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Via email

Dear Contractors,

The purpose of this letter is to formally advise you of recent audit findings related to change order practices on City of Toronto capital construction projects, and to reaffirm the City's expectations regarding strict compliance with contract terms, City policies, and change control processes.

On **May 1, 2026**, the City of Toronto's **Audit Committee** considered the Auditor General's report entitled ***Audit of Corporate Real Estate Management: Strengthening Accountability and Oversight of Change Orders in Capital Projects***. The report will be reveiwed by **Councill at its meeting on May 20-22, 2026.** The audit reviewed a sample of capital projects delivered by the Corporate Real Estate Management (CREM) Division and examined change order practices, documentation, approvals, and contractor billing.

While the audit focused on a defined historical period, its findings have direct implications for how change orders are administered going forward.

1. Key Audit Observations

The Auditor General identified several issues requiring improvement across sampled projects, including, but not limited to:

- **Change orders that did not comply with contract terms**, particularly with respect to:
  - Incorrect application of contractual markups;
  - Cumulative markups exceeding contractual limits;
  - Additional charges (such as supervision, project management, insurance, or bonding) applied outside the contract's permitted compensation framework.

- **Insufficient or inconsistent supporting documentation**, including:
  - Incomplete cost breakdowns;
  - Limited evidence supporting pricing, scope, and schedule impacts;
  - Discrepancies between general contractor billings and subcontractor invoices.

- **Approvals and controls weaknesses**, including:
  - Change orders approved late or without all required sign-offs;
  - Inadequate documentation demonstrating review prior to work commencing;
  - Limited evidence supporting confirmation of work completion prior to invoicing and payment.

The audit reinforced that **markups defined in City construction contracts constitute the sole compensation for overhead, profit, and administrative costs associated with a change**, unless expressly permitted otherwise by the contract.

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2. City Expectations – Contract Compliance
Based on the Auditor General's findings, the City of Toronto is reaffirming the following expectations for all General Contractors performing work under City construction contracts:

- **All change orders and change directives must strictly comply with the terms and conditions of the contract**, including:
  - Allowable markup percentages and calculation methodology;
  - Prohibited additional fees or charges;
  - Treatment of subcontractor pricing and markups.

- **Change orders must be fully supported**, at a minimum, by:
  - Clear justification for the change;
  - Detailed and transparent cost breakdowns;
  - Supporting GC and subcontractor documentation where applicable;
  - Accurate calculation of markups in accordance with the contract.

- **The City will reject any change order submission that does not conform to the contract**, City procedures, or required documentation standards. Non-compliant change orders will not be approved or paid.

- **The City reserves the right to recover overcharges or secure credits** where costs are found to be inconsistent with contract terms, retroactively or in the future.

Contractors are reminded that reliance on consultant review does not relieve contractors of their obligation to fully comply with contract requirements.

3. Strengthened Change Order Controls and Approval Processes

In response to the audit, CREM has taken and continues to take concrete steps to strengthen governance, controls, and oversight of change orders across all capital projects. These measures include:

- **Tightened approval thresholds and clearer limits of authority**, ensuring change orders are reviewed and approved at appropriate management levels before work proceeds.
- **More formalized and documented review processes**, including enhanced scrutiny of pricing, markups, and supporting documentation.
- **Enhanced quality assurance and internal review activities**, focusing specifically on change order compliance.
- **Implementation of improved workflows and system controls**, including the transition to a centralized Project and Portfolio Management System, which will further standardize approvals, documentation, and audit trails.

As these controls are embedded, **non-compliant change orders will be rejected**, regardless of project urgency or timing.

4. Going Forward

The City of Toronto values its relationships with qualified and professional contractors who perform work in accordance with contractual, ethical, and governance standards**. At the same time, the City must ensure public funds are protected, costs are transparent, and contractual requirements are rigorously enforced.**

Accordingly:

- **Contractors are expected to review their internal change order practices immediately to ensure full alignment with City contract requirements.**
- **Non-conforming practices should be corrected prior to submitting further change orders.**
- **Continued non-compliance will result in escalated contract remedies and will be considered in future performance evaluations in accordance with City policies**.

If you have questions regarding contractual requirements for change orders, please refer to your contract documents or raise inquiries through the established project governance channels.
Thank you for your cooperation and continued professionalism in delivering City of Toronto capital projects.

Sincerely,

(Patrick Matozzo Signed)

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cc: Lisa Barroso, Director Project Management Office, City of Toronto
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