



# Report of the Auditor General of the Ville de Montréal to the City Council and to the Urban Agglomeration Council

For the Year Ended December 31, 2014

# 4.11

## TECHNOPARC MONTREAL



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## List of Acronyms

CEO	chief executive officer	NPO	non-profit organization
CITEC	Centre d'initiative technologique de Montréal	R&D	research and development
IQ	Investissement Québec	SPP	special planning program

## 4.11. Technoparc Montréal

### 1. Introduction

Technoparc Montréal is a non-profit organization (NPO) constituted in 1987 by letters patent under Part III of the *Companies Act*<sup>1</sup> of Quebec under the original name of Centre d'initiative technologique de Montréal (CITEC). On two subsequent occasions, the organization changed its name, first to Technoparc Saint-Laurent (in November 1997) and finally to Technoparc Montréal (in February 2008). In order to simplify this audit report, the name Technoparc Montréal will be used regardless of the historical period concerned.

Technoparc Montréal is located on the territory of Saint-Laurent borough and is a major industrial park dedicated to research and development (R&D) (Saint-Laurent Campus). The Saint-Laurent Campus site occupies almost 30 million square feet of which 23 million belonged to Technoparc Montréal. To ensure long-term development, specific zoning was enacted for this site, which sets out R&D use restrictions, among other things.

Technoparc Montréal's original mission was to ensure Technoparc's real estate development (sale of lots) through promotional and prospecting activities aimed at attracting and assisting companies operating in high-tech sectors, especially the life sciences,<sup>2</sup> information technologies and aerospace. Indeed, to create a high-tech park on its territory, the Ville de Saint-Laurent was granted certain powers under special legislation, the *Act respecting the Ville de Saint-Laurent*,<sup>3</sup> one of which was the right to expropriate any land on its territory with the purpose of transferring it thereafter to Technoparc Montréal.<sup>4</sup> From 1992 to 1998, the Ville de Saint-Laurent served several expropriation notices, resulting in Technoparc Montréal becoming the owner of these expropriated lands in addition to lands granted to it by the federal government for the creation of a high-tech park. Following the municipal merger, the Ville de Montréal (the City) became the successor to the rights and obligations of the Ville de Saint-Laurent. In March 2002, a Quebec court ruled that the City should pay \$17 million in compensation to the owners of the expropriated lands. According to the terms of a loan agreement, Technoparc Montréal became indebted to the City<sup>5</sup> and a first mortgage-backed security was registered on behalf of the City on certain of Technoparc Montréal's lands.

<sup>1</sup> CQLR, Chapter C-38, Section 218.

<sup>2</sup> The activity sectors involved include, among others, pharmacology, biotechnology and medical technologies.

<sup>3</sup> QL, 1992, Chapter 69.

<sup>4</sup> Following the municipal merger, most provisions of the *Act respecting the Ville de Saint-Laurent* were largely integrated into Sections 232 to 253.1 of Schedule C, Chapter VI, of the *Charter of Ville de Montréal* (CQLR, Chapter C-11.4).

<sup>5</sup> Based on the audited financial statements at December 31, 2013, the balance of the debt owed to the City was \$14.8 M.

Technoparc Montréal also incurred a debt with Investissement Québec<sup>6</sup> (IQ), which was secured by Technoparc Montréal lands. At that time, IQ agreed to provide funding to enable Technoparc Montréal to acquire land privately.<sup>7</sup> These debts owing to the City and to IQ are reimbursed as the lands held by Technoparc Montréal are sold.

In addition to real estate development on its Saint-Laurent Campus, Technoparc Montréal obtained additional letters patent in 2009, allowing it henceforth to conduct its activities on the entire territory of Montreal (agglomeration). From that time on, Technoparc Montréal's mission read<sup>8</sup> as follows:

[TRANSLATION]

- *To support the installation and development of technology companies and research centres on the entire territory of the Island of Montreal;*
- *To encourage innovation and technology transfer in conjunction with Montreal's technological hubs.*<sup>9</sup>

By focusing on the emergence and development of technological and scientific projects, Technoparc Montréal works to offer various solutions to business and property development partners (e.g., property needs assessment, construction costs assessment, custom design, project start-up and funding, construction project management). To enable it to fulfill its mission and obtain funding, Technoparc Montréal was constituted in 1997 as the Fiducie du Technoparc Montréal<sup>10</sup> (Fiducie). The board members of Technoparc Montréal and of the Fiducie are one and the same. Moreover, Technoparc Montréal is the sole recipient of profits generated by the activities of the Fiducie, which itself can access funding from a company also constituted in 1997, the Société immobilière technologique de Montréal Inc.<sup>11</sup> The Fiducie holds a 13% stake in the Société immobilière technologique de Montréal Inc. (The Technoparc Montréal organizational chart is shown in Appendix 6.1).

The City makes an annual financial contribution to Technoparc Montréal to enable it to fund its activities. The most recent management contract between the City and Technoparc was signed in 2012 for a period of five years, from January 1, 2013, to December 31, 2017, in the amount of \$2.6 million per year (or \$13 million over five years). Also, the lands held by

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<sup>6</sup> Based on the audited financial statements at December 31, 2013, the balance of the debt owed to IQ was \$10.3 M.

<sup>7</sup> Based on information obtained, the financial assistance came from a government decree to provide funding for the development of a world-class scientific park.

<sup>8</sup> 2012 Technoparc Montréal Activity Report, p. 5.

<sup>9</sup> These technological hubs are aimed at the following sectors: aerospace, life sciences, information and communications technologies, clean technologies and nanotechnologies.

<sup>10</sup> Formerly known under the name Fiducie du parc technologique du CITEC.

<sup>11</sup> According to information obtained, the shareholders of this company are: Desjardins Financial Security (Life Insurance), Alfred-Nobel Limited Partnership (Phase II) and Desjardins Group Pension Plan.

Technoparc Montréal receive a tax exemption<sup>12</sup> from the City. As a result, the applicable taxation rate is capped at \$0.50 per \$100 of property value.

Finally, Technoparc Montréal is part of the City's reporting entity.<sup>13</sup> Consequently, its audited financial statements are incorporated into the City's consolidated financial statements.

## 2. Purpose and Scope of the Audit

The purpose of our audit was to examine aspects surrounding compliance with the management contract between the City and Technoparc Montréal for the payment of an annual contribution, as well as all other management frameworks regulating the activities of this organization.

Our audit focused primarily on Technoparc Montréal and dealt with the years 2012, 2013 and 2014. For some aspects, data prior to these years were also taken into consideration. Apart from our examination and validation of the group's organizational structure and mode of operation, the Fiducie and the Société immobilière technologique de Montréal Inc. were excluded from the scope of this audit since these entities were inactive at the time of our audit. Indeed, no project was completed nor investment by the partners made during the audited period.

## 3. Summary of Findings

Our audit revealed sectors where improvements should be made. The following sections of this audit report highlight discrepancies regarding:

- Follow-Up of the Management Contract and Accountability (Section 4.1):
  - No one has been designated by the City to follow up on the financial assistance provided to Technoparc Montréal, and there are no regular assessment and accountability mechanisms in place;
  - No consultation mechanism with the City has been put in place to ensure the coordination and synergy of actions undertaken by the various stakeholders in the scientific and technological development community.

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<sup>12</sup> The granted exemption involves the general tax only and not the tax on local improvements.

<sup>13</sup> Definition: All the organizations considered to be under the control of the City based on the evaluation of criteria such as the authority to confirm nomination of the City manager and to grant or withdraw funding.

- Governance (Section 4.2):
  - The composition of the board of directors does not technically comply with the current letters patent;
  - The rules of ethics and professional conduct in place are not all strictly observed;
  - The mode of operation of the two oversight committees does not comply with established rules.
  
- Internal Management Rules Governing the Approval of Expenses (Section 4.3):
  - Internal controls have flaws, including issues pertaining to prior approvals and adequate supporting documentation submitted for reimbursement of expenses;
  - The method of awarding contracts lacks structure.
  
- Sale of Lands (Section 4.4):
  - The sales process is not subject to a documented policy governing the way markets are solicited, purchase prices are determined and prior approvals are obtained;
  - The recording of minutes of meetings is sometimes non-existent, inaccurate or inadequate.
  
- Strategic Planning (Section 4.5):
  - No status report is produced to allow assessment of the degree of progress achieved on measures set out in the action plans.

## 4. Detailed Findings and Recommendations

### 4.1. Follow-Up of the Management Contract and Accountability

#### 4.1.A. Background and Findings

A management contract exists between Technoparc Montréal and the City governing the financial contribution that the City pays to this organization to enable it to fulfill its mission and pursue its activities. The allocated funding consists of a payment of \$2.6 million yearly for a period of five years, from January 1, 2013, to December 31, 2017, for a total financial contribution of \$13 million.<sup>14</sup> This is, in fact, a renewal of the management contract as the City has been paying a financial contribution to Technoparc Montréal since the municipal merger of 2002. The previous three-year agreement (2010, 2011 and 2012), along with those

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<sup>14</sup> Management contract approved by City council on June 18, 2012 (Resolution CM12 0856).

entered into earlier, provided annual funds of \$2.85 million.<sup>15</sup> Prior to the municipal merger, Saint-Laurent borough supported this organization financially. In light of the information contained in Technoparc Montréal's audited financial statements at December 31, 2013, while the organization has generated revenues from sales of land in recent years, we noted that the City's financial contribution represented 99% and 97% of the recurring revenue sources of this organization for 2012 and 2013 respectively. A large portion of the allocated funds serve to help Technoparc Montréal pay the municipal taxes on the lands it holds. For the years 2012 and 2013, the municipal taxes payable represented 44% and 43% of the allocated funds, respectively. Clearly the survival of Technoparc Montréal depends on this financial contribution by the City.

The significant monetary value and recurrence of the financial support provided to Technoparc Montréal undoubtedly call for stringent follow-up on the part of the City to ensure that the terms of the contract related to the organization's obligations are met and the allocated funds are used for the purposes for which they were intended in order to achieve the expected economic development benefits. To this end, it is imperative that a person be formally designated to ensure follow-up and that assessment and accountability mechanisms be put in place and applied.

Our audit focused on locating and examining the measures taken by the City to follow-up the management contract signed with Technoparc Montréal. Once we had completed our work, we were surprised to conclude that no one from the City had been formally designated to ensure the follow-up, assessments and accountability required in the management contract since the approved renewal of the last management contract in 2012 (ending in 2017).

Indeed, the representatives of the Service du développement économique we met in the course of our audit mentioned that they did not consider themselves responsible for following up this management agreement since the financial contribution stemming from it did not come from their department's operating budget but rather was charged against the expenses of the central City's operating budget. According to these same representatives, the Service des finances is the department responsible for the file. We therefore contacted various persons at the Service des finances to find the person in charge of the dossier. Our search was in vain since all the parties contacted at the Service des finances pointed to the Service du développement économique as the department responsible for ensuring follow-up of the management contract and accountability for it. Moreover, we found that:

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<sup>15</sup> Starting in 2011, as part of the focus on financial contributions and the search for recurring savings, City council ratified the decision to reduce the funds allocated to Technoparc Montréal from \$2.85 M to \$2.6 M. The management contract then in force was amended accordingly.



- the management contract was signed by Technoparc Montréal and the City but uses the term “manager,” referring back to the manager of economic and urban development;<sup>16</sup>
- the decision-making summary supporting the approval of the management contract by City council in 2012 came from the department of economic and urban development at the time;
- a section head of the Service du développement économique currently sits as a board observer on Technoparc Montréal’s board of directors.

Thus, while this has not been the case since the management contract was renewed, we would have been justified in believing that the Service du développement économique was assuming this responsibility.

The ambiguity of the situation resulted in Technoparc Montréal’s contractual obligations not being followed up, resulting in somewhat haphazard communication and transmission of most of the documentation required by the contract between the organization and the City. For example, we found that:

- At the end of each fiscal year, Technoparc Montréal is required to submit to the City a status report on its activities, actions taken and results achieved in the past year, as well as a strategic plan for the development of its activities. We found that Technoparc Montréal posts its annual activity report on its website but, for 2012 and 2013, this document was not sent to the Service du développement économique in particular or any other designated unit to ensure follow-up of the management contract. The 2013 activity report was, however, sent by Technoparc Montréal to the City’s Direction du greffe<sup>17</sup> to be tabled at City council in compliance with a resolution<sup>18</sup> adopted by City council in 2013. As for Technoparc Montréal’s (2014–2017) strategic plan, representatives of the Service du développement économique we met mentioned that they had received a copy but had not verified the contents;
- Technoparc Montréal must submit its budget forecasts for the coming year to the “manager.”<sup>19</sup> Technoparc Montréal produces budget forecasts, but we were unable to find any proof that these had been requested by the Service du développement économique and forwarded by Technoparc Montréal;
- According to the information obtained from Technoparc Montréal’s vice-president of finance, a copy of the audited financial statements is sent to the person responsible for financial and material resources at Saint-Laurent borough. The latter then forwards them

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<sup>16</sup> This department is now known as the Service du développement économique, reporting to the assistant City manager for development.

<sup>17</sup> Now known as the Service du greffe.

<sup>18</sup> Resolution CM13 1157.

<sup>19</sup> As previously mentioned, the management contract defines this term as the manager, Développement économique et urbain, now the Service du développement économique.

to the Service des finances to consolidate the financial data in the City's financial statements.<sup>20</sup> Nevertheless, no copy is forwarded to the Service du développement économique or to any other designated person responsible for ensuring follow-up of the management contract supporting the allocated funding.

While Technoparc Montréal makes documentation about the organization available<sup>21</sup> to all members of its board of directors, in our opinion someone should be formally designated as the person responsible to channel the information received and required to assess compliance with the management contract and use of the allocated funds. We also consider that the management contract should set out Technoparc Montréal's obligation to provide the designated person with other documents that are not currently specified but that would undoubtedly ensure more stringent follow-up of completed activities, given the amounts allocated, and ultimately provide accountability for them (e.g., audited financial statements, action plans produced annually by the organization and, where applicable, related status reports to assess whether the directions in its strategic plan have been met.) The management contract should be amended accordingly.

While this aspect will be discussed in greater detail in Section 4.2 of this audit report dealing with governance, it should be stated here that a Montreal City councillor<sup>22</sup> has sat for several years as a member on Technoparc Montréal's board of directors, in addition to two other civic officials,<sup>23</sup> who sit as board observers. The presence of these individuals at the working sessions of Technoparc Montréal's board of directors could, to some extent, serve as a channel for conveying the information needed for the accountability process. We believe, however, that the presence of these authorized representatives, named by the City, on the organization's board of directors cannot fully replace the follow-up that should be conducted by the City to assess how operations are managed and the extent to which anticipated results have been achieved, given the amount of the allocated funds.

Moreover, our examination of the management contract also led us to conclude that some clauses stipulating Technoparc Montréal's obligations were worded in such a general way as to make it more difficult to assess the achievement of anticipated results and benefits derived from the allocated funding. For example, the management contract specifies that, in exchange for the financial contribution paid by the City, Technoparc Montréal agrees to:

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<sup>20</sup> Indeed, Technoparc Montréal is included in the City's reporting entity.

<sup>21</sup> Technoparc Montréal has a Web portal that can house data and electronic document management – "Leading Boards."

<sup>22</sup> This councillor sits on Montreal's City council and is the mayor of Saint-Laurent borough.

<sup>23</sup> The Saint-Laurent borough manager and a division head of the Service du développement économique.

[TRANSLATION]

- *Facilitate and support the implementation and development of high-tech projects, businesses and research centres on the territory of Montreal;*
- 
- *Develop new consultation and support networks for high-tech companies [...];*
  - *Collect information, put in place a team of direct industry sellers and develop a prospecting network [...] to identify investors in the high-tech sector.*

What is more, according to information obtained, no performance indicator was formally agreed to between the parties to the management contract. In our opinion, this management tool would have enabled the stakeholders to evaluate the organization's performance in achieving the targets it set for itself and, ultimately, make it accountable for them.

Finally, given that Technoparc Montréal has had the authority to conduct its activities on the entire territory of Montreal since 2009, we wanted as part of our audit to determine the mechanisms that could have been put in place to ensure the coordination and synergy of the actions of the Service du développement économique and Technoparc Montréal. The information obtained from the stakeholders we met at the Service du développement économique revealed that Technoparc Montréal's roles and responsibilities in relation to those of the Service du développement économique were not always clear and sometimes even overlapped. They also pointed out that, in some respects, the presence of several other industry partners,<sup>24</sup> sometimes soliciting the same spheres of activity, made it more difficult to assess each one's real contribution to the success of the projects. Nevertheless, we understand from the information obtained from both the representatives of the Service du développement économique and those of Technoparc Montréal that no concrete measures currently exist to ensure the coordination and synergy of their activities. In addition, while Technoparc Montréal has been involved in the development of various projects, the absence of any evaluation or accountability criteria makes it difficult to assess the real economic benefits attributable to Technoparc Montréal.

By familiarizing ourselves with the City's strategic framework for economic development for 2011 to 2017, we were able to determine that the City had planned to put in place various strategic initiatives for urban innovation, including the "Montréal Technopole" project aimed at encouraging the development of scientific and technological assets. The "Montréal Technopole" initiative was to have proposed an intervention model to ensure better coordination in developing the region's science and technology assets. Technoparc Montréal

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<sup>24</sup> For example, the other partners involved are: Montréal International (attracting international investors), TechnoMontréal (focusing on information and communications technologies [ICT]), the local development centres (CLD), and Montréal InVivo (developing businesses active in the life sciences and health technologies sectors).

was one of the collaborating partners targeted for this project, along with Montréal International, Montréal InVivo and others. According to information obtained, it appears that the pursuit of this initiative was never assured and it fell by the wayside.

#### 4.1.B. Recommendation

We recommend that the Direction générale of the City take the necessary steps to ensure that the management contract signed with Technoparc Montréal for the payment of an annual financial contribution be properly followed up, in particular by:

- formally designating someone responsible;
- amending the management contract to specify all the relevant documents that Technoparc Montréal must provide to the designated person in charge to enable the latter to ensure more stringent follow-up of the activities carried out by the organization and to assess compliance with the management contract in light of the funds allocated;
- mandating the designated person to establish, together with Technoparc Montréal, measurable performance targets and indicators to assess the degree of progress attained;
- requiring regular reporting by the designated person on results of the evaluations carried out.

#### Business unit's response:

*[TRANSLATION] The Service du développement économique will be designated responsible for the dossier. (Planned completion: April 2015)*

*An amended management contract specifying the relevant documents that Technoparc Montréal must provide to ensure follow-up of its activities will be presented to the authorities for approval. (Planned completion: December 2015)*

*Performance targets will be set at the same time. (Planned completion: December 2015)*

*An annual reporting process will be put in place; the first status report will be one year after completion of the two previous points. (Planned completion: February 2017)*

#### 4.1.C. Recommendation

We recommend that, to ensure the coordination and synergy of various science and technology stakeholders' activities, the Service du développement économique put in place the necessary consultation mechanisms to clarify the roles and responsibilities of each of the stakeholders involved in this sphere of activity.

**Business unit's response:**

*[TRANSLATION] The management of the Service du développement économique will be producing an economic development action plan for the entire territory of Montreal. The Service du développement économique will re-examine whether the actions set out in Technoparc Montréal's strategic plan are in line with the directions put forth in the City's economic action plan.*

*Beyond this harmonization, semi-annual meetings will be held to keep the action plans and implementation responsibilities aligned. (Planned completion: December 2015)*

## 4.2. Governance

### 4.2.1. Compliance of the Composition of the Board of Directors

#### 4.2.1.A. Background and Findings

Our audit then focused on examining the compliance of the composition of Technoparc Montréal's current board of directors. To this end, we referred to the most recent changes made to the supplementary letters patent delivered on January 21, 2009. In addition to limiting to 12 the number of members that must now make up the board of directors, the letters patent also make changes to the choice of board members.<sup>25</sup> In particular, they stipulate that:

*[TRANSLATION]*

*The number of board members of the legal entity is limited to 12. They are chosen based on the following grid:*

- *Nine of the board members of the legal entity must come from the private sector. They are admitted after consultation with the City;*
- *Two of the board members of the legal entity are chosen from among City officials or other persons that the City puts forward as candidates; and*
- *The 12th board member of the legal entity, who acts as CEO, is admitted upon agreement with the City.*<sup>26</sup>

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<sup>25</sup> Section 6.4 of the supplementary letters patent issued on January 21, 2009.

<sup>26</sup> Our underlining.

At the time of our audit,<sup>27</sup> the board of directors was composed of 11 members (one position being vacant) chosen in the following manner:

- Nine members from the private sector, in accordance with the letters patent. In light of information collected, however, we found no evidence that they were admitted after consultation with the City, as prescribed;
- Only one representative designated<sup>28</sup> by the City sat as a member on the board, while the supplementary letters patent stipulated that two members must be chosen from among civic officials or other persons that the City puts forward as candidates. As previously stated, two civic officials<sup>29</sup> also attend the working sessions of Technoparc Montréal's board of directors as board observers (non-voting members);
- Finally, the chief executive officer (CEO) is also a board member. We determined that his appointment was the object of a City council resolution<sup>30</sup> in accordance with the provisions of Technoparc Montréal's letters patent.

We conclude that, in certain respects, the composition of Technoparc Montréal's board of directors does not comply technically with the current letters patent.

We also became aware of a memo written in February 2014 by the City's comptroller general, to the Direction générale, recommending that no elected official or other civic official sit, as part of his duties, as a member on the board of directors of a paramunicipal organization or NPO when the City seeks the authority to oversee the organization's management. This recommendation, which was supported by an opinion on the matter from the City's legal department,<sup>31</sup> produced in April 2014, is mainly founded on the duty of loyalty and obligation to act "*in the interest of the legal person*" required under the Civil Code of Québec<sup>32</sup> for any person acting as a member of a board of directors. In spite of the City's authority to appoint members as set out in the letters patent, this legal opinion illustrates the fact that the City would like the member it appoints to look first at safeguarding and promoting its own interests to ensure a right to follow up how the organization conducts its business and activities. This requires that the member be able to juggle his duties and the City's expectations, a task that could at the very least prove difficult, and sometimes create a conflict. The problem resides in the fact that the elected official or civic official named as a board member also has the duty of loyalty to the City, meaning that he is not only expected to act with honesty and loyalty in the interests of the legal entity for which he is a director but also in the interests of the City.<sup>33</sup>

<sup>27</sup> In October 2014.

<sup>28</sup> Reference: Resolution CM08 0694 of the City council session held on August 25, 2008.

<sup>29</sup> This refers to the manager of Saint-Laurent borough and a division head of the SDE.

<sup>30</sup> Reference: Resolution CM08 0694 of the City council session held on August 25, 2008.

<sup>31</sup> Reporting to the Service des affaires juridiques et de l'évaluation foncière.

<sup>32</sup> QL, 1991, Chapter 64, Section 322.

<sup>33</sup> Service des affaires juridiques et de l'évaluation foncière, legal opinion, April 3, 2014.

Yet, the member's duty of loyalty under the Civil Code of Québec requires that he act in the interests of the legal entity and not of the City. By combining the two functions, he risks a conflict of interest. This risk is even more apparent when the representative named by the City to sit on the board of directors of an organization such as Technoparc Montréal is also an elected City council official and the mayor of Saint-Laurent borough.

That being said, both the memo written by the comptroller general and the legal opinion emphasize that, if the City's intention is to ensure the presence of an overseer on the board of directors of an organization to which it allocates funds, nothing prevents elected officials or civic officials from sitting on this board as board observers. Since their role is limited to observing and not decision making, the board observers mandated by the City are not bound by the same duty of loyalty prescribed for a director under the Civil Code of Québec. Under such circumstances, the management contract signed by the parties should be amended to provide for the insertion of specific clauses governing, in particular, the nomination of board observers to the board of directors, who shall have access to all relevant information.

Finally, to validate whether the composition of Technoparc Montréal's board of directors is compliant, we examined the information disclosed to the registrar of enterprises of Quebec, whose duty is to keep a register of enterprises under the *Act respecting the legal publicity of enterprises*.<sup>34</sup> During this examination, we found that information regarding the board members in the register was inaccurate. On the one hand, the register showed Technoparc Montréal's CEO as chair of the board rather than as a board member, while the person who actually holds the position of chair was shown as a member. On the other hand, the register failed to reflect the changes made regarding new members admitted to the board, while members who had stepped down (three persons) still appeared there. The Act cited above stipulates<sup>35</sup> that it is the duty of the organization, in this case Technoparc Montréal, to verify the accuracy of the declarations filed and, in the case of inaccurate information, to make the appropriate correction by filing an updating declaration "without delay." Failing this, Technoparc Montréal is guilty of an offence under the Act<sup>36</sup> and may be liable to a fine ranging from \$600 to \$6,000. Finally, the person entered on the register of enterprises without just cause could be involved in litigation in spite of himself if, as the facts show, he no longer acts as a board member or does not hold the office shown in the register.

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<sup>34</sup> CQLR, Chapter P-44.1.

<sup>35</sup> CQLR, Chapter P-44.1, Sections 39 and 40.

<sup>36</sup> CQLR, Chapter P-44.1, Sections 152 and 159.



#### 4.2.1.B. Recommendation

We recommend that, to ensure that the composition of the board of directors complies with the regulatory documents, Technoparc Montréal take the necessary measures so that the nomination of board members from the private sector is subject to prior consultation with the City, as stipulated in the letters patent.

#### Business unit's response:

*[TRANSLATION] The organization has existed since 1987, and adjustments to its constituent documents must be discussed with the City to account for the evolution of its activities and the City's governance context.*

*Based on talks with the City, Technoparc Montréal's general by-laws and letters patent will be amended and approved by the governance committee and the board of directors. (Planned completion: November 2015)*

#### 4.2.1.C. Recommendation

We recommend that Technoparc Montréal, together with the Direction générale take the necessary measures to:

- amend the letters patent of Technoparc Montréal so that no elected official or civic official sits on the board of directors as a member but rather as a board observer;
- amend the management contract signed by Technoparc Montréal and the City to integrate specific clauses to this effect;

in order to avoid placing the board members designated by the City in a situation that might compromise their duty of loyalty to the organization that they represent.

#### Business units' responses:

##### **TECHNOPARC MONTRÉAL**

*[TRANSLATION] The current letters patent provide for two City representatives to sit as members of the board of directors whereas, in fact, only one person named by the City sits as a board member. Two City officials also act as board observers.*

*In accordance with the City's guidelines, amendments will be incorporated into the general by-laws and letters patent regarding the status of City representatives sitting on the board of directors. If necessary, an addendum to amend the relevant clause in the management contract will be put forward for approval by the governance committee and the board of directors.*

*Our objective is to simultaneously address all the amendments to be made to the organization's constituent documents, i.e., the general by-laws and letters patent, in agreement with the City. (Planned completion: November 2015)*



### **DIRECTION GÉNÉRALE**

*[TRANSLATION] As mentioned in the report, no civic official currently sits as a board member; they have observer status.*

*The Direction générale will collaborate on implementing this recommendation by ensuring that no civic official may potentially hold the position of board member but may only sit as a board observer, as is currently the case.*

*Furthermore, the Direction générale considers that it is not its role to decide on the presence of elected officials on boards of directors and informed the chair of the executive committee of the contents of the recommendation, for consideration. (Planned completion: November 2015)*

#### **4.2.1.D. Recommendation**

**We recommend that Technoparc Montréal verify the accuracy of the information entered in the register of enterprises and make the necessary corrections regarding the designation of board members and the position they occupy in order to comply with the obligations stipulated in the *Act respecting the legal publicity of enterprises*.**

#### **Business unit's response:**

*[TRANSLATION] The accuracy of the information entered in the register of enterprises was verified and the necessary changes will be made in the coming weeks.*

*As a follow-up to discussions with the City regarding the names and status of its representatives on the board of directors, other adjustments will be made, where necessary. (Planned completion: May 2015)*

## **4.2.2. Compliance with Rules of Ethics and Professional Conduct**

### **4.2.2.A. Background and Findings**

Board members must, in the performance of their duties, act with prudence, loyalty and integrity to the extent required of them by, among other things, the law, letters patent, by-laws as well as the rules and regulations of the organization that they represent.

With this in mind, and with the intention of overseeing the practices and behaviour of not only its board members but also its managers and employees, Technoparc Montréal adopted a code of ethics and professional conduct (the code). Two versions of this code were provided to us during our audit:

- A version approved by Technoparc Montréal's board of directors at its meeting held on March 15, 2012;

- A second version amended in form and content. This alternate version is not dated, however, and we were unable to find any resolution referring to its approval by Technoparc Montréal's board of directors. Only one mention appears in the minutes of the board meeting of June 20, 2013, suggesting that the existing code should be simplified.

For the purposes of assessing compliance with the application of this regulatory framework, we examined the minutes of meetings available at the time of our audit for the years 2011 to 2014.<sup>37</sup> We also sampled professional fees incurred from 2012 to 2014.<sup>38</sup> At the end of this examination, our attention was drawn to three situations involving board members.

The first situation involved the chair of the board of directors. The minutes of the board meeting held on December 13, 2012, revealed, under the heading "Other Business," that the chair of the board wished to develop charters for the audit and property risk management committee, as well as for the new oversight committees<sup>39</sup> that would be created in 2013. He suggested freeing up his time to see to the establishment and proper functioning of these committees and to provide active support within the implementation framework of Technoparc Montréal's new strategic plan. The resolution to this effect in the minutes of the meeting stipulates: *[TRANSLATION] "On motion duly seconded, it is unanimously resolved to approve the maximum amount of \$25,000 to be allocated to Mr. [X] in his role as consultant to TM [Technoparc Montréal] for the year 2013."*

This agreement was subsequently renewed for 2014, whereas at the February 27, 2014, meeting, during which the chair was also present, the following resolution appeared in the minutes: *[TRANSLATION] "On motion duly seconded, it is unanimously resolved to approve the agreement between [Mr. X's management company] and Technoparc Montréal for the monthly sum of \$2,000."*

We acknowledge that an NPO can award contracts to certain board members as long as the disclosure obligations adopted by the organization and the legal obligations governing conflicts of interest have been met by the board member. However, this situation involving Technoparc Montréal's senior member led us to the following observations:

- The information obtained revealed that, other than discussions reported in the minutes of the meetings, no professional services contract detailing how the expected services

<sup>37</sup> The most recent minutes examined were from a session of the board of directors of Technoparc Montréal held on October 30, 2014.

<sup>38</sup> Audit conducted up to October 2014.

<sup>39</sup> These new committees are the "governance and ethics committee" and the "human resources committee."

would be delivered was signed by the chair and Technoparc Montréal for 2013 and 2014. Payments under the agreement were made to the chair's management company and posted to Technoparc Montréal's professional fees.

- Neither of the minutes of the meetings involved mention the chair withdrawing from deliberations or abstaining from voting on the matter. In fact, in both cases the minutes show that the proposal was adopted unanimously, implying that the chair voted in favour of his own contract. In our opinion, in the interests of greater transparency regarding a situation that could, at least in appearance, be likened to a conflict of interest, the chair should have withdrawn from deliberations and abstained from voting. This is exactly what Technoparc Montréal's code of ethics and professional conduct prescribes, as shown below:

- According to Section 5.9 of the code approved in 2012:

*[TRANSLATION]*

*... the board member shall take every means to avoid placing himself in a situation of real or apparent conflict of interest [...]*

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*The board member involved shall abstain from taking part in all deliberations and any decisions regarding a situation in which he finds himself in a conflict of interest. In particular, he shall withdraw from the meeting for the duration of the deliberations and decision-making regarding this situation.*

- According to Section 3.4, "Contract with Technoparc," of the amended code (not approved at the time of our audit):

*[TRANSLATION]*

**Section 3.4.1**

*The board member, manager or employee who is a party to a contract with Technoparc or a subsidiary [...] must disclose in writing the nature and scope of his interest to the CEO or the chair of the board.*

**Section 3.4.4**

*The board member must abstain from deliberating and voting on any matter related to this interest and avoid trying to influence any decision in this regard. He must also withdraw from the meeting for the duration of the deliberations and for the vote on this matter.*

The second situation that attracted our attention also involved a member of Technoparc Montréal's board of directors, in this case a lawyer. During our examination of professional fees, we found some invoices paid in 2013 and 2014 for a mandate entrusted to this board member's firm. These invoices showed the board member as the person responsible for the mandate whereas we found that, for most of these invoices, he was paid for a few hours of work that he did himself. While the amounts billed are not significant (approximately \$10,000), from an ethical standpoint this situation remains questionable. We could not find any

evidence that this board member expressly mentioned his interest or requested that this fact be entered into the minutes of the board's deliberations. Indeed, only one mention regarding this mandate appears, in the minutes of the meeting of April 18, 2013, as follows: [TRANSLATION] *"The mandate of [firm X] for [...] is under way and must be approved by the board of directors."*

We consider that the necessary measures should be taken to comply with Technoparc Montréal's code of ethics and professional conduct and that all facts underlying this situation involving a board member should be recorded in the minutes.

Lastly, the third situation involved Technoparc Montréal's CEO. As mentioned previously, the CEO also sits as a member on the board of directors, in accordance with the letters patent of Technoparc Montréal. We observed that the CEO's work contract made provisions, from the time he was hired in 2007 to 2013, for him to receive commissions on the net sale price of the lands held by Technoparc Montréal. While this benefit was removed from the work contract and replaced with a bonus beginning in 2014, the CEO's performance review includes a performance objective related to the monetary threshold of the lots to be sold annually. This being said, the perceived problem does not necessarily stem from the fact that the CEO is also a board member but rather from the fact that, in reading the minutes, we did not find any evidence that he withdrew from board meetings for the duration of deliberations or abstained from voting when the subject was the approval of a land sale. It is clear that the ethics and professional conduct rules developed by Technoparc Montréal were, once again, not applied.

In conclusion, we noted that Section 5.10 of the code of ethics and professional conduct approved by Technoparc Montréal's board of directors in March 2012 stipulated that a declaration entitled [TRANSLATION] *"Declaration respecting conflicts of interests of members of the board of directors of Technoparc Montréal"* must be completed and remitted to the chair of the board at the time that a person assumes his duties. Based on the information obtained from the people we met at Technoparc Montréal, it appears that no board member completed such a declaration.

In light of these findings, we are of the opinion that corrective measures should be taken to ensure that the actions of board members comply with the rules of ethics and professional conduct in force.

#### 4.2.2.B. Recommendation

**We recommend that Technoparc Montréal take the necessary corrective measures to ensure that the actions of board members regarding personal or business interests comply with the rules of ethics and professional conduct in force at the organization.**

#### Business unit's response:

*[TRANSLATION] The code of ethics and professional conduct was reviewed and approved by the board of directors at its meeting of February 25, 2015, and is in force.*

*The members of the board also signed a commitment to honour this code of ethics and professional conduct.*

*In future, in order to ensure that our minutes reflect the commitments made by board members on matters of ethics and professional conduct, we will improve the recording of minutes of meetings on all matters involving possible or apparent conflicts of interest for board members, in particular by reporting the interventions, actions (e.g., withdrawal) and declarations of these members. **(Planned completion: May 2015)***

#### 4.2.2.C. Recommendation

**We recommend that Technoparc Montréal improve the recording of the minutes of board meetings to increase the transparency of decisions taken, especially when they involve one of its board members.**

#### Business unit's response:

*[TRANSLATION] The recording of the minutes of meetings has already improved and will be further enhanced to better document the topics and questions addressed, in particular in matters dealing with the awarding of contracts and the sale of land. **(Planned completion: May 2015)***

### 4.2.3. Compliance with the Composition of Oversight Committees

#### 4.2.3.A. Background and Findings

As previously mentioned, in addition to the audit and property risk management committee that already existed, two other oversight committees were created in 2013 at the urging of the chair of Technoparc Montréal's board of directors: the governance and ethics committee and the human resources committee.

The mandate and role of the audit and property risk management committee is to review such aspects as the annual operating budget, audited financial statements, land sales and associated risks. For its part, the governance and ethics committee's duties include formulating rules of governance and ethics for conducting Technoparc Montréal's business affairs, creating competency and experience profiles for the nomination of members to the board of directors and establishing criteria for evaluating how the board operates. The human resources committee has particular responsibility for making recommendations to the board of directors for approval of human resources policies, proposing output and performance targets, as well as the criteria for the CEO's performance evaluation, and making recommendations to the board of directors on the CEO's remuneration.

At the same time, each of these committees must have a charter to limit not only their respective mandate but also aspects related to the composition of the committees and their mode of operation (e.g., number of members, number of meetings per year, issuing of notices of meetings, quorum). Each of the charters developed must then be submitted to Technoparc Montréal's board of directors for approval.

Having clarified these details, we began by inquiring about the existence of these charters and their approval by Technoparc Montréal's board of directors. We then examined whether they were compliant with their provisions with respect to the composition of the committees and their respective mode of operations, especially regarding the number of meetings held versus the number planned.

From the outset, we observed that the two new committees, the governance and ethics committee and the human resources committee, were effectively created and became operational in 2013. During the same year, a charter was also drawn up for each of the oversight committees, including the audit and property risk management committee.

The charter of the audit and property risk management committee and that of the human resources committee were approved by Technoparc Montréal's board of directors on October 13, 2013, and June 20, 2013, respectively. The charter of the governance and ethics committee, however, was at the draft stage and had not been approved by Technoparc Montréal's board of directors at the time of our audit in October 2014.

The results of our examination of compliance with the provisions of the oversight committees' charters for 2013 and the first 10 months of 2014, regarding the composition of the committees and number of meetings held vs. number planned, revealed the following:

- No irregularity was detected regarding the audit and property risk management committee, which operates as described in its charter.
- Since the charter of the governance and ethics committee was at the draft stage and had never been approved by Technoparc Montréal's board of directors, it was difficult to corroborate with any certainty whether the committee complied with the charter's provisions. Nevertheless, we were able to observe that very few meetings were held in 2013 and 2014. While the charter prescribed four meetings a year, we only obtained minutes for two meetings held in 2013 and only one in the first 10 months of 2014. We concluded, therefore, that this committee is not very active and that further efforts are required to consolidate the committee's mandate and operations.
- As for the human resources committee, it appears that it is not fully operational according to the operations described in its charter. The following facts were noted:
  - The charter stipulates that the committee must be made up of at least three independent members named by Technoparc Montréal's board of directors. At the time of our audit, only two members comprised this committee. As well, the committee members have changed since it was created in early 2013 and we were not able to find any new resolution of the board of directors approving the nomination of the chair and the other member currently forming this committee;
  - According to the charter, meetings should be held at least four times a year. Only one meeting was held in 2013<sup>40</sup> and one other during the first 10 months of 2014;<sup>41</sup>
  - Section 3.7 of the charter stipulates that: *[TRANSLATION] "the discussions of the Committee regarding the evaluation criteria and performance evaluation of the chief executive officer and managers of the Corporation [Technoparc Montréal] are held in camera in the absence of the Committee secretary, chief executive officer or any other employee of the Corporation."* In both the minutes of the meeting held in 2013 and those of the meeting held in 2014, however, we observed no mention of the withdrawal of the CEO, who remained present during the meetings as an invited member and acted as the secretary. What is more, the minutes are not always signed.

By creating these oversight committees, we concluded that Technoparc Montréal has equipped itself with governance mechanisms that should ensure more stringent follow-up of business operations and compliance with its guidelines and serve to support informed decision-making by members of the board of directors. If Technoparc Montréal's intention is to maintain this governance structure, we believe that, to ensure that they can become fully operational, the rules established for the composition and operations of the oversight

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<sup>40</sup> Meeting held on May 8, 2013.

<sup>41</sup> Meeting held on February 7, 2014.



committees must be formally adopted and applied in accordance with the specific provisions of their respective charters.

#### 4.2.3.B. Recommendation

**We recommend that, to make the two new oversight committees fully operational, Technoparc Montréal take the necessary measures to:**

- **reach a consensus about the contents of the governance and ethics charter and have it formally approved by the board of directors;**
- **ensure consistent application of the provisions set out in each of their respective charters.**

#### **Business unit's response:**

*[TRANSLATION] The governance committee's charter was approved at the meeting of the board of directors held on February 25, 2015. The provisions of the charters of the three committees (governance and ethics, human resources and audit and property risk management) are in force accordingly.*

*In light of the comments made by the auditor general, adjustments will be proposed for each of the charters in force and approved by the board of directors of April 2015. (Planned completion: August 2015)*

### 4.3. Internal Management Rules Governing Approval of Expenses

In order to appreciate the extent to which Technoparc Montréal prudently uses the public funds entrusted to it, our audit focused on examining certain expenses and rules of internal management associated with them. To this end, we requested all the management frameworks and guidelines in force at Technoparc Montréal. The CEO provided us with a document entitled [TRANSLATION] "Main administrative procedures in force at Technoparc Montréal," which is a summary description of the process in place for, in particular, choosing suppliers, approving employee expenses, paying invoices and issuing cheques.

From the outset, we noticed that this document had been prepared in September 2014, shortly before our audit began, and had not been approved by the board of directors. Indeed, our examination of the minutes of meetings for the years 2011 to 2014 failed to find evidence that any approval had been granted. As well, according to the information obtained from the CEO, no official administrative policy had been approved in the years prior to 2011. In a context in which a major portion of the funds required by Technoparc Montréal to conduct its current activities comes from the public purse, we believe that the internal rules of procedure



meant to ensure more stringent control of operations management should be subject to a formal framework approved by the organization's board of directors.

Under the circumstances, we examined how the administrative process described in the document<sup>42</sup> provided to us by the CEO was applied. More specifically, we began by sampling expenses incurred by the staff of Technoparc Montréal, how they were approved and whether the supporting documentation submitted for approval purposes (see Section 4.3.1) was adequate. We then examined the process for awarding contracts (see Section 4.3.2) and, finally, the CEO's work contract (see Section 4.3.3).

### 4.3.1. Staff Expenses

#### 4.3.1.A. Background and Findings

In the document describing the administrative procedures in force at Technoparc Montréal, the following appears under the heading [TRANSLATION] "Pre-approval of staff expenses": [TRANSLATION] "Extraordinary expenses or those related to an ad hoc activity (\$250 or more in travel or foreign travel expenses, participation in a trade show, conference or convention) must be pre-approved by the president<sup>43</sup> or the vice-president of finance."

In addition, the heading entitled [TRANSLATION] "Approval of staff expenses by the supervisor" states the following: [TRANSLATION] "Approval by the immediate supervisor (president or vice-president of finance) of costs pertaining to travel and accommodation, entertainment, participation in a training activity, trade show, conference or convention, in Quebec or abroad. In the case of the CEO, the chair of the audit committee authorizes the reimbursement of the aforementioned expenses."

The document make no mention of approval of the expenses incurred by Technoparc Montréal's other board members.

Having clarified these details, we examined the expense reports submitted by and reimbursed to four persons, the CEO, the vice-president of finance and two managers, for the years 2012, 2013 and the first 10 months of 2014, in order to assess the extent to which the described procedures were reflected in Technoparc Montréal's operations. For each expense report submitted, we specifically looked for evidence that approval was obtained in compliance with the described procedure, verified the accuracy of the reimbursements made and examined whether the supporting documents provided were adequate.

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<sup>42</sup> Document entitled "Main administrative procedures in force at Technoparc Montréal."

<sup>43</sup> According to information obtained, this refers to the CEO of Technoparc Montréal.

The document describing the administrative procedures in force at Technoparc Montréal indicates that the reimbursement of expenses must be approved as shown in Table 1.

**Table 1 – Approval of Staff Expenses**

Expenses submitted by	Expenses approved by
CEO	Chair of the audit and property risk management committee
Vice-president of finance	CEO
Managers	CEO or vice-president of finance

Our examination of the expense reports of the four people chosen revealed that a total of 223 expense reports had been submitted by them during the three years<sup>44</sup> of the period audited. In 32 (14.3%) of the 223 reports submitted, we found no evidence of any approval. These expense reports were those of the CEO (29 reports) and the vice-president of finance (3 reports). We also found that 10 (4.5%) of the 223 expense reports examined had been approved by someone other than the person named in the described administrative procedure. These 10 cases involved expense reports submitted by the CEO. These expense reports were approved by the vice-president of finance rather than the chair of the audit and property risk management committee, as stipulated in Table 1.

We also observed that the expense reports were not always systematically dated by the claimant and/or the person approving the claim. In some cases, the claimants never entered the date on which they had filled out the request. As for the date of approval, we noted that the claim forms used in 2012 and 2013 did not provide space for the person approving the claim to write in the date on which the approval was granted. While the format of the form was amended in 2014 to allow for the date of the claimant's request for reimbursement and the date of approval to be entered, our examination nevertheless found that this information was not always systematically provided.

Regarding the expense reports submitted by the vice-president of finance, representing 35 of the 223 reports examined, we concluded that 21 cheques had been issued by Technoparc Montréal to reimburse these expenses (some expense reports were grouped together for payment purposes). In the case of 10<sup>45</sup> of these 21 cheques issued, we noticed that the issue date was earlier than the date of approval by the CEO for the majority of underlying expense reports. A fundamental tenet of internal controls is that no cheque is issued and no transaction is entered into the accounts before the reimbursement has been approved. In our

<sup>44</sup> 2012, 2013 and the first 10 months of 2014.

<sup>45</sup> Note that 10 cheques were used to reimburse 14 of the 35 expense reports.

opinion, this finding clearly highlights a problem in the performance of incompatible tasks by the vice-president of finance. The latter is responsible for reviewing and approving staff expenses and other types of expenses not exceeding \$10,000, entering these transactions in the accounting ledgers and preparing the cheques. We even found that he is one of the two required signatories of cheques.

In addition to this, the examination of all the cheques paid out for the years 2012, 2013 and the first 10 months of 2014 enabled us to trace 13 cheques for which at least one of the signatures of the authorized signatories was missing. Note that cheques require the signature of two authorized signatories. We also observed that one of these 13 cheques had not been signed at all (by either of the two required signatories) but, astonishingly, it was honoured by the financial institution concerned. One of the 13 cheques was signed by the CEO only, while the other 11 cheques were signed by the vice-president of finance only. The amount of these 13 cheques ranged from \$52 to \$41,752, totalling more than \$70,000. It was only in September 2014 that Technoparc Montréal's minutes of meetings made mention of a resolution<sup>46</sup> adopted by the board members regarding the appointment of persons as signatories of cheques: the CEO, the vice-president of finance and two board members. Based on the information obtained from the CEO, apparently no resolution regarding such appointments had been made previously. In light of our examination of reports for the period audited, we were nevertheless able to confirm that the usual signatories of cheques are the CEO and the vice-president of finance.

While our objective was not to question the integrity of the vice-president of finance, the fact remains that undertaking incompatible tasks increases the risk of errors being covered up or irregularities not being detected in a timely manner. Therefore, in the interests of more stringent internal controls to protect assets and the reliability and integrity of Technoparc Montréal's financial and operational information, we are of the opinion that measures must be taken to ensure that no one person performs all the tasks involved in the business process leading ultimately to the issuing of cheques by Technoparc Montréal.

On a different note, our audit also examined the accuracy of the expense reimbursements made. We found six cases (2.7%) from among the 223 expense reports examined, in which the amount reimbursed by Technoparc Montréal did not exactly match the amount owed. In five of the six cases (83.3%), the difference was attributable to an error in the formula for calculating the sales tax on the electronic expense report form. In the sixth case, there was an error in the amount claimed for transportation costs (mileage). While the monetary value of the errors detected was on the whole negligible,<sup>47</sup> these findings nevertheless sow doubt

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<sup>46</sup> Minutes of a session of the board of directors held on September 11, 2014.

<sup>47</sup> The errors detected totalled close to \$200.

as to the soundness of the internal controls in place, all the more so because the reports showed evidence of a compliant approval.

Finally, although the description of the administrative procedures in force at Technoparc Montréal does not mention any specific requirement regarding the particular specifications of supporting documents that must be submitted by staff for reimbursement purposes, we nevertheless examined this aspect based on best practices.

The results of our examination of the supporting documents for the 223 expense reports submitted in 2012, 2013 and during the first 10 months of 2014 by the four people in our sample<sup>48</sup> are presented in Table 2.

**Table 2 – Examination of Supporting Documents Submitted for Reimbursement of Expenses**

Quality of supporting documents submitted	2012	2013	2014 <sup>[a]</sup>	Total no. of expense reports examined
Adequate	54 (73%)	61 (68%)	36 (61%)	151 (68%)
Inadequate or missing	20 (27%)	29 (32%)	23 (39%)	72 (32%)
<b>Total no. of expense reports examined</b>	<b>74 (100%)</b>	<b>90 (100%)</b>	<b>59 (100%)</b>	<b>223 (100%)</b>

<sup>[a]</sup> For the months of January to October inclusively.

As can be seen, we found 72 expense reports from among the 223 (32%) reports examined in which there was at least one inadequate or missing supporting document, for a total of 83 supporting documents ranging across the categories shown in Table 3.

<sup>48</sup> As previously stated, our sample consisted of the CEO, the vice-president of finance and two managers.

**Table 3 – Distribution of Inadequate or Missing Supporting Documents by Category**

Category	Number of supporting documents involved	Percentage
Credit card statements	37	45%
Credit card or debit card transaction receipts <sup>[a]</sup>	23	28%
Electronic payment statements	9	11%
Unsigned or blank mileage forms	8	9%
Missing or partial invoices	6	7%
<b>Total</b>	<b>83</b>	<b>100%</b>

<sup>[a]</sup> Note that the transaction receipts submitted for reimbursement were, in all cases, for meals claimed as entertainment expenses.

Based on best practices for stringent internal controls, all expenses claimed must be duly accompanied by supporting documents attesting to the facts and accuracy of the transactions made. The supporting documents submitted must also be original and sufficiently detailed source documents, such as an invoice, which can corroborate that the expenses claimed are justified and are eligible for reimbursement by the organization. Accordingly, credit card statements, credit card or debit card transaction receipts and electronic payment statements are not acceptable supporting documents for the purposes of approving a reimbursement. All these documents imply that an original invoice was issued. By accepting to reimburse expenses on the basis of these documents, Technoparc Montréal leaves itself open to the risk of paying twice if the original invoice were to be submitted later on another expense report and the duplication were to go undetected. It should be mentioned, however, that our audit did not find any example of the realization of such an inherent risk.

In order to set clear safeguards and ensure transparent and stringent management of the process for reimbursing the expenses of staff and board members, we believe that it would have been timely for Technoparc Montréal to put in place formally approved frameworks establishing the nature of the expenses eligible for reimbursement, the supporting documents required, the dollar limits and the circumstances in which expenses would be reimbursed by Technoparc Montréal.

We conclude that there is a need for Technoparc Montréal to review its practices and immediately put in place the necessary corrective measures to tighten its internal controls.

#### 4.3.1.B. Recommendation

We recommend that, in order to tighten internal controls and foster more transparent operations management, Technoparc Montréal review its administrative practices and take the necessary corrective measures to put in place management frameworks approved by the board of directors for all aspects related to:

- rules for delegating the authority to approve expenses;
- reimbursement of eligible expenses of staff and board members.

#### Business unit's response:

*[TRANSLATION] The policy framework for delegating authority to approve expenses already exists and will be updated, including the list of eligible expenses and related supporting documents required. This policy will be approved by the audit and property risk management committee and submitted to the board of directors.*

*Since January 2015, in compliance with the requirements of the auditor general, Technoparc Montréal has reviewed the documentary evidence (supporting documents) required for the reimbursement of an expense. (Planned completion: May 2015)*

#### 4.3.1.C. Recommendation

We also recommend that, in order to tighten internal controls aimed at protecting assets and ensuring the reliability and integrity of financial information, Technoparc Montréal take the necessary measures to ensure proper separation of incompatible duties so that all operational tasks leading to the issuing of cheques cannot be entrusted to only one person.

#### Business unit's response:

*[TRANSLATION] The processes and signing authority will be analyzed and recommendations sent for approval to the audit and property risk management committee and to the board of directors.*

*In spite of the small size of the organization, we will review the operational structure of management activities to ensure a separation between incompatible management functions (e.g., approval of expenses and issuing of cheques). (Planned completion: May 2015)*

## 4.3.2. Awarding of Contracts

### 4.3.2.A. Background and Findings

While Technoparc Montréal is an NPO to which the City allocates annual funds and the organization is included in the reporting entity for the purposes of consolidating the City's financial statements, it is nevertheless not considered to be a paramunicipal agency. Indeed, from the start, this organization was not created under the *Charter of Ville de Montréal* but under special legislation, the *Act respecting the Ville de Saint-Laurent*, which applied to Saint-Laurent borough prior to the 2002 municipal merger. This means that Technoparc Montréal is not subject to the rules that apply to the City in the awarding of contracts, as prescribed under Section 573 of the *Cities and Towns Act*.<sup>49</sup>

Accordingly, Technoparc Montréal is required to adopt its own operational framework. In light of the information contained in the document entitled [TRANSLATION] “Main administrative procedures in force at Technoparc Montréal” and additional information obtained, it seems that no contract is ever awarded as a result of a public call for tenders. Depending on the monetary value, contracts are awarded privately or following a call for tenders by invitation to at least three suppliers. We found no evidence, however, that this mode of operation has been formally approved by Technoparc Montréal's board of directors.

Based on information obtained, the recommended mode of operation can be summed up as shown in Table 4.

**Table 4 – Method of Awarding Contracts and Delegating Authority to Approve Expenses**

Amount	Expense approval (hierarchy level)	Mandatory submission <sup>[c]</sup>
Less than \$250	Employee	No
\$250–\$999	Project manager	No
\$1,000–\$9,999	Vice-president of finance	No
\$10,000–\$24,999 <sup>[a]</sup>	CEO	<b>Yes</b>
\$25,000 and above <sup>[b]</sup>	Board of directors	<b>Yes</b>

<sup>[a]</sup> Unless decided otherwise by the CEO.

<sup>[b]</sup> Unless decided otherwise by the board of directors for reasons of efficiency, quality of the suppliers or cost savings.

<sup>[c]</sup> Mandatory submission requiring the invitation of at least three suppliers.

In order to appreciate the extent to which the recommended mode of operation was applied, after reviewing expenditure items we selected three contracts at random for each of the fiscal

<sup>49</sup> CQLR, Chapter C-19.

years covered by our audit,<sup>50</sup> for a total of nine contracts. In our sample, five of the nine contracts could be awarded privately while the other four were subject to a call for tenders by invitation, in compliance with the prescribed mode of operation for amounts ranging from \$10,000 to \$24,999.

Our examination of the supporting documents for these four contracts revealed that only one had been the object of the prescribed call for tenders by invitation. In that case, while the method of awarding the contract followed the prescribed procedure, we were unable to find any documentation showing the analysis of the proposals received or the selection of the bidder retained.

In the other three cases, the contract was awarded privately, this being a more appropriate approach in the opinion of the CEO. This is allowed according to the mode of operation described above. Here again, we found no documentation justifying the reasons for the decision to deviate from the prescribed way of awarding contracts. It should be noted, however, that the four contracts chosen were duly approved by the CEO.

In our opinion, in the interests of ensuring transparent management of decisions taken, given the public sums that the organization receives, it would be appropriate for Technoparc Montréal to put in place a procurement policy approved by its board of directors, which, in addition to setting the rules for soliciting, selecting and approving suppliers, should stipulate the obligation to justify and document the method of awarding contracts, analyzing proposals and choosing the supplier retained.

#### 4.3.2.B. Recommendation

**We recommend that, in the interests of greater transparency of the decisions taken and fairness towards suppliers, Technoparc Montréal put in place a procurement policy formally approved by its board of directors, stipulating among other things:**

- **the rules for soliciting, selecting and approving suppliers;**
- **the obligation to justify and document the method of awarding contracts, analyzing proposals and choosing the supplier retained.**

#### **Business unit's response:**

*[TRANSLATION] The rules that currently exist for approving expenses are followed by all members of staff. The same holds true for terms and conditions for awarding contracts based on their value (<\$25,000 and >\$25,000). In the latter case, at least three suppliers must be solicited and a weighting grid takes into account price,*

<sup>50</sup> 2012, 2013 and the first 10 months of 2014.



*expertise and experience for professional services and price only for a comparable product.*

*Be that as it may, we will improve our purchasing procedure by updating a policy clarifying the procedure, rules and documentation related to this policy. It will then be approved by the governance committee and submitted to the board of directors. (Planned completion: November 2015)*

### 4.3.3. Work Contract of the Chief Executive Officer

#### 4.3.3.A. Background and Findings

A work contract approved by the board of directors is signed annually by Technoparc Montréal and the CEO to set his working conditions. For the audited period,<sup>51</sup> we examined the elements constituting the remuneration paid to the CEO.

Our examination of the work contract in effect for 2012 and 2013 found that, in addition to a base salary, the prescribed remuneration included other benefits paid by Technoparc Montréal, including:

- a commission on the sale of lands belonging to Technoparc Montréal;
- a car allowance of \$1,250 per month, in addition to reimbursement of the costs of operating and using his automobile in the performance of his duties.

For the year 2014, we noted that the elements of the CEO's work contract were essentially the same, with the exception of the following two amendments:

- The clause relating to the commission on the sale of lands was removed and replaced by the awarding of a bonus to be determined based on the CEO's performance evaluation;<sup>52</sup>
- The clause relating to the car allowance was amended so that, from now on, rental fees and the cost of operating and using his automobile in the performance of his duties are included in the basic \$1,250 monthly allowance.

While the clause relating to the payment of a commission on the sale of lands was removed from the work contract in 2014, we observed, nonetheless, that for the years 2012 and 2013, this clause would have entitled the CEO to receive commissions totalling \$29,998 and \$97,325, respectively. Considering that the CEO's annual base salary was slightly more than \$200,000 during these two years, these added commissions, without counting the other benefits agreed to, appear questionable at the very least, given that this is an NPO that is largely subsidized by the City.

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<sup>51</sup> 2012, 2013 and the first 10 months of 2014.

<sup>52</sup> At the time of our audit in October 2014, the amount of the bonus paid to the CEO was still unknown.

We also found that the provision of a car allowance (\$1,250/month or \$15,000/year) entitled the CEO to receive reimbursements in 2012, 2013 and 2014 of \$20,914, \$18,901 and \$15,000, respectively. The payments for 2012 and 2013 were higher because the work contract allowed the CEO to be reimbursed for the costs of operating and using his own car in addition to the basic allowance. While Technoparc Montréal limited the maximum car allowance payable to the CEO to \$15,000/year beginning in 2014, this benefit still appears very generous compared with the administrative frameworks in force at the City for these purposes. Depending on the case, the City authorizes payment of a maximum car allowance of \$3,372/year. We believe that Technoparc Montréal would gain from revising its approach and putting in place an administrative framework governing the payment of car allowances and other reimbursable travel expenses. This framework could be supported by a comparative analysis of industry practices and those in force at the City.

#### 4.3.3.B. Recommendation

**We recommend that, in the interests of responsible use of public funds, Technoparc Montréal take the necessary steps to put in place an administrative framework governing staff benefits, to be supported by a comparative analysis of industry practices and those in force at the City.**

#### Business unit's response:

*[TRANSLATION] Technoparc Montréal's wage policy is based on a 2009 independent study conducted by Groupe Aon on behalf of the Regroupement des organismes de développement économique du Québec. The salary framework and employee benefits in force at Technoparc Montréal comply with the essential parameters of this study and are comparable to industry norms.*

*The human resources committee will review the elements of the wage policy and regulatory framework for all Technoparc Montréal's employees, compared with similar organizations and what the City offers. Against this backdrop, we will collect data in order to propose an adjustment to staff conditions. **(Planned completion: November 2015)***

## 4.4. Sale of Lands

Technoparc Montréal has an inventory of lots on the Saint-Laurent Campus. At the time of our audit, 26%<sup>53</sup> of the total area of the campus spread across 18 lots was unsold. Appendix 6.2 shows a map of Technoparc Montréal lots sold from 2012 to 2014, as well as those still available for sale.

<sup>53</sup> Approximately 6 million sq. ft. over a total area of almost 23 million sq. ft.

Table 5 presents some data related to the sale of lots from 2012 to 2014. It should be noted that three of the five completed sales, representing almost 75% of the total amount of the sales in these years, were to the same real estate promoter. As explained in greater detail in Section 4.4.3, this promoter benefited from the removal of the mandatory six-month building clause imposed by Technoparc Montréal on all land purchasers on its territory. At the time of our audit, no development project had yet been planned for these lots.

**Table 5 – Land Sales for the Years 2012 to 2014**

Year	Purchaser	Lot no.	Surface area in sq. ft.	Price per sq. ft.	Sale price	Percentage
2012	Buyer A (and owner of an adjoining lot)	Part of Lot 10	26,882	\$15.00	\$403,230	2%
2012	Promoter B	Lot 1163827	181,553	\$9.00	\$1,633,977	8%
2013	Promoter B	Lots 9 and 10	576,741	\$11.25	\$6,488,336	32%
2014	Promoter B	Lots 11 and 12	645,333	\$10.13	\$6,538,509	33%
2014	Foreign company	Lot 14	679,612	\$7.21	\$4,900,000	25%
<b>Total sales</b>					<b>\$19,964,052</b>	<b>100%</b>

We analyzed these sales to determine whether the marketing and setting the sale price, permitted uses, sales conditions and approval process complied with Technoparc Montréal's guidelines and mission.

As previously mentioned, the City and IQ are creditors of Technoparc Montréal. The loan agreements reached between the parties stipulate, in particular, that:

- The debts are interest-free but, upon full repayment of Technoparc Montréal's debt to the City and IQ, the creditors will continue to be entitled to a share of the net sale price of the lots;
- The mortgaged lots will be provided as security to the creditors;
- The debt owed by Technoparc Montréal to its creditors is to be reimbursed as percentages of the net sale price of the lots belonging to Technoparc Montréal;
- Technoparc Montréal may retain 20% of the net sale price of the lots mortgaged with the City and 10% of the net sale price of the lots mortgaged with IQ.

The terms and conditions for allocating the net sale prices are presented in Table 6.

**Table 6 – Allocating the Net Sale Prices for Reimbursement of Technoparc Montréal’s Debts to Creditors**

	City	IQ	Technoparc Montréal
Lots mortgaged with the City and IQ	60%	20%	20%
Lots mortgaged with IQ only	0%	90%	10%

#### 4.4.1. Marketing and Setting a Sale Price

##### 4.4.1.A. Background and Findings

Technoparc Montréal has no documented policy governing the sale of its lots. A flow chart<sup>54</sup> provided to us suggests, however, that sales are the product of an internal development initiative or a proposal from a real estate agent to his client. Technoparc Montréal’s mission is to foster the economic development of the Island of Montreal, and one component of that mission involves the development of the territory of the Saint-Laurent Campus. To this end, Technoparc Montréal considers that its unsold lots are available for sale at all times. Information regarding the location, area and use restrictions specific to each lot is accessible on Technoparc Montréal’s website. A potential buyer can thus refer to it before contacting Technoparc Montréal directly.

Lots are sold privately and not through a public offering, mainly because the permitted uses of the land, such as the R&D use restriction, are intended to attract a particular client group. Technoparc Montréal targets clients in the aerospace, life sciences, information and communications technologies and clean technologies fields. Its team solicits businesses while the real estate consultants (hereafter “consultant”) that it mandates solicit other real estate agents. According to information obtained, Technoparc Montréal has always used consultants to sell its lots, so that they may provide the necessary support during negotiations and assess real estate projects.

We noted that Technoparc Montréal does not have a written policy for setting the sale price of a lot. Nevertheless, it seeks a sale price that is within fair market value, that is, between the “minimum” price and the “desired” or “asking” price. The minimum price does not correspond to the municipal assessment. The list of prices for lots, including the minimum price and desired price, is updated annually. Technoparc Montréal mandated an independent chartered appraiser to determine the fair market value of its lots. This expert’s assessment report outlined the fair market value of Technoparc Montréal’s unsold lots at June 30, 2009, based, among other things, on a review of comparable sales in this sector.

<sup>54</sup> Document entitled [TRANSLATION] “Prospecting and proposal structure,” May 2011.

During the period covered by our analysis (2012 to 2014), the fair market values were increased annually by the consultant hired by Technoparc Montréal. However we found no documentation to validate the hypotheses used to increase the fair market values thus established. In our opinion, given the continual rise in property values in recent years, it would have been appropriate to conduct a new independent assessment of the market value of the lots.

Based on information obtained, the upper range of the fair market value (asking price) served as a starting point for negotiations with a potential buyer. Responsibility for certain charges related to the sale could also be the subject of negotiations. For example, we were told that, prior to 2012, Technoparc Montréal negotiated to pay its clients' contributions to parks,<sup>55</sup> whereas from 2012 to 2014, it negotiated to no longer assume these costs.

Without entering into all the details, let us generally compare this process with that of the City, which also has an inventory of unsold lots. In the latter's case, land is sold in three ways: privately, by a public call for tenders or by a public request for proposals. For example, residential lots that can be developed are generally sold to the highest bidder following a public call for tenders. Industrial and commercial lots are sold privately at their fair market value. Whether the sale is completed after a public offering or privately, the sale price must be in the range of the fair market value. The range between the minimum and maximum fair market values of a lot is established by a chartered appraiser from the Section de l'évaluation immobilière.<sup>56</sup> The potential for development, permitted use and location are only a few of the parameters used to determine the range of the fair market value of a lot. It is current practice for the fair market value, municipal assessment and differences between these values and the sale price to be documented in order to enable City authorities to make an informed decision before authorizing the sale.

Based on the provisions of its loan agreement with the City,<sup>57</sup> Technoparc Montréal will not sell a lot below \$4.50/sq. ft. without prior approval from the City. According to information obtained, this price corresponds to the average land acquisition cost. No similar provision is stipulated in the loan contract between Technoparc Montréal and its IQ mortgage creditor.

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<sup>55</sup> According to By-law 08-005 of Saint-Laurent borough, in general a contribution to parks must be required within the framework of a cadastral operation at the time of a subdivision permit request and of a request for a building permit. The owner has the choice of ceding 10% of the site and/or paying the borough a compensatory sum equivalent to 10% of the real value of the site.

<sup>56</sup> This department reports to the Division évaluation et transactions immobilières of the Service de la gestion et de la planification immobilière.

<sup>57</sup> According to Section 8.8 of the document entitled [TRANSLATION] "Loan Agreement," dated November 3, 2003 (section not covered by amendments to the agreement of February 15, 2007, and December 9, 2013).

During the period examined, we noted that no lot was sold at a price lower than the average acquisition price (\$4.50) and only one lot was sold below the municipal assessment. In the case of that lot, Technoparc Montréal claims to have received verbal approval from one of its creditors (IQ) for the agreed price. Table 7 presents the difference between the sale price and the minimum price at the time the lots were sold.

**Table 7 – Comparison of the Sale Price and the Minimum Price**

Transaction date	Purchaser	Lot no.	Municipal assessment per sq. ft.	Minimum price (MP) per sq. ft.	Sale price (SP) per sq. ft.	Difference between SP and MP in %
April 2012	Buyer A (and owner of an adjoining lot)	Part of lot 10	\$6.50	\$10.00	\$15.00	50%
July 2012	Promoter B	Lot 1163827	\$6.50	\$8.50	\$9.00	6%
December 2013	Promoter B	Lots 9 and 10	\$6.50	\$11.25	\$11.25	0%
September 2014 <sup>[a]</sup>	Promoter B	Lot 11	\$8.83	\$9.55	\$10.25	7%
September 2014 <sup>[a]</sup>	Promoter B	Lot 12	\$8.83	\$8.99	\$9.75	8%
September 2014	Foreign company	Lot 14	\$8.30	\$8.99	\$7.21	-25%

<sup>[a]</sup> Lots 11 and 12 were sold together. They are presented separately since the minimum price of the two lots was not the same.

In April 2012, the owner of the lot adjoining Lot 10 (buyer A) purchased a parcel of land at Technoparc Montréal needed for its activities. Indeed, for several years, the purchaser had been encroaching on this lot to access his facilities. The parties were hoping to resolve the matter before Lot 10 was sold. Technoparc Montréal was able to demand a much higher sale price than the minimum price (positive difference of 50%).

In the case of the three sales to promoter B, we found that the lots were sold to this purchaser at a price close to the minimum price. According to the City's property expert we consulted during our audit, the agreed sale prices were reasonable and corresponded to the fair market values at the time. Technoparc Montréal maintains that, in spite of all the attempts to solicit potential purchasers, only one other buyer submitted an offer for one of these lots. The offer was accepted by Technoparc Montréal but the sale fell through when the buyer withdrew his offer. Even if it is normal practice to sell industrial lands privately, Technoparc Montréal might have gained from issuing a public call for tenders or request for proposals to validate the fair market value of these lots. Had the proposed prices been too low, Technoparc Montréal could have refused to accept any submissions and reserved the right to cancel the call for tenders.

In the case of the sale price of Lot 14, transferred to a foreign company at a price below the municipal assessment and minimal price, negotiations with this purchaser took place over an extended period and required the participation of several stakeholders, including one of

Technoparc Montréal's creditors, IQ. In January 2013, and again in February 2014, Technoparc Montréal offered the land to this purchaser at the price of \$8.00/sq. ft. This price was then 31%<sup>58</sup> higher than the 2013 municipal assessment of \$6.11/sq. ft. In April 2014, the final agreed price was \$7.21/sq. ft.<sup>59</sup> It was only when the sale was almost concluded that Technoparc Montréal learned that the municipal assessment of this lot had risen by 36%,<sup>60</sup> resulting in Technoparc Montréal accepting a price below the municipal assessment.

#### 4.4.1.B. Recommendation

**We recommend that, in the interests of fostering a better management framework for its operations, Technoparc Montréal establish a procedure formally approved by its board of directors for the sale of its lands regarding such aspects as:**

- **the method of soliciting markets, including the possibility of going to public tender when sales conditions allow;**
- **the setting of a sale price;**
- **the approvals to be obtained.**

#### **Business unit's response:**

*[TRANSLATION] Members of the audit and property risk management committee deal with all the real estate transaction files. Following analysis by the committee, members make a recommendation for final decision by the board of directors. The management acts as a support to members of the various committees.*

*The management agreed with members of the audit and property risk management committee on a new documentary framework in order to present a real estate transaction portfolio (purchases-sales) to the committee for the purposes of making recommendations.*

*Documentation related to the process of developing the lands held by Technoparc Montréal will be reviewed in order to update the information available regarding the method of soliciting markets and determining the sale price, as well as the stages and required approvals. **(Planned completion: November 2015)***

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<sup>58</sup> Offer price of \$8.00/sq. ft. less the municipal assessment price of (\$6.11/sq. ft.) / (\$6.11/sq. ft.) = 31%.

<sup>59</sup> Agreed price of \$4.9 M/679,612 sq. ft. (excluding contributions to parks of 10% of the sale price) = \$7.21/sq. ft.

<sup>60</sup> 2014 municipal assessment (\$8.30/sq. ft.) less that of 2013 (\$6.11/sq. ft.) / (\$6.11/sq. ft.) = 36%.



#### 4.4.1.C. Recommendation

We recommend that, to ensure transparency in the sale of lands and to have all the negotiation parameters at its disposal, Technoparc Montréal:

- improve the documentation supporting the establishment of the fair market values of its lands;
- conduct an independent assessment of the fair market value of its lands at a frequency to be determined by the board of directors.

#### Business unit's response:

*[TRANSLATION] A chartered appraiser will update the market valuation of the lands available for sale. (Planned completion: May 2015)*

*The changes to the documentation related to land sales, to be developed and approved by the authorities, will stipulate what the required documents should contain, especially in terms of establishing fair market values. (Planned completion: November 2015)*

*Based on the recommendations of the audit and property risk management committee, the board of directors will decide how frequently this evaluation should be updated. (Planned completion: November 2015)*

#### 4.4.1.D. Recommendation

We recommend that, to enable its board members to make an informed decision, Technoparc Montréal document the justification for the difference between the asking price (fair market value) of a lot and the purchase price suggested by the buyer.

#### Business unit's response:

*[TRANSLATION] At each sale, the difference between the asking price and the offer price is discussed with committee members and board members. A list of minimum prices and discount prices exists for all Technoparc Montréal's lands and is available in an electronic version to members of Technoparc Montréal's board of directors and to all staff. (Planned completion: November 2015)*

*We will assemble the documentation in a single document to make the price setting policy for lands easier to understand. This document will set out the policy governing the sale of lands, which policy will be developed and approved by the authorities and will stipulate what the necessary documentation must contain in order to justify the difference between the asking price (fair market value) for a lot and the purchase price proposed by the buyer, if such is the case. (Planned completion: November 2015)*



## 4.4.2. Permitted Uses

### 4.4.2.A. Background and Findings

Technoparc Montréal's lands all have R&D use restrictions based on various thresholds (15%, 30% and 85% or headquarters).<sup>61</sup> These restrictions are outlined in a special planning program (SPP)<sup>62</sup> that applies exclusively to the territory of the Saint-Laurent Campus. This SPP is included in the chapter of the City's urban development plan related to Saint-Laurent borough and is the result of the borough's desire to ensure that the original R&D vocation of the territory is preserved. We noted that the R&D use restrictions stipulate that no purely commercial and industrial activity is permitted on the land. The restrictions also stipulate that the owners must comply with a 40% ratio of green space when landscaping their site, as well as a ratio of a required number of parking spaces. Other provisions are aimed at monitoring the installation, form and appearance of buildings.

Exceptionally, easements applying to the entire territory of Technoparc Montréal were also granted to the first buyer of a lot in order to guarantee the R&D vocation of the territory.<sup>63</sup> Even if a zoning change were to occur, these easements would enforce R&D activities on the entire territory. Since judgments could challenge the legal authority of these easements, Technoparc Montréal entered into negotiations with the first buyer and legal steps are under way to abolish them.<sup>64</sup>

Technoparc Montréal considers that the R&D use restrictions are hindering its development. On February 28, 2013, the board of directors approved guidelines to be proposed to Saint-Laurent borough outlining the various amendments allowing for the implementation of the master plan for the Hubert Reeves Eco-Campus and the development of the Saint-Laurent Campus. These guidelines stem from a report produced in November 2012 by a consultant hired by Technoparc Montréal. In doing this, Technoparc Montréal is attempting to demonstrate to the borough that the zoning of the Saint-Laurent Campus is too restrictive and the architecture criteria are more stringent than those of lands located just outside its territory and in other industrial parks. Below are some of the proposed guidelines:

- Technoparc Montréal wants the borough to allow it to include conservation areas when calculating green spaces. Plans are to give a portion of the wetlands located in the Hubert Reeves Eco-Campus to the City to be integrated into a park. By doing so, Technoparc Montréal hopes to bring the ratio of green spaces required for compensation from 40%

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<sup>61</sup> With the exception of lots 9 and 10, which allow for commercial and/or R&D activities.

<sup>62</sup> The SPP is a component of Saint-Laurent borough's urban development plan. It allows for greater clarification of the planning for this sector. The adoption of an SPP by City council represents an amendment to the urban development plan and was preceded by public consultation.

<sup>63</sup> Over the years, a total of three easements were granted.

<sup>64</sup> The board of directors' resolution of February 28, 2013.

to 25% for the undeveloped lands belonging to Technoparc Montréal and other owners of the Saint-Laurent Campus. These lands are located in the eastern and southern parts of the Saint-Laurent Campus. The western part would remain at 40%;

- Technoparc Montréal wants an easing of the R&D definition and wants the term to be replaced in the zoning regulation. It considers this to be a barrier to access since the interpretation of potential buyers might not match that of the persons responsible for applying Saint-Laurent borough's zoning regulation. Apparently, potential buyers see in it the more restrictive criteria used for eligibility for the R&D tax credit while those at the borough do not use these criteria to authorize an occupancy permit. For this reason, Technoparc Montréal has been using the term "innovative activity" for almost a year when talking to potential buyers. By replacing the term, Technoparc Montréal hopes to attract buyers from the new information and communications technologies sector;
- Technoparc Montréal wants to redefine uses by allowing them to be mixed on certain sites, thereby fostering a quality living environment for users. It also hopes to add service areas. The sites in question are located in the eastern and southern portions of the Saint-Laurent Campus. Specifically, Technoparc Montréal suggests setting up commercial businesses on lots 9, 10 and 11. Building a long-term residential facility on Lot 11 has even been considered;<sup>65</sup>
- Finally, Technoparc Montréal hopes to review the minimum R&D ratio threshold on certain lots and extend the zone to allow for the establishment of head offices and administrative centres.

Further to this exercise, Saint-Laurent borough agreed, in 2013, in the wake of an agreement in principle, to reduce the ratio of green spaces as requested by Technoparc Montréal. Prior to revising the urban development plan, minor exemptions will be granted to the owners on a case by case basis, after analysis of the requests. According to information obtained, the borough is open to Technoparc Montréal's requests to expand the service areas but is waiting for the tabling of its new master plan before making any further decisions.

In 2014, to support its new amendment requests, Technoparc Montréal ordered a second report from outside consultants to develop its new master plan for the territory of the Saint-Laurent Campus and the peripheral industrial area. The drafting of this report is expected to include public consultations during which the owners of Technoparc Montréal's lands and its subsidiary zone can voice their concerns about the potential requests to amend the zoning. The master plan is expected to come up with solutions and adjustments to the land-use planning criteria, including installation and development. The tabling of this report is scheduled for May 2015.

<sup>65</sup> Document entitled [TRANSLATION] "Memo for decision" prepared by Technoparc Montréal, dated February 20, 2013, and report prepared by the IBI-DAA group, preliminary version of November 29, 2012, p. 30.

We also found that Technoparc Montréal's deeds of sale did not include a price adjustment clause in the event of a zoning change. Such a clause enables the sale price to be changed to reflect an increase in the market value of the lands in question, thereby returning the added value of a lot to the seller when there is a zoning change between the selling date and the issue date of a building permit for the site. According to information obtained from City representatives, this clause is systematically included in the City's deeds of sale. Adding such a clause would have enabled Technoparc Montréal to guard against such an event.

#### 4.4.2.B. Recommendation

**We recommend that Technoparc Montréal add a specific clause to its deeds of sale enabling it to update the sale price in order to guard against an increase in the market value of a lot between the selling date and the date a building permit is issued.**

#### Business unit's response:

*[TRANSLATION] In general, Technoparc Montréal sells its lands with a rather short building clause (from 6 to 8 months compared with 2 years for the City), which, in our opinion, does not justify updating the sale amount.*

*On the other hand, in the case of a land sale without the obligation to build, the audit and property risk management committee will study the possibility of inserting such a clause during negotiations on the purchase price to account for any potential change in zoning (highly unlikely) or in the valuation conditions of the site. **(Planned completion: November 2015)***

### 4.4.3. Sale Conditions and Approval Process

#### 4.4.3.A. Background and Findings

##### Mandatory Six-Month Building Clause

Based on the information obtained from Technoparc Montréal's management, all deeds of sale for lots on the Saint-Laurent Campus historically contained a clause requiring the purchaser to begin construction of his project within six months of the sale. In the event of default, the clause allowed Technoparc Montréal to buy back the land from the purchaser at a price below the price paid. According to Technoparc Montréal, the inclusion of this clause was not mandatory but rather was a way of ensuring that the purchaser would help develop the park as desired.

As a general rule, any deed of sale for industrial, commercial or residential land held by the City that can be developed stipulates such an obligation on the purchaser to build on the site within a pre-determined timeframe. In the event that the purchaser fails to comply with this obligation, a security guarantee is attached to this clause. The guarantee may take the form of a cancellation clause<sup>66</sup> inserted in the contract, a first mortgage or a bank guarantee.

On April 14, 2011,<sup>67</sup> Technoparc Montréal's board of directors designated four lots<sup>68</sup> that it hoped to sell through a real estate broker. Based on information obtained, Technoparc Montréal needed the money to reimburse debts owed to the City and IQ. According to the CEO, discussions took place with the City during which it indicated its preference for a short-term reimbursement. The City did not, however, state this request in writing.

Seeing the mandatory building clause as another impediment to the sale of its lands, Technoparc Montréal's board of directors decided, during discussions at its meeting of April 14, 2011, to allow this clause to be removed for certain sales. However, we were unable to find any explicit mention of this in the minutes of the meeting. While we are in no doubt that the board members were aware of this decision, it would have been important for the minutes of this meeting to record the discussions and to clearly state the reasons for this decision given the singular and specific nature of the resolution. In our opinion, it is critical that all discussions held and decisions taken during board meetings be adequately recorded in the minutes, not only to protect the organization against potential law suits, for example, but also to enable board members who were absent to acquaint themselves with the discussions and decisions taken on the various topics addressed at the meeting. It should be noted that no board member or board observer named by the City was present at this meeting.

From our reading of the minutes of subsequent meetings of Technoparc Montréal's board of directors and its audit and property risk management committee, it appears that its board members questioned this decision on several occasions, in particular:

- On March 15, 2012, a board member who had been absent when the decision was made to remove the mandatory building clause asked if the sale proposals for the lands in question included a six-month building timeframe. The vice-president of finance offered the following clarification:

*[TRANSLATION]*

*... in general, purchase offers stipulate a six-month period to complete the construction of a building, failing which the seller may take back the land.*

<sup>66</sup> This refers to provisions in the contract by which the parties foresee, in the case of total or partial failure to perform obligations, that the resolution would be applied to the fullest extent of the law.

<sup>67</sup> Minutes of the meeting of Technoparc Montréal's board of directors held on April 14, 2011.

<sup>68</sup> Lots 3479349, 1163848 (lots 9 and 10), 2132604 (lot 14) and 1163827 (promoter B option).

- On April 19, 2012, board members and board observers representing the City [TRANSLATION] “shared their concern that removing this clause hampered the development of the Technoparc.” They asked that the transactions be well documented;
- In 2013, a board member was concerned that, by selling its lands before revisions were made to its strategic plan, Technoparc Montréal would not get the best price;<sup>69</sup>
- In 2013, the notion that the sale of lands should be in the interests of the organization and not simply to achieve the objective of \$2.5 million in land sales per year, as stipulated in one of the CEO’s annual performance evaluation criteria,<sup>70</sup> was even raised.

During the period covered, three sales were made to a real estate promoter this clause removed. The most recent sale to promoter B involved lots (11 and 12) that were not initially covered by the board’s resolution allowing the removal of the clause in 2011. The board of directors authorized the transaction by requiring, for the first time, that promoter B render an accounting of his efforts to develop the site. To date, no status report has been prepared since the sale in September 2014, the six-month timeframe having not yet elapsed. Some board members seem to question the promoter’s ability to implement the development projects since there has been no actual construction or construction plan on the lands acquired by promoter B.

As previously stated, at the time of our audit, none of the lots sold with the removal of this obligation to build within six months had been the focus of any development project. Technoparc Montréal runs the risk that the purchaser could resell the land as it pleases and benefit from potential added value, thereby opening the door to property speculation. That being said, to guard against such a possibility, it would have been good practice for Technoparc Montréal to include a return of profit clause or other pre-emptive right in its deed of sale should the purchaser sell the land in less than five years (see Recommendation 4.4.2.B). This was not done.

### Approval of Land Sales by the Board of Directors

All land sales must be approved by Technoparc Montréal’s board of directors. Since 2013, the terms and conditions of the sale of a lot have been analyzed by the audit and property risk management committee.<sup>71</sup> The committee’s recommendations are then shared and discussed at a meeting of the board of directors. By resolution, the board mandates

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<sup>69</sup> Minutes of the meeting of the audit and property risk management committee held on September 30, 2013.

<sup>70</sup> *Ibid.*

<sup>71</sup> The first discussions and recommendations of this committee regarding the sale of a lot are found in the minutes of the meeting of the audit and property risk management committee held on September 30, 2013.

Technoparc Montréal's CEO to either negotiate a sale according to the terms and conditions that it establishes or to accept an offer to buy as submitted.

For four of the five sales analyzed,<sup>72</sup> we found shortcomings in the approval process for land sales. These were mainly inaccuracies or missing information in Technoparc Montréal's minutes of meetings. The following facts were observed:

- The sale price of Lot 1163827 as shown in the deed of sale (\$9.00/sq. ft.) was less than the price approved by the board members (\$9.50/sq. ft.), based on the resolution of the board of directors, for a total difference of \$90,777. The minutes did not state any reasons justifying this difference;
- Aspects related to discussions and major resolutions were poorly documented in the minutes. For example:
  - The resolution that should have contained the board members' approval for removal of the mandatory construction clause did not mention it explicitly,
  - No mention was found pertaining to the payment of \$100,000 in professional fees to the consultant in spite of the termination of his contract. This point is addressed in Section 4.4.4.

The result was that board members who were absent from the meeting did not have a fair representation of the discussions held and decisions made. Since the minutes are intended to be a permanent memory of what is discussed and decided at meetings, it is important that they be an accurate and objective reflection of the ideas formulated and decisions made by members so that all interested persons are able to refer back to them over time.

### Approval of Land Sales by the Creditors

As previously mentioned in this report, following appropriation notices served by Technoparc Montréal between 1992 and 1998, the City assumed responsibility for compensating the expropriated owners. Consequently, under a loan agreement, Technoparc Montréal acknowledged its debt to the City and a first mortgage guarantee was recorded on behalf of the City on certain lands held by Technoparc Montréal.

In reviewing the loan agreement signed by the parties, we found that Section 8.8 stipulates the following:

<sup>72</sup> The sale to buyer A (owner of an adjoining lot – part of lot 10) as well as the three sales to promoter B (lot 1163827, lots 9 and 10 and lots 11 and 12).

[TRANSLATION]

*Technoparc agrees to inform the Ville de Montréal in advance of the sale, transfer or projected disposal of all or part of the property or all or part of the rights held in the property [...]*

*Technoparc agrees not to sell vacant lots [...] at a price below [...] \$4.50/sq. ft., except with the prior approval of the Ville de Montréal<sup>73,74</sup> [...]*

According to information obtained, the set price of \$4.50/sq. ft. corresponds to the average acquisition cost of the lands held by Technoparc Montréal. Since this is an interest-free loan, the City expects to receive a return on its loan equivalent to the added value of the land versus its cost. Consequently, the higher the sale price the greater the return for the City. Since the City's approval is only required for a sale below \$4.50/sq. ft., it cannot oppose a sale whose agreed price is slightly above \$4.50/sq. ft. but below the fair market value or municipal assessment of the lot. In our opinion, this places the City in a risky position regarding the return on its loan. While the risk is mitigated by the fact that it is in Technoparc Montréal's interest to maximize the sale price since it receives a 20% share of the net sale price, the risk is no less real.<sup>75</sup> It should be noted that at the time of renewing the loan agreement in 2007, the average municipal assessment of Technoparc Montréal's unsold lots was \$4.55/sq. ft.<sup>76</sup> In 2014, the average municipal assessment was \$8.83/sq. ft., considerably higher than the minimum sale price stipulated in the loan agreement.

As for the IQ, the *mortgage guarantee* signed by the parties stipulates that Technoparc Montréal will not sell a mortgaged property without the written consent of its creditor. Section 3.9 of this document states that: [TRANSLATION] *"The Debtor shall not dispose of or rent the mortgaged property and, in particular, shall not grant any licence related to any intellectual property, without the written consent of the Creditor."*<sup>77,78</sup>

In the opinion of Technoparc Montréal's CEO, the mortgage creditors, be it the City or IQ, should be consulted at the time of the sale of a lot only if the offer price is below the average acquisition cost (approximately \$4.50/sq. ft.). The CEO also mentioned that the creditors delegate representatives to Technoparc Montréal's board of governors. Consequently, these representatives have access to all the relevant land sale documents and the creditors are thus kept informed of all sales.

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<sup>73</sup> Our underlining.

<sup>74</sup> *Loan Agreement*, November 3, 2003 (section not covered by amendments to the agreement of February 15, 2007, and December 9, 2013).

<sup>75</sup> When a lot is mortgaged to the City and IQ, Technoparc Montréal retains 20% of the net sale price and reimburses 60% to the City and 20% to IQ (see Table 6).

<sup>76</sup> *Assessment Report of Cushman & Wakefield Lepage*, June 2009, page 22.

<sup>77</sup> Our underlining.

<sup>78</sup> *Mortgage guarantee*, December 14, 2007.



Overall we found no evidence that the City was informed of land sales other than through its representatives. Since the City did not officially designate someone in charge, we found no attempt on its part that it had tried to verify that Technoparc Montréal was complying with this commitment.

As for IQ, we cannot attest to the fact that it ever agreed in writing to the sale of mortgaged lots on its behalf. Technoparc Montréal's CEO maintains that he received verbal authorization from IQ for a sale at a price slightly below the municipal assessment for the lot.

By failing to meet its commitments to its creditors, Technoparc Montréal runs the risk of placing itself in a default situation. In our opinion, in order to comply with the requirements set out in the loan agreements, Technoparc Montréal must obtain proof of prior approval, attach it to the internal file and enter this information in the minutes.

Finally, to ensure that the best sale price is obtained for the lands it holds as a loan guarantee, we believe that it would be timely for the City to:

- increase the sale price threshold requiring its prior approval;
- require Technoparc Montréal to obtain written approval from the City;
- take the necessary measures to ensure that these amendments are reflected in the loan agreement.

#### 4.4.3.B. Recommendation

**We recommend that, to increase transparency regarding facts discussed, actions undertaken and decisions made, Technoparc Montréal improve the recording of the minutes of meetings of the board of directors regarding all aspects related to land sales, including obtaining the necessary approvals from the mortgage creditors.**

#### Business unit's response:

*[TRANSLATION] The documentation was already reviewed in February 2015 for the purposes of documenting all essential aspects of a real estate transaction and, if necessary, it will be adjusted based on the new policy governing real estate transactions.*

*Moreover, terms and conditions for following up on real estate transactions will be determined with the City to secure its agreement and to comply with potentially amended mortgage agreements with the City and Investissement Québec. **(Planned completion: November 2015)***

#### 4.4.3.C. Recommendation

We recommend that, to comply with its commitments to its creditors and avoid placing itself in a default situation, Technoparc Montréal ensure that:

- the City is informed beforehand of the sale of a mortgaged lot on its behalf and the related documentary proof is preserved;
- written approval is obtained from Investissement Québec prior to the sale of a mortgaged lot on its behalf.

#### Business unit's response:

*[TRANSLATION] Based on talks to be held with the City and Investissement Québec, the new policy governing the real estate transactions will clarify the agreed terms and conditions for follow-up and information.*

*Management will ensure that this policy is followed up in order to document and inform stakeholders throughout the decision-making process. This is currently the case with Investissement Québec and is planned with the City. On the other hand, in the latter case, three representatives sit on Technoparc Montréal's board of directors and are well positioned to obtain all information as it becomes available. In addition, each sale cannot be completed without the permission of both mortgage creditors: the City and Investissement Québec. **(Planned completion: November 2015)***

#### 4.4.3.D. Recommendation

We recommend that, in order for the City to be assured that Technoparc Montréal obtains the best sale price for the lands designated as its loan guarantee, the Direction générale of the City take the necessary measures to:

- require that Technoparc Montréal obtain prior written approval, at all times, from the City's designated representative for the sale of land, including the disclosure of specific sales conditions such as the removal of the mandatory building clause, to ensure that the organization's obligations as set out in the management contract with the City are met;
- increase the sale price threshold requiring the City's prior approval;
- ensure that the required amendments are reflected in the loan agreement signed by the parties.

#### Business unit's response:

*[TRANSLATION] The Direction générale has mandated the manager of the Service du développement économique, along with the Service de la gestion et de la planification immobilières, to ensure that this recommendation is implemented. **(Planned completion: June 2015)***

#### 4.4.4. Professional Fees Paid to the Real Estate Consultant

##### 4.4.4.A. Background and Findings

On February 28, 2011, retroactive to February 1, 2011, Technoparc Montréal signed a contract with a real estate consultancy firm (hereafter “the consultant”) to manage the rental and sale of its property. According to the contract, the consultant would receive a fixed monthly amount of \$5,000 for its representatives’ prospecting services on behalf of Technoparc Montréal. In addition to this remuneration, fees would be paid for each land sale. These fees amounted to \$0.20 per square foot of area sold, to a maximum of \$100,000 per sale.

We noted, to begin, that the contract with the consultant was signed prior to approval by the board of directors. In fact, the consultancy contract was signed on February 28, 2011, whereas the board’s resolution authorizing the recruitment of the consultant was dated April 14, 2011. Furthermore, we noticed that the fixed payment (\$5,000) and professional fees (\$0.20 per square foot of surface area sold), as well as the terms and conditions of the contract, were not discussed at the board’s meeting. The CEO is the signatory to the contract. Based on the prescribed mode of operation at Technoparc Montréal, the board of directors is the designated authority for approving expenses above \$25,000. Consequently, this contract should not have been signed before its terms and conditions were formally approved by Technoparc Montréal’s board of directors.

Table 8 details the total amount of remuneration paid (before taxes) by Technoparc Montréal to the consultant on land sales from 2012 to 2014.

**Table 8 – Total Remuneration Paid to the Consultant (2012–2014)**

Year	Remuneration (before taxes)	Fees (before taxes)	Total remuneration
2012	\$55,000	\$41,691	\$96,691
2013	\$65,000	\$100,000	\$165,000
2014	\$17,150	\$200,000	\$217,150
<b>Total</b>	<b>\$137,150</b>	<b>\$341,691</b>	<b>\$478,841</b>

In early 2014, Technoparc Montréal drew up the terms and conditions to end the contract with the consultant<sup>79</sup> as of January 31, 2014. From that date on, the consultant would no

<sup>79</sup> [TRANSLATION] “Agreement governing the termination of the service contract dated February 28, 2011,” in force as of January 31, 2014.

longer receive a fixed monthly sum but, in exchange for services rendered, could receive remuneration based on an hourly rate of \$150 during the sale period that ended in November 2014. This agreement, signed by the CEO, contains a list of protected files<sup>80</sup> for which the consultant could receive fees. However, we found no discussion or decision by the board of directors regarding the agreement to terminate the contract. We noted that Technoparc Montréal paid fees of \$100,000 for each of two sales in 2014. While one<sup>81</sup> of the sales for which fees were paid was not part of the list of protected files, we consulted documents that showed that the consultant had approached this purchaser prior to the notice of termination of its contract, thereby justifying the payment of the fees. This decision was not documented in the minutes of board meetings.

#### 4.4.4.B. Recommendation

**We recommend that, to ensure prudent management of operations in compliance with established rules for delegating authority, Technoparc Montréal take the necessary measures to ensure that all contracts and their related terms and conditions are submitted to the board of directors for approval prior to their signing.**

#### Business unit's response:

*[TRANSLATION] Based on the review of the procurement policy, required approval levels will be established according to the value of the contracts and members of the human resources committee and of the board of directors will be involved in decision making. (Planned completion: November 2015)*

## 4.5. Strategic Planning

### 4.5.A. Background and Findings

Section 10 of the preamble of the management contract (2013–2017) signed between the City and Technoparc Montréal for the annual financial contribution of \$2.6 million stipulates that *[TRANSLATION] “[...] the Parties concede that a new agreement must be supported by an explicit business plan covering at least the period of the agreement and allowing for progress to be measured along the way.”*<sup>82</sup> As well, Section 4.8 stipulates that Technoparc Montréal's obligations include *[TRANSLATION] “to submit to the City [...] a strategic development plan for its activities for the remaining period of the current agreement.”*

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<sup>80</sup> List of files for which the real estate consultant could claim remuneration if the sale was completed or promised prior to the deadline of the set period (Appendix E of the termination agreement).

<sup>81</sup> Commission paid on the 2014 sale to promoter B.

<sup>82</sup> Our underlining.

Strategic planning or the preparation of business plans was already part of Technoparc Montréal's management practices. We found that it had established a new strategic plan for the period from 2014 to 2017, outlining the organization's main directions and objectives. The steps leading to the adoption of this plan by Technoparc Montréal's board of directors on December 19, 2013, began in December 2012. At the very least, this strategic plan should have been harmonized with the directions of the strategic economic development framework adopted by the City. In the absence of a designated person responsible for the dossier, we found no evidence that Technoparc Montréal's strategic plan had been validated by the City.

As part of the follow-up process in place, we noted that Technoparc Montréal's management prepares a detailed action plan annually with strategic directions and fixed objectives. For the purposes of our audit, the action plans for the years 2012, 2013 and 2014 were obtained and examined. Overall we found that these action plans established the directions, objectives, envisioned strategy and action priorities for the organization. As well, each action priority was generally accompanied by indicators to measure whether the priority had been achieved, the resource responsible for implementing it, the timeline and, as the case may be, the required budget.

We also found that Technoparc Montréal prepares an activity report annually containing a variety of information, including the company profile, data on its financial situation, main projects under way and completed activities grouped according to Technoparc Montréal's activity sectors (e.g., aerospace, clean technologies, life sciences, communications), and more. This report is made public on Technoparc Montréal's website. This makes it possible to assess the work done by Technoparc Montréal on the main projects under way, such as:

- The development of the Saint-Laurent Campus (e.g., sale of lots, installation of new businesses, rental of office space, mitigation of problems related to public transit on the campus);
- The Hubert Reeves Eco-Campus, an ambitious sustainable development project consisting of developing Montreal's 21st regional park and 12 buildings totalling 625,000 sq. ft. spread over an area of 2.3 million sq. ft.<sup>83</sup> This project is still ongoing;
- the Quartier de la santé de Montréal, in which Technoparc Montréal has been involved since 2008 as a property partner. According to information obtained at the time of our audit, the future vocation of this project is currently under review.

We noted, however, that no status report was regularly prepared to make it possible to assess the degree of progress achieved globally on the objectives set out in the annual action plan adopted by the board of directors. The CEO affirmed that accountability for these action plans

<sup>83</sup> 2013 Technoparc Montréal Activity Report, page 23.

is reported through activity reports made public each year. He also mentioned that, at each board meeting, board members are informed about the progress of current files.

We reconciled the activity reports and action plans for 2012 and 2013<sup>84</sup> to assess to what extent the former reported achievements made on measures prescribed in the latter for these years. Our analysis revealed that it was a fairly onerous job to find concrete achievements or the progress made on each of the measures underlying the objectives set out in the action plan. It also appears that several action priorities contained in the plans were not specifically mentioned in the activity reports. For example, the 2013 action addresses the following:

- The development of the Montreal agglomeration's technology hubs – aerospace sector. One of the action priorities was [TRANSLATION] *“to target businesses interested in short- and medium-term expansion-relocation projects.”* The performance indicator shows *“5 to 10 businesses.”* The activity report made no mention that this had been achieved;
- The design and structuring of world-class projects, of which one is the establishment of a *“Cloud Montreal data processing centre.”* The action priorities were [TRANSLATION] *“to come up with a building concept,” “sign the rental offer” and “prepare plans and estimates and a submission process.”* The activity report was silent on this matter;
- The action plan for repositioning the Saint-Laurent Campus. The plan indicated, among other things, that there was a need to [TRANSLATION] *“review zoning for the Saint-Laurent Campus in terms of uses and installation criteria.”* The activity report did not address this.

While in some respects the action plans set out performance indicators, with no status report it is difficult to assess to what extent the planned actions have been initiated, fully completed or abandoned. In the view of the CEO, measures in the plan that were not undertaken would be reported in the subsequent action plan.

In our opinion, Technoparc Montréal would benefit from improving its accountability procedure by regularly preparing status reports on the various measures in the action plan. This management tool would enable members of the board of directors and, ultimately, the City's designated representative to assess, throughout the year, the extent of progress of planned measures in achieving the directions and objectives of the strategic plan.

#### 4.5.B. Recommendation

**We recommend that, to be able to assess the extent of progress on planned measures in achieving the directions and objectives of the strategic plan, Technoparc Montréal improve its accountability procedure by preparing, at a frequency to be determined, status reports on the action plans produced.**

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<sup>84</sup> The 2014 Activity Report was not available at the time of our audit.

**Business unit's response:**

*[TRANSLATION] To this end, a monitoring chart will be developed to allow for yearly follow-up and evaluation of the action plan, taking into account the management contract with the City and the directions and objectives set out in Technoparc Montréal's 2014–2017 strategic plan. (Planned completion: August 2015)*

## 5. General Conclusion

While Technoparc Montréal is a non-profit organization (NPO) that is relatively independent in its operations, it is largely dependent on significant funding that the City has been providing for several years to enable it to pursue its activities. A large portion (slightly over 40%) of this funding from the City is used by Technoparc Montréal to pay municipal taxes on the land it holds.

Its mission is especially to contribute to property development on the territory of Montreal by attracting and installing businesses in high-tech sectors. Close to 75% of the lands it held have already been sold and developed or are about to be, with the exception of the sale of three lots to a real estate promoter.

In spite of the monetary value and recurrence of funding allocated to Technoparc Montréal, it is difficult to establish the link between its efforts and real results obtained. To begin, the management contract signed by the parties makes no mention of performance targets and indicators that could be used to assess whether the expected benefits to economic development have been achieved. Furthermore, there does not appear to be perfect coordination and synergy between the actions of the Service du développement économique and various other stakeholders in the sector who also participate in scientific and technological development on the territory of Montreal.

Our audit raised several questions regarding the management practices in force at Technoparc Montréal, both from the standpoint of good governance practices and on an operational level, in particular:

- The adoption by Technoparc Montréal of a governance framework worthy of mention (e.g., governance policy, code of ethics and professional conduct, implementation of a structure providing for the action of three separate oversight committees), while the rules of conduct and operations stipulated in them are not necessarily followed, even by the board members who put them in place;
- A lack of thoroughness in documenting decisions taken, making it sometimes impossible to check the validity of certain facts;

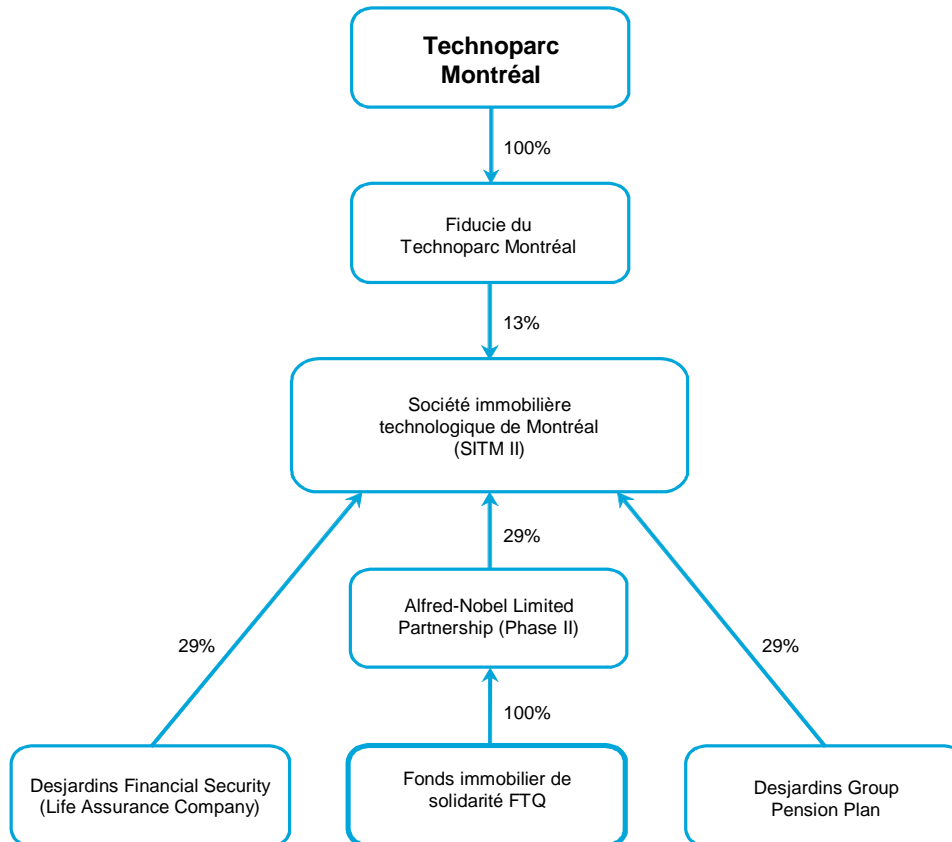


- The absence of administrative frameworks formally approved by the board of directors regarding, among other things, operating costs and internal control shortcomings observed;
- The sale of land, since 2012, to the same real estate promoter with the removal of the clause requiring the purchaser to build on the land within six months of purchase, not the usual practice at Technoparc Montréal;
- An incomplete accountability process, making it difficult to establish a link between the strategic plan, the action plans and the activity reports produced.

Given that Technoparc Montréal is largely funded by the City and that its survival depends on this funding, one could legitimately question why these public municipal funds are not subject to the same thoroughness, prudence and management framework as those used directly by the various City departments.

## 6. Appendices

### 6.1. Organizational Chart of Technoparc Montréal



## 6.2. Map of Technoparc Montréal's Lands



- Technoparc Montréal perimeter
- Hubert-Reeves Eco-Campus perimeter
- Land sold to buyer A (owner of the neighbouring lot)
- Lands sold to promoter B  
 2012: lot 1163827  
 2013: lots 9 and 10  
 2014: lots 11 and 12
- Land sold to the foreign company (lot 14)

Unsold lots

Minimum percentage of innovative activities	
15 %	
30 %	
85% (or head office)	