

TTC AUDIT COMMITTEE REPORT NO.

MEETING DATE: July 14, 2009

SUBJECT: INTERNAL AUDIT CAPITAL REPORT – RESERVED TRANSIT
LANES ON ST. CLAIR AVENUE

INFORMATION ITEM

RECOMMENDATION

It is recommended that the Audit Committee receive for information the attached Internal Audit Capital Report and Management's responses.

BACKGROUND

Internal Audit provides the Commission with independent evaluations of the efficiency and effectiveness of control systems, and operations. Internal Audit is also required to provide recommendations for improvement.

Richard G. Beecroft
Chief Auditor

July 14, 2009
01-23

Attachments - Internal Audit Capital Report
- Management's Responses

TORONTO TRANSIT COMMISSION

TO Dick Beecroft

FROM Elmer Csaszar

DATE May 22, 2008

SUBJECT Audit of the Reserved Transit Lanes on St. Clair Avenue

An audit of the capital project – Reserved Transit Lanes on St. Clair Avenue has been completed. This capital project is to construct a reserved right-of-way for the 512 St. Clair Streetcar in conjunction with the capital rehabilitation of the surface tracks on St. Clair Avenue.

The following expenditures up to August 2007 were reviewed:

Expenditures-	(\$ millions)
City of Toronto Contracts	8.5
Consultants and Legal Services	1.9
Materials	1.0
TTC Labour and Fringes & Overhead (including Alternate Transportation)	1.1
Total	12.5

City of Toronto Contracts

The roadway work was carried out by external contractors who are contracted by the City of Toronto. The work was divided into a number of contracts. For a 10% administration fee, the City of Toronto acted on behalf of the TTC to monitor and control on site construction.

Audit visited the City offices to review three specific contracts (06TE-01RD, 06TE-02RD and 05SD-08RD). These contracts represent the work from the St. Clair Station at Yonge Street west to Vaughan Road.

Audit found the City's administration and management of these contracts unacceptable. The Auditor General for the City of Toronto has completed a number of construction audits and found similar findings. Specifically, in 2006 there was an audit of the 'Reconstruction of Queensway Eastbound Lanes' and in 2007 there were audits of 'Toronto Water and Sewer Emergency Repair Contracts' and 'Leaside Bridge Structure Rehabilitation Contract'.

This audit found the following specific concerns with the three contracts:

Concrete-

- From the test results made available to Audit there were numerous concrete tests which failed the Compressive Strength Cylinder Test. Contract 05SD-08RD resulted in 49 of 103 being failures. Contract 06TE-02RD Audit looked at 56 tests and found that 21 failed. Contract 06TE-02RD Audit looked at 67 tests and found that 10 failed.
- The Contractor is not replacing the poor quality of concrete or being financially penalized even though the contract documents contain provisions to address such issues.
- There is no analysis to ensure that all the test results are submitted and no summaries are created.

A TTC audit on the surface track replacement program in February 2005 identified problems with City contracts regarding concrete failures. TTC management made a commitment at that time to work with City staff to address the issues. However, Audit found little change.

Extra Work Orders-

- Extra work order (EWO) payments are only supported by the Contractor's submissions. Files provided to Audit indicated that quantities, rates, hours and credits have no supporting calculation or reference.

Contract Administration Documentation-

- The review of field measurements showed that there were missing calculations to support payments; and station references are lacking to ensure there are no duplicate payments.
- There is no consistent process in place to support payments made to pay duty police officers.
- Communication documentations with the Contractors were missing.
- There is no agreed to list of the contractor's employees' hourly rates.

Consultants and Legal Services

This amount was made up of \$1.4 million in consultant assignments and \$.5 million in legal services.

The majority of the consultant fees were from Marshall Macklin Monaghan. Audit reviewed their invoices and identified a sample of submitted employees' billed labour rates and hours; and visited the offices to examine their payroll records. Audit was able to verify all the billing rates and is satisfied with their calculations.

The legal services were from Stikeman Elliot related to the judicial review. All the approvals for payments have been followed and supported.

Materials

The material charge is mainly for the supply of steel poles from Powco Steel. A previous audit had been done on Powco Steel contracts, and Audit was satisfied with their administration by TTC staff.

Other charges included rental of equipment and use of police for traffic control by TTC staff. Audit found adequate documentation for these expenditures.

TTC Labour and Fringes & Overhead (including Alternate Transportation)

Labour charges from the Transportation Department made up \$.8 million of this expenditure for providing alternative transportation services. These additional services require volunteer work which has a premium associated with it. Audit found that these charges could be verified and traced back to the appropriate TTC systems and records.

The balance of this expenditure was mainly from the Signals/Electrical/Communications and Surface Track Departments for labour charges. No unexplainable charges were noted.

RECOMMENDATION

TTC should be more proactive with the City's administration of the roadway contracts to ensure that value for the money is achieved.

Audit Manager
Internal Audit

Audit of the Reserved Transit Lanes on St. Clair Avenue

Audit Recommendation:

"TTC should be more proactive with the City's administration of the roadway contracts to ensure that value for the money is achieved."

Management Responses:

Management agrees with Audit's recommendation. Specific responses to each finding are set-out below;

Finding:

A TTC audit on the surface track replacement program in February 2005 identified problems with City contracts regarding concrete failures. TTC management made a commitment at that time to work with City staff to address the issues. However, Audit found little change.

Response: Following the 2005 audit, Streetcar Way management approached City staff to discuss the findings and ways to address same. While it was determined that the failed concrete posed no risk to the Commission's streetcar operations from concrete failure or reduced life-cycle, it was acknowledged by all parties that a change in process was required. Following the discussions, City staff strengthened its contract language to specifically layout penalties to contractors not meeting the specification. These penalties, left to the discretion of the engineer, could take the form of a financial penalty or the outright removal of the suspect concrete.

Further, a process necessary to record, summarise and track to closure individual test results was implemented. At the completion of each test a copy of the results are forwarded electronically to the TTC's Construction Supervisor from the City's contracted material testing consultant. Upon receipt any failed test is then discussed with both City staff and the General Contractor at the next project site meeting. These discussions are captured in all minutes of meeting.

The above process changes has resulted in several contractors being assessed contract penalties which have included the removal of sub-standard surface concrete as well as financial damages.

Finding

Extra work order (EWO) payments are only supported by the Contractor's submissions. Files provided to Audit indicated that quantities, rates, hours and credits have no supporting calculation or reference.

Response: Upon receipt of this audit Streetcar Way management met with the City's Director – District Engineering Services - Technical Services to review these results. As mentioned, similar audit issues had been found by City audits of Technical Services contracts. In response to these audits Technical Services staff has responded with the development of standards and procedures to cover these and other contract administration tasks. Today, each EWO processed by the City on behalf of the Commission is reviewed and sign-off by the Commission's Construction Supervisor prior to payment.

Finding

Contract Administration Documentation-

- *The review of field measurements showed that there were missing calculations to support payments; and station references are lacking to ensure there are no duplicate payments.*
- *There is no consistent process in place to support payments made to pay duty police officers.*
- *Communication documentations with the Contractors were missing.*
- *There is no agreed to list of the contractor's employees' hourly rates.*

Response: Similar to the finding above, City – Technical Services staff has been very responsive to these matters by developing standards and procedures for City contract staff to guide them in these specific duties. Commission staff commit to reviewing all contract documentation applicable to TTC contracts prior to the initialisation of payment. Any discrepancies will be noted in documentation back to the City to ensure closure.

In summary, Streetcar Way management agrees with Audits findings and has committed to continue working with City staff on resolution of these items to ensure value for money.

Jim Teeple