

MUNICIPALITY OF STRATHROY-CARADOC

REVIEW OF STRATHROY-CARADOC HOUSING CORPORATION - PHASE I

February 6, 2025

Private and Confidential



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February 6, 2025

Council of the Municipality of Strathroy-Caradoc

Care of:

Trisha McKibbin

Chief Administrative Officer

52 Frank Street

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Dear Members of the Council:

REVIEW OF STRATHROY-CARADOC HOUSING CORPORATION

1.0 INTRODUCTION

- 1.1 The Municipality of Strathroy-Caradoc ("Municipality") has retained us as accountants experienced in forensic financial investigations to conduct a review of Strathroy-Caradoc Housing Corporation ("SCHC") with respect to its construction and operation of a housing facility located at 22645 Adelaide Rd, Mount Brydges (the "Project").
- 1.2 This report summarizes the work we have performed in Phase 1 - Diagnostic Review. As set out in our mandate, Phase I is intended to establish the potential scope of an in-depth investigation of the Project. Our work has been designed to inform the prioritization of concerns identified by municipal councillors, as well as significant risk factors impacting the Project. This report sets out our observations and recommendations for Phase II - Detailed Review.
- 1.3 This report is intended solely to assist the council of the Municipality ("Council") in the performance of its governance responsibilities, including identifying operating deficiencies and opportunities for improvement. It is not intended for general circulation, publication, reproduction or any other use.
- 1.4 We wish to thank Council and staff of the Municipality for their time and insights. Their assistance has been invaluable in facilitating our task.



2.0 SUMMARY OF OUR OBSERVATIONS & RECOMMENDATIONS

- 2.1 Based upon our procedures to date, we have identified the following priority concerns and risks regarding the Project:
- a. Project Governance: Lack of clarity regarding authority, accountability and transparency in decision-making for the Project.
 - b. Project Management: Inadequate oversight of the design, planning and construction of the Project.
 - c. Project Finances: Inadequate planning and oversight for the funding and financial management of the Project.
- 2.2 We recommend that further investigation be conducted into specific aspects of the foregoing areas. Based upon our interviews, a broad consensus exists for the concerns shared by the Councillors regarding procedural deficiencies in management of the Project. Further investigation is intended to uncover the root cause of the alleged deficiencies in the policies, practices and/or procedures surrounding the Project. The overarching objective of our investigation is to form an understanding of the evolution of the Project and lessons that can be learned to avoid similar experiences in the future.

3.0 BACKGROUND

- 3.1 Our understanding of the relevant facts with respect to this engagement is as follows:
- a. SCHC is a not-for-profit organization that offers and manages affordable housing services in the Municipality.
 - b. In or about 2020, SCHC initiated a process to construct a new accessible housing facility for its residents.
 - c. The original site was located adjacent to an existing accessible housing facility at 2500 Queen St, Mount Brydges (known as "Caradoc Place").
 - d. The current site of Caradoc Place, a 37-unit building, is 22645 Adelaide Rd. Mount Brydges.

- e. In June of 2022 SCHC entered into a contract with Southside Construction (London) Limited ("Southside") for the construction of the building for \$9.05M.
- f. We have not located Project budgets prepared in 2020 through 2022. The first budget identified in the materials that were provided to us was from June 2023 which indicated an expected total cost of \$12.3M.
- g. As of January 2024, the Project budget remained unchanged at \$12.3M and included \$10.2M for the construction of the building (i.e., hard costs).
- h. Council has requested a review of SCHC with respect to the construction of Caradoc Place. The objective is to obtain an understanding of the process by which the Project was completed and lessons to be learned from the experience.

4.0 METHODOLOGY

4.1 Our work for this engagement has been divided into phases. This Report details the work undertaken for Phase 1 - Diagnostic Review. The purpose of Phase I is to identify the most significant and/or common concerns shared by the Council, and to form recommendations for potential further investigation. During this initial phase, our procedures included the following:

- a. Collection and review of project governance and management documentation, such as tendering and procurement policies, project proposals and approvals, project budgets, progress reports, financial reports and SCHC board/committee meeting minutes.
- b. Interview representatives of Council and staff to discuss:
 - i. Project tendering and procurement processes;
 - ii. The timeline and events surrounding the planning, design and construction of Caradoc Place; and,
 - iii. Issues encountered with Project construction, financing and operations.
- c. Based on interviews and initial review of available documents, identify areas of concern and operational risks; and,

- d. Prepare a work plan to review areas of concern and operational risks identified.

5.0 DETAILED OBSERVATIONS

- 5.1 During our interviews, several common themes were raised by members of Council and Municipal Staff. We have categorized these themes as follows:

- a. Project Governance,
- b. Project Management; and
- c. Project Finances.

- 5.2 We discuss each category separately in the sections that follow.

PROJECT GOVERNANCE

- 5.3 The corporate governance of SCHC and governance of the Project were consistently and repeatedly raised as concerns:

- a. **Decision Authority and Accountability** - While the Project was undertaken by SCHC, there was perceived inadequate reporting or consultation with the Municipality upon whom SCHC depended on for financial and operational support. Councillors raised concerns about the disconnect between those making decisions for the Project (SCHC governance and management) and those accountable to taxpayers for public resources (Council).
- b. **Communications** - Decisions regarding the Project were not communicated on a consistent and/or timely basis to the Municipality or Council. In their view, Councillors were not receiving sufficient information to allow an adequate understanding of the Project progress, key decisions made, and financial obligations being incurred. Councillors are also of the view that there was a lack of decision-making transparency (i.e., project initiation, change of site, funding/financing, change orders, cost escalations and so forth). Furthermore, concerns also exist regarding the timing and quality of information that was provided, including sharing of limited information and requiring decisions to be made in limited or compressed timeframes.

PROJECT MANAGEMENT

5.4 Concerns regarding Project management were raised in all of our interviews. We have grouped these concerns as follows:

- a. **Project approval process** - A lack of clarity regarding the initial decision to proceed with the Project, including whether there were specific motions tabled for Councils of the day for significant decisions and a clear understanding of the Project go/no-go criteria. Councillors do not recall, among other things, a project plan being presented or approved, including operational and financial studies, community consultations, impact studies.
- b. **Technical expertise** - Members of the Council of the day and municipal staff may not have had the expertise or experience to manage this type of project. Concerns exist that decision-makers inappropriately relied solely upon the advice of consultants and contractors (such as for approval of change orders).
- c. **Procurement of key vendors** - We understand that the general contractor and architect, Southside Construction (London) Limited ("Southside") and Nicholson Sheffield Architects Inc. ("Nicholson"), were selected without competitive tendering processes. Concerns exist regarding why a competitive tendering process was not performed, why these particular vendors were selected, and whether they had appropriate experience with the design and build of affordable housing facilities.

PROJECT FINANCES

5.5 Concerns regarding financial performance of the Project were raised in all of our interviews. We have grouped these concerns as follows:

- a. **Project Funding:**
 - i. **Financial Modelling** - It does not appear that financing models or cash flow projections were contemporaneously prepared for the Project. We have not been provided with any such documents for our review.

- ii. Canada Mortgage and Housing Corporation (“CHMC”) Rapid Housing Initiative (“RHI”) Funding - We understand that the Project was initially pursued on the premise that the cost would be fully funded by the RHI program announced in or about 2020.¹ It is not clear what financial and cash flow analysis was performed on alternative funding for the Project once it became clear that RHI funding would not be available.
 - iii. Federation of Canadian Municipalities (“FCM”) Funding - The Project design included solar panels, which were to be funded by a grant and a secured loan from FCM. The Project’s primary lender, First National Financial LP (“FNF”) objected to the secured loan. The FCM withdrew its grant and the funding was replaced by additional debt with FNF. It is not clear whether any analysis was conducted on the financial impact on the Project from the loss of grant funds.
 - iv. Financial Support from the Municipality - Concerns were raised that Council was originally informed that the Project would not require financial support from the Municipality. We understand that, to date, approximately \$ 3 million has been contributed to the Project by the Municipality. Council has been advised that the funds will be repaid either through a mortgage loan (\$1 million) or upon recovery of HST credits (\$2 million). The status of the HST refund is not known.
- b. **Project Budgets** - Project budgets were not prepared or shared with Council. Specifically, Councillors noted that:
- i. They were not provided with an initial or updated construction budgets against which they could assess the financial impact of significant events or decisions in respect of the Project.
 - ii. The financial implications on Project funding and construction costs were not discussed when key events occurred in the Project. (i.e., change of site, failure

¹ [Rapid Housing Initiative | CMHC](#)



to secure RHI funding, loss of FCM grant, change orders, cost escalations and so forth.)

- iii. In addition to the lack of capital budgeting, it appears that no operating budgets or forecasts were initially prepared for the Project. Hence, the ongoing operating requirements are not known.

6.0 RECOMMENDATIONS

- 6.1 Our recommended Phase II - Detailed Investigation procedures are set out at Appendix A. We have framed the procedures according to specific questions.
- 6.2 In addition to our proposed procedures for Phase II, we have provided fee estimates for each area of work as well as an estimate for performing the full investigation scope. Note that efficiencies will be available if we are asked to perform multiple sets of procedures. Hence, the cost of pursuing multiple paths of further investigation will not necessarily be the sum total of the estimated fees for each area of investigation in isolation. We would be pleased to provide further fee estimates based upon your specific instructions for scope of work in Phase II.
- 6.3 Please note that we will need to complete engagement acceptance/continuation procedures prior to conducting Phase II work as required by our professional standards. These will include conflict searches for parties not included in our initial engagement acceptance process, which were limited to the Municipality, SCHC and current members of Council.

7.0 RESTRICTIONS AND QUALIFICATIONS

- 7.1 This report is intended solely to assist the Council in the performance of its governance function. General circulation, publication, reproduction or other use without our prior written consent is prohibited. We will not assume any responsibility for losses resulting from the circulation, publication, reproduction or use of this report other than for its intended purposes and by the intended users. The analyses and conclusions contained in this report must be considered as a whole. Selecting portions of the facts and analyses could lead to a misleading view of the conclusions reached in this report. We reserve the



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right but will be under no obligation, to review and/or revise any and all assumptions and/or calculations included in or referred to in this report and to update this report in light of further information that becomes known to us after the date of this report.

Respectfully submitted,

BDO CANADA LLP

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APPENDIX A - RECOMMENDATIONS

Item	Proposed in Summary	Estimate
1. Review and update the Strategic Plan and the Business Plan.	1. Review and update the Strategic Plan and the Business Plan.	\$15,000
2. Review and update the Financial Plan and the Capital Plan.	2. Review and update the Financial Plan and the Capital Plan.	\$15,000
3. Review and update the Human Resources Plan and the Information Technology Plan.	3. Review and update the Human Resources Plan and the Information Technology Plan.	\$15,000
4. Review and update the Environmental Plan and the Sustainability Plan.	4. Review and update the Environmental Plan and the Sustainability Plan.	\$15,000
5. Review and update the Communications Plan and the Public Works Plan.	5. Review and update the Communications Plan and the Public Works Plan.	\$15,000
6. Review and update the Parks and Recreation Plan and the Community Development Plan.	6. Review and update the Parks and Recreation Plan and the Community Development Plan.	\$15,000
7. Review and update the Housing Plan and the Social Services Plan.	7. Review and update the Housing Plan and the Social Services Plan.	\$15,000
8. Review and update the Health and Wellness Plan and the Arts and Culture Plan.	8. Review and update the Health and Wellness Plan and the Arts and Culture Plan.	\$15,000
9. Review and update the Economic Development Plan and the Labour Market Plan.	9. Review and update the Economic Development Plan and the Labour Market Plan.	\$15,000
10. Review and update the Transportation Plan and the Infrastructure Plan.	10. Review and update the Transportation Plan and the Infrastructure Plan.	\$15,000



Recommended Scope of Investigation for Phase II

- A. This appendix sets out our recommended scope of investigation for Phase II. Each section is organized according to the themes and concerns identified in Phase I.
- B. The estimated fees for each section are provided on the basis that the procedures specified in each section will be performed in isolation, as a discrete mandate in Phase II.
- C. Should Council wish to proceed with more than one issue, there will be efficiencies available as there is anticipated overlap in the proposed work by issue, including evidence collection, analysis and reporting, planned for each section.
- D. Should Council wish to have BDO conduct all of the recommended procedures, we estimate fees of \$115,000 to \$125,000.

I. Project Governance

Issue	Proposed Procedures	Estimated Fees
Authority over Project	<ul style="list-style-type: none">A. What is the role of SCHC and its relationship with the Municipality?<ul style="list-style-type: none">1. <i>Review incorporation and constating documents and by-laws regarding SCHC's charter.</i>B. What was the defined or delegated authority of SCHC with respect to the Project?<ul style="list-style-type: none">1. <i>Review by-laws, terms of reference, resolutions vis-à-vis specified authority or delegation of authority by Municipality to SCHC.</i>2. <i>Conduct interviews with members of SCHC governance and management regarding their understanding of duties and obligations to SCHC and to the Municipality.</i>	\$13,000 - \$15,000
Communications	<ul style="list-style-type: none">A. What Project reporting was provided by SCHC to the Municipality (and Council)?<ul style="list-style-type: none">1. <i>Review Council meeting minutes and materials relating to the Project, specifically for key decisions, construction progress, financial updates, etc.</i>B. Who made key decisions regarding the Project, with respect to:<ul style="list-style-type: none">• Project initiation?• Project feasibility?	\$40,000 - \$44,000

	<ul style="list-style-type: none"> • Project capital budget approvals (including changes)? • Project financing (source and amount of funding)? <p>1. <i>For each element above, confirm against Council and SCHC Board minutes the occurrence and timing of approvals.</i></p> <p>C. For decisions made by Council, what information was provided and when?</p> <p>1. <i>For each element above, confirm against Council minutes the materials provided in respect of resolutions proposed and timing of such materials.</i></p> <p>2. <i>Review the materials provided to assess sufficiency and appropriateness for governance approval decisions.</i></p>	
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II. Project Management

Issue	Proposed Procedures	Estimated Fees
Project Initiation	<p>A. What decision-process was undertaken in initiating the Project?</p> <p>1. <i>Collect information and prepare a chronology of the Project, including key events and decision points.</i></p> <p>2. <i>Interview members of governance and management to ascertain process undertaken.</i></p> <p>3. <i>Obtain and review documentation pertaining to the establishment and application of decision criteria in initiating the Project.</i></p> <p>B. What analysis, studies or consultations were undertaken to evaluate the Project?</p> <p>1. <i>Obtain and review documentation concerning Project evaluation.</i></p> <p>2. <i>Interview members of governance and management to confirm how the available data was incorporated into the Project evaluation process.</i></p> <p>C. Who made the ultimate decision to pursue the Project:</p> <ul style="list-style-type: none"> • At the Queen St. site? • At the Adelaide Rd. Site? 	\$33,000 - \$36,000



	<ol style="list-style-type: none">1. Interview members of governance and management to ascertain decision-making around site location.2. Obtain and review documentation concerning approvals for each site (or change from Queen to Adelaide site).	
Technical Expertise	<p>A. Who were the members of governance and management charged with oversight of the Project and what were their professional qualifications?</p> <ol style="list-style-type: none">1. Interview members of governance and management to identify the relevant individuals participating throughout Project lifecycle and to confirm their professional qualifications and experience.	\$18,000 - \$20,000
Vendor Procurement	<p>A. How were the architect and general contractor for the Project selected:</p> <ul style="list-style-type: none">• What process was undertaken to evaluate their qualifications and experience?• What safeguards were specified to ensure sufficient oversight and avoidance of conflicts of interest? <ol style="list-style-type: none">1. Interview members of governance and management to obtain understanding of vendor selection process and oversight procedures.2. Obtain and review documentation such as procurement policy regarding vendor selection process, including verification of credentials.3. Perform background research on architect and general contractor, including relationships with members of SCHC or Municipality governance and management.4. Obtain and review contracting documents with architect and general contractor for the Project to confirm terms regarding fees, authority, reporting and approvals.5. Obtain and review documentation relating to due diligence and evaluation of change orders and/or scope change recommendations from vendors.	\$57,000 - \$62,000

III. Project Finances

Issue	Proposed Investigative Procedures	Estimated Fees
Project Funding	<p>A. What cash flow modelling, forecasting and budgeting was prepared for the Project construction?</p> <ol style="list-style-type: none"> 1. Obtain and review all cash flow models, forecasts and budgets prepared for the Project construction phase, and any loan monitoring reports that may have been submitted to the lender. 2. Compare successive versions of analysis to confirm appropriate updates for key events. 3. Verify the distribution of analysis to decision-makers and oversight bodies. <p>B. What analysis was conducted regarding sources of funding required for Project construction?</p> <ol style="list-style-type: none"> 1. Interview management of SCHC (or the Municipality) to form understanding of capital requirements analysis and funding sources considered and pursued, including loans, contributions required from the Municipality and temporary cash flow bridges (e.g., HST refund). 2. Obtain and review capital funding analysis. 3. Verify distribution of analysis to decision-makers and oversight bodies. <p>C. What analysis was conducted following significant events:</p> <ul style="list-style-type: none"> • Failure to secure RHI funding? • Change of site? • Loss of the FCM grant? • Project change orders and cost escalations? • Delay in HST refund? <ol style="list-style-type: none"> 1. Interview management of SCHC (or the Municipality) to form understanding of analysis conducted following significant events. 2. Obtain and review analysis performed. 3. Verify distribution of analysis to decision-makers and oversight bodies. 	\$35,000 - \$38,000



Project Budgets	<p>A. What financial modelling, forecasting and budgeting was prepared for the Project construction?</p> <ol style="list-style-type: none">1. Interview management of SCHC (or Municipality) to form understanding of financial models and budgets for Project construction.2. Obtain and review financial models and budgets prepared, and any loan monitoring reports that may have been submitted to the lender.3. Verify distribution of analysis to decision-makers and oversight bodies. <p>B. What financial modelling, forecasting and budgeting has been prepared for Caradoc Place?</p> <ol style="list-style-type: none">1. Interview management of SCHC (or Municipality) to form understanding of financial models and budgets for the operation of Caradoc Place.2. Obtain and review financial models and budgets prepared.3. Verify distribution of analysis to decision-makers and oversight bodies. <p>C. What financial reporting for the Project was provided to SCHC and/or Council?</p> <ol style="list-style-type: none">1. Review meeting agendas and materials of SCHC board of directors and Council meetings to identify financial reporting provided in respect of the Project.2. Obtain and review materials provided.	\$38,000 - \$42,000
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Interview List

Depending on the issues selected by Council for further investigation in Phase II, we anticipate performing interviews with some or all of the following individuals:

1. Former Mayor, Joanne Vaderheyden;
2. Former Deputy Mayor, Brad Richards;
3. Former Councillors, Niel Flegel, Marie Baker, and Larry Cowan;
4. Former CAO, Fred Tranquilli;
5. Former Manager of Building and Planning, Jennifer Huff;
6. Deputy Treasurer, Lindsay Laskey;
7. Representative of Southside Construction (London) Limited;
8. Representative of Nicholson Sheffield Architects Inc.; and
9. Representative of Devonshire Consulting.



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Email Review and e-Discovery

Our proposed procedures do not include forensic collection and preservation or email reviews. Email and record searches can be important and productive procedures in investigations. However, they can be resource intensive.

If it is anticipated that the Municipality may pursue formal recovery or disciplinary action (e.g., litigation), we would recommend that eDiscovery procedures be conducted as part of Phase II for purposes of efficiency. Should Council wish to proceed in with such work, we can assist in this regard and we would be pleased to provide estimates of cost.