

To: Metrolinx Board Report

From: Robert Siddall
Chief Financial Officer

Date: June 27, 2017

Re: **Results of Internal Audit Follow-up on Auditor General's 2016 Report
Metrolinx - Public Transit Construction Contract Awarding and Oversight**

Executive Summary

The Ontario Auditor General released her report on Metrolinx - Public Transit Construction Contract Awarding and Oversight on November 30, 2016. The Metrolinx Board of Directors asked that action plans be tracked periodically through the Board and the Audit, Finance and Risk Management Committee. Metrolinx Internal Audit has conducted an audit of the current status of management action plans. The objective of this engagement was to assess and validate management action plans and timelines for presentation at the June 2017 Board of Directors and Audit, Finance and Risk Management Committee meetings.

This audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing and with Canadian Generally Accepted Auditing Standards for information other than financial statements. The assessment consisted primarily of inquiry, review of documentation, review of processes implemented or in the process of being implemented, analytical procedures and discussion with Capital Projects Group and Procurement Services.

Generally, management is on track to complete their action plans within agreed upon timelines, with one exception. There has been a six month delay in completing the implementation of the Vendor Performance Management system within Procurement Services due to challenges uploading historical data in the system to allow vendor evaluations based on past performance. Procurement is working with PwC to map out next steps to ensure completion of a successful implementation. Procurement has provided a revised completion date for system implementation for the end of Q4 2017-18.

Capital Projects Group (CPG) has made significant progress in implementing a suite of policies and procedures to guide the capital project contract management process. Progress has also been made on the roll-out of a contract management system across CPG. Pre-planning is underway on the negotiation of renewed contracts with CN and CP.

High-level summary status for each action plan is provided in *Appendix A*.

Key Highlights

Since the issuance of the Ontario Auditor General Audit report, Metrolinx management has made progress in developing policies and procedures to guide contract management and oversight activities. Key highlights from the follow-up assessment are:

- **Developing new contract management systems, policies and procedures -** Capital Project Group (CPG) has made significant progress in developing a set of nine policies and procedures to guide the contract management process from initiation through completion. Most procedures have gone through the internal approval process, and training is being provided across the rail corridors on new procedures. All new contracts are to be managed within the Primavera Contract Management (CM14) System. Active historical contracts are currently being loaded in the system. Training on CM14 is currently being provided across CPG. New CPG procedures reference CM14, which ensures staff roles and responsibilities and system workflows are clear. (Timeline: Q3 2017-18).
- **Implementing a Vendor Performance Management (VPM) system -** Procurement Services is completing implementation of a VPM system to enable Metrolinx to fully consider past contractor performance in the award of tender contracts. Internal and external training on the Metrolinx VPM program and software tool was completed in December 2016. The process of populating the baseline data into the VPM software tool is ongoing, and is expected to be completed by the end of Q4 2017-18. The pilot tender evaluation process using VPM data is expected to be completed by the end Q3 2017-18. The completion of these outstanding activities will facilitate the full utilization of VPM data in the evaluation and awarding of the request for tender.

PwC is conducting a Health Check review on the Vendor Performance Management program implementation. Internal Audit has validated the above information against PwC's preliminary results. The final report on this assessment is expected in Q1 2017-18.

- **Negotiations with CN & CP -** Legal Services is currently working with Operations and Capital Projects Group to review potential updates to the Master Construction Agreement with CN, including potential revisions to commercial terms. Linkages between the construction and operating agreements are being considered throughout the revision process.

External experts on construction contracting have also been engaged to provide recommendations on potential areas for further negotiation of terms. Given the level of complexity of these negotiations, an estimated timeline for completion cannot be provided.

- **Other matters -** Metrolinx continues to consider the use of independent inspectors for CN & CP contracts to perform audits on work completed, cost incurred, and invoices. Procurement Services, CPG, and Legal Services are still

working to assess the incorporation of standard liquidated damages terms for all construction contracts.

Next Steps

For policies and procedures implemented in the last quarter, Internal Audit was unable to conduct sample compliance testing due to the limited number of new projects initiated within the period of review. Metrolinx Internal Audit will complete follow up sample testing as part of the next update in September 2017 to ensure completed action plans over the last quarter have been effectively implemented for new capital projects initiated within the 2017-18 fiscal cycle.

Metrolinx management will continue to provide detailed action plans to support the implementation of recommendations resulting from the Auditor General's 2016 Report on Metrolinx - Public Transit Construction Contract Awarding and Oversight. Metrolinx Internal Audit will revisit the management assessment to verify the current status of action plans in Q3 2017-18 for presentation at the September 2017 Audit, Finance and Risk Management Committee meeting and Board of Directors meeting.

Respectfully submitted,

Robert Siddall
Chief Financial Officer

Attachment:

Appendix A: Auditor General Follow-up Action Plan Status Tracking Template

Appendix A - Auditor General Follow-up Action Plan Status Tracking Template

Recommendation	Metrolinx's Action Plan Status on the Auditor General's Report			
	Action Plan Completed	Action Plan on track	Minor implementation delays	Action Plan not Started, or significant delays
1. Consistent Design Quality Compliance			◆	
2. A. Recovering Costs of Errors and Omissions		◆		
2. B. Vendor Performance Management System				◆
3. Tracking Cost Overruns		◆		
4. Contractor Scheduling	◆			
5. Certificate of Recognition (COR) program		◆		
6. Safety Oversight			◆	
7. Liquidated Damages			◆	
8. Tracking and Administering warranties		◆		
9. Quality Management Plan Requirements			◆	
10. Lien Validation			◆	
11. Contract Administration processes and procedures			◆	
12. Contract Management System (Primavera Contract Management, CM14)		◆		
13. A. Development of a Payment Procedure	◆			
13. B. Accounts Payable system		◆		
14. Review process for CN/CP estimates and payment	Refer to # 11			
15. CN/CP Agreements		◆		
16. Independent Inspection Process (CN/CP)		◆		
17. Renegotiate CN/CP Contracts		◆		
Totals	2	9	6	1