

Future Contract Considerations for SmartTrack and Other Capital Project Agreements

Date: April 17, 2026

To: Audit Committee

From: Chief Procurement Officer and Director, Internal Audit

Wards: All

SUMMARY

The purpose of this report is to assess the adequacy of the City's contract management and project management processes with respect to the SmartTrack Project and whether they ensure value for money and project delivery timelines.

The report also identifies requirements that should be considered in future contracts and projects to protect the interests of the City, including the addition of audit clauses.

This is in response to the motions made at the February 2026 Audit Committee meeting and the March 2026 City Council meeting.

RECOMMENDATIONS

The Chief Procurement Officer and the Director, Internal Audit recommend that Audit Committee receive this report for information.

FINANCIAL IMPACT

There are no financial impacts on the current year's budget arising from this report.

The Chief Financial Officer & Treasurer has reviewed this report and agrees with the financial implications as identified in the Financial Impact section.

DECISION HISTORY

On March 26, 2026, City Council directed the City Manager and the Chief Financial Officer & Treasurer to report back on a framework for future Capital agreements with third parties to ensure that appropriate audit rights be included in all future Capital agreements with third parties in which the City is providing a significant amount of capital funding.

<https://secure.toronto.ca/council/agenda-item.do?item=2026.AU11.3>

On February 12, 2026, Audit Committee requested the Chief Procurement Officer and Director, Internal Audit to report to the May 1, 2026 meeting of Audit Committee on the City's contract management, control of cost escalations, and lack of audit requirement in the SmartTrack contracts, and whether they ensured value for money and project delivery timelines, and what requirements should be considered in future.

<https://secure.toronto.ca/council/agenda-item.do?item=2026.AU11.3>

COMMENTS

1. SmartTrack Program Background

In April 2018, City Council approved a contribution of up to \$1.463 billion to Metrolinx for the SmartTrack Stations Program, which included federal funding under the City's allocation of the Public Transit Infrastructure Stream of the Federal Investing in Canada Infrastructure Program.

In June 2023, Toronto City Council voted to receive provincial funding for the delivery of the SmartTrack Stations Program. The SmartTrack Program Budget is \$1.689 billion, which includes \$878 million from the City of Toronto, \$585 million from the Government of Canada, and \$226 million from the Province of Ontario. The Program represents a collaborative approach to transit expansion by all three orders of government, and the contributions from all orders of government are capped.

The scope of the SmartTrack Stations Program has decreased over the years. In 2021, there were five new stations planned. However, in 2024, Council approved a staff report that recommended prioritizing the East Harbour, Bloor-Lansdowne and St. Clair-Old Weston stations based on funding constraints, confirmed the City would not contribute any further funding to the project and requested that the Province consider funding at their expense the King Liberty and Finch-Kennedy stations.

These stations will operate on existing GO and UP train corridors to expand the regional commuter service into an urban rapid transit network. The stations will expand transit access for people travelling within and beyond the city while also reducing traffic congestion and emissions throughout the region.

Once the program is complete, Metrolinx will own, maintain and operate the new stations and the City will maintain the public right-of-way.

2. Roles and Responsibilities

Based on the SmartTrack Stations Program Main Agreement between the City and Metrolinx, Metrolinx is responsible for the overall management of the Program, including:

- Schedule and budget management.
- Design, construction and overall implementation of the stations.
- Procurement and award of contracts and managing contractors.
- Acquisition of required property to implement the program.
- Regular reporting to the City on the advancement of the stations and spend to date.
- Retention of all liability for design and construction and correction of all deficiencies.
- Future operation and maintenance of the stations.

The City's responsibility is limited to:

- Reviewing and commenting on designs and specifications to identify non-compliances with City requirements associated with the projects. The City formally reviews designs, within defined timelines and at designated milestones (e.g. 30%, 60%, 90%) and as needed through the development phase.
- Conducting inspections during construction, to confirm that City standards are met for City-owned infrastructure.
- During project closeout, accepting municipal assets for operation.
- Reviewing and approving City permits and licences.
- Meeting with Metrolinx staff on a regular basis to obtain project updates, raise concerns and resolve issues.

3. Project Meetings and Reporting

A. Project Meetings with Metrolinx

As part of the City's contract management and project management processes, City staff are actively involved in various meetings regarding the SmartTrack program. There are separate meetings held for each station as well as broader meetings held to discuss the overall status of the program. While the City is informed and consulted through these meetings, the City has limited control, as Metrolinx is ultimately accountable for managing the project.

Station-specific Meetings

Through these meetings, the City obtains updates on each of the stations, confirming that the project design meets City requirements, any required construction activities have obtained the necessary permits for closures and the works, communications have occurred with the residents impacted, and issues or risks are identified and resolved.

The various types of station-specific meetings are summarized below:

Technical Project Coordination Meetings

These meetings occur monthly or more frequently, where required, to discuss relevant items pertaining to the station that require technical input or coordination between City Divisions, Metrolinx and their contractors and designers to enable the progress of design and construction at each station. This includes design review workshops, schedule tracking, identifying non-conformances and coordinating the issuance of required permits from the City.

Bi-weekly Metrolinx-City Meetings

These meetings are attended by City staff and Metrolinx to identify risks, coordinate, discuss and resolve project progress and other issues.

Communications meetings

The purpose of these monthly meetings is to discuss and share information related to updates on community relations and community engagement. This includes communications made to residents in the area, notices that need to be posted, public meetings etc.

Broader Meetings to discuss overall Program Status

The following meetings discuss the overall status of the program.

Steering Committee meetings

The purpose of these meetings is to discuss scope changes, construction schedules, milestones achieved and budget status. They are also a forum to identify risks where possible and to address issues as they arise for each of these stations.

Finance Working Group meetings

The Finance Working Group consists of representatives from Metrolinx and Transit Expansion Division with support from other City Divisions. The purpose of this group is to review issues pertaining to the submission of invoices, the schedule for invoicing, the invoice template to be used by Metrolinx and the associated supporting documentation required for invoice submissions.

Transit Partnership Committee meetings

The Transit Partnership Committee meetings are attended by executives from the Transit Expansion Division, City Manager's Office, as well as counterparts at MTO. They provide a City/Province (government to government) forum where funding issues and other program issues on the SmartTrack program are discussed.

B. Program Reports provided to the City

Aside from the regular meetings held between the City and Metrolinx, the City also receives and reviews the following reports pertaining to overall budget and schedule updates. However, the reports and information provided does not allow the City to adequately assess whether service deliverables were provided in an efficient, effective and timely manner.

SmartTrack Monthly Program Report

On a monthly basis, program reports are prepared by Metrolinx. These reports outline the budget for each station, the total costs incurred to date, which phase the station is in, and the estimated timeframe when substantial completion will be achieved. However, spend rate may not be indicative of project progress or whether each phase/deliverable was completed on budget and on schedule.

The reports also address any station-level issues and risks along with the associated mitigation strategies and action plans, as well as key milestones achieved for each station.

Any key updates, risks, or issues from these reports are presented to, and discussed at, the SmartTrack Steering Committee. Steering Committee meetings are attended by representatives from the City, the Province and Metrolinx.

Quarterly Expenditure/Cash Flow Report

In addition to the monthly program reports, Metrolinx provides to the City quarterly expenditure/cash flow reports. These compare actual costs to the budgeted costs for the four cost categories under each station:

- Professional Services (Design)
- Properties
- Construction
- Non-P3 Contingency

City staff use these reports to assess at a high level how the actual project costs are tracking against the budgeted costs.

However, there is no itemized breakdown for the City to review beyond a summary level of costs.

Detailed Station Schedules

Metrolinx provides the City with updated schedules for review, at minimum on a quarterly basis. The City reviews these schedules and provides feedback to Metrolinx.

4. Summary of Observations

Our review noted the following concerns that could negatively impact the City's interests.

(a) No invoices have been received to date

Since the inception of the project in 2018, there have been approximately \$184 million in costs incurred that are attributable to the City's portion of the funds.

Despite best efforts from City staff at Transit Expansion Division to follow-up on invoices from Metrolinx, no invoices have been received to date. Invoices and associated supporting documentation capture costs at a level of granularity that allows the City to assess the validity and appropriateness of expenses charged to the City.

There is a risk that given the amount of time that has passed since costs were incurred, the City may have difficulty assessing the validity of billings that pertain to prior years.

In addition, having not billed the City since project inception in 2018 may impact the City's ability to obtain financing to pay out large sums of money that have accumulated over the years. Transit Expansion Division is attempting to mitigate this risk by working with Metrolinx to develop a payment schedule that is feasible for the City and minimize the impact on its cashflow pressures.

(b) Categorization of costs between SmartTrack and GO Expansion

Metrolinx is incurring costs related to the SmartTrack stations project, which is one of the projects that is part of Metrolinx's GO Expansion Program.

Metrolinx has contractors who are delivering SmartTrack station and other components of GO expansion (and in East Harbour's Case, Ontario Line) within the same contracts. There are both direct construction and indirect costs (e.g. staff time, design fees) that need to be shared and properly allocated. Without a clear distinction of which costs fall under the realm of SmartTrack stations, there is a risk that some non-SmartTrack costs may be charged to the City.

Furthermore, the agreement does not provide clear identification of eligible and ineligible costs that are subject to reimbursement. This could result in inefficiencies being passed on to the City.

To mitigate this risk, the City has requested a detailed rationale for costs being allocated to SmartTrack. In addition, the City is working with Metrolinx on invoice requirements including the need for supporting documentation to substantiate the costs being billed. However, invoices from Metrolinx remain outstanding at this time.

(c) No authority for the City to conduct an audit

Currently, in the City's agreement with Metrolinx, there is no right to audit clause or a clause that requires the provision of an audited statement of expenses.

Since Metrolinx is a provincial agency, the City does not have the authority or mandate to conduct an audit of Metrolinx. The authority to conduct an audit of Metrolinx lies with the Ontario Auditor General.

5. Future Contract Considerations

The Toronto Auditor General in her report dated January 29, 2026, entitled "Update on Auditor General's Office 2026 Work Plan Related to City Council Request for SmartTrack Investigation" recommended that the City consider including a right-to-audit clause in agreements between the City and Metrolinx. City management agreed and indicated that the City will consider including a right to audit clause for City works as part of the negotiations with Metrolinx.

The following are other considerations for future projects and future agreements that the City enters with other levels of government to increase the probability of cost certainty, and efficient and timely delivery of projects through improved oversight.

(a) Establishment of criteria for expenses eligible for reimbursement

To ensure that billings accurately reflect the costs pertaining to the project, the City should establish criteria for the type and category of expenses that are eligible for reimbursement, and for the delivery agent [Metrolinx] to provide appropriate supporting documentation to substantiate costs being billed in a timely basis.

(b) Provision of annual audited statement of expenses

To ensure transparency and accountability for future projects and future agreements where the City is providing the majority of the capital funding, the agreement should consider the inclusion of a requirement for the provision of an annual audited statement of expenses incurred and billed to the City.

(c) Payment Schedule

To ensure that billings accurately reflect the costs incurred over specific timeframes, agreements should include a payment schedule of progress payments over the life of the project.

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SIGNATURE

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