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Final Report

2014-707 Examination of Construction Management Contract for the 180 Wellington Renovation Project

September 18, 2014

Office of Audit and Evaluation



Final Report

July 29, 2014

To the Parliamentary Precinct Branch and Acquisitions Branch, Public Works and Government Services Canada

Subject: Cost Audit of the EllisDon Corporation Contract for the 180 Wellington (the Wellington Building) Renovation Project for the period from January 1, 2012 to October 31, 2013 (21 invoices)

PricewaterhouseCoopers LLP (PwC) was engaged by Public Works and Government Services Canada Parliamentary Precinct Branch and Acquisitions Branch.

We recently completed a cost audit under Canadian Auditing Standards (CAS) 805 of the Construction Management (CM) Contract for the 180 Wellington Renovation Project between EllisDon Corporation (EllisDon) and Parliamentary Precinct Branch, Public Works and Government Services Canada (PWGSC-PPB) for the period from January 1, 2012 to October 31, 2013 (21 invoices).

We hereby enclose our audit report on the Summary of Invoiced and Audited Amounts (21 invoices) and our recommendation based on our audit.

Yours very truly,

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

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1. Background

The Long-Term Vision and Plan (LTVP) for the Parliamentary Precinct, which was approved in 2001 and amended in 2007, is a detailed framework that provides direction for the renewal of Canada's seat of government, the Parliamentary Precinct. This renewal and preservation program is expected to unfold as a series of major projects (Major Crown Projects) implemented in phases.

As part of the LTVP, the Government of Canada awarded construction management services contracts and commenced rehabilitation of the Parliament Buildings including the West Block on Parliament Hill, the Wellington Building (180 Wellington Street) and the Sir John A. Macdonald Building (formerly the Bank of Montreal Building, 144 Wellington Street). The construction phases for these three Major Crown Projects are expected to be completed by 2017.

Following a competitive bidding process PricewaterhouseCoopers LLP (PwC) was awarded a contract by the Parliamentary Precinct Branch and Acquisitions Branch of Public Works and Government Services Canada (PWGSC-PPB) to conduct various independent audits throughout the construction phases of the three Major Crown Projects noted above.

EllisDon Corporation (EllisDon) was awarded the Construction Management Services Contract for major interior fit-up and systems for the 180 Wellington Renovation Project. The construction contract was awarded on December 15, 2011 for an initial award value of \$142,639,765 (HST excluded).

PwC's current engagement was to audit that the amounts invoiced by EllisDon for the period from January 1, 2012 to October 31, 2013 (21 invoices) were in accordance with Annex B of the contract between EllisDon and PWGSC-PPB.

Upon the completion of our audit, PwC issued a clean auditor's report in accordance with Canadian Auditing Standards (CAS) Section 805. Refer to Section 2 of this report.

2. Auditor's Report

**PUBLIC WORKS AND
GOVERNMENT SERVICES CANADA**

Summary of Invoiced and Audited Amounts

ELLISDON CORPORATION

Construction Management Contract for 180 Wellington Renovation Project.

For the period from January 1, 2012 to October 31, 2013 (21 invoices)

July 29, 2014

INDEPENDENT AUDITOR'S REPORT

To the Parliamentary Precinct Branch and Acquisitions Branch, Public Works and Government Services Canada (PWGSC-PPB)

We have audited the accompanying Schedule 1 (the Schedule) of amounts invoiced by EllisDon Corporation (EllisDon) for the period from January 1, 2012 to October 31, 2013 (21 invoices). The Schedule has been prepared by the management of EllisDon in accordance with Annex B – Basis of Payment of the Construction Management Contract for the Government of Canada's 180 Wellington Renovation (CM Contract) dated December 15, 2011.

Management's responsibility for the Schedule

Management of EllisDon is responsible for preparation of the Schedule in accordance with the requirements of Annex B – Basis of Payment of the CM Contract, and for such internal control as management of EllisDon determined necessary to enable the preparation of the Schedule that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the Schedule based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Schedule is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Schedule. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Schedule, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to EllisDon's preparation of the Schedule in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of EllisDon's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by EllisDon management, as well as evaluating the overall presentation of the Schedule.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial information in Schedule 1 of amounts invoiced by EllisDon Corporation for the period from January 1, 2012 to October 31, 2013 (21 invoices) is prepared, in all material respects, in accordance with the requirements of Annex B – Basis of Payment of the CM Contract.

Basis of accounting and restriction on use

Without modifying our opinion, we draw attention to Note A of the Schedule, which describes the basis of accounting. The Schedule is prepared to assist PWGSC-PPB in meeting its fiduciary duties regarding the execution and management of Major Crown Projects such as the 180 Wellington Renovation Project, in accordance with specified Treasury Board standards and guidelines. As a result, the Schedule may not be suitable for another purpose. Our report is intended solely for PWGSC-PPB and EllisDon and should not be used by parties other than PWGSC-PPB and EllisDon.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

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Examination of Construction Management Contract for the 180 Wellington Renovation Project

Final Report

**Summary of Invoiced and Audited Amounts
Construction Management Contract for the 180 Wellington Renovation
Project**

Between EllisDon Corporation (EllisDon) and
Public Works and Government Services of Canada (PWGSC-PPB)
For the period from January 1, 2012 to October 31, 2013 (21 invoices)

Schedule 1

	Amounts Invoiced to PWGSC-PPB \$ (Note 1)	Total Adjustments \$ (Note 2)	Total Audited \$ (Note 3)
Direct Costs (Note 4)	36,069,958	-	36,069,958
Indirect Costs (Note 5)	8,043,484	-	8,043,484
TOTAL INVOICED	44,113,442	-	44,113,442

A. SUPPLEMENTARY NOTES

The Government of Canada's 180 Wellington Renovation Project (the "Project") involves the renovation and rehabilitation of the Wellington Building to be transformed from an administrative office space into parliamentary accommodations. The total cost estimate of the Project of \$425.2 million includes CM contract costs, design fees, information technology systems, project management fees and contingencies.

1. Amounts Invoiced to PWGSC-PPB

The amounts invoiced in the above noted Schedule 1 (the Schedule) represent the eligible costs invoiced by EllisDon during the period from January 1, 2012 to October 31, 2013 (21 invoices) to PWGSC-PPB in relation to the Project. The amounts invoiced in the Schedule above were reconciled to the summary of expenses invoiced to date as of October 31, 2013.

2. Total Adjustments

As noted in the Schedule above, no exceptions arose from audited amounts and therefore no adjustments of Amounts Invoiced to PWGSC-PPB as per the Schedule above were required.

3. Total Audited

These amounts represent the amounts invoiced to PWGSC-PPB, net of any adjustments. Total amounts audited relate to amounts invoiced from January 1, 2012 to October 31, 2013 (21 invoices) and does not include an audit of the CM Contract as a whole.

The notes below describe the types of costs invoiced by EllisDon during the period.

4. Direct Costs

Direct costs include construction costs which are incurred by all subcontractors who invoice EllisDon. EllisDon then charges these costs back to PWGSC-PPB.

5. Indirect Costs

Indirect costs include Construction Management Services, disbursements for permits, insurances and bonding, and construction general expenses.

3. Recommendation

In connection with this audit we considered the internal control over amounts invoiced as a basis for designing our auditing procedures for the purpose of expressing our opinion on the first 21 EllisDon invoices of the CM Contract, but not for the purpose of expressing an opinion on EllisDon's or PWGSC-PPB's internal controls. Accordingly, we do not express an opinion on EllisDon's or PWGSC-PPB's internal controls.

Our consideration of internal controls over amounts invoiced was for the limited purpose described above and was not designed to identify all deficiencies or opportunities for improvement in internal control and therefore, there can be no assurance that all internal control matters have been identified.

We are providing you with our observation and recommendation on a potential opportunity for improvement noted in conjunction with the cost audit.

#1 - Standardized and more robust documentation processes

Observation

Based on the work performed as part of the cost audit, we noted instances where supporting information in relation to the Project was not documented by the CM in a consistent manner. For example, we noted one instance where an additional holdback was imposed by the CM on a subcontractor however this was not formalized in writing.

Recommendation

While we did not note any errors or adjustments as a result of this observation, we recommend that all supporting information be consistently documented and retained on file.

PWGSC-PPB Response

PWGSC-PPB has reminded the Construction Manager to retain all appropriate and required supporting records in a consistent manner.

4. Scope, Limitations in Scope and Restrictions

A financial statement audit is generally performed with the objective of providing reasonable assurance that financial statements as a whole are free from material error. An audit of a schedule of amounts invoiced (cost audit) is generally performed with the objective of highlighting differences between amounts invoiced and the underlying documents supporting the amounts invoiced in order to provide reasonable assurance that amounts invoiced are in accordance with the terms of a specific agreement.

PwC was not engaged to and did not perform a financial statement audit for the purpose of expressing an opinion on historical financial statements in accordance with standards established by the Chartered Professional Accountants of Canada (CPA Canada). Accordingly, PwC does not express such an opinion or any form of assurance on the financial statements of PWGSC-PPB or of EllisDon as a whole.

PwC was engaged to perform a cost audit on the amounts invoiced by EllisDon to PWGSC-PPB. The procedures undertaken were consistent with Canadian Auditing Standards 805, “Special Considerations — Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement”. As a result, we have expressed an opinion solely on whether the amounts invoiced by EllisDon to PWGSC-PPB between January 1, 2012 and October 31, 2013 (21 invoices) are in accordance with the terms of the CM Contract.

We reserve the right, but will be under no obligation, to review this report, and if we consider it necessary, to revise our report in light of any information, which becomes known to us after the date of this report.