



Financial Reconciliation: Demand General Repairs Program

Item 10A

July 30, 2024

Board of Directors

Report: TCHC:2024-48

To: Board of Directors (the “Board”)

From: Building Investment, Finance and Audit Committee (“BIFAC”)

Date: July 17, 2024

PURPOSE:

This report provides the BIFAC and the Board with information related to the material overspend against the approved spending authority for the Demand General Repair (“DGR”) program in the amount of \$34,791,957.00 (exclusive of taxes), that resulted in non-compliance with the Toronto Community Housing (“TCHC”) Financial Control Bylaw. This material overspend was addressed through internal reallocation within the capital budget and balance through other savings within the operating budget.

Specifically, this report provides an overview of the deficiency that led to inaccurate tracking and reconciliation of the expenditures related to the DGR program, which includes staff error and oversight, as well as limited internal controls and practices. The report also outlines the actions being taken to address the existing deficiency that gave rise to the overspend. TCHC management takes full responsibility for the oversight and the deficiency that led to it and is committed to making the necessary changes to ensure the deficiency is rectified this year to prevent recurrence.

RECOMMENDATIONS:

It is recommended that the Board receive this report for its information.

REASONS FOR RECOMMENDATION:**Background**

The DGR program involves the delivery of demand general repair work, defined as unplanned work required as needed, often involving small volume repairs in residential units or common areas. The program facilitates the delivery of demand general repairs across the TCHC and Toronto Seniors Housing (“TSHC”) portfolio; it is centrally managed to provide oversight to the management and reconciliation of all Work Orders (“WOs”) and Purchase Orders (“POs”) across operating and capital budgets.

Demand general repair work represents a high volume of jobs assigned to vendors annually and typically falls outside the skill level and responsibilities of regular building staff. The general repairs in common areas and in-suite, consist of:

- Bathroom and kitchen renovation work;
- Flooring;
- Painting;
- Plastering; and
- Other repair work as deemed necessary.

At its meeting of July 22, 2021, the Board of Directors approved the award for the delivery of work under the DGR program ([TCHC: 2021-45](#)) to a roster of 13 pre-qualified vendors for up to \$170,600,000.00 (exclusive of taxes) based on the outcome of RFP 23032:

- At a cost not to exceed \$87,900,000.00 for the initial three (3) years:
 - Year 1: \$25,300,000.00
 - Year 2: \$29,100,000.00
 - Year 3: \$33,500,000.00; and
- At a total cost not to exceed \$82,700,000.00 for two (2) additional one-year extensions at TCHC management’s discretion:
 - Year 4: \$38,500,000.00
 - Year 5: \$44,200,000.00

The previous award outlined above was terminated at the completion of the second year on August 31, 2023, in accordance with the termination provision of the agreement. There was no penalty for early termination. TCHC provided notice to vendors in January 2023 that it intended to exercise its termination rights to end the agreement.

Overspend Summary

The \$34,791,957.00 overspend represents work committed to Program vendors in Year 2, September 1, 2022, to August 31, 2023, of the previous DGR contract. The expenses that are reported as part of operating expenditures (“OPEX”) or capital expenditures (“CAPEX”) are based on the period in which the work was committed. As of May 31, 2024, a significant portion (98%) of the overspend amount has been completed and paid. Additionally, a portion of these expenditures were reported as part of regular BIFAC reporting on OPEX and CAPEX.

- **Operating Expenditures (\$3.7M):** The year-end results were presented to BIFAC in April 2023 and February 2024. Both highlighted the overspend in OPEX. However, due to limited visibility of expenses in multi-year contracts that are not aligned with the corporation’s fiscal year, as well as errors in the formula for the manual staff tracking of the reconciliations staff did not identify the specific overspend in the DGR program until after the approval period.
- **Capital Expenditures (\$31.1M):** The CAPEX is reported to BIFAC on a quarterly basis with the allocations between program envelopes highlighted. The overspend in CAPEX was addressed through internal reallocation between planned and demand capital programs

Table 1: DGR Program, 2022-2023 Contract Year

Approval	Reason	Total
Original Approved VAC Award	DGR Contract Year 2	\$29,100,000.00
Balance Transfer: Contract Year 1 to Year 2	Underbudget in Contract Year 1	\$1,590,000.00

Approval	Reason	Total
Change Order (September 1, 2022 - December 31, 2022)	Temporary price increase of 30% due to pandemic related inflation	\$7,830,000.00
Change Order (January 1, 2023 - August 31, 2023)	Temporary price increase of 30% due to pandemic related inflation	\$9,380,000.00
Change Order (September 1, 2022 - August 31, 2023) *	Unplanned increase in WOs	\$1,450,000.00
Updated Approved Award		\$49,350,000.00
Actual Spend		\$84,141,957.00
Capital Expenditures (CAPEX)		\$75,515,545.00
Operating Expenditures (OPEX)		\$8,626,412.00
Differential		-\$34,791,957.00

* Note: Figures generated based on previous reporting criteria

Table 2: DGR Program, Overspend Allocation, 2022-2023 Contract Year

Financial Reconciliation	Total
Total	\$34,791,957.00
Capital Expenditures (CAPEX)	\$31,100,545.00
Operating Expenditures (OPEX)	\$3,691,412.00

Key Driver: Program Reporting

The circumstance that led to the overspend, identified above, was identified during the review of program expenditures. While DGR Program reports were regularly generated to inform reconciliation of program expenditures, staff accountable for conducting the reconciliation generated the reports using incorrect parameters, resulting in a significant underreporting of expenditures against the annual fiscal budget and approved contract upset limit. Due to this error and oversight, DGR Program reports captured only work orders (“WO”) completed and paid within a given contract year. Further investigation determined that the report parameters needed to include WOs

committed to vendors during the contract year to reflect a more accurate accounting of program expenditures.

As a result, report parameters have been standardized and automated to accurately capture property code, WO status, vendors, date range, dispatch day, time frame, and program contract. Also, the DGR program expenditures have been reconciled to the appropriate general ledger (“GL”) codes.

Current Award & Contract

At its meeting of July 26, 2023, the Board of Directors approved a new award for the DGR program ([TCHC:2024-46](#)) at a cost not to exceed \$200,561,829.00 (exclusive of taxes). The new award was issued to better align the pricing to current market rates after they had increased during the COVID-19 pandemic. The amended and standardized reporting criteria, will ensure that the circumstance that led to the previous oversight will not recur this year and moving forward. The following outlines the expenditures for the current contract year for the DGR program.

Table 3: DGR Program, 2023-2024 Contract Year

Approval	Total
YTD Actual Committed (As of May 31, 2024)	\$21,507,386.00
On-Hold under “WO Triage Program”	\$1,000,000.00
Forecasted WO (June – August 2024)	\$7,169,129.00
Total Estimated Spend	\$29,676,515.00
Approved Contract Budget	\$29,900,000.00

NEXT STEPS

Strengthening Stewardship

The circumstance that gave rise to the significant overspend against the previously approved 2022-2023 annual upset limit was primarily related to staff error and oversight, as well as limited internal controls and practices. This highlights the immediate need to enhance staff performance and oversight, as well as controls and practices to strengthen the management of the DGR program. The deficiency outlined in the report underscore the need to strengthen inter-divisional collaboration and partnership.

Management takes full responsibility for the oversight and the deficiency that led to it and is committed to making the necessary changes to prevent this moving forward. Currently, there are several key actions underway to

address the deficiency outlined in this report. In addition to those actions, there is a significant focus on the overall management of the annual budget envelopes; the lack of visibility in operating expenditures and the practice of internal reallocation between planned and demand capital programs has resulted in programs, such as DGR, being overspent, while other programs lose much-needed funding to compensate for these overspends. The following measures are being taken to prevent recurrence:

Table 4: Remedial Measures

Action	Lead	Timeline
<p>Program Reconciliation Accountability: Appoint <u>new</u> dedicated staff lead and support that will be primarily accountable for the accurate and regular reconciliation of program expenditures using the established parameters. TCHC is also reviewing the staffing structure to support this work to better align resources and increase accountability.</p>	OPS	Completed
<p>Standardized and Automated Reports: Utilize HoMES to develop a new automated DGR program report with standardized criteria to ensure consistent and reliable reporting.</p>	Interdivisional Team: ITS, OPS, FIN	Q3 2024
<p>Regular Variance and WO Review: Establish on-going cross divisional monthly reviews, including variance monitoring and validation, updating monthly accruals, and evaluating WOs across the pipelines.</p>	Interdivisional Team: OPS, ITS, FM, FIN TSHC,	Q4 2024
<p>Contract Management: Update and consistently implement standardized tools and practices for the accurate, consistent, and reliable tracking, reconciliation, and reporting of multi-year and multi-vendor awards.</p>	Interdivisional Team: OPS, FM, PROC, ITS	Q1 2025

Action	Lead	Timeline
Optimize Capital Projects: Utilize findings from the Annual Unit Inspections (“AUIs”) to identify opportunities for planned capital work for kitchen and bathroom renovations under the DGR program.	Interdivisional Team: OPS, FM	Q1 2025
Vendor Contracts: Conduct a comprehensive review of vendor contracts across all programs to ensure clear provisions and enforcement of timelines for WO completion and invoice submissions.	Interdivisional Team: OPS, FM, LEG, PRO	Q2 2025
WO Triage: Implement an ongoing WO triage process to prioritize urgent and necessary repairs. Non-urgent repairs will be reviewed by management before being dispatched to a vendor.	OPS	On-Going

IMPLICATIONS AND RISKS

TCHC has a duty to ensure that its buildings are safe and maintained. The DGR program plays an important role in delivering demand maintenance work to common and in-suite areas. Successful delivery of the DGR program requires strengthening controls to ensure the delivery of high-quality repair services to common and in-suite areas and the need to monitor DGR expenses against the approved award limits.

To prevent a recurrence of these issues, an in-depth forecasting analysis is being conducted by Operations, with support from Facilities Management and Finance, to ensure sufficient funds are available for the remainder of the contract. Failure to demonstrate sound stewardship over the DGR program and its services could negatively impact tenant satisfaction, corporate reputation, and the financial stability of the program.

SIGNATURE

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