

Compliance Audit of Waterfront Toronto Contribution Agreements

Date: January 22, 2018

To: Audit Committee

From: Deputy City Manager, Cluster B

Wards: All

SUMMARY

This report summarizes the observations and recommendations from an Ernst and Young LLP ("EY") audit of two Waterfront Toronto Contribution Agreements, titled "Contribution Agreements Compliance Audit Final Report". The audit was undertaken on behalf of the City of Toronto and was finalized in September 2017. A management response from Waterfront Toronto is attached to this report.

The EY audit was conducted as part of the regular government-led auditing program undertaken by the three orders of government for the Toronto Waterfront Revitalization Initiative. The City has been in the role of audit lead since 2015.

RECOMMENDATIONS

The Deputy City Manager, Cluster B recommends that:

1. The Audit Committee receive this report for information.

FINANCIAL IMPACT

There are no financial implications associated with this report. The Acting Chief Financial Officer has reviewed this report and agrees with the financial impact information.

DECISION HISTORY

On July 7, 2015, City Council requested the Deputy City Manager, Cluster B, in consultation with the Auditor General, to take the lead on behalf of the government partners in conducting government-led audits for the balance of the first phase of the Toronto Waterfront Revitalization Initiative.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2015.EX7.6>

COMMENTS

1. Background

Since Waterfront Toronto was established in 2002, the Corporation has been subject to 46 internal, external and government-led audits. A comprehensive list of these audits is provided in Attachment 1. Internal audits have been undertaken periodically and have covered project management, risk mitigation, financial transaction processes and internal controls, while external audits have been prepared annually to verify the Corporation's financial statements.

The three orders of government have also routinely conducted compliance, performance and review audits of Waterfront Toronto as part of the Toronto Waterfront Revitalization Initiative. In an effort to streamline government-led audits, the Federal Government performed the role of audit lead from 2005 to 2011, followed by the Province from 2011 to 2015, and the City thereafter. A multi-year audit plan was prepared by City staff in the fall of 2015 and was subsequently endorsed by the other orders of government.

In 2016 the City retained EY through a competitive bidding process to conduct a compliance audit of two Contribution Agreements between the City and Waterfront Toronto. The objectives of the audit were to:

- Provide reasonable assurance that the expenditures claimed as eligible expenses by the funding recipient were made in accordance with the Contribution Agreement terms;
- Provide reasonable assurance that the funding recipient's processes and controls are designed and operating effectively to ensure the compliance with the Contribution Agreement terms; and
- Identify opportunities to enhance compliance and improve efficiency, and provide program recommendations accordingly.

2. EY Audit Process

EY performed a risk assessment of the existing 92 Contribution Agreements between the government partners and Waterfront Toronto, and selected two Contribution Agreements based on discussions with City staff, Waterfront Toronto management and

Waterfront Toronto's internal audit provider. The two selected Contribution Agreements were:

- **CA72 West Don Lands:** A joint Contribution Agreement between the Province and City of Toronto to fund revitalization projects that would transform the formerly industrial precinct into a sustainable, mixed-use, pedestrian-friendly, riverside community. The total value of the Contribution Agreement was approximately \$36.5M.
- **CA85 East Bayfront:** An individual Contribution Agreement with the City of Toronto to fund the implementation of East Bayfront revitalization. In particular, the Contribution Agreement was for enhancements to municipal and utility infrastructure, public realm and the ongoing coordination of investments with institutional and development partners. The value of the Contribution Agreement was approximately \$13.0M.

Based on the approved audit program, EY considered Contribution Agreement compliance based on the following eight categories:

- Eligible Costs;
- Reports;
- Procurement;
- General Terms, Insurance and Permits;
- Assets Management;
- Ethics;
- Documents Retention and Audit; and
- Media Activities.

A total of 12 observations were made by EY (see Attachment 2 for the final report). In general, the observations identified several areas where the management / administration of the Contribution Agreements can be improved, including:

- For the governments and Waterfront Toronto to mutually align on the definitions and level of detail required to fulfill related obligations;
- For Waterfront Toronto to leverage existing reporting to satisfy expectations of the Contribution Agreement terms for the governments;
- To identify the accountabilities, processes and controls at Waterfront Toronto that address the Contribution Agreement terms; and
- To enhance specific processes and controls at Waterfront Toronto as a result of the compliance auditing and high level review of the Contribution Agreement program.

3. Waterfront Toronto Management Response

In response to the EY compliance audit, Waterfront Toronto developed an Audit Action Plan to strengthen its reporting procedures (see Attachment 3). Many of these measures have already been implemented by Waterfront Toronto.

4. Conclusions and Next Steps

City staff, in consultation with EY, believe the corrective measures taken and/or planned to be taken by Waterfront Toronto, will adequately address the observations noted in the audit.

City staff will forward a copy of this staff report, including the EY audit titled "Contribution Agreements Compliance Audit Final Report", to the Waterfront Toronto Board of Directors for its consideration.

The next government-led audit of Waterfront Toronto will be undertaken in 2018 and the focus will be to review the development and implementation of Waterfront Toronto's new enterprise resource planning accounting platform (ERP). The new platform will be used for all future Waterfront Toronto financial reporting; therefore government feedback at critical junctures during the software development process can ensure that the end product is aligned with the reporting requirements of governments.

In future years, the City's Internal Audit Division will lead and undertake government-led audits of Waterfront Toronto on behalf of the City. Internal Audit will perform this function until such time as another order of government takes over the role of government-lead.

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SIGNATURE

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ATTACHMENTS

Attachment 1 – Waterfront Toronto Audit List
Attachment 2 – EY Audit of Two Waterfront Toronto Contribution Agreements, 2017
Attachment 3 – Waterfront Toronto Audit Action Plan, 2018

Compliance Audit of Waterfront Toronto Contribution Agreements

ATTACHMENT 1:

WATERFRONT TORONTO AUDIT LIST

WATERFRONT TORONTO

History of Audits

January 22, 2018

| YEAR | Internal Audits | External Audits | Government Audits | Total no. |
|---------------|--|---|---|--------------|
| 2017/18 | - Peer Review of Enterprise Risk Register (MNP LLP). Currently underway. | | | - |
| 2016/17 | | - March 31, 2017 financial statement audit (BDO Canada LLP) | - Contribution Agreements: West Don Lands Precinct (CA-72) & East Bayfront Continued Implementation (CA-85) (City) | 2 |
| 2015/16 | - Cash Forecasting Process Review (MNP LLP) - Billing & Collections (MNP LLP) | - March 31, 2016 financial statement audit (BDO Canada LLP) | | 3 |
| 2014/15 | - Construction Audit for the Bayside Project (MNP LLP) | - March 31, 2015 financial statement audit (BDO Canada LLP) | - Provincial audit on follow up of 2007 VFM audit recommendations and review of revenue generation capacity (Province) - Waterfront Strategic Review (City) | 4 |
| 2013/14 | - Cash handling & reporting - 7 Queens Quay (MNP LLP) - Review of Queens Quay Project (MNP LLP) | - March 31, 2014 financial statement audit (BDO Canada LLP) | - Federal TWRI Program Evaluation (Federal) | 4 |
| 2012/13 | - Contract commitments (MNP LLP) - Project budget management (MNP LLP) - Sales tax review (Stratos Consulting) | - March 31, 2013 financial statement audit (BDO Canada LLP) | - Contribution Agreement: District Energy (CA-41) (Federal) | 5 |
| 2011/12 | | - March 31, 2012 financial statement audit (BDO Canada LLP) | | 1 |
| 2010/11 | | - March 31, 2011 financial statement audit (Deloitte and Touche LLP) | - Contribution Agreement: Central Waterfront Public Realm (CA-19) (Federal) - Contracting Practices (Federal) | 3 |
| 2009/10 | | - March 31, 2010 financial statement audit (Deloitte and Touche LLP) | - Contribution Agreement: Transitional Sports Fields (CA-13) (Federal) - Contribution Agreement: Harbourfront Canada Square Feasibility Study (CA-17) (Federal) - Contribution Agreement: Don River Park Design (CA-14) (Federal) | 4 |
| 2008/09 | - Program Management Review (PWC) - Schedule Control (PWC) | - March 31, 2009 financial statement audit (Deloitte and Touche LLP) | - Contribution Agreement: Western Beaches Watercourse (CA-05) (Federal) | 4 |
| 2007/08 | - Funding Process Review (PWC) | - March 31, 2008 financial statement audit (Deloitte and Touche LLP) | - Federal TWRI Program Evaluation (Malatest Consulting) (Federal) | 3 |
| 2006/07 | - Contribution Agreement Compliance (PWC) | - March 31, 2007 financial statement audit (Deloitte and Touche LLP) | - Value for Money Audit (Tri-government) | 3 |
| 2005/06 | - Eligible Recipient Management (PWC) - Eligible Recipient Procurement (PWC) - HR & Payroll (PWC) | - March 31, 2006 financial statement audit (Deloitte and Touche LLP) | - Contribution Agreement: Priority Projects (CA-01 & CA-02) (Federal) | 5 |
| 2004/05 | - Eligible Recipient Audit - Harbourfront Corporation (Stantec) - Procurement function (Stantec) | - March 31, 2005 financial statement audit (Deloitte and Touche LLP) | | 3 |
| 2003/04 | | - March 31, 2004 financial statement audit (Deloitte and Touche LLP) | | 1 |
| 2002/03 | | - March 31, 2003 and March 31, 2002 financial statement audit (Deloitte and Touche LLP) | | 1 |
| TOTALS | | 17 | 15 | 15 46 |