



Audit Topic 3 – Report 1 (April, 2014)



**LEARNINGS FROM
LOCAL GOVERNMENT
CAPITAL PROCUREMENT
PROJECTS AND
ASSET MANAGEMENT
PROGRAMS**

City of Rossland (Part 1 of 2)

**A Performance Audit carried out by the Auditor General
for Local Government of British Columbia**

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MESSAGE FROM THE AUDITOR GENERAL FOR LOCAL GOVERNMENT

We seek to be helpful to local governments, assisting them in their efforts to demonstrate to their residents that they are delivering value for the tax dollars they spend.



3.1.1 I am pleased to present this performance audit report, the first produced by the Auditor General for Local Government of British Columbia.

3.1.2 This office 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. We seek to be helpful to local governments, assisting them in their efforts to demonstrate to their residents that they are delivering value for the tax dollars they spend.

3.1.3 Our performance audits are independent, unbiased assessments of local government operations, carried out under the authority of the *Auditor General for Local Government Act* and in accordance with professional standards. They aim to assess whether the area of operation under examination is being managed with due regard to economy, efficiency and effectiveness.

3.1.4 This report outlines part one of our findings in exploring the topic "Learnings from Local Government Capital Procurement Projects and Asset Management Programs," with a focus on the City of Rossland, one of six local governments we set out to audit on this topic during 2013/14.

3.1.5 We are releasing this report prior to our reports on the five other local governments we are auditing on this topic because, in the course of our audit, we noted serious unresolved issues relating to capital procurement that require urgent and prompt steps by the City of Rossland.

3.1.6 Accordingly, this is part one of our report, as it does not cover asset management in Rossland. We will report our findings on the City's asset management program in part two of our report, which we will issue later in 2014. Also in 2014, we will release reports on the other five audits, addressing learnings in both capital procurement and asset management programs in those local governments.

3.1.7 To help all local governments assess and - where necessary - improve their oversight over capital procurement processes, we are publishing the first of our AGLG Perspectives series of booklets at the same time as this report. The booklet provides tools and advice that may be of use to many local governments.

3.1.8 The absence of key documentation from the City's files on two major capital procurement projects we reviewed, combined with the lack of response of the City's former chief administrative officer, as well as the unavailability of the current chief administrative officer (on extended leave) when we were completing our audit, left significant unanswered questions relating to how and why some of the breakdowns in essential controls occurred. Further exploration of these questions would extend beyond our mandate.

MESSAGE FROM THE AUDITOR GENERAL FOR LOCAL GOVERNMENT

3.1.9 My hope is that this first audit report, along with the AGLG Perspectives booklet, will assist the City of Rossland in assessing past events, enhancing its transparency and accountability to taxpayers, taking appropriate action on an urgent basis and strengthening its oversight and management of capital procurement to ensure it is carried out prudently, with due regard for economy, efficiency and effectiveness and with integrity.

3.1.10 The City of Rossland has provided a positive response to the audit as reflected in the Summary of Local Government's Comments included in this report. My office would like to thank the City for its cooperation during the audit.

3.1.11 Further, I am encouraged by the action plan the City provided following our recommendations, which is included in this report. Its implementation on a priority basis should help to strengthen the City's financial management and its good governance and accountability over future capital project procurement.



Basia Ruta, CPA, CA
Auditor General for Local Government

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EXECUTIVE SUMMARY

We undertook performance audits on capital procurement and asset management programs because they are key responsibilities of local governments.

3.1.12 We undertook performance audits on capital procurement and asset management programs because they are key responsibilities of local governments. We selected the City of Rossland as one of six local governments to audit on this topic partly because we were aware of the City's concerns about aspects of Rossland's Arena Complex Roof Replacement Project and wanted to determine whether any procurement-related issues with the City's policies and operations had been dealt with.

What We Examined

3.1.13 Our objective was to determine whether the City is exercising sound stewardship over its capital assets through strategic asset management practices and capital procurement processes. This is part one of our report, dealing specifically with capital procurement, which we define as the purchase of outside resources for acquiring, constructing or improving tangible capital assets. We will report later this year on the City's asset management.

3.1.14 We assessed Rossland's capital procurement practices between 2010 and 2012 and related capital planning. We initially audited two large projects: the Rossland Arena Complex Roof Replacement Project and the Columbia/Washington Infrastructure Improvement Project. We noted a number of unusual transactions that indicated a significant breakdown of internal controls, which led us to add five additional capital projects to our examination. We also reviewed the City's payments and related processes for one of the sampled projects into 2014. We completed our

audit work on February 14, 2014.

What We Found

3.1.15 For most of the projects we sampled, we have serious concerns regarding compliance with the City of Rossland's procurement and payment policies and its management of capital projects. We also have concerns over the adequacy of the City's policies in these areas. In our view, the integrity of the capital procurement process in Rossland has been compromised and many of the transactions we reviewed did not meet the standards taxpayers would expect of their local government.

3.1.16 In our audit, we noted instances where the City did not adequately protect the interests of its taxpayers to ensure value for money in its capital procurement and related payment practices. The City's management of the two initially sampled projects - the Rossland Arena Complex Roof Replacement Project and the Columbia/Washington Infrastructure Improvement Project - included examples of conflicts of interest, shortcuts, informal arrangements and other actions inconsistent with City policies.

3.1.17 Overall, we found weak management of capital project procurement, in particular a lack of proper documentation and a lack of management controls and monitoring of procurement activities by City staff. These weaknesses were not isolated to any one project we reviewed, which causes us concern about the overall management of capital projects by the City. In addition, there was a lack of timely action by the City to fully address

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known serious problems.

3.1.18 We also found that City Council’s monitoring of the procurement function could be strengthened. Council did not balance its almost full delegation of procurement decision-making to the chief administrative officer with a requirement for meaningful, timely and periodic reporting back to Council on the results of procurement processes, the outcomes of capital projects and instances when City policies were not followed.

3.1.19 The City’s finance department has a fundamental role to play in designing and maintaining financial controls and ensuring that staff adhere to procurement policies and procedures. More proactive involvement of the finance department might have helped the City avoid some of the problems that took place with these projects.

3.1.20 At the time of our audit, the City’s procurement and payment-related policies and procedures continued to expose the City to substantial financial risk, particularly in the areas of conflict of interest, segregation of duties in payment processing, direction from Council to staff on high-value procurement and the absence of a requirement for written contracts. These issues are serious and require urgent attention, as we believe the City remains vulnerable to a repeat of the problems that occurred in the projects we reviewed.

3.1.21 Given the current prolonged absence of the City’s most senior employee at a time when it urgently needs to strengthen policies, procedures and practices, the City’s success at

moving forward may depend on strengthening its depleted management capacity.

Rossland Arena Complex Roof Replacement Project

3.1.22 One of the two projects we initially sampled for this audit was the Rossland Arena Complex Roof Replacement Project, which was originally budgeted at \$1.2 million. We found serious issues with this project, including:

- major expenditures made without City Council authorization
- conflict of interest in the awarding of a contract
- lack of sufficient action by the City
- inadequate procurement policies and failure to follow policies that did exist
- significant unsubstantiated cost overruns
- lack of control over payment approval
- payments made without a contract in place
- deficiencies in quality of work
- lack of essential documentation
- lack of value for money

3.1.23 When Rossland City Council approved undertaking this project, its scope included the replacement of the City’s arena complex roof and related improvements (HVAC replacement and mechanical, structural and arena electrical upgrades) through procured goods and services. When the tender process for roof replacement resulted in a significantly lower cost than what had been budgeted, City staff expanded the project to include four additional components, which ultimately amounted to more than \$132,000 out of the project’s estimated \$1 million actual total cost (excluding recoverable tax). We found no

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evidence that Council approved undertaking this additional work.

3.1.24 On June 30, 2010, the City awarded a \$28,546 contract without tender to ADA CO Inc, which was operated by a City employee. The same employee signed and managed the contract on behalf of the City and prepared and submitted to the City 22 invoices on behalf of his business. We found no documentary evidence that this employee declared a conflict of interest at any time or that the City took any action to prevent him from awarding a contract to his own business. The City relies on employees to voluntarily declare any conflict of interest.

3.1.25 In the fall of 2011, after staff in the City's finance department raised concerns over a potential conflict of interest, the chief administrative officer met with the employee. On October 3, the employee submitted his resignation.

3.1.26 Although the City became aware of this lapse in 2011, it did not - and still has not - introduced measures to strengthen its conflict of interest rules and their monitoring and application.

3.1.27 In seven of the nine project components, Rossland's procurement policies were not fully adhered to. In addition, the City's policies were not - and still were not at the time of our audit - entirely adequate to ensure fair, open and competitive procurement.

3.1.28 Between June 2010 and October 2011, the City paid ADA CO Inc \$181,663 for work on five of the project's components. This was more than six times the amount indicated in

the only contract document that was executed between the City and ADA. That contract involved just one of those components. We found no additional contracts or documented justification for the additional expenditures.

3.1.29 Many of the invoices submitted by ADA CO Inc had serious deficiencies such as a lack of important information and references to contracts, change orders and lists of deficiencies that were either unrelated to the work being done or did not exist. The City paid these invoices without adequate verification and we found no evidence it ever requested that the invoices be corrected or adequately supported.

3.1.30 On five of the nine project components, the City made payments without a written contract being in place.

3.1.31 The City was informed by independent contractors it retained in early 2013 that there were significant deficiencies in several components of the work done for this project. The City informed us that, as of the conclusion of our audit, it had already spent \$11,374 to fix some of these deficiencies, with more remedial work still to be executed.

3.1.32 When the City became aware of significant issues with the project, it did not act as quickly or thoroughly as the seriousness of the situation called for, with the exception of addressing BC Safety Authority deficiencies. To date, several of the issues identified in this report remain unresolved.

3.1.33 We consequently conclude that value for money was not achieved for this project.

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Columbia/Washington Infrastructure Improvement Project

3.1.34 Rossland City Council authorized, through the City's approved Financial Plans, and through a project budget approved by resolution, funding for the Columbia/Washington Infrastructure Improvement Project. The project aimed to revitalize Rossland's downtown area through improvements to roads, sidewalks, drainage, sewer and water works. We found no evidence that City staff prepared and presented a business case to Council prior to the launch of this project.

3.1.35 There were several significant changes to the project prior to its scope being finalized in 2012. The City's 2011 approved Financial Plan included a total of \$5.95 million for the project over two years, including \$1.19 million to be spent in 2011. The City's 2012 approved Financial Plan included a total of \$8.57 million for the project over two years, including \$4.85 million to be spent in 2012. The City's 2013 approved Financial Plan included a total of \$0.26 million to be spent on the project in 2013.

3.1.36 On April 23, 2012, Council approved proceeding with the project at a total cost of \$7.1 million (including amounts to be reimbursed by the Ministry of Transportation and Infrastructure and FortisBC and not including HST).

3.1.37 A significant reduction in the project's scope took place just nine days later, resulting in the project that was actually carried out. On May 7, 2012, Council approved a revised budget for the project, which reflected the scope reduction.

This budget totalled \$6.68 million.

3.1.38 The final scope and budget for the project was not reflected in the City's 2012 Financial Plan through any revisions. In addition, the City did not amend the Financial Plan to reflect an apparent decision to accelerate the project schedule and carry out most of the work previously planned to be done in 2013 during 2012.

3.1.39 Similarly, the City did not revise its 2011 Financial Plan to reflect more accurate project cost and timing information as it became available. This significantly hampered the City's accountability reporting to taxpayers. Also, it resulted in expenditures on the project in 2012 significantly exceeding the amount authorized by Council through the City's Financial Plan.

3.1.40 Overall, the City's expenditures on the project totaled \$7.18 million, exceeding the \$6.68 million Council authorized on May 7, 2012 by \$0.50 million, without prior authorization from Council.

3.1.41 We are concerned that information on the project presented by staff to Council on June 24, 2013, and made public, included an altered May 7, 2012 budget, which portrayed the approved project budget as having been \$7.23 million, \$0.55 million higher than the amount that was actually approved by Council on May 7, 2012.

3.1.42 There were two key contractors for this project, ISL Engineering and Land Services Ltd., for engineering and contract administration services and COPCAN Contracting Limited for infrastructure improvement services.

EXECUTIVE SUMMARY

3.1.43 We did not find issues with the award of the COPCAN contract. However, we noted other significant issues with that contract and with the ISL contract, including:

- lack of documentation to demonstrate an adequate tendering process
- potential post-employment conflict of interest
- payments made without a contract in place
- unauthorized expenditures
- missing and unauthorized change orders
- lack of essential project documentation

3.1.44 The City employee referred to earlier led the contract award process for engineering services for this project in February 2011 and supervised work on the project for the City until his resignation in October 2011.

3.1.45 The City's files included no information on how price was to be taken into account in the City's decision on this contract award and also lacked pricing submissions from all of the proponents other than ISL, the successful bidder. As a result, we were unable to determine how pricing was taken into account when comparing the bidders, or whether the successful proponent had submitted the best-value bid.

3.1.46 Within a few weeks of the City employee's resignation, the City paid an invoice submitted by him on behalf of a business he operated, for work he reported to have carried out on the Columbia/Washington Project, and another City project, immediately following his resignation. This former employee then began working as a contractor for ISL. The City paid ISL a total of \$171,662 for the former City's employee's services between December 2011 and

December 2012.

3.1.47 Given that this person had led the process that resulted in ISL being selected by the City and was knowledgeable of the City's confidential information, his almost immediate move to work for ISL on the same City project raises concerns of lack of adequate risk management by the City to mitigate potential post-employment conflict of interest.

3.1.48 The City's 2011 approved Financial Plan authorized the expenditure of up to \$1.19 million in 2011 for engineering services related to this project. The City used ISL's services for the preliminary design, detailed design and contract administration aspects of the project during 2011, 2012 and 2013. We found evidence of Council approval for only two of these elements – preliminary and detailed design – yet the only written contract on file for any of this work by ISL was for contract administration services.

3.1.49 The City paid ISL \$0.99 million over the course of this project, although information staff had presented to Council at the time Council approved hiring ISL to do detailed design work indicated that ISL's engineering work would cost a maximum of \$500,000. Most of the City's payments to ISL were made without a written contract having been entered into and those payments that could be linked to a written contract were made without Council approval.

3.1.50 The City's payments to COPCAN also exceeded the initial value of that contract, although the amount of additional expenditure was within the 15 per cent variance provided for under the contract.

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3.1.51 The City told us that the value of the contract was increased through the use of change orders. However, at the time of the audit, the City's files were missing 19 out of 33 change orders relating to this contract and of the 14 that were in the City's files, ten lacked appropriate sign-off. Subsequent to our audit, the City produced copies of the missing change orders, but none of them were signed by any of the parties and consequently cannot be relied on as valid documents.

3.1.52 As a result of these additional expenditures, the City's failure to revise its Financial Plans to reflect the realities of the project and a lack of documentation on file, the City has not demonstrated to Rossland taxpayers whether or not it has achieved value for money on this project.

Additional Projects Sampled

3.1.53 The five additional capital projects we added to our audit showed evidence of a continuation of some of the problems we found with the first two projects we sampled. Two of these projects, which were undertaken in 2012, failed to follow the City's procurement policies and showed a lack of documentation of key project information.

Conclusion

3.1.54 On the projects we reviewed, the City of Rossland did not meet standards expected of a local government in capital procurement and related financial controls. The City's procurement and financial operations functions lacked - and continue to lack - essential

management systems, controls and practices to spend tax dollars with due regard to economy, efficiency and effectiveness.

3.1.55 The issues we noted in our examination of the Rossland Arena Complex Roof Replacement Project and the Columbia/Washington Infrastructure Improvement Project are particularly troublesome. Many factors contributed to the problems we observed, including a lack of City Council oversight and a lack of sufficient and timely action by the City when significant problems became known.

3.1.56 While management systems, controls and practices need to be improved in many areas, it is particularly important that the role of the City's finance department be strengthened. There is an urgent need for action, as the City remains vulnerable to a repetition of the issues identified through this audit. Necessary steps include ensuring that City staff have the capacity, qualifications and experience to implement the many changes necessary to improve the City's operations.

3.1.57 The City has responded positively to this audit as noted in the [Summary of Local Government's Comments](#) included in this report. Further, as part of its response to the audit, the City has prepared an action plan. We urge the City to act promptly, ensure adequate staff leadership resources are in place, and implement the recommendations outlined in this report. Until it does so, the City of Rossland will continue to face significant risks with its capital procurement projects.

EXECUTIVE SUMMARY

EXHIBIT 1: Summary of Recommendations

ISSUES	RECOMMENDATIONS
<p>Strengthening Leadership and Capacity</p>	<p>ROLE OF THE FINANCE DEPARTMENT The City of Rossland should ensure that its finance department plays an active role in designing and implementing effective financial controls over procurement activities and in ensuring that the City's financial and procurement policies and procedures are consistently followed.</p> <p>STAFF CAPACITY AND LEADERSHIP ISSUES The City of Rossland should assess the capacity, qualifications and experience of its current management team and, if necessary, add additional qualified resources. In particular, the City should pay attention to:</p> <ul style="list-style-type: none"> • addressing the absence of a full-time chief administrative officer • the fact that the person acting as chief administrative officer was handling up to three critical senior management jobs at one time • the capacity of the City's small core of senior staff
<p>Strengthening Oversight of Council</p>	<p>COUNCIL OVERSIGHT Rossland City Council should:</p> <ul style="list-style-type: none"> • ensure all City expenditures are properly authorized • exercise proper oversight over the City's operations by balancing the extensive authority delegated to the chief administrative officer with a requirement for clear and comprehensive reporting to Council. Such reporting should include at a minimum: <ul style="list-style-type: none"> > results of procurement processes > exception reporting on situations where procurement policies and procedures were not followed, including related rationale > information on budgeted, actual and forecasted expenditures on ongoing capital projects > regular progress reports on major capital projects
<p>Addressing Arena Deficiencies and Breaches of Control</p>	<p>ARENA DEFICIENCIES The City of Rossland should undertake a thorough risk assessment of any remaining arena complex deficiencies and proceed with repairs as required.</p> <p>FURTHER EXAMINATION The City of Rossland should further examine the nature, cause and extent of breaches of controls as well as the resulting financial loss due to the breaches. The City should implement corrective measures arising from the examination.</p>
<p>Addressing the Management Control Framework</p>	<p>CONFLICT OF INTEREST The City of Rossland should implement effective measures to mitigate the risk of conflict of interest, both by strengthening policies and by ensuring City policies are consistently adhered to.</p> <p>DOCUMENTATION The City of Rossland should ensure that documentation and records on procurement projects and processes are properly managed and maintained.</p> <p>PROCUREMENT POLICY The City of Rossland should improve its procurement policy to reduce risks in the future.</p> <p>PAYMENT PROCESSES The City of Rossland should improve its payment procedures to ensure all payments are appropriate.</p> <p>PROJECT MANAGEMENT The City of Rossland should develop and implement a comprehensive set of policies and procedures, tools and templates to enhance capital project management effectiveness and achieve value for money.</p>

INTRODUCTION

Due to the seriousness of our initial findings... we elected to report on the City's capital procurement at the earliest possible date and defer reporting on asset management until later in 2014.

3.1.58 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*.

3.1.59 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."

3.1.60 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."

3.1.61 We identified this topic as a priority for performance auditing because asset management and the associated capital procurement are key responsibilities of local governments.

3.1.62 We selected six local governments to audit on this topic and work began on all six simultaneously.

3.1.63 Due to the seriousness of our initial findings in Rossland relating to capital procurement, we elected to report on the City's capital procurement at the earliest possible date and defer reporting on asset management until later in 2014.

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).

EXHIBIT 2:
Excerpt from the *Auditor General for Local Government Act*

INTRODUCTION

3.1.64 We expect to conduct more audits on capital procurement and 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.

3.1.65 The overall objective of this performance audit was to determine whether the City of Rossland is exercising sound stewardship over its capital assets through strategic asset management practices and capital procurement processes.

3.1.66 We audited a sample of capital procurement projects carried out by the City between 2010 and 2012 and the capital planning, procurement controls, processes and practices associated with them. Initially, we selected two projects, which we expanded to include an additional five projects after we found evidence of unusual transactions indicating significant breakdowns of internal controls in the areas of procurement, financial management and conflict of interest.

3.1.67 We also reviewed the City's payments and related processes for one of these sampled projects into 2014.

Capital procurement is the process of acquiring, constructing or significantly improving physical assets using sources outside the local government. These assets may be infrastructure, land or other large and lasting items such as buildings, utility plants and major equipment such as fire trucks.

Asset management is the process of administering capital items through their full life cycle from initial planning through decommissioning at the end of the item's useful life.

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 3: Definitions of Key Terms

3.1.68 The two projects we initially selected were the Rossland Arena Complex Roof Replacement Project and the Columbia/Washington Infrastructure Improvement Project. We included these projects because of their relatively large size and cost and because we were aware of concerns about the Arena Roof Project and wanted to better understand any operational issues relating to it at the City of Rossland and determine whether they had been fully addressed.

3.1.69 Details about the audit objective, scope, approach and criteria are in the About the Audit section, at the end of this report.

CONTEXT

Rossland is a city of 3,556 people. Its economy is based on tourism, health care and employment relating to a major lead and zinc smelter.

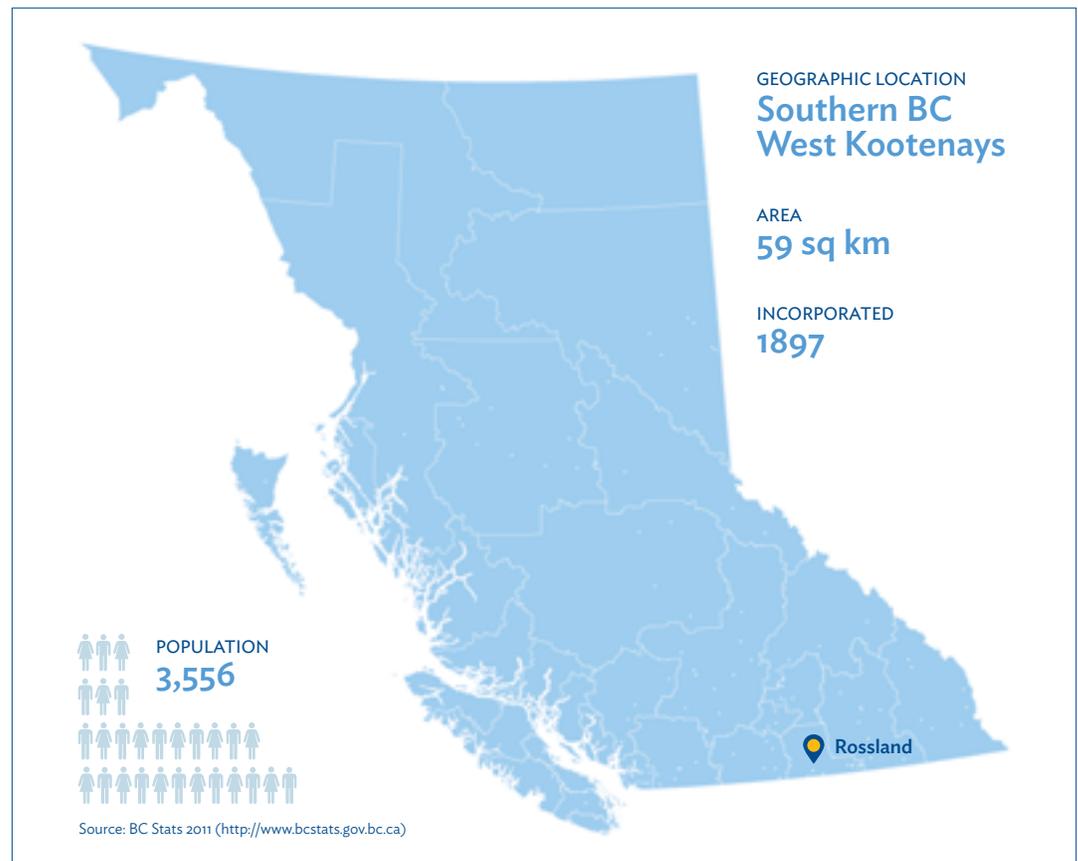
The City of Rossland

3.1.70 Rossland is a city of 3,556 people (as of 2011, according to BC Stats), located in the southern interior of British Columbia. Incorporated in 1897, Rossland is part of the West Kootenay region and covers about 59 square kilometres. Its economy is based on tourism, health care and employment relating to a major lead and zinc smelter located at nearby Trail, B.C. The city is close to Red Mountain Resort, a well-known skiing destination.

3.1.71 The City of Rossland currently has a staff of 33, comprised of three excluded managerial positions, one excluded executive assistant and 29 unionized employees.

3.1.72 Exhibit 5 shows that the City’s annual revenues ranged from just over \$7.156 million to \$7.773 million during the three years covered by this audit. About \$4 million of this came from property tax revenue and the remainder from grants, fees and other sources. The City’s annual operating expenditures totalled slightly more than \$6 million each year.

EXHIBIT 4:
City of Rossland Visual Facts



CONTEXT

EXHIBIT 5:
City of Rossland Financial
Snapshot, 2010-2012 (excluding
recoverable tax)

	2010	2011	2012
Operating revenues	\$7,773,826	\$7,293,393	\$7,156,243
Operating expenditures	\$6,011,582	\$6,068,859	\$6,135,350
Annual surplus	\$1,762,244	\$1,224,534	\$1,020,893
Capital asset value	\$38,037,249	\$38,751,550	\$42,842,367
Annual capital budget	\$3,993,000	\$3,437,300	\$8,265,000
Annual capital expenditures	\$2,995,744	\$1,932,394	\$5,360,656

Note: Annual capital budget figures differ from annual capital expenditures for several reasons, including project scope changes after the budget approval and expenditures that occur at different times from what budgets contemplated.

Sources: City of Rossland 2010-2012 Annual Reports and Five-Year Financial Plan

3.1.73 As Exhibit 5 also indicates, the City’s capital budget and expenditures increased significantly in 2012, mainly due to the City’s redevelopment of its downtown core through the Columbia/Washington Infrastructure Improvement Project, selected for review in the audit.

CONTEXT

Capital Projects

3.1.74 Exhibit 6 shows that Rossland City Council approved 76 capital projects during the audit period. In total, budgets for the seven projects we sampled accounted for 49 per cent of all capital project expenditures approved by Rossland Council to take place during the 2010-2012 period.

EXHIBIT 6:
City of Rossland Capital Project Allocations in 2010-2012 Financial Plans (excluding recoverable tax)

Total capital project allocations approved for 2010-2012	\$15,695,300
Number of capital projects in 2010-2012	76*
Number of capital projects sampled by AGLG	7
Total project allocations of 7 AGLG sampled projects for 2010-2012 (the vast majority of which was procured)	\$7,691,400
Sampled project allocations as percentage of total 2010-2012 capital project allocations	49

* The City actually approved 80 projects, five of which were components of the Columbia/Washington Infrastructure Upgrade Project. We have grouped together these five components as a single project.

Note: These figures refer to amounts approved by City Council through its Financial Plans for the years 2010, 2011 and 2012. They may differ from total project allocations, which may extend over a longer time period. They also may differ from actual expenditures.

Source: City of Rossland Five Year Financial Plans, 2009, 2010, 2011, 2012 and 2013

CONTEXT

3.1.75 Exhibit 7 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 7:
Example of a Capital Planning and Procurement Process

STAGE	ACTIONS
Identify need	Identify need for capital project as part of annual business planning.
Include in 5-year capital requirements	Include in 5-year capital requirements. Estimate cost to meet capital needs.
Feasibility analysis	Carry out cost-benefit analysis. If necessary, do preliminary design.
Business case	Define project scope. Estimate schedule and budget. Identify procurement approach. Prepare risk analysis. Define project management structure. Identify performance measures.
Project approval	Council approval.
Solicitation	Undertake Invitation to Tender, Request for Quote, Request for Proposals or sole source as per policy.
Evaluation	Evaluation team declares any conflicts of interest, with final assessors being free of any real or perceived conflict of interest. Assess bids against bid requirements.
Award	Undertake vendor checks. Obtain legal advice. Arrange for performance bonding. Enter into contract.
Project management	Administer contract. Monitor work. Report financial and non-financial information to Council. Where necessary, prepare change orders. Assess potential change orders re: budget impact.
Payments to suppliers	Sign-off by a qualified receiver and an expense authority to ensure proper segregation of responsibility. Reconciliation of invoices to contracts or purchase orders. Ensuring adequate description of goods and services rendered.
Post contract evaluation	Assess actual results compared to planned results.
Reporting	Provide public disclosure of results achieved.

At all stages, complete and accurate documentation ought to be prepared and kept on file.

FINDINGS

The issues we identified through this performance audit are serious and require urgent attention.

3.1.76 Effective procurement is based on the principles of fairness, openness and transparency. When using public funds to buy services or goods, procurement processes must be conducted prudently and with integrity and consistently with the local government's policies.

Responsibility to Taxpayers

3.1.77 Throughout our review of capital procurement by the City of Rossland, we noted instances where the City did not adequately protect the interests of its taxpayers to ensure value for money in operations. This is known as the City's 'fiduciary responsibility' to ensure its operations are carried out with due regard to economy, efficiency and effectiveness and that public resources are appropriately safeguarded.

3.1.78 The City's management of the two initially sampled projects - the Rossland Arena Complex Roof Replacement Project and the Columbia/Washington Infrastructure Improvement Project - was characterized by actions inconsistent with City policies, shortcuts, informal arrangements and a lack of management controls and monitoring, which continue to be concerns today.

3.1.79 The issues we identified through this performance audit are serious and require urgent attention, as we believe the City remains vulnerable to a repeat of the problems that occurred in the projects we reviewed.

In several places in this report, we refer to "the public interest." When we say this, we mean the welfare of the people of Rossland.

This includes responsible management of tax dollars and aspects such as social cohesion and public confidence in the local government's management of the community's affairs.

Attending to the public interest is one way local governments maintain accountability to their communities.

EXHIBIT 8: Defining the Public Interest

3.1.80 In the cases we examined, we found serious examples of:

- major expenditures made without City Council authorization
- conflict of interest in the awarding of a contract
- potential post-employment conflict of interest
- inadequate procurement policies
- failure to follow policies that did exist
- lack of documentation to demonstrate an adequate tendering process
- lack of control over payment approval
- payments made without a contract in place
- lack of essential documentation
- deficiencies in quality of work
- lack of sufficient action by the City when matters became known
- lack of value for money

FINDINGS

Responsibility to Taxpayers



Lack of oversight by Rossland City Council on matters relating to capital project procurement is a key issue throughout the cases cited in this report.

Council Oversight

3.1.81 Ultimate responsibility for the oversight of City operations rests with City Council. Even in the smallest local government, it is neither realistic nor appropriate for Council to be involved in day-to-day operations, but Council is responsible for setting clear and effective policy, hiring and monitoring a capable senior administrator, approving Financial Plans, budgets and plans, delegating authority as appropriate and reviewing reports on the conduct of local government operations.

3.1.82 Lack of oversight by Rossland City Council on matters relating to capital project procurement is a key issue throughout the cases cited in this report. We found that Council relied on an ‘honour system’ with staff and, consequently, there was limited oversight and insufficient action once issues came to light.

3.1.83 By means of its Delegation Bylaw and its procurement policy, Rossland Council has fully delegated its authority in procurement for values up to \$100,000 to the City’s chief administrative officer, as long as the expenditure is provided for in an approved City budget.

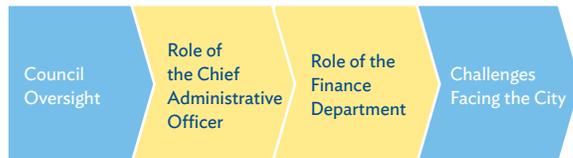
3.1.84 While such a practice might improve efficiency in day-to-day operations, we would have expected it to be balanced with adequate oversight. With the projects we reviewed, this did not take place, as monitoring of delegated authority failed due to insufficient reporting by the City’s chief administrative officer and limited oversight by Council.

3.1.85 Council’s oversight could be improved through a requirement for regular, meaningful and written reporting to ensure an appropriate balance of delegation and oversight is in place, accountability for decision making is at the appropriate level and reporting back is carried out in a timely and routine manner. Such reporting would need to include:

- results of procurement processes
- cases where the City’s procurement policies were not fully followed, including an explanation as to how and why this occurred
- for each ongoing capital project:
 - > a comparison of budget to actual costs at each identified project milestone
 - > explanations of variations between budget and actual costs
 - > explanations of any forecast budget shortfalls

FINDINGS

Responsibility to Taxpayers



Role of the Chief Administrative Officer

3.1.86 In Rossland and many other local governments, the only employee who reports directly to City Council is the chief administrative officer. All other employees are responsible to Council through the chief administrative officer. This position, therefore, is critical both in ensuring that City staff carry out Council's policy direction and in reporting back to Council on the City's operations.

3.1.87 We found that, during the period covered by this audit, Rossland City Council depended on the City's chief administrative officer to manage the City's business, with minimal reports to Council on procurement projects.

3.1.88 We sought to speak to the person who served as chief administrative officer in Rossland during most of the period covered by this audit, but he did not respond to our three requests for an interview. The *Auditor General for Local Government Act* does not give us the power to require former employees to respond to our questions. Further, the current chief administrative officer was only available during our initial audit planning and was subsequently on extended leave so unavailable to be interviewed. The above, combined with a lack of essential documentation in the City's files, left unanswered questions about events, functions and reasons for the breakdowns of essential controls that were ultimately the responsibility of the chief administrative officer.

We found that in Rossland during the audit period, policies were often not followed and financial controls frequently failed.

Role of the Finance Department

3.1.89 The City's finance department, led by the chief financial officer, has a fundamental role to play in designing and maintaining financial controls and ensuring that staff adhere to procurement policies and procedures.

3.1.90 We found that in Rossland during the audit period, policies were often not followed and financial controls frequently failed.

3.1.91 More proactive involvement of the finance department in maintaining financial controls might have helped the City avoid some of the issues that took place with the projects we reviewed or - at a minimum - could have reduced the extent of the problems. In the future, an enhanced role for the finance department is essential to ensuring there is not a repeat of the issues that arose in these projects.

FINDINGS

Responsibility to Taxpayers



Challenges Facing the City

3.1.92 Ongoing issues affecting the ability of Rossland City Council to fulfill its responsibilities to taxpayers and manage its operations with due regard to economy, efficiency and effectiveness include the following:

- At the time of this report's writing, the City has not had a full-time chief administrative officer on the job for over three months.
- The person acting as chief administrative officer during much of 2013 and to the conclusion of our audit was essentially doing up to three critical senior management jobs.
- The City's remaining small core of senior staff simply may not have the capacity to fully manage the City's affairs.
- The City has been slow to respond to serious issues, including a two year delay after apparent conflict of interest came to light before initiating efforts to recover funds.
- Rossland City Council has not put into place mechanisms to ensure it is effectively monitoring the capital procurement processes undertaken by senior management.

Ongoing issues affect the ability of Rossland City Council to fulfill its responsibilities to taxpayers and manage its operations.

3.1.93 Given the City's current lack of senior staff capacity at a time when it urgently needs to strengthen policies, procedures and practices, its success at moving forward may depend on strengthening its depleted management team.

3.1.94 We learned at the conclusion of our audit that the City had appointed an acting chief financial officer from within its existing staff.

FINDINGS

Rossland Arena Complex Roof Replacement Project



Rossland Arena Complex Roof Replacement Project

3.1.95 In 2009, the City of Rossland embarked on a project to improve its aging arena complex.

3.1.96 In December 2009, the City applied for contribution funding from Western Economic Diversification Canada, which is a department of the Government of Canada. The application was approved for \$488,220 in funding, representing 50 per cent of an estimated project cost of \$976,440. The remainder was to be paid by the City.

3.1.97 In its 2010 financial plan, City Council approved a budget of up to \$1.2 million for this project.

3.1.98 When Rossland City Council approved undertaking the project, its scope included the replacement of the City's arena complex roof and related improvements (HVAC replacement and mechanical, structural and electrical upgrades) through procured goods and services.

3.1.99 In February 2010, the City initiated a tendering process for the replacement of the arena complex roof. When that process was completed, the City realized that the roof replacement would cost significantly less than the original budget, as the contract signed for roof replacement had a total value of \$556,474.

Our review indicates that there were serious deficiencies in how Rossland undertook several components of the Arena Roof Project.

3.1.100 Since the roof replacement was going to cost significantly less than what had been anticipated, the project was expanded to include four additional components, which appear to have been selected by City staff:

- exterior painting
- curling rink electrical upgrades
- arena shower rehabilitation
- arena lounge upgrading

3.1.101 Our review indicates that there were serious deficiencies in how Rossland undertook several components of the Arena Roof Project, including:

- major expenditures made without City Council authorization
- conflict of interest in the awarding of a contract
- lack of sufficient action by the City
- inadequate procurement policies and failure to follow policies that did exist
- significant unsubstantiated cost overruns
- lack of control over payment approval
- payments made without a contract in place
- deficiencies in quality of work
- lack of essential documentation
- lack of value for money

FINDINGS

Rossland Arena Complex Roof Replacement Project



EXHIBIT 9: Summary of Arena Roof Project Components

	TENDERED	LOWEST BID SELECTED	DIRECT AWARD	RATIONALE FOR DIRECT AWARD
Arena roof replacement	Yes	Yes	No	N/A
Arena mechanical upgrades**	Yes	Yes	No	N/A
Curling rink interior structural upgrades	Yes	Yes	No	N/A
Exterior painting	Yes	No	No	N/A
Curling rink electrical system upgrades	No	N/A	Yes	No
Fire and life safety upgrades	Unknown*	Unknown*	Unknown*	Unknown*
Arena shower rehabilitation	Unknown*	Unknown*	Unknown*	Unknown*
Arena lounge upgrading	Unknown*	Unknown*	Unknown*	Unknown*
Upgrades to meet BC Safety Authority requirements	Unknown*	Unknown*	Unknown*	Unknown*

* We found no documentation in the City's files on a procurement process for this project.

** Minimum number of bids was not obtained.

Source: Derived from City of Rossland records

FINDINGS

Rossland Arena Complex Roof Replacement Project



More than \$132,000 of expenditures on the Arena Roof Project went to project components that were not authorized by Council.

Major Expenditures Made without City Council Authorization

3.1.102 The requirement for a local government’s elected council or board to approve major expenditures is fundamental to the accountability of these bodies to their residents.

3.1.103 In Rossland, when tender results indicated that the cost of replacing the City’s arena complex roof was going to be significantly less than what had been budgeted, we would have expected staff to have reported this to Council. Additionally, we would have expected Council to instruct staff to make recommendations on any additional components they wished to add to the project and obtain Council approval prior to proceeding with any work and associated procurement activities. We found no evidence that any of this took place.

3.1.104 As a result, more than \$132,000 of expenditures on the Arena Roof Project went to project components that were not authorized by Council, out of the project’s estimated \$1 million total cost (excluding recoverable tax).

Conflict of Interest in the Awarding of a Contract

3.1.105 In capital project procurement, a conflict of interest occurs when a member of the procurement team or an advisor to the process has either a personal or business relationship or interest that could be seen to bias their judgment or impartiality.

3.1.106 Conflicts of interest, whether actual or perceived, can sometimes be effectively managed. In order to do so, it is important that they be identified early in the procurement process and be acted upon in a timely and appropriate manner to address and effectively mitigate them.

3.1.107 We would have expected the City of Rossland to have clear policy and procedures on conflict of interest, including processes to ensure that procurement team members declare and resolve any actual or perceived conflicts of interest. We also would have expected the City to require bidders to disclose any potential conflicts of interest.

3.1.108 We found that, while it includes conflict of interest-related provisions in its management contracts, the City has no comprehensive conflict of interest policy and no overall code of conduct to guide ethical behaviour of all staff. We further note that, while the City’s previous procurement policy prohibited staff from using “their authority or office for personal gain,” the current policy, which came into effect in 2011, includes no such provision.

FINDINGS

Rossland Arena Complex Roof Replacement Project



On June 30, 2010, the City awarded a contract valued at \$28,546 without tender to carry out curling rink electrical upgrades.

3.1.109 On June 30, 2010, the City awarded a contract valued at \$28,546 without tender to a business identified in the contract document as “ADA CO Inc” to carry out curling rink electrical upgrades. We learned that the City employee who procured these services, signed the contract and supervised the work for the City was the owner of ADA CO Inc.

3.1.110 We found no evidence that this employee ever declared a conflict of interest in this matter and the City depended on employees declaring any conflicts on their own initiative. The City lacked - and still lacks - proactive mechanisms to protect against employees doing City business with their own businesses.

3.1.111 While this employee’s employment contract prohibited him from engaging in any other business or occupation, except with written permission from the City, and from investing in a business that had a business relationship with the City, we found no evidence that the City took any steps to ensure these provisions were adhered to.

3.1.112 The City paid invoices from ADA CO Inc for work on the curling rink electrical upgrade and four other components of the project. The City’s files contained neither contracts for any of these other components nor any evidence that the services were procured competitively. We also found no documentation justifying the City’s procurement of these services in this manner.

3.1.113 This and the overall absence of documentation in the City’s files relating to this work indicate a significant risk to value for money and the public interest.

3.1.114 To reduce its vulnerability to conflict of interest, the City will need to take decisive action to strengthen its policies, procedures and guidelines and then ensure that these are followed. This could include:

- clear conflict of interest and code of conduct guidelines
- annual disclosures with sign-off for all staff
- training on conflict of interest
- a requirement that all suppliers disclose potential conflicts of interest when they participate in any City procurement process
- examination of annual disclosures of related parties as part of the contract award process

FINDINGS

Rossland Arena Complex Roof Replacement Project



Upon identifying an apparent conflict of interest, we would have expected the City to undertake a number of steps on an immediate basis.

Lack of Sufficient Action by the City

3.1.115 We learned that staff in the City’s finance department raised concern over an apparent conflict of interest relating to the Arena Roof Project and brought this matter to the attention of the City’s chief administrative officer in early fall of 2011. We were told that the chief administrative officer discussed this with the relevant employee. The employee resigned his position on October 3, 2011.

3.1.116 Upon identifying an apparent conflict of interest, we would have expected the City to undertake at least the following steps on an immediate basis:

- discussion with the employee
- investigation to determine if wrongdoing had taken place
- notification of City Council
- assessment of the need to initiate a police investigation
- communication with all City employees on conflict of interest policies
- analysis of the causes of the breakdown of internal controls
- a review to determine if this was an isolated event or there had been other similar incidents

- introduction of new procedures or guidelines on conflict of interest
- analysis to determine if the City had received full value for its money, or whether there was any amount recoverable

3.1.117 We found no evidence that the City carried out any of these steps in a timely manner, except for the first one.

3.1.118 In January 2013, the concerns of local residents about this project were the focus of a meeting attended by Rossland’s Mayor, numerous Rossland residents and local news media.

3.1.119 We were informed that certain aspects of these matters were the subject of discussions between the RCMP and the City in 2013.

3.1.120 In December 2013, Rossland City Council approved retaining their lawyer to begin legal action in an attempt to recover funds. Subsequent to our audit, the City filed a Notice of Claim in BC Supreme Court against the former City employee.

FINDINGS

Rossland Arena Complex Roof Replacement Project



When the Arena Roof Project was expanded to include additional components, seven of the eight were undertaken contrary to the City’s procurement policy.

Inadequate Procurement Policies and Failure to Follow Policies that Existed

3.1.121 A sound procurement process is driven by specific rules and clearly defined roles and responsibilities set out in procurement policies and procedures.

3.1.122 We noted that, while the City of Rossland did have a procurement policy, it is in need of strengthening. Additionally, the City’s procurement policy needs to be enforced, as it was not consistently followed on this project, which rendered it ineffective.

3.1.123 The City changed its procurement policy in 2011, but neither the previous policy nor the current one adequately ensures that procurement will be fair, transparent and competitive.

3.1.124 The City lacks procedures, tools or templates to guide staff through the procurement process and contract administration function. Its procurement policy lacks direction on procurement requirements exceeding \$75,000, as it states no clear requirement for competitive processes. Further, the policy does not require that contracts be in place before work takes place or that two signing authorities be required to approve the payment of an invoice.

3.1.125 We also note that the City does not use purchase orders, which can be a useful tool in making small purchases where a contract may be unnecessary.

3.1.126 We observed that when the Arena Roof Project was expanded to include additional components, seven of the eight were undertaken contrary to the City’s procurement policy:

- The City’s minimum number of bids requirement was not met for one contract
- A second was awarded to a bidder other than the one submitting the lowest bid, with no rationale as to whether the higher bid offered best value
- A third contract was awarded without tender
- Work on four components was done without any evidence of an open and fair procurement process having taken place

3.1.127 The City’s files did not contain a documented rationale for any of these exceptions from following City policy.

3.1.128 The award and management of these contracts did not meet the basic requirements to maintain the integrity of the procurement process, as elements of the process were not fair and open and, as a consequence, value for money was not achieved.

3.1.129 City staff did not check on the legitimacy of ADA CO Inc at the time a contract was entered into, including a credit check or business license validation. This lack of rigor made it easier for the conflict of interest to take place.

FINDINGS

Rossland Arena Complex Roof Replacement Project



3.1.130 To ensure fairness, openness and transparency of capital project procurement in the future, the City would need to improve its procurement policies and procedures and ensure they are consistently applied through the use of:

- open and competitive procurement processes
- bid conditions and evaluations
- conflict of interest declarations
- document templates for procurement, such as templates for Request for Proposal, bid evaluation form and a service contract
- credit checks, business license validation and legal incorporation checks on new vendors
- review of larger contracts by the City’s lawyer prior to signing
- requirement for a performance bond or payment holdbacks on large contracts
- full archiving of bid documents, award documents, contracts and invoices

3.1.131 On an exceptional basis, there may be legitimate reasons why policy on tendering and contract award is not followed. To govern these instances, the City needs policy and procedures in place requiring:

- the logging of instances of exceptions from adhering to policy
- written documentation, including explanations of such exceptions
- a summary of exceptions reported regularly to the chief administrative officer and Council
- periodic expanded audits of exceptions

We were unable to verify the validity of additional expenditures.

Significant Unsubstantiated Cost Overruns

3.1.132 Sound financial management of capital projects is fundamental to local governments’ ability to ensure that spending does not exceed their fiscal limits. On this project, we would have expected the City to undertake proper budgeting as part of planning and ongoing tracking of expenditures and variances to budgets. Where increases to budgets are necessary, we would have expected such changes to be accompanied by change orders or other forms of rationale, which are approved based on thresholds set by the local government.

3.1.133 Over the period June 2010 through October 2011, the City of Rossland paid ADA CO Inc \$181,663, including HST, for curling rink electrical upgrades plus work on four other components of the Arena Roof Project. This was more than six times the \$28,546 amount of the one contract ADA CO Inc had with the City.

3.1.134 To justify these expenses, we would have expected to find additional contracts or properly authorized change orders validating an increase in budget and scope plus documentation of the work involved in the additional project components for which ADA was paid. We found no such documentation. We were consequently unable to verify the validity of these additional expenditures.

FINDINGS

Rossland Arena Complex Roof Replacement Project



3.1.135 To ensure that capital procurement results are consistent with plans and the City’s priorities, the City will need to implement and follow project management policies that include:

- a project management structure for delivering large capital projects
- a mandatory requirement for a business case for all proposed projects, outlining the service need, scope, timeline, budget and option analysis
- procedures to ensure that approvals from the chief administrative officer and City Council are obtained when required
- adequate monitoring and reporting, such as regular updates with explanations on variances between the project plan and actual progress
- adequate oversight through mechanisms such as project results reporting to Council and a change approval process
- a post-completion assessment of all large capital projects

Many of the ADA CO Inc invoices had serious deficiencies.

Lack of Control Over Payment Approval

3.1.136 Payment controls are fundamental to ensuring value for tax dollars spent. We would have expected the City to have policies and procedures in place to ensure that:

- payments are properly authorized
- goods and services have been received in accordance with the contract or purchase order
- amounts invoiced match the agreed upon contract or purchase order

3.1.137 The City employee referred to earlier submitted 22 invoices to the City on behalf of ADA CO Inc for work on the Arena Roof Project. The City paid all of them, some with the only payment approval coming from the City employee who submitted the invoice and others lacking any clear indication that they were approved for payment.

3.1.138 Many of these ADA CO Inc invoices had serious deficiencies such as the following:

- references to contracts that did not exist
- references to change orders that did not exist
- references to a list of deficiencies that appears to not have existed
- references to contracts that were unrelated to the project
- a lack of supporting invoices for materials for which the City was being billed

FINDINGS

Rossland Arena Complex Roof Replacement Project



- a lack of information on the labour rates and hours for which the City was being billed

3.1.139 We found no evidence that the City ever requested that these deficiencies with ADA Co Inc invoices be corrected or adequately explained.

3.1.140 To have sufficient control over expenditures on its capital projects, the City will need to take steps to improve its payment procedures to include:

- an approval authority policy that identifies the staff positions empowered to approve payments
- the threshold for spending authority of each position
- requirements for segregation of responsibilities to ensure one employee’s work is independently checked by another employee
- a requirement that invoices must contain complete and accurate descriptions of the goods and services
- processing procedures to ensure that goods and services are actually received and that amounts invoiced are matched to valid contracts or purchase orders

Work on five components of the Arena Roof Project costing more than \$165,000 was undertaken with no evidence of a written contract.

Payments Made Without a Contract in Place

3.1.141 The use of written contracts is vital to a sound procurement process. The absence of such a document creates ambiguity regarding specifications, deliverables, timelines, pricing and other matters. It also raises questions and often leads to unnecessary speculation about the integrity of the procurement process.

3.1.142 Work on five components of the Arena Roof Project - on which the City spent more than \$165,000 - was undertaken with no evidence of a written contract. These include:

- the exterior painting component, which was tendered
- fire and life safety upgrades, not tendered and undertaken by ADA CO Inc
- arena shower rehabilitation, not tendered and undertaken by ADA and another firm
- arena lounge upgrades, not tendered and also undertaken by ADA and another firm
- Safety Authority upgrades, not tendered and undertaken by ADA

3.1.143 To properly document projects and ensure payments are appropriate, the City will need to require a valid written contract or a purchase order to be in place before the City acquires goods or services.

FINDINGS

Rossland Arena Complex Roof Replacement Project



An architectural firm (hired by the City to review the project) identified a number of significant deficiencies.

Deficiencies in Quality of Work

3.1.144 To monitor the quality and quantity of contracted work, we would have expected the City to establish a set of project performance measures along with detailed specifications and designs for the work. Contractor performance would need to be closely monitored and tied to the project performance measures. We would have also expected the City to quickly identify and address any variances and use performance bonds and holdback of payments to ensure that deficiencies are corrected.

3.1.145 We observed that the City of Rossland did not use project performance measures on the Arena Roof Project and did not hold back payments subject to satisfactory completion of work. In addition, we understand that the City does not ask its lawyer to review significant contracts before they are signed.

3.1.146 Only after public complaints about the Arena Roof Project, including allegations of conflict of interest, did the City take steps to assess the work that had been done.

3.1.147 The City asked BC Safety Authority to inspect the electrical work done by ADA CO Inc. An inspection was completed on January 10, 2013 and several aspects of the work failed the inspection. The City was ordered to rectify the deficiencies by February 28, 2013.

3.1.148 The City also hired an architectural firm to review the project. This firm brought in experts in structural work to look at that aspect of the project. In a February 2013 letter to the City, the architectural firm identified a number of significant deficiencies.

3.1.149 During the first half of 2013, City staff undertook repairs to address some of the most pressing deficiencies in the arena complex, particularly those of an electrical nature. The City told us that it had already spent \$11,374 to fix some of these deficiencies, and their ballpark estimate of the value of all these repairs is \$50,000.

3.1.150 Some other issues remain, including those relating to the roof bracing. At the time of our audit, we did not see any documentation indicating that the City had undertaken an assessment of the risk associated with the remaining deficiencies.

3.1.151 To ensure safety and maintain the confidence of those who use the arena complex, the City will need to complete such an assessment and proceed with any necessary corrective measures accordingly.

FINDINGS

Rossland Arena Complex Roof Replacement Project



For much of the work undertaken under the Arena Roof Project, we found a total absence of critical documentation.

total absence of critical documentation such as project business cases, scope documents, budget estimates, schedules, tender documents, contracts, evaluation documents, rationales for awarding work without tenders and conflict of interest disclosures.

Lack of Essential Documentation

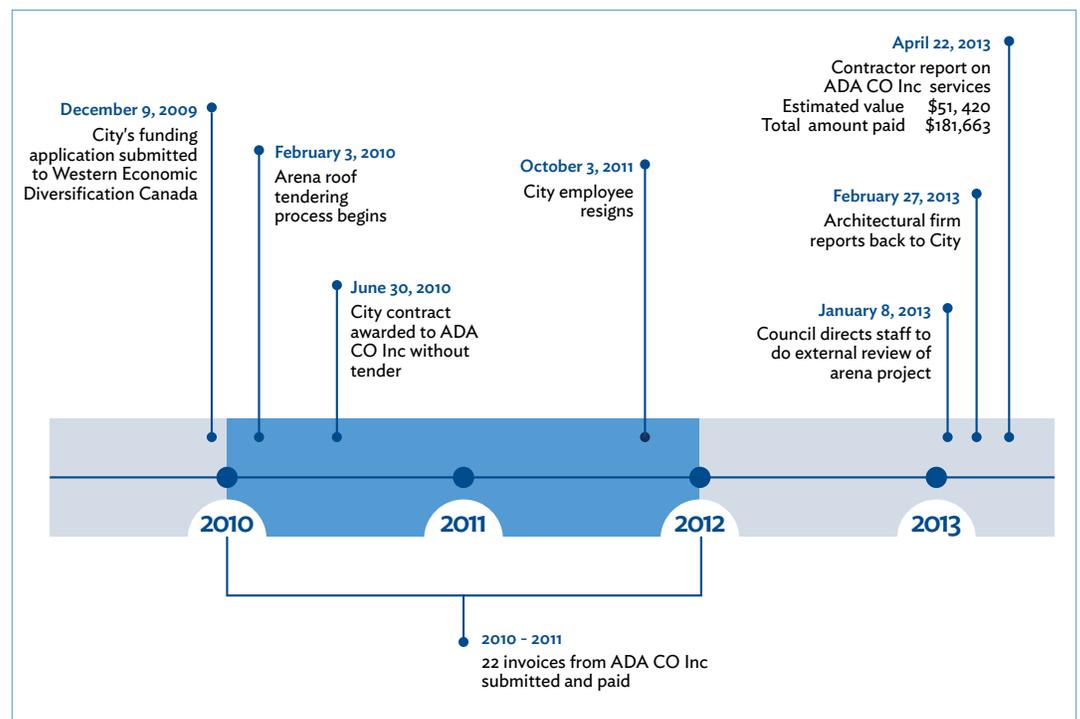
3.1.152 Complete and accurate files help ensure a local government’s transparency and accountability and reduce risks of potential problems. We would have expected the City’s documentation and records to be properly managed, maintained and updated.

3.1.153 For much of the work undertaken under the Arena Roof Project, we found a

3.1.154 To correct this serious deficiency and improve transparency and accountability, the City will need to significantly improve its policies and practices relating to project documentation to include procedures relating to:

- filing
- storage
- retention
- disposal

EXHIBIT 10:
Timeline of Rossland Arena Complex Roof Replacement Project – Key Events



FINDINGS

Rossland Arena Complex Roof Replacement Project



We consequently conclude that value for money was not achieved for this project.

Lack of Value for Money

3.1.155 In April 2013, the City asked a local contracting firm that was not involved with the Arena Roof Project to estimate the value of the work done by ADA CO Inc under this project. In a letter to the City, the firm quoted a value of \$51,420 for this work. In November 2013, a second estimate by another firm quoted a value of \$51,104 for the work done by ADA CO Inc. The City paid ADA CO Inc more than \$181,000 for this work.

3.1.156 We consequently conclude that value for money was not achieved for this project.

FINDINGS

Columbia / Washington Infrastructure Improvement Project



The final scope and budget for the project was not reflected in the City’s 2012 Financial Plan through any revisions.

Columbia/ Washington Infrastructure Improvement Project

3.1.157 In 2007, the City of Rossland identified revitalization of its downtown core in its Official Community Plan. This was later updated in the City’s 2011 version of the plan to include a comprehensive revitalization and redesign of the downtown area, which became known as the Columbia/Washington Project, named for the two streets principally involved. We found no evidence that a business case for the project was prepared by City staff before the City proceeded with the project.

3.1.158 The project went through numerous changes to its scope and anticipated budget over the period of several years prior to the project’s scope being finalized in 2012. Some of these changes were inadequately documented in the City’s files.

3.1.159 The City’s 2011 approved Financial Plan included a total of \$5.95 million for the project over two years, including \$1.19 million to be spent on engineering services in 2011 and \$4.76 million to be spent on construction in 2012.

3.1.160 Although engineering work on the project was not all completed in 2011, the City did not revise its 2011 Financial Plan to indicate that only a portion of the amount approved for 2011 was spent and that additional engineering work would be carried out in 2012.

3.1.161 The City’s 2012 approved Financial Plan included a total of \$8.57 million for the project’s construction work over two years, including \$4.85 million to be spent in 2012 and the remainder to be spent in 2013.

3.1.162 On April 23, 2012, Council approved proceeding with the project at a total cost of \$7.1 million (including amounts to be reimbursed by the Ministry of Transportation and Infrastructure and FortisBC and not including HST).

3.1.163 A significant reduction in the project’s scope took place just nine days later, resulting in the project that was actually carried out. On May 7, 2012, Council approved a revised budget for the project, which reflected the scope reduction. This budget totalled \$6.68 million.

3.1.164 City documents show that the initiative included five budget items including roads, drainage, water, sewer and sidewalks. The City received contributions from the Ministry of Transportation and Infrastructure and FortisBC totalling \$1.74 million for this initiative, which were accounted for in the revenue stream in the City’s 2012 approved Financial Plan.

3.1.165 The final scope and budget for the project was not reflected in the City’s 2012

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Financial Plan through any revisions. In addition, the City did not amend the Financial Plan to reflect an apparent decision to accelerate the project schedule and carry out most of the work previously planned to be done in 2013 during 2012.

3.1.166 The City’s 2013 approved Financial Plan – prepared as the project neared completion – included a total of \$0.26 million to be spent on the project in 2013.

3.1.167 The failure of the City to revise its approved Financial Plans in 2011 and 2012 significantly hampered its accountability reporting to taxpayers, as figures in these two Financial Plans differed from the project’s actual expenditures both in amount and in timing. The lack of revision to the 2012 Financial Plan also resulted in expenditures on the project in that year significantly exceeding the amount authorized by Council through the City’s Financial Plan.

3.1.168 Overall, the City’s expenditures on the project totaled \$7.18 million, exceeding the \$6.68 million Council authorized on May 7, 2012 by \$0.50 million, without prior authorization from Council.

3.1.169 We are concerned that information on the project presented by staff to Council on June 24, 2013, and made public, included an altered May 7, 2012 budget, which portrayed the approved project budget as having been \$7.23 million, \$0.55 million higher than the amount that was actually approved by Council on May 7, 2012.

3.1.170 This information was provided by staff in support of a proposed Alternative Approval Process to borrow \$4 million for the project and a related temporary loan authorization bylaw.

3.1.171 We reviewed procurement and payment processes associated with the two main contractors included in the Columbia/ Washington Infrastructure Improvement Project: ISL for the engineering and design/ contract administration services and COPCAN for the infrastructure improvements. We did not review processes associated with subcontractor bidding or payments.

3.1.172 We did not find issues with the awarding of the infrastructure improvements contract. However, we noted other significant issues with that contract and with the engineering and design/contract management aspect of this project, including:

- lack of documentation to demonstrate an adequate tendering process (ISL)
- potential post-employment conflict of interest (ISL)
- payments made without a contract in place (ISL)
- unauthorized expenditures (ISL and COPCAN)
- missing and unauthorized change orders (ISL and COPCAN)
- lack of essential project documentation (ISL and COPCAN)

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ISL Contract

3.1.173 On February 14, 2011, Council voted to empower the City’s chief administrative officer to spend up to \$250,000 for the first phase of engineering and design work for this project.

3.1.174 The City posted a Request for Qualifications on BC Bid for engineering services in two phases: an initial contract to carry out design and costing and a potential second contract in the future to lead, manage, contract and supervise construction work on the project.

3.1.175 The Request for Qualifications indicated that subject to the phase 1 performance on design and costing, the city may award phase 2 for contract administration to the successful bidder.

3.1.176 On April 4, 2011, Council approved the award of a contract for the first phase of engineering services to the bidder recommended by staff: ISL Engineering and Land Services Ltd. This followed a procurement process, which resulted in 11 bids. ISL’s proposal was to carry out engineering services up to 50 per cent of the project’s design, at a cost of \$74,235.

3.1.177 On June 20, 2011, ISL presented a proposal to the City to carry out detailed design work at an additional cost of \$352,490. On June 27, Council authorized City administration to contract with ISL for these services. Information presented by staff to Council in the request for decision indicated that the total cost of hiring ISL would be up to \$500,000.

3.1.178 The City never entered into a written contract with ISL for the preliminary or detailed engineering work it did for the City.

3.1.179 Over the course of 2011, 2012 and 2013, the City paid ISL a total of \$0.99 million for its work on this project.

COPCAN Contract

3.1.180 The City awarded an infrastructure improvements contract to COPCAN Contracting Ltd in April 2012 following an Invitation to Tender process. Three bids were received ranging from \$6.13 million to \$10.79 million. COPCAN was the lowest bidder.

3.1.181 The tender process was managed on behalf of the City by ISL Engineering and Land Services Ltd. as part of their contract management and administration contract. The tender documents included requirements for performance bonds and holdback payments.

3.1.182 COPCAN was responsible for the work necessary to complete this project, some of which was performed by subcontractors. Overall, the solicitation process for this contract was in compliance with the city’s procurement policy. Policy and procedures for the tender process were followed and all three bids met the city’s Instructions to Tenderers requirements.

3.1.183 Further, the lowest bid of three bids received through the tender process was selected as the successful bid, resulting in the award to COPCAN.

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3.1.184 Based on available documentation, COPCAN’s bid was valued at \$6.13 million for the construction of multiple above and below surface improvements along Columbia Avenue and Washington Street. A scope change – reducing work on Washington Street to just one block – decreased the initial contract amount to \$5.69 million, subject to any authorized change orders, as provided for in the quantity-driven contract.

3.1.185 As of August 30, 2013, the City had paid COPCAN \$6.19 million, including holdbacks, on the basis of progress reports prepared by ISL and submitted to the city for payment. We reviewed all eight progress reports and found that they included invoices for work completed.

The City’s files included no information on how price was to be taken into account in the City’s decision on the ISL contract award.

Lack of Documentation to Demonstrate an Adequate Tendering Process (ISL)

3.1.186 The solicitation documents provided by the City for engineering and design services described a process that separated pricing considerations from other aspects of proponents’ responses. They indicated that the City would not open proponents’ submissions on pricing until after the City had completed an evaluation process and had identified “the best firm(s)”.

3.1.187 This process expressly excluded price considerations until after the City had completed a “quality-only ranking.” The document went on to say, “the City may interview and negotiate with the best firm(s) to develop a contract for services based on the total score, evaluating both experience and pricing.”

3.1.188 Separating price considerations from the assessment of proponent quality is a common and acceptable practice, however, the City’s files included no information on how price was to be taken into account in the City’s decision on this contract award. The City’s files also lacked pricing submissions from all of the proponents other than ISL, the successful bidder. As a

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result, we were unable to determine how pricing was taken into account when comparing the bidders, or whether the successful proponent had submitted the best-value bid.

3.1.189 We also found no documentation to explain how the work, which the Request for Qualifications described as being in two phases (design and costing, potentially to be followed by contract administration), evolved into the work actually done by ISL in three components (conceptual design, detailed design and contract administration). This is troublesome, given the absence of any written contract for engineering services.

3.1.190 We are concerned that this process led to the City paying ISL almost a million dollars for its services. Both the process and the lack of documentation are unacceptable for a public sector organization.

Former employee’s almost immediate move to working for ISL raises concerns of potential post-employment conflict of interest.

Potential Post-Employment Conflict of Interest (ISL)

3.1.191 Local governments have a responsibility to minimize the possibility of their employees having a conflict of interest between their responsibilities for the local government and their subsequent employment elsewhere. This is because employees may possess confidential information about the local government that could provide a new employer with an unfair advantage in dealing with the local government. Additionally, such a conflict of interest could raise concerns over favouritism.

3.1.192 We would have expected the City to have clear policy on the employment of departing employees who have been involved in procurement activities. The City has no such policy.

3.1.193 We observed that the City employee referred to earlier led the process that selected ISL Engineering and Land Services as the engineering contractor for the Columbia/Washington Project. That individual also oversaw ISL’s work for the City until his resignation on October 3, 2011.

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3.1.194 A few weeks after his resignation, the City paid an invoice in the amount of \$3,323 submitted by the now-former employee on behalf of “Alberni Associates Ltd,” a business he also operated. This invoice was for work on the Columbia/Washington Project and another City project identified as “Topping Creek,” commencing on October 13, 2011. We found no evidence of a written contract for this work.

3.1.195 We are concerned that the City would pay the former employee’s business for work starting just ten days after his departure without a written contract or documented verification of the work done.

3.1.196 Within a few weeks, this individual began working as a contractor for ISL and the City paid ISL for his work on the Columbia/Washington Project. This arrangement began in December 2011 and continued through December 2012. In total, the City paid ISL \$171,662 for the services of the former City employee over this 13 month period.

3.1.197 Given that the former employee had led the process that resulted in ISL being selected by the City and would be aware of the City’s confidential information, his almost immediate move to working for ISL raises concerns of potential post-employment conflict of interest.

During our work, we found the same company referred to in different instances by different names.

In June 2010, the City signed a contract document with “ADA CO Inc” valued at \$28,546. Subsequently, the City made payments in excess of \$181,000 to this business.

In October 2011, the City paid an invoice totalling \$3,323 (without a written contract) from “Alberni Associates Ltd.”

Neither of these two business names was registered as the name for any company in British Columbia.

However, a company named “Alberni Design Associates Company Inc.” did exist from February 21, 2007 until August 13, 2013. This company was solely owned by a person who was employed by the City of Rossland from July 27, 2008 until October 3, 2011.

Based on our review of evidence, we believe all three names referred to the same company, with which the City did business in 2010 and 2011.

EXHIBIT 11:
Supplier Names

3.1.198 We would have expected City staff to have documented this situation, assessed its potential impact and informed City Council of any concern or reservations over this arrangement. However, we found no evidence of any such actions. Nor did we find evidence of senior management taking any action to protect against potential risks to the City.

3.1.199 The addition of post-employment provisions to the City’s policies and procedures around conflict of interest would reduce the risk in this area.

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Payments Made Without a Contract in Place (ISL)

3.1.200 Following Rossland City Council approval to award a contract to ISL, we would have expected to find a formal signed contract. We found no evidence of a written contract having ever been prepared or signed for ISL’s preliminary design services or its detailed design services.

3.1.201 The only ISL contract in the City’s files relates to contract administration services and is dated April 30, 2012. That contract was for a maximum of \$265,080 (excluding HST).

3.1.202 The first ISL invoice was dated June 15, 2011 and by the time the April 2012 contract was signed, the City had already paid ten ISL invoices, for a total of \$534,373. The City paid 17 more ISL invoices between August 2012 and January 2014, totalling an additional \$461,239. We found no additional contract on file, nor any evidence of an amendment to the April 2012 contract.

We found no evidence of a written contract having ever been prepared or signed for ISL’s preliminary design services or its detailed design services.

3.1.203 To justify these expenses, we would have expected to find additional contracts plus documentation of the work involved in the additional project components for which ISL was paid. We found no such documentation and were consequently unable to verify the validity of these additional expenditures.

3.1.204 To maintain effective controls over procurement and payments, the City would need to ensure that written contracts are in place before work begins.

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Unauthorized Expenditures (ISL and COPCAN)

3.1.205 As Exhibit 12 indicates, the dollar figures in Rossland’s Financial Plan do not match the value of contracts signed, nor the actual amounts paid by the City for this project.

3.1.206 Overall, Council approved a total of \$6.68 million for this project on May 7, 2012, while payments to ISL and COPCAN, as of August 2013 totalled \$7.18 million, representing expenditures of \$0.50 million in excess of the amount approved by Council. The additional expenditures were not authorized in advance by Council.

Overall, Council approved a total of \$6.68 million for this project... while payments to ISL and COPCAN... totalled \$7.18 million.

YEAR	ISL	COPCAN	TOTAL	AUTHORIZED IN FINANCIAL PLAN	APPROVED BY CITY COUNCIL MAY 7, 2012
2011	\$284,467	-	\$284,467	\$1,189,000	-
2012	\$682,057	\$5,956,607	\$6,638,664	\$4,851,400	-
2013	\$29,089	\$230,110	\$259,199	\$260,000	-
PROJECT TOTAL	\$995,612	\$6,186,717	\$7,182,329		\$6,678,290

EXHIBIT 12:
Columbia/Washington Project Expenses Compared to Authorized Amounts (excluding estimated recoverable tax)

NOTE: Expenses shown are on an accrual basis, including holdbacks released. We reviewed COPCAN payments through August 2013 and ISL payments through January 2014.

Source: City of Rossland records, including 2011, 2012 and 2013 Annual Financial Plans, City invoices, billing records, and Council meeting minutes, among others

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3.1.207 In 2012, the City’s actual expenditures on the project totalled \$6.64 million, \$1.79 million more than the amount approved in that year’s Financial Plan.

3.1.208 The City told us the higher expenditures were due to its decision to accelerate work on the project, although the City’s files lack information on this matter. We note that such a significant change to the project should have required Council’s advance authorization. We found no evidence that such authorization was ever sought or provided.

3.1.209 A requirement for Council approval of major expenditures through the City’s approved Financial Plan is central to elected representatives fulfilling their responsibilities to taxpayers. A requirement for staff to ensure that Council is asked to approve any proposed budget changes before they take place is equally important. We are deeply concerned that the City failed to revise its Financial Plans in 2011 and 2012 to reflect significant changes from what had previously been authorized.

3.1.210 As for the individual contracts, the City’s files show that it made 22 payments to ISL, totalling \$995,612. While this is within the \$1.19 million amount authorized by Council in 2011 for engineering services to be carried out that year, it is nearly twice the \$500,000 amount presented by staff to Council in 2012 for approval of contracting with ISL.

3.1.211 The City also paid COPCAN more than the initial value of that contract, although this amount was within the 15 per cent variance permitted in that contract.

Most of the change orders were missing from the City’s files and of the ones that were in the files, some were not consistently signed off by City staff, ISL and COPCAN.

Missing and Unauthorized Change Orders (ISL and COPCAN)

3.1.212 While all eight COPCAN invoices were consistently approved by ISL and City staff, 19 out of 33 change orders were missing from the City’s files and of the 14 change orders that were in the files, ten were not consistently signed off by City staff, ISL and COPCAN.

3.1.213 Subsequent to our audit, the City provided us with documents that it indicated were copies of the missing change orders. All 19 lacked the signatures of any of the parties and therefore cannot be relied upon as valid documents.

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Columbia / Washington Infrastructure Improvement Project



The City’s files for the Columbia/Washington Project lacked key supporting project information.

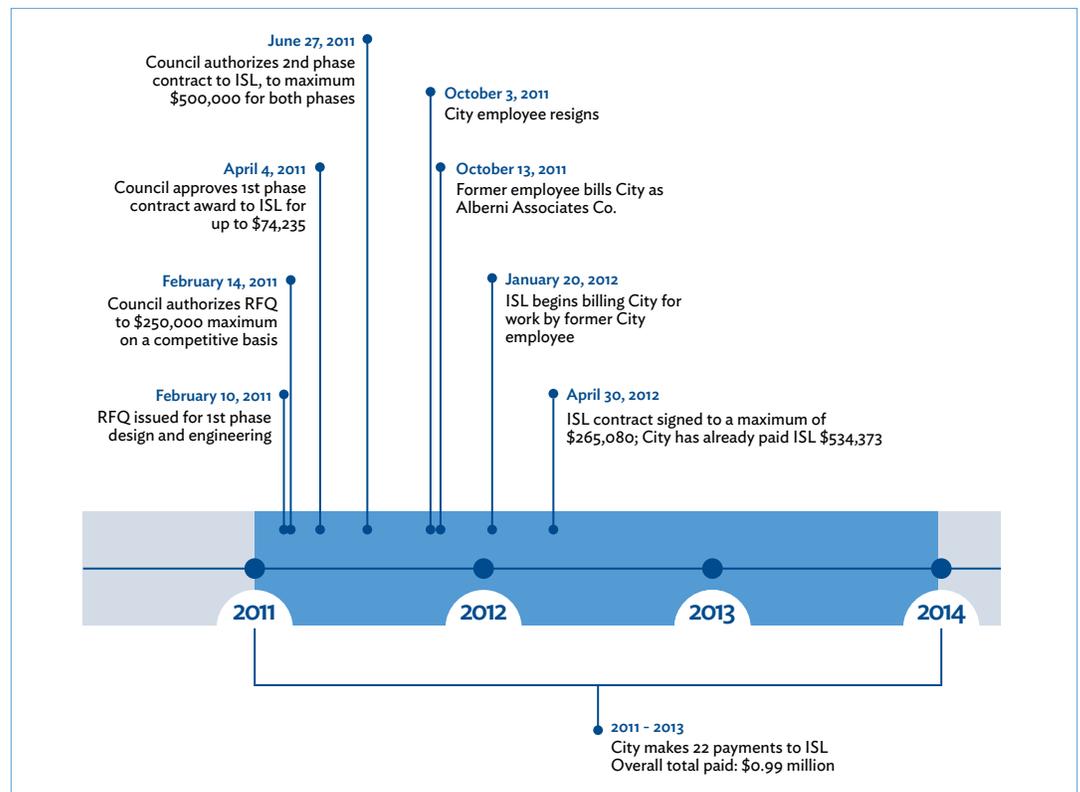
the City told us that their files lacked complete and accurate reporting on any of the services that ISL provided. In addition, as noted previously, the absence in the City’s files of 19 out of the 33 change orders on the COPCAN contract causes us concern.

Lack of Essential Project Documentation (ISL and COPCAN)

3.1.214 The City’s files for the Columbia/Washington Project lacked key supporting project information such as a business case, tendering documents, contracts, change orders and justifications for cost increases. In addition,

3.1.215 As a result of the City’s additional expenditures on the project, its failure to revise its Financial Plans to reflect the realities of the project and a lack of documentation on file, the City has not demonstrated to Rossland taxpayers whether or not it has achieved value for money on this project.

EXHIBIT 13:
Timeline of Columbia/Washington Infrastructure Improvement Project – Key Events



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Review of Additional Projects

3.1.216 After identifying deficiencies and concerns with the two capital procurement projects we initially sampled, we selected five additional smaller projects to gain a deeper

understanding of the City of Rossland’s capital project planning and procurement practices.

3.1.217 Each of these projects was budgeted at \$100,000 or less and was completed during the audit period of 2010 through 2012, covering the City’s three capital fund categories: general, water and sewer.

EXHIBIT 14:
Additional Projects Sampled
(excluding recoverable tax)

	YEAR	ORIGINAL BUDGET	ACTUAL COST
Columbia-Monita Sewer System Work	2010	\$56,000	\$54,366
Cooke Avenue Park Upgrade	2012	\$98,000	\$19,881
Highway 22 Columbia-LeRoi Water System Work	2010	\$81,000	\$80,193
Pick-up Truck and Tools Purchase	2011	\$56,000	\$27,941
Red Mountain Resort Entrance Upgrade, Phase 1	2012	\$100,000	\$68,712

NOTE: The Cooke Avenue Park Upgrade and the Pick-up Truck and Tools Purchase were reduced in scope after the original budget was set.

Sources: City of Rossland 2010-2012 Annual Reports and Five-Year Financial Plans , City invoices and billing records

3.1.218 While they received proper budget approval through the City’s financial plan and we found no evidence of conflict of interest in any of the procurement processes associated with these projects, we did see a continuation of some of the other issues identified in the two projects we initially sampled.

tender or competitive quotes in the absence of documented justification.

3.1.219 Three of these projects were not properly documented and the two completed in 2012 were particularly problematic. Neither adhered to the City’s procurement policies in addition to showing a lack of essential documentation. Contracts for both were awarded without

3.1.220 City staff responsible for this procurement told us that the awards without tender were due to only one local vendor being available. City policy, while providing for local preference in tendering decisions, does not permit such an award to be made without seeking multiple quotes. City staff told us they understood the City’s policy requirements, but did not adhere to them due to heavy workloads following staff cuts. The City’s files contained no documentation relating to such an issue.

CONCLUSION

On the projects we reviewed, the City of Rossland did not meet standards expected of a local government in capital procurement and related financial controls.

3.1.221 On the projects we reviewed, the City of Rossland did not meet standards expected of a local government in capital procurement and related financial controls. The City's procurement and financial operations functions lacked – and continue to lack – essential management systems, controls and practices to spend tax dollars, consistent with Council authorization and with due regard to economy, efficiency and effectiveness.

3.1.222 The issues we noted in our examination of the Rossland Arena Complex Roof Replacement Project and the Columbia/Washington Infrastructure Improvement Project are particularly troublesome. Many factors contributed to the problems we observed, including failure to seek Council approval for proposed increases to project budgets, a lack of City Council oversight and a lack of sufficient and timely action by the City when significant problems became known.

3.1.223 While management systems, controls and practices need to be strengthened in many areas, it is particularly important that the role of the City's finance department be strengthened.

3.1.224 There is an urgent need for action, as the City remains vulnerable to a repetition of the issues identified through this audit. Necessary steps include ensuring that City staff have the capacity, qualifications and experience to implement the many changes necessary to improve the City's operations.

3.1.225 The City has provided a positive response to the audit report reflected in the [Summary of Local Government's Comments](#). The City has also provided an action plan to strengthen their procurement and payment policies and processes. We urge the City to act promptly to implement their action plan and the recommendations outlined in this report, and ensure adequate staff leadership resources are in place. Until it does so, the City of Rossland will continue to face significant risks with its capital procurement projects.

RECOMMENDATIONS

Our recommendations include only those measures necessary to provide essential controls & oversight over capital procurement & related financial & risk management processes.

3.1.226 Taxpayers in Rossland, like those in other communities, want to be assured that the operations of their local government are being undertaken with due regard to economy, efficiency and effectiveness. Making best use of taxpayers' funds in acting on its priorities is a key responsibility of all local governments, regardless of their community's size or location.

3.1.227 That said, small communities and small local governments often operate with particularly limited resources. The challenges of delivering quality services with due regard to economy, efficiency and effectiveness in a small community, especially one located far from major urban centres, differ from those faced by larger local governments and those in metropolitan areas.

3.1.228 While smaller local governments may not have the ability to implement large and sophisticated solutions, it is important, that they at least have a set of essential controls and oversight mechanisms to fulfill their due diligence in the safeguarding of assets and the use of public funds.

3.1.229 The following recommendations take into account these realities, as we have included only those measures necessary to provide essential controls and oversight over capital procurement and related financial and risk management processes.

Arena Deficiencies

1. The City of Rossland should undertake a thorough risk assessment of any remaining arena complex deficiencies and proceed with repairs as required.

See paragraph 144 for more information on this issue.

Conflict of interest

2. The City of Rossland should implement effective measures to mitigate the risk of conflict of interest, both by strengthening policies and by ensuring City policies are consistently adhered to.

See paragraphs 105 and 191 for more information on this issue.

Council Oversight

3. Rossland City Council should:

- ensure all City expenditures are properly authorized
- exercise proper oversight over the City's operations by balancing the extensive authority delegated to the chief administrative officer with a requirement for clear and comprehensive reporting to Council. Such reporting should include at a minimum:
 - > results of procurement processes
 - > exception reporting on situations where procurement policies and procedures were not followed, including related rationale
 - > information on budgeted, actual and forecasted expenditures on ongoing capital projects
 - > regular progress reports on major capital projects

See paragraph 81 for more information on this issue.

Documentation

4. The City of Rossland should ensure that documentation and records on procurement projects and processes are properly managed and maintained.

See paragraphs 152, 214 and 219 for more information on this issue.

RECOMMENDATIONS

Role of the Finance Department

5. The City of Rossland should ensure that its finance department plays an active role in designing and implementing effective financial controls over procurement activities and in ensuring that the City's financial and procurement policies and procedures are consistently followed.

See paragraph 89 for more information on this issue.

Further Examination

6. The City of Rossland should further examine the nature, cause and extent of breaches of controls as well as the resulting financial loss due to the breaches. The City should implement corrective measures arising from the examination.

See paragraphs 87, 105, 115 and 191 for more information on this issue.

Procurement Policy

7. The City of Rossland should improve its procurement policy to reduce risks in the future.

See paragraph 121 for more information on this issue.

Payment Processes

8. The City of Rossland should improve its payment procedures to ensure all payments are appropriate.

See paragraphs 136, 141 and 200 for more information on this issue.

Project Management

9. The City of Rossland should develop and implement a comprehensive set of policies and procedures, tools and templates to enhance capital project management effectiveness and achieve value for money.

See paragraph 135 for more information on this issue.

Staff Capacity and Leadership Issues

10. The City of Rossland should assess the capacity, qualifications and experience of its current management team and, if necessary, add additional qualified resources. In particular, the City should pay attention to:

- addressing the absence of a full-time chief administrative officer
- the fact that the person acting as chief administrative officer was handling up to three critical senior management jobs at one time
- the capacity of the City's small core of senior staff

See paragraph 92 for more information on this issue.

3.1.230 The above recommendations cover four broad categories of issues: Strengthening Leadership and Capacity, Strengthening Oversight of Council, Addressing Arena Deficiencies and Breaches of Control, and Addressing the Management Control Framework. For a summary of these broad categories and our recommendations see [Exhibit 1: Summary of Recommendations](#).

SUMMARY OF LOCAL GOVERNMENT'S COMMENTS

The City of Rossland, through council resolution, invited the Auditor General for Local Government (AGLG), to assist the City in reviewing our procurement policies. Rossland has been the subject of the first audit conducted by the newly established AGLG. This process has proven to be very labour intensive and challenging for a small municipality with our limited resources.

City Council acknowledged that there were some serious issues in our community and we recognized the need to take a more proactive role in guiding the management of our city. We acknowledge that there is room for improvement in a number of areas especially fiscal control and project management.

We are committed to ensuring our taxpayers are getting value for money in all aspects of the City's business. This means re-evaluating the delegation of powers to staff and strengthening our reporting requirements.

Regarding the Columbia Washington Project, the City acknowledges that it should have obtained further contracts with the engineering firm for the work completed for the conceptual, preliminary, detailed design and tender; work that had been approved by Council resolution and never committed to a written contract. The City acknowledges the need for specific resolutions by Council for expenditures of this magnitude in addition to inclusion in the financial plan, a document of hundreds of pages.

Council acknowledges the serious nature and failings that occurred in the arena project. Council will improve policies and procedure, tendering, record keeping, and reporting on all capital projects.

The City of Rossland is working to improve our policies, procedures and accountability to the public. Steps already taken and planned for the near future are found in the Action Plan.

The City of Rossland takes fiscal responsibility very seriously. We do not find it acceptable to spend without approval, overrun on budgets or make inappropriate payments. The City of Rossland has a good foundation on which to develop and strengthen our policies, procedures and fiscal controls to ensure the failings that have been identified will not reoccur. Council wishes to thank the AGLG and our municipal staff for their time and effort. We believe that this process has resulted in reflection and change, has been a learning experience leading the City to further improvements and growth, in both management practices and Council governance.

Rossland City Council
April 22, 2014

CITY OF ROSSLAND’S ACTION PLAN

AGLG RECOMMENDATIONS	STEPS TAKEN	NEXT STEPS	RESOURCES NEEDED	RESPONSIBLE	TARGET DATE	LEGISLATION
<p>ARENA DEFICIENCIES</p> <p>1. The City of Rossland should undertake a thorough risk assessment of any remaining arena complex deficiencies and proceed with repairs as required.</p>	<p>Electrical inspector review performed. Completed health and safety repairs, including electric deficiencies. Obtained two contractor estimates for work done by ADA. Fairbanks reviewed work and provided report. Engineering firm completed inspection.</p>	<p>Repairs have been included in the five year financial plan but is not included in the year 2014. Structural roof issue minimized since arena roof now sheds snow.</p>	<p>\$, staff time, contractor</p>	<p>PW Manager, Dep CAO, Council</p>	<p>2015</p>	
<p>CONFLICT OF INTEREST</p> <p>2. The City of Rossland should implement effective measures to mitigate the risk of conflict of interest, both by strengthening policies and by ensuring City policies are consistently adhered to.</p>	<p>Management contract language (code of ethics) speaks to conflict of interest.</p>	<p>CFO drafting Third Party Disclosure Form to accompany Financial Disclosure form to be submitted every year by Staff and Council and contractors when applicable.</p> <p>Establish standard operating procedure to periodically get updates from employees about potential conflicts of interest thus establishing a corporate culture that does not condone conflicts.</p> <p>Create policy, have all staff complete Disclosure Form to be filed in Personal File. Have specific conversation with all employees and incorporate into employee orientation.</p> <p>Amendment to the CUPE contract in 2015 to include Conflict of Interest Article.</p> <p>Evaluation of RFP to include conflict of interest and disclosure procedures and to be monitored during life of project.</p> <p>To promote proper corporate culture, require periodic updates on potential conflicts from employees. This would be a reminder when any sort of project is undertaken, even if an RFP wasn't required.</p>	<p>\$, staff time</p>	<p>Dep CAO, CFO</p>	<p>June / July 2014</p>	<p>CC Part 4, Div. 6 Crim. Code s.121 (1)</p>

CITY OF ROSSLAND’S ACTION PLAN

AGLG RECOMMENDATIONS	STEPS TAKEN	NEXT STEPS	RESOURCES NEEDED	RESPONSIBLE	TARGET DATE	LEGISLATION
<p>COUNCIL OVERSIGHT</p> <p>3. Rossland City Council should:</p> <ul style="list-style-type: none"> ensure all City expenditures are properly authorized 	<p>Invoices are reviewed by CFO after department head authorizes for payment. Implemented payments reports to Council for March 24, 2014 regular meeting.</p>	<p>Ensure all copies of tenders, authorization motion from council, contracts and associated invoices are provided to the CFO to ensure all payments are correctly authorized. Implement authorization level and signing authority policy.</p> <p>Provide staff training on reporting irregularities.</p>	<p>Staff time</p>	<p>Acting CFO</p>	<p>Summer 2014</p>	<p>CC173 S1-4</p>
<ul style="list-style-type: none"> exercise proper oversight over the City’s operations by balancing the extensive authority delegated to the chief administrative officer with a requirement for clear and comprehensive reporting to Council. Such reporting should include at a minimum: 	<p>Sample policies obtained from other Municipalities.</p>	<p>Amend / Repeal Delegation Bylaw.</p>	<p>Council and Staff time</p>	<p>Council and Dep CAO</p>	<p>Spring 2014 (after publishing of the AGLG report)</p>	<p>CC154</p>
<ul style="list-style-type: none"> > results of procurement processes > exception reporting on situations where procurement policies and procedures were not followed, including related rationale 	<p>Continued with the Task List Reporting to Council.</p>	<p>Quarterly reporting by Deputy CAO and Quarterly reporting on Financial by CFO. Exception reports to be provided in cases of sole sourcing etc.</p>	<p>Staff time</p>	<p>Dep CAO, CFO, Manager of Public Works</p>	<p>Continues</p>	
<ul style="list-style-type: none"> > information on budgeted, actual and forecasted expenditures on ongoing capital projects 	<p>Columbia/Washington capital project has been reviewed and reconciled. Council agreement to establish proceed and template for reporting.</p>	<p>Implement procedure and reporting template for the 2014 capital projects (currently on two which shall exceed \$100k) and consult on satisfaction of reporting with council.</p>	<p>Staff time</p>	<p>Acting CFO</p>	<p>In line with the capital projects in 2014</p>	
<ul style="list-style-type: none"> > regular progress reports on major capital projects 	<p>Budget to Actual reporting quarterly and updated to annual plan. Implementing Public Works Monthly Report.</p>	<p>Acting CFO, Manager of Public Works and Council to agree on process to bring information to Council on a monthly basis.</p>	<p>Staff time</p>	<p>Manager of Public Works and Acting CFO</p>	<p>In line with the capital projects in 2014</p>	

CITY OF ROSSLAND’S ACTION PLAN

AGLG RECOMMENDATIONS	STEPS TAKEN	NEXT STEPS	RESOURCES NEEDED	RESPONSIBLE	TARGET DATE	LEGISLATION
<p>DOCUMENTATION</p> <p>4. The City of Rossland should ensure that documentation and records on procurement projects and processes are properly managed and maintained.</p>	<p>LGMA records management system in place, staff trained and buy in from all current staff.</p>	<p>Implement yearly changes, keep file system current and tidy up electronic file system from previous non compliant staff.</p>	<p>Staff time</p>	<p>Dep CAO</p>	<p>Continues</p>	
<p>ROLE OF FINANCE DEPT</p> <p>5. The City of Rossland should ensure that its finance department plays an active role in designing and implementing effective financial controls over procurement activities and in ensuring that the City’s financial and procurement policies and procedures are consistently followed.</p>	<p>Hiring of Ms. Hunter, ACMA, CGMA.</p> <p>Council agree to hire additional finance staff.</p>	<p>Recruit additional staff to enable Acting CFO to be able to spend the required time to implement changes and to be able to spend the time to ensure policies and procedures are consistently followed.</p>	<p>\$. Staff time</p>	<p>Acting CFO</p>	<p>Immediately</p>	
<p>FURTHER EXAMINATION</p> <p>6. The City of Rossland should further examine the nature, cause and extent of breaches of controls as well as the resulting financial loss due to the breaches. The City should implement corrective measures arising from the examination.</p>	<p>Civil claimed filed against J. Ward to recover loss in arena.</p>	<p>Undertake review of other projects, contracts or commitments by the city that may be handled irregularly.</p>				
<p>PROCUREMENT POLICY</p> <p>7. The City of Rossland should improve its procurement policy to reduce risks in the future.</p>	<p>Sample policies obtained, which the Deputy CAO and Acting CFO are reviewing. Vadim capabilities have been identified to be investigated.</p>	<p>Provide draft policy to Council, city auditor, solicitor and GFOA for comment. Vadim software to be reviewed and discussed with other Municipalities. Implement appropriate procedures.</p>	<p>\$ and Staff time</p>	<p>Acting CFO / Deputy CAO</p>	<p>2014</p>	
<p>PAYMENT PROCESSES</p> <p>8. The City of Rossland should improve its payment procedures to ensure all payments are appropriate.</p>	<p>See notes above regarding 3.</p>					

CITY OF ROSSLAND'S ACTION PLAN

AGLG RECOMMENDATIONS	STEPS TAKEN	NEXT STEPS	RESOURCES NEEDED	RESPONSIBLE	TARGET DATE	LEGISLATION
<p>PROJECT MANAGEMENT</p> <p>9. The City of Rossland should develop and implement a comprehensive set of policies and procedures, tools and templates to enhance capital project management effectiveness and achieve value for money.</p>	<p>Hope to see something in AGLG Toolbox to assist with this.</p>	<p>As per above, the following shall ensure value for money is achieved in the appropriate manner;</p> <p>purchasing policy signing authority authorization level policy delegation bylaw and enhanced reporting</p> <p>This is not a complete list as continual evaluation will drive improvement.</p>	<p>Staff time</p>	<p>Acting CFO / Dep CAO</p>	<p>Continues</p>	
<p>STAFF CAPACITY AND LEADERSHIP ISSUES</p> <p>10. The City of Rossland should assess the capacity, qualifications and experience of its current management team and, if necessary, add additional qualified resources. In particular, the City should pay attention to:</p> <ul style="list-style-type: none"> • addressing the absence of a full-time chief administrative officer • the fact that the person acting as chief administrative officer was handling up to three critical senior management jobs at one time • the capacity of the City's small core of senior staff 	<p>Recently promoted L. Hunter (ACMA, CGMA) to Acting CFO.</p> <p>As noted above, additional resources is to be allocated to the finance department.</p> <p>Dep CAO is currently fulfilling the role. LGMA advanced certificate in administration, 18 years of municipal experience and contacts, extensive local knowledge, post secondary education, diploma in hospitality and tourism/financial management from BCIT.</p> <p>Has been addressed by appointing acting CFO.</p> <p>Resolution to contract with engineering firm on an as need basis.</p>	<p>Recruit additional finance staff.</p> <p>maintain status quo for now. Set performance goals and conduct annual performance reviews with CAO.</p> <p>maintain status quo for now.</p> <p>To conclude employment issues with the current CAO. CFO.</p>	<p>\$ and staff time</p>	<p>Acting CFO / Dep CAO</p> <p>Council</p>	<p>March 2014</p> <p>Spring 2014</p>	

ADDITIONAL ACTIONS AS PER CITY OF ROSSLAND COUNCIL AND STAFF	STEPS TAKEN	NEXT STEPS	RESOURCES NEEDED	RESPONSIBLE	TARGET DATE	LEGISLATION
<p>MUNICIPAL AUDITORS</p> <p>11. Establish policy that each year the municipal auditor report is discussed in full and timeline for implementation of recommendations is set.</p> <p>Ask municipal auditor for advice.</p>	<p>Reported to Council regarding progress made in relation to the 2012 auditor management letter.</p> <p>Continued contact with the city auditor by Acting CFO and Deputy CAO.</p>	<p>Continue with the outstanding action regarding the 2012 letter.</p> <p>Ensure Council meeting discussion on yearly basis.</p> <p>To secure auditing services in 2015.</p>	<p>Staff time</p> <p>\$, staff time</p>	<p>Acting CFO</p> <p>Acting CFO</p>	<p>Summer each year</p> <p>Continues</p>	<p>CC Part 6 Div 2</p>
<p>GENERAL</p> <p>New Council education/review of role, leadership, respectful dialog, guiding legislation, responsibility to taxpayers</p> <p>If we seek to fulfill the CAO position we need to make sure it's an open and competitive hiring process and the contract is reviewed by a lawyer.</p> <p>Seek professional review after changes have been implemented.</p>	<p>Will create RFQ</p>	<p>Incorporate into orientation of new Council/ update the orientation manual.</p> <p>Host newly elected official work shop in December 2014.</p> <p>Maintain status quo for now.</p> <p>Select professional, conduct review and effectiveness of changes.</p> <p>Establish a practice that important issues are presented to council in written memo form, not verbal reports.</p> <p>Establish a practice that council receive all copies of all contracts when they are entered into and when they are amended.</p>	<p>\$, staff time</p> <p>\$, staff time</p>	<p>Dep CAO</p> <p>Council</p> <p>Dep CAO, Council</p>	<p>November 2014</p> <p>Spring 2015</p>	

ABOUT THE AUDIT

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

Audit Objectives

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

3.1.232 Our specific objectives were to assess the City of Rossland's asset management and capital planning practice and to audit a sample of capital procurement projects.

Audit Scope and Approach

3.1.233 The audit included a review of the City of Rossland's performance in managing capital procurement and asset management in the years 2010, 2011 and 2012. We also reviewed the City's payments and related processes for one sampled project into 2014.

3.1.234 The audit focused on Rossland's capital procurement controls, processes and practices. We initially selected for review two significant capital projects that were underway during the 2010 - 2012 period: the Rossland Arena Complex Roof Replacement Project and the Columbia/Washington Infrastructure Improvement Project.

3.1.235 We selected these projects because of their relatively large size and cost and because we were aware of the City's concerns about aspects of the Arena Roof Project and wanted to determine whether any procurement-related issues with the City's policies and operations had been dealt with.

3.1.236 In the course of our performance audit work, we noted unusual transactions, which led us to revise the scope of the audit by adding five additional smaller capital projects. We also divided the audit into two parts. The first part covers capital procurement practices and is covered by this document, part one of our report. The second part deals with the City of Rossland's asset management program, which we will report on separately later in 2014.

3.1.237 To assess Rossland's stewardship of its capital assets, we reviewed the City'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.

3.1.238 In carrying out the audit, we interviewed City staff and members of Rossland City Council, former employees, as well as consultants and professionals familiar with the sampled projects.

3.1.239 The documentation we reviewed included accounts payable, invoices, contracts, bid documents, council minutes and previous reports by third parties requested by the City. Our review focused on identifying relevant documents and information to support the performance audit.

ABOUT THE AUDIT

3.1.240 At the beginning of the performance audit process, we shared key audit-related documents with the City of Rossland. 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 15](#) on the following page.

Audit Criteria

3.1.241 Performance audit criteria define the standards we used to assess Rossland's performance. We expressed these criteria as reasonable expectations for the City's asset management and capital procurement processes and practices to achieve expected results and outcomes.

3.1.242 Below are the criteria we used to gauge the City of Rossland'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 of which they can make effective use.
 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.
- 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.

ABOUT THE AUDIT

Period Covered by the Audit

3.1.243 The audit covered the period 2010 to 2012. We also reviewed the City’s payments and related processes for one sampled project into 2014. Audit work was completed on February 14, 2014.

NOTE

While the audit we have undertaken covers both capital procurement and asset management, this part one report deals solely with capital procurement.

A later part two report will deal with the asset management aspects of this audit.

This section describes the objectives, scope and criteria for the overall audit, some aspects of which are not relevant to this report.

EXHIBIT 15: 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 or email info@aglg.ca to share your questions or comments.

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