

# **City of Toronto's Modular Housing Initiative: The Need to Balance Fast Delivery with Stronger Management of Contracts and Costs**

**Date:** June 21, 2023  
**To:** Audit Committee  
**From:** Auditor General  
**Wards:** All

## **SUMMARY**

---

The Auditor General's 2022 Work Plan included a review of the City's Modular Housing Initiative.

Modular housing units are a type of prefabricated, permanent housing that are constructed in a factory and then transported and assembled onsite. Modular housing represents an innovative opportunity to respond rapidly to Toronto's urgent homelessness situation and to reduce pressure on the City's shelter system.

In April 2020, as an urgent response to the housing need for people experiencing homelessness, particularly during the COVID-19 pandemic, and to expedite action under the HousingTO Plan, City Council directed City staff to launch the Modular Housing Initiative to create 250 new modular supportive homes as quickly as possible.

Our report draws attention to opportunities for the Executive Director, Housing Secretariat, the Executive Director, Corporate Real Estate Management Division and the CEO, CreateTO to strengthen controls over modular housing contracts and costs, as well as enhance the quality of reporting to City Council, by:

- A. Better Project Planning Before Budget Preparation
- B. Strengthening Tracking, Monitoring, and Reporting of Project Costs
- C. Establishing Contract Management Policies and Procedures
- D. Strengthening Documentation of the Procurement Process
- E. Better Information and Analysis to Assess Overall Program Effectiveness

## RECOMMENDATIONS

---

The Auditor General recommends that:

1. City Council request the Executive Director, Housing Secretariat, through the Executive Steering Committee for site selection, to:
  - a. Perform subsurface investigation and due diligence on land/soil and infrastructure and servicing constraints prior to the final decision on site selection;
  - b. Obtain from the Corporate Real Estate Management Division a cost-estimate analysis of site remediation to be included in the development of site budgets; and
  - c. Provide the above information to the proponents in the request for proposal (or to the contractor early on in the project) to facilitate a more accurate price quote and project cost estimate.
2. City Council request the Executive Director, Housing Secretariat and the Executive Director, Corporate Real Estate Management Division, in the budget development process for future modular housing projects, to:
  - a. Conduct a review to understand all cost elements (construction and non-construction) that would be expected to be incurred in preparing a site ready for operation;
  - b. Include the above cost elements for budget development;
  - c. Document assumptions used for the estimated budget numbers; and
  - d. Clearly define which party is responsible for managing each cost item within the budget.
3. City Council request the Executive Director, Housing Secretariat to ensure the re-zoning is in effect before beginning construction of future modular units, to reduce the risk of potential delays and additional costs related to storage, transportation, and other costs that may be incurred in trying to re-purpose or sell the modules.
4. City Council request the Executive Director, Housing Secretariat to continue to discuss and negotiate with funding provider(s) more reasonable timelines for future modular housing projects.
5. City Council request the Executive Director, Housing Secretariat to improve reporting processes and transparency in the budget development process by submitting:
  - a. An updated site-specific budget to City Council at the time of site selection, after conducting the necessary due diligence work, and in compliance with any

funding agreements executed between the City and other orders of government or funder(s); and

b. For City Council's approval, any financially material request(s) to increase the budget by modular housing project site and the rationale for the additional budget request(s).

6. City Council request the Executive Director, Housing Secretariat to report to City Council regularly on the progress of the modular housing projects. Such reports are to include, but not be limited to:

a. Comparison of original timeline and actual schedules, with explanations for significant delays;

b. Actual final costs for completed sites and projected costs for ongoing sites, compared with initial budgets, with explanations for any significant variances; and

c. Details of funding being allocated or reallocated to cover the additional costs.

7. City Council request the Executive Director, Housing Secretariat, in conjunction with the Executive Director, Corporate Real Estate Management Division and the CEO, CreateTO, to:

a. Clarify in writing, the roles and responsibilities for each of the parties involved in the modular housing project management process, ensuring they are clearly understood; and

b. Develop and implement a process to ensure consistent financial data is shared and used by all parties for reporting purposes of modular housing projects.

8. City Council request the Executive Director, Housing Secretariat to revise the financial system coding (i.e. cost centres) to assign future budget and actual costs by site, in order to reflect the accurate budget and most up-to-date costs in the financial system.

9. City Council request the Executive Director, Housing Secretariat in conjunction with the Executive Director, Corporate Real Estate Management Division to conduct a thorough review and reconciliation of existing costs in the system to ensure all costs incurred to date for Phase One and Phase Two modular housing projects have been captured and allocated to the correct accounts.

10. City Council request the Executive Director, Housing Secretariat to:

a. Develop and implement a process for cost recording of modular housing projects to ensure all future costs (including all hard and soft costs) are captured and allocated to the correct site-specific cost centre and cost account;

b. Perform timely and regular cost allocation to site-specific cost centres for future invoices that contain costs for multiple sites; and

c. Develop a process to review the entries booked by other divisions in the financial system to ensure their accuracy and completeness.

11. City Council request the Executive Director, Housing Secretariat to develop formal policies and procedures and reporting templates for the purpose of tracking actual expenditures against initial budgets on a line-by-line basis (e.g. permit fees, manufacturing costs), on a project site basis and on an overall project basis.

12. City Council request the Executive Director, Corporate Real Estate Management Division, in consultation with the Executive Director, Housing Secretariat, to ensure consistent compliance with the new change order process for all future modular housing projects by finalizing the development of the change control process and protocols, and including the following steps:

- a. Complete the negotiation of change order work on a timely basis and ensure work is not started until the Executive Director, Corporate Real Estate Management Division approves the change order request;
- b. Obtain and review supporting documents from the contractor for each change order and require approval of change orders before payment is made; and
- c. Clearly define the roles and responsibilities of the third-party contractor, if one is employed as the Payment Certifier or Contract Administrator on behalf of the City for both payment certification and the review and approval of change orders.

13. City Council request the Executive Director, Corporate Real Estate Management Division for Phase Two and future modular housing projects to:

- a. Develop and implement a process to review the process payment invoice to ensure it is accurate and reflects the updated work progress;
- b. Verify work progress through on-site inspections and document the review; and
- c. Ensure all file review questions and comments are adequately addressed, documented and retained.

14. City Council request the Executive Director, Corporate Real Estate Management Division, in consultation with City Legal Services, to:

- a. Assess whether the project management fees and markups were reasonably charged;
- b. Seek to recover any overpayment, if the project management fees and markups are not reasonably charged by the contractor; and

c. Assess whether there is a need to amend future contracts for project management fees and change order markups in order to provide clarity on interpretation.

15. City Council request the Executive Director, Corporate Real Estate Management Division, in consultation with Chief Procurement Officer, for Phase Three and future modular housing projects to:

a. Implement a vendor performance management process to address the unique requirements of modular housing projects;

b. Summarize a list of key performance requirements and deliverables from the modular housing contracts;

c. Monitor and evaluate the contractor's performance and quality of design and manufacturing throughout and after the completion of the project; and

d. Identify, document, and resolve any contractor performance, design, and manufacturing issues.

16. City Council request the Executive Director, Corporate Real Estate Management Division, in consultation with the Executive Director, Housing Secretariat, to finalize its project management processes, including but not limited to project cost tracking, progress payment invoice review, project close-out and contractor performance monitoring, and ensure compliance with those processes.

17. City Council request the Executive Director, Housing Secretariat, in conjunction with the Executive Director, Corporate Real Estate Management Division, and CEO, CreateTO, to develop, implement and comply with a standard file documentation and retention policy for the program, aligned with the City's policy on record retention. The policy should specify documents to be created and retained (and retention length), especially for any information supporting significant decisions made during the process.

18. City Council request the Executive Director, Corporate Real Estate Management Division, in consultation with the Executive Director, Housing Secretariat, to develop a warranty management process, including actively monitoring any event(s) of repairs and damages on the modular housing buildings after building occupancy.

19. City Council request the Executive Director, Housing Secretariat to conduct and document on a timely basis, a more formalized lesson learned review after each modular housing project is completed, which should include:

a. Inputs from all participating divisions of the project team;

b. A review of contract design, procurement of the contractor, cost and budget management, contractor performance, and operations; and

c. A consideration of lessons learned from past projects.

20. City Council request the Executive Director, Housing Secretariat to analyze and determine if it is more cost effective and quicker to build using modular construction, when compared with traditional methods, by:

- a. Tracking and monitoring overall costs, including the long-term maintenance and capital cost requirements of completed modular housing; and
- b. Obtaining more external benchmarking information as it becomes available.

## **FINANCIAL IMPACT**

---

By addressing the recommendations in this report, the Housing Secretariat, the Corporate Real Estate Management Division and CreateTO will be able to strengthen controls over project planning, budgeting, cost tracking, and contract management processes, and help enhance the quality of reporting to City Council. The resulting financial implications of any anticipated efficiencies could not be determined at the time of this report.

## **DECISION HISTORY**

---

The Auditor General's 2022 Work Plan included a review of the City's Modular Housing Initiative.

This report highlights the results of our audit of the Modular Housing Initiative, including an examination of the procurement and management of contracts and costs.

## **COMMENTS**

---

A high-level summary of the key audit findings is provided in the two-page Audit at-a-Glance.

The attached audit report provides the Audit Committee and members of Council with the detailed audit results and recommendations together with management's response. Management has agreed to all 20 recommendations.

## **CONTACT**

---

Ariane Chan, Assistant Auditor General, Auditor General's Office  
Tel: (416) 338-3130, E-mail: [Ariane.Chan@toronto.ca](mailto:Ariane.Chan@toronto.ca)

Matthew Crisafulli, Senior Audit Manager, Auditor General's Office  
Tel: (416) 392-2565, E-mail: [Matthew.Crisafulli@toronto.ca](mailto:Matthew.Crisafulli@toronto.ca)

## **SIGNATURE**

---

Tara Anderson  
Auditor General

## **ATTACHMENTS**

---

Attachment 1: City of Toronto's Modular Housing Initiative: The Need to Balance Fast Delivery with Stronger Management of Contracts and Costs