APPENDIX 1

REVIEW OF AFFORDABLE HOUSING PROJECT AT 2350 FINCH AVENUE WEST

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TORONTO Auditor General's Office

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AUDIT REPORT IN BRIEF

Let's Build Program established in 1999

In 1999, the City established its Let's Build Program operating within the Shelter, Support and Housing Administration Division. The program was set up to facilitate the construction of affordable housing projects by third parties and coordinate any City contributions necessary to ensure the selected projects offered affordable rents to tenants.

2350 Finch Avenue West was one of the first projects in the Program

The housing project at 2350 Finch Avenue West was one of the first projects initiated under the Let's Build Program. To ensure the affordability of any housing to be constructed, the City undertook to donate the land on a 50-year lease and make other contributions to the project. A proposal from the Ghana Amansie Canadian Multicultural Association of Toronto, (the Group), was selected to proceed with the development of the affordable housing project consisting of 48 residential and four commercial units. The project was also funded under the Canada-Ontario Affordable Housing Program – Pilot and subject to its terms and conditions.

Costs escalated from $5.5 million to $12.4 million

The project encountered difficulties with zoning and site plan approvals causing significant delays resulting in construction not starting until 2006. The original planned date to commence the project was 2001. The delays, as well as some major design revisions, led to increased costs. The combination of these factors led the primary lender to withdraw from the project causing further delays and costs. As a result of the delays and design revisions, project construction costs increased from the originally estimated $5.5 million to the current anticipated final cost of about $12.4 million, an increase of 126 per cent. On a per unit basis, costs increased from $109,000 per residential unit to $249,000 (excluding costs allocated to commercial units). Details of comparative project costs are provided in Exhibit 1.

In 2007, the City took over the project

Throughout the life of this project there have been three reports to Council advising of the difficulties and concerns with the project. The issue came to a head when, at its June 19, 20 and 21, 2007 meeting, Council decided that the City should take over responsibility for the project. Council, at that time, also requested the Auditor General to perform a forensic review of the project.

Since the transfer of project responsibility to City staff in June 2007, the project has been substantially completed and tenants are moving into the units.

Summary of major concerns identified during this review

Our review identified a wide range of concerns in terms of how this project was managed. A summary of these are as follows:

- Appropriate documentation supporting the selection of the successful proponent was not available. As a result, we are unable to determine whether or not the selected proponent was the most qualified to manage the project.

- The Group had limited financial resources and was inexperienced in housing development.

- The Group could not provide critical documentation as basic as bank statements and several original contractor invoices.

- The land donated by the City was not zoned for the required residential/commercial mixed use and obtaining the necessary approvals took six years.

- Site plan approval was conditional on the completion of over 60 requirements. The large number of conditions indicate poor evaluation of proposal by the City and inadequate planning by the Group’s development team.

- The City’s role and staff resources available were inadequate to compensate for the Groups lack of experience.

- The Group did not use a competitive process to hire contractors and consultants. Certain contractors were hired on personal referrals provided by members of the Group. Consequently, it was not possible to determine whether or not the goods and services were acquired at the lowest price.

- The Group hired a contractor to do initial site planning work without entering into a formal contract. The lack of clarity in certain areas resulted in disputes which led to increased costs.

- The construction contract was awarded by the Group without completed mechanical and electrical drawings. The final cost of these items doubled and was over $900,000 higher than estimated.

- The project encountered several contractor claims and liens due to payment disputes with the Group resulting in delays and extra costs of $910,000.

- The construction contract omitted certain standard work, such as site clean up. Additional costs were incurred to complete standard work.

- There were delays by the City in taking action on a timely basis as the project experienced ongoing difficulties and costs escalated.

Significant changes have been made by the City since the inception of this particular project

Such a significant list of problems would normally result in our report containing recommendations to address the underlying circumstances that allowed such problems to occur. However, many of these problems occurred as long ago as nine years and many were not under the City's control at that time. Further, we made a number of recommendations in our 2005 review entitled, "Let's Build Program – 3810 Bathurst Street and 1555 Jane Street". Since then there have been many changes in the staffing, control processes and procedures of the Let's Build Program which have addressed many of the issues identified.

The detailed findings portion of this report provides additional information on the issues identified during our review but also recognizes changes already made in the City's operations. Given that, our recommendations are limited to those areas where we feel additional improvements are required.

During this review, we examined supporting documentation for a significant portion of the expenditures on the project and are satisfied that payments were substantiated with appropriate approvals and supporting documents. We are not in a position to determine whether or not the costs of the project were appropriate as a number of contracts were awarded by the Group without a competitive process.

BACKGROUND

Let's Build Program established in 1999

The Government of Ontario, in 1995, discontinued the funding of social housing programs and later downloaded the responsibility of social housing onto the municipal sector. The City of Toronto established its Let's Build Program in 1999 in response to a report from the Mayor's Homelessness Task Force. The program was to assist in meeting a target of using City land to leverage the development of 900 affordable housing units over three years.

A proposal from the Ghana Amansie Group was selected

In October 1999, the City issued a request for expressions of interest for the development of affordable housing on vacant City land at 2350 Finch Avenue West. In August 2000, a proposal from The Ghana Amansie Canadian Multicultural Association of Toronto (the Group) was selected.

Estimated project cost was $5.5 million excluding cost of City land and waived City fees and charges estimated at $1.2 million

The Group's proposal was for a five-storey mixed commercial and residential building containing 48 residential and four commercial units. The residential units were to be rent-to-own units that would be affordable for low-income families with monthly rental to be up to 90 per cent of the Canada Mortgage and Housing Corporation's average rents for the area. The project was to cost $5.5 million or $109,000 per unit. This level of affordability was enabled through the City providing a grant of $10,000 per unit, land with a market value of $960,000, and waiving certain development fees and charges estimated at $242,000. Construction was to start in September 2001 and was to be completed by August 2002.

Numerous problems delayed project completion and increased project costs

The project ran into difficulties from its onset. These difficulties, outlined in the body of this report, caused significant delays in the start of the project and necessitated changes to the building design. These delays and changes significantly increased the final cost of the project. Staff reported to Council periodically as these difficulties arose and Council increased the City's financial contributions. In 2005, provincial funding through the Canada-Ontario Affordable Housing Pilot Program in the amount of $1,392,000 was obtained for the project and the City granted an exemption from property taxes estimated at $46,600 per year for the term of the lease. The estimated present value of these taxes for the 50-year lease term is $735,000.

Finally, in June 2007, when the project was only 60 per cent complete and expected completion costs had escalated to $13.4 million, the City decided to inject an additional $1.9 million, but also to have City staff take over control of the project. The final constructed project will have 48 residential and four commercial units with an average cost of $249,000 per unit (excluding costs allocated to commercial units). These final changes brought the City's total contribution to $5.3 million, more than three times the original contribution of $1.7 million. Details of contributions from other levels of government and private sources are provided in Exhibit 1 attached to this report.

AUDIT OBJECTIVES, SCOPE AND METHODOLOGY

Why we conducted this review?

City Council, at its meeting of June 19, 20 and 21, 2007, discussed the escalation of costs and delays at the affordable housing project at 2350 Finch Avenue West. In addition to making decisions related to project funding and control, Council requested the Auditor General to carry out a forensic review of the project. In view of the fact that the request to carry out such a review was supported by a significant majority of Council members, the Auditor General included this review in his 2007 Audit Work Plan.

What were the objectives of the review?

The review objectives were to ascertain:

- How the project was awarded;
- Why the project significantly exceeded the budget;
- Why the project has taken so long to complete; and
- Whether the contractor payments were adequately supported and authorized.

How did we do the review?

Our audit methodology included meeting with the project owners - The Ghana Amansie Group, the Group's development consultant and architect, cost consultants, construction contractor, and staff at the Affordable Housing Office, City Planning Division and other City divisions.

We reviewed City payment records, contract documents, correspondence and reports prepared by the development consultant, cost consultants, architect, general construction contractor, the Group's accountant and staff of the City's Planning Division and Affordable Housing Office.

We met with two Councillors who had specific knowledge related to the project through their involvement with the Capital Revolving Fund or as the local area Councillor.

We also visited the project site with Affordable Housing staff and the construction contractor's representative to gain an understanding of some of the design and site plan issues.

Original invoices could not be located for a significant portion of the construction contract costs

The Group did not adequately maintain documentation. Despite repeated requests, the Group did not provide bank statements related to the project or original documents related to project payments made by the Group. The Group indicated that original documents were turned over to a development consultant and a cost consultant involved with the project. However, these consultants have indicated to us that they do not have these original documents.

We satisfied ourselves through third party verification the accuracy of the project costs

To compensate for the lack of documentation, we were able to gain a satisfactory level of confidence that expenses incurred by the Group were accurate through work done by the architect and cost consultant. In particular, the independent cost consultant, engaged by the lender, performed significant detailed work to verify the accuracy of project costs.

We conducted this audit in accordance with generally accepted government auditing standards

We conducted this audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

DETAILED AUDIT RESULTS

A. Vendor Selection and Contract Award Processes

Documentation of the proposal evaluation could not be found

In October 1999, the City issued a request for expression of interest to develop affordable housing on vacant City land at 2350 Finch Avenue West. The City received three proposals in response to the request. Management informed us that a team comprised of members from private industry and the Capital Revolving Fund Reference Group for Affordable Housing evaluated the submissions and selected two proposals for the second stage of evaluation. The second stage was a request for proposal. The Capital Revolving Fund Reference Group minutes for February 8, 2000 indicate that staff and a subcommittee of Reference Group members reviewed the proposals. Management, however, could not provide any documentation supporting the evaluation of these proposals and therefore we are unable to determine the appropriateness of the selection process.

Short-listed proponents were asked to submit a request for proposal

In February 2000, the City initiated the second phase of its process and asked the two selected proponents to submit a request for proposal. Both proponents responded with their proposals. We reviewed the two proposals and noted the following:

Ghana Amansie Group (Selected Proponent, "the Group")

The Group had limited financial resources and was inexperienced in housing development

The Group had limited financial resources and had no prior experience in housing development projects. They proposed developing a courtyard building, containing 48 residential and four commercial units of town homes and a linked five-storey mixed commercial and residential building at a cost of $5.5 million ($109,000 per residential unit) with the Group contributing $240,000 to the project. In addition, the Group required loans and grants from the City and other levels of Government and requested the City to donate land and waive certain City taxes and fees. The total value of assistance to be provided by the City was estimated at $1.7 million. The province was to rebate provincial sales taxes estimated at $96,000.

Second Proposal (Unsuccessful Proponent)

A second proponent was experienced in the industry and was not asking for any financial assistance

The second proponent demonstrated financial strength and significant prior experience. The proposal listed 17 housing and construction projects as references. It proposed 110 units in a condominium style building at a total cost of $8.1 million ($74,000 per unit). This proponent did not request public funds and its proposal included purchasing the land at its appraised value (10-year interest free loan from the City for the purchase value of land was requested) and paying all normal City charges.

We were advised that legal issues eliminated one of only two proponents

Affordable Housing staff advised us that there were certain legal issues with the second proponent that could not be resolved when the award was being finalized although there is no evidence that the City Solicitor was consulted regarding these issues. This left only one proponent at a time when there was significant pressure to accomplish the City's goal of 900 affordable housing units. The minutes of the March 21, 2000 meeting of the Capital Revolving Fund subcommittee approved the Ghana Amansie proposal and the Group was awarded the project in August 2000.

Management could not provide documentation on legal issues impacting the award of the contract

Documentation describing details of legal issues with the second proponent was not available. Given the lack of documentation, we could not determine whether there were valid reasons for not awarding the contract to the second proponent.

Management initiatives since the award of this contract

The Affordable Housing Office has implemented several changes in its processes relating to the evaluation of proposals and award of projects. The changes include:

- The establishment of an independent external financial analysis process to review each short listed proposal.
- Developing written policies and procedures guiding the review of proposals.
- Establishing a formal file management and documentation process to ensure that all project documents are retained.
- Utilizing a Fairness Commissioner in certain cases to oversee the procurement process.

In view of the actions taken by the Affordable Housing Office since 1999, and recommendations made in our 2005 report on the Let's Build program, we have not made any further recommendations in this area.

B. Why Did Project Costs More Than Double?

Cost consultants engaged by the primary lenders in 2008 provided information on final costs

The cost of the housing project at 2350 Finch Avenue West increased from an original estimate of $5.5 million to $12.4 million. In order to analyze the increase, we reviewed an independent cost consultant's report dated April 7, 2008. The hiring of a cost consultant, approved by the lender, was a pre-condition for advancing funds from the private lenders and from Canada Mortgage and Housing Corporation. The cost consultant was responsible for reporting on the status of the project, costs incurred on the project to date, and providing an opinion on the funds required to complete the project. We compared these costs to the costs originally estimated and were able to isolate the various components of the increase in project costs.

Based on our comparison of the cost consultants report with the original project estimates, and an estimate of cost increases caused by price inflation in the construction industry, we have identified the following break-down of the $6.9 million increase in project costs:

Original Cost Projections		**$5.5 million**
Estimated Increases as of April 7, 2008:		
Price escalation due to inflation in the construction industry – 2001 to 2006	$1,836,000	
Costs due to changes in building design	$1,515,000	
Inadequate estimation of mechanical and electrical costs by the contractor	$927,000	
Payments to settle liens, penalties and delay charges arising out of contractor claims	$910,000	
Change orders for additional work	$590,000	
Incremental financing and brokerage costs	$420,000	
Increase in cost of commercial component	$200,000	
Other cost overruns	$505,000	
Total Increase in Costs		**$6.9 million**
Estimated Final Project Cost		**$12.4 million**

Exhibit 1 provides a comparison of estimated final project costs with the initial proposed costs.

Price Escalation Due to Inflation in the Construction Industry

Statistics Canada 2007 Construction Price Indices Report shows a 26.4 per cent increase in construction costs from 2001 to 2006

The project was delayed due to several factors resulting in construction not starting until 2006 versus a planned start date of 2001. The original project cost estimates were based on costs in 2001. By 2006, construction costs had increased by 26.4 per cent according to information published by Statistics Canada in its 2007 Construction Price Indices Report.

To determine the impact of price inflation we calculated how much the building, as finally constructed, would have cost if it had been started in 2001 as planned. This calculation indicates that inflation increased the project costs by $1,836,000.

Changes in Building Design

Significant increases in costs occurred due to design changes

Compliance with the Building Code and Site Plan approval conditions triggered several revisions in the building design and layout. For example, the original plan called for garbage pick-up from the curb in front of the building as is common with older existing multiple-unit residential and apartment developments in the area. However, City requirements for the provision of municipal solid waste and recyclable collection did not allow new buildings with over 30 units to have curbside pick-up. The building design proposed did not meet this requirement. Subsequently, the building redesign made to accommodate this requirement caused additional delays and costs for the project. Although specific details were not available for each design change, we estimate based on our discussions with the cost consultant and the architect, an amount of $1,515,000 for the increase in costs due to changes in the design of the building.

Mechanical and Electrical Costs

Construction contract awarded without completion of mechanical and electrical drawings resulting in extra cost to the project

The construction contract was awarded in April 2006, without completed drawings for mechanical and electrical components of the project. In the absence of detailed drawings, the general contractor provided an allowance of $960,000 for these components and this allowance became the budgeted amount for these costs. When the detailed drawings were finally completed and work was tendered in November 2006, the cost of these components increased by $927,000 bringing the revised cost to almost twice the initial estimated allowance.

Contractor Disputes and Claims

Financing problems caused delays and additional costs

Lack of readily available funds was a critical issue for the project. As a result, there were delays in accomplishing certain work on a timely basis. Project work was stopped several times because of delays paying the contractor. Payment disputes occurred and eventually the original contractor walked away from the project. This created delays to find a new contractor and sub-contractors willing to work without an advance on their contract.

While a second contractor was found, financing problems continued and created difficulties in paying this second contractor. These delays in payment eventually led to this contractor also shutting down the project site and removing his equipment.

Liens, claims, and related charges increased costs by $910,000

At different times, there were liens on the project for unpaid amounts and/or submitted claims demanding damages incurred due to payment delays. These claims led to approximately $910,000 in costs for liens, delays, and other related charges. Details of these claims are discussed later in this report.

Change Orders for Additional Work

In construction projects, it is common to make changes to original plans as a project progresses. Where such changes impact the time required to complete the project or the cost of the project, they are documented in a Change Order. As of May 1, 2008, there were more than 50 change orders totaling approximately $590,000.

Incremental Financing and Brokerage Costs

The Group's contribution and high financing costs

The Group selected had limited financial resources and had no prior experience in developing housing projects. It could not raise its own agreed equity contribution of $240,000. The Group also had difficulty in financing the construction costs of this project. Construction financing was eventually arranged at an interest rate of 10.5 per cent at a time when the prime bank lending rate was 4.25 per cent.

The overall increase in the cost of the project also increased the amount the Group had to borrow, from $4.8 million to $6.9 million. All the related costs such as legal fees, lending and brokerage charges and interest costs exceeded the original estimates. We calculated $195,000 in interest, $110,000 in legal fees and charges and $115,000 in lending and brokerage fees were paid over the original estimated amounts. These amounts totaled $420,000.

Cost of Increase in Commercial Component of the Project

The area for commercial space proposed in the original plans submitted by the Group was 2,600 square feet. With the change in building design, the commercial space was revised to 4,600 square feet. Increased cost of an additional 2,000 square feet is estimated at $200,000.

Several Cost Components Were Inadequately Budgeted or Omitted from Original Estimates

The original cost estimates prepared by the Group reflect inadequate planning and compilation of relevant costs. There were several costs that were inadequately estimated or omitted. Together with the increase in the overall actual costs, the original estimates varied significantly with the costs incurred. We noted the following major variations in original estimates other than the construction costs discussed above:

- Certain design fees and cost consultant fees amounting to $242,000 were not provided in the original estimates.

- Increase in architect fees, development consultant fees and accounting record keeping charges amounted to $75,000.

- Certain City fees and business improvement area levies were under estimated by $48,000.

On the part of the City, some of the Group's original estimates were not adequately evaluated in terms of their accuracy when the project was awarded.

As a result of significant design changes and delays in the start of construction, the overall project costs and per unit pricing increased significantly. The total project cost reported by the cost consultant in its April 2008 report was $12.4 million or $249,000 per unit as compared to $5.5 million or $109,000 per unit proposed in March 2000. The overall price increase was $6.9 million or $140,000 per unit.

Rents have increased to 100 per cent of CMHC reported average market rents

This project will be a continued challenge in terms of its operation and management. The ongoing cost of borrowing due to significant cost overruns will add to the management and operational cost of the building. Monthly rents have increased to 100 per cent (proposed at 90 per cent) of Canadian Mortgage and Housing Corporation's average market rent. The original plan for the building is no longer attainable. The building is no longer a rent-to-own project.

C. Why Were There Significant Project Delays?

This project was awarded to the Ghana Amansie Group by the City in 2000 and scheduled to begin in 2001. Actual construction began in 2006 and it was not until 2008 that the building was completed. The factors that led to these delays are listed below.

The land for the project was not zoned residential/ commercial and the zoning change caused delays

The City land available for the project was zoned for industrial use whereas the intended use required residential and commercial mixed-use zoning. The zoning and site plan approval processes were initiated by the Group in March 2001. The zoning change was approved but was conditional on obtaining site plan approval. It took approximately six years to obtain planning approvals.

Zoning and site plan approval delays

Delays in obtaining site plan approval can be attributed to both the Group and the City. On the Group's side, the original project design did not meet existing planning requirements. This resulted in a large number of conditions on the site plan approval. The Group made numerous submissions of drawings and related documents but they repeatedly did not address all outstanding issues. Each submission had to be reviewed by City staff and often resulted in additional comments or requirements from staff.

On the City's side, during the back and forth between the City and the Group, the project file was transferred to different staff and in April 2004 was transferred from the North York office to the Etobicoke office because of a realignment of district boundaries. While the planning application had been reviewed by the Planning staff at North York office, a revised proposal submitted by the Group required further review by the Etobicoke office.

A conditional site plan was approved in July 2004 and the required zoning change was approved by City Council in August 2004.

The number of plan changes and conditions indicate poor evaluation of proposal by the City and inadequate planning by the Group's development team

The site plan was approved with an unusually high number of outstanding conditions (over 60) to address before a construction permit would be issued. The significant number of conditions on the site plan indicates that the original design and plans submitted by the Group did not adequately address the City's requirements and standards. A certain level of responsibility for this can be attributed to City staff. Staff recommended the project and did not identify some of these deficiencies in their evaluation of the original proposal. The Group is also not without fault in that its development team did not adequately address the City development requirements and resolve issues in a timely manner.

Delays in submissions by the Group's representative

Following the conditional site plan approval in July 2004, it took approximately two further years for the Group to submit revised plans and documentation necessary to satisfy site plan conditions and subsequently obtain a construction permit.

In August 2006, Toronto Buildings issued a partial building permit to start the construction related to foundation work. A final building permit was issued in February 2007 after the Group fulfilled all the outstanding conditions.

Conditional site plan included conditions not mandated by The Planning Act

Although we have indicated that the number of site plan conditions was indicative of poor project management, there were conditions placed on the project that were not required by *The Planning Act* and could not have been anticipated during the initial project approval process.

The conditional site plan included certain requirements that are typically not required for site plan approval. Planning Division staff have informed us that these conditions were suggested by the local area Councillor and were included to ensure that as the first project constructed in the Emery Village area, the development would fit in with the Emery Village initiative being finalized at that time. These conditions included:

- Selection of colour of the building.
- Building finishes such as balconies and stucco paint.
- Provision for future windows and stairway access to the central courtyard, (these were not allowed given the current configuration of buildings adjacent to the project).
- Provision for streetscape improvements to the boulevard in front of the building in keeping with those developed for the Emery Village Business Improvement Area.

Inclusion of conditions that were not mandatory or were not required for the site plan approval was an addition to the already delayed planning approval process and also contributed to a slight increase in the cost of the project.

Management initiatives have significantly improved the process

The City Planning Division and the Affordable Housing Office have since implemented the following changes in the planning approvals process:

- Established a new application review process, known as STAR (streamlining the application review) for planning applications. As part of the STAR process, the target for moving complex planning applications through the review process is nine months from application submission to final report for approvals, including timely resolution of issues by the applicant.
- A new framework was developed in 2005 that includes the establishment of an interdivisional staff group to expedite increasing the supply of affordable housing projects. The group is comprised of staff from Planning, Buildings, Affordable Housing, Legal, Facilities and Real Estate, and the Shelter, Support and Housing Administration Division.

- Before City sites are included in a request for proposal, detailed Planning information is made available as well as a suggested development concept as determined by Affordable Housing and Planning staff. Proposals are evaluated in terms of their ability to conform to planning requirements and the suggested development concept.

In view of the actions taken by the Affordable Housing Office and City Planning to improve the planning application review process, we have not made any additional recommendations on that process.

D. Inadequate Monitoring of the Project

Lack of experience of the Group should have flagged the project for extra attention from City staff

In our view, the project was not adequately monitored and managed. Building design changes were not evaluated in terms of their cost and impacts on construction timelines. Despite knowing that the Group was inexperienced, the City staff provided little guidance to the Group on maintaining adequate controls in project management and the hiring of contractors and consultants. The contractors were hired without competitive tenders and in some cases without formal contracts.

The Let's Build Program was understaffed for the level of work that existed in 1999 to 2000

We recognize that the Let's Build Program was in its infancy in 1999. It had not established the policies and procedures that exist today to guide the administration and facilitation of affordable housing developments. Affordable Housing Office staff indicate that the Unit also had limited staff resources, (two staff) at a time when there was a great deal of activity aimed at producing more affordable housing in the City. Simply put, staff had more work than they could handle and that limited the amount of effort that could be dedicated to one project that was designed to be managed by a third party.

Management initiatives

Since the problems with this project occurred, the Affordable Housing Office has implemented procedures to document changes in scope, timing and financing including obtaining legal advice where necessary. A formal file management system has been established to document milestones and to ensure that all required conditions have been met before funds are released.

Improved request for proposal documents and related agreements

Terms and conditions have been included in both the standard request for proposal document and the Contribution Agreement signed with successful proponents. These terms and conditions allow the City to take control of the project where the proponent is not able to proceed with the construction in prescribed timelines. There are also requirements that proponents have appropriate organizational capacity and experience in the development and management of similar construction projects.

In view of the actions taken by the Affordable Housing Office, no recommendations are required in this area.

E. Symptoms and Impacts of the Group's Lack of Experience

The Group used a non-competitive approach to hiring of contractors and consultants

As mentioned earlier, the Group had no experience in managing construction projects. The Group used a non-competitive approach to the hiring of contractors and consultants. Contractors were hired through contacts provided by the members of the Group. Due to continued financial pressures, the Group preferred contractors and consultants who agreed to work without advance of funds and who could wait until the funds were released from the lending organizations. Most of the contracts including the general construction contract for $7.9 million were awarded without a competitive tender process.

The Group hired vendors but did not establish formal contracts

The Group hired a contractor referred by one of its members to perform certain initial site planning work, again without competitive tender process and without signing of a formal contract. Later the contractor had payment disputes with the Group and established a lien on the project. As a result, an amount of $127,000 was incurred for settlement of the lien. The contractor did not continue with the project after the settlement of the lien.

Electrical work was awarded to contractor whose bid was $180,000 higher than the lowest bid

The general construction contractor awarded the building's electrical work through a competitive tender process. The selected vendor bid $784,000, which was $180,000 above the lowest bid. The general construction contractor advised us that the selected vendor was the only contractor willing to start the work immediately and had already performed certain work on the same project. This was considered the best option as the project was already delayed significantly.

Cost increases concerned the lender to the extent that it temporarily suspended funding

As indicated previously, actual costs for electrical and mechanical components of the building were almost double the initial estimate of $960,000. This unanticipated and significant increase in the overall project cost prompted the private lender to discontinue advancing funds in early 2007 until its concerns regarding project cost overruns were satisfied.

Contractor is claiming $900,000 in costs due to project shut down

With no funding available from the lender, the Group could not pay the contractor and it suspended operations and virtually shut down the site in April 2007. The construction recommenced in January 2008 after the City took control of the project. Costs in the range of $900,000 are being claimed by the contractor for this shut down and extension of the project completion timeline.

Construction contract deficiencies

The Construction contract executed by the Group excluded certain standard items that are normally part of construction contracts. Items excluded from the contract were as follows:

- Final clean-up after the completion of construction. This work has been sub-contracted to an outside vendor, referred by the Group, for $30,800 as a separate change order.

- Provisions for performance, labour, and material bonds were left out of the contract. These bonds are an essential risk reduction element of any construction contract and ensure funds are available to complete the project should the contractor be unable to fulfill its obligations.

Breakdown of communication between the Group and the development consultant led to increased costs

The Group initially had difficulties in finding a financial institution prepared to lend it the funds required to complete the project. The Group's Development Consultant, who had been negotiating on their behalf, introduced the Group to a new lender. While discussions were being held, the Group also hired the services of a financial advisor to assist in arranging financing for the project. The financial advisor arranged the loan with the same lender that the Group was having preliminary discussions with and charged a fee of $59,000 for arranging this financing. In addition, the lender charged a lending fee of $147,500. Much, if not all, of these fees could have been avoided had there been better communication between the Group, their Development Consultant and the financial advisor.

Consultants hired for the project were in a position of conflict of interest

The Architect and Development Consultant selected for the project were related to each other as husband and wife and therefore were in a position of conflict of interest. The conflict of interest arises since the Development Consultant's duties include monitoring progress of the project, review of completion of various project tasks and processing payments. These duties relate to the work of the project architect as well as other contractors.

Recommendations:

1. **The Deputy City Manager responsible for the Affordable Housing Office coordinate with the City Solicitor to ensure City contracts with proponents developing affordable housing projects provide that:**

    - **adequate controls are followed in the hiring of contractors and consultants;**

    - **contracts include standard performance bonds and warranties; and**

    - **proponents prepare business case justifications for actions that deviate from the normal business practices, such as awarding a contract to the bidder other than the lowest bidder.**

2. **The Deputy City Manager responsible for the Affordable Housing Office develop procedures to monitor controls exercised by proponents responsible for developing affordable housing projects.**

CONCLUSION

The housing project at 2350 Finch Avenue West was one of the first projects initiated under the City's Let's Build Program. The problems encountered in the early years of the Program on this, and other developments, highlighted the need for changes to policies and procedures. As a result, new policies, procedures and controls have been developed by the City and changes incorporated into the initiation and management of affordable housing development projects.

Due to the fact that changes have already been made in the way projects of this nature are managed, the extent of recommendations contained in this report are minimal. We have reviewed the changes made by staff and, except for the issues raised in our recommendations, we are satisfied that adequate controls exist to minimize future potential concerns.

In summary, one of the fundamental issues and concerns in relation to the management of the project was the lack of a competitive process by the Group in the award of certain contracts. Without such a process, there is no assurance that the project was developed at the lowest possible cost.

Exhibit 1

GHANA AMANSIE PROJECT – 2350 FINCH AVENUE WEST
48 RESIDENTIAL AND 4 COMMERCIAL UNITS

A. Comparison of Actual Costs With Request for Proposal (RFP) Estimates:

Cost Description	Original RFP Mar 2000 [1] $	Actual Cost Apr 2008 [2] $	Over/Under Amount $
Construction Costs	4,742,385	11,155,542	6,413,157
Other related costs such as architect fees, professional consultants, etc.	848,936	1,971,843	1,122,907
Total Project Cost including GST	**$5,591,321**	**$13,127,385**	**$7,536,064**
Deductions:			
PST Rebate	96,000	--	(96,000)
GST Rebate	--	660,200	660,200
Refund of landscape deposit with the City	--	69,292	69,292
Total Rebates and Refunds	**96,000**	**729,492**	**633,492**
Project Cost after Rebates/Refunds	**5,495,321**	**12,397,893**	**6,902,572**
Cost Allocable to Commercial Spaces	260,000	460,000	200,000
Cost Allocable to Residential Units	**$5,235,321**	**$11,937,893**	**$6,702,572**
Cost Per Residential Unit	**$109,069**	**$248,706**	**$139,637**
Per Cent Increase in Project Cost (after rebates/refund)	**126%**		

Note: The above costs do not include the value of the City land estimated at $960,000 provided free of charge and waiving of certain City fees and charges, $242,350.

[1] *Estimates as per RFP submitted by the Ghana Amansie Group in March 2000*
[2] *Actual Costs incurred are as per Cost Consultants Report of April 2008*

GHANA AMANSIE PROJECT – 2350 FINCH AVENUE WEST
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B. Comparison of Actual Public/Private Funding With the RFP Estimates:

Fund Description	Contributions/ Source of Funds: Original RFP Mar 2000 [1] $	Actual Apr 2009 [2] $	Over/Under Amount $
i) Public Sector Financing:			
City of Toronto Capital Revolving Fund (CRF) Grant – Forgivable Loan	480,000	2,449,750	1,969,750
City of Toronto CRF Loan	--	1,584,000	1,584,000
Provincial Community Rehabilitation Housing Program (CRHP) Grant/PST Rebate	96,000	192,000	96,000
Federal CRHP Grant	--	1,200,000	1,200,000
GST Rebate		660,200	660,200
Canada Mortgage and Housing Corporation Proposal Development Funding	--	45,000	45,000
Total Public Funds	**$576,000**	**$6,130,950**	**$5,554,950**
ii) Refund of Landscape Deposits	**--**	**69,292**	**69,292**
iii) Private Financing	**4,775,321**	**6,927,143**	**2,151,822**
iv) Owners' Equity – The Ghana Amansie Group	**240,000**	**--**	**($240,000)**
Total Project Financing:	**$5,591,321**	**$13,127,385**	**$7,536,064**

[1] *Estimates as per RFP submitted by the Ghana Amansie Group in March 2000*
[2] *Actual Contribution/Sources of Project Funds as per Cost Consultants Report of April 2008*