



STAFF REPORT ACTION REQUIRED

Management of Construction Contracts – Toronto Water and Sewer Emergency Repair Contracts

Date:	July 30, 2007
To:	Audit Committee
From:	Jeff Griffiths, Auditor General
Wards:	All
Reference Number:	

SUMMARY

The objective of this review was to assess whether procedures were in place to adequately monitor the award and management of Toronto Water and Sewer emergency repair contracts.

This audit is one of a series of audits conducted in relation to the management of construction or construction related activities. Certain of the issues identified in this review are similar to those identified in other audits.

This report contains 17 recommendations. The implementation of these recommendations will improve the way the City manages its contracts.

Issues identified during this review were discussed with senior management and, as a result, management is taking immediate action to implement our recommendations.

RECOMMENDATIONS

The Auditor General recommends that:

1. The General Manager, Toronto Water, in consultation with the Deputy City Manager and Chief Financial Officer and the City Solicitor:
 - a. evaluate City business continuity and disaster management risks in contracting with a single contract provider for all City water and sewer emergency repairs;

- b. evaluate the viability and impact of alternate procurement solutions such as a roster of contractors, or restricting bidding contractors to a limited number of districts; and
 - c. develop appropriate criteria for the standardized use of contractual incentives such as alternative liquidated damages provisions when emergency repairs are delayed and include such criteria in future City water and sewer emergency contracts.
2. The Deputy City Manager and Chief Financial Officer ensure the tendering process is complied with and a comparative summary of bids is developed and authorized. Copies of key sections including authorization and pricing sections of competitive bids should be retained by the Purchasing and Materials Management Division.
 3. The General Manager, Toronto Water, in consultation with the City Solicitor, review the content of all standard Toronto Water emergency repair contracts in order to ensure that contract provisions are clear, consistent and enforceable.
 4. The General Manager, Toronto Water, review payments to the contractor based on undocumented assumptions and informal agreements and where appropriate such payments be recovered.
 5. The General Manager, Toronto Water, direct staff that any decisions, and in particular, decisions that involve financial commitments for contract terms which appear to be ambiguous, unclear or inconsistent only be made after consultation with the City's Legal Services Division and approval by the senior management. All such consultations and approval be documented.
 6. The General Manager, Toronto Water, review the possibility of including criteria for emergency and non-emergency work in future contracts and obtaining separate rates for emergency and non-emergency work accordingly.
 7. The General Manager, Toronto Water, ensure that where possible, estimated quantities contained in emergency repair contract tenders are reasonably accurate and are representative of actual quantities required to complete the contract. In addition, The General Manager in consultation with Purchasing and Materials Management, explore other procurement solutions for obtaining emergency repair services independent of fixed quantity estimates.
 8. The General Manager, Toronto Water, take steps to develop policies and procedures for managing emergency repair contracts and ensure staff is appropriately trained.

9. The General Manager, Toronto Water, review 2006 and 2007 contractor payments for emergency repairs and take steps to determine and recover overpayments made to the contractor identified as part of the review.
10. The General Manager, Toronto Water, develop policies to ensure that:
 - a. Site Inspector's Daily Work Reports are prepared independently of contractor invoices and provide relevant details including services provided, calculations and measurements supporting payment; and
 - b. documentation supporting progress payments is reviewed in detail by supervisory staff.
11. The General Manager, Toronto Water, ensure that extra work is awarded through authorized change directives and that separate inspector reports are used for recording work pertaining to extra work orders.
12. The General Manager, Toronto Water, ensure that to the extent possible, all required work be included in the original contract and extra work orders be limited.
13. The General Manager, Toronto Water, develop a process for the periodic monitoring of contract expenditures and ensure that Purchasing by-law requirements for authorizing over-expenditures are complied with. Appropriate action is taken in circumstances where non-compliance of the by-law is identified.
14. The General Manager, Toronto Water, ensure contractor performance issues are consistently documented and monitored. Significant contractor performance issues that can not be resolved through the regular contract management process should be communicated to Purchasing and Materials Management for consideration in future contract award decisions.
15. The General Manager, Toronto Water, expedite the review and assessment of existing work management systems, including an assessment of the SAP Plant Maintenance Module. Following the selection of a work management system, its implementation should be expedited and the cost benefits of its integration with SAP be evaluated.
16. The General Manager, Toronto Water, develop procedures to ensure staff review repair requests to determine if the required work is covered under warranty.
17. The General Manager, Toronto Water Division, develop a process for District Contract Services and Operations & Maintenance staff to meet on a regular basis to discuss project status, and document and assess the priority of ongoing projects for re-assignment of pending projects to in-house staff.

FINANCIAL IMPACT

The implementation of recommendations in this report will improve financial controls over the management of construction contracts. The extent of any resources required or potential cost savings resulting from implementing the recommendations in this report is not determinable at this time.

DECISION HISTORY

This report provides the results of the Auditor General's review of Toronto Water and Sewer emergency repair contracts. This review was conducted as part of the Auditor General's Annual Work Plan.

COMMENTS

Effective management and administration of water and sewer emergency repair contracts is essential in maintaining the City's water and sewer infrastructure in a cost-effective manner that ensures safety, minimizing liabilities and risks, and preserves to the extent possible the longevity of the City's infrastructure.

The Auditor General's report entitled "Management Of Construction Contracts – Toronto Water and Sewer Emergency Repair Contracts", contains 17 recommendations and is attached as Appendix 1. Management's response to each of the recommendations contained in this report is attached as Appendix 2.

CONTACT

Alan Ash, Director, Auditor General's Office
Tel: 416-392-8476, Fax: 416-392-3754, E-mail: aash@toronto.ca

Syed M. Ali, Senior Audit Manager, Auditor General's Office
Tel: 416-392-8438, Fax: 416-392-3754, E-mail: sali4@toronto.ca

SIGNATURE

Jeffrey Griffiths, Auditor General

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ATTACHMENTS

Appendix 1: Management of Construction Contracts – Toronto Water and Sewer
Emergency Repair Contracts

Appendix 2: Management’s Response to the Auditor General’s Review of Management
of Construction Contracts – Toronto Water and Sewer Emergency Repair
Contracts

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