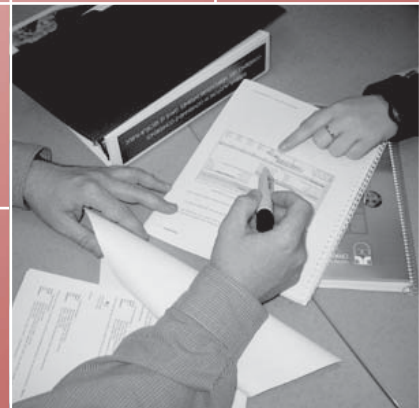


# **Audit of the Toronto Waterfront Revitalization Initiative (TWRI)**





# Audit of the Toronto Waterfront Revitalization Initiative (TWRI)

Project No: 6528/04

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*The responsibilities of the Toronto Waterfront Revitalization Initiative (TWRI) were transferred to Citizenship and Immigration Canada (CIC) on February 3, 2005. Human Resources and Skill Development Canada commissioned this Audit and has accepted its findings. For your convenience, please find a linked copy of the [TWRI Management Action Plan](#) addressing the findings of this report.*

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## ***EXECUTIVE SUMMARY***

This is the first audit of the Toronto Waterfront Revitalization Initiative (TWRI) since its inception in 2001. The objective of the audit of the TWRI is to provide assurance that the Toronto Waterfront Revitalization Corporation (TWRC) is in compliance with the terms and conditions of the Contribution Agreement. The audit period covered activities of the TWRC from November, 2001 to March 31, 2004.

In November 1999, a plan was announced to revitalize the Toronto waterfront. Driven by a bid for the 2008 Summer Olympics, a Task Force was created to review the waterfront and to develop a plan for its renewal. Based on the recommendations of the Task Force the Government of Canada, the Province of Ontario, and the City of Toronto jointly announced their support for the creation of the TWRC to oversee and lead Toronto's waterfront renewal.

In July 2001, the TWRC and the City of Toronto, the Province of Ontario, and the Federal Government signed a contribution agreement. The contribution agreement is made up of five projects (four "Priority Projects" and a "Corporate Project").

This audit started in January of 2005 and the field work took place in March of 2005. The objective and the scope of the audit of the TWRI are to provide assurance that the TWRC is in compliance with the terms and conditions of the contribution agreement (signed in July 2001 when the program was within the mandate of Transport Canada and amended in June 2004 under the purview of HRSDC).

It is the Auditors' opinion that expenses incurred by the TWRC for the four Priority Projects and the Corporate Project have been spent in accordance with the terms and conditions of the Contribution Agreement. However, not all terms and conditions are met by the corporation and there are deficiencies identified with the contribution agreement, and they are noted as follows:

- For the period audited, TWRC requested \$2,252,583 from the federal government for corporate cost that was not allocated to the various project in the contribution agreement. These cost would be considered eligible expenses, if they are allocated to specific project described in the contribution agreement.
- The Contribution Agreement did not state projected milestones and anticipated dates of achievement. In addition, the definition of Eligible Costs under Schedule B of the Contribution Agreement allows TWRC to claim any type of expenses against the Crown under the category of "indirect and overhead costs."
- In the review of TWRC's Requests for Interim Payment submitted to the Three Government Funding Partners, the following material weakness in the Internal Control Framework were observed: (1) Record management-missing Requests for Interim Payments; (2) Reliability of Information Submitted - delay in correction of information on Request for Interim Payments; (3) and Consistency in reporting financial data.

Clause 5.1 of the Contribution Agreement stipulates “All contracts for the purchase of goods and services or construction contracts in excess of a total value of \$75,000 (2001 dollars) to be entered into by the TWRC or an Eligible Recipient, as the case may be, with a Third Party Contractor for the Implementation of any project shall be awarded following a competitive process”. The auditors observed 10 contracts in excess of a total value of \$75,000 that were awarded without a competitive process.

Additional background information and a chronology of the development and management of the initiative provided by the TWRI Secretariat are attached in Appendix A.



## **1. INTRODUCTION**

### **1.1 Background**

#### **Program Description and Design**

In November 1999, a plan was announced to revitalize the Toronto waterfront. Driven by the City's bid for the 2008 Summer Olympics, a Task Force was created to review the waterfront and to develop a plan for its renewal. Based on the recommendations of the Task Force, in March 2000, the Government of Canada, the Province of Ontario, and the City of Toronto (the Three Government Funding Partners) jointly announced their support for the creation of the Toronto Waterfront Revitalization Corporation (TWRC) to oversee and lead Toronto's waterfront renewal.

The Government of Canada, the Province of Ontario, and the City of Toronto each committed \$500 million dollars to support the Toronto waterfront revitalization. The funds flow through the TWRC as the primary designated recipient into projects that are implemented by Eligible Recipients<sup>1</sup> (as defined in the Contribution Agreement).

In July 2001, the TWRC and the Three Government Funding Partners signed a Contribution Agreement (amended further in June 2004) that announced the following five projects (four Priority Projects and one Corporate Project):

- Union Station Second Platform;
- Naturalization and Flood Protection for the Lower Don River;
- Portlands Preparation;
- Front Street Extension and Interchange;
- Corporate Project.

#### **Role and Development of the TWRC**

An interim waterfront revitalization corporation was established, with the TWRC formally established on November 1, 2001 under the *Business Corporations Act*. The TWRC was continued as a corporation without share capital, receiving royal assent on December 13, 2002 through a special act, Bill 151 of the Revised Statutes of Ontario. Corporate authorities and accountabilities are set out in the *Toronto Waterfront Revitalization Corporation Act*, 2002. In the explanatory notes to Bill 151, it states the board is required to follow directions given jointly by the federal government, the provincial government and the City of Toronto.

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<sup>1</sup> Eligible Recipient: a person, other than TWRC, who, in respect of any Project, is identified in Schedule A of the Contribution agreement as the person responsible to carry out that project. (e.g. Toronto Transit Commission; Toronto and Region Conservation Authority; City of Toronto)

The federal government, the provincial government and the City of Toronto established an intergovernmental Steering Committee (IGSC) in October 2000. ITSC serves as a focal point for intergovernmental management of TWRI issues. Composition of the IGSC as of September 2005 included: Deputy Minister, CIC, Assistant Deputy Minister, Centralized Service Delivery and Corporate Services, CIC, Deputy Minister Public Infrastructure Renewal, Province of Ontario, Assistant Deputy Minister, Infrastructure Policy Planning Division, Province of Ontario, City Manager, City of Toronto and Deputy City Manager, City of Toronto.

According to the *Toronto Waterfront Revitalization Act*, the TWRC's corporate objectives are:

1. To implement a plan that enhances the economic, social and cultural value of the land in the designated waterfront area and create an accessible and active waterfront for living, working and recreation, and to do so in a fiscally and environmentally responsible manner;
2. To ensure that ongoing development in the designated waterfront area can continue in a financially self-sustaining manner;
3. To promote and encourage the involvement of the private sector in the development of the designated waterfront area;
4. To encourage public input into the development of the designated waterfront area;
5. To engage in such other activities as may be prescribed by regulation.

Since February 2002, TWRC has implemented the following project control:

- Completion of corporate risk matrix and risk response plan by an external consultant;
- Establishment of an internal audit function;
- Establishment of Board level Audit and Evaluation Committee;
- Development of internal finance and risk management committee;
- Appointment of External Auditor.

### **Federal Government Management of the Initiative**

From a federal standpoint, initially the Minister of Transport of Canada was given authority to enter into Contribution Agreements with the Province of Ontario, the City of Toronto and the TWRC for TWRI as per the Order in Council (OIC) of April 27, 2001. On March 8, 2004, as per a new OIC, the powers, duties and functions relating to the Contribution Agreement were transferred from the Minister of Transport Canada to the Minister of Human Resource and Skills Development Canada (HRSDC).

However, the February 3, 2005 Order in Council repealed the March 8, 2004, OIC and designated the Minister of Citizenship and Immigration to replace the Minister of HRSD to represent Her Majesty relating to the Contribution Agreement pertaining to the *Toronto Waterfront Revitalization Act, 2002*.

### **The Priority Project Contribution Agreement**

The focus of the HRSDC audit was on the contribution agreement for the Priority Projects which was originally signed by Transport Canada in July 2001. An amended Priority Projects contribution agreement was signed in June 2004, prior to the HRSDC program management review.

This is the first audit of the TWRI since its inception in 2001. This audit started in January of 2005 and the field work took place in March of 2005. It covers the activities of the TWRC for the period from November 1, 2001 to March 31, 2004.

## **1.2 Audit Objective**

The objective of the audit of the TWRI is to provide assurance that the TWRC is in compliance with the terms and conditions of the Contribution Agreement.

## **1.3 Criteria**

1. Funds provided to TWRC are being used in accordance with the terms and conditions of the Contribution Agreement.
2. The recipient (TWRC) uses financial and other administrative procedures with proper internal controls to protect Federal Government interests.

## **1.4 Scope**

The scope of the audit is to provide assurance that the TWRC is in compliance with the terms and conditions of the Contribution Agreement (signed in July 2001 and amended in June 2004). The Contribution Agreement is comprised of a total of five projects (four Priority Projects and one Corporate Project) as follows:

- Union Station Second Platform;
- Naturalization and Flood Protection for the Lower Don River;
- Portlands Preparation;
- Front Street Extension and Interchange;
- Corporate Project.

The audit period covered activities of the TWRC November, 2001 to March 31, 2004 and included transaction pertaining to all of the projects described in the Contribution Agreement.

## **1.5 Methodology**

According to the Treasury Board Policy on Internal Audit and the Institute of Internal Auditors Standards for the Professional Practice of Internal Auditing, assurance will be provided through a number of methodologies and tools including:

- Interviews;
- Analysis of documentation;
- On-site observations;
- Data analysis, validated through sampling;
- Financial review to determine compliance with the Contribution Agreement; and
- Comparison of the Contribution Agreement with the *PROTECTED* Treasury Board's Transfer policy.

## **2. AUDIT FINDINGS**

**Audit Criterion No. 1: Funds provided to Toronto Waterfront Revitalization Corporation are being used in accordance with the terms and conditions of the Contribution Agreements.**

### **2.1 Compliance with Contribution Agreement**

#### **2.1.1 Eligible Expenses**

Based on our review, it is our opinion that expenses incurred by the TWRC for the four Priority Projects and the Corporate Project have been spent in accordance with the terms and conditions of the Contribution Agreement. The claimed and audited expenses eligible for the period November 1, 2001 to March 31, 2004 have been verified to be \$29,806,369, of which Federal Government portion is \$9,935,456. (Appendix B)

For the period audited, TWRC had incurred \$6,757,744 (Federal Government portion \$2,252,581) of corporate costs which were not allocated among the various projects of this and other contribution agreements. This represented 15% of the total expenditures incurred by the corporation (Appendix C). These unallocated corporate costs are mainly comprised of office overhead expenses, salaries and unallocated legal expenses. The costs are considered eligible expenses, but should be allocated to specific projects described in the Contribution Agreement.

However, we noted that some corporate costs were allocated to certain projects which are eligible under the Contribution Agreement. According to the review of TWRC's corporate cost allocation model, TWRC uses an allocation model which distributes part of its corporate costs based on percentage of total expenditures (except as noted in the following paragraph). This allocation model is similar to those commonly used and can be considered as an accepted method of cost distribution. It is therefore important for the corporation to have a valid allocation model for its corporate costs since there are expenditure limitations for each individual project within the Contribution Agreement.

In 2003, \$873,403 of corporate costs (Federal Government portion \$291,134) was allocated to the Priority Projects using an allocation model based on the Budgeted Project's Revenue. Although the auditors believe that the costs incurred are eligible expenses, they do not agree with the method of allocating costs among individual projects. The reason is actual corporate costs incurred by each project may not have any direct relationship or reflects the percentage represented by budgeted revenue. Therefore, the amount of corporate cost allocated based on this allocation model may not reflect the actual corporate cost incurred.

## **Recommendations**

**Recommendation #1:** *TWRC should re-allocate the unallocated corporate costs. The TWRI Secretariat should review the allocation method used. Once satisfied that the allocation method is sound and reasonable, TWRI Secretariat should ensure that none of the five projects have exceeded the expenditure limitations as set out in the Contribution Agreement. If TWRC decline to reallocate these costs, the Crown should proceed to recover the portion of unallocated corporate costs that has been paid to TWRC.*

### **TWRI Secretariat Management Response**

*This issue is currently being addressed at the Inter-governmental Steering Committee (IGSC) table with the discussions/ negotiation of a Corporate cost contribution agreement. The corporate costs in question will be reallocated via an agreed upon allocation model.*

*It is the intention of the TWRI Secretariat to work toward a solution to this issue by March 31, 2006.*

## **2.1.2 Terms and Conditions of the Contribution Agreement**

During the review of eligible expenses, the auditors noticed certain sections of the terms and conditions of the Contribution Agreement require enhancement. The Contribution Agreement does not state project milestones and anticipated dates of key achievements. Target dates would serve as a frame of reference for the TWRI Secretariat to ensure that work is being completed within budget, pre-approved and according to the overall plan.

Secondly, the definition of Eligible Costs under Schedule B of the Contribution Agreement allows TWRC to claim any type of expenses against the Crown under the category of “indirect and overhead costs.” Currently it defines such cost to mean “indirect and overhead costs reasonably incurred by the TWRC, including without limitation, the cost of rental of office space for the TWRC and the cost of liability insurance including the O & M Component;”. A more detailed definition describing indirect and overhead costs would not only provide the TWRI Secretariat with more control and influence over what are considered eligible costs, but would prevent any misunderstanding to the definition of such cost.

## **Recommendations**

It is recommended that the TWRI secretariat follow up on the issues related to unallocated corporate costs incurred by TWRC, and amend the Contribution Agreement to address the following areas:

**Recommendation #2:** *A schedule for project milestones and anticipated dates of achievement should be inserted into the Contribution Agreement, which would help to ensure work is completed within budget and according to plan. Furthermore, a cash flow forecast should be incorporated into the Contribution Agreement, which would help the TWRI Secretariat detail when the funding is required and to which category of expense the funding will go toward.*

### **TWRI Secretariat Management Response**

*The current contribution agreement template utilized at CIC requires that the full approved proposal be appended to the contribution agreement that includes details of the activities and a work plan with detailed budget, timetable and expected results for each activity within the project. The TWRI Secretariat will ensure that this level of detail is included in the future amendment of the Priority Projects agreement and will be completed by March 31, 2006.*

**Recommendation #3:** *The TWRI Secretariat should redefine the definitions of “indirect and overhead costs” in Schedule B of the Contribution Agreement. TWRI Secretariat may consider referring to Public Works and Government Service Canada’s Contract Cost Principles (Section DSS 1031-2) as a guideline in drawing new definitions.*

### **TWRI Secretariat Management Response**

*The secretariat will refer to internal and external documentation to develop definitions of indirect and overhead costs. The definitions will be included in section 1.1 of the new contribution agreement template that will be amended for the Priority Projects CA by March 31, 2006*

**Recommendation #4:** *The TWRI Secretariat should ensure the Contribution Agreement allows for the incorporation of measurable objectives, which would allow the department to set ceiling amounts and milestones for each individual task within individual priority project levels. This would allow monitoring and facilitate progress evaluation and prevent over-spending on individual tasks performed within the four Priority Projects of the Contribution Agreement.*

### **TWRI Secretariat Management Response**

*The current contribution agreement template utilized at CIC requires that the full approved proposal be appended to the contribution agreement that includes details of the activities and a work plan with detailed budget, timetable and expected results for each activity within the project. This level of detail allows CIC to ensure that costs for particular activities to not exceed the authorised amounts.*

*The TWRI Secretariat will ensure that this level of detail is included in the future amendment of Priority Projects agreement and will be completed by March 31, 2006.*

**Audit Criterion No. 2: *The recipient utilizes financial and other administrative procedures with proper internal controls to protect and safeguard federal government interests.***

## **2.2 Reporting**

According to Section 7.3 of the Contribution Agreement for the Priority Projects, TWRC shall provide reports to the Three Government Funding Partners to account for the use of funding received for interim payments related to the projects' eligible costs. The interim payments are an advance from each level of government for their share of the eligible costs of a project. The amounts are based on reasonable estimates and cash-flow forecasts and are certified by a senior officer of the TWRC. This report shall be submitted within 90 days after TWRC's submission of Requests for Interim Payment.

In the review of TWRC's Requests for Interim Payments submitted to the Three Government Funding Partners, the auditors observed the following material weakness in the Internal Control Framework:

### **1. Record Management - Missing Requests for Interim Payments**

During the period audited (November 2001 to March 31, 2004), TWRC submitted nine Requests for Interim Payment to the Federal Government. However, TWRC was unable to provide the auditors with copies of all Requests for Interim Payments that were made to the Three Government Funding Partners. There were two missing Requests for Interim Payments, covering the periods March 31, 2002 to October 1, 2002 and April 1, 2003 to June 30, 2003. However, review of TWRC bank statements revealed that TWRC had received and deposited funding from the Federal Government for those periods. Therefore, TWRC should improve their record management system to ensure key documents are readily available and accessible when requested.

### **2. Delay in correction of information on Requests for Interim Payments**

The Contribution Agreement requires that Requests for Interim Payments include incurred and estimated future costs. Provision of such information enables proper tracking of costs incurred and claims progressed at certain points in time. Therefore, the incurred portion of a Request for Interim Payment should remain the same on any future such requests made, as these are historical costs.

However, the auditors were unable to reconcile the cumulative total amount claimed as shown on TWRC's Request for Interim Payments to TWRC's General Ledger and Audited Financial Statements for the period from November 1, 2001 to March 31, 2003 until TWRC submitted their Request for Interim Payments on April 14, 2004. Similarly, the cumulative total amount claimed for the period from April 1, 2003 to March 31, 2004 could not be reconciled to the General Ledger and the Audited Financial Statement until TWRC submitted their Request for Interim Payments on September 24, 2004.



There was a brief explanation provided by TWRC on their claim submitted on April 14, 2004 as follows: “These costs include corporate overhead allocation”. However, the auditors found that the explanation provided was insufficient to explain the adjustments made and the changes in presentation in that the brief explanation does not explain how the Corporate Costs were allocated among the different projects.

As a result, the delay in the correction of information and insufficient explanation of the changes in the presentation of the Request for Interim Payment has lead the auditors to conclude TWRC’s Request for Interim Payments were not accurate when submitted. It took TWRC up to 12 months to correct and adjust the cumulative costs as submitted on their Requests for Interim Payments.

### **3. Lack of consistency in reporting financial data**

Presentation of financial information should be presented in a consistent manner to ensure information between periods can be compared easily. The review of TWRC’s Requests for Interim Payments submitted to the Three Government Funding Partners revealed that changes were made in the format of presentation of financial data. These changes made it difficult to analyze and compare the information presented on the Requests for Interim Payment from one period to the next. Specifically, TWRC reported expenses for individual projects by expense type on all prior to January 14, 2003. Subsequently, TWRC amended the format of their Requests for Interim Payments to show only financial information at a project level. Then, on November 28, 2003, TWRC reverted back to the format used prior to January 14, 2003.

Another revision was made on April 14, 2004 to yet another format. Like the version used between January 14, 2003 and November 28, 2003, this new format fails to provide a detailed break down of financial information at a project level. Furthermore, when TWRC submitted their Request for Interim Payments, they included Corporate Project costs (one of the five projects of the Contribution Agreement) into the Unallocated Corporate Cost category. As a result, the amount submitted in Corporate Project cost is understated by \$3 million and the amount submitted as Unallocated Corporate Costs is overstated by \$3 million.

With regards to the third party contracts, TWRC does not have a set format to report progress made on a quarterly basis to the Three Government Funding Partners. TWRC indicated that a formalized process is close to being completed. At the time of the audit, the information that is being reported includes the financial statements as well as the financial reporting slides that the Chief Financial Officers share with the Board.

### **Recommendations**

The Contribution Agreement should be amended in the following manner:

**Recommendation #5:** *Include a Financial and Progress Reporting Schedule similar to Schedule D of the Contribution Agreement Template (Developed in 2004) with TWRC to ensure all parties understand the due dates of the various reports.*

#### TWRI Secretariat Management Response

*The current contribution agreement template utilized at CIC has a detailed Section 5 - Payments and Reporting which was developed in conjunction with CIC Finance Branch to comply with the TB Policy on Transfer Payments.*

*The TWRI Secretariat will ensure that this level of detail is included in the future amendment of Priority Projects agreement and will be completed by March 31, 2006.*

**Recommendation #6:** *Claim Form and Progress Report templates should be included as a Schedule in the Contribution Agreement. TWRC would be required to complete these templates with their financial and progress reports which would provide greater details on how the funding was spent and provide better linkages between the financial information and project progress.*

#### TWRI Secretariat Management Response

*The current contribution agreement template utilized at CIC includes a Schedule D Quarterly and Annual Progress Report guidelines for the proponent which was developed in conjunction with the Finance and Legal Branch at CIC to comply with the TB Policy on Transfer Payments.*

*A review of the CIC TWRI CA will be performed to determine whether the enhanced Schedule D of the new contribution agreement template is sufficient or if cash flow, record of expenses and progress reporting forms be appended to the CA.*

*The TWRI Secretariat will ensure that the required level of detail is documented and included the future amendment of Priority Projects agreement and will be completed by March 31, 2006.*

**Recommendation #7:** *The Contribution Agreement should also require that copies of TWRC General Ledger at the account summary level should be attached to the financial and progress reports.*

#### TWRI Secretariat Management Response

*The current contribution agreement template utilized at CIC has a detailed Section 5 – Payments and Reporting which was developed in conjunction with CIC Finance Branch. Specifically, this section requests that the proponent provide interim financial statement that includes a statement of financial position and a statement of operations that includes all revenues and cost incurred by the proponent for the Project this level of detail is the same as attaching the general ledger to the claim form.*

*The TWRI Secretariat will ensure that this level of detail is included in the future amendment of Priority Projects CA agreement and will be completed by March 31, 2006.*

**Recommendation #8:** *Any adjustments made to previous Requests for Interim Payments should be documented and explained in a report submitted to the Secretariat for review.*

## TWRI Secretariat Management Response

*Additional discussions will take place with the TWRC by March 31 2006 on the previous adjustments. The TWRI Secretariat will review the necessary documentation on previous interim payments and adjustments. In addition, the TWRI Secretariat has communicated to the TWRC that when an old fiscal year has been finalized and closed off it remains closed and can not be re-opened for adjustments.*

## 2.3 Contracting Practice

The auditors have analyzed TWRC's procurement policy, conducted interviews with both the Procurement Manager and the Director of Planning and Funding, and selected a sample of contracts to determine whether TWRC was in compliance with the clauses set out in the Contribution Agreement.

Clause 5.1 of the Contribution Agreement made with the Three Government Funding Partners stipulates "All contracts for the purchase of goods and services or construction contracts in excess of a total value of \$75,000 (2001 dollars) to be entered into by the TWRC or an Eligible Recipient, as the case may be, with a Third Party Contractor for the Implementation of any project shall be awarded following a competitive process". However, under special circumstances, TWRC's procurement policy allows the corporation to enter into contracts in excess of a total value of \$75,000 under a non-competitive process.

Of all contracts awarded since the inception of TWRC, the auditors observed that ten contracts in excess of a total value of \$75,000 were without a competitive process. Although ten contracts represent only 5% of all contracts awarded, it represents 32% of the total value of all contracts. Furthermore, out of all contracts awarded during the audit period, the auditors observed two occurrences where TWRC procured goods and services in excess of a total value of \$75,000 without having a valid contract in place before the goods and services were received. It was noted that these contracts were entered into after service had begun and included expenditures that were incurred two years prior.

### **Recommendations**

**Recommendation #9:** *It is recommended that the department examines and investigates those contracts valued at over \$75,000 that were awarded based on a non-competitive contracting method.*

## TWRI Secretariat Management Response

*Additional discussions will take place with TWRC with the intent to have a written rationale on file for the non-competitive contracts. Any follow-up investigations will be completed by March 31, 2006 and be documented to the project file.*

**Recommendation #10:** *Although it is understood that special circumstances may arise where the organization will be required to enter into agreements for over \$75,000 with third parties, awarding these contracts on a non-competitive basis does not comply with Clause 5.1 of the Contribution Agreement. Therefore, it is recommended that the department amend Clause 5.1 of the Contribution Agreement to require TWRC obtain departmental authorization for any future non-competitive procurements (except in circumstances as defined by the Treasury Board Secretariat Contracting Rules).*

TWRI Secretariat Management Response

*The contracting procedures clause is now Section 12 in the new contribution agreement template. The TWRI Secretariat will ensure that this clause is included in the Priority Projects CA by March 31, 2006 and matches and is adhered to by TWRC.*

## 2.4 Other Comments

### 2.4.1 Travel

Currently, the Priority Project Contribution Agreement does not require TWRC to abide by Federal Government travel rules, such as Treasury Board's Travel Policy and the section describing allowable travel under HRSDC's Grants and Contributions Operations Guide. Furthermore, at the time of audit, TWRC had not developed an internal travel policy.

During the review it was discovered that several overseas trips were made by TWRC executives. Although the costs for these trips are considered eligible expenses under the Contribution Agreement, they did not comply with HRSDC's Grants and Contributions Operations Guide which requires prior approval from the TWRI Secretariat for all overseas trips.

### Recommendations

**Recommendation #11:** *It is recommended that the secretariat examines and investigates the reasonability of trips made overseas.*

TWRI Secretariat Management Response

*Additional discussions will take place with TWRC with the intent to have a written rationale on file for the all overseas travel. Any follow-up investigations will be completed by March 31, 2006 and be documented to the project file*

**Recommendation #12:** *TWRI Secretariat should amend the Contribution Agreement to define allowable travel. The new policy and guidelines should be compliant with the existing Treasury Board Travel Policy and departmental guidelines.*

**TWRI Secretariat Management Response**

*Documentation on Treasury Board travel policy was provided to the TWRC. The TWRC is in the process of formulating a travel policy. Future contribution agreements for the Priority Projects will contain a clause on allowable travel by March 31, 2006*



### **3. CONCLUSION**

In conclusion, the Toronto Waterfront Revitalization Corporation has been found in compliance with all terms and conditions of the Contribution Agreement except for Clause 5.1. Listed below are the highlights of our audit findings:

- Payments were made for unallocated corporate costs;
- Lack of a clear definition of eligible cost in the Contribution Agreement;
- Missing Request for Interim Payments;
- Delay in correction for information on Requests for Interim Payments;
- Lack of consistency in reporting financial data;
- Contracts awarded via method not approved in Contribution agreement.

In order to address some of the weaknesses identified, the Contribution Agreement amended June 14, 2004 should be modified to further incorporate the changes recommended in this report.

In our professional judgment, sufficient and appropriate audit procedures have been conducted and evidence gathered to support the accuracy of the conclusions reached and contained in this report. The conclusions were based on a comparison of the situations as they existed at the time against the audit criteria.

This internal audit was conducted in accordance with the Treasury Board Policy on Internal Audit and the Institute of Internal Auditors Standards for the Professional Practice of Internal Auditing.

#### **TWRI Secretariat Conclusion**

The TWRI Secretariat acknowledges the observations provided, agrees with the findings, and has developed an action plan to respond to the recommendations of the audit. While the audit has helped to identify areas that can be strengthened in the management and delivery of the program, it should be noted that many of the issues raised in the audit were already being addressed by the secretariat as a result of its own ongoing monitoring of the contribution agreement. This work began when the secretariat was housed at Transport Canada, was further advanced at HRSDC, and is continuing at CIC.

Although much work has been completed, the TWRC is still maturing as an organization. A challenge for the corporation has been gaining an understanding and meeting the sometimes competing demands of the three levels of government, each of which has its own financial management requirements. In addition, a major focus of the corporation has been the role of corporate governance of the TWRC and how it can best fulfill its mandate in relation to the three government funding partners.

The TWRI Secretariat is committed to working in partnership with its provincial and municipal funding partners and the TWRC to act on the recommendations of the audit to enhance the delivery of the program and strengthen the stewardship of public funds. An opportunity exists for future audits to be administered jointly by the three government partners.



## **APPENDIX A**

### **TWRI Secretariat overall responses and comments**

In addition to the comments found in *Section 1.1 Background* the TWRI Secretariat makes the following observations.

#### **Background Information on the Toronto Waterfront Initiative (TWRI)**

In March 2000, the Government of Canada, the Province of Ontario, and the City of Toronto (the three government funding partners) jointly announced their support for the creation of the Toronto Waterfront Revitalization Corporation (TWRC) to oversee and lead Toronto's waterfront renewal. Each government committed \$500 million dollars to support the Toronto waterfront revitalization.

#### **Role and Development of the TWRC**

In addition to the information in the background section on the role and development of the TWRC, since February 2002, the TWRC has continued to grow to meet the demands of the waterfront revitalization. This has included the hiring of personnel in the areas of finance and project management. A number of factors indicate that the TWRC is committed to an effective project control environment:

- Completion of corporate risk matrix and risk response plan by an external consultant;
- Establishment of an internal audit function;
- Establishment of Board level Audit and Evaluation Committee;
- Development of internal finance and risk management committee;
- Appointment of an external auditor.

#### **Federal Government Management of the Initiative**

The TWRI Secretariat is responsible for policy development, program management and monitoring on behalf of the federal government. It is also responsible for ongoing business and coordination with its partners and other stakeholders for the development, funding and implementation of TWRI projects. Originally housed at Transport Canada, the secretariat was subsequently transferred by Orders-in-Council from Transport Canada to HRSDC and from HRSDC to CIC. The secretariat currently has a total staff complement of 10.8 FTEs including corporate support, and has been building its staff component since July 2004.

## **Development of Program Management Tools**

The TWRI Secretariat has shown substantial progress since the inception of the initiative, beginning at Transport Canada and continuing at HRSDC and CIC, to strengthen the program management regime of the TWRI.

The TWRI Secretariat undertook an extensive review of all its program management processes. As a result, a number of mechanisms to enhance accountability and strengthen stewardship were put in place. These guidelines were approved by HRSDC senior management and transmitted to the TWRC in January 2005. The mechanisms included adopting standardized proposal development and review guidelines, financial and reporting guidelines, and a standardized contribution agreement template to ensure due diligence for specific projects.

Since the transfer to CIC, the Secretariat has worked closely with CIC's Finance and Legal Services branches to further enhance the TWRI contribution agreement templates. In addition, a number of meetings have been held with TWRC to discuss travel directives, the contribution agreement, financial reporting, and requirements under the TB Policy on Transfer Payments and overall diligence in managing contribution agreements.

The three levels of government are jointly accountable for the expenditures of funds with respect to TWRI projects. Spearheaded by the federal TWRI Secretariat, with concurrence from the IGSC the partners agreed to establish an Operations Working Group (OWG) with specific responsibility for ensuring sound program management of TWRI contribution agreements thus advancing the overall goals and objectives of the TWRI. Comprised of program level staff from the three levels of government the OWG is mandated to:

- Manage contribution agreements, including project activities, budgets and forecasts, and progress reporting;
- Ensure compliance of contribution agreements with relevant Treasury Board and departmental policies and legislation;
- Coordinate TWRI audit and evaluation activities;
- Serve as forum for information and best practices sharing;
- Provide recommendations and advice to IGSC, as required; and
- Ensure a strategic approach to TWRI project management.

**APPENDIX B**

**Schedule of Claimed and Audited Amounts**

Toronto Waterfront Revitalization Corporation							CORPORATE PROJECT	Claimed and Audited
Summary of Claimed and Audited Amounts								
For the Period November 1, 2001 to March 31, 2004								
Expense Type <i>Eligible Recipient</i>	PRIORITY PROJECTS						Portlands Preparation	
	Front St. Extension and Interchange	Union Station Second Platform	Naturalization and Flood Protection For The Lower Don River					
Project Management	-	-	-	-	-	-	-	-
EA, Design, Remediation, Public Cons	-	-	477,913	-	15,350	-	-	493,263
Construction	-	-	-	-	266,464	-	-	266,464
Property Acquisition	12,970,540	-	-	-	-	-	-	12,970,540
Other	2,530,004	1,589,367	80,903	-	1,163,505	-	-	5,363,779
	15,500,544	1,589,367	558,816	-	1,445,319	-	-	19,094,046
<b>TWRC Costs</b>								
Program Manager	764,365	307,118	125,500	-	1,797,406	-	742,738	3,737,127
Legal Fees	142,179	19,667	38,141	-	125,726	-	156,608	482,321
Contract Consultants	9,950	-	-	-	868,262	-	1,561,527	2,439,739
Communication	10,012	-	1,000	-	11,030	-	198,573	220,615
Public Meeting Expenses	-	-	-	-	9,322	-	77,245	86,567
Office Expenses	707	-	-	-	458	-	9,497	10,662
Non-Recoverable GST	31,419	83,163	11,537	-	246,721	-	210,427	583,267
Corporate Allocation	2,323,831	228,475	87,735	-	468,598	-	43,386	3,152,025
	3,282,463	638,423	263,913	-	3,527,523	-	3,000,001	10,712,323
<b>Total Expense</b>	18,783,007	2,227,790	822,729	-	4,972,842	-	3,000,001	29,806,369
Government of Canada Share (1/3)								9,935,456



**APPENDIX C**

**Schedule of Total TWRC Expenditures Subject vs. Not Subject to Audit**

Toronto Waterfront Revitalization Corporation						
Summary of Expenditures Subject to Audit vs. Not Subject to Audit						
For the Period November 1, 2001 to March 31, 2004						
	November 1, 2001 to March 31, 2003		April 1, 2003 to March 31, 2004		November 1, 2001 to March 31, 2004	
	Expenditures	Percentage of Total Expenditures	Expenditures	Percentage of Total Expenditures	Expenditures	Percentage of Total Expenditures
<b>SUBJECT TO AUDIT</b>						
<b>Priority Projects</b>						
Front Street Extension and Interchange	4,869,793	41%	13,913,214	42%	18,783,007	42%
Union Station Second Platform	381,601	3%	1,846,189	6%	2,227,790	5%
Naturalization and Flood Protection for the Lower Don River	154,887	1%	667,842	2%	822,729	2%
Portlands Preparation	754,924	6%	4,217,918	13%	4,972,842	11%
<b>Sub-Total Priority Projects</b>	6,161,205	51%	20,645,163	62%	26,806,368	59%
<b>Corporate Project</b>	3,000,001	25%	-	0%	3,000,001	7%
<b>TOTAL SUBJECT TO AUDIT</b>	<b>9,161,206</b>	<b>76%</b>	<b>20,645,163</b>	<b>62%</b>	<b>29,806,369</b>	<b>66%</b>
<b>NOT SUBJECT TO AUDIT</b>						
<b>Other Projects - Core Projects</b>	-	0%	8,501,578	26%	8,501,578	19%
<b>Unallocated Corporate Costs</b>	2,856,968	24%	3,900,776	12%	6,757,744	15%
<b>TOTAL NOT SUBJECT TO AUDIT</b>	<b>2,856,968</b>	<b>24%</b>	<b>12,402,354</b>	<b>38%</b>	<b>15,259,322</b>	<b>34%</b>
<b>TOTAL EXPENDITURES</b>	<b>12,018,174</b>	<b>100%</b>	<b>33,047,517</b>	<b>100%</b>	<b>45,065,691</b>	<b>100%</b>