



Chief Review Services

AUDIT OF
PAYMENTS TO
DOWNSVIEW PARK

June 2002

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SYNOPSIS

This report presents the results of audit work, contracted to Deloitte & Touche, and initiated at the request of the DND Finance Group. The principal objective was to examine amounts invoiced to, and paid by, DND in respect of Downsview Park over the period fiscal year (FY) 1995-1996 to FY 1999-2000.

The closure of Canadian Forces Base (CFB) Toronto at Downsview was announced in 1994. In 1997, an order-in-council authorized Canada Lands Corporation (CLC) to set up a subsidiary corporation to develop the Park — Parc Downsview Park (PDP) Inc. began operations in April 1999.

Concern has been expressed by the Auditor General regarding the need for greater visibility of funding arrangements to develop the Park. A specific observation pertains to the use of DND Operations and Maintenance (Vote 1) for Park development. Through an independent audit, DND has subsequently sought to determine its total expenditure on Park development since the closure of CFB Toronto.

Based on criteria provided by DND, Deloitte & Touche has examined the utilization and nature of the DND funding invoiced by Canada Lands. It was determined that DND paid \$12.733M directly to CLC/PDP between FY 1995-1996 and 1999-2000. Of this total, \$7.689M was used for Park development.

The audit looked at all other expenditures by CLC/PDP for the period, with the exclusion of capital, corporate and depreciation expenses, and noted total disbursements of approximately \$6.149M. These expenditures were financed by revenue earned on licences/leases. CLC/PDP management provided information on revenue from general ledger detail. The reported revenue earned for the five-year period totals \$7.37M — Deloitte & Touche have not audited this information. ADM(Fin CS) and ADM(IE) staff will work with Treasury Board to ensure that DND's financial statements appropriately reflect this foregone revenue.

It is further worthy of note that, for FY 2000-2001, DND has discontinued paying for Downsview development costs and starting January 2001, CLC/PDP has authority to retain revenues.

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INTRODUCTION

1. At the request of Director General Finance, Chief Review Services (CRS) contracted for an audit of payments to Canada Lands Company (CLC)/Parc Downsview Park (PDP) relating to Downsview Park. The aim of this audit was to provide an independent and objective assessment of the breakdown for expenditures incurred from fiscal year (FY) 1995-1996 to FY 1999-2000. In addition, all revenues generated by licences/leases negotiated on the surplus real property would be compiled.

SCOPE AND METHODOLOGY

2. The accounting firm of Deloitte & Touche (D&T) conducted the audit assessment in accordance with Canadian generally accepted auditing standards. These standards require that D&T plan and perform an audit to obtain reasonable assurance whether the information is free from material misstatement. This includes examining, on a test basis, evidence supporting the amounts recorded by management.

3. The scope was limited to the examination of the documentation supporting disbursements recorded in the CLC/PDP general ledger as provided by management. Expenditure testing was performed through the examination of invoices and management's support for allocations. The examination assessed the substantiation, recording accuracy and classification of the expenditures. These expenditures are categorized as:

- Park Development and Overhead expenditures;
- Decommissioning expenditures; and,
- Operations and Maintenance expenditures.

4. DND management provided the criteria supporting the allocation of expenditure types into DND or non-DND related activities to assist with a determination as to whether expenditures had been appropriately allocated to each category.

5. The first part of this examination involved a reconciliation of the amounts that had actually been paid by DND to CLC/PDP and the breakdown of these payments based on the invoices that had been submitted to DND by CLC/PDP. All DND payments were reconciled to the receipts at CLC/PDP.

6. Supporting documentation was then examined to verify the nature of the expenditures reviewed, the recording accuracy in CLC/PDP's general ledger and whether the expenditure was appropriately classified in the proper category as per invoice details.

RESULTS

7. The results with regard to expenditures are presented in three separate sections:
- DND payments to CLC/PDP
 - Other CLC/PDP expenditures
 - Additional DND expenditures

EXPENDITURES

DND Payments to CLC/PDP

8. Based on the results of the audit, DND paid \$12.733M directly to CLC/PDP between FY 1995-1996 and FY 1999-2000, as summarized in the table below. D&T found adequate support for such expenditures. Annex A provides a summary by year for these expenditures.

CATEGORY OF EXPENDITURE	PAYMENTS BY DND (\$ M)
Park Development /Overhead	\$ 7.689
Management Fees	1.200
Administration Fees	0.708
Decommissioning	0.330
Operations and Maintenance	2.650
Soccer Facility Expenditures	0.156
TOTAL	\$12.733

9. DND management provided figures totalling \$19.75M for the period under review. However, expenditures of \$7M represented payments to a third party, which was under contract with DND to provide operations and maintenance services at Downsview. No audit work was performed on this \$7M, since verification of these expenditures was not part of the audit scope.

10. Overall, the expenditures totalling \$12.733M were properly allocated to the categories based on the audit assessment. Although not considered significant, some expenditures could be reclassified to other categories as follows:

- \$216K could be reclassified from Park Development and Overhead to Decommissioning; and,
- \$139K could be reclassified from Operations and Maintenance to Park Development and Overhead.

Other CLC/PDP Expenditures

11. In addition to the DND payments and expenditures of \$12.733M examined, CLC/PDP incurred other expenditures of approximately \$6.149M in the period subject to audit — most of which were financed from revenue earned on leases. These included the following:

CATEGORY OF EXPENDITURE	OTHER AMOUNTS (\$ M)
Park Development /Overhead	\$ 1.125
Operations and Maintenance	1.634
Soccer Facility (Leasehold Improvements)	1.191
Capital, Corporate, Depreciation	2.199
TOTAL	\$ 6.149

12. All expenditures, except the capital, corporate and depreciation expenses, were examined. The invoices that were examined appeared valid and accurately recorded in the CLC/PDP's records.

Additional DND Expenditures

13. D&T were advised that DND may have also paid for all utility costs associated with buildings on the lands from FY 1995-1996 to FY 1998-1999, as none of these expenditures flowed through the CLC/PDP general ledger. Some of these costs are associated with leased buildings within CLC/PDP, which would be categorized as non-DND related expenditures, and a possible recovery could be made should this be the case. As the examination of these particular expenditures falls outside the scope of the audit, no other work was performed.

14. DND management could gather additional information with respect to these costs and perform further analysis in order to calculate the impact of a possible recovery.

REVENUES

15. D&T have compiled a listing of revenues generated by licenses/leases negotiated on the surplus real property. CLC/PDP management provided this information from general ledger detail. D&T have not audited, nor attempted to verify the accuracy or completeness of such information.

16. Annex B shows a summary of revenue earned in the five-year period, which totals \$7.37M. The majority of revenues have been used to finance additional expenditures that were not paid by DND.

ANNEX A

**SUMMARY OF PAYMENTS MADE BY DND
FROM FY 1995-1996 TO FY 1999-2000**

(\$ M)	Park Development and Overhead	Management Fees	Administration Fees	Decommissioning	Operations and Maintenance	Soccer Facility Expenditures	Payments by DND
1995-1996	\$0.191	\$0.075	\$0.026				\$0.292
1996-1997	1.426	0.300	0.209	0.295			2.230
1997-1998	1.641	0.300	0.246	0.006	0.078	0.156	2.427
1998-1999	2.421	0.285	0.227	0.029			2.962
1999-2000	2.010	0.240			2.572		4.822
Total	\$7.689	\$1.200	\$0.708	\$0.330	\$2.650	\$0.156	\$12.733

ANNEX B

**SUMMARY OF REVENUES
FROM FY 1995-1996 TO FY 1999-2000**

	1995-1996	1996-1997	1997-1998	1998-1999	1999-2000	Total
Report Fees		\$ 9,248				
Office Rent		12,270	92,697	31,737	40,076	
Retail Rent		1,426				
Industrial Rent		227,545	887,590	415,612	644,444	
Land Leases			5,350	73,537	152,251	
Operating Cost Recoveries		9,696	51,741	177,828	354,664	
Tax Recoveries				14,004	105,278	
Direct Cost Recoveries						
Hydro Recoveries		14,708	108,669	215,532	351,041	
Water Recoveries		4,780	22,507	25,049	30,622	
HVAC Recoveries		18,669	92,974	103,492	114,323	
Storage Space		143,385	40,038	(277)	686	
Parking		17,311	3,966		467	
Miscellaneous Income		63,363	20,700	12,742		
Interest Income				11,730	132,000	
Administration Costs		7,430	55,841	91,484	183,277	
Event Fees			51,927	34,575	44,068	
Film Production		31,004	105,338	635,635	713,230	
Soccer		3,856	7,221	8,272	303,938	
Soccer Facility (Net)				238,114		
TOTAL REVENUE	\$ -	\$ 564,691	\$ 1,546,559	\$ 2,089,066	\$ 3,170,365	\$ 7,370,681