



Audit Topic 3 – Report 4 (August, 2015)



LEARNINGS FROM  
LOCAL GOVERNMENT  
CAPITAL PROCUREMENT  
PROJECTS AND  
ASSET MANAGEMENT  
PROGRAMS

District of North Vancouver

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 District of North Vancouver for its cooperation during the performance audit process and its response to the report and its recommendations.



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

**3.4.2** I want to thank the District of North Vancouver for its cooperation during the performance audit process and its response to the report and its recommendations.

**3.4.3** 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. One way we do this is by conducting performance audits of local government operations and initiatives.

**3.4.4** 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.

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

**3.4.6** Overall, the office found that the District of North Vancouver had sound processes and controls in place to protect taxpayer interests in the planning and procurement of capital projects. This report also found that the District was in the process of developing strong capital asset management practices and was on its way to assuming a leadership role in this important area of activity.

**3.4.7** While the office did not audit activities taking place after the period covered by the audit, we noted that the District has continued making significant positive progress on its asset management practices.

## MESSAGE FROM THE ACTING AUDITOR GENERAL FOR LOCAL GOVERNMENT

**3.4.8** In July 2015 we published the second AGLG Perspectives booklet: Asset Management for Local Governments. The purpose of this booklet is to assist local governments with getting started in the management of their capital assets. This is another way we wish to assist municipalities in improving their practices. The booklet was published in addition to the previously released booklet 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.



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

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## EXECUTIVE SUMMARY

The District was well on its way to assuming a leadership role in capital asset management.

**3.4.9** Our audit found that the District of North Vancouver had sound processes and controls in place to protect taxpayer interests in the planning and procurement of capital projects. We also found that the District was in the process of developing strong capital asset management practices and was well on its way to assuming a leadership role in this important area of activity.

### What We Examined

**3.4.10** Our objective was to determine whether the District exercised sound stewardship over its capital assets through strategic capital asset management practices and capital procurement processes.

**3.4.11** We selected two capital procurement projects undertaken by the District between 2010 and 2012 and examined the capital planning, procurement controls, processes and practices associated with them. The two projects were the Fire Hall #3 Upgrade Project and the William Griffin Sports Field Artificial Turf Replacement Project.

### What We Found

#### Fire Hall #3 Upgrade Project

**3.4.12** The District began a project to upgrade its Fire Hall #3 in 2009. The project was initially planned and approved by Council as a renovation upgrade with a \$760,000 budget. While the project was not presented to Council with a full business case, the District's capital budget request included some of the basic elements of a business case. The District believed that the budget request had provided sufficient information for Council to make an informed decision at that time.

**3.4.13** We found that documents relating to this approval by Council did not clearly indicate that the nature of the project was subject to change as a result of a needs assessment, which had not yet been completed.

**3.4.14** In June 2009, staff presented to Council a needs assessment document that recommended a more extensive renovation of the fire hall, changing the project from a renovation upgrade to a building replacement project. Council approved this revised project, with a budget of \$1.31 million and revised its financial plan to reflect this.

**3.4.15** Council later approved a \$250,000 budget increase as a result of bids coming in higher than expected. Additional cost increases of \$86,000 followed, relating to construction delays, new engineering standards and the project's relatively small budget contingency of six per cent. The consolidation of additional related projects, including an electrical upgrade, roofing work and new furniture, added approximately \$100,000 more to total project costs.

## EXECUTIVE SUMMARY

**3.4.16** The total approved budget (after amendments and including related projects) was \$1,748,200. Actual costs totalled \$1,820,910.

**3.4.17** Our review of decision-making on this project found that the cost increases were sufficiently documented and appropriately approved by Council. However, we believe it is beneficial for the scope of a project – and the associated budget – to be defined to the greatest extent possible and set out in a business case prior to seeking Council approval. This would enable fully informed decision-making at the point a project is first added to the capital plan and would reduce the need for incremental adjustments as a project moves forward.

**3.4.18** Our review of this project concluded that the District of North Vancouver had sound processes and controls in place designed to help protect the interests of taxpayers and help ensure value for money.

### William Griffin Sports Field Artificial Turf Replacement Project

**3.4.19** As part of the District's 2012 financial planning process, staff prepared a budget request to address issues identified by a consultant relating to the William Griffin sports field. The resulting capital budget request provided the basic elements of a business case.

**3.4.20** Council approved the project with a budget of \$600,000, later increased by \$100,000 to incorporate additional features requested by users. Most of the funding came from a user-funded infrastructure reserve, with the remainder contributed by local sports groups.

**3.4.21** The project was completed within its planned timeframe and District staff told us that they were satisfied with project results. The actual expense was \$712,550 (excluding refundable taxes), resulting in a budget overage of slightly less than two per cent, which was funded from the sports group's contribution.

**3.4.22** Our review of this project concluded that the District had sound processes and controls in place designed to help protect the interests of taxpayers and help ensure value for money.

### Review of Payments

**3.4.23** We reviewed a sample of payments for each of the two reviewed projects and found that all of them complied with District policy and were authorized with proper segregation of duties.

## EXECUTIVE SUMMARY

### An Increasingly Effective Approach to Capital Asset Management

**3.4.24** We found that, during the period covered by the audit, the District of North Vancouver was developing a strong approach to capital asset management.

**3.4.25** While the District did not have an asset management policy, it did institute an asset management framework, a high-level guide – called a ‘road map’ – to provide direction on the development of asset management plans and three asset management plans covering its bridges, parks and roads. District staff indicated that it was their intention to develop additional asset management plans to cover other capital assets over time.

**3.4.26** In our view, these asset management plans put the District in a better position to determine capital investments in those assets that would likely be necessary in the future.

**3.4.27** The District also put in place a strategy to assess asset risks, identify maintenance needs and options and set out renewal alternatives for those capital assets covered by asset management plans.

**3.4.28** We found that the District monitored and reported on its asset management activities in several ways and worked toward the development of additional performance measures relating to financial sustainability.

**3.4.29** The District appointed a champion within the organization with the ability to lead and influence change, while maintaining a decentralized approach that kept capital asset management in the hands of the department with responsibility for each asset.

**3.4.30** The District made significant progress during the period covered by the audit toward gathering and organizing information on its capital assets. The District’s asset register included basic financial information about its capital assets. Information on asset condition was recorded in spreadsheets and then entered into the District’s Geographical Information System. For the assets included in the District’s three asset management plans, the District documented current and desired levels of service.

**3.4.31** Although the District was working toward creating strong links between its capital asset management activities and capital planning, it did not establish formal links between the information in its asset management plans and the capital planning process until after the period covered by the audit.

**3.4.32** While Council had the ultimate authority to approve or not approve projects, the practice in the District was for staff to prioritize and select specific projects, with Council focusing on strategic-level objectives such as how the budget supported the official community plan, and how the presented capital project addressed the District-wide asset needs identified by management.

## EXECUTIVE SUMMARY

**3.4.33** In our view, a high level of delegation to staff can be appropriate where the local government's priorities have been clearly defined and where there is regular, meaningful reporting to support Council oversight of project selection, planning and implementation. We believe that this was the case in the District of North Vancouver.

**3.4.34** We found that the District was in the process of establishing processes to ensure the long-term financial sustainability of its capital assets. The District established three reserve funds in 2007 to support asset management and begin the process of closing the gap between its resources and capital asset needs. In 2012, the balances of these reserves totalled \$46.2 million, more than double the combined fund balances at the beginning of 2008.

**3.4.35** In 2011, staff presented a ten year funding strategy for capital expenditures to Council, which included options for long-term capital funding.

**3.4.36** We are aware that the District undertook numerous additional activities relating to capital asset management after the period covered by the audit. While these were beyond the scope of the audit and were not subject to our detailed review, we note that many of these activities built upon the progress the District made during the period covered by the audit. With this work, the District continued its progress toward building a strong overall approach to capital asset management.

## Conclusion

**3.4.37** Overall, we found that the District of North Vancouver had sound processes and controls in place to help protect taxpayer interests in the planning and procurement of capital projects. We also found that the District was in the process of developing strong capital asset management practices and was well on its way to assuming a leadership role in this important area of activity.

**3.4.38** Our recommendations are focused on improvements to policies and procedures relating to capital project planning and procurement and continued enhancement to capital asset management practices. In our view, the District is well positioned to further improve its already good performance in these important areas.

# EXECUTIVE SUMMARY

**EXHIBIT 1:**  
Summary of Recommendations

ISSUES	RECOMMENDATIONS
<p>1. Asset management plans</p>	<p>The District of North Vancouver should continue to enhance its asset management plans for key capital assets to further support the identification and prioritization of capital projects and assist in the preparation of the District’s five year capital plans. This should include developing asset management plans for additional categories of assets.</p>
<p>2. Policy enhancements</p>	<p>The District of North Vancouver should enhance its policies relating to capital project planning and procurement and capital asset management by:</p> <ul style="list-style-type: none"> <li>• Preparing a capital asset management policy to clearly link its asset management framework, roadmap and plans and provide overarching direction to the District’s management of its capital assets.</li> <li>• Developing and implementing a policy requiring staff to document vendor performance.</li> <li>• Revising its conflict of interest policy to reference the District’s policy on the reporting of fraudulent or related dishonest activities.</li> <li>• Expanding the expectations set out in the District’s procurement documents to require that bidders disclose any relationships with District officials.</li> </ul>
<p>3. Use of business cases</p>	<p>The District of North Vancouver should require the preparation of a full business case prior to Council approval for all significant projects. This should include a description of project needs and desired outcomes, alternatives, risks and associated costs and benefits, scope, budget, funding sources, governance, oversight and timelines.</p>

## INTRODUCTION

**3.4.39** 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*.

**3.4.40** 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.”

**3.4.41** 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.”

**3.4.42** 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.

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

**3.4.44** We expect to conduct more audits on capital procurement and capital asset management in future years and consider this and the other audits we launched in 2013 on this topic to be just the beginning of our work in this major area of local government activity.

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

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

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

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

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

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

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

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

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

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

**EXHIBIT 2:**  
Excerpt from the *AGLG Act*

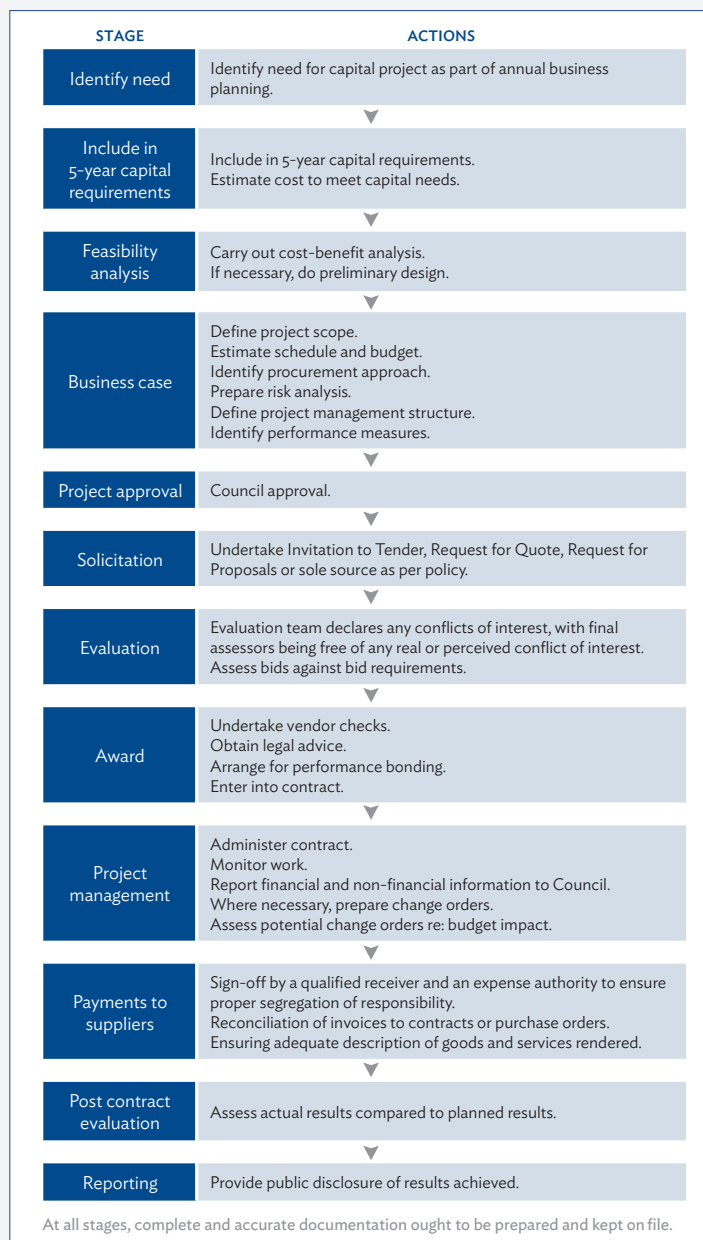
# INTRODUCTION

## About Capital Procurement

**3.4.45** 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.

**3.4.46** 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.

**3.4.47** 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

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

**3.4.49** In undertaking capital projects, we would expect the local government to ensure the following is in place:

- Clear policies and procedures governing project selection and approval, the procurement process – including conflict of interest provisions and contracting – monitoring of work and payments.
- A requirement for the preparation of business cases for all proposed significant capital projects prior to committing to them.
- Council/Board approval of all significant capital projects prior to their start.
- To ensure best value, the use of competitive procurement processes for all significant capital expenditures, unless there is a reasonable and documented rationale for doing otherwise, as provided for in Council/Board policies or as expressly approved by the Council/Board.
- Appropriate delegation of responsibility for procurement to the local government's staff, balanced with adequate Council/Board oversight.
- Monitoring of the progress of capital projects, using meaningful performance measures.
- Involvement of finance department staff in ensuring compliance with policies and that payments are appropriate and properly supported.
- Regular reporting by staff to the Council/Board on capital procurement results and the progress of work.
- Maintenance of complete and accurate files on all capital projects and associated procurement.

**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 Planning

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

**3.4.51** 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.

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

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

**3.4.54** 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

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

**3.4.56** 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.

**3.4.57** A strong approach to capital asset management will bring together the following in a systematic and integrated way:

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

## 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

**3.4.58** 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.

**3.4.59** 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

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

**3.4.61** We selected two capital procurement projects undertaken by the District between 2010 and 2012 and examined the capital planning, procurement controls, processes and practices associated with them. The two projects were the Fire Hall #3 Upgrade Project and the William Griffin Sports Field Artificial Turf Replacement Project. We included these two projects because they involved different types of capital assets and were completed toward the end of the period covered by the audit, which enabled us to observe the effect of the District's progress on capital asset management.

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

# CONTEXT

## District of North Vancouver

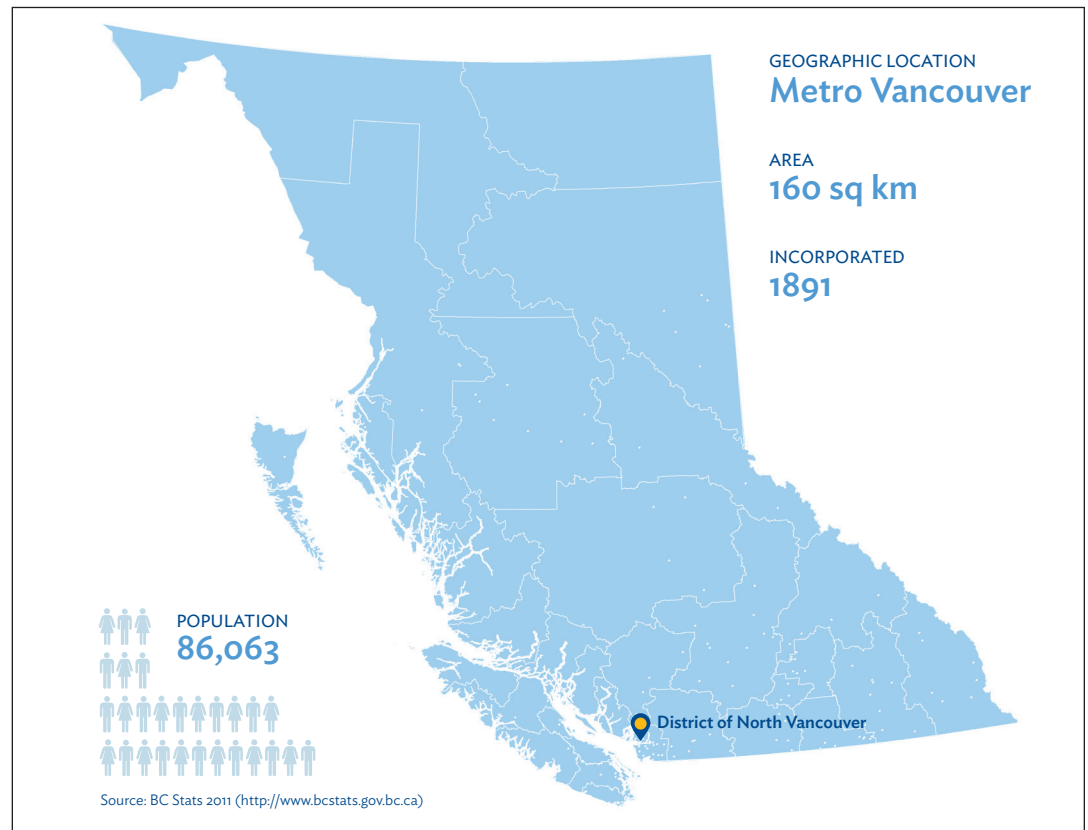
**3.4.63** The District of North Vancouver encompasses a land area of approximately 160 square kilometres within Metro Vancouver. It surrounds the City of North Vancouver on three sides.

**3.4.64** The District’s population as of 2011 was approximately 86,000, which represents an increase of 4 per cent from 2006. One third

of residents are between the ages of 40 and 59 years, with an overall median age of 43.4 years. The District’s official community plan aims to support and accommodate an increasingly diverse population while creating a more complete and connected network of town and village centers and maintaining an environmentally-friendly carbon footprint.

**3.4.65** As of May 2015, the District of North Vancouver had a staff of 362 full-time, 124 auxiliary/seasonal and 56 temporary employees.

**EXHIBIT 5:**  
District of North Vancouver  
Visual Facts



## CONTEXT

**3.4.66** Exhibit 6 shows that the District's annual revenues increased during the period covered by the audit, from \$146 million in 2010 to almost \$161 million in 2012. Expenditures increased at a similar pace. Annual capital expenditures were relatively consistent, varying from about \$25 million to just over \$21 million per year.

**EXHIBIT 6:**  
District of North Vancouver  
Financial Snapshot, 2010-2012  
(excluding recoverable tax)

	2010	2011	2012
Revenues	\$146,233,147	\$167,200,497	\$160,956,964
Expenditures	\$124,280,687	\$141,752,655	\$145,714,565
Annual surplus	\$21,952,460	\$25,457,842	\$15,242,399
Capital asset value	\$449,701,149	\$464,450,090	\$467,734,602
Annual capital budget	\$24,356,258	\$22,810,636	\$22,532,731
Annual capital expenditures	\$25,465,689	\$25,304,573	\$21,193,130

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

Sources: District of North Vancouver 2010, 2011 & 2012 Annual Reports

# CONTEXT

3.4.67 Exhibit 7 shows that the budgets for the two projects we selected for this audit – the Fire Hall #3 Upgrade Project and the William Griffin Sports Field Artificial Turf Replacement Project – accounted for 3.5 per cent of all capital project allocations approved by the District of North Vancouver Council to take place during the 2010-2012 period.

**EXHIBIT 7:**  
**District of North Vancouver**  
**Capital Project Allocations**  
**in 2010-2012 Financial Plans**  
 (excluding recoverable tax)

Total capital project allocations approved for 2010-2012	\$69,699,625
Number of capital projects selected by AGLG	2
Total project allocations of 2 AGLG selected projects for 2010-2012	\$2,448,200
Selected project allocations as percentage of total 2010-2012 capital project allocations	3.5%

Sources: District of North Vancouver 2010, 2012 & 2013 Annual Reports, 2010-2013 Five-Year Financial Plans

## CONTEXT

**3.4.68** As Exhibit 8 shows, the District of North Vancouver owned capital assets with \$468 million in net book value as of December 31, 2012.

Infrastructure assets such as roads, water, sewer and drainage accounted for more than half of this value and another 39 per cent was in land and buildings.

**EXHIBIT 8:**  
District of North Vancouver  
Tangible Capital Assets in 2012

TANGIBLE CAPITAL ASSETS	HISTORICAL COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE	% OF TOTAL CAPITAL ASSETS
Land and improvements	\$133,515,424	\$30,436,027	\$103,079,397	22%
Buildings	\$135,669,767	\$57,463,554	\$78,206,213	17%
Furniture, equipment & vehicles	\$30,585,802	\$17,677,552	\$12,908,250	3%
Roads	\$165,545,101	\$87,870,034	\$77,675,067	17%
Water	\$101,701,804	\$21,933,274	\$79,768,530	17%
Sewer	\$62,990,496	\$24,321,436	\$38,669,060	8%
Drainage	\$102,889,032	\$35,298,264	\$67,590,768	14%
Library collection	\$4,908,522	\$3,497,348	\$1,411,174	0%
Assets under construction	\$8,426,143	-	\$8,426,143	2%
<b>Total</b>	<b>\$746,232,091</b>	<b>\$278,497,489</b>	<b>\$467,734,602</b>	100%

Source: District of North Vancouver 2013 Annual Report



## FINDINGS

Overall, we found the District had a sound capital procurement regime. We also identified opportunities to further strengthen the District's capital project procurement policies and practices.

**3.4.69** Overall, we found that the District of North Vancouver had sound processes and controls in place to help protect taxpayer interests in the planning and procurement of capital projects. We also found that the District was in the process of developing strong capital asset management practices and was well on its way to assuming a leadership role in this important area of activity.

**3.4.70** While we did not audit activities taking place after the period covered by the audit, we noted that the District has continued making significant positive progress on its asset management practices.

### A Sound Capital Procurement Regime

**3.4.71** We observed that the District of North Vancouver Council approved capital projects annually through the District's five-year financial plan. Once the plan was approved, senior staff had the authority to enter into contracts to carry out the projects.

**3.4.72** For major projects, the District had a practice of using steering committees to oversee project progress, including procurement. This practice was not a requirement in the District's policies. For smaller projects, the responsible department heads or managers reported to their supervisors on progress. Council received regular reports on overall capital expenditures compared to approved budgets and on the budget status of significant projects through reports provided to the Finance and Audit Standing Committee.

**3.4.73** We found that the District had policies, manuals, checklists, forms and templates to support its capital procurement activities. We noted that the District had a formal policy requiring annual review of corporate and administrative policies, a good practice that can help ensure their continued relevance and address any emerging procurement risks that might be identified.

**3.4.74** While the District had a risk based practice of assessing vendor performance at three stages of the contracting cycle, we noted that this good practice was not mandated by the District's policies. In our view, the District would benefit from formalizing this practice in policy to ensure that it takes place consistently in the future.

## FINDINGS

The District had a conflict of interest policy covering all employees. It required reporting of actual or potential conflicts of interest to the department head and provided examples of how actual or potential conflict of interest issues should be handled.

**3.4.75** Following authority limits, those responsible for projects reviewed and approved invoices before forwarding them to the District's finance department for payment. The finance department was responsible for exercising due diligence before processing a payment, monitored capital expenditures and provided monthly reports to the District's Finance and Audit Standing Committee, composed of the Mayor and two councillors.

**3.4.76** For the two sampled projects, we found that the District maintained easy access to electronic versions of expected procurement-related documentation such as: tender documents, requests for quotes, inquiries from and responses to bidders, the bids received, relevant contracts, change orders, purchase orders and invoices.

**3.4.77** We found that the District of North Vancouver was guided by the *Community Charter* as well as the District's own policies and processes in defining potential conflicts of interest, specifying what was and was not acceptable and setting out the expected process for disclosing conflicts. Members of Council and senior managers were required – as per the *Financial Disclosure Act* – to file annual declarations of financial interests.

**3.4.78** The District had a conflict of interest policy covering all employees. It required reporting of actual or potential conflicts of interest to the department head and provided examples of how actual or potential conflict of interest issues should be handled.

**3.4.79** We also noted that the District's conflict of interest policy did not reference a related policy – the 'Reporting of Fraudulent or Related Dishonest Activity' policy – which was revised in 2013 to include protection for 'whistleblowers' – people who report potential ethical issues. We also observed that the District's templates for procurement documents did not include a requirement for bidders to disclose any relationships with District officials.

# FINDINGS

## Fire Hall #3 Upgrade Project

Issues with project decision-making

Determination of value for money

## Fire Hall #3 Upgrade Project

**3.4.80** During the District of North Vancouver's 2009 financial planning process, the District's fire chief submitted a budget request to seismically upgrade fire hall #3, address environmental issues including asbestos and mold and add space for washrooms and sleeping quarters.

**3.4.81** The project was reviewed by senior District staff and included as a proposed capital project.

**3.4.82** While the project was not presented to Council with a full business case, the District's capital budget request did include some of the basic elements of a business case such as a statement of project needs and scope description. It did not, however, include consideration of potential alternatives to the project or a complete assessment of project-related risks. The District believed that the budget request had provided sufficient information for Council to make an informed decision at that time.

**3.4.83** We note that the budget request template used by the District was enhanced in 2012 to include additional information, although it still did not include all the elements of a full business case.

# FINDINGS

## Fire Hall #3 Upgrade Project

Issues with project decision-making

Determination of value for money

**3.4.84** As part of the District's 2009 financial plan, Council allocated \$760,000 for this project. While staff told us that this was intended as a 'placeholder' budget amount until a needs assessment could be completed, we found no documentation in the District's files indicating that this was the case and that the scope of the project could change significantly as a result of such a study. Exhibit 9 shows the \$760,000 budget amount and the subsequent changes to the project.

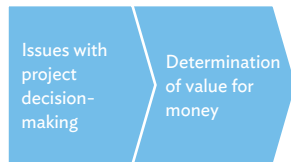
**3.4.85** In June 2009, staff presented to Council a needs assessment document that recommended a more extensive renovation of the fire hall than had previously been approved, including the replacement of its main facilities. The document presented two options, one more modest than the project that had been approved by Council in the 2009 capital plan and the other much more substantial.

**3.4.86** Under the more substantial option, the building would be expanded and improved, giving the renovated facility a life expectancy of 50 or more years. Council approved this option, with a budget of \$1.31 million in place of the previously-approved \$760,000 project. The District revised its financial plan in September 2009 to reflect this. With this change, the project was now considered a building replacement rather than a renovation upgrade.

**3.4.87** A budget increase of \$250,000 was approved by Council in December 2010, as part of an amendment to the District's 2010 financial plan. This increase was to accommodate bids received during the tendering process, which were higher than the previously estimated costs. Staff attributed the difference to a strengthening economy during this period, which led to increased demand for construction contractors and increased costs.

# FINDINGS

## Fire Hall #3 Upgrade Project



**3.4.88** Additional cost increases followed and were related to construction delays, new engineering standards and the project’s relatively small budget contingency of six per cent. These increases totalled a further \$86,600. Staff requests for these project budget increases were approved by Council.

**3.4.89** The consolidation of additional related projects, including an electrical upgrade, roofing work and new furniture, added approximately \$100,000 more to total project costs. These related projects were approved separately by Council during the District’s 2011 and 2012 annual budget processes.

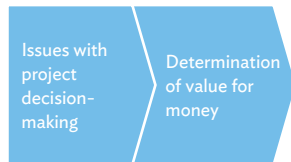
**EXHIBIT 9:**  
**Fire Hall #3 Upgrade Project**  
**Budget History and Actual**  
**Financial Results**

	AMOUNT	TOTAL
Original approved budget in 2009 financial plan		\$760,000
Revised project as approved in 2010 financial plan		\$1,310,000
2010 financial plan adjustment due to higher-than expected bids	\$250,000	\$1,560,000
2011 financial plan fund reallocation due to engineering standards, construction delay	\$86,600	\$1,646,600
Related project: electrical upgrade approved in 2011 financial plan	\$44,600	\$1,691,200
Related project: roof and furniture approved in 2012 financial plan	\$57,000	\$1,748,200
<b>Total Approved Budgets</b>		<b>\$1,748,200</b>
<b>Actual Expenditures</b>		<b>\$1,820,910</b>
<b>Amount Over Budget</b>		<b>\$72,710</b>

Source: District of North Vancouver budget and internal financial documents

# FINDINGS

## Fire Hall #3 Upgrade Project



**3.4.90** As Exhibit 10 shows, our review found that all contracts and purchase orders related to this project were appropriately approved. As required by the District’s procurement policy, the architect and general contractor for this project were selected through competitive bidding processes. In both cases, a pre-qualification competition was posted on BC Bid and invitations to bid on the contracts were sent directly to prequalified bidders.

**3.4.91** We found that the District properly handled one case where a bid was disqualified. The bidding and evaluation processes for both the architect and general contractor selections were well documented and available for our review using the District’s eDocs system. Both contracts were valued at more than \$100,000 and thus required the approval of the chief administrative officer, which they received.

**3.4.92** Smaller consulting contracts valued at over \$10,000 were awarded based on the evaluation results of multiple quotes received. The District’s files included full documentation on all contracts and purchase orders, including information on the selection processes. They were properly authorized per the District’s policy.

**3.4.93** All change orders for this project were approved by the representatives of the architect, the District (with proper authority) and the general contractor.

**3.4.94** The District’s information systems allowed project staff to generate reports on project commitment, progress and estimated time to complete for monitoring purposes. As Exhibit 9 indicates, the total approved budget (after amendments and including related projects) was \$1,748,200. Actual costs totalled \$1,820,910, resulting in the project being slightly over its approved budget.

**EXHIBIT 10:**  
Fire Hall #3 Upgrade Project  
Contracts

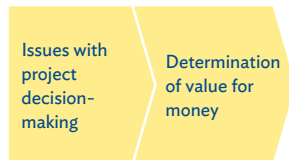
CONTRACT	COMPETITIVE PROCESS?	PROPER APPROVAL PER POLICY?	VALUE
General contractor	Yes	Yes	\$1,535,045
Architect	Yes	Yes	\$167,332
Equipment rental	Yes	Yes	\$45,302
Structural engineering consultant	Yes	Yes	\$18,375
Geotechnical service	Yes	Yes	\$12,075
Tree work	Not required per policy	Yes	\$3,993
Cost consultant	Not required per policy	Yes	\$2,888

Note: Contract values are gross amounts, including refundable taxes.

Source: District of North Vancouver procurement records

## FINDINGS

### Fire Hall #3 Upgrade Project



We would have expected the District to commit to carrying out a capital project only after determining its full scope and costs, considering any potential alternatives and ensuring that the proposed project – in its full scope – was the best use of taxpayer funds.

#### Issues with Project Decision-Making

**3.4.95** We would have expected the District to commit to carrying out a capital project only after determining its full scope and costs, considering any potential alternatives and ensuring that the proposed project – in its full scope – was the best use of taxpayer funds. This could be covered by a business case, a document that need not be onerous for a local government to prepare for every capital project, as it could be scaled to the size and complexity of each proposed project.

**3.4.96** We found that documents relating to the original project approved by Council did not clearly indicate that the nature of the project was subject to change as a result of a needs assessment, which had not yet been completed.

**3.4.97** It is quite possible that the District would have chosen to proceed with the project if it had come to Council at the outset with a \$1.8 million budget and the scope as finally implemented. Our review of decision-making on this project found that the cost increases were sufficiently documented and appropriately approved by Council.

**3.4.98** However, we believe it is preferable for the scope of a project – and the associated budget – to be defined to the greatest extent possible and set out in a business case prior to seeking Council approval. This would enable fully informed decision-making at the point a project is first added to the capital plan and would reduce the need for incremental adjustments as a project moves forward. One of the risks with incremental scope change is that a Council/Board may approve a project with a certain scope and then find it difficult to reverse that decision if the scope and costs become excessive or inconsistent with the local government's priorities.

#### Determination of Value for Money

**3.4.99** Our review of this project concluded that the District of North Vancouver had sound processes and controls in place designed to help protect the interests of taxpayers and help ensure value for money.

## FINDINGS

We found the District carried out the William Griffin Sports Field Artificial Turf Replacement Project using sound processes and controls.

### William Griffin Sports Field Artificial Turf Replacement

**3.4.100** We observed that in 2011, the District of North Vancouver engaged a consultant to perform a condition assessment on the William Griffin sports field. The resulting report concluded that the field was in “good condition,” but did not meet safety standards. As a result, the consultant deemed that the field was not a “safe playing surface.” The report also concluded that the surface was not suitable for soccer.

**3.4.101** Staff prepared a budget request to address issues with the field as part of the District’s 2012 financial planning process. The project was reviewed by senior District staff and included as a proposed capital project, with the District’s capital budget request providing some of the basic elements of a business case, including a description of project needs, objective, scope, risks if not completed, budget and funding options.

**3.4.102** The initial budget for the project was \$600,000. This was approved by Council as part of the 2012 Financial Plan. We found that Council later increased the budget by \$100,000 in order to incorporate additional features requested by users at a public meeting the District organized to seek input from users on project needs. The additions included a fence, storage capacity and a shelter.

**3.4.103** We observed that the staff request for a revised budget, supported by good documentation, was approved by Council through an amendment to the District’s 2012 financial plan. Most of the funding for the project (\$670,000) came from a user-funded infrastructure reserve, with the remainder (\$30,000) contributed by local sports groups that used the field.

**EXHIBIT 11:**  
William Griffin Sports Field  
Artificial Turf Replacement  
Project Contracts

CONTRACT	COMPETITIVE PROCESS?	PROPER APPROVAL PER POLICY?	VALUE
Synthetic turf supplier	Yes	Yes	\$426,160
Turf removal & field refurbishment	Yes	Yes	\$363,728
Construction manager / consultant	No – contract direct awarded. Justification was approved by CAO.		\$49,749

Note: Contract values are gross amounts, including refundable taxes and the cost of a related project to add shelters, which was fully paid for by the North Shore Sports Council.

Source: District of North Vancouver procurement records



## FINDINGS

**3.4.104** As Exhibit 11 shows, contracts for this project were obtained with proper approvals. The construction management contract for the project was awarded without competition, with a detailed written justification for this approach on file that was approved by the chief administrative officer, as provided for by District policy. The two main contracts valued at more than \$100,000 for this project were both awarded through competitive bidding processes and approved by the chief administrative officer, also as per District policy.

**3.4.105** All change orders for this project were approved by the construction manager/consultant, District staff with proper authority and the general contractor.

**3.4.106** We found that District staff had weekly meetings with the construction manager/consultant to monitor project progress. The total approved budget for this project was \$700,000 and the actual expense was \$712,550 (excluding refundable taxes), resulting in a budget overage of slightly less than two per cent. This overage was funded from the sports group's contribution for field improvements.

**3.4.107** The project was completed within its tight planned timeframe and District staff told us that they were satisfied with project results, which included a quick installation to meet public needs.

### Determination of Value for Money

**3.4.108** Our review of this project concluded that the District of North Vancouver had sound processes and controls in place designed to help protect the interests of taxpayers and help ensure value for money.

## FINDINGS

All sample payments complied with District policy and were authorized in a manner that demonstrated proper segregation of duties.

### Review of Payments

**3.4.109** We reviewed a sample of 16 payments relating to the Fire Hall #3 Upgrade Project, which accounted for 34 per cent of the project's costs and three sample payments relating to the William Griffin Sports Field Artificial Turf Replacement Project, which accounted for 77 per cent of that project's costs.

**3.4.110** All of these payments complied with District policy and were authorized in a manner that demonstrated proper segregation of duties. Once payment was authorized, the files indicate that finance department staff exercised due diligence before processing payments.

## FINDINGS

### An Increasingly Effective Approach to Capital Asset Management



We found that the District was developing a strong approach to capital asset management, tied to the District's official community plan.

### An Increasingly Effective Approach to Capital Asset Management

**3.4.111** We found that, during the period covered by the audit, the District of North Vancouver was developing a strong approach to capital asset management, tied to the District's official community plan.

**3.4.112** The District was actively implementing asset management practices throughout the organization and promoted awareness of capital asset management across departments. The District educated employees on asset management with the intention of developing a well-defined policy ensuring capital asset management was ingrained in the District's culture.

**3.4.113** While the District did not have a capital asset management policy, it did introduce an asset management framework in 2011, developed by a District steering committee composed of senior managers from across various departments, along with two executive sponsors.

The framework established a vision and mission for all of the District's capital asset management activities. The District also developed the 'road map' to provide direction on the development of asset management plans.

**3.4.114** The District prepared three asset management plans for particular asset types during 2012, covering its bridges, parks and roads. District staff indicated that it was their intention to develop additional asset management plans to cover other capital assets over time.

**3.4.115** Each plan identified goals for the asset type and how those could be reflected in desired service levels, as identified through consideration of community need. They drew from an asset assessment study to define the state of each asset, including its condition, work history and projected future deterioration. The plans also identified asset renewal costs and included performance measures.

**3.4.116** In our view, these asset management plans put the District in a position to determine capital investments in those assets that would likely be necessary in the future.

**3.4.117** The District also put in place a strategy to assess asset risks, identify maintenance needs and options and set out renewal alternatives for those capital assets covered by asset management plans.

## FINDINGS

### An Increasingly Effective Approach to Capital Asset Management



In developing its asset management activities, we found that the District's focus was on leveraging what had worked for other jurisdictions, modeling good approaches found elsewhere rather than developing them in isolation.

**3.4.118** We found that the District monitored and reported on its asset management activities in several ways. The District tracked and measured the performance of each capital asset category that was covered by an asset management plan. Some of the monitoring was formalized and undertaken by staff and some was informal, such as recording user complaints.

**3.4.119** The District also worked to develop additional performance measures relating to financial sustainability, modeled on measures that had been adopted by Australian local governments. These were still under development at the end of the period covered by the audit.

**3.4.120** In developing its asset management activities, we found that the District's focus was on leveraging what had worked for other jurisdictions, modeling good approaches found elsewhere rather than developing them in isolation. Staff told us that the District paid close attention to good practices elsewhere, in part through staff's high-level of involvement with Asset Management BC and other asset management-related organizations.

# FINDINGS

## An Increasingly Effective Approach to Capital Asset Management



### Good Capacity for Capital Asset Management

**3.4.121** We found that the District of North Vancouver took the view that successful capital asset management would require a champion within the organization with the ability to lead and influence change. The District's Manager, Financial Services took on this role. In addition, the District hired a staff member knowledgeable about both finance and engineering to help bring its asset management activities to life.

**3.4.122** The District's decentralized approach kept capital asset management in the hands of the department with responsibility for each asset. In this way, the District sought to ensure that all departments were involved and committed to capital asset management as an ongoing part of the organization's culture.

**3.4.123** Council and its Finance and Audit Standing Committee played a role in the District's capital asset management by approving key decisions such as asset management plans, which contained target levels of service for assets, and the District's five-year capital plans. Council also received the District's long-term funding strategy for capital asset investments. Staff also reported to Council additional information, such as on asset condition.

### Improving Information on Capital Assets

**3.4.124** We found that the District of North Vancouver made significant progress during the period covered by the audit toward gathering and organizing information on its capital assets such as the asset category, condition, life cycle costs, replacement value and risks. The District looked to existing tools to assist in identifying the information required for asset management, including tools highlighted by Asset Management BC and Australia's National Asset Management Strategy.

**3.4.125** We observed that the District's asset register included basic financial information about its capital assets, including asset classes, opening and closing balances, depreciation and other information. Information on asset condition was recorded in spreadsheets and then entered into the District's Geographical Information System, with updates carried out on timelines specific to each asset type. For example, building condition assessments were updated in cycles ranging from three to five years.

**3.4.126** For the assets included in the District's three asset management plans, the District documented current and desired levels of service. The District's asset management framework required regular reporting on levels of service by asset group. The investment required to maintain service levels was incorporated into the three asset management plans.

## FINDINGS

### An Increasingly Effective Approach to Capital Asset Management



#### In the Process of Linking Asset Management and Capital Planning

**3.4.127** We found that, while the District of North Vancouver was working toward strong links between its capital asset management activities and capital planning, the District did not establish formal links between the information in its asset management plans and the capital planning process until after the period covered by the audit.

**3.4.128** During the period covered by the audit, we found that the District used capital asset condition assessments to aid in capital planning. We were pleased to see that the District used a risk-based project prioritization framework that prioritized projects based on an assessment of six types of risk: regulations, health and safety, property, service, environment and financial.

**3.4.129** While Council had the ultimate authority to approve or not approve projects, the practice in the District was for staff to prioritize and select specific projects, with Council focusing on strategic-level objectives such as how the budget supported the official community plan and how the presented capital project addressed the District-wide asset needs identified by management. The District told us that Council's Finance and Audit Standing Committee reviewed detailed capital project listings to ensure that they were consistent with the objectives set by Council.

**3.4.130** In our view, a high level of delegation to staff can be appropriate where the local government's priorities have been clearly defined and there is regular, meaningful reporting to support Council oversight of project selection, planning and implementation. We believe that this was the case in the District of North Vancouver.

# FINDINGS

## An Increasingly Effective Approach to Capital Asset Management



We found that the District was in the process of establishing processes to ensure the long-term financial sustainability of its capital assets.

### Progress toward Financial Sustainability

**3.4.131** We found that, during the period covered by the audit, the District was in the process of establishing processes to ensure the long-term financial sustainability of its capital assets. The District’s official community plan identified the need for secure funding through a long-term financial plan that included prudent management of assets and long-term financial planning.

**3.4.132** The District established three reserve funds in 2007 to support asset management and begin the process of closing the gap between its resources and capital asset needs. These included a new capital and innovation reserve fund, an infrastructure replacement reserve fund and a land opportunity reserve fund.

**3.4.133** In 2012, the balances of these reserves totalled \$46.2 million, more than double the combined fund balances at the beginning of 2008. Exhibit 12 shows the growing balances of the District’s new Capital and Innovation Fund and the Infrastructure Replacement Fund during the period covered by the audit.

**3.4.134** During the 2010 – 2012 period, the District also allotted one per cent of property tax revenues each year to enhance the funding of capital projects. We understand that this approach was continued in 2013 and 2014.

**3.4.135** During capital project planning, the District required that the budget request for each project clearly identify the proposed funding sources. These might include one or more of grant revenue, taxation, reserve funds, development cost charges, or debt financing. For example, the William Griffin Sports Field Artificial Turf Replacement Project was funded mainly from the Infrastructure Replacement Reserve Fund and this – plus other funding sources – was clearly identified in its original budget request and subsequent budget change request.

**EXHIBIT 12:**  
District of North Vancouver  
Capital-Related Statutory  
Reserve Fund Balances,  
2010-2012

STATUTORY RESERVE FUND	2010	2011	2012
Land opportunity fund	\$17,679,734	\$14,952,240	\$15,138,466
New capital and innovation fund	\$3,069,499	\$4,567,276	\$4,351,942
Infrastructure replacement fund	\$16,174,991	\$19,413,901	\$26,736,987

Source: District of North Vancouver 2010, 2011 and 2012 Annual Reports

# FINDINGS

## An Increasingly Effective Approach to Capital Asset Management



**3.4.136** In 2011, staff brought a ten year funding strategy for capital expenditures to Council, which included options for long-term capital funding along with budgets for day-to-day, minor and major capital work likely to be needed over the following ten years. The strategy took into account the District’s funding sources, restrictions, impacts of funding on projects and investment priorities. It identified potential funding sources including tax revenue, user fees, development cost charges, grants and reserve funds.

### Activities Following the Period Covered by the Audit

**3.4.137** We are aware that the District undertook numerous additional activities related to capital asset management after the period covered by the audit. While these were beyond the scope of the audit and were not subject to our detailed review, we note that many of these activities built upon the progress the District made during the period covered by the audit. With this work, the District continued its progress toward building a strong overall approach to capital asset management.



## CONCLUSION

**3.4.138** Overall, based on our review of the two projects we found that the District of North Vancouver had sound processes and controls in place to help protect taxpayer interests in the planning and procurement of capital projects. We also found that the District was in the process of developing strong capital asset management practices and was on its way to assuming a leadership role in this important area of activity.

**3.4.139** While we did not audit activities taking place after the period covered by the audit, we noted that the District has continued making significant positive progress on its asset management practices.

**3.4.140** Our recommendations are focused on improvements to policies and procedures relating to capital project planning and procurement and continued enhancement to capital asset management practices. In our view, the District is well positioned to further improve its already good performance in these important areas.

## RECOMMENDATIONS

**3.4.141** Although our audit found that the District of North Vancouver had sound processes and controls, there are opportunities to improve its overall planning and procurement of capital projects and its asset management approach. The following recommendations are intended to assist the District in this regard:

### Recommendation 1

The District of North Vancouver should continue to enhance its asset management plans for key capital assets to further support the identification and prioritization of capital projects and assist in the preparation of the District's five year capital plans. This should include developing asset management plans for additional categories of assets.

### Recommendation 2

The District of North Vancouver should enhance its policies relating to capital project planning and procurement and capital asset management by:

- Preparing a capital asset management policy to clearly link its asset management framework, roadmap and plans and provide overarching direction to the District's management of its capital assets.
- Developing and implementing a policy requiring staff to document vendor performance.
- Revising its conflict of interest policy to reference the District's policy on the reporting of fraudulent or related dishonest activities.
- Expanding the expectations set out in the District's procurement documents to require that bidders disclose any relationships with District officials.

### Recommendation 3

The District of North Vancouver should require the preparation of a full business case prior to Council approval for all significant projects. This should include a description of project needs and desired outcomes, alternatives, risks and associated costs and benefits, scope, budget, funding sources, governance, oversight and timelines.

July 29, 2015  
File: 05.1640

Mr. Arn van Iersel  
Acting Auditor General  
Office of the Auditor General for Local Government  
201 – 10470 152<sup>nd</sup> Street  
Surrey, BC V3R 0Y3

Dear Mr. van Iersel:

**Re:** Proposed Final Audit Report for the District of North Vancouver

Thank you for the opportunity to provide comments on your Proposed Final Audit Report. The report and the responses were discussed at the Finance and Audit Standing Committee on July 22, 2015 which was attended by Mayor Walton, Councillor Mac-Kay Dunn and I as the Chair. In a meeting held on July 13, 2015, Council delegated the authority to the Committee to receive and respond to audit reports issued by the Auditor General for Local Government.

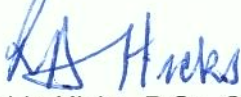
We are pleased that the overall conclusion of the audit is that the District of North Vancouver has strong stewardship over its capital asset management practices and capital procurement processes and that we protect the interest of taxpayers and ensure value for money in our activities. The Finance and Audit Standing Committee is comprised of accounting and audit professionals who are dedicated to their financial governance oversight and diligently work with staff to ensure the highest standard of public accountability.

We are disappointed by the late issue of the report and therefore value. We note that while the completion date for the audit is dated May 4, 2015, the substantive audit work was completed in late 2013 and early 2014. The observations in the report have not been updated to reflect the progress made in our asset management initiative and changes brought about in the normal course of improving business that have addressed the issues identified in the observations. We have attached for your information more detailed responses including actions that have been taken.

We understand the challenges that your office has experienced in direction and staffing since inception. We would welcome the opportunity to discuss an approach to further undertakings of your office. Our staff and myself as a past finance director in the municipal field have a great deal of experience in process, procedures and PSAB implementation.

Good fortune in the future role of Auditor General for Local Government.

Yours Sincerely,

A handwritten signature in blue ink that reads "Robin Hicks". The signature is stylized and cursive.

Robin Hicks, B.Sc. CPA, CA  
Councillor  
Chair of the Finance & Audit Standing Committee

- c.c. Members of the Finance & Audit Standing Committee:  
Mayor Richard Walton, District of North Vancouver  
Councillor Doug MacKay-Dunn, District of North Vancouver  
David Stuart, CAO District of North Vancouver  
Nicole Deveaux, CFO District of North Vancouver

## DISPOSITION OF RECOMMENDATIONS

The Office of the Auditor General for Local Government (“AGLG”) has been asking audited local governments to prepare an action plan with respect to the recommendations made in each report. The preparation of such an action plans is voluntary. However, we believe that it demonstrates the local government’s commitment to addressing any outstanding issues identified from the report and to continuing to improve its practices over time. Beyond addressing the recommendations, the action plan is helpful in advising citizens of what other initiatives the local government may be planning in the subject area. This helps improve the flow of information and accountability.

The District of North Vancouver chose not to prepare an action plan but did offer its comments on the recommendations. In a number of cases they felt that the recommendation has now been addressed.

What follows is a summary of the recommendations from the report, the District’s comments and the AGLG’s comments where appropriate. Where new information was provided after our fieldwork we have not audited this, so we cannot attest to its completeness or sufficiency.

AGLG RECOMMENDATION	DISTRICT’S RESPONSE	AGLG COMMENT
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### RECOMMENDATION 1

The District of North Vancouver should continue to enhance its asset management plans for key capital assets to further support the identification and prioritization of capital projects and assist in the preparation of the District’s five year capital plans. This should include developing asset management plans for additional categories of assets.

We were committed from the beginning of our asset management initiative to develop plans for all categories of assets. The AGLG was made aware at the beginning of the audit that our asset management initiative was a work-in-progress. This work is substantially complete as of the date of this report.

The intent of the recommendation was to recognize the good work of the District with respect to its asset management plans and to add to these over time. We are pleased that the District now believes that the required work has been completed.

### RECOMMENDATION 2

The District of North Vancouver should enhance its policies relating to capital project planning and procurement and capital asset management by:

- Preparing a capital asset management policy to clearly link its asset management framework, roadmap and plans and provide overarching direction to the District’s management of its capital assets.

The decision to defer the submission of an asset management policy to Council for approval to a later stage of our initiative was deliberate and strategic. Staff’s approach was to demonstrate the value of the information and its potential for the management of long-term financial sustainability before asking Council to endorse a policy. Council adopted an asset management policy in July 2014.

The type of linkage referred to in the recommendation occurs in the later stages of asset management. The period audited by the AGLG represents a point time in the implementation of our program namely, foundation building. This work is completed as of the date of this report.

It is very important, as discussed in our report, to link capital project planning with capital asset management. For example, proper process of an asset replacement requires up to date information on the state and performance of the current asset. By linking the respective policies it helps ensure that the right information is brought forward. Again we are pleased that the District has adopted their capital asset management policy as of July 2014 and feels it has addressed this matter.

# DISPOSITION OF RECOMMENDATIONS

AGLG RECOMMENDATION	DISTRICT'S RESPONSE	AGLG COMMENT
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## RECOMMENDATION 2 (CONTINUED)

<ul style="list-style-type: none"> <li>Developing and implementing a policy requiring staff to document vendor performance.</li> </ul>	<p>The District has documentation requirements for vendor assessment based on risk and materiality which we consider adequate. A detailed explanation of our vendor assessment process was submitted in response to the Fact Clearing report.</p>	<p>Monitoring vendor performance helps ensure that services and goods are provided as per the contract and that issues that arise are noted and shared such that these can be avoided going forward as new contracts are entered into. We did receive the updated material on the District's vendor performance framework, however, our view continues to be that the District should establish a formal policy on vendor performance evaluation.</p>
<ul style="list-style-type: none"> <li>Revising its conflict of interest policy to reference the District's policy on the reporting of fraudulent or related dishonest activities.</li> </ul>	<p>The two policies will be cross-referenced.</p>	<p>We are pleased that the two policies will be cross referenced although a time target has not been communicated.</p>
<ul style="list-style-type: none"> <li>Expanding the expectations set out in the District's procurement documents to require that bidders disclose any relationships with District officials.</li> </ul>	<p>The District's "Invitation to Tender" document contains a clause requiring a bidder to disclose any conflict of interest real or perceived in carrying out work for the District. In early 2015, this has been supplemented by a requirement to sign a separate form to that effect which needs to be attached to the bid submission.</p>	<p>We believe that the District decision to require vendor to sign a conflict of interest form will assist in identifying real or potential conflicts and improve procurement practice.</p>

## RECOMMENDATION 3

<p>The District of North Vancouver should require the preparation of a full business case prior to Council approval for all significant projects. This should include a description of project needs and desired outcomes, alternatives, risks and associated costs and benefits, scope, budget, funding sources, governance, oversight and timelines.</p>	<p>The District of North Vancouver requires the preparation of business cases for all significant capital projects. In the last few years, over 65 operations managers have been trained in business case preparation using best practice in the industry. A business case is a decision making tool which we use judiciously to ensure that the level of effort involved in the preparation of the business case is consistent with the complexity and the risk of the decision to be made. This is a basic premise of value-for-money.</p>	<p>It appears that the District and our office agree that business cases are an important requirement in the decision to upgrade or acquire a new asset. In conducting a number of audits we have found a few instances where Council made a decision without knowing all the required information. When we recommend that a business case should be prepared for all significant projects this refers not only to the projected cost of the upgrade or asset but the risks that this particular project may involve.</p> <p>We want to avoid situations where a project is launched and Council then subsequently finds that the project has significantly changed in cost and or its ability to provide the required service. We agree with the District that using a risk based system for deciding which projects require a full business case has validity. The challenge though is accurately assessing such project risk on a continuing basis.</p>
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## ABOUT THE AUDIT

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

### Audit Objectives

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

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

### Audit Scope and Approach

**3.4.144** The audit included a review of the District of North Vancouver's performance in managing capital procurement and capital asset management. It focused on the District of North Vancouver's capital procurement controls, processes and practices. We selected for review two capital projects that were underway during the 2010 - 2012 period: the Fire Hall #3 Upgrade Project and the William Griffin Sports Field Artificial Turf Replacement Project.

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

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

**3.4.146** In carrying out the audit, we interviewed District staff and members of the District of North Vancouver Council, as well as consultants and professionals familiar with the selected projects.

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

**3.4.148** At the beginning of the performance audit process, we shared key audit-related documents with the District of North Vancouver. 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 13: Performance Audit Process.

## ABOUT THE AUDIT

### Audit Criteria

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

**3.4.150** Below are the criteria we used to gauge the District of North Vancouver's performance:

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



# ABOUT THE AUDIT

## Period Covered by the Audit

**3.4.151** The audit covered the years 2010, 2011 and 2012. We completed our audit work on May 4, 2015.

## EXHIBIT 13: 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](http://www.aglg.ca) or email [info@aglg.ca](mailto:info@aglg.ca) to share your questions or comments.

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