

City of Saskatoon

Internal Audit Follow-up: Operating & Lifecycle Costs Update

Submitted on:
October 8, 2019





October 7, 2019

City of Saskatoon SPC on Finance
222 Third Avenue North
Saskatoon, Saskatchewan S7K 0J5

Internal Audit Follow-up: Operating & Lifecycle Costs Update

Recommendation:

That the enclosed Internal Audit Follow-up Report for the Review of Operating & Lifecycle Costs be received as information.

Please find enclosed our report and status update on the City's progress in implementing the internal audit recommendations outlined in the aforementioned report presented to this committee in May 2017.

Yours truly,

A handwritten signature in black ink, appearing to read "Jesse Radu".

Jesse Radu, CPA, CA
Partner
PricewaterhouseCoopers LLP

*PricewaterhouseCoopers LLP
128 4th Avenue South, Suite 600, Saskatoon SK S7K 1M8
T: +1 306 668, F: +1 306 852 1315, www.pwc.com/ca*

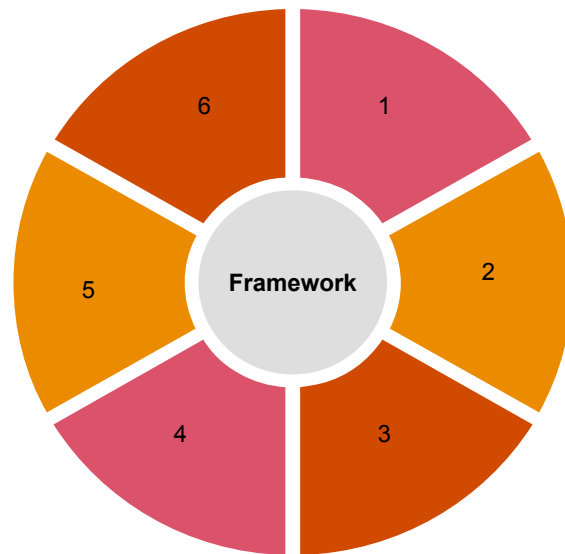
1. Background

In 2015 and 2016, the City had made significant progress in its asset management journey with the launch of individual Asset Management Plans.

In 2016, an internal audit was conducted to review the City's current capital budgeting process and existing asset management plans to identify improvements, particularly with respect to how best to incorporate the impact of future operating costs and asset life cycle costs into new asset investment decisions.

The internal audit report was presented to SPC Finance on May 29, 2017, and included eight (8) recommendations.

The recommendations were intended to assist the City in defining, describing and documenting life cycle costs and operating cost impacts, with the objective being an increased ability of Administration and Council to make decisions on capital spending.



Recommendations were aligned to six areas of common practice

1. Asset Management & Capital Planning Policies
2. Direction of Capital Asset Management
3. Determine Impact of Capital Budgets on Operating Budgets, including Life Cycle Costs
4. Multi-Year Capital Planning
5. Present, Monitor and Report on Budgets & Projects
6. Tracking Detailed Information for Maintaining & Replacing Assets

2. Update

In 2019, an internal audit was conducted to assess the City's infrastructure investment evaluation process. The internal audit report was presented to SPC Finance on September 16, 2019. As part of this project, Internal Audit conducted an interview and follow-up discussion with Management to assess the progress made in implementing the eight recommendations. Of the eight recommendations, one had been completed by the September reporting date and three had not been started. The remaining four recommendations are in various stages of completion, as discussed in further detail in the accompanying table.

IA Project:
Audit Report Date:
Follow up Date:

Capital Planning and Budgeting, Life Cycle Costs and Operating Costs
 May-17
 Sep-19

Recommendation	Response	Planned Implementation Date	Implementation Status	Revised Planned Implementation Date	Actions Completed	Actions Planned
<p>1 IA recommends that when the City develops its asset management and capital planning policies (including a master AMP), it incorporate fundamental aspects of asset management planning as outlined above and take into account leading practices from municipalities such as Ottawa, Windsor, Calgary and Waterloo, which have recently undergone such initiatives.</p>	<p>Agreed. Changes to Council Policy No. C03-001 are anticipated in late 2017.</p>	<p>30-Jun-18</p>	<p>Partial</p>	<p>Ongoing - set to present the Corporate Asset Management Strategy and Policy to City Council by Q2 of 2020.</p>	<p>1. Revised budget policy (approved March 2019) to move to multi-year budgeting with more emphasis placed on capital asset lifecycle and understanding of related operating budget impacts.</p> <p>2. Federation of Canadian Municipalities (FCM) funding received to support action plans. FCM Committee/working group conducted activities to develop a corporate strategy & policy for Capital Asset Management (CAM). Presented to ALT March 2019.</p> <p>3. A Corporate Asset Manager was hired in 2019 to lead the City's implementation of the Asset Management Strategy.</p>	<p>1. Council approval of Corporate Strategy & Policy for CAM in summer of 2020</p>
<p>2 IA recommends the incorporation of formal risk-based decision making criteria be incorporated to allow for a more structured process for capital project prioritization and the allocation of limited resources. These criteria would primarily be applicable to major capital projects that are funded outside of the Capital Reserve Bylaw. We recommend the City take into account leading practices from municipalities such as Edmonton, Ottawa and Waterloo as referenced and illustrated in this report.</p>	<p>Agreed. The process to prioritize projects funded from specific reserves are established by departments based on various criteria. The recommendation to implement the Auditor's suggested process would work where there are multiple projects competing for funds that are not dedicated by reserve bylaw or policy.</p>	<p>31-Dec-17</p>	<p>Partial</p>	<p>Ongoing - Process to be further developed and utilized as part of City Council's next Strategic Planning process in 2021.</p>	<p>The Administration is in the preliminary stages of developing a more formal prioritization process for capital projects that require discretionary funding sources. This process includes:</p> <ol style="list-style-type: none"> 1. Development of a Master List of all potential major capital projects; 2. Development of criteria to apply the master list against, including risk, urgency and alignment to the City's Strategic Plan <p>The Administration has preliminary begun utilizing this process as part of the 2020/2021 Business Plan and Budget and plan a further roll out as part of the next City Council Strategic Planning process in 2021.</p>	<ol style="list-style-type: none"> 1. Continued refinement of the inventory list and prioritization processes. 2. Internal piloting of the process in order to be ready for launch as part of the next City Council Strategic Planning Process.

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3 IA recommends that formalized criteria be developed to set out the roles and responsibilities that Asset & Financial Management will play in ongoing asset management compared to the roles and responsibilities of the individual stakeholder divisions. The aim of these criteria would be to yield a consistent level of integration between Asset & Financial Management and the various stakeholder divisions, which ultimately will assist in ensuring that long-term asset performance can be sustained and funded at a level that meets the level of service articulated to the stakeholders and citizens. It will also drive an increase in accountability between the stakeholder divisions and Asset & Financial Management with respect to the asset management planning process.	Agreed.	30-Jun-18	Partial	Set to present the Corporate Asset Management Strategy and Policy to City Council by Q2 of 2020.	The Asset Management Policy and Strategy will clearly outline roles and responsibilities in the ongoing implementation and maintenance of asset management in the City.	1. Council approval of Corporate Strategy & Policy for CAM in summer of 2020
4 IA recommends that Administration incorporate strict guidance for capital project submissions to the budget regarding the incorporation of asset life cycle costs and operating cost impacts.	Agreed.	31-Dec-18	Not Started	Fall 2021	Due to the significant work in implementing the Multi-Year Business Plan and Budget, implementation of these guidelines were not completed for the 2020/2021 cycle as originally intended. The Administration will work on improving guidance for asset life cycle costs for the next multi-year business plan and budget cycle beginning in 2022.	Work with divisions to provide clear direction, procedures and guidance in identifying all operating lifecycle costs related to each capital asset investment.
5 IA recommends that for all capital projects where there is an absence of operating cost impacts and life cycle costs, an explanation be provided or that a direct reference be included in the capital project description of where these costs are included.	Agreed.	31-Dec-19	Not Started	Fall 2021	Due to the significant work in implementing the Multi-Year Business Plan and Budget, implementation of these guidelines were not completed for the 2020/2021 cycle as originally intended. The Administration will work on improving guidance for asset life cycle costs for the next multi-year business plan and budget cycle beginning in 2022.	Work with divisions to provide clear direction, procedures and guidance in identifying all operating lifecycle costs related to each capital asset investment.
6 IA recommends that the City incorporate categorization of capital expenditures into its capital projects in order to more clearly link life cycle costs to AMP's and to distinguish between the different types of capital spend being incurred.	Agreed.	31-Dec-17	Complete and ready to roll-out	Complete	Categorization, including identification of new asset or rehabilitated asset, has been added into the budget system for each service line to show investment by category for both budget and actual costs. This information can be seen under each individual capital asset under "project type"	No further action planned

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7 IA recommends the development of performance measures to illustrate the traction of asset management planning in the City.	Agreed.	31-Dec-18	Ongoing	Ongoing	<p>1. The Administration continues to improve upon the Asset Management practices and knowledge within the Corporation.</p> <p>2. Readiness scales required FCM have been completed which measures the City of Saskatoon's maturity in Asset Management.</p> <p>3. With the introduction of the New Asset Manager position the measure of Asset Management Maturity (ISO 55000) is currently being introduced to the corporation to measure the maturity within each area.</p>	Asset Management Maturity (ISO 55000) is currently being completed for the Bridges asset class which is anticipated to be completed by the end of 2019.
8 IA recommends that at least every four years, to coincide with the proposed multi-year budgeting cycle currently being contemplated, Administration should provide a "plain language" report on capital assets to the SPC on Finance and City Council.	Agreed. Administration has been providing this information on a regular basis regarding the Building Better Roads Program. As more asset management plans are adopted and implemented, the Administration will provide regular updates on progress and any issues or opportunities.	Early 2019 Upon approval of the Corporate Asset Management Plan, Administration will develop a reporting schedule/mechanism for City Council approval.	No	Ongoing - Next report due to Committee in summer 2021	<p>The Administration intent is to report on the Corporate Asset Management Strategy in alignment with the Multi-Year Business Plan and Budget Cycle.</p> <p>An update on the Corporate Asset Management Strategy was presented to the Governance and Priorities Committee in August, 2019.</p>	An updated Corporate Asset Management Plan will be presented in alignment with the next Multi-Year Business Plan and Budget cycle which begins in 2022.