

Chapter 1

Ministry of Infrastructure

Section

1.11

Real Estate Services

Follow-Up on VFM Section 3.11, 2017 Annual Report

RECOMMENDATION STATUS OVERVIEW

	# of Actions Recommended	Status of Actions Recommended				
		Fully Implemented	In the Process of Being Implemented	Little or No Progress	Will Not Be Implemented	No Longer Applicable
Recommendation 1	3			3		
Recommendation 2	3	3				
Recommendation 3	2	1	1			
Recommendation 4	4	1	2	1		
Recommendation 5	3	2	1			
Recommendation 6	2		1	1		
Recommendation 7	1		1			
Recommendation 8	2		2			
Recommendation 9	2		1	1		
Recommendation 10	1		1			
Recommendation 11	2	2				
Recommendation 12	2			2		
Recommendation 13	1			1		
Total	28	9	10	9	0	0
%	100	32	36	32	0	0

Overall Conclusion

According to the information provided to us by Infrastructure Ontario, the Ministry of Government and Consumer Services, and the Ministry of Health, 32% of the actions we recommended in our 2017 Annual Report had been fully implemented as

of July 4, 2019. The two ministries and Infrastructure Ontario made progress in implementing an additional 36% of the recommendations.

The ministries and Infrastructure Ontario fully implemented recommendations such as reviewing and confirming that external project managers have valid reasons for revising project-completion dates, and creating plans to provide ministries and

agencies with timely information on the volume, frequency and type of operating and building maintenance services they receive.

Recommendations that the ministries and Infrastructure Ontario were in the process of implementing include reviewing initial cost estimates to ensure they are reasonable for prioritizing which capital projects to fund, and establishing and implementing a plan to reduce deferred maintenance in government-owned buildings.

However, they had made little progress on 32% of the recommendations, including incorporating past performance when evaluating bidders, and reviewing and prioritizing properties for potential and future investment to improve accessibility for Ontarians with disabilities.

The status of actions taken on each of our recommendations is described in this report.

Background

The Ontario Infrastructure and Lands Corporation (Infrastructure Ontario) is a Crown agency under the Ministry of Infrastructure (Ministry). One of Infrastructure Ontario's responsibilities is to manage real estate owned or leased by Ontario government ministries and some agencies (government properties).

Infrastructure Ontario is responsible for helping client ministries and agencies find space by either matching their needs to available space in government properties, or by leasing other space in the private sector. It is also responsible for managing these properties, including the costs of cleaning, repairs and maintenance, security, utilities, property taxes, and, for government-owned properties, their sale or demolition.

Further, Infrastructure Ontario is responsible for overseeing capital projects, namely the construction, rehabilitation and renovation of government properties.

About 9% of government properties, based on rentable square feet as of March 31, 2019 (9%

in 2017), were procured through the Alternative Financing and Procurement (AFP) model. A number of hospitals are maintained through AFP agreements, and, while Infrastructure Ontario is not directly involved in managing hospitals' AFP agreements, it offers guidance to the hospitals when requested.

Our audit in 2017 determined that Infrastructure Ontario's management of government properties was negatively impacted in part by weaknesses in the Enterprise Realty Service Agreement (Agreement) between Infrastructure Ontario and the Ministry of Infrastructure. The Agreement does not set out any mandatory, minimum standard of performance for managing the costs of capital projects. In addition, it sets out no timelines for meeting the accommodation standard for office space designed to ensure that existing government properties are used efficiently, or for maintaining the state of government-owned properties to the Agreement's standard.

Overall, our audit found the following concerns:

- Deferred maintenance of government buildings more than doubled, from \$420 million as of March 31, 2012, to \$862 million as of March 31, 2017. Over the six years prior to our audit, the condition of government properties had deteriorated from excellent to almost poor as measured by the industry standard.
- The design of one Request for Proposals (RFP) in 2014 attracted only three bids for the management of 7,500 capital projects worth \$900 million over five years. The RFP divided the province into two areas, which could only be handled by large companies.
- Infrastructure Ontario did not obtain enough information from its two project managers to assess whether procurements of vendors for client ministry and agency capital projects were done in a competitive and fair manner.
- Infrastructure Ontario informed us that its initial cost estimates for capital projects were limited because they did not factor in the additional costs that might be incurred to address actual site conditions. However, it

used these estimates for prioritizing which projects to do for the current year and the next two years. Since subsequent estimates and the actual cost of the projects tend to be significantly higher than the initial cost estimates, Infrastructure Ontario was not prioritizing projects based on complete cost estimates. This could increase the risk of selecting projects that did not yield the highest cost-benefit.

- Project managers were not held accountable for meeting the original project completion dates. Project managers could revise project completion dates while the project was ongoing and Infrastructure Ontario did not track these dates.
- Over \$170 million in office accommodation costs could be saved annually if effective steps were taken to reduce the space occupied per government staff person to comply with the 2012 Office Accommodation Standard of 180 rental square feet per person set by the Ministry of Infrastructure. Neither the Ministry nor Infrastructure Ontario had set a goal for when this standard should be met.
- Almost \$19 million was spent in 2016/17 on operating and maintaining 812 vacant buildings. We found that about 600 of the 812 buildings had been vacant for an average of almost eight years. Infrastructure Ontario could not readily determine when the other 212 buildings became vacant.
- Management at hospitals we spoke to were involved in long-term, ongoing disputes with private-sector companies over interpretations of the maintenance portion of their AFP agreements.

We made 13 recommendations, consisting of 28 action items, to address our audit findings.

We received commitments from the Ministry and Infrastructure Ontario that they would take action to address our recommendations.

Status of Actions Taken on Recommendations

We conducted assurance work between March 2019 and June 2019. We obtained written representation from Infrastructure Ontario, the Ministry of Government and Consumer Services, and the Ministry of Health, formerly the Ministry of Health and Long-Term Care, that effective July 4, 2019, they had provided us with a complete update of the status of the recommendations we made in the original audit two years ago.

Limited Competition for the Procurement of Project Management Services

Recommendation 1

We recommend that Infrastructure Ontario review and adjust accordingly its process for procuring project management services to:

- *formally prepare a new business case on whether to enable more project management companies in the future to bid on such services;*
Status: Little or no progress.

Details

Our 2017 audit found that the structure of Infrastructure Ontario's public Request for Proposal (RFP) in 2014 to select external project managers for the management services of 7,500 capital projects worth \$900 million over five years did not attract a broad range of bidders. This RFP was most suited to bids from larger project-management companies that could manage a large amount of work across many areas of the province. Due to the structure of the RFP—which divided the province into two areas—only three bids were received, all from large companies.

At the time of this follow-up, Infrastructure Ontario was in the process of negotiating an extension of project-manager contracts while it develops

a business case by March 2021, in time for the next planned procurement of project-management services in 2022.

- *include standard penalties for all contract managers on future RFPs;*

Status: Little or no progress.

Details

Our 2017 audit found that one of the two companies from which Infrastructure Ontario chose to procure services had performed poorly in its previous contract between 2011 and 2014. Furthermore, the penalties for poor performance, such as projects not on time, on budget or of poor quality, in the company's new contract were lower than in the new contract awarded to the company that had performed better. The penalty rates were different because each company was allowed to choose its own rate.

In advance of the next management services procurement in 2022, Infrastructure Ontario plans to develop a business case by March 2021 that will consider standard penalties.

- *incorporate past performance in the evaluation of the bidders.*

Status: Little or no progress.

Details

Our 2017 audit found that Infrastructure Ontario did not consider past performance of bidders when it assessed the three bids on a 2014 RFP. This resulted in Infrastructure Ontario procuring services from a project-management company that had performed poorly in a previous contract between 2011 and 2014. For example, it received low scores on Infrastructure Ontario's client-satisfaction survey over those years, and failed to meet key performance measures for staying on budget and completing projects on time.

In advance of the next management services procurement in 2022, Infrastructure Ontario plans to develop a business case by March 2021 that will consider past performance when evaluating bidders.

Better Oversight Needed of External Project Managers' Procurement Practices

Recommendation 2

We recommend that Infrastructure Ontario obtain sufficient procurement data from external capital project managers, including all bids, change orders and bid evaluations to:

- *establish a risk-based process to review procurements carried out by capital project managers;*

Status: Fully implemented.

Details

Our 2017 audit reported that over the six years ending in the 2016/17 fiscal year, Infrastructure Ontario spent over \$1 billion on procurements for capital projects, but did not normally obtain key documentation on procurements, such as bids and evaluations of vendor bid submissions, performed by its external project managers. Between the 2011/12 and 2016/17 fiscal years, procurement staff at Infrastructure Ontario reviewed only 3% of contracts procured by external project managers from vendors of record. The contracts were chosen based on a staff person's judgment and random selection rather than on consistent risk criteria, partly because Infrastructure Ontario did not have enough information on the procurements to do a risk-based sample selection.

At the time of this follow-up, Infrastructure Ontario had developed a service-provider audit program, which contains audit sample selection thresholds and criteria to review procurements through a risk-based approach. The sample size for all types of procurements carried out by external project managers is six per quarter, and eight per quarter for procurements carried out by external property and land managers. The selection of procurement sample to be audited will be determined based on a number of risk factors such as manually selected vendors (vendors manually selected to participate in a procurement), disqualification (whether a vendor has been disqualified during the

procurement), and low technical score (whether at least one evaluated vendor failed the technical component). Since the implementation of the service-provider audit program, Infrastructure Ontario has reviewed 6% of the contracts.

- *confirm that its procurement policies result in sufficient competition among bidders;*

Status: Fully implemented.

Details

Our 2017 audit found that about 78% of the procurements in our sample attracted three or more bids while 22% attracted only two bids. All of our sampled procurements consisted of projects with estimated costs of over \$600,000.

During our follow-up, Infrastructure Ontario informed us that it identified two or more bids as being sufficient for its vendor-of-record procurements, with four or more bids being optimal. We found that Infrastructure Ontario began analyzing the bidding data from April 2018 to June 2019, after the establishment of its new vendor-of-record in 2017, and identified that 84% of the procurements attracted three or more bids while 15% attracted only two bids.

- *confirm that contracts for capital projects are awarded to the most qualified bidders. Infrastructure Ontario should then adjust its policies accordingly if needed.*

Status: Fully implemented.

Details

Our 2017 audit found that Infrastructure Ontario does not obtain enough information from its external project managers to assess whether procurements are done in a competitive and fair manner. Specifically, Infrastructure Ontario did not track how many vendors bid on capital projects, or which vendors won.

At the time of our follow-up, Infrastructure Ontario had analyzed the procurement data from April 2018 to June 2019 and noted that since the establishment of the new vendor-of-record in 2017,

there were fewer optimal competitive procurements due to the legal changes with the architectural and engineering consultant contracts. These contractual issues were resolved with industry associations in 2018. It is Infrastructure Ontario's expectation that there will be an increase in optimal competition for these procurements.

Recommendation 3

In order to ensure the fair and economical procurement of project contractors, we recommend that Infrastructure Ontario:

- *obtain sufficient information on procurements conducted by external project managers, and analyze this information to determine whether there are any trends that suggest non-cost-effective procurement practices; for example, too few vendors bidding or a large portion of projects being awarded to only a few vendors;*

Status: In the process of being implemented by March 2020.

Details

Our 2017 audit found that Infrastructure Ontario did not obtain enough information from its external project managers to assess whether procurements were being done in a competitive and fair manner. Specifically, Infrastructure Ontario did not track how many vendors bid on capital projects, or which vendors won. Vendors were normally selected through a vendor-rotation process operated by an electronic bidding service that invited vendors of record to bid on projects.

However, since the 2013/14 fiscal year, Infrastructure Ontario has allowed its external project managers to select vendors from its vendor-of-record list and manually add them to the list of bidders. We identified 321 projects, worth nearly \$49 million, between the 2013/14 and 2016/17 fiscal years awarded to companies that were manually added to the list of bidders by external project managers.

At the time of this follow-up, Infrastructure Ontario had updated its vendor-of-record lists for

general contractors, engineering, architectural and interior-design consultants in 2017. Infrastructure Ontario is making system configurations in Biddingo—an online bidding platform—to collect more information from the external project managers. Some of the information to be collected includes whether the vendor was manually selected, date of manual selection, valuation reports, closing date for bids, and estimated/actual contract value. The new interface went live in May 2019, the external project managers and procurement staff have been trained, and the collection of data will follow and include an analysis of trends related to non-cost-effective procurement practices by Infrastructure Ontario. The first analysis will be completed by March 2020.

- *implement its planned controls over external project managers manually adding vendors to identify any potential conflicts of interest in this process.*

Status: Fully implemented.

Details

Our 2017 audit found that vendors were normally selected through a vendor-rotation process operated by an electronic bidding service that invited vendors of record to bid on projects in a fair manner. However, since the 2013/14 fiscal year, Infrastructure Ontario had allowed its external project managers to select vendors from its vendor-of-record list and manually add them to the list of bidders. We identified 321 projects worth nearly \$49 million between 2013/14 and 2016/17 awarded to companies that were manually added to the list of bidders by the external project managers.

At the time of this follow-up, Infrastructure Ontario had implemented a control for the manual additions that requires approval as well as the reasons for manually selecting vendors before allowing the vendors to be manually added. Infrastructure Ontario also issued a conflict-of-interest agreement in May 2019 and it was signed by all project managers, requiring the project managers on an

ongoing basis to inform Infrastructure Ontario of any conflicts that arise.

Ineffective Measures to Hold External Project Managers Accountable for Controlling Costs and Time to Complete Projects

Recommendation 4

In order to ensure capital projects planning uses reliable estimates to achieve cost-effective projects, we recommend that Infrastructure Ontario:

- *review initial cost estimates to ensure they are reasonable for prioritizing capital projects to be funded;*

Status: In the process of being implemented by June 2020.

Details

Our 2017 audit found that Infrastructure Ontario considered preliminary estimates and available funding to prioritize which projects to do in the current year and the next two. Infrastructure Ontario informed us that the initial cost estimates derived from its asset-management system were limited as they did not factor in the additional costs that might be incurred to address actual site conditions. The engineering firm that we contracted with to advise us also agreed with this assessment. Since subsequent estimates and the actual cost of the projects tended to be significantly higher than the initial cost estimates, Infrastructure Ontario was not prioritizing projects based on complete cost estimates. This could increase the risk of selecting projects that did not yield the highest cost-benefit.

At the time of our follow-up, Infrastructure Ontario had engaged a third-party consultant to review the project-budget estimating and performance-monitoring processes of delivered projects. The review recommended incorporating more contingencies in project estimates to reduce the risk of cost adjustments after the project-planning stage. However, Infrastructure Ontario is in the process of

assessing whether other components included in its project cost estimates are reasonable and whether the increase in contingent amounts had improved the accuracy of its estimates for planning purposes. Infrastructure Ontario plans on completing the assessment by June 2020.

- *confirm that the external property and land manager and external project managers are complying with the provisions of their contracts or Master Services Agreement that expect their estimates of project costs to be within a certain percentage of actual costs, and take corrective action where necessary;*

Status: In the process of being implemented by April 2020.

Details

Our 2017 audit noted that Infrastructure Ontario's Master Services Agreement with the external property and land manager stated that each business plan estimate prepared by the manager should, when compared with actual costs, differ by no more than plus or minus 20%. Infrastructure Ontario had not been tracking whether the external property and land manager was meeting this provision. Infrastructure Ontario used the external project managers' cost estimates to evaluate whether a project was "on budget." As per Infrastructure Ontario's agreement with the external project managers, actual costs were expected to be within 5% of the pre-tender estimates. Again, Infrastructure Ontario did not measure external project managers' compliance with this provision of the contract.

At the time of our follow-up, Infrastructure Ontario had amended the contracts with both the external project manager and external property and land manager to allow for up to 30% variance when comparing actual project costs with business-plan estimates. Infrastructure Ontario will begin monitoring this amount through a key performance indicator starting in April 2020. Infrastructure Ontario was currently monitoring the projects' post- and pre-tender estimates.

- *re-evaluate and update future contracts to provide sufficient incentives to external project managers to complete capital projects on time and on budget;*

Status: Little or no progress.

Details

In our 2017 audit, we found that minimal incentives existed for external project managers to manage costs and to complete projects on time. Their performance pay for a project coming in on budget, that is, between the post-tender estimate and actual cost, was only about 0.5% of the total management fee for the project. Moreover, external project managers received less performance pay (in effect, they were financially penalized) if they underspent by more than 5% of total allocated project funding by the end of the fiscal year, because funding could not be carried forward to the next fiscal year. External project managers were not held accountable for meeting the original completion dates, and Infrastructure Ontario did not track these dates. Our review of a sample of capital projects completed between April 2013 and March 2017 indicated that these capital projects, which cost \$76 million, were completed on average about 330 days later than originally scheduled.

In our follow-up, we found that Infrastructure Ontario issued a request for proposal in November 2018 to engage consulting services to review its service-provider contracts and service-delivery model, which includes a review of the *2017 Auditor General Report* and to recommend improvements. The consultant's report is expected to be completed by the 2020/21 fiscal year. Infrastructure Ontario will consider implementation of the consultant's recommendations for future service agreements.

- *review and confirm that external project managers have valid reasons for revising project completion dates.*

Status: Fully implemented.

Details

Our 2017 audit found that external project managers could revise project completion dates multiple times while the projects were ongoing, but Infrastructure Ontario did not always ensure there were valid reasons for the revisions. We reviewed a sample of projects that cost \$143.5 million, completed between April 2013 and March 2017, where the planned completion date exactly matched the actual completion date. We found that in nearly half of the sample, project-completion dates had been revised after the original completion date had passed. For many of these projects, the reason provided by the external project manager was that the change was made to align the planned project completion date to the actual completion date. Infrastructure Ontario required that 90% of projects meet set completion dates in order for external project managers to receive the maximum performance pay.

At the time of our follow-up, Infrastructure Ontario had created a working group with external manager stakeholders and Infrastructure Ontario staff to review internal processes. A guideline was subsequently developed and implemented in 2018 that outlines which reasons are acceptable for schedule revisions, and which are not. The guideline also requires external managers to provide a description and relevant supporting documentation when they revise project schedule dates. These reasons include new or additional work not included in the original scope, unusual or adverse weather conditions, and changes to reductions or standards.

Lack of Information Provided to Ministries and Agencies on Operating and Maintenance Services

Recommendation 5

To support client ministries and agencies in confirming that they are receiving value for money on operating and maintenance services, and consistent with the requirements in the Memorandum of Understanding between Infrastructure Ontario and

the Ministry of Infrastructure, we recommend that Infrastructure Ontario:

- *renew all operating and maintenance agreements between itself and client ministries;*
Status: In the process of being implemented by March 2020.

Details

In our 2017 audit, we found that all operating and maintenance agreements that were created in 2007 between Infrastructure Ontario and client ministries and their agencies for services, including snow removal, cleaning, security, landscaping, and maintenance of building components, expired in 2015.

At the time of our follow-up, Infrastructure Ontario indicated that it has shared an updated Enterprise Realty Service Agreement with the Ministry of Government and Consumer Services. If this is approved it would replace the prior operating and maintenance agreements that had expired in 2015. The Ministry plans to implement the updated agreement by March 2020.

- *implement its plans to provide ministries and agencies with timely information on the volume, frequency and type of operating and maintenance services that they will receive, and have received, by building;*
Status: Fully implemented.

Details

Our 2017 audit found that Infrastructure Ontario provided insufficient information on operating and maintenance services to its client ministries and agencies. Infrastructure Ontario's external property and land manager was required to arrange operating and maintenance services for Infrastructure Ontario's client ministries and agencies, which would then pay Infrastructure Ontario for the services. However, invoices received by client ministries did not provide sufficient information on the volume and types of services they were paying for. Ministries informed us that they could not determine whether they were receiving the services paid

for because they were not provided with building-specific information on what services they were supposed to be receiving.

In our follow-up, we noted that Infrastructure Ontario implemented in 2019 a customer-service portal that shows the volume, frequency and type of services that ministries and agencies should receive for all properties to allow them to determine whether they are receiving the amount and type of services they are paying for.

- *actively work with its external property and land manager to review and analyze the significant increases in operating and maintenance costs, and implement improvements needed to minimize such costs for client ministries.*

Status: Fully implemented.

Details

Our 2017 audit found that, since 2015, Infrastructure Ontario has been required to annually compare operating and maintenance costs against industry benchmarks, specifically data from the Building Owners and Managers Association (BOMA), which has average building-cost data for Toronto. At the time of our audit, Infrastructure Ontario had only performed this cost comparison once, for the 2015 calendar year, and only for the 17 government-owned buildings in Toronto. Repair and maintenance costs and utilities are the largest components of total operating and maintenance costs, representing 60% of the total. We compared BOMA's cost data for Toronto buildings with all government-owned buildings within Toronto over the last three years. While cost categories, such as security and cleaning, were lower in government properties than BOMA's average cost, we found that repair, maintenance and utilities in government-owned properties were consistently higher than the BOMA average.

In our follow-up, we found that Infrastructure Ontario had, in October 2018, shared information with the Chief Administrative Officer forum on how to offset increasing operating and maintenance

expenses, such as wages and energy utility rates. For example, it suggested negotiating price reductions directly with existing service providers and implementing a program aimed at reducing energy consumption.

Funding Shortfalls Having Detrimental Effect on Building Conditions

Recommendation 6

For government properties to be economically and efficiently maintained, we recommend that the Ministry of Infrastructure work with Infrastructure Ontario to:

- *assess and revise base rents to match the projected cost of future capital repairs to properties and funding parameters for Infrastructure Ontario's fees;*

Status: Little or no progress.

Details

Our 2017 audit found that capital repair funds collected from client ministries through base rents were used instead to fund Infrastructure Ontario's operating costs for managing government properties. Infrastructure Ontario used a total of \$202 million over six years from base rent to pay for its operating costs. While this is not explicitly prohibited under the Enterprise Realty Service Agreement between Infrastructure Ontario and the Ministry, it had led to a further deterioration of government-owned buildings.

The Ministry of Government and Consumer Services did an assessment of base rents in the 2014/15 fiscal year. However, the tenant ministries were reluctant to agree to increase them to match the projected cost of future capital repairs because this would result in cost increase for tenant ministries. As a result, in our follow-up we noted that the Ministry is developing other approaches, such as having a new portfolio model to centralize decision-making, consolidating office space and eliminating

duplication in facility management, to help address the capital repair funding gap.

- *establish and implement a plan to reduce deferred maintenance in government-owned buildings. (We made a similar recommendation in our 2006 Annual Report.)*

Status: In the process of being implemented by March 2024.

Details

Our 2017 audit noted that an increasing amount of maintenance work on government-owned buildings had been deferred due to funding shortfalls, which had led to the deteriorating condition of buildings, additional costs and affected service delivery. As of March 2017, the amount of lifecycle maintenance work grew to \$862 million.

In our follow-up, we found that the Ministry of Government and Consumer Services and Infrastructure Ontario were implementing initiatives to reduce the amount of deferred maintenance, such as reconstructing the Queen's Park complex, streamlining the disposal of properties, and minimizing the footprint of government properties. The reconstruction of the Queen's Park complex, currently estimated to be completed in 2024, is expected to result in a reduction of \$400 million in deferred maintenance.

Government Properties Could be Used More Efficiently

Recommendation 7

To improve the efficiency of the use of office space by government ministries and agencies, we recommend that Infrastructure Ontario consistently prepare and present client ministries and agencies with an office space options analysis at the time of a lease renewal or when a client ministry or agency is moving. Such an analysis should be informed by up-to-date and complete occupancy data for buildings within the

Province's real estate portfolio. (We made a similar recommendation in our 2006 Annual Report.)

Status: In the process of being implemented by December 2020.

Details

At the time of our 2017 audit, we noted that in 43% of the 102 cases of a client ministry or agency moving or renewing a lease in 2015/16, Infrastructure Ontario did not produce an options analysis. In 38% of the cases in which it did do an analysis, Infrastructure Ontario did not recommend an option that reduced the space usage to meet the standard of 180 square feet per person. Furthermore, we noted that while Infrastructure Ontario had data on the number of people within a building, this data was not consistently broken down by the number of people occupying each floor.

At the time of our follow-up, Infrastructure Ontario had enhanced its analysis with recommendations for all existing lease expiries and new space requests. Infrastructure Ontario had also included additional sections to its analysis templates to make lease and space information more transparent. Where available, Infrastructure Ontario is now using master occupancy drawings to look at how office space can be used more effectively. At the time of our follow-up, Infrastructure Ontario had developed master occupancy drawings for 135 buildings, or 71%, (compared to 34 buildings, or 44%, in 2017) of the total rentable square footage of its portfolio. Drawings for the remaining 402 buildings, or 29% of the total rentable square footage, are expected to be completed by December 2020.

Recommendation 8

To save on the annual operating cost of vacant buildings, we recommend that Infrastructure Ontario:

- *track the dates of all vacancies;*

Status: In the process of being implemented by May 2020.

Details

Our 2017 audit found that Infrastructure Ontario incurred \$18.9 million in rent paid to third parties, property taxes and operating and maintenance costs for 812 vacant buildings across the province in 2016/17. We also noted that Infrastructure Ontario did not consistently track how long buildings were vacant, but we found about 600 of the 812 had been vacant for an average of almost eight years. Vacancy dates for the remaining 212 buildings were not readily available.

During our follow-up, we found that Infrastructure Ontario had implemented an interim solution that allows it to track the vacancy date of a building when a ministry vacates the lease in a given building. Infrastructure Ontario is working to implement by May 2020 a long-term solution to automatically capture vacancy dates at the individual lease level.

- *follow its current building divesting plan and revise the plan, as necessary, to include all vacant buildings intended for disposal. (We made a similar recommendation in our 2006 Annual Report.)*

Status: In the process of being implemented by December 2022.

Details

Our 2017 audit found that Infrastructure Ontario was behind schedule in its 10-year divestment plan, which was developed in 2015/16 to sell or otherwise dispose of about 907 buildings.

In July 2018, Infrastructure Ontario re-examined in detail the 812 vacant buildings in its 10-year divestment plan and found that 38 had been demolished, 52 had been sold or otherwise disposed of, 213 were verified to be in use, 85 were ancillary buildings (that is, storage sheds, detached garages, grain bins) that were part of primary buildings, and 193 were buildings that cannot be divested because they were on properties that were in use. Thus, there were 231 vacant buildings remaining to be sold or disposed of.

In December 2018, the 10-year divestment plan was replaced by a four-year Accelerated Divestment Plan, which is currently under way. Since then, an Order-In-Council has been approved to divest a total of 339 buildings, by December 2022.

No Plan Yet to Make Government Properties More Accessible

Recommendation 9

We recommend Infrastructure Ontario, in conjunction with the Ministry of Infrastructure:

- *assess the current level of accessibility of government properties;*

Status: In the process of being implemented by July 2022.

Details

In our 2017 audit, we noted that Infrastructure Ontario had not assessed the accessibility of its current government properties. However, it had indicated that it was compliant with the requirements of the *Accessibility for Ontarians with Disabilities Act, 2005* (Act) and the Ontario Building Code (Code) because these did not require that existing assets be retrofitted according to current accessibility standards. The Code requires that only newly constructed buildings and buildings that undergo extensive renovations meet accessibility standards enhanced in 2015. Despite owners not currently having to retrofit buildings, the Act's stated purpose is to "achieve accessibility for Ontarians with disabilities with respect to goods, services, facilities, accommodation, employment, buildings, structures and premises on or before January 1, 2025."

In our follow-up, we noted that Infrastructure Ontario is currently capturing the accessibility requirements for core and transition assets, limited to the base-building areas, through a checklist based on the Act and prepared by a consultant engaged by Infrastructure Ontario. The assessments are expected to be completed by July 2022.

- *review and prioritize properties for potential and future investment to improve accessibility.*

Status: Little or no progress.

Details

Our 2017 audit found that in the 2016/17 fiscal year, Infrastructure Ontario had informed the Ministry of Infrastructure that it did not have the funds to support the Act's 2025 accessibility goal. This was as a result of the Ministry's direction and decision in the 2013/14 fiscal year to end funding for inspecting buildings for accessibility and for retrofitting existing buildings.

In our follow-up, we found that Infrastructure Ontario is reviewing the outcome of the accessibility assessments as they are being completed. Infrastructure Ontario has indicated they will require funding, subject to approval from the government, to complete any projects. Infrastructure Ontario also informed us that it will look to review and prioritize properties for potential investment to improve accessibility based on these outcomes.

Ministry Has Not Assessed the Cost of Managing Government Properties

Recommendation 10

To ensure government properties are well managed and maintained in an efficient and economical manner, we recommend that the Ministry of Infrastructure study and implement improvements to the management of government properties, including, as noted in the OPS Realty Model Review, different delivery options. (We made a similar recommendation in our 2006 Annual Report.)

Status: In the process of being implemented by September 2020.

Details

At the time of this follow-up, the Ministry, through the engagement of two consultants in 2018, had developed a new portfolio model to centralize decision-making and achieve efficiencies by delegating the majority of strategy, policy and oversight to the

Ministry, and all of the operations to Infrastructure Ontario. The new model would also clarify the roles and responsibilities of each party, which would allow the implementation of measurable performance metrics to hold each party accountable.

Treasury Board has authorized the Ministry to engage with other ministries in the development of a business case to be submitted to Treasury Board for further approval prior to moving forward with implementation. The Ministry anticipates implementation beginning in the 2020/21 fiscal year, with rollout of the new model by September 2020.

Hospitals Finding Maintenance under Alternative Financing and Procurement Expensive

Recommendation 11

We recommend that Infrastructure Ontario:

- *support hospitals with Alternative Financing and Procurement (AFP) project agreements to ensure these arrangements result in more cost-effective maintenance for hospitals;*

Status: Fully implemented.

Details

At the time of our 2017 audit, hospitals we spoke to reported long-term, ongoing disputes with private-sector companies over interpretations of the maintenance portion of their Alternative Financing and Procurement (AFP) agreements. They had not been able to realize many of the benefits they expected under AFP agreements, including having the cost of all maintenance that they require covered by the payments established in these agreements. Hospitals informed us that they were paying higher-than-reasonable rates to private-sector companies for carrying out maintenance work considered outside of the AFP agreement.

At the time of this follow-up, Infrastructure Ontario had agreed to provide contract management advisory support to hospitals on behalf of the Ministry of Health (MOH), formerly the Ministry of

Health and Long-Term Care, during the operations phase of AFP project agreements. The cost of these advisory services is estimated to be \$150,000 per project per year, and includes dedicated technical assistance, decision support, capital planning, and assistance with financial, legal, and energy matters. Infrastructure Ontario and the MOH implemented and formalized the provision of such services via a Memorandum of Understanding dated August 2019.

- expedite its review of the AFP agreement based on the experience and feedback of project owners and revise the agreement to be used in future AFP projects to minimize future contract disputes with respect to variations and the costs associated with them.

Status: Fully implemented.

Details

At the time of our 2017 audit, three of the hospitals we spoke to were in dispute with a private-sector company over costs the company should be allowed to charge for variations. The hospitals also informed us that, based on their experience, the rate for providing variations was higher with the AFP contractor than if the hospitals had sought outside bids. All hospitals we interviewed also indicated that a clearer definition was needed in the AFP agreements to categorize the types of failures by AFP contractors that could occur during the maintenance phase of the AFP agreement.

At the time of our follow-up, Infrastructure Ontario had made two rounds of revisions to the AFP agreement template to reflect the experience and feedback of project owners, to limit the cost of variations and to reduce disputes. These changes include a clearer definition of reimbursable costs, clarity on how mark-ups are calculated, additional requirements to substantiate costs and greater discretion by the owner to require project companies to competitively tender variations. Revisions apply to both the construction and operations phases of projects. These revisions were reviewed and

approved by Infrastructure Ontario's Integrated Template Working Group on February 15, 2017, and November 14, 2018. During our follow-up, these revisions were implemented into agreements for all new AFP projects.

Recommendation 12

In order to improve the delivery of maintenance services through Alternative Financing and Procurement agreements, Infrastructure Ontario should:

- institute a formal evaluation program of private-sector companies' performance during the Alternative Financing and Procurement maintenance phase in existing agreements;
- incorporate their performance when evaluating future bids by the private-sector companies.

Status: Little or no progress.

Details

Our 2017 audit found that Infrastructure Ontario did not have a formal vendor performance program to assess the performance of the private-sector companies during the maintenance phase of AFP projects. In addition, our audit found when evaluating bids for AFP projects, private-sector companies that had performed poorly in maintaining buildings—in that they had many failures or disputes with hospitals and other government entities—had been awarded additional AFP contracts.

At the time of our follow-up, Infrastructure Ontario identified that it will conduct analysis on the benefits of implementing these changes and make recommendations based on this analysis to its Continuous Improvements Committee by March 2020.

Recommendation 13

In order to ensure hospitals are able to fund required maintenance, we recommend the Ministry of Health and Long-Term Care continue to work with hospitals, and in co-ordination with Infrastructure Ontario,

assess whether hospitals are experiencing funding shortfalls and devise strategies to mitigate their impacts under Alternative Financing and Procurement maintenance agreements.

Status: Little or no progress.

Details

At the time of our 2017 audit, the Ministry of Health, formerly the Ministry of Health and Long-Term Care, was informed that hospitals with AFP maintenance agreements had a total funding shortfall of \$8.1 million in 2015/16. In response, the Ministry completed an analysis of reported shortfalls, provided an additional \$5.3 million in top-up funding in 2017, and made revisions to its funding policy. Additional funding was provided to those hospitals that had received less-than-average funding for maintenance compared with other hospitals maintained under AFP agreements.

However, the additional funding provided by the Ministry in some instances did not cover the entire amount of the shortfall, or the hospital simply did not receive any additional funding despite a reported shortfall because it was receiving above-average amounts of funding. The hospitals had to make up these shortfalls by redirecting funding from other areas in their budgets.

During our follow-up, the Ministry confirmed that it expects hospitals to find efficiencies in hospital operations and that it continues to monitor the overall financial health and funding requirements of hospitals. Since our 2017 audit, the Ministry had determined additional facility funding amounts for three additional hospitals maintained under AFP agreements.