Chapter 4
Section
4.10

Ontario Realty Corporation—Real Estate and Accommodation Services

Follow-up on VFM Section 3.10, *2006 Annual Report*

Background

The Ontario Realty Corporation, a Crown corporation, provides services related to real estate, property, and project management to most ministries and agencies of the government of Ontario. Responsibility for the cost-effective management of real property and accommodations is shared by the Corporation with the Ministry of Energy and Infrastructure (Ministry)—formerly the Ministry of Public Infrastructure Renewal—and its client ministries and agencies. The Corporation manages one of Canada's largest real-estate portfolios, including more than 81,000 acres of vacant land and 6,000 buildings comprising more than 48 million square feet of space. Eighty percent of the portfolio is owned by the government of Ontario; the rest is leased. To offset the expenses it incurs in managing the portfolio and looking after the accommodation needs of its clients, the Corporation needs annual revenues of nearly $600 million. The vast majority of these revenues comes from its clients in the form of rent income.

Our audit in 2006 concluded that the Corporation had recently made a number of improvements in its systems and procedures for leasing, buying, and selling property; and for hiring and monitoring providers of building-management services. However, we found that it needed to continue to work with the Ministry and its client ministries and agencies to ensure that:

- all managed space is being efficiently used;
- properties are being maintained through appropriate investments in the life-cycle repair and maintenance of buildings; and
- its management-information systems provide decision-makers with sufficient reliable information.

Some of our more significant observations were as follows:

- The Ministry had identified concerns about the processes for dealing with surplus and underutilized property, which our work confirmed. We noted that although the province gave its approval in 1999 for the Corporation to sell 330 properties, as of 2006, the Corporation had disposed of fewer than half of them.
- The Corporation needed to improve its systems and procedures for identifying and dealing with surplus or underutilized properties.

- Better controls were needed to record and track potential ministry recoveries from conditional property sales and to monitor subsequent sales of former government properties for large resale profits. As a result of our inquiries, the Corporation recovered approximately $265,000 that was still owing to it from a property sale and that had been available to it since April 2004. As well, the Corporation had instituted additional monitoring procedures after we noted that one property it had sold for $2.6 million was resold seven months later for $4.2 million.
- In handling requests for new accommodations that could not be met by the existing inventory of owned space, the Corporation generally leased space without assessing the cost-effectiveness of alternatives, such as construction, lease-buy, outright purchase, or relocation.
- The Corporation did not have adequate information or assurance that space was being used efficiently by its clients. As well, the Corporation's real-estate database contained many errors in the current status of properties, which would affect the integrity of data used for assessing accommodation needs and tracking property use.
- More than 40% of the buildings the Corporation manages were at least 40 years old, and it rated 148 buildings as being in poor to defective condition. It also estimated that deferred costs for repairing, renewing, and modernizing provincially owned buildings stood at $382 million as of March 31, 2006.

We made a number of recommendations for improvements and received commitments from the Corporation that it would take action to address our concerns.

Current Status of Recommendations

According to information received from the Corporation, progress has been made in implementing most of our recommendations with significant progress being made on several. However, some areas, including information systems and deferred maintenance of over $400 million, will take more time and additional funding to address fully.

The current status of action taken on each of our recommendations is as follows.

REVIEW BY THE (FORMER) MINISTRY OF PUBLIC INFRASTRUCTURE RENEWAL

Recommendation 1

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.

Current Status

The Corporation advised us that it was continuing to work with the government through the Ministry of Energy and Infrastructure (Ministry) to expedite sales of surplus property. Multi-year sales plans had been established for disposing of surplus and high-value properties and, beginning with the 2008/09 fiscal year, sales revenue targets had been increased substantially. However, more recently, reductions to those sales revenue targets were made to reflect delays in obtaining approvals, renewed interest by ministries in some properties, and the downturn in the market.

In May 2006, the Corporation prepared a Strategic Asset Management Plan Framework for classifying individual provincially owned property assets. The framework defines properties and buildings by their strategic importance, such as whether the property is a core asset that is to be kept and maintained over the long term or whether it is a non-core asset that is no longer needed by the province for program purposes or government initiatives, and is to be disposed of in the long term. There are other subcategories indicating whether the property is on hold because it is no longer functional but cannot be disposed of owing to environmental or heritage considerations or special circumstances; is in transition because its long-term use is under study; is to be disposed of by sale or transfer; or has structures that need to be demolished to improve the saleability of the property. We were informed by the Corporation that the classification of all owned properties in the portfolio was completed by March 31, 2008.

CONTROLS OVER PROPERTY SALES AND ACQUISITIONS

Recommendation 2

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.

Current Status

The Corporation informed us that it has enhanced its controls over any receivables resulting from property sales. New protocols for the Corporation's finance department require that an accounts receivable amount be established in the accounting system for any potential return of amounts held in escrow or for other receivables possible after the closing of the sale. The Finance Department conducts a monthly reconciliation and review to monitor the status of any outstanding receivables.

At the time of our follow-up, the Corporation's internal audit staff had responsibility for monitoring whether properties sold recently by the Corporation were subsequently resold by the new owners in the following 18 months. Where such resales have occurred and the sale prices are higher than the price originally paid to the Corporation, the internal auditors are required to investigate and report on the circumstances and the reasons for the higher property value.

With respect to our recommendation to require safeguards in all its sales agreements to permit it to share in any large profits from subsequent sales of properties, the Corporation continues to include this requirement in sales to municipalities, conservation authorities, and other government organizations. However, it believes that a restrictive clause in its property-sales agreements would significantly limit the attractiveness and prices of property sold to the public. We were informed that, where feasible, the Corporation will attempt to participate or partner with the private sector in joint ventures or in the marketing of property for sale to enhance sale revenues, but the existing portfolio offers few opportunities for such arrangements.

ACCOMMODATION PLANNING AND UTILIZATION

Recommendation 3

To enable it to help the government achieve additional accommodation expenditure savings in the real-estate portfolio, the Ontario Realty Corporation should work with the (former) Ministry of Public Infrastructure Renewal and client ministries and agencies to establish requirements for:

- *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 Corporation to enable a more informed assessment of the use of existing space.*

Current Status

We were informed that the Corporation's Account Teams have been working with client ministries and agencies to identify long-term accommodation requirements. In addition, a recent large co-location project in Ottawa was completed in 2007, and the Corporation was working on a Toronto Master Plan for Accommodations to explore long-term possibilities for satisfying office-space requirements. A large office building in downtown Toronto was also purchased in 2007, and the Corporation was exploring options for its use when the current tenants vacate it in 2010. The Corporation informed us that it does consider options other than leasing for satisfying large accommodation requests.

Since 2007, the Corporation has been using the corporate WinData System to maintain information about the number of full-time equivalent staff who are located in government premises. However, the Corporation advised us that the information was used primarily to corroborate information received from its client ministries and not to monitor the utilization of existing space.

LEASING

Recommendation 4

To help ensure that leases negotiated by the Ontario Realty Corporation, both for government-occupied space and for government-owned space leased to others, reflects the best rates, the Corporation should:

- *resolve in a timely manner all remaining leases in overhold; and*
- *obtain the necessary policy direction from the (former) 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.*

Current Status

For government-occupied space leased from private-sector landlords, the Corporation gave us a current list of leases that had expired and therefore were in "overhold." Fewer than 1% of all leased properties were in overhold but these were small spaces or had been in overhold for only a short time. Some were being negotiated at the time or there were other extenuating circumstances.

For non-Ontario-government tenants in government buildings, we were informed that the Corporation had studied options, including rental rates, for daycare centres in government properties, and had sent those options to the Ministry in May 2008 for its consideration. Until it receives new directions from the government for the handling of government-owned space leased to others, no changes will be made to existing leases in overhold.

BUILDINGS AND LAND MANAGEMENT

Recommendation 5

In order to help ensure that all Ontario Realty Corporation staff and 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.

Current Status

The Corporation currently has two large contracts and several smaller ones for the management of its buildings and properties. We were informed that the Corporation will competitively re-tender building and property management for all properties in Ontario. The new contracts are expected to begin in October 2009, and the Corporation stated that it intends to include a performance-management framework that will reflect current industry best practices.

DEFERRED MAINTENANCE ON GOVERNMENT-OWNED AND -OCCUPIED BUILDINGS

Recommendation 6

To enable the Ontario Realty 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 (former) Ministry of Public Infrastructure Renewal to establish stable and appropriate levels of funding for maintaining government-owned buildings.

Current Status

The Corporation informed us that for the last three years, the government, through its Five-year Infrastructure Investment Plan, allocated $148 million annually for capital repairs. Actual spending over the same period averaged $141 million and was about 32% higher than in the previous three-year period. However, we were informed that the Corporation estimates that it needs between $148 million and $218 million a year to maintain the core buildings in the portfolio. This amount does not take into account other significant funding requirements, such as the accumulated unfunded deferred maintenance from prior years, the maintaining of non-core property assets, and additional costs for preserving heritage structures, all of which are currently funded from the amounts allocated to core buildings.

As part of its 2008/09 Asset Management Plan, the Corporation estimates that the value of deferred maintenance for its managed properties was between $400 million and $500 million (up from $382 million in 2006).

We were also informed that the Corporation has taken the lead in working with other jurisdictions across Canada to establish a Facility Condition Index that sets a standard calculation method and creates a rating system to determine the condition of buildings. The Corporation expects that once the Index is in place, all provinces will use the same criteria for measuring and reporting on building conditions to allow for comparisons and to help establish funding levels and benchmarks.

REAL-ESTATE INFORMATION SYSTEMS

Recommendation 7

In order to help ensure that 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.*

Current Status

We were informed that the Corporation had completed the first phase of its project to improve data integrity, which was to reconcile the number of properties listed in its RealSuite system and its accounting system's cost centres. Future phases include reviewing data-input controls and reconciling its accounting system's cost centres to its asset-accounting processes for billings and expense allocation. The Corporation's Internal Auditor also informed us of plans to complete a data-integrity audit of RealSuite by December 2008.

A new project to develop a complete inventory of government-owned and -controlled property assets has begun. In September 2006, the Corporation introduced a system called the Provincial Real

Property System (PRPS), which will record property information from other ministries and agencies. Although substantial progress has been made by the Corporation in obtaining the information it needs from ministries and agencies to update the records in PRPS, we were told that the project has been hampered by incomplete records and the Corporation's inability to obtain and verify the required information.

PERFORMANCE MEASURES

Recommendation 8

The Ontario Realty 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.

Current Status

The Corporation has started to include customer-satisfaction and operating-cost performance measures in its annual reports. As well, for operational purposes, it has developed and is tracking more detailed property-management results indicators; however, this information has not been made available to the public, legislators, or the Corporation's clients.

OTHER MATTER

Procurement Practices for Capital Projects

Recommendation 9

In view of the concerns we raised in 2003, and of those raised by the Ontario Realty 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.

Current Status

According to information we received, the Corporation has discontinued the practice of using unit-price contracting on jobs costing $100,000 or more, which is the upper limit for which these assignments are intended. The Corporation has directed that for projects exceeding this amount, competitive bids with fixed prices must be obtained.