

July 2018



AN INDEPENDENT AUDIT OF THE MINISTRY
OF CITIZENS' SERVICES REAL ESTATE ASSET
SALES MANAGEMENT

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Auditor General
of British Columbia

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The Honourable Darryl Plecas
Speaker of the Legislative Assembly
Province of British Columbia
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Victoria, British Columbia
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Dear Mr. Speaker:

I have the honour to transmit to the Speaker of the Legislative Assembly of British Columbia the report *An Independent Audit of the Ministry of Citizens' Services Real Estate Asset Sales Management*.

We conducted this audit under the authority of section 11 (8) of the *Auditor General Act* and in accordance with the standards for assurance engagements set out by the Chartered Professional Accountants of Canada (CPA) in the CPA Handbook – Canadian Standard on Assurance Engagements (CSAE) 3001 and Value-for-money Auditing in the Public Sector PS 5400.



Carol Bellringer, FCPA, FCA
Auditor General
Victoria, B.C.
July 2018

Territorial Acknowledgement: The Office of the Auditor General of British Columbia would like to acknowledge with respect that we conduct our work on Coast Salish territories. Primarily, this is on the Lkwungen-speaking people's (Esquimalt and Songhees) traditional lands, now known as Victoria, and the WSÁNEĆ people's (Pauquachin, Tsartlip, Tsawout, Tseycum) traditional lands, now known as Saanich.

AUDITOR GENERAL'S COMMENTS

GOVERNMENT REAL ESTATE assets, such as land and buildings, are used to deliver and support public services. For instance, when a public school is built, education can be provided. But when government assets are no longer needed for the delivery or support of public services, they can be sold. Government always has, and always will, buy and sell real estate assets. Since 1981, almost 1,500 surplus government properties have been sold.

More recently, in 2012, government introduced a two-year initiative called the Release of Assets for Economic Generation (RAEG). The purpose of this initiative was to: sell unused or under-utilized provincial land and buildings to help balance the budgets in 2013/14 and 2014/15, save costs of holding and maintaining the assets, create jobs and stimulate economic activity on its surplus land.

Many ministries were part of the RAEG initiative but the Ministry of Citizens' Services planned and carried it out on behalf of government. The Ministry of Citizens' Services RAEG initiative team was responsible for generating \$421 million in revenue.

The Ministry of Citizens' Services acts as the "full-service real estate and property management service provider" for government as it relates to the ministry's owned real estate assets, and works with other ministries and agencies to support real estate asset sales. For example, once a school district receives ministerial approval to sell school land, it can sell the asset on its own or with assistance of the Ministry of Citizens' Services.

Over the two year initiative, the ministry's RAEG team helped facilitate the sales of 101 real estate assets, netting a profit of \$435 million and thereby surpassing their revenue target.



CAROL BELLRINGER, FCPA, FCA
Auditor General

AUDITOR GENERAL'S COMMENTS

In this audit, we focused on how the Ministry of Citizens' Services designed and implemented the processes used to achieve the RAEG's stated benefits, including the revenue targets. Overall, we found that the RAEG initiative team designed and followed appropriate processes to achieve their revenue target but there was room for improvement. The team, working with participating ministries during the two-year period of the initiative, should have done more to assess the costs and benefits of selling versus holding surplus assets prior to their sale. More specifically, the Ministry of Citizens' Services only focused on the revenue target, rather than all three of the planned benefits of the RAEG initiative: revenue, generation of economic activity and cost savings.

We looked at 14 of the 101 sales, which represented 75% of government's RAEG sales proceeds. Of the surplus property sales we reviewed, government obtained, on average, 97% of their appraised value. The only exception we saw was in the case of the Burke Mountain lands in Coquitlam.

For the sale of the Burke Mountain lands, government allowed bids for both individual parcels and groups of land parcels. Government felt doing so would create more competition for each property, but it also meant that it couldn't directly compare the Burke Mountain lands bids. Had government required bidders to provide a breakdown for each parcel as part of the bidding process, it would have better been able to identify low bids for individual parcels and compare parcel bids.

At the end of the two years, the RAEG initiative continued as an ongoing program in the Ministry of Citizens' Services until recently, when it was replaced with the Surplus Properties Program.

Acquiring, managing and selling public real estate assets are an important part of government's responsibilities. Expert knowledge and judgement about when and how best to buy, maintain and sell assets to meet current and future provincial needs is critical. With careful evaluation and planning, government can do more to strengthen public sector real estate asset management and accountability.

AUDITOR GENERAL'S COMMENTS

I'd like to thank the ministry and everyone we spoke with for their co-operation during this audit.



Carol Bellringer, FCPA, FCA
Auditor General
Victoria, B.C.
July 2018

REPORT HIGHLIGHTS

RELEASE OF ASSETS FOR
ECONOMIC GENERATION

(RAEG)

A 2-YR
GOVERNMENT
INITIATIVE IN

2013/14 - 2014/15



EXCLUDING
BURKE MOUNTAIN,
SALES WE REVIEWED

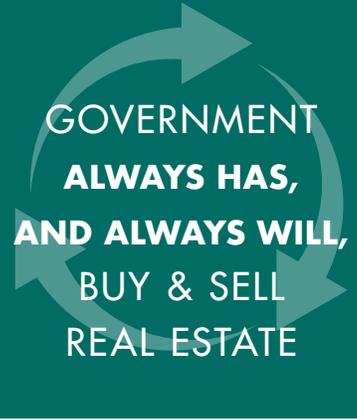
SOLD ON
AVERAGE FOR

97%

of appraised value



GOVERNMENT
ALWAYS HAS,
AND ALWAYS WILL,
BUY & SELL
REAL ESTATE



RAEG PURPOSE:

sell surplus land
& buildings to:

- RAISE REVENUE TO HELP
BALANCE BUDGETS
- SAVE COSTS
- GENERATE JOBS &
ECONOMIC ACTIVITY

BIDS FOR
BURKE MOUNTAIN

**NOT DIRECTLY
COMPARABLE.**

Most land **SOLD**
FOR LESS THAN
appraised value



Almost
1,500
surplus government
PROPERTIES
SOLD SINCE
1981

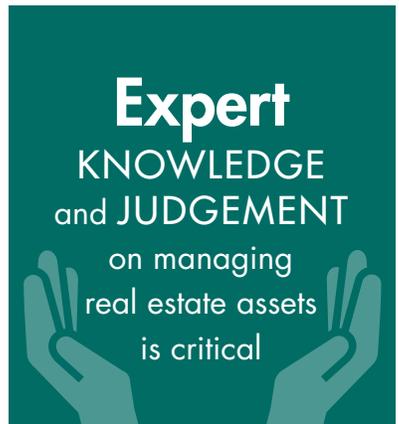
REVENUE
TARGET
=
\$421M

ACTUAL
=
\$435M



Appropriate sale processes
DESIGNED
AND FOLLOWED,
but room for
improvement

Expert
KNOWLEDGE
and JUDGEMENT
on managing
real estate assets
is critical



SUMMARY OF RECOMMENDATIONS

WE RECOMMEND THAT THE MINISTRY OF CITIZENS' SERVICES WORK WITH THE MINISTRY OF FINANCE AND CENTRAL AGENCIES TO DEVELOP REQUIREMENTS THAT ENSURE:

- 1** ministries and agencies prepare cost-benefit analyses prior to submitting real estate assets to the Surplus Properties Program for approval to sell.
- 2** that no real estate assets are added to the surplus properties list until ministries and agencies complete and submit a readiness checklist showing that they have completed the due diligence work required to prepare assets for sale.
- 3** the controls that ministries and agencies have in place are sufficient to prevent and detect real or perceived bias, bid rigging and collusion when selling real estate assets.
- 4** ministries and agencies establish bid submission requirements for real estate asset sales to foster increased transparency of multi-parcel property bids.

WE RECOMMEND THAT THE MINISTRY OF CITIZENS' SERVICES:

- 5** evaluate real estate purchase bids and provide Treasury Board with an opinion as to whether bids fairly reflect market conditions, based on appraisals and other market information.
- 6** engage an independent consultant to conduct an evaluation of the RAEG initiative to identify opportunities to enhance public sector strategic real estate management.
- 7** improve public accountability reporting on sales of surplus real estate assets.

RESPONSE FROM THE MINISTRY OF CITIZENS' SERVICES

THE MINISTRY OF Citizens' Services would like to thank the Office of the Auditor General (OAG) for conducting the audit of its Release of Assets for Economic Generation Program (RAEG), and for identifying opportunities for the Ministry to make improvements to its replacement Surplus Properties Program.

Significant shifts in mandate and focus have already taken place in the new Surplus Properties Program. While land sales happen for a variety of reasons, Ministry of Citizens' Services will ensure that any decision to sell provincial land is done in the best interest of the people of this province, both today and in the future. The Ministry will also be looking at ways to better manage surplus lands that will ensure future public infrastructure such as schools, health care facilities, affordable housing and child care opportunities are not compromised.

Strategic shifts include:

- ◆ Enhancing First Nations engagement and finding ways to build on existing, successful relationships.
- ◆ Improving consultations with local governments to create, capture and deliver value at the community level.
- ◆ Increasing focus on social benefits including affordable housing, schools/child care facilities and health care facilities.
- ◆ Applying an enhanced lens to the decision-making process that is focused on future analysis of the property, and specifically the cost-benefit analysis of holding versus selling property.

The Ministry takes the oversight of surplus properties across government very seriously and accepts all seven recommendations in the report. The Ministry has already taken prompt and appropriate actions to start addressing the recommendations. Working closely with the Ministry of Finance and central agencies, the Ministry has updated procedures and guidelines to ensure:

1. Ministries and agencies prepare cost-benefit analyses prior to submitting real estate assets to the Surplus Properties Program for approval to sell.
2. That no real estate assets are added to the surplus properties list until ministries and agencies complete and submit a readiness checklist showing that they have completed the due diligence work required to prepare assets for sale.
3. The controls that ministries and agencies have in place are sufficient to prevent and detect real or perceived bias, bid rigging and collusion when selling real estate assets.
4. Ministries and agencies establish bid submission requirements for real estate asset sales to foster increased transparency of multi-parcel property bids.

RESPONSE FROM THE MINISTRY OF CITIZENS' SERVICES

The Ministry is also in the process of issuing a Request for Proposal (RFP) to engage an independent consultant to conduct an evaluation of the former RAEG initiative, to identify opportunities to enhance public sector strategic real estate management.

The Terms of Reference for the RFP include the development of strategies to implement the balance of the recommendations, in particular:

- ◆ Evaluating real estate purchase bids and providing Treasury Board with an opinion as to whether bids fairly reflect market conditions, based on appraisals and other market information.
- ◆ Improving public accountability reporting on sales of surplus real estate assets.

The Ministry appreciates the efforts of the OAG staff and their consideration of the Ministry's input during this audit. We value the recommendations issued by the OAG, which will strengthen our ability to create, capture and deliver value to the citizens of British Columbia.

ABOUT THE AUDIT

BACKGROUND

What are government assets?

THERE ARE DIFFERENT types of assets and different ways to define them. The general definition of a government asset, as defined by the Chartered Professional Accountants of Canada, is “economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained.”

In accounting, real estate assets—land and buildings—are called tangible capital assets. The Government of British Columbia is responsible for managing \$41 billion in tangible capital assets, according to its 2016/17 *Summary Financial Statements*. This includes land, buildings, highways, vehicles, computers, and so on that have either been purchased or that government has built. Government real estate assets are used to deliver and support public services. For instance, when a public school is built, education can be provided.

When government assets are no longer needed for the delivery or support of public services, they can be sold to generate other economic activity. Almost 1,500 surplus government real estate assets have been sold since 1981.

There is, however, a lot more land the government is responsible for managing that is not included in the \$41 billion in tangible capital assets recorded in the

Summary Financial Statements. These lands are called Crown lands. These lands have not been purchased. No business or individual has legal title to it, and the value of this land has not been formally estimated. Most (94%) of the province’s 94 million hectares of land is undeveloped Crown land.

Crown land can be used in a variety of ways. It can be used to grow and harvest trees for sale, or it can be made into a provincial park and used for public hiking and camping. It can be restricted to use only for long-term ecosystem conservation. It can also be sold by government for the development of residential housing to support community growth and development.

Expert knowledge and judgment regarding when and how best to buy, maintain and sell real estate assets over time to meet current and future provincial needs is of critical importance.

ABOUT THE AUDIT

Who manages government real estate assets?

Ministries and agencies are responsible for the ownership and management of real estate assets controlled by government. For example:

- ◆ The Ministry of Forests, Lands, Natural Resource Operations and Rural Development is responsible for the day-to-day management of Crown lands.
- ◆ British Columbia school districts hold and maintain school lands. If a school district wants to sell school lands, it must obtain approval from the Minister of Education.

The Ministry of Citizens' Services acts as the "full-service real estate and property management service provider" for government as it relates to the ministry's owned real estate assets. The ministry also works with other ministries and agencies to support real estate asset sales. For example, once a school district has received ministerial approval to sell school land, it can sell the asset on its own or with assistance of the Ministry of Citizens' Services.

What is the Release of Assets for Economic Generation initiative?

In government's *Budget and Fiscal Plan 2012/13–2014/15*, the Minister of Finance introduced the Release of Assets for Economic Generation (RAEG) initiative. The temporary, two-year project was intended to assist government in selling surplus real estate assets. The associated revenues were to be used to help balance the provincial budget. Other stated

benefits of the RAEG initiative included economic activity generated through the creation of construction jobs and other opportunities, and cost savings resulting from no longer having to maintain the assets that were sold.

Even though the selling of surplus assets is not new, the RAEG initiative was different because it was designed to bring a centralized and coordinated focus to the selling of government real estate assets in 2013/14 and 2014/15.

The Office of the Premier assigned overall responsibility for the RAEG initiative to the Ministry of Finance, through Treasury Board, and assigned the Ministry of Citizens' Services the task of establishing and running the RAEG initiative.

For the purposes of the RAEG initiative, government defined surplus real estate assets to mean property that included land and/or buildings that were:

- ◆ no longer in use
- ◆ not required for future utilization by the province
- ◆ of no strategic benefit for the province to own

Government assets, such as bridges and highways, were excluded from the RAEG initiative.

In its *Budget and Fiscal Plan 2012/13 – 2014/15*, government set a target of \$706 million in revenue from the sales of surplus assets in the 2013/14 and 2014/15 fiscal years. Of the \$706 million target, the RAEG initiative team was responsible for generating \$500 million (later revised to \$421 million).

ABOUT THE AUDIT

By the end of the two-year initiative, the RAEG initiative team helped facilitate the sale of 101 surplus real estate assets totalling \$493 million. After costs associated with the sales were removed, profit to the province was \$435 million. (This did not include the \$67 million in accommodation costs paid to First Nations in support of government’s RAEG initiative, as government budgets these costs separately.)

fiscal years 2013/14 and 2014/15. (The government fiscal year begins on April 1 and ends on March 31.)

Of the 101 real estate assets that were sold under the RAEG initiative, we audited a sample of 14 sales, totalling 75% of the sales proceeds from 2013/14 and 2014/15. We looked at the process that the ministry had set up to manage these sales and to obtain the benefits from the program.

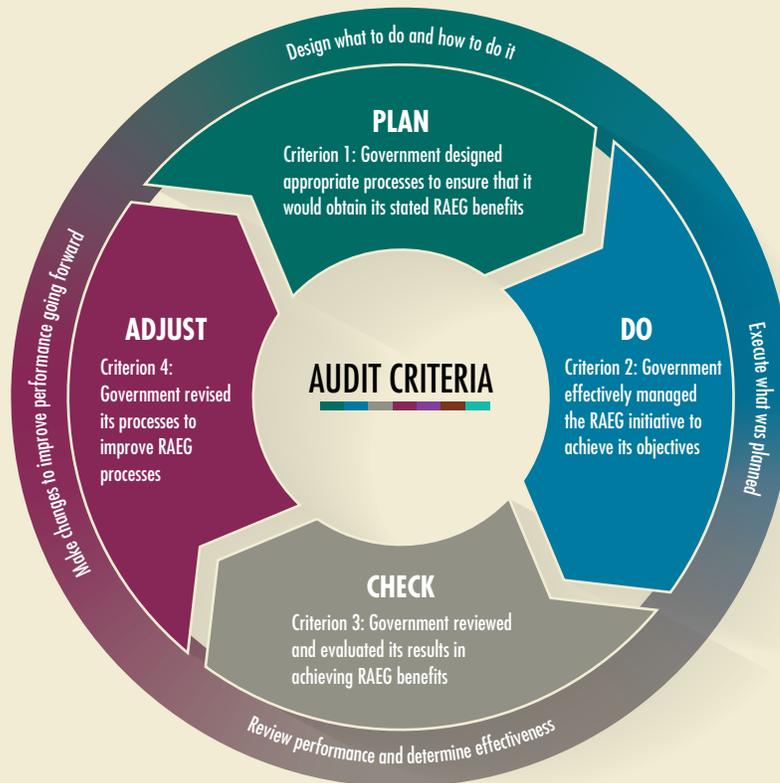
AUDIT SCOPE

The RAEG initiative continued as an ongoing program in the Ministry of Citizens’ Services until recently, when it was replaced with the Surplus Properties Program. Our audit focused on sales of real estate assets facilitated by the RAEG initiative team for the

AUDIT CRITERIA SUMMARY

We assessed four criteria, based on a quality management framework as shown in Exhibit 1.

Exhibit 1: Plan-do-check-adjust audit criteria used to assess the RAEG initiative



Source: Office of the Auditor General of British Columbia

ABOUT THE AUDIT

AUDIT APPROACH

Our work involved:

- ◆ meeting with the ministry's RAEG initiative team to understand the design and implementation of processes established to achieve the objectives of the project
- ◆ collecting and analyzing planning and process design documentation related to the RAEG initiative
- ◆ selecting a sample of sales made through the initiative, and collecting and analyzing sales documentation related to the sale of these properties
- ◆ hiring an independent appraiser to evaluate appraisal documentation

This report is dated July 3, 2018, the date on which the audit team finished obtaining the evidence used to determine the findings and conclusions of the report.

AUDIT OBJECTIVE AND CONCLUSION

AUDIT OBJECTIVE

THE OBJECTIVE OF this audit was to determine whether government designed and followed appropriate processes to obtain the stated benefits of the Release of Assets for Economic Generation (RAEG) initiative, through the sales of surplus real estate assets in fiscal years 2013/14 and 2014/15.

AUDIT CONCLUSION

We concluded that the Ministry of Citizens' Services RAEG initiative team designed and followed appropriate processes to obtain one of three stated benefits of the RAEG initiative.

We concluded the Ministry of Citizens' Services RAEG initiative team designed and followed appropriate processes to achieve their revenue target, but there was room for improvement in those processes.

We also concluded that the ministry's RAEG initiative team did not set targets or design a system to identify and assess potential economic activity generation and cost savings during the two-year period of the initiative. Working with participating ministries, the RAEG initiative team should have done more to assess the costs and benefits of selling versus holding surplus assets prior to their sale.

Government publicly reported profit earned through the RAEG initiative. It should also have provided

public reporting on cost savings and economic activity generation, to show how the sales of surplus real estate assets were in the province's best interests.

Additional areas for improvement are also identified in this report.

SUBSEQUENT EVENTS

The ministry has informed us that it has made the following changes since the end of the two year time frame of the initiative our audit focused on:

- ◆ It has created a new branch—Strategic Real Estate Services—within the Real Property Division of the Ministry. The ministry has delegated this branch with the responsibility for real property portfolio management and for coordinating with the Ministry of Finance. The branch will be maintaining the surplus properties list as well as selling and acquiring real estate assets, as required, to meet provincial needs under a new program called the Surplus Properties Program.

ABOUT THE AUDIT

- ◆ The ministry has added an operational procedure in their Transaction Guidelines and Valuation Procedures document, updating any property appraisal older than one year prior to disposing of a Ministry of Citizens' Services property. Other ministries must follow this procedure, and agencies have been encouraged to do the same.
- ◆ The Ministry of Citizens' Services real property sale listings now require bidders to certify that their bid has been independently developed and that there has been no communication with competitors. No new property listings have been listed to date.

We have not audited these changes.

KEY FINDINGS AND RECOMMENDATIONS

REVENUE GENERATION WAS THE PRIMARY FOCUS OF SURPLUS REAL ESTATE ASSET SALES

What were we looking for?

Careful planning is the foundation for success. We looked for evidence that the Ministry of Citizens' Services had established a plan with objectives, strategies and targets, to obtain the following benefits from the Release of Assets for Economic Generation (RAEG) initiative:

- ◆ economic activity and jobs generated through unused or under-utilized real estate assets
- ◆ funds provided from the sale of surplus real estate assets for government use in managing the provincial budget deficit
- ◆ cost savings from holding and maintaining vacant and under-utilized real estate assets

We looked for evidence that the ministry had assessed the risks and developed a risk mitigation plan, as well as policies and procedures, to meet its objectives.

What did we find?

We found that the ministry's RAEG initiative team had established a plan, identified risks and designed appropriate processes to achieve its revenue target. The plan included coordinating with other ministries and agencies involved in surplus real estate asset sales through the RAEG initiative. The objective and the benefits to be realized through the initiative were well documented, and the process to be used for achieving the objective was communicated to those involved.

However, no targets were set and no system was put in place to identify and assess potential economic activity and cost savings during the two-year period of the initiative, which were two of the benefits expected to be realized through the initiative. During April 2016, after the two-year period of the initiative, the ministry entered into a memorandum of understanding with BC Stats to estimate the economic impact associated with certain redevelopment projects.

Coordinating sales of surplus real estate assets

The RAEG initiative team communicated with ministries and agencies to explain the RAEG process and to clarify the differences in roles and responsibilities between the RAEG initiative team and the ministries and agencies involved in the RAEG

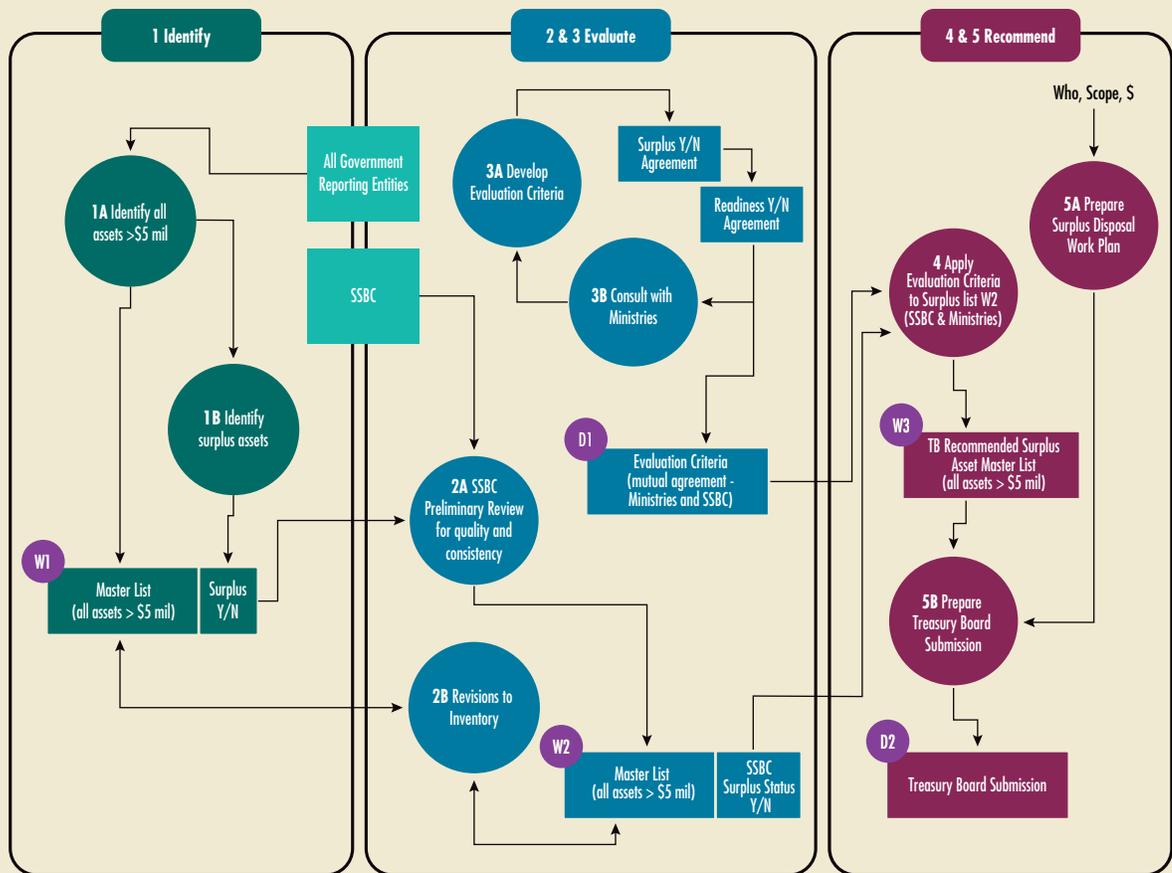
KEY FINDINGS AND RECOMMENDATIONS

initiative. This was needed because government asset management is independently managed by ministries and agencies, and their practices vary based on their mandates, objectives and planned priorities.

Even with the RAEG initiative team’s careful planning, they experienced challenges establishing an inventory

of surplus assets. The process for identifying and establishing the inventory of real estate assets for sale through the RAEG initiative was complex. Exhibit 2 shows the process the RAEG initiative team used to develop the surplus properties list and identify those to be sold in 2013/14 and 2014/15.

Exhibit 2: Ministry of Citizens’ Services release of assets work flow



Source: Recreated by the Office of the Auditor General of British Columbia, based on the Ministry of Citizens’ Services release of assets work flow

KEY FINDINGS AND RECOMMENDATIONS

The RAEG initiative team created the initial surplus properties list by asking ministries and agencies to provide a list of surplus real estate assets worth more than \$5 million. (This threshold was later removed.) Ministries and agencies were not asked to provide information about:

- ◆ whether the assets were ready for sale
- ◆ the costs versus benefits of keeping or disposing of the assets
- ◆ whether the ministry or agency viewed the asset as a priority for sale

What followed was extensive discussion between the RAEG initiative team and the ministries and agencies about whether specific assets should be added to or deleted from the inventory. This became such a challenging and time-consuming task that government decided no properties could be removed from the surplus properties list unless they were approved by the Minister of Finance.

In the future, it is important that the Ministry of Citizens' Services work collaboratively with ministries and agencies to effectively plan and prioritize real estate assets for sale, based on careful cost-benefit analyses showing that disposing of the assets are in the best interests of the province.

Ensuring that the Ministry of Citizens' Services, along with ministries and agencies clearly understand and are able to explain when and why real estate assets are ready for sale will:

- ◆ increase the accuracy of the surplus properties list
- ◆ help government make better informed decisions about the sale of real estate assets

- ◆ allow ministries and agencies to appropriately meet their statutory requirements
- ◆ decrease risks and challenges for the Surplus Properties Program

RECOMMENDATION 1: *We recommend that the Ministry of Citizens' Services work with the Ministry of Finance and central agencies to develop requirements that ensure ministries and agencies prepare cost-benefit analyses prior to submitting real estate assets to the Surplus Properties Program for approval to sell.*

RECOMMENDATION 2: *We recommend that the Ministry of Citizens' Services work with the Ministry of Finance and central agencies to develop requirements that ensure that no real estate assets are added to the surplus properties list until ministries and agencies complete and submit a readiness checklist showing that they have completed the due diligence work required to prepare assets for sale.*

KEY FINDINGS AND RECOMMENDATIONS

PROCESSES FOR SELLING SURPLUS REAL ESTATE ASSETS ARE APPROPRIATE BUT CAN BE IMPROVED

What were we looking for?

When real estate assets are identified as surplus, it is important that they go through a rigorous process preparing them for sale to ensure that government is in a good position to obtain the best price. This process includes:

- ◆ preparation of environmental assessments, land surveys and timely appraisals
- ◆ addressing any issues that may affect the sale

BID RIGGING, COLLUSION AND BIAS

Bid rigging: a form of fraud and collusion in which a contract or sale is promised to one party, even though for the sake of appearances, several other parties also present a bid

Collusion: an agreement between two or more parties to limit open competition by deceiving, misleading or defrauding others of their legal rights or gaining an unfair market advantage

Bias: liking or not liking one person or party compared with another and making decisions that favour those who are liked or disadvantage those who are not liked

- ◆ development and implementation of marketing strategies and competitive sales processes
- ◆ completion of proper documentation and closing procedures

We looked to see if the RAEG initiative team had followed appropriate processes when selling real estate assets, including:

- ◆ engaging in stakeholder and public consultations when required
- ◆ engaging in First Nations consultations when required
- ◆ evaluating the heritage status of buildings when required
- ◆ applying effective controls to prevent perceived or real bias, collusion or bid rigging
- ◆ obtaining independent and timely property appraisals prior to selling assets

We also checked to see if the team had good documentation supporting real estate asset sales decisions.

What did we find?

We found a combination of good practices and opportunities for improvement.

Public and First Nations consultation, and evaluation of heritage buildings

We found that most properties were open to public purchase, and when they weren't, it was because they were sold directly to either a First Nation or a municipality.

KEY FINDINGS AND RECOMMENDATIONS

First Nations accommodation agreements (also referred to as benefit agreements) were signed in a majority of the sales; when they weren't, government provided a reason. A First Nations accommodation or benefit agreement is a legal agreement between the Province of British Columbia and a First Nation to compensate for the development of land over which Indigenous title has not been resolved.

A total of \$67 million in accommodation costs were paid to First Nations in support of government's RAEG initiative for fiscal years 2013/14 and 2014/15. Since government budgets these costs separately, they were not part of the sales target or actual profit amounts noted earlier in this report.

As for evaluation of the heritage status of buildings, in the sample of asset sales we looked at, there was only one instance in which an evaluation of a building's heritage status was required, and this issue was adequately addressed in the sales agreement.

Unprejudiced asset sales

When selling assets, government must take care to ensure that sales are free from real or perceived bias, including bid rigging or any form of collusion.

We did not find any evidence of bid rigging, collusion or bias during this audit; however, bias in relation to some of the sales was perceived and raised in the legislature and reported in the media.

We looked at the existing controls to prevent bias, bid rigging and collusion in relation to asset sales. Preventive controls that the Ministry of Citizens'

Services relies on include:

- ◆ the public service code of conduct
- ◆ expense authority and procurement training
- ◆ confidentiality clauses in asset sales marketing materials
- ◆ confidentiality agreements with buyers if the sale includes sensitive information

Additional controls government can add to strengthen oversight in this area include:

- ◆ requiring annual ethics and independence declarations for staff and contractors
- ◆ providing fraud training for staff and contractors
- ◆ assessing and mitigating the risk of potential bid rigging collusion and/or bias—either real or perceived
- ◆ ensuring that sales bid requirements are clear and easy to follow and provide for easy comparability of bids
- ◆ requiring bidders to certify that their bids have been independently developed and that there has not been any communication with competitors

In response to these findings, the ministry informed us that, in the future, its property sale listings will require bidders to certify that their bids have been independently developed and that they did not communicate with competitors. This is a positive change, which other ministries and agencies can also make.

KEY FINDINGS AND RECOMMENDATIONS

RECOMMENDATION 3: *We recommend that the Ministry of Citizens' Services work with the Ministry of Finance and central agencies to develop requirements that ensure the controls that ministries and agencies have in place are sufficient to prevent and detect real or perceived bias, bid rigging and collusion when selling real estate assets.*

Property appraisals

Government obtains property appraisals from qualified independent appraisers prior to selling real estate assets. However, if it takes more than a year for an asset to sell, the appraisal can become outdated.

We found that 93% (13 out of 14) of the sample of properties we reviewed were sold within one year, or very close to one year, of an appraisal having been prepared. Ensuring that appraisals are timely and accurate in relation to sales puts government in a stronger position to negotiate a good deal and show that it is effectively managing real estate asset sales in the best interests of the province.

It is good practice, therefore, for ministries and agencies to obtain updated property appraisals for properties that they have been trying to sell for more than one year.

Property sales price

We found that, on average, for the sample of government asset sales we reviewed, government obtained 96.7% of the appraised value, with the

exception of the sale of Crown lands in Coquitlam. The following is a summary of our findings related to the Coquitlam Crown land sales.

QUALIFIED INDEPENDENT APPRAISERS

A qualified independent appraiser is an individual who has trained and received a designation with the Appraisal Institute of Canada to conduct independent real property evaluations to be used when buying and selling real estate.

Coquitlam Crown land sales

In 2014, government put a total of 21 land parcels, comprising approximately 584 acres of Crown land, up for sale in Coquitlam. (See sidebar for Burke Mountain land sales activities and timeline.) The land, located on Burke Mountain ([Exhibit 3](#)), included parcels of land that were ready for immediate development as well as parcels of land that purchasers could hold on to for long-term development purposes. The RAEG initiative team hired a real estate broker—Colliers International—to manage the sales process.

The Ministry of Forests, Lands and Natural Resource Operations hired a certified, independent appraiser to assess the market value of the land. The appraised value of the parcels marketed for sale was \$145,960,000. The appraisal was timely in relation to the sale of the land. The quality of the appraisal work was appropriate, and the appraised values for the parcels of land were reasonable.

KEY FINDINGS AND RECOMMENDATIONS

When the offer to bid was released to the public, government allowed potential buyers to submit purchase offers for both single parcels and groups of parcels. They felt doing so would create more competition for each property.

Once all the bids were received, the broker prepared a bid matrix showing the bids received. The bid matrix shows that there were six bids. Some of the bids were for individual properties and some were for grouped parcels of land.

In the end, 14 of the 21 parcels were awarded to one bidder (Wesbild Holdings Ltd.) for \$85,000,000 (66% of the appraised value). The City of Coquitlam

purchased four parcels for \$11,830,000 (80% of the appraised value). Three parcels were not sold.

When selling groups of land parcels it is important to request a breakdown of the bid by parcel. This allows direct comparability of the bids made for individual parcels and provides valuable information when assessing whom to sell to.

We found direct comparability of the bids, based on the price offering for each parcel, was not possible, because government did not require bidders submitting grouped bids to disclose how much they were offering for individual parcels within their grouped bid during the bidding process.

Exhibit 3: Burke Mountain Crown land parcels



Source: Ministry of Citizens' Services

KEY FINDINGS AND RECOMMENDATIONS

MARKET VALUE VERSUS MARKET PRICE IN REAL ESTATE SALES

Market price: what a buyer is willing to pay for a property and what the seller will accept for it

Market value: an opinion of what a property would sell for in a competitive market, based on the property's features and benefits. Buyers and sellers can view value differently, based on how they evaluate the features and benefits of a property.

Source: <https://www.inman.com/2015/03/26/the-difference-between-market-price-and-market-value-in-real-estate/>

Had bidders been required to provide information about how they valued each parcel of land during the bidding process, government would have been in a better position to:

- ◆ identify low bids for individual parcels
- ◆ compare parcel bids of various bidders
- ◆ negotiate the best price for individual parcels
- ◆ obtain the price-per-parcel information required for accounting purposes

Based on our findings, we concluded that there are opportunities for government to improve its process for real estate asset sales.

BURKE MOUNTAIN CROWN LAND SALES ACTIVITIES AND TIMELINE

- ◆ February 8, 2012: FLNRO receives Treasury Board approval to sell Burke Mountain Lands
- ◆ February 21, 2012: RAEG program announced in budget speech
- ◆ April 12, 2013: Standing offer Agreement signed with Colliers
- ◆ April 29, 2013: Request for independent appraiser
- ◆ October 10, 2013: Independent appraisal report submitted to government
- ◆ November 22, 2013: Listing agreement signed with Colliers
- ◆ January 16, 2014: Kwikwetlem First Nations Benefit Agreement signed
- ◆ February 4, 2014: Deadline for offers from potential buyers
- ◆ February 5, 2014: Summary of buyers' offers from Colliers
- ◆ February 11, 2014: Katzie First Nations Benefit Agreement signed
- ◆ February 26, 2014: Revised offer from Wesbild
- ◆ February 26, 2014: Ministerial order approving sale of lands to Wesbild
- ◆ August 28, 2014: City of Coquitlam offer to purchase
- ◆ August 29, 2014: Ministerial order approving sale of lands to City of Coquitlam

KEY FINDINGS AND RECOMMENDATIONS

RECOMMENDATION 4: *We recommend that the Ministry of Citizens' Services work with the Ministry of Finance and central agencies to develop requirements that ensure ministries and agencies establish bid submission requirements for real estate asset sales to foster increased transparency of multi-parcel property bids.*

RECOMMENDATION 5: *We recommend that the Ministry of Citizens' Services evaluate real estate purchase bids and provide Treasury Board with an opinion as to whether bids fairly reflect market conditions, based on appraisals and other market information.*

EVALUATING THE RAEG PROGRAM WILL IDENTIFY OPPORTUNITIES TO IMPROVE CURRENT PRACTISES

What were we looking for?

With any initiative, it is important to conduct evaluations to identify opportunities to improve and strengthen policies and processes. Formative evaluations generally happen at the early stages of an initiative or program to determine whether they are designed to achieve their intended purposes. Summative evaluations are conducted at the end (or at key points in time) of an initiative or program to determine whether it has achieved what it intended to achieve, and if it should continue or be replaced.

We looked at whether government collected data and information to evaluate the RAEG initiative and its outcomes, and whether changes were made to improve future practice.

What did we find?

Government conducted a preliminary review at the start of the RAEG initiative.

The RAEG team made some changes to its processes and practices, including: adjusting its inventory

KEY FINDINGS AND RECOMMENDATIONS

management process, developing and implementing a process for inventory additions and deletions, and developing lists of pre-qualified appraisers and environmental consultants.

Government did not conduct a formal evaluation of RAEG at the conclusion of the initiative. The Ministry of Citizens' Services continues to be responsible for maintaining the surplus properties list and for providing other strategic real estate management services for government in coordination with other ministries and agencies. The ministry has created a new branch—the Strategic Real Estate Services Branch—to carry out these responsibilities under the new Surplus Properties Program.

A formal evaluation of the RAEG initiative would be useful to help government understand what aspects of the RAEG initiative worked and where there were challenges. These findings can be used to identify opportunities to improve current practices, and confirm the Ministry of Citizens' Services role in relation to public sector strategic real estate asset management and accountability.

Government publicly reported on one of three intended benefits of the RAEG initiative: profit earned from the RAEG initiative. Government should also have provided public reporting on economic activity and cost savings generation to demonstrate how sales of surplus real estate assets were in the best interests of the province.

RECOMMENDATION 6: *We recommend that the Ministry of Citizens' Services engage an independent consultant to conduct an evaluation of the RAEG initiative to identify opportunities to enhance public sector strategic real estate management.*

RECOMMENDATION 7: *We recommend that the Ministry of Citizens' Services improve public accountability reporting on sales of surplus real estate assets.*

AUDIT QUALITY ASSURANCE

We conducted this audit under the authority of section 11 (8) of the *Auditor General Act* and in accordance with the standards for assurance engagements set out by the Chartered Professional Accountants of Canada (CPA) in the CPA Handbook – Canadian Standard on Assurance Engagements (CSAE) 3001 and Value-for-money Auditing in the Public Sector PS 5400. These standards require that we comply with ethical requirements, and conduct the audit to independently express a conclusion on whether or not the subject matter complies in all significant respects to the applicable criteria.

The Office applies the CPA Canadian Standard on Quality Control 1 (CSQC), and accordingly, maintains a comprehensive system of quality control, including documented policies and procedures regarding compliance with ethical requirements, professional standards, and applicable legal and regulatory requirements. In this respect, we have complied with the independence and other requirements of the code of ethics applicable to the practice of public accounting issued by the Chartered Professional Accountants of British Columbia that are founded on the principles of integrity, objectivity and professional competence, as well as due care, confidentiality and professional behaviour.

APPENDIX A: AUDIT CRITERIA

Line of Enquiry 1: Plan

Criteria 1.1: Government demonstrated that it designed appropriate processes to ensure that it would obtain its stated RAEG program benefits.

Line of Enquiry 2: Do

Criteria 1.2: Government demonstrated that it effectively managed the RAEG program to achieve its objectives.

Line of Enquiry 3: Check

Criteria 1.3: Government reviewed and evaluated its results in achieving the RAEG program benefits.

Line of Enquiry 4: Adjust

Criteria 1.4: Government revised its processes to improve the RAEG program.



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