



# Attachment 1

February 5, 2025

Delivered via Email to [Genevieve.Sharkey@toronto.ca](mailto:Genevieve.Sharkey@toronto.ca) and [Zella.Phillips@toronto.ca](mailto:Zella.Phillips@toronto.ca)

## **Chief Procurement Officer**

Purchasing & Materials Management Division

Toronto City Hall

18<sup>th</sup> Floor, West Tower

100 Queen Street West

Toronto, Ontario M5H 2N2

Dear Madam,

**RE: Capital Access Upgrades Program for City Buildings MSA RFSQ 3907-20-5021**

**Our File No. 24868**

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In response to the Proposed Suspension Letter dated January 7, 2025, Duron wishes to elaborate on the following:

Duron acknowledges the seriousness of the matter and remains fully committed to transparency, accountability, and compliance with the City's expectations. We respectfully submit the following information for the City's consideration in hopes that the proposed maximum penalty will be reconsidered.

Duron has served the City for over 50 years with an exemplary work record and no prior infractions or failing performance evaluations. Duron has played a key role in completing numerous vital infrastructure projects for the City, and our reputation has been built on reliability, expertise, and competitive pricing. We ask that the City recognize the far-reaching implications of this suspension, which extends beyond the individuals involved in past infractions and threatens the stability of multiple divisions, their employees and families, and the industry partners who depend on our continued operations.

Duron made a strategic business decision to shift its efforts to the public sector, specifically through its Structural Rehabilitation Division. Contracts successfully completed for the City range from re-roofing, reconstruction of tipping floors, waste transfer rehabilitation, rink slab replacements etc. The expertise and adaptability required to delivery such a wide array of projects demonstrates Duron's dedication to meeting the City's infrastructure needs efficiently and cost-effectively. Duron has provided value to the City to the tune of **\$6,058,026.74**, by being the lowest bidder, over the last 6 years alone. [Appendix A] The average number of bidders over the last 6 years for these types of projects, is three (3). As a result of this shift from the private sector, Duron's workforce transitioned from 506 Restoration to 506 Labourers – an irreversible

change that significantly increased wage commitments in order to bid on ICI projects. Duron is also affiliated with Local 27, 183 and 31. Duron employs over 100 field workers under this union and their continued employment hinges entirely on our ability to secure work in the public sector. The highly specialized nature of our work and the labour cost structures we have committed to make it nearly impossible to re-enter the private market, further jeopardizing the survival of the company.

## **I. Commitment to Cooperation and Transparency**

### **Findings of Overbilling and Full Disclosure**

- As part of its internal review, Duron identified a total overbilled amount of \$161,804 (excluding tax) across all change orders relating to **Groups 10 and 11**. This information, along with a complete list of affected change orders, was voluntarily provided to KPMG for verification.
- In August 2024, after meeting with Duron, KPMG reported that its findings aligned closely with Duron’s disclosure, identifying a total interim overbilled amount of \$163,104 (excluding tax), which is still under review between Duron and KPMG. KPMG’s audit sampled 42 Change Orders identified as problematic by Arcadis, across Groups **9, 10, 11 and 30**, resulting in no irregularities found in overall billed amounts in Groups 9 and 30.
- Duron maintains that the identified overbilling is complete and accurate, to the best of our knowledge.
- Contrary to concerns outlined in the City’s letter suggesting that “the amount overbilled may be much higher than has been calculated to date,” Duron maintains that the identified overbilling is complete and accurate. Further, Duron has remained responsive to KPMG’s ongoing audit of other, and additional change orders.
- As identified by KPMG’s e-mail on November 15<sup>th</sup>, the KPMG report was never intended for Duron’s use, and Duron was uncertain if the report required any action or response. See *Appendix B* outlining Duron’s response to KPMG’s report sent to Duron on November 15<sup>th</sup>, 2024 and the City of Toronto’s letter dated January 7<sup>th</sup>, 2025.

## **II. Individuals Involved and Remedial Actions Taken**

The billing inconsistencies were attributed to two project managers. The individuals in question have either been terminated or removed from responsibilities related to invoicing and pricing. Per the new Document Control Procedure, the Department Manager reviews and signs off on all pricing and invoicing before being sent to the City.

Duron understands the City’s concerns regarding the decision to retain the employee in a modified role. However, several factors contributed to this decision:

- Ali immediately stopped any falsifications.
- Ali remained fully cooperative, forthcoming, and remorseful.
- He played a crucial role in assisting management in identifying overbilling and providing relevant documentation to support the internal investigation.
- His continued involvement in the TAU Projects was essential due to its complexity, ongoing design deficiencies, and outstanding change order approvals, which he had been managing. Removing him entirely would have negatively impacted project completion and City operations. *[Appendix C]*
- From the outset, the projects suffered significant delays and budget overruns, compounded by an unusually high number of design changes that had to be addressed during the construction phase. Duron provided response to “Notice of Default” *[Appendix H]*. To date, Arcadis has not refuted any of the claims made by Duron regarding, excessive design changes, and not following the requirements of the contract administrator as outlined in the MSA.

While Ali’s actions were unacceptable, they were not indicative of deliberate misconduct but rather of inexperience, a failure of managerial oversight, and an extremely challenging project.

### **III. Corrective Measures Implemented by Duron**

Duron has undertaken significant steps to strengthen its internal controls and prevent future occurrences, including:

1. **Implementation of a Formal Document Control Procedure** *[Appendix D]*. This framework ensures greater oversight and accountability in billing and project management.
2. **Engagement of a Third-Party HR Consultant to develop: A Code of Ethics and a Code of Conduct.** These policies were developed through extensive employee consultations and are now mandatory training for all staff, with annual reviews *[Appendix E]*.
3. **Termination of One Project Manager** directly involved in the overbilling issue.
4. **Demotion of the Structural Rehabilitation Department Manager** for failure to provide adequate oversight.

### **IV. Financial Impact and Other Matters for Consideration**

Currently, approximately \$2.4 million related to TAU projects remains withheld from Duron, including unpaid completed change orders and contract holdback amounts. This has significantly impacted the company’s cash flow and financial stability. Of this total withheld amount, are approximately \$400,000.00 (excluding HST) in Change Orders, where complete costs have been incurred by either Duron’s work force, or it’s sub-contractors. The latest correspondence Duron received from Arcadis, indicates that the Change Order’s will not be paid, despite agreeing to the values submitted, and delaying the Change Order issuances, due to “lack of city funds”. *[Appendix B]*

Duron's succession planning efforts have been seriously disrupted because of uncertainty regarding the company's future eligibility to bid City contracts, making it challenging to secure bank financing. *[Appendix F]*

The reputational damage resulting from the publicized leak has adversely affected Duron's other divisions, including Waterproofing, Decorative/Epoxy Flooring, and Concrete Finishing, which operate entirely independently from the Structural Rehabilitation Division. These divisions are now facing severe setbacks, as their ability to secure work has been hindered by our suspension from bidding on City Contracts. Some of Duron's services to the city specialize in proprietary waterproofing solutions for bridge structures and railways infrastructure. *[Appendix G]*

## **V. Conclusion and Request for Reconsideration**

Duron acknowledges and takes full responsibility for the billing irregularities but we respectfully ask that our history of cooperation, transparency, and corrective measures be taken into account when determining the length of any imposed suspension. Duron is prepared to make full repayment of the overbilled amounts, along with the cost of the audit.

We fully respect the City's authority in determining the appropriate consequences for these infractions. However, we ask your deepest consideration in reducing the suspension, limiting it to the Structural Rehabilitation Department and consider time already served.

To date, the entire company has been the subject of suspensions for a total of ten (10) months, which commenced in June 2024. The underlying principles of the Supplier Suspension Procedure, which stipulate that suspensions are not for purposes of punishment but rather determined on a balanced review of whether the Supplier's conduct presents a risk to the City's valid commercial or business interests. The scope and duration of the suspension should be consistent with what is necessary to ensure that these interests are adequately protected.

Given our continued willingness to cooperate and work with KPMG to reach a final result and the detailed efforts to implement changes that go to prevention of similar issues in future, we submit that these should be taken into consideration when determining the scope and duration of the suspension.

We sincerely hope that our response demonstrates the seriousness with which we approach this matter and our commitment to making the situation right. The lessons learned from this experience have profoundly reshaped our organization, and we are committed to emerging stronger, more ethical, and more diligent in our operations moving forward. We look forward to the swift resolution of this matter and the eventual resumption of joint activities.