

**Presentation to City Audit Committee
on May 1, 2026
Agenda Item 12.1**

**AUDITOR
GENERAL**

TORONTO

Audit of Corporate Real Estate Management: Strengthening Accountability and Oversight of Change Orders in Capital Projects

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Presentation Overview

1. Why this audit matters
2. Audit objectives
3. Opportunities for improvement
4. Closing remarks



Why This Audit Matters



Corporate Real Estate Management (CREM) is responsible for delivering some of the City's largest capital construction projects

Changes on capital projects can result in **project delays** and significant **cost increases**

Change orders is an area of emerging **fraud risk**

Audit Objective

The objective of this audit was to assess whether CREM **sufficiently monitors and oversees** capital project change orders, ensuring that change orders (and the associated cost and schedule impacts) are properly justified and **appropriately reviewed and approved**



Areas with Opportunities for Improvement

- A. **Strengthening processes** to ensure appropriate change orders oversight
- B. **Reinforcing roles** and accountabilities for change order review and approval
- C. Improving performance through **ongoing monitoring, evaluation**, and a stronger project management **system**

A group of people in business attire are gathered around a table, collaborating. One person is pointing at a laptop screen displaying a financial chart. Another person is writing in a notebook. The table is covered with various financial documents, including a 'FINANCIAL ACTUAL SUMMARY' and a 'SAVINGS CALCULATOR'. The scene is dimly lit, with a dark overlay on the image.

A. Strengthening Processes to Ensure Appropriate Change Orders Oversight

A. 1. Enhance Policies and Procedures to Reinforce CREM Responsibility for Oversight

Recently updated change order policies and procedures can be further enhanced to ensure consistent and effective change order oversight.

For example, procedures can be enhanced to:

- Establish signing authorities and approval thresholds
- Define file documentation required to evidence review of change orders and directives
- Provide guidance for review of pricing reasonableness and schedule impact assessment

A.2 Contractor Invoicing Discrepancies Indicate a Need for Additional Review and Scrutiny

Discrepancies between the amounts the general contractor billed and subcontractor invoices include:


- **\$58K** in confirmed overbillings by general contractors for subcontractor work
- Over **\$500K** in charges are under investigation (*refer to Confidential Attachment 1*)

A.3. Ensure Contract Compliance for Markups and Additional Charges

More rigorous review is needed to ensure markups and additional charges comply with contracts:

- **48%** of change orders where markups were not applied according to contract terms
 - **\$50K** in overcharges
- **35%** of change orders had extra charges in addition to contracted markups
 - **\$403K** in extra charges for supervision, project management, insurance and/or bonding
 - Further **\$219K** in extra charges for insurance and bonding, on one project

B. Reinforcing Roles and Accountabilities for Change Order Review and Approval

The background image shows two men in a large, industrial-style building with a high ceiling and large windows. One man is wearing a light-colored shirt and dark pants, and the other is wearing a blue shirt and light-colored pants. They are both looking at a large set of blueprints they are holding together. The building has a concrete floor and a metal structure with many windows.

B. Reinforcing Roles and Accountabilities for Change Order Review and Approval

CREM staff rely significantly on external consultants

- Limited evidence that CREM independently reviews change orders
- Potential conflict of interest when consultant prepares the designs and then assesses related changes / reasons for change
- CREM does not consistently track changes caused by design errors and omissions or have a policy to address potential cost recoveries

B. Reinforcing Roles and Accountabilities for Change Order Review and Approval

- Limited evidence of the nature and extent of the CREM project manager and external consultant change orders reviews
- Delayed or missing approvals for change orders and change directives
- Missing or insufficient supporting documentation

The background of the slide is a grid of white shelves. Each shelf is filled with numerous brown paper folders, some of which are open, revealing stacks of papers. In the center of the grid, a white printer is visible on a shelf. The overall scene suggests a busy office or a large-scale administrative project.

**C. Improving Performance
Through Ongoing Monitoring,
Evaluation, and a Stronger
Project Management System**

C. Improving Performance Through Ongoing Monitoring, Evaluation, and a Stronger Project Management System



- To consider past performance when awarding contracts, consistently complete consultant and contractor performance evaluations



- Increase frequency and expand scope of CREM quality assurance reviews to include an evaluation of change orders



- Implement a centralized construction project management system

Closing Remarks

- Implementing the 11 recommendations will:
 - strengthen oversight and accountability
 - reduce the risk of errors, overpayments, and contract non-compliance
 - support better management of project changes
- Management has agreed to all recommendations

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