



AUDITOR GENERAL'S REPORT ACTION REQUIRED

Toronto Community Housing Corporation – Results of 2015 Follow-up of Previous Audit Recommendations

Date:	April 15, 2015
To:	Building Investment, Finance and Audit Committee of the Toronto Community Housing Corporation
From:	Auditor General
Wards:	All
Reference Number:	

SUMMARY

This report provides the results of the follow-up of audit recommendations for five reports issued by the City's Auditor General to the Board of Directors of the Toronto Community Housing Corporation (TCHC) in 2011 and 2012. The reports are:

- Toronto Community Housing Corporation – Procurement Policies and Procedures Are Not Being Followed
<http://www.toronto.ca/legdocs/mmis/2011/ex/bgrd/backgroundfile-37418.pdf>
- Toronto Community Housing Corporation – Controls Over Employee Expenses Are Ineffective
<http://www.toronto.ca/legdocs/mmis/2011/ex/bgrd/backgroundfile-37417.pdf>
- Toronto Community Housing Corporation – Review of Controls Over Procurement and Payment Functions at TCHC Subsidiary: Housing Services Inc.
<http://www.toronto.ca/legdocs/mmis/2012/ex/bgrd/backgroundfile-46600.pdf>
- Toronto Community Housing Corporation – The City and Toronto Community Housing Corporation Needs to Strengthen its Oversight of Subsidiaries and Other Business Interests
<http://www.toronto.ca/legdocs/mmis/2012/ex/bgrd/backgroundfile-46601.pdf>
- Toronto Community Housing Corporation Fleet Management - Lack of Central Oversight Has Led to Control Deficiencies
<http://www.toronto.ca/legdocs/mmis/2012/ex/bgrd/backgroundfile-46602.pdf>

The five reports contained a total of 80 recommendations. At this point last year, we reported that out of the original 80 recommendations, 59 recommendations had been implemented, 18 remained outstanding, and three were no longer applicable.

The purpose of this review was to determine whether the remaining 18 recommendations have been implemented. The result of our review indicates that TCHC have fully implemented 15 out of the remaining 18 recommendations made in the five audit reports issued by the Auditor General's Office. The implementation of the remaining three recommendations is in progress.

Audit recommendations that have been fully implemented in the past year are listed in Attachment 1. Audit recommendations not fully implemented, as well as management's comments and action plan, are included in Attachment 2. The recommendations not yet fully implemented will be carried forward to our next follow-up review.

Finally, we would like to express our appreciation to all TCHC staff involved in the recommendation implementation process for their dedication and effort.

RECOMMENDATIONS

The Auditor General recommends that:

1. The Building Investment, Finance and Audit Committee receive this report for information and the report be forwarded to the Board of Directors of the TCHC.

Financial Impact

The recommendation in this report has no financial impact.

ISSUE BACKGROUND

The Auditor General conducts an annual follow-up process of all audit reports issued to City Divisions, Agencies and Corporations to determine whether management has taken appropriate action to implement recommendations contained in previously issued audit reports. The follow-up process is part of the Auditor General's Annual Work Plan.

In accordance with the Auditor General's Work Plan, we have reviewed the status of outstanding audit recommendations previously made by the City's Auditor General to the Board of Directors of the TCHC in 2011 and 2012.

We conducted this follow-up audit in accordance with generally accepted government auditing standards. The standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained

provides a reasonable basis for our findings and conclusions based on our audit objectives.

COMMENTS

The Auditor General's annual process for follow-up on outstanding audit recommendations requires that management provide a written response on the implementation status of each recommendation contained in our audit reports. Where management indicates that a recommendation is not implemented, audit work is not performed. For those recommendations noted by management as implemented, audit staff conduct additional analysis and testing, and review relevant information to verify management assertions.

As reported by management at the February 5, 2015 meeting of the Building Investment, Finance and Audit Committee, TCHC submitted 18 out of the 18 remaining recommendations for post-implementation review.

The result of our review indicates that TCHC have fully implemented 15 out of the remaining 18 recommendations made in the five audit reports issued by the Auditor General's Office. Management has implemented processes to address another three recommendations; however, sufficient time has not passed since the implementation of these processes to confirm their ongoing effectiveness. We will review these recommendations as part of our next follow up review.

Table 1 outlines our current assessment results pertaining to the implementation status of recommendations of the five audit reports provided to the TCHC.

Table 1:**RESULTS OF THE CURRENT REVIEW**

Report Title and Date	Total No. of Recs.	Previously Reported		Results of Current Review		
		Fully Implemented	Not Applicable	Fully Implemented	Not Fully Implemented	Not Applicable
Toronto Community Housing Corporation – Procurement Policies and Procedures Are Not Being Followed, February 2011.	31	23	1	7	0	0
Toronto Community Housing Corporation – Controls Over Employee Expenses Are Ineffective, February 2011.	10	9	0	1	0	0
Toronto Community Housing Corporation – Review of Controls Over Procurement and Payment Functions at TCHC Subsidiary: Housing Services Inc., February 2012	19	10	2	7	0	0
Toronto Community Housing Corporation – The City and Toronto Community Housing Corporation Needs to Strengthen its Oversight of Subsidiaries and Other Business Interests, February 2012	9	6	0	0	3	0
Toronto Community Housing Corporation Fleet Management - Lack of Central Oversight Has Led to Control Deficiencies, February 2012	11	11	0	N/A	N/A	N/A
Total	80	59	3	15	3	0

The Auditor General reports have resulted in significant changes to the day-to-day operating environment at the TCHC. These changes have had profound and far-reaching effects that cannot all be quantified in financial terms. The resulting improvements and cost savings are provided below.

In response to the audit reports issued in 2011 and 2012, TCHC took extensive corrective action, such as:

- Winning the *Leadership in Public Procurement Award* from the Canadian Public Procurement Council and Summit Magazine in recognition of the work done in automating approval workflow and the implementation of the MERX electronic tendering bid response system;
- Developing a real-time procurement pipeline planning system to support capital projects planning and procurement;
- Regular monitoring and reporting of vendor payments without an approved purchase order;
- Rolling out a vendor performance evaluation program, based on the City's Contractor Performance Evaluation (CPE) program;
- Participating in the Shared Services project with the City and its' Agencies and Corporations to identify further efficiencies and savings opportunities in procurement activities; and
- Undertaking an Accounts Payable Efficiency Project to address internal control deficiencies relating to the timely submission, approval and payment of vendor invoices.

We originally estimated that cost savings as a result of increased competition pertaining to the procurement process could be anywhere from \$4 million to \$10 million. Our March 28, 2013 report "Results of Follow-up of Previous Audit Recommendations", indicated that as a result of the new Procurement Policy, Procedures and Protocols adopted by TCHC in October 2012, and based on preliminary TCHC staff reports, that actual savings were anticipated to be at the upper end of the range initially reported.

- Our April 4, 2014 report "Results of Follow-up of Previous Audit Recommendations", indicated that TCHC had adopted an industry standard procurement metric to monitor the efforts and impact of the Procurement Unit and the value being generated on behalf of the Shareholder. It is our understanding that in 2014, TCHC issued 177 invitational and public requests for proposals and quotations for a total value of \$104.8 million. Management of TCHC calculated the cost avoidance on these procurements to be over \$22.3 million, or 21 per cent of the value of the projects.
- Further evidence of the potential for cost avoidance through competitive processes, is specific to one of the significant sole sourced contracts identified in our original report. TCHC subsequently conducted an open and competitive procurement process to award a new contract for similar work commencing April 1, 2015. TCHC management indicated that the lowest bid was 31 per cent lower

than the rates of the previous vendor. Actual savings is dependent on the nature and volume of actual work completed. Assuming annual volumes of work consistent with 2014 and a 31 per cent savings on previously contracted rates, the savings are conservatively estimated to be at least \$250,000 annually.

- TCHC has also realized savings by leveraging opportunities with the City and other levels of government. For example, in 2014, TCHC estimated annual savings of \$96,000 to implement a replacement program for existing printers through the use of a City contract. The program is expected to save \$480,000 over the five-year life of the contract.

Next Steps

The results of this follow-up review will be included in a consolidated report to the City Audit Committee in June 2015. The consolidated report will include a summary of our review of outstanding recommendations for all City Agencies and Corporations.

CONTACT

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SIGNATURE

Beverly Romeo-Beehler, Auditor General

ATTACHMENTS

Attachment 1: Toronto Community Housing Corporation, Audit Recommendations – Fully Implemented

Attachment 2: Toronto Community Housing Corporation, Audit Recommendations – Not Fully Implemented

**TORONTO COMMUNITY HOUSING CORPORATION
AUDIT RECOMMENDATIONS – FULLY IMPLEMENTED**

Report Title: TORONTO COMMUNITY HOUSING CORPORATION –
PROCUREMENT POLICIES AND PROCEDURES ARE NOT
BEING FOLLOWED

Report Date: FEBRUARY 25, 2011

Recommendations:

- (11) The CEO, as required by the Board approved Policy, implement a structured and ongoing program of procurement reviews. Such reviews should address ongoing compliance with policies and procedures and where instances of non-compliance are identified appropriate action be taken.
- (12) The CEO direct all staff to comply with procurement policies and procedures and advise them that non-compliance will result in disciplinary action. If necessary, training be provided to staff involved in the procurement process.
- (14) The CEO direct staff that all future tenders be required to comply with the TCHC's open tender policy.
- (21) The CEO establish a process whereby unusual procurement transactions are identified and reviewed on a regular basis. Appropriate action be taken on those items identified. The financial information system be adapted to provide ongoing exception reports.
- (29) The Chief Executive Officer review the current process for establishing and maintaining the current vendor list. Where significant purchases are made from one supplier an open competitive tender process be initiated. Consideration be given to establishing common terms and conditions and pricing for the duration of the contract and the regular monitoring of vendor performance.
- (30) The CEO, during her review of the procurement process ensure that an appropriate level of attention is also given to the Accounts Payable system. In particular, internal control deficiencies relating to the payment of invoices be immediately addressed.
- (31) The CEO take appropriate steps to ensure compliance with the Corporate Finance Policy and Procedures. Supplier invoices be recorded in the financial information system on a timely basis.

Report Title: TORONTO COMMUNITY HOUSING CORPORATION –
CONTROLS OVER EMPLOYEE EXPENSES ARE
INEFFECTIVE

Report Date: FEBRUARY 25, 2011

Recommendations:

- (9) The CEO review the controls relating to the issue of cash advances and make appropriate changes as required.

Report Title: TORONTO COMMUNITY HOUSING CORPORATION –
REVIEW OF CONTROLS OVER PROCUREMENT AND
PAYMENT FUNCTIONS AT TCHC SUBSIDIARY:
HOUSING SERVICES INC.

Report Date: FEBRUARY 3, 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.
- (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.
- (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.
- (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.

**TORONTO COMMUNITY HOUSING CORPORATION
AUDIT RECOMMENDATIONS – NOT FULLY IMPLEMENTED**

Report Title: TORONTO COMMUNITY HOUSING CORPORATION – THE CITY AND TORONTO COMMUNITY HOUSING CORPORATION NEEDS TO STRENGTHEN ITS OVERSIGHT OF SUBSIDIARIES AND OTHER BUSINESS INTERESTS

Report Date: FEBRUARY 3, 2012

No.	Recommendation	Management’s Comments and Action Plan/Time Frame
(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.	<p>Legal has drafted an Amended Subsidiary and Joint Venture Governance Framework (the “Amended Framework”). The Amended Framework is a comprehensive framework that incorporates and complies with applicable provisions in the recently amended Shareholder Direction between the City of Toronto and TCHC with respect to subsidiaries and joint ventures (adopted by City Council on November 13, 14, 15 and 18, 2013, sections 4.2 and 4.3) (the “2013 Amended Shareholder Direction”. The Amended Framework also ensures compliance with the Ontario <i>Business Corporations Act</i>, TCHC’s documents, and corporate governance best practices.</p> <p>The Amended Framework will be reviewed by TCHC’s Governance, Communications, Human Resources and Compensation Committee, and then by the Board in June 2015. The Amended Framework will be submitted to the Shareholder via the City Manager’s Office, upon receipt of TCHC Board approval, for information.</p>

No.	Recommendation	Management's Comments and Action Plan/Time Frame
(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.	<p>The Amended Framework complies with all provisions relevant to subsidiaries and joint ventures in the 2013 Amended Shareholder Direction.</p> <p>Upon approval of the Amended Framework by the TCHC Board, each subsidiary will enter into a new or amended existing shareholder direction with TCHC incorporating the principles in the Amended Framework.</p> <p>Time frame projected to complete is Q4 2015.</p>
(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.	<p>The Amended Framework includes existing TCHC Board Procedures for public and closed meetings that incorporate the principles identified in the 2013 Amended Shareholder Direction.</p> <p>The Amended Framework will be reviewed by TCHC's Governance, Communications, Human Resources and Compensation Committee, and then by the Board in June 2015. The Amended Framework will be submitted to the Shareholder via the City Manager's Office, upon receipt of TCHC Board approval, for information.</p>