



An agency of the Government of Ontario

**CONFIDENTIAL
MEDIUM SENSITIVITY**

GO Transit

Final Report

Projects with CN

April 2015

Metrolinx Internal Audit Division

Executive Summary

Background and Approach

In the fall of 2013, there were allegations in the press of improper billings and overcharging by CN to GO Transit (GO) with respect to GO's rail service expansion program in the mid 2000s. The billings in question were those related to a project that commenced in 2004, known as the Lakeshore West Project, involving construction activities performed for GO by CN on CN-owned shared-use rail corridors.

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This audit sought to determine whether there was historical evidence to support or refute the allegations that GO had been billed by CN for work not done, had been billed by CN for amounts other than as agreed to, or had been billed by CN for work unrelated to the agreed-upon scopes.

The audit involved a review of the contractual agreements between CN and GO Transit, interviews with key personnel at GO Transit, a review of project-specific documents available at GO Transit, a review of publicly-available information, and exercising the audit rights included in the contracts between GO Transit and CN.

Summary of Observations

We are unable to conclude that there is any documentary or other support, or any concerns that had been identified by GO Transit, for the allegations that GO Transit did not receive the agreed-to deliverables or was being improperly billed by CN.

The expansion project that was the subject of the allegations was considered well managed. It received an award in 2011 from the Association of Consulting Engineering Companies (ACEC) for "excellent program management in significantly increasing capacity, safety and security on the GO Transit system".

Significant Issues and Action Plans

There are no significant issues noted as a result of this audit.

Our work confirms that there is a range of preventative and detective controls with respect to construction projects, as well as continuing investment in developing additional controls and improving the underlying systems.

Internal Audit will continue to monitor progress in this area.

Detailed Report

1.0 Background

The GO Transit Rail Improvement Program (GO TRIP) was launched in 2003, and was funded by three levels of government through the Canada Strategic Infrastructure Fund (CSIF).¹

GO TRIP focused on increasing the capacity and reliability of GO Transit's commuter rail network while improving passenger safety and system security. A critical goal of GO TRIP was to reduce the interface between GO trains and the growing volumes of CP and CN freight traffic. As the shared rail corridors are used by both passenger and freight services, any increase in volume will, unless rail corridor capacity is expanded, result in trains travelling in closer proximity to each other, causing increased risk, congestion and delays.

It was important to GO Transit that it maintained safe and uninterrupted rail system operations while this GO TRIP expansion took place. GO Transit management and staff focused on transit operations and via a competitive process selected AGM Program Managers, a consortium of firms² to implement the GO TRIP initiative. AGM provided overall management of engineering and construction services. This type of professional arrangement is common with large construction projects.

The Lakeshore West project ran from 2004 through 2008 and cost over \$200 million. It added a third mainline to CN's right-of-way to reduce conflicts between GO trains, freight trains and other passenger services operating along that corridor, to permit increased peak hour service to these stations, and to provide for handicapped access.

2.0 Approach

With the number of years that have passed, subsequent changes in the organizational structure at GO Transit, and the end of the reliance on the AGM consortium for managing GO TRIP construction projects, the audit approach has multiple aspects and activities. The following work was performed:

1. Assess current controls at GO Transit, and assess current construction projects underway with CN. **The goal:** determine the strength of GO's controls and assess whether cost details received from CN would be reviewed on a timely basis and not approved until any errors were corrected.

¹ The Canada Strategic Infrastructure Fund provided \$4.3 billion for large-scale infrastructure projects in support of sustaining the economic growth and enhancing the quality of life for Canadians. The Lakeshore West project was approved under the CSIF to run from 2004 through 2011, with an estimated eligible funding limit of \$140 million of which the Federal Government would pay \$46 million.

² AGM Program Managers was named for the three firms in the consortium: Acres International, Giffels Associates Limited, and Marshall Macklin Monaghan Limited (MMM).

2. Review any relevant historical data at GO Transit that may have been retained with respect to the Lakeshore West project from 2004 through 2008. **The goal:** determine if such data still exists and, if yes, whether they support or refute the allegations.
3. Seek access to CN records with respect to Lakeshore West Project. **The goal:** be able to assess the facts with respect to the areas identified by the allegations.

The following illustrates the key elements that were considered and how they were assessed:

	GO Transit	CN
Current	Assess current controls at GO Transit.	Assess current construction projects underway with CN.
Historical	Review any relevant historical data at GO Transit that may have retained with respect to the Lakeshore West Project from 2004 through 2008.	Seek access to CN historical records with respect to Lakeshore West Project.

3.0 Details and Findings

3.1 Current controls and projects:

The first priority was to assess current controls at GO Transit and construction projects currently underway with CN. To do this, we:

1. Performed an audit of GO Transit's current processes and controls surrounding construction projects in the shared rail corridors³.
 - a) This-audit has been completed and reported on to the Audit, Finance and Risk Management Committee of Metrolinx's Board of Directors.
 - b) The audit confirmed that a range of preventative and detective controls are in place to manage risk in each of the areas assessed.
 - c) The audit recognized that GO is endeavoring to improve its existing project management framework, and identified a number of opportunities for improvement.
 - d) GO Transit management developed an action plan to incorporate the audit recommendations into their business plan.
2. Asserted our audit rights under our contracts with CN to look at a selection of current projects under various construction and operating contracts.

³ The audit of construction projects focused on project scope development, review of quotes and estimates and the creation of formal agreements and scope and quality management of the project during construction.

- a) We informed CN of our intention to audit these current projects.
- b) CN agreed and identified the relevant person with whom to coordinate.
- c) There was some delay as we had to identify a firm to help us that was not in conflict by virtue of its business relationship with CN.
- d) Data obtained directly from CN was compared to and supplemented by data obtained from staff at GO Transit.
- e) Meetings were held with CN staff to discuss the details of the data they provided.
- f) Through our analysis of the data received and analyzed:
 - we have not identified any details or patterns that support the allegations
 - we have identified some minor opportunities for improvement in our internal processes with respect to reperformance of detailed calculations in quotes.

Our work confirms that there is a range of preventative and detective controls with respect to construction projects, as well as continuing investment in developing additional controls and improving the underlying systems. There are some minor opportunities for more detailed reviews of quotes and estimates, particularly with respect to documenting that all charges are in accordance with contractual agreements.

3.2 Historical data at GO Transit:

The next priority was to review any historical data that may have been retained by GO Transit with respect to the project from 2004 through 2008. At that time, GO Transit was relying on the AGM consortium to perform all project and portfolio management with respect to the GO TRIP initiative. This consortium was disbanded in 2007-08 and the various people involved in the consortium moved on to other projects or companies or have retired or passed on. With respect to past data, we:

1. Reviewed the documents that had been retained by AGM and provided to and retained by GO Transit.
 - a) These documents were reviewed to determine whether any related to the scope of the individual construction activities that together formed the Lakeshore West Project. There were some such documents but not a complete inventory thereof⁴
 - b) The available documents included some detailed quotes / estimates from CN. To the extent possible we identified that the overhead and management fees were in accordance with the contractual agreements.
 - c) To date, we have found limited documentation retained of the extent of the review that AGM performed on quotes/estimates received from CN.
2. Reviewed relevant internal GO Transit records that had been retained, specifically the submissions to GO Transit Board of Directors with respect to the Lakeshore West Project and the many individual construction activities and phases therein.

⁴ The passage of time and departure of key personnel have made it difficult to obtain a complete picture with respect to activities and transactions in 2004-2006, the period of the allegations.

- a) These Board Submission records were complete.
- b) Our review indicated that the Board approved the commitments for each of the individual construction phases in accordance with the defined approval limits and processes in place at that time.

We are unable to conclude that there is any indication of any concern, at either AGM or GO Transit, that GO was being improperly billed or that GO did not receive the agreed-to deliverables.

3.3 CN records with respect to Lakeshore West Project:

The final priority was to obtain any historical data retained by CN.

1. We asserted our audit rights under the relevant contract(s) with CN to look at their records with respect to the Lakeshore West project.
 - a) CN has noted that GO's contractual audit rights for the projects in questions have expired.
 - b) CN has declined to extend the duration of the contractual audit rights.

3.4 Other work performed:

In addition to records available at GO Transit and CN, we reviewed publicly-available data for the projects, time frame and allegations in question.

1. We identified that GO Transit's expansion project that was the subject of the allegations was considered well managed. It received an award in 2011 from the Association of Consulting Engineering Companies (ACEC) for "excellent program management in significantly increasing capacity, safety and security-on the GO Transit system".
2. We identified that partially worn (PW) materials have been used, as specifically permitted by the governing contract, but did not identify any situations where the use of PW materials posed a safety risk to either freight or passenger transit.
3. We found no conclusive evidence to support that GO Transit and taxpayers were billed for out-of-pocket costs unrelated to the GO Transit expansion program.

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- b) We found no conclusive evidence to support the allegations that GO Transit was billed for work not agreed to, or for work agreed to but not done.
- c) We found evidence that GO Transit was aware that, in order to provide the expanded service it sought, CN would benefit from having improved rail infrastructure including bridge expansions and station/platform improvements.
4. We identified, through an analysis of the statements s.21(1) Personal Privacy that the comments made referred to internal CN cost allocations. We noted that billings to

