



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](http://www.torontohousing.ca/webfm_send/7239) 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

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<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

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<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)

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<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.

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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