



AUDITOR GENERAL'S REPORT ACTION REQUIRED

A Mid-Term Review of the Union Station Revitalization: Managing Risks in a Highly Complex Multi-Year, Multi- Stage, Multi-Million Dollar Project

Date:	October 2, 2012
To:	Audit Committee
From:	Auditor General
Wards:	All
Reference Number:	

SUMMARY

The Auditor General's Audit Work Plan included a review of the Union Station Revitalization Project. The objective of this review was to assess the adequacy of controls implemented by management with respect to the Union Station Revitalization.

This report contains twenty recommendations along with a management response to each of the recommendations. The implementation of these recommendations will improve the overall effectiveness of the City's Union Station Revitalization Project and could result in cost savings.

RECOMMENDATIONS

The Auditor General recommends that:

1. City Council request the Deputy City Manager and Chief Financial Officer to implement additional status reporting for large capital projects, including the Union Station Revitalization including:
 - a. Additional detail in capital budget and capital variance reports; and
 - b. Separate status reporting to City Council for large capital projects. Thresholds on milestone slippage and cost escalation should be developed to determine the frequency and extent of such reporting.

2. City Council request the Deputy City Manager and Chief Financial Officer to report periodically to City Council to provide:
 - a. An update on the forecasted final cost to complete each stage of construction; and
 - b. Explanations for significant variances from the original phase construction budgets and any remedial action planned or necessary.
3. City Council request the Deputy City Manager and Chief Financial Officer to report back to City Council in supplementary status reports, the nature of any work that will be omitted from the Union Station Revitalization and the related impact on the timing and cost of future state of good repair and service improvement projects within the overall Capital Plan for Union Station.
4. City Council request the Executive Director, Facilities Management to report to City Council annually on the actual progress of the Union Station Revitalization project against the baseline schedule for each stage of construction. Such reports to include:
 - a. Explanations for significant delays;
 - b. Plans to make up for schedule delays; and
 - c. Identification of any significant costs resulting from the implementation of schedule recovery plans.
5. City Council request the Executive Director, Facilities Management to obtain and monitor adherence to the General Contractor/Construction Manager's critical path schedule. Monitoring activities should include:
 - a. Identification, analysis and resolution of any deficiencies or impracticalities in the critical path schedule;
 - b. Written communication of any disagreement with delays reported and changes made to the critical path schedule; and
 - c. Tracking of the causes of delays.
6. City Council request the City Manager to ensure that the responsible City division develop and implement, for all significant and complex capital projects, an enhanced process for assessing and managing project risks. The risk assessment should be comprehensive prior to the start of the project and be continuously reviewed and updated.
7. City Council request the Executive Director, Facilities Management to ensure the General Contractor/ Construction Manager implement their proposed risk management process within the agreed lump sum amount for Fixed General Accounts and Fee Price.

8. City Council request the Deputy City Manager responsible for the oversight of significant and complex capital projects where the Construction Manager model is being used, to ensure that the Construction Manager is engaged in sufficient time to allow for an effective review of design and contract documents.
9. City Council request the Executive Director, Facilities Management, in consultation with the City Solicitor, to ensure adherence to procedures for the retention of critical and other relevant records related to the head lease, design, construction, and contract administration of the Union Station Revitalization.
10. City Council request the Executive Director, Facilities Management, to implement procedures to ensure trade contracts are accurately and completely scoped prior to issuing competitive tenders.
11. City Council request the Executive Director, Facilities Management, review fees paid to the Prime Consultant and ensure that fees payable for contract administration align with actual progress of each Stage of construction.
12. City Council request the Executive Director, Facilities Management to ensure controls are implemented to verify, on a periodic random test basis, labour costs against source documents such as time sheets or services records.
13. City Council request the Executive Director, Facilities Management to ensure controls are implemented to monitor the Reimbursable General Accounts. Controls should include:
 - a. Authorization of work plans for significant components in accordance with the Phase 2 Agreement including monthly forecast to completion; and
 - b. Timely comparison of the total amounts billed by component to budgets in the Phase 2 Agreement and investigation of any significant variances.
14. City Council request the Executive Director, Facilities Management to implement procedures to reduce design errors and omissions. Such procedures to include:
 - a. Ensuring that design work is properly reviewed and authorized;
 - b. Ensuring the Prime Consultant and General Contractor/Construction Manager carry out surveys of the site;
 - c. Ensuring the General Contractor/Construction Manager performs a review to confirm the “constructability” of the design; and
 - d. Evaluating the performance of the Prime Consultant at frequent intervals.
15. City Council request the Executive Director, Facilities Management to establish a process to ensure the cost of extra work is determined in accordance with the terms of the Master Agreement. Criteria should be established as guidance for when independent cost estimates or reviews are required for the pricing of change orders.

16. City Council request the Executive Director, Facilities Management to ensure previously approved change orders are reviewed to ensure compliance with the terms of the Master Agreement and, where applicable, change orders are revised and credits owing to the City for pricing errors are obtained.
17. City Council request that the Executive Director Facilities Management expedite the identification of and billing for additional work undertaken and paid for by the City for third parties.
18. City Council request the Executive Director, Facilities Management to ensure adherence to operating procedures for change orders and change directives. Adherence should be evidenced in the official records retained in the City's possession.
19. City Council request the Executive Director, Facilities Management to enforce the General Contractor/Construction Manager's adherence to key controls in their "Project Quality Management Plan" within the agreed lump sum amount for Fixed General Accounts and Fee Price.
20. City Council request the Executive Director, Facilities Management to establish a process to track and follow up on issues, deficiencies, and non-conformance identified through site reviews, inspections, and testing.

Financial Impact

The implementation of recommendations in this report will improve financial controls over purchasing, contract management and payment processing. 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

On December 11, 2007 Toronto City Council adopted two reports, "Union Station Revitalization Recommended Approach" and "Union Station Revitalization Recommended Approach – Supplementary Report on Implementation."

<http://www.toronto.ca/legdocs/mmis/2007/ex/bgrd/backgroundfile-8803.pdf>
<http://www.toronto.ca/legdocs/mmis/2007/cc/bgrd/ex15.2a.pdf>

The Auditor General's Audit Work Plan included a review of this project based on the significant potential risks attached to a project of this size.

COMMENTS

In December 2009 construction related activities for the Revitalization were initiated with completion targeted for the end of 2016. The project has an approved budget of \$665 million with total expenditures to March 31, 2012 of \$172 million.

This audit was conducted mid-project rather than close to completion of construction. The intention was to identify areas where additional or strengthened controls could provide a greater likelihood of completion on time and on budget.

The audit report entitled “A Mid-Term Review of the Union Station Revitalization: Managing Risks in a Highly Complex Multi-Year, Multi-Stage, Multi-Million Dollar Project” is attached as Appendix 1. Management’s response to the audit recommendations is attached as Appendix 2.

CONTACT

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SIGNATURE

Jeff Griffiths, Auditor General

11-FRE-02

ATTACHMENTS

Appendix 1: A Mid-Term Review of the Union Station Revitalization: Managing Risks in a Highly Complex Multi-Year, Multi-Stage, Multi-Million Dollar Project

Appendix 2: Management’s Response to the Auditor General’s Review of A Mid-Term Review of the Union Station Revitalization: Managing Risks in a Highly Complex Multi-Year, Multi-Stage, Multi-Million Dollar Project