

# **GG26.3 - Suspension of Capital Sewer Services Inc., and Affiliated Persons**

**General Government Committee  
Monday, December 8, 2025**



# Overview

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- Subcontractor quotes were altered and inflated by Capital Sewer on the Dufferin Project, resulting in the City being overbilled by more than \$1 million.
- Capital Sewer retained the more than \$1 million that was overbilled, and a senior management employee earned a commission on the inflated amounts.
- The company failed to identify the altered invoices, the associated overbilling, and the unexplained funds within its accounts.
- These actions contravene the Supplier Code of Conduct in the Procurement Bylaw.

# The Recommendation

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- Staff recommend a five-year suspension of Capital Sewer and all affiliated companies.
- This is the maximum suspension allowed under the Supplier Code of Conduct in the Procurement Bylaw.

*“The Chief Engineer and Executive Director, Engineering & Construction Services and the Chief Procurement Officer recommend that:*

*1. City Council suspend Capital Sewer and any affiliated persons’, as defined in Chapter 195, eligibility to bid on or be awarded any City of Toronto contracts as a supplier of goods and/or services or as a subcontractor to such a supplier, including any options, or renewals of existing contracts, for a period of five years commencing upon the date of approval of this report.”*

# Triggers and Investigations

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- The City's investigation was triggered by internal controls and Fraud & Waste Hotline complaints in March 2024 stemming from irregularities in change order documentation.
  - A change order is a formal, written modification to a construction contract. It is used when work needs to be added, removed, or adjusted from the original scope of the contract.
- Between March and December 2024, the City investigated allegations, conducted internal reviews, and identified significant discrepancies in subcontractor quotes submitted to the City through the change order process.
- In December 2024, Engineering & Construction Services initiated a formal audit of the Dufferin Project.
- Capital Sewer was not fully cooperative until July 2025, despite the City presenting significant evidence of its findings and analysis.
- The City hired KPMG in July 2025 as an independent forensic auditor to review the City's concerns.

# KPMG Reporting Letter Findings

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- A senior employee at Capital Sewer who played the central role, referred to as “Staff A” engaged in the alteration of subcontractor quotations and overbilling on the Dufferin Project (the “Overbilling Schemes”).
  - For example: Capital Sewer provided a quote to ECS for certain work to be completed by a subcontractor, through the change order process, at a cost of \$1,344,907. When ECS went directly to the same subcontractor and requested a quote for the same scope of work, the quote received was \$472,354. This is a difference of \$872,553.
- Staff A was promoted in 2022. As part of that promotion, Staff A assumed administrative oversight of change orders and negotiated a bonus plan whereby Staff A would receive 2.25% of the value of all change orders executed under Staff A’s control.
- Capital Sewer had “control deficiencies”, and the result of this was that individuals in finance and accounting roles responsible for paying subcontractors would not have been able to identify the Overbilling Schemes.

# KPMG Reporting Letter Findings (continued)

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- The City was overbilled \$1,114,506 in relation to the Dufferin Project.
- Overbillings have been potentially identified on other City projects involving Capital Sewer and its affiliates.
- KPMG's audit work has been expanded beyond the Dufferin Project to determine the extent and scope of the overbilling and support the City's next steps.

# Key Considerations

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- Capital Sewer retained overbilled funds while paying subcontractors their original pricing; further review of this is underway through KPMG.
- Staff disagree with Capital Sewer's claim of "immediate and decisive action," given the eight-month delay from the time they were made aware of the City's concerns and the time they took action.
- Internal controls recently adopted by Capital Sewer have not been tested or proven effective.
- The incentive structure and related oversight gaps reflect broader concerns about Capital Sewer's corporate controls and practices.
- While Capital Sewer has dominated the sewer rehabilitation program, this staff recommendation would not affect capital program delivery.
- The City has exercised its contractual right to set-off detected overbillings to date and initial KPMG audit costs, however, staff remain concerned that additional overbillings have not yet been detected and/or confirmed.
- Continued KPMG audit costs will be borne by Capital Sewer and/or its affiliated persons.

# Conclusion

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- The City's role is to uphold accountability and protect the integrity of public funds by enforcing the Supplier Code of Conduct.
- The recommendation has been based on a balanced review of whether Capital Sewer's conduct presents a risk to the City's valid commercial or business interests.
- The City's procurement processes are governed by Toronto Municipal Code, Chapter 195, Procurement (the "Procurement Bylaw"). Article 13, the Supplier Code of Conduct in the Procurement Bylaw, sets out standards for ethical business practices, transparency, and accountability.
- The misconduct involved clear breaches of the Supplier Code of Conduct, including overbilling, retaining over-payments, and submitting misleading or false information.
- The temporary suspension expires Dec. 30, 2025.
- Staff recommend a 5-year suspension based on KPMG's findings to date.
- The final Forensic Audit Report from KPMG will be presented to the Auditor General, and the applicable standing committee, providing full transparency on the extent of the misconduct and the measures taken to address it.



# Thank you

