

Audit Committee Report

DATE: Tuesday, April 27, 2021

WARD(S): ALL

TITLE: CONSTRUCTION AUDIT OF FIRE STATION 7-4: PHASE 3

FROM:

Kevin Shapiro, Director of Internal Audit

ACTION: FOR INFORMATION

Purpose

To communicate the findings from the Internal Audit Report on the Construction Audit of Fire Station 7-4: Phase 3.

Report Highlights

- Fire Station 7-4 was completed within the revised budget approved by Council in February 2018.
- Although the project was not completed on time, the City's Infrastructure Development staff should be commended for overcoming many obstacles as a result of the general contractor operating under bankruptcy protection during the construction and close out phases of this project.
- Improvements are recommended to ensure risks related to the execution of the City's construction activities are efficiently and effectively mitigated.
- Management has developed action plans which will mitigate the identified risks and address the recommendations outlined in the report.
- Internal Audit will follow up with management and report on the status of management action plans at a future Audit Committee meeting.

Recommendations

1. That the Internal Audit Report on the Construction Audit of Fire Station 7-4: Phase 3 be received.

Background

The objective of the audit was to evaluate the effectiveness of construction management policies and procedures related to the fiscal, operational, and administrative controls over construction activities, including project scope, cost, schedule and quality.

Based on consultations with management, the construction of Fire Station #7-4 was selected for the audit. The single-story, LEED certified fire station is in Kleinburg and includes apparatus bays, ancillary offices and living quarters for the fire crew on shift. Construction of the fire station started in the spring of 2018, with a substantial performance date outlined in the contract of May 24, 2019. Due to delays caused by the contractor, substantial performance was actually achieved on November 29, 2019.

Auditing a construction project from beginning to end can provide added assurance, identify problems as they arise, and help improve outcomes. Since the scope of the audit will encompass the complete lifecycle of the project, audit reports will be issued after the completion of the following project phases:

- Planning and Design, Bid and Procurement Phases (Phase 1). The Phase 1 report was presented at FA&A on June 6, 2018 and approved by Council on June 19, 2018.
- Construction Phase (Phase 2). The Phase 2 report was presented at Committee of the Whole (2) on January 21, 2020 and approved by Council on January 28, 2020.
- Close Out Phase (Phase 3).

Phase 3 included a review of:

- Contract Requirements for Closeout.
- Deficiency Inspections and disposition.
- Warranty Administration Process.
- Key Construction Documents and Manuals.
- Post-completion Evaluations.

Previous Reports/Authority

[Internal Audit Report - Construction Audit of Fire Station 7-4: Phase 1](#)

[Internal Audit Report – Construction Audit of Fire Station 7-4: Phase 2](#)

Analysis and Options

The time from when physical construction ends until project turnover to the City, is known as the post-construction phase in the Project Life Cycle of a Constructed Facility. Getting a construction project to the milestones of substantial performance and then to completion and turn over are some of the most difficult challenges to be met during the construction of a facility.

As part of establishing substantial performance, it is necessary to place a value on project deficiencies. The consultants, contractor and subcontractors prepare a list of deficiencies, address as many of the deficiencies as possible, and then holds a formal deficiency review. This also typically marks the start of the warranty period for the project.

The post-construction phase is vitally important because it also allows the project team to evaluate, document and learn from the project. A final team meeting is usually held and led by a project manager to officially mark the ending of the project and determine what issues they had and what went well, so that they can make improvements in the future.

Financial Impact

There are no direct economic impacts associated with this report

Broader Regional Impacts/Considerations

Not applicable.

Conclusion

Although contractor issues created operational challenges in completing the project, improvements are recommended to ensure risks related to the execution of the City's construction activities are efficiently and effectively mitigated.

This includes:

- Extending the payment holdback requirements to encompass the warranty period.
- Engaging all stakeholders at key milestones in the project.
- Requesting construction documents and manuals earlier in the process.
- Expanding the vendor performance evaluation process to include vendor suspension.

For more information, please contact: Kevin Shapiro, Director of Internal Audit, ext. 8293

Attachments

1. Internal Audit Report – Construction Audit of Fire Station 7-4: Phase 3

Prepared by

Mike Petrilli, Audit Project Manager, extension 8909

Approved by

A handwritten signature in black ink, appearing to be 'KS' followed by a long horizontal flourish.

Kevin Shapiro, Director of Internal Audit