Minutes – Executive Policy Committee – February 19, 2019

AUDIT COMMITTEE

Item No. 1 Capital Project Estimates - North End Sewage Treatment Plant

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

The Executive Policy Committee, in its capacity as the Audit Committee, concurred in the recommendation of the Winnipeg Public Service, as amended and recommended to Council:

1. That this report be received as information.

2. That the City Auditor proceed with a capital project estimate audit of the Class 3 Estimate for the North End Sewage Treatment Plant Biological Nutrient Removal Upgrade project.

3. That any additional resources required by the Audit Department to complete the audit in a timely manner be allocated from the North End Sewage Treatment Plant Biological Nutrient Removal Upgrade project budget.

4. That the Proper Officers of the City be authorized to do all things necessary to implement the intent of the foregoing.

DECISION MAKING HISTORY:

Moved by Councillor Rollins,

That Rule 10(3) of The Procedure By-law No. 50/2007 be suspended in order that the following item, which was received less than four business days preceding the committee meeting, be considered by Committee.

Carried

Moved by Councillor Gilroy,

That the recommendation of the Winnipeg Public Service be concurred in, with the following amendments:

- Add the following new recommendations:

    "2. That the City Auditor proceed with a capital project estimate audit of the Class 3 Estimate for the North End Sewage Treatment Plant Biological Nutrient Removal Upgrade project.

    3. That any additional resources required by the Audit Department to complete the audit in a timely manner be allocated from the North End Sewage Treatment Plant Biological Nutrient Removal Upgrade project budget.

    4. That the Proper Officers of the City be authorized to do all things necessary to implement the intent of the foregoing."

and forwarded to Council.

Carried

Councillor Lukes submitted a communication dated February 19, 2019 with respect to the matter.

ADMINISTRATIVE REPORT

Title: **Capital Project Estimates - North End Sewage Treatment Plant**

Critical Path: Audit Committee - Council

AUTHORIZATION

Author	Department Head	CFO	CAO
B. Mansky	B. Mansky City Auditor		

EXECUTIVE SUMMARY

The Audit Department was informed on December 28, 2018 that the Water and Waste Department intended to bring forward a preliminary design study report to seek project approval for Phase 1 (Headworks) of the North End Sewage Treatment Plant project (NEWPCC).

Since 2015, the Audit Department has included capital project estimate audits in our annual audit plans that are approved by Audit Committee. The purpose of the capital project estimate audits is to provide Council with assurance that the estimate classes have been appropriately determined and disclosed for new major capital projects requiring Council approval.

The Audit Department is unable to perform a capital project estimate audit of the Class 3 Estimate for Phase 1 of the NEWPCC project prior to the Water & Waste Department's report submission. The magnitude of this project and volume of documentation supporting it, combined with the length of time between when we were notified about the estimate and the intended date to bring the Public Service report forward, simply doesn't allow sufficient time to complete an audit.

The Audit Department was informed that the Public Service has undertaken extra effort, both internally and through contracts with professional services firms to provide additional oversight and scrutiny of the project estimate. The Audit Department has not reviewed the work performed by these parties.

RECOMMENDATIONS

That this report be received as information.

REASON FOR THE REPORT

The report is being submitted in accordance with the City Organization By-law 7100/97 section 19(d)(iv) that the Audit Committee will "receive and review audit reports, and table such reports with its recommendations at a regular meeting of Executive Policy Committee."

IMPLICATIONS OF THE RECOMMENDATIONS

There are no implications to the recommendation that the report be received as information.

HISTORY/DISCUSSION

Since 2015, Audit Committee and Council has approved a “Capital Project Estimates” project in the Audit Department’s annual audit plan to provide assurance that the documentation supporting a new major capital project supports the identified class estimate (AACE).

Preparation of budget estimates and disclosure of the estimate classes for the capital projects is the responsibility of the Public Service. The classification system used by the Public Service is based on the recommended practices of the Association for the Advancement of Cost Engineering (AACE). Those recommended practices provide a system for classifying cost estimates that is primarily determined by the level of design work that supports the estimates, and secondarily by the costing methodology used to develop the estimates.

It is important to note when the Audit Department performs these audits, we are providing an opinion on the level of design work we have observed to be completed and the quality of the costing methodology supporting that estimate; however, we are not providing an opinion on the quality of the design engineering completed, which is outside the scope of our professional expertise. In addition, the Audit Department evaluates whether the appropriate AACE recommended practice is being used to classify the estimate since the AACE has different classification guidelines for different types of industries.

The NEWPCC project was previously included in the 2016 capital budget with a total estimate of $794,610,000 comprised of $651,396,000 adopted in 2016 and $143,214,000 from previous adopted budget amounts. At that point in time the Audit Department did not undertake a capital project estimate audit due to the fact it was submitted as a Class 5 estimate. Since then there has been periodic reporting to SPC Finance to communicate that the estimated budget for this project has increased, referencing a $1.4 billion figure. Throughout this period the project was being communicated as a single capital project.

Information received from the Infrastructure Planning Office identifies that approval for the project is now being sought in three stages and that the Water & Waste Department is representing that it has obtained a Class 3 estimate for the project. The overall total budget has increased to an estimated $1.789 billion with Phase I Headworks, for which Council approval is currently being sought, at an estimated total cost of $356 million.

While this project was previously approved by Council with a supporting Class 5 estimate, the completion of a Class 3 estimate, the revised multi-phase approach to the project (seeking Council approval for each stage) and the significant increase in the total estimated budget would typically warrant Audit to undertake a capital project estimate audit to provide assurance to elected officials that the underlying documentation supports the stated class estimate.

The CPA Manitoba Code of Professional Conduct requires us to take due care, acting carefully, thoroughly, and diligently in all professional services that we provide. The Audit Department will not be able to complete an audit of the estimate classification within the period from when we

were notified of the estimate to when the Administrative Report seeking Council approval for the project is planned to be submitted.

The Audit Department was informed that the Public Service contracted out the design work with the conceptual design being initiated in January 2016, and the preliminary design being completed in September 2018; that an independent firm specializing in cost management reviewed and commented on the preliminary design between April and August 2018; and that the Public Service reviewed all available information and established the cost as described in their administrative report. The Audit Department has not reviewed any of the work performed by these parties.

FINANCIAL IMPACT

Financial Impact Statement **Date:** January 17, 2019

Project Name:

Capital Project Estimates - North End Sewage Treatment Plant

COMMENTS:

There is no financial impacted associated with receiving this report as information.

original signed by
Tanis Yanchishyn
Manager of Finance (Campus)
Corporate Finance Department

CONSULTATION

This Report has been prepared in consultation with:
Infrastructure Planning Office

OURWINNIPEG POLICY ALIGNMENT

01-3 Prosperity - Direction 1 - Provide Efficient and Focused Civic Administration and Governance

This report supports the demonstration of accountability through reporting and to continuously pursue innovative, streamlined service delivery and decision-making processes.

SUBMITTED BY

Department: Audit Department
Prepared by: B. Mansky
Date: January 10, 2019