Canada Lands Company Limited

Presented to the Board of Directors

30 May 2006

Special Examination Report

Office of the Auditor General of Canada
Bureau du vérificateur général du Canada

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Special Examination Report—2006

To the Board of Directors of Canada Lands Company Limited

Special Examination Opinion

1. Under Part X of the *Financial Administration Act*, the Canada Lands Company Limited (Canada Lands) is required to maintain financial and management control and information systems and management practices that provide reasonable assurance that its assets are safeguarded and controlled; its financial, human, and physical resources are managed economically and efficiently; and its operations are carried out effectively.

2. The Act also requires Canada Lands to have a special examination of these systems and practices carried out at least once every five years.

3. Our responsibility is to express an opinion on whether there is reasonable assurance that during the period covered by the examination from January 2005 to October 2005 there were no significant deficiencies in the systems and practices we examined.

4. We based our examination plan on a survey of Canada Lands systems and practices, which included a risk analysis. We submitted the plan to the Audit Committee of the Board of Directors on 12 April 2005. The plan identified the systems and practices that we considered essential to providing Canada Lands with reasonable assurance that its assets are safeguarded and controlled, its resources managed economically and efficiently, and its operations carried out effectively. Those are the systems and practices that we selected for examination.

5. The plan included the criteria for the special examination that we selected specifically for this examination in consultation with Canada Lands. The criteria were based on our experience with performance auditing. Our choice of criteria was also influenced by legislative and regulatory requirements, professional literature and standards, and practices followed by Canada Lands and other organizations. The systems and practices we examined and the criteria we used are listed in the Appendix.

6. We conducted our examination in accordance with our plan and with the standards for assurance engagements established by The Canadian Institute of Chartered Accountants. Our examination included the tests and other procedures we considered necessary in the circumstances. In carrying out the special examination, we did not rely on internal audits because no work was carried out recently in areas selected for our special examination.

7. In our opinion, based on the criteria established for the examination, there is reasonable assurance that there were no significant deficiencies in the systems and practices we examined.

8. The rest of this report provides an overview of Canada Lands and more detailed information on our examination findings and recommendations.

Richard Flageole, FCA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
31 January 2006

Overview of Canada Lands Company Limited

9. Canada Lands Company Limited (Canada Lands), a federal Crown corporation, originally named Public Works Land Company Limited, was incorporated under the *Corporations Act* in 1956. Its charter, continued under the *Canada Business Corporations Act*, permits the company to acquire, purchase, lease, hold, improve, manage, exchange, sell, turn to account, or otherwise deal in or dispose of real or personal property or any interest. The Corporation is listed in Part I of Schedule III of the *Financial Administration Act*.

10. Before 31 August 1995, Canada Lands was inactive and only had nominal assets and share capital. Pursuant to section 6 of the *CN Commercialization Act*, Canadian National Railway Company created a subsidiary called Canada Lands Company CLC Limited, transferred certain non-railway properties to that subsidiary, and transferred the shares of the subsidiary to the government. Subsequently, on 31 August 1995, the government transferred these shares to Canada Lands, which was effectively reactivated as a Crown Corporation.

11. Canada Lands' mandate is to ensure the commercially oriented, orderly disposition of surplus real properties with best value to the Canadian taxpayer and the holding of certain properties. On a case-by-case basis, the Treasury Board may require that, in addition to financial considerations, other strategic considerations of the Government be taken into account, including the views of affected communities and other levels of Government and heritage and environmental issues.

12. Canada Lands reports to Parliament on its activities through the Minister of Transport, Infrastructure and Communities. The Board of Directors guides the Corporation's operations.

13. Canada Lands achieves its mandate through its wholly-owned subsidiary Canada Lands Company CLC Limited (the Corporation). Canada Lands also hold in trust the totality of the shares of Parc Downsview Park Inc. (PDP) and Old Port of Montréal Corporation Inc. (OPMC). Both PDP and OPMC report as if they were parent Crown corporations by virtue of Orders-in-Council and consequently are accountable directly to Parliament through their responsible Minister. These two corporations are not part of this report as they are subject to separate special examinations.

14. The Corporation is a non-agent Crown corporation whose mandate is the same as that of its parent. Its main line of business is the disposal of strategic real properties no longer required by the government. The Corporation's mandate also provides for it to "hold certain properties." The property holdings of the subsidiary Corporation falls into three categories: revenue-producing properties, properties under development, and land held for development or sale.

The Corporation's principal revenue producing property is the CN Tower in Toronto.

Expected corporate results

15. The Corporation has to achieve the following results to meet its mandate:

The Real Estate division will

- facilitate the transfer of strategic surplus properties from the federal government;
- optimize financial value and return to the shareholder from property management, development, and sales; and
- meet federal public policy objectives; including considering the views of affected communities and other levels of Government; and heritage and environmental issues.

The CN Tower division will maximize returns from CN Tower operations, while respecting the federal public policy objectives.

16. To fulfill its mandate and corporate vision of "Value—Innovation—Legacy", Canada Lands has put forth the following strategic priorities in its 2005–06 to 2009–10 corporate plan summary:

Canada Lands.

- Support removal of certain policy restrictions on company mandate
- Maintain excellence in corporate governance

The Corporation.

- Support improvements to the property transfer process
- Clarify and address issues regarding land transfers and Aboriginal groups
- Leverage the CN Tower's role as a national asset
- Better serve clients by leveraging core company competencies

The Corporation's operating divisions

17. **Real Estate Division.** When it was reactivated in August 1995, Canada Lands acquired through its subsidiary, the Corporation, the non-operating real estate assets of Canadian National Railway Company. The Corporation recorded these assets at an estimated fair market value of $341 million, including the CN Tower at $65 million. By 30 September 2005, The Corporation has sold $248 million (or 90 percent) of the original inventory (excluding the CN Tower).

18. Since 1995, the Corporation has continued to acquire, develop, and sell properties from government entities with land holdings. On 30 September 2005, the book value of its land inventory was more than $260 million.

19. The Corporation acquires properties at fair market value from departments and generally issues a non-interest bearing note in return. It returns the net profits from its sale of lands to the Government, through dividend payments and corporate income taxes. Exhibit 1 presents a historical summary of the Corporation's key financial results.

Exhibit 1: Key financial results for fiscal years 1995–96 to 2004–05

	95/96	96/97	97/98	98/99	99/00	00/01	01/02	02/03	03/04	04/05	Total
in $ millions											
Property Sales	26.0	143.0	134.0	145.0	104.0	85.0	83.0	90.0	52.0	59.0	**921.0**
Cost of Property Sales	23.0	106.0	115.0	127.0	79.0	70.0	64.0	70.0	30.0	40.0	**724.0**
Gross Profit	**3.0**	**37.0**	**19.0**	**18.0**	**25.0**	**15.0**	**19.0**	**20.0**	**22.0**	**19.0**	**197.0**
Rental & Other income	52.5	84.0	53.0	44.0	38.0	36.0	31.0	28.0	31.0	73.0	**470.5**
Other expenses incl. taxes	55.0	110.0	59.0	48.0	48.0	46.0	39.0	35.0	36.0	79.0	**555.0**
Net Income	**0.5**	**11.0**	**13.0**	**14.0**	**15.0**	**5.0**	**11.0**	**13.0**	**17.0**	**13.0**	**112.5**
Dividends/Shares redeemed	-	10.9	20.4	46.6	26.7	-	15.5	4.6	5.0	5.0	**134.7**

20. The real estate division and corporate staff are relatively small—93 employees. The Corporation has its headquarters in Toronto and regional and project offices in Vancouver, Chilliwack, Kelowna, Calgary, Edmonton, Winnipeg, Ottawa, Rockcliffe, Montreal, Moncton, Charlottetown, and Halifax.

21. **CN Tower Division.** In 1976, the Canadian National Railway Company built the CN Tower, as the critical telecommunications hub for Canadian radio and television broadcasting, demonstrating the strength of Canadian industry by building the tallest tower in the world.

- In 1995, the Corporation acquired the CN Tower as a wholly owned subsidiary.
- In 1997, the Corporation used a lease agreement to transfer the CN Tower's employees and operational responsibility to TrizecHahn.
- In January 2004, the Corporation re-acquired its leasehold interest in the CN Tower from TrizecHahn for $51.75 million—

financed primarily with $47 million in Class A Bonds. The Corporation assumed the CN Tower staff and all operating and administrative systems to ensure that operations, corporate knowledge, and management expertise continued.

22. The CN Tower reports, as a distinct operating division, to the Corporation's President and CEO; and derives its revenue from attractions, food and beverage, and leases to communication tenants. Exhibit 2 presents key CN Tower operational and financial measures for 2003–04 to 2004–05.

Exhibit 2: CN Tower's key financial results

	2004–05 ($ millions)	2003–04[1] ($ millions)
Revenue	$51.3	$37.5
Earnings before interest, tax, depreciation and amortization	17.0	9.9
Income before taxes	11.0	6.2

[1] Full year's results including period operated by TrizecHahn

23. A total of 452 full and part-time employees operate the CN Tower; 190 (or 42 percent) of these employees are unionized.

Findings and Recommendations

Corporate governance

24. Corporate governance refers to the framework of systems, practices, and structures that allow the organization to oversee its direction and management, carry out its mandate, and achieve its objectives.

25. We expected the Corporation to have a corporate governance framework that

- meets best-practice expectations for Board stewardship, shareholder relations, and communications with the public;
- maximizes the effectiveness of the Corporation and its ability to balance public policy and commercial objectives; and
- gives the Board complete, timely, and accurate information to oversee operations effectively.

26. The Corporation has a seven-member Board of Directors. The Board meets six or seven times a year and has three committees—audit, human resources, and governance—that meet about four times a year.

The core elements of a good governance framework are in place

27. Corporate governance at Canada Lands has been the subject of various audits and reviews in recent years. The Office of the Auditor General included Canada Lands in the sample of corporations for its December 2000 chapter on the governance of Crown corporations and also in a chapter of its 2005 Status Report, Governance of Crown Corporations, which focussed on board appointments and audit committee performance. In 2002, Canada Lands hired an independent consultant in governance practices to review its corporate governance. His overall assessment was positive; he noted only a few areas for improvement. In addition, when we interviewed management and Board members, we found that they have established a strong working relationship and do not hesitate to explore new approaches to strengthen accountability.

28. The Board, through its governance committee, actively monitors emerging governance practices and guidelines and addresses the following:

- Board responsibilities, including stewardship of the Corporation, such as approving strategic directions and the corporate plan for the Corporation;
- public policy objectives, including addressing the trade-offs between competing public policy and commercial objectives of the Corporation;
- communications with the Crown, other stakeholders, and the public;
- Board and management relations;
- Board independence;
- assessment and evaluation of the Chief Executive Officer position;
- renewal of the Board; and
- education of directors.

29. The governance committee maintains a governance action plan and tracks Canada Lands' progess against recommendations for governance best practice identified by the Treasury Board Secretariat, the Office of the Auditor General, and other sources.

30. Canada Lands addressed all identified key governance issues. However, we note that it has not yet updated its action plan to include the more recent governance best practice recommendations for the public sector, such as those from the Auditor General's 2005 Status Report or the Treasury Board Secretariat's 2005 Review of the Governance Framework for Canada's Crown Corporations.

31. During our examination, Board members confirmed that they receive complete, timely, and accurate information to oversee operations. Some Board members did say that they could provide more meaningful input if they were included earlier on in the corporate planning process. The Board does discuss strategic directions at its annual retreat in October. However, these directions are general and it is late for them to have a real impact on the plan that the Board will submit to the Minister at the end of January. A revised approach was put in place for the 2006–07 corporate plan, which allowed Board members to be involved in the corporate planning process at each of its meetings from September to January.

Order-in-Council appointments are taking too long

32. Although this is outside of the Corporation's control, we found that the Board, Chair, and President and CEO appointments are still taking too long at Canada Lands, and many terms expire at about the same time. The position of President and CEO of the Corporation has been vacant since 3 December 2004 and is being filled on an interim basis. Canada Lands' Board has made recommendations to the Privy Council Office to resolve this issue and is awaiting a decision from the government. We also noted that one director's position was filled about two years after it became vacant, on 27 October 2005. Taking such a long time to replace a director may affect the Board's effectiveness, because it is a relatively small Board. It is also important to note that all of the other director positions will expire in 2006. Changing most of the directors in the same year could undermine the Board's stability and increase the risk that expertise and corporate memory will be lost.

33. Given that the CN Tower business line was recently added to Canada Lands, we believe that it is important for the Board to have expertise in the Tourism and Hospitality industry. Although there is one member of the current Board who has this expertise, the Board has not yet added it to the list of required skills that it sent to the Privy Council Office.

34. The Board of Directors has identified experience dealing with First Nations as one of the skills it needs to carry out its mandate and responsibilities effectively and has included this on the list of required skills that it sent to the Privy Council Office. However, no one on the current Board has this skill.

35. **Recommendation.** The Governance Committee should include the most recent best practices recommendations, from the public-sector governance reviews, in its action plan. The Board of Directors should update the required skills of Board members to include expertise in the Tourism and Hospitality industry.

The Corporation's response. *The Corporation will update its governance action plan to include the most recent best practices recommendations from the public sector governance reviews. The Corporation will update the director skill profile to include expertise in the Tourism and Hospitality industry and will forward it to the Privy Council Office.*

Strategic planning

36. The purpose of strategic planning is to determine what an organization is, what it does, and why it does it; and to plan the organization's future.

We expected to find that the Corporation

- develops and communicates clear strategic plans that include specific and measurable objectives that are in line with its mandate and capabilities;
- monitors and reports actual progress in achieving corporate goals, in a fair and reliable manner; and
- approaches risk management in a way that gives reasonable assurance that key risks and opportunities are identified, effectively evaluated, and addressed in the corporate strategy.

37. In our previous special examination of the Corporation, we found that, overall, the strategic planning and management were effective; our current examination reaffirms this finding.

38. When it prepares its strategic plans, the Corporation performs an environmental scan, which includes

- gathering information from its stakeholders, by conducting planning interviews with various Assistant Deputy Ministers;
- sending out external surveys to identified municipal and provincial stakeholders; and
- consulting the Corporation's employee representatives.

39. The Corporation uses this information to develop strategic priorities for a given planning period, as well as to address the competing public policy and commercial objectives of the Corporation. We found that the resulting 2005–06 strategic priorities are in line with the Corporation's mandate and capabilities.

40. In 2001–02, the Corporation's Balanced Scorecard approach was developed into a tangible management tool and, since then, the Corporation has continued to refine it. The Balanced Scorecard guides strategy implementation through the measurement and management of financial and non-financial areas of performance.

Some performance targets make it difficult to assess whether objectives were satisfactorily met

41. In our July 2000 Special Examination, we noted that some of the Corporation's objectives are not specific and measurable. Although the Balanced Scorecard has made the Corporation's objectives clearer by focussing on key stakeholder areas, we noted that some performance targets are vague. Therefore, it is difficult to assess whether the Corporation met its objectives.

42. For example, the objective to "implement legacy initiatives" is associated with the performance target to "commemorate the heritage of company projects." Has the objective been met if one project commemorates heritage or should all commemorate heritage?

43. In another example, the objective to "assist in expediting property transfers" is associated with the performance target to "increase starting book value of property inventory, with measures and targets to be developed in 2005–06." There has been no measurable performance target approved for this objective.

44. Specific targets for all objectives would make it easier for management, the Board of Directors, the government, and Parliament to assess the Corporation's effectiveness.

The Corporation has recently implemented an Enterprise Risk Management program

45. The Corporation's Director of Risk Management and Internal Controls has overall responsibility for risk management policy and procedures, and leads the company's Risk Management Committee in ensuring that key risks are identified, assessed, mitigated, managed, and monitored. Where reasonable and cost-effective, the Committee makes sure that the Corporation is insured against severe and catastrophic risks.

46. The Risk Management Committee meets at least four times a year. Its most recent initiative is an Enterprise Risk Management program to develop and maintain a corporate-based risk registry and to publish regular monitoring reports.

47. The risk register is a management tool whose purpose is to enable the company to better understand its risk profile in the broadest manner possible. By assigning risk ratings and rankings to identified risks based on probability and impact, the risk register provides a uniform system of collecting information about risks to be used in the analyses and decisions about how these risks should be treated or managed. The key risks of the Corporation have been categorized into five main sources of risk most important to the Corporation's operations and activities. These broad risk areas include:

- Strategic/Political risks—including political changes and shareholder relations
- Business lines—including real estate and the CN Tower
- Corporate management—including security, human resources, and technology and data
- Hazard/Operational—including terrorism, catastrophic loss, and mechanical breakdown
- Compliance/Regulatory—including legal/regulatory laws and documentation

48. By 31 August 2005, the Corporation had identified 66 detailed risks for these 5 broad risk areas, 17 of which had a medium-high to high risk rankings. For all identified risks, the risk register contains the risk mitigation controls and the necessary actions required to further minimize the risk levels. In addition, for the highest-ranked risks, the Corporation maintains a Corporate Risk Register Action Plan, and regularly presents it to the Audit Committee to track progress against actions that are required to mitigate these risks.

49. **Recommendation.** The Corporation should further refine its Balanced Scorecard to ensure it contains a full set of specific and measurable targets for all strategic priorities and objectives.

The Corporation's response. *The Corporation has continued to refine its Balanced Scorecard since its implementation as a corporate management tool in 2000–01. In 2005, it introduced a "milestones" plan to identify the various transactions, approvals and events planned for the year. These milestones served as one of the components in the incentive plan for the Real Estate divisions of the Company. For the 2006–07 fiscal year, these milestones will include non financial results and will be reported in the 2006–07 Balanced Scorecard.*

Government relations and land acquisitions

50. The liaison between the Corporation and the government is critical for the achievement of the Corporation's mission and, in particular, for the transfer of strategic surplus properties from custodial departments to the Corporation.

51. We expected to find that the Corporation

- maintains established and effective communications with appropriate government organizations to ensure that there is a clear and mutual understanding of government priorities and constraints;
- works proactively with custodial departments and central agencies to identify and facilitate property transfers; and

- demonstrates to its stakeholders that its projects and developments enhance value and meet the stakeholders' expectations.

52. When we interviewed officials in key government's central agencies and custodial departments, they informed us that, in their view, the Corporation consistently achieved these expectations.

53. The Corporation has

- sold 90 percent of its original inventory transferred from CN and has continued to acquire and sell properties;
- returned $134.7 million in dividends and shares redeemed from the government from 1995 to 2005; and
- incorporated the views of the communities and other levels of government in its projects, for which it has won several awards.

Treasury Board introduced the Policy on the Disposal of Suplus Real Property in July 2001

54. In our July 2000 Special Examination, we noted a significant deficiency in the land transfer process. Various constraints in the government's process for transferring surplus properties from custodial departments compromised the Corporation's ability to achieve its mandate.

55. Since that special examination we noted a number of positive changes.

56. A key change was the Treasury Board introducing the Policy on the Disposal of Surplus Real Property in July 2001. The Policy defines the process and outlines the procedures for routine and strategic property disposals. The Treasury Board introduced the Policy to

- ensure the timely disposition of properties that are declared surplus to program requirements,
- ensure the best value to the taxpayer, and
- consider a number of matters of public interest.

57. In particular, the Policy aimed to ensure the transfer of those properties to the Corporation having the potential for increased value through zoning, financing, and development.

58. The Policy has also introduced financial incentives for departments to share in revenues derived from the sale of properties under certain conditions since it is the custodial departments that are

- accountable for determining whether a particular real property is surplus to program needs, and

- responsible for initiating and implementing the disposition of surplus properties.

59. Furthermore, the Treasury Board Secretariat has established a committee of assistant deputy ministers and a committee of directors-general to help implement the Policy. The committees meet approximately four times per year and their priority to date has been to facilitate departmental input and to speed up the transfer of strategic properties to the Corporation.

60. In addition, the Corporation has taken initiatives to improve the transfer process. For instance, the Vice President, Public and Government Affairs has spent a significant portion of his time in the last three years meeting with officials in departments and central agencies to facilitate the transfer process. The Corporation's increased presence in Ottawa, where a majority of government decisions-makers are, has also helped.

61. Despite the initiatives, the transfer process continues to be slow. A recent review of the Policy carried out by a consultant at the request of the Treasury Board Secretariat found that the slowness can be attributed to system obstacles, such as conflicting stakeholder objectives, and to First Nations claims over certain lands, and is not a reflection on the Corporation's performance. At the time of our audit, there were twenty surplus strategic properties, identified to be transferred to the Corporation, and on average, it had been four years since they were declared surplus. Three of these properties relate to the February 1995 budget decision and it has been more than ten years since they were declared surplus.

62. Subsequent to our audit field work, management informed us that the Treasury Board Secretariat agreed to the transfer of one of the proprerties that has been declared surplus for over ten years. The formal transfer document has yet to be approved, and the transfer has yet to take place. Furthermore, management indicated that, in recent months, there have been positive developments with respect to two properties that have been declared surplus for a little more than four years—one has received Ministerial approval for transfer, and the other has received Treasury Board Secretariat approval for transfer.

63. In conclusion, because of the overall improvements noted in the land transfer process, there is no longer a significant deficiency. However, this process will continue to require close attention from the Corporation and from all other parties involved. We encourage the Corporation to continue to be pro-active in facilitating the transfer of surplus properties.

The Corporation's comment. *The Corporation views the slowness in land transfers a significant risk in its ability to achieve its mandate. The*

Corporation recognizes that there have been improvements in the land transfer process in recent years and intends to continue to apply pressure in the system to facilitate land transfers.

Human resources

64. Since the July 2000 Special Examination, there have been significant changes to the Corporation's workforce. When the CN Tower operations were returned to the Corporation

- its labour force increased significantly,
- two divisions with different characteristics and labour needs were integrated, and
- forty-two percent of the CN Tower's workforce was unionized.

65. We expected to find that the Corporation

- has human resources management policies and practices that are designed and managed to promote the continuity of operations,
- maintains a well qualified workforce to meet its strategic goals and objectives economically and efficiently,
- maintains sound labour relations, and
- develops appropriate collective agreements that meet operational requirements and are consistent with current market trends.

66. We found that the Corporation has significantly improved its human resources systems and practices since our July 2000 Special Examination. The human resources departments for the CN Tower and real estate divisions are working together and making a concerted effort to integrate their systems and practices, where possible.

All employees need to have some type of performance review

67. Since the last special examination, the Corporation has put in place a formal performance management process for all employees, except for seasonal and unionized employees at the CN Tower. In the past, individual employees were not required to establish annual objectives, and management did not review their individual performance. We believe that all employees, regardless of their status, need to have some type of performance review. In addition, there should be stronger links between corporate objectives and performance reviews to ensure that the performance expectations are in line with corporate objectives and priorities.

The Corporation needs to comply with its guidelines on incentive pay

68. Another improvement noted is that the incentive pay program links incentive pay not only to cash flows but also the employee's performance assessment. An employee must achieve a satisfactory rating to be eligible for incentive pay, and the level of incentive pay is determined in part by the employee's performance rating. For example, an excellent or outstanding performance rating would render a higher payout than a good performance rating.

69. We noted that a disproportionate amount of employees received an excellent or outstanding performance rating than a good performance rating. For example, for real estate in 2004–05, 72 percent received excellent ratings, and only 24 percent received a good rating. This distribution of performance ratings is significantly different from the Corporation's performance review guidelines, which indicate that typically 11 to 15 percent of employees will receive excellent or outstanding ratings. This weakens the intended impact of the program.

There are no major staffing gaps

70. Property management operations drive real estate staffing needs, and management has not identified any staffing gaps. The Corporation hires external contractors to fill short-term needs or heavy workloads.

71. The CN Tower has not encountered staffing shortages except for some specific positions. The human resources department addresses the significant need for seasonal employees through well-managed annual job fairs.

Succession planning is in progress

72. Leading organizations use succession planning to determine current and future needs, and to develop pools of high-potential staff in order to meet the organization's long-term needs. Although the Corporation has a succession plan it needs to be improved particularly at the CN Tower. The Corporation is in its early stages of succession planning, and there is currently no formal strategic process in place to plan human resources needs. The Corporation should consider having a strategic approach in human resources planning and succession planning and linking the process to corporate priorities, staffing strategies, and training and development initiatives.

The Corporation does not fully understand its overall training and development needs

73. Training and development should be linked to succession planning. Currently staff training and development are linked primarily to the annual performance review process. Consequently, staff development tends to be based on short-term and ad hoc needs determined by managers and employees throughout the year. The Corporation does not fully understand its overall training and development needs, nor does it have a clear way of determining whether those needs are being met in a cost effective manner. The CN Tower's Human Resources department is currently working on a training needs assessment, which will illustrate the division's training needs.

74. **Employee relations.** The Corporation is getting employee feedback to address HR issues and work environment concerns. Although it has been actively seeking employee feedback from the Real Estate division for a few years, it has just started seeking feedback from the CN Tower division. The response rate to the 2004 CN Tower employee survey of 17 percent, compared to the Real Estate and corporate response rate of 77 percent, suggests that the CN Tower staff have not yet fully embraced this approach. After our audit field work, management informed us that for the 2005 CN Tower employee survey, employee feedback increased from 17 to 26 percent—an increase of 53 percent. Management also indicated that they have established an employee round table at the CN Tower.

75. We noted that

- the Corporation signed a new collective agreement for a three-year period, from 1 June 2004 to 31 May 2007—without a strike situation; and
- The level of employee grievances is very low—three grievances were filed in 2004, and only one was filed in 2005.

76. **Recommendation.** The Corporation should

- ensure that all employees are subject to some form of performance review commensurate to their status, including unionized and seasonal employees at the CN Tower, and that performance review guidelines are adhered to;
- clearly link corporate objectives to performance reviews;
- work on improving succession planning and human resources planning and better link the process to corporate priorities, staffing strategies, and training and development initiatives;
- assess the Corporation's training needs, particularly for the Real Estate division; and
- consider different ways of getting employee feedback about the work environment at the CN Tower.

The Corporation's response.

- *The CN Tower union contract is up for renewal in 2007 at which time we plan to discuss with the union the implementation of some sort of performance management system for unionized employees. We will* *implement a performance review process for permanent part-time employees.*

- *The Corporation is presently re-assessing its overall performance appraisal process in order to address the issues raised. Additional review controls and guidance for staff and management have been put in place for the 2005–06 year end to monitor performance rating distributions.*
- *The Corporation is also currently working towards improving succession and human resources planning including better linking these processes to corporate priorities, staffing strategies and training and development initiatives.*
- *The Corporation will address the issue of global training needs in connection with its project on succession planning.*

Property management, development, and sales

77. The Corporation's mandate is to optimize the financial and community value from strategic properties no longer required for program purposes by custodial departments. Under this mandate, the Corporation purchases properties at fair market values, then improves, manages, and sells them to produce the "best possible benefits" for local communities and the Government of Canada. In addressing this mandate, the Corporation carries out a real estate developer role and provides associated activities, such as real estate property management and leasing.

78. We expected that the Corporation would

- apply best practices to develop, manage, and sell projects of optimal financial value that consider the views of affected communities and other levels of government, and that reflect Canada's heritage;
- use sound market information and financial data to develop realistic business cases; and
- use contracting and sales practices that are open and transparent and that will help the Corporation attain project goals and targets.

79. In our last special examination, we found that the Corporation followed best practices in all significant respects.

80. The Corporation's primary business functions include site acquisition, land development and redevelopment, property sales and leasing, and property management. These require the Corporation to apply best practices in the following areas:

- acquisition of new properties,
- preparation of business plans,
- land development and project management, and
- property sales.

81. The Corporation's property development approach focusses on developing people-friendly environments, enhancing quality of life, and addressing the consequences of long commutes and urban sprawl. The Corporation has been recognized at the national and international levels for successfully using these principles in various development projects.

82. We selected the former Canadian Forces Base (CFB) Griesbach site, in Edmonton, Alberta, as a case study on best practices. The Corporation purchased this 250-hectare (618-acre) property in February 2003 for $17.5 million. The Corporation's vision for Griesbach is to develop a small- to medium-size community, where people can

- walk to the local stores and schools,
- interact with neighbours on the Main Street, and
- spend time on the recreational trails.

83. The project has six development stages, which are at different levels of completion. The stage 1 lots were sold to builders in October 2003.

84. Except for the areas addressed in the following sections, our review found that the Corporation does apply best practices in the acquisition of new properties, preparation of business plans, land development and project management, and in property sales.

85. By applying these practices, the Corporation has achieved a reasonable balance between optimizing financial value, considering the views of affected communities and other levels of government, and reflecting Canada's heritage.

Using a project management framework would improve the Corporation's development projects

86. The Corporation has been successful in managing several projects across the country. It has received national recognition for its management and has received a number of professional planning and urban development awards in the past several years.

87. During our special examination, we found evidence that the Corporation used project management processes to deliver its various development projects. The Corporation knows what steps it has to take to develop successful projects and does implement these steps effectively.

88. However, the Corporation does not have an integrated project management framework. Although it has developed certain policies and documented certain processes such as the Project Review Policy for initiating and monitoring projects, the documentation is not complete and not integrated into a project management framework.

89. An integrated project management framework provides a defined structure and standard to

- plan, initiate, execute, monitor, control, and close individual projects; and
- understand how an organization manages a project.

90. We believe the Corporation could further refine its current project delivery practices by documenting key project management processes, policies, procedures, and guidelines and by integrating them in a project management framework. The framework would ensure that the Corporation systematically evaluates project management issues and that all Corporation project managers consider them during the project cycle. A properly documented framework would also facilitate the training of new project managers.

91. An integrated project management framework would also include a section on policies and procedures for systematically addressing project-based risk management. As part of its Enterprise Risk Management program (see paragraph 46), the Corporation has recently developed project-based risk management policies and procedures. However, these policies and procedures have yet to be implemented systematically at the project level, where the Corporation currently manages risks informally according to the project's unique requirements. The risks are identified at the start of a project, according to its Business Plan Outline template. However, we found no evidence of formal risk management plans documenting risk response and risk monitoring for individual projects.

92. **The Corporation uses sound market information and financial data to develop realistic business cases.** Business cases and project plans are core business practices in the real estate development industry. They establish rationales for specific development options.

93. The Corporation uses business cases to support real estate acquisitions, as part of the Treasury Board's Policy on the Disposal of Surplus Real Property. Under this policy, custodial departments are responsible for obtaining a business plan from the Corporation. The plan should demonstrate the Corporation's ability to enhance value significantly and should outline any plans to address other strategic considerations identified by the custodial department and the Treasury Board Secretariat.

94. We found that the Corporation uses sound market information and financial data to develop realistic business cases.

95. **The Corporation follows acceptable commercial practices for contracting and sales.** A key characteristic of the Corporation's project management practices is that it relies considerably on contractors to carry out much of the actual project work. The Corporation's contracting policy, guidelines, and procedures govern the contracting process. In December 2003, an internal audit of the Corporation's bidding, tendering, and vendor selection was presented to the Audit Committee. Since then, management has addressed the report's recommendations.

96. The Corporation's contracting policy, guidelines, and procedures and its marketing and sales policy, guidelines, and procedures were recently revised and approved by the Board at its meeting in January 2005. We found that the Corporation follows acceptable commercial practices for contracting and sales.

97. **Property management.** The Corporation owns

- the Metro Toronto Convention Centre (MTCC);
- the InterContinental Hotel (in Toronto); and
- an office building located at 277 Front Street West.

98. The Corporation is responsible for the management of all these properties. However, it elected to sub-contract the management of the hotel, using a hotel management agreement, and lease the MTCC to a Government of Ontario Crown Corporation for 99 years. Central Services, a Corporation operation, manages, and administers mechanical and electrical systems of its properties; it recovers costs and a management fee from the respective tenants.

99. The Corporation has adequate practices, policies, and procedures for their property management functions that include building maintenance and service, administration, leasing and tenant services.

Environmental management

100. In carrying out its mandate, the Corporation needs to be concerned about environmental management in two contexts: first, as the property developer; and second, as the operator and manager of the CN Tower.

101. We expected to find that the Corporation

- has an appropriate environmental management framework;
- knows how its strategies and operations affect the environment and sustainable development; and
- manages its sites and facilities efficiently and effectively, while considering significant environmental risks and applicable legislation and regulations.

The Corporation needs to improve documentation and formalize environmental management procedures

102. A key aspect of the Corporation's main business line—the redevelopment of properties to optimize values—often requires the remediation and clean up of contaminated lands. The Corporation regards clean-up of contaminated lands an area of strength and it has been recognized for its efforts and expertise in this area.

103. The Corporation has recently embraced Corporate Social Responsibility (CSR) as a core value and adopted "incorporating sound principles of sustainable development for each business initiative" as a corporate objective. In 2004, it commissioned a firm with expertise in assessing social responsibility for businesses to conduct a pilot social audit of the Corporation. This audit involved assessing the Corporation's policies, programs, and activities for important CSR issues, for example management systems, risks identification, and environmental performance.

104. The CSR audit found no significant deficiencies in the way the Corporation's systems and practices address environmental risks during property clean up and re-development activities. However, the external audit did note the need for improved documentation of systems and practices in this area and for a more systematic monitoring of compliance with environmental regulations. During our special examination, we observed due diligence in assessment and remediation of contamination and other environmental problems for individual projects. Even so, we noted the absence of documented corporate-wide systems and procedures. Similar observations were made in our previous special examination.

105. The Corporation's redevelopment projects can often involve other environmental and sustainable development challenges and opportunities, such as preserving biodiversity, maintaining existing green space, reinforcing greenway links, and preserving mature trees and areas of significant biological or ecological value. How the Corporation ensures that these issues are addressed during the project cycle is not clear. The Corporation's personnel informed us that they address these issues during project planning and execution through their "New Urbanism" planning principles. These principles promote the creation of vibrant communities and emphasize, among other things, sustainability, increased density, and smart transportation.

The Corporation does not have a systematic training program that addresses environmental compliance requirements

106. In 2004, the Corporation's property redevelopment projects involved over 1,215 hectares (3,000 acres) of land located in 24 different communities. It was active in almost every province. The

Corporation is subject to environmental laws and regulations that pertain to the federal government, the provinces, and all municipalities, where it does business. These laws vary from jurisdiction to jurisdiction and often change. Its environmental policy commits the Corporation to “assess, plan and undertake its business activities in compliance with applicable laws and regulations.” Therefore, we expected that the Corporation would have established a systematic training and awareness program for its staff in order to ensure compliance with current environmental regulatory requirements.

107. We found that while the Corporation had provided some training, it had not done so regularly. We also noted that the Corporation prepared some comprehensive information on applicable legislation and regulations and gave it to the staff in March 2002. However, this information only covered four provinces: Ontario, British Columbia, Alberta, and Nova Scotia. Before the Corporation expanded the information and updated it to cover all provinces and the federal government in July 2005, project managers were responsible for keeping abreast of legislative and regulatory requirements and changes on their own.

The Corporation needs to develop performance objectives and targets for the environmental management at the CN Tower

108. We expected that, for the CN Tower business line, the Corporation would have the basic elements of an active environmental management system to ensure that

- environmental risks and opportunities are systematically identified, controlled, and monitored;
- any necessary corrective action is taken; and
- there is continuous improvement.

109. We observed that the Corporation was actively managing some environmental issues. For example, it was monitoring and assessing energy consumption, and had several activities that focussed on waste diversion and recycling. However, it was not actively managing water consumption, effluents and spills, or outdoor landscaping.

110. The Corporation’s corporate plans and Balanced Scorecard include some environment and sustainable development objectives and targets. It is very difficult to gauge how the Corporation is progressing in environmental management at the CN Tower because it has no related environmental performance objectives or targets, and because the CN Tower does not regularly report environmental performance information to the senior management team.

111. **Recommendation.** The Corporation should

- establish guidelines to integrate environmental matters, beyond site remediation and clean-up, into its real estate projects;
- improve documentation and formalize established environmental management and monitoring procedures to ensure that all project managers systematically address environmental concerns during the project cycle;
- establish a systematic training and awareness program that addresses environmental compliance;
- develop specific environment and sustainable development performance targets for the CN Tower.

The Corporation's response.

- *The Corporation's environmental program has been synonymous with environmental remediation and the legislated environmental requirements arising from real estate development activities. Management believes that these responsibilities are well documented. In view of the time elapsed since the last major training exercise, the Corporation will reassess its training requirements and materials and take the necessary action to update staff.*
- *Environmental activities not related to remediation are being covered partly through our programs on corporate social responsibility and partly through approaches to sustainable development. Management has agreed on the need to formalize our approach in this area.*

CN Tower: structural maintenance and security

112. The CN Tower is one of the most recognizable and unique structures in Canada. Because there are technical challenges not found with other tall buildings, we expected to find that maintenance requirements are assessed regularly and necessary repairs are made to avoid rust out, protect the value of the CN Tower, and ensure that health and safety standards are met.

Systems and practices are in place to ensure that the CN Tower is well maintained

113. The CN Tower's electrical and mechanical systems can be compared to other high-rise office buildings. However, other comparisons are not appropriate because the CN Tower's structural elements, including columns, beams, and slabs are on the outside of the building.

114. The CN Tower's exterior concrete surfaces, its structural components, are exposed to freeze-thaw cycles, industrial pollution, rain, and other environmental conditions that contribute to ongoing deterioration of the structure. The exposed structural components

require more inspections and repairs than other office buildings, which increases the maintenance costs.

115. The CN Tower has recently undergone a number of retrofits and repairs, including

- replacement of chillers,
- rebuilding of elevator motors,
- relining of water tanks, and
- a focussed concrete repair program.

116. These repairs and retrofits were expected because the structure is 29 years old, and the first phases of major repair work are often required at this age. The life span for mechanical and electrical equipment is between 25 and 35 years.

117. The focussed concrete repair program started in 2000, was expected to last for five years, and to be completed by the end of 2005. The Corporation has planned for ongoing concrete repairs, on a reduced scale, and inspections of the exterior concrete surfaces to be part of the structural maintenance work. This is appropriate because the Tower is located in an industrial area, where its concrete structure is exposed to ever-increasing industrial pollution.

118. The CN Tower also has a number of specialized systems and elements that are particular to communication towers. Maintenance and repair of these systems and elements requires the expertise of engineering and contracting firms. The Corporation retains the services of an engineering firm to write structural maintenance reports for the Tower. This firm was also the engineering consultant responsible for the structural design of the CN Tower. Their familiarity with the Tower and its design benefits the Corporation, because it ensures that the structural repairs are compatible with the original design.

119. We reviewed the Corporation's documentation, interviewed key personnel and contractors, and visited site services. In our view, systems and practices are in place to ensure that the Tower is well maintained.

Management does take potential security threats seriously

120. Considering the recent terrorism attacks around the world, and the fact that the CN Tower is a Canadian landmark, it is critical that the Tower has a system to deal with security threats that functions properly and is well co-ordinated. We expected to find that management is taking adequate measures to protect the Tower, the public, and the employees from external threats.

121. In our examination, we found that management does take potential threats seriously and is taking measures to protect the Tower, the public, and the employees against external threats. However, we have noted various areas where we believe that the Corporation could make improvements. We have discussed these improvements with CN Tower management, and they have started to take steps to address our concerns.

122. **Recommendation.** The Corporation should continue to assess the current security practices at the CN Tower to ensure that these practices stay consistent with the organization's security risk threshold.

The Corporation's response. *The Corporation is currently addressing the security observations identified in the course of this examination.*

Appendix Key risks, key systems and practices, and examination criteria

Key risks	Key systems and practices	General examination criteria
Potential risks to achieving all expected corporate results (ECR)		
Corporate objectives are inconsistent with shareholder direction or expectations. Corporate activities and business practices are not consistent with its long-term objectives. Plans cannot be achieved or aligned with the Corporation's mandate and long term objectives.	Corporate governance and Board of Directors oversight Corporate performance management and reporting Long-term strategic planning Risk management framework	The entity should have a corporate governance framework that meets best-practice expectations for Board stewardship, shareholder relations, and communications with the public to maximize the entity's effectiveness and ability to balance public policy and commercial objectives. The Board should get complete, timely, and accurate information to oversee operations in an effective manner. Management develops and communicates well-articulated and clear strategic plans and direction that include specific and measurable objectives that are congruent with the Corporation's mandate and its capabilities. The Corporation monitors and reports actual progress related to corporate goals and key results achieved in a fair and reliable manner. There is an entity-wide approach to risk management that gives reasonable assurance that key risks and opportunities are identified, effectively evaluated, and addressed in the corporate strategy.
Staff does not have the required skills and core competencies to enable the Corporation to fulfill its mandate, implement its strategic directions and reach its objectives in and efficient and economic manner.	Human resources recruitment, training, and development Staff performance management and incentive compensation plan Work force plan and succession planning	The Corporation's Human Resources Management policies and practices are designed and managed to to meet its strategic goals and objectives economically and efficiently, by promoting continuity of operations and maintaining a qualified workforce.

Key risks	Key systems and practices	General examination criteria
Potential risks to facilitating transfers of strategic surplus properties (ECR # 1)		
Lack of strategic surplus properties Slowness by the government and custodial departments in declaring properties that are no longer required for program delivery, such as strategic surplus properties or missed opportunities First Nations land claims Adding little value to projects or unsatisfied stakeholders	Acquisitions and business development Government relations/liaison with central agencies and custodial departments Land development and sales	The Corporation should establish and maintain effective communication and relationships with the appropriate government entities to ensure there is a clear and mutual understanding of government priorities and constraints. The Corporation should be pro-active when it works with custodial departments and central agencies to identify and facilitate property transfers. The Corporation should be able to demonstrate to its stakeholders that it constantly delivers projects or carries out developments that enhance value and meet their expectations (see ECR #2).
Potential risks to optimizing financial value and return to the shareholder (ECR # 2) and to meeting the public policy objectives as required by the government (ECR # 3)		
Lack of appropriate strategies, overall and for individual properties to address relevant risks, including market and development risks Lack of sound market intelligence and development of poor business cases Poor project management and contracting practices Not incorporating public policy objectives in the project planning process Misunderstanding of direction from Government Ineffective relationships with local communities, private sector developers and contractors, special interest groups and custodial departments Environmental risks associated with the lands to be transferred and development projects Negative publicity	Land development and sales Property Management Business case preparation Contracting and procurement Environmental management systems and practices	The Corporation should apply best practices for the development, management, and sales of projects that result in optimal financial value, consider the views of affected communities and other levels of government, and reflect Canada's heritage. In particular • the Corporation should use sound market information and financial data to develop realistic business cases; and • contracting and sales practices should be open and transparent to meet the test of scrutiny and contribute to the attainment of project goals and targets. The Corporation has an appropriate environmental management framework. It knows how its strategies and operations affect the environment and sustainable development. It manages its sites and facilities efficiently and effectively, and considers significant environmental risks and applicable legislation and regulations.

Key risks	Key systems and practices	General examination criteria
Potential risks associated to the management and operations of the CN Tower (ECR #4)		
Extensive structural maintenance and repairs to the tower because of its age Terrorism threats Risks associated to cash intensive retail operations Poor labour relations Lack of long term strategies for CN Tower operations	Structural maintenance and major repairs or refits of the building Capital planning and budgeting Labour relations Security Controls over cash (already covered through annual audits) Long-term strategic planning	Maintenance requirements are assessed regularly. Necessary repairs/overhaul takes place to avoid rust out and protect the Tower's value while ensuring that health and safety standards are met. Management is taking adequate measures to protect the Tower, the public, and employees against external threats. The Corporation maintains sound labour relations and develops appropriate collective agreements that meet operational requirements and are consistent with current market trends.