

Toronto Community
Housing Corporation
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April 3, 2012

VIA EMAIL (exc@toronto.ca)

City of Toronto
100 Queen Street West
10th Floor, West Tower, City Hall
Toronto ON, M5H 2N2

Attention: Administrator, Executive Committee

Dear Madam or Sir:

Enclosed you will find the City of Toronto Auditor General's Reports (together with management's response) presented at the Toronto Community Housing Corporation Board of Directors meeting on February 23, 2012.

At its meeting on February 23, 2012, the Auditor General submitted for review to Toronto Community Housing's Board of Directors the following reports:

- Review of Controls Over Procurement and Payment Functions at TCHC Subsidiary: Housing Services Inc.
- The City and Toronto Community Housing Corporation Needs to Strengthen its Oversight of Subsidiaries and Other Business Interests
- Toronto Community Housing Corporation Fleet Management – Lack of Central Oversight Has Led to Control Deficiencies

The Board of Directors of Toronto Community Housing Corporation resolved to:

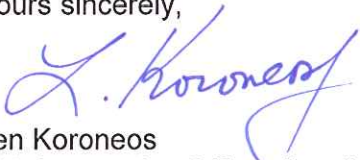
- 1) Direct the Internal Auditor to report back to the Board with financial statements for the period from 2007 to current of all subsidiary companies, joint ventures and other business interests.
- 2) Direct the Internal Auditor to determine which financial statements should be subject to an external financial audit and report back to the Board.
- 3) Direct the Internal Auditor to review all financial statements and analyze all transactions which appear to be unusual and report back to the Board.
- 4) Direct the Internal Auditor to determine under what authority the investments in Sparkle and Innoserv were made and report back to the Board.
- 5) Direct the Internal Auditor and management to report back on fleet management.

In addition, the Board referred the following motion to its Corporate Affairs and Audit Committee which was approved by the Committee at its March 30, 2012 meeting to:

- 1) request the Internal Auditor to review all major contracts awarded by Toronto Community Housing and its subsidiary companies in order to determine that contracts were awarded appropriately;
 - i. the review to include an analysis of whether or not such contracts involve any conflicts of interest;
 - ii. the review to include material contracts since 2008; and
 - iii. the materiality of contracts be delegated to the Corporate Affairs and Audit Committee (CAAC) to determine and report back to the Board.

If requested, I would be pleased to attend an upcoming meeting of the City's Executive Committee to answer questions on the Auditor General's reports and management's response.

Yours sincerely,



Len Koroneos
Chief Executive Officer (Interim)
Toronto Community Housing

Attachment: City of Toronto Auditor General's Reports (together with management's response)

cc: Joe Pennachetti, City Manager
Jeff Griffiths, Auditor General



AUDITOR GENERAL'S REPORT ACTION REQUIRED

Review of Controls Over Procurement and Payment Functions at TCHC Subsidiary: Housing Services Inc.

Date:	February 2, 2012
To:	Board of Directors of the Toronto Community Housing Corporation
From:	Auditor General
Wards:	All
Reference Number:	

SUMMARY

The Auditor General's 2011 Audit Work Plan identified Toronto Community Housing Corporation (TCHC), including its subsidiaries, as a priority for additional audits.

The objective of this review was to assess the extent to which Housing Services Inc.'s (HSI), a subsidiary of TCHC, administrative structure and control framework supports sound financial management and compliance with purchasing policies and procedures.

The audit results are presented in the attached report entitled "Review of Controls Over Procurement and Payment Functions at TCHC Subsidiary: Housing Services Inc."

RECOMMENDATIONS

The Auditor General recommends that:

1. The Chief Executive Officer, in consultation with Toronto Community Housing Corporation Executive Management, identify additional opportunities to consolidate procurement of construction and maintenance services.
2. The Chief Executive Officer identify for Toronto Community Housing Corporation Executive Management areas where additional construction and maintenance work can be allocated to Housing Services Inc.

3. The Chief Executive Officer explore opportunities to enter into co-operative purchasing agreements with the City and its Agencies, Boards, Commissions and Corporations, other municipalities, public organizations, and other levels of government.
4. The Chief Executive Officer, in consultation with Toronto Community Housing Corporation Executive Management, develop and communicate a procurement plan that closely aligns with Toronto Community Housing Corporation's long term business and capital plans.
5. The Chief Executive Officer, in consultation with Toronto Community Housing Corporation Executive Management, establish protocols for timely communication of any significant changes to Toronto Community Housing Corporation's budget, prioritization, or scope of construction projects which impact Housing Services Inc.'s procurement strategy and/or utilization of internal trades.
6. The Chief Executive Officer, in consultation with Toronto Community Housing Corporation Executive Management, implement controls to ensure that all purchasing done on behalf of Toronto Community Housing Corporation follows appropriate procurement processes.
7. The Chief Executive Officer review and recommend for Board approval updates to the Procurement Policy and Procedures. Updates should address issues such as:
 - a. Procedures for how vendor lists should be established, maintained and utilized
 - b. Necessary approval authorities and reporting regarding the aggregated use of vendor lists
 - c. Methodology for setting standard prices for all vendors performing specific types of work
 - d. Procedures for preparing, issuing, receiving, evaluating and awarding informal requests for price quotations
 - e. Requirement for retention of procurement documents in paper and/or electronic format.
8. The Chief Executive Officer ensure call documents for the pre-qualification of vendors clearly outline the process for using the list, including:
 - a. Method(s) for adding and removing vendors from the list and the period of time the list remains valid
 - b. The scope of work that can be awarded through the vendor list
 - c. Upper limits of the value of future awards including the maximum value of work that can be awarded through the list without an open tender
 - d. Procedures for awarding or assigning work to vendors

- e. Procedures for evaluating vendor performance and the impact on future work assignments.
9. The Chief Executive Officer implement procedures to ensure vendor lists are used in accordance with processes set out in pre-qualification call documents.
 10. The Chief Executive Officer, in consultation with legal counsel, develop and implement formal procedures regarding vendor performance which describe:
 - a. Vendor performance monitoring practices, both during a contract and at its conclusion
 - b. Impact of poor performance on the assignment of work or award of future contracts to vendors
 - c. The steps that will be taken to suspend vendors from submitting bids and from being assigned work through the vendor lists, period of time vendors can be suspended from bidding on Housing Services Inc. contracts, steps to rescind suspensions, and requirements for approval of suspensions by the Board of Directors.
 11. The Chief Executive Officer enhance processes and controls to ensure equitable distribution of work amongst vendors. Enhancements should include reporting of the distribution of work which clearly explains and supports any significant variances.
 12. The Chief Executive Officer implement procedures to enforce compliance with requirements to establish blanket contracts through open and competitive tendering processes. Procedures should:
 - a. Ensure contract extensions beyond those specified in call documents are not employed to circumvent open competition
 - b. Include periodic reports to the Board of Directors regarding the total value of work awarded through blanket contracts and the length of time since work was last tendered through an open competition.
 13. The Chief Executive Officer implement procedures to document the rationale for non-competitive procurement. Such procedures include:
 - a. Guidelines to define what constitutes an emergency or urgent situation and requirements to provide adequate support that the cost of purchases for the emergency are reasonable
 - b. Guidelines on the approvals required prior to awarding the contract, based on the value of the contract being awarded.

14. The Chief Executive Officer review competitive procurement thresholds and recommend, for approval by the Board of Directors, any revisions required to facilitate operating needs while ensuring fair access, equitable treatment, and competition.
15. The Chief Executive Officer implement procedures to ensure appropriate monitoring and enforcement of procurement procedures and controls. Monitoring should include:
 - a. Spot checks or audits of compliance with competitive procurement thresholds by staff independent of the contract award
 - b. Periodic review of exception reports identifying any non-compliance or overrides to the electronic approval process.
16. The Chief Executive Officer develop and implement procedures to monitor compliance with the revised change order process and delegated financial signing authorities for purchase order revisions.
17. The Chief Executive Officer implement and enforce procedures to ensure:
 - a. All purchase orders and/or contracts issued specify the itemized prices to be charged
 - b. All invoices specify quantities and itemized prices to be charged in accordance with purchase orders
 - c. All construction invoices approved for payment be accompanied by a Certificate for Payment issued by a third-party architect, consulting engineer or in-house engineer affirming the accuracy of actual quantities invoiced.
18. The Chief Executive Officer continue to enforce procedures and monitor the operating effectiveness of controls over staff expenses.
19. This report be forwarded to the City's Executive Committee for information.

Financial Impact

The implementation of recommendations in this report will further improve the openness, fairness and transparency of procurement processes. Implementing the recommendations will provide some potential efficiencies and cost savings. The extent of any resources required or potential cost savings resulting from implementing the recommendations in this report is not determinable at this time.

DECISION HISTORY

The Auditor General issued two reports, "Toronto Community Housing Corporation – Controls Over Employee Expenses Are Ineffective" and "Toronto Community Housing

Corporation – Procurement Policies and Procedures Are Not Being Followed” in February 2011.

The reports were restricted to procurement and payment control processes carried out at TCHC. They did not include a review of processes at TCHC subsidiary companies. The Auditor General’s 2011 Audit Work Plan identified TCHC, including its subsidiaries, as a priority for additional audits.

ISSUE BACKGROUND

The Shareholder Direction from the City of Toronto allows TCHC to create subsidiary companies to meet its goals.

Housing Services Inc. was incorporated in 2004 as a wholly owned subsidiary corporation of TCHC and reports to TCHC through its own Board of Directors. HSI was formed to deliver housing related services, primarily construction, maintenance, and client care services to both TCHC and the private sector.

HSI operates under a Shareholder Direction with TCHC which defines the principles, objectives and accountability requirements for HSI and its relationship with TCHC. The Shareholder Direction states the expectation that HSI will sustain itself financially and provide a fair return to TCHC. Further, HSI will be responsible for all operating decisions with regard to its services. The underlying principle being that HSI will be independently operated and that TCHC will not have a role in operational decisions.

HSI reported revenues totalling \$156 million in 2010 and net profit of \$5 million before depreciation. Over 90 per cent of revenues and cost of sales incurred by HSI relate to services performed for TCHC.

COMMENTS

This report contains 18 recommendations along with a management response to each of the recommendations.

In our view, the implementation of the recommendations contained in this report will further improve the openness, fairness and transparency of procurement processes. Implementing the recommendations will also provide some potential efficiencies and cost savings.

Recommendations from this report may also provide opportunities to improve procurement processes at TCHC additional to those raised in the February 2011 Report, “Toronto Community Housing Corporation – Procurement Policies and Procedures Are Not Being Followed”. TCHC should review the recommendations contained in this report for applicability and, where appropriate, such recommendations be implemented.

CONTACT

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SIGNATURE

Jeff Griffiths, Auditor General

11-TCH-02

ATTACHMENTS

[Appendix 1](#): Review of Controls Over Procurement and Payment Functions at TCHC
Subsidiary: Housing Services Inc.

[Appendix 2](#): Management's Response to the Auditor General's Review of Controls
Over Procurement and Payment Functions at TCHC Subsidiary: Housing
Services Inc.

APPENDIX 1

**Review of Controls Over Procurement and
Payment Functions at TCHC Subsidiary:
Housing Services Inc.**

December 9, 2011



Auditor General's Office

Jeffrey Griffiths, C.A., C.F.E.
Auditor General
City of Toronto

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EXECUTIVE SUMMARY

Auditor General reported on TCHC in early 2011

The Auditor General issued two reports, “Toronto Community Housing Corporation – Controls Over Employee Expenses Are Ineffective” and “Toronto Community Housing Corporation – Procurement Policies and Procedures Are Not Being Followed” in February 2011.

TCHC and its subsidiaries considered a priority for audits

The reports were restricted to procurement and payment control processes carried out at Toronto Community Housing Corporation (TCHC). They did not include a review of processes at TCHC subsidiary companies.

The Auditor General’s 2011 Audit Work Plan identified TCHC, including its subsidiaries, as a priority for additional audits.

HSI is a wholly owned subsidiary of TCHC

Housing Services Inc. (HSI) was incorporated in 2004 as a wholly owned subsidiary corporation of TCHC and reports to TCHC through its own Board of Directors. HSI was formed to deliver housing related services, primarily construction, maintenance, and client care services to both TCHC and the private sector.

Financial highlights

HSI reported revenues totalling \$156 million in 2010 and net profit of \$5 million before depreciation. Over 90 per cent of revenues and cost of sales incurred by HSI relate to services performed for TCHC.

Objective of this review

The objective of this review was to assess the extent to which HSI’s administrative structure and control framework supports sound financial management and compliance with purchasing policies and procedures.

***Initiatives
introduced since
2009 by the Chief
Executive Officer***

HSI's Chief Executive Officer was hired in October 2009 and has implemented a number of measures to strengthen the control environment, including the following:

- Review of the control environment including the expenditure and revenue processes. A report was issued by an external consulting firm in March 2010 recommending an action plan to strengthen internal controls. A status report is provided to the Board of Directors on a quarterly basis.
- Hiring of a new Controller in June 2010 whose responsibilities include managing and monitoring financial and internal control.
- Developed a three year (2011-2013) Business Plan which includes the need for better co-ordination with TCHC.
- Review of all company policies to align with TCHC.
- Review of recommendations in the Auditor General's reports on TCHC followed by a complete review of employee expenses and cancellation of all but two corporate purchasing cards.

***Specific concerns
identified***

Notwithstanding the above noted initiatives, our review has identified areas where action is required to improve the integrity of HSI's procurement processes and to support cost-effective and efficient procurement.

We are currently preparing a report on the governance structure of both the TCHC and its subsidiaries. The major focus of that report will be on the specific purpose and requirements to operate with the number of subsidiary companies in existence at TCHC.

Organization structure poses barriers which impact the efficiency and effectiveness of both TCHC and HSI

The current independent operating subsidiary structure and governance model need to be balanced against barriers which impact the efficiency and effectiveness of both TCHC and HSI. These barriers include:

- Purchases of similar products and services by TCHC departments, operating units, and subsidiaries are not being bundled together for procurement purposes. HSI needs to be able to fully leverage TCHC's collective size and purchasing power to achieve cost savings through improved volume pricing and discounts.
- HSI is not consistently integrated into TCHC's longer-term strategic and operational planning processes. This impedes HSI's ability to articulate and communicate longer term procurement requirements. Openly communicating longer term procurement plans can increase competition and improve pricing.
- On occasion, TCHC staff have directed HSI to use specific vendors, circumventing established procurement procedures. These actions will not be apparent through monitoring of TCHC purchasing activity, because the purchase order is issued at the subsidiary.

Practices need to be enhanced to reinforce key values and principles of fair access, equitable treatment, and competition

Maintaining open, fair and transparent procurement practices is critical to protecting the integrity of, and public confidence in, HSI's procurement processes. Procedural guidelines related to procurement need to be enhanced to reinforce key values and principles of fair access, equitable treatment, and competition. In addition, improvements are needed to strengthen practices in the following areas:

- Certain vendor lists, not regularly refreshed, can become stale and may exclude vendors who are interested in doing business with HSI.
- Use of the rosters and vendors lists as well as processes for awarding work are not clearly and transparently set out in procurement documents.

- Formal tracking mechanisms are not yet in place to demonstrate that unsatisfactory vendor performance is considered in awarding work in the future.
- Documenting reasons for imbalances in the distribution of work among vendors on a roster or to vendors who have agreed to standard unit prices.
- Steps for preparing, issuing, receiving, evaluating and awarding work procured through informal requests for price quotations are inconsistent.

Improved adherence to procedures is necessary

Policies and procedures by themselves are not a guarantee that business practices are consistent with public expectations of good governance and accountability. There are several areas where improved adherence to procedures is necessary.

- Blanket contracts have not been established through the open tendering process. Furthermore, repeated contract extensions circumvent competition.
- Single tendered purchases do not always adhere to the criteria established for these non-competitive purchases. Rationale for single tendering are not presented to the Board of Directors for approval as it is not required by current policy.
- Other areas of non-compliance include failure to adhere to competitive procurement thresholds and delegated signing authorities.

HSI's 3-year business plan includes actions to resolve some issues identified

Management has included in their 2011-2013 business plan actions that will resolve many of the issues identified in this report. As part of the 3-year plan, HSI set out a procurement work plan for 2011. Specific actions included in the work plan to strengthen procurement controls are discussed throughout this report.

Conclusions

In our view, the implementation of the recommendations contained in this report will further improve the openness, fairness and transparency of procurement processes. Implementing the recommendations will also result in streamlining of processes, as well as provide some potential efficiencies and cost savings.

Recommendations from this report may also provide opportunities to improve procurement processes at TCHC additional to those raised in the February 2011 Report, “Toronto Community Housing Corporation – Procurement Policies and Procedures Are Not Being Followed”. TCHC should review the recommendations contained in this report for applicability and, where appropriate, such recommendations be implemented.

BACKGROUND

The Shareholder Direction from the City of Toronto allows TCHC to create subsidiary companies to meet its goals.

HSI incorporated in 2004 as TCHC subsidiary

HSI was incorporated in 2004, with TCHC as its sole shareholder. According to a November 2003 report to the TCHC Board of Directors, the independently managed and governed subsidiary was created:

- to focus on maintenance, call centre, and small construction services reducing costs to TCHC while improving service
- to market services to other customers and gain an estimated \$2 million additional net revenue annually.

Board governance

An eight member Board of Directors is responsible for the supervision of the management of HSI. The Board includes TCHC’s Chief Executive Officer and Chief Financial Officer, as well as six nominees of the TCHC Board of Directors. A complete refresh of all non-TCHC members on the HSI Board of Directors was made in April 2010.

Shareholder Direction

HSI operates under a Shareholder Direction with TCHC which defines the principles, objectives and accountability requirements for HSI and its relationship with TCHC. The Shareholder Direction states the expectation that HSI will sustain itself financially and provide a fair return to TCHC. Further, HSI will be responsible for all operating decisions with regard to its services. The underlying principle being that HSI will be independently operated and that TCHC will not have a role in operational decisions.

Operating Agreement

An Operating Level Agreement between TCHC and HSI was signed in February 2011, with plans to have the Agreement in full effect by early 2012. The objective of the Agreement is to clearly describe the services HSI provides. An understanding of this Agreement is that HSI will be regarded as the “Preferred Service Provider” to TCHC for construction, maintenance, and client care services.

Financial information

In 2010, HSI reported \$156 million in revenues and net profit of \$5 million before depreciation. Over 90 per cent of the revenues and cost of sales incurred by HSI relate to maintenance, construction, and client care services performed for TCHC.

Table 1: Consolidated Financial Results for the Year Ending December 31, 2010

<i>(in thousands)</i>	Consolidated (audited)	From TCHC	From External
Revenue	\$ 156,101	\$ 142,522	\$ 13,579
Cost of Sales	\$ 145,226	\$ 133,730	\$ 11,496
Gross Margin	\$ 10,875	\$ 8,792	\$ 2,083
Corporate Admin	\$ 5,724	\$ 4,604	\$ 1,120
Net Profit Before Amortization	\$ 5,151	\$ 4,188	\$ 963
Amortization	\$ 814		
Net Income	\$ 4,337	\$ 4,188	\$ 963
<i>% Gross Margin</i>	7.0%	6.2%	15.3%
<i>% Net Profit</i>	3.3%	2.9%	7.1%

Business practices

In the Shareholder Direction, HSI is mandated to conduct open and transparent business processes. HSI is expected to develop and implement policies that are similar in intent and effect to those of TCHC. This includes policies with regard to financial management and procurement.

Since mid 2008 HSI has taken responsibility for conducting its own procurement activities, separate from TCHC. The main exceptions are that TCHC remains responsible for the procurement of fleet vehicles, telephones, computers and other IT equipment.

***Guiding principles
for procurement***

HSI has adopted the same Procurement Policy as TCHC which sets out the guiding principles that procurement practices will demonstrate values of:

- fair access, equitable treatment and competition
- transparency and public accountability
- simplicity, appropriate controls and clear accountability.

To guide staff on the implementation of the Procurement Policy, HSI has adopted procedures similar to those of TCHC. HSI has also adopted several practices to purchase goods, works and services which are not specifically addressed in the existing procedures. These practices include:

- Set pricing for specific types of work – HSI establishes a set of standard prices based on vendor submissions to procurement calls. Only those respondents who agree to the standard prices set by HSI will be placed on the vendor list.
- Vendor lists – HSI uses vendor lists to invite pre-qualified vendors to make submissions for selective tenders, informal quotations, and single quoted small dollar value procurement opportunities.

Several policy reviews are currently underway at TCHC. HSI's Chief Executive Officer has indicated that HSI intends to adopt any updates to the Procurement Policy and supporting procedures arising from these reviews.

HSI's Chief Executive Officer has also indicated that they intend to return to a shared services approach, beginning with centralizing procurement for TCHC and its subsidiaries. To this end, in August 2011 TCHC appointed responsibility for its Strategic Procurement Unit to HSI's Senior Director of Finance & Business Operations. Such steps are expected to mitigate, to a certain degree, several issues identified in this report.

AUDIT OBJECTIVES, SCOPE AND METHODOLOGY

2011 Audit Work Plan

In early 2011, the Auditor General issued the results of the Auditor General's first review of TCHC. The review was restricted to TCHC and did not include a review of the procurement and payment processes at TCHC subsidiary companies.

The Auditor General's 2011 Audit Work Plan identified TCHC, including its subsidiaries, as a priority for additional audits.

Audit objective

The objective of this review was to assess the extent to which HSI's administrative structure and control framework supports sound financial management and compliance with purchasing policies and procedures.

Scope

This audit focused on the period from January 1, 2010 to May 31, 2011. It includes an assessment of management controls over purchases of goods and services, contract management and payments. New internal control initiatives introduced by HSI management in 2010 and 2011 were considered in our review.

Methodology

Our audit methodology included the following:

- review of HSI Board of Directors and Board committee minutes and reports
- review of documents, management reports, policies, procedures and related records
- review of audited financial statements for HSI for the year ended December 31, 2010.
- review of internal control reports by external consultants and TCHC internal audit staff
- interviews with HSI management
- examination of documents and records
- evaluation of management controls and practices
- other procedures deemed appropriate.

Compliance with generally accepted government auditing standards

We conducted this performance 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.

AUDIT RESULTS

A. OPERATING SUBSIDIARY GOVERNANCE MODEL – A BALANCING ACT

Purpose for creating operating subsidiaries

In 2003, TCHC began creating subsidiaries related to the key areas of the business which the Board of Directors felt would benefit from focused governance. It was intended that this governance model would enable the Board to attract independent expert resources and stakeholders clearly focused on the specific operations of the subsidiaries.

Organization structure impacts the efficiency and effectiveness of TCHC and HSI

However, over time it is apparent that the organization structure has resulted in barriers which impact the efficiency and effectiveness of both TCHC and HSI.

A.1. Lack of a TCHC-wide Procurement Strategy for Construction and Maintenance Services Impedes Operational Efficiency

HSI created to be the preferred provider of maintenance and construction services

When HSI was created in 2004, the intent was that it would be responsible for TCHC's maintenance and construction work. Despite this, an operating agreement confirming HSI's status as the "Preferred Service Provider" to TCHC for construction, maintenance, and client care services was only developed in 2010 and not signed until February 2011.

Departmental and operating unit managers not required to assign work to HSI

At the same time, TCHC was evolving its governance model to provide the operating units greater independence in managing their portfolios. TCHC's departmental and operating unit managers were given the authority to make their own procurement decisions.

TCHC continued to issue separate procurement calls for work HSI typically delivered

Operating units were allowed to manage their own small construction, repair and maintenance projects directly and purchase services from either local contractors or HSI. In addition, the Asset Planning & Investment Unit was also allowed to procure a significant volume of work from outside organizations. Through mid-2011, TCHC continued to issue separate procurement calls for work HSI typically delivered although more of this work is now being assigned to HSI.

It is neither efficient nor effective for TCHC staff to separately procure and manage contractors and consultants for construction and maintenance services when HSI was specifically established and resourced to perform this work.

Procurement is not bundled to leverage TCHC's size and purchasing power

Furthermore, purchases of similar products and services by TCHC departments, operating units, and subsidiaries are not being bundled together for procurement purposes. Therefore, TCHC is losing out on opportunities for cost savings through improved volume pricing and discounts.

Additional cost savings may be achieved through cooperative procurement

HSI has started to coordinate with TCHC to purchase certain supplies through the City. However, HSI should actively explore additional opportunities for cooperative procurement through the City, as well as other public agencies and bodies such as the Province and other social housing agencies. Opportunities should be evaluated for potential cost savings to HSI, as well as best overall value collectively for TCHC and the City.

Recommendations:

- 1. The Chief Executive Officer, in consultation with Toronto Community Housing Corporation Executive Management, identify additional opportunities to consolidate procurement of construction and maintenance services.**
- 2. The Chief Executive Officer identify for Toronto Community Housing Corporation Executive Management areas where additional construction and maintenance work can be allocated to Housing Services Inc.**

3. **The Chief Executive Officer explore opportunities to enter into co-operative purchasing agreements with the City and its Agencies, Boards, Commissions and Corporations, other municipalities, public organizations, and other levels of government.**

A.2. Organization Structure Can Pose Challenges for Developing an Effective Procurement Strategy

HSI plans procurement separately and subsequent to TCHC's business planning cycle

Spending decisions are dispersed amongst the different TCHC departments and operating units. Construction and maintenance projects are then assigned or awarded by these different departments to HSI or other vendors.

As a separate organizational entity, HSI is not consistently integrated into TCHC's strategic and operational planning processes. This can pose challenges for developing an effective procurement strategy, because HSI plans procurement separately and subsequent to TCHC's business planning and budgeting cycle. For example,

- HSI's full-time in-house trades are not always kept fully productive. There are typically slowdowns in work at the very beginning of the year before projects are approved and at the end of the year when budgets are depleted. HSI estimated that in-house trades were underutilized to a value of \$350,000 in 2011 compared to 2010.
- HSI is assigned additional unplanned projects towards the end of the fiscal year. The short planning and delivery timelines can result in increased costs for work and reduced value-for-money.

A procurement plan developed on longer-term basis can serve to increase competition and improve pricing

TCHC should regularly provide HSI with detailed project information supporting multi-year budgets and plans. This can help HSI to articulate longer term procurement requirements, standardize specifications in high spending areas, and build strategies to maximize volume-based pricing discounts.

Openly communicating longer term procurement plans can increase competition and improve pricing by drawing the vendor community's early attention to potential business opportunities and by allowing other social housing providers to see where there may be synergies and scope for collaboration.

Recommendations:

- 4. The Chief Executive Officer, in consultation with Toronto Community Housing Corporation Executive Management, develop and communicate a procurement plan that closely aligns with Toronto Community Housing Corporation's long term business and capital plans.**
- 5. The Chief Executive Officer, in consultation with Toronto Community Housing Corporation Executive Management, establish protocols for timely communication of any significant changes to Toronto Community Housing Corporation's budget, prioritization, or scope of construction projects which impact Housing Services Inc.'s procurement strategy and/or utilization of internal trades.**

A.3. Lack of Clear Accountability for TCHC Procurement Decisions Executed by the Subsidiary

Isolated instances where direction given by TCHC circumvents procurement procedures

The Shareholder Direction states that HSI will be responsible and accountable for all operational decisions with regard to the provision of housing services. Where TCHC staff make procurement decisions which are executed by HSI, the accountability for ensuring appropriate processes are followed can become unclear.

Isolated instances exist where direction given by TCHC staff led to circumvention of HSI's approved procurement procedures. Furthermore, these actions will not be apparent through monitoring of TCHC purchasing activity, because the purchase order is issued at the subsidiary level. While we did not do an exhaustive review to identify instances where HSI was directed to use certain vendors, we did note a total of \$2.4 million in purchases from 13 specified vendors. For example, TCHC staff:

- Directed HSI to use a specific vendor to supply and install a new playground structure and playground area surface. There is no evidence of an open or selective tender process to award the work on 5 projects with a total cost of \$242,000 during the review period.
- Directed HSI to use a specific architect who was not on HSI's existing pre-qualified list of vendors for professional engineering and architectural services for 26 projects for a total cost of \$164,000 during the review period. Further, HSI was directed to pay the architect a higher rate than typically paid to vendors on HSI's pre-qualified list.

Recommendation:

- 6. The Chief Executive Officer, in consultation with Toronto Community Housing Corporation Executive Management, implement controls to ensure that all purchasing done on behalf of Toronto Community Housing Corporation follows appropriate procurement processes.**

B. PUBLIC SCRUTINY OF PROCUREMENT PRACTICES – A NEED FOR CLEAR ACCOUNTABILITY

As a subsidiary of a government corporation, HSI is expected to adhere to the same principles of corporate governance and accountability. As such, there is an expectation that goods and services be acquired through a process that demonstrates:

- fair access, equitable treatment and competition
- transparency and public accountability

B.1. Enhancements to Procurement Policy and Procedures Needed to Reinforce Principles of Fair Access, Equitable Treatment, and Competition

HSI has adopted the TCHC Procurement Policy and Procedures

HSI has adopted TCHC's Procurement Policy and Procedures. However, there is a need to formalize and enhance current practices to ensure staff understand and apply the requirements consistently. In particular, formal guidelines or directives are needed to answer the critical 'how to' questions such as:

*Enhanced
guidance needed
to address certain
purchasing
practices*

- How vendor lists should be established, when such lists can be used, and how to assign work in a manner which gives the qualified vendors on a list equal opportunity to bid on contracts. Guidelines should also include direction on the extent of oversight and reporting to the Board of Directors regarding the aggregate use of vendor lists.
- The methodology for setting standard prices for specific types of work. The methodology should include consideration of estimated quantities for unit priced items, wherever possible.
- How informal quotations should be solicited, including how to determine which vendors to request written quotes from, how quotations should be requested, and how bids should be received, reviewed, and evaluated. Standard templates may facilitate the process while ensuring key terms and conditions are in place to protect HSI's interests.

Procedures also do not include guidelines on procurement documents that should be retained in paper and/or electronic format. In addition to documents currently retained on file, guidelines should include requirements to retain documentation related to: business case for procurement; justification for procurement using a non-competitive method; communications by purchasing and other HSI staff with bidders or proponents before, during, and after procurement calls; and evaluation committee declarations of no conflict of interest and confidentiality of information.

Recommendation:

- 7. The Chief Executive Officer review and recommend for Board approval updates to the Procurement Policy and Procedures. Updates should address issues such as:**
 - a. Procedures for how vendor lists should be established, maintained and utilized**
 - b. Necessary approval authorities and reporting regarding the aggregated use of vendor lists**
 - c. Methodology for setting standard prices for all vendors performing specific types of work**
 - d. Procedures for preparing, issuing, receiving, evaluating and awarding informal requests for price quotations**
 - e. Requirement for retention of procurement documents in paper and/or electronic format.**

B.2. Increased Transparency Needed to Demonstrate Integrity of Vendor Lists

57% of work awarded using vendor lists

HSI uses a variety of vendor lists as the basis for most of its procurement activities. Lists are mostly comprised of vendors who have been pre-qualified by HSI for specific categories of work, such as general contractor, mechanical, electrical, and life safety.

Lists used for selective tenders, informal quotations, and single source purchases

From January 1, 2010 through May 31, 2011, approximately \$60 million of work (57% of total) was awarded using vendor lists. The lists are used to invite vendors to make submissions for selective tenders, informal quotations, and single quote small dollar value procurement opportunities.

Table 2 shows the total value of purchases made from January 1, 2010 to May 31, 2011 and the method used to acquire the goods or services.

Table 2 – Method of Price Solicitation
(value of procurement from Jan 1, 2010 – May 31, 2011)

	<i>(in 000s)</i>	
Vendor List – selective tender, informal quotation, single quote	\$ 60,221	57%
Publicly Advertised Tender		
Set Pricing For Qualified Vendors	\$ 31,562	30%
Lump Sum Contract	\$ 4,725	4%
HSI Internal Trades Staff	\$ 6,948	6%
Other (e.g. TCHC Directed)	\$ 2,794	3%
	<u>\$ 106,250</u>	<u>100%</u>

Selective tendering is an exception to open tendering

Publicly advertised open tendering procedures give all interested parties adequate notification and equal opportunity to submit a competitive tender. Exceptions to open tendering procedures include requesting tenders from a specific list of vendors (referred to as “selective tendering” in HSI’s Procurement Procedures) and simply choosing one vendor (referred to as “single tendering”).

Selective tendering procedures are similar to those for open tenders except HSI pre-selects, from existing vendor lists, firms who will be invited to submit tenders.

Advantages and disadvantages of selective tendering

The main advantage to vendor lists is the reduced administrative costs associated with the preparation and evaluation of tenders once the list has been established since the company will then selectively tender to those vendors that have met the requirements to be placed on the list.

The major disadvantage of selective tendering is the potential to impair the openness, fairness, and competitiveness of the selection process.

Failure to refresh vendor lists may unfairly restrict access to business

A number of vendor lists used by HSI were established prior to 2009, and have not been refreshed in over three years.

HSI plans to issue new procurement calls to refresh vendor lists

Vendor lists that are not regularly refreshed may exclude vendors who are interested in doing business with HSI. HSI's 2011 procurement work plan includes issuing calls for pre-qualification to update vendor lists. HSI has indicated that, going forward, lists will be refreshed every three to five years.

Process for using vendor lists is not transparent

Procurement documents do not clearly set out processes for the use of pre-qualified vendor lists

Guidelines for the use of the rosters and vendors lists as well as processes for awarding work are not clearly and transparently set out in procurement documents. For example, most of the existing rosters and vendor lists were originally established without describing in the call documents:

- The number of vendors to qualify. A list should have at least three qualified vendors.
- The period of time the list remains valid.
- Total estimated value of all procurement across vendors.
- The maximum value of work to be awarded through the list without going to open tender.
- The impact of vendor capacity, resourcing, and performance on award of future work through the roster and/or removal from roster.
- The scope of work that can be awarded through a vendor list, with a sufficient level of detail regarding the type and specifications of goods or services to be provided through the vendor roster or sub-group of a vendor roster.
- The methods by which specific work assignments will be awarded.

A subset of pre-qualified vendors is invited to submit pricing for selective tenders

Where selective tendering is used to award work, HSI is expected to invite vendors selected in a non-discriminatory manner. Typically, a subset of pre-qualified vendors is invited to submit pricing for selective tenders. For example, in a purchase which exceeded \$777,000, only four out of 15 vendors were invited to respond to a selective tender.

Staff indicated vendors are being invited to bid on contracts on a rotational basis. Staff were unable to provide concrete evidence that a fair rotational process was in place. The lack of transparency regarding how each vendor list is used can be perceived as a barrier to fair access and competition.

HSI should consider inviting all pre-qualified vendors to every related selective tender

Wherever possible, to avoid the perception of preferential treatment of vendors, HSI should consider inviting all vendors who have successfully pre-qualified and continue to meet performance standards to submit responses to every related selective tender.

Formal performance tracking of vendors needed

Resources are allocated to inspect work on a risk basis

Resources are allocated to inspect vendor work on a risk basis. While larger capital construction projects and preventive maintenance work are monitored, it is not cost effective to conduct such inspections of the high volume of lower-value ad-hoc maintenance assignments.

Customer identified vendor issues are tracked through the client care process

Even where work is not inspected directly by HSI staff, customers (TCHC site staff and tenants) have the ability to identify any performance issues through the client care process, tracked in the EasyTrac system. The EasyTrac system tracks service requests from tenants and TCHC staff and the actions taken to address the service request. However, there is no formal process in place to leverage customer (tenant and TCHC staff) complaints tracked in EasyTrac when evaluating vendor performance.

No formal process for dispensing consequences for poor past performance

Although contractor evaluations are sometimes completed, to ensure equitable treatment of vendors, any poor performance impacting a vendor's opportunity to be awarded work must be well documented. Formal tracking mechanisms should be put into place to substantiate any formal or informal suspension or removal of vendors from vendor lists.

***Contractor
performance
monitoring to be
enhanced in 2012***

We were informed that HSI plans to implement an enhanced Contractor Performance Program for all contracts beginning in 2012.

Recommendations:

- 8. The Chief Executive Officer ensure call documents for the pre-qualification of vendors clearly outline the process for using the list, including:**
 - a. Method(s) for adding and removing vendors from the list and the period of time the list remains valid**
 - b. The scope of work that can be awarded through the vendor list**
 - c. Upper limits of the value of future awards including the maximum value of work that can be awarded through the list without an open tender**
 - d. Procedures for awarding or assigning work to vendors**
 - e. Procedures for evaluating vendor performance and the impact on future work assignments.**
- 9. The Chief Executive Officer implement procedures to ensure vendor lists are used in accordance with processes set out in pre-qualification call documents.**

10. **The Chief Executive Officer, in consultation with legal counsel, develop and implement formal procedures regarding vendor performance which describe:**
 - a. **Vendor performance monitoring practices, both during a contract and at its conclusion**
 - b. **Impact of poor performance on the assignment of work or award of future contracts to vendors**
 - c. **The steps that will be taken to suspend vendors from submitting bids and from being assigned work through the vendor lists, period of time vendors can be suspended from bidding on Housing Services Inc. contracts, steps to rescind suspensions, and requirements for approval of suspensions by the Board of Directors.**

B.3. Uneven Distribution of Work Can Be Perceived As Preferential Treatment of Vendors

Where work is assigned directly to specific vendors off a roster or where multiple vendors have agreed to a set of standard prices, it would be expected that HSI would evenly distribute purchases amongst the vendors over time to the extent possible.

Uneven distribution of work for rosters of vendors

However, in the sample of procurement transactions reviewed, there were examples of an uneven share of work being awarded to certain vendors. For example,

- 84% (\$2.7 million) of emergency restoration work related to a number of fires or floods was awarded directly to one vendor, even though there were three other vendors on the roster for insurance claims related work.

- Most large scale mechanical work is automatically awarded to the sole vendor on the pre-qualified list who has the capacity and equipment to mobilize immediately to perform the work. This vendor receives more than 35% of work in a roster of over 50 vendors. Vendors are pre-qualified for work ranging anywhere from clearing plugged toilets and drains to furnace repairs and replacements to water main repair and replacement.
- For the Unit Refurbishment Program, (upgrading kitchens, bathrooms and related mechanical systems of units), pre-qualified vendors agreed to the same set of standard unit prices to be charged for specific types of work. Purchase orders were issued to vendors as work was distributed.

Approximately \$6 million in bathroom installation work was distributed amongst 15 vendors. The total value of work assigned to individual vendors through multiple purchases orders ranged from \$22,000 (0.4%) up to \$1,236,000 (20.6%).

Similarly, over \$7 million in kitchen installation work was distributed amongst 12 vendors. The total value of work assigned ranged from \$53,000 (0.8%) up to \$1,163,000 (16.6%).

- In a similar format as the Unit Refurbishment Program, over \$4 million in work related to the Building Tune-Up Program, (energy efficiency measures), was distributed amongst five vendors. The total value of work assigned to each vendor ranged from \$421,000 up to \$1,248,000. In 2011, efforts have been taken to more equally distribute this work.

Improve analysis and reporting of distribution of work

Management indicated that as programs proceed, vendor capacity and performance will impact the distribution of work. The analysis and reporting of the distribution of work based on pricing agreements should be improved to clearly explain and support any significant variances in the allocation of work to vendors on the list.

Recommendation:

- 11. The Chief Executive Officer enhance processes and controls to ensure equitable distribution of work amongst vendors. Enhancements should include reporting of the distribution of work which clearly explains and supports any significant variances.**

C. COMPLIANCE WITH POLICIES AND PROCEDURES – AN AREA FOR CONTINUOUS IMPROVEMENT

Policies and procedures by themselves are not a guarantee that business practices are consistent with public expectations of good governance and accountability. There must be a commitment at all levels of the organization to ensure procedures and controls are being carried out and are effective.

C.1. Avoid Repeated Contract Extensions Which Circumvent Competition

Procurement procedures require open tendering of blanket orders exceeding \$100,000

HSI currently has blanket orders for preventive maintenance of elevators, sump and booster pump systems, furnaces, life safety systems, kitchen drains, and roof anchors. Blanket contracts also exist for grounds maintenance, snow clearing and after-hours maintenance.

The existing Procurement Procedures require that blanket purchase agreements that exceed \$100,000 in a given year should be obtained through open tendering procedures.

Blanket contracts not established through an open tendering process

Some blanket purchase orders were not originally awarded through an open tender process. Furthermore, these blanket awards were extended repeatedly on an annual basis. For example,

- Since 2009, over \$2.2 million in replacement furnaces were purchased from one vendor. The vendor was selected initially in 2007 based on three informal price quotations. In subsequent years work was awarded directly to the vendor based on this pricing. A pricing agreement for furnace replacements should have been solicited through an open tender to obtain competitive pricing including volume discounts or rebates.

- A blanket order for after hours maintenance repairs was initially awarded through an informal request for hourly rates in 2005. Since then, all after hours repairs have been awarded directly to the same vendor. The current blanket contract is valued at approximately \$600,000 annually.
- Blanket orders totalling \$300,000 annually for inspections and repairs of sump and booster pump systems were initially awarded four years ago directly to one vendor based on negotiated rates which were not competitively quoted or bid.
- A blanket order for furnace maintenance and repair was originally awarded in 2007 based on three informal price quotations. On an annual basis, TCHC renews this contract at the 2007 pricing. The current annual contract value is approximately \$650,000.

Repeated contract extensions pose a barrier to fair access of other vendors

Establishing and continually extending contracts on a non-competitive basis poses a barrier to the fair access of other potential vendors and eliminates the potential for improved pricing that may occur from increased competition.

HSI plans to procure blanket contracts through open tendering

The 2011 procurement plan includes plans to procure all new blanket contracts through open tendering which will include pre-defined durations of contracts including any renewals or extensions.

\$1.1 million in annual savings by aggregating procurement for maintenance activities in an open and competitive tender

The first open tender to award blanket contracts in 2011 was for grounds keeping and snow services. This tender aggregated all such work at buildings managed directly by TCHC staff. Previously, contracts for these services were awarded on a decentralized basis, by HSI and by TCHC operating units. The previous contracts were awarded through a variety of procurement processes largely comprised of single tendering, informal price quotations, and selective tendering.

HSI estimates the eight new contracts will result in savings of approximately 20-25 per cent or \$1.1 million annually. This will save TCHC up to \$5.5 million over 5 years, based on the 3-year term and two 1-year extensions specified in the contract.

\$140,000 in additional savings anticipated

Furthermore, significant savings can be realized by establishing blanket contracts through an open tender. We estimate that HSI stands to save approximately \$140,000 annually by open tendering the approximately \$2.5 million in fixed fee preventive maintenance blanket contracts currently in place.

Recommendation:

- 12. The Chief Executive Officer implement procedures to enforce compliance with requirements to establish blanket contracts through open and competitive tendering processes. Procedures should:**
 - a. Ensure contract extensions beyond those specified in call documents are not employed to circumvent open competition**
 - b. Include periodic reports to the Board of Directors regarding the total value of work awarded through blanket contracts and the length of time since work was last tendered through an open competition.**

C.2. Adhere to Intent of Criteria for Single Tendering

Procedures set out exceptions where non-competitive procurement is allowed

According to HSI's Procurement Procedures, non-competitive procurement or "single tendering" may be used only in exceptional cases. The procedures also set out specific criteria where single tendering is deemed necessary.

For some single tendering contracts, staff performed informal research to support their position that a vendors' service offering or product was the only one available to meet HSI's specifications. With no formal request to the broader market it is debatable whether there is sufficient justification that other alternatives would not be acceptable. For example,

Other alternatives may be acceptable

- \$415,000 in purchases related to design, installation, inspection, maintenance and repair of roof anchors were awarded directly to one vendor on the basis that the vendor carried higher levels of liability insurance and had greater capacity to handle the volume of work anticipated.

- A contract estimated to cost \$935,000 annually for preventive maintenance of kitchen drain stacks was single tendered to a vendor who uses a chemical (bacteria) formula, tailored specifically for HSI, to clear the drains. Other chemical and non-chemical methods of drain clearing are available in the market.

Isolated examples of non-competitive procurement due to poor planning

In the sample of procurement transactions we reviewed, there were also a number of purchases where, because of emergencies such as fire or flooding, single tendering was acceptable. However, there were isolated cases which were not truly emergencies but instead were a failure by TCHC to communicate requirements on a timely basis. In these examples, the decision to invite only a single firm to price the work was unwarranted.

Report outlining rationale for single tendering were not presented to the Board of Directors for approval

In these examples, the rationale for single tendering these purchases was not presented to the Board of Directors for approval. The current delegation of financial signing authority requirements does not specifically address non-competitive procurement. In the public sector, it is typical to expect that any non-competitive procurement should be approved by an authority at least one level higher than the requirements for competitive procurement.

Recommendation:

- 13. The Chief Executive Officer implement procedures to document the rationale for non-competitive procurement. Such procedures include:**
 - a. Guidelines to define what constitutes an emergency or urgent situation and requirements to provide adequate support that the cost of purchases for the emergency are reasonable**
 - b. Guidelines on the approvals required prior to awarding the contract, based on the value of the contract being awarded.**

C.3. Enforce Compliance With Procurement Procedures

Non-compliance with competitive procurement thresholds

Dollar thresholds have been established in the Procurement Procedures to specify the type of process that should be used to obtain competitive prices.

Table 4: Competitive Procurement Thresholds
(Excerpted from HSI Procurement Procedures)

<\$10,000	<\$20,000	<\$100,000	>\$100,000
<ul style="list-style-type: none"> • Written quote not required if covered by price agreements. • Otherwise, at least one written quote, or • Local, selective or open tender 	<ul style="list-style-type: none"> • if not covered by price agreements, three written quotes required, or • Local, selective or open tender 	<ul style="list-style-type: none"> • Written quotes may be required if covered by standing price agreements, or • Local, Selective or open tender 	<ul style="list-style-type: none"> • Open tender and Minimum three bids • For short lists of consultants, contractors and project management firms and if >\$100K and less than <\$250K, 2 written quotes from list.

However, in the purchasing transactions reviewed, there were examples where procurement procedures were not followed.

For example, if a purchase exceeds the estimated threshold of \$100,000 or more, a call for open tender is required and selective tendering is not applicable. However, purchases of up to \$700,000 were made through selective tendering rather than an open tender.

For a number of the exceptions noted, management indicated that it was HSI's practice that open tendering is not required where a pre-qualified vendor list is used for selective tendering. The current practice does not recognize any dollar limits for the use of selective tendering. In adopting this practice, management did not update the Procurement Procedures to reflect higher thresholds for selective tendering where pre-qualified vendor lists are used.

The Procurement Procedures should be updated to reflect the open and selective tendering requirements where pre-qualified vendor lists are used. The procedures can be further enhanced by defining the minimum number of vendors to be invited to submit competitive bids in response to selective tenders based on defined dollar thresholds.

***Non-compliance
with approval
authority
requirements***

In a sample of purchases selected for review, there were several examples where approvals were not in compliance with the Delegation of Financial Signing Authority. In addition, there were examples where appropriate approvals were only obtained after a purchase order had already been issued. Related control gaps in HSI's procedures were identified by external consultants in early 2010. Improvements in adherence to signing authority requirements were observed from early 2010 through mid-2011. HSI is currently in the process of implementing system controls to automatically enforce compliance with authorization limits.

Recommendations:

- 14. The Chief Executive Officer review competitive procurement thresholds and recommend, for approval by the Board of Directors, any revisions required to facilitate operating needs while ensuring fair access, equitable treatment, and competition.**
- 15. The Chief Executive Officer implement procedures to ensure appropriate monitoring and enforcement of procurement procedures and controls.
Monitoring should include:**
 - a. Spot checks or audits of compliance with competitive procurement thresholds by staff independent of the contract award**
 - b. Periodic review of exception reports identifying any non-compliance or overrides to the electronic approval process.**

C.4. Improve Monitoring of Contract Changes

Monitoring of purchase order revisions has historically been weak

In common with other entities, HSI occasionally experiences circumstances where costs will exceed the amount initially approved through the initial purchasing document. In such cases, the expected procedure is to revise the original purchasing document in accordance with approved criteria. This provides clear disclosure that the initial purchase order was understated and more funds are required to complete the transaction.

In some circumstances, staff are issuing new purchase orders rather than revising existing purchase orders. This serves to circumvent financial signing authority requirements, whether intentionally or in error.

HSI rolled out a new change order process to address control weaknesses

Furthermore, even where purchase order revisions were issued, there was insufficient evidence that the required level of approval had been obtained. HSI implemented a new change order process during mid-2011 to address these control weaknesses although it was implemented subsequent to our review so we cannot comment on its effectiveness.

Recommendation:

- 16. The Chief Executive Officer develop and implement procedures to monitor compliance with the revised change order process and delegated financial signing authorities for purchase order revisions.**

C.5. Improve Verification of Services Rendered Prior to Payment

Independent verification of invoice amounts not always performed on a timely basis

Independent verification of quantities and rates charged on unit priced purchases was not always performed on a timely basis. This is because purchase orders and vendor invoices only specify a lump sum amount without providing details on the actual quantities and rates charged as well as other charges.

Consequently, staff cannot readily determine whether the rates charged by the vendor are reasonable and consistent with the terms and conditions specified in the contract.

For example, one vendor invoiced HSI for progress payments based on a percentage of an overall purchase order value rather than applying on actual work performed. The invoices were paid. Upon completion of the project, a review of the actual work performed determined that the vendor had been overpaid. This resulted in over \$110,000 in credits being issued three months later for the overpayments. These credits were subsequently applied to other work the vendor completed for HSI.

In this situation, there was no loss to HSI as the overpayment was applied to subsequent work. However, it is not good business practice to pay vendors for work not yet performed.

Recommendation:

17. The Chief Executive Officer implement and enforce procedures to ensure:

- a. All purchase orders and/or contracts issued specify the itemized prices to be charged**
- b. All invoices specify quantities and itemized prices to be charged in accordance with purchase orders**
- c. All construction invoices approved for payment be accompanied by a Certificate for Payment issued by a third-party architect, consulting engineer or in-house engineer affirming the accuracy of actual quantities invoiced.**

D. IMPROVED CONTROL OVER EMPLOYEE EXPENSES – A CORPORATE CULTURE SHIFT

HSI has implemented new controls over employee expenses

In 2011, HSI implemented new controls over employee expenses. In particular, pre-approval is necessary prior to the incurrence of staff travel and hospitality expenses. Furthermore, reimbursement for business expenses is only made when supported by detailed receipts and a Business Expense Claim form. While controls have been implemented they are not yet operating effectively. In particular, we observed examples where pre-approvals were dated after the incurrence of the expense or where there was no evidence of pre-approval of the expense.

Marked decrease in spending related to employee meals and sundry expenses

Since 2009, under new management and as a result of revised policies for employee expenses, there has been a marked decrease in spending related to employee meals and sundry expenses. In particular, staff advise that employee meals and sundry expenses decreased by approximately 50 per cent in 2010, (\$80,000 in total spending) and by over 90 per cent for the first 8 months of 2011 compared to annual spending in 2009, (\$158,000 in total).

HSI review of P-card use yields \$8,000 in voluntary reimbursements

Following the issuance of the Auditor General's report regarding employee expenses at TCHC, all but two corporate purchasing cards were cancelled. HSI management also initiated an internal review of all P-card spending from 2009 to the time the cards were cancelled. The review determined that all expenditures met the expense criteria in place at the time they were incurred. However, some of these past expenses would not be considered acceptable under current policies and as a result approximately \$8,000 was voluntarily reimbursed by existing HSI staff.

Recommendation:

- 18. The Chief Executive Officer continue to enforce procedures and monitor the operating effectiveness of controls over staff expenses.**

CONCLUSION

This report presents the results of our review of HSI's procurement procedures and activities.

In our view, the implementation of the 18 recommendations contained in this report will further improve the openness, fairness and transparency of procurement processes. Implementation of the recommendations will also result in streamlining of processes, as well as provide some potential efficiencies and cost savings.

Recommendations from this report may also provide further opportunities to improve procurement processes at TCHC additional to those raised in the February 2011 Report, "Toronto Community Housing Corporation – Procurement Policies and Procedures Are Not Being Followed". TCHC should review the recommendations contained in this report for applicability and where appropriate, such recommendations be implemented.

**Management's Response to the Auditor General's Review of
Controls Over Procurement and Payment Functions at TCHC Subsidiary: Housing Services Inc.**

<u>Rec No</u>	<u>Recommendation</u>	Agree (X)	Disagree (X)	<u>Management Comments:</u>	<u>Action Plan/ Time Frame</u>
1.	The Chief Executive Officer, in consultation with Toronto Community Housing Corporation Executive Management, identify additional opportunities to consolidate procurement of construction and maintenance services.	X		<p>As part of HSI 3-year plan, developed and approved in February, 2011 by the new HSI Board of Directors and HSI Executive team, HSI initiated shared services discussions with TCHC.</p> <p>In August 2011 the Strategic Procurement Unit, responsible for the entire Enterprise, was formalized. The unit is responsible for procurement of all goods and services for TCHC and all its subsidiaries. To re-enforce this concept, 2012 planning has commenced between the Strategic Procurement Unit and all TCHC and subsidiary business units to develop an Enterprise procurement plan that supports the 2012 budget.</p>	<ul style="list-style-type: none"> • Implemented

**Management's Response to the Auditor General's Review of
Controls Over Procurement and Payment Functions at TCHC Subsidiary: Housing Services Inc.**

<u>Rec No</u>	<u>Recommendation</u>	Agree (X)	Disagree (X)	<u>Management Comments:</u>	<u>Action Plan/ Time Frame</u>
2.	The Chief Executive Officer identify for Toronto Community Housing Corporation Executive Management areas where additional construction and maintenance work can be allocated to Housing Services Inc.	X		<p>HSI 3-year plan outlines that HSI will be a part of the TCHC long term and short term planning process which will enable the HSI infrastructure to be utilized to its full capacity and capability.</p> <p>A task force/project team was set up in mid 2011 and has been working on a new structure to consolidate work to be delivered by HSI. The new structure being implemented, "Enterprise Portfolio Management and Delivery", will be accountable for the overall portfolio management practice within the Enterprise</p>	<ul style="list-style-type: none"> • Enterprise Portfolio Management and Delivery team in place for structure consolidation at end of Q1 2012. • Portfolio management practices to be rolled out throughout 2012.
3.	The Chief Executive Officer explore opportunities to enter into co-operative purchasing agreements with the City and its Agencies, Boards, Commissions and Corporations, other municipalities, public organizations, and other levels of government.	X		<p>The Enterprise Strategic Procurement Unit is currently working with the City to leverage its purchasing power. TCHC has implemented a pilot program to purchase goods from the City Stores. Expansion of the City stores program and utilization of the City's corporate administration contracts planned, by Q2 2012. The unit will continue to explore other opportunities with the City and its Agencies.</p>	<ul style="list-style-type: none"> • Pilot initiated in late 2011. • Expansion of program in 2012.

**Management’s Response to the Auditor General’s Review of
Controls Over Procurement and Payment Functions at TCHC Subsidiary: Housing Services Inc.**

<u>Rec No</u>	<u>Recommendation</u>	Agree (X)	Disagree (X)	<u>Management Comments:</u>	<u>Action Plan/ Time Frame</u>
4.	The Chief Executive Officer, in consultation with Toronto Community Housing Corporation Executive Management, develop and communicate a procurement plan that closely aligns with Toronto Community Housing Corporation’s long term business and capital plans.	X		HSI has been working with TCHC to formalize a longer term procurement plan based on TCHC’s long term portfolio plan. See 1 & 2 also above.	<ul style="list-style-type: none"> • In progress
5.	The Chief Executive Officer, in consultation with Toronto Community Housing Corporation Executive Management, establish protocols for timely communication of any significant changes to Toronto Community Housing Corporation’s budget, prioritization, or scope of construction projects which impact Housing Service Inc.’s procurement strategy and/or utilization of internal trades.	X		See 1 & 2 above.	

**Management's Response to the Auditor General's Review of
Controls Over Procurement and Payment Functions at TCHC Subsidiary: Housing Services Inc.**

<u>Rec No</u>	<u>Recommendation</u>	Agree (X)	Disagree (X)	<u>Management Comments:</u>	<u>Action Plan/ Time Frame</u>
6.	The Chief Executive Officer, in consultation with Toronto Community Housing Corporation Executive Management, implement controls to ensure that all purchasing done on behalf of Toronto Community Housing Corporation follows appropriate procurement processes.	X		<p>As part of the HSI 3-year plan to review and update policies and procedures, the Enterprise Procurement Policy and Procedures are currently being updated to incorporate and formalize improved practices, controls and work flows already existing in the business. This will be enhanced by the recommendations of this report. The updated Enterprise Policy and Procedures will be reviewed by a 3rd party.</p> <p>Enterprise wide workshops will be conducted with all appropriate staff to ensure full understanding of the updated Policy and Procedures.</p>	<ul style="list-style-type: none"> ● 1st draft of policy to be completed in Q1 2012. ● Final draft to be approved in Q2 2012. ● Workshops will be conducted throughout 2012. ● Operationalization of the Enterprise procurement plan will be throughout 2012.

**Management’s Response to the Auditor General’s Review of
Controls Over Procurement and Payment Functions at TCHC Subsidiary: Housing Services Inc.**

<u>Rec No</u>	<u>Recommendation</u>	Agree (X)	Disagree (X)	<u>Management Comments:</u>	<u>Action Plan/ Time Frame</u>
7.	<p>The Chief Executive Officer review and recommend for Board approval updates to the Procurement Policy and Procedures. Updates should address issues such as:</p> <ul style="list-style-type: none"> a. Procedures for how vendor lists should be established, maintained and utilized b. Necessary approval authorities and reporting regarding the aggregated use of vendor lists c. Methodology for setting standard prices for all vendors performing specific types of work d. Procedures for preparing, issuing, receiving, evaluating and awarding informal requests for price quotations e. Requirement for retention of procurement documents in paper and/or electronic format. 	X		See 6 above.	

**Management’s Response to the Auditor General’s Review of
Controls Over Procurement and Payment Functions at TCHC Subsidiary: Housing Services Inc.**

<u>Rec No</u>	<u>Recommendation</u>	Agree (X)	Disagree (X)	<u>Management Comments:</u>	<u>Action Plan/ Time Frame</u>
8.	<p>The Chief Executive Officer ensure call documents for the pre-qualification of vendors clearly outline the process for using the list, including:</p> <p>a. Method(s) for adding and removing vendors from the list and the period of time the list remains valid</p> <p>b. The scope of work that can be awarded through the vendor list</p> <p>c. Upper limits of the value of future awards including the maximum value of work that can be awarded through the list without an open tender</p> <p>d. Procedures for awarding or assigning work to vendors</p> <p>e. Procedures for evaluating vendor performance and the impact on future work assignments.</p>	X		<p>All future call documents for the prequalification of vendors will incorporate the recommendations noted.</p> <p>See also 6 above</p>	<ul style="list-style-type: none"> Implemented for 2012.

**Management’s Response to the Auditor General’s Review of
Controls Over Procurement and Payment Functions at TCHC Subsidiary: Housing Services Inc.**

<u>Rec No</u>	<u>Recommendation</u>	Agree (X)	Disagree (X)	<u>Management Comments:</u>	<u>Action Plan/ Time Frame</u>
9.	The Chief Executive Officer implement procedures to ensure vendor lists are used in accordance with processes set out in pre-qualification call documents.	X		See 6 above.	

**Management’s Response to the Auditor General’s Review of
Controls Over Procurement and Payment Functions at TCHC Subsidiary: Housing Services Inc.**

<u>Rec No</u>	<u>Recommendation</u>	Agree (X)	Disagree (X)	<u>Management Comments:</u>	<u>Action Plan/ Time Frame</u>
10.	<p>The Chief Executive Officer, in consultation with legal counsel, develop and implement formal procedures regarding vendor performance which describe:</p> <p>a. Vendor performance monitoring practices, both during a contract and at its conclusion</p> <p>b. Impact of poor performance on the assignment of work or award of future contracts to vendors</p> <p>c. The steps that will be taken to suspend vendors from submitting bids and from being assigned work through the vendor lists, period of time vendors can be suspended from bidding on Housing Services Inc. contracts, steps to rescind suspensions, and requirements for approval of suspensions by the Board of Directors.</p>	X		<p>HSI currently performs informal vendor performance evaluation. As part of HSI 3-year plan to refresh the vendor list, the current vendor performance monitoring practices will be enhanced and formalized.</p>	<ul style="list-style-type: none"> • Vendor performance scorecards to be rolled out throughout 2012.

**Management’s Response to the Auditor General’s Review of
Controls Over Procurement and Payment Functions at TCHC Subsidiary: Housing Services Inc.**

<u>Rec No</u>	<u>Recommendation</u>	Agree (X)	Disagree (X)	<u>Management Comments:</u>	<u>Action Plan/ Time Frame</u>
11.	The Chief Executive Officer enhance processes and controls to ensure equitable distribution of work amongst vendors. Enhancements should include reporting of the distribution of work which clearly explains and supports any significant variances.	X		<p>HSI actively monitors the distribution of work to ensure that various size vendors with specialized skill sets are included.</p> <p>Formalize periodic reporting of the distribution of work with explanation and support for any significant variances will be implemented.</p> <p>See also 6 above.</p>	<ul style="list-style-type: none"> Consistent periodic reporting will begin in 2012.

**Management’s Response to the Auditor General’s Review of
Controls Over Procurement and Payment Functions at TCHC Subsidiary: Housing Services Inc.**

<u>Rec No</u>	<u>Recommendation</u>	Agree (X)	Disagree (X)	<u>Management Comments:</u>	<u>Action Plan/ Time Frame</u>
12.	<p>The Chief Executive Officer implement procedures to enforce compliance with requirements to establish blanket contracts through open and competitive tendering processes. Procedures should:</p> <p>a. Ensure contract extensions beyond those specified in call documents are not employed to circumvent open competition</p> <p>b. Include periodic reports to the Board of Directors regarding the total value of work awarded through blanket contracts and the length of time since work was last tendered through an open competition.</p>	X		<p>HSI formally reports to the Board of Directors the total value of work awarded through blanket purchase orders and the validity periods for the purchase orders.</p> <p>Report will be enhanced to include procurement plan.</p> <p>See also 6 above.</p>	<ul style="list-style-type: none"> Implemented and will be extended to Enterprise.

**Management’s Response to the Auditor General’s Review of
Controls Over Procurement and Payment Functions at TCHC Subsidiary: Housing Services Inc.**

<u>Rec No</u>	<u>Recommendation</u>	Agree (X)	Disagree (X)	<u>Management Comments:</u>	<u>Action Plan/ Time Frame</u>
13.	<p>The Chief Executive Officer implement procedures to document the rationale for non-competitive procurement. Such procedures include:</p> <p>a. Guidelines to define what constitutes an emergency or urgent situation and requirements to provide adequate support that the cost of purchases for the emergency are reasonable</p> <p>b. Guidelines on the approvals required prior to awarding the contract, based on the value of the contract being awarded.</p>	X		<p>Definitions for emergency versus urgent situations are being refined to include clearer language. Guidelines for appropriate procedures and approvals are being updated.</p> <p>All non-competitive procurement outside of emergency situations will be reported to the HSI Board of Directors.</p>	<ul style="list-style-type: none"> • To be completed Q1 2012.

**Management’s Response to the Auditor General’s Review of
Controls Over Procurement and Payment Functions at TCHC Subsidiary: Housing Services Inc.**

<u>Rec No</u>	<u>Recommendation</u>	Agree (X)	Disagree (X)	<u>Management Comments:</u>	<u>Action Plan/ Time Frame</u>
14.	The Chief Executive Officer review competitive procurement thresholds and recommend, for approval by the Board of Directors, any revisions required to facilitate operating needs while ensuring fair access, equitable treatment, and competition.	X		<p>Competitive procurement thresholds are reviewed periodically and all recommendations for change are approved by the Board of Directors.</p> <p>The thresholds are set out in the Procurement Policy and Procedures. Updates to the Enterprise Procurement Policy and Procedures will add clarity to threshold levels and how they are to be used.</p> <p>See also 6 above.</p>	<ul style="list-style-type: none"> Approval of updated Enterprise Procurement Policy and Procedures by the Board of Directors in Q2 2012.

**Management's Response to the Auditor General's Review of
Controls Over Procurement and Payment Functions at TCHC Subsidiary: Housing Services Inc.**

<u>Rec No</u>	<u>Recommendation</u>	Agree (X)	Disagree (X)	<u>Management Comments:</u>	<u>Action Plan/ Time Frame</u>
15.	<p>The Chief Executive Officer implement procedures to ensure appropriate monitoring and enforcement of procurement procedures and controls. Monitoring should include:</p> <p>a. Spot checks or audits of compliance with competitive procurement thresholds by staff independent of the contract award</p> <p>b. Periodic review of exception reports identifying any non-compliance or overrides to the electronic approval process.</p>	X		<p>The Strategic Procurement unit will be working with the TCHC Compliance unit to implement spot checks, exception reporting and periodic review of all its processes.</p>	<ul style="list-style-type: none"> The 2012 Internal Audit work plan includes procurement procedures and controls.
16.	<p>The Chief Executive Officer develop and implement procedures to monitor compliance with the revised change order process and delegated financial signing authorities for purchase order revisions.</p>	X		<p>HSI is putting more focus on ensuring the scope of work is accurate and limiting the number of change orders required.</p> <p>Change order approval thresholds have been established and implemented.</p>	<ul style="list-style-type: none"> Completed mid 2011.

**Management's Response to the Auditor General's Review of
Controls Over Procurement and Payment Functions at TCHC Subsidiary: Housing Services Inc.**

<u>Rec No</u>	<u>Recommendation</u>	Agree (X)	Disagree (X)	<u>Management Comments:</u>	<u>Action Plan/Time Frame</u>
17.	<p>The Chief Executive Officer implement and enforce procedures to ensure:</p> <p>a. All purchase orders and/or contracts issued specify the itemized prices to be charged</p> <p>b. All invoices specify quantities and itemized prices to be charged in accordance with purchase orders</p> <p>c. All construction invoices approved for payment be accompanied by a Certificate for Payment issued by a third-party architect, consulting engineer or in-house engineer affirming the accuracy of actual quantities invoiced.</p>	X		<p>The quantity take off details for most jobs are contained in tender documents or other project documents, and not necessarily on the purchase orders and/or invoices. Supporting documents to the purchase orders will have the specifics.</p> <p>All invoices are reconciled to the purchase orders prior to payment.</p> <p>Not all construction jobs follow the Certificate of Payment process. HSI is currently enhancing its Project Management Practice to include processes and procedures for work which follow the Certificate of Payment process and those which do not.</p>	<ul style="list-style-type: none"> • Ongoing in 2012.
18.	<p>The Chief Executive Officer continue to enforce procedures and monitor the operating effectiveness of controls over staff expenses.</p>	X			



AUDITOR GENERAL'S REPORT ACTION REQUIRED

Toronto Community Housing Corporation – The City and Toronto Community Housing Corporation Needs to Strengthen its Oversight of Subsidiaries and Other Business Interests

Date:	February 3, 2012
To:	Board of Directors of the Toronto Community Housing Corporation
From:	Auditor General
Wards:	All
Reference Number:	

SUMMARY

In 2011, the Auditor General issued two separate audit reports relating to the Toronto Community Housing Corporation (TCHC) as follows:

- Toronto Community Housing Corporation – Procurement Policies and Procedures Are Not Being Followed
- Toronto Community Housing Corporation – Controls Over Employee Expenses Are Ineffective

In view of the absence of basic internal controls identified in both reports, the Auditor General determined that further audit work in other areas within TCHC should be conducted during the balance of 2011.

One of the projects selected related to the procurement process at Housing Services Inc. (HSI) a subsidiary of TCHC. While reviewing the governance structure at HSI, it became apparent that there were a significant number of other subsidiary companies, joint ventures, as well as two further minority equity investments. Our initial review of these entities indicated that there had been minimal reporting to both the TCHC and the City of any detailed information and, in particular, financial information. Consequently, it was determined that a more detailed analysis of TCHC's governance structure be conducted.

The detailed audit report entitled “Toronto Community Housing Corporation – The City and Toronto Community Housing Corporation Needs to Strengthen its Oversight of Subsidiaries and Other Business Interests” is attached to this report as Appendix 1. A management response to each of the recommendations in the report is attached as Appendix 2.

RECOMMENDATIONS

The Auditor General recommends that:

1. The Chief Executive Officer review, and update as necessary, the original Framework for the Establishment of Subsidiary Corporations with a view to briefing the new Board of Directors and reporting publicly to the Shareholder regarding this Framework.
2. The Chief Executive Officer, in consultation with the City Manager, review the current Shareholder Direction in order to ensure that all provisions contained in the Shareholder Direction are complied with.
3. The Chief Executive Officer prepare a report to the Shareholder on:
 - a. The business case for each existing subsidiary corporation and significant investment interest, providing background information on purpose, governance, and other such information as may be relevant. Such information be reported in each Annual Report to the Shareholder;
 - b. Any new subsidiaries or significant investment interests established by Toronto Community Housing Corporation, at the earliest possible opportunity, in keeping with the Shareholder Direction; and
 - c. Requirements for financial and performance reporting to the City regarding Toronto Community Housing Corporation subsidiary corporations and significant investment interests.
4. The Chief Executive Officer, in consultation with the City Manager, update and clarify the governance and accountability framework between the City and Toronto Community Housing Corporation regarding both Toronto Community Housing Corporation and its subsidiaries. Such framework include a direction regarding the composition of Boards of Toronto Community Housing Corporation subsidiary corporations and significant investment interests.
5. The Chair of the Toronto Community Housing Corporation Board of Directors, as well as the Chairs of the subsidiary Boards of Directors, in consultation with Legal Counsel, implement a confidential reporting protocol with a view to reporting in public to the greatest extent possible.

6. The Chief Executive Officer complete plans for reviewing and updating internal policies with a view to developing a harmonized, integrated corporate policy framework, business practices, and internal controls.
7. The Chief Executive Officer evaluate the feasibility and associated risks of integrating subsidiaries within Toronto Community Housing Corporation, giving consideration to potential operational efficiencies, staff resource re-allocation, and cost savings that can be gained from a more integrated operating structure.
8. The Chief Executive Officer, in conjunction with the recommended review of the benefits of integration, conduct a comprehensive review of each subsidiary to evaluate whether the goals and benefits of their separate existence are being achieved and continues to be the most appropriate governance structure.
9. This report be forwarded to the City's Executive Committee for information.

Financial Impact

The implementation of recommendations in this report will address a number of fundamental issues regarding the governance structure under which TCHC operates. Further, the potential consolidation and coordination of certain TCHC and subsidiary activities has the potential for cost savings and efficiencies. The extent of any resources required or potential cost savings resulting from implementing the recommendations in this report is not determinable at this time.

COMMENTS

TCHC has operated as an independent, City-owned corporation since January 1, 2002. TCHC's operational responsibilities include the management of both buildings and tenancies within its portfolio of market value and subsidized rent-geared-to income housing units.

A Shareholder Direction defines the corporate relationship between TCHC and the City of Toronto, including principles of governance and accountability. The Shareholder Direction is accessible at:

<http://www.toronto.ca/legdocs/mmis/2011/cc/comm/communicationfile-20433.pdf>

The Shareholder Direction allows the creation of subsidiary companies. In accordance with this Shareholder Direction, the business and affairs of the subsidiaries are to be managed or supervised by their respective Boards of Directors. Accountability is maintained through Shareholder Directions established between TCHC and each of its subsidiaries.

This report contains eight recommendations to address a number of issues regarding the governance structure under which TCHC operates. The immediate priority of both the TCHC and the City should be to clearly define the purpose and the roles and

responsibilities of each one of the subsidiaries, joint ventures and other business investments.

The reporting of financial results of TCHC's subsidiary companies to both TCHC and the City should be addressed.

Finally, the consolidation and coordination of certain TCHC and subsidiary activities has the potential for cost savings and efficiencies.

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SIGNATURE

Jeff Griffiths, Auditor General

11-TCH-02

ATTACHMENTS

[Appendix 1:](#) Review of Toronto Community Housing Corporation – The City and Toronto Community Housing Corporation Needs to Strengthen its Oversight of Subsidiaries and Other Business Interests

[Appendix 2:](#) Management's Response to the Auditor General's Review of Toronto Community Housing Corporation – The City and Toronto Community Housing Corporation Needs to Strengthen its Oversight of Subsidiaries and Other Business Interests

APPENDIX 1

Toronto Community Housing Corporation

**The City and Toronto Community Housing
Corporation Needs to Strengthen its Oversight of
Subsidiaries and Other Business Interests**

December 1, 2011



Auditor General's Office

Jeffrey Griffiths, C.A., C.F.E.
Auditor General
City of Toronto

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EXECUTIVE SUMMARY

***TCHC
incorporated in
2000. City
approved a
Shareholder
Direction***

Toronto Community Housing Corporation (TCHC) was incorporated under the provisions of the Ontario Business Corporations Act in 2000 and is wholly owned by the City of Toronto. In establishing TCHC, the City approved a Shareholder Direction that set guiding principles, high level objectives and expected accountability to the City.

The Shareholder Direction established TCHC as a non-profit corporation operating at arm's length from the City, under the direction of an independent Board of Directors.

TCHC owns and manages housing for low and moderate income tenants.

***TCHC established
a number of
subsidiaries***

In fulfilling its mandate, TCHC has established the following wholly owned subsidiary companies:

- Don Mount Court Development Corporation
- 2001064 Ontario Inc.
- Access Housing Connections Inc.
- Regent Park Development Corporation
- Housing Services Inc.
- Toronto Community Housing Enterprises Inc.
- Railway Lands Development Corporation
- Toronto Affordable Housing Fund

In addition, TCHC also participates in a number of joint ventures as follows:

- Dundas and Parliament Development Corporation
- Library District Inc.
- Parliament and Gerrard Development Corporation
- Regent Park Community Energy Inc.
- Regent Park Arts Non-Profit Development Corporation

TCHC has a 50 per cent ownership in each of the above entities except in the case of Regent Park Community Energy Inc. where its investment is 60 per cent.

TCHC also has an equity position in a number of other entities

TCHC also has an ownership interest in a corporation known as InnoServ Solar, which provides solar energy services to the social housing sector. TCHC owns a 35 per cent interest in the company.

Until recently Toronto Community Housing had a 35 per cent interest in an entity known as Sparkle Income Fund. Sparkle Income Fund itself had an interest in a number of subsidiary companies. TCHC sold its interest to Sparkle's management group in late 2011.

Subsidiary Task Force established

In January, 2010 the previous Board of TCHC formed a Subsidiary Review Task Force "to review the current subsidiary structure in light of best practices and deliver recommendations on aspects governing subsidiary oversight."

The recommendations of the Subsidiary Review Task Force were approved by the TCHC Board in August 2010 and related to:

- 1) Revamped Subsidiary Board/Officers Structure,*
- 2) Key Matters requiring Parent Board Approval,*
- 3) Annual and Quarterly Reporting, and*
- 4) New Shareholder Direction."*

Level of parent oversight needs to be balanced against independence

One of the overriding issues identified in the report of the Task Force related to the level of oversight by TCHC. The Task Force report stated that:

"it is appropriate for parent companies to require and exert high level subsidiary oversight. Conversely, subsidiaries need the latitude to manage their businesses and fulfill their corporate goals. The key here is to strike the balance between parental oversight and subsidiary independence."

While this comment specifically relates to the relationship of TCHC with its own subsidiary companies, it applies equally to the relationship of TCHC and its subsidiary companies with the City.

While we recognize the need to "strike the balance" between parental oversight and subsidiary independence, the extent of current TCHC and City oversight is limited particularly in regards to the reporting of financial information of the subsidiary companies, joint ventures and other business interests to the City.

Reporting to the TCHC is limited

The reporting to TCHC of the financial results of its subsidiaries, joint ventures and other equity interests has been limited and in some cases nonexistent. The Subsidiary Review Task Force, in its recommendations to the Board, clearly recognized its oversight responsibilities, particularly in terms of financial reporting requirements.

While we are in agreement with the recommendations of the Task Force, there has been no follow up to ensure that the recommendations have been implemented. In particular, the implementation of the recommendations should have been applied retroactively to take into account the lack of review by the former Board of prior years financial statements.

In addition, while the Task Force is accurate in its contention that “*substantially all of the joint venture entity statements are currently audited*”, a number of the subsidiary companies financial statements have not been audited.

Reporting to the City is limited

Further, the reporting of the financial results of TCHC subsidiaries, joint ventures and other equity interests to the City is generally restricted to high level information contained in TCHC’s annual consolidated audited financial statements. Based on our review it appears that the only reporting to the City of each of these entities is the summarized and abbreviated financial information contained in the notes to the consolidated financial statements of TCHC.

Subsidiary issues require attention

While we have not reviewed in detail the financial information of TCHC’s subsidiaries, joint ventures and other equity investments it is apparent that there are a number of areas requiring additional attention by both TCHC and the City. For example:

- Access Housing Connections Inc. manages the wait list for social housing providers across the City on behalf of the City’s requirements as Service Manager. Since its incorporation in 2003, its financial statements have not been subject to audit. TCHC has been meeting with the City since 2010 to assess wait list services including whether or not there are more cost effective ways of delivering the services provided by the company.

- Approximately 90 per cent of HSI's revenue is generated from TCHC. A review should be conducted to determine if there are more cost effective ways of delivering the services provided by HSI.
- Regent Park Community Energy System Joint Venture has incurred operating losses of \$1.8 million in 2010 and \$1.3 million in 2009. TCHC's share of its investment in the joint venture is in the range of \$19 million. In view of the recurring losses there is a need to articulate to both the TCHC and the City the extent of projected financial results and when the company is expected to attain profitability.

TCHC's minority interest in a number of other business interests is also an area requiring evaluation particularly in the context of preparing and communicating to the City business cases supporting the investments. The City, even though it is a 100 per cent shareholder, has not been privy to decisions pertaining to the acquisition of these investments.

Acquisitions of minority interests in contravention of Shareholder Direction

TCHC along with the City needs to evaluate whether or not TCHC's role should be to acquire minority equity investments in for-profit corporations. The Shareholder Direction between the City and TCHC specifically states that "*subsidiaries may be wholly owned or may be corporations in which TCHC has a majority interest.*" The acquisition of business in which TCHC has a minority interest is in contravention of the Shareholder Direction.

Equity investment not a core business

The recent sale of one of its equity investments Sparkle Income Fund, as we understand, was due to the fact that the investment was not regarded by TCHC management as core to TCHC's mandate. If this is the case it brings into question why the investment was originally contemplated at the time the investment was made.

As the mandate of the Subsidiary Review Task Force focussed on oversight issues, it did not specifically address the significant financial implications of operating subsidiary companies as independent and self sustaining entities.

Closer coordination between the City, TCHC and its subsidiaries would be beneficial

The Shareholder Direction between TCHC and the City very clearly recognizes the Board's authority to manage or supervise the management of the business and affairs of TCHC and its subsidiaries. However, the Shareholder Direction does not preclude an integration or consolidation of certain functions between TCHC, its subsidiaries and the City. An increased coordination of procurement activities, information technology, fleet management and a range of other activities would likely generate cost savings and efficiencies and is an avenue that should be explored.

Board appointments require review

Finally, there is a need to ensure that appointments to the Boards of each of the subsidiary companies are fair and transparent and, if deemed appropriate, are in accordance with the City's Public Appointments Policy and the Shareholder Direction between the City and the TCHC. Further, there is a need to clearly clarify the term of office of each of the Directors. We understand that these issues are currently under consideration by TCHC.

Conclusion

This report addresses a number of fundamental issues regarding the governance structure under which TCHC operates. The immediate priority of both the TCHC and the City should be to clearly define the purpose and the roles and responsibilities of each one of the subsidiaries, joint ventures and other business investments.

The timely and regular reporting of financial results of TCHC's subsidiary companies to both the TCHC Board and City Council should be addressed. It is inappropriate that the City as a 100 per cent shareholder in TCHC is not provided with the detailed financial results of all of its subsidiary companies. The current level of reporting is not adequate.

Finally, the consolidation and coordination of certain TCHC and subsidiary activities has the potential for efficiencies and cost savings. This is an area that requires immediate review in order to realize both efficiencies and savings.

BACKGROUND

Operational responsibilities

Toronto Community Housing Corporation (TCHC) has operated as an independent, City-owned corporation since January 1, 2002. TCHC's operational responsibilities include the management of both buildings and tenancies within its portfolio of market value and subsidized rent-geared-to income housing units.

Financial highlights

The TCHC has budgeted 2011 housing operation revenue of \$591 million and operating expenditures of \$514 million. The surplus cash flow from operations is necessary to help fund investment in buildings and make contributions to capital reserves.

Corporate governance

TCHC is governed by a 13 member Board of Directors appointed by the City comprising:

- the Mayor or a member of Council as the Mayor's designate
- 3 City Councillors
- 2 citizen members who are tenants, to be directly selected by tenants and recommended to Council
- 7 citizen members

A Shareholder Direction defines the corporate relationship between TCHC and the City of Toronto, including principles of governance and accountability. The Shareholder Direction is accessible at:

<http://www.toronto.ca/legdocs/mmis/2011/cc/comm/communicationfile-20433.pdf>

Creation of subsidiaries

The Shareholder Direction allows the creation of subsidiary companies. In accordance with this Shareholder Direction, the business and affairs of the subsidiaries are to be managed or supervised by their respective Boards of Directors.

Accountability is maintained through Shareholder Directions established between TCHC and each of its subsidiaries.

In 2003, the first four self-governing subsidiary corporations were established based on a TCHC Board-approved governance framework:

- Don Mount Court Redevelopment Corporation
- Regent Park Development Corporation
- Access Housing Connections Inc.
- Housing Services Inc.

Since that time, TCHC has established the following additional subsidiary corporations, joint ventures as well as made other ownership investments:

***TCHC
subsidiaries
incorporated***

Subsidiaries:

- 2001064 Ontario Inc.
- Toronto Community Housing Enterprises Inc.
- Railway Lands Development Corporation
- Toronto Affordable Housing Fund

***TCHC joint
ventures
established***

Joint Ventures:

- Dundas and Parliament Development Corporation
- Library District Inc.
- Parliament and Gerrard Development Corporation
- Regent Park Community Energy Inc.
- Regent Park Arts Non-Profit Development Corporation

TCHC has a 50 per cent ownership in each of the joint ventures except in the case of Regent Park Community Energy Inc. where its investment is 60 per cent.

***TCHC also has an
equity position in a
number of other
entities***

Other Ownership Interests

TCHC also has an ownership interest in a corporation known as InnoServ Solar, which provides solar energy services to the social housing sector. TCHC owns a 35 per cent interest in the company.

Until recently, Toronto Community Housing had a 35 per cent interest in an entity known as Sparkle Income Fund. TCHC sold its interest to Sparkle's management group in late 2011.

Subsidiary Task Force established in 2010

A Subsidiary Task Force comprised of three non-Council members of the TCHC Board of Directors was convened in 2010 to review the corporate structure. According to the Task Force report to the Board of Directors in July 2010, “*the subsidiary model is used to achieve a number of goals/benefits:*

- *Leverage core capabilities into revenue generation opportunities (e.g., HSI core maintenance / operations expertise);*
- *Focused management team with a single business purpose;*
- *Greater entrepreneurship and nimbleness to take advantage of business opportunities; and*
- *Parent insulation from subsidiary’s liabilities.”*

Joint Ventures established

In addition to wholly owned subsidiaries, TCHC has established a number of joint ventures. According to the July 2010 [Subsidiary Review Task Force Report](http://www.torontohousing.ca/webfm_send/6623/1) (http://www.torontohousing.ca/webfm_send/6623/1):

“Joint ventures are a special subset of subsidiaries in that they are entities in which Toronto Community Housing has a significant equity interest alongside a joint venture partner. Joint ventures are strategic investments used to achieve specific goals:

- *Opportunistic investments in non-core business activities*
- *Joint Venture partners have specialized knowledge and expertise that can be coupled with Toronto Community Housing’s position as the largest landlord in Canada to create mutual business opportunities*
- *Revenue generation with private sector discipline and drivers*
- *Shared risk, capital, overhead and profits.”*

Other business interests

TCHC also holds a minority interest in a company known as InnoServ Solar and until recently held a minority interest in a company known as Sparkle Income Fund.

The recommendations in the Subsidiary Review Task Force report related to:

- 1) Revamped Subsidiary Board/Officers Structure,
- 2) Key Matters requiring Parent Board Approval,
- 3) Annual and Quarterly Reporting, and
- 4) New Shareholder Direction.

The recommendations of the Subsidiary Review Task Force were approved by the Board.

AUDIT OBJECTIVES, SCOPE AND METHODOLOGY

2011 Audit Work Plan

In early 2011, the Auditor General issued two audit reports on the Toronto Community Housing Corporation (TCHC). These reports were:

- Toronto Community Housing Corporation – Controls Over Employee Expenses Are Ineffective
- Toronto Community Housing Corporation – Procurement Policies and Procedures Are Not Being Followed

Both reviews were restricted to TCHC and did not include a review of the TCHC subsidiary companies, joint ventures or other ownership interests.

The Auditor General's 2011 audit work plan identified TCHC, including its subsidiaries, as a priority for additional audits.

Extent and scope of audit

During 2011, a review of the procurement process was conducted at Housing Services Inc. (HSI). During this review, the specific reasons for the establishment of HSI as a separate and distinct legal entity were the subject of discussion with the Managing Director of TCHC. In addition, and in this context, the specific reasons for the existence of certain other subsidiary companies along with a number of joint ventures and other business interests were areas of further discussion.

The general lack of clarity in terms of the existence of the subsidiaries, the purpose for the subsidiaries and an absence of detailed financial information very clearly points to a need for further review and analysis.

Objective of Review

In general terms, the major objective of the review was to determine whether or not the provisions in the Shareholder Direction between the City and TCHC were complied with.

***Review
Methodology***

Our review included the following:

- Review of the original [Shareholder Direction](#) between TCHC and the City of Toronto established in 2001 (http://www.torontohousing.ca/webfm_send/7239)
- Review of TCHC annual reports to the City.
- Review of the Shareholder Direction, Operating Level Agreement, and the 2011-2013 Business Plan related to HSI
- Review of the Shareholder Direction and Operating Level Agreement with Access Housing Connections Inc.
- Review of TCHC's Audited Financial Statements for the Year Ended December 31, 2010
- Review of the audited financial statements of HSI for the year ended December 31, 2010
- Review of the unaudited financial statements of Access Housing Connections Inc. for the year ended December 31, 2010
- Review of the financial statements of certain other subsidiary companies including various joint ventures
- Review of framework for the Establishment of TCHC Subsidiary Corporations, November 2003
- Review of management reports, documents, and other records obtained during the course of other audits conducted by the Auditor General in relation to TCHC and its subsidiaries
- Review of reports issued by the Auditor General of Canada related to the governance and accountability framework for Crown Corporations.

Our review generally covered the period from the original Shareholder Agreement between the City and TCHC to December 2011.

Compliance with generally accepted government auditing standards

We conducted this performance 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.

AUDIT RESULTS

The Reporting of Subsidiary Company Activities to the TCHC Board is Limited

Task Force made appropriate recommendations

The Subsidiary Review Task Force made a number of valid and fundamental recommendations to the Board of TCHC in its report dated July 26, 2010. The Task Force included in its recommendations that there be “*quarterly and annual reporting on:*

- *Business plan and financial budget performance*
- *Key performance indicators*
- *Enterprise risk mitigation strategy*

The annual report will include annual financial statements in audited form if required by Toronto Community Housing. At present, HSI statements are audited and Housing Connections are consolidated into the audited parent statements. Substantially all the joint venture entity statements are currently audited.”

The Task Force further advised the Board “*that the recommendations in this report be implemented effective 2010.*” In spite of the fact that the recommendations were approved by the Board, they have not yet been implemented.

***Recommendations
not implemented***

While we agree that “*substantially all the joint venture entity statements are currently audited*”, a number of the financial statements of the subsidiary companies have not been audited.

Further, based on the information available to us, it appears that limited financial information pertaining to the subsidiary companies, the joint ventures and the other equity investments has been reported to the TCHC Board.

The Reporting of Subsidiary Company Activities to the City is Limited

***No requirement
for Council to
approve creation
of subsidiary
corporations***

When the Shareholder Direction between TCHC and the City was being established, a motion was made at the September 20, 2001 joint meeting of the City’s Policy and Finance Committee and Community Services Committee that the Shareholder Direction be amended to specifically require Council approval for the creation of any subsidiary companies.

***TCHC has
authority to
establish
subsidiaries***

In accordance with a report dated September 28, 2001 by the City’s then acting Chief Administrative Officer, Council did not adopt the motion at its meeting on October 2, 3, and 4, 2001 because it was considered inconsistent with its decision to establish TCHC as an arm’s length corporation. It was viewed that such an amendment would result in the City assuming the Board’s decision-making responsibilities. Therefore, the Shareholder Direction empowered TCHC to create subsidiary corporations at the sole discretion of the TCHC Board of Directors.

***Framework for
establishing
subsidiaries not
presented to
Council***

In July 2003, around the time TCHC began the process of establishing the first four subsidiary corporations, Council requested the City’s Chief Administrative Officer to prepare a report on parameters for TCHC subsidiary corporations in consultation with TCHC. While the Board of Directors of TCHC received a report on a framework for the establishment of TCHC subsidiaries in early 2004, there is no record of such a report being presented to Council.

Section (4.2.3) of the Shareholder Direction between TCHC and the City provides that where TCHC creates a subsidiary, as defined in the Shareholder Direction, it will inform the City of this at the “earliest possible opportunity, and include information related to the purpose, governance, and other such information as may be relevant.”

There is also reference in the Shareholder Direction to the fact that *“subsidiaries may be wholly owned, or may be corporations in which TCHC has a majority interest.”*

When the Don Mount Court Development Corporation was first set up, a briefing note, containing the information required under the Shareholder Direction, was provided to Council at its meeting on April 14, 15 and 16, 2003 through the then Chief Administrative Officer.

City was not informed of the creation of subsidiaries on a timely basis

No report was provided to Council for any other TCHC subsidiary. However, explanatory information concerning the following TCHC’s first four subsidiaries was included in the 2005 Annual Report to the City:

- Don Mount Court Development Corporation
- Regent Park Development Corporation
- Access Housing Connections Inc.
- Housing Services Inc.

The 2005 Annual Report to the City was received by Council at its meeting on September 25, 26 and 27, 2006, more than two years after certain of these subsidiaries were created.

In addition, included in the report is a reference to the fact that

“TCHC is a partner in a joint venture with other owners/operators of multi-residential properties in the provision of laundry services called Sparkle, and is the owner of 2001064 Ontario Limited which has no revenues or expenses but holds the title to a property in downtown Toronto used for office purposes.”

Since then, TCHC has reported to Council limited information regarding any additional subsidiaries and other investment interests. In particular, Council was not made aware of the extent of TCHC’s 35 per cent investment in Sparkle which was contrary to the Shareholder Direction which required that *“subsidiaries may be wholly owned or may be corporations in which TCHC has a majority interest.”*

No information provided to Council on certain subsidiary companies or other investments

As far as we have been able to ascertain, there was never any public discussion or report to the City regarding TCHC's 35 per cent investment in Sparkle. The primary and limited disclosure of the investment was through TCHC's audited financial statements. Starting in 2005, the audited financial statements indicated that TCHC had invested in Sparkle, together with other landlords and investors.

Audited financial statements of business interests not submitted to the City

The 2005 audited financial statements of TCHC indicated that TCHC entered into a long term license agreement with the Sparkle Income Fund to install coin or card operated laundry equipment in TCHC buildings.

The information pertaining to Sparkle contained in the 2005 TCHC annual financial statements is brief and consists, for the most part, of summarized high level financial information.

To the best of our knowledge financial statements of Sparkle have never been submitted to the City.

There is also a question as to whether TCHC's minority interest in Sparkle was in accordance with the Shareholder Direction requiring that TCHC be allowed to invest only in wholly owned subsidiary companies or in corporations in which TCHC has a majority interest.

Subsidiary performance information is not forwarded to the City

TCHC's Board of Directors requires subsidiaries to submit quarterly reports on key performance areas, including financial indicators and select operational performance indicators. However, this performance information is not forwarded to the City.

The quarterly reports together with annual financial reports presented at the subsidiaries' Annual General Meetings, serve as the primary accountability mechanisms to assure the TCHC Board that its subsidiaries are operating in an efficient manner in line with the key objectives and that intended outcomes are being met.

Financial statements should be audited

While the majority of the subsidiary companies and the joint ventures produce audited financial statements, there are a number of entities which do not. For example, audited financial statements are not produced for Access Housing Connections Inc. or Library District Inc. The financial activities of Access Housing Connections Inc. are significant and, as such, should be subject to audit.

Not all subsidiaries make financial and performance information publicly available

Certain operating subsidiaries make financial and performance information available publicly on their websites. For example, Access Housing Connections Inc.'s quarterly performance reports for 2010 and 2011 were received publicly by the Corporate Affairs Committee of the TCHC Board and posted on both the TCHC and Housing Connections website. HSI's quarterly performance reports and annual reports including financial statements are not received publicly by the TCHC Board. We have been advised that the reason for this relates to the fact that HSI competes with the private sector and, as such, any public disclosure of financial information would impact its competitiveness.

Recommendations:

- 1. The Chief Executive Officer review, and update as necessary, the original Framework for the Establishment of Subsidiary Corporations with a view to briefing the new Board of Directors and reporting publicly to the Shareholder regarding this Framework.**
- 2. The Chief Executive Officer, in consultation with the City Manager, review the current Shareholder Direction in order to ensure that all provisions contained in the Shareholder Direction are complied with.**

3. **The Chief Executive Officer prepare a report to the Shareholder on:**
 - a. **The business case for each existing subsidiary corporation and significant investment interest, providing background information on purpose, governance, and other such information as may be relevant. Such information be reported in each Annual Report to the Shareholder;**
 - b. **Any new subsidiaries or significant investment interests established by Toronto Community Housing Corporation, at the earliest possible opportunity, in keeping with the Shareholder Direction; and**
 - c. **Requirements for financial and performance reporting to the City regarding Toronto Community Housing Corporation subsidiary corporations and significant investment interests.**

Board Appointments to Subsidiary Corporations

All of TCHC's subsidiaries are governed by and report to their own Board of Directors. Each Board is required to oversee the management of the subsidiary corporation and hold management responsible for the corporation's financial, operational, and strategic performance.

TCHC Board sets out director qualification criteria for subsidiary boards

At the time the first four major subsidiaries were formed in 2003, TCHC's Board set out director qualification criteria for the subsidiary boards, and approved a policy defining the selection and nomination process for each subsidiary. The TCHC Board directed that TCHC's Chief Executive Officer (CEO) and Chief Financial Officer (CFO) be appointed to each subsidiary board.

The City's Public Appointments Policy does not preclude employees from appointment to Boards of subsidiaries

The City's Public Appointments Policy governing appointments to City Agencies, Boards, Commissions and Corporations states that City employees and employees of the City's Agencies, Boards, Commissions and Corporations are not eligible for appointment to any City agency, board, commission or corporation.

However, according to a 2006 Report by the City Manager, the Policy does not apply for appointments to subsidiaries of corporations owned by the City.

Board appointments should be re-evaluated

In view of the number of subsidiary companies and particularly taking into account the time commitments required of staff to sit on these boards, this issue should be reevaluated in order to determine if the current appointment process is appropriate.

Further, the Public Appointments Policy makes reference to Terms and Length of Service for Directors.

Length of term of Directors should be reviewed

“For corporations established under the Ontario Business Corporations Act (OBCA), Ontario Corporations Act or the Canada Corporations Act, the term for citizens is 2 years. Incumbents may be reappointed at the pleasure of Council for a renewal period of 2 years without a recruitment process. A full recruitment process is conducted every 4 years.

The maximum number of consecutive 2-year terms for any citizen member on the board of directors is 4.”

It is our understanding that a number of Directors have been on the board of one of the subsidiary companies since 2002.

We have been advised that the Board structure of each of the subsidiaries is currently under review and consequently now would be an opportune time to solicit input from the City.

Recommendation:

- 4. The Chief Executive Officer, in consultation with the City Manager, update and clarify the governance and accountability framework between the City and Toronto Community Housing Corporation regarding both Toronto Community Housing Corporation and its subsidiaries. Such framework include a direction regarding the composition of Boards of Toronto Community Housing Corporation subsidiary corporations and significant investment interests.**

TCHC Subsidiary Business Conducted In Camera

City corporations are not required to have open meetings unless directed by Council

Under the City of Toronto Act, 2006, all meetings of City Council, its local boards and committees must be open to the public, unless otherwise required or permitted by law. A meeting can only be closed if the subject of debate falls under one of the exceptions to the open meeting rules.

City corporations operating under the *Ontario Business Corporations Act*, such as TCHC, are not required to have open meetings unless Council as the shareholder so directs.

Shareholder Direction includes objectives to conduct business in an open and transparent manner

When TCHC was established, it was a matter of Board policy to ensure and enable public access to agenda items of their Board meetings. The Shareholder Directions between TCHC and its two operating subsidiaries, HSI and Access Housing Connections also includes objectives related to open and transparent business processes. In recent years, TCHC and its subsidiary Boards have not complied with the Shareholder Direction in conducting business in an open and transparent manner.

Subsidiary business decisions are often reported and discussed in-camera

Virtually all HSI Board meeting discussions occur in camera. Since the vast majority of HSI's work (90%) is conducted on behalf of TCHC the extent of in camera meetings should be re-evaluated.

The Subsidiary Task Force report to the Board of Directors in July 2010 recommended a revised template for subsidiary corporation Shareholder Directions. The suggested template no longer includes any objectives related to open and transparent business processes.

Recommendation:

- 5. The Chair of the Toronto Community Housing Corporation Board of Directors, as well as the Chairs of the subsidiary Boards of Directors, in consultation with Legal Counsel, implement a confidential reporting protocol with a view to reporting in public to the greatest extent possible.**

Inconsistent Business Practices and Controls Impede Operational Efficiency

Similar policies and procedures are adopted but are implemented inconsistently

In the past, TCHC and its subsidiaries adopted similar financial and administrative policies and procedures. However, throughout the enterprise, these policies and procedures were inconsistently implemented.

Shared services approach can eliminate duplication of effort

A coordinated “shared-services” approach to managing administrative services across TCHC and its subsidiaries can more efficiently and effectively support the enterprise’s focus on stewardship. Adopting and implementing practices consistently across the enterprise can eliminate duplication of efforts to improve controls and implement monitoring.

The potential for shared services in the following areas should be considered:

- Procurement
- Invoice and Payment Processing
- Employee Expenses
- Fleet Management
- Information Technology

Integration can help identify areas where additional streamlining can occur

Furthermore, adopting a shared-services approach may foster increased integration of corporate planning and performance reporting. Merging these functions for the enterprise as a whole, can help to identify areas where streamlining of business processes can occur.

Recommendation:

- 6. The Chief Executive Officer complete plans for reviewing and updating internal policies with a view to developing a harmonized, integrated corporate policy framework, business practices, and internal controls.**

Achieve Cost Savings By Optimizing Staffing and Reallocating Redundant Roles

Savings through integration of TCHC and HSI are possible

The current operating subsidiary structure results in higher staff costs and hinders integration and coordination between TCHC and subsidiary staff. Potential cost savings and efficiency gains could be achieved through a more integrated model.

Optimal level of staffing should be determined

A review should be performed to determine the optimal level of staffing to eliminate inefficiencies due to duplication in asset and project management efforts at the parent and subsidiary. Consideration should also be given to the cost of in-house resources compared to the use of outsourced construction management services. Management has indicated that this project is underway.

Further, the activities of Access Housing Connections Inc. are conducted separately and independent from TCHC. We have not reviewed the operations of Access Housing Connections Inc. other than a review of its unaudited financial statements as at December 31, 2010.

Consolidation of operations should be considered

In any event an evaluation should be conducted to determine whether or not there are more cost effective ways of providing the same service. Cost savings and efficiencies could be significant.

Recommendation:

- 7. The Chief Executive Officer evaluate the feasibility and associated risks of integrating subsidiaries within Toronto Community Housing Corporation, giving consideration to potential operational efficiencies, staff resource re-allocation, and cost savings that can be gained from a more integrated operating structure.**

Need for Comprehensive Measurement of Value Delivered By Subsidiary Corporations

TCHC Board recommended periodic assessments of the subsidiary relationship structure

TCHC's Board of Directors set out a Framework for Establishing Subsidiary Corporations in 2003. The Framework recommended that comprehensive assessments of each subsidiary relationship be periodically performed. The purpose of these reviews would be to ensure that the corporate structure remains sound and continues to be appropriate and beneficial. Such reviews would confirm whether the goals and benefits of maintaining separate subsidiary relationships are being achieved.

These reviews have not been conducted.

Recommendation:

- 8. The Chief Executive Officer, in conjunction with the recommended review of the benefits of integration, conduct a comprehensive review of each subsidiary to evaluate whether the goals and benefits of their separate existence are being achieved and continues to be the most appropriate governance structure.**

CONCLUSION

The issues identified in this report point to a need to revisit TCHC's corporate structure particularly the relationship of the City and the TCHC with its subsidiary companies, joint ventures and other business investments. Addressing the recommendations in this report will strengthen the governance and accountability framework for TCHC and its subsidiaries.

In addition, the implementation of recommendations in this report can result in operational efficiencies and cost savings from increased cooperation, coordination, and integration between the City, TCHC and its subsidiaries.

**Management's Response to the Auditor General's Review of
The City and Toronto Community Housing Corporation Needs to Strengthen its
Oversight of Subsidiaries and Other Business Interests**

<u>Rec No</u>	<u>Recommendation</u>	Agree (X)	Disagree (X)	<u>Management Comments:</u>	<u>Action Plan/ Time Frame</u>
1.	The Chief Executive Officer review, and update as necessary, the original Framework for the Establishment of Subsidiary Corporations with a view to briefing the new Board of Directors and reporting publicly to the Shareholder regarding this Framework.	X		July 2011 Board orientation included abbreviated information on subsidiary and nominee corporations. Further detailed information will be provided. Materials available on Board portal include above organization chart. Detailed information on the subsidiaries will be forwarded to the shareholder.	June 30/12 through the Corporate Governance Risk and Human Resources Committee and Toronto Community Housing Board
2.	The Chief Executive Officer, in consultation with the City Manager, review the current Shareholder Direction in order to ensure that all provisions contained in the Shareholder Direction are complied with.	X		Awaiting new Shareholder Direction as per Council March 2011 In the meantime TCHC will comply with the current Agreement	Q2/12

**Management's Response to the Auditor General's Review of
The City and Toronto Community Housing Corporation Needs to Strengthen its
Oversight of Subsidiaries and Other Business Interests**

<u>Rec No</u>	<u>Recommendation</u>	Agree (X)	Disagree (X)	<u>Management Comments:</u>	<u>Action Plan/ Time Frame</u>
3.	<p>The Chief Executive Officer prepare a report to the Shareholder on:</p> <p>a. The business case for each existing subsidiary corporation and significant investment interest, providing background information on purpose, governance, and other such information as may be relevant. Such information be reported in each Annual Report to the Shareholder;</p> <p>b. Any new subsidiaries or significant investment interests established by Toronto Community Housing Corporation, at the earliest possible opportunity, in keeping with the Shareholder Direction; and</p>	X			By Q2/12 (In Progress)
	<p>c. Requirements for financial and performance reporting to the City regarding Toronto Community Housing Corporation subsidiary corporations and significant investment interests.</p>	X		Consolidated Audited Financial Statements completed according to GAAP submitted to the City. The issue of the submission of all other reports to the City will be reviewed with the Board and the City	To be provided annually

**Management's Response to the Auditor General's Review of
The City and Toronto Community Housing Corporation Needs to Strengthen its
Oversight of Subsidiaries and Other Business Interests**

<u>Rec No</u>	<u>Recommendation</u>	Agree (X)	Disagree (X)	<u>Management Comments:</u>	<u>Action Plan/ Time Frame</u>
4.	The Chief Executive Officer, in consultation with the City Manager, update and clarify the governance and accountability framework between the City and Toronto Community Housing Corporation regarding both Toronto Community Housing Corporation and its subsidiaries. Such framework include a direction regarding the composition of Boards of Toronto Community Housing Corporation subsidiary corporations and significant investment interests.	X		Already changed at hsi. In Q4/11 external board disbanded and January/12 a new internal Board established. During same timeframe, the AHCI board was advised of direction to consider internal board. The composition of the Boards of other subsidiary companies is also in the process of amendment	In progress and to be confirmed in Q2/12
5.	The Chair of the Toronto Community Housing Corporation Board of Directors, as well as the Chairs of the subsidiary Boards of Directors, in consultation with Legal Counsel, implement a confidential reporting protocol with a view to reporting in public to the greatest extent possible.	X			<ul style="list-style-type: none"> • Q3/12 work plan of the Corporate Governance Risk and Human Resources Committee

**Management's Response to the Auditor General's Review of
The City and Toronto Community Housing Corporation Needs to Strengthen its
Oversight of Subsidiaries and Other Business Interests**

<u>Rec No</u>	<u>Recommendation</u>	Agree (X)	Disagree (X)	<u>Management Comments:</u>	<u>Action Plan/ Time Frame</u>
6.	The Chief Executive Officer evaluate the feasibility and associated risks of integrating subsidiaries within Toronto Community Housing Corporation, giving consideration to potential operational efficiencies, staff resource re-allocation, and cost savings that can be gained from a more integrated operating structure.	X		<ul style="list-style-type: none"> • The policy review schedule and process was presented to the Corporate Governance Risk and Human Resources Committee in 2011. • In November 2011, the external auditor reviewed accounting for subsidiary and joint ventures with Corporate Affairs and Audit Committee of the board and identified control recommendations as low to moderate risk in the context of their materiality level. TCHC will further review from an operational perspective 	<ul style="list-style-type: none"> • Many policies and procedures throughout 2011 have been reviewed by Toronto Community Housing and its subsidiaries for consistency and alignment (code of conduct, conflict of interest, employee expenses, etc) • Throughout 2012 we continue to review the rest of the policies i.e. fleet, procurement, etc)

**Management’s Response to the Auditor General’s Review of
The City and Toronto Community Housing Corporation Needs to Strengthen its
Oversight of Subsidiaries and Other Business Interests**

<u>Rec No</u>	<u>Recommendation</u>	Agree (X)	Disagree (X)	<u>Management Comments:</u>	<u>Action Plan/ Time Frame</u>
7.	The Chief Executive Officer evaluate the feasibility and associated risks of integrating subsidiaries within Toronto Community Housing Corporation, giving consideration to potential operational efficiencies, staff resource re-allocation, and cost savings that can be gained from a more integrated operating structure.	X		<p>As part of Toronto Community Housing and subsidiaries operating plans of 2011 and future operating plans, there is a shared service plan initiative to bring all corporate functions into an Enterprise Shared Service Framework. The shared service model is in place for the following disciplines Human Resources/Labour Relations, Information Management and Information Technology, Legal, Communications and Procurement. The plan also stipulates creating alignment with the City of Toronto for further efficiencies where possible.</p> <p>AHCI and Toronto Community Housing Corporation are participating in the City’s review of its waiting list services. The outcome of the review will impact this recommendation.</p>	<ul style="list-style-type: none"> ● In Q3 2011 Toronto Community Housing (TCH) and subsidiaries consolidated Procurement under one Director reporting to CFO. Procurement is working with the City of Toronto for further synergies. ● In 2011 TCH and subsidiaries developed an IT 5 year plan requiring consolidation of IT; will report into the CFO of TCH by Q1 2012 ● February 2012, Asset Management, Energy and HSI are reporting to one Executive of the Enterprise. A Portfolio Management Practice has been developed and implementation will be completed by 2012. ● TCH and subsidiaries will consolidate Finance into the shared model reporting to CFO of TCH by Q3 2012 ● Fleet Management has been consolidated, working with the City to manage Fleet for TCH.

**Management’s Response to the Auditor General’s Review of
The City and Toronto Community Housing Corporation Needs to Strengthen its
Oversight of Subsidiaries and Other Business Interests**

<u>Rec No</u>	<u>Recommendation</u>	Agree (X)	Disagree (X)	<u>Management Comments:</u>	<u>Action Plan/ Time Frame</u>
8.	The Chief Executive Officer, in conjunction with the recommended review of the benefits of integration, conduct a comprehensive review of each subsidiary to evaluate whether the goals and benefits of their separate existence are being achieved and continues to be the most appropriate governance structure.	X		A review of HSI was completed by Board of HSI and Toronto Community Housing Executives late 2010, a three year plan was developed and approved February 2011 and the success of the execution of the plan will determine the viability of the subsidiary	<ul style="list-style-type: none"> Each subsidiary or joint venture will be reviewed by the CEO of Toronto Community Housing , the following have been reviewed, hsi, Access Housing Connections inc, Regent Park Development corporation, Regent Park Energy inc. and Railway Lands Development Corporation and the remaining few subsidiaries will be reviewed by Q4/2012 with recommendations of reasons for their existence to Board of Toronto Community Housing



**AUDITOR GENERAL'S
REPORT
ACTION REQUIRED
with Confidential Attachment**

**Toronto Community Housing Corporation
Fleet Management – Lack of Central Oversight Has Led
to Control Deficiencies**

Date:	February 6, 2012
To:	Board of Directors of the Toronto Community Housing Corporation
From:	Auditor General
Wards:	All
Reason for Confidential Information:	Reasons for confidentiality <ol style="list-style-type: none">1. This report deals with personal matters about an identifiable person.2. This report is about litigation or potential litigation that affects the Toronto Community Housing Corporation.
Reference Number:	

SUMMARY

Attached is the Auditor General's report entitled "Toronto Community Housing Corporation, Fleet Management – Lack of Central Oversight Has Led to Control Deficiencies". This review was conducted as part of the Auditor General's 2011 Audit Work Plan.

The objective of this review was to assess the extent to which Toronto Community Housing Corporation's (TCHC) fleet activities are managed efficiently and effectively with due regard for value for money and to ensure that the management and use of the fleet is in compliance with policies and procedures.

Our review identified a general lack of basic internal and management controls which for the most part was due to the absence of any central oversight by senior management.

The attached report contains eight recommendations along with a management response to each of the recommendations.

In addition, also included in the report is a confidential attachment which contains one further recommendation which requires the consideration of the Board.

RECOMMENDATIONS

The Auditor General recommends that:

1. The Chief Executive Officer, in consultation with the City Manager, evaluate the advantages of transferring the central management of the fleet operations at both Toronto Community Housing Corporation and Housing Services Inc. to the City. Prior to any transfer taking place the recommendations contained in this report be addressed.
2. The Chief Executive Officer immediately discontinue all fleet acquisitions and disposals until a complete re evaluation of Toronto Community Housing Corporation's fleet requirements is completed. This re evaluation should be conducted in consultation with the City's Fleet Services Division and should require business cases in support of each current vehicle.
3. The Chief Executive Officer articulate and document the specific fleet related roles and responsibilities of the individual assigned responsibility for the fleet. The roles and responsibilities be clearly defined in a formal position description. Any position description take into account the recommendations contained in this report particularly the potential transfer of fleet responsibilities to the City of Toronto.
4. The Chief Executive Officer, in consultation with the City Manager and the City's Director of Fleet Services, ensure that the management of the Toronto Community Housing Corporation fleet is assigned specifically to one individual who has the appropriate level of fleet management expertise and experience.
5. The Chief Executive Officer be required to prepare an inventory of all vehicles currently owned or leased by Toronto Community Housing Corporation. The inventory should include details pertaining to the actual capital cost, the make and model of the vehicle, the age of the vehicle, its location, its utilization and its mileage. This inventory should form the basis of information to be transferred to the City of Toronto for the potential transfer of fleet responsibilities.
6. The Chief Executive Officer in consultation with the City's Deputy City Manager and Chief Financial Officer give consideration to adopting the City's funding model for vehicle acquisitions. Regular financial contributions be made to a vehicle replacement reserve fund maintained by the City for the benefit of the Toronto Community Housing Corporation.
7. The Chief Executive Officer take steps to ensure that the draft audit report prepared by the Compliance and Ethics Unit dated December 15, 2010 entitled "Expense Reimbursement – Mileage and Parking" be finalized as soon as possible. Management responses should be included with the report with specific dates for

implementing the recommendations. The report be tabled with the Corporate Affairs and Audit Committee.

8. The Chief Executive Officer review the mileage reimbursement policy and, where appropriate, ensure that the extent of reimbursements are consistent with the City's. Further, the Executive Director review all "high mileage employees" in order to ensure that vehicle reimbursements are cost-effective.
9. The Board of Directors of the Toronto Community Housing Corporation adopt the recommendation contained in Attachment 1 – Confidential Information attached to this report.
10. The Board of Directors of the Toronto Community Housing Corporation authorize the public release of the information contained in the Attachment 1 – Confidential Information to this report at the discretion of the Chief Executive Officer in consultation with legal counsel.
11. This report be forwarded to the City's Executive Committee for information.

Financial Impact

The implementation of recommendations in this report will provide opportunities for cost savings and efficiencies. In addition, certain recommendations if implemented will address internal control weaknesses. Further, the extent of potential cost savings resulting from implementing the recommendations in this report are not determinable at this time.

COMMENTS

The Auditor General issued two reports in 2011 entitled:

- Toronto Community Housing Corporation – Procurement Policies and Procedures Are Not Being Followed
- Toronto Community Housing Corporation – Controls Over Employee Expenses Are Ineffective

As a result of the internal control weaknesses identified during these two reviews, it was determined that additional audits of various TCHC operations would be conducted during the balance of 2011.

An audit of the fleet operations at TCHC was selected for further review.

The attached report entitled "Toronto Community Housing Corporation, Fleet Management – Lack of Central Oversight Has Led to Control Deficiencies" represents the results of our review. In addition, the report includes a confidential attachment which requires the attention of the Board.

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SIGNATURE

Jeff Griffiths, Auditor General

11-TCH-03

ATTACHMENTS

Attachment 1 – Confidential Information:

Toronto Community Housing Corporation, Fleet Management – Lack of Central Oversight Has Led to Control Deficiencies

[Appendix 1:](#) Toronto Community Housing Corporation, Fleet Management – Lack of Central Oversight Has Led to Control Deficiencies

[Appendix 2:](#) Management's Response to the Auditor General's Toronto Community Housing Corporation, Fleet Management – Lack of Central Oversight Has Led to Control Deficiencies

APPENDIX 1

Toronto Community Housing Corporation
Fleet Management – Lack of Central Oversight
Has Led to Control Deficiencies

December 9, 2011



Auditor General's Office

Jeffrey Griffiths, C.A., C.F.E.
Auditor General
City of Toronto

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EXECUTIVE SUMMARY

***The City is
TCHC's sole
shareholder***

The Toronto Community Housing Corporation (TCHC) is Canada's largest social housing provider. The City is TCHC's sole shareholder.

City Council, at its February 2007 meeting, designated the Auditor General to be the City's representative under the Shareholder Direction for TCHC and its subsidiary companies, such representative to be permitted full access to the Corporation's records for audit purposes.

This report is one of a series of reports on the operations of TCHC. Previous reports issued during 2011 were:

- Toronto Community Housing Corporation – Procurement Policies and Procedures Are Not Being Followed
- Toronto Community Housing Corporation – Controls Over Employee Expenses Are Ineffective

***2011 Audit Work
Plan identified
fleet as a potential
audit***

During the audit of both of the above, we identified various issues pertaining to the operations of the TCHC fleet particularly the reimbursement of mileage expenses. Consequently, as part of the 2011 audit work plan we identified the audit of fleet as a priority.

It was our view that based on an initial assessment of TCHC's management of its fleet, there were opportunities for cost savings as well as the potential of addressing internal control weaknesses. In addition, we were concerned with the findings of two TCHC internal audit reports one of which remains in draft, which identified systemic issues in the way the fleet was being managed.

***No central
management***

Both internal audit reports contain information on specific and individual issues but do not address the major overlying reason for many of the management deficiencies identified in this particular report. Very simply there is no central management oversight over TCHC's fleet.

One of the TCHC audit reports states that:

“It is unclear

- *Who has the overall authority to ensure the continued optimization of fleet services and to provide functional guidance and support for operations; and*
- *Who is responsible for the administrative control of the acquisition, operation, maintenance, disposal and replacement of fleet vehicles.”*

***No
recommendation
made to address
fundamental issue***

While we acknowledge that internal audit staff identified the lack of central oversight as a concern, no further action was taken. Moreover, audit staff did not make a recommendation to address what in fact is the major reason for the majority of internal control deficiencies.

Of significant concern and somewhat disconcerting is a recommendation in the internal audit report entitled “Fleet Management” that the TCHC should “implement a new open tender for fleet lease and fleet management.”

This recommendation is contradictory to the Auditor General’s 2011 report on procurement which recommended that:

***Auditor General’s
previous
recommendation***

“The Chief Executive Officer in consultation with the City Manager review areas where opportunities exist to consolidate or coordinate operations at the TCHC and the City in order to achieve cost savings”.

This recommendation was also agreed to by the previous Board of TCHC.

Cost savings likely

It is our view that if the operation of the fleet at TCHC was coordinated and consolidated with the City there would likely be cost savings. We have discussed this matter with the Director of Fleet Services at the City who is of the view that the fleet of TCHC and its subsidiary company Housing Services Inc. (HSI) could be easily absorbed into the City’s existing fleet operations.

As an aside and to illustrate the potential cost savings available from the consolidation of various functions within the City, TCHC is currently testing a “pilot” centralized purchasing model with the City. In a presentation to their Board, TCHC staff indicated that the “estimated annual savings enterprise wide is \$5 to \$7 million.”

Savings of \$5 to \$7 million is an estimate

This amount is very much an estimate and at the moment it is not possible to accurately quantify the savings. However, in view of the potential cost savings, we have been advised that other pilot projects will take place on an enterprise wide basis.

Prior to any decision to consolidate the fleet of TCHC and its subsidiary company HSI with the City, the recommendations in this current report need to be addressed. In this context, we suggest that the implementation of the recommendations be considered in consultation with the City’s Director of Fleet Operations.

The recommendations in this audit report centre around basic internal controls, best practices and the need for an appropriate level of management oversight.

Management of fleet is decentralized

For the most part the management of the fleet at TCHC is decentralized with management at individual operating units responsible for all fleet related decisions including vehicle acquisitions, disposals, maintenance and general administration. Certain managers have taken the initiative to establish their own internal controls but these practices are inconsistent throughout the organization. In addition, decisions relating to acquisitions and disposals are made by operating units in isolation from each other.

Control weaknesses identified in this report

Additional information relating to internal control weaknesses is contained in this audit report. Certain of these issues were identified in the internal audit reports. In summary the areas that need to be addressed are as follows:

- There is no complete and accurate inventory of vehicles. Based on the information we have been able to obtain TCHC operates approximately 120 vehicles. While we have not conducted any audit work on the fleet at TCHC’s subsidiary company HSI, we understand that HSI operates with a further 85 vehicles.

- TCHC has not conducted any needs analysis to determine how many vehicles are required to operate effectively.
- Documentation to support the value of the fleet is incomplete. Based on our analysis we have determined that the total investment in TCHC's existing fleet is approximately \$3.3 million.
- There is a need to defer all acquisitions and disposals of vehicles until the recommendations in this report are addressed.
- Responsibilities for the management of the fleet needs to be clearly defined particularly in the context of closer coordination with the City.
- We were not able to locate a contract with Automotive Resources International (ARI), the fleet management company responsible for certain aspects of TCHC's fleet.
- Payments are being made to ARI without the benefit of a contract. Consequently, it is not possible to determine if payments are appropriate.
- There is a need to establish a funding model for future fleet acquisitions.
- Controls are lacking regarding employee vehicle expense reimbursements.
- Controls are lacking in the area of fleet utilization. We have identified a number of cases where vehicles are underutilized.
- Fleet operations at TCHC and HSI should not occur in isolation from each other.

Changes are underway in relation to fleet management

We appreciate that changes are underway in relation to the day to day management of the fleet. What is disconcerting however is that changes are only taking place in response to audit work by the Auditor General's Office. The management control weaknesses identified have likely been in existence for many years and are only now being addressed. In this context, prior years potential cost savings have not been realized.

The changes being proposed by management in regard to fleet operations are “band aid” solutions to a much more systemic problem. In our view, the easiest, quickest and most cost-effective solution to the concerns identified in this report is to solicit the assistance of professional fleet managers. This expertise is available at the City of Toronto.

Management needs to be held accountable

Assigning clear, direct and specific responsibilities to management and holding management accountable for their actions should be the first step in addressing the issues identified in this report.

Internal control weaknesses are being addressed throughout the Corporation

Finally, we do recognize that ongoing changes at TCHC are taking place in regard to addressing internal control deficiencies previously identified. These changes include:

- The appointment of a Senior Director of Strategic Procurement, a new position, to provide procurement leadership across the enterprise
- A revision of its Directives for expenses, purchasing cards, cash advances, and its policies and procedures for procurement
- The creation of a Fraud Prevention Directive, and the launch of a Do What’s Right hotline – first for staff, and then for tenants starting January 1, 2012.

The implementation of the recommendations in this report should be an immediate priority for TCHC management.

BACKGROUND

The Toronto Community Housing Corporation (TCHC) is Canada’s largest social housing provider. The City of Toronto is TCHC’s sole shareholder.

The fleet at TCHC consists of approximately 120 vehicles

In order to assist in the effective administration of these various programs, TCHC operates a fleet of approximately 120 vehicles, consisting of cars, vans, and trucks. Its wholly owned subsidiary company, Housing Services Inc. (HSI), operates an additional 85 vehicles. The operation and management of both fleets are independent from each other.

TCHC's investment in its fleet is approximately \$3.3 million

Based on the information available, we estimate that TCHC's capital investment in vehicles is approximately \$3.3 million.

TCHC's 2011 fleet operating budget, along with the 2010 actual expenditures are as follows:

Table 1: TCHC Fleet Related Expenditures

Account	2011 Budgeted	2010 Actual
Repairs & Fuel	\$792,000	\$505,000
Rental/Leasing	\$229,000	\$46,000
Vehicle Purchases	\$105,000	\$351,000
Staff Mileage and Parking	\$433,000	\$418,000
Total	\$1,559,000	\$1,320,000

Vehicles are used for a variety of reasons

TCHC vehicles are used for a variety of purposes including:

- Security patrols by special constables and parking enforcement staff;
- Transporting equipment needed for the repair and maintenance of tenant units;
- Transporting equipment needed for daily grounds keeping and maintenance activities;
- Moving appliances to and from tenant units; and
- Delivery of internal mail.

TCHC is managed through 13 separate operating units across the City. Administratively, TCHC has a head office function which operates out of 931 Yonge Street.

Fleet management is decentralized

Fleet management responsibility within TCHC is decentralized. Management at individual operating units are responsible for all decisions related to vehicle acquisitions, maintenance and disposal of their designated vehicles.

TCHC uses a third party to assist in the management of its fleet

TCHC currently uses a third-party provider, Automotive Resources International (ARI) to provide a variety of fleet related services including but not limited to:

- Provision of credit cards for processing fuel and maintenance charges;
- Provision of management information reports pertaining to vehicle financial performance, odometer readings and repair history;
- Vehicle acquisitions and disposals; and
- Fleet planning including vehicle performance evaluations.

The services available from ARI are not being fully utilized.

AUDIT OBJECTIVES, SCOPE AND METHODOLOGY

Two separate audit reports issued

The Auditor General's 2010 and 2011 Audit Work Plans included a review of various areas within the Toronto Community Housing Corporation. Two separate reports were issued in early 2011 entitled:

- "Procurement Policies and Procedures Are Not Being Followed"
- "Controls Over Employee Expenses Are Ineffective"

Why we conducted this review?

As a result of the issues identified in both reports, it was determined in 2011 that the Auditor General should conduct further work at the TCHC. The work previously conducted on employee expenses identified issues related to vehicle and mileage expenses and as a result it was determined that the Auditor General should review the management of TCHC's fleet including fleet related expenses.

Audit objectives

The objective of this review was to assess the extent to which TCHC's fleet activities are managed efficiently and effectively with due regard for value for money and to ensure that the management and use of the fleet is in compliance with policies and procedures.

This audit covered the period from January 1, 2010 to May 31, 2011.

Audit methodology

Our audit methodology included the following:

- Review of previous City Fleet Services audit reports
- Interviews with various TCHC staff
- Interviews with ARI staff and management
- Review of various TCHC management reports and documents
- Review of an audit report issued by TCHC's Compliance and Ethics Unit entitled "Fleet Management" dated May 31, 2011, with a management response dated August 16, 2011. This was tabled with TCHC's Corporate Affairs and Audit Committee in November 2011.
- Review of a draft audit report prepared by TCHC's Compliance and Ethics Unit entitled "Expense Reimbursement – Mileage and Parking" dated December 15 2010. We understand that this report remains in draft and has not been finalized and consequently has not been formally issued.
- Review of various audit reports from other jurisdictions including the following:
 - City of Ottawa 2010 report "*Audit of the Use of City Vehicles and Mileage*"
 - City of Calgary 2006 report "*M4 System Audit – Fleet Services*"
 - City of Winnipeg 2010 report "*Winnipeg Fleet Management Performance Audit*"
 - City of Atlanta 2011 report "*Performance Audit: Department of Public Works Fleet Services Inventory Controls*"
 - City of Palo Alto 2010 report "*Audit of Fleet Utilization and Replacement*"
 - Industry Canada 2009 report "*Fleet Management*"
 - Canada Border Service Agency 2009 report "*Evaluation of the Relevance and Operation of the CBSA Fleet*"

***Fleet reports
pertaining to other
jurisdictions
reviewed***

Compliance with generally accepted government auditing standards

We conducted this performance 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.

AUDIT RESULTS

The Management of TCHC's Fleet Requires Significant Improvement

Audit report on fleet management issued by TCHC

The TCHC Compliance and Ethics Unit recently issued an audit report entitled "Fleet Management." The report is dated May 31, 2011 with "Managements Response" dated August 16, 2011. We understand that this report has been tabled at the Corporate Affairs and Audit Committee.

TCHC report made a number of recommendations but did not identify cause of the problems

While the TCHC Audit Report outlines a number of recommendations including the need to develop policies, conduct an inventory count of vehicles and implement a tender process for a fleet management company, it does not identify the major reason for the lack of basic internal and management controls which for the most part is due to the absence of any central management oversight by senior management. We do acknowledge that while the audit report does allude to this matter, there is no recommendation in the report to address the issue.

We have reviewed and discussed the Compliance and Ethics Audit Report with the Chief Executive Officer and generally concur with most of its contents. The Compliance and Ethics Report identified certain deficiencies at a fairly detailed level but did not address high level governance, management and strategic corporate wide issues which have been a common theme throughout previous Auditor General's reports.

TCHC uses a third party to assist in the management of its fleet

TCHC currently uses a third-party provider, Automotive Resources International (ARI), to assist in the management of its fleet. ARI offers a variety of fleet related services including but not limited to:

- Provision of credit cards for processing fuel and maintenance charges;
- Provision of management information reports pertaining to vehicle financial performance, odometer readings and repair history;
- Vehicle acquisitions and disposals; and
- Fleet planning including vehicle performance evaluations.

There is no accurate inventory of TCHC fleet

Many fleet related management reports and records available from the ARI management information system are not accessed by TCHC staff and as a result, it is difficult to assess many different operating components of the fleet. As an example it has been extremely difficult to verify the number of vehicles either owned or leased in TCHC's fleet due to the fact that an accurate inventory of vehicles does not exist. Even at this point we are not in a position to accurately confirm the number of vehicles in the fleet. We estimate that the fleet currently consists of approximately 120 vehicles.

No record of TCHC's capital investment in its fleet

Likewise TCHC's total capital investment in its fleet as outlined in this current report is based on information compiled by the Auditor General's Office. This information is not readily available at the TCHC. We estimate the total capital investment in TCHC's existing fleet to be in the range of \$3.3 million.

We have provided management with details of our estimates. Management, we understand concurs with our estimates of the value of the fleet.

One of the Recommendations in the Compliance and Ethics Fleet Report Requires Reconsideration

One of the recommendations contained in the Compliance and Ethics report requires reconsideration

One of the recommendations contained in the Compliance and Ethics audit report states that TCHC should “implement a new open tender for fleet lease and fleet management”. We disagree with this particular recommendation, especially in the context of previous Auditor General’s reports.

In view of previous audit reports issued both at the TCHC and the City, we find it somewhat disconcerting that such a recommendation would be made especially in view of potential cost savings which are possible through the consolidation of various functions with the City.

The following comments and recommendations were made in the Auditor General’s 2011 Report on Procurement Policies and Procedures at the TCHC.

Closer coordination with the City would provide benefits

“While the focus of this report has been on the procurement process at the TCHC, it is clear that there are a number of other areas at the TCHC which would likely benefit from closer coordination and cooperation with the City. These areas include:

- *Information technology*
- *Human resources*
- *Policy Development*
- *Compliance and Ethics*
- *Fleet Management*

There is little point in ‘reinventing the wheel’ if certain policies and processes already exist at the City.”

Recommendation made in earlier audit report

The recommendation made in the audit report in relation to these comments was:

“The Chief Executive Officer in consultation with the City Manager review areas where opportunities exist to consolidate or coordinate operations at the TCHC and the City in order to achieve cost savings.”

In our view, fleet management is an obvious function which readily lends itself to consolidation with the City.

Consolidation of other functions have led to considerable savings

To illustrate the potential savings available from the consolidation of various functions within the City and TCHC, TCHC is currently testing a “pilot” centralized purchasing model with the City of Toronto. In a presentation to their Board, TCHC staff indicated that the “estimated annual savings enterprise-wide is \$5 to \$7 million.”

This amount is very much an estimate and at the moment it is not possible to accurately quantify the savings. In view of the potential cost savings, we understand that other pilot projects will take place on an enterprise wide basis.

Prior to any decision to consolidate the fleet of TCHC and its subsidiary company HSI with the City, the recommendations in this current report need to be addressed. In this context, we suggest that the implementation of the recommendations be considered in consultation with the City’s Director of Fleet Operations.

While we are not in a position to quantify cost savings relating to the consolidation of fleet operations cost savings are likely.

TCHC Should Consider the Transfer of the Management of its Fleet to the City

In September 2011, in a confidential report entitled “City of Toronto – Fleet Services, Service Efficiency Review”, prepared by an external consultant, opportunities for savings through the consolidation of various fleet operations throughout the City were identified. The report focussed on City Divisions and the major ABCs. While not specifically articulated in the report, opportunities for cost savings also exist for TCHC and its subsidiary company HSI.

Auditor General has discussed this issue with City’s Director of Fleet Services

We have met with the Director of Fleet Services at the City to discuss in general terms whether or not the City has the capacity to centrally manage both the TCHC and the HSI fleet. We have been advised that the addition of approximately 120 vehicles from TCHC and 85 vehicles from HSI could be easily absorbed into fleet services existing operations.

Cost savings likely exist

It is likely that there are potential cost saving opportunities in terms of vehicle acquisitions, vehicle disposals, fuel purchases, as well as maintenance and warranty costs. In addition, the management of TCHC's fleet at the City will be conducted by professional fleet managers who have access to similar management information reports which are available from ARI. Consequently, we have suggested to the Chief Executive Officer at the TCHC that the "tender for fleet lease and management" should be deferred until this report is considered. It is our understanding that he has agreed to do this.

Prior to any transfer to the City recommendations should be implemented

Finally, prior to any potential transfer of responsibilities to the City, significant work is required to ensure that information submitted to the City is accurate and complete. Consequently, it is important that the balance of recommendations in this report are addressed prior to any transfer of responsibilities to the City.

Recommendation:

- 1. The Chief Executive Officer, in consultation with the City Manager, evaluate the advantages of transferring the central management of the fleet operations at both Toronto Community Housing Corporation and Housing Services Inc. to the City. Prior to any transfer taking place the recommendations contained in this report be addressed.**

All Fleet Acquisitions and Disposals Should Be Discontinued Until an Evaluation of Fleet Requirements is Completed

Central oversight and management controls do not exist

Many of the issues raised in this report are due to the absence of any central oversight in regard to fleet management.

As previously indicated, management at individual operating units are responsible for all fleet related decisions including vehicle acquisitions, disposals, maintenance and general administration. To be clear, there are certain managers who have taken the initiative to establish their own internal controls but these practices have been inconsistent throughout the organization.

Due to the decentralized manner in which the fleet is managed, there is no central plan or evaluation in terms of how many vehicles are required at the TCHC and consequently, the basis for the current allocation of vehicles to each of TCHC's operating units is unclear. It appears as if individual operating units acquire vehicles on the basis of budget funds available rather than any overall assessment of TCHC corporate-wide needs.

Business cases are not prepared

Business cases do not exist to support vehicle acquisitions. In addition, it is possible that operating units either purchase or lease a vehicle while at the same time underutilized or idle vehicles may be available elsewhere.

We have also identified vehicles which have been sitting idle for a period of time even where TCHC pays significant mileage claims for employees operating their own personal vehicles.

Acquisition and disposal of vehicles should be discontinued until changes have been made

Any acquisition and disposal of vehicles should be immediately discontinued until an evaluation is conducted of vehicle requirements and the management of the TCHC fleet is evaluated and proper policies and procedures initiated.

Recommendation:

- 2. The Chief Executive Officer immediately discontinue all fleet acquisitions and disposals until a complete re evaluation of Toronto Community Housing Corporation's fleet requirements is completed. This re evaluation should be conducted in consultation with the City's Fleet Services Division and should require business cases in support of each current vehicle.**

There is a Lack of Clarity in Terms of Who is Responsible for Fleet Management

Management responsibilities not defined

CFO responsible for fleet operations

Responsibility of the fleet throughout TCHC has been assigned to a Project Manager/Supervisor in the Records Management and Office Services Unit at Head Office who reports to the Controller. This responsibility was formally transferred to this position by the former Chief Financial Officer in 2009 who is the individual ultimately accountable for TCHC's fleet. However, the extent of the Project Manager's authority and responsibility is vague and not clearly defined. While there is a job description for this position it makes no reference to any responsibility relating to TCHC's fleet. We have been advised that a revised job description is currently in process which will reflect specific responsibilities relating to fleet.

Indicative of the lack of an effective management structure is the fact that we were not able to locate the contract with ARI even though payments are being made to ARI for fleet management services. In addition there was no one at TCHC who is aware of the reporting capabilities of ARI even though TCHC is paying for this function.

Overall responsibility has to be assigned

In the event that fleet related responsibilities are transferred to the City, there will still be a requirement for someone at the TCHC to assume overall responsibility for the fleet and, in particular, be in a position to review, evaluate and act on management information provided by the City.

Recommendations:

- 3. The Chief Executive Officer articulate and document the specific fleet related roles and responsibilities of the individual assigned responsibility for the fleet. The roles and responsibilities be clearly defined in a formal position description. Any position description take into account the recommendations contained in this report particularly the potential transfer of fleet responsibilities to the City of Toronto.**

- 4. The Chief Executive Officer, in consultation with the City Manager and the City's Director of Fleet Services, ensure that the management of the Toronto Community Housing Corporation fleet is assigned specifically to one individual who has the appropriate level of fleet management expertise and experience.**

Information Relating to the Fleet Inventory Has Been Difficult to Compile

Information on the fleet inventory has been difficult to compile

Based on the information we have been able to compile, TCHC operates approximately 120 vehicles which consists of a wide variety of vehicle makes and models. There is no formal inventory of vehicles available although we have been able to compile a listing of vehicles based on various information provided to us. The inventory list consists of vehicles owned by the TCHC as well as vehicles currently operating under lease agreements.

Prior to any transfer of fleet responsibilities to City Fleet Services, as a first step TCHC should prepare a complete and accurate listing of all vehicles owned or leased by the Company along with its location, age and mileage. Such a listing should form the basis of future acquisitions and disposals.

Recommendation:

- 5. The Chief Executive Officer be required to prepare an inventory of all vehicles currently owned or leased by Toronto Community Housing Corporation. The inventory should include details pertaining to the actual capital cost, the make and model of the vehicle, the age of the vehicle, its location, its utilization and its mileage. This inventory should form the basis of information to be transferred to the City of Toronto for the potential transfer of fleet responsibilities.**

A Funding Model for Fleet Acquisitions Needs to Be Developed

No funding model for fleet acquisitions

There is no predetermined funding model available for fleet acquisitions. As previously indicated, decisions for vehicle acquisitions are currently being made by individual operating units based on the availability of budget funds. Certain operating units who have funds available are able to purchase vehicles. In other units because of the lack of funds, purchases are deferred or made through lease agreements or in certain cases used vehicles are purchased.

The acquisition of vehicles through lease agreements or the purchase of used vehicles may not be the most cost effective method of acquisition particularly in the long run. Acquisition of leased vehicles are made because of the availability of financial resources with no thought given to long term costs.

City Divisions including the Toronto Police Service make annual budgeted contributions to a vehicle acquisition reserve fund maintained by the City. These funds are accounted for and segregated by the Divisions who make the contributions. Vehicle acquisitions are funded out of these reserve funds.

Recommendation:

- 6. The Chief Executive Officer in consultation with the City's Deputy City Manager and Chief Financial Officer give consideration to adopting the City's funding model for vehicle acquisitions. Regular financial contributions be made to a vehicle replacement reserve fund maintained by the City for the benefit of the Toronto Community Housing Corporation.**

Controls are Lacking Regarding Employee Vehicle Expense Reimbursements

Draft audit report not issued

The Compliance and Ethics Unit issued a draft audit report to management entitled “Expense Reimbursement – Mileage and Parking” dated December 15, 2010. It is our understanding that this report has not yet been finalized due to concerns about the accuracy of certain of its content.

While the draft report may contain inaccuracies relating to individual instances of mileage claims, the overall message contained in the draft report is disconcerting and requires immediate attention.

Issues of concern identified

Of concern are the following general comments in the draft report:

- A number of employees have received significant annual mileage reimbursement which would question whether or not it would be less expensive to provide these individuals with a vehicle.
- Mileage claims were submitted more than once.
- Documentation supporting reimbursement of expenses has not always been provided.
- Reimbursements have been made without supervisory approval.
- Policies where they do exist are not being complied with.
- Little or no analysis is conducted to determine the appropriateness of fuel usage.

Internal control deficiencies should have been identified and addressed

While we have not verified the concerns identified, these particular issues are basic and fundamental internal control deficiencies. Even a high level supervisory review would have identified many of the issues noted. Further, in cases where employees have received reimbursements to which they were not entitled, recoveries should be pursued.

Finally, the draft internal audit report should be finalized as soon as possible and issued to the Corporate Affairs and Audit Committee for further action.

Recommendations:

- 7. The Chief Executive Officer take steps to ensure that the draft audit report prepared by the Compliance and Ethics Unit dated December 15, 2010 entitled “Expense Reimbursement – Mileage and Parking” be finalized as soon as possible. Management responses should be included with the report with specific dates for implementing the recommendations. The report be tabled with the Corporate Affairs and Audit Committee.**
- 8. The Chief Executive Officer review the mileage reimbursement policy and, where appropriate, ensure that the extent of reimbursements are consistent with the City’s. Further, the Executive Director review all “high mileage employees” in order to ensure that vehicle reimbursements are cost-effective.**

CONCLUSION

This report contains eight recommendations and presents the results of our review of fleet operations at the TCHC.

While TCHC has initiated certain changes in the way it manages its fleet, it needs to evaluate whether or not the fleet operations would be better served if assumed by the City. Currently, the fleet is not being managed and the expertise to professionally manage the fleet does not exist at the TCHC. Fleet management is not a core business of the organization and, as such, a transfer of these responsibilities to the City is an option which requires serious consideration. In our view, the transfer of responsibilities would reduce costs in a number of fleet related areas.

**Management's Response to the Auditor General's Review of
Toronto Community Housing Corporation, Fleet Management – Lack of Central Oversight Has Led to Control Deficiencies**

<u>Rec No</u>	<u>Recommendation</u>	Agree (X)	Disagree (X)	<u>Management Comments:</u>	<u>Action Plan/Time Frame</u>
1.	The Chief Executive Officer, in consultation with the City Manager, evaluate the advantages of transferring the central management of the fleet operations at both Toronto Community Housing Corporation and Housing Services Inc. to the City. Prior to any transfer taking place the recommendations contained in this report be addressed.	X		<p>On June 13, 2011 the Managing Director approved the initial TCHC internal audit findings which included the recommendation that TCHC consult with the City regarding opportunities to leverage resources with the City such as policy and practices and buying power.</p> <p>This underlying principle was carried forward in the final version of the Internal Audit report tabled at the Corporate Affairs and Audit Committee in November 2011.</p>	<p>Action: A meeting between TCH Senior Procurement Manager and the City's Fleet Director was held on January 23, 2012 to start the process of evaluating the advantages of transferring fleet operations to the City. The evaluation process will be completed by Q212.</p> <p>Timeline: Q212</p>
2.	The Chief Executive Officer immediately discontinue all fleet acquisitions and disposals until a complete re evaluation of Toronto Community Housing Corporation's fleet requirements is completed. This re evaluation should be conducted in consultation with the City's Fleet Services Division and should require business cases in support of each current vehicle.	X		<p>Acquisitions and disposals of TCHC vehicles have been discontinued pending the results of the evaluation. TCHC will, however, dispose of vehicles deemed (i) unsafe and (ii) uneconomical to repair if encountered during the evaluation period.</p>	<p>Action 1: A directive has been issued to all managers that acquisition and disposal of vehicles are not permitted without executive approval pending the re-evaluation of TCH's fleet requirements.</p> <p>Action 2: A work plan will be developed to re-evaluate the Company's fleet requirements. The re-evaluation process will (i) be conducted in consultation with the City's Fleet Services Division and (ii) require a business case in support of each current vehicle.</p> <p>Timeline: Q212</p>

**Management’s Response to the Auditor General’s Review of
Toronto Community Housing Corporation, Fleet Management – Lack of Central Oversight Has Led to Control Deficiencies**

<u>Rec No</u>	<u>Recommendation</u>	Agree (X)	Disagree (X)	<u>Management Comments:</u>	<u>Action Plan/ Time Frame</u>
					<p>Action 3: Subsequent to the re-evaluation of the Company’s fleet requirements the CEO will communicate to Company and its subsidiary employees the revised fleet policies and procedures. Timeline: Q212</p>
3.	<p>The Chief Executive Officer articulate and document the specific fleet related roles and responsibilities of the individual assigned responsibility for the fleet. The roles and responsibilities be clearly defined in a formal position description. Any position description take into account the recommendations contained in this report particularly the potential transfer of fleet responsibilities to the City of Toronto.</p>	X			<p>Action: The roles and responsibilities of the position to be responsible for centrally managing fleet operations will reflect the (i) outcome of the re-evaluation of the administration of the Company’s fleet operations and (ii) recommendations contained in this report. Timeline: Q212</p>

**Management's Response to the Auditor General's Review of
Toronto Community Housing Corporation, Fleet Management – Lack of Central Oversight Has Led to Control Deficiencies**

<u>Rec No</u>	<u>Recommendation</u>	Agree (X)	Disagree (X)	<u>Management Comments:</u>	<u>Action Plan/ Time Frame</u>
4.	The Chief Executive Officer, in consultation with the City Manager and the City's Director of Fleet Services, ensure that the management of the Toronto Community Housing Corporation fleet is assigned specifically to one individual who has the appropriate level of fleet management expertise and experience.	X			Action 1: The individual assigned to centrally manage the Company's fleet operations will have the appropriate level of fleet management expertise and experience, taking into consideration the outcome of the re-evaluation of the administration of the Company's fleet operations. Timeline: Q212
5.	The Chief Executive Officer be required to prepare an inventory of all vehicles currently owned or leased by Toronto Community Housing Corporation. The inventory should include details pertaining to the actual capital cost, the make and model of the vehicle, the age of the vehicle, its location, its utilization and its mileage. This inventory should form the basis of information to be transferred to the City of Toronto for the potential transfer of fleet responsibilities.	X			Action: The inventory of Company vehicles, reconciled to ARI records, will be completed by January 31, 2012. Timeline: Q112

**Management's Response to the Auditor General's Review of
Toronto Community Housing Corporation, Fleet Management – Lack of Central Oversight Has Led to Control Deficiencies**

<u>Rec No</u>	<u>Recommendation</u>	Agree (X)	Disagree (X)	<u>Management Comments:</u>	<u>Action Plan/ Time Frame</u>
6.	The Chief Executive Officer in consultation with the City's Deputy City Manager and Chief Financial Officer give consideration to adopting the City's funding model for vehicle acquisitions. Regular financial contributions be made to a vehicle replacement reserve fund maintained by the City for the benefit of the Toronto Community Housing Corporation.	X		We agree with the recommendation of creating, and making regular financial contributions to, a vehicle replacement reserve fund. This fund will be maintained either the Company or by the City.	<p>Action: The adoption of the City's funding model for vehicle acquisitions and maintenance will be taken into consideration in the re-evaluation of the Company's fleet requirements. Timeline: Q212</p> <p>Action: Regular contributions will be made to a vehicle replacement reserve fund, to be maintained at either the City or the Company. Timeline: Q212</p>

**Management's Response to the Auditor General's Review of
Toronto Community Housing Corporation, Fleet Management – Lack of Central Oversight Has Led to Control Deficiencies**

<u>Rec No</u>	<u>Recommendation</u>	Agree (X)	Disagree (X)	<u>Management Comments:</u>	<u>Action Plan/ Time Frame</u>
7.	The Chief Executive Officer take steps to ensure that the draft audit report prepared by the Compliance and Ethics Unit dated December 15, 2010 entitled “Expense Reimbursement – Mileage and Parking” be finalized as soon as possible. Management responses should be included with the report with specific dates for implementing the recommendations. The report be tabled with the Corporate Affairs and Audit Committee.	X		<p>The initial findings contained in the draft report (which included reviewing the Company’s mileage policy, standardizing mileage forms, and intensifying the approval process) were reviewed by the Company’s Executive in May 2011. These findings were presented to the Managing Director on June 13, 2011. As a result, a revised mileage policy (which included clearer guidance on what mileage could be claimed, the steps required in the approval process, and a standardized mileage form) was approved in July 2011 and implemented in August 2011.</p> <p>The initial findings also determined that an increased scope of employee mileage claims was required. That aspect of the internal audit is in progress.</p>	<p>Action: The final report will be tabled at the March 30, 2012 Corporate Affairs and Audit Committee meeting. Timeline: Q112</p>

**Management’s Response to the Auditor General’s Review of
Toronto Community Housing Corporation, Fleet Management – Lack of Central Oversight Has Led to Control Deficiencies**

<u>Rec No</u>	<u>Recommendation</u>	Agree (X)	Disagree (X)	<u>Management Comments:</u>	<u>Action Plan/ Time Frame</u>
8.	<p>The Chief Executive Officer review the mileage reimbursement policy and, where appropriate, ensure that the extent of reimbursements are consistent with the City’s. Further, the Executive Director review all “high mileage employees” in order to ensure that vehicle reimbursements are cost-effective.</p>	X			<p>Action 1: The company’s revised mileage reimbursement policy will be reviewed with respect to the City’s policy to ensure the extent of reimbursements are consistent with the City’s. Timeline: Q212</p> <p>Action 2: High mileage employees will be reviewed in order to ensure that mileage reimbursements are cost – effective. Timeline: Q212</p>