David M. Sanders, M.A., LL.B.

May 13, 2015

Mayor Brian Bowman
and Members of the Executive Policy Committee
The City of Winnipeg
510 Main Street
Winnipeg MB

Re: Executive Policy Committee – 9:00 a.m. Wednesday, May 13, 2015

Audit Committee:
1. Waverley West Arterial Roads Project Audit – December 2014

I wish to make a presentation to EPC in opposition to the City Auditor's recommendation, that Executive Policy Committee simply "receive as information" the Waverley West Arterial Roads Project Audit dated December 2014.

This Audit describes some very serious and continuing shortcomings in the City's capital project management practices, and recommends a large number of actions required to achieve an acceptable standard of project management.

Background:

We should recall that the original estimated cost approved by City Council in the 2010 and 2011 budgets was $54.7 million. Council immediately delegated to the Chief Administrative Officer the authority to award single-source contracts for engineering consultants, and construction contracts exceeding the $10 million limit then permitted. The Winnipeg Public Service proceeded to contract for the design and construction of this major project, and failed to create the mandatory Major Project Steering Committee as required by Council policy.

By December of 2012, the civic administration had already spent $20.4 million, but they found that the projected total cost had risen by $20 million, to $74.7 million. So the Interim Acting CAO, the CFO, and the Director of Public Works finally submitted the first quarterly Financial Status Report to SPC Finance on December 3, 2012, and recommended only that the Report be "received as information." The Financial Impact Statement attached was truly bizarre:

> "As this report is submitted for informational purposes only, there is no financial impact associated with this recommendation."

In any event, in response to that Report, SPC Finance made its own recommendations, to add $15 million to the 2013-2014 Capital Budgets, to request that the Province contribute $5 million more, and to refer the Waverley Project to the City Auditor to conduct this audit of the entire project.

When Financial Status Report #2 was submitted to SPC Finance on April 11, 2013, the Major Project Steering Committee had still not been formed. The Province had agreed to drop a previous request for $5 million worth of alignment upgrades. After Council had approved the extra $15 million on January 29, 2013, the revised Project budget was $69.7 million.

On May 29, 2013, City Council approved a further increase in the Capital Project budget of $7,873,360 for developer-funded works, bringing the new total to $77,573,360.

Financial Status Report #4, submitted on September 13, 2013, finally noted that the Steering Committee had been appointed.

Originally, the federal government was to contribute up to $18,233,000 and the Province up to $15 million, or $33,233,000 out of $54.7 million. With the developers funding up to $7,873,360 of the most recent total, one would expect to find that **the City's share has risen from $21,467,000 to $36,467,000 (a 70% increase in the City's share**). That has never been spelled out in the City's status reports, although the City Auditor gives those exact figures on page 14 of the Audit Report.

None of the 10 Financial Status Reports submitted so far actually state what contributions have actually been received or are now forecast, and whether the City's share is now forecast to total $36,467,000, or some higher number if the external contributions turn out to be smaller.

I suggest that EPC ask for that information this morning.

The Auditor's Report:

This Audit Report is dated December, 2014, two full years after Council requested it.

For some reason it has not been submitted to EPC as Audit Committee until now, almost five months later.

The City Organization By-law No. 7100/97, Section 19(d)(iv) requires that the Audit Committee "receive and review audit reports, and table such reports **with its recommendations** at a regular meeting of Executive Policy Committee."

Just receiving this Audit Report "as information" today, and then shelving it, would in my opinion constitute a complete dereliction of duty on the part of the members of EPC. If this is the first time EPC members have seen that 69-page report, I would recommend the Councillors take the time to review it and to develop specific recommendations to Council as necessary to bring about a radical improvement in the capacity of the City to manage such major projects properly.

It is painfully obvious that the City of Winnipeg requires a knowledgeable and dedicated Audit Committee, like any billion dollar enterprise. If Councillors can't or won't do the job, perhaps the City should consider appointing some external independent professional directors to assist with the Audit Committee function.

Members of EPC might also review the Capital Project Management Audit Final Report, November 2008, in which the City Auditor made 29 recommendations for improvements five years ago. The City Auditor states on page 2 of the current Report that after observing similar results (problems) to those in the 2008 Audit, the City Auditor extended the current assignment to include a review of the current status of the City's capital management guidance.

The results are six recommendations that the City develop and implement comprehensive Capital Project Management Standards, Manuals, Policies and Procedures, which it still did not have when this Audit Report was submitted in December.

The reality is that the civic administration has continued to flounder about, without really addressing the issues raised by the City Auditor's 2008 and 2014 Reports, or the other recent external audits, for that matter.

In January City Council was asked to adopt an Asset Management Policy. But all that did was promise, once again, that sometime in the future the Public Service will produce the following deliverables as identified in the Policy:

- Strategic Asset Management Plan
- Asset Management Administrative Standard
- Customer Levels of Service
- Asset Management Plans
- State of the Infrastructure Report

But there was no schedule for production of any of these plans and standards. While the City Auditor refers to various drafts of such documents, they are incomplete, and do not comply with 8 of 14 Project Management Institute standards (see page 40).

In the City press release issued on May 8th, we are advised that a new Asset Management Administrative Standard was adopted on March 31, 2015. But it has not yet been published.

The headline on the release was "Waverley West Arterial Roads Project audit reveals project costs were reasonable and appropriately reported." I think that spin is a little misleading. The City Auditor found that a Class 5 estimate, which was used for the initial budget of $54.7 million, was not reliable for the purpose of authorizing a budget. The initial project cost was "reasonable" only if you accept that a Class 5 estimate was adequate for the purpose. But it was not. The nature of the budget estimates was not clearly stated in some of the reports to Council.

Furthermore the release is incorrect when it states that "No information available at the time the application was submitted was overlooked or withheld."

On page 6, the City Auditor states:

> **"From the supporting documents made available to us, the methodology that produced the $54.7 million amount cannot be verified.**
>
> **Before the Building Canada Fund application was submitted, the Public Works Department had in its possession a credible, more detailed cost estimate of $62.5 million for the Project from one of the developers. Due to the lack of documentation for the $54.7 million estimate, we are also unable to conclude why this $62.5 million amount was not included in the Building Canada Fund application, rather than $54.7 million."**

Finally, the City news release stated that the public service is recommending that the threshold for defining a Major Capital Project be increased from $10 million to $20 million, (a number which was **not** recommended specifically by the City Auditor), "to ensure that additional oversight resources are not spent on projects with lesser relative project risk."

When and if proper, rigorous project management systems and project managers are in place, the Council might consider increasing the $10 million threshold. **But for now, I strongly believe that the citizens of Winnipeg want much more transparency, oversight, and accountability, not less.**

Thank you.

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DMS/bm