



Audit Topic 3 – Report 2 (April, 2015)



LEARNINGS FROM
LOCAL GOVERNMENT
CAPITAL PROCUREMENT
PROJECTS AND
ASSET MANAGEMENT
PROGRAMS

District of Sechelt

A Performance Audit carried out by the Office of the
Auditor General for Local Government of British Columbia

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MESSAGE FROM THE ACTING AUDITOR GENERAL FOR LOCAL GOVERNMENT

I want to thank the District of Sechelt for its cooperation during the performance audit process and its positive, constructive response to the report and its recommendations.



3.2.1 I am pleased to present this performance audit report on the operations of the District of Sechelt, covering the topic *“Learnings from Local Government Capital Procurement Projects and Asset Management Programs.”*

3.2.2 I want to thank the District of Sechelt for its cooperation during the performance audit process and its positive, constructive response to the report and its recommendations. The District’s action plan in response to this report, which is included in this document, indicates a commitment to addressing the issues raised in this report.

3.2.3 The office of the Auditor General for Local Government was established to strengthen British Columbians’ confidence in their local governments’ stewardship of public assets and the achievement of value for money in their operations. The main way we do this is by conducting performance audits of local government operations and initiatives.

3.2.4 Our performance audits are independent, unbiased assessments, carried out in accordance with professional standards. They aim to determine the extent to which the area being examined has been managed with due regard to economy, efficiency and effectiveness.

3.2.5 This report outlines the office’s findings on the District of Sechelt’s procurement of capital projects and management of capital assets during the period 2010 through 2012. The vast majority of this work was completed prior to my appointment as Acting AGLG, however, I have reviewed the report and discussed its content with staff and am confident that it has been completed to professional standards.

3.2.6 The office is concerned about the issues discovered in the course of the audit regarding how the District planned and procured contractors for the two reviewed capital projects. Some of the practices used by the District in planning and procuring these projects exposed Sechelt to unnecessary risks and need to be revised.

3.2.7 The audit also found that the District’s approach to capital asset management was in need of improvement. The report concludes that the District should act to improve its capital asset management and capital project planning and procurement practices and includes recommendations aimed at assisting the District in accomplishing this.

MESSAGE FROM THE ACTING AUDITOR GENERAL FOR LOCAL GOVERNMENT

3.2.8 We may publish an AGLG Perspectives booklet on this topic at a future date. This would be in addition to the booklet we previously published on oversight over capital procurement processes, which provides tools and advice focused on key oversight questions for a Council/Board to consider that may be of use to many local governments.

3.2.9 I am encouraged by steps the District told AGLG staff it has already taken since the period covered by the audit to improve its capital asset management, planning and procurement policies and practices.

3.2.10 My hope is that this audit report will assist the District of Sechelt in improving its capital asset management and capital project procurement practices.

A handwritten signature in black ink, appearing to read 'Arn van Iersel', written in a cursive style.

Arn van Iersel, CPA, FCGA
Acting Auditor General for Local Government

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EXECUTIVE SUMMARY

We concluded that the District should act to improve its capital asset management and capital project planning and procurement practices.

3.2.11 Our audit found significant issues with Sechelt's management of the two sampled capital projects, relating to decision-making processes, Council direction and oversight, transparency and procurement practices. In our view, the District exposed taxpayers to unnecessary risks in how it carried out both projects. We also found that Sechelt's approach to the management of its capital assets during the period covered by the audit was not well developed and the District should take steps to improve this important area of activity.

What We Examined

3.2.12 Our objective was to determine whether the District exercised sound stewardship of its capital assets during the period covered by the audit through strategic capital asset management practices and capital project procurement processes. Capital asset management is the process of administering capital items necessary for the delivery of services to the community through their full lifecycle, from initial planning through decommissioning at the end of the item's useful life. Capital procurement is the process of acquiring, constructing or significantly improving capital assets using sources outside the local government.

3.2.13 We assessed Sechelt's capital asset management and capital planning and procurement practices between 2010 and 2012. We audited two projects: the Wastewater Treatment Plant Project and the Sandpiper/Mason/ Heritage Road Paving Project. Because construction on the Wastewater Treatment Plant

Project took place in 2013 and 2014, we also reviewed decision-making and payments on that project into 2013 and 2014. We completed our audit work on October 7, 2014.

What We Found

Wastewater Treatment Plant Project

3.2.14 Beginning in late 2011, the District moved forward with plans for a new wastewater treatment facility, expanding the scope of the project from an estimated \$6.5 million biosolids plant to what became an estimated \$24.9 million wastewater treatment plant that sought to use cutting edge environmental technologies. The final project budget included up to \$13.88 million to be contributed by other government agencies, \$7.4 million in District borrowing and \$3.7 million from the District's reserves.

3.2.15 This audit did not assess whether or not the District should have chosen to proceed with this project, the technology selected for the project, or any potential benefits to the community or issues arising from its innovative nature, as these are matters of strategic policy direction, which are not within our purview.

3.2.16 The District established a project steering committee and proceeded with the project. Planning and procurement took place during 2012, work began in 2013 and the new plant opened in late 2014. It was the largest and most costly capital project in the District's history.

EXECUTIVE SUMMARY

3.2.17 We found several concerning issues with how the District carried out this project. These include:

- **The lack of a business case at the time Council decided to significantly broaden the project's scope** – a document approximating a business case did not exist until several months after the District committed to proceeding with the expanded project and had already hired consultants and made significant expenses on it.
- **Insufficient Council direction and oversight over the project steering committee that directed the project** – Council did not approve terms of reference for the committee until it had virtually completed its work and most of its reporting to Council was informal and verbal.
- **A lack of transparency around some procurement practices and project decision-making** – District representatives held separate, closed meetings with potential bidders prior to issuing a request for proposals. The District cannot demonstrate that all prospective bidders received the same information at the same time and that the bidding process was conducted in a fair and open manner. Also, Council discussion of the project during 2012 was conducted in meetings closed to the public.
- **Instability of senior District staffing** – There was a high level of turnover of staff at the highest levels during the period covered by the audit, exposing the District to heightened risks.

- **Insufficient involvement of finance staff** – Council did not ask its finance staff to review and validate estimates and challenge project budget assumptions.
- **Lack of a conflict of interest policy** – During the period covered by the audit, the District lacked policy on how to deal with allegations of conflict of interest that were raised in the community.

3.2.18 Several of these issues relate to the responsibility of Council to protect the interests of taxpayers by delegating responsibilities appropriately, ensuring the knowledge and skills of staff were used well and carrying out its vital oversight role. We are concerned that Council did not fulfill all of these responsibilities.

3.2.19 Due to these issues, the size and cost of the project and the fact that the facility has recently opened, we believe a post-completion review of the project ought to be carried out to determine whether the facility is functioning as specified, delivering the required service levels and at the expected cost. This would enable the District to determine whether it has received value for money.

3.2.20 This review would also provide the District with useful information on construction and project management costs as well as future considerations such as lifecycle costs, risks and financial sustainability.

EXECUTIVE SUMMARY

3.2.21 In light of the high level of community interest in the project, a post-completion review report shared with the public may also serve to improve the District's transparency on the project and potentially answer resident questions regarding its technology, suitability and affordability.

Sandpiper/ Mason/ Heritage Road Paving Project

3.2.22 In 2012, the District chose to pave portions of several roads in West Sechelt that previously were gravel-surfaced. This project was first identified by Council as a priority in early 2012, with planning and procurement taking place over the period of several months. The project had an estimated cost of \$625,000. A paving company was direct-awarded a contract, as authorized by Council, and this work was completed in that year at a total cost of \$548,425 (net of refundable HST).

3.2.23 Our audit observed the following about how the District undertook this project:

- The lack of a business case for this project, which had not previously been identified as a priority, and the lack of documentation of financial implications, such as which other projects, if any, would not be undertaken as a result of proceeding with this one.
- The lack of a written contract for the paving work, which placed the District unnecessarily at risk.

3.2.24 Due to these issues, the District has not been able to demonstrate whether it received value for money on this project.

Issues with Procurement Policies and Procedures

3.2.25 In addition to issues mentioned earlier relating to conflict of interest provisions, we also found that the District lacked a procurement policy during the period covered by the audit. This gap left the District and its taxpayers vulnerable, particularly in areas such as a requirement for the use of written contracts and lack of direction on the direct-awarding of contracts without competition.

3.2.26 Subsequent to the period covered by the audit, the District introduced a written procurement policy and procedures. While these marked a step forward, we found that the policy was a high level statement of principles and intentions that could be enhanced by adding additional provisions.

Review of Payments

3.2.27 We reviewed 21 payments from the two selected capital projects. The sample payments were properly approved and reviewed, in accordance with District policy at the time.

EXECUTIVE SUMMARY

The District took some steps to improve its capital asset management information, but the process was not systematic.

Capital Asset Management in Sechelt

3.2.28 In 2010, the District retained a firm to study the condition of its roads and sewer collection system. The goal of this work was to provide information for the development of an asset management plan. The consulting firm recommended action to improve both asset groups, but we found no evidence that Sechelt acted on the recommendations or the asset management plans.

3.2.29 Our review found no policies, strategies and plans in place to guide the District's asset management approach with the exception of a tangible capital asset policy for accounting purposes. Sechelt also lacked much of the information required for developing plans for managing its assets over the long term.

3.2.30 The District took some steps to improve its capital asset management information, but the process was not systematic. Instead, Sechelt assessed and tracked its capital assets informally. We believe the resulting incomplete information compromised Sechelt's asset management approach.

3.2.31 The District did not prepare business cases to assist capital planning during the period covered by the audit. Instead, Sechelt relied on an informal approach to decision-making with incomplete information to support the formal identification, prioritization, selection and affordability of capital projects. This approach may have put Sechelt at risk of investing in

capital projects that may not have appropriately addressed the District's critical asset needs and service priorities in a financially sustainably way.

3.2.32 While the District placed the two capital projects we reviewed in its five year capital plan, the way Sechelt identified them as priorities highlighted the District's ad hoc approach and lack of rigorous assessment of overall priorities.

3.2.33 We noted that Sechelt experienced a high turnover of senior staff during the period covered by the audit, which may have hampered its ability to make progress on capital asset management.

Conclusion

3.2.34 We are concerned about the issues we found regarding how the District planned and procured contractors for the two projects we reviewed. Some of the practices used by the District in planning and procuring these projects exposed the District to unnecessary risks and need to be revised.

3.2.35 We also found that the District's approach to capital asset management was in need of improvement. We concluded that the District should act to improve its capital asset management and capital project planning and procurement practices. We have provided recommendations aimed at assisting the District in accomplishing this.

EXECUTIVE SUMMARY

EXHIBIT 1:
Summary of Recommendations

ISSUES	RECOMMENDATIONS
1. Use of business cases	<p>The District of Sechelt should require the preparation of a business case prior to Council approval of a capital project.</p>
2. Council oversight: delegation of authority	<p>The District of Sechelt should develop and implement clear policy on the delegation of authority to council committees. This should include provisions to:</p> <ul style="list-style-type: none"> Require the adoption of terms of reference prior to a committee beginning its work. Ensure that such terms of reference include clear limits on the authority of committees to act on behalf of Council. Require regular and thorough reporting back to Council.
3. Council transparency	<p>The District of Sechelt should enhance the transparency of decision-making by:</p> <ul style="list-style-type: none"> Providing as much information as possible to the public on its capital project priorities and plans, and in a timely manner. Conducting as much Council business as is reasonably possible in meetings that are open to the public.
4. Conflict of interest policy	<p>The District of Sechelt should develop and implement a Council-approved conflict of interest policy for elected officials, staff and Council committee members. This should include provisions to:</p> <ul style="list-style-type: none"> Address both actual conflict of interest and the appearance of conflict of interest. Require staff involved in procurement to declare potential conflicts of interest annually. Maintain a list of known potential conflicts of staff and council members. Require suppliers to sign a conflict of interest declaration. Identify a senior staff member independent of the procurement function who staff may approach in confidence should they have any concerns regarding conflict of interest. Establish procedures for resolving allegations of conflict of interest. Ensure that committee members who are not members of Council do not use their committee position to advance their personal interests.
5. Use of district staff	<p>The District of Sechelt should make appropriate use of its senior staff in the planning and monitoring of major capital projects and ensure that its finance department is actively involved in assessing capital project procurement initiatives, including challenging cost estimates and assumptions.</p>
6. Value for money: post-completion review	<p>The District of Sechelt should undertake a post-completion review of the wastewater treatment plant project, including an evaluation of construction, project management and costs in completing it, as well as risks, lifecycle costs and its long-term financial sustainability. The District should make the review report available to the public.</p>
7. Procurement policy	<p>The District of Sechelt should strengthen its procurement policy by including provisions to:</p> <ul style="list-style-type: none"> Require Council to approve the policy and any future amendments. Identify specific circumstances under which it is acceptable to award contracts without competition. Establish a clear requirement for the use of written contracts. Establish clear requirements for the documentation of procurement decisions and reporting of those decisions to Council.
8. Capital asset management	<p>The District of Sechelt should develop and implement a systematic approach to capital asset management. Initial steps should include:</p> <ul style="list-style-type: none"> Improving the District's information on its capital assets. Implementing a process to identify, assess and treat risks with its capital assets. Strengthening links between capital asset management activities and capital project planning. Developing a clear plan for funding future capital expenditures.

INTRODUCTION

3.2.36 This report presents the results of a performance audit conducted by the office of the Auditor General for Local Government of British Columbia (AGLG) under the authority of the *Auditor General for Local Government Act*.

3.2.37 We conducted this audit under one of six audit themes outlined in our 2013/14 – 2015/16 Service Plan: “Infrastructure Sustainability and Infrastructure Asset Management.”

3.2.38 Following our identification of audit themes in early 2013, we selected specific audit topics for 2013/14, including the topic of this performance audit: “Learnings from Local Government Capital Procurement Projects and Asset Management Programs.”

3.2.39 We identified this topic as a priority for performance auditing because capital asset management and the associated capital procurement are key responsibilities of local governments.

3.2.40 We selected six local governments to audit on this topic and work began on all six simultaneously. The other five local governments were the City of Campbell River, City of Cranbrook, City of Dawson Creek, District of North Vancouver and City of Rossland.

3.2.41 We will consider conducting additional audits on capital procurement and capital asset management in future years.

Section 3(1) and (2) of the *Auditor General for Local Government Act*:

3 (1) The purpose of the auditor general is to conduct performance audits of the operations of local governments in order to provide local governments with objective information and relevant advice that will assist them in their accountability to their communities for the stewardship of public assets and the achievement of value for money in their operations.

3 (2) A performance audit conducted under this Act by the auditor general consists of

(a) a review of the operations of a local government, as the operations relate to a matter or subject specified by the auditor general, to evaluate the extent to which

(i) the operations are undertaken economically, efficiently and effectively,

(ii) financial, human and other resources are used in relation to the operations with due regard to economy and efficiency,

(iii) the operations are effective in achieving their intended results, or

(iv) procedures established by the local government are sufficient for the local government to monitor the economy, efficiency and effectiveness of those operations, and

(b) recommendations to the local government arising from the review referred to in paragraph (a).

EXHIBIT 2:
Excerpt from the *AGLG Act*

INTRODUCTION

About Capital Procurement

3.2.42 Capital procurement is the process of acquiring, constructing or significantly improving capital assets using sources outside the local government. These assets may be infrastructure, land or other large and lasting physical items such as buildings, utility plants and major equipment such as fire trucks.

3.2.43 Capital procurement is important because it often involves some of the largest expenditures local governments make, generally through investments taxpayers pay for over many years. The resulting projects often have a long-term impact on the services local governments deliver and – in some cases – contribute significantly to the character of their communities.

3.2.44 Exhibit 3 lists a series of steps typically involved in the capital procurement process. This information is derived from the Government of British Columbia’s Capital Asset Management Framework and the *Community Charter*. Individual local governments have various ways of organizing these activities, which ought to be conducted and documented to help ensure transparency, accountability and value for money in capital procurement.

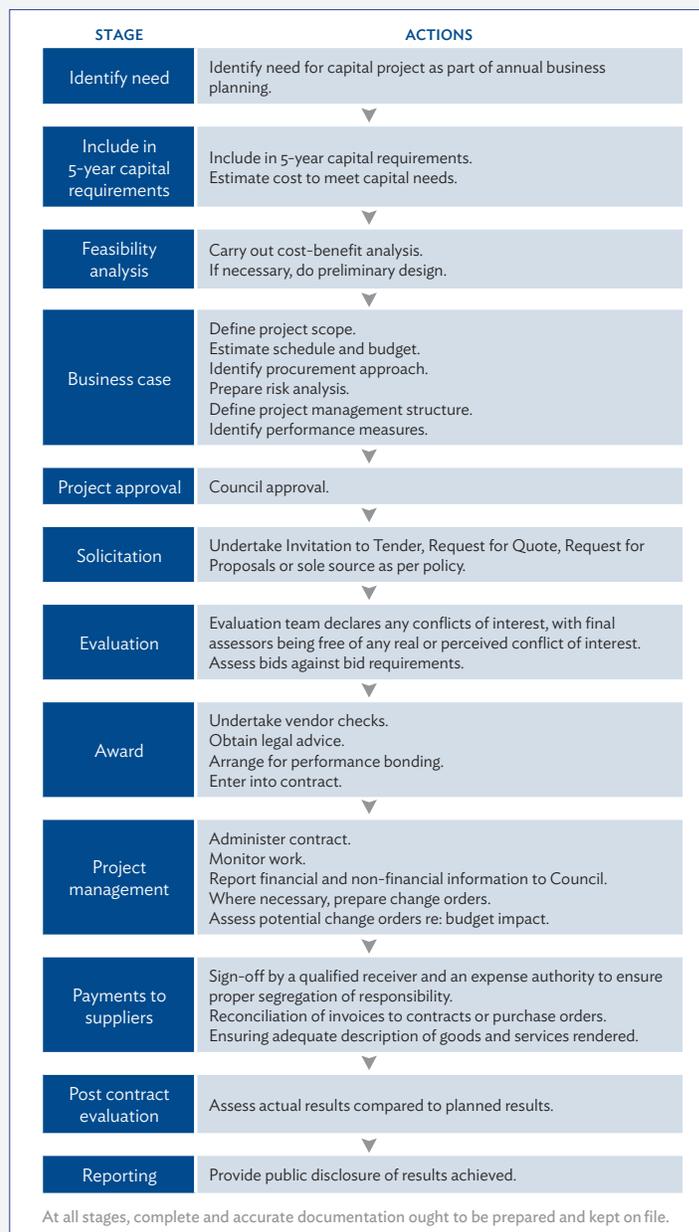


EXHIBIT 3:
Example of a Capital Planning and Procurement Process

INTRODUCTION

Our Expectations of Local Government Capital Procurement

3.2.45 We recognize that local governments have varying levels of in-house capacity to undertake capital procurement. However, all local governments undertaking major expenditures have the ability and responsibility to ensure capital procurement is undertaken well and with due regard for economy, efficiency and effectiveness.

3.2.46 In undertaking capital projects, we would expect the District to ensure the following is in place:

- Clear policies and procedures governing project selection and approval, the procurement process – including conflict of interest provisions and contracting – monitoring of work and payments.
- A requirement for the preparation of business cases for all proposed significant capital projects prior to committing to them.
- Council/ Board approval of all significant capital projects prior to their start.
- To ensure best value, the use of competitive procurement processes for all significant capital expenditures, unless there is a reasonable and well documented rationale for doing otherwise, as provided for in Council/ Board policies or as expressly approved by the Council/ Board.

Stewardship means the responsible oversight and protection of something of value.

Value for money means whether or not an organization has obtained the maximum benefit, at the desired level of quality, from the goods and services it acquires, within the resources available to it. In the public sector, this term also reflects a concern for transparency and accountability in spending public funds.

EXHIBIT 4: Definitions of Key Terms

- Appropriate delegation of responsibility for procurement to the local government’s staff, balanced with adequate council/board oversight.
- Monitoring of the progress of capital projects, using meaningful performance measures.
- Involvement of finance department staff in ensuring compliance with policies and that payments are appropriate and properly supported.
- Regular reporting by staff to the Council/ Board on capital procurement results and the progress of work
- Maintenance of complete and accurate files on all capital projects and associated procurement.

INTRODUCTION

Together, capital planning and asset management activities determine what capital projects a local government will carry out.

Links Between Capital Asset Management and Capital Procurement

3.2.47 Capital asset management is the process of administering capital items necessary for the delivery of services to the community through their full lifecycle.

3.2.48 In British Columbia, **Part 6 Division 1** of the *Community Charter* and **Part 24 Division 5** of the *Local Government Act* require a local government to approve each year, through by-law, a financial plan covering at least a five-year period. Among other things, the local government must set out the amount of funds required for capital purposes. Many local governments include a detailed capital plan as part of their financial plan each year. Such a plan depends on information that comes from capital asset management activities.

3.2.49 Together, capital planning and asset management activities determine what capital projects a local government will carry out. The local government then uses capital procurement to implement those projects.

3.2.50 The process of selecting projects for the capital plan requires information to assess the relative priorities of projects under consideration. Capital asset management activities provide the information needed to determine priorities and make choices. The local government then uses this asset management information to establish the procurement requirements of each project.

3.2.51 For a local government to practice effective stewardship of its capital assets, it must build clear and strong links between its capital asset management activities and the capital planning that leads to investments in capital projects.

INTRODUCTION

About Capital Asset Management

3.2.52 Capital asset management is important because local governments are responsible for making significant investments in major capital assets that affect the safety, well-being and quality of life of their residents. The way a local government manages these assets has a significant impact on its success in delivering value for tax dollars. In our consultations with local governments, we found that many identified capital asset management as a key challenge, given the high value of these assets and concerns in some communities about aging infrastructure.

Elements of a Capital Asset Management Approach

3.2.53 All local governments carry out capital asset management activities, which include planning, obtaining, caring for, replacing and disposing of these items as well as considering the costs and requirements of capital assets throughout their lifecycle. Together, these activities make up the local government's approach to capital asset management.

3.2.54 An effective approach to capital asset management will bring together the following in a systematic and integrated way:

- A commitment to asset management and leadership at the local government's highest level.
- A roadmap of policies, plans and strategies setting out short and long-term activities relating to the local government's assets, the estimated costs and timing of these activities and the risks if they are not carried out.
- A set of accessible and sufficiently up-to-date information on current capital assets, including replacement values, condition, performance levels, risks, needs and expected service levels.
- A business case template, which contains asset information and is used to support the process of identifying, prioritizing and selecting capital projects.
- A system to assess and determine the long-term financial sustainability of investments the local government intends to make in capital assets. This includes investments that may be needed to address any historical infrastructure deficit the local government may face.
- Clear and strong links between capital asset management activities and the capital planning that leads to investments in capital projects.

INTRODUCTION

We would expect a local government to have in place a capital asset management approach scaled to its size and resources.

Our Expectations of Local Government Capital Asset Management

3.2.55 As with capital project procurement, when we assess capital asset management, we recognize that local governments have significantly varying experience, knowledge and resources to carry out this work. We would expect a local government to have in place a capital asset management approach scaled to its size and resources. Such an approach should include as a minimum:

- A well-defined roadmap for capital asset management, with clearly assigned roles and responsibilities to carry it out.
- Identification of the local government's capital assets and complete and up-to-date information on the age, condition and replacement cost of each.
- Identified and documented needs and priorities for capital asset maintenance, replacement and/or additions, based on assessments of risks and community needs.
- A five-year plan for capital expenditures based on these priorities and affordability, including strategies for financing each expenditure and the implications, if any, on the level of service being provided.

3.2.56 Local governments, particularly those that are smaller, may consider using outside expertise to assist with some or all of this work. Once a local government is systematically carrying out these activities, we would also expect them to develop and track measures on the performance, efficiency and effectiveness of their capital asset management approach.

INTRODUCTION

What We Examined

3.2.57 The overall objective of this performance audit was to determine whether the District of Sechelt exercised sound stewardship over its capital assets through strategic capital asset management practices and capital procurement processes.

3.2.58 We selected two capital procurement projects initiated by the District between 2010 and 2012 and examined the capital planning, procurement controls, processes and practices associated with them. Because construction work on one of the selected projects took place immediately following the period covered by the audit, and because of that project's size and cost, we extended our review to include the District's decision-making and payments on that project into 2013 and 2014.

3.2.59 The two projects we selected were Sechelt's Wastewater Treatment Plant Project – later renamed by the District as the "Water Resource Centre" – and the Sandpiper/ Mason/ Heritage Road Paving Project.

3.2.60 We included the first of these because of its relatively large size and cost and because we were aware of significant debate in the community relating to the project and wanted to better understand the underlying practices and systems of the District relating to its acquisition/ construction and the linkages to capital asset management activities. We included the second project, which was smaller in scale than the Wastewater Treatment Plant Project, because it related to a different type of infrastructure.

3.2.61 We provide details about the audit objective, scope, approach and criteria in the About the Audit section, at the end of this report.

CONTEXT

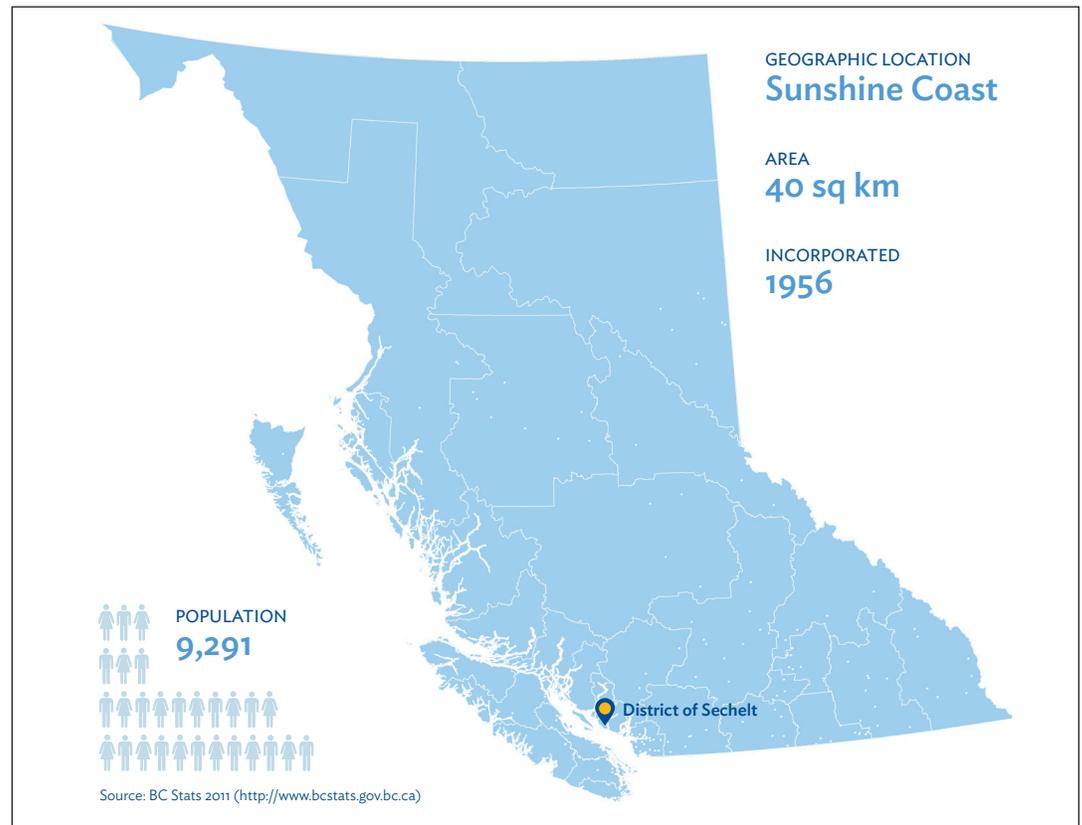
The District of Sechelt

3.2.62 Sechelt is a community of just under 9,300 people (as of 2011, according to BC Stats), located on the south coast of British Columbia, about 50 kilometres northwest of Vancouver and mainly accessible to the rest of the province by ferry and highway.

3.2.63 The District is situated on about 40 square kilometres of land, adjacent to the Sechelt Indian Government District. The majority of Sechelt’s population is 45 years of age and older. Sechelt continues to attract retirees and its population increased by 9.9 per cent between 2006 and 2011.

3.2.64 The District of Sechelt had a staff of 59 employees as of late 2014.

EXHIBIT 5:
District of Sechelt Visual Facts



CONTEXT

3.2.65 Exhibit 6 shows that the District's annual operating revenues remained relatively steady in the area of \$12 million - \$13 million per year between 2010 and 2013. The capital budget, capital expenditures and contributions increased significantly in 2013 due to the District's Wastewater Treatment Plant Project, which began construction work in 2013.

3.2.66 The exhibit shows that Sechelt recorded an annual operating deficit in both 2011 and 2012. Staff told us that this was due to several unusual items, including a sinkhole in West Porpoise Bay, storm damage to the Trail Bay foreshore, operating the Sechelt Golf Course for nine months, costs associated with the Target Marine Hatchery referendum and unplanned personnel costs.

EXHIBIT 6:
District of Sechelt Financial
Snapshot, 2010-2013
(excluding recoverable tax)

	2010	2011	2012	2013
Operating revenues	\$13,125,605	\$11,934,355	\$13,249,815	\$12,743,237
Grants and other contributions to capital*	-	-	\$1,867,098	\$8,365,113
Expenditures	\$12,686,797	\$12,957,301	\$15,413,101	\$14,383,739
Annual surplus (deficit)	\$438,808	\$(1,022,946)	\$(296,189)	\$6,724,611
Capital asset value	\$133,115,911	\$131,363,326	\$133,055,980	\$139,346,685
Annual capital budget **	\$5,545,970	\$5,444,500	\$7,593,550	\$10,456,116
Annual capital expenditures	\$2,719,041	\$1,364,699	\$4,441,103	\$9,408,533

*Grants and other contributions to capital were reported separately in 2012 and 2013.

Note: Annual capital budget figures differ from annual capital expenditures for several reasons, including project scope changes after budget approval and expenditures that occurred at different times from what budgets contemplated. Differences may also result from different capitalization requirements of the Public Sector Accounting Board compared to how the District presents this information for budget purposes.

Sources: District of Sechelt 2010, 2011, 2012 & 2013 Annual Reports , **2010 Five-Year Financial Plan (annual capital budgets have been disclosed in Sechelt's annual reports since 2011)

CONTEXT

The budgets for the two projects we selected for this audit accounted for 52 per cent of all capital project allocations approved by Sechelt Council to take place during the 2010-2014 period.

3.2.67 Exhibit 7 shows that the budgets for the two projects we selected for this audit – the Wastewater Treatment Plant Project and the Sandpiper/ Mason/ Heritage Paving Project accounted for 52 per cent of all capital project allocations approved by Sechelt Council to take place during the 2010-2014 period.

EXHIBIT 7:
District of Sechelt Capital Project Allocations in 2010-2014 Financial Plans (excluding recoverable tax)

Total capital project allocations approved for 2010-2014	\$49,320,895
Number of capital projects selected by AGLG	2
Total project allocations of 2 AGLG selected projects for 2010-2014	\$25,525,000
Selected project allocations as percentage of total 2010-2014 capital project allocations	52%

Note: The average size of Sechelt’s capital projects during the 2010-2012 period covered by the audit was approximately \$100,000.

Sources: District of Sechelt 2011, 2012 & 2013 Annual Reports, 2010 & 2014 Five-Year Financial Plans

CONTEXT

3.2.68 As Exhibit 8 shows, Sechelt owned capital assets with \$139 million in net book value as of December 31, 2013. Half of this value was in land and another 40 per cent were buildings and various types of engineered infrastructure. The exhibit reflects Sechelt's financial position as at December 31, 2013, before the Wastewater Treatment Plant's completion. As a result, this exhibit does not reflect the new plant's full asset value.

EXHIBIT 8:
District of Sechelt Tangible
Capital Assets, 2013

TANGIBLE CAPITAL ASSETS	HISTORICAL COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE	% OF TOTAL CAPITAL ASSETS
Land	\$69,114,529	-	\$69,114,529	50%
Buildings	\$14,603,541	\$7,347,915	\$7,255,626	5%
Vehicles / Equipment / Furniture	\$8,667,197	\$4,271,130	\$4,396,067	3%
Works in progress capital assets	\$9,586,675	-	\$9,586,675	7%
Engineering structure-roads	\$52,672,202	\$21,943,103	\$30,729,099	22%
Engineering structure-drainage	\$9,861,455	\$2,782,720	\$7,078,735	5%
Engineering structure-sewer	\$17,078,414	\$8,185,426	\$8,892,988	6%
Engineering structure-other	\$3,413,773	\$1,160,538	\$2,253,235	2%
Other	\$52,975	\$13,244	\$39,731	0%
Total	\$185,050,761	\$45,704,076	\$139,346,685	100%

Source: District of Sechelt 2013 Annual Report

FINDINGS

Wastewater Treatment Plant Project



We are concerned about the issues we found regarding how the District planned and procured contractors for the two projects we reviewed.

3.2.69 We are concerned about the issues we found regarding how the District planned and procured contractors for the two projects we reviewed, one of which was the largest capital project ever undertaken by the District. Some of the practices used by the District in planning and procuring these projects exposed the District to unnecessary risks and need to be revised.

3.2.70 We also found that the District’s approach to capital asset management was in need of improvement. We concluded that the District should act to improve its capital asset management and capital project planning and procurement practices. We have provided recommendations aimed at assisting the District in accomplishing this.

3.2.71 The District informed us that it has taken some positive steps since the period covered by the audit to adopt new policies and improve procedures. We are encouraged by this and look forward to seeing additional improvements.

Wastewater Treatment Plant Project

3.2.72 In late 2011, a newly-elected Sechelt Council shifted the District’s focus from planning a biosolids handling facility to a more comprehensive scope that included wastewater treatment as well as biosolids including cutting edge environmental technologies.

Key Events Prior to the Period Covered by the Audit

2004

The District retained a consultant to prepare a wastewater strategy because its sewage treatment system was approaching its maximum permitted effluent discharge rate into nearby Trail Bay. Additionally, Sechelt needed to upgrade its system to remain in compliance with revised provincial regulations.

2005

The consultant provided the District with a *Wastewater Strategy Final Report* that recommended a comprehensive 20-year strategy.

2008

Council passed a motion indicating that Lot L on Dusty Road (lower) would be the site for a proposed new biosolids facility and acquired the property for \$706,800.

FINDINGS

Wastewater Treatment Plant Project



Wastewater and Biosolids Treatment

Wastewater treatment is the process of using physical, chemical and biological processes to remove contaminants from wastewater. It produces a liquid (known as effluent) that can be safely disposed of into a body of water and solid waste (known as sewage sludge).

Biosolids treatment is a process of treating, processing and monitoring sewage sludge to make it safe for use as fertilizer.

3.2.73 This audit did not assess whether or not the District should have chosen to proceed with this project, the technology selected for the project, or any potential benefits to the community or issues arising from its innovative nature, as these are matters of policy direction, which are not within our purview.

3.2.74 In early 2012, the District issued a Request for Expressions of Interest for the project with its newly expanded scope and established a Wastewater Treatment Facilities Project Steering Committee to replace the biosolids steering committee it had previously established. The new steering committee was initially composed of Councillors, District staff and external representatives. The mayor was an ex officio member of the steering committee and regularly attended its meetings.

3.2.75 In August 2012, the project coordinator provided Council with a 23-page request for decision document that described the project, summarized the key elements of the 123-page request for proposals for a design/build contract, indicated that the project was estimated to cost

\$15.3 million and identified more than \$16 million in funding for the project. Council approved issuing the request for proposals.

3.2.76 The District received a proposal from each of the five pre-qualified vendors. The proposals were assessed by the District’s engineering consultant, the project management firm, the project coordinator and the steering committee using 16 criteria that had been developed by the steering committee and approved by Council as part of its authorization to proceed with the request for proposals.

3.2.77 The highest-scoring proposal was from Maple Reinders/Urban Systems/Veolia, which proposed to build the plant on the existing downtown treatment plant site at a cost of \$21.3 million (with other smaller contracts bringing the total project value to an estimated \$24.9 million). In December 2012, Council endorsed a steering committee recommendation to select Maple Reinders/Urban Systems/Veolia as the successful proponent and authorized the steering committee to enter into contract negotiations with them.

3.2.78 Council also directed staff to identify reserves to fund the project’s anticipated shortfall. In response, staff provided Council with a funding options paper indicating that the District had \$18 million available for the project, plus an additional \$6 million available through other financing sources such as short term borrowing. The paper included a list of potential additional funding sources.

FINDINGS

Wastewater Treatment Plant Project



3.2.79 Construction work on the new wastewater treatment plant began on March 13, 2013.

3.2.80 A year later, the District went to referendum for the approval of accepting a non-repayable grant of up to \$1 million and a low-interest loan of up to \$7.4 million from the Federation of Canadian Municipalities Green Municipalities Fund. The referendum passed.

3.2.81 The final project budget included this \$8.4 million from the Green Municipalities Fund as well as \$8 million from the federal Gas Tax Fund, \$1.6 million from the Communities Component of the 2007 Building Canada Fund, \$1.6 million from the Province of British Columbia, \$1.68 million from the Sechelt Indian Government District and \$3.7 million from the District's reserves.

3.2.82 On March 19, 2014, Council voted to end a sewer parcel tax levy that had been applied in three areas of Sechelt between 2001 and 2013, as plans no longer provided for these areas to be connected to Sechelt's wastewater treatment system due to the high cost of doing so. The District committed to repaying approximately \$241,000 that had been collected from the affected property owners.

3.2.83 As of September 2014, the District had spent a total of \$18,037,413 on the project. At the time this report was written, Sechelt reported it had not received all invoices for the project, so it was not yet possible to determine the actual full cost of the project. The plant was commissioned on October 16, 2014, became operational on March 5, 2015 and was declared substantially complete on March 31, 2015.

3.2.84 Our review identified a number of significant issues with how Sechelt undertook this project, including:

- lack of a business case at the time Council decided to significantly broaden the project's scope;
- insufficient Council direction and oversight over the project steering committee that directed the project;
- a lack of transparency around some procurement practices and project decision-making;
- instability of senior-level staffing;
- insufficient involvement of finance staff; and,
- lack of a conflict of interest policy.

3.2.85 Several of these issues relate to the responsibility of Council to protect the interests of taxpayers.

FINDINGS

Wastewater Treatment Plant Project



Lack of Business Case to Support Decision-Making

3.2.86 The District’s files did not contain a business case for this project prepared prior to Council broadening its scope in late 2011 and early 2012. While materials prepared for Council immediately prior to the September 2012 issuance of the design/build request for proposals did include many of the elements one would expect to find in a business case, this document was prepared more than six months after Council voted to proceed with the project and well after the District had added the project to its five-year capital plan and had prequalified construction firms to design and build the facility.

3.2.87 By the time a document approximating a business case was created, the District had already been committed to proceeding with the project for several months and had spent \$117,000 on it, including hiring a project manager, an engineering consultant, a project coordinator and several other consultants for smaller pieces of work.

3.2.88 We do not question Sechelt Council’s authority to establish and act on the District’s priorities; whether to proceed with a particular project is a strategic policy decision and not subject to our review. However, we are concerned about the absence of information to support informed decision making on a project of the size and scale of the wastewater treatment plant.

3.2.89 In particular, we expected the District’s files to include documentary evidence prepared for Council to assist it in deciding whether to abandon its previous plans for a biosolids facility and instead proceed with a more substantial wastewater treatment plant (including biosolids) using leading edge technologies. We found little such documentation.

FINDINGS

Wastewater Treatment Plant Project



Insufficient Direction & Oversight of Project Steering Committee

3.2.90 We are concerned about Council's direction and oversight of the steering committee. Specific issues included the following:

- Council did not formally approve terms of reference for the steering committee until 2013, when its work was winding down and it was due to be replaced by a construction implementation committee. This meant that it operated throughout 2012 without a formal mandate from the District.
- Council did not receive minutes of the steering committee's meetings until they were made public in 2013.
- The hiring of the project coordinator as a contractor was not done competitively, without any rationale for this approach placed in the District's files.
- The steering committee did not follow a formal reporting process with regular written status reports to Council, though the council members serving on the steering committee provided informal verbal updates during council meetings.
- In the case of a \$12,500 geotechnical contract, we are concerned that the District's project steering committee awarded work when it had no authority to enter into contracts.

3.2.91 The use of a steering committee to provide ongoing direction to a large project such as this one is a common practice. However, it is important for Council to give such a body clear direction on the District's priorities and ensure that it functions within the authority delegated to it, provides regular, full reports to Council in writing and is subject to Council's ongoing oversight. The issues listed in the previous paragraph lead us to conclude that Council did not provide the steering committee with sufficient direction and oversight.

FINDINGS

Wastewater Treatment Plant Project



The District cannot demonstrate that all prospective bidders received the same information at the same time and that the bidding process was conducted in a fair and open manner.

3.2.94 In addition, the District held separate closed meetings with prospective bidders prior to issuing the request for proposals for project design and construction. The District’s files contained no evidence that the District shared with all prospective bidders what was discussed in each of these meetings or documented the nature of these discussions.

Lack of Transparency

3.2.92 We found that decision-making around the Wastewater Treatment Plant Project lacked transparency. While it is understandable that some contract and personnel-related aspects of Council meetings are appropriately closed to the public, transparency and accountability require that as much business as possible be conducted in open public meetings.

3.2.93 We observed that all Sechelt Council meetings between 2008 and 2011 relating to biosolids or wastewater treatment issues were open meetings, except those involving land acquisition discussions. On the other hand, all 12 meetings dealing with this project between February 2012 and March 2013 were closed to the public, where 26 resolutions were passed. While resolutions and minutes of these meetings were released in March 2013, staff and other reports presented at these meetings were not released.

3.2.95 As a result, the District cannot demonstrate that all prospective bidders received the same information at the same time and that the bidding process was conducted in a fair and open manner. This is particularly troublesome, as such practices undermine the integrity of the procurement process.

FINDINGS

Wastewater Treatment Plant Project



Instability of Senior-Level Staffing

3.2.96 We observed that during the period covered by the audit – and particularly in 2012 and 2013 – the District experienced a high degree of staff turnover at a senior level, including permanent employees and contracted staff. For example, the District had four different chief administrative officers over a 15 month period in addition to many other changes to its senior staff.

3.2.97 The resulting instability created risks for the District, as local governments depend on the skills, experience and corporate knowledge of their senior staff to provide continuity, support decision-making by carrying out rigorous analysis and ensure that Council/ Board direction is carried out fully.

Insufficient Involvement of Finance Staff

3.2.98 In undertaking a project of the magnitude of the Wastewater Treatment Plant Project, a local government must depend on the experience and knowledge of its senior staff, particularly those in the finance department. At key junctures in decision-making, senior finance staff have a vital role to play in challenging assumptions and estimates, including budget estimates, in ensuring that Council has advice that is independent from those who are working directly on the project and in confirming that decisions being contemplated comply with local government policies and practices.

3.2.99 When the steering committee brought an estimate of \$15.3 million for the project to Council, we would have expected Council to ask the District's senior finance staff to review and validate this estimate. We found no evidence that Council did so.

3.2.100 Shortly thereafter, when the District received bids for the project, all of which were significantly higher than the steering committee estimate – we would have expected Council to ask the District's senior finance staff to review and identify the reasons for the large discrepancy between the estimate and the bids and report back to Council. We found no evidence that Council did so.

3.2.101 In our view, by failing to make full use of its finance department in assessing the project and challenging its estimates and assumptions, Council unnecessarily subjected the District to increased risks in undertaking the project. Because of this, a post-completion evaluation of the project – as discussed in the next section – could be a valuable tool in helping mitigate such risks.

FINDINGS

Wastewater Treatment Plant Project



Conflict of Interest Policy

3.2.102 We are aware that issues were raised by some local residents regarding the then-mayor’s participation in decision-making on the siting of the wastewater treatment plant, given that his home was in relatively close proximity to Lot L. He participated in discussions and voted on Council resolutions regarding the siting of the plant.

3.2.103 We did not assess whether the location of the then-mayor’s home placed him in a conflict of interest in decisions on the siting of the plant, as a determination of conflict of interest of a local government elected official is governed by the *Community Charter*.

3.2.104 We do, however, note that during the period covered by the audit, the District lacked a conflict of interest policy covering staff and elected officials. In May 2014, the District adopted a code of conduct that requires employees to disclose potential or apparent conflicts of interest. This could serve as the starting point for development of a conflict of interest policy covering both staff and elected officials.

3.2.105 While conflicts of interest of Council members are covered by the *Community Charter*, some local governments provide additional requirements in policy. Such policy – particularly if it included provisions on how to respond to allegations such as those raised relating to the wastewater project – may have helped Sechelt manage the project more effectively and with greater community confidence.

Determination of Value for Money

3.2.106 Given the issues we have identified with the planning, procurement and financing of this project – and its size and cost – we believe a post-completion review of the project ought to be carried out to determine whether the District received value for money and whether the project is functioning as specified and delivering the required service levels at the expected cost.

3.2.107 A post-completion review could also provide Council and District staff with useful information on the construction, project management and any additional costs incurred in completing the project, as well as future operating considerations such as lifecycle costs, risks and financial sustainability. This information may help the District in preparing future five-year financial plans and capital asset management plans.

3.2.108 In addition, a post-completion review shared with Sechelt’s taxpayers would enhance the District’s transparency on the project and potentially address resident concerns about the facility’s technology, suitability and affordability.

FINDINGS

Sandpiper/ Mason/ Heritage Road Paving Project



We found no evidence that the District consulted with the affected community members about this proposed project, undertook traffic or other studies or rated this project in priority against other possible capital projects.

Sandpiper/ Mason/ Heritage Road Paving Project

3.2.109 At a March 2012 meeting to review the District's 2012 draft capital budget, Sechelt Council discussed paving Heritage Road between Mason Road and Sandpiper Road and portions of Mason and Sandpiper Roads that were also gravel roads at that time. Council discussed the idea that the paving of these roads would provide a complete circular drive on paved roads in West Sechelt. Councillors indicated that this would enhance transit and ambulance services and also improve access to the Sechelt Golf Course.

3.2.110 Council passed motions recommending designating the affected roads as arterial routes and asking staff to produce a cost estimate for the paving. District staff obtained a price quote for the project from a paving company and used it to prepare a \$625,000 cost estimate.

3.2.111 In May 2012, District staff discovered that a portion of Heritage Road running along the municipal boundary, which was to be paved under this project, was on Crown land. The District submitted an application to the Province to obtain tenure in order to proceed with the road work.

3.2.112 Council voted to recommend proceeding with the project, adding it with a budget of \$625,000 to the District's 2012 capital plan. In June 2012, Council decided to use capital reserves to cover the cost of this project.

3.2.113 We found issues with how this project was planned and managed, including:

- issues with decision-making; and,
- issues with procurement.

FINDINGS

Sandpiper/ Mason/ Heritage Road Paving Project



Issues with Decision-Making

3.2.114 We would have expected Sechelt Council to consider this proposed project in the context of its overall priorities, including emerging priorities identified over the course of the year by residents and District staff.

3.2.115 We noted that the project had not been identified in the District's Official Community Plan, previous versions of its five-year capital plan, or staff recommendations for the District's 2012 capital plan. We found no evidence that the District consulted with affected community members about this proposed project, undertook traffic or other studies or rated this project in priority against other possible capital projects.

3.2.116 While it is entirely appropriate for a Council or Board to revise its priorities in response to emerging issues, new information or public interventions, our review of the District's files found no rationale for the project other than references in meeting minutes to verbal comments by Councillors. We found no documentation outlining the community need, options for addressing it or a comparison of those options and their associated costs and benefits. We found no documentation comparing this project to others in order for Council to make an informed decision on how to use its scarce resources.

3.2.117 We also would have expected Sechelt Council to review and approve a business case for this project before investing in it. Business cases need not always be extensive documents, but at a minimum, we would expect to see a rationale for the project, a clearly-defined project scope, an estimated budget, reasons for selecting this project over other potential projects and a timeline. We found no evidence that a business case was prepared for this project.

3.2.118 Decision-making related to this project – which accounted for more than eight per cent of the District's total capital allotments for the year – happened within a short period of time, with minimal documentation and no evidence of consultation with the community, including residents of the affected area.

FINDINGS

Sandpiper/ Mason/ Heritage Road Paving Project



Issues with Procurement

3.2.119 We would have expected Sechelt to procure goods and services for this project competitively, or provide a reasonable written rationale for not doing so. We also would have expected any contract entered into by the District to be in writing, dated and with appropriate signatures. Such a document is one of the most basic ways the District can ensure that it will receive value for tax dollars; in the absence of a written contract, the District is putting the interests of its taxpayers at risk.

3.2.120 The District's files indicate that a verbal contract to undertake this work was direct-awarded to a paving company. The documented rationale for this direct award was that there was only one paving company based on the Sunshine Coast and it was unlikely that another company would match the price quote already obtained from that company. This was communicated by staff to Council in writing and Council accepted the staff recommendation.

3.2.121 In our view, the absence of a written contract for this work was a serious problem, as relying on a verbal contract does not adequately protect the District's interests.

3.2.122 The paving company carried out the work in August 2012 and the District paid the company \$534,689 (net of refundable HST). Total District expenditures on the project were \$548,425 (net of refundable HST).

Determination of Value for Money

3.2.123 Given the lack of a business case and the lack of a written contract for the work undertaken on this project, the District is not able to demonstrate whether this project delivered value for money.

FINDINGS

We found that the District lacked a procurement policy during the period covered by the audit. This gap left the District and its taxpayers vulnerable.

Issues with Procurement Policies and Procedures

3.2.124 In addition to issues with conflict of interest provisions, we also found that the District lacked a procurement policy during the period covered by the audit. This gap left the District and its taxpayers vulnerable, particularly in certain critical areas:

- The lack of a written requirement for the use of a competitive process to ensure fair, open and transparent procurement. While we found a written rationale for direct-awarding a contract for the paving project, we found no such rationale with several smaller direct-awarded contracts on the Wastewater Treatment Plant Project.
- The lack of a requirement for written contracts. This was again an issue with some of the contracts with both selected projects.

3.2.125 Subsequent to the period covered by the audit, the District introduced a procurement policy and procurement procedures. While these marked a step forward, we found that the policy was a high level statement of principles and intentions that could be enhanced by adding additional provisions. In particular, it did not deal with the direct-awarding of contracts without competition, a requirement for the use of written contracts, or requirements for the documentation of procurement decisions. Nor did it require Council approval of the policy or future amendments.

FINDINGS

All sample payments we reviewed were properly approved by the product / service receiver and reviewed by financial staff, in accordance with District policy at that time.

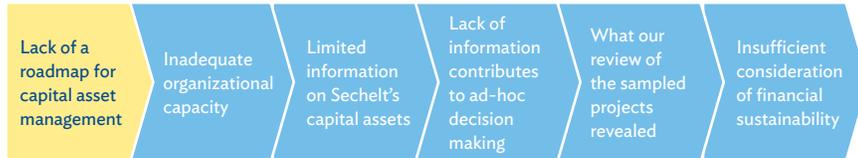
Review of Payments

3.2.126 In addition to reviewing procurement files, we reviewed 21 payments from the two selected capital projects, covering all the years the projects were active and all major vendors having invoices valued over \$1,000, up to October 7, 2014.

3.2.127 All sample payments we reviewed were properly approved by the product / service receiver and reviewed by financial staff, in accordance with District policy at that time.

FINDINGS

Capital Asset Management in Sechelt



In the absence of a capital asset renewal and maintenance strategy, the District lacked a clearly defined process to identify, assess and treat risks associated with its capital assets.

Capital Asset Management in Sechelt

Lack of a Roadmap for Capital Asset Management

3.2.128 During the period covered by the audit, the District undertook a significant initiative aimed at guiding its capital asset management approach: in 2010, the District retained a firm to study its roads and sewer collection system. The goal of this work was to provide information for the development of an asset management plan.

3.2.129 The consulting firm recommended that the District implement a pavement maintenance program and take further steps to prioritize improvements to its sewer system. The firm estimated that \$400,000 in road improvements would be needed over five years and \$1.0 million over six to ten years. It also estimated that the District needed to invest \$350,000 per year in replacing storm drains and sanitary sewers over a 25 year period. These estimates did not account for any new management practices aimed at

extending the lifespan of these assets and reduce costs over time.

3.2.130 We found no evidence that Sechelt implemented the consultant’s recommendations in its subsequent five-year capital plans. We also found no evidence that the District used the consultant’s condition assessments, improvement recommendations or cost assessments to begin developing asset management plans for these assets.

3.2.131 Our review found no other formal asset management policies, strategies and plans in Sechelt during the period covered by the audit, with the exception of a tangible capital asset policy for accounting purposes.

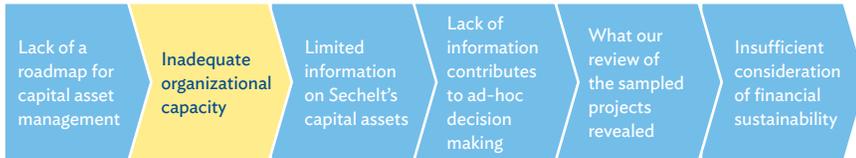
3.2.132 In the absence of a capital asset renewal and maintenance strategy, the District lacked a clearly defined process to identify, assess and treat risks associated with its capital assets. Instead, Sechelt’s engineers and public works employees depended on their judgement to determine whether maintenance or replacement of particular assets was required.

3.2.133 Sechelt also lacked long-term asset plans, as very little of the needed asset information was available to populate these plans. Without them, it would have been difficult for the District to apply a lifecycle approach to decisions on assets and the related financial investments.

3.2.134 In our view, the inadequacy of Sechelt’s roadmap for asset management reduced the District’s ability to effectively manage its capital assets during the period covered by the audit.

FINDINGS

Capital Asset Management in Sechelt



Inadequate Organizational Capacity

3.2.135 We found that the District did not work toward building a level of organizational capacity sufficient to manage its capital assets effectively. There were few signs that the District was acting to ensure a roadmap for asset management was in place and little other evidence of work toward an effective approach to asset management at the organizational level.

3.2.136 Similarly, the District did not appear ready to take on the multi-disciplinary coordination and information exchange required to support effective asset management. For example, staff told us that the District’s departments did not collaborate sufficiently or share capital asset-related information as a matter of course.

3.2.137 In addition, the District’s finance department prepared the annual budget – including the capital budget – with relatively little involvement of other departments, including those responsible for delivering capital projects. As a result, Sechelt’s capital project planning was not well integrated with the annual budgeting process.

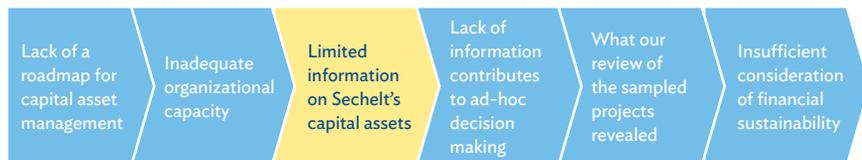
3.2.138 Staff told us that the annual capital project selection process was driven more by the need to prepare a budget each year than it was by capital asset management activities and long-term planning.

3.2.139 As outlined earlier in this report, the District experienced a high degree of staff turnover at a senior level during the period covered by the audit. The chief administrator officer plays a key role in ensuring integration at all levels of a local government on projects and initiatives. Given Sechelt’s high turnover at this level during the period covered by the audit, the District may have been hampered by a lack of consistent staff-level leadership to make progress toward improving the management of its capital assets.

3.2.140 In our view, the organizational weaknesses described here reduced the District’s ability to effectively manage its capital assets.

FINDINGS

Capital Asset Management in Sechelt



Limited Information on Sechelt's Capital Assets

3.2.141 During the period under review, the District took some steps to improve its capital asset management information. Sechelt compiled a capital asset register in 2010, which was then updated on an annual basis. Capital assets included in the register were: land, buildings, infrastructure, equipment, vehicles, roads, pavement, sanitary and storm sewers and forcemains. The information in the register included what the District needed to meet its annual financial reporting requirements.

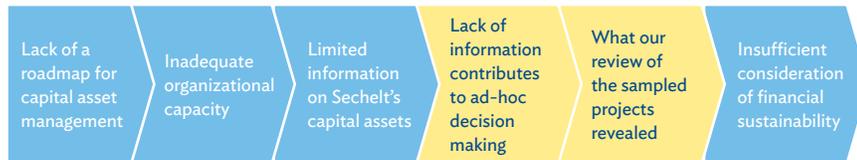
3.2.142 As mentioned previously, in 2010, Sechelt conducted condition studies on its roads and sewers. In addition, Sechelt hired students on summer internships to visually inspect sidewalks. The District gathered little other information during this period on its other capital assets and it did not update the 2010 information.

3.2.143 The process Sechelt used to assemble information on its assets was not systematic. Instead, the District assessed and tracked its capital assets informally. In addition, the District did not formally define the service levels it expected or set performance goals for its capital assets. These steps can help a local government make sure service delivery will be aligned with community expectations balanced with affordability.

3.2.144 Finally, Sechelt did not collect information on the risks associated with its capital assets. With the exception of the condition ratings we have described and informally-developed staff estimates of other required information, we found that Sechelt lacked the information it needed to make progress in the development of the other elements of a systematic asset management approach.

FINDINGS

Capital Asset Management in Sechelt



In the absence of business cases, Sechelt relied on an informal approach to decision-making with no formal identification, prioritization and selection process for capital projects.

Lack of Information Contributes to Ad-Hoc Decision Making

3.2.145 We would have expected Sechelt’s capital planning to involve a comparison of project options that have been assessed to determine the priority of each. This requires a business case for each proposed project.

3.2.146 We found no evidence that the District of Sechelt sought to prepare business cases to assist its capital planning during the period covered by the audit. We are concerned that Council may not have had sufficient information to make fully informed decisions on capital asset investments that supported the long-term financial sustainability of the District’s capital assets.

3.2.147 In the absence of business cases, Sechelt relied on an informal approach to decision-making with no formal identification, prioritization and selection process for capital projects. We believe this approach may have put Sechelt at risk of investing in capital projects that may not have appropriately addressed the District’s critical asset needs and service priorities.

What our Review of the Sampled Projects Revealed

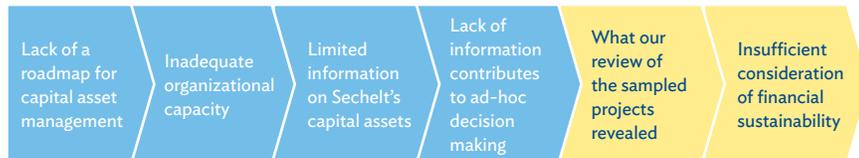
3.2.148 While the two sample capital projects we reviewed both appeared in the District’s five year capital plan, the way the District undertook them highlighted gaps in Sechelt’s approach to capital asset management during the period covered by the audit. The most notable gap was the District’s lack of overall long-term priorities for investments in capital assets.

3.2.149 When the District decided to move forward with a wastewater treatment project of a far larger magnitude than had been considered in the months immediately before it changed direction, we found no documentary evidence that this was considered by Council in the context of its overall capital priorities and no documented rationale for the project until more than six months later.

3.2.150 In the case of the paving project, we reviewed for this audit, Council committed to proceeding without the project having been previously identified as a priority and without documented evidence that Council considered the project in the context of what other projects, if any, Sechelt would not be able to undertake as a result of this project being added to the District’s capital plan.

FINDINGS

Capital Asset Management in Sechelt



3.2.151 District staff told us that Sechelt’s capital projects were often initiated in response to federal and provincial funding opportunities. In some cases, these projects were loosely tied to the Official Community Plan, but decision-making on them was often based on the availability of external funding.

3.2.152 While the availability of external funding can play a positive role in enhancing a local government’s financial capacity to take on projects, it is important to ensure that an emphasis on obtaining such funding does not prevent the District from also considering necessary capital asset investments that might not be eligible for such funding.

Insufficient Consideration of Financial Sustainability

3.2.153 We found that Sechelt Council did not have sufficient information about the long-term costs of meeting its capital asset needs to make fully informed decisions on the affordability of the capital projects it was considering. This is of particular concern during the period covered by the audit, as the District committed to its most expensive-ever capital project in 2012.

3.2.154 It is important for the District to also consider the extent of any historical infrastructure deficit it may face.

Activities Following the Period Covered by the Audit

District staff informed us that Sechelt began work to improve a variety of capital asset management practices after the period covered by the audit. The steps they identified –included the development of a capital asset management plan and of an integrated planning and reporting policy, the update of certain asset condition assessments and the use of business cases for proposed projects.

CONCLUSION

We are pleased that the District is developing policy in areas such as procurement and conflict of interest and its expressed commitment to improve its capital asset management practices.

3.2.155 Overall, we found the way the District of Sechelt dealt with the reviewed capital projects and managed its capital assets during the period covered by the audit to be problematic. We found issues with project decision-making and capital project procurement, as well as Sechelt's lack of a systematic approach to capital asset management.

3.2.156 We are concerned about the issues we found regarding how the District planned and procured contractors for the two projects we reviewed. Some of the practices used by the District in planning and procuring these projects exposed the District to unnecessary risks and need to be revised.

3.2.157 We also found that the District's approach to capital asset management was in need of improvement in several respects. We concluded that the District should act to improve its capital asset management and capital project planning and procurement practices. We have provided recommendations aimed at assisting the District in accomplishing this.

3.2.158 We are pleased that the District is developing policy in areas such as procurement and conflict of interest and its expressed commitment to improve its capital asset management practices. We encourage the District to build on this progress.

RECOMMENDATIONS

Recommendation 1

The District of Sechelt should require the preparation of a business case prior to Council approval of a capital project.

Recommendation 2

The District of Sechelt should develop and implement clear policy on the delegation of authority to council committees. This should include provisions to:

- Require the adoption of terms of reference prior to a committee beginning its work.
- Ensure that such terms of reference include clear limits on the authority of committees to act on behalf of Council.
- Require regular and thorough reporting back to Council.

Recommendation 3

The District of Sechelt should enhance the transparency of decision-making by:

- Providing as much information as possible to the public on its capital project priorities and plans, and in a timely manner.
- Conducting as much Council business as is reasonably possible in meetings that are open to the public.

Recommendation 4

The District of Sechelt should develop and implement a Council-approved conflict of interest policy for elected officials, staff and Council committee members. This should include provisions to:

- Address both actual conflict of interest and the appearance of conflict of interest.
- Require staff involved in procurement to declare potential conflicts of interest annually.
- Maintain a list of known potential conflicts of staff and council members.
- Require suppliers to sign a conflict of interest declaration.
- Identify a senior staff member independent of the procurement function who staff may approach in confidence should they have any concerns regarding conflict of interest.
- Establish procedures for resolving allegations of conflict of interest.
- Ensure that committee members who are not members of Council do not use their committee position to advance their personal interests.

Recommendation 5

The District of Sechelt should make appropriate use of its senior staff in the planning and monitoring of major capital projects and ensure that its finance department is actively involved in assessing capital project procurement initiatives, including challenging cost estimates and assumptions.

RECOMMENDATIONS

Recommendation 6

The District of Sechelt should undertake a post-completion review of the wastewater treatment plant project, including an evaluation of construction, project management and costs in completing it, as well as risks, lifecycle costs and its long-term financial sustainability. The District should make the review report available to the public.

Recommendation 7

The District of Sechelt should strengthen its procurement policy by including provisions to:

- Require Council to approve the policy and any future amendments.
- Identify specific circumstances under which it is acceptable to award contracts without competition.
- Establish a clear requirement for the use of written contracts.
- Establish clear requirements for the documentation of procurement decisions and reporting of those decisions to Council.

Recommendation 8

The District of Sechelt should develop and implement a systematic approach to capital asset management. Initial steps should include:

- Improving the District's information on its capital assets.
- Implementing a process to identify, assess and treat risks with its capital assets.
- Strengthening links between capital asset management activities and capital project planning.
- Developing a clear plan for funding future capital expenditures.

SUMMARY OF LOCAL GOVERNMENT'S COMMENTS

Mayor Bruce Milne and Council acknowledge the importance of the 2014 Performance Audit conducted by the office of the Auditor General for Local Government of the District of Sechelt's capital procurement and asset management programs. In the report, the acting Auditor General for Local Government identified several areas of our local government operations and governance activities that need to be improved and recommended that new or amended policies and procedures be adopted. We agree with the findings and recommendations of this audit and, with the assistance of staff, have already identified and implemented several actions that will improve our performance in these critical areas.

The report's focus on capital procurement and asset management was timely in light of our recently completed \$23 million wastewater treatment plant project, the largest capital project in Sechelt's history. Consistent with the findings and recommendations of the acting AGLG, the District of Sechelt is taking steps to conduct a post-completion review of the technology, construction, project management and project costs of the wastewater facility. The District will identify any outstanding risks resulting from the treatment process selected or procedures followed.

The District agrees with the acting AGLG's comments and recommendations concerning project planning and project management and we have recently approved a plan to provide business case training to key managers and employees. Council now requires that business cases must be prepared for every capital project prior to approval and that project management plans will be prepared prior to project implementation. Additional staff training will take place in the first half of 2015 and this practice will be fully implemented in time for planning for the 2016 budget.

Consistent with business case development, the District will implement its procurement policies and procedures to ensure fair, open and transparent procurement of goods and services for the District's operations. Since 2012, the District has been working with contractors and staff to implement a new on-line capital asset information and management system that will enable staff to update and track asset condition and maintenance costs and to assist with long term capital asset planning.

The report also reviewed and comments on governance procedures. The acting AGLG recommends that Council should enhance the transparency of decision making by conducting as much Council business as possible in public and by providing information to the public in a timely manner. Concerns about proper delegation of authority and conflict of interest with respect to decision making were also identified. Council will consider options for resolving outstanding community concerns regarding conflicts of interest with regard to the wastewater treatment plant.

In meeting with AGLG staff in February, Council expressed appreciation for this audit report and committed to carrying out all of the recommendations that are included in it. We believe this commitment is consistent with our priority to put community first. We hope that the lessons learned from this audit will be of value to all local governments in British Columbia.

District of Sechelt Council
March 13, 2015

DISTRICT OF SECHELT'S ACTION PLAN

AGLG RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE	TARGET TIMEFRAME
<p>RECOMMENDATION 1</p> <p>The District of Sechelt should require the preparation of a business case prior to Council approval of a capital project.</p>	<p>The District of Sechelt agrees with this recommendation. The District introduced a business case template in 2013. However, the plan has not been fully implemented. The District will provide project management training for all senior staff with a fitting change management strategy.</p> <p>In 2015, two (2) firms that offer specialized business case development training to local governments have been identified, with associated costs. A recommendation has been presented to Council for training of core staff.</p> <p>Project management training will also be provided to District staff with the expectation that project management processes will be required for capital projects prior to start up.</p>	<p>CAO</p>	<p>May 2015 – November 2015</p>
<p>RECOMMENDATION 2</p> <p>The District of Sechelt should develop and implement clear policy on the delegation of authority to Council committees. This should include provisions to:</p> <ul style="list-style-type: none"> Require adoption of terms of reference prior to a committee beginning its work. Ensure that such terms of reference include clear limits on the authority to committees to act on behalf of Council. Require regular and thorough reporting back to Council. 	<p>The District of Sechelt understands that Council should always delegate its authority to committees as set out in Council's Procedure Bylaw No. 521 2012.</p> <p>All terms of reference for Council committees are being reviewed and standardized.</p> <p>Council's Procedure Bylaw will be reviewed to include amendments to ensure that terms of reference with clear delegation of authority and reporting relationships are adopted when establishing committees.</p>	<p>CAO, Director of Corporate Services</p>	<p>April 2015 – June 2015</p>
<p>RECOMMENDATION 3</p> <p>The District of Sechelt should enhance the transparency of decision-making by:</p> <ul style="list-style-type: none"> Providing as much information as possible to the public on its capital project priorities and plans, and in a timely manner. Conducting as much Council business as reasonably possible in meetings that are open to the public. 	<p>The District of Sechelt agrees with this recommendation.</p> <p>The <i>Community Charter</i> sets out specific requirements for meetings that may or must be closed to the public. The District of Sechelt is committed to meeting these requirements by:</p> <ul style="list-style-type: none"> ensuring the subject matter of the Council meeting closed to the public relates to the provisions in the Charter. reporting closed meeting decisions as soon as possible on an open agenda. <p>In addition, Council Procedure Bylaw will be reviewed to consider amendments including the Provincial Ombudsman Best Practices Guide with respect to notice of meetings and closing the meeting to the public.</p> <p>As part of project management, major capital project plans will include public engagement.</p>	<p>CAO, Director of Corporate Services</p>	<p>April 2015 – June 2015</p> <p>June 2015</p>

DISTRICT OF SEHELTS ACTION PLAN

AGLG RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE	TARGET TIMEFRAME
<p>RECOMMENDATION 4</p> <p>The District of Sechelt should develop and implement a Council-approved conflict of interest policy for elected officials, staff and Council committee members. This should include provisions to:</p> <ul style="list-style-type: none"> • Address both actual conflict of interest and the appearance of conflict of interest. • Require staff involved in procurement to declare potential conflicts of interest annually. • Maintain a list of known potential conflicts of staff and council members. • Require suppliers to sign a conflict of interest declaration. • Identify a senior staff member independent of the procurement function who staff may approach in confidence should they have any concerns regarding conflict of interest. • Establish procedures for resolving allegations of conflict of interest. • Ensure that committee members who are not members of Council do not use their committee position to advance their personal interests. 	<p>The District of Sechelt agrees with this recommendation. The conflict of interest and reporting of conflict provisions for Council are set out in Sections 101-108 of the <i>Community Charter</i>. Council will consider conflict of interest policies for the entire organization including all committees.</p> <p>The District of Sechelt has a Standard Operating Procedure – Code of Conduct (SOP – 1 Code of Conduct) put in place in May 2014. However, this Code of Conduct was implemented as a management tool. The Code of Conduct will be enhanced and brought forward for Council’s consideration as a policy.</p> <p>A new practice requiring all Council members to declare any actual or perceived conflict of interest on matters being considered in the agenda will be introduced at the beginning of each Council meeting.</p> <p>Council will consider implementing a policy that requires members of Council and Officers to update their annual financial disclosures when there is a change to their financial interests.</p>	<p>CAO, Director of Corporate Services</p>	<p>March 2015 – May 2015</p>
<p>RECOMMENDATION 5</p> <p>The District of Sechelt should make appropriate use of its senior Staff in planning and monitoring of major capital projects and ensure that its finance department is actively involved in assessing capital project initiatives, including challenging costs estimates and assumptions.</p>	<p>The District of Sechelt agrees with the recommendation of the AGLG. All Council reports will now be signed off by Senior Staff to indicate review and support of recommendations to Council. See also response to Recommendation 1.</p>	<p>CAO, Director of Corporate Services</p>	<p>March 2015 – June 2015</p>
<p>RECOMMENDATION 6</p> <p>The District should undertake a post-completion review of the wastewater treatment plant project, including an evaluation of construction, project management and costs in completing it, as well as risks, lifecycle costs and its long term financial sustainability. The District should make the review report available to the public.</p>	<p>The District of Sechelt concurs with the recommendation of the AGLG. Funding will be provided in the budget to undertake a post-completion review of the wastewater plant project. This review will extend for at least the first 12 months of operations post completion and the findings will be made public.</p>	<p>CAO, CFO and Superintendent of Public Works</p>	<p>June 2015 – June 2016</p>

DISTRICT OF SEHELTS ACTION PLAN

AGLG RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE	TARGET TIMEFRAME
<p>RECOMMENDATION 7</p> <p>The District of Sechelt should strengthen its procurement policy by including provisions to:</p> <ul style="list-style-type: none"> Require Council to approve the policy and any future amendments. Identify specific circumstances under which it is acceptable to award contracts without competition. Establish a clear requirement for the use of written contracts. Establish clear requirements for the documentation of procurement decisions and reporting of those decisions to Council. 	<p>The District of Sechelt agrees with this recommendation to strengthen the policy and notes that a procurement policy was adopted by Council Resolution No.395-06/2013 on June 5, 2013. This policy is supported by 6 Standard Operating Procedures (SOPs):</p> <ol style="list-style-type: none"> SOP 1 – Code of Conduct SOP 2 – Procurement Requests SOP 3 – Purchasing Plan SOP 4 – Vendor Selection SOP 5 – Purchase Orders SOP 6 – Contracts <p>In addition to the above, procurement decisions will be included in quarterly reports to Council and made public. Council will also consider hiring qualified procurement staff or accessing a shared position with other municipalities on the Coast.</p>	<p>Chief Financial Officer (CFO)</p>	<p>Complete</p>
<p>RECOMMENDATION 8</p> <p>The District of Sechelt should develop a systematic approach to capital asset management. Initial steps should include:</p> <ul style="list-style-type: none"> Improving the District’s information on its capital assets. Implementing a process to identify, assess and treat risks with its capital assets. Strengthening links between capital asset management activities and capital planning. Developing a clear plan for funding future capital expenditures. 	<p>The District of Sechelt agrees with this recommendation and has been working with contractors and staff to implement CityWorks, a capital asset management program.</p> <p>Council is also considering a draft Fiscal Accountability and Resilience Policy that will guide long term funding of capital assets, operations and financial sustainability.</p> <p>Council will consider and adopt an Asset Management Policy setting capital asset service levels and standards.</p>	<p>CAO, CFO and Manager of Engineering Services</p>	<p>Ongoing</p>

ABOUT THE AUDIT

All the audit work in this report was conducted in accordance with Canadian Standards on Assurance Engagements.

Audit Objectives

3.2.159 The overall objective was to determine whether the District of Sechelt is exercising sound stewardship over its capital assets through strategic capital asset management practices and capital project procurement processes. In addition, we looked for examples of leading practices and tools other local governments could use to support their capital asset management and capital project procurement activities.

3.2.160 Our specific objectives were to assess the District of Sechelt's capital asset management and capital planning practice and to audit a sample of capital project procurement projects.

Audit Scope and Approach

3.2.161 The audit included a review of the District of Sechelt's performance in managing capital procurement and capital asset management in the years 2010, 2011 and 2012. We also reviewed the District's decision-making and payments for one selected project into 2013 and 2014.

3.2.162 The audit focused on Sechelt's capital procurement controls, processes and practices. We initially selected for review two significant capital projects that were underway during the 2010 - 2012 period: the Wastewater Treatment Plant Project and the Sandpiper/ Mason/ Heritage Road Paving Project.

3.2.163 We selected the first of these projects because of its large size and cost and because we were aware of controversy in the community about aspects of the project and wanted to determine whether any capital asset management or procurement-related issues with the District's policies and operations had been dealt with.

3.2.164 We selected the second project, which was smaller in scale, because it involved a different type of capital asset from the first selected project.

3.2.165 To assess Sechelt's stewardship of its capital assets, we reviewed the District's approach to:

- how capital spending is targeted;
- the affordability, sustainability and funding of capital plans;
- budget and cost management approaches;
- alternative service delivery models;
- contracting and procurement strategies;
- risk management approaches;
- risk of conflict of interest and other capital risk mitigation approaches; and,
- how accountability to citizens is ensured.

3.2.166 In carrying out the audit, we interviewed District staff and members of Sechelt District Council, former employees, as well as consultants and professionals familiar with the selected projects.

3.2.167 The documentation we reviewed included accounts payable, invoices, contracts, bid documents, council minutes and previous reports by third parties requested by the District.

3.2.168 At the beginning of the performance audit process, we shared key audit-related documents with the District of Sechelt. These included a description of the audit background, focus, scope and criteria and an engagement protocol describing the audit process and requirements. At the audit reporting stage, we also obtained management confirmation that the findings included in this report are factually based. The process is in Exhibit 9.

ABOUT THE AUDIT

Audit Criteria

3.2.169 Performance audit criteria define the standards we used to assess Sechelt's performance. We expressed these criteria as reasonable expectations for the District's capital asset management and capital procurement processes and practices to achieve expected results and outcomes.

3.2.170 Below are the criteria we used to gauge the District of Sechelt's performance:

1. Assess the local government's asset management framework against leading practice; identify successful aspects of its development or practices that may be employed by other local governments.
 - a. The local government's asset management framework incorporates recognized leading asset management models and practices modified for local conditions.
 - b. The local government's asset management framework prioritizes assessment of asset condition and identification of related risk. Capital planning decision-makers are presented with full information including alternative sources of funding and/or use of reserves in a manner of which they can make effective use.
 - c. Reporting to the oversight bodies and the public includes short, medium and long-term asset management, procurement and funding needs as well as the results achieved through the asset management process and this reporting is timely, accurate, transparent and relevant.
 - d. The key decisions and steps in the local government's development and implementation of its asset management framework are documented.
 - e. Opportunities for improvement or enhancements to the asset management framework and/or practices employed are identified and implemented.
2. Conflict of interest and key asset management and capital procurement risks are identified and mitigated.
 - a. Well documented conflict of interest guidelines and requirements exist for elected officials and local government staff, including disclosure.
 - b. Well documented processes and procedures exist to ensure that key asset management and/or capital procurement risks are identified, managed and mitigated.
3. The local government's capital procurement model is well documented, transparent and linked to the individual capital project business case decisions.
 - a. Well documented capital procurement policies and procedures exist that are well understood by local government staff, publicly known and linked to capital project objectives.
 - b. Capital procurement decisions include a comprehensive procurement options analysis that covers the nature and breadth of alternative service delivery options and contracting strategies and the best value option selected is implemented.

ABOUT THE AUDIT

Period Covered by the Audit

3.2.171 The audit covered the period 2010 to 2012. We also reviewed the District’s decision-making and payments for one selected project into 2013 and 2014. We completed our audit work on Oct 7, 2014.

EXHIBIT 9: Performance Audit Process

AGLG initiates audit with notification letter and schedules opening meeting with local government to discuss process and proposed audit scope and criteria.

AGLG finalizes audit scope/criteria and advises local government, which acknowledges/ accepts.

With cooperation of local government, AGLG gathers evidence by conducting enquiries, site visits and reviews, inspecting records, performing analyzes and other activities.

AGLG shares preliminary findings with local government at fact clearing meeting or by providing draft proposed final report.

Local government confirms all fact statements, advising AGLG if any information is incorrect or incomplete, providing corrected information with documentary support.

AGLG may produce a draft proposed final report for local government review and comment.

Local government may suggest revisions to the draft report. This request must be supported by evidence. Local government comments must be provided within timeframes established by AGLG.

AGLG produces proposed final report and shares it with local government.

Local government has 45 days to provide comments. These should include response to recommendations.

AGLG adds summary of local government comments to proposed final report and submits it to Audit Council for their review.

Audit Council may provide comments.

After considering any Audit Council comments, AGLG finalizes report.

AGLG may provide final report to local government immediately prior to publication.

AGLG publishes the final performance audit report on AGLG.ca website.

AGLG CONTACT INFORMATION

The AGLG welcomes your feedback and comments. Contact us electronically using our website contact form on www.aglg.ca or email info@aglg.ca to share your questions or comments.

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**AUDITOR GENERAL FOR
LOCAL GOVERNMENT**

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