

Legislative  
Assembly  
of Ontario



Assemblée  
législative  
de l'Ontario

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# STANDING COMMITTEE ON PUBLIC ACCOUNTS

ONTARIO REALTY CORPORATION – REAL ESTATE  
AND ACCOMMODATION SERVICES  
(Section 3.10, 2006 Annual Report of the Auditor General of Ontario)

1<sup>st</sup> Session, 39<sup>th</sup> Parliament  
57 Elizabeth II

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The Honourable Steve Peters, MPP  
Speaker of the Legislative Assembly

Sir,

Your Standing Committee on Public Accounts has the honour to present its Report and commends it to the House.

A handwritten signature in cursive script, appearing to read "Norm Sterling".

Norman Sterling, MPP  
Chair

Queen's Park  
February 2008

**STANDING COMMITTEE ON PUBLIC ACCOUNTS**

**MEMBERSHIP LIST**

1<sup>st</sup> Session, 39<sup>th</sup> Parliament

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**STANDING COMMITTEE ON PUBLIC ACCOUNTS**

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## PREAMBLE

The Standing Committee on Public Accounts held hearings on the Auditor General's report on Ontario Realty Corporation's real estate and accommodation services on March 29, 2007. The Committee endorsed the Auditor General's findings and recommendations on this topic as reported in the *2006 Annual Report* (s. 3.10).

This Committee report provides an overview of relevant sections from the Auditor General's report and the hearings, together with references to the Corporation's 2007 status report. The Committee has prepared recommendations based on its observations and conclusions.

### Acknowledgements

The Standing Committee on Public Accounts would like to take this opportunity to thank the witnesses for their participation in these hearings; namely, the Deputy Minister of the Ministry of Public Infrastructure Renewal (PIR) and Ministry officials, and the ORC's Chair of the Board of Directors, President and Chief Executive Officer, and senior staff.

The Committee appreciated receiving the Ministry's 2007 status report, entitled *Summary Status Table in Response to the Report of the Auditor General of Ontario, Ontario Realty Corporation – Real Estate and Accommodation Services (Section 3.10) Ministry of Public Infrastructure Renewal (Appendix)*, dated April 25, 2007.

The Committee acknowledges the assistance provided during the hearings and its deliberations by the Office of the Auditor General, the Clerk of the Committee, and the Research Officer from the Ontario Legislative Library's Research and Information Services Branch.

## 1. BACKGROUND

The Ontario Realty Corporation (ORC/the Corporation) provides real-estate, property- and project-management services to most provincial ministries and agencies. The real-estate portfolio includes more than 38,000 hectares (95,000 acres) of land and 6,000 buildings comprising more than 4.6 million square metres (50 million square feet) of space. Land holdings include acreage, residential, farms, and commercial buildings; and rentals generated annual revenues of about \$28 million.

Eighty-one percent of the portfolio is owned by the government of Ontario, and the remainder is leased. The real-estate portfolio contains two broad categories of holdings; namely, buildings used by ministries and/or agencies, and other lands (e.g., greenbelts, land banks, and farms).

The annual corporate revenues are approximately \$600 million, which cover various costs including leases, property taxes, repairs and maintenance, and utilities. In addition, ORC receives Ministry funding.

### **1.1. ORC Accountability and Service Delivery**

The Corporation reports to the Minister of Public Infrastructure Renewal. It operates four regional offices and three area offices, and in fiscal year 2005/06 employed approximately 300 staff. The majority of the assets are managed for the Ministry, which as the owner, provides direction, funding, and approvals regarding assets.

The ORC provides client ministries and agencies with the following services:

- development of policies, strategies, and implementation plans to maximize the use of existing real-estate portfolios;
- sales and acquisitions of land and buildings;
- property leasing as needed to augment the inventory of owned space;
- property management, including day-to-day maintenance and repair of owned and leased facilities; and
- project management of large capital projects.

### **1.2. Audit Objective<sup>1</sup>**

The audit objective was to assess whether the Ontario Realty Corporation had in place adequate systems and procedures to ensure that:

- real-estate assets are acquired, managed, and disposed of with due regard for economy and the public interest;
- government accommodation requirements are met in a cost-effective manner; and
- the Corporation's performance is adequately measured and reported to allow for meaningful assessment of its activities and achievements.

The scope of the audit excluded the project management of large capital projects, which were covered in 2003 as part of a courts services audit. The Corporation's internal audit group had recently audited this area.

### **1.3. Overview of Audit Findings**

The Auditor General provided an overview of the audit observations and conclusions, as follows:

- Recent ORC Improvements – improvements were made to enhance systems and procedures over leasing, property sales and acquisitions, and the hiring and monitoring of building management service providers.



- In Progress Initiatives – the ORC with the Ministry of Public Infrastructure Renewal, and client ministries and agencies is working to ensure that:
  - all managed space is being efficiently used;
  - properties are being maintained through appropriate investments in building life-cycle repair and maintenance; and
  - its management information systems provide relevant and reliable information for decision-makers.
- Management/Rationalization of the Real-estate Portfolio – the Auditor agreed with the Ministry that several factors had inhibited the effective management and rationalization of the province’s real estate portfolio (e.g., managing surplus and underutilized property). The Auditor noted that the Corporation also needed to improve information systems and establish strategic plans for identifying properties that could be rationalized and sold.
- Related Matters – the Auditor identified a series of related matters; namely, recording and tracking the recovery of outstanding funds; the resale of property by new owners; assessing the cost-effectiveness of leases; assurance that existing space is used in an efficient manner; best practices and high standards for property management; estimate of deferred maintenance costs; extensive errors in the real-estate database; performance measures and role for comprehensive and reliable indicators to assess management; benefits of the internal audit function; and the need to address project-management practices for large capital projects.

#### **1.4. Commitment to Action**

The ORC committed to act on the Auditor’s recommendations that were operational in nature and to continue to advise the Ministry of Public Infrastructure Renewal on all aspects of policy options and implementation, with respect to those recommendations requiring policy approval.

#### **Committee Hearings**

##### *ORC Initiatives (2006-07)*

The Corporation provided supplementary information on recent initiatives to address the Auditor’s recommendations on the property inventory, property strategies, sales planning for surplus properties, the role of performance indicators, and data action plans:<sup>2</sup>

- Property Inventory - progress towards inventorying the provincial government real estate assets with a geographical information system (GIS) providing mapping which is used in decision-making on surplus properties;
- Property Strategies - created a development group with the capacity and the capability to build and implement strategies for key properties;

- Sales Plan for Surplus Properties - developed a multi-year sales plan related to significant surplus properties. The Corporation's *2005-06 Annual Report* sets out performance measures and targets, accompanied by a report card;
- Performance Indicators - the development of key performance indicators in 2006-07 to further measure performance primarily at the operational level to permit benchmarking against public jurisdictions and the private sector; with implementation plans in the next fiscal year; and
- Data Action Plans - resourced a data integrity and quality department, and established action plans to address problems in 2007-08 with future maintenance.

### Committee Conclusion

Based on its consideration of the 2006 audit report, the 2007 status report, and the results of the hearings, the Committee has concluded that:

**The Ontario Realty Corporation has made progress in addressing the Auditor's concerns and recommendations in the *2006 Annual Report* through the implementation of processes and procedures. Details on actions taken to date were provided during the hearings and in the appended status report. Outstanding initiatives pertaining to recommendations No. 4, 5 and 7 have been identified for follow-up by the Standing Committee on Public Accounts (s. 7).**

### 1.5. Response to Committee Recommendations

The Committee requests that the Ontario Realty Corporation report to the Standing Committee on Public Accounts within 120 days of the date of tabling of this report. In the event that the Committee concludes that an alternative timeframe is warranted, it will be indicated in the recommendation.

#### *List of Committee Recommendations*

- 1. The Ontario Realty Corporation report to the Standing Committee on Public Accounts on the implementation and administration of the improved property disposition process. The report should address the Ministry/ORC relationship, providing an overview of the marketing success achieved to date, and identifying major challenges in the disposition process.**
- 2. The Ontario Realty Corporation report to the Standing Committee on Public Accounts on the disposition process for properties with potential community or broader public sector significance. In particular, the Committee requires clarification on key priorities; namely, the action taken by the Corporation to ensure best land use from a community perspective; and maximization of proceeds from a disposition.**

**3. The Ontario Realty Corporation report to the Standing Committee on Public Accounts on the impact of the introduction of new controls over property transactions; specifically, internal audit monitoring of sales, and the introduction of safeguards to prevent higher re-sales in the public sector. Furthermore, ORC should report on the feasibility of a participation clause or joint ventures to address significant potential for future value enhancements to ensure full value to the government.**

**4. The Ontario Realty Corporation report to the Standing Committee on Public Accounts on the development and sharing of a comprehensive inventory of all government-owned and -controlled real estate, based on information provided by all ministries and agencies with such holdings. The report should include a timetable for the implementation of the completed inventory system.**

**5. The Ontario Realty Corporation report to the Standing Committee on Public Accounts on the following initiatives:**

- **ORC's plans to forward the "M" Lease Review (Leases to 3<sup>rd</sup> parties of surplus government space) with their analysis and recommendations to PIR by the end of fiscal 2007/2008 to help develop a policy for leasing to not-for-profit community groups so that appropriate government direction can be provided;**
- **the development of a new set of processes and protocols for the administration and management of contracts across the Corporation, which will enable the ORC to determine where and how performance metrics (i.e., Key Performance Indicators) may be incorporated into service provider operating and maintenance (O&M) contracts (targeted implementation date is the start of 2008/2009);**
- **the orientation and training program for existing and new service providers, as a prerequisite to conducting business with the ORC (targeted implementation date is early fiscal 2008/2009); and**
- **ORC Internal Audit's data quality audit (during fiscal 2007/2008).**

**The Committee requests that a response to this recommendation be provided to the Committee Clerk by December 31, 2007 indicating the *current status only* of these undertakings, acknowledging that the Auditor General will be conducting a follow-up audit on this topic, and reporting in the *2008 Annual Report*.**

## OBSERVATIONS AND CONCLUSIONS<sup>3</sup>

### 2. ORC MANAGEMENT FRAMEWORK

The Corporation operates within a prescribed management framework, adhering to defined parameters. The provincial *Real Property and Accommodations Directive* provides a framework for acquiring, managing, and disposing of real property and accommodations effectively and efficiently. The Directive provides that the Corporation is designated as the mandatory fee-for-service real-estate organization for most ministries and certain agencies, and it requires that value for money be achieved (e.g., adherence to competitive procedures and achieving maximum returns).

Clients are required to submit annual accommodation plans to ORC, and the Corporation assists clients in identifying potentially surplus properties as part of its annual portfolio-planning and asset-review process. ORC prepares annual sales plans for surplus or underutilized properties.

#### Committee Hearings

##### *Ministry - ORC Relationship*

The Committee enquired about the relationship between PIR and ORC.<sup>4</sup> The accountability framework was developed in 2000, with an MOU as a key instrument defining the roles and relationships.<sup>5</sup> The MOU has been revised over the past year, and this document frames the overall set of accountabilities including ORC's terms of reference for each of the board committees, job descriptions and across governance practices generally.<sup>6</sup>

The Minister provides policy direction to the ORC, and the Corporation functions with operational independence.<sup>7</sup> As noted, this relationship is guided by the *Agency Establishment and Accountability Directive* which defines the ministerial relationships with all agencies.<sup>8</sup> Whereas the ORC has a real estate role, the PIR's mandate entails stakeholder intervention and public consultation, for example.<sup>9</sup> The Committee acknowledged the significance of the way in which PIR and ORC have assumed complementary roles in a process that accounts for the broader public interest.<sup>10</sup>

Performance is evaluated annually and performance improvement goals are established and published in the annual report. The most recent internal audit rated corporate governance practices as satisfactory.<sup>11</sup>

#### ORC's Reorganization – Accountability Framework

The ORC has undergone a significant change in recent years with the move to the Ministry of Public Infrastructure Renewal.<sup>12</sup> The new focus has reinforced the Corporation's role in client service and asset management; established greater liaison and a higher level of service to clients, the PIR and other ministries; and in providing advice to PIR.<sup>13</sup>

The accountability relationship is defined by the Minister reporting to the Legislature with input from the Deputy Minister, in conjunction with reporting by the ORC's Chair of the Board, the CEO, and senior VPs.<sup>14</sup>

The Ministry indicated that the accountability mechanisms have established the framework for improved ORC performance. The governance instruments include an updated MOU, and a new realty services management agreement that outlines day-to-day responsibilities between the Corporation and the Ministry.<sup>15</sup> At the time of the hearings the ORC was finalizing occupancy agreements with ministries to address service level expectations and obligations on a site-by-site basis.<sup>16</sup>

The Corporation's annual reports are now current and the Auditor General commended the role of the ORC's internal audit function.<sup>17</sup> An internal audit group reports to a Board of Directors subcommittee (an audit committee) providing governance and oversight.<sup>18</sup>

### **3. REVIEW BY THE MINISTRY OF PUBLIC INFRASTRUCTURE RENEWAL**

#### **3.1. Real-property Management Issues**

In 2005, the Ministry identified significant barriers in the government's real-property management system. The concerns related to such matters as: a proportion of the portfolio being surplus and underutilized; no formal plans for/or assessments of many of the province's surplus and underutilized properties; the lack of clarity on the responsibility for strategic decisions, and in the province's interests in negotiations; absence of a centralized, comprehensive understanding of the province's overall real-estate holdings; few incentives for clients to optimize their use of real estate; and properties being sold "as is" without examining all opportunities to enhance the value and the proceeds.

The Auditor identified a series of related concerns, as follows:

- **Marketing Challenges** – over the past decade provincial governments have instructed the ORC to sell properties. The sales constituted those properties that were the easiest to market, and did not include those assets with difficult marketing conditions (e.g., the need to relocate existing government tenants and soil contamination). Over a given seven year period, ORC sold only 140 properties from a portfolio of 330.
- **Systems/Procedures for Identifying Properties** – the Auditor reported that the ORC could improve its systems and procedures for the identification of properties to be sold or rationalized through an improved property information system with strategic plans for future uses of individual properties – identifying properties that should be targeted for sale and/or deemed to be underutilized.
- **Absence of Comprehensive Property Profiles** - when strategic plans were prepared for certain properties, they were not always followed. The process lacked clarity with respect to the timetable for the implementation of plans,

and the current status of properties. To identify properties being considered for rationalization or sale required that information be compiled from several sources (e.g., ORC's annual sales and rationalization plans, and external reports).

### *Strategic Management Initiatives (2006)*

Initiatives were taken in January 2006 to improve the strategic management of real estate as follows:

- a new framework to guide decisions on acquiring, using, improving, redeploying, and disposing of properties;
- examination of complex and more valuable government properties to determine optimum use (redevelopment and/or sale to maximize proceeds);
- review and improvement of the business practices of ORC and its clients to ensure real-estate strategies and transactions support government policies (e.g., process by which property is declared surplus);
- plans for an inventory of all government-owned and -controlled real estate (e.g., comprehensive files with strategic, and accessible information on the portfolio); and
- amended government reviews and approvals of ORC's annual rationalization and sales plans (e.g., improved analysis supporting decision-making and the ORC's ability to execute transactions).

A more streamlined procedure for obtaining Order-in-Council (OIC) approvals for future property sales was introduced. The Ministry has assumed the responsibility for the rationalization and potential sale of major properties, with ORC still having an active role in the property sale.

The Auditor recommended that the Ontario Realty Corporation should establish timetables for implementing any changes necessary to its operations to support recent government initiatives aimed at improving the strategic management and rationalization of real-estate assets, including developing plans for the future uses and dispositions of individual properties and implementing those plans.

### **Status Report 2007**

ORC has focused on asset management and investments through the following initiatives:<sup>19</sup>

- implementation of an Asset Management Framework for classifying real estate assets as either core or non-core for management purposes, and providing funding for core assets over the long term. The Framework establishes that all non-core assets not required for government purposes may be sold;
- a new OIC process was introduced to assist in selling non-core assets by providing a sunset timeframe on each OIC of 15 months, which is updated each year by a new Annual Year Sales Plan; and

- the Corporation establishes annual workplans with timelines for business unit areas. ORC, in conjunction with PIR and client ministries, ensures that government initiatives are addressed and supported in the Corporation's workplans.

The Corporation pointed out that many of the 330 properties are "in-use" for delivery of government programs and were not sold because it was determined that the business cases for many of these assets were not sound.

### **Committee Hearings**

#### *Strategy for Property Disposition – Ministry's Role*

The Committee enquired about the Ministry's involvement with ORC property management in the future, and specifically PIR's role in the rationalization and potential sale of major properties earmarked for sale through ORC.<sup>20</sup> The Ministry's role has been to develop the policy framework to help facilitate ORC's work.<sup>21</sup> The Ministry indicated that the government is facilitating the process, taking into account stakeholders and providing assurance that the public interest has not been compromised.<sup>22</sup>

The Ministry focused on policy issues and addressed obstacles with respect to moving them from surplus or alternate public use status, accounting for the municipal context.<sup>23</sup> When the policy framework has been established the properties move to the ORC sales plan.<sup>24</sup> Therefore, the Ministry's role in part is to facilitate inter-ministerial co-operation in the property disposition, with ORC continuing to play an active role.<sup>25</sup>

#### **Strategy for Surplus Properties**

The Ministry and ORC are currently in the process of disposing of 11 properties identified by ORC as being strategic, needing investigation in terms of highest and best use, and possible future public use.<sup>26</sup> A strategy had been developed in 2005 for the management of such surplus properties.<sup>27</sup> The policy direction was developed by the Ministry of Public Infrastructure Renewal with the Ontario Realty Corp. identifying the strategic properties to be considered for disposal.<sup>28</sup> This was based on defined principles: the public interest could not be compromised and it had to be done in a value for money context.<sup>29</sup> The 11 properties required significant lead times before marketing, with possible multi-stakeholder issues.<sup>30</sup> Policy changes were needed to facilitate the ORC's work acting as the agent for the province in preparing real estate for divestment, and working with various stakeholders in a partnership.

#### **ORC's Role**

An approved property plan is required before the Ontario Realty Corp. takes action through its multi-year sales plan, for the development of a property. This entails the determination of highest and best use, planning requirements such as zoning and related considerations such as community needs, for example.<sup>31</sup>

The objective is to establish an efficient process, taking into account the resources available at ORC. According to ORC, the Ministry's involvement in defining policy is seen to pave the way for future large, complex properties using the new template.<sup>32</sup>

### *New Approach to Portfolio Management*

The Committee noted that ORC managed 330 properties, but sold only 140.<sup>33</sup> The properties represented a mixed group, which contributed to the sales results, with some properties having no market interest.<sup>34</sup> ORC described the initial property disposition process as follows:

We created a basket of these 330 properties that was really a grab bag of a whole bunch of different things. I have to tell you, at the time—again, this is going back in the past—there wasn't as much thought put into what was included in that basket of properties and the strategic approach . . . talked about earlier around the portfolio. We're moving in a different direction now, and it's how we came up with this even much smaller subset.<sup>35</sup>

Progress was hampered by various considerations: some properties were still in use, for example, delivering government programs, so disposal was not an option; and other properties suggested for sale had environmental liabilities. Based on the business case to assess disposal, the costs of remediation far exceeded the revenues available.<sup>36</sup>

It was decided to go back and reassess the portfolio from different perspectives.<sup>37</sup> Starting with a larger group, the task was to assess environmental issues and saleability, and the current market environment.<sup>38</sup> Strategically, the timing of a sale is important, taking into account other events that could have an impact on the value of a property.<sup>39</sup> According to the Ministry, priority properties have been identified for attention, as follows:<sup>40</sup>

- the properties are owned by the Ministry and ORC acts as an agent on their behalf, without a transfer of title;
- properties were identified by ORC in terms of the opportunities representing greater value, and surplus properties in the inventory that offered some opportunities other than disposition;
- certain properties were in-use properties whose programs would be changing in the future and therefore represented an opportunity; and
- some properties may have policy implications in any decision to deem them as surplus, with "greater government good" considerations.<sup>41</sup>

Therefore, ORC is far more selective about what is placed into the multi-year sales plan.<sup>42</sup> There have been improvements in the use of resources, for example,



the costs to prepare properties for market, which was the case with the initial list of 330 properties.<sup>43</sup>

## Committee Recommendation

### Enhanced Property Disposition Strategy

The Committee enquired about the longer term methodology for property disposition, and the Ministry's involvement with ORC.<sup>44</sup> It is not the Ministry's intention to strictly monitor every disposition, but to provide "a higher-level policy clearance," before ORC proceeds.<sup>45</sup> Furthermore, the enhanced disposition process is to include heritage protection protocols, environmental assessment, the class EA process and the sale of surplus properties to the broader public sector.<sup>46</sup>

The Committee therefore recommends that:

**1. The Ontario Realty Corporation report to the Standing Committee on Public Accounts on the implementation and administration of the improved property disposition process. The report should address the Ministry/ORC relationship, providing an overview of the marketing success achieved to date, and identifying major challenges in the disposition process.**

**The Committee requests that a written response to this recommendation be provided to the Committee Clerk within 120 days of the date of tabling this report in the Legislature.**

## Committee Hearings (cont'd)

### *Municipalities as Clients - Community Impact*

In the discussion about the disposition of provincial properties, the Committee drew attention to municipalities as clients. Of concern is the importance of addressing the "community" in the disposition of ORC properties, demonstrating an appreciation for local needs.<sup>47</sup>

As noted, the province revisited its policy on surplus properties and disposition in 2005. The first principle was to ensure that the public interest be represented, not focusing strictly on the bottom-line.<sup>48</sup> The Corporation indicated that it has plans to provide the Ministry with information to help in policy development for leasing to not-for-profit community groups. A property plan would be required in the development process which entails standard planning requirements, taking into account community needs.<sup>49</sup>

ORC made reference in another instance to a decision to use a property for an environmental management education forum.<sup>50</sup> In discussions on the future of the Rideau Regional Centre and other municipal properties, the ORC indicated that it is prepared to work with municipalities to decide how best to use assets in support of community interests.<sup>51</sup>

## Committee Recommendation

### Community Test for ORC Dispositions

The Committee noted that there are numerous positions to be reconciled in the disposition of properties, which include financial and environmental considerations; for example. In addition, community needs are an important part of the equation or "test for disposal" of provincial properties. With municipalities as clients it is understood that a sale may not necessarily meet the "highest and best use" test.<sup>52</sup> The Corporation indicated that there are a number of municipalities that it will be working with on such matters, and that it will discuss how best to use provincial assets in support of local needs and the broader community.<sup>53</sup>

The Committee therefore recommends that:

**2. The Ontario Realty Corporation report to the Standing Committee on Public Accounts on the disposition process for properties with potential community or broader public sector significance. In particular, the Committee requires clarification on key priorities; namely, the action taken by the Corporation to ensure best land use from a community perspective; and maximization of proceeds from a disposition.**

**The Committee requests that a written response to this recommendation be provided to the Committee Clerk within 120 days of the date of tabling this report in the Legislature.**

## **4. CONTROLS OVER PROPERTY SALES AND ACQUISITION**

The Auditor reported that controls over property sales and acquisitions were generally satisfactory. These include appraisals using a qualified external valuation process; adherence to the appraisal report on pricing; competitive practices in public sales; and the use of an Order-in-Council to pre-authorize property sales by the Corporation.

### **4.1. Controls over Appraisers**

The Auditor noted that a 2004 internal audit report identified the need for stronger controls over the use of appraisers, and over the selection practices for brokers and environmental consultants. Although there had been improvements, the audit report noted examples where controls needed to be strengthened.

The Auditor recommended that in order to help ensure that amounts owing from property sales are properly accounted for and obtained, and to help ensure ongoing monitoring for effectiveness of its sales procedures, the Ontario Realty Corporation should:

- establish controls to ensure that receivables are recorded and tracked for any potential recoveries from conditions of property sales; and
- track and identify any resale of properties sold for significantly higher amounts shortly after their sale and investigate how such situations could have occurred.

In addition, the Corporation should consider the feasibility of requiring safeguards in its sales agreements that would permit it to share in any large profits from subsequent sales of properties.

### Status Report 2007

ORC internal audit now monitors sales through an electronic monitoring system that detects changes in title on property sales by ORC for a period of one year. The following initiatives have been taken:

- safeguards in sales agreements to prevent higher re-sales are applied to properties sold to municipalities and other government bodies (not used on the open market); and
- in the event of significant potential for future value enhancement, other means to ensure full value to the government (e.g., a participation clause or entering into joint ventures) will be analysed and pursued where appropriate.<sup>54</sup>

### Committee Hearings

#### *Monitoring and Market Considerations*

A tracking system was introduced to monitor activity on property ownership over a 12 month period.<sup>55</sup> This will provide a guide for ORC's future activity related to sales and acquisition policies, ensuring that appraisals are current.<sup>56</sup> ORC is moving to rezone properties, possibly working with municipalities, thereby benefiting from higher prices due to the zoning changes.<sup>57</sup> Also, consideration has been given to applying a risk-return model to assist in decision-making related to market conditions, potential return, and the risk of undergoing rezoning, for example.<sup>58</sup> The challenge is in taking a strategic approach on when to dispose of properties, with the objective of achieving the ultimate return and indeed higher value.<sup>59</sup>

### Restrictive Covenants on Sales

ORC incorporates provisions in a disposition to protect against a purchaser reselling (or flipping) a property depending on the purchaser, as follows:

- Profit Participation Clause – an anti-flip provision provides that within a specified period of time (usually five to 20 years) if a purchaser is reselling the property, the government has the option of either repurchasing the property or recouping any profit (selling price in excess of the government's sale price); and
- Restrictive Covenant on Land Use - in certain cases where property is conveyed for a specific purpose and use, ORC will look into placing a

restrictive covenant on title to prevent future change of use without ORC approval.<sup>60</sup>

If the objective is a direct sale to a municipality for a public purpose, then the Corporation would sell the real estate at market, based on the appraised value, with the current zoning.<sup>61</sup> There is a risk that the municipality could then rezone it for other uses (e.g., institutional) or increase the value by rezoning from institutional to residential.<sup>62</sup> Given that ORC would not have exposed the property to the marketplace and the price is based on appraisal, protections such as anti-flipping would be available.<sup>63</sup>

#### Private Sector Sales

According to ORC, in the private sector or an open market sale it is not typical to place restrictive covenants in a RFP.<sup>64</sup> ORC explained the potential negative consequences in an open market:

If we're [ORC] putting a property on the open market, the reason we don't typically use those provisions—and there are always exceptions that we might consider—is because that's not the way the market typically operates. When any other vendor puts a property on the open market and invites bids from multiple parties, they typically don't put those types of restrictions on it because they will tend to reduce the amount that you could expect in terms of a sale price. Because we're trying to maximize the return for the public, we typically don't put those kinds of restrictions, because they will tend to depress the price that we would receive in the market.<sup>65</sup>

### Committee Recommendation

#### Property Re-Sales and Value Enhancements

The Committee focused on ORC property re-sales resulting in substantially higher profits shortly after a sale, and the use of safeguards in the sales agreements to allow for the sharing of such profits resulting from a subsequent transaction. As indicated, steps have been taken to monitor sales for a period of one year and to address higher re-sales (e.g., safeguards in sales agreements for properties sold to municipalities and other government bodies) but not in the private sector.

In cases where there may be significant potential for future value enhancement, ORC indicated that consideration was being given to other means to ensure full value to the government. A participation clause or joint venture option will be analysed and pursued.<sup>66</sup>

The Committee therefore recommends that:

**3. The Ontario Realty Corporation report to the Standing Committee on Public Accounts on the impact of the introduction of new controls over property transactions; specifically, internal audit monitoring of sales, and the introduction of safeguards to prevent higher re-sales in the public sector. Furthermore, ORC should report on the feasibility of a participation clause or joint ventures to address significant potential for future value enhancements to ensure full value to the government.**

**The Committee requests that a written response to this recommendation be provided to the Committee Clerk within 120 days of the date of tabling this report in the Legislature.**

## **5. LEASING**

### **5.1. Lease Administration for Government-occupied and -owned Space**

In 2004 ORC's internal auditors reported on a backlog of expired government leases (151 of 876 leases) with private-sector landlords, with ministries and agencies continuing to occupy the space. The Auditor expressed the view that failure to renew leases in a timely manner could have a negative impact, for example, the disruption of program delivery due to the necessity to vacate premises and paying rent over market value. The Auditor noted that ORC addressed the backlog and has taken steps to prevent a recurrence. However, the Auditor notes that the lease for Old City Hall in Toronto has been in overhold or expired since 1999 and its clients are paying at least \$3.3 million in excess rent each year to the City of Toronto.

#### *Non-Ontario-government Tenants*

The Corporation administers approximately 250 leases for non-Ontario-government tenants in government buildings (e.g., tenants from non-profit organizations). Approximately 100 of these leases were in overhold and about 60 were paying only a nominal rent (\$1 a month). ORC would require Ministry direction to reconsider the 1994 policy permitting non-market leases, if the intent is to address lost revenues.

The Auditor recommended that to help ensure that leases negotiated by the Ontario Realty Corporation, both for government-occupied space and for government-owned space leased to others, reflect the best rates, the Corporation should resolve in a timely manner all remaining leases in overhold; and obtain the necessary policy direction from the Ministry of Public Infrastructure Renewal to allow it to negotiate appropriate rents—at market rates where possible—for non-Ontario-government tenants in government buildings.

## Status Report 2007

The ORC had reduced the number of outstanding leases for space leased from third parties by December 2005. The Corporation has committed to work towards eliminating overholds in the lease portfolio. By March 31, 2007 the number of leases of 3<sup>rd</sup> party owned space to accommodate government services in overhold status had been reduced to four leases, representing approximately one tenth of 1% of the total leased portfolio. These leases were in the process of being finalized at that time.

## Committee Hearings

### *Lease Administration*

The Committee enquired about the benefits of relocating ministries to one location, the consolidation of rental space to increase efficiency, and establishing lease rates for ministries.<sup>67</sup> Specific reference was made to the City of Toronto's rental space at Old City Hall. At issue was whether the province was paying more than a fair market rate for space at this facility.<sup>68</sup> ORC explained that the rent should be viewed in light of certain factors, namely:<sup>69</sup>

- there is no market in the area comparable to the Old City Hall with its 70 courtrooms, and provincial requirements are temporarily being met at this location;
- the Old City Hall is an interim measure for court services in downtown Toronto;
- the Ministry of the Attorney General is working on a longer-term plan with a consultant. The report on the requirements across Toronto over 25 years does not deal with alternate facilities in downtown Toronto in the near term; and
- over a five- to seven-year time frame the alternative to the Old City Hall will begin development, with a solution in a 10-year period to the courtrooms at Old City Hall.<sup>70</sup>

ORC explained that the cost to the province to relocate from the Old City Hall facilities would be approximately \$20 million. According to ORC, the lease rate is based on factors such as cost to move and set up new courtrooms in downtown Toronto.<sup>71</sup> To execute a move of that magnitude is expensive when the time frame for an exit plan would be in the order of seven to eight years. ORC concluded that payback on the investment in such a move is not evident, and that the current rate is fairly accurate.<sup>72</sup>

## 6. REAL-ESTATE INFORMATION SYSTEMS

Computerized information systems are used to manage the real-estate portfolio and financial transactions. The major systems, RealSuite and Geographical Information System, are used as follows: RealSuite tracks leases, space, and facilities management for all ORC properties; and Geographical Information System (GIS) provides geographic views of the Corporation's properties and

portfolio (e.g., legal and mapping information about properties) and can integrate information from other sources (e.g., RealSuite, the land registry system, and ministry databases).

Outstanding issues include the following:

- Data Quality – as noted, RealSuite assists in decision-making on accommodation needs and for tracking the use of properties. Data quality has been a problem; for example, errors with respect to the current status (e.g., occupied/vacant and ownership) of properties in the database. This issue was also reported by the Corporation's internal auditors in a 2005 report.
- Incomplete Inventory of Real Estate - some ministries and government agencies (e.g., ministries of Transportation and Natural Resources, and GO Transit) do not use ORC services. This results in no comprehensive inventory of government-owned and-controlled real estate to assist in the overall management (e.g., asset information and decision-making on the portfolio). ORC has attempted to obtain a more complete listing of real-estate assets using several sources (e.g., GIS linked to RealSuite, and the land registry system).

The Auditor proposed that a more complete inventory is dependent on cooperation and information sharing by all ministries and agencies with the Corporation. The objective is to have one comprehensive system for government decision-making.

The Auditor recommended that in order to ensure the Ontario Realty Corporation is capable of providing reliable and complete information on the province's real-estate holdings and activities, and to support strategic decision-making on real-estate and accommodation decisions, the Corporation should:

- investigate the causes of data integrity errors on its RealSuite information system and implement quality control procedures to correct existing errors, and prevent and detect any recurrence in future; and
- continue its efforts to secure the co-operation of other ministries and agencies with real-estate holdings to permit the development and sharing of a complete inventory of all government-owned and -controlled real estate.

### Status Report 2007

The ORC has strengthened the data quality initiative to enhance information on assets in the portfolio through a strategy to address data issues:

- the data quality team focuses on improving and tracking the data integrity of the organization;
- a project was initiated to develop a complete inventory of government-owned and-controlled assets;
- continuing efforts are made to secure co-operation from ministries and agencies through Account Teams;

- the data change/update function was centralized to implement quality control measures;
- a Data Quality Action Plan was developed in support of a key corporate objective for 2007/2008 and the Data Governance Structure has been revised; and
- a new website on Data Quality (Information Excellence) has been launched to promote staff awareness in support of the data quality campaign.

## Committee Hearings

### *Inventory of Assets*

The Committee enquired about the ongoing initiatives to have a complete picture of properties owned and managed by the province.<sup>73</sup> ORC has made progress in developing and building an IT solution, training and educating people on data collection and search verification, combined with GIS mapping of all properties.<sup>74</sup> Furthermore, a data quality coordinator has been hired.

The system is operational with training completed for all ministries. Approximately 9,300 properties are in the system, over and above the 4,500 PIR-owned properties.<sup>75</sup> ORC plans to include real estate holdings owned by agencies, boards and commissions, and the broader public sector in the future.<sup>76</sup> Specifically, ORC is working with ministries with assets in the following areas - transportation, natural resources, environment, municipal affairs and agriculture.

### Data Integrity and Reliability

ORC is dedicating resources to data management to address data integrity concerns.<sup>77</sup> Resources have been provided to renew the focus on data quality and embed best practices through the operating units.<sup>78</sup> Resources for inputting correct information were at issue, rather than the technology.<sup>79</sup>

The GIS system is used as a data quality tool to assist in mapping properties and linking to multiple data sets to improve quality (e.g., verifying properties, and ownership).<sup>80</sup> GIS will be used to overarch all systems providing information such as floor plates, the tenants and the rent.<sup>81</sup> RealSuite manages operations such as facility management transactions and GIS displays this information in a very human-friendly way.<sup>82</sup>

ORC has centralized the data quality review process with staff overseeing all transactions, and ensuring that documentation such as addresses is accurate.<sup>83</sup> For example, ORC reviewed 126 records within RealSuite and made corrections, reviewed 306 sold land records indicating them as inactive in RealSuite, photos have been added to the system, and 158 buildings were marked as inactive and retired within GIS.<sup>84</sup>

An employee awareness program addresses the importance of data quality, and a new governance structure helps people understand their responsibilities, promoting accountability.<sup>85</sup>



## Committee Recommendation

Property Inventory – Provincial-owned and -controlled Real Estate

Resources have been dedicated to enhance the overall integrity of data in support of reliable and complete information on the province's real-estate holdings and activities. However, there is the outstanding need to develop and share a comprehensive inventory of all government-owned and -controlled real estate.

The Committee therefore recommends that:

**4. The Ontario Realty Corporation report to the Standing Committee on Public Accounts on the development and sharing of a comprehensive inventory of all government-owned and -controlled real estate, based on information provided by all ministries and agencies with such holdings. The report should include a timetable for the implementation of the completed inventory system.**

**The Committee requests that a written response to this recommendation be provided to the Committee Clerk within 120 days of the date of tabling this report in the Legislature.**

## 7. 2007 STATUS REPORT - OUTSTANDING UNDERTAKINGS

As noted in ORC's April 2007 status report (*Summary Status Table in Response to the Report of the Auditor General of Ontario, Ontario Realty Corporation – Real Estate and Accommodation Services (Section 3.10) Ministry of Public Infrastructure Renewal*), the majority of the commitments relating to the Auditor's recommendations have been addressed. The "outstanding undertakings" indicated in the status report pertain to recommendations No. 4, 5 and 7.

## Committee Recommendation

The Committee noted the outstanding commitments with respect to lease administration for government-occupied and – owned space, buildings and land management, and real estate information systems, and concluded that follow-up would be beneficial taking into account the longer timeframes for these initiatives.

The Committee therefore recommends that:

**5. The Ontario Realty Corporation report to the Standing Committee on Public Accounts on the following initiatives:**

- **ORC's plans to forward the "M" Lease Review (Leases to 3<sup>rd</sup> parties of surplus government space) with their analysis and recommendations to PIR by the end of fiscal 2007/2008 to help develop a policy for leasing to not-for-profit community groups so that appropriate government direction can be provided;**
- **the development of a new set of processes and protocols for the administration and management of contracts across the Corporation, which will enable the ORC to determine where and how performance metrics (i.e., Key Performance Indicators) may be incorporated into service provider operating and maintenance (O&M) contracts (targeted implementation date is the start of 2008/2009);**
- **the orientation and training program for existing and new service providers, as a prerequisite to conducting business with the ORC (targeted implementation date is early fiscal 2008/2009); and**
- **ORC Internal Audit's data quality audit (during fiscal 2007/2008).**

**The Committee requests that a response to this recommendation be provided to the Committee Clerk by December 31, 2007 indicating the *current status only* of these undertakings, acknowledging that the Auditor General will be conducting a follow-up audit on this topic, and reporting in the *2008 Annual Report*.**

## NOTES

- <sup>1</sup> Ontario, Office of the Auditor General, *2006 Annual Report* (The Office: Toronto, Ontario, December 2006), pp. 215 and 216.
- <sup>2</sup> Legislative Assembly of Ontario, *Official Report of Debates*, Hansard, Standing Committee on Public Accounts, 38<sup>th</sup> Parliament, 2<sup>nd</sup> Session, 29 March 2007, P-276.
- <sup>3</sup> The introduction to each section in this report is based directly on the Auditor General's findings, as reported in the *2006 Annual Report* and in the *Corporations 2007 Status Report* (Appendix). This text consists of paraphrasing and in some instances partial quotes from these documents.
- <sup>4</sup> Legislative Assembly of Ontario, *Official Report of Debates*, Hansard, Standing Committee on Public Accounts, 38<sup>th</sup> Parliament, 2<sup>nd</sup> Session, 29 March 2007, P-281 and P-282.
- <sup>5</sup> *Ibid.*, P-282.
- <sup>6</sup> *Ibid.*, P-276.
- <sup>7</sup> *Ibid.*
- <sup>8</sup> *Ibid.*
- <sup>9</sup> *Ibid.*, P-282.
- <sup>10</sup> *Ibid.*
- <sup>11</sup> *Ibid.*, P-275.
- <sup>12</sup> *Ibid.*, P-273.
- <sup>13</sup> *Ibid.*, P-274.
- <sup>14</sup> *Ibid.*
- <sup>15</sup> *Ibid.*
- <sup>16</sup> *Ibid.*
- <sup>17</sup> *Ibid.*
- <sup>18</sup> *Ibid.*
- <sup>19</sup> Ontario Realty Corporation, *Summary Status Table in Response to the Report of the Auditor General of Ontario, Ontario Realty Corporation – Real Estate and Accommodation Services (Section 3.10) Ministry of Public Infrastructure Renewal* (Appendix), dated 25 April 2007.
- <sup>20</sup> Legislative Assembly of Ontario, *Official Report of Debates*, Hansard, Standing Committee on Public Accounts, 38<sup>th</sup> Parliament, 2<sup>nd</sup> Session, 29 March 2007, P-276 and P-277.
- <sup>21</sup> *Ibid.*, P-277.
- <sup>22</sup> *Ibid.*
- <sup>23</sup> *Ibid.*, P-278.
- <sup>24</sup> *Ibid.*, P-277 and P-278.
- <sup>25</sup> *Ibid.*, P-277.
- <sup>26</sup> *Ibid.*, P-278.
- <sup>27</sup> *Ibid.*, P-277.
- <sup>28</sup> *Ibid.*
- <sup>29</sup> *Ibid.*
- <sup>30</sup> *Ibid.*
- <sup>31</sup> *Ibid.*, P-278.
- <sup>32</sup> *Ibid.*
- <sup>33</sup> *Ibid.*, P-283.
- <sup>34</sup> *Ibid.*, P-283 and P-284.
- <sup>35</sup> *Ibid.*, P-283.
- <sup>36</sup> *Ibid.*
- <sup>37</sup> *Ibid.*, P-284.
- <sup>38</sup> *Ibid.*
- <sup>39</sup> *Ibid.*
- <sup>40</sup> *Ibid.*, P-283 and P-284.
- <sup>41</sup> *Ibid.*, P-283.
- <sup>42</sup> *Ibid.*, P-284.
- <sup>43</sup> *Ibid.*
- <sup>44</sup> *Ibid.*, P-278.
- <sup>45</sup> *Ibid.*
- <sup>46</sup> *Ibid.*

<sup>47</sup> Ibid., P-281.

<sup>48</sup> Ibid.

<sup>49</sup> Ibid., P-278 and P-281.

<sup>50</sup> Ibid., P-282.

<sup>51</sup> Ibid., P-284 and P-285.

<sup>52</sup> Ibid., P-281 and P-282.

<sup>53</sup> Ibid., P-284 and P-285.

<sup>54</sup> Ontario Realty Corporation, *Summary Status Table in Response to the Report of the Auditor General of Ontario, Ontario Realty Corporation – Real Estate and Accommodation Services (Section 3.10) Ministry of Public Infrastructure Renewal* (Appendix), dated April 25, 2007.

<sup>55</sup> Legislative Assembly of Ontario, *Official Report of Debates*, Hansard, Standing Committee on Public Accounts, 38<sup>th</sup> Parliament, 2<sup>nd</sup> Session, 29 March 2007, P-280.

<sup>56</sup> Ibid., P-280.

<sup>57</sup> Ibid.

<sup>58</sup> Ibid.

<sup>59</sup> Ibid.

<sup>60</sup> Ibid., P-279.

<sup>61</sup> Ibid.

<sup>62</sup> Ibid., P-280.

<sup>63</sup> Ibid., P-279.

<sup>64</sup> Ibid., P-280.

<sup>65</sup> Ibid., P-279.

<sup>66</sup> Ontario Realty Corporation, *Summary Status Table in Response to the Report of the Auditor General of Ontario, Ontario Realty Corporation – Real Estate and Accommodation Services (Section 3.10) Ministry of Public Infrastructure Renewal* (Appendix), dated 25 April 2007.

<sup>67</sup> Legislative Assembly of Ontario, *Official Report of Debates*, Hansard, Standing Committee on Public Accounts, 38<sup>th</sup> Parliament, 2<sup>nd</sup> Session, 29 March 2007, P-290.

<sup>68</sup> Ibid., P-291.

<sup>69</sup> Ibid.

<sup>70</sup> Ibid.

<sup>71</sup> Ibid.

<sup>72</sup> Ibid.

<sup>73</sup> Ibid., P-287.

<sup>74</sup> Ibid.

<sup>75</sup> Ibid.

<sup>76</sup> Ibid.

<sup>77</sup> Ibid., P-286.

<sup>78</sup> Ibid.

<sup>79</sup> Ibid.

<sup>80</sup> Ibid.

<sup>81</sup> Ibid.

<sup>82</sup> Ibid.

<sup>83</sup> Ibid., P-287.

<sup>84</sup> Ibid.

<sup>85</sup> Ibid.

## **APPENDIX**

**Summary Status Table in Response to the Report of the Auditor General of Ontario  
*Ontario Realty Corporation – Real Estate and Accommodation Services (Section 3.10)***

**Ministry of Public Infrastructure Renewal**

**April 25, 2007**

Summary Status Table in Response to the  
Report of the Auditor General of Ontario  
Ontario Realty Corporation – Real Estate and Accommodation Services (Section 3.10)  
Ministry of Public Infrastructure Renewal

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (Including Time Line)
<p><b>Recommendation 1</b></p> <p>"The Corporation should establish timetables for implementing any changes necessary to its operations to support recent government initiatives aimed at improving the strategic management of real estate assets, including those processes aimed at assessing and rationalizing real estate assets, including developing plans for the future uses and dispositions of individual properties and implementing those plans."</p>	<p>The ORC is pleased that the AGO's examination of processes acknowledged many of the issues and suggestions the Corporation has made over the years for improvements to the real property management system. The ORC is working with PIR to support policy changes and make further improvements. Consistent with the AGO's recommendation, business plans and workplans include timetables for those changes that are the responsibility of ORC.</p> <p>In order to manage and invest appropriately in the assets, the Corporation put in place an Asset Management Framework for classifying all real estate assets as either Core or Non-Core. The framework outlines the goals, roles and responsibilities of the business areas within the Corporation. This classification ensures that operations manage each asset accordingly and funding is invested in Core assets for the long term. It also establishes that all Non-Core assets are not required for government purposes and can eventually be sold.</p> <p>A new Order-in-Council (OIC) process was developed in the last quarter of 2005 to assist in selling Non-Core assets. In the past, there was no sunset date on an OIC. The new process provides for a 15 month OIC that is updated each year by a new Annual Year Sales Plan (the extra 3 months allows for possible delays in the transaction process).</p> <p>A further comment on the difficulty in selling surplus and underutilized properties: The former Government gave ORC approval to sell a variety of properties to meet established sales targets if the business cases for sales made economic sense. Many of the 330 properties noted in the report are "in-use" for delivery of government programs and the business cases for many of these potential sales were subsequently determined not to be sound.</p> <p>The Corporation establishes annual workplans with timelines attached for all business unit areas. ORC liaises with PIR and Client Ministries to ensure that government initiatives are captured and supported where appropriate in the Corporation's workplans.</p>	<p>The Auditor General's recommendations have been addressed.</p>

Auditor's Recommendation	Completed undertaking	Outstanding undertaking (including timeline)
<p><b>Recommendation 2</b></p> <p>"In order to help ensure that amounts owing from property sales are properly accounted for and obtained, and to help ensure ongoing monitoring for effectiveness of its sales procedures, the Corporation should: Establish controls to ensure that receivables are recorded and tracked for any potential recoveries from conditions of property sales; and, Track and identify any resale of properties sold for significantly higher amounts shortly after purchase and investigate how such situations could have occurred.</p> <p>In addition, the Corporation should consider the feasibility of requiring safe-guards in its sales agreements that would permit it to share in any large profits from subsequent sales of properties."</p>	<p>We are pleased that the AGO found the controls over property sales and acquisitions to be satisfactory. The recommendations should help to further strengthen controls.</p> <p>ORC Internal Audit is currently monitoring all sales of the organization through an electronic monitoring system that detects any change in title to properties sold by ORC for a period of one year.</p> <p>Safeguards in sales agreements, which the AGO recommended be considered to prevent higher re-sales, are currently applied to properties sold to municipalities and other government bodies. These safeguards, however, would significantly impact the realizable value of the asset for sales to third parties on the open market since they would in turn, limit the profitability of the asset to those third parties.</p> <p>Where significant potential for future value enhancement may exist, other means to ensure full value to the government, such as participation clause or entering into joint ventures, will be analysed and pursued where appropriate.</p>	<p>The Auditor General's recommendations have been addressed.</p>
<p><b>Recommendation 3</b></p> <p>"To enable it to help the government achieve additional accommodation expenditure savings in the real estate portfolio, the Corporation should work with the Ministry of Public Infrastructure Renewal and client ministries and agencies to establish requirements for:</p> <p>Carrying out long-term accommodation planning to allow for exploration of options beyond leasing, such as construction, lease-buy, outright purchasing, and relocation, to meet space needs at lower costs; Exploring co-location and sharing opportunities with other ministries; and, Having ministries periodically report their present and future expected staff size, as well as their existing space utilization, to the</p>	<p>The Corporation agrees with the recommendation. As observed in the audit, more long-term planning has been occurring and the Corporation will continue to work toward improved long-term planning with the Ministry of PIR and tenant Ministries.</p> <p>As part of its long-term planning and strategic advice to client ministries, ORC is working at a minimum of 18-24 months in advance of lease expiry to provide a variety of accommodation options beyond traditional leasing that are most appropriate and provide optimum value for money.</p> <p>The ORC engages in careful analysis to identify potential co-location and sharing opportunities. The government has recently entered into more efficient arrangements for some accommodation requirements such as the Durham Consolidated Courthouse that will consolidate 7 existing leases into one new location. Also, ORC is in the process of relocating 11 Ministries into one location in Ottawa to share space and services – reducing the space requirements by 22, 000 sq. ft. and saving operating costs.</p>	<p>The Auditor General's recommendations have been addressed.</p>

Auditor's Recommendation	Completed undertaking	Outstanding undertaking (including timeline)
<p>Corporation to enable a more informed assessment of the use of existing space.”</p> <p><b>Recommendation 4</b></p> <p>“To help ensure that leases negotiated by the Corporation, both for government-owned space and for government-owned space leased to others, reflects the best rates, the Corporation should ensure that:</p> <p>All remaining leases in over-hold are resolved in a timely manner; and,</p> <p>It has the necessary policy direction from the Ministry to allow it to negotiate appropriate rents – at market rates where possible – for non-Ontario Government tenants in government buildings.”</p>	<p>ORC has been working with the Ministry of Government Services to obtain reports on the staff size of Ministries by location in order to assist in the proper assessment of efficient space use.</p> <p>ORC agrees with the recommendation. As noted in the audit, the ORC implemented a successful strategy to reduce the number of outstanding leases for space leased from third parties from 151 to 10 by December 2005. Success in this area has resulted in a high satisfaction rating by ministries for leasing services at ORC.</p> <p>The corporation will continue to work towards eliminating over-hold situations within the lease portfolio. As of March 31, 2007 the number of Accommodation “L” Leases (leases of 3<sup>rd</sup> party owned space to accommodate government services) in overhold status has been reduced to four leases for a total of 13,000 square feet, which represents approximately one tenth of 1% of the total leased portfolio of approximately 9 million square feet. Each of these four leases is currently in the process of being finalized.</p>	<p>A comprehensive “M” Lease Review (Leases to 3<sup>rd</sup> parties of surplus government space) was completed by December 31, 2006. There are a number of leases in overhold where the existing tenant is a not-for-profit organization and is currently paying below market or nominal rent. While the ORC mandate is to negotiate market rents, it is recognized there are special circumstances or historical issues on certain files. ORC will forward this review to PIJ with further analysis and recommendations by the end of fiscal 2007/2008 to help develop a policy for leasing to not-for-profit community groups so that appropriate government direction can be provided.</p>
<p><b>Recommendation 5</b></p> <p>“In order to help ensure that all service providers managing buildings perform their management and reporting duties appropriately, consistently, and at a high level, the Corporation should review building-management practices in all regions and ensure that best practices are being consistently adopted.”</p>	<p>The ORC is pleased the AGO found that the acquisition process and management procedures in place for securing building- and land-management services used the proper procedures and controls while having due regard for economy. As the Auditor noted, ORC monitors the performance of the large service providers in detail.</p> <p>The ORC has examined how these enhanced monitoring practices can be economically applied to smaller service-provider contracts. On April 1, 2006, these smaller contracts became subject to the Corporation’s formal contractor evaluation process. This new process should help ensure appropriate service-provider performance through ongoing monitoring of contractor performance that can lead to termination of the contract for poor performance.</p>	<p>One of the ORC’s strategic initiatives for fiscal 2007/2008 is “Strengthening Contract Administration and Management Processes”. ORC will investigate and analyze what processes and contract management tools are currently in place. This will be followed by a gap analysis that will identify where ORC needs to improve, streamline and strengthen its processes and training for personnel. This information will be augmented by industry best practices and consolidated to form a new set of processes and protocols for the administration and management of contracts across the organization. This will also allow the ORC to determine where and how performance metrics (ie. Key Performance Indicators) may be incorporated into operating and maintenance (O&amp;M) contracts. The targeted</p>



Auditor's Recommendation	Completed undertaking	Outstanding undertaking (including timeline)
<p><b>Recommendation 6</b></p> <p>"To enable the Corporation to properly maintain government-owned buildings in accordance with life-cycle costing for capital repair requirements and to avoid any longer-term impact resulting from deferring needed preventative or preservation repairs, the Corporation should work with its clients and the Ministry of Public Infrastructure Renewal to establish stable and appropriate levels of funding for maintaining government-owned buildings."</p>	<p>ORC concurs that there should be a stable and appropriate level of funding for maintaining government owned buildings and will continue to work with PIR and tenant Ministries to recommend the optimum level of funding.</p> <p>In recognition of the deferred maintenance situation identified by the ORC, the Ministry has provided increased capital funding from a previous 10-year average of \$74 Million to \$148.5 Million in 2005-2006.</p> <p>The Asset Management Framework (Core vs. Non-Core) deals with deferred maintenance as one of the criteria in assessing the long-term strategic value of each asset. An increased number of building condition reports have been initiated by both ORC and our service providers to assist in setting a Facilities Condition Index (FCI) that is then assigned to the asset. The FCI assists ORC in annually determining the capital investment strategy.</p> <p>The ORC is working with PIR and ministries annually to establish appropriate levels of funding. As the Corporation's review of all other assets in the portfolio is ongoing, there will be a continuing emphasis on strategically investing in deferred maintenance in the most appropriate long-term core assets to ensure the integrity of the Province's real estate portfolio.</p>	<p>Implementation date for all of this work is the start of 2008/2009 fiscal.</p> <p>Another initiative is "Aligning ORC Service Providers with the Customer Service Focus". ORC will review and analyze how current service providers perform their own customer service training. This review will then be compared with industry best practices. The deliverable will be an orientation and training program which existing and new service providers will be expected to complete, as a prerequisite to conducting business with the ORC in the future. The targeted implementation date is early fiscal 2008/2009.</p> <p>The Auditor General's recommendations have been addressed.</p>

Auditor's Recommendation	Completed undertaking	Outstanding undertaking (including timeline)
<p><b>Recommendation 7</b></p> <p>"In order to help ensure that the Corporation is capable of providing reliable and complete information on the province's real estate holdings and activities, and to support strategic decision-making on real estate and accommodation decisions, the Corporation should:</p> <ul style="list-style-type: none"> <li>Investigate the causes of data integrity errors in its RealSuite information system and implement quality-control procedures to correct existing errors, and prevent and detect any recurrence in future; and,</li> <li>Continue its efforts to secure the co-operation of other ministries and agencies with real-estate holdings to permit the development and sharing of a complete inventory of all government-owned and controlled real estate."</li> </ul>	<p>The Corporation concurs with the recommendation. The ORC has strengthened its data quality initiative to improve information on the assets in the portfolio. This effort has been initiated, and a strategy is in place to deal with the data issues, starting with the most significant buildings in the portfolio.</p> <p>A data quality team has been established to improve and track the data integrity of the organization. This is in addition to a project initiated to develop a complete inventory of government owned and controlled assets.</p> <p>Also, the ORC is continuing its efforts to secure co-operation from ministries and agencies, in general and for this project, through its newly established Account Teams, which have significantly improved communications with Ministries.</p> <p>The data change/update function was centralized in order to implement quality control measures, perform root cause analysis, correct errors and prevent future occurrences</p> <p>To date 126 data records have been reviewed and loaded into RealSuite. Another 306 sold land records have been marked inactive in RealSuite and retired from the GIS. Over 500 photos have been properly named and loaded into RealSuite and the Geographic Information System (GIS). Over a hundred and fifty (158) inactive buildings (leased and owned) have been retired from the GIS and 28 MTO Program use lands have been mapped in the GIS (title transferred to PIR). A data comparison tool has been developed so that discrepancies between systems could be identified and fixed.</p> <p>A Data Quality Action Plan has been developed in support of a key corporate objective for 2007/2008 and the existing Data Governance Structure has been revised in order to provide ORC management and staff with the necessary responsibility and accountability to better manage information.</p> <p>A new website focused on Data Quality (Information Excellence) has been launched in order to increase staff awareness and to provide tools and information to support the organization's data quality campaign.</p>	<p>ORC Internal Audit will be performing a data quality audit during fiscal 2007/2008.</p>

Auditor's Recommendation	Completed undertaking	Outstanding undertaking (including timeline)
<p><b>Recommendation 8</b></p> <p>"The Corporation should develop and report comprehensive and reliable performance indicators that would enable legislators, clients, and the public to properly assess its effectiveness in managing the province's real-estate portfolio and meeting accommodation requirements and objectives in an economical and efficient manner. Where possible, the Corporation's performance should be benchmarked to comparable private-sector and government property-management organizations in other jurisdictions."</p>	<p>ORC concurs with the recommendation. The now completed 2004/2005 and 2005/2006 ORC Annual Reports contain more specific performance information than did previous annual reports. Included in these reports are performance measures against pre-established corporate objectives, presented in a "report card" fashion.</p> <p>Starting in 2006/2007, additional portfolio performance indicators, particularly customer satisfaction levels, are being provided in quarterly reports to stakeholders. The Corporation's objectives for 2006/07 included the development of improved performance indicators benchmarked against private sector and government property-management organizations in other jurisdictions. These have now been established and where appropriate will be benchmarked against private sector organizations such as BOMA (Building Owners and Managers Association), CoreNet and IFMA (International Facilities Management Association) as well as public sector organizations such as Public Works and Government Services Canada, Societe de Immeubles du Quebec and GSA (General Services Administration, USA).</p>	<p>The Auditor General's recommendations have been addressed.</p>
<p><b>Recommendation 9</b></p> <p>"In view of the concerns we raised in 2003, and of those raised by the Corporation's internal auditors in 2005, regarding the use of Unit Price Contractors in place of established procurement procedures and competitive selection processes in hiring contractors for large construction projects, the Corporation should conduct a comprehensive review of its use of Unit Price Contractors, as well as of the policy framework that permits their use, to ensure the required open competitive procurement practices are not being circumvented."</p>	<p>The Corporation has implemented a new procurement process for the performance of repairs and alteration projects to eliminate the use of Unit Price Contractors. These projects are now awarded using established procurement procedures through a vendor of record list (VOR) and a competitive selection process in which all members of the VOR are invited to competitively bid on each project.</p>	<p>The Auditor General's recommendations have been addressed.</p>