

Background

As a part of your developing processes with respect to major capital projects you have asked KPMG LLP ("KPMG") to assist in identifying significant risks and related current mitigation/controls. As a result, the objective of KPMG's engagement was to facilitate the identification of current risks and controls through the conduct of interviews and documentation review. Based on our knowledge of sound business practice within the construction and real estate sector, KPMG will identify other risks and/or identify current mitigation/controls that could be improved. KPMG will also review the current budget for the Sports and Entertainment project ("project") and compare this to the budget approved by council and other related documentation to identify significant changes in budget and significant differences between the current budget and current commitments.

The scope of our engagement was, by design, limited, and therefore the findings and recommendations should be considered in the context of the procedures performed. In this capacity, we were not acting as auditors and accordingly our work did not result in the expression of an opinion and does not constitute an audit engagement. We relied on information and representations of management and others and we relied on management for the completeness of background information provided.

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Status

As of the date of this preliminary report, KPMG LLP has conducted the following work:

- Project initiation meeting on September 6, 2006
- Reviewed of documentation as supplied
- Reviewed KPMG Best Practices and Risk database to identify pertinent contract risks
- Consultations with the following:
 - Doug Aris, EllisDon
 - Denis Leger, City of Kingston
 - Ron Taylor, Arcturus/SMG Canada
 - Lanie Hurdle, City of Kingston
 - Cynthia Beach, City of Kingston
- Analysis of findings

Findings

As a result of our work KPMG has identified a number of risks that appear to be managed at a level higher than the City's desired risk tolerance. Based on the work completed to date there has been a consistent assessment of the significant risks to the City in regards to the Sports and Entertainment construction project.

KPMG has summarized our preliminary assessment of these key risks and identified some potential mitigation strategies for their reduction and/or optimization.

▪ *The risk that insufficient capacity/capability exists in the City to effectively manage the Kingston Regional Sports and Entertainment capital project*

– Current Issues Identified:

- Key deliverables have not been provided or approved in a timely fashion, including: insurance, construction contract, operator contract, site plan presentation deck, noise plan, risk management plan, master project plan, etc.
- Various Operator comments on the Draft drawings have been received and are currently being considered that may impact on the plans, cost and timing and need to be analyzed and assessed soon
- “Owner rep” was absent for an extended period of time due to medical reasons
- Acting “Owner rep” is new to the City and is currently operating at a level beyond capacity because of other work requirements
- Limited expertise exists within the City with respect to this type of project
- Numerous capital projects are ongoing and there are limited City resources that have been assigned to the management of these projects on a full-time basis
- During the interviews, signs of excessive stress were observed

– Impact:

- Potential employee/manager burnout and/or turnover due to the excessive levels of stress
- Certain key activities may not be completed or may be completed at an insufficient level of quality resulting impacts on the timing and cost of the project
- The prime contractor may not be held to account for achieving the performance expected/accountabilities

– Potential Mitigation:

- Hire a dedicated and experienced Owners Rep with preference given to experience in the construction of Sports and Entertainment facilities, City of Kingston (or other municipalities in Ontario) and/or with the Prime Contractor
- Refocus the energies, efforts and priorities of certain current City management to the Sports and Entertainment project in order to accomplish various time sensitive activities (see above)
- Complete a robust process to identify the required actions and activities (City and Contractors) with key milestones. This should be documented in a project master plan and milestones, etc. should be consistent with the project requirements
- If required, specialist contractors should be hired to provide the critical analysis and due diligence necessary to hold key contractors to account for their responsibilities and assess contractor billings

▪ *The risk that roles, responsibilities and accountabilities are unclear, potentially leading to duplication of efforts and/or key actions not being completed*

– Current Issues Identified:

- KPMG was advised that roles and responsibilities are unclear at the governance level and at the “owner rep” level
- Too many people are involved in the decision making and management of project, however, decisions are not being made in a timely and organized fashion (see above)
- The Master plan/schedule is not detailed enough to identify all of the roles and, as a result, it becomes hard to direct the activities of City representatives and hold the Prime Contractor to account for their responsibilities

- There has been some turnover of management within the City
 - Most of the management and staff involved in the project are not dedicated, increasing the importance of clear responsibilities because of the diversity and variation in responsibilities
 - Quality of deliverables appears to have resulted from a lack of understanding of respective internal and external roles, such as, site plan presentation
- Impact:
- Delays may result from untimely decision-making
 - Delays and cost over-runs may result from inconsistent direction that may also effect quality
 - Inefficient/ineffective use of already limited City staff and management time
 - The prime contractor will not be held to account for achieving the performance expected/accountabilities
 - The City may perform work that is the responsibility of the Prime Contractor and effectively reduce their perceived accountability
- Potential Mitigation:
- Complete a robust process to identify the required actions and activities (City and Contractors) with key milestones. This should be documented in a project master plan and milestones, etc. should be consistent with the project requirements
 - Assign clear roles, responsibilities and accountabilities in general and for each action in the project master plan
 - Document and communicate roles, responsibilities and accountabilities in a transparent fashion. Communication channels may include contracts with contractors and job descriptions
 - Hire a dedicated and experienced Owners Rep with preference given to experience in the construction of Sports and Entertainment facilities, City of Kingston (or other municipalities in Ontario) and/or with Prime Contractor
- *The risk that the current risk management plan has not identified all key risks and/or the current and planned mitigation is not sufficient to mitigate risk to the City's level of risk tolerance*
- Current Issues Identified:
- Current risk management plan is incomplete
 - Current risk management plan has been developed with limited consultation of either City management or Prime Contractors
 - Current risks and action plan has not been communicated and a related process for communicating accountability and monitoring related actions has not been established
 - A reporting template for risk management communication and monitoring has not been established
- Impact:
- Major risks may be unknown and therefore key management risk mitigation actions may not be completed on a timely basis
 - Key risk mitigation actions may not be implemented as a result of a lack of process to communicate and monitor risk and related actions
- Potential Mitigation:
- Complete a robust process to identify and communicate key risks and risk mitigation actions
 - Define and implement a communication and monitoring mechanism for risk management

- ***The risk that the current budget is inconsistent with actual commitments to date and/or is not complete***
 - **Current Issues Identified:**
 - Current budget is incomplete, for example, environmental remediation, archeological remediation, various changes from Operator, etc.
 - The budget has not been systematically compared to other contracts/commitments, such as, Prime Contract and Operating contracts to identify any inconsistencies
 - Consultations have identified that the budget may have been prepared with insufficient consultation
 - Consultations identified that there are numerous changes that have been suggested by the Operator
 - The budget contains a limited amount of contingency
 - **Impact:**
 - Without sufficient analysis, the opening budget and possible deviations may not be known early enough to mitigate any negative impacts on the overall cost
 - Changes in cost will need to be evaluated against revenue and financing considerations as their impact may be substantial
 - **Potential Mitigation:**
 - Compare the current budget to the approved budget and other current information with respect to changes in forecasted costs, contracts, etc.
 - Consider having an independent assessment of project design and related costs
 - Identify a process to communicate potential budget changes and centralize their approval and processing (this should include a defined process for change orders)
 - Identify, communicate and implement a format and process for the ongoing review and assessment of the budget and actual cost

Next Steps

In addition to this report, KPMG will prepare analysis of material to provide the City with a table of the project risks that have been identified, the City's current known planned mitigation measures and other suggested mitigation measures, where applicable. KPMG will also report on our comparison of the current project budget to the budget approved by Council and other known commitments.