KPMG

cutting through complexity

Winnipeg Police Service Headquarters Construction Project Audit

July 14, 2014

CONFIDENTIAL

kpmg.ca

Table of Contents

Summary	1
Approach	3
Observations	5
Recommendations	23
Roadmap for Implementation	30
Appendix A – Key Documents	31
Appendix B – Key Individuals	33
Appendix C – Managemet Reply to Draft Report	35

Notice

This report (the "Report") is provided to The City of Winnipeg (the "City") pursuant to our engagement to conduct a constuction project audit of the capital project to relocate the Winnipeg Police Service ("WPS") Headquarters to the former Canada Post facilities at 245 Smith Street (the "Project").

If the Report is received by anyone other than the City, the recipient is placed on notice that the Report has been prepared solely for the City for its own internal use and its contents may not be shared with or disclosed to anyone by the recipient without the express written consent of the City. KPMG LLP ("KPMG") does not accept any liability or responsibility to any third party who may use or place reliance on our report.

Our scope is limited to the procedures conducted over a ten (10) week timeframe from April 22, 2014 to June 25, 2014. The procedures we performed were limited in nature and extent, and those procedures will not necessarily disclose all matters about the Project, or reveal errors in the underlying information.

Our procedures consisted of inquiry, review, discussion and analysis of City-provided Project information and documentation. In addition, we considered capital project leading practices employed at other comparable organizations.

These services are not intended to be an audit, examination, attestation, review or agreed-upon procedures engagement as those services are defined in Canadian Institute of Chartered Accountants (CICA) literature applicable to such engagements conducted by independent auditors. Accordingly, these services do not result in the issuance of a written communication to third parties by KPMG directly reporting on internal control or expressing an audit conclusion or any other form of assurance. Furthermore, comments in our Report are not intended to be, nor should they be interpreted to be, legal advice or legal opinion.

Summary

This report is being issued for the City Auditor of the City of Winnipeg (the "City") following completion of an independent and objective audit of the processes followed to construct the new Winnipeg Police Service (the "WPS") Headquarters building. It is presented to the City by KPMG LLP ("KPMG") pursuant to our appointment under RFP No. 84-2014: Audit of Winnipeg Police Station Headquarters Construction Project pursuant to a January 29, 2014 motion of City Council to engage an external auditor to review the WPS Headquarters Construction Project. The scope of this report covers capital project oversight and reporting, estimating and budgeting processes, procurement and project management, as well as the results of our examination of key contracts entered into by the City and compliance with legislation and established City policy and processes.

The Project

The WPS Headquarters Construction Project (the "Project") involves the renovation and conversion of the former Canada Post building at 245 Smith Street to serve as the new WPS Headquarters building, and the Project is currently nearing completion. The Project is expected to bring together and house 14 WPS divisions and approximately 1,250 people over approximately 606,000 square feet.

Observations

We identified a number of gaps between the City's capital project governance, processes and controls and leading practice during the performance of our procedures. As we identified gaps they were documented and assessed to determine the degree of risk each gap represented to assist in the development of remediation recommendations. The key gaps or themes identified include:

- Inconsistent compliance with the City's capital project management policies and requirements as outlined in Administrative Directive FM-004: Capital Project Administration
- Reporting on project status against the baseline budget, scope and schedule was not consistent, timely or at an appropriate level of detail to allow for effective oversight by senior City staff and Committees of Council
- Inadequate project management discipline related to contract management, scope and change management, schedule management, risk management and design management
- Lack of appropriate segregation of roles and responsibilities between project management personnel and end-user department representatives during the design and construction phases
- Lack of consistent understanding and application of the City's procurement policies and guidance to promote open, competitive and transparent procurement related to major capital projects

For the construction of the WPS Headquarters building, a project charter was established but not approved; and the Project encountered significant issues that prevented it from meeting several of the key budget, scope and schedule objectives that may define successful delivery or performance.

- Regarding performance against budget, over the four years from November 2009, Council approved additional funding amounting to $67m, excluding a further $7m in construction period interest charges.
- Reporting to Council currently anticipates on time occupancy by WPS by "summer 2014". In terms of

construction progress, the anticipated Scheduled Completion Date of June 30, 2014[1] is six months later than the Scheduled Completion Date that was specified in the original construction contract[2].

- The Project will not deliver the planned on-site indoor shooting range, instead an outdoor range has been constructed about 20 km away. It was accepted that while less costly to construct, this scope compromise may have operational implications.

Recommendations

We provide recommendations that address the gaps or issues identified during our procedures in order to assist the City align its major capital project practices and processes with leading practices. The key recommendations include:

- To promote improved governance and transparency, consider enhancing the current risk and financial reporting under FM-004's standard major capital project report format to include additional information required by oversight bodies and/or key stakeholders to understand project status, including: a baseline schedule with progress to date; detailed budget versus cost incurred, committed cost to date, and forecast total estimated cost that also takes into account approved/pending scope changes and trends; and the status of key risks and issues previously identified.
- For major capital projects that involve both a department responsible for delivery as well as another City department as the end-user and/or budget holder; clarify their respective project-related roles and responsibilities to ensure appropriate segregation of project manager and end-user representative roles.
- Evaluate options for ensuring that internal City project managers have access to a documented project management governance and control framework and/or a project management centre / support function that provides training, support and infrastructure (policy, process, procedure, templates, etc.).
- Develop and implement a suite of standard construction contracts for the City's preferred contract strategies, including appropriate training for internal project managers and team members to better protect the City's interests and manage its retained risks.
- Revisit the City's procurement policy and develop and deliver training sessions for City personnel involved with capital projects to improve understanding and consistent application of policy and to achieve increased competition and transparency of the City's procurement activity related to capital construction projects.

Action Plan

A detailed action plan should be developed to address the observations and recommendations in this report, possibly combined with the validation of the proposed implementation roadmap, with a view to improving or developing an effective capital project governance and control framework at the City's desired level of maturity for capital project management.

We recommend that a detailed action plan be prepared to clearly articulate the vision of the transformation and the steps required to reach the City's desired future state for capital project management. Such a roadmap should outline the vision, objectives, and key initiatives to move the City from its current state to its desired state; the roadmap must take into consideration its relationship with any other planned or ongoing transformation initiatives at the City.

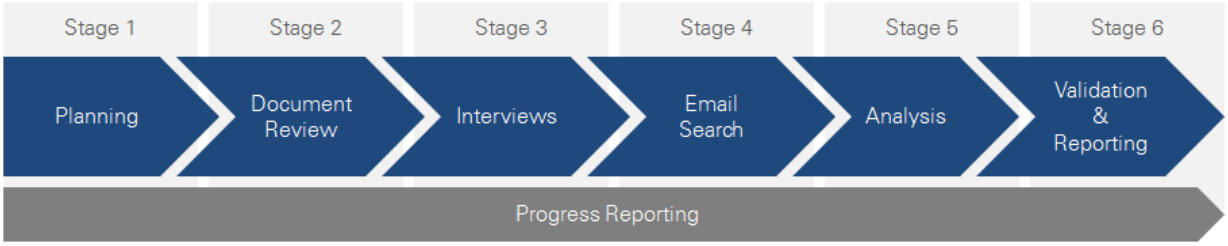
---

[1] ***Supplemental Agreement between the City and Caspian Projects Inc***. dated December 11, 2013

[2] ***GMP Contract between the City and Caspian Projects Inc.*** dated November 18, 2011

Approach

We leveraged our team's hand-on experience in the delivery of major capital projects in a number of industry sectors combined with relevant aspects of our Internal Audit and Major Projects Advisory methodologies in the performance of our work; we adopted a six stage approach to deliver the scope of work for this engagement. These stages were not sequential in nature, but serve to identify the distinct activities that were performed.



Step 1 Planning

KPMG reviewed publicly available information on the Project and developed a preliminary audit plan to conduct the engagement based on key lines of inquiry. This plan identified the broad scope of the documentation that we would require from the City, as well as the key individuals who may have information relevant to our lines of inquiry.

Step 2 Documentation Review

The City Auditor provided KPMG with the requested Project-related documentation from Step 1. We conducted a high-level review of this documentation and identified additional documentation and information requirements. The documentation and information was then reviewed and a set of preliminary issues were identified to guide the interviews and our subsequent analysis. These issues were aligned to the Scope of Work set out in the RFP and represented our primary areas of focus. ***Appendix A*** provides a non-exhaustive list of the key documentation provided by the City upon which this report is based.

Step 3 Interviews

Based on the documentation review, the initial list of key individuals developed by KPMG in Step 1 was refined, and we met with the key individuals who had significant involvement in the Project. The interviews were structured as a formal question and answer session, and interviewees were given the opportunity to volunteer any additional information that they deemed relevant to the Review. Interviewees were informed at the start of each interview that their answers would be documented, and that any information provided may be disclosed in the Report. ***Appendix B*** provides a full list of interviewees.

Step 4 Email Search

A list of key words was provided to the City's Corporate Support Services and Winnipeg Police Services information technology divisions to conduct a search of City email accounts to locate email correspondence that may be of relevance to this engagement. We reviewed the emails identified through the search for relevant information to be considered during our analysis.

Step 5 Analysis

KPMG analysed the documentation and information obtained against the following evaluation criteria:

- Compliance with City policy
- Compliance with documented City process and procedure
- Compliance with generally accepted leading practice
- Compliance with law

Step 6 Validation & Reporting

Throughout the engagement, KPMG liaised closely with the City Auditor and specifically provided weekly updates of progress to ensure alignment with the City's expectations. Our draft report was issued to the City Auditor on June 25, 2014 for validation and to obtain comments or feedback from City Administration. Comments or feedback received will be reviewed and assessed, and where relevant incorporated into the final version of this report.

Observations

During the performance of our procedures, we identified a number of gaps between the City's capital project management processes and controls and leading practice. As gaps were identified during the audit, they were documented and assessed. This section summarizes the results of our procedures and our findings in terms of the key themes, risks and issues identified.

1. Project Oversight & Governance

1.1 Oversight Committe

> "Capital projects must be planned giving due regard to appropriate project management techniques, reporting and administrative structure including the Major Capital Project Steering Committee required for projects that are expected to exceed $10m … the Committee should be comprised of the department head, two other Directors from other departments, a representative of Corporate Finance, the Manager of Capital Projects and project managers from the department."
>
> **Administrative Directive FM-004: Capital Project Administration**

The requirement for a Major Capital Project Steering Committee was one result of the recommendations from a previous internal audit conducted by the City Auditor. While the terms of reference of the Steering Committee for the Project (referred to as the "Oversight Committee") do not provide specific guidance, it is understood that, in line with good governance practice, the intent of this Committee is to provide oversight of the work of the Project Team and review project status in advance of any reporting to the Chief Administrative Officer ("CAO") and Committees of Council.

The CAO duly formed the Oversight Committee for the Project, however, its effectiveness was impacted by the Committee membership[3]; the failure to maintain minutes of Oversight Committee meetings; and a lack of evidence of consultation with and concurrence by the Oversight Committee with the Project status reports to the Committees of Council on the minimum periodic basis as required by Administrative Directive FM-004: Capital Project Administration ("FM-004").

The CAO is responsible for making the appointments to the Oversight Committee under FM-004. We learned that the CAO appointed the Director of Planning, Property and Development ("PPD"), the department responsible for delivering the Project, and the Chief of the Winnipeg Police Service ("WPS"), the end-user of the facility to join him on the Oversight Committee. In August 2011, when the Director of PPD became the Chief Operating Officer ("COO") he remained on the Committee for continuity purposes and as a result, PPD was no longer directly represented on the Committee.

Furthermore, the membership of the Project Director and certain members of the WPS Redevelopment Project team (the "Project Team") directly responsible for delivering the Project reduced the

> "The department responsible for the capital project must report quarterly or at any other interval as determined by the Standing Policy Committee on Finance and the Standing Policy Committee on Infrastructure Renewal and Public Works."
>
> "Roles & Responsibilities (of the) Chief Administrative Officer … ensure compliance with this Directive."
>
> "Roles & Responsibilities (of the) Chief Financial Officer … ensure compliance with respect to reporting."
>
> **Administrative Directive FM-004: Capital Project Administration**

[3] ***WPS Headquarters Redevelopment Project – Financial Status Report No.1 for the Period Ending September 30, 2012*** - "The project team reports to an Oversight Committee on a regular basis (bi-weekly). The Committee has been formed and its members are: the Chief Administrative Officer; Chief Operating Officer; Chief Financial Officer; Police Chief; Project Director; WPS Project Manager; and Manager of Capital Projects – Corporate Finance."

Oversight Committee independence that FM-004 envisions.

Leading practice would dictate the Project Director and select members of the Project Team attend the Oversight Committee meetings in order to report on the progress of the project, discuss issues and receive feedback and/or direction from the Oversight Committee; however, they would not be members of the Oversight Committee.

We were told that minutes of the Oversight Committee meetings were not maintained and, as a result, there is no record of the discussions which took place or the recommendations and decisions made. In our view, this contributed to an environment lacking transparency and accountability for Project outcomes, and also represented a significant barrier to gathering information during the execution of this audit.

1.2 Reporting to Council and Committees of Council

The "department responsible for the project" is required under FM-004 to report to the City's Standing Policy Committee on Finance and the Standing Policy Committee on Infrastructure Renewal and Public Works, having consulted and sought concurrence from the Oversight Committee. Reporting should be quarterly or at any other such intervals as the Committees determine, however, in our view, the risk profile of this Project would not suggest reporting at an interval any less than quarterly would be appropriate.

FM-004 does not appear to provide any additional guidance or definition around how the "department responsible" is to be determined. We were also told that standard practice is for PPD major capital projects not to report to the Standing Policy Committee on Infrastructure Renewal and Public Works, but rather to report to the Standing Policy Committee on Downtown Development, Heritage and Riverbank Management ("DDHRM"), however this decision does not appear to be documented.

The Director of the department responsible for the project, the CAO and the Chief Financial Officer ("CFO") all have specific responsibilities under FM-004 in respect of reporting, however, the frequency of reporting on the status of the Project was inadequate and did not meet the requirements of FM-004.

- Five project reports (with an explanation for one report not forwarded to the Standing Policy Committee on Finance) have been submitted to date to the Standing Policy Committee on Finance (for a construction project starting in summer 2012 to the time of our fieldwork, 7 quarterly reports would be expected per FM-004).
- Two additional reports were submitted to date to the Standing Policy Committee on DDHRM, both of which related to issues of over-expenditure against budget.

As a result of the reduced frequency of reporting to Committees of Council, the issues discussed in ***Section 3.4*** (number and cost of change orders) and ***Section 4.1*** (final GMP breakdown on completion of design) were not reported on a timely basis.

1.3 Basis of Approval of the GMP Contract

We learned that a key factor in the performance of the Project against budget was the decision to enter into a GMP Contract based on an incomplete design. The November 2013 Administrative Report[4] submitted to Council via the Executive Policy Committee ("EPC") and the Standing Policy Committee on DDHRM, summarizes the Project history and contains the statement that the decision was taken to enter

[4] ***Administrative Report*** dated November 18, 2013 prepared by the Manager of Capital Projects and the Director of PPD, and authorized by the CFO and Acting CAO.

into a Guaranteed Maximum Price ("GMP") contract on the basis of a 30% complete design in order to prevent a two year delay to the Project to allow completion of the design. We understand that, in July 2011 when the decision was taken to enter into the GMP Contract, the Project Team anticipated completion of the design by November 2011, a time period of approximately 3 months.

The design was completed in April 2013. Issues with the completeness and quality of the design that ultimately led to unanticipated delay in completion of the design activity to April 2013 were not known in July 2011 and could not, therefore, have been a factor in the decision to proceed with the GMP Contract based on a 30% complete design.

> "The Guaranteed Maximum Price (GMP) contractual arrangement approved by Council in July 2011 was based on conceptual design drawings, which were determined to be approximately 30% complete. The Public Service proceeded at that time in order to mitigate the risk introduced by the long wait to complete the design (work would not have proceeded for 2 years)."
>
> **November 2013 SPC on DDHRM Report to Council**

The statement in the November 2013 Administrative Report that the GMP Contract was "approved by Council" appears inconsistent with what occurred. From our documentation review, we understand that Council did not formally approve a recommendation to enter into this contractual arrangement in the July 2011 Administrative Report, rather Council approved a request to delegate authority to the CAO to award (unlimited and unspecified) contracts for the Project, and it was only on the final page of the "history section" of the appended Administrative Report that there is any mention of a GMP contractual arrangement[5].

The question of why the City decided to enter into a GMP Contract based on a 30% complete design at a time when the design was understood to be nearing completion is an important one, and it is one for which responsibility lies with the Project Team and the Oversight Committee. ***Section 3.5*** of this report provides additional context, issues and the budget implications of proceeding based on an incomplete design.

Interviews performed as part of our procedures identified an issue with the effectiveness of communication between Committees of Council and City Administration when dealing with complex and high risk issues such as construction contracting and procurement. If Council and/or the Committees of Council are to be effective performing their oversight role, they may require access to independent specialist subject matter advice to assist with their interpretation of information and reports they receive.

[5] ***Administrative Report*** dated July 13, 2011 – "The contractor has presented a guaranteed maximum price (GMP) of $137,100 million"

2. Project Roles and Responsibilities

2.1 Segregation of Roles

Successful delivery of a complex capital project requires clear definition of the roles and responsibilities of key stakeholders; in particular the clear separation of the project management role from that of the end-user representative.

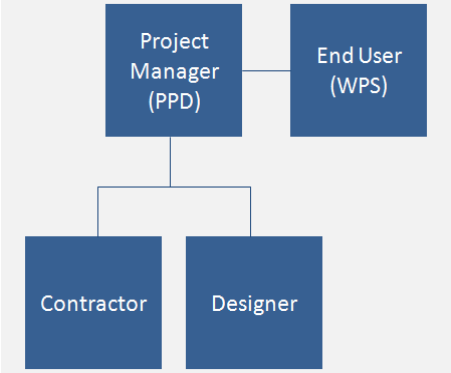


Illustration of the Segregation of the Roles of Project Management and End-User Representative

The project management role requires the skills of a construction industry professional, while the end-user role is intended to represent the department which will ultimately occupy the facility that is being designed and constructed.

The skills and experience required of a project manager and an end-user are very different, as are their objectives, roles and responsibilities.

At a high-level, the project manager is a professional responsible for managing the construction contractors and design consultants to deliver a solution to the end-user's requirements (the scope), safely, on-time and on-budget.

The end-user representative's role, on the other hand, is limited to the scope – they are responsible for taking ownership of their department's requirements and for ensuring that as the design develops, it continues to meet their previously defined requirements.

The project manager should be the interface between the end-user representative(s) and the design consultant and construction contractor to manage / help ensure that there is no increase/creep in scope, intentional or otherwise, which could impact cost, schedule or quality without following a documented change control process that evaluates each change request on its own merits and obtains the necessary authorization of the owner to proceed with changes as defined at the outset of the project.

This segregation of project management and end-user roles is a foundation-level principle of capital project management practice, yet this was not implemented on the Project, a fact which influenced many aspects of Project delivery. PPD, the City department normally responsible for capital building projects, were effectively not involved in Project delivery or oversight until the external Project Director was replaced as Project Director by a PPD employee at the end of 2013. Serving and retired Police Officers, appointed by the WPS to act as WPS end-user representatives were also given project management titles, roles and responsibilities[6] on the Project – despite having no formal training or qualifications in capital project management. This arrangement increased the risk that the end-users could directly influence the Project scope by having the ability to interact directly with the design consultant and construction contractor, a situation which we understand continues to date.

[6] ***Chronology of Involvement in the WPS Headquarters Project***

2.2 Project Management Role

The Project Manager originally assigned to the Project is a Professional Engineer (PEng) with experience in developing police facilities, but who had not previously delivered a project of this size and complexity. In view of this and the challenges being experienced in progressing the Project, the City engaged a consultant with the title of Project Director to effectively replace the original Project Manager.

The City engaged Dunmore Corporation ("Dunmore") effective June 2011 to perform the Project Director role. However, we observed that this appointment did not result in the structured project management discipline that the Project required; for example, a project management process in line with leading project management practices was not put in place.

Dunmore is no longer involved with the Project, having been replaced at the end of 2013 by a Project Director from PPD who, while experienced in the procurement of major projects, has not delivered a project of this size or complexity through the complex design, construction and commissioning phases.

2.3 Manager of Capital Projects – Roles & Responsibilities

FM-004 sets out 20 detailed roles and responsibilities to be performed by the City's Manager of Capital Projects, and while many of these are finance oriented, there are also responsibilities directly related to: assisting in establishing capital project quality assurance process; review of detailed drawings and specifications; value engineering; and being a proponent and champion of asset management. Many of these responsibilities could only be effectively discharged by experienced and technically qualified construction professionals.

The incumbent Manager of Capital Projects is a finance professional (Chartered Accountant) who holds a Masters Certificate in Project Management[7] but does not have direct construction project management experience. The reality is that it would be difficult for any one person to effectively fulfill and discharge all 20 of the documented roles and responsibilities for the Manager of Capital Projects as this role is currently defined.

[7] University of Winnipeg Continuing Education / Schulich School of Business, York University Masters Certificate in Project Management (five month course).

3. Project Management Maturity

3.1 Project Management Framework

In our experience, we have found that having a documented framework at the municipal level within which capital project managers deliver the organization's major capital projects is often a key determinant of achieving successful project outcomes. A framework also provides the context against which project management maturity can be assessed and monitored.

We have found some evidence that documented project management processes and procedures (the "framework" above) have been established by the City or followed in the execution of the Project. The City has a draft Manual of Project Administration Practice dating back to 1992. This document was never formally adopted by the City, and it is now largely out of date in terms of current industry leading practices such as, for example specifically linking a risk item to a contingency allowance, where applicable.

> "the Draft Manual of Project Administration Practice … should be updated to reflect contemporary practices in the construction industry in the following areas ... scope control; project schedule (time) management; project cost budgeting and cost control; project human resources management; project procurement management" (and should also address) "scope planning, definition, verification and work breakdown structure; project cost estimating; project quality management and control; project progress reporting; project risk management ...."
>
> **Capital Project Management Audit *Final Report, November 2008***

The City Auditor conducted a Capital Project Management Audit in 2008; the resulting report highlighted shortcomings of the draft Manual of Project Administration Practice, and provided a series of recommendations aimed at improving upon the City's project management policies, processes and procedures.

In response to the report, the CFO told Council on November 7, 2008 that staff would "update and deliver the Project Management Manual". Our experience indicates that the development and implementation of a revised project management manual/framework incorporating the recommended project management guidance and methodologies (see extract in text box to the left) could have assisted, in our opinion, in addressing many of the issues and risks that appeared on the Project.

We are informed that the Asset Management Division in Corporate Finance was established two years ago to be a focal point in reorganizing capital project management at the City and that the update to the draft Manual of Project Administration Practice is nearing completion and will be available for use in Fall 2014.

3.2 Schedule Management

The current "Scheduled Completion Date" as set out in the Supplemental Agreement[8] with Caspian Projects Inc. ("Caspian") is June 30, 2014, six months later than the Scheduled Completion Date of December 31, 2013 set out in the original GMP Contract[9]. Neither construction contract included the provision or requirement for Caspian to submit a detailed contract (baseline) schedule, nor for the submission of detailed monthly updates of schedule progress against that baseline schedule; these are contract requirements that are industry standard for a project of this size and complexity. As a result, the Project Team did not receive, and were unable to analyse, key information that is necessary to foresee

[8] ***Supplemental Agreement between the City and Caspian Projects Limited***, dated December 11, 2013

[9] ***GMP Contract between the City and Caspian projects Limited***, dated November 18, 2011

potential construction delay events, evaluate direct and indirect cost and time impacts of those potential delay events, or to address any delay claims submitted by Caspian.

The Supplementary Agreement documents that Caspian was entitled to 577 days as an Excusable Delay, and grants Caspian relief from Liquidated Damages that the City might be entitled to assert in an instance where Caspian was responsible for the failure to complete the Project within the time constraints established in the GMP Contract.

There is evidence to suggest that the City's failure to effectively manage the progress and quality of the design may have caused delays to Caspian, however, the extent to whether this delay amounted to 577 days cannot be verified due to the lack of any meaningful schedule management provisions in the GMP Contract and the Project team's resulting inability to perform schedule analytics.

3.3 Risk Management

Risk management is the systematic process of identifying, evaluating and managing risk, and typically makes use of tools and techniques such as risk workshops, risk registers, risk mitigation plans, key risk reporting, etc. Risk management is a cornerstone of effective capital project control and governance, which helps to bring together and link all the other aspects of project management including schedule management, design management, contract management, and cost management.

> "All major capital projects require a formal risk management plan completed by internal staff or external consultants that will highlight potential risks. The contract administrator or project manager should review, consider and address these risks during the course of the project. The risk analysis represents a dynamic process that should be reviewed regularly throughout the project to identify and address new risks that might arise".
>
> **Administrative Directive FM-004: Capital Project Administration**

Renovation of an existing building carries many inherent risks, such as unknown or unexpected site conditions which could result in the design having to be revised once the condition is discovered. Neither the Project Manager nor the Project Director were able to provide us a formal risk management plan for the Project as required in FM-004. They told us that a live risk register and a risk mitigation plan were not developed or maintained, and that while risks were discussed with the Oversight Committee, their status was not monitored with reference to a formal, documented risk management plan.

3.4 Change Management

Change management is a critical aspect of project management that deals with ensuring that the scope of a capital project, as well as the scope of individual contracts or work packages remain fixed, as far as practicable, and that any change is only implemented following a thorough evaluation, analysis and approval of the change, and the subsequent formal instruction to proceed.

The Project had a total of 81 Change Orders amounting to a net value of some $19.89m, or 14% of the value of the GMP Contract. In our experience, this denotes a significant volume and degree of change during the course of design and construction. These changes included changes to accommodate design that was either late or not constructible, did not comply with code, as well as some change to end-user requirements – foreseeable risks that a Project Team would be expected to manage proactively.

We observed that the Project did not have a clear, documented change management process.

In addition, we observed no evidence of periodic reporting of the number or cost of potential or actual change orders to the Oversight Committee and/or Committees of Council. The timely disclosure of either

the number of change requests or the total estimated provisional cost of the change requests would have given those responsible for Project oversight the additional information on which to have proactive discussion regarding alternatives prior to the work commencing on the requested changes.

> "Change Orders will only be valid if signed in advance by all of the City, the Project Director and Caspian"
>
> **GMP Contract, dated November 18, 2011**

We found that there is a contractual change order provision in the GMP Contract. However, we found out that it was not complied with; in many cases on the Project, the change order value was agreed upon following implementation of the change, rather than being evaluated when the change requests were submitted; the Project Team failed to take definitive action, sometimes for many months, until those change requests were finally validated and valued retrospectively in the Supplementary Agreement dated December 11, 2013 after they had been incorporated into the Project, despite the fact that the GMP Contract clearly and explicitly states that such retrospective approval is not permitted.

The effect of not proactively managing and acting upon change requests as they were received is that the pricing, review, approval or rejection of millions of dollars in changes were effectively deferred and not reported upon to Committees of Council for many months. This not only resulted in under-reporting of the Project's total estimated cost for an extended period of time, but also meant that the City lost the opportunity to proactively negotiate, monitor and respond to the actual cost of implementing these change requests. Instead, values assigned to these changes in the Supplementary Agreement were based on a high-level retrospective review of Caspian's quotations. We observed that in a number of cases, the design consultant tasked with undertaking the review was careful to advise the City of the limitations of their review and the need to engage specialist cost consultant resources, advice which does not appear to have been acted upon by the Project Team.

3.5 Budget & Contingency Management

The City commissioned a consultant to prepare a "Class C" estimate of the Project's "direct and indirect construction costs" which was delivered on December 22, 2010. The status of the design upon which this estimate was based is not known, however, it appears reasonable to assume that the design would have been at an early stage of development since it was prepared five months before the Project design was reported to have reached 30% completion.

Estimate	$ 122,699,500
Design & Pricing Allowance	$ 12,270,000
Escalation Allowance	$ 674,800
Sub-total	**$ 135,644,300**
Client Contingency (recommended)	$ 3,391,108
December 22, 2010 "Class C" Estimate	**$ 139,035,408**

The Class C estimate of $135,644,300 was based on the assumption of a competitively procured construction management contract, and includes a 10% contingency to cover design and pricing unknowns (see table "Design & Pricing allowance").

In addition, the consultant who prepared the Class C estimate advised the City to provide an additional 2.5% client contingency for potential change orders (see table "Client Contingency").

In our experience, this level of contingency (12.5%) is at the lower end of the expected range given the stage of the Project at which the Class C estimate was prepared; an overall project contingency of 30% would not have been unreasonably conservative after taking into account the very early stage of design progress and the complexity of the Project both in terms of the intended use of the facility and the inherent

risk involved with a building renovation.

GMP Contract

The "guaranteed maximum price" of $137,100,000 was subsequently agreed to with Caspian on the basis of a design that is reported to have been nominally 30% complete. In the GMP Contract, Caspian did not accept the risk of design development to take the design to completion, so this GMP price did not include an associated design risk contingency allowance. Contrary to the intent of the GMP contract strategy, this design risk was retained by the City. In this situation, basic capital project estimating and budgeting principles would dictate that the City should have made a separate contingency allowance for this risk in the Project capital budget presented to Council, but we learned that no such contingency was identified or allocated.

Failure to provide an allowance to develop the design from 30% to completion had the effect of understating the likely total estimated cost of the Project.

The original GMP Contract value agreed upon with Caspian (see Contract page 14) included $20.13m of allowances – consisting of $5.83m as a Construction Contingency Fund and a $14.3m provision for Furniture, Fixtures and Equipment – which essentially represented elements of the Project scope of work which Caspian was unwilling to price given the early stage of the design. These specifically identified allowances, however, did not contribute to the Project's cost over-run since the actual cost incurred against these allowances came in at $18.325m – consisting of $8.86m for the Construction Contingency Fund and $9.46m for the provision for Furniture, Fixtures and Equipment. The items that directly contributed to the Project cost over-run are discussed in ***Section 3.4*** Change Management.

Project Budget

In addition to the original $105m redevelopment budget for design and construction, the Project Team requested an additional budget of $22m to fund furniture, fixtures and equipment ("FFE"), and City Administration later requested approval to combine the FFE budget with the redevelopment budget (an increase of 21% on the original budget).

> "The original report to Council was for the redevelopment of the building only and did not contemplate the costs to move Police Divisions into the building. A capital project for furniture, fixtures and equipment (FF&E) of $22.102 million was added to the 2011 Capital Budget … the FF&E budget is an integral part of the redevelopment and is required to bring the building to an effective operational state. This estimate has since been reduced to $2.7 million due to program refinements with the difference being transferred into the redevelopment cost".
>
> **July 13, 2011 Administrative Report to the Standing Policy Committee on DDHRM; EPC; and Council**

The Project Manager told us that in his view the $105m redevelopment budget was inadequate, however requesting additional funding for the redevelopment budget was not seen as an option. The combination of the original redevelopment budget and the FFE budget effectively secured additional funding for the Project. We understand (see extract from July 13, 2011 Administrative Report) that the majority of these FFE funds were ultimately transferred to other areas of the redevelopment budget.

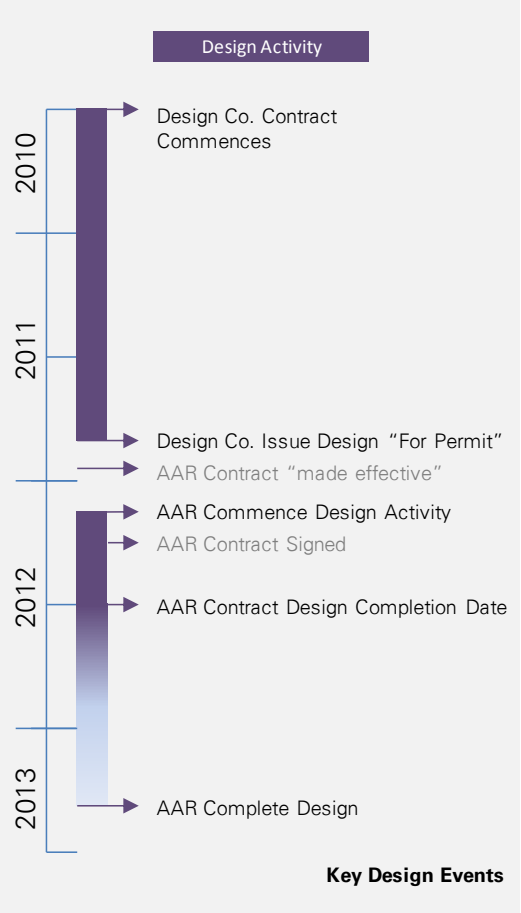
3.6 Design Management

Our scope does not cover the performance of the Project's design consultants, and accordingly we provide no comment on their performance. In respect of the City's performance in managing the Project's design consultants, we have a number of observations that we have set out below.

Design management is a key project management activity which provides assurance that the design is progressing in line with defined time, cost and quality criteria and end-user requirements. We found no information to suggest that documented design management procedures appropriate to a project of this size and complexity had been established by the Project team. We also observed instances of payments being authorized to the design consultants without appropriate review and due diligence being performed on the quality or completeness of their work output. Ultimately,the Project Team's performance in managing the design had a significant impact on the Project schedule and cost.

Design Co.[10] was engaged, based on their proposal, to deliver the final design by July 15, 2011, however, the design was not ultimately completed until April 2013[11]. The combined cost of the design services of Design Co. and Adjeleian Allen Rubeli Limited ("AAR") is currently estimated to be $10.9m.

The Supplementary Agreement with Caspian provides evidence of significant Project cost over-runs and schedule delays incurred by the Project which in our view directly relate back to the quality, completeness and timely delivery of the design. These issues were a key contributory factor in the delay and cost over-run against the original GMP Contract, currently forecast to be at least 6 months and $19.3m respectively.



The adjacent graphic and following narrative provides context to the development of the Project's design:

Design Co. was engaged on August 19, 2010 as the design consultant, pursuant to RFP 66-2010 for Phases 1 to 4[12], namely the Pre-Design, Schematic Design, Design Development and Contract Document Preparation phases.

On November 2, 2011, Design Co. issued drawings and specifications described as "Issued for Permit", and which correspond to 100% design on their invoices.

AAR was approached by the City and submitted a proposal on November 22, 2011 for Phases 5 to 7 of the Project, namely the Procurement, Contract Administration and Post-Construction Services phases; AAR noted its understanding that the design was 100% complete at that point in time.

On January 24, 2012, AAR reported to the City their assessment of the status of the November 2, 2011 design issued by Design Co. – in summary, the report noted that the design was incomplete. On March 1, 2012 AAR submitted a further proposal to complete the design to 100%. AAR was engaged to complete the design by July 2012[13].

Issues were subsequently identified with the design received from Design Co. (such as the need to re-design a large part of the HVAC distribution system, lack of compliance with code and incomplete security design) that

[10] Name of original design consultant not included at the request of the City of Winnipeg

[11] AAR replaced Design Co. in 2012 as the design consultant and took over responsibility for completion of the design.

[12] This contract was awarded in two phases – Phases 1 to 3 (August 2010), and Phase 4 (January 2011).

[13] According to AAR.

contributed to the July 2012 design completion date not being achieved; and the design was not ultimately completed until April 2013.

The actual time taken to complete the design and the fact that the Project Team believed that the design was complete in November 2011[14] (when in reality it was not complete) raises questions regarding the effectiveness of design management by the Project Team. In our experience, the actual (rather than reported) status of the design should have been assessed independently by the Project Team and appropriate and timely corrective action should have been taken to address design quality and schedule issues.

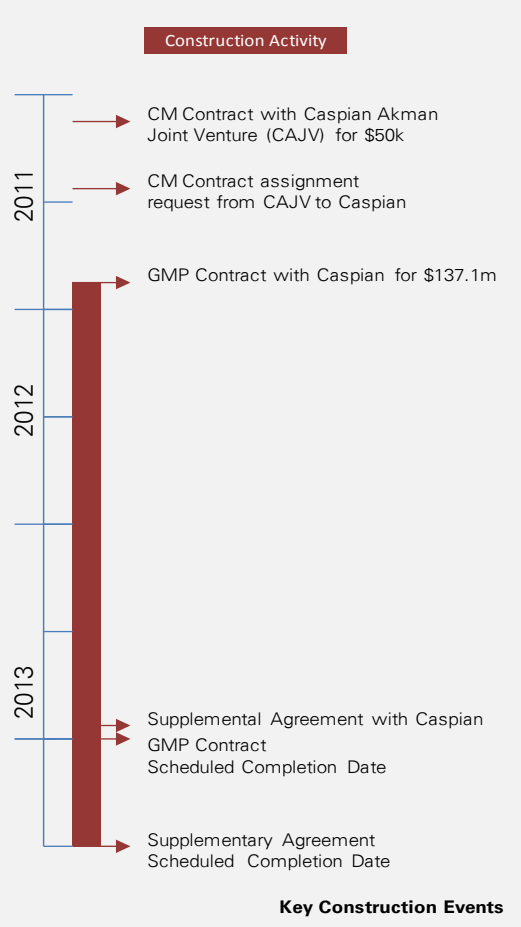
[14] ***Administrative Report*** dated April 16, 2012 prepared by the Manager of Capital Projects and authorized by the CFO and the Director of PPD states "on December 23, 2011, the Chief Financial Officer approved the award of contract to AAR for a fee not to exceed $2,600,000.00 plus GST and MRST. That award of contract was based on 100% design drawings being completed by Design Co."

4. Procurement & Construction Contracting

4.1 Construction Contracting Options Analysis

There are many options available to the City in terms of how the City might procure and contract for construction services, and the most appropriate contract and procurement strategy depends on each individual project's particular risks and objectives. The decision of how to procure and contract construction services is often cited in industry surveys as the most important decision an owner can make to influence project outcomes; leading practice would suggest that a thorough evaluation of the options for the particular project and a transparent and documented decision-making process should normally be performed.

We learned that the City opted to procure a Construction Management contractor to provide pre-construction services for the Project with the option to subsequently enter into a Guaranteed Maximum Price ("GMP") contract for delivery of the construction work. We were unable to identify documentary evidence to indicate that this decision by the City was based on a robust, documented and transparent analysis of project risk and objectives.



The adjacent graphic and following narrative provide context to the Project's construction contracting:

On February 10, 2011, the City entered into contract with the Caspian Projects Inc. and Akman Construction Ltd. Joint Venture ("CAJV") for Construction Management Services for Phase 1 (Pre-Construction Services) of the Design and Development of the Winnipeg Police Service Headquarters. The value of this phase of the contract was $50,000.

On June 14, 2011, CAJV requested assignment of their contract to Caspian, which was approved by the City, and then Akman ceased to be involved in the Project.

On November 18, 2011, the City entered into a contract with Caspian for Phases 2 and 3 (Construction and Post-Construction Services), although this contract was entitled the "Guaranteed Maximum Price Contract for the New Winnipeg Police Headquarters and Outdoor Shooting Range". Subject to the terms and conditions of this contract, the City committed to pay Caspian a contract price not to exceed a Guaranteed Maximum Price ("GMP") of **$137,100,000** with a Scheduled Completion Date of **December 31, 2013**.

On December 11, 2013, the City and Caspian entered into a further contract entitled the Supplemental Agreement. Subject to the terms and conditions of this contract, the City committed to pay to Caspian a Final Contract Price of **$156,374,911.67**, with a Scheduled Completion Date of **June 30, 2014**.

There are a number of variants of the Construction Management contract strategy, however a common characteristic is early construction contractor involvement – this involves payment to a construction contractor (in this case $50,000) on a consultancy basis during the pre-construction stage to help ensure that the design, the budget and the schedule are realistic and achievable.

Given the design and constructability issues experienced on the Project, and the extensive delays and cost over runs, it cannot be said that the strategy of early contractor involvement was successful in delivering a realistic and achievable design, budget and schedule.

The intent of subsequently engaging a Construction Management contractor under a GMP contract is typically to gain cost certainty and to transfer the risk of any additional cost over and above a defined contract value to the contractor.

The Final Contract Price paid by the City will be more than $19m higher than the original GMP contract value, therefore it can be said that cost certainty was not achieved on the Project.

> "Caspian will within forty five (45) Days of completion and acceptance by both parties of the designs, drawings, Plans and Specifications provide a final detailed cost breakdown for each element of the Work that will be the basis of approving progress payments in a format reasonably consistent with industry standards and acceptable to the Project Director".
>
> **Clause 4.a).vi). of the GMP Contract**

There are numerous reasons for the GMP having proved to be inadequate, however, the principal reason why the additional cost over and above the GMP was not contractually transferred by the City to Caspian can be found in Clause 4.a).vi). of the GMP Contract (refer to text box to the left).

The design upon which the GMP Contract was originally based was nominally 30% complete; this clause provided Caspian with the right and the obligation to provide a "final detailed cost breakdown" within 45 days once the design was 100% complete; Caspian did not deliver the final detailed cost breakdown within the contractual timeframe of 45 days from design completion in April 2013 –the final detail cost breakdown was not received until after two letters (dated September 17, 2013 and October 4, 2013) were issued by the City demanding delivery; at this point the information was at least 102 days late.

An additional crucial point is that the contract is silent on whether the "final detailed cost breakdown" should be within the GMP. The GMP Contract therefore did not appear to provide the City with a firm commitment to deliver the Project for a guaranteed maximum price, and as such is similar to a "Cost Plus Fee" arrangement, but without the rigour that such a contract strategy would normally require in terms of actual cost verification and validation.

In basing the GMP contract value on an incomplete design, providing the contractor with the opportunity to revise the price above that value upon completion of the design, and by failing to distinguish clearly between design development and design change, the contract exposed the City to risks that a true GMP contract strategy would normally have transferred to the contractor.

In our experience, much of this risk could have been mitigated by basing the GMP contract value on a 100% complete design, rather than 30% complete design, prior to entering into the GMP Contract.

4.2 Design Co.: Professional Consulting Services for Design and Development

The RFP 66-2010 process resulted in the appointment of Design Co. as the design consultant for the Project, however, the procurement process does not appear to have been well planned or executed, with the requirements of the bidders changing significantly during the process as follows:

- a total of 18 addenda to the original RFP were issued
- the submission deadline was revised 6 times
- the design completion requirements were also changed numerous times: initially the requirement was for 100% design; this was revised to 30%; then it was then changed back to 100%; and finally it was revised to 80% upon issue of the construction RFP with the remaining 20% to be issued 3 months later as an addendum.

In accordance with the City's rights reserved under Section B23.6.1 of the RFP, Design Co. were initially awarded the first three of a total of seven phases, namely Pre-Design; Schematic Design / Program of Requirements; and Design & Specification Development.

4.3 AAR: Professional Engineering Services

The City has two key documents which govern procurement, the Materials Management Policy and Administrative Standard FM-002 Pursuant to the Materials Management Policy ("FM-002"). Together, these documents permit single sourcing in any of a wide range of circumstances. In terms of the Policy itself, Section B4 states that a supply to the City may be negotiated without the solicitation of competitive offers where the CAO determines that it is "appropriate / necessary" and that it meets one of a number of conditions. One of these conditions is listed under Clause B4.1 (h), which permits single sourcing of contracts where the services are exempt from competitive procurement under the Agreement on Internal Trade ("AIT"); another is listed under Clause B4.1 (j), which permits single sourcing of contracts in an "emergency" situation.

On the understanding that the design was 100% complete[15], the City decided not to engage Design Co. beyond Phase 4 (Contract Document Development). At this point, rather than take the post-design scope for Phases 5 to 7 "Procurement, Contract Administration and Post-Construction Services" back to the market, the City approached AAR for a proposal on a single sourced basis.

The process that led to AAR being engaged began on November 22, 2011 when AAR submitted their letter proposal which included an offer to conduct a review of Design Co.'s design for a fee of $85,000. The proposal stipulated that this fee would be deducted from a lump sum fee of $2,350,000 if AAR were to be subsequently awarded a "Contract Administration Services" scope of work aligned to Phases 5 to 7 of the Professional Consulting Services (RFP 66-2010), resulting in a fee of $2,265,000, such sum being quoted as a lump sum with no breakdown against the services to be provided.

[15] ***AAR Memo*** dated November 22, 2011 to the Project Director (copied to the WPS Project Manager) states "Based on our meeting on Friday, November 18, 2011, it is our understanding that the project has been completed to 100% document stage by the design team hired by the City of Winnipeg."; and ***Administrative Report*** dated April 16, 2012 prepared by the Manager of Capital Projects and authorized by the CFO and the Head of PPD states "on December 23, 2011, the Chief Financial Officer approved the award of contract to AAR for a fee not to exceed $2,600,000.00 plus GST and MRST. That award of contract was based on 100% design drawings being completed by Design Co."

The WPS Project Manager chose to describe these "Contract Administration Services" as "Professional Engineering Services" in an Administrative Report[16], which was subsequently authorized by the Director of PPD, the CFO, and the CAO, before being issued to the EPC, recommending single source negotiations with AAR. This report stated that the services were exempt from AIT as they would be carried out by "licensed professionals".

In addition to citing the AIT exemption clause B4.1 (h) of the Materials Management Policy, the same Administrative Report also invokes the "emergency" clause B4. 1(j). Without a better definition of what constitutes an emergency under the policy, we cannot evaluate whether the use of this clause is or is not consistent with this situation; however, limited justification is provided and no explanation as to why the requirement to replace Design Co. was not foreseen in time to accommodate a procurement process as required by the City's Materials Management policy.

The EPC approved single source negotiations not to exceed $2.6m on December 7, 2011 (AAR's proposal price was $2,265,000) and the CFO subsequently approved the award to the contract to AAR not to exceed $2.6m - which resulted in a $335k contingency being included in addition to the firm proposal price from the consultant.

An over expenditure report is typically prepared and authorized by the relevant individual with delegated authority, setting out the reasons for the over expenditure and confirming under what authority they are acting.

On April 25, 2012, the CFO approved an over-expenditure of $1.8m on the AAR contract – in accordance with his authority in Administrative Standard FM-002, Appendix 7 – to complete the design work outstanding from Phases 1 to 4.

The City finalized the AAR contract until April 16, 2012[17] for a total fee of $4.4m. We were told by AAR that they began work on the design in February 2012.

We learned of a further contract with AAR executed effective December 18, 2013 for additional services to the value of $470k for which the CFO authorized an over-expenditure report on May 15, 2014. The scope of these services includes contract administration and engineering in relation to the outdoor shooting range as well as assistance with the specification and procurement of FFE.

The current forecast for AAR costs on the Project is $5,465,137, more than double the original not to exceed value of $2.6m.

4.4 Dunmore Corporation: Project Director Services

Dunmore was contracted by the City as a single sourced appointment to secure the services of a Project Director.

The CAO consulted with Legal Services in June 2011 regarding the proposed single source award to Dunmore; and was advised that Dunmore could be contracted under the City's Materials Management Policy as a single sourced appointment for engineering services up to a maximum value of $100,000. On November 17, 2012, it was disclosed to Legal Services that Dunmore was not providing engineering services, but rather contract administration services, Legal Services noted that based on this new information that the appointment was not exempt from the AIT, and would require a public solicitation. The

[16] ***Administrative Report*** dated November 29, 2011 and submitted on December 7, 2011, prepared by the WPS Project Manager and authorized by the Head of PDD, the CFO, and the CAO.

[17] ***AAR (Indent Execution - April 16 12)***, unsigned.

CAO was also advised of the risks of exceeding and impacts of the contract value being beyond $100,000.

For the seven months from June 2011, when the CAO first approached Legal Services, until January 2012, when the Dunmore contract is understood to have been executed, the Project Director worked on the Project on behalf of the City helping to develop and negotiate the GMP Contract alongside both Legal Services and external legal counsel reporting to Legal Services. The payment terms of the single sourced contract increased Dunmore's monthly fee for the services of the Project Director from $3,225.81 per month for the initial seven months of work to $10,000 per month for a further 24 months. The total value of this single source contract was $262,580.

4.5 Caspian: Construction Contractor

4.5.1. Assignment of Rights

A competitive procurement process (No. 833-2010) was delivered for Construction Management Services for the Project, and the entity chosen as the successful proponent was a joint venture of Caspian[18] and Akman[19] ("CAJV").

CAJV was awarded an initial $50,000 pre-construction services consultancy contract, and the City retained its right to award the Construction Phase Services for the Project at a later date. Shortly after the award of the pre-construction contract, the CAJV was dissolved and Akman's rights under that contract were assigned in June 2011 to Caspian as permitted under clause C15 of the General Conditions of the contract. At that point with a contract in place, we understand the City's options were to refuse the assignment, terminate the contract, or confirm that the party can comply with the contract. We understand that the City required Caspian to demonstrate that Caspian personnel could satisfy the experience provided by the broader CAJV. The City subsequently entered into a separate construction contract with Caspian for $137.1m on November 18, 2011, which was later amended via a Supplementary Agreement with a contract value of $156.4m on December 11, 2013.

A **joint venture** is a common arrangement which enables multiple parties to bring together their skills, capabilities and experience to form a much stronger proposal than any of the constituent parties would be able to submit individually.

A **Construction Manager** can be either a consultant, a contractor, or both. In this case, the procurement strategy was to select a proponent to enter into an initial consultancy contract to provide pre-construction services, and to reserve the right to subsequently enter into a construction contract with that same proponent for the construction stage of

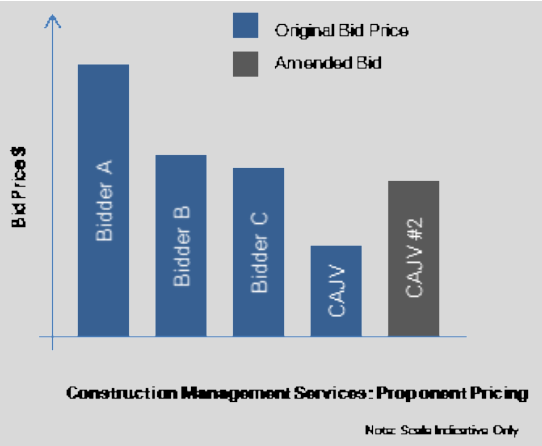
We observed that the winning proponent of RFP 833-2010 was CAJV – we note that Caspian did not submit a proposal, and that Caspian was awarded the construction contract.

[18] Caspian Projects Inc.

[19] Akman Construction Ltd.

4.5.2. Proposal Evaluation

We observed that the CAJV proposal pricing submitted to the City was amended after the advertised RFP closing date and time. More specifically, the price for the Construction Management Fee[20] for Phase 2 (Construction) was increased by $2.52m from $1.6m to $4.12m.



Information that we reviewed indicates that change to CAJV's original proposed pricing occurred after the RFP closing date. The RFP closed on January 18, 2011 and four bids were received. On February 9, 2011, the City received an amendment letter[21] from CAJV seeking to add $70,000 per month, over 36 months (amounting to $2.52m) to their price to cover the cost of "temporary facilities and controls" of the General Requirements. This is shown as CAJV#2 in the adjacent graphic.

The submission of a proposal in response to an RFP issued by the City creates binding obligations on both the City and the proponent submitting the proposal. According to Clause B9.3, "all components of the proposal shall be fully completed and should be provided ... and submitted by the Bidder no later than the Submission Deadline, with all required entries made clearly and completely, to constitute a responsive Proposal." After the submission deadline, the submitted proposal is an irrevocable offer (Clause B22) that cannot be altered or withdrawn after the advertised closing date of the RFP. Clause B25 of the RFP allows the City to consider an amended proposal as an alternative to the proposal already submitted without releasing the bidder from the proposal originally submitted; an amendment, if accepted, is evaluated as an alternative bid. The City is bound to comply with the terms of the RFP in the evaluation of the proposals.

The additional fees added for the provision of temporary facilities and controls accounted for the majority of CAJV's fee for Construction Management of the construction phase.

We reviewed how the evaluation team performed the evaluation of bid prices, which was assigned 40% of the overall weighting. Records[22] show that the evaluation of pricing was conducted in accordance with the formula provided by Materials Management, which results in a score for each proponent relative to the lowest price. While the formula was applied correctly, the data input into the worksheet with the formula includes both CAJV prices – their original overall proposal price and the amended proposal price. The inclusion of both CAJV prices in the worksheet could have the effect of distorting the evaluation and affecting the fair apportionment of scoring among the bidders.

4.5.3. Procurement Recommendation

The Administrative Report[23] recommending the appointment of the CAJV explained the sequence of events with reference to the terms of the RFP. The essence of the explanation is that the offers were evaluated in accordance with the evaluation criteria specified in the RFP. We looked at the elements of the

[20] Construction Management Fee accounted for the majority of CAJV's total bid price

[21] Three different versions of this letter were provided by the City.

[22] ***Consensus Evaluation Report 833-2010***

[23] ***Administrative Report***, dated February 10, 2011 prepared by Project Manager and authorized by the Director of PPD.

explanation and have the following observations.

In the Administrative Report, the Project Manager states that the evaluation team found that "none of the proposals were found to contain a clear imbalance among the prices submitted for Phases 1 to 3."

The Project Manager also states that the evaluation team found that none of the four bids received were deemed to be non-responsive. However, our review of the evaluation workbook indicates that three bids (from CAJV and two other proponents) either excluded or did not fully price the provision of services under General Requirements as required in the RFP. This would make the evaluation between the four bidders difficult as each bid would have been based on different assumptions.

4.6 Consultant / Vendor Management

The Project Manager and Project Director stated that the consultant / vendor performance evaluations are only performed once the consultant's engagement has been completed. This is contrary to the requirements of FM-002, which requires a vendor / consultant performance evaluation be performed at least once a year for all engagements over $100k, and that poor performance is to be documented.

Recommendations

This section proposes a number of recommendations for the City to address the gaps identified in the preceeding section in order to improve or build upon its existing capital project practices. We summarize the recommendations by priority rating below

Recommendations by Priority Rating			
Area	**High**	**Moderate**	**Lower**
Project Governance & Oversight	**2**	**3**	**2**
Project Roles & Responsibilities	**2**	**1**	**--**
Project Management Maturity	**1**	**1**	**1**
Procurement & Construction Contracting	**2**	**1**	**3**
TOTAL	**7**	**6**	**6**

The Priorty Rating definitions in the table above are described below:

Rating	Description
High	A significant/serious gap exists that requires immediate attention to mitigate risk to the capital investment or project delivery. Gap could lead to project failure, significant costs, and/or environmental damage.
Medium	A gap exists that requires closure to mitigate risk to the capital investment or project delivery, and if left unattended it could escalate to high risk.
Lower	Aligned with leading practice, or a minor gap exists but the gap should not pose significant risk to the investment or project delivery. Gap should be addressed over time through on-going monitoring.

1. Project Oversight & Governance

1.1 Major Capital Project Steering Committee Terms of Reference — Priority: Moderate

Administrative Directive FM-004 ("FM-004") sets out the requirement for a Major Capital Project Steering Committee, however, the terms of reference of this committee should be revisited. In particular, it is important that the role, responsibilities and accountabilities of the committee, its members and other participants are clear and documented in writing; that the membership of the committee is appropriate; and that there is a requirement for detailed meeting minutes to be prepared, circulated and retained which clearly identify what issues or information have been presented, which project team members participated in the meeting, and what decisions were made by the committee and communicated to and/or requested from the project team.

Management Response:

Management agrees with this recommendation. On March 4, 2014 the CFO mandated that minutes be recorded for the meetings of these Committees. FM-004 will be amended to appropriately address this recommendation.

1.2 Clarity of Reporting Requirements for Projects to Committees of Council Priority: Lower

We recommend that further clarity is provided regarding the required format, content and frequency of capital project reporting to the Committees of Council. If major capital projects for buildings (as opposed to infrastructure) are to report to the Standing Policy Committee on Downtown Development, Heritage and Riverbank Management, then an amendment is required to FM-004 which currently requires reporting to the Standing Policy Committee on Infrastructure Renewal and Public Works.

Management Response:

Management agrees with this recommendation. Reports to the Standing Policy Committees other than Finance are in respect of over-expenditure and additional budget requests. Where warranted, over-expenditure reports should be directed to the appropriate Standing Policy Committee, which could be other than Infrastructure Renewal and Public Works and on Downtown Development, Heritage and Riverbank Management. FM-004 will be amended to appropriately clarify this in FM-004.

1.3 Clarity of Department Deemed "Responsible for the Project" Priority: Moderate

We recommend that clarification be provided regarding which City department is deemed as being "responsible for the Project" under the terms of FM-004 – the department delivering the Project is not necessarily the budget holder or the end-user department and there may be conflicting expectations of "control over the project" if clear guidance is not provided.

Management Response:

Management agrees with this recommendation. The relevant department delivering the project will align with the department having the capital budget – the budget holder. In almost all cases, this is the current practice.

1.4 Committees of Council Terms of Reference Priority: Lower

To help promote improved governance and accountability, consideration should be given to adding to the terms of reference for the relevant Committee(s) of Council the responsibility for monitoring the frequency of reporting by departments delivering major capital projects and report to Council when there is a failure to report on the status of a major capital project on the agreed upon reporting frequency.

Management Response:

Current responsibility for the receipt of Major Capital Project status reports rests with the Standing Policy Committee on Finance and the Standing Policy Committee on Infrastructure Renewal and Public Works. FM-004 also outlines that the Standing Policy Committees on Finance and on Infrastructure Renewal and Public Works can direct reporting other than quarterly. As well, the Public Service currently reports monthly to the Standing Policy Committee on Finance the status of Major Capital Projects' status reporting, including the scheduled time of future reporting. Any changes to Committee governance and terms will be directed by Council and the Public Service will comply.

1.5 Ability of Committees of Council to Provide Effective Oversight Priority: Moderate

In order to help ensure that oversight by Committees of Council is effective, consider whether Committees or Council should have access to independent specialist subject matter expertise in the future to provide advice related to major capital projects and assist with the interpretation of complex

reporting to help mitigate the risk of potentially misleading, incomplete or inaccurate information being submitted.

Management Response:

The Public Service makes its best efforts to present accurate and complete information to Council. The Public Service engages independent specialist subject matter expertise to ensure a full consideration of the relevant subject has been explored. However, considering this recommendation, the Public Service will attempt to more clearly articulate risks associated with these projects. The Public Service does and will comply with any direction from Standing Policy Committees and Council to engagement independent specialist subject matter expertise, when requested.

1.6 Delegation of Authority for Contract Over-Expenditure Priority: High

Consideration should be given to revising the process to approve over-expenditures, and the related delegated authorities, such that contracts may only be able to be extended within the limits of the budget for that particular scope or service line item; an acceptable tolerance should be provided prior to requiring Council approval, and the request should include a cash-flow forecast that shows that there are funds available within the scope or service line item's project budget.

Management Response:

This process has been in place for an extended period of time, operates well, and is controlled by the Council approved budget. This information is included in the quarterly reporting to the Standing Policy Committee on Finance. Management believes that the current reporting to the SPC on Finance achieves the intention of this recommendation.

1.7 Capital Project Reporting Priority: High

To help promote improved governance and transparency, consideration should be given to the development of a standard major capital project report format for presentation to the Director of the "responsible department" and the relevant Oversight Committee for each major capital project. FM-004 outlines a reporting format that can serve as the basis upon which to build. The revised standard report format (in conjunction with recommendation 3.3 below) should cover the basic information typically required for an oversight body and/or key stakeholder to understand the status of a project, including: a baseline schedule with progress to date; progress against key milestones; detailed budget breakdown with cost incurred and committed cost to date and forecast total estimated cost taking into account approved/pending scope changes and trends; cash flow over time compared to the original business case cash flow; key environmental, health and safety data (as applicable), and the status of key risks and issues identified and being monitored.

Management Response:

FM-004 includes a standard reporting template, which included financial projections and the majority of these items, for Major Capital Project reporting to the standing Policy Committee on Finance. Management believes that the current standard reporting template achieves the intention of this recommendation.

2. Project Roles & Responsibilities

2.1 Segregate & Define End-User and Project Manager Roles and Responsibilities — Priority: High

Where a major capital project involves both PPD as well as other City department(s) as end-user and/or budget holder, the City should clarify their respective project-related roles and responsibilities to ensure appropriate segregation of the project manager and end-user representative roles.

Management Response:

Management agrees.

2.2 Competencies of Project Managers and Project Director — Priority: High

The City should document the required competencies and capabilities of a "Project Manager" and "Project Director" to ensure that individuals fulfilling these key roles are suitably qualified and experienced in the successful delivery of projects of similar scope and complexity.

Management Response:

Management agrees with this recommendation. This will require an industry scan through Human Resources, along with a competency and education development plans; this requires additional budget to implement, as well as salary adjustments to compete with private industry.

2.3 Role and Responsibilities of the Manager of Capital Projects — Priority: Moderate

Consideration should be given to whether the currently defined required roles and responsibilities for the position of Manager of Capital Projects require more than one individual given the workload and the required competencies, qualifications and experience necessary for this role to be effective (should consider in conjunction with recommendations 3.1 and 3.3 below).

Management Response:

Management agrees. The Capital Projects Administration audit identified additional resourcing was required for this area. This will require an additional budget allocation.

3. Project Management Maturity

3.1 Resources to deliver the Project Management Manual — Priority: Lower

Resources should be committed to allow the City to complete the implementation of the 2008 Capital Project Management Audit – specifically the update of the Project Management Manual (should consider in conjunction with recommendation 3.3 below).

Management Response:

Management agrees with this recommendation. A draft Project Management Manaul has been developed and will be available for use in September. The additional resourcing for this division will require an additional budget allocation (see Recommendation 2.3)

3.2 Project Management Training & Development — Priority: Moderate

Address the formal training and development needs of the City's internal project managers. Given that in our experience, a capable Engineer may not necessarily be a capable project manager, consider requiring the Project Management Professional ("PMP") designation for major capital project managers.

Management Response:

Management agrees with this recommendation and will further review an enhanced training and development program. Planning is underway for such a program.

3.3 Project Management Framework Priority: High

To align with other municipal governments, the City should evaluate options for ensuring that its internal project managers have access to a documented project management governance and control framework and/or a project management centre support function. The leading practice in this area is for a project management centre to provide training, support and infrastructure (policy, process, procedure, templates, etc.) that internal project managers require to successfully deliver major capital projects.

As part of a documented project management governance and control framework, the City should develop and implement guidance for:

3.3.1 Schedule management, including addressing contractor baseline schedule development and reporting obligations and the project management team's schedule monitoring and analysis requirements.

3.3.2 Risk management, including the requirement: to maintain a live project risk register and risk mitigation plans; for regular, periodic reporting of the status of key risks and issues; to link the project contingency allowance to identified and quantified risks; and to develop rules that govern the draw-down/use of the project contingency allowance.

3.3.3 Change management, including reporting on the status and value of pending and/or approved project change notice requests; and standard change management procedures with which consultants and contractors will have to comply.

3.3.4 Budget and contingency management, including: clear definition and communication of the various "class estimates" for projects and guidance on appropriate contingency allowances for each; and explicit definition of required categories of cost such as FFE, IT infrastructure, design fees, other fees, internal charges, escalation, etc. to reduce the risk of misinterpretation of what is included in budget line items/areas, and what is not included.

3.3.5 Contract management, including: addressing the need for a contract strategy stage gate to determine the most appropriate contracting strategy for a given project in a transparent manner on the basis of evaluation of project specific risks and objectives; and the need to develop the City's capacity to successfully manage and deliver non-traditional contract strategies.

3.3.6 Design management, including: the requirement for project managers to proactively monitor the progress and quality of design against a contractual design schedule; and to help ensure all internal project managers understand the important difference between design development and design change.

Management Response:

Management agrees with this recommendation. It will investigate this further and will provide Council with a report on implementation. This applies to all the sub-recommendations of this recommendation.

4. Procurement & Construction Contracting

4.1 Procurement Compliance Priority: Lower

Clarify accountability for who is required to ensure compliance with both the City's Materials Management Policy and the Agreement on Internal Trade. Consider revising the guidelines and the process to document delegated authorities to execute contracts on behalf of the City to better mitigate the risk of non-compliance.

Management Response:

The City already has an established process whereby Legal Services and Materials Management monitor this. Regarding delegated authorities, FM-002 currently lists delegations and authority. Execution of contracts pursuant to the Materials Management Policy is included in the Execution of Documents By-law; there is a link to the By-law in FM-002.

4.2 Procurement & Contract Management Roles & Responsibilities Priority: Moderate

Consider developing and implementing a procurement and contract management RACI Chart (responsible, accountable, consulted and informed) to provide guidance to the various process participants and to help improve the quality and consistency of the required documentation for procurement and contract management (including contract variations) and to ensure that consultants and contractors are not engaged outside of contract or outside of the City's procurement rules and obligations.

Management Response:

Management will investigate the development and implementation within the City context.

4.3 Restrict Ability to Single Source Contracts Priority: High

Consider implementing either additional oversight over the use or the formal approval of single source contracts in order to reduce the likelihood of any potential abuse of the single sourcing provisions. As well, consider the need for additional training or more explicit guidance on the application of the provisions of both the City's Materials Management Policy and Administrative Standard FM-002 (notably Appendix 1).

Management Response:

Further to a previous audit recommendation, the Acting CAO approved that effective March 1, 2014, the CAO's authority to approve single source contracts was reduced to $1 million. As well, the City will explore opportunities to enhance existing training programs.

4.4 Assignment of Contracts Priority: Lower

Revisit the City's Materials Management Policy to ensure that solicitations awarded to a joint venture cannot subsequently simply be assigned to a constituent entity within that joint venture without a rescoring or new public solicitation being performed.

Management Response:

Under the Materials Management Policy, assignments are permitted through a formalized process that ensures that the assignee has the appropriate qualifications and resources to perform the work under contract.

4.5 Standardized Construction Contracts Priority: High

Develop and implement a suite of standard construction contracts for the City's preferred contract strategies to ensure that more robust terms and conditions are developed and implemented, and

appropriate training is developed and provided to internal project managers and team members to protect the City's interests and manage its retained risks.

Management Response:

The Public Service currently maintains a suite of standard contracts for all goods and services, including construction. A review to include more robust terms and conditions will be undertaken. The training of internal project managers and team members is ongoing and will be enhanced to include more specifics to ensure quality in the management of projects.

4.6 Procurement Guidance Priority: Lower

Develop improved procurement guidance to mitigate the risk of unfair practices (whether intentional or otherwise) being performed by the evaluation team – such as one person being responsible for performing and documenting any bidder contact to ensure that clarification requests are either provided to all or only short-listed proponents following bid opening.

Management Response:

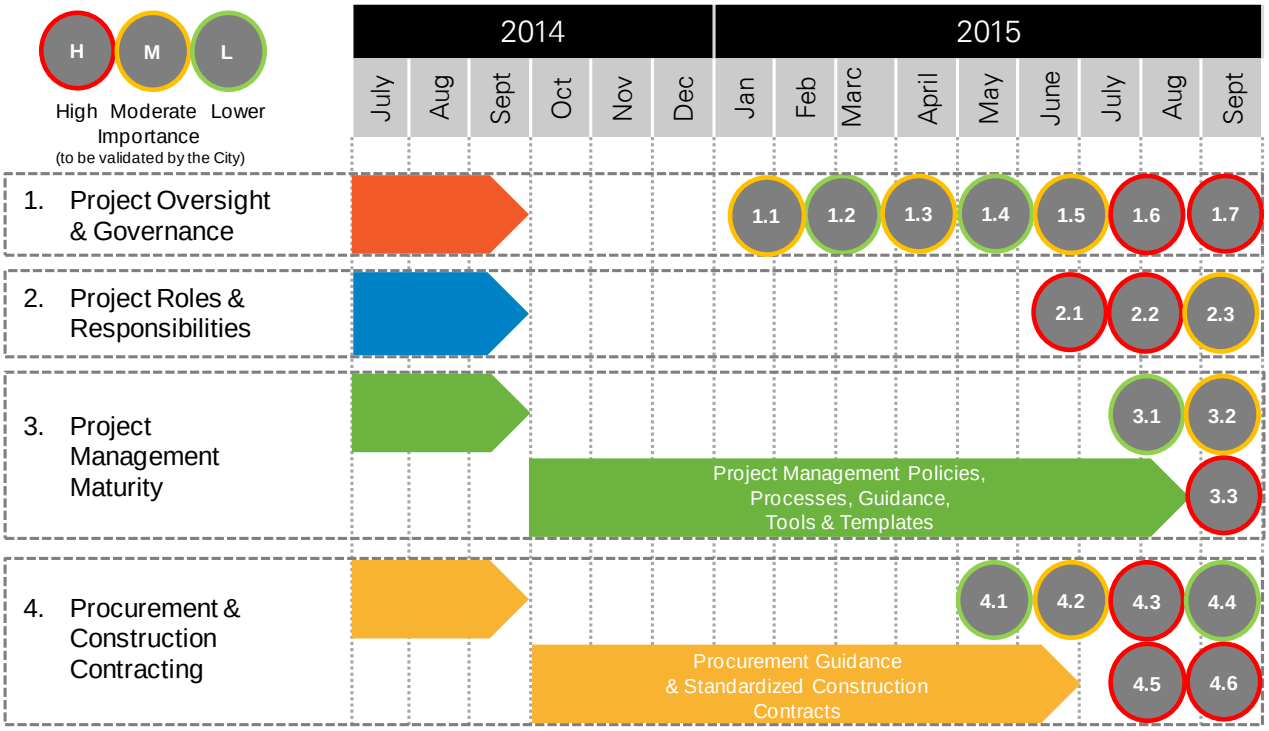
As a result of a previous audit, the Public Service has further strengthened the existing process of ensuring all parties involved in a solicitation process are provided information equally. Materials Management is the gatekeeper of any clarifications requested during an evaluation process.

Roadmap for Implementation

We present below a prioritized timeline for the implementation of the recommendations in this report, taking into consideration the need to take action across each area of focus, but acknowledging that key initiatives relating to procurement, contract and project management will take time to develop and implement across the City.

A detailed action plan should be developed, possibly combined with a validation of the proposed roadmap, to address the observations and recommendations in this report with a view to improving or developing an effective capital project governance and control framework for the City's desired level of maturity.

We recommend that a detailed action plan be prepared to clearly articulate the vision of the transformation and the steps required to reach the City's desired future state for capital project management. Such a roadmap should outline the vision, objectives, and key initiatives to move the City from its current state to its desired state; the roadmap must take into consideration its relationship with any other planned or ongoing transformation initiatives at the City.



Appendix A – Key Documents

In addition to the information obtained during interviews and subsequent email correspondence with the interviewees, the following documents are the key documents upon which the observations of this Report are based.

- Supplemental Agreement between the City and Caspian Projects Inc. dated Dec 11, 2013
- GMP Contract between the City and Caspian Projects Inc. dated November 18, 2011
- WPS Headquarters Redevelopment Project – Financial Status Reports
- Administrative Report dated November 18, 2013 prepared by the Jason Ruby
- Administrative Report dated July 13, 2011 prepared by Iain Day, Jason Ruby and Mike McGinn
- Administrative Report dated April 16, 2012 prepared by Jason Ruby
- Administrative Report dated November 29, 2011 prepared by Randy Benoit
- Administrative Report dated December 7, 2010 prepared by Abdul Aziz
- Administrative Report dated July 26, 2010 prepared by Randy Benoit
- Administrative Report dated June 16, 2011 prepared by Iain Day
- Chronology of Involvement in the WPS Headquarters Project
- Capital Project Management Audit Final Report, November 2008
- AAR Memo dated November 22, 2011 to Project Director
- Bid Opportunity 833-2010 Report 2a (Consensus Evaluation Report copy)
- Materials Management Policy
- Administrative Direction FM-002 Pursuant to Materials Management Policy
- Administrative Directive FM-004 Capital Project Administration
- Inter-Office Memorandum dated Feb 16, 2012 from Lisa Rowswell to Phil Sheegl
- Council Minutes dated November 25, 2009
- Caspian Akman Joint Venture Proposal (833-2010) dated January 18, 2011
- Caspian Akman Joint Venture Clarification Response (833-2010) dated February 9, 2011
- GMP Contract Change Orders 1 to 81
- Bid Evaluation Process for Bid Opportunities (tenders)
- Construction Cost Breakdown and Change Orders to February 18 2014
- 2010 - Dec 24 Class C Estimate
- AAR (2nd Supplemental) Execution March 24 14
- AAR (Indent Execution - April 16 12)

- Bid Opportunity No. 66-2010 plus addenda
- Bid Opportunity No. 833-2010 plus addenda
- 591-2012 Communication 1 (Dunmore Corporation)
- AAR Fee Proposal For Completion of Design & Contract Administration Ref No. 5368-00
- 5368-00 Progress reports
- 5368-00 Working Group Meeting Notes
- Steering Committee Minutes Thursday February 3, 2010
- Schedule 2010-009 Post Office Redev BTK V3
- Chairs of DD, FI and PCS - 2008 to 2014
- 5368-00 WPSHQ - CO Log 2014-03-21
- Selected email correspondence between select City staff

Note that this is not an exhaustive list of all documents we received.

.

Appendix B – Key Individuals

Name	Title / Role	Relevant Dates	Interviewed?
City of Winnipeg			
Phil Sheegl	Chief Administrative Officer	May 2011 to Oct 2013	Yes
	Deputy CAO (1 of 3)	Nov 2008 to May 2011	
	Director of PPD	Apr 2008 to Nov 2008	
Deepak Joshi	Interim Acting Chief Administrative Officer	Oct 2013 to present	Yes
	Chief Operating Officer	Aug 2011 to Oct 2013	
	Director of PPD	Nov 2008 to Aug 2011	
Mike Ruta	Deputy CAO (2 of 3) (concurrent with CFO role)	Nov 2008 to Aug 2011	Yes
	Acting CAO (concurrent with CFO role)	Sep 2010 to May 2011	
	Chief Financial Officer	Throughout the Project duration	
Barry Thorgrimson	Director of Planning, Property & Development	Oct 2013 to present	Yes
	Acting Director of Planning. Property & Development	Sep 2011 to Oct 2013	
Lisa Rowswell	Solicitor (Legal Services Project Support)	Throughout the Project duration	Yes
Barb D'Avignon	Manager of Materials	Throughout the Project duration	Yes
Jason Ruby	Manager of Capital Projects	Throughout the Project duration	Yes
Ossama AbouZeid Dunmore Corp.	Project Director	Jun 2011 to Nov 2013	Yes
Iain Day	Project Director (concurrent with Acting Manager of Municipal Accommodations role)	Dec 2013 to present	Yes
	Acting Manager of Municipal Accommodations (no Project title)	Feb 2012 to Feb 2014	
	Corporate Liaison to the Project	2010 to 2011	
Abdul Aziz	Project Manager	Feb 2010 to May 2011 and Jan 2014 to present	Yes
Randy Benoit	WPS Project Manager	Sep 2011 – Feb 2014	Yes
Henry Hagenaars	WPS Police Officer (no Project title)	Apr 2010 to Apr 2012	No
	Consultant to AAR (Police station requirements subject matter expert)	May 2012 to Jan 2014	
	Contractor to the City (no Project title, representing WPS)	Jan 2014 to present	
Ari Berdesis	WPS Police Office (no Project title)	Apr 2011 to present	No
Mike McGinn	Manager of Finance	Throughout the Project duration	No
Alex Robinson	Deputy CAO (3 of 3)	Nov 2008 to Aug 2011	No
Glen Laubenstein	Chief Administrative Officer	April 2008 to Sept 2010	No
Councillors ***Note: Standing Policy Committee Chairs appointed for a 12 month terms in November of the year noted, unless noted otherwise***			
Russ Wyatt	Chair of the Standing Policy Committee on DDHRM	2007	Yes
	Chair of the Standing Policy Committee on Finance	2012, 2103	
Mike Pagtakhan	Chair of the Standing Policy Committee on Protection and Community Services	2009	Yes
	Chair of the Standing Policy Committee on DDHRM	2008, 2012, 2013	

Name	Title / Role	Relevant Dates	Interviewed?
Scott Fielding	Chair of the Standing Policy Committee on Finance	2009, 2010, 2011	Yes
	Chair of the Standing Policy Committee on Protection and Community Services	2012	
Paula Havixbeck	Chair of the Standing Policy Committee on Protection and Community Services	Appointed Aug 26, 2011	Yes
Justin Swandel	Chair of the Standing Policy Committee on DDHRM	2009, 2010, 2011	Did not respond
	Chair of the Standing Policy Committee on Finance	2008	
Brian Mayes	Chair of the Standing Policy Committee on Protection and Community Services	2013	Yes
Harvey Smith	Councillor	Throughout	Yes
Third Parties			
Peter Chang	Principal, Adjeleian Allen Rubeli Ltd.		Yes
Armik Babakhanians	Project Director, Caspian Projects Inc.		Declined to participate

Appendix C – Managemet Reply to Draft Report

City of Winnipeg
Management Reply to Draft Report – Winnipeg Police Service Headquarters Construction Project
Received July 4, 2014 – July 10 2013 Response and July 14 2013 Response

Management Reply to Draft Audit Report

The following are Management's reply to the Draft Report – Winnipeg Policy Services Headquarters Construction Project Report received from Audit Department received Friday afternoon, July 4, 2014.

POINT TO DISCUSS				
Ref. #	**Page**	**Paragraph Text (as applicable)**	**Management Reply**	**KPMG Response**
1.	2	Shooting range	While there is additional travel time associated with training at Wyper Road, the facility to be constructed on the roof was determined (as design progressed) to be not functional as a training facility and would not have met the WPS's training requirements. The range at Wyper Road was considerably less expensive and a better training facility than had the facility been constructed on the roof. July 14 The additional costs to put the range on the roof were prohibitive and therefore the loss of efficiencies became necessary.	No change made. The scope of the Project included an indoor gun range on site - this was not achieved. We also note that at the Feb 3, 2010 Steering Committee, the then Police Chief stated that the solution proposed would lose the efficiencies of locating the new range in the new building, and wanted some assurances that an indoor range would be constructed beside the outdoor range at a later date. July 14 Noted wording edit made for clarity.
2.	2	Standard major capital project report format	FM-004 includes a standard reporting template, which includes financial projections and the majority of these items, for Major Capital Project reporting to Standing Policy Committee on Finance. Management believes that the	Noted - wording amended as follows: ▪ "To promote improved governance and transparency, consider refining the FM-004 standard major capital project report format to include …"

POINT TO DISCUSS				
Ref. #	**Page**	**Paragraph Text (as applicable)**	**Management Reply**	**KPMG Response**
			current standard reporting template achieves the intention of this recommendation. July 14 Please refer to the Acting CAO's email of July 13, 2014.	We believe that the current report format defined in FM-004 could, with some tweaking, improve the information provided to stakeholders and those charged with oversight. July 14 Noted – clarification added related to information currently reported under FM-004.
3.	5	2nd last paragraph	The CAO DID appoint the Director of PP&D to the Oversight Committee. In Aug 2011 the Director became the COO and remained on the Committee for continuity.	Noted - wording amended as follows: "We learned that the CAO appointed the Director of Planning, Property and Development ("PPD"), the department responsible for delivering the Project, and the Chief of the Winnipeg Police Service ("WPS"), the end-user of the facility to join him on the Oversight Committee. In August 2011, when the Director of PPD became the COO, the decision was taken that the Chief Operating Officer ("COO") he remained on the Committee for continuity purposes, as a result, PPD was no longer directly represented on the Oversight Committee."
4.	6	4th paragraph	Responsibility is clear. The project was considered a PP&D project and the Project Managers were seconded to PP&D. July 14 Evidence will be provided before end of day July 14.	Noted - wording amended as follows: "FM-004 does not appear to provide any additional guidance or definition around how the "department responsible" is to be determined. " We have not been provided evidence that staff was seconded from WPS to PP&D for the project. July 14 Noted .

POINT TO DISCUSS				
Ref. #	**Page**	**Paragraph Text (as applicable)**	**Management Reply**	**KPMG Response**
5.	6	Section 1.2 2nd paragraph	FM-004 – states: "Once construction commences, the committee is required to meet at least quarterly in advance of any reporting to the CAO, the Standing Policy Committee (SPC) on Finance…" Construction on headquarters building commenced in Summer 2012 which would have meant a total of 6 Reports to SPC Finance, not 12. Five reports have been submitted to SPC Finance and explanation regarding the 6th Report was provided to SPC Finance. Tabling of these Reports is not in the control of the Public Service. July 14 Replace the word "missing" with "not forwarded to SPC on Finance". Number of report to have been submitted to period of fieldwork is seven reports. This schedule would indicate that two reports were not forwarded to SPC on Finance.	Our comment does not refer to the frequency of Oversight Committee meetings, but to the frequency of reporting to the SPCs. Wording amended as follows: "Five project reports (with an explanation for one missing report) have been submitted to date to the Standing Policy Committee on Finance (for a construction project starting in summer 2012 to the time of our fieldwork, 8 quarterly reports would be expected per FM-004)." We changed the number of reports given the start of construction in Summer 2012 as per Management's Reply to the period of our fieldwork in May / June 2014, we calculate that 8 reports would have been due. We also adjusted wording in the last paragraph to "frequency of reporting to Committees of Council" to take into account the Public Service not being in control of tabling the reports to Council. July 14 Noted – wording amended upon review.
6.	8	Section 2.1 last paragraph	Philosophically Management agrees with the segregation of roles. However, due to the circumstances of the design continuing to be developed throughout construction, WPS continued to be involved to ensure the intent of the Program of Requirements (POR) was being met and anything beyond that was not approved. Further, any changes were the	No change made - Management Reply does not appear to request a change. The situation is one that would allow end-users to influence because of their direct interaction.

POINT TO DISCUSS				
Ref. #	**Page**	**Paragraph Text (as applicable)**	**Management Reply**	**KPMG Response**
			responsibility of the Project Director to approve or not approve. July 14 See Reference No. 9 below.	The discussion of change management is included in Section 3.4 July 14 Noted – wording amended as follows: "The arrangement increased the risk that the end-user could directly influence the Project scope by having the ability to interact directly with the design consultant and construction contractor. "
7.	9	Section 2.3	FM-004 states that this role is to ASSIST in the establishment of a QA process and review of detailed drawings and be a PROPONENT and CHAMPION of Asset Management. As the manager it is within his capacity to source this expertise as opposed to providing it himself.	Edits made as requested. We note that Management appears to be in agreement that these roles and responsibilities may require the effort of more than one person. Our opinion is that that these read as the roles and responsibilities of the position, not of a team that the incumbent might source. If is the intent for this to be a team, then FM-004 should be amended to state as much.
8.	10	Section 3.1	Section does not comment on the establishment of the Asset Management Division in Corporate Finance approximately 2 years ago which will serve as a key point to reorganizing capital project management. Further, in regards to a Project Management Manual, this has been in development as advised through the quarterly scorecard reporting submitted to Audit Committee, is complete and will be available for use in the Fall of 2014. The City Auditor is a member of the working committee overseeing the development of this manual. As noted in the quarterly score cards submitted to Audit Committee, lack of resources has	Edits made based on the new information provided. In terms of the request for further explanation, we do not state that a project management manual would address the issues referred to – rather our professional experience working with other municipal governments tells us that a documented framework is often a key determinant of achieving successful project outcomes. A framework may include a manual, but also typically includes training, support and performance management.

POINT TO DISCUSS				
Ref. #	**Page**	**Paragraph Text (as applicable)**	**Management Reply**	**KPMG Response**
			been identified why it is taking some time to complete. The previous manual dated 1992 has been in use since that date and there is no evidence that a new manual would address the issues that are referred to. Further explanation is required. This is an unsubstantiated opinion.	
9.	11	Section 3.4	There was a whole change order process set out in the contract. The process was not completely followed in that written signed off change orders were not provided prior to work being done. Ultimately, Project Director decided which change orders were approved and not approved. However, all of the stated 81 change orders didn't expand the intent of the POR. The 81 change orders are reflective of going from a 30% design to a 100% design as well as code compliance and site conditions. July 14 Management disagrees with all of your references that the user dictated requirements largely unchecked. We have provided evidence of the various checks and balances that were in place and it is our position that the percentage of change orders that were initiated by the user were approximately 3%.	Edits made to provide clarity regarding the change order provision in the GMP contract. We did not observe a documented change management process. The change order provisions of the GMP contract were not followed in many cases, as the Management Reply acknowledges. In addition we do not state that the intent of the POR was expanded, we stated that the end-users had access to be able to dictate their requirements largely unchecked throughout all stages of design and construction. July 14 Noted – as discussed in Reference no. 6 above – the risk or concern was the ability to influence due to direct interaction; wording edits related to Reference no. 6 above address this concern. With respect to this section of the report, wording edit made as follows: "These changes included changes to accommodate design that was either late or not constructible, did not comply with code, as well as some change to end-user requirements – " .

POINT TO DISCUSS				
Ref. #	**Page**	**Paragraph Text (as applicable)**	**Management Reply**	**KPMG Response**
10.	13	Section 3.5	The numbers in this section are inaccurate. The allowance for items where the contractor could not provide pricing and the City was at risk was $5.83 million. As disclosed in the December 2013 report to Council, the total cost of these items was $8.8 million, adding $3.033 million to the project. Verification of your numbers is required.	Edits made to improve clarity. $5.83m is the Construction Contingency Fund, and there was an additional allowance provided in the GMP Contract in the form of a $14.3m provision for FFE expenditures – together these allowances total $20.13m. Actual expenditure against the Construction Contingency Fund was $8.86m, and the actual expenditure against the FFE provision was $9.46m, giving a total of $18.32m.
11.	14	Section 3.6 3rd paragraph	The comment is misleading. The numbers are not being compared properly. Further, industry standard suggests design fees are 8 to 12% of construction value. For this project design fees represent approximately 6% of the total final construction cost. The City clearly received value for money in comparison to industry standard. Management has previously provided this information to Audit and we note no discussion of this in the Report.	Edit made to state total estimated design cost $10.9m. The report is factual as of the date of our work; we do not comment on value for money for the design – this is beyond our scope. This section deals with the management of the design consultants. We make no comment on benchmark design fees as this is beyond the scope of our review.
12.	14	Section 3.6 9th paragraph	AAR was engaged to complete the design but at that time was unaware that there were missing drawings and code deficiencies resulting in a longer time to complete drawings. Regarding the contract date of December 23, 2011, it is common City practice to date a contract with the date that the contract is awarded, following approval of the award. (Work commonly proceeds at this point prior to official sign-offs on the contract.)	Edits made based on Management Reply. Management's comments are consistent with information within our report

POINT TO DISCUSS				
Ref. #	**Page**	**Paragraph Text (as applicable)**	**Management Reply**	**KPMG Response**
13.	14	Section 3.6 10th paragraph	For clarification, "…identified with the design…" should read "…identified with Design Co.'s design…" In addition to the HVAC distribution system, other examples such as discovery of lack of code compliance and incomplete security design should be cited.	Edits made based on Management Reply. The statement as it was originally made is not incorrect.
14.	17	Section 4.1 last paragraph	Paragraph identifies inconsistencies in the Public Service's explanations. However, the statements reported to Council were accurate. Management is unaware where the conclusion came from that the Project Team understood the drawings to be complete in November 2011. It was generally understood that the drawings were significantly less than 100%. It was alleged by Design Co. that the drawings were 100% complete. However, this degree of completeness was being questioned by the contractor and various Project Team and Oversight Committee members. Furthermore, if anyone on the Project Team advised the Auditor that they understood that the drawings were 100% complete in November 2011, this understanding is inaccurate.	Edit made removing last sentence of final paragraph. First sentence edited to read: "In our experience, much of this risk could have been mitigated by basing the GMP contract value on a 100% design, …" We note that Management's Reply is inconsistent with evidence provided to us. The statement that the Project Team understood the drawings to be complete in November 2011 comes from correspondence from AAR to the Project Director and Project Manager (footnote 15) formally confirming his understanding from a meeting between those individuals on November 18, 2011 that the "project has been completed to the 100% document stage by the design team hired by the City of Winnipeg and the City has full ownership of the drawings"
15.	18	Section 4.3 4th paragraph	The statement regarding the fee of $85k being waived is incorrect. The AAR letter stated that if AAR was not further engaged, they would be paid $85k for this work and if AAR was further engaged, the $85k fee would be a line item in the contract fee of that engagement as opposed to waived. The monthly payment schedule within the proposal of the	Edit made - wording changed to: The process that led to AAR being engaged began on November 22, 2011 when AAR submitted their letter proposal which included an offer to conduct a review of Design Co.'s design for a fee of $85k. The proposal stipulated that this fee would be deducted

POINT TO DISCUSS				
Ref. #	**Page**	**Paragraph Text (as applicable)**	**Management Reply**	**KPMG Response**
			subsequent engagement included and accounted for the payment of the $85k.	from a lump sum fee of $2,350,000 if AAR were to be subsequently awarded a "Contract Administration Services" scope of work aligned to Phases 5 to 7 of the Professional Consulting Services (RFP 66-2010), resulting in a fee of $2,265,000, such sum being quoted as a lump sum with no breakdown against the services to be provided.
16.	19	Section 4.3 15th paragraph	To be accurate, this paragraph should be amended regarding AAR's approvals and contract awards as follows: • EPC approved single source negotiation not to exceed $2.6 million on December 7, 2011 • The CFO subsequently approved the award of contract to AAR not to exceed $2.6 million on December 23, 2011 • The CFO subsequently approved an over-expenditure of the AAR contract in the amount of $1.8 million on April 25, 2012: o This over-expenditure was necessary after design was determined to be less complete than believed back in December 2011. o This over-expenditure was approved by the CFO in accordance with the authority permitted in Appendix 7 of Administrative Standard FM-002. Regarding last sentence, please refer to explanation in Reference No. 18 regarding work proceeding prior to contract execution and contract dates. All contract information, including all over-expenditures, is included in the quarterly reporting to SPC Finance.	Note Management's Reply paragraph reference number in appears incorrect. Our original observation were not at odds with Management's Reply - edits made for brevity and clarity
17.	19	Section 4.3 17th paragraph	This paragraph is incorrect. In fact, an over-expenditure Report for $470K for this work was approved by the CFO on May 15, 2014. All contract information, including all over-expenditures, is included in the quarterly reporting to SPC Finance.	Note Management's Reply paragraph reference number appears incorrect. Edit made to include date of over expenditure report.

POINT TO DISCUSS				
Ref. #	**Page**	**Paragraph Text (as applicable)**	**Management Reply**	**KPMG Response**
				We note that the management reply seems to contradict previous information provided in an email from CFO June 19, 2014: "The CFO signed the contract with AAR for $470,000. Manager, Capital Projects consulted with Legal Services and as the CFO was a signature on the contract, writing and submitting an OE report to CFO was judged to be redundant and not required."
18.	19	Section 4.3 18th paragraph	Current wording suggests that over-expenditures were approved incorrectly and without public disclosure. This is not correct. Approval from EPC is required for the single source negotiations with approval of over-expenditures for this contract by the CFO being permitted pursuant to Appendix 7 of Administrative Standard FM-002, provided there are monies in an approved budget. Further, all contract information, including all over-expenditures, is included in the quarterly reporting to SPC Finance.	Note Management's Reply paragraph ref in appears incorrect. We believe that this point was addressed in our prior edits. We do not state that over-expenditures were approved incorrectly and without public disclosure, what we did highlight was that the over-expenditure report for $470k was not completed – clarified by management's response (Ref 26 above).
19.	20	Section 4.5 2nd paragraph	The quote from this memo is incomplete. The complete quote should be included.	Following discussion - edit made to remove quote and describe the consultation timing and relevant advice arising from the consultation.
20.	21	Section 4.6.1	With respect to an assignment, this is permitted under C15 of the General Conditions of the contract. The City required Caspian to submit a revised organization chart establishing that all expertise provided by the CAJV was satisfied with the Caspian personnel only. The evaluation committee confirmed that Caspian held sufficient qualification. Thereafter, a formal	No change made. The issue we raised was not whether the City established if Caspian were qualified, the issue is that the City assigned the contract to Caspian without revisiting the evaluation scoring (not just

POINT TO DISCUSS				
Ref. #	**Page**	**Paragraph Text (as applicable)**	**Management Reply**	**KPMG Response**
			assignment report was submitted to the CAO. An assignment agreement was entered into June 2011. July 14 At the point of the request for assignment, the City was already in contract with CAJV and accordingly reevaluating against the other bidders would not be appropriate. The options open to the City are to refuse the assignment, terminate the contract, or confirm that they can comply with the contract. Please revise you commentary appropriately.	financial) against other qualified contractors who submitted bids. July 14 Noted – edits made for clarity as follows: "At that point with a contract in place, we understand the City's options were to refuse the assignment, terminate the contract, or confirm that the party can comply with the contract. We understand that the City required …."
21.	32	Appendix B	Dates for Iain Day reading 2010 to 2011, should be Feb 2012 to Feb 2014. July 14 During 2010 through 2011, Iain Day served as Corporate liaison to the project.	Edit made as requested. City to clarify – what was Iain Day's Project role during 2010 and 2011? He had described involvement in the Project to us in our interview during 2010 and 2011 but did not provide specific dates. July 14 Edit made based on information provided.

Management Response to Draft Audit Report Recommendations

Recommendation Number and Title	Audit Recommendations	Priority
1. PROJECT OVERSIGHT & GOVERNANCE		
1.1 Major Capital Project Steering Committee Terms of Reference	Administrative Directive FM-004 ("FM-004") sets out the requirement for a Major Capital Project Steering Committee, however, the terms of reference of this committee should be revisited. In particular, it is important that the role, responsibilities and accountabilities of the committee, its members and other participants are clear and documented in writing; that the membership of the committee is appropriate; and that there is a requirement for detailed meeting minutes to be prepared, circulated and retained which clearly identify what issues or information have been presented, which project team members participated in the meeting, and what decisions were made by the committee and communicated to and/or requested from the project team	Moderate
1.1 Management Response	Management agrees with this recommendation. On March 4, 2014, the CFO mandated that minutes be recorded for the meetings of these Committees. FM-004 will be amended to appropriately address this recommendation.	
1.2 Clarity of Reporting Requirements for Projects to Committees of Council	We recommend that further clarity is provided regarding the required format, content and frequency of capital project reporting to the Committees of Council. If major capital projects for buildings (as opposed to infrastructure) are to report to the Standing Policy Committee on Downtown Development, Heritage and Riverbank Management, then an amendment is required to FM-004 which currently requires reporting to the Standing Policy Committee on Infrastructure Renewal and Public Works.	Lower
1.2 Management Response	Management agrees with this recommendation. Reports to Standing Policy Committees other than Finance are in respect of over-expenditure and additional budget requests. Where warranted, over-expenditure reports should be directed to the appropriate Standing Policy Committee, which could be other than Infrastructure Renewal and Public Works and on Downtown Development, Heritage and Riverbank Management. FM-004 will be amended to appropriately clarify this in FM-004.	
1.3 Clarity of Department Deemed "Responsible for the Project	We recommend that clarification be provided regarding which City department is deemed as being "responsible for the Project" under the terms of FM-004 – the department delivering the Project is not necessarily the budget holder or the end-user department and there may be conflicting expectations of "control over the project" if clear guidance is not provided.	Moderate

Recommendation Number and Title	Audit Recommendations	Priority
1.3 Management Response	Management agrees with this recommendation. The relevant department delivering the project will align with the department having the capital budget – the budget holder. In almost all cases, this is the current practice.	
1.4 Committees of Council Terms of Reference	To help promote improved governance and accountability, consideration should be given to adding to the terms of reference for the relevant Committee(s) of Council the responsibility for monitoring the frequency of reporting by departments delivering major capital projects and report to Council when there is a failure to report on the status of a major capital project on the agreed upon reporting frequency.	Lower
1.4 Management Response	Current responsibility for receipt of Major Capital Project status reports rests with Standing Policy Committees on Finance and Infrastructure Renewal and Public Works. FM-004 also outlines that Standing Policy Committees on Finance and Infrastructure Renewal and Public Works can direct reporting other than quarterly. As well, the Public Service currently reports monthly to the Standing Policy Committee on Finance the status of Major Capital Projects' status reporting, including the scheduled time of future reporting. Any changes to Committee governance and terms will be directed by Council and the Public Service will comply.	
1.5 Ability of Committees of Council to Provide Effective Oversight	In order to help ensure that oversight by Committees of Council is effective, consider whether Committees or Council should have access to independent specialist subject matter expertise in the future to provide advice related to major capital projects and assist with the interpretation of complex reporting to help mitigate the risk of potentially misleading, incomplete or inaccurate information being submitted.	Moderate
1.5 Management Response	The Public Service makes its best efforts to present accurate and complete information to Council. The Public Service engages independent specialist subject matter expertise to ensure a full consideration of the relevant subject has been explored. However, considering this recommendation, the Public Service will attempt to more clearly articulate risks associated with these projects. The Public Service does and will comply with any direction from Standing Policy Committees and Council to engage independent specialist subject matter expertise, when requested.	
1.6 Delegation of Authority for Contract Over-Expenditure	Consideration should be given to revising the process to approve over-expenditures, and the related delegated authorities, such that contracts may only be able to be extended within the limits of the budget for that particular scope or service line item; an acceptable tolerance should be provided prior to requiring Council approval, and the request should include a cash-	High

Recommendation Number and Title	Audit Recommendations	Priority
	flow forecast that shows that there are funds available within the scope or service line item's project budget.	
1.6 Management Response	This process has been in place for an extended period of time, operates well, and is controlled by the Council approved budget. This information is included in the quarterly reporting to Standing Policy Committee on Finance. Management believes that the current reporting to SPC on Finance achieves the intention of this recommendation.	
1.7 Capital Project Reporting	To help promote improved governance and transparency, consideration should be given to the development of a standard major capital project report format for presentation to the Director of the "responsible department" and the relevant Oversight Committee for each major capital project. FM-004 outlines a reporting format that can serve as the basis upon which to build. The revised standard report format (in conjunction with recommendation 3.3 below) should cover the basic information required for an oversight body and/or key stakeholder to understand the status of a project, including: a baseline schedule with progress to date; progress against key milestones; detailed budget breakdown with cost incurred and committed cost to date and forecast total estimated cost taking into account approved/pending scope changes and trends; cash flow over time compared to the original business case cash flow; key environmental, health and safety data (as applicable), and the status of key risks and issues identified and being monitored.	High
1.7 Management Response	FM-004 includes a standard reporting template, which includes financial projections and the majority of these items, for Major Capital Project reporting to Standing Policy Committee on Finance. Management believes that the current standard reporting template achieves the intention of this recommendation.	
2. PROJECT ROLES & RESPONSIBILITIES		
2.1 Segregate & Define End-User and Project Manager Roles and Responsibilities	Where a major capital project involves both PPD as well as other City department(s) as end-user and/or budget holder, the City should clarify their respective project-related roles and responsibilities to ensure appropriate segregation of the project manager and end-user representative roles.	High
2.1 Management Response	Management agrees.	

Recommendation Number and Title	Audit Recommendations	Priority
2.2 Competencies of Project Managers and Project Director	The City should document the required competencies and capabilities of a "Project Manager" and "Project Director" to ensure that individuals fulfilling these key roles are suitably qualified and experienced in the successful delivery of projects of similar scope and complexity	High
2.2 Management Response	Management agrees with this recommendation. This will require an industry scan through Human Resources, along with a competency and education development plans; this requires additional budget to implement, as well as salary adjustments to compete with private industry.	
2.3 Role and Responsibilities of the Manager of Capital Projects	Consideration should be given to whether the currently defined required roles and responsibilities for the position of Manager of Capital Projects require more than one individual given the workload and the required competencies, qualifications and experience necessary for this role to be effective (should consider in conjunction with recommendations 3.1 and 3.3 below).	Moderate
2.3 Management Response	Management agrees. The Capital Projects Administration audit identified additional resourcing was required for this area. This will require an additional budget allocation.	
3. PROJECT MANAGEMENT MATURITY		
3.1 Resources to deliver the Project Management Manual	Resources should be committed to allow the City to complete the implementation of the 2008 Capital Project Management Audit – specifically the update of the Project Management Manual (should consider in conjunction with recommendation 3.3 below).	Lower
3.1 Management Response	Management agrees with this recommendation. A draft Project Management Manual has been developed and will be available for use in September. The additional resourcing for this division will require an additional budget allocation (see Recommendation 2.3).	
3.2 Project Management Training & Development	Address the formal training and development needs of the City's internal project managers. Given that in our experience, a capable Engineer may not necessarily be a capable project manager, consider requiring the Project Management Professional ("PMP") designation for major capital project managers.	Moderate
3.2 Management Response	Management agrees with this recommendation and will further review an enhanced training and development program. Planning is underway for such a program.	

Recommendation Number and Title	Audit Recommendations	Priority
3.3 Project Management Framework	To align with other municipal governments, the City should evaluate options for ensuring that its internal project managers have access to a documented project management governance and control framework and/or a project management centre support function. The leading practice in this area is for a project management centre to provide training, support and infrastructure (policy, process, procedure, templates, etc.) that internal project managers require to successfully deliver major capital projects. As part of a documented project management governance and control framework, the City should develop and implement guidance for:	High
3.3 Management Response	Management agrees with this recommendation. It will investigate this further and will provide Council with a report on implementation. This applies to all of the following sub-recommendations of this recommendation.	
3.3.1	Schedule management, including addressing contractor baseline schedule development and reporting obligations and the project management team's schedule monitoring and analysis requirements.	
3.3.1 Management Response	See 3.3	
3.3.2	Risk management, including the requirement: to maintain a live project risk register and risk mitigation plans; for regular, periodic reporting of the status of key risks and issues; to link the project contingency allowance to identified and quantified risks; and to develop rules that govern the draw-down/use of the project contingency allowance.	
3.3.2 Management Response	See 3.3	
3.3.3	Change management, including reporting on the status and value of pending and/or approved project change notice requests; and standard change management procedures with which consultants and contractors will have to comply.	
3.3.3 Management Response	See 3.3	

Recommendation Number and Title	Audit Recommendations	Priority
3.3.4	Budget and contingency management, including: clear definition and communication of the various "class estimates" for projects and guidance on appropriate contingency allowances for each; and explicit definition of required categories of cost such as FFE, IT infrastructure, design fees, other fees, internal charges, escalation, etc. to reduce the risk of misinterpretation of what is included in budget line items/areas, and what is not included.	
3.3.4 Management Response	See 3.3	
3.3.5	Contract management, including: addressing the need for a contract strategy stage gate to determine the most appropriate contracting strategy for a given project in a transparent manner on the basis of evaluation of project specific risks and objectives; and the need to develop the City's capacity to successfully manage and deliver non-traditional contract strategies	
3.3.5 Management Response	See 3.3	
3.3.6	Design management, including: the requirement for project managers to proactively monitor the progress and quality of design against a contractual design schedule; and to help ensure all internal project managers understand the important difference between design development and design change.	
3.3.6 Management Response	See 3.3	
4. PROCUREMENT & CONSTRUCTION CONTRACTING		
4.1 Procurement Compliance	Clarify accountability for who is required to ensure compliance with both the City's Materials Management Policy and the Agreement on Internal Trade. Consider revising the guidelines and the process to document delegated authorities to execute contracts on behalf of the City to better mitigate the risk of non-compliance.	Lower
4.1 Management Response	The City already has an established process whereby Legal Services and Materials Management monitor this. Regarding delegated authorities, FM-002 currently lists delegations of authority. Execution of contracts pursuant to the Materials Management Policy is included in the Execution of Documents By-law; there is a link to this By-law in FM-002.	

Recommendation Number and Title	Audit Recommendations	Priority
4.2 Procurement & Contract Management Roles & Responsibilities	Consider developing and implementing a procurement and contract management RACI Chart (responsible, accountable, consulted and informed) to provide guidance to the various process participants and to help improve the quality and consistency of the required documentation for procurement and contract management (including contract variations) and to ensure that consultants and contractors are not engaged outside of contract or outside of the City's procurement rules and obligations.	Moderate
4. 2 Management Response	Management will investigate the development and implementation within the City context.	
4.3 Restrict Ability to Single Source Contracts	Consider implementing either additional oversight over the use or the formal approval of single source contracts in order to reduce the likelihood of any potential abuse of the single sourcing provisions. As well, consider the need for additional training or more explicit guidance on the application of the provisions of both the City's Materials Management Policy and Administrative Standard FM-002 (notably Appendix 1).	High
4.3 Management Response	Further to a previous audit recommendation, the Acting CAO approved that effective March 1, 2014, the CAO's authority to approve single source contracts was reduced to $1 million. As well, the City will explore opportunities to enhance existing training programs.	
4.4 Assignment of Contracts	Revisit the City's Materials Management Policy to ensure that solicitations awarded to a joint venture cannot subsequently simply be assigned to a constituent entity within that joint venture without a rescoring or new public solicitation being performed	Lower
4.4 Management Response	Under the Materials Management Policy, assignments are permitted through a formalized process that ensures that the assignee has the appropriate qualifications and resources to perform the work under the contract.	
4.5 Standardized Construction Contracts	Develop and implement a suite of standard construction contracts for the City's preferred contract strategies to ensure that more robust terms and conditions are developed and implemented, and appropriate training is developed and provided to internal project managers and team members to protect the City's interests and manage its retained risks.	High
4.5 Management Response	The Public Service currently maintains a suite of standard contracts for all goods and services, including construction. A review to include more robust terms and conditions will be undertaken. The training of internal project managers and team members is ongoing and will be enhanced to include more specifics to ensure quality in the management of projects.	

Recommendation Number and Title	Audit Recommendations	Priority
4.6 Procurement Guidance	Develop improved procurement guidance to mitigate the risk of unfair practices (whether intentional or otherwise) being performed by the evaluation team – such as one person being responsible for performing and documenting any bidder contact to ensure that clarification requests are either provided to all or only short-listed proponents following bid opening.	Lower
4.6 Management Response	As a result of a previous audit, the Public Service has further strengthened the existing process of ensuring all parties involved in a solicitation process are provided information equally. Materials Management is the gatekeeper of any clarifications requested during an evaluation process.	

www.kpmg.ca

© 2014 KPMG LLP, a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. Printed in Canada.

The KPMG name, logo and "cutting through complexity" are registered trademarks or trademarks of KPMG International Cooperative ("KPMG International").