

ATTACHMENT 2 - EY AUDIT OF TWO WATERFRONT TORONTO  
CONTRIBUTION AGREEMENTS, 2017



City of Toronto, Waterfront Secretariat  
Contribution Agreements Compliance Audit Final Report

1 September 2017



# Table of Contents

<b>1. Executive Summary .....</b>	<b>3</b>
1.1 Background and Objectives .....	3
1.2 Summary of Observations.....	4
<b>2. Approach and Scope .....</b>	<b>5</b>
<b>3. Observations and Recommendations .....</b>	<b>8</b>
3.1 Group 1: Eligible Costs .....	8
3.2 Group 2: Reports .....	11
3.3 Group 3: Procurement .....	18
3.4 Group 4: General Terms, Insurance and Permits.....	19
3.5 Group 5: Assets Management .....	20
3.6 Group 6: Ethics.....	22
3.7 Group 7: Document Retention and Audit .....	22
3.8 Group 8: Media Activities.....	23
<b>4. Additional Opportunities for Improvement .....</b>	<b>24</b>
4.1 Project Budgeting .....	24
4.2 Project Benefits Management.....	25
<b>Appendix A: Group of CA Terms for Compliance Audit .....</b>	<b>26</b>

## 1. Executive Summary

### 1.1 Background and Objectives

Toronto Waterfront Revitalization Corporation (“TWRC” or “Waterfront Toronto” or “WT”) is a not-for-profit corporation that was established by the government partnership to deliver waterfront revitalization projects. The governance framework of WT is embedded in the TWRC Act (2002) and the corporate affairs of WT are shaped by the Business Corporations Act (1990). Although WT was created through Provincial legislation, all three (3) orders of government are equal, non-equity share partners of WT. The Waterfront Secretariat of the City of Toronto (the “City”) works with the other orders of government and WT to ensure that the right structures, supports and agreements are in place to drive waterfront revitalization forward in the Designated Waterfront Area (DWA).

Government funding of WT is provided through Contribution Agreements (“CAs”) on a project by project basis. Ninety-two (92) CAs have been used by the Federal, Ontario and Toronto government to fund waterfront revitalization activities to date. Each CA contains terms and conditions regarding the project management, reporting, deliverables and other information. It is through the CA structure that the government funders’ expectations regarding waterfront capital delivery are realized. WT has a legal binding obligation to execute CA terms.

The TWRC Act and CA terms include accountability features and reporting requirements to the government partners. As required by the TWRC Act, the accounts and transactions of WT are audited annually by a third-party licensed auditor and WT also procures internal audits periodically to support risk mitigation and continuous improvement of WT's operations. A total of forty-two (42) internal, external, and government-led audits have been undertaken since WT’s inception. The three (3) orders of government have coordinated their annual audit activities in a manner whereby the annual audit is led by one (1) order of government. The Federal Government performed this role from 2005 to 2012, followed by the Province from 2012 to 2015. The City is now assuming the role of audit lead and has developed the 2015/16 Tri-Government Audit Plan, which provides the approach for conducting the government-led audits of WT for the next three (3) years.

Ernst & Young LLP (“EY” or “we”) is engaged by the City to provide a compliance audit for two selected CAs. Based on the alignment with the City, the objectives of the compliance audit are:

- ▶ To provide reasonable assurance that the expenditures claimed as eligible expenses by the funding recipient were made in accordance with the CA terms;
- ▶ To provide reasonable assurance that the funding recipient’s processes and controls are designed and operating effectively to ensure the compliance with the CA terms; and
- ▶ To identify opportunities to enhance compliance and improve efficiency and provide program recommendations accordingly.

## 1.2 Summary of Observations

The initial observations reveal that there are opportunities:

- ▶ For the governments and WT to mutually align on the definitions and level of detail required to fulfill related obligations;
- ▶ For WT to leverage existing reporting to satisfy expectations of the CA terms for the governments;
- ▶ To identify the accountabilities, processes and controls at WT that address the CA terms; and
- ▶ To enhance specific processes and controls at WT as a result of the compliance auditing and high level review of the CA program.

These and other opportunities for improvement are detailed in section 3 and 4 of this report.

This report is provided for the sole use of the City of Toronto, acting as the audit lead, who may share the findings with other orders of government and the auditee (Waterfront Toronto). We shall have no responsibility whatsoever to any third party in respect of the contents of this report. It should not be provided to any third party without our prior written consent.

*Ernst + Young LLP*

## 2. Approach and Scope

The compliance audit consists of four phases: the planning phase, execution phase, validation phase and reporting phase. The major activities and work products incurred during each phase are listed below.

### ► Planning Phase

During the planning phase, we performed a risk assessment of the existing ninety-two (92) CAs and selected two (2) CAs for the compliance audit. Based on the discussion with the City, Internal Audit service provider of WT (“MNP LLP” or “MNP”) and Chief Operation officer (“COO”) of WT, we developed the following risk assessment criteria:

- Criteria 1: filtered CAs that are not expired before 2015 and are currently active
- Criteria 2: filtered CAs that receive joint funding from the City and CAs above monetary value of \$10M
- Criteria 3: filtered CAs that have not been audited before
- Criteria 4: Input from the City and WT

As the result of risk assessment, we identified CA72 West Don Lands (“CA72”) and CA85 East Bayfront (“CA85”) for the audit.

Subject to the terms and conditions of CA72, Ontario agrees to make a contribution to WT in an amount not to exceed sixteen million, six hundred and seventy-two thousand, one hundred and seventy dollars (\$16,672,170); and the City agrees to make a contribution to WT in an amount not to exceed nineteen million, seven hundred and seventy-eight thousand, five hundred and thirty-two dollars (\$19,778,532), which adds up to a total of thirty-six million, four hundred and fifty thousand, seven hundred and two dollars (\$36,450,702), to fund the West Don Lands (“WDL”) area revitalization projects. The WDL are being transformed from former industrial lands into a sustainable, mixed-use, pedestrian-friendly, riverside community. The WDL encompasses a 32-hectare (80-acre) area that runs from Parliament Street in the west to the Don River in the east, and from King Street in the north to the CN/GO rail corridor in the south. At full build out, it will feature approximately 6,000 new residential units, 750,000 square feet of employment, commercial and community space, and 10 hectares of parks and public spaces. CA72 was effective on 1 January 2005 and shall end on 31 March 31 2016.

Subject to the terms and conditions of CA85, the City agrees to make a Contribution to TWRC in an amount not to exceed thirteen million forty seven thousand three hundred sixty nine dollars (\$13,047,369) to fund the project requirements for the continued implementation of the East Bayfront (“EBF”) precinct revitalization. The EBF precinct is a 23-hectare (55-acre) area in downtown Toronto bounded by Lower Jarvis Street and Jarvis Slip to the west, Parliament Street and Parliament Slip to the east, Lake Shore Boulevard to the north, and Lake Ontario to the south. The design of the neighbourhood has already received Stage 1 LEED ND GOLD (Leadership in Energy and Environmental Design for Neighborhood Development) certification under the pilot program established by the U.S. Green Building Council. The continued implementation of EBF precinct revitalization requires enhancements to municipal and

utility infrastructure and the public realm, as well as extensive on going coordination with institutional and development partners to achieve full build-out of Dockside, Bayside, Parkside, and Quayside. At full build-out, EBF will feature approximately 6,000 new residential units; approximately 280,000 square metres (3,000,000 square feet) of employment, commercial and community space; approximately 5.5 hectares of parks and public spaces; and a continuous water's edge promenade approximately 1 km long. CA85 was effective on 1 February 1 2012 and shall end on March 31, 2017.

The audit period is defined as 1 January 2012 to 30 June 2016. We developed an audit program based on the audit objectives, which include below approaches and methodologies:

- Reviewed CA72 and CA85 and identified auditable CA terms, which are CA terms that require execution of WT in the daily operation activities;
- Categorized the auditable CA terms into eight groups by control objectives the CA terms are designed for;
- Employed an integrated audit approach that combines control testing and substantive testing for the compliance audit. We first identified which controls WT has in place to ensure the execution of the CA terms, and performed control testing to verify the effectiveness and efficiency of these controls. When applicable, we also performed substantive testing for selected samples to verify if WT has executed the CA terms without deviation; and
- Applied a combined methodology of judgemental sampling and statistical sampling for sample selections.

The audit program had been reviewed with the City before the audit field work commenced.

### ► Execution Phase

During the execution phase, we performed the audit field work per the approved audit program. The audit approaches include:

- Interviewed key process and control owners;
- Reviewed documentation of WT, including, but not limited to, policies, procedures, Board reports, website publications, and quarterly reports submitted to the City; and
- Sample checked journal entries, transaction records, invoices, timesheets, contracts, change orders and RFP ("Request for Proposal") files.

During fieldwork, as any deviations of execution from the requirements of the CA terms were identified, they were documented. Furthermore, we performed a high level review to the relevant processes for root cause analysis. Improvement opportunities, other than noncompliance findings, have been identified during the high level review. Any noncompliance exceptions and improvement opportunities are documented as "observations", for which we developed recommendations accordingly.

▶ **Validation Phase**

During the validation phase, we validated all observations with TRWC process owners. At the end of the validation phase, an audit closing meeting was held with all WT process owners and the validated observations with recommendations were reviewed.

▶ **Reporting Phase**

During the reporting phase, we prepared the audit report for internal quality assurance review and final stakeholder review. To add value to this compliance audit, we included leading practices relating to project budget planning process and project benefits management process as part of the report. Please refer to Section 4 for details.

### 3. Observations and Recommendations

#### 3.1 Group 1: Eligible Costs

No.	Observation Summary	Recommendation
1	Prior to April 2016, indirect labor hours incurred by Project Managers were allocated to CA85 by an allocation formula: Indirect labor hours allocated to each CA=Total indirect labor hours X (Direct labor hours charged to each CA/Total direct labor hours). Indirect labor costs for indirect labor hours are Ineligible Costs per CA Schedule C for CA-85.	1. WT shall establish a formal written labor time tracking and labor cost allocation process in line with CA Schedule C for execution.
2	Indirect labor costs for Indirect Employees are Ineligible Costs per CA Schedule C for CA85. However, the definition of Direct and Indirect Employees is not consistently applied.	1. If a list of Direct and Indirect Employee Positions is to be used for labor cost allocation, WT shall provide the list as an Appendix to CA Schedule C and use the same list for WT labor cost allocation consistently. If there is an organization change, within a month upon the organization change announcement, WT shall review the list of Direct and Indirect Employee Positions and notify the funding government(s) if an amendment to the Appendix needs to be made. This requirement shall be included in the Appendix to CA Schedule C with the alignment of three (3) orders of government.
3	Some costs charged to CA72 incurred for a project WDL05, which was not included in the CA72 Schedule A.	<p>1. WT shall communicate with the funding government(s) to achieve an alignment for any specific exceptional cases. Approving WT Long-Term Plan ("LTP") or any other general plans or budget without specific and detailed information cannot serve as approvals for specific exceptions.</p> <p>2. WT shall include work package level details in CA Schedule A consistently (CA72 Schedule A only contains project level details).</p>

#### Details of Observation No. 1:

As Direct Employees, Project Managers' labor hours are tracked in monthly timesheets. Project Managers incur both direct labor costs



(hours spent on specific projects) and indirect labor costs (hours spent on town hall meetings, trainings and administration work etc.). In the timesheets, Project Managers record their hours, both direct and indirect, by different codes. Prior to April 2016, the direct labor costs for project-specific hours were charged to each specific project under CAs. The indirect labor costs for non-project hours were allocated to each project and CA by an allocation formula as below:

Indirect labor hours allocated to each CA = Total indirect labor hours X (Direct labor hours charged to each CA / Total direct labor hours)

Due to the allocation of indirect labor costs to projects, the allocated project costs were higher than actual project costs and made it difficult for project cost management. Thus in April 2016, this practice stopped. All non-project hours are still tracked in monthly timesheets but are centralized and charged to other non-CA funding sources. However, the labor cost allocation process and relevant changes were not formally documented, which creates difficulty for process review, consistent execution and knowledge transfer.

**Details of Observation No. 2:**

CA Schedule C Eligible and Ineligible Costs was updated in 2012. The updated Schedule C was used for CA85. A change related to employee payroll is listed as below:

Eligible Employee Payroll Costs in Schedule C for CA72	Eligible Employee Payroll Costs in Schedule C for CA85
Employee wages and benefits, overhead costs as well as other direct or indirect operating, maintenance and administrative costs incurred by WT attributable to implementing the project are eligible.	Employee wages and benefits for employees who are directly engaged in the implementation of the project are eligible.

In September 2013, CA83 was approved to fund the corporate costs of WT from 1 April 2013 to 31 March 2015. A list of Direct and Indirect Employees (as of 30 June 2013) was provided as an Appendix 2 to CA83 Schedule C. This similar list has been used as an Appendix to some CAs starting from CA87, but not for all CAs consistently. This Appendix was not used for CA85.

For CA85 payroll allocation, we noted that a different list of Project Related Department and Staff (i.e., a list of Direct Employees), approved by the COO of WT in 2012, has been used. All payroll costs of Direct Employees in this list have been charged to CA85. However, the list of Project Related Department and Staff is not consistent with CA83 Appendix 2. Legal Counsel and Administrative Assistant are Indirect Employees in CA83 Appendix 2, but Direct Employees in the list of Project Related Department and Staff. As the Appendix 2 to CA83 was not used for CA85, this provides a degree of flexibility in interpreting the definition of Direct and Indirect Employees.

**Details of Observation No. 3:**

Project costs with a total of \$268,040 incurred for a work package WDL05 were charged to CA72. WDL05 was not included in the Schedule A of CA72. An internal memo of WT indicated that WDL05 was developed after CA72 was signed, but it was within the same scope of existing WDL projects. However, there is no evidence to show that this has been communicated to the City other than it was being integrated into the WT LTP. Per WT accounting records, WDL05 costs include project payroll, WDL landscaping and maintenance, security expense and corporate payroll.

WT LTP is a consolidated plan with budget, forecasting and funding amounts from CAs allocated to each project and work package (work packages are breakdown of projects). During the audit, we noticed that the LTP offers comprehensive information for project budget and funding management, and it is an annual process led by WT Finance and Project Management team with the participation of the City and the other two (2) orders of government. WT assumed that by participating in finalizing the LTP, the City had also approved any changes consolidated into the LTP or assumptions used to prepare the LTP. However, it is not appropriate to use the LTP as a formal approval by the City for any changes or assumptions of CA funded projects, as the LTP process is an annual process and changes will occur throughout the year; and the LTP is a high level summary budget plan which may provide insufficient details for changes and assumptions.

### 3.2 Group 2: Reports

No.	Observation Summary	Recommendation
4	Schedule B Cashflow Forecast and Record of Expenditures has not been provided for the City funded projects as required by the CA terms since 2012.	1. WT shall review the control objectives of submitting Cashflow Forecast and Record of Expenditures with the three (3) orders of government and align on reporting requirements and frequency.
5	The Statement of Eligible Costs has not been provided for three quarters (Q4 15/16, Q1 16/17 and Q2 16/17) as it takes a great deal of effort to prepare it and it does not provide very meaningful information.	1. WT shall review the Funding Request Report with three (3) orders of government to see if the eligible costs information included in the Funding Request Report can satisfy the reporting needs. Additional notes can be added to the existing Funding Request Report to address any concerns.
6	Internal Audit Reports have not been provided consistently every quarter.	1. WT shall include an Audit Register and completed Internal Audit Reports in the Quarterly Funding Request Binder. The Audit Register lists internal and external audits performed and scheduled to WT.
7	Schedule D of CA72 and CA85 requires WT to submit Quarterly Project Progress Reports and Annual Project Progress Reports which shall present detailed project performance information in benefits/objectives management, schedule/planning management, cost/budget management, risk/contingency management and media activities management. The existing Quarterly Project Progress Reports do not meet the detail requirements of Schedule D. The Annual Project Progress Report requested by Schedule D has not been provided.	<p>1. WT shall review the existing Project Management reports used for WT internal monitoring and Board reporting with three (3) orders of government and align on which reports can be submitted as Quarterly and Annual Project Progress Reports. The existing WT reports include, but not limited to:</p> <ul style="list-style-type: none"> <li>▪ Board Financial Variance Report</li> <li>▪ Board Work Package Risk/Status Report</li> <li>▪ Risk and Issue Report</li> <li>▪ Annual Management Report</li> <li>▪ Monthly Media Coverage Report</li> </ul> <p>2. If the existing reports do not contain necessary project performance information, WT shall review the existing project management process to address such information and include such information in the existing reports.</p>

**Details of Observation No. 4:**

On a quarterly basis, WT Accounting submits a Quarterly Funding Request Binder which includes all required reports and information specified in the CA terms. We inspected the Quarterly Funding Request Binders during 2012 to 2016 and noted that Schedule B Cashflow Forecast and Record of Expenditures has only been provided for the Federal funded projects by WT. There is no written evidence to support that the request for this report was amended or removed. Therefore, it is WT's obligation to provide the report as required by the CA terms.

**Details of Observation No. 5:**

The terms of CA72 and CA85 request the submission for the Statement of Eligible Costs, but there is no detail requirement for the template or contents. The existing statement template was developed in 2012 by WT. It takes a great deal of effort to prepare the report and it does not provide very meaningful information. Two examples are presented as below:

- ▶ Some cost terminologies used in this reporting are predefined in WT NAV system (the Accounting system used by WT) for accounting purpose, but not for CA reporting purpose, so the information could be misleading. For example, the "General and office administration" costs are not eligible under the updated Schedule C. For C85, WT Accounting excluded ineligible costs from the report, but the cost group names are pre-defined in the NAV system and it is too much manual work to change them one by one to reflect Schedule C changes, as there are at least 25 CAs included in this report.
- ▶ The existing report contains only numbers of eligible costs charged to each CA, and the eligible cost information is more meaningful for oversight when it is compared against budget.

**Details of Observation No. 6:**

As Internal Audit Reports can be downloaded from WT public website or obtained from participating Board and FARM (Finance, Audit & Risk Management Committee) meetings, they were not consistently included in the Quarterly Funding Request Binder. For better tracking and monitoring, WT agreed to include Internal Audit Reports in the Quarterly Funding Request Binder whenever an Internal Audit Report has been issued as an outcome of a completed Internal Audit. During the compliance audit, we reviewed the Audit Register for the past three years with WT Finance and identified three Internal Audit Reports that have not been formally submitted:

- ▶ Cash Forecasting Process Review (MNP LLP)
- ▶ Billing and Collections Audit (MNP LLP)
- ▶ Construction Audit for the Bayside Project (MNP LLP)

These three Internal Audit Reports will be included in the Quarterly Funding Request Binder for Q3 16/17.

**Details of Observation No. 7:**

We reviewed Schedule D Quarterly and Annual Progress Report Guidelines and identified the control objectives of having Project Progress Reports regularly. Through the submission of regular Project Progress Reports, the City expects to have comprehensive, timely and clear information on waterfront project performance in:

- ▶ Benefits/objectives management: if projects are to achieve the objectives and benefits identified in Schedule A Project Charter;
- ▶ Schedule/planning management: if projects are within the timeframe identified in the original project plan and will be completed as planned;
- ▶ Cost/budget management: if projects are within the budget identified in Schedule A Project Charter;
- ▶ Risk/contingency management: if there are any risk factors that might impact the successful completion of projects (achieving the above three targets) and how risk factors are identified, assessed and mitigated; and
- ▶ Media activities management: if media activities are managed appropriately with adequate coverage.

We inspected the Quarterly Funding Request Binders during 2012 to 2016 and noted that WT has been submitting Quarterly Project Progress Reports only. The Annual Project Progress Reports have not been prepared. WT prepares the Quarterly Project Progress Reports following the below process:

- ▶ WT Accounting identifies projects that had incurred more than \$50K costs in the prior period, and sends a list of identified projects to the Project Cost Controller. Quarterly Project Progress Reports will only be prepared for these identified projects. We noted that this threshold is set up to improve the reporting efficiency, however, it is not formally communicated to the City.
- ▶ The Project Cost Controller follows up with the Project Managers for identified projects to complete the Quarterly Project Progress Report template on the server for each project. After all reports are collected, the Project Cost Controller consolidates all reports and submits them to the Director, Program Controls and Risk Management and the COO for review.

We reviewed the sample Quarterly Project Progress Reports for CA72 and CA85 against the requirements set up in Schedule D and concluded that the current Quarterly Project Progress Reports may not contain necessary information to achieve the reporting objectives. The results are summarized below:

Project Performance	Existing Quarterly Project Progress Report Content
Benefits/objectives management	There is a brief description of the project scope, but there is no description of project objectives and progress in achieving the objectives.
Schedule/planning management	Milestones for each project are listed with target completion dates and actual/forecast dates, but the information is incomplete. If there is a delay there is no reason provided.
Cost/budget management	Cost information has not been provided in the Quarterly Project Progress Report as the project costs/budget is included in the Funding Request Report. But there is no explanation for budget versus cost variance in the Funding Request Report.
Risk/contingency management	There is a column called "Critical Issues" in the Quarterly Project Progress Report; however, there is not much information disclosed.
Media activities management	Relevant information has not been provided in the Quarterly Project Progress Report as media activities are not managed by the Project Management team. A WT Scorecard with Media Coverage Data was provided from time to time as a substitute.

Due to system and resource limitations, it is not efficient if WT prepares manual reports with information not meaningful for project performance monitoring. Except for the benefits management and media activities management, project schedule, cost and risk management is embedded in the daily project management and operation of WT, and WT has developed internal reporting tools to present the project performance to the senior executives and Board of WT. As an outcome of our interviews and documentation inspection, we listed several existing WT reports that can best meet the requirements of Schedule D. These existing reports do not contain all necessary project performance information. As an example, benefits management information is not included in any of these reports, as due to resource constraints, WT currently does not perform benefits management at the project level. Every few years, WT engages a third party to perform an economic assessment to help define the contributions and economic performances of overall waterfront projects. At this time, we recommend that WT provides the City with the existing WT reports for the City to oversee the project performances. Over time, as WT initiates a review of its current project management program, structure and reporting tools, there may be opportunities to obtain greater succinct information around WT's CA program and project management. WT shall proactively communicate with the City about these opportunities. These existing reports are listed in the following paragraphs.

**Report 1 - Board Financial Variance Report:** this report is presented in the quarterly Board meeting to show the actual costs versus budget variances for each active project. The Budget Transfer column shows the budget change for each project, and the Variance column shows the variances between actual spending and project budget. Explanations for Variances and Budget Transfer can be

provided with this report as well.



**Board Financial Variance Report  
As at March 31, 2016**

Code	Name	Status	Approved Budget	Budget Transfers	Current Approved Budget	Total Commitments	Total Cost to Date	Fiscal Year 2015/2016 Cost	Forecast to Completion	Anticipated Final Cost	Variance Fav/(Unfav)
CWF01-02	Lower Yonge Precinct Plan	Planning	2,265,058	49,961	2,315,019	2,165,743	1,449,662	409,070	214,218	2,379,961	(64,942)
CWF03-01	Queens Quay Revitalization & Public Realm	Construction	128,898,255	-	128,898,254	126,474,380	125,263,839	15,182,600	1,123,346	127,597,726	1,300,528
CWF03-03	CWF Queens Quay Damage Restoration	Construction	-	1,039,982	1,039,982	1,039,946	1,039,507	1,039,507	-	1,039,946	36
CWF05-00	MT27 Development	Planning	2,431,290	-	2,431,290	1,586,025	1,559,828	180,785	845,265	2,431,290	-
CWF07-03	MGT West YoYomA to Stadium Rd	Construction	2,800,000	800,000	3,600,000	3,290,674	3,144,591	2,292,998	309,326	3,600,000	-
CWF16-00	Jack Layton Ferry Terminal	Planning	350,000	-	350,000	376,897	372,005	173,339	68,901	445,798	(95,798)
CWF17-00	Toronto Book Garden	Construction	-	99,967	99,967	97,937	22,192	21,370	2,030	99,967	-
<b>Central Waterfront Work Packages</b>			<b>136,744,602</b>	<b>1,989,910</b>	<b>138,734,512</b>	<b>135,031,603</b>	<b>132,851,624</b>	<b>19,299,669</b>	<b>2,563,085</b>	<b>137,594,688</b>	<b>1,139,825</b>
EBF02-00	Demolition, Soil & Environmental Management	Construction	23,065,000	-	23,065,000	9,806,847	9,460,241	3,132,843	13,613,153	23,420,000	(355,000)
EBF02-02	Coal Tar Containment Barrier (Bayside Phase 1)	Construction	3,500,000	-	3,500,000	2,546,622	2,489,406	26,964	113,378	2,660,000	840,000
EBF02-03	Demolition, Soil & Environmental Management (Bayside Phase 2)	Planning	-	-	-	80,282	80,282	80,282	-	80,282	(80,282)
EBF04-04	Storm Water Quality Management (Stage 2)	Construction	19,800,000	-	19,800,000	16,729,325	15,163,289	2,623,859	3,070,675	19,800,000	-
EBF04-05	Water's Edge Promenade (Bayside)	Construction	31,250,000	-	31,250,000	11,684,905	10,760,576	1,067,183	20,376,774	32,061,679	(811,679)
EBF04-09	Water's Edge Promenade (Bayside Phase 2)	Planning	-	-	-	47,906	47,906	47,906	-	47,906	(47,906)
EBF05-02	External Sanitary Sewer	Construction	45,000,001	-	45,000,000	44,387,299	41,452,688	10,614,869	612,701	45,000,000	-
EBF05-03	Queens Quay (Jarvis to Parliament)	Construction	9,500,000	-	9,500,000	9,171,919	8,725,902	1,788,442	284,364	9,456,283	43,717
EBF05-05	Local Streets (Bayside)	Construction	14,310,000	-	14,310,000	13,238,525	11,966,867	1,383,932	1,746,955	14,985,479	(675,479)
EBF05-07	Aitken Place Park	Construction	4,879,416	-	4,879,416	559,634	470,117	315,316	4,319,782	4,879,416	-
EBF05-08	Bonnycastle Street	Construction	6,500,000	-	6,500,000	2,927,179	2,835,916	1,510,084	4,001,607	6,928,786	(428,786)
EBF05-09	Local Streets (Bayside Phase 2)	Planning	12,000,000	-	12,000,000	243,910	168,957	168,957	11,756,090	12,000,000	-
EBF05-10	Hydro Connections	Construction	20,670,372	-	20,670,372	15,140,374	14,988,908	(2,044)	2,908,039	18,048,413	2,621,959
EBF08-01	Queens Quay East LRT Infrastructure	Planning	89,058,417	-	89,058,417	12,127,818	5,848,389	12,231	76,930,599	89,058,417	-
EBF10-01	Dockside Development	Planning	3,994,351	-	3,994,351	2,898,843	2,627,896	247,854	1,095,508	3,994,351	-
EBF10-02	Bayside Development	Planning	9,332,797	-	9,332,797	4,376,883	4,278,551	248,846	4,955,914	9,332,797	-
EBF11-00	Phase II Development (North of Queens Quay)	Planning	2,490,358	-	2,490,358	2,531,853	2,537,586	347,200	5,733	2,537,586	(47,228)
EBF11-01	Parkside Development	Planning	1,498,020	-	1,498,020	1,390,360	1,370,904	88,033	107,660	1,498,020	-
EBF11-02	Quayside Development	Planning	3,940,000	-	3,940,000	279,538	177,155	150,585	3,660,462	3,940,000	-
<b>East Bayfront Work Packages</b>			<b>300,788,731</b>	<b>-</b>	<b>300,788,731</b>	<b>150,170,020</b>	<b>135,451,537</b>	<b>23,853,343</b>	<b>149,559,395</b>	<b>299,729,416</b>	<b>1,059,315</b>
WDL05-00	Corktown Common (or Don River Park)	Construction	26,589,352	-	26,589,352	27,044,837	27,142,607	608,692	97,770	27,142,607	(553,255)
WDL06-02	Cherry Street (ROW & Transit Loop)	Construction	11,034,287	-	11,034,287	10,713,245	10,612,776	441,279	321,042	11,034,287	-
WDL06-03	Stormwater Quality Management Facilities	Construction	40,800,000	-	40,800,000	35,925,971	32,751,622	1,435,250	4,874,029	40,800,000	-
WDL06-05	Woonerfs	Construction	6,625,000	-	6,625,000	6,672,070	6,832,170	785,326	160,100	6,832,170	(207,170)
WDL08-00	Phase I/II Public Art	Construction	2,128,000	200,000	2,328,000	353,676	353,691	141,369	1,529,324	1,883,000	445,000
WDL08-04	Front Street Public Art	Construction	2,050,000	-	2,050,000	2,228,586	1,923,935	779,912	66,414	2,295,000	(245,000)
WDL08-05	Eastern-Sumach Public Art	Construction	650,000	-	650,000	514,241	509,967	246,020	85,759	600,000	50,000
WDL10-00	Phase I Development	Planning	9,685,000	-	9,685,000	8,219,168	8,166,497	85,646	1,465,832	9,685,000	-
WDL11-00	Phase II Development	Planning	8,629,596	-	8,629,596	3,698,502	3,379,118	66,285	4,931,094	8,629,596	-
WDL12-00	Cherry St. Transit Line Extension	Construction	3,000,000	-	3,000,000	2,388,403	2,381,106	42,709	611,597	3,000,000	-
WDL17-00	Phase III Development Costs	Planning	250,000	-	250,000	10,176	1,383	-	239,824	250,000	-
<b>West Don Lands Work Packages</b>			<b>111,441,235</b>	<b>200,000</b>	<b>111,641,235</b>	<b>97,768,874</b>	<b>94,054,869</b>	<b>4,632,488</b>	<b>14,382,786</b>	<b>112,151,660</b>	<b>(510,425)</b>

**Report 2 - Board Work Package Risk/Status Report:** this report is presented in the quarterly Board meeting to show a high level summary of project performance in schedule, budget, funding request and risk management. Explanations are provided for any performance deficiencies.



Board Work Package Risk/Status Report  
As At March 31, 2016

Code	Name	Project Type	Current Progress	Current Phase	Schedule	Budget	Funding	Issues	Commentary
<b>Central Waterfront Work Packages</b>									
CWF01-02	Lower Yonge Precinct Plan	Planning	<div style="width: 10%;"></div>	EA / Precinct Planning	✓	✓	✓	✓	Gardiner design has impacted scope and timing of work
CWF03-01	Queens Quay Revitalization & Public Realm	Construction	<div style="width: 80%;"></div>	Warranty Period/Completion	✓	✓	✓	✓	Project complete majority of required funding has been secured
CWF03-03	CWF Queens Quay Damage Restoration	Construction	<div style="width: 80%;"></div>	Warranty Period/Completion	✓	✓	✓	✓	All work completed on schedule and funded by insurance proceeds
CWF05-00	MT27 Development	Planning	<div style="width: 10%;"></div>	Design & Tendering	✓	✓	✓	✓	
CWF07-03	MGT West YoYoMa to Stadium Rd	Construction	<div style="width: 80%;"></div>	Warranty Period/Completion	✓	✓	✓	✓	
CWF16-00	Jack Layton Ferry Terminal	Planning	<div style="width: 10%;"></div>	Pre-Design	✓	✗	✓	✓	Minor forecast overage approved by Board of Directors in 15/16 LTFF
CWF17-00	Toronto Book Garden	Construction	<div style="width: 10%;"></div>	Pre-Design	✓	✓	✓	✓	
<b>East Bayfront Work Packages</b>									
EBF02-00	Demolition, Soil & Environmental Management	Construction	<div style="width: 80%;"></div>	Design & Tendering	✓	✓	✓	✓	Impacted groundwater discharge costs may exceed budget environmental risk
EBF02-02	Coal Tar Containment Barrier (Bayside Phase 1)	Construction	<div style="width: 80%;"></div>	Warranty Period/Completion	✓	✓	✓	✓	
EBF02-03	Demolition, Soil & Environmental Management (Bayside Phase 2)	Planning	<div style="width: 10%;"></div>	Pre-Design	✓	✓	✓	✓	New Work Package budget allocation approved by Board of Directors in 15/16
EBF04-04	Storm Water Quality Management (Stage 2)	Construction	<div style="width: 80%;"></div>	Design & Tendering	✗	✓	✓	✗	Construction of in-water pipe to be deferred pending additional funding available
EBF04-05	Water's Edge Promenade (Bayside)	Construction	<div style="width: 80%;"></div>	Warranty Period/Completion	✓	✓	✓	✓	Budget overage accommodated within overall Bayside Phase 1 Capital Approval
EBF04-09	Water's Edge Promenade (Bayside Phase 2)	Planning	<div style="width: 10%;"></div>	Pre-Design	✓	✓	✓	✓	New Work Package budget allocation approved by Board of Directors in 15/16
EBF05-02	External Sanitary Sewer	Construction	<div style="width: 80%;"></div>	Construction	✓	✓	✓	✓	
EBF05-03	Queens Quay (Jarvis to Parliament)	Construction	<div style="width: 80%;"></div>	Construction	✓	✓	✓	✓	
EBF05-05	Local Streets (Bayside)	Construction	<div style="width: 80%;"></div>	Construction	✓	✓	✓	✓	Budget overage accommodated within overall Bayside Phase 1 Capital Approval
EBF05-07	Aitken Place Park	Construction	<div style="width: 80%;"></div>	Design & Tendering	✓	✓	✓	✓	
EBF05-08	Bonnycastle Street	Construction	<div style="width: 80%;"></div>	Construction	✓	✓	✓	✓	Budget overage accommodated within overall Bayside Phase 1 Capital Approval
EBF05-09	Local Streets (Bayside Phase 2)	Planning	<div style="width: 10%;"></div>	Pre-Design	✓	✓	✓	✓	New Work Package budget allocation approved by Board of Directors in 15/16
EBF05-10	Hydro Connections	Construction	<div style="width: 80%;"></div>	Warranty Period/Completion	✓	✓	✓	✓	
EBF08-01	Queens Quay East LRT Infrastructure	Planning	<div style="width: 10%;"></div>	Pre-Design	✓	✓	✓	✓	
EBF10-01	Dockside Development	Planning	<div style="width: 10%;"></div>	Pre-Planning	✓	✓	✓	✓	
EBF10-02	Bayside Development	Planning	<div style="width: 10%;"></div>	Development	✓	✓	✓	✓	
EBF11-00	Phase II Development (North of Queens Quay)	Planning	<div style="width: 10%;"></div>	Pre-Planning	✓	✓	✓	✓	Budget to be reassessed as part of 16/17 LTFF
EBF11-01	Parkside Development	Planning	<div style="width: 10%;"></div>	Development	✓	✓	✓	✓	
EBF11-02	Quayside Development	Planning	<div style="width: 10%;"></div>	Pre-Planning	✓	✓	✓	✓	
<b>West Don Lands Work Packages</b>									
WDL05-00	Corktown Common (or Don River Park)	Construction	<div style="width: 80%;"></div>	Warranty Period/Completion	✓	✓	✓	✓	Additional funding from IO subsequently confirmed (CR-15) budget revised in 15/16
WDL06-02	Cherry Street (ROW & Transit Loop)	Construction	<div style="width: 80%;"></div>	Warranty Period/Completion	✓	✓	✓	✓	
WDL06-03	Stormwater Quality Management Facilities	Construction	<div style="width: 80%;"></div>	Design & Tendering	✗	✓	✓	✗	Stormwater Facility tender exceeds budget amount - E and deferrals being implemented
WDL06-05	Woonerfs	Construction	<div style="width: 80%;"></div>	Warranty Period/Completion	✓	✓	✓	✓	Budget to be reassessed as part of 16/17 LTFF
WDL08-00	Phase I/II Public Art	Construction	<div style="width: 80%;"></div>	Pre-Design	✓	✓	✓	✓	
WDL08-04	Front Street Public Art	Construction	<div style="width: 80%;"></div>	Warranty Period/Completion	✓	✗	✓	✓	Cost to construct foundations for art installations exceeded WP budget accommodate
WDL08-05	Eastern-Sumach Public Art	Construction	<div style="width: 80%;"></div>	Warranty Period/Completion	✓	✓	✓	✓	
WDL10-00	Phase I Development	Planning	<div style="width: 10%;"></div>	Development	✓	✓	✓	✓	
WDL11-00	Phase II Development	Planning	<div style="width: 10%;"></div>	Development	✓	✓	✓	✓	
WDL12-00	Cherry St. Transit Line Extension	Construction	<div style="width: 80%;"></div>	Warranty Period/Completion	✓	✓	✓	✓	
WDL17-00	Phase III Development	Planning	<div style="width: 10%;"></div>	Pre-Planning	✓	✓	✓	✓	
<b>Port Lands Projects</b>									

**Report 3 - Risk and Issue Report:** this report is used to prepare Report 2 Board Work Package Risk/Status Report and is used for monthly Project Management Review meetings. This report uses Green-Yellow-Red color codes to highlight the project performance relating to schedule, budget and funding management, with a detail description of any identified risk factors, assessed impact, mitigating actions and residual impact. While Report 1 Board Financial Variance Report and Report 2 Board Work Package Risk/Status Report provide a high level summary of project performance, Report 3 Risk and Issue Report provides more detailed information for each project. It is recommended to add one more piece of information into this report, which is the specific target completion date and actual/forecast completion date to each project, in addition to the color coding.



Schedule	Budget	Funding	Project Tracking			No.	Issues & Risk Details	Impact Details	Action Plan	Residual Impact
			Current Approved Budget	Anticipated Final Cost	Variance					
			137,594,563	136,454,775	1,139,788					
			128,898,254	127,597,726	1,300,528					
						1.6	THES permanent power and existing infrastructure decommissioning delayed until Fall 2016	Final completion delayed until after THES work is complete; will result in additional rework costs (\$ 500K)	Require a summary of the work that will take place post Pan-Am into 2016 in order to determine contracting strategy and additional costs. May be delayed to 2017.	
				incl. in AFC		1.7	Third party recovery (from TW, TTC, THES) - WT has submitted full documentation for the value of changes associated with work performed on behalf of third parties. Awaiting their review and approval	Costs included in current forecast (\$0 impact on AFC)	Final invoices submitted to THES, TTC, Toronto Water, and Rogers	
				funding issue - no budget impact		4.1	Currently do not have CA for full \$23.5 Million	May need to amend LTP if full contribution not forthcoming	Continue to push Province for funding. (New CA EBF Infrastructure for \$ 14.5M will be executed after closing Block 3, so costs will be revenue funded)	Received \$5M in May 2015, Remaining balance and schedule of payments: \$4M+\$10.5M=\$14.5M after closing Block 3 in Oct. 2015, and \$4M in Oct. 2016
				incl. in AFC		5.2	Drivers are not following signs and signals causing continued traffic accidents	Need to provide few remaining signs/signal modifications	Meeting with TTC and Transportation Services to coordinate. WT has given notice that we will not be paying for anymore changes/repairs. Quotation request for new signals has been issued.	

**Report 4 - Monthly Media Coverage Report:** WT engages a third party to monitor the media coverage and receives a monthly report by type, tone and topic (project) from the third party. This report provides comprehensive information about media activities. If any specific activity catches attention, the City may request WT to provide further details.

**Report 5 - Annual Management Report:** WT issues an Annual Management Report to summarize the revitalization activities taking place over the year. The report addresses level of investment by precinct, provides an update on the Corporation's resources for the overall revitalization program and discusses the Corporation's results against annual deliverables outlined in our Corporate Plan. This report can be submitted to the City as the Annual Project Progress Report.

### 3.3 Group 3: Procurement

No.	Observation Summary	Recommendation
8	A fairness advisor is used for complex and high value procurement which is a good practice to ensure the compliance with CA terms. The use of fairness advisor is not documented in the procurement policy.	1. WT shall document the use of a fairness advisor in the procurement policy.

#### Review Details for Group 3: Procurement:

The CA term requests that all consulting services and procurement and procurement for goods and services above \$75K shall go through a competitive process. As an outcome of the 2007 Value for Money audit and 2014 Value for Money (“VMF”) follow-up audit, WT established a formal procurement policy and process in 2012, which was most recently reviewed and approved by the CEO in October 2015. The WT procurement policy specifies that procurement for above \$100K shall go through an open competitive process (e.g., publicly posted RFP), and any procurement above \$25K will go through competitive process (e.g., RFQ). For procurement of consulting services, it was treated separately per CA terms due to the province’s request. The WT procurement policy is provided to third parties to follow when third parties are used to organize RFPs on behalf of WT.

We did not observe any noncompliance issues with the CA term relevant to procurement during the audit, and observation No. 8 is an opportunity for improvement.

### 3.4 Group 4: General Terms, Insurance and Permits

There are no observations under this group of CA terms. Per our review, general contract terms were developed for different types of procurement. From a legal perspective, the General Counsel understands them to be comprehensive. Regarding the City's liability in projects funded by the City, there are several layers of protection:

- ▶ In the TWRC Act, WT is explicitly not an agent of any governments unless WT is authorized in writing to act in that capacity for the City.
- ▶ WT standard procurement documents have clauses that provide protection to the City and WT requires counterparties to carry insurance that benefits the City (and other governments).
- ▶ For big projects, Construction Managers ("CM") will be used, and the CM agency will help with RFP and subcontracting, so the liability is shifted from WT to the CM agency to reduce the liability from WT.

It is confirmed with Legal and Procurement that, in case of a third party rejecting to take the WT terms, Procurement will escalate the issue to Legal for review. New terms will be negotiated to the satisfaction of WT. However, such cases are rare (e.g., for sponsorship). The insurance package for corporate liability is managed by Finance and the construction/project liability is managed by the Procurement and Project Managers (generally \$500M). Work and building permits are always obtained prior to the commencement of the work by the third parties.

### 3.5 Group 5: Assets Management

No.	Observation Summary	Recommendation
9	CA sections of 13.1 and 13.2 request written approval of funding government(s) for any asset transactions over \$10,000, including assets acquisition, disposal, sale, exchange and lease, prior to the occurrence of the transactions. There has been no evidence to prove that these clauses have been complied with by WT.	<p>1. WT shall review CA sections of 13.1 and 13.2 with the three (3) orders of government for better alignment and execution. Key areas recommended for review are:</p> <ul style="list-style-type: none"> <li>- Consider increasing the maximum amount of \$10,000 with consideration to economic development since 2003 and practicality.</li> <li>- Consider developing an Assets Transaction Approval Form that can be used by WT to inform or request the governments' approval with adequate information, including, but not limited to, assets transaction type, assets description, budget amount, actual amount, corresponding project number and CA number, transaction justification and WT internal approvals obtained before submitting for the governments' approval.</li> <li>- Consider requesting regular submission of WT Assets Register to monitor the total volume, value and changes of WT assets (including both project assets and corporate assets).</li> </ul>

#### Details of Observation No. 9:

The following excerpts outline the detailed language found within the CA pertaining to asset management:

*13.1 WT shall not, without the prior written approval of Toronto: a) Acquire any right, title or interest in or take possession of any assets or property, including shares and real property, having a value in excess of \$10,000.00 in the aggregate in any Fiscal Year; or b) Invest in or purchase any business whether directly or by acquiring the entity through or by which the business is operated in any other manner.*

*13.2 WT shall not sell, lease, exchange or otherwise dispose of property or assets of WT having a value in excess of \$10,000.00 in the aggregate in any Fiscal Year without the prior written approval of Toronto or as may be otherwise agreed by WT and Toronto.*

Currently, WT has two types of capital assets and each of them is controlled under different WT policies:

Assets Category	Assets Definition	Underlying Process
Project assets	Assets and properties relevant to projects execution, such as lands and construction equipment	Project assets are planned and approved under LTP process and capital plan approval process. The WT Capital Approval Policy states that any project assets acquisitions above \$2M require Board approval.
Corporate assets	Assets and properties above \$2K used for office supply and administration, such as IT systems, copy machines and leasehold improvement	The WT Accounting Business Cycle Process - Capital Assets Cycle process states that any corporate assets acquisitions above \$500 require the Chief Financial Officer ("CFO") approval.

Currently, asset transactions have not been submitted for the City's approval in advance as the CA terms stipulate.

During the audit, WT presented an email from 2007 between WT Finance and the City. In this email, the City agreed that project asset purchases did not require further approval from the City to accelerate the project implementation. However, this email does not cover the purchase of corporate assets, and the disposition, sale, exchange and lease of both project assets and corporate assets. There had been discussion about amending these clauses, but a formal amendment has never been made, thus the clauses are still legally effective.

### 3.6 Group 6: Ethics

No.	Observation Summary	Recommendation
10	The WT definition of conflict of interests does not cover WT employees and government officials who have influence over the CA process, as requested by CA terms.	1. WT shall update the Code of Conduct to expand the definition of conflict of interest per CA terms.

#### Review Details for Group 6: Ethics:

Around the compliance of Ethics related CA terms, we interviewed the Director, Human Resources and Administration and General Counsel of WT, and inspected the Code of Conduct, Annual Certification and Wrongdoing policies. The relevant policies and procedures are published on WT website with access to all WT employees. We noticed that in 2015, WT took the advice of the governments and engaged an independent Accountability Officer to manage wrongdoing and whistleblower, which had been managed by the Chief Executive Officer (“CEO”). The interviewees indicated that there has been no wrongdoing or fraud detected or reported during the audit period.

### 3.7 Group 7: Document Retention and Audit

No.	Observation Summary	Recommendation
11	There is no written document retention policy in place as a guideline for documents retention.	1. WT shall develop a formal document retention policy in line with Generally Accepted Accounting Principles (“GAAP”) standards.

#### Details of Observation No. 11:

Per inquiry with WT Accounting and Finance, the general rule is that all financial and project records are filed up to seven years. Accounting booking and records are filed for even more than seven years to maintain audit trails. However, there is no written policy to serve as a guideline for document retention, such as what kind of documents should be archived, how long should the documents be archived, and how the documents should be archived (centralized storage or in individual email boxes or server).

### 3.8 Group 8: Media Activities

No.	Observation Summary	Recommendation
12	<p>CA clause of 17.1 requires that <i>WT shall ensure that any and all public information material related to the Project, including Internet Website information, publications, advertising and press releases are approved by Toronto and that there is, included in public information, an appropriate acknowledgement, of Toronto's Contribution.</i></p> <p>CA clause of 17.2 requires that <i>In the event that public information material is developed for public distribution under this Agreement, WT shall, unless otherwise directed by Toronto ensure that the following disclaimer appears: 'The views expressed herein do not necessarily represent the views of the City of Toronto'.</i></p> <p>Due to technology development, the major media and communication channels used by WT are social media such as its official website (<a href="http://www.waterfrontoronto.ca">www.waterfrontoronto.ca</a>), official Twitter and Facebook account. It is hard to audit if the implementation of is satisfactory.</p>	<ol style="list-style-type: none"> <li>1. WT shall ensure an acknowledgement to the funding government(s) will be included for each project updates on its official website, if it has not already been done.</li> <li>2. WT shall communicate with three (3) orders of government and reach a mutual understanding on the wording of implementation of CA clauses of 17.1 and 17.2.</li> </ol>

#### Details of Observation No. 12:

We noticed that due to technology development, since 2012 WT has been releasing project announcements through its official website ([www.waterfrontoronto.ca](http://www.waterfrontoronto.ca)), official Twitter account and official Facebook account. WT disclosed that it has been receiving funding from the City in its official website, and included an acknowledgement in some project updates, but it is hard to define if such an acknowledgement is included for “any and all” public information to the City’s satisfaction, and to be efficient WT does not submit website announcements to the City for pre-approval.

As for the use of disclaimer, the public information materials have been reviewed by senior executives including, but not limited to, the Director, Communications and Public Engagement, Legal Counsel and Chief Administration Officer. According to WT Legal, a disclaimer shall only apply to a situation where WT is expressing an opinion or taking a side for a public event, but so far WT has never explicitly expressed an opinion on waterfront projects. All public information are waterfront project facts presented by WT.

## 4. Additional Opportunities for Improvement

### 4.1 Project Budgeting

There is potential to improve cost predictability of projects undertaken by WT through additional rigor in budgeting and estimation. It is understandable that the project scope is not completely defined at the onset, however, adopting industry standards, such as the ones developed by AACE International (the formal Association for the Advancement of Cost Engineering), can improve the accuracy of cost estimates at every stage of the project.

AACE International prescribes cost estimate classifications to build allowances and contingency into the cost and schedule baselines. An experienced team of Project Managers should be able to leverage these principles to increase cost predictability and visibility. Stage gating the budget approvals into project initiation, planning and execution stages will also increase accountability for preparing accurate estimates and determining the point at which the control estimate gets locked for monitoring and controlling. The table below illustrates the classes of cost estimates and their corresponding characteristics as defined by AACE International.

ESTIMATE CLASS	Primary Characteristic	Secondary Characteristic		
	MATURITY LEVEL OF PROJECT DEFINITION DELIVERABLES Expressed as % of complete definition	END USAGE Typical purpose of estimate	METHODOLOGY Typical estimating method	EXPECTED ACCURACY RANGE Typical variation in low and high ranges <sup>[a]</sup>
Class 5	0% to 2%	Functional area, or concept screening	SF or m <sup>2</sup> factoring, parametric models, judgment, or analogy	L: -20% to -30% H: +30% to +50%
Class 4	1% to 15%	or Schematic design or concept study	Parametric models, assembly driven models	L: -10% to -20% H: +20% to +30%
Class 3	10% to 40%	Design development, budget authorization, feasibility	Semi-detailed unit costs with assembly level line items	L: -5% to -15% H: +10% to +20%
Class 2	30% to 75%	Control or bid/tender, semi-detailed	Detailed unit cost with forced detailed take-off	L: -5% to -10% H: +5% to +15%
Class 1	65% to 100%	Check estimate or pre bid/tender, change order	Detailed unit cost with detailed take-off	L: -3% to -5% H: +3% to +10%

Note: [a] The state of construction complexity and availability of applicable reference cost data affect the range markedly. The +/- value represents typical percentage variation of actual cost from the cost estimate after application of contingency (typically at a 50% level of confidence) for given scope.

Cost Estimate Classification Matrix for Building and General Construction Industries

(Source: AACE International Recommended Practice No. 56R-08)



Once adequate rigor has been put into building the cost estimate, contingency allowances can be included to manage the unknowns. We understand that there is no mechanism currently for developing and managing contingencies. If WT decides to include contingency in the budget, having proper governance for management/release of contingency is imperative to prevent misuse. Contingency allowance should also be reduced on a sliding scale as the project progresses.

For more complex projects, a probabilistic simulation, such as the Monte Carlo Method is recommended for calculating the probability of meeting a specific budget. This technique has been used by WT for the Port Lands Flood Protection project. The decision to apply probabilistic simulations can be made based on the mix of projects in the current portfolio. This will help increase cost predictability which in turn will inform decision making so that funds can be allocated to maximize benefits. Regardless of the method used to develop a cost estimate, a Basis of Estimate (“BOE”) document should always be prepared to capture the underlying assumptions. A basis document commonly includes, but is not limited to, a description of the scope included, methodologies used, references and defining deliverables used, assumptions and exclusions made, clarifications, adjustments, and some indication of the level of uncertainty. Some specific examples of information included in the BOE document are:

- ▶ Resource strategies, workweek schedule assumptions (hours worked per day, days worked per week, shifts worked per day, etc.) and planned use of overtime
- ▶ Assumptions made regarding constructability, modularization, use of specialized construction equipment, etc.
- ▶ Wage rates used (including crew/craft rates, craft mix, etc.). All items included in all-in rates (if used)
- ▶ Pricing source and methodology for costs such as freight, taxes, duties, etc.
- ▶ Currency exchange rates if applicable, as well as the stability and/or volatility of rates
- ▶ Escalation rates

Using these leading practices should reduce the cost variance witnessed in some of the major projects.

#### **4.2 Project Benefits Management**

Clear identification and management of benefits is another potential area of improvement to ensure that the objectives of the waterfront investments are being adequately realized. In the absence of a formal benefits management framework, even if projects are on time and on budget, there is a risk of falling short on the realization of benefits. In the context of this audit, the benefits identified from the East Bayfront project covered under CA85 are:

- ▶ Enhance and improve the quality of living in the Toronto region;
- ▶ Contribute to sustainable urban development;
- ▶ Enhance the global image of the City of Toronto, the Province of Ontario, and Canada;

- ▶ Increase opportunities for economic growth and development; and
- ▶ Increase Toronto’s ability to develop, attract, and retain knowledge-based workers.

While benefits can be qualitative as well as quantitative, making them clearly measurable to the extent possible is key for ensuring that they can be tracked, monitored and controlled through the planning and execution phases. As a case in point, the benefits listed above require further definition and/or KPIs to make them measurable. Metrics like average commuting time, percentage of commuters who walk, ride bike or take public transit to work, percentage of green space, number of jobs created, tax base increase, other sources of revenue, etc. are examples of metrics which can be defined and monitored to justify allocation of funding.

Furthermore, a formal benefits management framework is required to define underlying roles, responsibilities and processes. The components of a typical benefits management framework include:

- ▶ Tracking benefits throughout the program life-cycle
- ▶ Assessing impacts on benefits due to changes to the program
- ▶ Assigning accountability for delivering program benefits

The lack of a defined benefits management framework makes it difficult to monitor and control potential impact of program changes on the intended benefits. Also the lack of measureable Key Performance Indicators (KPIs) creates ambiguity in the actual impact of a program/project.

#### Appendix A: Group of CA Terms for Compliance Audit

Group Summary	CA Term Code	Control Objectives	Underlying WT Processes
G1: Eligible Costs	Section 4.1, 4.4, 6.4.2 Schedule A Schedule C	Manage risks that: <ul style="list-style-type: none"> <li>▶ Ineligible costs are charged to CA</li> <li>▶ Eligible costs are charged to incorrect CA</li> </ul>	<ul style="list-style-type: none"> <li>▶ Invoice approval</li> <li>▶ Cost allocation</li> <li>▶ Payroll allocation</li> </ul>
G2: Reports	Section 5.1, 5.4, 5.5, 6.2 Schedule B Schedule D	Evaluate project efficiency through defined reports provided by WT, including: <ul style="list-style-type: none"> <li>▶ Quarterly Funding Request Report</li> <li>▶ Quarterly Cashflow Forecast and Record of Expenditures Form</li> <li>▶ Quarterly Project Progress Report</li> </ul>	<ul style="list-style-type: none"> <li>▶ LTP</li> <li>▶ Benefits/objectives management</li> <li>▶ Schedule/planning management</li> <li>▶ Cost/budget management</li> <li>▶ Risk/contingency management</li> </ul>

Group Summary	CA Term Code	Control Objectives	Underlying WT Processes
		<ul style="list-style-type: none"> <li>▶ Quarterly Statement of Eligible Costs</li> <li>▶ Internal Audit Reports</li> <li>▶ Annual audited financial statements</li> <li>▶ Risk Assessment Report whenever WT is aware of any risks that may compromise project success</li> </ul>	
G3: Procurement	Section 12.1	Manage fairness of procurement by setting up threshold of \$75K for having a competitive process.	<ul style="list-style-type: none"> <li>▶ Procurement</li> </ul>
G4: General Terms, Insurance and Permits	Section 12.2, 12.4, 19.1, 19.2, 19.3, 19.8	<p>Minimize the joint liability and reputational risk by requesting WT to:</p> <ul style="list-style-type: none"> <li>▶ Include necessary terms in contracts with third parties and eligible recipients; and</li> <li>▶ Obtaining appropriate insurance and work permits timely.</li> </ul>	<ul style="list-style-type: none"> <li>▶ General terms review</li> <li>▶ Procurement</li> <li>▶ Risk management</li> </ul>
G5: Assets Management	Section 13.1, 13.2	Manage risk of capital assets misuse by defining the right of Toronto to approve any assets related transactions over \$10K in writing, including acquisition, sale, disposal, exchange and lease.	<ul style="list-style-type: none"> <li>▶ Capital plan</li> <li>▶ Assets management</li> </ul>
G6: Ethics	Section 13.3, 19.5, 19.6, 21, 22.2, 22.3	Manage fraud risk by preventing conflict of interests, bribes, gifts or benefits among employees of WT, third parties and three levels of government.	<ul style="list-style-type: none"> <li>▶ Code of Conduct</li> <li>▶ Annual declaration</li> <li>▶ Wrongdoing</li> </ul>

Group Summary	CA Term Code	Control Objectives	Underlying WT Processes
G7: Documents Retention and Audit	Section 14.1, 14.2, 15.1, 15.2	Manage overall risks by: <ul style="list-style-type: none"> <li>▶ Defining delegation of authority and rights to perform audits (audit authority has shifted from different levels of government).</li> <li>▶ Setting up documents retention standard for audit purpose.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Documents retention</li> </ul>
G8: Media Activities	Section 17.1, 17.2	Manage reputational risk by regulating WT's public information distribution process.	<ul style="list-style-type: none"> <li>▶ Media activities management</li> </ul>