



AUDITOR GENERAL FOR  
LOCAL GOVERNMENT

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Audit Topic 3 – Report 6 (June, 2016)

# LEARNINGS FROM LOCAL GOVERNMENT CAPITAL PROCUREMENT PROJECTS AND ASSET MANAGEMENT PROGRAMS

**City of Cranbrook**

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



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## MESSAGE FROM THE AUDITOR GENERAL FOR LOCAL GOVERNMENT



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

**3.6.2** I want to thank the City of Cranbrook for its cooperation during the audit process. I also want to thank the City for giving careful consideration to the audit findings and recommendations and providing a constructive response, which is included toward the end of this report.

**3.6.3** The office of the Auditor General for Local Government (AGLG) 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. One way we do this is by conducting performance audits of local government operations and initiatives.

**3.6.4** 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.

**3.6.5** The period covered by this audit is 2010 to 2012. This report outlines the office’s findings on the City of Cranbrook’s management of capital assets and planning and procurement of capital projects during this period.

**3.6.6** The City reported taking important steps, following the period covered by the audit, to enhance its asset management and conflict of interest policies and practices. While we did not audit these representations, we considered it important to recognize them in this audit report.

**3.6.7** Overall, the audit found that during the period covered by the audit, the City of Cranbrook took a number of foundational steps in developing its overall asset management framework. However, the framework and related systems and practices were still in the early stage of development. More needs to be done to enable the City to make informed, cost effective asset management decisions.

In addition, the audit found that the City of Cranbrook’s purchasing policy and capital asset planning and procurement activities had some gaps and required strengthening. This report provides recommendations aimed at assisting the City and remain relevant today.

## MESSAGE FROM THE AUDITOR GENERAL FOR LOCAL GOVERNMENT

3.6.8 In January 2016, we published an AGLG Perspectives series booklet: Improving Local Government Procurement. Previously, we also published two other Perspectives booklets relevant to this audit – on asset management and on oversight of capital procurement processes. Publishing these booklets is another way we assist local governments to improve their practices.

3.6.9 Our hope is that this audit report and the information provided in our AGLG Perspectives series booklets will assist the City of Cranbrook in enhancing its asset management and procurement practices and delivering value for the tax dollars it spends.

A handwritten signature in black ink, appearing to read "Gordon Ruth". The signature is fluid and cursive, with a large initial "G" and "R".

**Gordon Ruth, FCPA, FCGA**  
Auditor General for Local Government

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## EXECUTIVE SUMMARY

Our objective was to determine whether the City of Cranbrook exercised sound stewardship of its capital assets through strategic capital asset management practices & capital procurement processes.

**3.6.10** We identified this topic as a priority for performance auditing because capital asset management and associated capital planning and procurement are key responsibilities of local governments. The manner in which local governments carry out these responsibilities has a major impact on how well taxpayers' money is spent and the level and quality of services they receive.

**3.6.11** Infrastructure assets involve major current and future capital and operational costs and liabilities to local governments and are critical to the achievement of a wide range of local government objectives. The overall risk to the economy, efficiency and effectiveness of local government infrastructure assets is high and expected to remain so for some time, due to factors such as aging infrastructure and growing populations. This places increasing pressure on existing infrastructure and creates demand for new infrastructure. In addition, funding and capacity constraints and uncertainties within local governments impact their ability to effectively manage their infrastructure assets.

### What We Examined

**3.6.12** Our objective was to determine whether the City of Cranbrook exercised sound stewardship of its capital assets through strategic capital asset management practices and capital procurement processes. We examined the City's asset management approach and supporting plans, policies and procedures.

**3.6.13** We also selected two capital projects undertaken by the City between 2010 and 2012 and examined the capital planning, procurement controls, as well as the policies and processes associated with them. The two projects were the Memorial Arena Improvement project and the Sewer Relining project. We selected these projects based on asset type and project timing. We also examined a selection of City payments to contractors for work performed on these projects.

**3.6.14** The period covered by this audit is 2010 to 2012. The City reported making improvements to its practices and processes subsequent to this period; while we did not audit these representations, we considered it important to recognize them in this audit report.

## What We Found

### Capital Asset Management

**3.6.15** During the period covered by the audit, the City of Cranbrook took a number of foundational steps in developing its overall asset management framework. However, the framework and related systems and practices were still in the early stage of development. More needs to be done to enable the City to make informed, cost effective asset management decisions.

## EXECUTIVE SUMMARY

**3.6.16** We noted, for example, that Cranbrook did not have an asset management policy and strategy. The City's documentation of the condition of its capital assets was also limited. While the City had various stand-alone plans and reports, asset management plans for each asset class had not been developed. We also observed that the City did not have strong links between asset management and capital planning, lacking a standardized and risk-based process to guide staff in identifying, prioritizing and selecting projects for inclusion in its proposed Five-Year Capital Plan. Finally, we found that the City approached its funding of capital projects on a case-by-case basis reflected in a Five-Year Financial Plan, lacking a long-term financial plan to support its capital asset investments.

**3.6.17** Following the period covered by the audit, the City continued to work on its asset management framework and has taken important steps to move its asset management practices forward. The City told us that many of these initiatives built upon progress the City made during the period covered by the audit and continued its efforts to build a robust approach to capital asset management.

### Purchasing Policy and Conflict of Interest

**3.6.18** The City of Cranbrook's purchasing policy had significant gaps and did not provide for an appropriate level of risk management overall. The policy did not provide sufficient guidance for staff involved in procurement activities in order to ensure value for money.

It also did not clearly assign responsibility and accountability for various procurement activities.

**3.6.19** During the period covered by the audit, the City lacked a conflict of interest policy and had limited processes to identify and communicate across the organization potential conflicts of interest and related parties. However, since the period covered by the audit, the City reported making improvements and introduced a new conflict of interest policy and some additional processes aimed at identifying potential conflicts of interest.

### Capital Project Management

**3.6.20** Overall, we found that the two capital projects we reviewed were reasonably well managed by the City. Both projects were aligned with the City's priorities and were approved by Council. Council was updated on the status of the projects. Both projects were completed under budget, although there were some scope changes. One of the two projects was completed with a delay of a few months. Payments were properly approved and supported. However, we noted some areas of project management that required strengthening, such as document retention processes and approval of change orders and contracts.

## EXECUTIVE SUMMARY

### Conclusion

3.6.21 We concluded that the City should continue its work on improving and moving forward its capital asset management practices. Cranbrook should also strengthen its procurement policies and project management practices. We have provided recommendations aimed at assisting the City in accomplishing this.

#### EXHIBIT 1: Recommendations

ISSUES	RECOMMENDATIONS
<p><b>Capital Asset Management</b></p>	<p>1 The City of Cranbrook should enhance its capital asset management practices by:</p> <ul style="list-style-type: none"> <li>• Developing an overarching asset management policy and supporting strategy to link existing policies and practices and guide its long-term sustainable asset management practices.</li> <li>• Building its asset management capacity by establishing a cross-functional asset management team, identifying core competencies and ensuring that key staff responsible for asset management receives training and guidance on sound capital asset management practices.</li> <li>• Strengthening the following components of its capital asset management framework:                             <ul style="list-style-type: none"> <li>&gt; A formal process to define, monitor and report on levels of service to inform asset upgrading and replacement needs;</li> <li>&gt; A lifecycle costing approach as part of financial planning;</li> <li>&gt; A formalized approach to asset condition assessment that includes regular inspections of core and critical assets;</li> <li>&gt; A reporting process to Council on capital asset management activities, progress and results; and,</li> <li>&gt; Opportunities for public input into its overall asset management approach.</li> </ul> </li> <li>• Developing a long-term asset investment strategy and a balanced, long-term financial planning approach to manage infrastructure renewal and replacement through a combination of alternatives such as the use of reserves, taxation, grants and contributions and debt financing.</li> <li>• Establishing a performance measurement framework to gauge the management and service delivery of core assets.</li> </ul>

**EXHIBIT 1:**  
Recommendations (continued)

ISSUES	RECOMMENDATIONS
<p><b>Procurement Policies</b></p>	<p>2 The City of Cranbrook should strengthen its purchasing policy and procedures by addressing the gaps. Specific areas requiring attention include:</p> <ul style="list-style-type: none"> <li>• Structure and governance of the procurement function, including requirements for regular reporting to Council.</li> <li>• Guidance on procurement authorities and responsibilities, methods of procurement, contracting for goods and services, use of subcontractors, management of vendor relationships, sustainable procurement, local suppliers preferences, unsolicited proposals, notice of intent, and nature and level of documentation to support procurement decisions.</li> </ul> <p>3 The City of Cranbrook should further strengthen its conflict of interest policy and processes by:</p> <ul style="list-style-type: none"> <li>• Including a provision to protect employees reporting a known or potential conflict of interest regarding City employees or Council members.</li> <li>• Requiring staff involved in procurement to acknowledge and sign an annual conflict of interest declaration.</li> <li>• Establishing and maintaining a list of related parties and potential conflicts of interest of staff and Council members and reviewing the list as part of the procurement award process.</li> <li>• Conducting periodic reviews of vendors with long-term arrangements with the City to identify potential conflicts of interest that may have emerged since arrangements were initially set up.</li> <li>• Providing an annual reminder to staff and Council on the Conflict of Interest policy and the Rules of Employment/ Conduct.</li> </ul>
<p><b>Capital Project Management</b></p>	<p>4 The City of Cranbrook should strengthen its capital asset planning, procurement and reporting practices by:</p> <ul style="list-style-type: none"> <li>• Providing written guidance to staff on procedures to follow as they undertake capital project activities of different dollar values or complexity levels.</li> <li>• Ensuring consultants comply with the City's purchasing policy provisions.</li> <li>• Ensuring that proper documentation is kept on file to support procurement decisions, including instances of purchasing policy compliance, policy exemptions and policy non-compliance.</li> <li>• Monitoring and enforcing compliance of internal controls over change orders and contracts.</li> </ul>

## INTRODUCTION

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

**3.6.23** 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.”

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

**3.6.25** 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.

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).

\* *The Act defines operations as the design or implementation of the programs, services, policies or systems of a local government and related procedures.*

**EXHIBIT 2:**  
Excerpt from *the Auditor General for Local Government Act*

## INTRODUCTION

**3.6.26** 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 Dawson Creek, District of North Vancouver, City of Rossland and District of Sechelt. All of these audits are now complete.

**3.6.27** We may conduct more audits on capital procurement and capital asset management in the future, as this is a major area of local government activity.

**3.6.28** Appendix provides supplementary information on asset management and capital planning and procurement.

### **Asset Management**

Asset management activities include planning, obtaining, caring for, replacing and disposing of assets as well as considering the costs and requirements of capital assets throughout their lifecycle. 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.

### **Capital Planning**

Capital planning is the process of identifying current and future capital needs, and preparing approaches, strategies and projects to meet those needs.

### **Capital Procurement**

Capital procurement is the process of acquiring, constructing or significantly improving capital assets using sources outside the local government.

### **EXHIBIT 3: Key Definitions**

## CONTEXT

**3.6.29** Cranbrook is a city of approximately 20,000 people, located in southeast British Columbia. The City occupies approximately 32 square kilometres of land. It is the largest urban centre in the East Kootenay region.

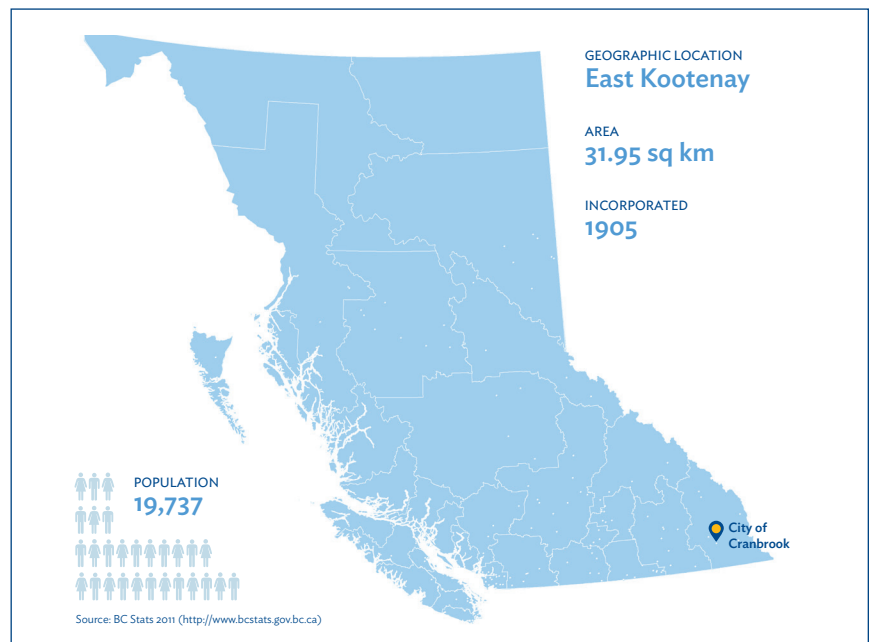
**3.6.30** Cranbrook has a diverse economy based primarily on forestry, mining, manufacturing, tourism, services and transportation. The city has a relatively mature population, with a median age of 44.6 years and a large proportion of residents between the ages of 45 and 60.

**3.6.31** The City of Cranbrook had a staff of 131 full-time and 60 part-time/casual/temporary employees as of 2012.

**3.6.32** As Exhibit 5 shows, the City’s revenues during the period covered by the audit peaked in 2011 as a result of contributed assets through an extension of the City’s boundary as well as higher amounts of federal and provincial government grants. Annual operating expenditures increased slightly in 2011 and 2012 compared to 2010. Capital expenditures peaked in 2011 and then declined in 2012 due to acquisition of infrastructure, technology, land and land improvement types of capital assets in 2011.

**3.6.33** The City accumulated significant surplus funds that it used during the period covered by the audit to fund expenditures and tangible capital assets. The amount of annual surplus significantly decreased after the period covered by the audit, as did the City’s acquisition of tangible capital assets.

**EXHIBIT 4: City of Cranbrook Visual Facts**



**EXHIBIT 5: City of Cranbrook Financial Snapshot, 2010-2012**

REVENUE	2010	2011	2012 (RESTATED)
Revenues	\$47,099,108	\$51,964,878	\$47,539,974
Expenditures	\$33,899,298	\$35,340,242	\$35,683,759
Annual Surplus (deficit)	\$13,199,810	\$16,624,635	\$11,856,215
Capital Asset Value	\$156,717,124	\$178,760,401	\$188,456,881
Annual Capital Budget	\$28,066,254	\$28,096,054	\$18,261,172
Annual Capital Expenditures	\$22,056,503	\$27,280,300	\$15,931,389

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

Sources: City of Cranbrook 2010, 2011, 2012 and 2013 Annual Reports.

## CONTEXT

3.6.34 As Exhibit 6 shows, Cranbrook owned capital assets with \$188 million in net book value as of December 31, 2012. Infrastructure assets such as roads, water, sewer and drainage accounted for 64 per cent of this value while another 30 per cent was in land and buildings.

**EXHIBIT 6: City of Cranbrook Tangible Capital Assets (TCA), 2012**

TANGIBLE CAPITAL ASSETS	HISTORICAL COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE	% OF TOTAL TCA
Land	\$10,342,051	-	\$10,342,051	6%
Land Improvements	\$4,328,313	\$1,025,131	\$3,303,182	2%
Buildings	55,382,407	\$14,648,224	\$40,734,183	22%
Technology – IT	\$4,297,037	\$629,909	\$3,667,128	2%
Equipment	\$11,489,124	\$5,489,418	\$5,999,706	3%
Infrastructure	\$177,693,864	\$56,277,440	\$121,416,424	64%
Construction in Progress	\$2,687,360	-	\$2,687,360	1%
Library Book Collection	\$676,402	\$369,555	\$306,847	0%
<b>Total</b>	<b>\$266,896,558</b>	<b>\$78,439,677</b>	<b>\$188,456,881</b>	<b>100%</b>

Source: City of Cranbrook 2013 Annual Report.



## FINDINGS

We reviewed the City's systems, policies, procedures and relevant documentation such as asset management reports, financial information and capital project reports, including payments to contractors.

**3.6.35** Our findings are based on our review of the City of Cranbrook's asset management framework and its planning, procurement and management of the two capital projects we selected for review. We reviewed the City's systems, policies, procedures and relevant documentation such as asset management reports, financial information and capital project reports, including payments to contractors.

**3.6.36** Overall we found that:

### Capital Asset Management

The City was moving in the right direction in developing certain elements of its asset management framework. However, during the period covered by the audit, the framework and related systems and practices were still in the early stages of development. More needed to be done to enable the City to make informed and cost effective asset investment decisions. The City told us that, subsequent to the period covered by the audit, it continued to work on its asset management framework and has taken important steps toward building a robust approach to capital asset management.

### Procurement Policies

#### *Purchasing Policy*

The City's purchasing policy had significant gaps and required improvements to ensure key procurement risks were adequately addressed. These policy gaps were not addressed subsequent to the period covered by the audit.

#### *Conflict of Interest*

During the period covered by the audit, the City did not have a conflict of interest policy or sufficient processes in place to identify and communicate across the organization potential conflicts of interest and related parties. However, subsequent to the period covered by the audit, the City introduced a conflict of interest policy for employees, as well as some processes aimed at identifying potential conflicts of interest and related parties.

### Capital Project Management

We found that both capital projects we reviewed were aligned with corporate priorities and project status was regularly reported to Council. Payments were processed in accordance with the City's policies. While the City strived to have a transparent procurement process, as required by its purchasing policy, a lack of documentation made it difficult for us to determine whether the City consistently complied with this requirement. Also, we noted instances where internal control over change orders and contracts was not effective and required strengthening.

## FINDINGS

Overall, an asset management framework establishes organizational accountability for sustainable asset performance.

### Capital Asset Management

#### Asset Management Framework

**3.6.37** A local government's asset management framework includes the fundamental components of asset management that support a powerful approach to managing infrastructure across the organization. Based on information, finances, people and assets, these key elements include:

- A set of strategic objectives;
- Internal knowledge, skills and experience;
- Asset management policy and strategy;
- Performance measures based on defined levels of service;
- Asset information and condition assessments;
- Risk-based methodology and risk registers;
- Asset management plans based on lifecycle costing;
- An asset investment strategy;
- A long-term financial plan with a balanced sustainable approach;
- Reports to Council; and,
- Opportunities for community consultation and input.

**3.6.38** Such a framework, when integrated and aligned, enables the organization to make informed, cost-effective asset investment decisions based on known asset condition, risk analysis, full lifecycle costing and potential sources of revenue. A framework also encourages collaboration between finance, engineering and operations departments and

considers public input. Overall, an asset management framework establishes organizational accountability for sustainable asset performance.

#### Strategic Objectives

**3.6.39** Local governments have increasingly recognized the importance of developing and implementing sound asset management practices to help make effective operational and financial decisions, maximize infrastructure and ensure proper oversight and stewardship of publicly-owned resources. To accomplish this, a local government should formulate strategic goals and objectives aimed at fostering sound asset management practices.

**3.6.40** The City of Cranbrook's Official Community Plan, which was adopted in 2006, identified two high level themes, "Growth Management and Development" and "Sustainability" that the City intended to reflect in its policies, guidelines and actions.

**3.6.41** The City's Engineering Services Department also had goals relating to capital asset management, which were identified in the City's annual reports as 'Engineering Services Major Initiatives.' These included, for example: "continue to build our asset databases," "continue to build a robust priorities based capital planning model" and others. However, we noted that these goals were high level and that some of them were carried forward during all three years of the audit period, without indication of what would be an appropriate measure of success for each year and what was actually achieved.

## FINDINGS

The City lacked a cross-functional asset management team to carry out its asset management activities. The City also did not have an asset management policy or an asset management strategy.

**3.6.42** *Following the period covered by the audit:* In 2015, Cranbrook undertook an exercise of developing strategic priorities for 2015-2018. Out of seven priorities, two relate to capital asset management. These are accompanied by a list of tasks the City needs to undertake annually from 2015 to 2018.

### Internal Capacity

**3.6.43** Effective asset management requires an integrated approach involving departments across the organization. In addition, one key member of the organization should have overall responsibility and exercise leadership for planning, monitoring and reporting progress on asset management.

**3.6.44** An essential first step is to ensure that the local government has the capacity to undertake asset management activities. This is particularly important for smaller local governments, which need to make prudent decisions on how to allocate their limited resources, which activities to undertake and how to distribute them between internal and external contracted resources.

**3.6.45** During the period covered by the audit, Cranbrook's Director of Engineering Services, supported by external consultants, was responsible for leading the development of the City's asset management initiative. However, the City lacked a cross-functional asset management team and did not have a formal staffing plan to carry out its asset management activities. In addition, core competencies had not been identified and embedded in job descriptions and roles and

responsibilities of staff involved in asset management had not been defined and assigned.

**3.6.46** *Following the period covered by the audit:* According to Cranbrook staff, the City has made some progress since 2012 in building its internal capacity for asset management. For example, management was in the process of updating a Construction Compliance Technologist job description, a position to be responsible for Cranbrook's asset management database. In addition, the City employed external consultants to work in a collaborative fashion with City staff on Prioritized Capital Plans. This enabled the City to build capacity within staff to learn how to develop its capital planning model and master plans and support effective implementation of these plans over time.

### Asset Management Policy and Strategy

**3.6.47** An asset management policy guides the implementation of asset management processes and practices across the local government. It outlines the fundamental principles driving the organization's asset management and provides overarching direction on long-term planning, financing, operation, maintenance, repair, renewal or replacement and disposal of capital assets. In particular, the policy supports the establishment of an asset management strategy and the development of asset management plans for various classes of assets.

**3.6.48** During the period covered by the audit, the City did not have an asset management policy or an asset management

## FINDINGS

The City's Asset Management Investment Plan, completed in June 2012, was a key first step in the development of Cranbrook's asset management framework.

strategy to guide its long-term sustainable asset management practices. However, the City undertook a number of initiatives aimed at building a stronger foundation for capital asset management, including the following:

- The City developed a series of policies related to capital asset management including Tangible Capital Assets policy, Fleet Management and Replacement policy, and Accumulated Surplus policy.
- Cranbrook's Official Community Plan emphasized growth management and development as well as sustainability.
- A growth management study conducted in 2010 provided a framework for identifying significant capital improvements pertaining to water, storm water, sanitary and roads resulting from land development projects.
- The City's 2011 Connecting to our Future – Integrated Community Sustainability Plan provided a strategic framework for building the community.
- Cranbrook's 2012 Asset Management Investment Plan, a key step in the City's asset management program, brought together information on long-term costs and timing for the community's entire linear and non-linear infrastructure and enabled the City to see all of its infrastructure's lifecycle cost pressures in one place.

**3.6.49** *Following the period covered by the audit:* City staff told us that they have started developing an asset management policy.

### Performance Measurement

**3.6.50** Performance measures are indicators of work performed and results achieved. In relation to asset management, performance measures can help forecast and track the impacts of asset investments, maintenance and operations improvements. They can also help monitor the condition of assets and gauge the organization's management and service delivery.

**3.6.51** We found that during the period covered by the audit, Cranbrook did not have a comprehensive performance measurement framework. The City had not established a formal process of documenting performance goals and measures for its core assets that considered a range of operational, financial and performance related information and reported results annually.

### Levels of Service

**3.6.52** Defining the operational levels of service for a particular asset or asset class is essential to planning, as well as understanding ongoing service delivery, operations requirements and the associated costs. Well-defined levels of service can drive asset performance measures and targets and reduce risks throughout the lifecycle of the asset.

**3.6.53** We noted that the City referred to levels of service in its 2010 Growth Management Study for some asset classes including transportation, water supply and waste water collection. In addition, its 2012 Asset Management Investment Plan referred to average annual lifecycle investments of \$15.3

## FINDINGS

During the period covered by the audit, Cranbrook did not establish a formal and regular process to define, monitor and report on levels of service for all of its core assets. The City also lacked a system allowing asset tracking across departments.

million per year that were required in order “to maintain current and planned service levels.” The City used assumptions on the original service life, condition rating, functional obsolescence, service life and replacement cycles of its assets to support this calculation.

**3.6.54** However, we noted that, during the period covered by the audit, Cranbrook did not establish a formal and regular process to define, monitor and report on levels of service for all of its core assets. It did not formally define goals, objectives and targets for each class of assets based on operational or maintenance levels of service or the community’s expected levels of service. One of the recommendations included in the City’s 2012 Asset Management Investment Plan – prepared by external consultants – was that City staff consider levels of service, along with performance, condition and risk and establish levels of service for the City’s assets that were understood and supported across departments and Council.

### Asset Information and Condition Assessment

**3.6.55** Knowledge of assets serves as the linchpin for an organization’s asset management activities. Key asset inventory information should be grouped by asset class and include attributes such as ownership status, location, age, performance history, historical cost and replacement value, estimated remaining service life and any significant issues. It should also include asset condition assessments as these are closely linked to asset performance. The City should use the physical

state of each asset to inform maintenance requirements and determine the need for repair or replacement.

**3.6.56** During the period covered by the audit, the City of Cranbrook’s capital asset information was spread across multiple systems. The controlling system for capital assets was the Municipal Accounting and Information System, a financial system that included a tangible capital assets module. Asset inventory information focused largely on accounting aspects such as age, historical cost, depreciation, net book value and salvage value. According to the City, additional information on capital assets was kept in various spreadsheets maintained by individual departments and partially captured in other systems.

**3.6.57** While departments had detailed knowledge of their assets and were managing it accordingly, Cranbrook lacked a system allowing easy and consistent asset tracking across departments throughout the lifecycle of each asset.

**3.6.58** In addition, we noted that individual departments carried out informal asset condition assessments. Various engineering studies were commissioned to assess conditions of specific assets, without a clear process determining the frequency of these studies. Cranbrook lacked a management plan to ensure that inspections of all assets took place on a rotational basis.

**3.6.59** The City’s condition assessments of capital assets supported calculations included in its 2012 Asset Management Investment

## FINDINGS

During the period covered by the audit, the City did not employ a formal, risk-based methodology based on likelihood and consequence of asset failure to inform investment decisions and direct resources.

Plan. However, these assessments were built using the best data available at the time of preparing the Plan. This resulted in asset condition assessments based on assumptions that were not verified. For example, all of the City's capital assets received the same condition and functional obsolescence rating and the revised service life of every asset was consistently equal to the initially defined service life. According to the City, the intention was to use the asset condition assessment included in the Asset Management Investment Plan as a starting point and then continue to refine the data annually.

**3.6.60** Cranbrook's 2012 Asset Management Investment Plan called for the City to complete asset condition assessments for all assets that were nearing the end of their life expectancy and then adjust the expected remaining life based on the new condition.

**3.6.61** *Following the period covered by the audit:* According to City staff, Cranbrook has continued building its capital asset databases and developing a system accessible to all City staff. Asset condition assessment has been further refined through the development of the City's 2015 Prioritized Capital Plans, based on field condition assessments performed by external consultants and City staff, as well as a review of each asset's age and rehabilitation work completed to date.

### Risk Prioritization

**3.6.62** Attention to risk allows a local government to prioritize which assets should be subject to condition assessment and then

target spending, based on the results of those assessments, to the most critical infrastructure needs.

**3.6.63** During the period covered by the audit, individual Cranbrook departments identified capital projects and prepared Capital Project Detail Sheets based on the information available to them, as part of the annual budgeting process. City staff told us that each department used an informal risk assessment process based on a range of information sources such as staff knowledge and history, visual inspections, condition assessments, technical and legal requirements, public complaints and service calls. The City used an iterative process to make final decisions on capital projects. This process involved discussions between City staff and/or Council. The capital projects selected were included in the annual Five-Year Financial Plan.

**3.6.64** During the period covered by the audit, the City did not employ a formal, risk-based methodology based on likelihood and consequence of asset failure. It lacked formal risk registers to help inform investment decisions and direct resources.

**3.6.65** *Following the period covered by the audit:* City staff told us that Cranbrook used a risk-based approach to develop its 2015 Prioritized Capital Plans prioritizing capital upgrades based on condition, capacity and risk. The City provided us with examples of how it carried out risk assessments with a focus on the likelihood of failure, the severity of environmental, social, or economic impacts if there was failure and an assignment of total risk scores.

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The City had not developed asset management plans for each asset class.

### Asset Management Plans

**3.6.66** Asset management plans are the cornerstones of a local government's asset management framework. Each asset class should have a plan containing inventory information, targeted levels of service and defined maintenance and repair activities that maximize the asset's useful life while minimizing costs. This is called a lifecycle approach.

**3.6.67** As mentioned previously, the City's Asset Management Investment Plan, completed in June 2012 and presented to Council in November 2012, was a key first step in the development of Cranbrook's asset management framework. By the end of the period covered by the audit, however, the City had not developed asset management plans for each asset class.

**3.6.68** The City's 2012 Asset Management Investment Plan recommended that the City maintains its asset management momentum and continue its transition by pursuing additional opportunities for improvement, including the development of asset management master plans.

**3.6.69** *Following the period covered by the audit:* In 2015, Cranbrook, with the assistance of external consultants, reported completing asset management master plans, called Prioritized Capital Plans, for its water, storm water, sewer and roadway systems.

### Asset Lifecycle Costing

**3.6.70** Sound asset management decision-making must take into account the entire cost of the asset from planning through to retirement, known as lifecycle costing. Preventive maintenance schedules are particularly relevant to this, as they can help reduce repair costs and extend the life of some assets.

**3.6.71** We did not find evidence that the City had considered a full lifecycle strategy and costing methodology as part of its capital asset planning and budgeting process during the period covered by the audit. We noted that the impact of lifecycle costing on Cranbrook's annual operating budget was addressed only at a high level in the City's Capital Project Detail Sheets.

**3.6.72** However, City staff told us that during the process of developing its 2012 Asset Management Investment Plan, staff made a first attempt to identify the lifecycle status of individual assets and developed initial costing information to go into that plan for the period 2013 to 2032.

### Asset Investment Strategy

**3.6.73** The key deliverable of asset management is a long-term investment strategy detailing the timing (short, mid and long-term) of all planned capital infrastructure projects based on condition assessment and risk, as well as future demand. Such a multi-year strategy should include costs and a funding strategy or options for funding and should state the key

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During the period covered by the audit, the City did not have an asset investment strategy for its core classes of assets.

assumptions on which it is based. Since conditions, risks and costs change over time, the investment strategy should be updated annually to reflect any revisions.

**3.6.74** The City's asset investments were budget-driven based on historical spending as opposed to needs. As a result, rather than asset conditions driving the budget, the budget drove the City's investments in capital assets and investments were underfunded. The City looked closely at cost savings opportunities by combining capital projects and looking for provincial and federal government funding sources to offset the City's costs as much as possible.

**3.6.75** During the period covered by the audit, the City did not have an asset investment strategy for its core classes of assets – a strategy that identified specific capital projects based on asset conditions and risks and identified funding options for each project. Potential capital projects were not formally prioritized by level of risk.

### Financial Sustainability

**3.6.76** Asset management and financial management are intertwined. Results of asset management practices should inform financial management processes and, in turn, financial considerations should impact asset management decisions. Since asset management typically has significant financial impacts and is resource intensive, the organization should have a long-term financial plan, extending for a minimum of ten years into the future. The plan should include key information drawn from

asset management practices such as operational, maintenance, renewal and development costs determined through an assessment of lifecycle costing, as well as long-term forecasts for both planned expenditures and sustainable sources of funding. The plan should include the sale or disposal of surplus assets.

**3.6.77** During the period covered by the audit, the City's planning horizon was based on a Five-Year Financial Plan that was updated annually. The City did not have a long-term financial plan to support asset renewal that, according to Cranbrook's 2012 Asset Management Investment Plan, required an estimated \$15.3 million annual investment over a 20-year period. The City identified funding sources for capital assets informally, largely based on certain legal restrictions and past practices. The City documented funding of capital projects in its annual Five-Year Financial Plan.

**3.6.78** *Following the period covered by the audit:* Cranbrook staff told us that in 2014 Council approved the concept of developing an annual integrated capital program based on a 15-year capital plan reflecting community needs based on priority and affordability. Council authorized the City administration to use the 15-Year Asset Management Plan, as updated from time to time, in the development of Cranbrook's future Five-Year Financial Plans.



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# The City’s capital reserve balances were insufficient to address the infrastructure deficit.

### Use of Reserves and Debt Management

**3.6.79** Many local governments face an infrastructure deficit, where currently available levels of funds are insufficient to keep up with asset repair, renewal, replacement and development needs. Each local government should have a financial strategy to establish asset reserve funds dedicated to capital works as part of its long-term financial strategy. These reserve resources should provide the local government with financial flexibility, help to manage risks and enable the organization to take advantage of opportunities as they arise.

**3.6.80** While there is no one best model for the establishment and use of reserves, good practice is to set up a reserve for each core asset class: buildings, water, sewer, storm water, roads and fleet based on information within asset registers and asset management plans. In addition, reserves can be established for unplanned maintenance and repairs.

**3.6.81** In 2010, Cranbrook introduced an Accumulated Surplus policy that established targeted balances for its accumulated surplus accounts for general fund, water utility fund, sewer utility fund, solid waste fund and airport.

**3.6.82** The policy also identified the purpose of setting aside reserves for future capital expenditures and for expenditures that fluctuate significantly from year to year to protect the City from uncontrollable or unexpected increases in expenditures or unforeseen revenue reductions.

**3.6.83** The City’s overall reserve balance remained relatively consistent throughout the 2010-2012 period, as shown in Exhibit 7.

**EXHIBIT 7: City of Cranbrook Available Internal Funds, 2010-2012**

FUND	2010	2011	2012	CHANGE
General	\$10,063,647	\$9,140,573	\$10,120,455	0.6%
Water	\$26,074	\$23,804	\$21,517	-
Sanitary Sewer	\$1,266,866	\$412,303	\$588,638	(-53%)
Waste	\$99,506	\$100,930	\$102,141	-
Airport	\$662,233	\$888,827	\$1,164,511	76%
<b>Total Capital Reserves</b>	<b>\$12,118,326</b>	<b>\$10,566,437</b>	<b>\$11,997,262</b>	<b>(-1%)</b>

Source: 2010-2012 City of Cranbrook financial records.

**3.6.84** Cranbrook’s Asset Management Investment Plan indicated that, as of 2012, the City’s infrastructure deficit was \$107 million. For Cranbrook to maintain current and planned levels of service, the plan stated that the City would need to allocate an average annual life cycle investment of \$15.3 million per year on infrastructure renewal.

**3.6.85** Prior to the period covered by the audit, Cranbrook Council adopted a Recapitalization Reserve Fund Bylaw that allowed the City to annually set aside money for the future upgrade or acquisition of municipal capital assets. The bylaw provided for this contribution to be ¾ of one per cent of property tax revenue. An additional one per cent of property tax revenue was set aside for road work. However, even with this commitment, the City’s capital reserve balances

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The City lacked a regular and formal reporting process on the state of the assets and any significant issues.

were insufficient to address Cranbrook's infrastructure deficit. To address this issue, the City needs a sustainable, balanced, long-term financial strategy.

**3.6.86** As noted previously, the City sought to take advantage of federal and provincial capital funding when opportunities were available.

**3.6.87** While there are benefits to pursuing grant funding – as it implies savings to local taxpayers – this approach may not result in addressing the highest risk or most pressing infrastructure priorities as provincial and federal funding is often available only for specific types of projects that may or may not match local priorities.

### Reporting to Council

**3.6.88** City staff should regularly report to Council on asset management activities, progress and results as Council is ultimately responsible for the stewardship of public assets. Reporting should include the current state of assets, asset renewal and investment strategies, any infrastructure gap, capital project updates and annual detailed asset management plan updates.

**3.6.89** In Cranbrook, City staff presented a range of asset management information to Council. For example, they provided administrative updates on specific capital projects and programs, made a presentation on the City's 2012 Asset Management Investment Plan, and provided a report with recommendations on proposed next steps for moving asset management initiatives forward.

**3.6.90** However, the City lacked a regular and formal reporting process on the state of the assets and any significant issues. It did not have targets on the performance and "health" (capability or condition) of its capital assets and did not measure outcomes. The City did not track or report on progress of the City's overall asset management system, including team capability, policy development, information collection, levels of service, condition assessment and financial management.

### Public Consultation

**3.6.91** It is important for a local government to consult with community stakeholders and residents, giving them opportunities to provide input into community priorities. This is particularly important when major financial investments are involved, as they often are with infrastructure decisions. Public consultation and engagement can also inform service level expectations, which are a key component of asset management. In addition, public consultation can be a tool to increase community awareness and understanding of asset management and its importance. The public should also be kept informed of the results of infrastructure spending.

**3.6.92** A local government can use a range of methods to engage the community on infrastructure priorities and gauge community satisfaction with City assets and services. These include town hall meetings, advisory groups, resident surveys and the involvement of the public in developing strategic plans and asset strategies.

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The City’s purchasing policy had some significant gaps and did not provide sufficient guidance for staff involved in procurement activities in order to ensure value for money.

**3.6.93** Staff presented a draft of Cranbrook’s 2012 Asset Management Investment Plan to Council at an open public meeting in November 2012. The City similarly communicated its Five-Year Financial Plan, including the capital plan, as required under the *Local Government Act* and the *Community Charter*. Cranbrook also provided local residents with opportunities to interact with the City through sessions such as “Brown Bag Meetings” with Council and “Coffee with the Mayor.” In addition, the City sought public input on specific capital projects.

**3.6.94** In the future, the City should consider providing opportunities for public input into its overall asset management approach and use these forums to raise public awareness of its infrastructure challenges and its strategies to reduce Cranbrook’s infrastructure deficit.

## Procurement Policies

**3.6.95** Complete, clear and up-to-date procurement policies and procedures are essential for local governments to ensure consistency in their efforts to achieve best value for tax dollars. This is particularly important as staff transition over time.

**3.6.96** Regardless of their size, all local governments should have procurement policies focused on encouraging the use of competitive procurement, preventing misconduct and ensuring value for money.

### Purchasing Policy

**3.6.97** The City of Cranbrook’s purchasing policy was initially introduced in 1997. The City amended the policy in 2009. The City indicated at the time that this amendment was an interim step to relieve immediate pressures and clarify some key aspects of purchasing. The City said it would undertake a thorough review of all areas of purchasing and develop a comprehensive procurement policy sometime in the future. At the time of finalization of this report, such a review had not yet been completed and the 2009 purchasing policy remained in effect.

**3.6.98** This purchasing policy had some significant gaps and did not provide sufficient guidance for staff involved in procurement activities in order to ensure value for money. It also did not provide for an appropriate level of risk management and did not clearly assign responsibility and accountability for various procurement activities.

### Procurement Function Structure

**3.6.99** The City had a decentralized procurement function, with day-to-day purchasing activities carried out by various City departments. The Financial Services Manager monitored compliance with the City’s purchasing policy and recommended processes to ensure transparent procurement. This structure was not evident in the purchasing policy.

**3.6.100** Moreover, the policy contained language inconsistent with the City’s actual structure. For example, the policy referred to

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“the Purchasing Section” as having a role “to serve as a channel through which requests for the acquisition of goods and services are handled, and whenever practical, to be involved in purchasing decisions.” Such a description indicates a centralized purchasing function, which is not what was in place in Cranbrook.

**3.6.101** The policy also stated that “the Purchasing Section shall, when requested, assist with correspondence with suppliers involving prices, quotations, tenders, or proposals.” We found this description challenging as the City did not have a Purchasing Section. Moreover “assistance with correspondence” could be interpreted as providing only clerical support or as acting in an advisory role as a subject-matter expert with purchasing expertise.

### ***Guidance on Overall Procurement Function and Decisions***

**3.6.102** Cranbrook’s purchasing policy required that procurement be carried out in accordance with generally accepted purchasing practices. However, the practices outlined in the policy were not complete. It is not reasonable to expect all City staff to know what generally accepted purchasing practices include. Also, the policy referred to providing a preference for local suppliers, but gave no specific guidance on how to do so in a fair and consistent manner.

**3.6.103** In addition, Cranbrook’s Official Community Plan, adopted in 2006, identified eleven core themes the City was expected to

reflect in its policies, guidelines and actions. One of the themes was Sustainability, which the purchasing policy did not reflect in any way.

### ***Guidance on Procurement Authorities and Responsibilities***

**3.6.104** While Cranbrook’s purchasing policy set out purchasing authority levels, it did not specify:

- What part or parts of the procurement process the purchasing authority relates to, for example purchase requisition, purchase order, approval of a contract, approval of invoice or payment; and,
- What type or types of procurement the purchasing authority relates to, for example general operational, consulting services, rental and lease agreements, or land and building purchases.

According to the City, the purchasing authority stated in the policy related to all parts of the procurement process and all types.

**3.6.105** Additionally, the City established and regularly updated authorization limits specific to purchase orders. These limits, as well as any applicable restrictions, were outlined in a separate Purchasing Order Authorization Limits document. This separate authorization process for purchase orders was not referred to in the purchasing policy.

### ***Guidance on Methods of Procurement***

**3.6.106** The purchasing policy’s guidance on competitive methods of procurement was limited to the following requirements:

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During the period covered by the audit, the City had limited processes in place to identify and communicate across the organization potential conflicts of interest and related parties.

- Invitation to tender or request for proposal for purchases valued at \$75,000 and over;
- A minimum of three written quotes for purchases valued between \$10,000 and \$74,999. When three quotes were not available, explanation of non-compliance was required; and,
- Purchase requisition for purchases below \$10,000.

**3.6.107** Despite the fact that the City used some of these other procurement methods, the policy made no reference to other competitive and non-competitive procurement tools such as Request for Quotation, Request for Qualifications, Request for Information, Request for Expression of Interest, cooperative purchasing or government partnership agreements, direct awards, discretionary purchases and others.

### **Contracting for Goods and Services**

**3.6.108** Cranbrook's purchasing policy also lacked guidance on when and how staff should contract for goods and services, including specific conditions for contracting, types of contracts required, requirements for bonds, length of contracts and conditions for extension, contract dispute resolution procedures and when contracts should be reviewed by legal counsel.

### **Vendor Relationships**

**3.6.109** The policy provided no guidance on how staff should work with vendors, conduct vendor prequalification and vendor checks, debrief unsuccessful bidders, assess vendor performance, or handle supplier complaints.

### **Other Gaps**

**3.6.110** The policy also lacked guidance in other areas, such as how to handle unsolicited proposals from vendors, the use of subcontractors, issuing a public notice of intent, or requirements for regular reporting to Council in situations other than when expenditures are outside of budgeted amounts. The policy provided no guidance on the nature and level of documentation required in support of procurement decisions. In addition, the policy's reference to the Trade, Investment and Labour Mobility Agreement (TILMA) was outdated, as TILMA was superseded in 2010 by the New West Partnership Trade Agreement.

### **Conflict of Interest Policy and Processes**

**3.6.111** During the period covered by the audit, the City had limited processes in place to identify and communicate across the organization potential conflicts of interest and related parties. For example:

- The City had no conflict of interest policy.
- While the Mayor and Council disclosed related parties by completing an annual Statement of Disclosure, as required by the *Financial Disclosure Act*, the City did not require senior management and staff involved in procurement to annually disclose related parties and declare potential conflicts of interest.
- The City did not maintain a list of known potential conflicts of staff and Council members to share with staff involved in procurement activities. Nor did it examine

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- as part of the contract award process – the annual disclosure statements submitted by the Mayor and Council members.
- The City did not require periodic review of vendors with which it had long-term arrangements to identify any potential conflicts of interest that may have emerged since the arrangements began.
- With the exception of conflict of interest clauses included in certain procurement templates, the City did not require vendors to disclose potential conflicts as part of the procurement process or sign a conflict of interest declaration.
- The City's Rules of Employment/Conduct, which established policy and procedures for the acceptable conduct of employees, were implemented in 2002 and had not been reviewed and/or updated since then. The City had no mechanism to provide staff with an annual reminder of these rules.
- The City did not have a provision to protect employees reporting a known or potential conflict of interest regarding other City employees or Council members.

**3.6.112** *Following the period covered by the audit:* Cranbrook staff told us that the City introduced the following improvements in 2014 and 2015, in recognition of the need to foster public confidence in its management and administration:

- Council approved an Employee Conflict of Interest policy in 2014.
- The City now requires all new vendors, prior to engaging with the City, to sign the City's Standard Terms and Conditions of

Purchase form that includes a requirement to disclose any actual, perceived, or potential conflicts of interest and any existing business relationships with the City of Cranbrook, its elected or appointed officials or employees.

- The City has implemented a new Employee Purchasing Checklist that includes an overview for new staff members of purchasing principles, including rules on gifts, gratuities and staff discounts.
- The City has implemented a process to capture and address instances of non-compliance with the purchasing policy.

## Capital Project Management

**3.6.113** Capital projects are typically complex and some can pose significant challenges that increase the risk of not achieving intended outcomes. Local governments should have a set of policies and procedures as well as supporting tools and templates to serve as guidelines and standards expected of staff as they undertake capital project planning and procurement activities.

**3.6.114** We selected two capital projects, the Memorial Arena Improvement Project and the Sewer Relining Project, undertaken by the City between 2010 and 2012 and examined the capital planning, procurement controls, as well as the policies and processes associated with them. Our selection of projects was based on asset type and project timing.

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Overall, the two capital projects we reviewed were reasonably well managed by the City.

**3.6.115** Exhibit 8 shows that the budgets for the two projects we selected accounted for five per cent of all capital project allocations approved by Cranbrook Council to take place between 2010 and 2012.

**3.6.116** Overall, the two capital projects we reviewed were reasonably well managed by the City. Both were aligned with the City’s priorities and were approved by Council. Council was updated on the status of the projects. Both were completed under budget, given some changes to scope. One was completed on schedule while the other was completed with delays of a few months. The payments we reviewed were properly approved and supported.

**3.6.117** A few areas of project management required strengthening, such as document retention processes and approval of contracts and change orders. We have provided recommendations aimed at assisting the City in accomplishing this.

### Memorial Arena Improvement Project

**3.6.118** The Memorial Arena Improvement Project was undertaken to revitalize the City’s Memorial Arena, which was originally constructed in the 1950s. The Arena is an important recreational facility for numerous user groups in Cranbrook and the Kootenays.

**3.6.119** In 2009, the City retained an engineering firm to assess the facility’s condition and analyze the lifecycle cost of the Memorial Arena and three other Cranbrook

**EXHIBIT 8: City of Cranbrook Capital Project Allocations in 2010-2012 Financial Plans**

Total Capital Budget for the Period Covered by the Audit	\$74,500,000
Number of Capital Projects Selected by AGLG	2
Total Project Allocations of AGLG-Selected Projects	\$3,950,000
Selected Project Allocations as Percentage of Total 2010-2012 Capital Project Allocations	5%

Sources: City of Cranbrook financial records.

recreational facilities. The engineering firm submitted its report to the City in June 2009, concluding that the Arena was in relatively poor condition. The report indicated that the accumulated backlog of deferred maintenance was equal to 35 per cent of the cost of reproducing the building.

**3.6.120** In early 2009, the federal government introduced the Recreation Infrastructure Canada Program. Projects approved under the program could receive up to \$1 million in federal funding.

**3.6.121** In June 2009, driven by the opportunity to receive grant funding, City staff submitted a report to Council asking for authority to apply for a \$1 million grant for major renovations to Memorial Arena. The estimated cost of the renovation was \$3.6 million, including a 15 per cent contingency. Council authorized staff to make such an application.

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Overall, the City completed the Memorial Arena Improvement Project under budget with a few months delay in completion.

**3.6.122** Early in 2010, Cranbrook staff advised Council that the City had been approved for a \$1 million grant subject to the City providing the remaining \$2.6 million to complete the renovation of the building. Council discussed this opportunity in detail, including options to remove or rebuild the facility. Council approved major renovations to Memorial Arena, funded by \$2.6 million in borrowing plus \$1 million in federal funding and authorized staff to proceed with the alternative approval process (as required by Provincial law) to borrow up to \$2.6 million for the project.

**3.6.123** The City issued a request for proposals for project management services. Three firms were shortlisted in the competition, but the City cancelled the request for proposals and elected to manage the project internally, as it was not able to negotiate a contract for service within the allotted budget.

**3.6.124** In May 2010, the results of the alternative approval process allowed the City to proceed with borrowing for the project without going to referendum. Council adopted a loan authorization bylaw and began the project with an anticipated completion date of October 2010 to have the ice surface available for the 2010/11 season.

**3.6.125** As work proceeded, staff provided Council with regular project updates. In August 2010, one such update indicated that the project's forecasted costs would be \$2.9 million instead of the budgeted \$3.6 million. The federal funding portion would consequently be reduced to \$800,000, with the

borrowing amount reduced to \$2.1 million.

**3.6.126** Sufficient work was completed to allow usage of the ice in January 2011, three months behind the original schedule. All remaining phases of the project were completed in October 2011, six months behind schedule.

**3.6.127** The City's financial records indicate that Cranbrook spent \$2.5 million on this project, \$1.1 million less than the initial budget estimate and \$0.4 million less than the August 2010 revised estimate. The final amount of federal funding received was \$690,000, proportionate to the lower amount spent.

### **Project Management**

**3.6.128** Overall, the City completed the Memorial Arena Improvement Project under budget with a few months delay in completion. The project was aligned with Cranbrook's priorities and was approved by Council. Council received regular project status updates. However, a few areas of project management required strengthening, such as document retention processes and approval of change orders and contracts.

### **Project Management Guidance**

**3.6.129** Except for its purchasing policy and a few memorandums issued to supplement it, the City lacked a complete and comprehensive set of guidelines on expectations of staff as they undertook capital project activities of different dollar values or complexity levels.

### **Project Planning**

**3.6.130** A local government's informed decision-making depends on Council having



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full and accurate information about likely costs, expected benefits, potential alternatives and the nature of risks in undertaking potential projects. We would expect the City to prepare a business case prior to deciding to proceed with any capital project, particularly one that is relatively expensive or where there are likely to be significant risks.

**3.6.131** For the Memorial Arena Improvement Project, the City identified a need for renovation, but did not develop a formal business case for the project. Through the engineering study and presentations to Council, the City considered some elements of what would be included in a business case, such as alternative approaches to renovation, project scope, the project management structure, project costs and schedule and the procurement approach. However, the City did not document other important aspects such as project risks or performance and progress measures.

### ***Procurement Solicitation, Evaluation and Award***

**3.6.132** We tested a sample of ten procurement transactions relating to this project. These indicated that the City strived to follow a transparent procurement solicitation and evaluation process.

**3.6.133** In a few instances where the City used an engineering company to assist with tendering processes for goods and services, the City relied on this company to conduct a transparent procurement process in accordance with Cranbrook's purchasing policy. Due to a lack of documentation we were unable to

ascertain whether the engineering company followed the City's policy by obtaining three quotes for purchases valued between \$10,000 and \$74,999 and made the recommendation to award a contract on that basis.

### ***Project Management Internal Controls***

**3.6.134** Our review of the sampled transactions indicated weaknesses in the operation of Cranbrook's internal controls:

- The City engaged a vendor to provide a water main replacement service. The total cost of the service was \$75,000. There was no contract prepared. City staff told us they had intended to prepare a minor works contract for this work, but that was overlooked.
- Two change orders, for \$220,000 and \$45,000 respectively, while approved by the engineering company acting as a contract administrator and by the contractor, lacked a signature indicating approval of the expenditure by the City.
- The City issued a change order valued at \$7,000 to a subcontractor instead of the general contractor. The error was not detected by City staff.

### ***Project Governance and Council Updates***

**3.6.135** Cranbrook Council received regular updates on the Memorial Arena Improvement Project through administrative reports. City staff told us that employees exercised their professional judgment and consulted with the Chief Administrative Officer to determine which matters needed to be brought to Council's attention.

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### Sewer Relining Project

**3.6.136** In 2006, the City identified a need to replace aging or inadequate components of its sanitary sewer collection systems. One of the rehabilitation methods selected was a cured-in-place pipe<sup>1</sup> process. The City budgeted \$350,000 per year for a number of years for the repair of the pipes. We reviewed the Sewer Relining Project conducted by the City in the year 2011.

**3.6.137** The need for the project was re-confirmed on an annual basis by way of including it in the Five-Year Financial Plan. Cranbrook staff told us that the final project scope and timing was defined by the City’s Engineering Services Department prior to commencing the work. The City selected the sites to reline based on areas identified by the Public Works Department as having significant and frequent line failures.

**3.6.138** City staff managed the project but an engineering company was hired through an open procurement process to assist with the tendering process, project design and contract administration.

**3.6.139** In 2011, the City put the project to tender using BC Bid, as required by Cranbrook’s purchasing policy. The City received two tender responses. The engineering consultant recommended that the City

contract with the lowest bidder. The City removed certain provisional items originally included in the project scope and proceeded with a contract with the vendor.

**3.6.140** The project was substantially completed in November 2011. Exhibit 9 shows that actual costs were \$85,000 less than the amount that had been approved for the project.

**EXHIBIT 9: Sanitary Sewer Relining Project Costs, 2011**

Annual Budget Allotment	\$350,000
Costs Committed as per the Contract	\$304,000
Actual Costs Incurred	\$219,000
Costs Committed less Actual Costs	\$85,000

**3.6.141** The difference in cost of \$85,000 was due to further reductions in the scope of the work carried out by the contractor. City staff told us that the additional change in scope occurred because relining of some sections of the pipes proved impossible due to an unexpected variance in the size of some pipes. No change order was prepared for this scope adjustment.

<sup>1</sup> Note: Cured-in-Place Pipe is the process of repairing damaged sewer pipes by creating a “pipe within a pipe” to restore function and flow. It uses the rigid structure of the existing pipe during the process of curing. Epoxy relining materials mold to the inside of the existing pipe to create a smooth new inner wall, similar to the lining found in food cans.

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Overall, we are generally satisfied with how the City carried out the Sewer Relining Project, which was aligned with the City's priorities and was approved by Council.

### **Overall Project Management**

**3.6.142** Overall, we are generally satisfied with how the City carried out this project, which was aligned with the City's priorities and was approved by Council. The procurement process was transparent and fair. Staff updated Council on the progress of the project when the City initiated the tendering process. The project was completed on time and under budget, given changes to scope that took place while work was underway. However, the City did not prepare or approve documentation to support the scope change.

**3.6.145** In 2009, the City issued a memorandum requiring staff to prepare a Capital Purchase Authorization Form for all capital purchases above \$10,000. The form was intended to provide a high level overview of each capital project prior to any work proceeding, including justification for procurement contract awards and any exceptions to the procurement process. However, staff did not prepare this form for the capital projects we reviewed. City staff told us that the form was not being used by staff as intended.

### **Review of Payments**

**3.6.143** Establishing sound payment controls is a critical aspect of a local government's overall financial control system. We reviewed 15 payments from the two selected capital projects and tested them against the contract terms and the City's policy on signing authority. All sampled payments were properly approved and supported.

### **Other Project Management Practices**

**3.6.144** The City of Cranbrook had some inconsistent practices in managing its capital assets. For example, the City required staff to prepare a Capital Project Details Sheet to justify the amounts budgeted for capital projects. This requirement was formalized in a memorandum. However, City departments differed in how they met this requirement, with significant variation in the level of detail provided. In some cases, the Capital Project Details Sheet provided minimal information.

## CONCLUSION

**3.6.146** Overall, we found that during the period covered by the audit, the City of Cranbrook took a number of foundational steps in developing its overall capital asset management framework. However, the framework and related systems and practices were still in the early stage of development. More needed to be done to enable the City to make informed and cost-effective capital asset management decisions.

**3.6.147** The City also needed to improve its purchasing policies and procedures and reinforce its conflict of interest practices.

**3.6.148** We were generally satisfied with the management of the two capital projects we reviewed; however, we identified some areas where the City should strengthen its practices and internal controls.

**3.6.149** We noted that after the period covered by the audit, the City continued making significant progress in enhancing its asset management and conflict of interest practices.

**3.6.150** We encourage the City to continue its work on improving and moving forward its capital asset management practices. The City should also strengthen its procurement policies and project management practices. We have provided recommendations aimed at assisting the City in accomplishing this.

## RECOMMENDATIONS

Our recommendations are based on our audit findings, covering the period 2010 to 2012, taking into account representations made by the City regarding improvements introduced since the period covered by the audit.

### Capital Asset Management

#### Recommendation 1

The City of Cranbrook should enhance its capital asset management practices by:

- Developing an overarching asset management policy and supporting strategy to link existing policies and practices and guide its long-term sustainable asset management practices.
- Building its asset management capacity by establishing a cross-functional asset management team, identifying core competencies and ensuring that key staff responsible for asset management receives training and guidance on sound capital asset management practices.
- Strengthening the following components of its capital asset management framework:
  - > A formal process to define, monitor and report on levels of service to inform asset upgrading and replacement needs;
  - > A lifecycle costing approach as part of financial planning;
  - > A formalized approach to asset condition assessment that includes regular inspections of core and critical assets;
  - > A reporting process to Council on capital asset management activities, progress and results; and,
  - > Opportunities for public input into its overall asset management approach.
- Developing a long-term asset investment strategy and a balanced, long-term financial planning approach to manage infrastructure renewal and replacement through a combination of alternatives such as the use of reserves, taxation, grants and contributions and debt financing.
- Establishing a performance measurement framework to gauge the management and service delivery of core assets.

### Procurement Policies

#### Recommendation 2

The City of Cranbrook should strengthen its purchasing policy and procedures by addressing the gaps. Specific areas requiring attention include:

- Structure and governance of the procurement function, including requirements for regular reporting to Council.
- Guidance on procurement authorities and responsibilities, methods of procurement, contracting for goods and services, use of subcontractors, management of vendor relationships, sustainable procurement, local suppliers preferences, unsolicited proposals, notice of intent, and nature and level of documentation to support procurement decisions.

## RECOMMENDATIONS

### Recommendation 3

The City of Cranbrook should further strengthen its conflict of interest policy and processes by:

- Including a provision to protect employees reporting a known or potential conflict of interest regarding City employees or Council members.
- Requiring staff involved in procurement to acknowledge and sign an annual conflict of interest declaration.
- Establishing and maintaining a list of related parties and potential conflicts of interest of staff and Council members and reviewing the list as part of the procurement award process.
- Conducting periodic reviews of vendors with long-term arrangements with the City to identify potential conflicts of interest that may have emerged since arrangements were initially set up.
- Providing an annual reminder to staff and Council on the Conflict of Interest policy and the Rules of Employment/Conduct.

### Capital Project Management

#### Recommendation 4

The City of Cranbrook should strengthen its capital asset planning, procurement and reporting practices by:

- Providing written guidance to staff on procedures to follow as they undertake capital project activities of different dollar values or complexity levels.
- Ensuring consultants comply with the City's purchasing policy provisions.
- Ensuring that proper documentation is kept on file to support procurement decisions, including instances of purchasing policy compliance, policy exemptions and policy non-compliance.
- Monitoring and enforcing compliance of internal controls over change orders and contracts.

## SUMMARY OF LOCAL GOVERNMENT'S COMMENTS

The Corporation of



the City of Cranbrook

June 13, 2016

File No. 0400.25

Mr. Gordon Ruth  
Auditor General for Local Government  
201-10470 152<sup>nd</sup> Street  
Surrey BC V3R 0Y3

Mr. Gordon Ruth,

Re: Proposed Final Audit Report for the City of Cranbrook

On behalf of the City of Cranbrook, thank you for the opportunity to provide comments on your Proposed Final Audit Report "*Learnings from Local Government Capital Procurement Projects and Asset Management Programs*".

We are pleased that the audit process is nearing its completion and are looking forward to implementing our action plan for further enhancing our asset management and procurement practices.

The City of Cranbrook is committed to exercising sound stewardship over its capital assets through strategic capital asset management practices and capital project procurement processes. The City has advanced its asset management practices significantly and made numerous improvements to its procurement practices following the period covered by the audit. We appreciate the Auditor General's recognition of these efforts.

In conclusion, we found the AGLG staff were professional and courteous and that the proposed final audit report is fair. The recommendations provided by the AGLG have provided valuable input into our action plan.

Sincerely,



Lee Pratt  
Mayor

LP/kt

# CITY OF CRANBROOK'S ACTION PLAN

AGLG RECOMMENDATION	MANAGEMENT RESPONSE AND NEXT STEPS	PERSON RESPONSIBLE	TIMEFRAME
<b>CAPITAL ASSET MANAGEMENT</b>			
<b>RECOMMENDATION 1</b>			
<p>The City of Cranbrook should enhance its capital asset management practices by:</p> <ul style="list-style-type: none"> <li>• Developing an overarching asset management policy and supporting strategy to link existing policies and practices and guide its long-term sustainable asset management practices.</li> <li>• Building its asset management capacity by establishing a cross-functional asset management team, identifying core competencies and ensuring that key staff responsible for asset management receives training and guidance on sound capital asset management practices.</li> <li>• Strengthening the following components of its capital asset management framework:               <ul style="list-style-type: none"> <li>&gt; A formal process to define, monitor and report on levels of service to inform asset upgrading and replacement needs;</li> <li>&gt; A lifecycle costing approach as part of financial planning;</li> <li>&gt; A formalized approach to asset condition assessment that includes regular inspections of core and critical assets;</li> <li>&gt; A reporting process to Council on capital asset management activities, progress and results; and,</li> <li>&gt; Opportunities for public input into its overall asset management approach.</li> </ul> </li> <li>• Developing a long-term asset investment strategy and a balanced, long-term financial planning approach to manage infrastructure renewal and replacement through a combination of alternatives such as the use of reserves, taxation, grants and contributions and debt financing.</li> <li>• Establishing a performance measurement framework to gauge the management and service delivery of core assets</li> </ul>	<p>Following the period covered by the audit, the City undertook a number of initiatives related to its Asset Management strategy. Those initiatives included:</p> <ul style="list-style-type: none"> <li>• Developing strategic priorities for 2015–2018. Two of the seven priorities identified relate directly to strengthening the City’s Asset Management Plan (AMP). Each priority is accompanied by specific tasks for each of the four years. The completion of those tasks will ensure a robust asset management plan which will lead to service, asset, and financial sustainability</li> <li>• Developing a draft asset management policy; the policy is currently under review prior to being brought in front of Council for adoption</li> <li>• Conducting a higher level review, through asset management master plans, of existing road, water, sanitary and storm sewer infrastructure. The review incorporated condition assessments and risk profiles to create priority based rankings for replacement</li> </ul> <p>The City of Cranbrook will continue to enhance its capital asset management practices by:</p> <ul style="list-style-type: none"> <li>• Conducting a detailed review of current practices and future needs to establish and prioritize investments in asset management improvements</li> <li>• Completing its asset management policy and supporting strategy to link existing policies and practices and to guide its long-term sustainable asset management practices</li> <li>• Establishing an integrated asset management team, identifying core competencies and ensuring that key staff responsible for asset management receive training and guidance on sound capital asset management practices</li> <li>• Empowering all departments and employees take part in the asset management process and ensure all activity and information that could contribute to asset management is being fully utilized</li> <li>• Continuing to invest in technology that will allow continued growth in asset management capabilities while maintaining efficient use of resources</li> </ul>	<p>CAO/Director Engineering and Development Services</p> <p>CAO/Director Corporate Services/ Director Engineering and Development Services</p> <p>CAO/Director Engineering and Development Services/ CFO</p> <p>CAO</p> <p>CAO</p>	<p>2016/2017</p> <p>2016</p> <p>2016/2017</p> <p>Ongoing</p> <p>Ongoing</p>



## CITY OF CRANBROOK’S ACTION PLAN

AGLG RECOMMENDATION	MANAGEMENT RESPONSE AND NEXT STEPS	PERSON RESPONSIBLE	TIMEFRAME
<b>CAPITAL ASSET MANAGEMENT</b>			
<b>RECOMMENDATION 1 (cont’d)</b>	<ul style="list-style-type: none"> <li>• Strengthening the following components of its capital asset management framework:</li> </ul>		
	<ul style="list-style-type: none"> <li>&gt; A formal process to establish levels of service to inform asset management decisions as well as reporting and monitoring results</li> </ul>	CAO	2017
	<ul style="list-style-type: none"> <li>&gt; Establishment of asset management plans and practices to include other asset classes such as Parks, Fleet, Buildings, etc.</li> </ul>	CAO/Director Public Works/Director Engineering and Development Services	2017
	<ul style="list-style-type: none"> <li>&gt; Incorporation of maintenance investments into asset management strategy</li> </ul>	CAO/CFO/Director Public Works	2017
	<ul style="list-style-type: none"> <li>&gt; A lifecycle costing approach as part of financial planning</li> </ul>	CAO/CFO	2016
	<ul style="list-style-type: none"> <li>&gt; A formalized approach to asset condition assessment that includes regular inspection of core and critical assets</li> </ul>	CAO/Director Public Works/Director Engineering and Development Services	2017
	<ul style="list-style-type: none"> <li>&gt; A reporting process to Council on Capital asset management activities, progress and results</li> </ul>	CAO	2016
	<ul style="list-style-type: none"> <li>&gt; Opportunities for public input into levels of services and overall asset management approach</li> </ul>	CAO	2016
	<ul style="list-style-type: none"> <li>&gt; Developing a long-term asset investment strategy and a balanced financial planning approach to manage infrastructure renewal and replacement through a combination of alternatives such as the use of reserves, taxation, fees, grants and contributions, and debt financing</li> </ul>	CAO/CFO/Director Engineering and Development Services	2016/2017
	<ul style="list-style-type: none"> <li>&gt; Establishing a performance measurement framework to gauge the management and service delivery of core assets</li> </ul>	CAO/Director Engineering and Development Services/ Director Public Works	2017/2018

### PROCUREMENT POLICIES

#### RECOMMENDATION 2

The City of Cranbrook should strengthen its purchasing policy and procedures by addressing the gaps. Specific areas requiring attention include:

- Structure and governance of the procurement function, including requirements for regular reporting to Council.

Following the period covered by the audit, the City released several administrative guidelines and developed a number of processes all designed to guide staff in their procurement functions and to clarify the authority staff have to make purchasing decisions.

Steps taken:

- Implemented new employee procurement introduction process
- Increased documentation and certification required from new vendors including certification related to conflict of interest

# CITY OF CRANBROOK'S ACTION PLAN

AGLG RECOMMENDATION	MANAGEMENT RESPONSE AND NEXT STEPS	PERSON RESPONSIBLE	TIMEFRAME
<b>PROCUREMENT POLICIES</b>			
<b>RECOMMENDATION 2 (cont'd)</b>			
<ul style="list-style-type: none"> <li>Guidance on procurement authorities and responsibilities, methods of procurement, contracting for goods and services, use of subcontractors, management of vendor relationships, sustainable procurement, local suppliers preferences, unsolicited proposals, notice of intent, and nature and level of documentation to support procurement decisions.</li> </ul>	<ul style="list-style-type: none"> <li>Initiated procurement policy exceptions tracking</li> <li>Established internal procurement group who meets regularly</li> <li>Business case training</li> <li>Hosted vendor workshop</li> <li>Released several guiding documents to clarify authorization hierarchy</li> <li>Conducted procurement training workshops for some existing employees</li> <li>Implemented a single/sole source purchasing process</li> </ul>	CAO and CFO	2016/2017
	<p>With the recommendations resulting from the audit, in hand, the City of Cranbrook will continue to strengthen its purchasing policy and procedures. We will:</p>		
	<ul style="list-style-type: none"> <li>Further develop structure and governance of the procurement function, including requirements for regular reporting to Council</li> <li>Further enhance guidance on procurement authorities and responsibilities, methods of procurement, contracting for goods and services, use of subcontractors, management of vendor relationships, sustainable procurement, local suppliers preferences, unsolicited proposals, notice of intent and nature of level of documentation to support procurement decisions</li> </ul>		
<b>RECOMMENDATION 3</b>			
<p>The City of Cranbrook should further strengthen its conflict of interest policy and processes by:</p>	<p>Following the period covered by the audit, the City implemented an Employee Conflict of Interest Policy. The City of Cranbrook will further strengthen its conflict of interest policy and processes by:</p>	CAO and Director Corporate Services and CFO	2016/2017
<ul style="list-style-type: none"> <li>Including a provision to protect employees reporting a known or potential conflict of interest regarding City employees or Council members.</li> <li>Requiring staff involved in procurement to acknowledge and sign an annual conflict of interest declaration.</li> <li>Establishing and maintaining a list of related parties and potential conflicts of interest of staff and Council members and reviewing the list as part of the procurement award process.</li> <li>Conducting periodic reviews of vendors with long-term arrangements with the City to identify potential conflicts of interest that may have emerged since arrangements were initially set up.</li> </ul>	<ul style="list-style-type: none"> <li>Including a provision to protect employees reporting a known or potential conflict of interest regarding City employees or Council members</li> <li>Providing an annual reminder to staff and Council on the Conflict of Interest policy and the Rules of Employment/ Conduct</li> <li>Review options for establishing and maintaining list of related parties and potential conflicts of interest of staff and Council members and reviewing the list as part of the procurement award process</li> <li>Develop process to conduct reviews of vendors with long-term arrangements with the City to identify potential conflicts of interest that may have emerged since arrangements were initially set up</li> </ul>		

# CITY OF CRANBROOK’S ACTION PLAN

AGLG RECOMMENDATION	MANAGEMENT RESPONSE AND NEXT STEPS	PERSON RESPONSIBLE	TIMEFRAME
<b>PROCUREMENT POLICIES</b>			
<b>RECOMMENDATION 3 (cont’d)</b>			
<ul style="list-style-type: none"> <li>• Providing an annual reminder to staff and Council on the Conflict of Interest policy and the Rules of Employment/Conduct.</li> </ul>	<ul style="list-style-type: none"> <li>• Requiring staff involved in procurement to acknowledge and sign an annual conflict of interest declaration</li> </ul>		
<b>CAPITAL PROJECT MANAGEMENT</b>			
<b>RECOMMENDATION 4</b>			
<p>The City of Cranbrook should strengthen its capital asset planning, procurement and reporting practices by:</p> <ul style="list-style-type: none"> <li>• Providing written guidance to staff on procedures to follow as they undertake capital project activities of different dollar values or complexity levels.</li> <li>• Ensuring consultants comply with the City’s purchasing policy provisions.</li> <li>• Ensuring that proper documentation is kept on file to support procurement decisions, including instances of purchasing policy compliance, policy exemptions and policy non-compliance.</li> <li>• Monitoring and enforcing compliance of internal controls over change orders and contracts.</li> </ul>	<p>Following the period covered by the audit, the City has required that service providers who are involved with securing materials on behalf of the City comply with the City of Cranbrook Purchasing Policy.</p> <p>The City of Cranbrook will continue to strengthen its capital asset planning, procurement and reporting practices by:</p> <ul style="list-style-type: none"> <li>• Providing written guidance to staff on procedures to follow as they undertake capital project activities of different dollar values or complexity levels</li> <li>• Implementing monitoring processes to ensure that consultants comply with the City’s purchasing policy provisions</li> <li>• Ensuring that proper documentation is kept on file to support procurement decisions, including instances of purchasing policy compliance, policy exemptions and policy non-compliance</li> <li>• Monitoring and enforcing compliance of internal controls over change orders and contracts</li> </ul>	CAO and CFO	2016/2017

## ABOUT THE AUDIT

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

### Audit Objectives

**3.6.151** The overall objective was to determine whether the City of Cranbrook 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 can use to support their capital asset management and capital project procurement activities.

**3.6.152** Our specific objectives were to assess the City of Cranbrook's capital asset management and capital planning practice and to audit a sample of capital project procurement projects.

### Audit Scope and Approach

**3.6.153** The audit included a review of the City of Cranbrook's performance in managing capital procurement and capital asset management. It focused on the City of Cranbrook's capital procurement controls, processes and practices. We selected for review two capital projects that were underway during the 2010-2012 period: the Sewer Relining Project and the Memorial Arena Improvement Project.

**3.6.154** To assess the City's stewardship of its capital assets, we reviewed the City'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.

**3.6.155** In carrying out the audit, we interviewed City staff and members of the City of Cranbrook Council, as well as consultants and professionals familiar with the selected projects.

**3.6.156** The documentation we reviewed included accounts payable, invoices, contracts, bid documents, Council minutes and previous reports by third parties requested by the City.

**3.6.157** At the beginning of the performance audit process, we shared key audit-related documents with the City of Cranbrook. 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 summarized in Exhibit 10: Performance Audit Process.

### Audit Criteria

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

## ABOUT THE AUDIT

**3.6.159** Below are the criteria we used to gauge the City of Cranbrook'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 in 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.

### Period Covered by the Audit

**3.6.160** The audit covered the years 2010, 2011 and 2012. Fieldwork was completed in 2013 and 2014. We finalized our audit work in February 2016.

## ABOUT THE AUDIT

### Performance Audit Process

3.6.161 At the beginning of the performance audit process, we shared key audit-related documents with the City of Cranbrook. These included a description of the audit background, focus, scope and criteria and an engagement protocol document describing the audit process and requirements. The process is summarized in Exhibit 10.

### EXHIBIT 10: 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 analysis 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 will provide the local government with the final performance audit report.

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

## APPENDIX – SUPPLEMENTARY INFORMATION ON ASSET MANAGEMENT AND CAPITAL PLANNING AND PROCUREMENT

### About Capital Asset Management

**3.6.162** 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.

**3.6.163** 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.

**3.6.164** A strong 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 the local government's planned investments in capital assets. This includes investments 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.

### *Our Expectations of Local Government Capital Asset Management*

**3.6.165** 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. Our expectations are included in the Capital Asset Management section of this audit report.

### About Capital Planning

**3.6.166** Capital planning is the process of identifying current and future capital needs and preparing approaches, strategies and projects to meet those needs. The process involves gathering information on the age and condition of assets, replacement costs, service level requirements, significant infrastructure

## APPENDIX – SUPPLEMENTARY INFORMATION ON ASSET MANAGEMENT AND CAPITAL PLANNING AND PROCUREMENT

issues, the appropriateness of budget and service delivery options and business case analysis. Ultimately, planning links service needs to capital project requirements.

**3.6.167** Under the *Community Charter* and *Local Government Act*, local governments are required to prepare Five-Year Financial Plans including the amount required for capital purposes. The rolling multi-year capital plan should be closely linked to local government operational plans and priorities. Generally, any capital requests should form part of that plan and should be a priority.

**3.6.168** A key element of capital project planning is the preparation of a business case. The business case is the plan for the project and addresses the entire lifecycle of the asset, from the need through to ongoing operational costs. Business cases are key accountability mechanisms and should always accompany requests for capital funding. These should be scaled to the size and complexity of the project.

**3.6.169** Business cases should address the service need, objectives, other alternatives (such as leasing, renovating, deferring, cancelling), project risks, project management structure, schedule, monitoring and reporting, procurement strategy, performance measures and a budget which includes full lifecycle costs.

### About Capital Procurement

**3.6.170** 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.

**3.6.171** 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.

**3.6.172** Exhibit 11 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. It's also important for local governments to consider the overall timing of these steps. A significant lapse in time may skew results.



## APPENDIX – SUPPLEMENTARY INFORMATION ON ASSET MANAGEMENT AND CAPITAL PLANNING AND PROCUREMENT

STAGE	ACTIONS
Identify Need	Identify need for capital project as part of annual business planning.
Include in 5-year Capital Requirements	Include in 5-year capital requirements. Estimate cost to meet capital needs.
Feasibility Analysis	Carry out cost-benefit analysis. If necessary, do preliminary design.
Business Case	Define project scope. Estimate schedule and budget. Identify procurement approach. Prepare risk analysis. Define project management structure. Identify performance measures.
Project Approval	Council approval.
Solicitation	Undertake Invitation to Tender, Request for Quote, Request for Proposals or sole source as per policy.
Evaluation	Evaluation team declares any conflicts of interest, with final assessors being free of any real or perceived conflict of interest. Assess bids against bid requirements.
Award	Undertake vendor checks. Obtain legal advice. Arrange for performance bonding. Enter into contract.
Project Management	Administer contract. Monitor work. Report financial and non-financial information to Council. Where necessary, prepare change orders. Assess potential change orders re: budget impact.
Payments to Suppliers	Sign-off by a qualified receiver and an expense authority to ensure proper segregation of responsibility. Reconciliation of invoices to contracts or purchase orders. Ensuring adequate description of goods and services rendered.
Post Contract Evaluation	Assess actual results compared to planned results.
Reporting	Provide public disclosure of results achieved.

**EXHIBIT 11:**  
Example of a Capital Planning and Procurement Process

At all stages, complete and accurate documentation ought to be prepared and kept on file.

## APPENDIX – SUPPLEMENTARY INFORMATION ON ASSET MANAGEMENT AND CAPITAL PLANNING AND PROCUREMENT

### ***Our Expectations of Local Government Capital Procurement***

**3.6.173** 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.

**3.6.174** In undertaking capital projects, we would expect the local government 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 documented rationale for doing otherwise, as provided for in Council/Board policies or as expressly approved by the Council/Board.
- 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.

#### **Definitions of Key Terms**

**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.

#### **Links Between Capital Asset Management and Capital Planning**

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

**3.6.176** 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 bylaw, a financial plan covering at least a five-year period. Among other things, the local government must set out the amount

## APPENDIX – SUPPLEMENTARY INFORMATION ON ASSET MANAGEMENT AND CAPITAL PLANNING AND PROCUREMENT

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.

**3.6.177** 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.

**3.6.178** 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.

**3.6.179** For a local government to practise 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.



#### AGLG CONTACT INFORMATION

The AGLG welcomes your feedback and comments. Contact us electronically using our website contact form on [www.aglg.ca](http://www.aglg.ca) or email [info@aglg.ca](mailto:info@aglg.ca) to share your questions or comments.

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