EP15.7
APPENDIX A

TORONTO

Memorandum

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To: Mark Goss, General Manager of Operations

cc: Don Boyle, Chief Executive Officer, Exhibition Place
Hardat Persaud, CFO & Corporate Secretary, Exhibition Place
Steven Nushis, Director, Accounting Services, Exhibition Place
Heather Taylor, Chief Financial Officer, City of Toronto

From: Stuart Campbell, Director, Internal Audit, City of Toronto

Re: **Capital Projects Review**

Attached is the final report pertaining to our Capital Projects Review for Exhibition Place. The report outlines our findings and recommendations and includes your responses to address each recommendation.

The Internal Audit Division reports to the Enterprise Risk Assurance Committee (ERAC) on the adequacy and effectiveness of City processes, including recommendations for improvement, on a quarterly basis. All memos and reports issued by Internal Audit will be tabled at these quarterly meetings.

Please extend our thanks to your staff for their assistance and cooperation throughout the review.

If you have any questions, please contact Gifford Chu at 416-397-0301.

Stuart Campbell
Director, Internal Audit

Internal Audit Report: Capital Projects Review

Exhibition Place

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Background

The Board of Governors of Exhibition Place (the "Board") operates, manages and maintains Exhibition Place on behalf of the City of Toronto through a Management Relationship Framework. The City is entitled to any surplus resulting from the Board's activities and is responsible for any deficit the Board incurs.

In a report to Exhibition Place's Finance & Audit Committee, dated July 31, 2016, entitled *Proposed Three-Year Key Business/Operational Audit Review Cycle*, the Chief Executive Officer of Exhibition Place proposed implementing a continuous review process of key business processes in support of its financial goal to effectively monitor costs and revenues.

Exhibition Place requested Internal Audit to include in its 2020 work plan a review of its capital project management processes pertaining to its operations at Exhibition Place, the Enercare Centre and the Beanfield Centre.

Exhibition Place's planned capital project cash flow for 2020 is $14.3 million, as per its May 2020 capital variance report.

The breakdown of the capital expenditures is as follows:

- 61 percent relate to state of good repair;
- 38 percent pertain to service improvements and;
- The remaining 1 percent is to address health and safety matters.

Objectives

The objectives of the review were to assess whether:

- Adequate processes and controls are in place to ensure that capital projects are properly managed.
- Opportunities for enhancement to existing processes and controls exist.

The review focused on:

- Monitoring and oversight of construction work by Exhibition Place staff and external consultants
- Adherence to contract terms and conditions, including change orders and contract amendments
- Receipt of deliverables and achievement of milestones
- Billing practices as related to prices/rates, payment schedule, and holdbacks
- Monitoring and tracking of issues and deficiencies

The review covered the following major capital projects:

- Replacement of Fire Alarm System Queen Elizabeth Building
- Bus Duct Replacement at Food Building
- Beanfield Centre Elevated Walkway – Advanced Package/Boardroom 206A (only Boardroom portion in scope)
- British Columbia Road Reversible Lane Installation
- Sidewalks, Pathways & Lots – AODA
    - Honda Indy
    - Asphalt Paving

Methodology

The review consisted of:

- Reviewing policies and procedures related to contract management activities for capital projects.
- Interviewing Exhibition Place staff to obtain an understanding of current processes and controls in place.
- Examining the project management activities and conducting testing for the five projects selected for review.
- Inspecting relevant records and documents.

Findings and Recommendations

No major issues were noted in our review. Invoice payments were made in accordance with terms and conditions of the contracts and change orders go through a stringent review and approval process.

Our review did however, identify opportunities to further strengthen controls related to project management, monitoring of projects, and obtaining value for consultant services.

Our findings along with recommendations are outlined below.

1. Consultants' compliance with RFP requirements

In reviewing the RFP and contract requirements for the projects, instances were noted where the consultants did not meet all the deliverables as stated in the RFP. This included the following:

a) Frequency of site meetings and site visits

In two of the contracts reviewed, the following clauses were listed in the consultant contract as part of their responsibilities:

- Holding bi-weekly site meetings with the contractor and Exhibition Place staff, and preparing site meeting minutes for distribution to all parties
- Being on site for a minimum of two hours per week to provide construction review services, and preparing site visit reports for submission to Exhibition Place

For both projects, the consultants did not hold site meetings or conduct site visits in the frequency required, nor did they prepare meeting minutes and site visit reports on a consistent basis. Exhibition Place staff advised that the frequency of site meetings and visits could vary if requested by Exhibition Place, depending on the scope, complexity, and schedule of the project.

However, as this is stipulated in the RFP, the consultant may have factored in the costs of bi-weekly site meetings and weekly site visits in their bid price. Furthermore, site meetings and site visits form the basis for project monitoring by the consultant, and should be held consistently throughout the project. If this is not required, Exhibition Place staff should consider amending these requirements to reflect what is appropriate for each specific project, instead of using a standardized RFP template for all Capital projects.

Recommendation 1a:

To ensure that projects are being adequately monitored and the consultant fees reflect the level of service required, the General Manager of Operations should:

- Assess the frequency of site meetings and site visits required on a project by project basis and amend the RFP template accordingly.
- Ensure that consultant deliverables are provided in accordance with the terms and conditions of the contract.

b) Maintaining issues listings

In three of the contracts reviewed, the following clauses were listed in the consultant contract as part of their responsibilities:

- Maintaining a deficiency and deficiency/correction list noting date and time and stating the nature of deficiency, and note what corrective action was taken.
- Maintaining and keeping current a project issues list for the full duration of the project.

These two lists were not maintained by the consultant on a consistent or centralized basis. This limits the ability for Exhibition Place staff to effectively review ongoing issues and deficiencies with current projects. In the one project where this was done, the issues listing was embedded within the site meeting minutes instead of using a separate form to document the details.

Recommendation 1b:

To ensure that project deficiencies and issues are being adequately resolved in a timely manner, the General Manager of Operations should ensure that consultants comply with the requirements for maintaining issues lists as outlined in the RFP.

Exhibition Place should consider providing a template form for consultants to fill out for the deficiency/correction list and the project issues list as part of the RFP and contract.

The templates should outline the:

- date the deficiency/issue was identified;
- nature of the deficiency/issue;
- corrective action taken; and
- date of resolution

This should be submitted to Exhibition Place on a periodic basis to ensure adequate oversight of project issues.

c) Certificate of Completion

In two of the completed contracts reviewed, the following clause was listed in the consultant contract as part of their responsibilities:

- The Consultant shall conduct a final review of work and site with the Board's Representative and, if satisfactory, prepare and issue the Certificate of Completion in accordance with the contract documents.

This certificate was not completed for any of the projects reviewed.

Exhibition Place staff advised that a Certificate of Substantial Completion is often issued by the consultant, and if there are no issues, a Certificate of Completion is not done. In these situations, the warranty period begins the date that the Certificate of Substantial Completion is signed.

According to the Consultant Key Standards Manual, the purpose of the Certificate of Completion is to officially recognize the beginning of the warranty period stipulated in the contract. In addition, the document provides Exhibition Place with the assurance from the consultant that the project was completed in accordance with specifications.

The practice of not obtaining a Certificate of Completion on a consistent basis exposes Exhibition Place to the following risks:

- Confusion and/or disagreement as to when the warranty period begins;
- May not be able to hold the consultant accountable if there are issues arising afterwards,

Recommendation 1c:

To ensure consistency across projects and avoid any potential issues from arising, the General Manager of Operations should ensure that the consultant prepares a Certificate of Completion for all completed projects.

2. Project Monitoring

In one of the projects reviewed, it appeared that the consultant did not provide adequate monitoring of project activities.

The pre-construction meeting minutes prepared by the consultant stated that site meetings will be conducted bi-weekly. However, for the entire duration of the project, the consultant only came on site once prior to the final site inspection. A design conflict was identified by the contractor, which needed to be reviewed by the consultant. Other than that, there were no regularly scheduled meetings held or site visits conducted during the course of the project.

If there is no ongoing monitoring, it can lead to unexpected project delays, and issues that go undetected, affecting the quality of work.

Recommendation 2:

To ensure that projects are adequately monitored by the consultant, the General Manager of Operations should:

- Ensure that consultants conduct site meetings and site visits as stipulated in the RFP and contract, and obtain the related documentation from these meetings and visits on a timely basis.
- Conduct a consultant evaluation at the end of each project and have consultant performance be considered in future contract awards.

3. Internally Managed Projects

Some smaller projects do not require the services of an external consultant. For these types of projects, there is no formal requirement to document:

- issues encountered during the project;
- scope changes made (that have no impact on the final price); and
- the work completed after the final inspection is done

While the current project manager may be fully knowledgeable about the work completed for these projects, there will be no formal reference point and loss of knowledge in the event of staff turnover. This could lead to confusion in the future when work in the area needs to be done, and it is unclear what has already been addressed.

Recommendation 3:

To ensure that there is an adequate record of work completed in various areas at Exhibition Place, the General Manager of Operations, should ensure that, at a minimum, the following aspects are formally documented for projects where there is no external consultant:

- Any scope changes made to the original project scope
- A detailed summary of work completed after the project conclusion

Internal templates can be designed for the purposes of completing the above.

Appendix A: Management Action Plan

Recommendation	Management Response and Action Plan	Responsibility	Timeline for Implementation
Recommendation #1a: To ensure that projects are being adequately monitored and the consultant fees reflect the level of service required, the General Manager of Operations should: • Assess the frequency of site meetings and site visits required on a project by project basis and amend the RFP template accordingly. • Ensure that consultant deliverables are provided in accordance with the terms and conditions of the contract.	**Management Response #1a:** • Each project RFP will include an expected number of site meetings/visits with a separate add-on cost for additional meetings/visits if warranted by Exhibition Place. • The site meetings/visits will be tracked on the progress draws from the consultant.	• Finance / purchasing • Capital Works Manager	• January 01, 2021 • January 01, 2021
Recommendation #1b: To ensure that project deficiencies and issues are being adequately resolved in a timely manner, the General	**Management Response #1b:** • Exhibition Place will include in our Consultant's manual an Issues List Template that will include all changes of scope, issues, deficiencies and	• Capital Works Manager	• January 01, 2021

Recommendation	Management Response and Action Plan	Responsibility	Timeline for Implementation
Manager of Operations should ensure that consultants comply with the requirements for maintaining issues lists as outlined in the RFP. Exhibition Place should consider providing a template form for consultants to fill out for the deficiency/correction list and the project issues list as part of the RFP and contract. The templates should outline the: • date the deficiency/issue was identified; • nature of the deficiency/issue; • corrective action taken; and • date of resolution This should be submitted to Exhibition Place on a periodic basis to ensure adequate oversight of project issues.	corrections as listed below and submitted periodically (e.g. bi-weekly/monthly) to Capital Works Manager. The Consultant manual will be included in the RFP as an appendix.		

Recommendation	Management Response and Action Plan	Responsibility	Timeline for Implementation
Recommendation #1c: To ensure consistency across projects and avoid any potential issues from arising, the General Manager of Operations should ensure that the consultant prepares a Certificate of Completion for all completed projects.	**Management Response #1c:** • Substantial Completion Certificates as well as Certificate of Completion will be issued for all projects even when there are no deficiencies at Substantial Completion.	• Capital Works Manager	• January 01, 2021
Recommendation #2: To ensure that projects are adequately monitored by the consultant, the General Manager of Operations should: • Ensure that consultants conduct site meetings and site visits as stipulated in the RFP and contract, and obtain the related documentation from these meetings and visits on a timely basis. • Conduct a consultant evaluation at the end of each project and have	**Management Response #2:** • For Site meetings/visits see Management Response recommendation 1a above • Exhibition Place will include a Consultant Evaluation Template as an appendix to the RFP and conduct a consultant evaluation at the completion of each project.	• Capital Works Manager • Capital Works Manager	• January 01, 2021 • January 01, 2020

Recommendation	Management Response and Action Plan	Responsibility	Timeline for Implementation
consultant performance be considered in future contract awards.			
Recommendation #3: To ensure that there is an adequate record of work completed in various areas at Exhibition Place, the General Manager of Operations, should ensure that, at a minimum, the following aspects are formally documented for projects where there is no external consultant: • Any scope changes made to the original project scope • A detailed summary of work completed after the project conclusion Internal templates can be designed for the purposes of completing the above.	**Management Response #3:** • The Exhibition Place project manager where there is no external consultant will utilize the same template “Issues List Template” as identified for use by consultants in Management Response recommendation #1b • At the conclusion of the project a detailed summary of the work completed will be added to the permanent project file.	• Capital Works Manager • Capital Works Manager	• January 01, 2021 • January 01, 2021