Winnipeg

Audit Department • Service de vérification

His Worship Mayor Brian Bowman
The City of Winnipeg
Council Building, 510 Main Street
Winnipeg, Manitoba R3B 1B9

November 10, 2016

Dear Mayor Bowman:

Re: Audit of the Estimate Classification for the "Expansion of Transit Vehicle Overhaul and Maintenance Facilities" presented in the 2017 Capital Budget

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We have audited the estimate classification for the "Expansion of Transit Vehicle Overhaul and Maintenance Facilities" presented in the 2017 Preliminary Capital Budget. The estimate has been classified in accordance with the provisions of the Asset Management Initiative framework of the City of Winnipeg. The Public Service has presented the forecasted project costs of $53,200,000 as a Class 4 estimate.

Preparation of the estimate and disclosure of the estimate class in accordance with City of Winnipeg guidelines is the responsibility of the Public Service, as are such internal controls that are determined to be necessary to enable an estimate classification that is free from material misstatement, whether due to fraud or error. The Public Service's classification system is based on the recommended practices of the Association for the Advancement of Cost Engineering ("AACE"). Those recommended practices prescribe a classification system for cost estimates that is primarily determined by the level of design work completed to support the estimate, and secondarily by the costing methodology used to develop the estimate.

Our responsibility is to express an opinion on the disclosed estimate class based on our audit. We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform an audit to obtain sufficient appropriate evidence to provide a reasonable basis for our opinion based on the recommended practices of the AACE, which are the criteria for our audit. More specifically, we tested the reasonability of the disclosed estimate class through observation and analysis of the design work that supported the estimate. We believe the evidence we have obtained provides a reasonable basis for our opinion.

Our rules of professional conduct require that we take due care when completing an audit and providing a professional opinion. In order to meet this requirement, sufficient effort must be devoted to analyzing and testing the components of cost estimates to evaluate whether they have been reasonably determined. The time period between when we were provided access to the design work to when we were required to submit our report was insufficient to evaluate whether the costs included in the estimate were reasonable based on the design work. While we can assert that the project has sufficient design work completed to support a Class 4 estimate, we cannot provide an opinion on the reasonability of the estimated costs presented.

Since the estimated project costs are based on assumptions about future events, actual results will vary from the estimate, and the variations may be material. According to Appendix 2 of the City's Capital Budget, Class 4 estimates are supported by about 10% completion of the final design work and are expected to result in a final cost within -30% to +60% of the current estimate. As additional information, however, the AACE recommended practice on estimate classification for building construction projects states that the expected accuracy range of a Class 4 estimate is between -20% and +30% of the current estimate.

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In our opinion, the project detail sheet for the "Expansion of Transit Vehicle Overhaul and Maintenance Facilities" in the 2017 Preliminary Capital Budget accurately presents the forecasted project cost of $53,200,000 as a Class 4 estimate based on the design work requirements in the recommended practices of the AACE, and the Public Service's Asset Management Initiative framework.

Sincerely,

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