

# ATTACHMENT 3 - WATERFRONT TORONTO AUDIT ACTION PLAN

## WATERFRONT TORONTO

### Contribution Agreements (CA) Compliance Audit - September 1, 2017

#### Management Responses and Action Plan

| Item No. | Audit Observation  | Audit Recommendation  | Waterfront Toronto Management Response  | Implementation Date  |
|----------|--|---|---|--|
| 1        | <p>Prior to April 2016, indirect labor hours incurred by Project Managers were allocated to CA72 and CA85 by an allocation formula: Indirect labor hours allocated to each CA=Total indirect labor hours X (Direct labor hours charged to each CA/Total direct labor hours). Indirect labor costs for ineligible costs per CA Schedule C for CA-85 only.</p> <p><i>Waterfront Toronto Note:<br/>The indirect labor hours by project managers above refers to the allocation of project managers' time spent on learning and development, and other corporate requirements (e.g., staff townhalls, management meetings, internal meetings on collective project matters).</i></p> | <p>1. Waterfront Toronto shall establish a formal written labor time tracking and labor cost allocation process in line with CA Schedule C for execution.</p> | <p>Waterfront Toronto concurs with the recommendation.</p> <p>Waterfront Toronto has an existing labor time tracking process for project cost allocation purposes, however will strengthen this as outlined below.</p> <p><u>Action Plan:</u></p> <ul style="list-style-type: none"> <li>Waterfront Toronto recommends reinstating the historical definition of eligible costs to include indirect and overhead costs. This will address CA inconsistencies on definition of eligible costs.</li> <li>Waterfront Toronto also recommends strengthening the existing labor cost allocation process by implementing the Activity-Based Cost (ABC) Allocation Model for allocating indirect and overhead costs to projects beginning 2018/19 fiscal year.</li> </ul> <p>Waterfront Toronto's proposal is to incorporate this framework in:</p> <ul style="list-style-type: none"> <li>Existing City CAs,</li> <li>New government CAs, and</li> <li>New CA amendments.</li> </ul> | <p><b>June 2018</b> - in line with anticipated new Enterprise Resource Planning (ERP) system go live date.</p> |

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| 2        | Indirect labor costs for Indirect Employees are Ineligible Costs per CA Schedule C for CA-85. However, the definition of Direct and Indirect Employees is not consistently applied. | If a list of Direct and Indirect Employee Positions is to be used for labor cost allocation, Waterfront Toronto shall provide the list as an Appendix to CA Schedule C and use the same list for Waterfront Toronto labor cost allocation consistently. If there is an organization change, within a month upon the organization change announcement, Waterfront Toronto shall review the list of Direct and Indirect Employee Positions and notify the funding government(s) if an amendment to the Appendix needs to be made. This requirement shall be included in the Appendix to CA Schedule C with the alignment of three (3) orders of government. | Same as Item 1 above.  | Same as Item 1 above. |
| 3        | Some costs charged to CA72 incurred for a project WDL05, which was not included in the CA72 Schedule A.   | 1. Waterfront Toronto shall communicate with the funding government(s) to achieve an alignment for any specific exceptional cases. Approving Waterfront Toronto Long-Term   | Waterfront Toronto reversed the identified WDL05 costs from CA 72 funding in June 2017.<br><br>1. Waterfront Toronto agrees with the recommendation. | N/A.<br><br>Immediate |

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|          |   | <p>Plan (“LTP”) or any other general plans or budget without specific and detailed information cannot serve as approvals for specific exceptions.</p> <p>2. Waterfront Toronto shall include work package level details in CA Schedule A consistently (CA72 Schedule A only contains project level details).</p> | <p>2. This has generally been addressed in all the subsequent CAs beginning with the execution of CA-75 (Underpass Park Phase 2 Construction) with the Federal Government in March 2012.</p>   | <p>Not Applicable</p> |
| 4        | <p>Schedule B Cashflow Forecast and Record of Expenditures has not been provided for City funded projects as required by the CA terms since 2012.</p>   | <p>Waterfront Toronto shall review the control objectives of submitting Cashflow Forecast and Record of Expenditures with the three (3) orders of government and align on reporting requirements and frequency.</p>  | <p>Waterfront Toronto concurs with the recommendation and is undertaking a review/ “refresh” of the relevant CA terms for relevancy and appropriateness, taking into account:</p> <ul style="list-style-type: none"> <li>a) Existing project reporting to the FARM and Board, and</li> <li>b) Recent Delivery Agreement for the Cherry Street Stormwater and Lakefilling project.</li> </ul> | <p>March 31, 2018</p> |
| 5        | <p>The Statement of Eligible Costs has not been provided for three quarters (Q4 15/16, Q1 16/17 and Q2 16/17) as it takes a great deal of effort to prepare it and it does not provide very meaningful information.</p> | <p>Waterfront Toronto shall review the Funding Request Report with three (3) orders of government to see if the eligible costs information included in the Funding Request Report can satisfy the reporting needs. Additional notes can be added to the existing Funding</p>                                     | <p>Same as Item 4 above.</p>   | <p>March 31, 2018</p> |

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| 6        | Internal Audit Reports have not been provided consistently every quarter.   | Request Report to address any concerns.<br>Waterfront Toronto shall include an Audit Register and completed Internal Audit Reports in the Quarterly Funding Request Binder. The Audit Register lists internal and external audits performed and scheduled to Waterfront Toronto.  | Waterfront Toronto concurs with the recommendation. Implemented effective Q3 2016/17 funding request package. | Not Applicable      |
| 7        | Schedule D of CA72 and CA85 requires Waterfront Toronto to submit Quarterly Project Progress Reports and Annual Project Progress Reports which shall present detailed project performance information in benefits/objectives management, schedule/planning management, cost/budget management, risk/contingency management and media activities management. The existing Quarterly Project Progress Reports do not meet the detail requirements of Schedule D. The Annual Project Progress Report | 1. Waterfront Toronto shall review the existing Project Management reports used for Waterfront Toronto internal monitoring and Board reporting with three (3) orders of government and align on which reports can be submitted as Quarterly and Annual Project Progress Reports. The existing Waterfront Toronto reports include, but not limited to: <ul style="list-style-type: none"> <li>• Board Financial Variance Report</li> <li>• Board Work Package Risk/Status Report</li> <li>• Risk and Issue Report</li> <li>• Annual Management Report</li> </ul> | 1. Same as Item 4 above.  | March 31, 2018.     |

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|          | requested by Schedule D has not been provided.  | <ul style="list-style-type: none"> <li>• Monthly Media Coverage Report</li> </ul> <p>2. If the existing reports do not contain necessary project performance information, Waterfront Toronto shall review the existing project management process to address such information and include such information in the existing reports.</p> | 2. Waterfront Toronto concurs with the recommendation.   | March 31, 2018.     |
| 8        | A fairness advisor is used for complex and high value procurement which is a good practice to ensure the compliance with CA terms. The use of fairness advisor is not documented in the procurement policy.   | Waterfront Toronto shall document the use of a fairness advisor in the procurement policy.  | Waterfront Toronto concurs with the recommendation. Updated Procurement Policy to be presented for FARM Committee and Board approvals. | March 31, 2018.     |
| 9        | CA sections of 13.1 and 13.2 request written approval of the funding government(s) for any asset transactions over \$10,000, including assets acquisition, disposal, sale, exchange and lease, prior to the occurrence of the transactions. There has | <p>Waterfront Toronto shall review CA sections of 13.1 and 13.2 with the three (3) orders of government for better alignment and execution. Key areas recommended for review are:</p> <ul style="list-style-type: none"> <li>• Consider increasing the maximum amount of \$10,000 with consideration to</li> </ul>                      | Same as Item 4 above.  | March 31, 2018.     |

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|          | <p>been no evidence to prove that these clauses have been complied with by Waterfront Toronto.</p>                           | <p>economic development since 2003 and practicality.</p> <ul style="list-style-type: none"> <li>• Consider developing an Assets Transaction Approval Form that can be used by Waterfront Toronto to request the governments' approval with adequate information, including, but not limited to, assets transaction type, assets description, budget amount, actual amount, corresponding project number and CA number, transaction justification and Waterfront Toronto internal approvals obtained before submitting for the government approval.</li> <li>• Consider requesting regular submission of Waterfront Toronto Assets Register to monitor the total volume, value and changes of Waterfront Toronto assets (including both project assets and corporate assets).</li> </ul> |   |                                     |
| 10       | <p>The Waterfront Toronto definition of conflict of interests does not cover Waterfront Toronto employees and government</p> | <p>Waterfront Toronto shall update the Code of Conduct to expand the definition of conflict of interest per CA terms.</p>   | <p>Waterfront Toronto concurs with the recommendation. Updated Code of Conduct requires approvals from Waterfront Toronto Governance Committee and Board.</p> | <p>December 2017 (implemented).</p> |

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|          | officials who have influence over the CA process, as requested by CA terms.   |  |   |   |
| 11       | There is no written document retention policy in place as a guideline for documents retention.  | Waterfront Toronto shall develop a formal document retention policy in line with Generally Accepted Accounting Principles (“GAAP”) standards.  | Waterfront Toronto concurs with the recommendation and will consider related guidelines associated with Freedom of Information (FOI) and Ontario’s Business Corporations Act when developing the document retention policy. Also, Waterfront Toronto to ensure that the policies are in line with GAAP.   | September 30, 2018                            |
| 12       | <p>CA clause of 17.1 requires that “Waterfront Toronto shall ensure that any and all public information material related to the Project, including Internet Website information, publications, advertising and press releases are approved by Toronto and that there is, included in public information, an appropriate acknowledgement, of Toronto’s Contribution. “</p> <p>CA clause of 17.2 requires that “In the event that public information material is developed for public</p> | <p>1. Waterfront Toronto shall ensure an acknowledgement to the funding government(s) will be included for each project updates on its official website, if it has not already been done.</p> <p>2. Waterfront Toronto shall communicate with three (3) orders of government and</p> | <p>1. Same as Item 4 above.</p> <p>For Clause 17.1, Waterfront Toronto’s proposed wording is as follows:<br/>                     “Waterfront Toronto shall ensure that the government’s logo is used on press releases and backgrounders on project announcements to acknowledge government funding”.</p> <p>For Clause 17.2, Waterfront Toronto recommends this section be excluded for practical reasons (i.e. difficult/impractical to add a disclaimer to every public content).</p> <p>2. Waterfront Toronto concurs with the recommendation.</p> | <p>March 31, 2018.</p> <p>March 31, 2018.</p> |

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|                 | <p>distribution under this Agreement, Waterfront Toronto shall, unless otherwise directed by Toronto ensure that the following disclaimer appears: 'The views expressed herein do not necessarily represent the views of the City of Toronto'."</p> <p>Due to technology development, the major media and communication channels used by Waterfront Toronto are social media such as its official website (<a href="http://www.waterfronttoronto.ca">www.waterfronttoronto.ca</a>), official Twitter and Facebook account. It is hard to audit if the implementation of is satisfactory.</p> | <p>reach a mutual understanding on the wording of implementation of CA clauses of 17.1 and 17.2.</p> |   |                            |