actions taken, results and/or actions planned
<p><b>Recommendation 5</b></p> <p>The Real Estate and Facilities Management department should continue to build upon existing processes and establish price lists in supply agreements for commonly purchased office furniture items, including new furniture items. In addition, guidelines with reasonable price ranges for specific furniture types should inform these price lists.</p>	<p><b>June 2024 Partially Implemented</b></p> <p><b>December 2023 Partially Implemented</b></p>	<p>“The specifications, standard list of FF&amp;E, and the pricing obtained through the RFP will be the basis for the new supply agreements. Pricing and the furniture items will be reviewed by REFM and Supply Chain Management annually to ensure the City continues to receive best value.”</p>

## Audit of Building Permit Fees

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Progress as at: May 24, 2024

Audit report release date: [January 25, 2023](#)

Discussed by City Council (AGC): February 2, 2023

Self-assessment conducted by: Development, Buildings & Licensing

### MANAGEMENT'S OVERALL COMMENTS

“An interim approach that provides the Chief Building Official with the necessary authority to stabilize the current permit cost valuation structure has been completed as a result of amendments to the Building By-law in September 2023 (Phase 1).

Phase 2 of this approach serves to propose options to improve the building permit fee process by introducing greater clarity and transparency specific to fee calculation methodologies and simplified fee structures. Work has been underway in Q1/Q2 2024 to conduct a comprehensive jurisdictional scan of building permit fees, and this is now nearing completion.

Staff remain on track to report back to Council in Q3 2024 in support of Phase 2 to propose recommendations to improve the building permit fee process as noted in the recommendations of the Auditor General Report.”

### COMPLETED RECOMMENDATIONS

Recommendations Addressed in Previous Follow-Up Report	Reported Completion Date
<p><b>Recommendation 4</b></p> <p>The Development, Buildings and Licensing department should develop a process, utilizing information available in POSSE, to monitor for administrative consistency of the building permit fee process to ensure that fees are being assessed correctly.</p>	<p>November 7, 2023</p>

**OUTSTANDING RECOMMENDATIONS**

Recommendation	Self-Assessed Status	Actions taken, results and/or actions planned
<p><b>Recommendation 1</b></p> <p>The Development, Buildings and Licensing department should address discrepancies between the <i>Building By-law</i> and the administrative design of the City of Vancouver’s building permit fee assessment process by either:</p> <ul style="list-style-type: none"> <li>• Redesigning processes to more explicitly comply with the <i>Building By-law</i> and address risk of under-charging or over-charging fees; or,</li> <li>• Researching and recommending to Council amendments to the <i>Building By-law</i> to include a different method for charging building permit fees that is consistent, reliable, equitable and more efficient than using the value of the proposed work submitted by applicants as a basis for charging fees, taking the following into consideration: <ul style="list-style-type: none"> <li>○ The alignment of the selected method with the purpose of charging fees in order to recover the full cost of providing the service of issuing permits; and,</li> <li>○ Developing a transparent method for calculating fees that can be consistently and accurately applied, with administrative efficiency (which may be unique to different types of buildings).</li> </ul> </li> </ul>	<p><b>June 2024 Partially Implemented</b></p> <p><b>December 2023 Partially Implemented</b></p>	<p>“Phase 1 of this approach has been completed by amending the Building By-law in September 2023 in order to stabilize our current process as we explore permit fee methodologies and best practices as part of Phase 2.</p> <p>Work has been underway in Q1/Q2 2024 to conduct a comprehensive jurisdictional scan of building permit fees, and this is now nearing completion. This serves as a key first step to developing recommendations to improve the building permit fee processes as indicated in the Auditor General Report, and this remains on track for reporting back to Council in Q3 2024.”</p>

Recommendation	Self-Assessed Status	Actions taken, results and/or actions planned
<p><b>Recommendation 2</b></p> <p>The Development, Buildings and Licensing department should develop written guidelines or standard operating procedures for staff to follow when administering processes to determine building permit fees and provide training to staff on the procedures.</p>	<p><b>June 2024</b> <b>No Substantial Action Taken</b></p> <p><b>December 2023</b> <b>No Substantial Action Taken</b></p>	<p>“Written procedures responding to a standardized approach to building permit fee administration will be developed following the concluded option to improve the building fee calculation methodology (Phase 2).</p> <p>A jurisdictional scan of alternative methods was completed in May 2024, and these findings will form the basis of a report back to Council in Q3 2024 to propose options to improve the building permit fee process by introducing greater clarity and transparency, specific to fee calculation methodologies and simplified fee structures.”</p>
<p><b>Recommendation 3</b></p> <p>The Development, Buildings and Licensing department should enhance the guidance provided to building permit applications in order to support applicants’ inclusion of complete and accurate information in their application forms.</p>	<p><b>June 2024</b> <b>Partially Implemented</b></p> <p><b>December 2023</b> <b>Partially Implemented</b></p>	<p>“This action will be addressed as part of Phase 2 and is dependent on first concluding any new fee calculation methodology. Staff remain on track to propose options and recommendations in Q3 2024.”</p>
<p><b>Recommendation 5</b></p> <p>The Building Review Branch should review the value of the proposed work submitted for projects that have provided estimates during rezoning applications (for Community Amenity Contribution requirements) to determine if they would assist in assessing the reasonability of the values provided in building permit applications.</p>	<p><b>June 2024</b> <b>No Substantial Action Taken</b></p> <p><b>December 2023</b> <b>No Substantial Action Taken</b></p>	<p>“This work is future state and will be undertaken once we have completed Phase 2. Future work will require input from Planning, Urban Design and Sustainability and Finance to see clarity on the merits of this alignment.”</p>

# Audit of Childcare, Cultural and Social Non-Profit Leases



An independent auditor's report prepared in accordance with the Canadian Standard on Assurance Engagements 3001 published by the Chartered Professional Accountants of Canada

June 2024

## Performance Audits

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A performance audit is an independent, objective and systematic assessment of how well government is managing its activities, responsibilities and resources. We select audit topics based on their significance. While the Office of the Auditor General (OAG) may comment on policy implementation in a performance audit, we do not comment on the merits of a policy.

Performance audits are planned, performed and reported in accordance with professional auditing standards and OAG policies. They are conducted by qualified auditors who:

- Establish audit objectives and criteria for the assessment of performance;
- Gather the evidence necessary to assess performance against the criteria;
- Report both positive and negative findings;
- Conclude against the established audit objectives; and,
- Make recommendations for improvement when there are significant differences between criteria and assessed performance.

Performance audits contribute to a public service that is ethical and effective and a civic administration that is accountable to taxpayers and its elected officials.

## Message from the Auditor General

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To the Mayor and Council of the City of Vancouver,

I am pleased to present this report on my office's performance audit of the City's childcare, cultural and social non-profit leases. As a major owner of property within its borders, the City of Vancouver manages a significant portfolio of properties, some of which are leases granted to non-profit operators 'in-kind', at low or almost no cost.

This portfolio is important. In addition to providing space for arts and culture, the City provides low-cost space to assist some of our community's most vulnerable people – for example those escaping violence or needing culturally appropriate spaces to heal, youth at risk, low-income seniors and families with young children.

We found that the total value of the non-profit lease portfolio is not well understood, and as a result I cannot report the value of lease grants the City provides in-kind each year. However, in March 2023 Council approved 10 leases with an estimated annual market value of \$1.1 million. With 119 leases in the non-profit portfolio included in the scope of the audit, the total value is undoubtedly significant.

Any credible granting program must exemplify the principles of fairness, transparency and accountability. The basis of selection must be demonstrably fair – we identified deficiencies in documentation supporting the operator selection process. Also, the decision to renew leases requires systematic evaluation and documentation of the public benefits delivered by lessees – we found this had not been done. In 2020, the City developed a framework for addressing many of the issues identified in this report, however, at the time of our audit the framework had yet to be fully implemented with significant work remaining. An implementation plan that includes assigned responsibilities and timelines for completion is needed.

A property that is leased to a childcare provider for little or no revenue represents an opportunity cost for the City – in other words, the property could be leased to another tenant at a rate reflective of the market, but the City chooses not to. The audit identified the opportunity for the City to develop a funding model to recover from senior-levels of government the opportunity cost of providing nominal and below-market leases to childcare providers.

Below-market leases constitute grants in-kind which, under the Vancouver Charter, must be approved by Council. We observed that a large proportion of leases in the City's non-profit portfolio had expired while the tenant continued to occupy the space, a situation referred to as "overhold". Short-term overholds are common in the real estate industry, however, we found that 20% of the City's non-profit lease portfolio had been in overhold for more than a year, with



half of these leases in overhold for 10 years or more. Overholding, especially over the long term, in effect bypasses the Council approval that is required for grants in-kind and is a practice that I believe must stop. I've recommended that better information be provided to Council, including information regarding overholds.

The report contains 10 recommendations for improving the administration and oversight of the City's childcare, cultural and social non-profit lease portfolio. I express my thanks to the Arts, Culture and Community Services department for their positive and productive response to these recommendations and for their assistance and cooperation throughout the audit.



Mike Macdonell, FCPA, FCA  
Auditor General  
Vancouver, B.C.  
13 June 2024

## Report Contents

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Performance Audits .....	1
Message from the Auditor General.....	2
Executive Summary .....	5
Main Report .....	10
1. Introduction .....	10
1.1 Background & Context .....	10
1.2 About the Audit .....	12
2. Conclusion, Findings and Recommendations.....	14
Conclusion .....	14
2.1 Strategies, policies and procedures.....	14
2.2 Non-profit lease management .....	19
2.3 Information to Council .....	28
Appendix A: Responses from the Arts, Culture and Community Services department .....	31
Appendix B: About the Audit .....	38

## Executive Summary

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### **Background**

1. The City of Vancouver's (the City) Arts, Culture and Community Services (ACCS) department provides non-profit organizations (NPOs) with below-market and nominal leases of City-owned or leased land, buildings and spaces to leverage NPO expertise in implementing solutions and services that serve community needs. These NPOs deliver a wide variety of community services through facilities such as childcare centres, neighbourhood houses, theatres and art galleries.
2. Our audit objective was to determine whether the City effectively managed its childcare, cultural and social non-profit leases to deliver intended public benefits in support of its strategic priorities.

### **What We Concluded**

3. While the City developed and started to put in place a lease management framework to enable effective administration of its childcare, cultural and social non-profit leases, the framework had not been fully implemented. Since the framework included key processes that were not in place during the audit period, including monitoring and documenting operator performance against lease requirements, we concluded that the City did not effectively manage its childcare, cultural and social non-profit leases.

### **What We Examined**

4. The audit covered the period between January 2022 and August 2023. We examined the City's approaches, frameworks and practices for managing its childcare, cultural and social non-profit leases.
5. The audit did not include non-profit leases managed by the Vancouver Board of Parks and Recreation, nor non-market housing leases managed by the Non-Market Housing Development Operations department. Both of these areas had separate lease management processes.

### **What We Found**

#### *Strategies, policies and procedures*

6. The City established strategies and objectives relating to the three service groups that manage childcare, cultural and social non-profit leases. Staff presented these strategies to

City Council (Council) and received its approval. While two out of three service areas had metrics with targets and regularly reported on progress toward meeting objectives, one did not.

7. In addition, the City's childcare strategy guided its involvement in supporting childcare that aligned with senior-level government initiatives to build a universal childcare system in the province. However, the City did not have a funding model designed to recover costs from senior-level governments that provide funding for childcare initiatives. By leveraging available funding, the City could recover a portion of its costs and use these funds for a variety of purposes, including investments in furthering Vancouver's childcare infrastructure.
8. To support the effective management of childcare, cultural and social non-profit leases, the City developed the Non-Profit Lease Management (NPLM) Framework in November 2020. The NPLM Framework covered key stages of the leasing lifecycle and provided the elements of an effective foundation for lease management. While ACCS and other supporting City departments had put some elements of the framework in place, full implementation of the framework with supporting processes and procedures was not complete at the time of this audit.

### *Non-profit lease management*

9. The non-profit lease lifecycle starts when a space becomes available, and the City selects an operator to enter into a lease agreement. We found that the City followed a competitive process when selecting new operators but did not have consistent document retention practices across its three service groups to ensure documentation was available to support past operator selections.
10. Once an operator is selected, a lease agreement is negotiated and signed between the City and the operator. We found that the City had reasonably defined the lease requirements for the City and its operators for the sample of leases we reviewed during the audit period.
11. However, the City's management and performance monitoring of non-profit leases depended on a manual process for maintaining its list of childcare, cultural and social non-profit leases. Compiling the list required extensive manual effort, which may be less efficient than employing a centralized database. We encourage ACCS to explore an alternate approach.
12. In addition, during the audit period, we found that the City had not conducted and documented formal lease monitoring that tied operator performance back to lease agreement terms, including public benefits. In lieu of formal monitoring, the City indicated

that it engaged with operators to understand their operations through site visits, meetings and regular communications; however, it did not systematically document these activities. Implementing a more structured approach to performance monitoring would support the City in evaluating the achievement of public benefits intended to be provided by non-profit lease operators, addressing performance gaps and supporting lease enforcement activities when necessary.

13. For the renewal of leases through exercise of a tenant's option to renew and for the renewal of expired leases, while the City indicated it had no concerns based on its understanding of operator performance, as noted above it did not formally document its assessments of operator performance and lease compliance.
14. We noted a large proportion of leases, where the lease agreement had expired and the tenancy continued under the terms of the expired lease, known as being in "overhold". As of September 1, 2023, 20% of the City's childcare, cultural and social leases had been in overhold for more than one year, and half of these were in overhold for more than ten years. This introduces potential financial and reputational risks to the City. Unlike renewals of expired leases, the City did not require or seek Council approval for overholding. Overholding for extended periods in effect bypasses the Council approval required for lease grants and could limit other potential operators from accessing these spaces.

### *Information to Council*

15. The City provided the public and Council with information on childcare, cultural and social non-profit leases; however, there are opportunities for the City to provide additional information to enable a more comprehensive view of the City's full financial contributions to individual operators, to the overall non-profit portfolio of childcare, cultural and social leases, and to the non-profit sector in general.

### *What We Recommend*

16. The recommendations listed in Exhibit 1 are intended to assist the City in effectively managing its childcare, cultural and social non-profit leases to support the delivery of intended public benefits to the community. The City has developed action plans (see [Appendix A: Responses from the Arts, Culture and Community Services department](#)) in response to these recommendations.

## Exhibit 1: Summary of Recommendations

Themes	Recommendations
<b>Strategies, policies and procedures</b>	1. The City should define performance metrics and targets for non-profit leasing in its social services portfolio to enable monitoring and tracking of progress toward meeting the strategic objectives outlined in its approved strategies.
	2. The City should fully implement its Non-Profit Lease Management (NPLM) Framework by developing supporting processes, procedures and templates. Implementation should include developing a project plan that identifies responsibilities for executing the plan, timelines for implementation and a deadline for completion.
	3. The City should review its funding model supporting childcare initiatives to ensure better alignment with senior-level government initiatives.
<b>Non-profit lease management</b>	4. The City should evaluate its current processes for storing and managing lease information to determine if it can more efficiently and effectively maintain an accurate, comprehensive list of childcare, cultural and social non-profit leases to better enable effective tracking and monitoring of the non-profit lease portfolio.
	5. The City should ensure that adequate and consistent document retention practices are in place across all service groups involved in the selection of non-profit lease operators to support the principles of open, transparent and accountable decision-making.
	6. The City should ensure it takes a systematic approach to monitoring lease requirements for all operators by implementing a formal lease monitoring process including the documentation of the results of periodic reviews.
	7. The City should determine how often it reviews an operator's priority status and when to seek Council approval. The review process should be informed by the results of performance monitoring activities identified in Recommendation 6.
	8. When renewing non-profit leases, the City should include in the renewal rationale the outcome of formal operator performance monitoring, including an assessment of the delivery of intended public benefits and whether there is continued alignment between the use of the space with City strategies and priorities.

Themes	Recommendations
	<p>9. The City should reduce the number of leases in overhold for longer than one year and implement policies and procedures to limit the number of leases in overhold and the length of the overhold period. This includes:</p> <ul style="list-style-type: none"> <li>• Establishing a priority and timeframe for addressing all leases currently in overhold;</li> <li>• Establishing primary accountability for managing overhold leases; and,</li> <li>• Annual reporting of all leases in overhold to Council for review and approval.</li> </ul>
<p><b>Information to Council</b></p>	<p>10. The City should provide Council with information on the full extent of the City's financial contribution to non-profit organizations receiving lease grants. This reporting should include information such as:</p> <ul style="list-style-type: none"> <li>• Estimated operating and capital maintenance costs for each lease to be incurred by the City, to inform leasing decisions;</li> <li>• Actual maintenance and capital costs incurred by the City;</li> <li>• The full value of the City's financial contribution to each operator (e.g., maintenance, lease grant, operating grant); and,</li> <li>• Other pertinent information as identified by Council.</li> </ul>

# Main Report

## 1. Introduction

### 1.1 Background & Context

#### **Non-Profit Leases**

17. The City of Vancouver (the City) provides non-profit organizations (NPOs) with below-market and nominal leases of City-owned or leased lands, buildings and spaces to leverage the expertise of NPOs in implementing solutions and services that serve community needs. These NPOs deliver a wide variety of community services through childcare centres, neighbourhood houses, theatres, shelters and art galleries. Section 206 of the *Vancouver Charter* states that City Council (Council) may provide grants to any charitable institution and any organization deemed by Council to be contributing to the culture, beautification, health or welfare of the City. The difference between below-market or nominal rent and estimated market rent is considered a grant.

#### **Types of leases**

- **Market Lease** – A lease where the rent amount is equal to what is charged in the private market.
- **Below-Market Lease** – A lease where the rent amount is lower than average rates in the private market.
- **Nominal Lease** – A form of below-market lease where the rent amount is of a token amount and considerably smaller than what is charged in the private market.

Source: Adapted from BC Housing - [Glossary](#) and Oxford Languages - [Definitions](#)

18. Most non-profit leases involve spaces belonging to the Capital Fund (CF). According to the City's 2023 budget, the CF includes capital expenditures supporting civic assets and infrastructure. Council approves the annual capital budget. There are also some non-profit leases belonging to the Property Endowment Fund (PEF). According to the City's 2023 budget, the purpose of the PEF is to preserve and increase the real value of PEF assets and to increase the fund's ownership of strategic sites. The overarching goal of the PEF is to manage its assets to preserve their real value and generate a reasonable economic return. However, for historical reasons approved by Council in the past, some nominal or below-market leases remain in the PEF.

19. The City provides its long-term strategic direction for future capital investments in an area or neighbourhood in a Public Benefits Strategy (PBS), which considers the existing network of amenities and infrastructure needed to support the area, including facilities or properties assigned to the non-profit lease portfolio. The City's Planning, Urban Design and Sustainability (PDS) department works with the Arts, Culture and Community Services



(ACCS) department to determine the elements to include in a PBS. The City includes a PBS in each of its community plans for Council approval (e.g., the Cambie Corridor Plan and the Broadway Plan). For instance, in the Broadway Plan, the City outlines the PBS for arts and culture and its 30-year vision to support a thriving cultural sector that contributes to the city's economy through tourism and job creation. This vision is supported by a PBS to increase the amount of artist production, rehearsal and presentation space.

## ***Roles & Responsibilities***

### ***The Arts, Culture and Community Services department***

20. ACCS provides City spaces through a diverse portfolio of below-market leases to not-for-profit childcare, cultural and social organizations. To fulfill its mandate, ACCS collaborates with various organizations, including other City departments, community partners and public partners (e.g., health authorities and senior-level governments). Through these collaborations, ACCS strives to invest in and leverage the expertise of these broader stakeholder groups to implement solutions and services.
  
21. ACCS has three service groups that work with NPOs and community organizations in the childcare, cultural and social categories. These three service groups also manage the non-profit leases reviewed in this audit as illustrated in Exhibit 2:

**Exhibit 2: Nominal/Below-Market Leases by Service Group<sup>1</sup>**

<b>Service groups</b>	<b>Examples of service types</b>	<b># of leased facilities</b>	<b># of operators</b>
Childcare services (Childcare Project team)	Childcare spaces for various age groups	43	17
Cultural services (Arts, Culture and Tourism team)	Museums, galleries and dance theatres	40	36
Social services (Social Infrastructure team)	Neighbourhood houses, family places and seniors centres	36	33
<b>Total</b>		<b>119</b>	<b>86</b>

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<sup>1</sup> The OAG developed this table based on information provided by ACCS.

22. In addition, the ACCS Partner Agreements team and service groups work on lease renewals, manage lease inquiries after leases are signed and handle requests from operators relating to their spaces and leases. The four Partner Agreements team members are responsible for non-profit lease monitoring and work with other departments such as Finance and Supply Chain Management (FSC), Legal Services and Real Estate, Environment and Facilities Management (REFM).

### *The Real Estate, Environment and Facilities Management department*

23. REFM's mandate is to promote safe, sustainable and innovative stewardship of the City's properties and facilities, to protect and enhance Vancouver's environment and to advance the City's mission, goals and services. REFM provides a full range of services for City-owned and City-leased property and building assets, including asset lifecycle management functions and strategic long-term portfolio planning.
24. Multiple groups within REFM support ACCS in various ways to help manage its non-profit leases. The Facilities Planning group prepares service level agreements (SLAs) according to the operational maintenance requirements of available spaces. The Property Negotiators group drafts lease agreements and calculates the market value of non-profit lease grants, which are later presented to Council for approval. In addition, the Facilities Maintenance and Operational Excellence group handles maintenance requests where the City is responsible and notifies ACCS of any non-compliance with maintenance requirements. This group also provides capital maintenance services and capital maintenance budgeting.

## **1.2 About the Audit**

25. The objective of this audit was to determine whether the City effectively managed its childcare, cultural and social non-profit leases to deliver intended public benefits in support of its strategic priorities.
26. The audit covered the period from January 1, 2022 to August 31, 2023. Our focus was on leases renewed or initiated since 2022 and included policies, practices and administrative processes the City created prior to 2022 that were still in use during the audit period. We conducted our examination work between August 2023 and February 2024 and completed the audit on May 16, 2024.
27. The scope of this audit did not include:
- Non-profit leases managed by the Vancouver Board of Parks and Recreation, which has its own processes for lease management;

- Affordable housing leases managed by the Non-Market Housing Development Operations department. This department has its own strategies and framework for developing, leasing and operating affordable housing units;
- Temporary shelters managed by ACCS's Housing and Homelessness Services department;
- The Artist Studio Program, which offers live-work spaces at below-market prices to selected award recipients;
- The Theatre Rental Grant Program, which offers grants to rent City-owned theatres such as the Orpheum, The Annex, Vancouver Playhouse and Queen Elizabeth Theatres. These grants are approved by Council annually and funding is in lieu of fees such as venue fees, front-of-house fees, technical days and rehearsal uses;
- Review of the services and programs provided by non-profit lease operators to determine the realization of intended public benefits; and,
- Assessment of building lifecycle costs and associated asset management process for leased spaces.

28. We used several methods to obtain sufficient and appropriate evidence. We examined available documentation, interviewed internal stakeholders and undertook analytical procedures. For more on this audit, please refer to [Appendix B: About the Audit](#).

## 2. Conclusion, Findings and Recommendations

### Conclusion

29. Our audit objective was to determine whether the City of Vancouver effectively managed its childcare, cultural and social non-profit leases to deliver intended public benefits in support of its strategic priorities. While the City developed and started to put in place a lease management framework to enable effective management of its childcare, cultural and social non-profit leases, the framework had not been fully implemented. Since the framework included key processes that were not in place, including monitoring and documenting operator performance against lease requirements, we concluded that the City did not effectively manage its childcare, cultural and social non-profit leases.

### 2.1 Strategies, policies and procedures

30. The City leverages the expertise of non-profit operators to implement programs and services that address community needs by offering affordable, below-market-rate leases for spaces dedicated to childcare, cultural and social purposes. To ensure community needs are addressed, an assessment of alignment with strategies and identified goals should guide decisions on where to allocate resources, what direction to take and which actions to prioritize.
31. Effective lease management helps the City achieve the goals and objectives outlined in its strategies. Lease management involves monitoring processes and oversight procedures of lease agreement terms made between a landlord (the City) and a tenant (the operator). It includes a range of lease lifecycle activities, including negotiating lease agreements, addressing tenant inquiries, monitoring for compliance with lease agreement terms and managing lease renewals or expiries.

### *What we looked for*

32. We examined whether the City had guiding strategies that included non-profit lease objectives by service group, and whether the City established metrics to measure the progress and achievement of these objectives. In addition, we examined whether the City implemented processes to enable effective management of its non-profit lease portfolio.

## What we found

### 2.1.1 All three service groups had Council-approved strategies with objectives for the City to provide spaces to non-profit organizations

33. Strategies provide the City with direction on how it can align its policy goals with strategic objectives. We found that ACCS' childcare, cultural and social services groups had Council-approved strategies with objectives for providing spaces to NPOs. Assessing the City's achievement of the objectives outlined in the documents described below was not within the scope of this audit.
34. Childcare services – the *Making Strides: Vancouver's Childcare Strategy* was approved by Council in 2022 with the aim of supporting access to a new universal system of early learning and childcare led by the provincial and federal governments. The strategy included a goal to direct City operating grants and nominal leases toward increasing equitable access to childcare.
35. Cultural services – the *Making Space for Arts and Culture* strategy was approved by Council in 2019, laying out the City's long-term vision to address space challenges faced by Vancouver's arts and cultural sector. The strategy identified an overall target of providing 800,000 square feet of new, repurposed, or expanded affordable arts and cultural spaces over ten years. This includes 650,000 square feet of new or repurposed space and 150,000 square feet of renewed or enhanced existing space. To achieve this target, the strategy included goals to expand tools to prevent displacement, secure spaces, grow community partnerships, increase community ownership and remove regulatory barriers related to non-profit leasing.
36. Social services – the *Spaces to Thrive* strategy was approved by Council in 2021 and included a ten-year framework for the City to support the social-serving non-profit sector and related spaces through the City's various roles as regulator, partner, investor and social development advocate. The strategy identified an objective for the City to develop policies, incentives and requirements to promote the creation of new social infrastructure and support non-profit applicants to develop new social spaces.
37. We have no recommendations in this area as the audit criterion was met.

### *2.1.2 Two out of three service areas had established metrics with targets and reported on progress*

38. Performance monitoring through established metrics and targets is an important mechanism to track progress toward objectives and goals and to facilitate accountability. ACCS established metrics with targets for two out of three service areas that managed non-profit leases.
39. In the childcare services area, ACCS defined metrics on the supply and needs for childcare spaces by age group in the *Making Strides: Vancouver Childcare Strategy* and provided quarterly internal reporting. ACCS also publicly reported on the number of new childcare spaces approved in the City's *2023 Budget and Five-Year Financial Plan*.
40. In the cultural services area, ACCS defined a metric in the *Making Space for Arts and Culture* strategy relating to the total square footage of cultural spaces provided to the arts and cultural community. During the audit period, ACCS internally tracked performance against this metric and publicly reported it in the City's *2023 Budget and Five-Year Financial Plan* and the *Culture Shift Progress Report*.
41. In the social services area, the *Spaces to Thrive* strategy did not include defined metrics with performance targets. One of the goals of this strategy was to improve the City's qualitative and quantitative data and metrics on delivering social services in the community.

#### **Recommendation 1:**

The City should define performance metrics and targets for non-profit leasing in its social services portfolio to enable monitoring and tracking of progress toward meeting the strategic objectives outlined in its approved strategies.

### *2.1.3 The City had developed a guiding framework for non-profit lease management; however, it was not fully implemented*

42. In 2019, the City's Business Planning and Project Support (BPPS) department assisted ACCS in reviewing processes for the management of childcare, cultural and social leases to non-profit organizations. This aimed to refine and standardize leasing procedures and improve lease management. From this review, the City established the Non-Profit Lease Management (NPLM) Framework in 2020.
43. The NPLM Framework contained guiding principles for various stages of lease management, including guidelines for operator selection, lease monitoring, issues management and lease renewals. The framework also delineated the responsibilities of the ACCS and REFM departments. We found the framework covered the key stages of the leasing lifecycle and provided the elements of an effective foundation for lease management.
44. While ACCS had some elements of the framework in place, full implementation of the framework with supporting processes and procedures was not complete at the time of this audit. Also, an implementation plan with timelines had not been developed. Management indicated that the framework was not yet implemented due to various factors including staff vacancies, senior leadership changes and resources focused on pandemic response measures. Further information about the elements of the framework reviewed in this audit are available in section 2.2 of this report.

#### **Recommendation 2:**

The City should fully implement its Non-Profit Lease Management (NPLM) Framework by developing supporting processes, procedures and templates. Implementation should include developing a project plan that identifies responsibilities for executing the plan, timelines for implementation and a deadline for completion.

### *2.1.4 The City did not have a funding model to recover costs from senior-level governments that provide funding for childcare initiatives*

45. In 2022, the City created the *Making Strides: Vancouver's Childcare Strategy* in response to changes in childcare priorities of senior-level governments (provincial/federal). The strategy provided an updated policy framework to guide the City's involvement in supporting childcare and identified actions aligned with senior-level government leadership toward building a universal childcare system in British Columbia. The City provides childcare funding support, including operating and capital grants, and leases offered at nominal rates.
46. The City included guidance in the NPLM Framework to provide incentives for NPOs to obtain funding from other levels of government for lease costs. Also, since December 2022, the City's childcare lease agreement template included lease terms for operators to "subscribe to and maintain eligibility for applicable senior government funding (i.e. operational funding, wage enhancement, fee reduction, etc.)."
47. However, we found that the City did not have a funding model to recover costs from senior-level governments that provide funding for childcare initiatives. By leveraging available funding from senior-level governments, the City could recover a portion of the cost of providing spaces to NPOs. Recovered funds could be used for a variety of purposes, including investments in furthering Vancouver's childcare infrastructure.
48. For example, since 2018, the Province of British Columbia (the Province) has administered the \$10-a-day Childcare BC Centres Program, which provides eligible childcare centres with operational funding. Once a childcare centre is selected, families can access full-time childcare for no more than \$10-a-day. The program covers expenses including, but not limited to, rent, strata fees, property taxes, utilities, facility maintenance and improvements. At the time of the audit, 26 out of 43 childcare facilities with a non-profit lease with the City were participating in the \$10-a-day childcare program. However, the City's non-profit leases with childcare operators only include nominal charges for rent and certain facility maintenance costs incurred by the City. An operator participating in the \$10-a-day program would have only nominal rent and maintenance expenses to recover from the Province, as the City is funding those costs directly or through foregone revenue.

#### **Recommendation 3:**

The City should review its funding model supporting childcare initiatives to ensure better alignment with senior-level government initiatives.



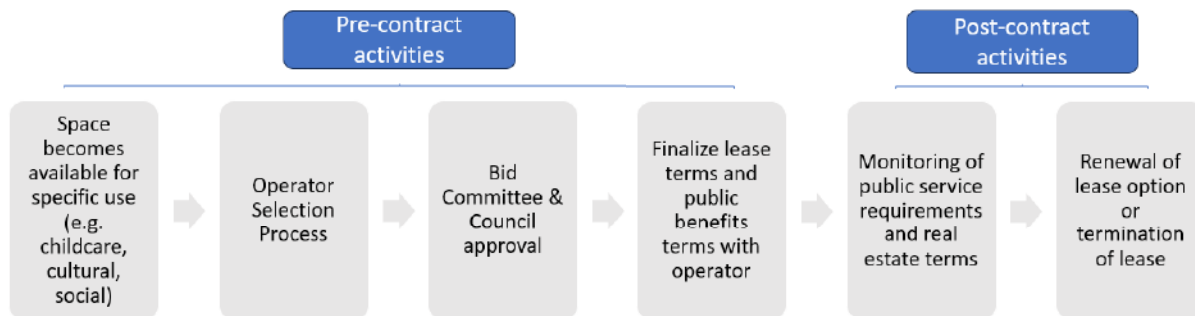
## 2.2 Non-profit lease management

49. The City provides NPOs with below-market leases to City-owned or leased land, buildings or spaces. Based on the NPLM Framework, the leasing lifecycle begins when a space becomes available through several processes such as the construction of a new building, acquisition of space by the City or the expiry of an existing lease. ACCS determines the appropriate program or type of service to be offered in the space based on factors such as its guiding strategies, restrictions on the type of use and location. Supported by the Supply Chain Management department, ACCS then undertakes an operator procurement selection process. Selection is contingent on approval from the City’s leadership team and Council. The signed lease contains real estate terms and public benefits requirements that the operator must fulfill. These requirements allow ACCS to monitor an operator’s performance and are taken into consideration when the lease comes up for renewal.

### *What we looked for*

50. We examined a sample<sup>2</sup> of childcare, cultural and social leases to gain insight into the processes the City undertook to manage them. We examined whether the City:
- Documented its rationale for selecting an operator for a new space;
  - Included appropriate and measurable requirements in its lease agreements for the City and the operator;
  - Conducted and documented regular monitoring of operators to ensure compliance with lease terms; and,
  - Documented its rationale for lease renewals with renewal options and the renewal of expired leases.

Exhibit 3: The key stages of the non-profit leasing lifecycle<sup>3</sup>



<sup>2</sup> We examined a sample of City-managed leases during the audit period. We designed and used a purposive sampling method to generate insights about the population. This differs from a generalizable sampling method that allows results to be extrapolated based on a defined statistical confidence interval and confidence level.

<sup>3</sup> The OAG adapted Exhibit 3 from a City Non-Profit Lease Management Project presentation dated November 2020.

## ***What we found***

### ***2.2.1 The City's list of childcare, cultural and social non-profit leases was manually maintained and required the input of multiple departments***

51. A comprehensive listing of the City's leased properties is a prerequisite for effective tracking and monitoring of the childcare, cultural and social non-profit lease portfolio, as well as a foundation for efficient and effective oversight of individual leases.
52. The portfolio of childcare, cultural and social non-profit leases is managed by three different service groups within ACCS and by teams within REFM. Each team maintained its own listing of non-profit leases to support the work in its respective area. From these lists, the Partner Agreements team in ACCS consolidated the listings into a central Excel database.
53. We found that the Partner Agreements team had a listing of all childcare, cultural and social non-profit leases that were within the audit scope. This listing contained data such as the facility address, operator name, lease dates and renewal options. However, the Partner Agreements team indicated that some supplementary data in this listing may not be up-to-date and will require verification with lease agreements.
54. We also noted that compiling the consolidated list required extensive manual effort by the Partner Agreements team because each service group's individual listing was maintained in a separate spreadsheet. There are various data fields tracked in the consolidated listing and due to the manual nature of maintaining the list, there is a risk that data may be missed, transposed or otherwise incorrectly recorded as information is consolidated. Maintaining multiple databases may be less efficient than employing a centralized database. We encourage ACCS to explore an alternate approach.

#### **Recommendation 4:**

The City should evaluate its current processes for storing and managing lease information to determine if it can more efficiently and effectively maintain an accurate, comprehensive list of childcare, cultural and social non-profit leases to better enable effective tracking and monitoring of the non-profit lease portfolio.

### *2.2.2 The City conducted a competitive process for selecting new operators for available spaces; however, service groups had differing document retention practices*

55. When a facility space becomes available, the City undertakes a selection process to identify a suitable non-profit operator. The NPLM Framework states that the primary focus of the selection process is to maximize public benefits by using an open, fair and transparent process. While the operator selection process is not subject to the City's *Procurement Policy*<sup>4</sup>, we found that the City followed a competitive selection process to evaluate and select operators.
56. From the samples we reviewed, we found that the City publicly posted a Request for Expression of Interest (RFEOI) on its website to invite potential operators to submit proposals for operating each available space. The process included setting evaluation criteria such as the administrative, financial and operational capacity of the operator, the operator's current operations and the proposed programming and community partnerships that potential operators could provide. To evaluate the bids, the City formed an evaluation panel comprised of staff from various departments, including FSC, REFM and ACCS, as well as external subject matter experts to provide insight based on their experience in the community. Once the evaluation panel evaluated the bids, it submitted a report summarizing the results of the evaluation, the proposed operator and lease details to the City leadership team and Council for approval.
57. From a documentation perspective, we noted inconsistencies in the documents retained by each service group during the operator selection process. Two of the three service groups retained documentation showing the scoring evaluations that supported the selection process with the highest scoring operator being selected. However, for one service group, while ACCS conducted a competitive process for operator selection with the appropriate levels of approval, only a submission summary was retained to document the evaluation and scoring of operators. This showed there were three shortlisted applicants but did not provide scoring that supported the choice of the highest-rated operator. This service group indicated that while individual evaluation forms were completed, they were not kept on file. To support the general principles of open, transparent and accountable decision-making, it is important to retain sufficient and appropriate documentation to ensure decisions are adequately supported.

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<sup>4</sup> Section F of the City's *Procurement Policy* (ADMIN-008) describes transactions not subject to the policy that includes 'grants from the City to non-governmental third parties authorized by City Council'.

**Recommendation 5:**

The City should ensure that adequate and consistent document retention practices are in place across all service groups involved in the selection of non-profit lease operators to support the principles of open, transparent and accountable decision-making.

***Lease Requirements******2.2.3 The City's childcare, cultural and social non-profit lease agreements included reasonably defined requirements for both the City and the operator***

58. Public Service Requirements (PSRs) are terms specifying the services that operators will provide and the benefits that will be delivered through their services. They also include a description of how spaces are to be used and operator reporting requirements. PSRs provide the City with criteria to monitor the performance of non-profit operators to ensure they are providing the intended public benefits to the community. ACCS is responsible for drafting the PSRs included in lease agreements. Examples of public benefits requirements for operators include specifications on the types of services and programs offered, and requirements for accessibility and inclusion of programs to community groups. The NPLM Framework states that public service requirements should be included in lease agreements to enable effective performance monitoring and performance management.
59. We examined a sample of lease agreements and found that each agreement included a PSR schedule outlining the public benefits to be provided by the operator. Requirements were tailored to the nature of the services provided, including measurable metrics for monitoring the operator's activity. For example, a childcare lease we reviewed included requirements for the number of spaces offered per age group (e.g., 24 spaces for children under three years of age) and a requirement to have a multipurpose room to house a variety of programs and services.
60. In addition to PSRs, REFM is responsible for drafting the service level agreement (SLA), which outlines the rights and responsibilities of the landlord (the City) and the tenant (the operator) in relation to items such as property maintenance, repairs, security and utilities. SLAs mitigate risks for non-profit operators by identifying services the City will provide and the services operators are responsible for providing. At the same time, SLAs clarify for the City which party is responsible for ensuring that the property is properly maintained.

- 61. We examined a sample of lease agreements and found that each agreement included SLAs outlining who was responsible to perform the work and pay for facility maintenance, repairs and operational costs. These responsibilities were shared between the non-profit operators, the City and/or another party (e.g., head landlord). Excluded from the scope of this audit was an examination of the extent to which responsibilities for facility maintenance and repairs were fulfilled.
- 62. We have no recommendations in this area as the audit criterion was met.

## **Lease Monitoring**

### *2.2.4 The City did not conduct formal lease monitoring of its childcare, cultural and social non-profit leases against lease agreement terms*

- 63. Non-profit lease agreements between the City and operators specify lease terms and describe the public benefits that operators commit to providing the community through their services and programs. It is important to evaluate and document the operator’s performance against lease terms through a formal monitoring process to assist the City in determining whether non-profit leases provided support to communities as intended by the City.

- 64. During the audit period, we found that ACCS had not conducted formal lease monitoring. While ACCS had started to implement the Lease Monitoring Framework by reviewing some operators’ submissions, this was not completed by the end of the audit period. ACCS created the Lease Monitoring Framework in July 2023, which was aligned with the NPLM Framework and provided guidance along with a phased approach for implementation. The framework outlined ACCS’ goal of having all NPOs reporting annually by the end of 2024.

**The Lease Monitoring Framework**

Formal lease monitoring activities include receiving annual submissions by operators, reviewing and assessing submissions for lease compliance, developing solutions with operators to address deficiencies identified and implementing enforcement actions if necessary.

Source: Adapted from *Lease Monitoring Framework*, City of Vancouver

- 65. ACCS indicated that they engaged with operators to understand their operations through site visits, meetings and regular communications. Also, for those operators that received both non-profit leases and operating grants, ACCS obtained knowledge about operators’ activities through the grant application process.
- 66. While these activities enabled ACCS to understand the overall program performance of operators, ACCS staff did not document these assessments. As a result, there was no

systematic review of individual operator lease compliance over time documenting whether lease agreement terms were met or not.

67. By implementing formal lease monitoring processes, in the case of lease non-compliance by an operator, the City would have sufficient documentation on the history of the operator's activities for the City to work with the operator to address gaps or support its case in lease enforcement activities if necessary.

**Recommendation 6:**

The City should ensure it takes a systematic approach to monitoring lease requirements for all operators by implementing a formal lease monitoring process including the documentation of the results of periodic reviews.

68. The City may provide priority status to an operator to run multiple facilities based on specific criteria and conditions (e.g., location). This requires Council approval. Priority status enables an operator to have first right of refusal for available spaces the City provides to non-profit lessees. The City currently has one operator with priority status. We reviewed the documentation for this operator and noted that the City had last reviewed the operator's priority status in 2011. While ACCS indicated there were no concerns with the operator, we noted that the City had not defined how frequently it should review an operator's priority status and seek approval from Council.

**Recommendation 7:**

The City should determine how often it reviews an operator's priority status and when to seek Council approval. The review process should be informed by the results of performance monitoring activities identified in Recommendation 6.

## ***Lease Renewals***

### *2.2.5 The City did not have concerns with operators with which it renewed leases; however, it did not have documented assessments of operator performance to support lease renewals*

69. In conducting lease renewals, it is important to document the rationale used in making renewal decisions to support transparency and demonstrate fairness through a consistent and objective process. The rationale for renewal can include factors such as an operator's performance against lease terms, delivery of public benefits and continued alignment of the space's use with City strategies and priorities. The NPLM Framework states that ACCS is required to develop a rationale document for renewals. This document should cover issues recorded in the issues log, a review of whether the program rationale still holds and any other factors influencing the continuation of the lease.

#### *Leases with remaining options to renew*

70. Lease agreements contain renewal options that enable operators to continue their leases under the same terms. This offers both the City and its operators stability and reduces the administrative costs of full lease renewals. For example, a childcare lease is generally for five years with two renewal options of five years each. Operators can exercise the option to renew their lease provided they are in compliance with the lease terms and provide written notice within the time required under the lease.
71. We reviewed a sample of four lease renewals that had remaining options to renew during the audit period. We found that all four operators exercised the option to renew their leases, and the City renewed their leases accordingly based on its understanding of operator performance.
72. However, since the City had not implemented formal lease monitoring against lease agreement terms as described in section 2.2.4 of this report, there was no documentation of lease compliance detailing whether lease agreement terms had or had not been met by operators over time to support the renewal rationale.

#### *Renewals of expired leases*

73. A lease expires when the lease agreement term concludes with no renewal option having been exercised or remaining. At this point, the City has the opportunity to review an operator's performance in relation to the purpose and use of the space and to determine whether the programs and services are still in alignment with City strategies and priorities. The results of

this review form the rationale for whether the City offers the space to the existing operator or to a new operator. The NPLM Framework states that in the case of sole-source provision and lease extension for an existing provider, the rationale must be clearly articulated and capable of withstanding external scrutiny to ensure fairness among non-profit operators.

74. We reviewed a sample of ten leases renewed during the audit period. We found that ACCS recommended the City enter into new lease agreements with the existing providers in every case without undergoing a new competitive procurement process. They based these decisions on operators' past histories, potential negative impacts to the community if the leases were not renewed and service disruption risks. ACCS documented its rationale for these ten renewals in the March 2023 *Council Report* for Council review and approval.
75. While the City provided appropriate rationale for entering into new lease agreements without undergoing a new competitive procurement process based on its understanding of operators' performance, the City should include in its rationale the results of its past assessments of operator performance. However, as with renewals of leases with remaining options, because the City had not implemented formal lease monitoring, there was no documentation detailing whether lease agreement terms and objectives had been met over time.

**Recommendation 8:**

When renewing non-profit leases, the City should include in the renewal rationale the outcome of formal operator performance monitoring, including an assessment of the delivery of intended public benefits and whether there is continued alignment between the use of the space with City strategies and priorities.

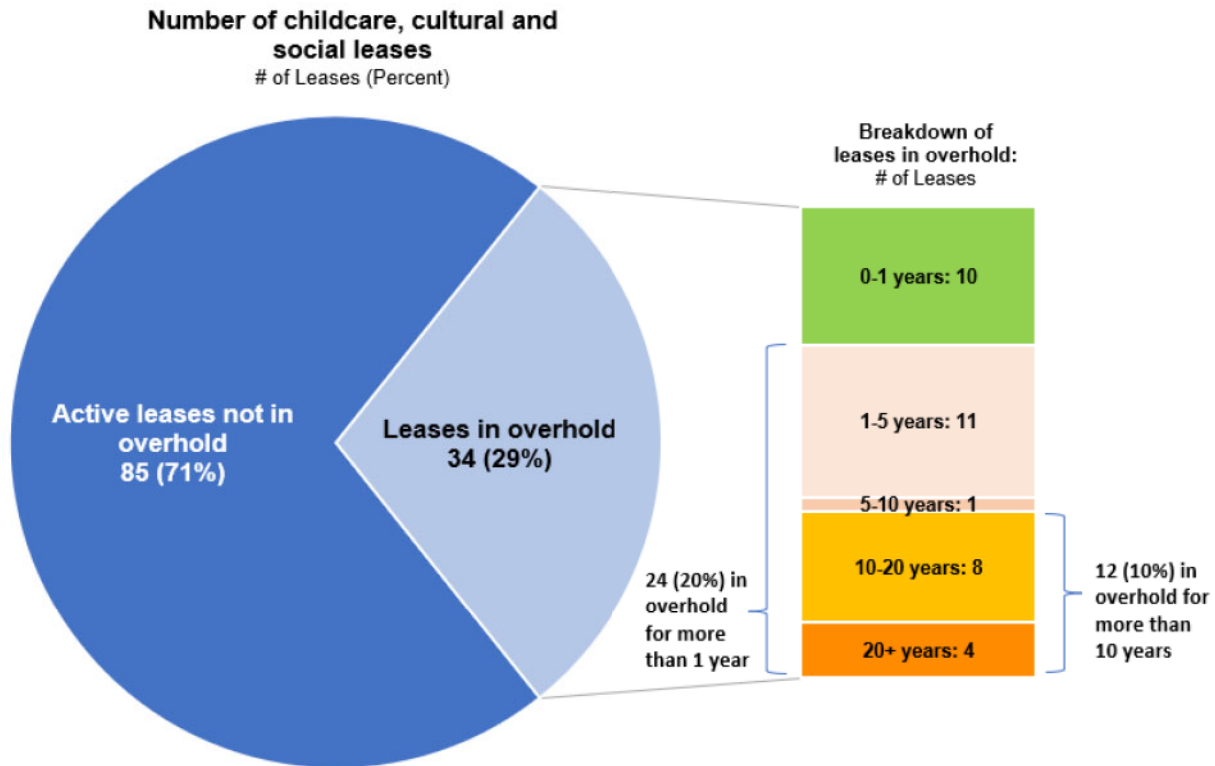
### *2.2.6 As of September 1, 2023, 20% of the City's childcare, cultural and social leases had been in overhold for more than one year, and half of these were in overhold for more than ten years*

76. A lease overhold occurs when a lease agreement expires and the tenant continues to occupy the premises with the landlord's consent. Lease overholds are generally permissible under the terms of the lease agreement on a month-to-month basis, subject to the same terms as the original lease.
77. As of September 1, 2023, out of the 119 childcare, cultural and social non-profit leases included in the scope of the audit, 34 (29%) were in overhold (17 childcare, 7 cultural, 10



social). As shown in Exhibit 4, 24 (20%) had been in overhold for more than one year and 12 (10%) had been in overhold for more than ten years.

Exhibit 4: Number of leases in overhold as of September 1, 2023<sup>5</sup>



78. Although lease terms allow for overholding, this brings ongoing risks:
- Older leases in overhold may have outdated lease agreement terms without public service requirements in place, which could hinder the City’s ability to monitor operator performance;
  - The programs or services provided by the operator may or may not be aligned with the City’s current strategic objectives;
  - Capital improvements could be delayed, leading to escalating costs for the City; and,
  - Other suitable operators may be prevented from accessing non-profit spaces provided by the City.

<sup>5</sup> The OAG created Exhibit 4 based on a list of overholding leases provided by ACCS.

79. Unlike renewals of expired leases, the City does not require or seek Council approval for overholding leases. Overholding for extended periods in effect bypasses the Council approval required for lease grants, provides an unintended method for the City to provide a limited number of operators with long-term access to facilities without going through the lease renewal process and limits other potential operators from accessing these spaces.
80. We also found that the NPLM Framework does not provide guidance on how to manage overhold leases, such as determining a reasonable timeframe to be in overhold and requiring reporting to Council. We recognize that there might be unique circumstances that lead to leases being in overhold for short amounts of time; however, these reasons should be reported to Council to ensure transparency and accountability.

**Recommendation 9:**

The City should reduce the number of leases in overhold for longer than one year and implement policies and procedures to limit the number of leases in overhold and the length of the overhold period. This includes:

- Establishing a priority and timeframe for addressing all leases currently in overhold;
- Establishing primary accountability for managing overhold leases; and,
- Annual reporting of all overhold leases to Council for review and approval.

## 2.3 Information to Council

### *What we looked for*

81. We examined whether the City evaluated and reported relevant childcare, cultural and social non-profit lease information to the public and Council including the full extent of financial support provided to NPOs and alignment with the City's strategic objectives and priorities. We also examined whether the City provided relevant information to Council when approving lease grants for new facility leases and lease renewals.

## What we found

### 2.3.1 The City provided the public and Council with information on childcare, cultural and social non-profit leases; however, information on the full extent of financial support to non-profit operators was not included

82. The City provides various reports to Council and the public about non-profit leases from an overall program perspective and on individual leases. As the leases provided to non-profit operators are at below-market or nominal rates, it is important that the City fully report on the use of its financial and capital assets. This would provide transparency about the total value of support provided to the non-profit sector.
83. From a program perspective, in 2023, the City published its inaugural *ACCS Grant Report for 2022* and provided it to the public and to Council. This report outlined the operating and capital grants approved by Council in 2022 to NPOs. Specifically for non-profit leases, the report included information about the number of leased facilities, gross floor area leased and the number of operators. The report also illustrated how the use of social spaces aligned with Council-approved strategies and included a list of NPOs that received an operating grant and the amount each received.
- Capital and Operating Grants**

  - Capital Grants – Grant funding support for capital projects that preserve or increase the capacity of facilities to address the needs of vulnerable communities.
  - Operating Grants – Funding to non-profit social service groups and neighbourhood organizations to deliver programs and services.

Source: [Community and social service grants for non-profit organizations](#), City of Vancouver
84. However, the *ACCS Grant Report* did not include the total value of financial support the City provided to NPOs including contributions to operational and capital maintenance and the annual lease grant value. Since lease agreements typically span Council terms and can be of substantial value, providing a comprehensive view of the financial impact of existing lease agreements would provide the current Council with information to assist them with decision-making for future lease grants.
85. For individual leases, the City must obtain Council approval to award a non-profit operator a nominal or below-market lease. For each new lease approved during the audit period, the City provided Council with a report that included information on the operator selection process, how the leased space aligned with Council strategies, financial implications (e.g., lease grant value and start-up grants if applicable) and key lease terms and conditions.

86. However, there were inconsistencies with the reporting of maintenance costs. While the City provided Council with estimated maintenance costs for new leases to new operators, this information was not included for the ten leases in the March 2023 *Council Report* proposing new lease agreements with existing operators. Also, the City did not report on actual maintenance costs incurred for past leases to existing operators. Providing estimated and actual maintenance costs for leases would provide greater transparency on the extent of financial support the City provides for each property.

**Recommendation 10:**

The City should provide Council with information on the full extent of the City's financial contribution to non-profit organizations receiving lease grants. This reporting should include information such as:

- Estimated operating and capital maintenance costs for each lease to be incurred by the City, to inform leasing decisions;
- Actual maintenance and capital costs incurred by the City;
- The full value of the City's financial contribution to each operator (e.g., maintenance, lease grant, operating grant); and,
- Other pertinent information as identified by Council.

## Appendix A: Responses from the Arts, Culture and Community Services department

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### *Overall Comments*

I would like to extend my appreciation to the Office of the Auditor General for their professionalism and thoroughness in conducting this audit. I would also like to express my gratitude to the staff in Arts, Culture, and Community Services, as well as other involved departments, for their active participation, inclusivity, collaboration, and transparency. Their insights have been instrumental in shaping the recommendations and response in this report.

The City develops and supports social-serving spaces through key partnerships with non-profits that play a vital role in our community. These partnerships are instrumental in achieving Council objectives in the Childcare, Cultural and Social spheres. We leverage City-owned facilities to offer nominal-rent leases to organizations that align with City goals. This approach allows us to enhance social services and cultural initiatives, fostering a thriving and inclusive community.

Our team acknowledges the importance of this audit process and supports the ten recommendations outlined in this report. We have carefully reviewed the recommendations provided, agree with them, and have outlined how these recommendations will be addressed in our management response. Some of the work to implement these recommendations is already underway; we are committed to completing the necessary actions to enhance the effectiveness and efficiency of our non-profit lease management practices.

I want to reiterate my thanks to the Office of the Auditor General and assure them of our focus to implement these recommendations. Thank you for your ongoing support and contributions.

**Margaret Wittgens**  
General Manager  
Arts, Culture and Community Services  
City of Vancouver

## Auditee's Action Plan

### Exhibit 5: Auditee Action Plan

Recommendation	Management Response and Next Steps	Responsibility	Target Date
<p><b>Recommendation 1</b></p> <p>The City should define performance metrics and targets for non-profit leasing in its social services portfolio to enable monitoring and tracking of progress toward meeting the strategic objectives outlined in its approved strategies.</p>	<p>Accept recommendation with the following notation.</p> <p>ACCS intentionally did not define space quantity metrics in Spaces to Thrive (STV) because of the diversity of social spaces represented in the concept of "Social Infrastructure", the inability to be more precise at that aggregate level, the significant unfunded public expectation established by targets that would need to be traded off with other community benefits across other strategies, the changing needs of the community, and the variable role of municipalities in providing the types of social infrastructure as described in STV. Staff could explore whether it is useful to disaggregate some forms of social infrastructure to set service levels (and would be cautious about setting targets) for specific types of social infrastructure, such as Neighbourhood Houses, youth centres, etc. However, social infrastructure is such a large concept, that setting service levels or targets for each type of social infrastructure would be challenging. For example, how does staff define how much sq ft of non-profit office space is needed when the City has not defined what non-profits the City should be supporting and/or how many non-profits the City should support in any one area.</p>	<p>Social Infrastructure</p>	<p>June 30, 2025</p>

Recommendation	Management Response and Next Steps	Responsibility	Target Date
	<p>Metrics to define success for social leases could be set on the public service objectives articulated to be delivered in the leases themselves. That approach would ensure that the services Council intended to support through the lease are being delivered.</p> <p>Accordingly, in response to this recommendation, ACCS proposes to develop monitoring and tracking of public service requirement (PSR) metrics articulated in individual leases, rather than quantity metrics. This will include aggregate metrics to assess how organizations are fully, partially, or not meeting objectives set out in lease agreements.</p>		
<p><b>Recommendation 2</b></p> <p>The City should fully implement its Non-Profit Lease Management (NPLM) Framework by developing supporting processes, procedures and templates. Implementation should include developing a project plan that identifies responsibilities for executing the plan, timelines for implementation and a deadline for completion.</p>	<p>Accept recommendation.</p> <p>ACCS Partner Agreements team will work with BPPS to develop a project plan to fully implement the NPLM Framework. Additional resources may be needed to implement the project; resources may require redirection from other City projects. Once a Project Plan has been completed and resource needs assessed, the ACCS General Manager will discuss the project plan and resourcing with the City Manager's Office.</p>	<p>Partner Agreements and BPPS</p>	<p>Complete implementation project plan by September 30, 2024</p> <p>Implementation completion TBD based on project plan</p>
<p><b>Recommendation 3</b></p> <p>The City should review its funding model supporting childcare initiatives to ensure</p>	<p>Accept recommendation.</p> <p>This work has already commenced. Staff will be reaching out to the Province to discuss the funding model for provincially subsidized \$10/day childcares in relation to</p>	<p>Partner Agreements, Childcare, BPPS</p>	<p>Review of funding model options</p>

Recommendation	Management Response and Next Steps	Responsibility	Target Date
<p>better alignment with senior-level government initiatives.</p>	<p>childcares operating in City-owned spaces under a nominal lease. Additionally, work is underway to assess future options for rental policy for non-profit leases which will provide additional opportunity for alignment with senior-level government initiatives.</p>		<p>completed by March 31, 2025</p>
<p><b>Recommendation 4</b> The City should evaluate its current processes for storing and managing lease information to determine if it can more efficiently and effectively maintain an accurate, comprehensive list of childcare, cultural and social non-profit leases to better enable effective tracking and monitoring of the non-profit lease portfolio.</p>	<p>Accept recommendation. Staff acknowledge and agree ACCS can review the current process for storing and managing lease information. The Partner Agreements team will lead in consultation with various other groups to come up with options to enable improved tracking and monitoring of the data.</p>	<p>Partner Agreements in consultation with Social Infrastructure, Child Care, Arts Culture and Tourism, and REFM</p>	<p>Options to be completed by March 31, 2025</p>
<p><b>Recommendation 5</b> The City should ensure that adequate and consistent document retention practices are in place across all service groups involved in the selection of non-profit lease operators to support the principles of open, transparent and accountable decision-making.</p>	<p>Accept recommendation. Staff will develop standard processes and protocols on document retention practices across all service groups. Staff will look to similar retention standards as the granting programs (7 years) and review GMS/VanApply as a potential system to store the information as well as other procurement processes and practices.</p>	<p>Departmental Services in consultation with Social Infrastructure, Childcare and Arts, Culture and Tourism</p>	<p>Process and protocols confirmed and documented by March 31, 2025</p>
<p><b>Recommendation 6</b> The City should ensure it takes a systematic approach to monitoring lease requirements</p>	<p>Accept recommendation. A lease monitoring project which includes formal monitoring and documentation of the results was already</p>	<p>Partner Agreements</p>	<p>December 31, 2025</p>



Recommendation	Management Response and Next Steps	Responsibility	Target Date
<p>for all operators by implementing a formal lease monitoring process including the documentation of the results of periodic reviews.</p>	<p>underway before the audit period, and staff are on track to complete onboarding of all social and cultural leases in 2025.</p>		
<p><b>Recommendation 7</b> The City should determine how often it reviews an operator’s priority status and when to seek Council approval. The review process should be informed by the results of performance monitoring activities identified in Recommendation 6.</p>	<p>Accept Recommendation This applies directly to VSOC, as they are given first right of refusal to operate childcare in the downtown peninsula. Staff will seek to determine if this is still a viable/reasonable approach.</p>	<p>Childcare</p>	<p>March 31, 2026</p>
<p><b>Recommendation 8</b> When renewing non-profit leases, the City should include in the renewal rationale the outcome of formal operator performance monitoring, including an assessment of the delivery of intended public benefits and whether there is continued alignment between the use of the space with City strategies and priorities.</p>	<p>Accept recommendation. Whilst REF and ACCS already consult prior to renewing any non-profit lease, staff appreciate that there is not a single formal document capturing these recommendations. Efforts are already underway to further define the renewal process (i.e. when Options to Renew are still remaining in the Council-approved lease). Formal lease monitoring work has also already begun and these documented, annual evaluations are intended to inform the renewal process – see Recommendation 6 for timeline of lease monitoring implementation.</p>	<p>Partner Agreements and REFM</p>	<p>Document outlining renewal process completed by March 31, 2025</p>

Recommendation	Management Response and Next Steps	Responsibility	Target Date
<p><b>Recommendation 9</b></p> <p>The City should reduce the number of leases in overhold for longer than one year and implement policies and procedures to limit the number of leases in overhold and the length of the overhold period. This includes:</p> <ul style="list-style-type: none"> <li>• Establishing a priority and timeframe for addressing all leases currently in overhold;</li> <li>• Establishing primary accountability for managing overhold leases; and,</li> <li>• Annual reporting of all leases in overhold to Council for review and approval.</li> </ul>	<p>Accept recommendation.</p> <p>Staff agree with the need to reduce the number of leases in overhold. Partner Agreements will draft a priority and timeframe document and take primary accountability for managing overholding leases, with the caveat that reducing the number of overholding leases is dependent on other teams within the City and may be dependent on factors outside of the City's control.</p> <p>There are various reasons why leases enter overhold, some of which would need to be addressed under closed meeting provisions under the Charter. Staff will implement annual reporting of all leases in overhold and will provide to Council for review and approval with some potential variation in process due to the causes for overholding, timing, etc.</p>	<p>Partner Agreements and REFM</p>	<p>Priority and Timeframe document will be completed by December 31, 2024.</p> <p>Assessment of overhold reporting process and approach completed December 31, 2024.</p>
<p><b>Recommendation 10</b></p> <p>The City should provide Council with information on the full extent of the City's financial contribution to non-profit organizations receiving lease grants. This reporting should include information such as:</p> <ul style="list-style-type: none"> <li>• Estimated operating and capital maintenance costs for each lease to be incurred by the City, to inform leasing decisions;</li> </ul>	<p>Accept recommendation with the following notations.</p> <p>Staff are currently working through an assessment of financial information available related to operating and capital costs for Non Profits. Due to system limitations, aggregating the data at a lease level will be challenging and an assessment will need to be made whether this is possible. Aggregating the data at a portfolio level is possible. As such, the full value of the financial contribution is possible however the level of detail is to be confirmed (lease versus portfolio level). This reporting could be provided as part of the Annual Grant Impact</p>	<p>Partner Agreements (renewals), Social Infrastructure, Childcare and Arts Culture and Tourism (new leases).</p>	<p>March 31, 2025</p>

Recommendation	Management Response and Next Steps	Responsibility	Target Date
<ul style="list-style-type: none"> <li>• Actual maintenance and capital costs incurred by the City;</li> <li>• The full value of the City's financial contribution to each operator (e.g., maintenance, lease grant, operating grant); and,</li> <li>• Other pertinent information as identified by Council.</li> </ul>	<p>report and it could also be estimated at the point of lease approval.</p>		

## Appendix B: About the Audit

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This report presents the results of a performance audit conducted by the Office of the Auditor General for the City of Vancouver (OAG) under the authority of the *Auditor General By-Law No 12816*. All work in this audit was performed to a reasonable level of assurance in accordance with the Canadian Standard on Assurance Engagements (CSAE) 3001 – Direct Engagements, set out in the CPA Canada Handbook – Assurance.

The Office of the Auditor General applies Canadian Standards on Quality Management, CSQMs 1 and 2, which require it to maintain a comprehensive system of quality management, including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

The OAG complies with the independence, other ethical requirements and rules of professional conduct of Chartered Professional Accountants of British Columbia (CPABC) applicable to the practice of public accounting and related to assurance engagements and the standards of conduct of the City of Vancouver.

### **Objective**

The objective of this audit was to determine whether the City effectively managed its childcare, cultural and social non-profit leases to deliver intended public benefits in support of its strategic priorities.

### **Period Covered by the Audit**

The audit covered the period between January 1, 2022 and August 31, 2023. The audit included materials produced prior to January 2022 that were used as policies, guidance or administrative processes during the audit period. We conducted our examination work between August 2023 and February 2024, and completed the audit on May 16, 2024.

### **Audit Scope and Approach**

The scope of this audit included childcare, cultural and social non-profit leases managed by the ACCS and REFM departments, as well as City strategies, frameworks and programs that influenced these non-profit leases.

The scope of this audit did not include:

- Non-profit leases managed by the Vancouver Board of Parks and Recreation, which has its own processes for lease management;

- Affordable housing leases managed by the Non-Market Housing Development Operations department. This department has its own strategies and framework for developing, leasing and operating affordable housing units;
- Temporary shelters managed by ACCS’s Housing and Homelessness Services department;
- The Artist Studio Program, which offers live-work spaces at below-market prices for selected award recipients;
- The Theatre Rental Grant Program, which offers grants to rent City-owned theatres such as the Orpheum, The Annex, Vancouver Playhouse and Queen Elizabeth Theatres. These grants are approved by Council annually and funding is in lieu of fees such as venue fees, front-of-house fees, technical days and rehearsal uses;
- Review of the services and programs provided by non-profit lease operators to determine the realization of intended public benefits; and,
- Assessment of building lifecycle costs and associated asset management process for lease spaces.

We used several methods to obtain sufficient and appropriate evidence. We reviewed available documentation, interviewed internal stakeholders and undertook analytical procedures. This included:

- Review of City strategies and policies;
- Review of the process and available documentation related to the City’s lease management processes; and,
- Review of supporting documentation for a sample of leases.

### **Audit Criteria**

A performance audit uses specific criteria that are determined in advance to assess how the department or program is performing in the area being examined. Criteria are intended to be reasonable expectations of how a program, operation, system or practice is managed to achieve intended results. We used the following criteria in this audit:

**Exhibit 6: Audit Criteria**

Line of Enquiry	Criteria
<p><b>Non-profit lease management</b></p>	<p>The City had a systematic approach to ensure its non-profit lease management aligned with the City’s strategic objectives.</p> <p>The City implemented effective processes to manage the lifecycle of its childcare, cultural and social non-profit leases.</p>

	The City evaluated and reported relevant childcare, cultural and social non-profit lease information to the public and Council.
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ACCS acknowledged their responsibility for the subject matter of this report and agreed with the suitability of the criteria we applied.

### ***Follow Up***

The recommendations in this report will be included as part of the OAG's semi-annual follow-up process agreed to by Council.