Winnipeg
Audit Department
Service de vérification

# Southwest Rapid Transitway (Stage 2) and Pembina Highway Underpass Audit

## for the Period of Project Initiation to March 31, 2016

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# AUDIT AT A GLANCE

### *RECOMMENDATIONS*

*We recommended that the Public Service:*

1. *Further enhance the required discussion in quarterly financial status reports for major capital projects.*

## Background

Stage 2 of the Southwest Rapid Transitway and Pembina Highway Underpass is one of the largest capital projects that the City has embarked upon. Appropriate communication is important to allow key stakeholders to fulfill their roles in relation to the project; it also keeps the public informed on project performance. The Audit Department will be releasing quarterly audit reports that provide assurance on the reporting processes and selected key project management areas throughout the construction of the project.

## Findings

The Public Service has produced the appropriate legislated and agreed upon reports from the inception of the project to the reporting period ended March 31, 2016.

The Public Service is currently in the process of updating the quarterly financial status reporting templates. Further enhancements to the drafted changes will allow the Public Service to meet the best practice reporting advice of the Government Finance Officers' Association (GFOA).

## MANDATE OF THE CITY AUDITOR

- The City Auditor is a statutory officer appointed by City Council under *The City of Winnipeg Charter*. The City Auditor is independent of the Public Service and reports directly to Executive Policy Committee, which serves as the City's Audit Committee.
- The City Auditor conducts examinations of the operations of the City and its affiliated bodies to assist Council in its governance role of ensuring the Public Service's accountability for the quality of stewardship over public funds and for the achievement of value for money in City operations.
- Once an audit report has been communicated to Council, it becomes a public document.

## AUDIT BACKGROUND

- Stage 2 of the Southwest Rapid Transitway and Pembina Highway Underpass ("the Project") is one of the largest capital projects that Winnipeg has initiated to date. An audit of the Project was added to the City Auditor's *Audit Plan 2015 – 2018* in order to provide timely assurance on key project management areas on a proactive basis. Our audit work began after the procurement phase of the Project due to a fairness monitor being secured to provide oversight on the procurement process (a requirement of *The Public-Private Partnerships Transparency and Accountability Act*).
- The City Auditor's audit plan was adopted by Council on July 15, 2015.

## AUDIT OBJECTIVES

- The objectives of this ongoing audit are:
  - To provide assurance that appropriate reporting is occurring for the Project based on regulatory requirements, City policies and procedures, and agreements with third parties
  - To provide assurance that appropriate financial status reporting is occurring for the Project
  - To provide assurance that appropriate risk management is occurring in the Project

## PROJECT RISK ANALYSIS

- Communication is essential for successful projects. Some of the most important communication in large-scale public capital projects occurs in the form of public reporting; however, few industry organizations give guidance on what exactly should be included in project performance reports. Reporting is mainly left to be agreed upon by project stakeholders, and much is left to the professional judgment of the project management teams. Improper communication can hold up projects or cause wasted efforts. Therefore, proper communication practices are essential to ensure that projects run smoothly and efficiently.
- Individual audit area risk assessments are provided for each issue discussed. The assessments discuss and detail the residual risk for issues after considering the City's mitigating risk controls. Our risk assessment criteria are shown in **Appendix 1.**

## SCOPE

- The scope of our audit includes project communication management over the course of the project. The scope of our quarterly audit reports also includes the reporting on key management areas (such as risk, quality, schedule, and cost) as the Project progresses.
- Our audit runs concurrently with the project over the duration of the project, and reports are released on a quarterly basis. This is our first report, which covers the period of project approval in the City's capital budget to March 31, 2016.

## APPROACH AND CRITERIA

- We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient appropriate evidence to provide a reasonable basis for our observations and conclusions, based on our audit objectives. We believe the evidence we have obtained provides a reasonable basis for our observations and conclusions.
- To gather sufficient appropriate evidence for our audit, we reviewed Manitoba's legislated requirements for public-private partnership reporting, the City of Winnipeg's documented guidance for capital project reporting, and the public reporting requirements set out in funding and capital project management agreements. We also researched industry standards and guidance on capital project monitoring and reporting. We then conducted our fieldwork, which compared the public reporting for the project for the period covered by this audit report to all of the outlined guidance.
- The guiding documents we used include:
    - *The Public-Private Partnerships Transparency and Accountability Act* of Manitoba
    - *The Environment Act* of Manitoba
    - *The City of Winnipeg Charter* for Council's and its committees' legislated roles in relation to capital project decision making
    - *Administrative Standard FM-004: Asset Management* (and its precursors throughout the project)
    - Agreements with federal and provincial funding partners (P3 Canada, and the Government of Manitoba) and contracted service providers (Plenary Roads Winnipeg Transitway LP)
- Industry capital project monitoring and reporting practices we researched included:
    - The October 2007 "Capital Project Monitoring and Reporting" best practice published by the Government Finance Officers' Association (GFOA)
    - Recommended practices 17R-97 and 56R-08 of The Association for the Advancement of Cost Engineering (AACE)
    - Accounting principles published by CPA Canada
    - *Effectiveness Reporting and Auditing in the Public Sector* published by the Canadian Comprehensive Auditing Foundation (CCAF)
    - Publicly available reporting information for the National Project Management System (NPMS)
    - *A Guide to the Project Management Body of Knowledge (PMBOK® Guide) Fifth Edition*
    - Projects IN Controlled Environments (PRINCE2)
- **Appendix 2** provides a flowchart of the audit process.

## CONCLUSIONS

***The reports required by legislation, by-law, administrative standards, and contractual agreements have been issued by the Public Service.***

- The Public Service has submitted the formal reports required for this project during the period of this audit report.
- The reports reviewed for the period of this audit included:
  - "Capital Integration Project – Southwest Transitway (Stage 2) and Pembina Highway Underpass" (June 25, 2014 Council meeting)
  - "City of Winnipeg Stage 2 – Southwest Rapid Transit Corridor Project P3 Business Case Summary" (June 25, 2014 Council meeting)
  - "Capital Integration Project – Increase of the Delegated Award Authority for Manitoba Hydro Early Works" (January 28, 2015 Council meeting)
  - Expropriation and land approval reports provided to Council and its committees to March 31, 2016
  - The six (6) quarterly financial status reports to the SPC on Finance from project initiation to the period ended March 31, 2016
  - Applications, reports and correspondence relating to the City's license under *The Environment Act* posted on the Province of Manitoba website to March 31, 2016
- The reports were compared to the guidance given for such reports and were found to meet the standards of said guidance.
- Financial costs reported to the SPC on Finance were found to be in accordance with the generally accepted accounting principles on cost reporting issued by Canada's Public Sector Accounting Board and, in our opinion, fairly presented the actual costs incurred for the Project at the date of each report.

***Status report contents can be enhanced to provide more complete communications to Council and the public.***

- Little industry guidance exists that directs exactly what project status reports should report; reporting is an agreement between various parties based on their information needs so they can perform their roles in relation to the project and their offices.
- The reports submitted to the SPC on Finance were found to be in accordance with the documented requirements for these reports.
- Councillors have expressed desires for more fulsome information in status reports to be informed about projects, and to better enable them to perform their oversight roles as elected officials.
- The Government Finance Officers' Association, an association that the City of Winnipeg is a member of, recommends specific minimal reporting requirements that can be included in financial status reports. The Public Service is currently revising the financial status report template. The draft revision includes some GFOA recommendations, but does not include several of the minimum reporting items including completion percentage, contract statuses, and scope and cost change information.

## CONCLUSIONS (Continued)

***An initial risk assessment was included in the business case for the Project. Construction risk management plans are currently in development.***

- The business case prepared by Deloitte LLP included in the June 2014 Council meeting agenda included a risk assessment for the Project, as is required by *The Public-Private Partnerships Transparency and Accountability Act*.
- The City's project team developed and utilized a risk management plan and monitoring system for the procurement phase.
- Project risks were regularly considered at City project team meetings, and at the Major Capital Projects Advisory Committee meetings.
- At the time of this report, more in-depth risk management plans relating to construction were also in development between the recently awarded private partner for the Project, Plenary Roads Winnipeg, and the City's owner's advocate, Dillon Consulting.

**Appendix 3** provides a summary of our recommendations.

## INDEPENDENCE

The team members selected for the audit did not have any conflicts of interest related to the audit's subject matter.

## ACKNOWLEDGEMENT

The Audit Department wants to extend its appreciation to all of the stakeholders who participated in this audit and especially to City's project team for their time and cooperation.

**The Audit Team**

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Bryan Mansky, MBA, CPA, CMA, CIA
City Auditor

August 2016
Date

# Project Background

## 1.1 History of the Project

- The concept of transit corridors has been included in City plans for several decades.
- The first tangible public drawings that we are aware of for a southwest transit corridor were included in “Plan Winnipeg – toward 2010” (Policy Plate C), which was adopted by Council in 1993.
- In 2004, the Mayor at the time appointed the Rapid Transit Task Force, the work of which was adopted by Council in February 2006 in an administrative report entitled *“Implementation Plan for Rapid Transit Task Force Recommendations”*. This report included Stage 1 of the Southwest Rapid Transit Corridor. Stage 1 of the Southwest Rapid Transit Corridor was completed on time in 2012, and within the approved budget of $138,000,000.
- In November 2011, Council adopted the City’s “Transportation Master Plan”, which included the provision for the expansion of the Pembina Highway Underpass and five new transit corridors, the first being the southwest corridor.
- Capitalizing on an opportunity to integrate two projects, the City of Winnipeg submitted the combined Southwest Transitway (Stage 2) and Pembina Highway Underpass project (“the Project”) to the Government of Canada for funding under the Building Canada Fund. As the Project was expected to exceed a $100 million threshold, a screening process was completed to determine whether the project could be successfully delivered under a P3 model. It was ultimately determined that the project could be successful as a P3 project, and funding was announced from P3 Canada.
- On June 25, 2014, Council approved that the project be included in the City’s Capital Budget at an estimated cost of $590 million.

## 1.2 Project Makeup

- The design of the Project is shown below:

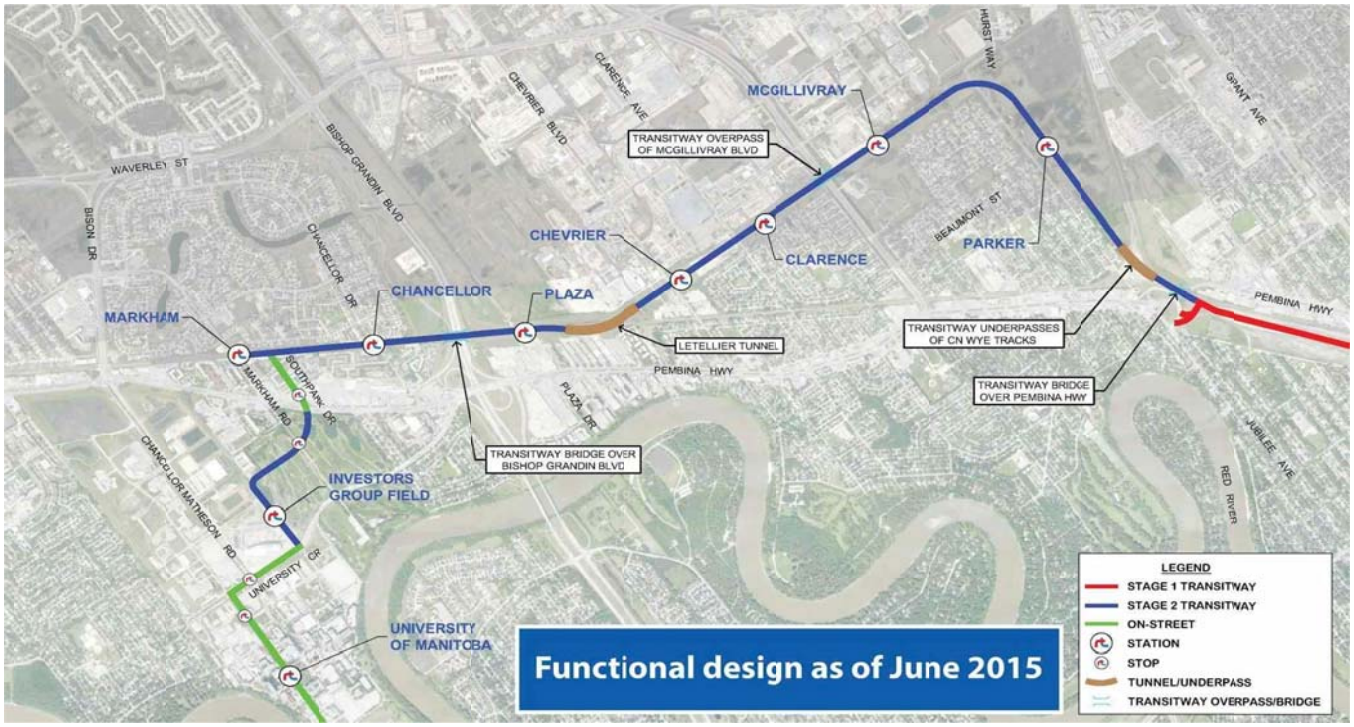



Figure 1: Southwest Rapid Transitway (Stage 2) Project Overview
~Source: Winnipeg Transit website March 31, 2016

- Until March 31, 2016, the scope of the Project involved the extension of the current Stage 1 of the southwest transit corridor from Jubilee Boulevard to the University of Manitoba. This extension is approximately 7.6 kilometers long and requires the construction of five new bridges (two for railways and three for the transitway), an underpass and a tunnel under existing railways, an active transportation path parallel to the transitway, two "Park & Ride" areas, and seven new transit stations.
- The Project also includes the widening of the northbound side of Pembina Highway under the Jubilee overpass from two to three lanes.

## 1.3 Project Resources

- At the time of this report, the Project is being managed by a team of experienced City employees. Project management is also supported by an "owner's advocate" (contracted engineering consultant), and several contracted subject matter experts for legal, engineering, procurement, and regulatory compliance advice.
- The Project will ultimately be managed by the P3 consortium, which will be responsible for design, construction, finance, and maintenance of the asset for the next 30 years.
- The Project budget at the time of this report is $587.3 million.
- The financing for the Project is:

| Contributing Party | Contribution | Percent |
|---|---|---|
| City of Winnipeg | $ 225,000,000 | 38% |
| Province of Manitoba | 225,000,000 | 38% |
| Government of Canada | 137,300,000 | 24% |
| Total | $ 587,300,000 | |

## 1.4 Current State of the Project

- The planning and procurement phase of the Project is being managed by a team of City of Winnipeg employees until such time that construction begins. Project management will then be turned over to the private partner with oversight still being provided by the City project team. The City's project management team is made up of several experienced City employees with backgrounds in project management, finance, engineering, legal services, and procurement processes. This team also receives oversight support from the Major Capital Projects Advisory Committee, which includes the City's Chief Operating Officer, the Chief Financial Officer, and the Director of Winnipeg Transit. The team is also supported by several contracted consulting firms.

## 1.5 Reporting

- The following reports are required for legislated and contractually agreed upon matters:
  - Actions that are outside the delegated authority of the Public Service (such as expropriation of lands, procurement in excess of delegated authority, or over-expenditure reports)
  - Quarterly reporting to the SPC on Finance
  - Report on a public sector comparator, as well as the viability, expected risks, costs and benefits of using the P3 procurement method
  - A report by the contracted Fairness Monitor on the procurement process for the Project
  - Report on the final results of the Project
  - Environmental reports as determined by the Province of Manitoba

## 1.6 Roles and Responsibilities of Governing Stakeholders

- Project communication should allow governing bodies to perform their responsibilities of their offices in general and in relation to the specific capital project.[1] To set the stage for appropriate communication, it is important to have an understanding of the different stakeholders, and the responsibilities associated with their offices. Due to the size and scope of this project, the number of stakeholders, and the form of the delivery, clear, appropriate and timely communication is essential to keep the project on track to avoid project delays and additional costs.

***Council***

- Council is the governing body for the City. Council has the legislated authority to govern the city in whatever way it considers appropriate within the broad strokes of the city charter, and has the power to delegate its authority with few exceptions. In relation to the project, Council has the responsibility to:
    - Set and approve civic priorities for the community
    - Set and approve the capital budget for the project
    - Approve contract awards in excess of $5,000,000, unless that authority has been delegated by a specific resolution of Council
    - Approve the debt financing for the project
    - Approve expropriations required for the project
- Aside from these Council duties, individual Councillors have been elected to represent and advocate for the populous and require a basic level of information to be able to hold a dialogue to advocate for citizens in their wards, and within the sphere of their committee duties.

***Committees of Council***

- Other than the Executive Policy Committee, which is a statutory committee, Council has the authority to create and to delegate powers to committees as it sees fit through the enactment of by-laws. Other committees of Council that are stakeholders in this project include Executive Policy Committee ("EPC"), various Standing Policy Committees ("SPC"), and Community Committees. The committees of Council that regularly consider the Project are detailed in the following pages.

***Executive Policy Committee ("EPC")***

- EPC formulates, coordinates and endorses the work of other Council committees, and makes recommendations to Council regarding matters that affect the city as a whole, including policies, plans, budgets, by-laws and other matters. EPC is also responsible for the supervision of the City's Chief Administrative Officer. In relation to the project, the committee has the responsibility to:
    - Hold intergovernment conversations in the event that plans must be escalated to a political level
    - Endorse and present capital budgets to Council

[1] Canadian Comprehensive Auditing Foundation (1987). *Effectiveness Reporting and Auditing in the Public Sector* (Ottawa). 6.

***SPC on Finance***

- SPC on Finance coordinates and advises EPC on the City's fiscal policy development and strategies, including capital project recommendations and strategies. In relation to the project, SPC on Finance has the responsibility to:
    - Review and make recommendations on the project before project initiation
    - Receive quarterly reports on the current status of the project

***SPC on Property and Development, Heritage, and Downtown Development***

- SPC on Property and Development, Heritage, and Downtown Development provides policy advice to Council on asset management, land acquisition, land development, and planning and land use. In relation to the project, this committee has the responsibility to:
    - Recommend land acquisition strategies for the project including expropriations of property
    - Approve terms and conditions of dealing with land
    - Prepare conceptual planning in transportation systems
    - Make budgetary recommendations within the jurisdiction of the committee

***SPC on Infrastructure Renewal and Public Works***

- SPC on Infrastructure Renewal and Public Works provides policy advice to Council on engineering services, public works maintenance, transit, traffic control, and transportation control planning. In relation to the project, this committee has the responsibility to:
    - Make budgetary recommendations within the jurisdiction of the committee

***SPC on Water and Waste, Riverbank Management, and the Environment***

- SPC on Water and Waste, Riverbank Management, and the Environment provides policy advice to Council on land drainage engineering services, and environmental issues. In relation to the project, this committee has the responsibility to:
    - Make budgetary recommendations within the jurisdiction of the committee

***Community Committees***

- Community Committees maintain the closest possible communication between the City and the citizenry. In relation to the project, these committees have the responsibility to:
    - Provide residents information on the City's policies, programs and budgets, and ensure that residents are given the opportunity to represent their views on the same

# Project Reporting Analysis

## 2.1 Reporting Requirements

### Issue

- Has the Public Service communicated the proper reports required by legislation, by-laws, City of Winnipeg policies and standards, and project agreements?

### Conclusions

- The Public Service has distributed the reports required by legislation, by-laws, policies, standards and agreements over the period of review for this audit report. We have performed limited testing on the information in the reports released and outlined below, and have found the information tested to be accurate.

### Analysis

- Since the inception of the project, the following reports have been required, and have been published for the Project:
    - The business case for the Project, which serves as the public sector comparator, a report on the the viability and expected, risks, costs and benefits of using the P3 model for the Project, and as the cost estimate for the City's capital budget (required by *The Public-Private Partnerships Transparency and Accountability Act* and *The City of Winnipeg Charter*)[1]
    - Environmental license application and reports as determined by the Environmental Stewardship Division of the Province of Manitoba[2]
    - "Capital Integration Project – Increase of the Delegated Award Authority for Manitoba Hydro Early Works" (required by Council's *Materials Management Policy*)[3]
    - "Expropriation of Lands – Capital Integration Project (Southwest Transitway (Stage 2) and Pembina Highway Underpass)" (required by *The City of Winnipeg* Charter)[4]
    - "Expropriation of Lands – Southwest Rapid Transitway (Stage 2) and Pembina Highway Underpass Project" (required by *The City of Winnipeg* Charter)[5]
    - Six (6) quarterly financial status reports to the Standing Policy Committee on Finance (*Administrative Standard FM-004: Asset Management*)[6]
- Our audit work includes examination of reports in relation to the legislated, regulated or agreed-upon requirements to communicate such reports. Limited testing of the accuracy of information included in reports was also completed based on our risk assessment of whether such information could be misstated. Testing the accuracy of reports published before or during the procurement phase of the project is not included in our audit scope.

[1] Published in the appendices to minute 608 of City Council's June 25, 2014 meeting.
[2] Published on the Province of Manitoba's website: www.gov.mb.ca/conservation/eal/registries/
[3] Submitted to Council for approval in minute 162 of City Council's January 28, 2015 meeting.
[4] Submitted to Council for approval in minute 205 of City Council's February 25, 2015 meeting.
[5] Submitted to Council for approval in minute 133 of City Council's January 27, 2016 meeting.
[6] Submitted as information to the Standing Policy Committee on Finance in its April 9, June 4, September 17, and November 26, 2015, and March 6 and June 24, 2016 meetings.

- We did not perform testing on the completeness and accuracy of the application, reports and other correspondence to the Environmental Stewardship Division of the Province of Manitoba. We have assessed that this information has met the requirements of the division as the license has been issued to the City.
- For this audit report, we audited the actual costs reported in each of the six financial status updates submitted to the Standing Policy Committee on Finance (see **Appendix 4** for an example). The most recent financial status report at the time of this audit report was for the period ended March 31, 2016. In our opinion, the actual costs reported were fairly presented and were reported in accordance with generally accepted accounting principles issued by Canada's Public Sector Accounting Board.
- We also tested the supporting documentation for the Public Service's requested increase in delegated authority to initiate the Manitoba Hydro early works and found it to be reasonable.
- Future selective testing of the accuracy of information included in reports will be completed throughout the ongoing period of our audit of this Project. Information to be tested is based on our risk assessment of the information included in reports.
- Council policy requires major capital projects to be submitted to the Standing Policy Committee on Finance for review and comment prior to any bid procurements to be released for the project. This requirement for this project, however, was superseded by Council's delegation of authority to the CAO to approve, issue and award the Request for Qualifications and the Request for Proposals for the Project in its June 25, 2014 meeting.[1]

| **RECOMMENDATION** | | | |
|---|---|---|---|
| *No recommendation accompanies this analysis.* | | | |
| **RISK AREA** | Information Resources | **ASSESSMENT** | Moderate |
| **BASIS OF ASSESSMENT** | Reports that are not distributed, or that contain inaccurate information, affect stakeholders' ability to perform their roles and could also affect legal compliance or funding agreements. To mitigate this risk, the Public Service has formed an experienced project management team to address all project management knowledge areas that require reporting. | | |

[1] Required by policy adopted in minute 207 of the Council's December 16, 1999 meeting; superseded by minute 608 of Council's June 25, 2014 meeting.

## 2.2 Contents of Project Financial Status Reports

### Issue

- Is sufficient information being provided in the quarterly financial status updates?

### Conclusions

- The quarterly financial status updates meet the current administrative requirements for reporting set by City guidance. Additional information can be added to the reporting format to give Council and the public a clearer picture of the progress and expectations for this and other major capital projects.

### Analysis

- Public reporting is subjective. No one authoritative agency exists that provides authoritative guidance on what should or should not be included in public reports. Respected project management and public organizations primarily state that reporting should be based on the needs of the information users (elected officials, governments, funders, the public, etc.) but does not give specific guidance on what content should be discussed in reports. Reporting is left to the professional judgment of the reporters.
- To provide Council and the public with regular updates on the City's major capital projects, quarterly financial status reporting for major capital projects are required by *Administrative Directive No. FM-004: Asset Management*.[1] Accompanying templates are also used to help guide the content of the status reports.
- Councillors have presented concerns about the current reporting style for capital projects. In the November 26, 2015 SPC on Finance meeting, discussion focused on report writing style for reports submitted to the committee. Committee members discussed that they would like to see project prioritization rationale, risk analysis including risk mitigation strategies, timelines and milestones, and the current status of estimate classes presented in Financial Status Reports. These items are also a part of the recommended practices discussed below. In the February 12, 2016 SPC on Infrastructure Renewal and Public Works meeting, concerns were voiced over the current practice of the Public Service reporting that a project is "on time and within budget" until such time that a project is not; at this point, there is little that can be done to make a choice on whether the budget or the scope of the project takes priority.
- The Government Finance Officers Association (GFOA), an association that the City of Winnipeg is an active member of, provides some recommendations on what should be included in status reporting for capital projects. The practice states that at a minimum, status reporting should include:
    - Provide a comparison of actual results to the project plan, including:
        - Percent of project completed
        - Percent of project budget expended
        - Progress on key project milestones
        - Contract status information
        - Revenue and expenditure activity cash flow, investment maturities, funding commitments, and available appropriations
        - Comparison of results in relation to established performance measures
    - And also highlight significant changes to the project scope or costs

[1] This directive has been refocused and renamed since it was introduced in 2007 as *Administrative Standard FM-004: Capital Project Administration*.

- The Infrastructure Planning Division of the Corporate Finance Department is currently in the process of reviewing and improving the templates for the quarterly financial status reports, as well as the remainder of the City's project management guidance. A draft of the updated template was provided to us by the Infrastructure Planning Division. We noted that the draft template for quarterly status reporting showed marked improvement in disclosure over the prior version of the report, and that the accompanying instructions on how to fill the report out were also an improvement over the previous version. We also observed that the draft we were provided would include percent of project budget expended (actual costs incurred are presented in the same table as the total project budget), progress on key project milestones, revenue and expenditure cash flows, investment maturities, funding information, and comparison to established performance measures (time and budget), that are recommended by the GFOA. The draft does not include a disclosure on the percentage of the project completed to date, contract status information, or instructions on disclosing significant scope or cost changes for the project. Including the recommended information in status reports will provide more comprehensive information to both Council and the public.

| **RECOMMENDATION 1** | | | |
|---|---|---|---|
| *We recommend to the Infrastructure Planning Division of the Corporate Finance Department that it include the minimum requirements for capital project status reporting as recommended by the Government Finance Officers Association.* | | | |
| **RISK AREA** | Information Resources | **ASSESSMENT** | Moderate |
| **BASIS OF ASSESSMENT** | Appropriate information must be publicly reported to allow governing stakeholders to fulfill their public duties. | | |

| **MANAGEMENT RESPONSE** | |
|---|---|
| *As noted above, the Infrastructure Planning Division of the Corporate Finance Department has undertaken a review of the content included in the quarterly financial status reports submitted to the Standing Policy Committee on Finance. The review involves consideration of the recommendations made by the Government Finance Officers' Association, discussions with departments and other stakeholders including senior management and elected officials at the City. Once agreement is reached on a new format, Administrative Standard FM-004: Asset Management, will be amended to include the revised reporting template together with instructions for completion. The Public Service anticipates the new template will be in use by the third quarter of 2017.* | |
| **IMPLEMENTATION DATE** | Q3 2017 |

# Project Risk Analysis

## 3.1 Risk Management Activities

### Issue

- Have appropriate risk management activities occurred for the project?

### Conclusions

- The Public Service has issued the risk assessment required by *The Public-Private Partnerships Transparency and Accountability Act*. Risk management plans are currently in development for the project, which will be discussed in future quarterly audit reports on the project.

### Analysis

- A risk assessment for the Project was included in the business case prepared by Deloitte LLP that was presented to Council in its June 2014 meeting. The risk assessment quantified the expected risks for the Projects based on proprietary systems owned by Deloitte LLP. The assessment stated that the value for money savings that the City would realize over the thirty year lifespan of the P3 arrangement would be between 10.5% to 16.7% of the costs that would be incurred if the project were built under a traditional design-bid-build strategy. The methodology for the risk assessment has not been tested by the Audit Department as it was published before our involvement with the project, and is proprietary information of Deloitte LLP.
- The City's project team developed a risk management plan for the procurement phase that was discussed in team meetings and updated regularly. The team also utilized an issues tracking system to monitor new and outstanding risk items.
- Project risks were discussed regularly at project team meetings and also at Major Capital Projects Advisory Committee meetings.
- At the time of this report, more detailed construction risk management plans were in development by the recently awarded Private Partner (Plenary Roads Winnipeg) and the consulting Owner's Advocate for the Project.

| **RECOMMENDATION** | | | |
|---|---|---|---|
| *No recommendation accompanies this analysis.* | | | |
| **RISK AREA** | Business Process | **ASSESSMENT** | Moderate |
| **BASIS OF ASSESSMENT** | Inadequate risk planning could reduce the projected value for money savings for the Project. | | |

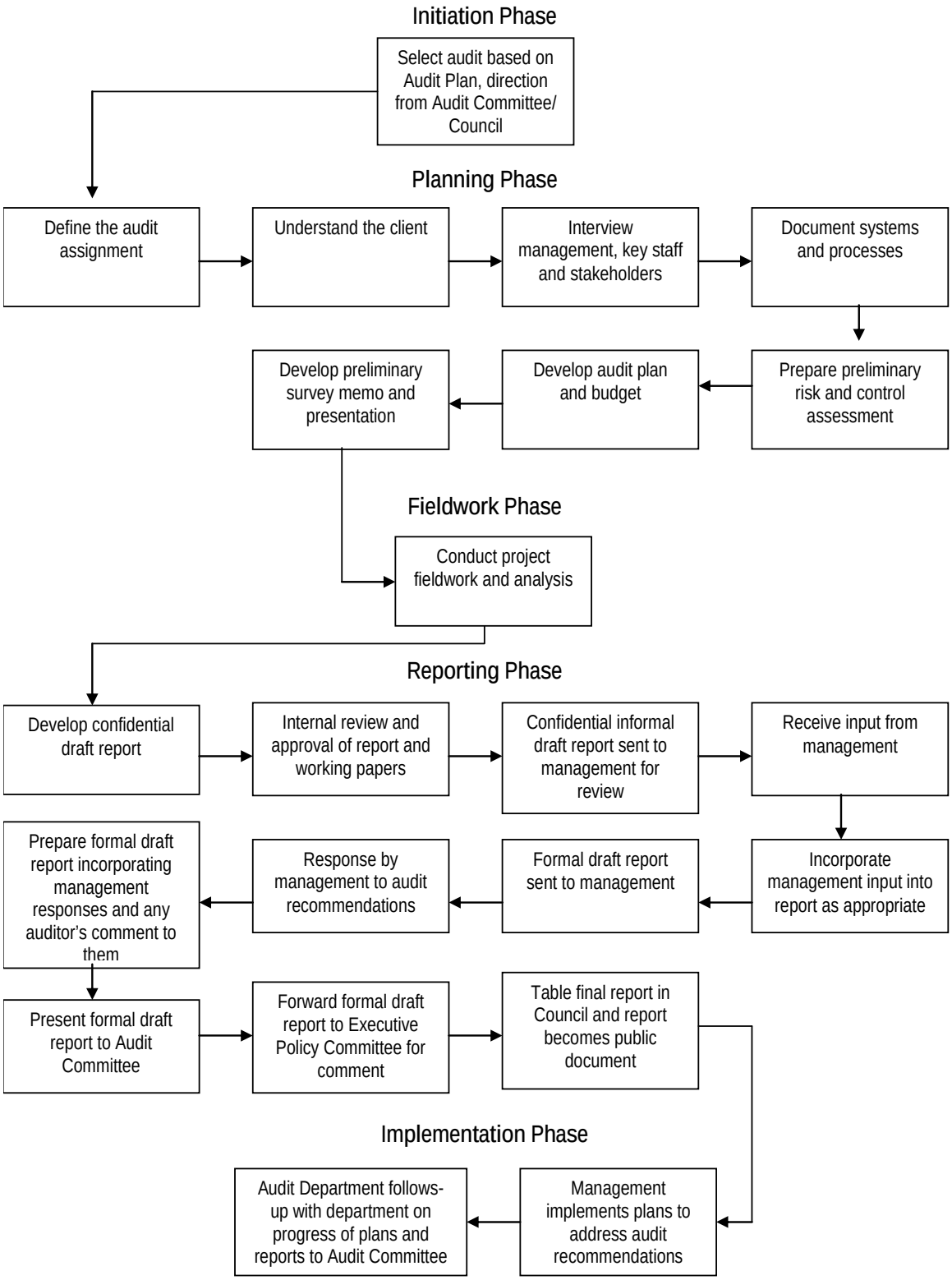
## APPENDIX 1 – Risk Assessment Worksheet

| Potential Impacts / Likelihood | Insignificant<br>- None or minor change in services, project or processes<br>- Very limited exposure of sensitive information<br>- Very minor, non-permanent environmental damage<br>- Financial impact < $100K | Minor<br>- Minor change in achievement of service objectives<br>- Limited exposure of sensitive information<br>- Minor, non-permanent environmental damage<br>- Financial impact $100K – $500K | Moderate<br>- Moderate change in delivery of essential services<br>- Exposure of limited amount of confidential information<br>- Moderate environmental damage<br>- Financial impact $500K – $1M | Major<br>- Significant change in delivery of essential services<br>- Exposure of significant amount of confidential information<br>- Significant change in quality of life indicators<br>- Major environmental damage<br>- Financial impact $1M – $10M | Extreme<br>- Unable to perform essential services for extended period<br>Exposure of critical confidential information<br>- Very significant change in quality of life indicators<br>- Significant damage to environment<br>- Financial impact >$10M |
|---|---|---|---|---|---|
| Almost certain (Excepted to occur unless circumstances change) | M | M | H | C | C |
| Likely (Probably occur in most circumstances) | M | M | H | C | C |
| Possible (Might occur under different circumstances) | L | M | M | H | H |
| Unlikely (Could occur if circumstances change) | L | L | M | H | H |
| Rare (May occur in exceptional circumstances) | L | L | M | M | M |

**Legend**

| | |
|---|---|
| C Critical risk: | Requires urgent action, monitor and review at least weekly by Senior Management and COO, inform CAO and Committee of Council |
| H High risk: | High impact, monitor and review at least quarterly by management, inform COO |
| M Moderate risk: | Monitor and review at least quarterly by management |
| L Low risk: | Review periodically, no explicit action required. |

## APPENDIX 2 – Audit Process



## APPENDIX 3 – Summary of Recommendations

| Focus Area | Rec. # | Recommendation | Priority |
|---|---|---|---|
| Financial Status Reporting | 1 | *We recommend to the Infrastructure Planning Division of the Corporate Finance Department that it include the minimum requirements for capital project status reporting as recommended by the Government Finance Officers Association.* | Moderate |

## APPENDIX 4 – Illustration of Actual Costs Presented in Financial Status Reports

Appendix I

**SOUTHWEST RAPID TRANSITWAY (STAGE 2) & PEMBINA HIGHWAY UNDERPASS**
**TRANSIT DEPARTMENT**
***As of March 31, 2016***

| Project Component | Capital Budget | Actual Costs | Capital Expenditure Forecast | | | | | | Total | Surplus (Deficit) |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Forecast | | | | | | | |
| | Original | To March 31 2016 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 to End of Contract | Forecast | From Revised |
| **UPFRONT COSTS** | | | | | | | | | | |
| PROFESSIONAL SERVICES | $ 13,000,000 | $ 2,465,843 | $ 4,135,523 | $ 1,568,333 | $ 1,568,333 | $ 1,568,334 | | | $ 11,306,366 | 1,693,634 |
| PROPERTY AND UTILITIES | 23,000,000 | 6,770,893 | 16,229,107 | | | | | | $ 23,000,000 | - |
| OTHER | 5,550,000 | 583,243 | 1,382,556 | $ 1,688,688 | $ 1,754,254 | $ 945,340 | $ 889,554 | | $ 7,243,635 | (1,693,635) |
| **TOTAL UPFRONT COSTS *** | $ 41,550,000 | $ 9,819,979 | $ 21,747,186 | $ 3,257,021 | $ 3,322,587 | $ 2,513,674 | $ 889,554 | | $ 41,550,001 | (1) |
| | | | | | | | | | | |
| **ANNUAL SERVICE PAYMENTS** | 719,547,000 | | | | | | 22,050,000 | 697,479,000 | $ 719,529,000 | |

Source: Southwest Rapid Transitway (Stage 2) and Pembina Highway Underpass – Financial Status (Project No. 4230010514) Report No. 6 for the Period Ending March 31, 2016.

Note: The actual costs presented in all six financial status reports were reviewed and were found to fairly present the costs to date as of the report dates.