



## AUDITOR GENERAL'S REPORT INFORMATION ONLY

### Operational Review of Build Toronto Inc. – Results of Follow-up of Previous Audit Recommendations

|                              |  |
|------------------------------|--|
| <b>Date:</b>                 | April 6, 2016                                |
| <b>To:</b>                   | The Board of Directors of Build Toronto Inc. |
| <b>From:</b>                 | Auditor General                              |
| <b>Wards:</b>                | All  |
| <b>Reference<br/>Number:</b> |  |

#### **SUMMARY**

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The Auditor General's Office conducts an annual follow-up review of the implementation status of recommendations contained in previously issued audit reports. This report provides the status of the implementation of the audit recommendations included in the report entitled "Operational Review of Build Toronto Inc." dated November 17, 2014.

The audit report was presented to the Build Toronto Inc. Board of Directors on November 28, 2014, to the City's Audit Committee on February 27, 2015 and to City Council at its meeting of March 31, 2015.

The Build Toronto Inc. audit report contained 25 recommendations, some directed to staff of Build Toronto and others directed to City staff. Nine of these recommendations have been fully implemented and the remaining 16 recommendations have not been fully implemented. Audit recommendations that have been fully implemented are listed in Attachment 1. Audit recommendations that have not been fully implemented, together with management's comments and action plan, are included in Attachment 2. These recommendations will be carried forward to our next follow-up audit.

#### **RECOMMENDATION**

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**The Auditor General recommends that:**

1. The Board of Directors of Build Toronto Inc. receive this report for information.

## Financial Impact

There is no financial impact resulting from receipt of this report.

## ISSUE BACKGROUND

The Auditor General conducts an annual follow-up process to ensure management has taken appropriate action to implement recommendations contained in audit reports.

In accordance with the Auditor General's Work Plan, we have reviewed the status of outstanding audit recommendations from the November 17, 2014 Build Toronto Inc. audit report. We conducted this follow-up audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## COMMENTS

The follow-up review process requires that management provide the Auditor General with a written response regarding the implementation status of each audit recommendation. Where management indicates that recommendations have been implemented, audit work is conducted by audit staff to ensure the accuracy of management assertions. Where management indicates that recommendations have not been implemented, no audit work is performed and the audit recommendation is carried forward to the next follow-up audit.

Table 1 represents the results of our current follow-up on audit recommendations for Build Toronto Inc.

**Table 1:**

### RESULTS OF THE CURRENT REVIEW

| Report Title and Date                                   | Total No. of Recs. | Previously Reported |                | Results of Current Review |                       |                |
|---|--------------------|---------------------|----------------|---------------------------|-----------------------|----------------|
|   |                    | Fully Implemented   | Not Applicable | Fully Implemented         | Not Fully Implemented | Not Applicable |
| Operational Review of Build Toronto Inc., November 2014 | 25                 | N/A                 | N/A            | 9                         | 16                    | -              |

Audit recommendations that have been fully implemented are listed in Attachment 1. Audit recommendations that have not been fully implemented, together with management's comments and action plan, are included in Attachment 2. These recommendations will be carried forward to our next follow-up audit.

A consolidated report on the results of the implementation status of all recommendations that relate to City's Agencies and Corporations will be issued by the Auditor General and tabled at the June meeting of the City's Audit Committee. The status of the implementation of Build Toronto Inc.'s recommendations will be included in that report.

## **CONTACT**

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## **SIGNATURE**



Beverly Romeo-Beehler, Auditor General

## **ATTACHMENTS**

Attachment 1: Audit Recommendations – Fully Implemented  
Attachment 2: Audit Recommendations – Not Fully Implemented

**BUILD TORONTO INC.  
AUDIT RECOMMENDATIONS - FULLY IMPLEMENTED**

**Report Title: OPERATIONAL REVIEW OF BUILD TORONTO INC.**

**Report Date: NOVEMBER 17, 2014**

**Recommendations:**

- (1) The Board of Directors of Build Toronto request the Chief Executive Officer to ensure Build Toronto's five-year strategic plan includes clear objectives and performance measures which address both the financial and non-financial priorities of the City.
  
- (2) The Board of Directors of Build Toronto request the City Manager to submit the approved 5-Year Strategic Plan, or any subsequent updates to the Plan, to City Council for information.
  
- (3) The Board of Directors of Build Toronto request the Chief Executive Officer to ensure Build Toronto's Annual Report addresses progress towards achieving the objectives specified in the strategic plan and activities which contribute towards Build Toronto's ability to fulfill its mandate.
  
- (10) The Board of Directors of Build Toronto request the Chief Executive Officer to prepare and document detailed project plans for each property which includes:
  - a. Milestones and timelines (key activities);
  - b. Detailed pre-development and development budgets;
  - c. A robust risk assessment together with measures to address risk identified;  
and
  - d. A forecast of project profits.
  
- (16) The Board of Directors of Build Toronto request the Chief Executive Officer to implement processes to ensure that, where external consultants or partners conduct the process to identify purchasers and/or developer partners, Build Toronto obtain and retain adequate supporting documentation from the external parties to demonstrate compliance with its own policies and procedures.

- (17) The Board of Directors of Build Toronto request the Chief Executive Officer to implement a formal policy governing the processes to identify purchasers and/or development partners which addresses:
- a. Practices to support the openness, fairness and transparency of processes while respecting the hybrid nature of Build Toronto; and
  - b. Key controls that should be implemented to substantiate efforts to maximize financial returns and ability to achieve city-building objectives.
- (19) The Board of Directors request the Chief Executive Officer to report any subsequent significant changes to terms and conditions of agreements including:
- a. The justification for such negotiated changes;
  - b. The financial and qualitative impacts of such changes; and
  - c. Any alternatives considered in the structuring of agreements.
- (20) The Board of Directors request the Chief Executive Officer to implement practices to ensure sufficient supporting documentation of agreements and amendments including the rationale for changes from original offers or proposals.
- (21) The Board of Directors ensure minutes of Board and Board committee meetings adequately document:
- a. The nature and extent of additional information verbally disclosed by management during Board discussions with respect to property transactions; and
  - b. Direction or decisions by the Board which would impact the outcomes of the transaction.

**BUILD TORONTO INC.  
AUDIT RECOMMENDATIONS – NOT FULLY IMPLEMENTED**

**Report Title: OPERATIONAL REVIEW OF BUILD TORONTO INC.**

**Report Date: NOVEMBER 17, 2014**

**Recommendations:**

| <b>No.</b> | <b>Recommendation</b>   | <b>Management's Comments and Action Plan/Time Frame</b>   |
|------------|---|---|
| (4)        | The Board of Directors of Build Toronto request the Chief Executive Officer to conduct a review of the incentive compensation program and the executive performance management processes to ensure appropriate emphasis is placed on both long term goals established in the strategic plan and annual performance targets.   | A fully documented corporate policy that links these objectives to executive incentive compensation has not yet been completed but a consultant has been hired, which reports independent of Management to the Human Resources and Corporate Governance Committee, to examine incentive compensation for Build Toronto and a number of City entities. Completion of a fully documented corporate policy should be prepared and in place in the fourth quarter of 2016, but this is not within Management's control. |
| (5)        | City Council request the City Manager, in consultation with Build Toronto's Chief Executive Officer, to review the Shareholder Direction on a periodic basis to ensure that the mandate and City objectives remain consistent with City Council's ongoing priorities and expectations for Build Toronto. Any changes required should be submitted to City Council for approval. | Build Toronto's mandate and alignment with City objectives is currently being evaluated through the City-Wide Real Estate Review (EX5.5). Until the report goes to Executive Committee and City Council, a review of Build Toronto's Shareholder Direction would be premature.  |

| No. | Recommendation   | Management's Comments and Action Plan/Time Frame  |
|-----|--|---|
| (6) | <p>City Council request the City Manager, in consultation with Build Toronto's Chief Executive Officer:</p> <ul style="list-style-type: none"> <li>a. Formalize a dividend policy consistent with the mandate and objectives of Build Toronto; and</li> <li>b. Establish processes to enable the periodic review of the dividend policy.</li> </ul>  | <p>A formalized dividend policy is dependent on the City-Wide Real Estate Review which may impact Build Toronto's mandate and objectives.</p> <p>In advance of a formalized dividend policy, Build Toronto has established an interim dividend policy to grant a minimum \$5 million annual dividend to the City. Further, City staff has budgeted for a dividend of \$25 million from Build Toronto in 2016, and have communicated this expectation to Build Toronto.</p>  |
| (7) | <p>City Council request the City Manager to ensure that the ongoing review of real estate holdings and the City-Wide Office Modernization Plan consider alternate accommodation solutions to allow for the development of high value sites. The City Manager report to City Council and the Board of Build Toronto annually on the progress made to identify sites currently in operational or program use that have significant development or value potential.</p> | <p>Council approved pilot projects under the City's Office Modernization Program at its meeting on July 7, 8 and 9, 2015 (<u>GM5.18</u>). The pilot results will provide feedback on updated office standards, cost saving estimates, and business impacts.</p> <p>The Real Estate Services audit process identifies alternative accommodation solutions to release high value sites. The process to enforce alternative accommodation solutions for City divisions and agencies will be addressed via City Wide Real Estate Review (<u>EX5.5</u>) (i.e. centralized governance and decisions making).</p> <p>The Chief Corporate Officer continues to work with Build Toronto to identify additional sites in operational or program use that have significant development or value potential.</p> |

| No. | Recommendation  | Management's Comments and Action Plan/Time Frame  |
|-----|---|---|
| (8) | <p>City Council request the City Manager ensure that a comprehensive City-Wide Real Estate Strategy is prepared which contemplates:</p> <ul style="list-style-type: none"> <li>a. Protocols for cooperation by City divisions, agencies, and corporations which clarifies how they would be compensated for the operating and capital impacts of transferring properties to Build Toronto; and</li> <li>b. Protocols for real estate development activities carried out by City agencies and corporations and whether such activities should be centralized or coordinated with Build Toronto.</li> </ul> | <p>Deloitte has been hired to undertake the City-Wide Real Estate Review (<u>EX5.5</u>) and determine opportunities for cooperation, coordination and/or centralization between 16 different areas conducting real estate activities City-wide.</p> <p>The review will explore protocols for cooperation by City divisions, agencies and corporations regarding property assets and models to support development activities.</p> |
| (9) | <p>City Council request the City Manager, in consultation with the Chief Corporate Officer and Build Toronto's Chief Executive Officer, to ensure that properties already declared surplus are transferred to Build Toronto on a timely basis.</p>  | <p>Build Toronto and the City's Real Estate Services staff review all outstanding properties with reasons for delay (i.e. taxes, environmental liability) on a semi-annual basis to ensure timely transition occurs and issues can be identified and actioned.</p>  |



| <b>No.</b> | <b>Recommendation</b>   | <b>Management's Comments and Action Plan/Time Frame</b>   |
|------------|---|---|
| (11)       | <p>The Board of Directors of Build Toronto request the Chief Executive Officer enhance periodic project status update reports to document progress made on project plans including:</p> <ul style="list-style-type: none"> <li>a. Description of any changes to milestones and timelines including any significant slippages or issues impacting the progress of projects;</li> <li>b. Actual life-to-date costs compared to original pre-development and development budgets and explanations for significant variances; and</li> <li>c. Revised project profitability forecasts including any changes to the assumptions used.</li> </ul> | <p>Management's initial reporting on the achievement of Property Business Plans will occur with the 2015 year end results which will be presented at the Committee meetings in Q2 2016. Monitoring of plans will continue to be improved as the new accounting system is augmented to allow more automated reporting; management expects to achieve this by the end of Q4 2016.</p> |

| No.  | Recommendation  | Management's Comments and Action Plan/Time Frame  |
|------|---|---|
| (12) | <p>The Board of Directors of Build Toronto request the Chief Executive Officer to provide reports summarizing the value created on each project which include, where possible:</p> <ul style="list-style-type: none"> <li>a. A summary of activities completed by Build Toronto staff to enhance the value of properties and the related estimates of profits generated as a result of realized holding gains versus profits earned through site advancement activities;</li> <li>b. A summary of additional actions taken to enhance the value of the site where Build Toronto continues to participate in a joint arrangement on the site and the related future proceeds from profit participation in these arrangements;</li> <li>c. The projected economic impact of the development of the property;</li> <li>d. The financial impact of any conditions attached to the property transfer; and</li> <li>e. A summary of other city building benefits expected to be realized and the associated financial impact of providing such benefits.</li> </ul> | <p>Build Toronto reported on items, where accurate information is available, at Company's AGM at Executive Committee in May 2015,</p> <ul style="list-style-type: none"> <li>a. In progress - Build Toronto has not been able to accurately estimate holding gains on a specific property basis to be able to split these from the Value Add gains, but we continue to look at alternatives to employ in the future (target Q4 2016).</li> <li>b. Implemented</li> <li>c. Implemented</li> <li>d. No transfers have occurred for the last few years, so this cannot be measured.</li> <li>e. In progress - Build Toronto commenced last year, and will continue to report annually on all City Building achievements, to the fullest extent possible, based on accurate information being available. Normally, the properties Build Toronto transacts on are in development for a lengthy period of time, the timing of which is controlled by the purchaser / developer. As a result, City Building outcomes, which are negotiated at the time of the transaction, are not immediate, and the exact timing and quantification may not be known for some time. The fulfillment of these City Building objectives will become more evident and more accurately reportable as these projects commence and near completion. As noted above, Build Toronto will continue to report annually on all City Building results, to the fullest extent possible, based on accurate information being available.</li> </ul> |

| <b>No.</b> | <b>Recommendation</b>   | <b>Management's Comments and Action Plan/Time Frame</b>   |
|------------|---|---|
| (13)       | <p>The Board of Directors of Build Toronto request the Chief Executive Officer to periodically report on the actual versus projected economic impact from development of the property.</p>  | <p>Build Toronto discloses projected economic impact on transacted properties, generally calculated by a third party consultant, and reports on the actual results when accurate information is available.</p> <p>Build Toronto has spent an enormous amount of time, developing the systems and process to be able to track this data. Unfortunately, very few of the transacted projects have commenced construction, let alone being completed, therefore there is very little actual economic results to date, other than development charges, S37, etc., which have been reported on. When properties are further developed and completed, Build Toronto is well positioned to report on a great breadth of results, through actual or estimated actual amounts.</p> |
| (14)       | <p>City Council request the City Manager, in consultation with the Chief Executive Officer of Build Toronto, to report to Council the estimated open market financial impact of terms and conditions of transfer agreements together with any Section 37 or other obligations on properties transferred to Build Toronto.</p> | <p>New Transfers with full costing of terms and conditions (i.e. height/use restrictions, relocation costs, free space, affordable housing and community benefits) will be added to City Council reports.</p>   |

| No.  | Recommendation   | Management's Comments and Action Plan/Time Frame  |
|------|--|---|
| (15) | <p>The Board of Directors of Build Toronto request the Chief Executive Officer to enhance the Record Retention Policy to clarify what information needs to be documented and retained in support of processes to identify purchases and/or development partners.</p>   | <p>Generally, Build Toronto retains all documentation.</p> <p>The new Filing Policy, implemented in June 2015, will be augmented with an updated retention policy to specific practices for purging certain documents after specific time periods and provide better guidance as to what does and does not have to be retained.</p> <p>Management anticipates to present changes to the Retention Policy at Committee meetings in Q4 2016.</p>  |
| (18) | <p>The Board of Directors request the Chief Executive Officer to ensure that, for all property transactions, reports recommending or short listing purchasers and/or development partners include:</p> <ul style="list-style-type: none"> <li>a. A summary of evaluations of submissions received in response to requests for bids or proposals;</li> <li>b. A comparison of key terms and conditions offered by bidders or proponents and the corresponding projected financial returns including underlying assumptions of financial analysis; and</li> <li>c. Other qualitative factors considered in recommending or short listing bidders or proponents.</li> </ul> | <p>In 2015, Build commenced improved disclosure within the submissions to the REIDC and the Board through its new Transaction Policy, including the provision of the transaction summary, and clarity on details for selection of proponent.</p> <p>This new process has been used on all transactions that commenced in 2015, with the Procurement Manager involvement to ensure objectives of transparency, equity and fairness are met.</p> <p>As noted above, a project has not gone through all of the stages of the policy, but Build Toronto Management feels that this new policy has met the objectives set out, but agrees that, as with all new policies, it may need some minor revisions moving forward.</p> |

| <b>No.</b> | <b>Recommendation</b>   | <b>Management's Comments and Action Plan/Time Frame</b>   |
|------------|---|---|
| (22)       | City Council request the City Manager, in consultation with the Chief Executive Officers of Build Toronto, Invest Toronto, and Toronto Port Lands Company to review areas where opportunities exist to consolidate or coordinate operations and report to City Council on the results of these consultations.         | <p>The City-Wide Real Estate Review (<u>EX5.5</u>) will include examining opportunities to coordinate operations of Build Toronto and Toronto Port Lands Company.</p> <p>Council is also considering a plan to transition Invest Toronto to a new regional foreign direct investment agency (<u>ED6.2</u>), which may realize cost savings through an alternative avenue.</p> |
| (23)       | The Board of Directors of Build Toronto request the Chief Executive Officer, in consultation with the City Manager, to review the Procurement Policy and recommend appropriate revisions to the policy which support effective, objective, fair, open, transparent, accountable, and efficient procurement processes. | Build Toronto is reviewing the Procurement Policy, which has been in place for approximately four years, with the goal to make appropriate revisions which increases its effectiveness, objectivity, fairness, openness, transparency, accountability, and efficient procurement processes. Revised Procurement Policy to be presented to the FARMC by Q4 2016.               |
| (24)       | The Board of Directors of Build Toronto request the Chief Executive Officer to ensure that the use of rosters is in compliance with the updated procurement policy.   | Approximately half of the new rosters have been completed or are in progress. To be completed by Q4 2016.   |

| <b>No.</b> | <b>Recommendation</b>   | <b>Management's Comments and Action Plan/Time Frame</b>  |
|------------|---|--|
| (25)       | <p>The Board of Directors of Build Toronto request the Chief Executive Officer to enhance oversight and monitoring of procurement activities to include:</p> <ul style="list-style-type: none"> <li>a. Improved procurement planning to reduce the need for direct procurement and direct award of additional work;</li> <li>b. Improved reporting of direct procurement activities and significant increases to existing contracts through direct award of additional work;</li> </ul> | <p>Build Toronto has improved its internal policies to reduce the requirement for Direct procurement and additional work, through proper planning and through the more detailed definitions and wider scopes in the RFPs, but understands that there is still room for improvement, and is reviewing its current Procurement Policy.</p> <p>Nonetheless, direct procurement is allowable under the current policy, and provides flexibility at times required for our hybrid nature.</p> <p>“Additional Work” is now reported to the FARM Committee. Revised procurement Policy to be presented to the FARMC by Q4 2016.</p> |