Minutes – Executive Policy Committee – January 21, 2015

AUDIT COMMITTEE

Item No. 4 Reporting on External Audit Costs

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

The Executive Policy Committee, in its capacity as the Audit Committee, concurred in the recommendation of the Winnipeg Public Service and recommended to Council:

1. That the report be received as information.

DECISION MAKING HISTORY:

Moved by Councillor Orlikow,

That Rule 10(3) of The Procedure By-law No. 50/2007 be suspended in order that the following item, which was received less than 96 hours preceding the committee meeting, be considered by Committee.

Carried

Moved by Councillor Orlikow,

That the recommendation of the Winnipeg Public Service be concurred in and forwarded to Council.

Carried

ADMINISTRATIVE REPORT

Title: **Reporting on External Audit Costs**

Critical Path: **Audit Committee – Executive Policy Committee - Council**

AUTHORIZATION

Author	Department Head	CFO	CAO
B. Mansky	B. Whiteside	N/A	N/A

RECOMMENDATIONS

That Council receive the following report as information.

REASON FOR THE REPORT

On January 29, 2014, Council concurred in the recommendation of the Executive Policy Committee, as amended, and adopted the following motions:

- That the City Auditor provide a full cost breakdown of each existing audit requested by Council including the original contract values and any additional appropriations.

IMPLICATIONS OF THE RECOMMENDATIONS

This report is being submitted as information only.

HISTORY

The above referenced January 29, 2014 Council motion also contained the following:

- That the City Auditor be granted the authority to expend one-time funding of up to $500,000 to engage the External Auditors and carry out the External Audit, as well as fund other existing audits as requested by Council beyond the existing scope of the audit, and that an additional appropriation for this amount be approved.
- That the City Auditor be instructed to engage an external auditor and such other professionals (collectively, the “External Auditors”) as may be required to conduct an independent audit and a quantity survey review of the Winnipeg Police Headquarters construction project (the “External Audit”).

The following table provides a cost breakdown of those two projects including original contract values, total final cost and explanations for overages.

Project	Vendor	Original Contract Amount	Total Cost (including applicable taxes)	Comments
Winnipeg Police Service Headquarters - Quantity Survey and Cost Consulting Services	Turner & Townsend	$165,000 + taxes	$165,000 + taxes = $165,215.28	Provision of Quantity Surveying and Cost Consulting Services for Winnipeg Police Service Headquarters Construction (RFP 105-2014)
	Adjeleian Allen Rubeli Limited	$33,000 + taxes	$33,000	Provision of updated Architectural, Structural, Mechanical & Electrical drawing for WPS HQ building. Attendance at meetings with T&T to answer technical questions.
			$198,215.28	
Winnipeg Police Service Headquarters – Construction Project Audit	KPMG	$199,500 + taxes	$202,967	Audit of the Winnipeg Police Service Headquarters Construction Project (RFP 87-2014). *Expenditure above contract value resulted from the request for KPMG staff to attend and present the final report to Council.*
	Winnipeg Police Service		$14,244.03	Conduct Level III Security Clearance Background Checks. *This expense could not have been reasonably estimated at project inception.*
			$217,211.03	
TOTAL			$415,426.31	

The total value of the projects listed in the table above is $415,426.31. The funds remaining from the January 29, 2014 appropriation equaled $84,573.69 and were directed to other existing audits that were requested by Council. The January 29, 2014 Council motion granted authority to the City Auditor to direct the remaining funds to other Council directed audits.

Three other audits had previously been requested by Council and a fourth audit was recommended by the City Auditor and formally announced by the Mayor. The other audits were:

- Review of the New Fire Paramedic Station Construction Project - on September 24, 2012, upon receiving a recommendation from the City Auditor, Mayor Sam Katz announced a comprehensive review of the processes followed for constructing four new Fire Paramedic Stations will be performed.
- Real Estate Management Audit – on September 27, 2012, Council passed a motion that an external and objective Real Estate Management audit be conducted.
- Fire Paramedic Station Construction Project – Council Interview Process – on October 22, 2013 Council passed a motion that all members of Council be interviewed and the results incorporated into the EY report on the Fire Paramedic Station Construction Project.
- Legal review of the Fire Paramedic Station Construction Report – on October 23, 2013 Council passed a motion to send the entire Fire Paramedic audit to outside legal counsel that specializes in the law of competitive public tendering processes and procurement practices of government.

Previously, on November 9, 2012 the Standing Policy Committee on Finance had approved an additional appropriation with the following motion:

- The Standing Policy Committee on Finance approved that the Audit Department's professional services budget be increased by up to $500,000 for the said audits.

The intent of that appropriation was to provide funding for:

- Review of the New Fire Paramedic Station Construction.
- Real Estate Management Audit.

At the time of the November 9, 2012 Standing Policy Committee on Finance motion, neither the Fire Paramedic Station Construction Project nor the Real Estate Management Audit had contracts awarded. Both were in the latter stages of the procurement process.

Between the time of the November 9, 2012 Standing Policy Committee on Finance appropriation motion and the January 29, 2014 Council motion with a further budget appropriation, Council requested the Fire Paramedic Station Construction Project – Council Interview Process audits and the Legal review of the Fire Paramedic Station Construction Report. No additional appropriation was approved to fund these projects.

The table below summarizes the other four Council requested audits detailing the original contract values, total final cost and explanations for overages.

Project	Vendor	Original Contract Amount	Total Cost (including applicable taxes)	Comments
New Fire Paramedic Station Construction Project	Ernst & Young LLP	$230,000 + taxes	$230,000 +taxes = $246,099.99	Fire Paramedic Construction Project Audit (RFP 785-2012B)
New Fire Paramedic Station Construction Project - Council Interview Process	Ernst & Young LLP	$39,200 + taxes	$25,785.98 + taxes = $27,848.85	Council Interview Process related to the Fire Paramedic Construction Project Audit
New Fire Paramedic Station Construction Project	Gange Goodman & French		$525 + taxes = $561.75	External Legal Advisor
Legal Review of the Fire Paramedic Construction Project Report	Procurement Law Office	$35,000 + taxes	$35,000 + taxes = $37,800.00	Legal Review of the Fire Paramedic Construction Project Report (RFP 940-2013B)
	Thompson Dorfman Sweatman	$275/hour (maximum $35,000)	$20,130.59 + taxes = $21,721.99	External Legal advisor to assist Audit Department. *This expense could not have been reasonably estimated at project inception.*
			$59,521.99	
Real Estate Management Audit	Ernst & Young LLP	$225,000 + taxes	$404,499+ taxes = $434,883.92	Real Estate Management Audit (RPF 784-2012B). *See note below for explanation of charges exceeding contract amount.*
Real Estate Management Audit	Gange Goodman & French		$2,950.00 + taxes = $3,186.00	External Legal Advisor
TOTAL			$772,102.50	

Note: The scope of the Real Estate Management Audit remained consistent to what was originally requested by Council and what was ultimately communicated in the procurement documents. The associated level of work required to fully investigate specific real estate transactions and gather sufficient evidence did increase as a result of the preliminary audit work performed. Specifically, five transactions were identified by Ernst & Young that they believed warranted additional audit work including the detailed review of email correspondence. The expansion of the audit work to be performed was agreed to by the City Auditor as it was deemed necessary to fully meet the intent of the Council motion requesting the audit. Upon delivery of the final report EY staff were then requested to attend and present the report at a meeting of Council. Council members then addressed several queries to EY that required additional effort to fully address.

The audits and projects requested by Council totaled $1,187,528.81. The Audit Department received a $500,000 appropriation on November 9, 2012 and a second $500,000 appropriation on January 29, 2014 for a total of one million dollars ($1,000,000) to fund the requested audits and projects. The Audit Department also had $85,000 in unexpended funds from its 2014 operating budget available from salaries (due to vacancies) and other expenses. The Audit Department did submit an over expenditure request to Standing Policy Committee on Finance in the amount of $100,000.00. The request was approved on January 8, 2015.

FINANCIAL IMPACT

Financial Impact Statement

Date:

Project Name:

First Year of Program

	0	1	2	3	4
Capital					
Capital Expenditures Required	$ -	$ -	$ -	$ -	$ -
Less: Existing Budgeted Costs	-	-	-	-	-
Additional Capital Budget Required	$ -	$ -	$ -	$ -	$ -
Funding Sources:					
Debt - Internal	$ -	$ -	$ -	$ -	$ -
Debt - External	-	-	-	-	-
Grants (Enter Description Here)	-	-	-	-	-
Reserves, Equity, Surplus	-	-	-	-	-
Other - Enter Description Here	-	-	-	-	-
Total Funding	$ -	$ -	$ -	$ -	$ -
Total Additional Capital Budget Required	$ -				
Total Additional Debt Required	$ -				
Current Expenditures/Revenues					
Direct Costs	$ -	$ -	$ -	$ -	$ -
Less: Incremental Revenue/Recovery	-	-	-	-	-
Net Cost/(Benefit)	$ -	$ -	$ -	$ -	$ -
Less: Existing Budget Amounts	-	-	-	-	-
Net Budget Adjustment Required	$ -	$ -	$ -	$ -	$ -

Additional Comments:

original signed by

Department Controller

CONSULTATION

In preparing this report there was consultation with:

SUBMITTED BY

Department – Audit Department
Division
Prepared by: B. Mansky
Date: January 8, 2015
File No.