

RAPIDTRANSIT
PROJECT 2000

PROJECT MANAGEMENT OVERSIGHT
Report No. 4

November 8, 2000

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I – INTRODUCTION

1. OBJECTIVES OF REPORT NO. 4

Quarterly Report No. 4 provides an independent view of the Millennium Skytrain Line Project status as of September 30, 2000. The primary focus is on overall Project budget and schedule. The team also examined the management approach in areas important to the continued success of the Project.

2. APPROACH FOR REPORT NO. 4

The steps of this review included:

- Information gathering and document review
- Analysis of RTP 2000 reports
- Examination of Project schedule and budget status
- Follow-up on previously identified concerns

This report is limited to a high-level review rather than detailed audits or technical reviews. The Project Management Oversight (PMO) team worked with various preliminary cost and schedule material for the period ending September 2000. Due to the timing of RTP Board meetings in October and November, a Project Progress Report for the period ending September 2000 was not finalized by the time of our review. The timing issues limited the team's ability to conduct advance analysis. Budget and schedule were analyzed together with the reporting systems that provide management with information and trend analysis.

Project staff provided the PMO team with the following reports and supporting documents:

- Project Progress Reports (covering the periods July - August 2000)
- September Construction Reports
- Bombardier September Progress Report
- Preliminary Cost Detail Report (September 2000)
- Contract Value and Pending Change Reports for Major Contracts
- Project Level 2 Detailed Schedule Report September 2000 status

After reviewing these documents on-site, the PMO team conducted interviews with contract administrators and managers of key contracts, and met with Project staff and consultants to follow-up on issues identified in our last review.

The PMO team conducted independent analyses and evaluations of the following areas:

- Project Management Issues
 - Project Status Reporting
 - Budget and Commitment Controls
 - Trends in Changes and Claims
- Project Schedule
 - Current Schedule Status
 - Schedule Interfaces
- Project Budget
 - Major Systems and Civil Contracts
 - Design, Management and Administration costs
 - Contingency
 - Identification of Potential Risks.

3. SUMMARY OF FINDINGS

Significant physical progress has taken place on the Project. The major guideway is 70% complete and the Front Street Special Structure and New Westminster Tunnel are nearing completion. The Sapperton and Braid station contracts have been awarded. The balance of Phase II stations are expected to be awarded by the end of December 2000.

The pace of Phase I activity progress against plan is consistent with last quarter. Although some interim station milestones continue to show as much as 40 days slippage, staff is confident that there is enough flexibility in the schedule to achieve the December 2001 opening to Braid. However, Phase II shows 35 workdays or seven weeks slippage. Project progress during the next few quarters will continue to be critical to maintaining budget and schedule.

The Project forecast at completion remains on budget at \$1,166,550,000.

It is appropriate for RTP 2000 management to complete its detailed review of the final forecast to complete.

II – MANAGEMENT

1. PROJECT STATUS REPORTING

RTP 2000 reports have been enhanced to provide senior management with more comprehensive information regarding the status of the Millennium Skytrain Line Project. Program-wide information was reported for major contracts. Standardized change order summary reports continue to be used for all major contracts including the newly let station contracts. Contract administrators also continued to demonstrate a thorough understanding of contract status.

At present, monthly construction reports provide physical completion by contract element. The Monthly Progress Report provides the construction status as a percentage of AFE expended. The overall physical percent complete for each contract is another useful gage of progress and should also be incorporated in the Monthly Project Progress Reports.

The Project Summary Outline Schedule provided in the Monthly Progress Report accurately reflects project progress. Since some key activities are constrained with fixed dates, the summary level report should also include either float or variance information to more clearly indicate the status of activities leading up to a constrained fixed date. This would ensure that potential schedule delays are highlighted.

2. BUDGET AND COMMITMENT CONTROLS

As discussed last quarter, the RTP 2000 Board of Directors controls commitment levels through Authorization for Expenditure (AFE). This practice ensures appropriate financial control while delegating RTP 2000 management prudent authority to respond efficiently to requests for changes.

Our review indicated that reserves on four out of the five major contracts analyzed in this report have been reduced to zero with total commitment levels now exceeding the AFE. (The current status of individual Project Reserves is discussed in the Budget section.) Two of the four contracts are nearing completion and it is reasonable to expect these reserves to be tight. These reserves are not a material problem.

RTP 2000 managers have been taking appropriate actions to ensure that a hard line approach is being taken on change approval. However, further action must be taken on the Elevated Guideway and Loughheed Mall Station Guideway to bring the AFE, contract reserves and commitments into line. Unless the value of pending changes is over estimated further actions to increase the AFE appear to be warranted. Accordingly, management should reconsider the value of pending changes and then assess the expected value of any additional risk for future changes not already recognized in the pending values. After establishing the expected combined value, management should, if necessary, approach its Board to approve increases in AFE that provide a contract reserve control that is adequate to accommodate all necessary pending and future changes.

3. TRENDS IN CHANGES AND CLAIMS

The table below provides a comparison of change status on the Major civil and systems contracts.

Status of Changes

	JUNE	SEPTEMBER
Number of Approved Changes	88	129
Number of Pending Changes	97	88
Total Number of Changes	185	217

Total Net Value of Approved Changes	\$2,766,016	\$14,056,741
Total Net Value of Pending Changes	\$25,972,753	\$20,547,442
Total Net Value of Changes	\$28,738,769	\$34,604,183

(This table excludes \$48 million in approved changes associated with the Brownfield Options and approximately a \$7 million pending change for System contractor's sales tax.)

Despite the increased overall level of activity on the Project this quarter, RTP 2000 staff has continued to keep pace with the volume of pending changes. The volume of pending changes has decreased this quarter by 9% and pending value has been decreased by \$5 million. Based on the above examination, resources remain adequate to respond and resolve pending changes effectively without hindering day-to-day project activity. However, continued monitoring is recommended.

The Systems contractor has been provided with revised access dates that are later than the current contract schedule. At the time of this review, RTP 2000 was seeking the contractor's concurrence to these revised dates. Also pending is a potential change order to the contractor for the contractor to maintain the current delivery dates using the late access dates.

In evaluating these change options RTP 2000 should confirm that they have a thorough understanding of the contractual ramifications. The following are particularly important to bear in mind:

4. FOLLOW-UP ACTIONS

Action No.	Action Item	Disposition
4-II-1	The overall physical percent complete for each contract should be incorporated in the Monthly Project Progress Reports.	<i>Agreed. The physical percent complete was incorporated into the October month end reporting.</i>
4-II-2	Float or variance indicators should be incorporated in the Summary Schedule for key milestones.	<i>Float and variance indicators are included in all detail schedules. The information is also noted on the Summary Schedule. Management believes the current level of reporting is adequate and does not support the further reporting of this information.</i>
4-II-3		
4-II-4		

III – SCHEDULE

1. CURRENT SCHEDULE STATUS

Phase I

Staff is confident that the Braid Opening of December 2001 can be achieved even though some interim station milestones (that are not on the critical path) indicate as much as 40-day slippage. Workarounds were reported to have been largely successful this quarter and there is sufficient flexibility in the critical path to accommodate the interim slippage.

Significant progress was achieved by the Elevated Guideway contractor. In addition, the Front Street Special Structure reached substantial completion; and tunnel ventilation system testing (which is expected to take place shortly) is the only significant remaining work on the New Westminster Tunnel. The systems contractor has also been progressing with trackwork installation.

Phase II

The September 2000 status schedule for Phase II is largely unchanged from last quarter except for station milestones that are showing later dates. As of September, the schedule completion date continued to show seven weeks slippage. Further progress on Loughheed Station and Guideway as well as Guideway Milestone 7 will be essential to obtain the June 2002 Commercial revenue operations date. Staff will continue to monitor planned progress and workarounds. During the coming quarter, RTP 2000 staff will need to continue to closely monitor guideway and station schedule progress in order to administer the system interfaces effectively.

Phase III

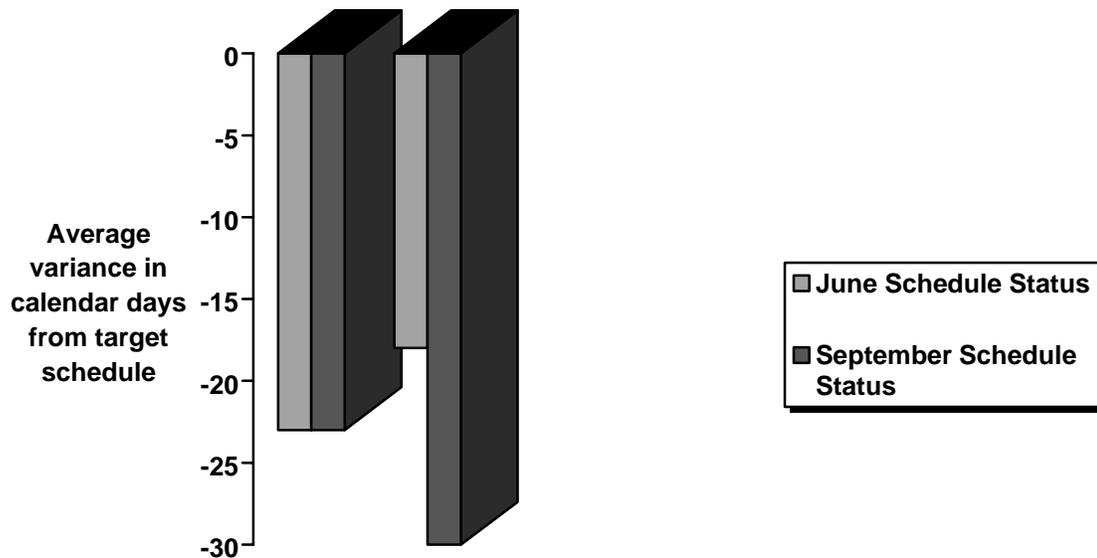
RTP 2000 continues to be in the process of preparing a report outlining the full cost of the three separate openings. Estimates from the systems contractor are critical to this process.

2. SCHEDULE INTERFACE

Tracking Project progress against interface targets provides RTP 2000 with a critical measure of progress. The chart below compares the September schedule variances for Phase I and Phase II to the June schedule variances.

A review of the current interface dates against target for Phase I (Columbia to Braid) continued to show an average of 23 days variance behind schedule.

For Phase II (Braid to Commercial) the September interface milestone variances from target have increased from last quarter. The average projected variance is now 30 days later than the target date. The June Schedule Status had indicated an average variance of 18 days behind target.



3. FOLLOW-UP ACTIONS

Action No.	Action Item	Disposition
4-III-1	RTP 2000 staff should continue to monitor Guideway and station progress in order to coordinate the systems interfaces effectively.	Agreed. Work-arounds to mitigate any schedule impacts have been successful to date. Staff will continue to monitor progress to ensure schedule objectives are achieved.
4-III-2		
4-III-3	A report outlining the full cost of the three opening should be prepared.	Agreed. As per previous reports, discussions are underway with all parties involved. It is anticipated that a conclusion will be reached during the next period.

IV – BUDGET

1. CURRENT STATUS

Baseline Budget

The Project forecast remains on budget at \$1,166.6 million.

As of September 30, 2000 the forecast cost and expenditures compared to budget are:

Project Element	Budget	Expended	Forecast	Variance
Constuction and Systems	784,655,111	532,870,067	806,012,593	(21,357,482)
Property	48,850,000	25,615,013	43,850,000	5,000,000
Design, Mgmt and Admin	117,299,535	63,977,626	118,984,406	(1,684,871)
Other (includes interest)	122,931,287	55,622,486	147,155,601	(24,224,314)
Contingency	92,814,067	-	50,547,400	42,266,667
Total	1,166,550,000	678,085,192	1,166,550,000	-

Construction and Systems

The major-awarded construction and systems contracts examined this quarter are set out below:

STATUS SEPTEMBER 2000

Contract Awarded	AFE	Original Award	Current Value	Incurred	Pending Changes	Forecast
Elevated Guideway		208,753,524	223,239,089	197,042,874		
New Westminster Tunnel		24,048,145	25,775,164	23,919,426		
E& M Systems		204,990,129	262,453,335	226,823,573		
Front Street		5,145,000	5,060,327	5,044,275		
Louhgheed Station Gwy		15,464,000	15,985,768	10,177,182		
Total		458,400,798	532,513,683	463,007,330		

(This table provides a program wide view of the major contracts and includes non-project 2000 costs. The Elevated Guideway figures also include utility and roadwork costs.)

Contract Reserve Analysis

	Contract Reserve	Available Contract Reserve	Percent of Reserve Used	Percent Complete
Elevated Guideway				
Contract Reserve				70%
Permanent Roadwork				N/A
Utility Allowance				N/A
New Westminster Tunnel				98%
Front Street Guideway				99%
Lougheed Station Guideway				65%
E&M Systems				20%

Property

Approximately 58% of the current property forecast have been expended. At present, staff is confident that property will remain within the forecast cost. As reported previously, budget remains to cover the costs associated with potential construction impacts as well as other costs. Experience to date with construction impact costs has been consistent with forecast expectations.

Design, Management and Administration

Overall soft cost expenditures this quarter, including Construction Management and other RTP 2000 direct costs; have been running within forecast expectations. The major design, management and administration Project elements are set out below:

September 30, 2000

Project Element	Budget	Incurred	Forecast	Variance
Design	24,021,873	18,901,084	26,630,029	(2,608,156)
Value Engineering	500,000	181,712	253,000	247,000
Design Management	12,326,316	7,097,320	12,308,654	17,662
Construction Management	17,964,259	3,197,851	14,831,953	3,132,306
Project Administration	62,487,087	34,599,659	64,960,770	(2,473,683)
Total	117,229,535	63,977,626	118,984,406	(1,684,871)

As discussed last quarter, all soft costs should be reassessed as part of a more detailed review of the budget implications of the revised schedule. A one-month addition to the schedule would add approximately \$1.5 million to RTP management and administration costs.

Other

The other Project elements are set out below:

Status September 30, 2000				
Project Element	Budget	Expended	Forecast	Variance
Insurance	5,900,000	2,977,624	4,775,798	1,124,202
Interest	89,274,962	20,977,139	114,623,478	(25,348,516)
Provincial Sales Tax	416,374	444,541	476,374	(60,000)
Non-Recoverable GST	27,339,951	13,602,510	27,279,951	60,000
Total	122,931,287	38,001,814	147,155,601	(24,224,314)

Current expected interest costs continue to be a significant problem. There are two major factors contributing to the forecasted increase in interest costs. The first is included in the interest forecast in the table above. It is \$25 million associated with interest cost due to the schedule extension. Each additional month beyond the current completion date would add approximately \$6 million to the interest during construction costs.

RTP2000 has developed a plan to mitigate the expected increase in interest during construction costs. The plan includes a \$19 million net reduction in costs through earlier capitalization of the guideway and vehicle. The plan also requires deferring project start-up costs.

RTP 2000 is also seeking relief from GST expense. A ruling on this matter is expected next quarter.

Contingency

Based on the preliminary cost report, the total transfers from contingency to September 30, 2000 are \$42.3 million. The funds remaining in baseline contingency are \$50.5 million.

Approximately \$60.2 million in potential risks (the single largest of which remains interest during construction) have been identified with different levels of probability of occurrence, as shown in the table below. The table below assumes that offsetting gains from both the successful implementation of interest rate mitigation measures and a favorable GST ruling are highly probable. Applying the probability values set out in the table results in an expected contingency draw of \$37.6 million based on those items identified to-date.

POTENTIAL CONTINGENCY PRESSURE ITEMS				
	Amount	Probability		
	\$M	High	Medium	Low
Total Potential Contingency Items				
Probability %				
Expected Contingency Transfer				

At this point, both a favorable GST ruling and adoption of the interest mitigation plans are essential to maintain budget. If these do not occur the contingency would be inadequate to cover the other identified potential pressures. Further risks include any currently unforeseen potential claim costs, schedule delays in excess of one month or unexpected station costs. Given the current status of contract reserves and contingency RTP 2000 must continue to carefully assess all matters that have bearing on costs. As noted last quarter, it is appropriate that RTP 2000 continue to take action to reexamine forecast project final costs.

2. FOLLOW-UP ACTIONS

Action No.	Action Item	RTP 2000 Reported Disposition
4-IV-1	Staff needs to further assess both the estimated value of pending changes and the potential contract reserve requirements	<i>Agreed. As per disposition 1-VI-1, 2-IV-2 and 3-IV-1 this is an ongoing process and will continue to be monitored weekly at internal review sessions.</i>
4-IV-2	Continue monitoring the property costs associated with construction impacts	<i>Agreed. Ongoing monitoring will continue.</i>
4-IV-3	The proposed mitigation plan to offset interest costs should be implemented.	<i>Agreed. Project staff are working with the central agencies of government to implement this plan and to report its positive impacts on project costs to Treasury Board by the end of November.</i>
4-IV-4	Given the current status of contract reserves and contingency RTP 2000 must continue to carefully assess all matters that have bearing on costs.	<i>Agreed. Staff continues to re-examine forecast project costs. As per disposition 3-IV-3 both hard and soft costs are being examined with respect to the current schedule.</i>

Follow up Items From Previous Quarters

Action No.	Action Item	Disposition
1-II-1	Continued focus on Project Management by Contract. Up date and refine management reports to ensure that they continue to provide clear contract-by-contract views of Project progress and status of major contracts.	<p><i>Price water house Coopers confirmed that all 31 recommendations put forward in their May 1999 report have been implemented, either as proposed or appropriately modified or improved. This confirmation is set out in a letter dated December 1, 1999.</i></p> <p><i>The current management of the Project is very much focused in a contract basis. Construction management teams are in place and discrete progress reports provide the status of each contract on a monthly basis.</i></p>
2-II-1	Continued focus on ensuring that contract status reports are standardized; effectively linked to the financial system and provide accurate simple summary level information about contract status.	<p><i>Agree. Staff continues to ensure all reports comply with project procedures and also that potential changes are valued and committed in the Oracle System. RTP 2000 Quality Management group will also perform an internal audit to identify any anomalies and address any non-conformance to assist in ensuring continuing compliance.</i></p>
2-II-2	Reexamine Oracle system limitations in applying credit changes and develop consistent mitigation measures including credit change tracking.	<p><i>Oracle's inability to permit entry of credit change orders has been recognized since commencement of the project. Staff has developed effective work-arounds to this issue and is satisfied these procedures are an effective and efficient means of applying credit changes. RTP 2000 is a member of the Oracle User Group which ensures that RTP 2000 is both current with Oracle's software improvements, and that RTP 2000 experiences are incorporated into these ongoing improvements.</i></p>

2-II-4	The Board should be formally notified of all changes to Contract AFE levels even if the change results from a scope transfer between authorized contracts.	<i>Staff recognizes the importance of tracking transfers of scope between contracts and has been monitoring them individually. Requests for change in the AFE have been, to date, on a periodic basis rather than on an event basis. The Board will be (and has Been) requested to authorize adjustment to the affected AFE's prior to commitment of project costs beyond approved levels.</i>
2-II-5		
2-II-6	Changes to budget line items should be reflected in the forecast column leaving the actual line items within the budget unchanged.	<i>The Project budget has been frozen with the exception of scope changes. The budget will continue to be adjusted within the total approved amount of \$1.1665 billion when scope changes so warrant (such as future award of station contracts). Previously established and approved project procedures are being followed.</i>
3-II-1	<p>The Monthly Project Progress Report should explicitly provide:</p> <ul style="list-style-type: none"> • Original Contract Value • Board Approved Authorized for Expenditure • Incurred Costs • Approved Changes • Pending Changes • Remaining Contract Reserve • Current Contract Value. 	<i>Agree. Reporting by Contract has been incorporated into the July month end reporting.</i>
3-II-2	Consider establishing a formal contract reserve usage threshold level (for example, 10% remaining reserves) that would trigger automatic senior-level assessments of the adequacy of contract reserves and consider requiring Project Manager's approval for change requests that reduce contract reserve below a set threshold.	<i>Staff has reviewed RTP's AFE policies and practices for monitoring and managing contract reserves and believe the current processes and controls in place are appropriate and sufficient. Staff do not believe the suggested added controls will add value.</i>
3-II-3	Continue to monitor the volume and duration of pending changes to ensure that adequate resources are employed.	<i>Agree. Monitoring of pending changes is an ongoing management and control procedure, which will be continued on a regular basis.</i>

3-II-4	Ensure that common procedures are applied to reconcile contract information monthly to budget task records (Oracle 203 Report) and contract commitment records (Oracle 103 Report) in the financial system.	<i>Agree. The 103 and 203 reports generated from Oracle continue to be used effectively. In future, the reports will be reconciled to both the approved AFE amounts and to the Change Order Summary Reports.</i>
3-II-5	Maintain an off-line spreadsheet to track credit changes applied to the Oracle system.	<i>An off-line spreadsheet is being utilized to track changes. Credit Change Order items will be reconciled to the Oracle reference on the Contract Change Order Report Summary.</i>
3-II-6	RTP 2000 create a direct electronic link between the contract commitment data maintained in the Oracle system and the Contract Administrator Change Order Summary Reports (maintained in Excel).	<i>Staff have reviewed the need for an electronic link. While considered ideal, manual adjustments will continue to be required because of the inability of Oracle to track credit changes. Therefore, while less than ideal, the practice of manual reconciliation by the Project Controller must be continued. Staff are confident that this practice does provide accurate and reliable linkage.</i>
1-III-1	Revised Master Schedule Detail PMO concurs with staff's intent to incorporate the system contractor's new schedule into a revised detail master schedule. The PMO will review this schedule with respect to assessing critical path items, the amount of float on non-critical items, interface milestones and impact on revenue operating dates.	<i>The Project schedule has been updated to include all impacts of the later than anticipated receipt of environmental approvals, access to railway property and municipal agreements. This incorporates re-sequencing of Elevated Guideway contract work and revised interfaces with all major contracts including systems. Gannett Fleming will review this revised schedule, together with up-to-date financials as part of its review of fourth quarter (to March 31, 2000)</i>
2-III-1	The detail schedule must be kept current.	<i>Agree. Staff will continue to ensure the detailed project schedule is kept current. This process is part of the comprehensive month end reviews and forms integral input into the management's weekly schedule review meetings.</i>
2-III-2	Staff should obtain a cost estimate from the systems contractor for the three separate testing and commissioning cycles in the revised schedule.	<i>Agree. Discussions are underway with the contractor to finalize the testing and commissioning schedule</i>

2-III-3	Staff should report monthly on progress against interface schedule milestones,	<i>Agree. Staff considers reviewing, monitoring and managing interface milestones as an effective schedule control process. Staff will continue to report internally on interface milestones and roll this information up into its general schedule commentary and reporting to the Board. Unless requested by the Board, detailed interface reporting will not be incorporated as part of staff's monthly reporting to the Board.</i>
3-III-1	Continue to take proactive steps to mitigate delays in contract interfaces and foster cooperation among contractors	<i>Agree. Staff is continuing with this practice. Formal changes to contract schedules are currently being finalized to recognize the concurrent and partial handovers.</i>
3-III-2	Take further steps to obtain a cost estimate from the systems contractor for the three separate testing and commissioning cycles.	<i>This recommendation is similar to 2-III-2 and will be concluded upon finalization of 3-III-1 above.</i>
1-IV-1	Review Contract Reserves New Westminster Tunnel %usage ahead of %completion Elevated Guideways %usage ahead of %completion E&M Systems allow for revised access dates workplan	<i>Potential changes are entered into the contract reserve log as soon as contract administrators become aware of a potential issue. Contract reserves are tracked and monitored on a weekly basis for every contract.</i>
1-IV-2	Innovative Financing Pursue alternative financing strategies to mitigate rising interest rates	<i>Debt management is the responsibility of RTP 2000's fiscal agent, the Provincial Treasury. RTP 2000's CFO is currently discussing strategies to mitigate interest rate fluctuations with the provincial government.</i>
1-IV-3	Potential Contingency Item E&M Systems Revised Workplan Incorporate costs of revised workplan into potential contingency risk matrix, if the costs are beyond those planned to be handled by the contract reserve	<i>The potential for drawdown of the Electrical and Mechanical reserve relates more to schedule and guideway access than to design modifications. A six-month window exists within which access can be delayed without cost. The updated master schedule will aim to maintain completion within this six-month window.</i>
1-IV-4	Recognize in determining the VCC alignment that the ability of the Project contingency to absorb significant scope changes is limited	<i>The Commercial to VCC alignment has now been approved with a positive impact upon the Project contingency fund.</i>

2-IV-1	Review budget transfer policy and implementation practices.	<i>Staff has reviewed RTP 2000's budget transfer policy and implementation practices. In addition, the budget transfer policy has been subject to previous audits and review (PwC) and staff is satisfied that the current practices comply with best practices and ensure effective controls and performance management are in place. As noted in 2-II-6 above, budget transfers will continue to be made within the total approved project budget until all major contracts (and particularly, stations) have been awarded.</i>
2-IV-2	Continue to monitor contract reserve usage on the major contracts.	<i>Agree. This is an ongoing process and will continue to be monitored weekly at all contractor co-ordination meetings and internal review sessions.</i>
2-IV-3	Positive steps should be taken to hold the line on the Project budget. Staff should continue to identify potential cost saving measures	<i>Agree. There is no room for upward scope changes. Ongoing value engineering of major uncommitted costs (stations) are underway and all cost centers, both direct and indirect, continue to be assessed for identification of potential cost savings. For example, staffing plans have been independently reviewed to ensure their appropriateness for the management of this project</i>
3-IV-1	Assess adequacy of contract reserves.	<i>Agree. As per disposition on 2-IV-2, this is an ongoing process and will continue to be monitored weekly at internal review sessions.</i>
3-IV-2	Support RTP 2000 planned effort to consider forecast final costs.	<i>The forecast project cost at completion is discussed at Board meetings. Further deliberation on the impacts of major pressures on contingency, including Interest During Construction and GST status, is expected in the next quarter.</i>
3-IV-3	Soft costs should also be reassessed as part of a more detailed review of the budget implications of the revised schedule.	<i>Agree. Soft costs are a major component of the overall budget and are reassessed monthly. As well, the project-staffing plan is reviewed in detail on a regular basis. Upon finalization of the schedule assessment noted in 3-III-1, a detailed review of all soft costs will be undertaken.</i>