

Real Estate Acquisitions Audit (Green Line LRT Stage 1)

EXECUTIVE SUMMARY

The City Auditor's Office issued the Real Estate Acquisitions (Green Line LRT Stage 1) Audit Report to Administration on October 10, 2018. The report includes Administration's response to five recommendations raised by the City Auditor's Office. The real estate team within the Green Line Business Unit and Real Estate & Development Services Business Unit have agreed to all five recommendations and have set action plan implementation dates no later than October 31, 2018 and September 30, 2019 respectively. The City Auditor's Office will track the implementation of these commitments as part of our ongoing follow-up process.

RECOMMENDATIONS:

1. That Audit Committee receive this report for information; and
2. That Audit Committee recommend that Council receive this report for information.

PREVIOUS COUNCIL DIRECTION / POLICY

Bylaw 30M2004 (as amended) established the position of City Auditor and the powers, duties and functions of the position. Under the City Auditor's Office Charter, the City Auditor presents an annual risk-based audit plan to Audit Committee for approval. The City Auditor's 2017-18 plan was approved on November 10, 2016. The City Auditor is accountable to Council and subject to the oversight of Audit Committee under Bylaw 48M2012 (as amended).

BACKGROUND

The Green Line Light Rail Transit (Green Line) project is a significant public transit infrastructure project at the City of Calgary with an estimated construction cost of \$4.65B for the first stage of construction. A staged approach for implementation is planned. The first stage, Stage 1 delivery, protects for future growth and expandability by establishing the foundation for future development in both the Southeast and North, while accomplishing the most challenging segments of the line including the downtown connection, and land acquisitions. The real estate team which organizationally is now part of the Green Line Business Unit has responsibility to support the timely acquisition of land in accordance with the Acquisition Strategy for the Green Line and Delegated Authority Process. To support the expected construction schedule and mitigate the risk of contractor delay claims, an acquisition program between 16 Avenue N (Crescent Heights) and 126 Avenue SE (Shepard) was initiated to acquire required properties no later than March 31, 2020.

The objective of the audit was to provide assurance that the real estate team, within the Green Line Business Unit, has effective controls and risk mitigation processes to support achievement of their business objective, which is timely acquisition of all land for the Green Line Stage 1. We assessed the design and operation of controls to mitigate the risks of land acquisitions at unfavourable prices or conditions, inability to meet project schedule deadline, undetected environmental liabilities, and reputational risk.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

The real estate team has an established process to manage land acquisitions and based on audit results controls to mitigate the risks of acquiring land at unfavourable prices or conditions are designed and operating effectively.

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At a broader level, we identified two areas where control enhancements are required to further mitigate the risk of not meeting the project execution plan and of ineffective environmental due diligence. Specifically, ineffective communication and escalation of delays to the acquisition of required properties may impede the timely completion of the land acquisition portion of the project. In addition, roles and responsibilities for environmental review are not clearly defined for large projects resulting in the risk that environmental due diligence is not effective, and environmental liabilities and remediation costs are not identified and communicated. We raised two recommendations specific to the issue communication and escalation process, and three related to the environmental due diligence process.

Stakeholder Engagement, Research and Communication

This audit was conducted with the real estate team within the Green Line Business Unit as the principal audit contact within Administration and support from the Green Line project management team and staff in the Environmental & Safety Management Business Unit.

Strategic Alignment

Audit reports assist Council in its oversight of the City Manager's administration and accountability for stewardship over public funds and achievement on value for money in City operations.

Social, Environmental, Economic (External)

N/A

Financial Capacity

Current and Future Operating Budget

N/A

Current and Future Capital Budget

N/A

Risk Assessment

The activities of the City Auditor's Office serve to promote accountability, mitigate risk, and support an effective governance structure. The City Auditor's Office plans to conduct a series of audits on the Green Line over the lifespan of the project given the project's proposed complexity and significant capital budget. This audit was undertaken as part of the approved City Auditor's Office 2017-18 Annual Audit Plan and focused on real estate acquisitions for Stage 1 of the Green Line project since land acquisition represents one of the highest risks to the project's ability to move forward with construction, which is expected to be complete by 2026.

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REASON FOR RECOMMENDATIONS

Bylaw 48M2012 (as amended) states: "Audit Committee receives directly from the City Auditor any individual audit report and forwards these to Council for information."

ATTACHMENT

Real Estate Acquisitions Audit (Green Line LRT Stage 1) – AC2018-1032