



Audit Topic 3 – Report 3 (July, 2015)



LEARNINGS FROM
LOCAL GOVERNMENT
CAPITAL PROCUREMENT
PROJECTS AND
ASSET MANAGEMENT
PROGRAMS

City of Dawson Creek

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

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PROCUREMENT PROJECTS AND
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MESSAGE FROM THE ACTING AUDITOR GENERAL FOR LOCAL GOVERNMENT

I want to thank the City of Dawson Creek for its cooperation during the performance audit process and its response to the report and its recommendations.



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

3.3.2 I want to thank the City of Dawson Creek for its cooperation during the performance audit process and its response to the report and its recommendations.

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

3.3.4 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.

3.3.5 This report outlines our findings on the City of Dawson Creek’s procurement of capital projects and management of capital assets. Dawson Creek is one of six local governments we set out during 2013/14 to audit on this topic.

3.3.6 Most of the work in completing this audit was carried out prior to my appointment as acting AGLG, however, I was involved in the finalization of the report and reviewed the work that went into it, discussed its content with staff and I am satisfied it has been completed to professional standards.

3.3.7 This audit found some significant issues with how the City planned and managed one of the two capital projects reviewed for this audit, the Arts Centre Project. These issues relate to project decision-making, risk management, cost estimates and budgeting and oversight of the project. The audit also found that the City’s capital asset management practices were in need of further development.

3.3.8 We also found some good practices. For example, the City carried out capital project procurement consistently with its policies and made some progress during the period covered by the audit toward the development of a capital asset management plan.

3.3.9 The audit concluded that the City should act to improve its capital asset management, capital project planning and procurement policies and practices. This report has provided recommendations aimed at assisting the City in accomplishing this.

MESSAGE FROM THE ACTING AUDITOR GENERAL FOR LOCAL GOVERNMENT

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

3.3.11 Again I would like to thank the City of Dawson Creek for its co-operation and commitment to improving its capital asset management and capital project procurement practices.

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

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

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EXECUTIVE SUMMARY

This audit found areas for improvement in the City's capital asset management practices and capital procurement processes. The audit also found the City had good practices in some areas.

3.3.12 This audit found some issues with how the City planned and managed one of the two capital projects reviewed for this audit, the Arts Centre Project. These issues relate to project decision-making, risk management, cost estimates and budgeting, and oversight of the project design and review committee. The audit also found that the City's capital asset management practices were in need of further development.

3.3.13 In addition, the audit found that the City had good practices in some areas. For example, the City carried out capital project procurement consistently with its policies and made some progress during the period covered by the audit toward the development of a capital asset management plan.

What We Examined

3.3.14 Our overall objective was to determine whether the City of Dawson Creek exercised sound stewardship over its capital assets through strategic capital asset management practices and capital procurement processes.

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

into 2014. Additionally, to properly understand the context and events that led to the activities during the period covered by the audit, we reviewed and considered documentation from before this period.

3.3.16 The two projects we selected were Dawson Creek's Arts Centre Project and the 92nd Avenue Storm Drain Project. We included the Arts Centre Project because of its relatively large size and cost. We included the 92nd Avenue Storm Drain Project because it was smaller in scale than the Arts Centre Project, and related to a different type of infrastructure.

What We Found

Arts Centre Project

3.3.17 In 2008, the City of Dawson Creek purchased the City's 'old post office' building from the federal government and began the process of renovating and converting it into an arts centre. Following the completion of several studies on the feasibility of the project and the use of the building, the City hired a project management firm, an architect, a cost consultant and other professionals. A design and review committee composed of elected officials and senior City staff was formed to oversee the project.

3.3.18 Originally budgeted at \$10 million, the project budget increased several times, eventually reaching a total of \$17.63 million. Funding for the project came from federal and provincial

EXECUTIVE SUMMARY

contributions and the City's own funding sources, including long term borrowing, which was authorized through the Alternative Approval Process, as required by provincial law.

3.3.19 In addition to cost increases, the project also experienced significant delays. In January 2013, the contractor left the construction site as agreed with the City, with the project not yet complete. Another contractor was hired to complete the project, which opened in September 2014.

3.3.20 We found four issues with how the City carried out this project. These include:

- **Issues with decision-making** – The City proceeded with the project without first completing a full business case for the project, including an assessment of risks and potential alternative sites. As a result, Council did not have all the information it needed to be fully informed of the extent of work required to convert the old post office building into an arts centre and the City did not fully explore possible alternatives.
- **Lack of risk management** – The City did not carry out a full assessment, consideration and management of project risks prior to launching the project. As a result, the City left itself open to the possibility of significant unanticipated project delays and cost increases, which manifested themselves as the project proceeded.

- **Issues with cost estimates and budgeting** – The City could have done more to achieve the greatest possible cost predictability on the project. Particularly given the volatile nature of Dawson Creek's construction sector at the time the project was underway, this should have included building in much larger contingency amounts into the project budgets.
- **Council oversight of the project** – Council considered but did not proceed with a project steering committee for the project. While it did establish a project design and review committee, we were unable to find evidence of terms of reference for this committee, nor of Council formally delegating it any decision-making authority. Nor did the committee provide Council with regular formal reports. This made it more difficult for Council to carry out its important oversight role.

3.3.21 Given the above issues, we believe the City should carry out a high-level post-completion review of the project to determine whether the project delivered value for money and provide Council and City staff with useful information on the construction, project management and any additional costs incurred in completing the project, as well as future operating considerations. This information may help the City in its future five-year financial and capital asset management plans.

EXECUTIVE SUMMARY

92nd Avenue Storm Drain Project

3.3.22 A 2007 flash flood damaged a culvert crossing under 92nd Avenue in Dawson Creek, leading the City to undertake a project to rebuild the culvert and carry out road repair and other improvements. After initially planning a smaller project to address some of these issues, the City broadened the project scope, obtained federal and provincial funding support and proceeded with a project in 2009.

3.3.23 Work was completed in 2010 at a total cost of \$840,440, compared to a budgeted amount of \$800,000. Warranty work was required in 2011 and the contractor remedied the deficiencies.

3.3.24 We did not find any issues with how the City carried out this project.

Issues with Procurement Policies

3.3.25 We found that Dawson Creek's purchasing policy, which was revised in 2012, had some gaps. These include the following:

- Insufficient direction on the awarding of contracts without competition, including no requirement to document such decisions and no direction as to what value of purchases could be sole-sourced.
- No clear requirements for the use of written contracts.
- No direction as to when a tender can or should be cancelled.

- Lack of procedures for vendor dispute resolution.
- Lack of conflict of interest provisions covering members of Council.

3.3.26 We also found some strengths in the policy, such as its references to related City policies, including policies promoting environmental sustainability and ethical conduct.

Review of Payments

3.3.27 We reviewed 27 payments from the two selected capital projects and found that all were properly approved and reviewed in accordance with City policy at that time.

Capital Asset Management in Dawson Creek

3.3.28 We found that the City was in the early stages of developing an overall capital asset management framework and management system. While Dawson Creek staff told us that the City recognized the importance of developing capital asset management practices and was beginning work to accomplish this, the City did not yet have an asset management strategy or policy.

3.3.29 Dawson Creek had various stand-alone plans that could link to an integrated asset management plan such as master plans for parks and recreation, transportation and sanitary sewers and a potable water emergency response plan. A meaningful asset management plan would draw upon such documents, which may call for significant capital asset investments.

EXECUTIVE SUMMARY

3.3.30 The City's documentation of the condition of its capital assets was limited and not consolidated. Staff told us that the City intended to introduce new software to improve its asset information, as part of its future asset management plan.

3.3.31 We observed that the City did not have strong links between asset management and capital planning, lacking a standardized process to guide staff in identifying, prioritizing and selecting projects for inclusion in its proposed five year capital plan.

3.3.32 We found that Dawson Creek approached the funding of capital projects on a case-by-case basis, often using long term borrowing to fund larger projects. We are concerned that the City took on significant levels of debt for capital asset investments without having first determined the investments required to maintain the performance of its current assets and any asset additions.

3.3.33 Dawson Creek did not have a policy on the maintenance and use of its capital reserve funds and did not have targets for the amounts that should be in each reserve. The extent to which the city had a gap between its available resources and its capital asset needs was not clear.

3.3.34 We believe the lack of a systematic approach to capital asset management in Dawson Creek is likely to become increasingly problematic, as City staff told us that most of the City's linear assets – such as roads, water and sewer lines – are old and nearing the end of their useful lives.

3.3.35 Toward the end of the period covered by the audit, Council approved a plan outlining the processes required to create a sound asset management plan for the City. We believe this is an essential first step to ensuring that the City 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.

Conclusion

3.3.36 We concluded that the City should act to improve its capital asset management and capital project planning and procurement policies and practices. We have provided recommendations aimed at assisting the City in accomplishing this.

EXECUTIVE SUMMARY

EXHIBIT 1:
Summary of Recommendations

ISSUES	RECOMMENDATIONS
1. Use of business cases	The City of Dawson Creek should require the preparation of a business case prior to Council approval for all significant projects.
2. Capital project risk management	The City of Dawson Creek should ensure that key risks associated with contemplated major capital projects are identified, assessed and mitigated prior to approving each project. This includes developing risk management plans for such projects.
3. Cost estimates and budgeting	The City of Dawson Creek should ensure that its cost estimates and budgets for capital projects include sufficient contingencies to protect against unexpected cost increases.
4. Delegation of authority to Council committees	<p>The City of Dawson Creek should develop and implement clear policy on the delegation of authority to Council committees. This should include provisions to:</p> <ul style="list-style-type: none"> • Require the establishment of a project steering committee to oversee major capital projects. • Require the adoption of terms of reference prior to a committee beginning its work. • Ensure that such terms of reference clearly define the role, responsibilities and authority of committees to act on behalf of Council. • Require formal and thorough reporting back to Council.
5. Post-completion review of Arts Centre Project	The City of Dawson Creek should undertake a high level post-completion review of the Arts Centre Project and make the review report public. The review should include an assessment of the project management, risks, costs and future financial sustainability.
6. Procurement and conflict of interest policy enhancements	<p>The City of Dawson Creek should strengthen its procurement and conflict of interest policies by including provisions to:</p> <ul style="list-style-type: none"> • Clarify requirements relating to the awarding of contracts without competition, including a requirement to document the rationale for such a decision. • Establish a clear requirement for the use of written contracts. • Indicate when a tender can/should be cancelled. • Provide for the resolution of disputes with vendors in cases where contract templates do not contain such provisions. • Provide guidance relating to conflict of interest for Council members and people other than staff participating in procurement related activities such as vendors and appointed members of Council committees.
7. Enhancements to capital asset management practices	<p>The City of Dawson Creek should enhance its capital asset management practices by:</p> <ul style="list-style-type: none"> • Developing a systematic approach organization-wide with documented policy and procedures. • Developing a plan to ensure the availability of adequate trained staff to direct and undertake asset management activities. • Integrating asset information and tracking additional information, such as on asset condition. • Establishing timelines, assigning responsibilities and allocating budgets for the completion of asset management plans. • Implementing a consistent process for staff to identify, prioritize and select capital projects for Council's consideration.

INTRODUCTION

3.3.37 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*.

3.3.38 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.”

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

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

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

3.3.42 We will consider conducting more audits on capital procurement and capital asset management in future years.

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

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

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

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

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

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

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

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

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

EXHIBIT 2:
Excerpt from the *AGLG Act*

INTRODUCTION

About Capital Procurement

3.3.43 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.

3.3.44 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.

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

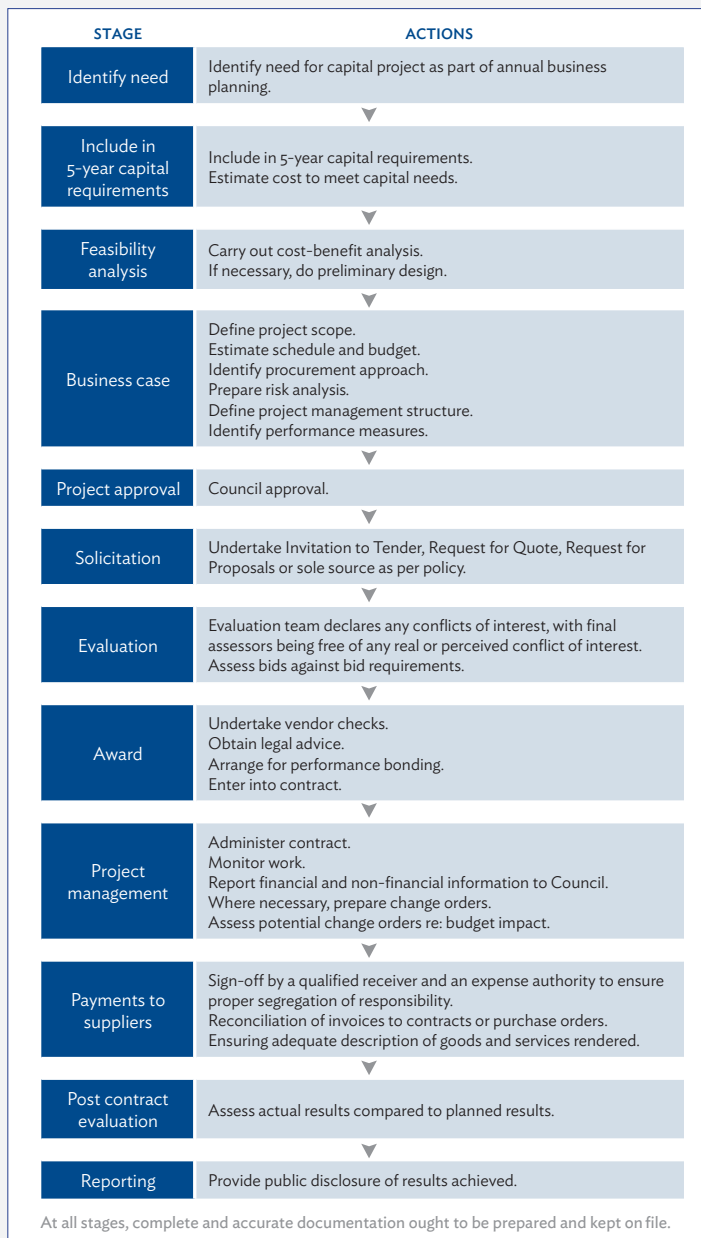


EXHIBIT 3:
Example of a Capital Planning and Procurement Process

INTRODUCTION

Our Expectations of Local Government Capital Procurement

3.3.46 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 responsibility to ensure capital procurement is undertaken well and with due regard for economy, efficiency and effectiveness.

3.3.47 In undertaking capital projects, we would expect a 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 well 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.

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

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

EXHIBIT 4: Definitions of Key Terms

INTRODUCTION

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

Links Between Capital Asset Management and Capital Procurement

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

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

3.3.50 Together, capital planning and asset management activities determine what capital projects a local government will carry out. The process of selecting projects for a local government's capital plan requires information to assess the relative priorities of projects under consideration. Capital asset management activities provide this information, which the local government then uses to establish the procurement requirements of each project.

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

INTRODUCTION

About Capital Asset Management

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

Elements of a Capital Asset Management Approach

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

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

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

INTRODUCTION

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

Our Expectations of Local Government Capital Asset Management

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

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

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

INTRODUCTION

What We Examined

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

3.3.58 We selected two capital procurement projects initiated by the City between 2010 and 2012 and examined the capital planning, procurement controls, processes and practices associated with them. Because construction work on one of the selected projects continued following the period covered by the audit, and because of that project's size and cost, we extended our review to include the City's decision-making and payments on that project into 2014. Additionally, to properly understand the context and events that led to activities during the period covered by the audit, we reviewed and considered documentation from before this period.

3.3.59 The two projects we selected were Dawson Creek's Arts Centre Project and the 92nd Avenue Storm Drain Project.

3.3.60 We included the Arts Centre Project because of its relatively large size and cost. We included the 92nd Avenue Storm Drain Project because it was smaller in scale than the Arts Centre Project and related to a different type of infrastructure.

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

CONTEXT

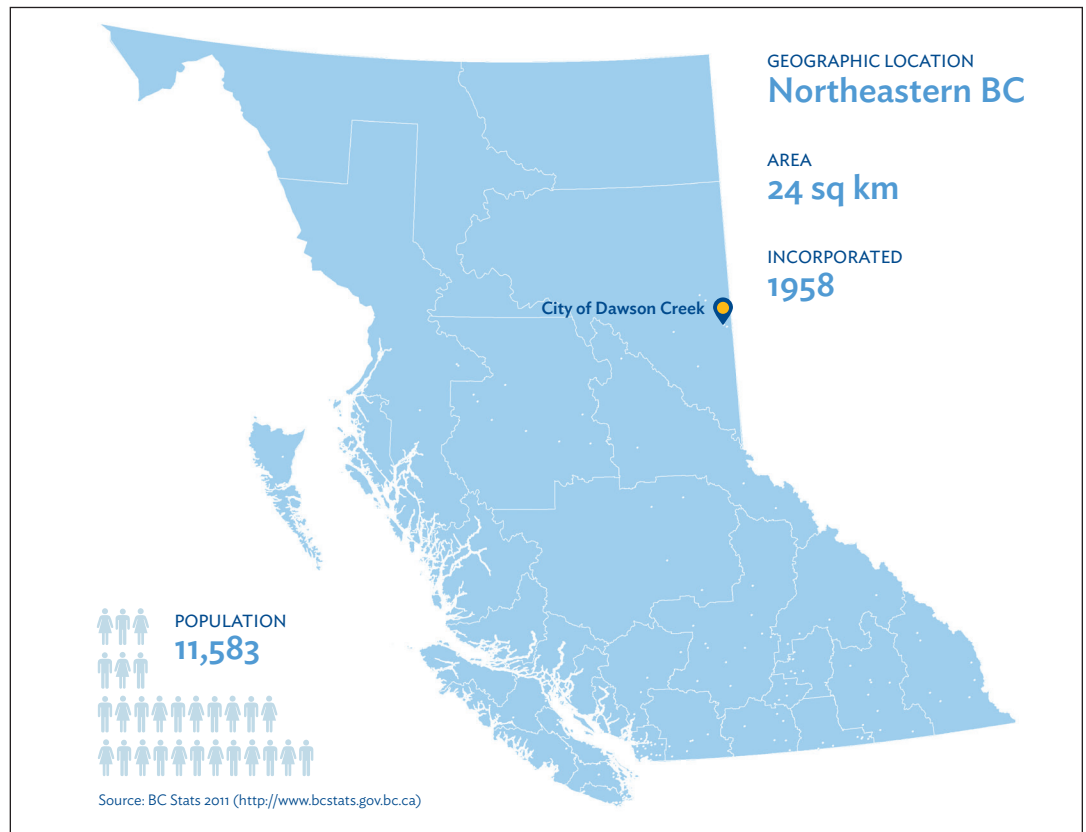
The City of Dawson Creek

3.3.62 Dawson Creek is a city of approximately 11,600 people (as of 2011, according to BC Stats), located in British Columbia’s northeast, at Mile 0 of the Alaska Highway. The city occupies about 24 square kilometres of land. With an average winter temperature of minus-14 degrees, the city’s relatively cold winter climate is a consideration when planning construction projects.

3.3.63 The oil and gas industry is a significant employer in the area, which has resulted in a relatively mobile population and one that has grown quickly, increasing by 5.4 per cent between 2006 and 2011. Dawson Creek has a relatively young population, with a median age of 36.2 years and a large proportion of residents under the age of 30.

3.3.64 The City of Dawson Creek had a staff of 139 full-time and 129 part-time employees as of late 2014.

EXHIBIT 5:
City of Dawson Creek Visual Facts



CONTEXT

3.3.65 Exhibit 6 shows that the City's annual operating expenditures increased steadily between 2010 and 2013. Capital expenditures peaked in 2011 and 2012 before declining in 2013. This pattern was related to expenditures on the Arts Centre Project and the City's water reclamation centre project, both of which saw most of their construction activity take place in 2011 and 2012.

3.3.66 Variations in Dawson Creek's operating revenues during the period covered by the audit relate in part to the City receiving assets of varying value from developers as a result of infrastructure added by them in the course of developing new subdivisions.

EXHIBIT 6:
City of Dawson Creek Financial
Snapshot, 2010-2013

	2010	2011	2012	2013
Revenues	\$43,789,714	\$41,773,499	\$48,858,440	\$43,942,083
Expenditures	\$32,387,827	\$35,314,569	\$36,176,479	\$37,587,948
Annual surplus (deficit)	\$11,401,887	\$6,458,930	\$12,681,961	\$6,354,135
Capital asset value	\$149,713,386	\$166,207,006	\$181,261,699	\$184,306,408
Annual capital budget	\$10,273,073	\$32,753,268	\$22,675,588	\$21,392,128
Annual capital expenditures	\$10,524,886	\$22,240,494	\$20,839,770	\$9,839,408

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

Sources: City of Dawson Creek 2010, 2011, 2012 and 2013 Annual Reports, 2010, 2011 and 2012 Five-Year Financial Plans

CONTEXT

3.3.67 Exhibit 7 shows that the budgets for the two projects we selected for this audit – the Arts Centre Project and the 92nd Avenue Storm Drain Project – accounted for 28 per cent of all capital project allocations approved by Dawson Creek City Council to take place during the 2010-2012 period.

EXHIBIT 7:
City of Dawson Creek Capital
Project Allocations in 2010-2012
Financial Plans

Total capital project allocations approved for the 2010-2012 period covered by the audit	\$65,701,928
Number of capital projects selected by AGLG	2
Total project allocations of 2 AGLG selected projects for 2009-2014*	\$18,430,000
Selected project allocations as percentage of total 2010-2012 capital project allocations	28%

* One of the two sampled projects took place between 2009 and 2014, although most of its activities took place during the 2010-2012 period covered by the audit. The other project took place between 2009 and 2011.

Note: The average size of Dawson Creek’s capital projects during the 2010-2012 period covered by the audit was approximately \$780,000.

Sources: City of Dawson Creek 2010, 2011 & 2012 five-year Financial Plans

CONTEXT

3.3.68 As Exhibit 8 shows, Dawson Creek owned capital assets with \$184 million in net book value as of December 31, 2013. Fifty-two per cent of this value was in land and buildings and another 35 per cent were roads and various types of utility infrastructure.

EXHIBIT 8:
City of Dawson Creek Tangible
Capital Assets, 2013

TANGIBLE CAPITAL ASSETS	HISTORICAL COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE	% OF TOTAL CAPITAL ASSETS
Land and Improvements	\$11,745,489	\$2,842,994	\$8,902,494	5%
Buildings and Improvements	\$111,123,284	\$24,949,756	\$86,173,527	47%
Machinery and Equipment	\$15,744,520	\$9,203,794	\$6,540,726	4%
Roads, Streets & Sidewalks	\$65,101,920	\$31,465,998	\$33,635,920	18%
Utility Infrastructure	\$46,085,908	\$14,339,624	\$31,746,285	17%
Work in Progress	\$17,307,455	-	\$17,307,46	9%
Total	\$267,108,576	\$82,802,166	\$184,306,408	100%

Source: City of Dawson Creek 2013 Annual Report

FINDINGS

Arts Centre Project



We found some significant issues with how the City planned and managed one of the two capital projects we reviewed for this audit.

3.3.69 We found some significant issues with how the City planned and managed one of the two capital projects we reviewed for this audit; the Arts Centre Project, which cost more than \$17 million. These issues relate to project decision-making, risk management, cost estimates and budgeting and oversight of the project. We also found that the City's capital asset management practices were in need of further development.

3.3.70 In addition, the audit found that the City had some good practices. For example, it carried out capital project procurement consistently with its policies and made some progress during the period covered by the audit toward the development of a capital asset management plan.

3.3.71 We concluded that the City should act to improve its capital asset management and capital project planning and procurement policies and practices. We have provided recommendations aimed at assisting the City in accomplishing this.

Arts Centre Project

3.3.72 We observed that Dawson Creek's federally-owned 'old post office,' constructed in the late 1950s, was a recognized heritage building that sat vacant. Between 2002 and 2007, several consultants reviewed the building and identified a number of issues with the building, including old fuel tanks, other hazardous materials and drainage issues.

3.3.73 In 2005, the City of Dawson Creek began actively considering investment in a new arts centre to replace a facility located in a former elementary school.

3.3.74 Between 2006 and 2008, the City commissioned or received several reports relating to the future use of the old post office building, which Council identified as the location of choice for a new arts centre. These reports included a 2007 facilities review, a 2007 design report and a 2008 survey of potential arts centre users.

3.3.75 In 2008, the City purchased the old post office building and land from the federal government at a cost of \$295,000. The City subsequently hired a consultant to prepare a feasibility study on the adaptive re-use of the building as a new arts centre. The consultant's 2009 report concluded that the old post office building could effectively replace the City's previous arts centre and provided a market analysis, a space allocation proposal, a conceptual plan, a conceptual capital cost estimate and an organizational and operational plan for the proposed facility.

FINDINGS

Arts Centre Project



3.3.76 In 2009, the City obtained commitments from the federal and provincial governments for a total of \$6.4 million toward the project under the Canada-British Columbia – Building Canada Fund Communities Agreement. The City’s September 2009 grant application estimated that the project would have a total cost of \$9.6 million.

3.3.77 The City hired a project management firm and an architect for the project in 2009, both through requests for proposal. In 2010, the City also hired a cost consultant through a request for proposal.

3.3.78 The City established a design and review committee for the project, which included the Mayor, the City’s chief administrative officer, the deputy chief administrative officer, Regional District Electoral Area D Director and the executive director of the Kiwanis Performing Arts Centre.

3.3.79 The City also hired firms through competitive processes to remove hazardous material from the building, provide geotechnical services and assess and ensure that the building would meet the City’s requirements, including high environmental standards.

EXHIBIT 9: Arts Centre Project Budget History

Project budget in City’s 2010 financial plan, plus expenditures prior to 2010	\$10.0 million
Revised budget after 2011 adjustment	\$14.0 million
Revised budget after 2012 adjustment	\$14.13 million
Revised budget after 2013 adjustment	\$16.13 million
Budget after 2014 adjustment	\$17.63 million

Source: City of Dawson Creek internal financial report

FINDINGS

Arts Centre Project



3.3.80 The City's 2010 financial plan indicated that it would spend a total of \$9.94 million on the project in 2010 and 2011, plus amounts already spent, for a total of \$10 million, as indicated in Exhibit 9. Of this amount, \$7.1 million was to cover the cost of a general contractor, including a ten per cent contingency amount. The remainder was to cover other project costs. The \$10 million budget was in addition to the cost of acquiring the land and building.

3.3.81 The 2010 financial plan indicated that funding for the project would come from the federal and provincial contributions and the City's own funding sources, including capital reserves, long-term borrowing and City operating revenues, which included gaming funds and corporate contributions.

3.3.82 The City issued a request for qualifications for a general contractor for the project and pre-qualified five firms. A tender was issued to those firms in August 2010, which resulted in three bids, all well above the \$7.1 million amount budgeted for the general contractor. The lowest bid was \$10 million.

3.3.83 We noted that staff brought to Council six options on how to respond to the higher than expected bids. These ranged from proceeding at the higher cost to cancelling the project. Council voted to cancel the tender but proceed with the project after seeking taxpayer approval for long-term borrowing to cover the additional costs.

3.3.84 In 2011, the City adopted a loan authorization bylaw for the project after completing the Alternative Approval Process, as required by provincial law. This was followed by the issuance of a new tender, leading to the City selecting a general contractor, with a construction contract valued at \$8.86 million.

3.3.85 The project encountered several delays and other issues as construction proceeded during 2011 and 2012. Beginning in January 2012, Council was advised by staff that the project completion date was delayed. In June 2012, the project management firm and architect reported to Council on issues with the project schedule and costs.

FINDINGS

Arts Centre Project



3.3.86 To deal with these issues, Council subsequently directed staff to ask the contractor to wrap up its work on the project within six months and in January 2013, the contractor left the construction site as agreed with the City, with the project not yet complete. Taking into account information received from the architect on the residual scope of work that remained to be completed in the original contract and input from the cost consultant, the project management firm estimated that another \$1.4 to \$1.8 million would be required to complete the project.

3.3.87 In 2013, the City put the remaining work to tender and received one response, valued at \$3.27 million, approximately double the amount estimated by the project management firm. The City cancelled the tender and contacted several other general contractors in an effort to find a

firm prepared to do the work at a lower cost. The City identified one firm prepared to provide a lump sum bid of \$2.7 million (before tax) to complete the work. The City direct-awarded a contract to this construction company and it proceeded to complete work on the project.

3.3.88 Our review of the City’s procurement activities relating to this project found that procurement was carried out consistently with the City’s policies.

3.3.89 The Arts Centre officially opened in September 2014. At the time of this report’s completion, a final cost figure for the project was not yet available, but as of December 31, 2014, project expenses totalled \$17.52 million out of an estimated total budget of \$17.63 million. As indicated in Exhibit 10, funding for the project came from six different sources.

EXHIBIT 10:
Arts Centre Project Funding Sources

Provincial contribution	\$3.20 million
Federal contribution	\$3.20 million
Gaming funds	\$3.95 million
Donations	\$0.72 million
Long-term borrowing	\$3.93 million
Local taxation and capital reserves	\$2.63 million
Total	\$17.63 million

Source: City of Dawson Creek internal financial report

FINDINGS

Arts Centre Project



We would have expected the City to prepare a business case prior to deciding to proceed with any capital project particularly expensive projects or projects with significant risks.

Issues with Decision-Making

3.3.90 A local government's informed decision-making depends on Council having full and accurate information about the likely costs, expected benefits, potential alternatives and the nature of risks in undertaking potential projects. This is why we would have expected the City to prepare a business case prior to deciding to proceed with any capital project, particularly if it was a relatively expensive one or one where there were likely to be significant risks.

3.3.91 We found that the City did not prepare a full business case prior to purchasing the old post office building or prior to approving the project to renovate the building for use as an arts centre.

3.3.92 We noted that in 2007 – prior to the purchase of the old post office building – the City's administration proposed that the City prepare a full business case and undertake consultation with stakeholders on several location options for an arts centre.

3.3.93 We understand that Council considered these recommendations but did not decide to complete a full business case or study alternative options for a performing arts centre.

3.3.94 In 2008, during the same meeting at which Council approved the purchase of the building, the City administration recommended that the City undertake a market and financial feasibility study in respect of its conversion of the old post office to a community centre with space for the performing arts. The City did commission a study, which it received in 2009, aimed solely at exploring the feasibility of the adaptive re-use of the old post office building as an arts centre.

3.3.95 However, the City never prepared a full business case for the arts centre project, which – among other elements – would have identified potential alternative sites for the facility and provided an assessment of the costs and risks associated with each.

3.3.96 As a result of its decision not to prepare a full business case, we believe Council did not have all the information it needed to be fully informed of the extent of work required in – and the risks associated with – converting the old post office building into an arts centre and the City did not fully explore possible alternatives.

FINDINGS

Arts Centre Project



We would have expected the City to prepare a thorough risk management plan prior to launching a project of this magnitude involving a old building with significant issues.

Lack of Risk Management

3.3.97 We would have expected the City to prepare a thorough risk management plan prior to launching a project of this magnitude, especially since this project involved the retrofitting of a relatively old building that already had significant issues identified, as mentioned previously. Such a plan would have been an essential part of a business case, had the City prepared one, ensuring that risks associated with the project were clearly identified in advance and strategies were put in place to manage them.

3.3.98 Every major capital project has inherent risks, including those associated with the construction process. In the case of this project, it was apparent from early on that the renovation of an old building that had several identified issues, including those relating to hazardous materials, would entail heightened risks, particularly since it was being undertaken during a time when construction costs were changing rapidly due to increasing construction activity province-wide and particularly in the province's northeast.

3.3.99 As mentioned previously, the City commissioned a feasibility study on the adaptive re-use of the old post office building in 2009, prior to formally committing to the project. However, the City did not undertake a full assessment of the risks and benefits associated with the project.

3.3.100 In the absence of a full assessment, consideration and management of project risks, the City left itself open to the possibility of significant unanticipated project delays and cost increases, which manifested themselves as the project proceeded.

FINDINGS

Arts Centre Project



Issues with Cost Estimates and Budgeting

3.3.101 While project budget changes are sometimes unavoidable, we would have expected the City to make every reasonable effort to achieve the greatest possible cost predictability on this project. The lack of a business case before proceeding with the project exposed the City to significant risks in this area in addition to those outlined in previous sections.

3.3.102 When the Arts Centre Project appeared in the City's five-year financial plan in 2010, the total cost amount approved by Council was \$10 million. However, the lowest bid in response to the competition issued by the City for construction was more than 40 per cent (\$2.9 million) higher than the City's \$7.1 million budget for the general contractor. As Exhibit 9 indicates, the total project budget escalated further from there, reaching a total of \$17.63 million by spring 2014, an increase of 76 per cent over the 2010 approved amount.

3.3.103 In addition to the significantly higher than budgeted bid prices, some of the cost increase can be explained by scope changes – such as enhancing the archives, adding moveable walls and other changes – and expenses and delays relating to the age of the building, such as hazardous materials and drainage problems, inclement weather and unforeseen renovation and trades scheduling difficulties. In our view, a full business case would have helped to anticipate many of these issues and identify strategies to deal with them.

3.3.104 We acknowledge that the volatile nature of Dawson Creek's construction sector during the period covered by the audit was a significant factor in the cost increases and that the City had no control over this volatility. However, practices are available to help ensure the greatest possible cost predictability for a major capital project.

FINDINGS

Arts Centre Project



In our view, the City should have included greater contingency amounts in its cost estimates for the project to mitigate the risks in budgeting for construction costs.

3.3.105 The use of cost consultants is one such practice and we noted that the City did hire a cost consultant in 2010 for this purpose. Another useful practice is to follow industry standards for cost allowances on projects involving renovations. During our audit, the cost consultant used by the City reviewed their 2010 estimate and advised us that a renovation project of such a scale and complexity typically calls for construction cost allowances of a minimum 15 per cent, plus design allowances of ten per cent and allowances for inflation of an additional eight to nine per cent. However, the cost estimate used by the City included only a general contingency of ten per cent.

3.3.106 In our interviews, staff and Councillors told us that the project cost increases, particularly those arising once construction began, were a source of considerable frustration to Council and residents. From the project's inception, Council received regular project information from staff and the contracted project manager, including budget updates. As costs rose over the course of the project, Council approved adjustments to the project recommended by the design and review committee in an effort to contain costs, although these amounted only to relatively modest dollar amounts.

3.3.107 In our view, the City should have included greater contingency amounts in its cost estimates for the project to mitigate the risks in budgeting for construction costs.

FINDINGS

Arts Centre Project



Council Oversight of the Project

3.3.108 We noted that, in 2007, Council considered establishing a steering committee to make recommendations to Council on this project. Generally, such committees can play a valuable role in advising local governments on a major project, especially if they are established prior to commitments being finalized on project scope and siting.

3.3.109 Ultimately, Council did not proceed with establishing a steering committee. It did establish a project design and review committee after the decision to renovate the old post office building had already been made. City staff told us that the design and review committee’s purpose was to ensure that the arts centre reflected the vision of stakeholders, although this was not documented in terms of reference approved by Council.

3.3.110 We would have expected Council to provide clear direction to the design and review committee, which took responsibility for making key project decisions, including decisions on project scopes changes, among other matters. We are concerned that the City’s files lacked essential information regarding the work of this committee. In particular, we did not find any terms of reference defining its role, responsibilities and authority. Nor did we find regular formal reports from the committee back to Council, although we observed that informal verbal reports were provided at Council meetings.

3.3.111 The absence of clear terms of reference and formal reporting by the committee hampers a Council’s ability to fully carry out its oversight responsibilities for such a significant capital project.

Determination of Value for Money

3.3.112 We believe the City should carry out a high-level post-completion review of the project to determine whether the project delivered value for money and provide Council and City staff with useful information on the construction, project management and any additional costs incurred in completing the project, as well as future operating considerations. This information may help the City in its future five-year financial and capital asset management plans.

FINDINGS

We are generally satisfied with how the City carried out the 92nd Avenue Storm Drain Project during the period covered by the audit.

92nd Avenue Storm Drain Project

3.3.113 In 2007, a flash flood damaged a culvert crossing under 92nd Avenue in Dawson Creek, causing a portion of the road to be washed out. After planning a project to address some of the issues relating to this damage, the City did not proceed with work due to the bid amounts greatly exceeding the project budget.

3.3.114 In 2009, the City revised its plans to include more significant improvements to the road and hired a consultant to complete a feasibility study and business case, which supported applications to funding programs. The City submitted an application to the Canada-British Columbia Infrastructure Stimulus Fund to finance up to two-thirds of the project costs and was approved for up to \$514,000 in funding. The City included the project in its 2009 capital plan, with a total budget of \$800,000.

3.3.115 The City re-tendered the project and entered into a contract with a construction company at a price of \$509,400, plus GST for the storm upgrade component of the larger project. The City also contracted with an engineering firm to manage the project and work began in November 2009.

3.3.116 The storm drain work was completed in June 2010 at a total cost of \$523,612. The contractor received its final payment in August. The City had held back approximately ten per cent of the contract amount as per the conditions of the contract. The final payment was made once the city was satisfied with the work and that no liens had been filed.

3.3.117 The final cost for the overall project was \$840,440, about five per cent over the amount approved in the City's financial plan.

3.3.118 In 2011, the project engineering firm advised the contractor on behalf of the City that warranty work was required, due to the pavement settling in some areas. The contractor remedied the deficiencies as requested.

3.3.119 We are generally satisfied with how the City carried out this project during the period covered by the audit.

FINDINGS

The new purchasing policy approved in 2012 codified many of the City's existing good practices. However, we noted that the City's revised policy still had some gaps.

Need to Improve Procurement Policies

3.3.120 Late in 2012, Dawson Creek City Council approved a new purchasing policy to replace the City's previous purchasing procedures and consolidate a variety of City policies. The revised policy codified many of the City's existing good practices such as a requirement to solicit competitive bids for purchases above \$15,000. It also set revised spending thresholds for City staff.

3.3.121 The policy clearly defined who could authorize capital expenditures and referenced related policies promoting environmental sustainability and ethical conduct such as the City's Green Vehicle Policy, Green Operating Practice Policy and Employees' Code of Conduct. However, we noted that the City's revised policy – while a step forward– still had some gaps. For example, while the policy allowed the City to sole source purchases if the good or service was only available from a single vendor, it did not require that staff document such a decision.

FINDINGS

3.3.122 Other examples of gaps in the policy included the following:

- It did not explicitly state under what circumstances a written contract was required in place of or in addition to a purchase order.
- It did not provide direction as to when a tender can or should be cancelled.
- It did not include procedures for vendor dispute resolution. While these are included in the standard contracts the City uses for construction or architectural contracts, the City lacked any provision for dealing with complaints from vendors relating to other procurements.

3.3.123 We also note that the City did not have a conflict of interest policy covering members of Council. We acknowledge that this topic is covered in the *Community Charter*, but some local governments provide additional requirements and guidance in policy. In interviews, Council members told us that they were aware of conflict of interest considerations and recused themselves from Council meetings where there may have been a perception of a conflict.

3.3.124 The City had a Code of Conduct for employees that referred to conflict of interest procedures. The Code of Conduct required employees to “take all steps necessary to avoid” conflict of interest situations. It also required employees to “ask his/her supervisor for a written interpretation” whenever an actual or potential conflict of interest was believed to have taken place. The Code of Conduct did not specifically indicate procedures staff should follow to avoid or disclose conflict of interest during a procurement process, such as requirements for potential vendors and procurement staff to declare conflicts of interest. It also did not cover people other than staff, including vendors and appointed members of Council committees.

FINDINGS

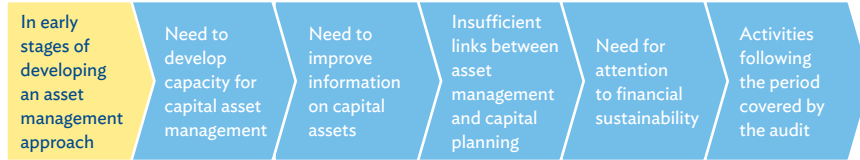
All sample payments we reviewed were properly approved by the product/service receiver and reviewed by finance department staff in accordance with City policy at that time.

Review of Payments

3.3.125 Establishing sound payment controls is a critical aspect of a local government's overall financial control system. We reviewed 27 payments from the two selected capital projects, covering all the years the projects were active and all major vendors with invoices valued over \$5,000, up to December 31, 2014. We tested these sample payments against the contract terms, the City's policy on payment authority and procedures on accounts payable. All sample payments we reviewed were properly approved by the product/service receiver and reviewed by finance department staff in accordance with City policy at that time. Dawson Creek has a sound payment control system based on our review of these payments.

FINDINGS

Capital Asset Management in Dawson Creek



We found that the City was in the early stages of developing its overall capital asset management framework and management system.

Capital Asset Management in Dawson Creek

In Early Stages of Developing an Asset Management Approach

3.3.126 We found that the City was in the early stages of developing its overall capital asset management framework and management system. While Dawson Creek staff told us that the City recognized the importance of developing capital asset management practices and was beginning work to accomplish this, the City did not yet have an asset management strategy or policy.

3.3.127 The City had some asset management-related documents and plans, such as master plans for parks and recreation, transportation and sanitary sewers and a potable water emergency response plan. However, these documents were not coordinated or linked in any organization-wide manner.

3.3.128 In the absence of a systematic overall approach to managing its capital assets, including no strategy for asset maintenance and no system for establishing maintenance requirements and schedules, we found that the City relied on case-by-case decision-making and reactive maintenance. This left the City at risk of devoting insufficient resources to the maintenance of some capital assets.

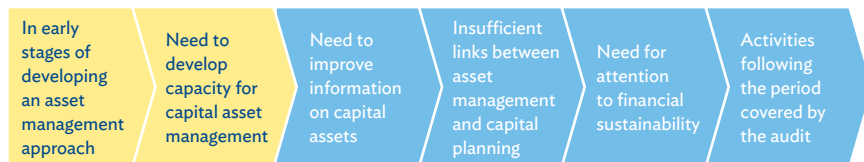
3.3.129 While staff indicated to us that they had an understanding of the City’s high level goals, these were not translated into performance goals for its assets or meaningful ways of measuring their performance in practice.

3.3.130 The City had no asset renewal strategy and had not projected future demand for services, although its recent history of rapid population growth led staff to believe there would be increasing demand for City services in future years.

3.3.131 While the City had a corporate risk management policy, this document had not been used to develop a risk management plan. The policy did not address the management of capital assets and the City had not conducted any risk assessment of its capital assets, so was not in a position to identify risk mitigation measures.

FINDINGS

Capital Asset Management in Dawson Creek



3.3.132 We believe the lack of a systematic approach to capital asset management in Dawson Creek is likely to become increasingly problematic, as City staff told us that most of the City’s linear assets – such as roads, water and sewer lines – are old and nearing the end of their useful lives. A formal asset management plan could help the City ensure the timely and sequential replacement/ maintenance of such assets to avoid disruption to services.

3.3.133 While it may be an option for a local government to manage some assets by responding to asset failures as they occur, it is most important for a local government adopting such an approach to do so only after identifying its assets, assessing how critical each asset is and the identifying and managing the risks associated with asset failures. We found that the City has not carried out these steps in any comprehensive way.

3.3.134 As described previously, Dawson Creek had various stand-alone plans that could link to an integrated asset management plan. The City also had various other documents related to capital asset management. These include a road condition assessment, although this was completed in 2002 and the City was aware that it was in need of updating.

3.3.135 In 2013, Council received a document from staff outlining the processes required to create a sound asset management plan for the City.

Need to Develop Capacity for Capital Asset Management

3.3.136 As Dawson Creek is at an early stage of implementing a systematic approach to capital asset management, we believe an essential first step is to ensure that it has the capacity to undertake such 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.

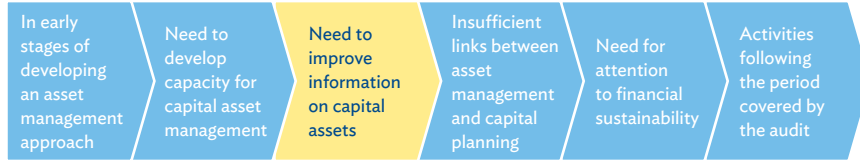
3.3.137 We found that the City had not yet identified the staff competencies it required, with the exception of a tangible capital assets manager position, which was already in place. The roles and responsibilities of other staff involved in asset management need to be defined, creating the risk that staff may be hampered by overlap or confusion as to responsibilities.

3.3.138 While we found that the City’s department heads consulted with each other informally on asset management collaboration, the City lacked a formalized plan and approach for integration/ collaboration between departments.

3.3.139 We found that City staff was uncertain on how best to move the City forward to a more mature stage of capital asset management and may need the assistance of outside resources to develop this capability.

FINDINGS

Capital Asset Management in Dawson Creek



We were pleased to note that the City’s master plans for transportation, sanitary sewers, parks and recreation contained service level targets and condition assessments of key assets.

Need to Improve Information on Capital Assets

3.3.140 We found that the City had documented relatively little information on its capital assets. The information Dawson Creek did have was also maintained in three separate systems:

- A tangible capital assets register in the form of a spreadsheet maintained by the finance department. This was limited to financial information on assets.
- A geographic information system maintained by the operations department. This covered basic information on the location and age of about 80 per cent of the City’s linear assets and all of its equipment and vehicles.
- An asset maintenance register maintained by the operations department. This contained details of past maintenance work carried out on capital assets

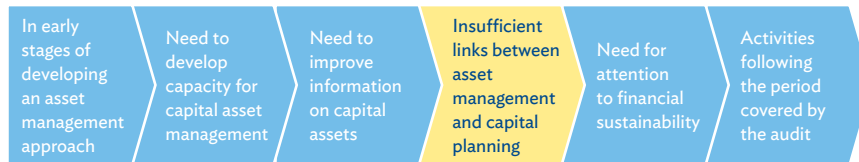
3.3.141 While these three databases were maintained separately, staff told us that the City’s tangible capital asset manager ensured linkages between technical and financial data and that new assets were added to the databases on an annual basis. The City may benefit from further integration of these databases.

3.3.142 We were pleased to note that the City’s master plans for transportation, sanitary sewers, parks and recreation contained service level targets and condition assessments of key assets. The sanitary sewer master plan also included estimates of the costs associated with replacing these assets or making key upgrades. However, these documents, along with the City’s road condition assessment and the three databases, were not consolidated to facilitate organization-wide capital planning and asset management.

3.3.143 Staff told us that the City recognized the need to integrate its asset information and intended to introduce new software to improve its asset information system, as part of its future asset management plan.

FINDINGS

Capital Asset Management in Dawson Creek



We observed the City did not have strong links between asset management and capital planning.

Insufficient Links Between Asset Management and Capital Planning

3.3.144 In the absence of comprehensive asset management plans or a systematic approach to capital asset management, we observed that the City did not have strong links between asset management and capital planning.

3.3.145 The City's process of selecting capital projects started with Council identifying strategic priorities on an annual basis, in consultation with senior staff. City departments then used the identified priorities to guide their selection of capital projects within budgets allocated to them at the beginning of the process. The selected projects then came back to Council for approval in the form of a proposed capital plan.

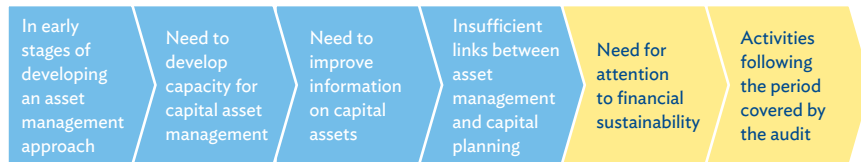
3.3.146 The City lacked a standardized process to guide staff in identifying, prioritizing and selecting projects for inclusion in its proposed five year capital plan and criteria for prioritizing projects were not clearly defined. The City did not consistently use formal business cases or scoring criteria to assist Council in finalizing project selection, although some proposed projects were supported by project summary sheets prepared by staff and some others by engineering studies.

3.3.147 In addition to lacking a formal decision-making framework to assist with project selection, we found considerable inconsistency in the amount of information provided to Council to support decision-making. As mentioned previously, in some cases, such as with proposed transportation, road, sewer and parks and recreation projects, we found engineering studies that supported undertaking particular projects.

3.3.148 Where project summary sheets were used, they contained a modest amount of information, such as a brief description of the project scope, a high level budget, start date and estimated completion date. While information on project risks or performance measures was sometimes provided in the project description, the project summary sheet did not require that such information be included.

FINDINGS

Capital Asset Management in Dawson Creek



We were pleased to see the City developed a fiscal gap report highlighting the potential budget shortfall Dawson Creek may face in coming years.

Need for Attention to Financial Sustainability

3.3.149 City staff told us that they followed established practices in preparing the annual financial plan, such as funding equipment replacements from the equipment pool reserve and consulting with local residents on allocations of funding to capital replacement initiatives. They indicated that, while not documented, these methodologies were consistently followed.

3.3.150 In our view, documenting such methodologies would be useful in ensuring consistency across the organization and over time and in ensuring that good practices continue as staff changes over time.

3.3.151 We found that Dawson Creek did not have a policy on the maintenance and use of its capital reserve funds and did not have targets for the amounts that should be in each reserve. The City also did not have a policy or procedure to guide the identification and selection of funding sources for capital projects.

3.3.152 Dawson Creek had not identified the extent to which the City had a gap between its available resources and its capital asset needs, even though – as indicated earlier – staff told us that they believed the City had a large amount of aging infrastructure that would be in need of renewal or replacement within a relatively short period of time.

3.3.153 During the period covered by the audit, we were pleased to see the City developed a fiscal gap report highlighting the potential budget shortfall Dawson Creek may face in coming years. While this report did not focus specifically on capital funding, it could be useful in helping quantify and manage the challenges facing the City in ensuring that capital asset needs were met in ways that are financially sustainable over the long haul.

Activities Following the Period Covered by the Audit

3.3.154 While we did not audit activities taking place after the period covered by the audit, we are aware that the City acted in 2013 to begin the process of creating an asset management plan for Dawson Creek.

CONCLUSION

The City had some good practices and made progress towards the development of a capital asset management plan. However, we found issues with one of the two capital projects we reviewed and other areas for improvement.

3.3.155 We found some significant issues with how the City planned and managed one of the two capital projects we reviewed for this audit, the Arts Centre Project. These issues relate to project decision-making, risk management, cost estimates and budgeting and oversight of the project. We also found that the City's capital asset management practices were in need of further development.

3.3.156 In addition, the audit also found that the City had some good practices, carried out capital project procurement consistently with its policies and made progress during the period covered by the audit toward the development of a capital asset management plan.

3.3.157 We concluded that the City should act to improve its capital asset management and capital project planning and procurement policies and practices. We have provided recommendations aimed at assisting the City in accomplishing this.

RECOMMENDATIONS

Recommendation 1

The City of Dawson Creek should require the preparation of a business case prior to Council approval for all significant projects.

Recommendation 2

The City of Dawson Creek should ensure that key risks associated with contemplated major capital projects are identified, assessed and mitigated prior to approving each project. This includes developing risk management plans for such projects.

Recommendation 3

The City of Dawson Creek should ensure that its cost estimates and budgets for capital projects include sufficient contingencies to protect against unexpected cost increases.

Recommendation 4

The City of Dawson Creek should develop and implement clear policy on the delegation of authority to Council committees. This should include provisions to:

- Require the establishment of a project steering committee to oversee major capital projects.
- Require the adoption of terms of reference prior to a committee beginning its work.
- Ensure that such terms of reference clearly define the role, responsibilities and authority of committees to act on behalf of Council.
- Require formal and thorough reporting back to Council.

Recommendation 5

The City of Dawson Creek should undertake a high level post-completion review of the Arts Centre Project and make the review report public. The review should include an assessment of the project management, risks, costs and future financial sustainability.

RECOMMENDATIONS

Recommendation 6

The City of Dawson Creek should strengthen its procurement and conflict of interest policies by including provisions to:

- Clarify requirements relating to the awarding of contracts without competition, including a requirement to document the rationale for such a decision.
- Establish a clear requirement for the use of written contracts.
- Indicate when a tender can/should be cancelled.
- Provide for the resolution of disputes with vendors in cases where contract templates do not contain such provisions.
- Provide guidance relating to conflict of interest for Council members and people other than staff participating in procurement related activities such as vendors and appointed members of Council committees.

Recommendation 7

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

- Developing a systematic approach organization-wide with documented policy and procedures.
- Developing a plan to ensure the availability of adequate trained staff to direct and undertake asset management activities.
- Integrating asset information and tracking additional information, such as on asset condition.
- Establishing timelines, assigning responsibilities and allocating budgets for the completion of asset management plans.
- Implementing a consistent process for staff to identify, prioritize and select capital projects for Council's consideration.

SUMMARY OF LOCAL GOVERNMENT'S COMMENTS

Mayor and Council on behalf of the City of Dawson Creek would like to thank the Office of the AGLG for their recommendations included in the proposed final audit report. We agree with the Office's objectives that strengthening British Columbia's confidence in their local government stewardship of public assets and achieving greater value for money with due regard to economy, efficiency and effectiveness are critical components in achieving this objective. While we cannot change past experiences we can learn from them and as a group work collectively to improve systems that support our local government's future decision making.

We agree with six of the seven recommendations included in the report and an action plan is attached to implement them in a timely manner. Inherent in the recommendations is a common theme that as a community grows and changes, its local government must adapt concurrently by using a systematic and strategic approach in developing its systems and policies that support this growth. Council understands this approach as evidenced by its new Corporate Mission that speaks to responsive fiscal stewardship and the importance of holding the trust and confidence of the community. In addition, Council's 2015-2018 strategic plans include focusing on fiscal responsibility and quality infrastructure by devoting resources to the fiscal gap initiative and Phase 2 of its Capital Asset Management Plan. Council is also at the end stages of completing a comprehensive policy review to which the AGLG recommendations can be incorporated.

The findings on the two projects selected by the AGLG highlight the importance of strong internal controls and their influence on successful project management. Larger capital projects need more oversight and control than smaller projects. This is evidenced by the fact that no issues were found with the 92nd Storm project and four issues were found with the Calvin Kruk Arts Centre project. Council will respond to these findings in its action plan. An important learning from the experience is the significant effect that external forces have on all major capital projects. Political dynamics, market volatility and unanticipated risks are all significant factors that influence the successful completion of any project. Council strongly agrees with the AGLG recommendation that cost estimates and budgets for capital projects should include sufficient contingencies to protect against these external influences. The learnings from the Calvin Kruk Centre for the Arts project and the AGLG audit will be taken by Council and staff to improve its current internal controls so that projects can be managed more effectively in the future, however, we also realize that there will always be external influences that are not so easily managed.

In conclusion, Council would like to thank the staff of the AGLG office and the City for their commitment to this audit.

Dawson Creek City Council
June 29, 2015

CITY OF DAWSON CREEK’S ACTION PLAN

AGLG RECOMMENDATION	MANAGEMENT RESPONSE	PERSON RESPONSIBLE	TARGET TIMEFRAME
<p>RECOMMENDATION 1</p> <p>The City of Dawson Creek should require the preparation of a business case prior to Council approval for all significant projects.</p>	<p>Council and staff agree with the AGLG recommendation that projects of significant value should require the completion of a business case before approval is granted to the project.</p> <p>Next Steps:</p> <ol style="list-style-type: none"> 1. Set a minimum project value for business case analysis requirement 2. Develop a standard business case template for capital projects 	<p>Senior Staff</p>	<p>September 2015</p>
<p>RECOMMENDATION 2</p> <p>The City of Dawson Creek should ensure that key risks associated with contemplated major capital projects are identified, assessed and mitigated prior to approving each project. This includes developing risk management plans for such projects.</p>	<p>Council and staff agree with the AGLG recommendation that projects of significant value should require a complete risk assessment before approval is granted to the project</p> <p>Next Steps:</p> <ol style="list-style-type: none"> 1. Set a minimum project value for risk assessment analysis requirement 2. Develop a standard risk assessment template for capital projects 	<p>Chief Financial Officer</p>	<p>September 2015</p>
<p>RECOMMENDATION 3</p> <p>The City of Dawson Creek should ensure that its cost estimates and budgets for capital projects include sufficient contingencies to protect against unexpected cost increases.</p>	<p>Council and staff agree with the AGLG recommendation that project cost estimates used for budgeting purposes should include sufficient contingencies to protect against unexpected cost increases.</p> <p>Next Steps:</p> <ol style="list-style-type: none"> 1. Set standard contingency levels for project costing budget estimates using project value, project timeframe and project complexity as identifiers 	<p>Senior Staff</p>	<p>September 2015</p>

CITY OF DAWSON CREEK’S ACTION PLAN

AGLG RECOMMENDATION	MANAGEMENT RESPONSE	PERSON RESPONSIBLE	TARGET TIMEFRAME
<p>RECOMMENDATION 4</p> <p>The City of Dawson Creek should develop and implement clear policy on the delegation of authority to Council committees. This should include provisions to:</p> <ul style="list-style-type: none"> Require the establishment of a project steering committee to oversee major capital projects. Require the adoption of terms of reference prior to a committee beginning its work. Ensure that such terms of reference clearly define the role, responsibilities and authority of committees to act on behalf of Council. Require formal and thorough reporting back to Council. 	<p>Council and staff agree with the AGLG recommendation that the City should implement a clear policy on the delegation of authority to various Council committees including steering committees to oversee major capital projects. The policy should include but not be limited to setting clear terms of reference, roles and responsibilities, scope of authority and responsibility to report.</p>	<p>Director of Corporate Administration</p>	<p>June 2016</p>
<p>RECOMMENDATION 5</p> <p>The City of Dawson Creek should undertake a high level post-completion review of the Arts Centre Project and make the review report public. The review should include an assessment of the project management, risks, costs and future financial sustainability.</p>	<p>City Council and staff do not agree with this recommendation. In our opinion the AGLG’s audit of this project has already identified the weaknesses in the project management process.</p> <p>Council and staff acknowledge that the City’s capital project management system for projects of this magnitude needs improvement.</p> <p>Council and staff believe that the City will achieve greater value for taxpayer dollars by focusing its resources to the future by strengthening the City’s capital project systems.</p> <p>Learnings from the experience have already been realized and final project costs have been reported out. Together with the AGLG’s audit recommendations, staff is positioned to act on and carry out the necessary improvements.</p>	<p>N/A</p>	<p>N/A</p>

CITY OF DAWSON CREEK’S ACTION PLAN

AGLG RECOMMENDATION	MANAGEMENT RESPONSE	PERSON RESPONSIBLE	TARGET TIMEFRAME
<p>RECOMMENDATION 6</p> <p>The City of Dawson Creek should strengthen its procurement and conflict of interest policies by including provisions to:</p> <ul style="list-style-type: none"> Clarify requirements relating to the awarding of contracts without competition, including a requirement to document the rationale for such a decision. Establish a clear requirement for the use of written contracts. Indicate when a tender can/should be cancelled. Provide for the resolution of disputes with vendors in cases where contract templates do not contain such provisions. Provide guidance relating to conflict of interest for Council members and people other than staff participating in procurement related activities such as vendors and appointed members of Council committees. 	<p>Council and staff agree that the policies relating to procurement, contract management and conflict of interest can be improved.</p> <p>Next Steps:</p> <ol style="list-style-type: none"> Update purchasing policy to include criteria for when and why sole sourcing is used including the required reporting Update purchasing policy to include contract management guidelines including when a written contract is required, tender cancellation criteria and vendor dispute resolution criteria Staff have recently updated the City’s conflict of interest policy for Council members and will extend these recommendations to Council committees and contracted vendors 	<p>Director of Corporate Administration and Chief Financial Officer</p>	<p>June 2016</p>
<p>RECOMMENDATION 7</p> <p>The City of Dawson Creek should enhance its capital asset management practices by:</p> <ul style="list-style-type: none"> Developing a systematic approach organization-wide with documented policy and procedures. Developing a plan to ensure the availability of adequate trained staff to direct and undertake asset management activities. Integrating asset information and tracking additional information, such as on asset condition. Establishing timelines, assigning responsibilities and allocating budgets for the completion of asset management plans. Implementing a consistent process for staff to identify, prioritize and select capital projects for Council’s consideration. 	<p>Council and staff agree with the AGLG recommendation that a capital asset management system needs to be an integrative organization wide initiative.</p> <p>Next Steps:</p> <ol style="list-style-type: none"> Staff is in the process of developing a systematic model that integrates critical asset management components for sound fiscal management and asset planning After the model is completed, a draft policy and recommended processes to prioritize capital projects will be submitted to Council for approval Staff resourcing and training will be outlined for future budget allocation 	<p>Senior Staff</p>	<p>December 2016</p>

ABOUT THE AUDIT

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

Audit Objectives

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

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

Audit Scope and Approach

3.3.160 The audit included a review of the City of Dawson Creek's performance in managing capital procurement and capital asset management in the years 2010, 2011 and 2012. We also reviewed the City's payments and related processes for one selected project into 2014. Additionally, to properly understand the context and events that led to activities during the period covered by the audit, we reviewed and considered documentation from before this period.

3.3.161 The audit focused on Dawson Creek's capital procurement controls, processes and practices. We initially selected for review two significant capital projects that were underway during the 2010 - 2012 period: the Arts Centre Project and the 92nd Avenue Storm Drain Project.

3.3.162 We selected the first of these projects because of its large size and cost. We selected the second project because it was smaller in scale and involved a different type of capital asset from the first selected project.

3.3.163 To assess Dawson Creek'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.

3.3.164 In carrying out the audit, we interviewed City staff and members of Dawson Creek City Council, former employees, as well as consultants and professionals familiar with the selected projects.

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

3.3.166 At the beginning of the performance audit process, we shared key audit-related documents with the City of Dawson Creek. 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 11: Performance Audit Process.

ABOUT THE AUDIT

Audit Criteria

3.3.167 Performance audit criteria define the standards we used to assess Dawson Creek'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.

3.3.168 Below are the criteria we used to gauge the City of Dawson Creek's performance:

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

ABOUT THE AUDIT

Period Covered by the Audit

3.3.169 The audit covered the period 2010 to 2012. We also reviewed the City’s decision-making, payments and related processes on one selected project into 2014. Additionally, to properly understand the context and events that led to activities during the period covered by the audit, we reviewed and considered documentation from before this period. We completed our audit work on April 16, 2015.

EXHIBIT 11: Performance Audit Process



AGLG CONTACT INFORMATION

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

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LOCAL GOVERNMENT**

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