



# AUDITOR GENERAL'S REPORT ACTION REQUIRED

## Review of Infrastructure Stimulus Funding – Opportunities Exist to Improve Controls over Construction Projects

<b>Date:</b>	October 5, 2011
<b>To:</b>	Audit Committee
<b>From:</b>	Auditor General
<b>Wards:</b>	All
<b>Reference Number:</b>	

### SUMMARY

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The Auditor General's 2010 Work Plan included a review of controls over the City's economic stimulus program and projects funded through intergovernmental agreements with the federal and provincial governments.

The objective of this review was to assess the effectiveness of practices implemented to ensure that adequate oversight, internal control, performance measurement and reporting systems are in place to support the management and administration of the City's stimulus program.

The specific objectives of the audit were to determine whether:

- Efficient and effective administrative processes were implemented to ensure stimulus projects were selected in a timely and reasonable manner
- Infrastructure Stimulus Funding (ISF) and Recreational Infrastructure Canada Program (RInC-REC) projects were effectively monitored to avoid unnecessary delays
- Program goals were achieved and the public benefits of the stimulus program were reported in a clear, accurate, transparent and timely manner
- Adequate quality assurance and financial controls were implemented to mitigate risks within accelerated processes and to ensure stimulus funds were used for authorized purposes.

This report contains 11 recommendations along with a management response to each of the recommendations.

## **RECOMMENDATIONS**

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### **The Auditor General recommends that:**

1. City Council request the City Manager, in consultation with the City Solicitor, ensure:
  - a. exceptions, amendments, or interpretations of program guidelines and grant and contribution agreements are clearly documented
  - b. City practices not consistent with agreement terms and conditions are approved by Council as required, and reported to the appropriate federal or provincial Minister in order to ensure transparency.
2. City Council request the City Manager report publicly on the stimulus program overall effects on improving City infrastructure assets and overall capital program.
3. City Council request the City Manager ensure the City-wide prioritization framework for capital projects is complied with as part of the annual and long-term financial planning process. The project ranking be considered as part of the City's overall capital program funding allocation.
4. City Council request the Director, Purchasing and Materials Management Division, direct staff to comply with existing policies and procedures requiring periodic audits of the use of rosters.
5. City Council request the Director, Purchasing and Material Management Division, modify existing purchasing procedures to encompass multiple award purchases. Such procedures to include:
  - a. The evaluation of cost as an additional criteria for the assignment of all task orders
  - b. The requirement for documentation in each task order file in support of vendor choice for order assignment
  - c. Guidelines for task orders, defining limitations on the inclusion of activities and materials not included in the initial competitive call and General Services Contract.
6. City Council request the General Manager, Parks, Forestry and Recreation, in consultation with the City Solicitor review the risks, benefits, and costs of inspection and testing agency hiring practices with a view to establishing criteria

for determining when the City, its consultant, or its contractor should hire and pay the agency.

7. City Council request the General Manager, Transportation Services and General Manager, Parks Forestry and Recreation, ensure all staff managing construction projects, sufficiently document actions taken to respond to test results failing to meet specifications.
8. City Council request the General Manager, Transportation Services and General Manager, Parks, Forestry and Recreation, establish and implement procedures to ensure staff adhere to quality assurance procedures including:
  - a. Materials testing and inspections
  - b. Final inspections and deficiency lists
  - c. Weight verification.

Additional training be provided regarding the level of documentation retained to demonstrate compliance with policies and procedures.

9. City Council request the City Manager direct appropriate divisions to ensure staff managing construction projects adhere to operating procedures requiring payments against contingency be supported by change orders. Further, that change directives, RFQ issued by divisions, and/or change orders be approved by the appropriate signing authority prior to commencement of extra or additional work.
10. City Council request the General Manager, Transportation Services, provide additional training regarding procedures for managing extra work in accordance with the Road Operations Contract Inspections Manual.
11. City Council request the General Manager, Transportation Services, establish procedures for review of significant variances from estimated quantities and approval in accordance with signing authorities. Such procedures to include issuance of change directives and change orders be required for variances exceeding acceptable tolerances.

## **Financial Impact**

The recommendations in this report have no financial impact.

Addressing the recommendations in this report will further improve and strengthen controls when engaging in intergovernmental partnerships and agreements. In addition, the implementation of recommendations in this report will continue to reaffirm to staff the importance of controls over the quality assurance and financial management of construction projects.

## **ISSUE BACKGROUND**

During 2009, the federal and provincial governments committed funds to provide a timely, targeted and temporary stimulus to the Canadian economy with the intent to protect Canadians during the global recession.

The 2009 Federal Budget "Canada's Economic Action Plan" established a \$4 billion Infrastructure Stimulus Fund (ISF) to provide funding towards the rehabilitation or construction of provincial, territorial, municipal and community infrastructure projects. The \$4 billion was allocated on a per capita basis for projects in each Canadian province and territory.

Canada's Economic Action Plan also provided funding of \$500 million for the Recreational Infrastructure Canada Program in Ontario and the Ontario Recreation (RInC-REC) programs that were matched in the 2009 Provincial Budget "Confronting the Challenge: Building Our Economic Future". These programs provided \$195 million for recreation infrastructure projects.

In September 2009, City Council approved project costs for the Infrastructure Stimulus Fund (ISF) and Recreational Infrastructure Canada Program (RInC-REC) programs totalling over \$675 million.

## **COMMENTS**

While processes and controls were in place relating to the overall management of the stimulus program as well as the quality assurance and financial management of construction, our review identified areas where processes could be further improved and controls strengthened when engaging in intergovernmental partnerships and agreements.

Our report includes 11 recommendations related to opportunities to strengthen internal controls over management of intergovernmental agreements, and award and management of construction contracts.

## **CONTACT**

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## **SIGNATURE**

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Jeff Griffiths, Auditor General

10-CMO-02

## **ATTACHMENTS**

- Appendix 1: Review of Infrastructure Stimulus Funding – Opportunities Exist to Improve Controls over Construction Projects
- Appendix 2: Management’s Response to the Auditor General’s Review of Infrastructure Stimulus Funding – Opportunities Exist to Improve Controls over Construction Projects