

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 19, 2018

Item 2, Report No. 6, of the Finance, Administration and Audit Committee, which was adopted without amendment by the Council of the City of Vaughan on June 19, 2018.

2 **INTERNAL AUDIT REPORT – CONSTRUCTION AUDIT OF FIRE STATION 7-4: PHASE 1**

The Finance, Administration and Audit Committee recommends:

- 1) That the recommendation contained in the following report of the Director of Internal Audit, dated June 6, 2018, be approved;
- 2) That Council receive quarterly updates of the progress of the management actions outlined in this report; and
- 3) That the presentation and Communication C5, presentation material entitled, "*Construction Audit of Fire Station 7-4: Phase 1*", be received.

Recommendations

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

Item:



Finance, Administration and Audit Committee Report

DATE: Wednesday, June 06, 2018

WARD(S): ALL

TITLE: INTERNAL AUDIT REPORT – CONSTRUCTION AUDIT OF FIRE STATION 7-4: PHASE 1

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 1.

Recommendations

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

Report Highlights

- There are four objectives common to every construction project: scope, cost, schedule and quality.
- The primary focus of project management is to plan and execute a project in such a manner as to maximize the ability to meet these four objectives.
- The planning and design, bid and procurement phases of Fire Station 7-4 have experienced numerous challenges that have significantly increased the risk that the project objectives will not be met, increasing the risk of litigation and reputational damage to the City.
- Management has developed action plans which will mitigate the identified risks and address the recommendations outlined in the report.

Background

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

Based on consultations with management, Fire Station #7-4 was selected for the audit. The single-story, LEED certified fire station is in Kleinburg and will include apparatus bays, ancillary offices and provide living quarters for the fire crew on shift. Construction of the fire station is expected to start in the spring of 2018, with an expected occupancy of August 2019.

Auditing a capital 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, and Bid and Procurement Phases (Phase 1).
- Construction Phase (Phase 2).
- Close Out Phase (Phase 3).

Phase 1 included a review of:

- The City's capital project management and governance framework
- Vendor prequalification and contract award processes
- Planning, budgeting and architectural programming
- Performance and monitoring

Previous Reports/Authority

Not applicable.

Analysis and Options

Capital projects are generally funded, planned and executed as individual, discrete projects. Four objectives which are common to every construction project are: scope, cost, schedule and quality. The primary focus of project management is to plan and execute a project in such a manner as to maximize the ability to meet these four objectives.

Ineffective project governance, poor communication protocols and inadequate controls over scope change management are typically the cause when capital projects fail to meet their objectives.

Project management plans, even for relatively small construction projects, should exhibit a level of detail greater than might be deemed appropriate for other types of projects of equivalent cost and duration.

Financial Impact

There are no direct economic impacts associated with this report.

Broader Regional Impacts/Considerations

Not applicable.

Conclusion

The planning and design, bid and procurement phases of the construction of Fire Station 7-4 have experienced numerous issues that have significantly increased the risk that this project will not be delivered on time or on budget while increasing the risk of litigation and reputational damage to the City.

There are several contributing factors:

- Ineffective city-wide capital project governance, management and oversight
- Poor cost estimating and budget forecasting practices
- Approval of significant, late scope amendments without a formal business case
- Inadequate vendor prequalification criteria
- Vendor evaluation committee composition that included individuals that do not possess the appropriate subject matter expertise

The following organization wide improvements are required to improve capital project delivery:

- Establish a standardized project management governance framework that clearly defines roles, responsibilities and accountability of all project stakeholders.
- Clearly define and finalize the business case and project scope, including cost and schedule estimates, prior to entering the bid and procurement phase.
- Develop a city-wide change management process for evaluating the feasibility of an existing project if new information becomes available that may compromise the goals and objectives of the originally approved project.
- Enhance the vendor performance management and pre-qualification criteria.
- Ensure members of the vendor evaluation committee have the necessary experience and technical expertise to properly evaluate the submission.

Internal Audit will follow up on the status of outstanding Management Action Plans related to this audit and will report the status to the Finance, Administration and Audit Committee.

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 1

Prepared by

Kevin Shapiro, Director of Internal Audit, ext. 8293