



INFORMATION REPORT

TO:	Chair and Members Audit, Finance and Administration Committee
COMMITTEE DATE:	August 16, 2017
SUBJECT/REPORT NO:	Audit Report 2016-08 – Review of the CityHousing Hamilton Parking Lot Project at 395 Mohawk Road East (AUD17021) (City Wide) (Outstanding Business List Item)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	Charles Brown CPA, CA, CPA (Illinois) 905-546-2424 x4469
SUBMITTED BY:	Charles Brown CPA, CA, CPA (Illinois) Director, Audit Services City Manager's Office
SIGNATURE:	

COUNCIL DIRECTION:

During the November 23, 2016 meeting, the Audit, Finance and Administration Committee directed the Director of Audit Services to “undertake a review of the implementation of the renovation and/or repairs to the parking lot project at 395 Mohawk Road East and report back to the Audit, Finance & Administration Committee”.

BACKGROUND INFORMATION:

In October 2015 Council committed \$350,000 of the Ward 7 Area Rating Reserve account to CityHousing Hamilton in order to expand the parking lot and relocate parking lot entrances at 395 Mohawk Road East. This budget amount was based on a \$323,000 project cost estimate provided by a landscape architect firm (“consultant”) that completed parking lot and landscaping projects for CityHousing Hamilton (CHH) in the past. The cost estimate contained various costs for the parking lot entrance relocation and parking lot expansion such as demolition, lighting, sod, concrete curbs and asphalt paving. The project cost was rounded up to \$350,000 to cover a \$27,000 contingency that was created for potential electrical and civil engineering fees, the approved cost of the consultant (\$9,950), the non-recoverable portion of HST to be borne by CHH and other unforeseen circumstances.

To date CHH has spent \$115,325 of the \$350,000 budget on the consultant and estimates for completion of the project have risen to \$1.1 million.

OUR Vision: To be the best place to raise a child and age successfully.

OUR Mission: To provide high quality cost conscious public services that contribute to a healthy, safe and prosperous community, in a sustainable manner.

OUR Culture: Collective Ownership, Steadfast Integrity, Courageous Change, Sensational Service, Engaged Empowered Employees.

SUBJECT: Audit Report 2016-08 – Review of the CityHousing Hamilton Parking Lot Project at 395 Mohawk Road East (AUD17021) (City Wide) (Outstanding Business List Item) – Page 2 of 5

OBJECTIVES:

The purpose of our review was to investigate and report on the circumstances surrounding the escalation of cost of the Mohawk Road East Project including reasons for any cost increases, and the effectiveness of processes to plan, procure and resource the project to its approved budget.

FINDINGS AND OBSERVATIONS:

- CityHousing Hamilton (CHH) hired a consulting firm, without competitive quotations, to complete a topographical survey, drawings, specifications and construction details for entrance relocation and parking lot expansion. Their quote for the work was \$9,950 plus HST.
- The consultant's quote specified that any costs associated with site approvals, electrical and civil engineering was not included however we could find no evidence of these costs being included in any original cost estimates for the total amount of the work.
- Per CHH Policy, three written quotations should have been prepared; however, they were not, and the technical consulting firm was hired based on their previous work.
- CHH should have entered into a written agreement with the consultant containing assignment definition, responsibilities, timing, rates, etc., however we were advised a formal contract outlining these items does not exist.
- The budget for consulting (\$9,950) was to be paid from the contingency portion (\$27,000) of the approved area rating (\$350,000) for the project however this would later prove to be inadequate.
- The area rating dollars (\$350,000) were committed based on \$323,000 for site work and \$27,000 contingency. Within ten days of Council's area rating approval the consultant presented two alternative concepts for entrance and parking lot design that were estimated at \$337,200 and \$289,800 (as compared to the \$323,000 in the original estimate).

OUR Vision: To be the best place to raise a child and age successfully.

OUR Mission: To provide high quality cost conscious public services that contribute to a healthy, safe and prosperous community, in a sustainable manner.

OUR Culture: Collective Ownership, Steadfast Integrity, Courageous Change, Sensational Service, Engaged Empowered Employees.

SUBJECT: Audit Report 2016-08 – Review of the CityHousing Hamilton Parking Lot Project at 395 Mohawk Road East (AUD17021) (City Wide) (Outstanding Business List Item) – Page 3 of 5

- Within one month of Council’s area rating approval it became apparent there had been misunderstanding about responsibility for design and construction related to the changes required to the road intersection and signal infrastructure. Substantial additional costs would have to be borne by CHH related to intersection design and construction. However timely clarification of the City’s role and financial responsibility and the impact of additional costs in relation to the overall budget and use of approved area rating does not appear to have been sought.
- It was five months later in April 2016 that CHH approved a revision to the consultant’s work to address these additional intersection requirements and come up with design and costing for the full scope of work including intersection/right of way modifications. A new consulting fee was estimated at \$125,400 (up from \$9,950) including subcontracting of specialist consultants (subcontractors) through this firm. We found no evidence of there being a re-evaluation of the business case or funding options for the project, or separate competitive process for the additional work. CHH added this work to the consultant’s scope and the only source of funding for these additional costs was the approved area rating funds. According to the consultant, all scope additions and cost increases were verbally discussed and approved by CHH. Audit Services was unable to investigate further because the manager responsible for handing this project no longer works for CHH.
- Ultimately, the consultant’s cost, originally estimated at \$9,950, rose to \$115,325 and the total estimate for the project rose to \$1.1 million from \$350,000.
 - The additional consulting costs consisted of \$63,035 in fees for subcontractors hired to redesign the Mohawk Road East/Mall Road intersection as a result of relocating the parking lot entrance to 395 Mohawk Road East and to undertake a traffic study to assess requirements for median modifications and “storage” space for a left turn lane. The original project scope did not include intersection design and drainage considerations as it was initially assumed by CHH that this work would be the City’s responsibility.
 - An additional \$24,645 in design fees was incurred as a result of additional effort as the project changed as well as fees to the consultant for administration of sub consultants.
 - An additional \$17,520 in fees was for civil work and site lighting work that were not included in the original project cost estimate.

OUR Vision: To be the best place to raise a child and age successfully.

OUR Mission: To provide high quality cost conscious public services that contribute to a healthy, safe and prosperous community, in a sustainable manner.

OUR Culture: Collective Ownership, Steadfast Integrity, Courageous Change, Sensational Service, Engaged Empowered Employees.

SUBJECT: Audit Report 2016-08 – Review of the CityHousing Hamilton Parking Lot Project at 395 Mohawk Road East (AUD17021) (City Wide) (Outstanding Business List Item) – Page 4 of 5

- We found there was no documentation, such as a revised contract or change orders, to evidence scope and cost changes and approvals. There was also no evidence that CHH had considered the additional design costs and related construction impact in relation to the overall project budget before scope changes were approved; or that CHH performed due diligence on the project costs, design work estimates and estimated construction costs provided by the consultant.
- In April 2016 City staff confirmed that \$160,000 in funding would be set aside to fund above ground signal infrastructure only.
- In the summer of 2016 a site plan application was submitted to the City.
- In October 2016, staff in CHH asked for a complete estimate and breakdown of costs for the entire project.
- On November 7, 2016 the consultant produced an estimate for the entire project including intersection work for \$1,071,000 plus \$107,100 contingency.
- The revised estimate included:
 - \$274,000 plus HST parking lot entrance relocation
 - \$297,000 plus HST proposed parking lot expansion
 - \$60,000 plus HST interior civil work
 - \$400,000 plus HST Mohawk Road works (intersection work)
 - \$40,000 plus HST contract administration / construction review
 - \$107,100 contingency
 - \$1,178,000 plus HST total cost
- From the original estimate of September 2015 this reflected an approximate increase of:
 - \$400,000 road works/intersection
 - \$60,000 low impact swale
 - \$40,000 contract administration
 - \$150,000 paving/curbing – entrance
 - \$100,000 paving/curbing/planning – parking lot
 - \$107,100 contingency
- In the course of our work we also learned that consultants subcontracted for intersection design and costing were submitting their work to City staff who supplied suggested revisions, including more realistic cost estimates.

OUR Vision: To be the best place to raise a child and age successfully.

OUR Mission: To provide high quality cost conscious public services that contribute to a healthy, safe and prosperous community, in a sustainable manner.

OUR Culture: Collective Ownership, Steadfast Integrity, Courageous Change, Sensational Service, Engaged Empowered Employees.

SUBJECT: Audit Report 2016-08 – Review of the CityHousing Hamilton Parking Lot Project at 395 Mohawk Road East (AUD17021) (City Wide) (Outstanding Business List Item) – Page 5 of 5

CONCLUSION:

- CHH did not conform with expected norms in managing the project in accordance with their own policies.
- There was no comprehensive scoping and costing of the project at the outset; thus it never became apparent until much further along what the ultimate cost would be.
- CHH should have obtained earlier clarification from the City regarding the work that needed to be done, the full cost implications and agreement as to City vs. CHH responsibilities, preferably in written and comprehensive form.
- Had comprehensive costing been obtained at the outset a more informed decision could have been made regarding the commitment of area rating dollars and expenditure of monies to outside consultants.
- Overall the project was not managed with sufficient rigor to ensure due regard for economy. Insufficiencies in planning, communications with City staff, procurement processes and project management led to the project not being properly scoped.

MANAGEMENT RESPONSE:

The consulting services obtained for the project at 395 Mohawk did not follow procurement policies. When this became evident to CHH, the project was put on hold and all respective parties were informed. There have been two meetings with residents at 395 Mohawk to keep them aware of how this project will move forward. Once the audit is finalized, CHH will work with Councillor Skelly to determine the extent of the work that can be completed on this project.

CityHousing Hamilton (CHH) is working towards revising and writing its procurement policies. All of these policies will be taken to the CHH Board for approval. To date, two revised procurement policies have been approved by the Board in February 2017 and the balance of the policies are expected to be presented to the Board for approval in October and November of 2017. It is the intention of CHH to align the procurement policies with the City of Hamilton policies.