

**CITY OF HAMILTON  
 AUDIT REPORT 2013-11  
 CONSTRUCTION CONTRACTS REVIEW  
 FOLLOW UP**

<b>OBSERVATIONS OF EXISTING SYSTEM</b>	<b>RECOMMENDATION FOR STRENGTHENING SYSTEM</b>	<b>MANAGEMENT ACTION PLAN</b>	<b>FOLLOW UP (MARCH 2016)</b>
<p><u>Extra Work and Change Orders</u>                      The construction contracts agreed to between the City and the contractor specify the work to be performed at specific geographic locations. Similarly, a formal purchase order is also created between the contractor and the City specifying the same geographic location where the work is to be performed.</p> <p>Both construction contracts reviewed included extra work and/or change orders, some of which were necessary to accommodate work by the same contractor but carried out at a different location than that stipulated in the original contract and corresponding purchase order.</p> <p>For one of the two projects reviewed, the value of the work at the different location totaled \$285,000. This represented approximately 11% of the value of the total work performed under that Purchase Order. As the work at this different location exceeded \$100,000 and there was neither a separate purchase order nor a written legal agreement for this work, the project violated the City's Procurement Policy #7. The inclusion of work not related to the original contract in these projects' costs results in inaccurate contract costing and reporting as well as making further analysis time consuming.</p>	<p>1. That the status of funding sources and expenditures for individual projects be disclosed in regular Council reporting along with reasons for the completed project surplus or deficit and details of extra work and/or change orders.</p> <p>2. That the City's Procurement Policy requiring both a purchase order and the written legal agreement for construction contracts of \$100,000 or greater be adhered to when assigning extra work and/or change orders to contractors.</p>	<p>Agreed. Contract Status is reported to standing committees on a regular basis. This disclosure will be added to that reporting. To start with the June 2014 reporting cycle.</p> <p>Agreed. Extra work, when paid from the contingency fund of the contract, is covered under the terms of the existing contract and agreement. Work authorized under the Procurement Policy 11 and paid for under an existing purchase order and/or contract is also compliant with the Policy. Policy 7 and Policy 11 requirements will be strictly enforced.</p>	<p>Completed. The Capital Project Status Report is used to update Council on the status of project funding sources and expenditures. This report also provides rationale for project surpluses or deficits and details of extra work and/or change orders.</p> <p>Completed. Based on the sample of files reviewed by Audit Services, the City's Procurement Policy requirements that a purchase order and a written legal agreement for construction contracts of \$100,000 or more is being followed when extra work and/or change orders have been assigned to contractors.</p>

**PUBLIC WORKS – CONSTRUCTION CONTRACTS REVIEW FOLLOW UP  
MARCH 2016**

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<p><u>Contract Administration</u> The materials used and the work performed by the contractor are tracked each day by the Inspector using a journal. At the end of each month, the amounts in the journals are summarized and submitted by the Inspector to the Project Manager. The volume of the work tracked is used to calculate the progress payment remitted to the contractor for the work performed.</p> <p>A comparison of the Inspectors' journals with the total progress payments indicated that, at the completion of the project, the contractor was paid only for the work performed and the materials used. However, for the first two progress payments of one of the contracts reviewed, the contractor was pre-paid for work before it was recorded by the Inspector. Such pre-payment for work and materials is not a good practice as it removes the urgency of completing the work in a timely manner by the contractor. It also places the City's funds at risk should the contractor meet with financial or performance difficulties.</p>	<p>3. That progress payment quantities agree with quantities as noted in the Inspectors' diaries on a payment-to-payment basis in order to ensure the contractor is only paid for completed work.</p>	<p>Agreed. It is current practice that the payment certificate quantities are based on Inspector diary measurement notations. There may be instances where there is a minor variance between certificate payment quantities and Inspectors' notes. These minor temporary variances are a function of pending work and rationalization of available resources. All final quantities are subject to multiple levels of review and work flow scrutiny.</p>	<p>Not Completed. Based the testing completed by Audit Services, quantities noted on the Progress Payments are often based on estimates. These estimates were found to consistently exceed the actual quantities reported on the weigh tickets. Therefore, contractors are being paid for work that has not been completed. A similar issue (Project Quality Assurance) was identified as part of Audit Report 2015-11, Construction Contracts Review. Management has indicated this will be addressed immediately.</p>

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<p><u>Procedures</u>                      Management in Construction Services has no written formal procedures to guide its staff in the identification, tracking and correction of contract deficiencies during the warranty period.</p> <p>When written procedures do not exist, staff carrying out the process rely on personal understanding and experience which could result in incorrect, incomplete or inconsistent application. It would also be problematic and inefficient for a successor to commence his/her duties within a short period of time.</p>	<p>4. That comprehensive procedures for the identification, tracking and correction of contract deficiencies during the warranty period be written, approved by management and implemented by staff in the Construction Services section.</p>	<p>Agreed. Construction Services will formalize and document existing policies and procedures with respect to warranty period issues.</p>	<p>Initiated. A formal document describing the process used to identify, track and correct project deficiencies has been developed. However, this document does not provide step by step guidelines for staff to follow in order to properly document and correct project deficiencies during the warranty period.</p> <p>This item was again identified as an audit observation as part of Audit Report 2015-11. Per the Management Action Plan in Report 2015-11, the estimated completion date is Q2 2017.</p>