



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

**Date:** May 11, 2017

**To:** The Board of Directors of Build Toronto Inc.

**From:** Auditor General

**Wards:** All

### **SUMMARY**

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

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

The November 2014 audit report contained 25 recommendations. In 2016, we determined that nine recommendations had been fully implemented. During the current follow-up review, one additional recommendation has been assessed as fully implemented. This recommendation is listed in Attachment 1.

The implementation of seven of the remaining 15 audit recommendations are dependent upon the City's strategy and implementation plan to consolidate the delivery of the City's real estate functions. For the remaining eight audit recommendations, Build Toronto staff have made significant progress towards implementing the recommended changes. Audit recommendations that have not been fully implemented, together with management's comments and action plan, are included in Attachment 2. These recommendations will be carried forward to our next follow-up review.

### **RECOMMENDATIONS**

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The Auditor General recommends that:

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

## **FINANCIAL IMPACT**

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The implementation of these recommendations will strengthen oversight of Build Toronto's activities in fulfilling its mandate and improve existing policies and controls over operational processes. The extent of any resources required or potential cost savings from implementing the recommendations is dependent on how the recommendations are implemented and is not determinable at this time.

## **DECISION HISTORY**

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

<http://www.toronto.ca/legdocs/mmis/2015/au/bgrd/backgroundfile-76203.pdf>

This is our second follow-up review of the implementation status of recommendations contained in that report. The results of our first follow-up review is available at:

<http://www.toronto.ca/legdocs/mmis/2016/au/bgrd/backgroundfile-94491.pdf>

## **ISSUE BACKGROUND**

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The follow-up of outstanding recommendations is required by Government Auditing Standards. Following up on outstanding recommendations from previous audit reports is important as it ensures that management has taken appropriate action to implement the recommendations. The Auditor General reports to the Board of Directors and the City's Audit Committee each year on the implementation status of outstanding recommendations.

In accordance with the Auditor General's Work Plan, we have completed a review of the status of outstanding audit recommendations from the November 17, 2014 Build Toronto Inc. audit report.

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

## COMMENTS

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

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

**Table 1: Results of the Current Review**

Report Title and Date	Total No. of Recs.	Previously Reported as Fully Implemented	Results of Current Review		
			Fully Implemented	Not Fully Implemented	Not Applicable
Operational Review of Build Toronto Inc.	25	9	1	15	0

Of the total 25 recommendations in the audit report, nine recommendations had previously been assessed as fully implemented during 2016. In the current follow-up review, one additional recommendation has been assessed as fully implemented. This recommendation is listed in Attachment 1.

Recommendations that are not fully implemented, together with management's comments and action plan, are included in Attachment 2. These recommendations will be carried forward to our next follow-up review. Included in these are seven recommendations that are dependent upon the City's strategy and implementation plan to consolidate the delivery of the City's real estate functions.

A consolidated report on the implementation status of outstanding recommendations from previous audit reports that relate to the City's Agencies and Corporations will be issued by the Auditor General and tabled at the June meeting of the City's Audit Committee. The implementation status of the audit recommendations from the "Operational Review of Build Toronto Inc." dated November 17, 2014 will be included in that report.

## CONTACT

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Ina Chan, Assistant Auditor General

Tel: 416-392-8472, Fax: 416-392-3754, E-mail: [Ina.Chan@toronto.ca](mailto:Ina.Chan@toronto.ca)

Akrivi Nicolaou, Acting Senior Audit Manager

Tel: 416-392-0057, Fax: 416-392-3754, E-Mail: [Akrivi.Nicolaou@toronto.ca](mailto:Akrivi.Nicolaou@toronto.ca)

## SIGNATURE

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Beverly Romeo-Beehler

Auditor General

## ATTACHMENTS

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Attachment 1: Audit Recommendations – Fully Implemented

Attachment 2: Audit Recommendations – Not Fully Implemented

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

**Report Title:** Operational Review of Build Toronto Inc.  
**Report Date:** 11/17/2014

No.	Recommendation
18.	<p>The Board of Directors request the Chief Executive Officer to ensure that, for all property transactions, reports recommending or short listing purchasers and/or development partners include:</p> <ul style="list-style-type: none"><li>a. A summary of evaluations of submissions received in response to requests for bids or proposals;</li><li>b. A comparison of key terms and conditions offered by bidders or proponents and the corresponding projected financial returns including underlying assumptions of financial analysis; and</li><li>c. Other qualitative factors considered in recommending or short listing bidders or proponents.</li></ul>

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

**Report Title:** Operational Review of Build Toronto Inc.  
**Report Date:** 11/17/2014

<b>No.</b>	<b>Recommendation</b>	<b>Management's Comments and Action Plan / Time Frame</b>
4.	The Board of Directors of Build Toronto request the Chief Executive Officer to conduct a review of the incentive compensation program and the executive performance management processes to ensure appropriate emphasis is placed on both long term goals established in the strategic plan and annual performance targets.	A fully documented corporate policy that links long term objectives to executive incentive compensation is currently on hold. Long term goals and their impact on annual performance targets will be documented in cooperation with the City Wide Real Estate Review.
5.	City Council request the City Manager, in consultation with Build Toronto's Chief Executive Officer, to review the Shareholder Direction on a periodic basis to ensure that the mandate and City objectives remain consistent with City Council's ongoing priorities and expectations for Build Toronto. Any changes required should be submitted to City Council for approval.	Build Toronto's mandate and alignment with City objectives is currently being evaluated through the City-Wide Real Estate Review (EX5.5). Until the report goes to Executive Committee and City Council, a review of Build Toronto's Shareholder Direction would be premature.
6.	City Council request the City Manager, in consultation with Build Toronto's Chief Executive Officer: <ul style="list-style-type: none"> <li>a. Formalize a dividend policy consistent with the mandate and objectives of Build Toronto; and</li> <li>b. Establish processes to enable the periodic review of the dividend policy.</li> </ul>	A formalized dividend policy is dependent on the City-Wide Real Estate Review which may impact Build Toronto's mandate and objectives. In advance of a formalized dividend policy, Build Toronto has established an interim dividend policy to grant a minimum \$25 million annual dividend to the City. Further, City staff has budgeted for a dividend of \$25 million from Build Toronto in 2017, and have communicated this expectation to Build Toronto.

No.	Recommendation	Management's Comments and Action Plan / Time Frame
7.	<p>City Council request the City Manager to ensure that the ongoing review of real estate holdings and the City-Wide Office Modernization Plan consider alternate accommodation solutions to allow for the development of high value sites. The City Manager report to City Council and the Board of Build Toronto annually on the progress made to identify sites currently in operational or program use that have significant development or value potential.</p>	<p>Council approved pilot projects under the City's Office Modernization Program at its meeting on July 7, 8 and 9, 2015 (GM5.18). The pilot results will provide feedback on updated office standards, cost saving estimates, and business impacts. The Real Estate Services audit process identifies alternative accommodation solutions to release high value sites. The process to enforce alternative accommodation solutions for City divisions and agencies will be addressed via City Wide Real Estate Review (EX5.5) (i.e. centralized governance and decisions making). The Chief Corporate Officer continues to work with Build Toronto to identify additional sites in operational or program use that have significant development or value potential.</p>
8.	<p>City Council request the City Manager ensure that a comprehensive City-Wide Real Estate Strategy is prepared which contemplates:</p> <ul style="list-style-type: none"> <li>a. Protocols for cooperation by City divisions, agencies, and corporations which clarifies how they would be compensated for the operating and capital impacts of transferring properties to Build Toronto; and</li> <li>b. Protocols for real estate development activities carried out by City agencies and corporations and whether such activities should be centralized or coordinated with Build Toronto.</li> </ul>	<p>Deloitte has been hired to undertake the City-Wide Real Estate Review (EX5.5) and determine opportunities for cooperation, coordination and/or centralization between 16 different areas conducting real estate activities Citywide. The review will explore protocols for cooperation by City divisions, agencies and corporations regarding property assets and models to support development activities.</p>

No.	Recommendation	Management's Comments and Action Plan / Time Frame
9.	City Council request the City Manager, in consultation with the Chief Corporate Officer and Build Toronto's Chief Executive Officer, to ensure that properties already declared surplus are transferred to Build Toronto on timely basis.	Build Toronto and the City's Real Estate Services staff review all outstanding properties with reasons for delay (i.e. taxes, environmental liability) on a semi-annual basis to ensure timely transition occurs and issues can be identified and actioned. A formal process will be determined as part of the City Wide Real Estate Review
11.	<p>The Board of Directors of Build Toronto request the Chief Executive Officer enhance periodic project status update reports to document progress made on project plans including:</p> <ul style="list-style-type: none"> <li>a. Description of any changes to milestones and timelines including any significant slippages or issues impacting the progress of projects;</li> <li>b. Actual life-to-date costs compared to original pre-development and development budgets and explanations for significant variances; and</li> <li>c. Revised project profitability forecasts including any changes to the assumptions used.</li> </ul>	Management introduced a new project status reporting format in 2017, highlighting key project milestones, and will continue to refine it throughout the year. Monitoring of plans against budget will continue to be improved as the new accounting system is augmented to allow more automated reporting; management expects to achieve this by the end of Q1 2018.



No.	Recommendation	Management's Comments and Action Plan / Time Frame
12.	<p>The Board of Directors of Build Toronto request the Chief Executive Officer to provide reports summarizing the value created on each project which include, where possible:</p> <ul style="list-style-type: none"> <li>a. A summary of activities completed by Build Toronto staff to enhance the value of properties and the related estimates of profits generated as a result of realized holding gains versus profits earned through site advancement activities;</li> <li>b. A summary of additional actions taken to enhance the value of the site where Build Toronto continues to participate in a joint arrangement on the site and the related future proceeds from profit participation in these arrangements;</li> <li>c. The projected economic impact of the development of the property;</li> <li>d. The financial impact of any conditions attached to the property transfer; and</li> <li>e. A summary of other city building benefits expected to be realized and the associated financial impact of providing such benefits.</li> </ul>	<p>Build Toronto reported on items, where accurate information is available, at Company's AGM at Executive Committee in May 2016,</p> <ul style="list-style-type: none"> <li>a. Not Implemented – Build Toronto is not able to accurately estimate holding gains on a specific property from the Value Add gains, but we will explore further in 2017/2018. (target Q2 2018).</li> <li>b. Implemented</li> <li>c. Implemented</li> <li>d. In progress – The financial impact is accessed and estimated when the properties are transferred and recorded on the books.</li> <li>e. In progress - Build Toronto commenced in 2015, and will continue to report annually on all City Building achievements, to the fullest extent possible, based on accurate information being available. Normally, the properties Build Toronto transacts on are in development for a lengthy period of time, the timing of which is controlled by the purchaser / developer. As a result, City Building outcomes, which are negotiated at the time of the transaction, are not immediate, and the exact timing and quantification may not be known for some time. The fulfillment of these City Building objectives will become more evident and more accurately reportable as these projects commence and near completion. As noted above, Build Toronto will continue to report annually on all City Building results, to the fullest extent possible, based on accurate information being available.</li> </ul>

No.	Recommendation	Management's Comments and Action Plan / Time Frame
13.	The Board of Directors of Build Toronto request the Chief Executive Officer to periodically report on the actual versus projected economic impact from development of the property.	Build Toronto discloses projected economic impact on transacted properties, generally calculated by a third party consultant, and reports on the actual results when accurate information is available. Build Toronto has spent an enormous amount of time, developing the systems and process to be able to track this data. Unfortunately, very few of the transacted projects are completed, therefore there is very little actual economic results to date, other than development charges, S37, etc., which have been reported on. In the 2016 Annual Review Build Toronto will provide a summary of all sold projects and their status. When properties are further developed and completed, Build Toronto is well positioned to report on a great breadth of results, through actual or estimated actual amounts.
14.	City Council request the City Manager, in consultation with the Chief Executive Officer of Build Toronto, to report to Council the estimated open market financial impact of terms and conditions of transfer agreements together with any Section 37 or other obligations on properties transferred to Build Toronto.	New Transfers with full costing of terms and conditions (i.e. height/use restrictions, relocation costs, free space, affordable housing and community benefits) will be added to City Council reports.
15.	The Board of Directors of Build Toronto request the Chief Executive Officer to enhance the Record Retention Policy to clarify what information needs to be documented and retained in support of processes to identify purchases and/or development partners.	In progress - The Filing Policy was updated in October 2016 to include specific practices for purging certain documents after specific time periods and provide better guidance as to what does and does not have to be retained. The policy will be further refined to incorporate more details around what information needs to be documented and retained to support the procurement process (Q1-2018)

No.	Recommendation	Management's Comments and Action Plan / Time Frame
22.	City Council request the City Manager, in consultation with the Chief Executive Officers of Build Toronto, Invest Toronto, and Toronto Port Lands Company to review areas where opportunities exist to consolidate or coordinate operations and report to City Council on the results of these consultations.	The City-Wide Real Estate Review (EX5.5) will include examining opportunities to coordinate operations of Build Toronto and Toronto Port Lands Company. Council is also considering a plan to transition Invest Toronto to a new regional foreign direct investment agency (ED6.2), which may realize cost savings through an alternative avenue.
23.	The Board of Directors of Build Toronto request the Chief Executive Officer, in consultation with the City Manager, to review the Procurement Policy and recommend appropriate revisions to the policy which support effective, objective, fair, open, transparent, accountable, and efficient procurement processes.	<p>Build Toronto periodically reviews its Procurement Policy, which has been in place for approximately five years, with the goal to make appropriate revisions which increases its effectiveness, objectivity, fairness, openness, transparency, accountability, and efficient procurement processes.</p> <p>Is currently being worked on, to be completed by Q1 2018.</p>
24.	The Board of Directors of Build Toronto request the Chief Executive Officer to ensure that the use of rosters is in compliance with the updated procurement policy.	Majority of the rosters have been completed. The remaining ones to be completed by Q4 2017.
25.	<p>The Board of Directors of Build Toronto request the Chief Executive Officer to enhance oversight and monitoring of procurement activities to include;</p> <ul style="list-style-type: none"> <li>a. Improved procurement planning to reduce the need for direct procurement and direct award of additional work; and</li> <li>b. Improved reporting of direct procurement activities and significant increases to existing contracts through direct award of additional work.</li> </ul>	<p>Build Toronto has improved its internal policies to reduce the requirement for Direct procurement and additional work, through proper planning and through the more detailed definitions and wider scopes in the RFPs, but understands that there is still room for improvement, and is reviewing its current Procurement Policy. Nonetheless, direct procurement is allowable under the current policy, and provides flexibility at times required for our hybrid nature. "Additional Work" is now reported to the FARM Committee.</p> <p>Is currently being worked on, to be completed by Q1 2018.</p>