Minute No. 524
Report – Executive Policy Committee – September 17, 2019

Item No. 12 **Estimate Classification Audits for Projects Included in "Infrastructure Projects for Federal and Provincial Funding under the Investing in Canada Infrastructure Program"**

COUNCIL DECISION:

Council concurred in the recommendation of the Executive Policy Committee and adopted the following:

1. That this report be received as information.

Report – Executive Policy Committee – September 17, 2019

DECISION MAKING HISTORY:

Moved by His Worship Mayor Bowman,

That the recommendation of the Executive Policy Committee be adopted by consent.

Carried

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

On September 17, 2019, the Executive Policy Committee, in its capacity as the Audit Committee, concurred in the recommendation of the Winnipeg Public Service and submitted the matter to Council.

ADMINISTRATIVE REPORT

Title: Estimate Classification Audits for Projects Included in "Infrastructure Projects for Federal and Provincial Funding under the Investing in Canada Infrastructure Program"

Critical Path: Audit Committee - Council

AUTHORIZATION

Author	Department Head	CFO	CAO
M. Giles Deputy City Auditor	B. Mansky City Auditor	N/A	N/A

EXECUTIVE SUMMARY

The Public Service has submitted four capital projects for Council's approval to apply for funding programs in its "Infrastructure Projects for Federal and Provincial Funding under the Investing in Canada Infrastructure Program" report. The Public Service is recommending budget approval for three of the projects, and confirming the fourth as a priority for funding program application. The projects include:

1. NEWPCC Upgrade: Headworks Facilities (Class 3 - $356 million) (previously approved)
2. NEWPCC Upgrade: Biosolids Facilities (Class 3 - $553 million)
3. South Winnipeg Recreation Campus: Phase One – Recreation Centre (Class 5 - $71 million)
4. St. James Civic Centre – Facility Expansion (Class 4 - $14 million)

The Audit Department has audited the estimate classes of the "NEWPCC Upgrade: Headworks Facilities" and "NEWPCC Upgrade: Biosolids Facilities" projects. We found the classes to be fairly presented, in all material respects, as Class 3 estimates. Our audit reports for these projects are included in our "Capital Project Estimates – 'NEWPCC Upgrade: Power Supply and Headworks Facilities' and 'NEWPCC Upgrade: Biosolids Facilities'" report to Audit Committee.

We have not audited the Class 5 Estimate for the South Winnipeg Recreation Campus: Phase One – Recreation Centre. A Class 5 Estimate is supported by 0-2% design work (project definition) and has an expected accuracy range of between -50% and +100% of the estimated cost. We do not believe there is sufficient value to Council for us to conduct this audit given the Audit Department's limited resource capacity and the large

accuracy range of the cost estimate. We also draw attention to the risk associated with potential capital project over-expenditures, noting that they are typically ineligible for cost sharing under project funding programs.
We have also not audited the estimate class for the St. James Civic Centre due to our limited resource capacity and because the project does not exceed major capital project threshold of $23 million.

RECOMMENDATION

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 RECOMMENDATION

Our recommendation provides assurance on estimate classifications for the “NEWPCC Upgrade: Headworks Facilities” and “NEWPCC Upgrade: Biosolids Facilities” projects submitted for budget and/or funding application approval.

HISTORY/DISCUSSION

The Audit Department has audited classifications of select capital project cost estimates since 2015. Classes communicate the maturity of design work completed for projects. By extension, they also communicate the accuracy reasonably expected for an estimate. (Appendix 2 of the 2019 Adopted Budget (Volume 3) is attached, which details the design level and expected accuracy of each class.) Our audits provide assurance that estimates have been classified in accordance with the recommended practices of the Association for the Advancement of Cost Engineering (AACE).

This report accounts for audits completed on the projects in the Public Service's report, "Infrastructure Projects for Federal and Provincial Funding under the Investing in Canada Infrastructure Program". The projects include:

1. NEWPCC Upgrade: Headworks Facilities (Class 3 - $356 million)
   (previously approved as part of the "Power Supply and Headworks Facilities" project)
2. NEWPCC Upgrade: Biosolids Facilities (Class 3 - $553 million)
3. South Winnipeg Recreation Campus: Phase One – Recreation Centre
   (Class 5 - $71 million)
4. St. James Civic Centre – Facility Expansion (Class 4 - $14 million)

We have audited the classes of the "NEWPCC Upgrade: Headworks Facilities" and "NEWPCC Upgrade: Biosolids Facilities" cost estimates. We found the classes to be fairly presented, in all material respects, as Class 3 estimates based on AACE recommended practices. Our audit reports are included in our "Capital Project Estimates – 'NEWPCC Upgrade: Power Supply and Headworks Facilities' and 'NEWPCC Upgrade: Biosolids Facilities'" report to Audit Committee.

We have not audited the Class 5 Estimate for the South Winnipeg Recreation Campus: Phase One – Recreation Centre. Class 5 estimates are based on 0-2% design completion, with an expected accuracy of -50% to +100% of projected costs. We note that Class 5 estimates are considered to be the least reliable of all classes, with the widest potential accuracy range. We do not believe an audit opinion on the Class 5 Estimate would provide sufficient value to Council in its approval decision. It is for these reasons, in combination with the limited resource capacity of the Audit Department, that we have not conducted this audit.

We also note the risk that over-expenditures on capital projects are typically considered "ineligible costs" for cost sharing in funding programs, resulting in over-expenditures being fully paid by the City.

We have also not audited the estimate class for the St. James Civic Centre due to our limited resource capacity and because the project does not qualify as a major capital project.

FINANCIAL IMPACT

Financial Impact Statement **Date:** 27-Aug-19

Project Name:

Estimate Classification Audits for Projects Included in "Infrastructure Projects for Federal and Provincial Funding under the Investing in Canada Infrastructure Program"

COMMENTS:

There is no financial impact in receiving this report as information.

Original Signed by T. Yanchishyn

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: M. Giles, Deputy City Auditor
Date: August 27, 2019

Attachments:

2019 Adopted Budget – Capital Project Detail – Appendix 2: Cost Estimate Classification