

AUDITOR GENERAL

Halifax Regional Municipality

Audit & Finance Standing Committee

A Performance Review of the Washmill Lake Court Extension Project[©]

January 21, 2015

Crown copyright © 2014, Province of Nova Scotia, all rights reserved.

The Office of the Auditor General- Halifax Regional Municipality encountered issues with respect to documentation (either formal or informal, printed, handwritten or electronic) which caused both corporate and personal knowledge or information to be significantly impacted.

Every reasonable effort was made to ensure the information provided in this report is accurate and complete. The data, findings and other information have been produced and processed from sources and representations believed to be reliable but the supporting information was often based upon recollections which contained “best of knowledge caveats” or where there was conflicting information available. In many instances the terminologies used and information presented is as stated in various reports; which may not be consistent with how the OAG believes the information should have been presented or how the OAG would have presented it. Also, the OAG has used every effort to interpret the information and intent of the information in as consistent a manner as possible.

As the purpose of the report was to improve corporate processes and value of money; not personal accountability, we did not seek additional sources of information regarding many transactions or expand scope from what was originally intended.

Therefore, as much of the information within this report was either developed by the OAG or was the best estimate or interpretation on the part of the OAG; the OAG reserves the right to update the report for any relevant information or corrections to facts as we understand them which may come to our attention.

- Purpose of project:
 - Review the HRM overall capital budget process
 - Role of AG is to assist in enhancing quality of stewardship over public funds. This means constant improvement, not that there was no quality in the first place
 - Impact process. Focus was NOT in determining absolutely how much the project cost. Essentially no one disputes it was over budget. The money has been spent. The OAG felt best approach was to provide improvement around processes and why clarity and agreement on intended outcomes is so important
 - To result in individual and organizational reflection leading to change

- No one action or person led to the matters outlined
- Not enough to use normal performance measures to explain significant cost over-runs
- Issues encountered were not complex or difficult to identify – unfortunately they were numerous

- It appears reasonable to say, all are agreed the project was over budget
 - In the view of the OAG, project could possibly be at least \$11m over budget for the HRM portion of the project depending upon which budget the project outcomes are measured against. Several dates or amounts could be used
 - 1999 when first contemplated and discussed (first optimal route). Appears amount was thought to be \$4-\$5 million in 2002
 - 2008 at approximately \$5.9 million (actual route chosen)
 - September 2009 'verbal' estimate of \$10 million

- November 2009 written estimate of \$14.7 million (excluding HST and some oversizing)
 - Some other date or estimate
- Documentation often either not clear or simply not available
- OAG has made every effort to understand and accurately represent the information to the greatest extent possible
- Given some clarity which hopefully will result from this report, additional information may be brought forward after release of report

- Was originally due to be completed by Spring 2011, road opened to the public in December 2011
- As the OAG understands (although documentation is not clear), the infrastructure constructed was based on a reduced scope from what was originally contemplated when approval by Regional Council was sought
- The OAG understands portions of the project may still be outstanding but it is not clear specifically what is outstanding, if anything, and when it will be completed

- Significant issue is HRM definition and use of project manager
 - Because someone involved or responsible for a portion of project does not make them project manager
 - Appears assumptions often made as to who project manager was or was not
 - With the system in place at the time, when a department or business unit's budget was used, the assumption by some was they were project manager
 - Unless there is absolute clarity these and other assumptions can be made

- OAG often saw, making the best of a bad situation on the part of many
- OAG believes those involved do care and see the need for change to process
- The OAG will repeat often; documentation, documentation and accepted accountability will eliminate assumptions and stress on staff

This Presentation

- It is not practical to provide a presentation which adequately describes all the issues and concerns noted by the OAG
 - They are simply too numerous

- The OAG strongly suggests reading the entire report particularly starting at the significant findings section to gain an understanding of the process the project followed and the areas of concern
 - This will also provide some sense of what processes the OAG had to undertake just to gather information to analyze and attempt to understand

➤ Scope:

- Review HRM's processes in the identification, undertaking and completion of the Washmill Lake Court extension project

➤ Objectives:

- To understand the processes and procedures utilized in the project to extend Washmill Lake Court, including the underpass
- To articulate the processes followed, the issues encountered, how they were addressed and if there are areas for improvement

- Complete details in report
- Since there was no complete project file available and the purpose of the report was to provide commentary and recommendations with respect to performance, the OAG performed no attestation or verification procedures with respect to the accuracy or completeness of budgetary, financial or other information contained within the report

- The 'normal' information contained in all reports including scope, objectives etc.
- A very detailed Executive Summary which attempts to summarize and explain many things
- Significant Findings and Recommendations
- Why the project was undertaken (why HRM felt it needed the infrastructure)

What can be Found in Report

- Detailed timeline – starting in March 1999
- Insights into why and how the scope (requirements) of the project appear to have changed
- Differing ‘optimal routes’ for the project
- The impact of the Federal Infrastructure Stimulus program
- The impact of potentially losing the Stimulus Funding

What can be Found in Report

- How important internal controls are
- The number of, types of, and impacts (qualitative, quantitative) of the risks associated with the project
- The impact of time pressures
- The large number of individuals and business units who were involved
- The impact of good people possibly being in the wrong roles

What can be Found in Report

- Commentary with respect to understanding the differences between responsibility and accountability
- Issues with respect to frequency and content of reports to Regional Council
- At times level of involvement and understanding of information by individuals approving council reports
- How fragmented the information and decision making is at times at HRM
- The need to plan, plan, plan

- The impacts of becoming ‘emotionally invested’ in a large project
 - Human Nature – emotion of responses can potentially cloud judgement
 - Can cause leaders to place more emphasis / reliability on information which supports a project
 - Can cause leaders to ignore information which indicates downside or risk
 - Can lead to pressure to make quick decisions which are isolated
 - The countering effects accurate, relevant and timely information can have on tempering the emotional reactions noted above

What can be Found in Report

- OAG suggestions around how existing practises must be adjusted to compensate for difficulty or size of project
- Why OAG suggests – projects do not get into trouble simply because of size
- Why OAG suggests -the positive impact ‘Gateway Reviews’ may have on future large projects
- The risks associated with over use of ‘data anchors’
- Insights into how capital project requirements are determined

What can be Found in Report

- Insights into how capital budgets are approved on an ongoing basis
- Some insights into how capital budgets are developed and the use of Place Holders
 - In the early years of a capital project – approvals appear to be more for the concept and budgets are very high level
- The ‘evolution’ of the budget estimates and ‘final’ cost
- The impact the types of cost estimates can have on decision making
 - Class A vs. Class D

What can be Found in Report

- The risks of proceeding with large capital projects based upon verbal estimates
- The challenges faced by HRM in non-recurring projects
- Insights into why it appears harder for HRM to deal with 'unexpecteds' in large capital projects – so much to co-ordinate
- Scope of projects can change dramatically depending upon circumstances as opposed to defined needs
- Appears projects can be started before design is completed and the needed inputs fully known

What can be Found in Report

- Issues with respect to what appears to be clarity / intent around authorities contained within HRM procurement policies
- Insights into how large non-recurring capital projects are managed
- The need for more enhanced peer reviews
- How HRM tracks and reports total project costs
- Impact of not recording all costs to one project account

What can be Found in Report

- Insights into when HRM defines a project as ‘in trouble’
- The impact of approving a project in pieces
- The impact of completing a project in phases
- Insights into how HRM manages some consultants

Executive Summary-Overarching Points

- Clear project requirements and definition do not appear to have been completed
- There appeared to be a significant absence of established and universally understood policies or procedures to guide projects along and ensure success
- There was no formal process including accountability mechanisms for project management and completion
- There was also a lack of formal / regular reporting on the status of the project, including variances from budget and schedule

Executive Summary-Overarching Points

- As has been discussed in several previous reports, the OAG suggests HRM needs a better mechanism to identify organizational risks and to ensure Regional Council is made aware of these risks when making decisions
- It is not enough to use normal performance measures to explain the significant cost overruns

Executive Summary-Overarching Points

- The OAG notes the lack of documentation supporting decisions and processes undertaken seems to be a pervasive issue. Notable situations on which the OAG has previously issued reports where this significant lack of documentation was also a concern include:
- The concerts on the North Commons,
 - Metro Centre operations,
 - The transfer of Ticket Atlantic,
 - Funding provided to the Farmers Market

Executive Summary-Overarching Points

- After considerable thought and discussion, the OAG has concluded two overarching points can explain much of what took place:
 - The overall approach to governance and accountabilities,
 - The approach or often lack of approach by HRM with respect to identification and management of risks

- Of the two, the most impact was likely the result of HRM's overall approach to corporate governance and accountabilities. In essence this speaks once again to corporate culture and tone from the top, subjects the OAG writes about continually

- Management demonstrating value for money
 - Not possible for the OAG to conclude outcomes were as intended
 - Systems and controls were weak and could not be relied upon

- Efficiency, economy and effectiveness not achieved – therefore management unable to adequately demonstrate value for money

- Governance
- Project management
- Planned versus actual outcomes
- Risk management
- Accountability versus responsibility
- Effective leadership

- Effective decision making
- Confusion around HRM's own processes and authorities
- Clarity of information to Regional Council
- Documentation
- Project effectiveness

- Corporate culture
 - Tone from the Top
 - Tone from the Middle
 - Avoiding excuses and rationalizations
 - Silos and fragmentation
 - Controls – Hard and Soft

- Policies and procedures

- Reporting

- Oversight

Tone from the Top - Impact on Accountability and Reducing Rationalizations

- It is the view of the OAG, tone from the top is not restricted to the most senior leaders of HRM
- While the culture of the organization is ultimately their responsibility, tone from the top must cascade to become tone from the middle and so on
- All leaders at all levels must exhibit the proper tone in all they do and not merely speak the words

- Appears issues with overall project management
- Lack of role clarity
- Use of and management of consultants
- Changing estimates
- Culture of 'get it done' without adherence to process, policy or good governance practices

- Culture

- Absence of appropriate risk management processes, including risk identification
 - Integration risks
 - White space risks
 - Execution risks

- Accountability versus Responsibility
 - Seems to be lots of people with responsibilities
 - No one individual appears accountable

- Once again – excuses and deflection

- Culture

- Need to be clear once again
 - This report is NOT about people
 - For the most part people were THROWN into the project
 - This report is NOT about FAULT
 - The outcomes of this project are not the result of the actions or lack of actions of any ONE PERSON or DEPT
 - This is about GOVERNANCE and RISK MANAGEMENT
 - TIME pressures were very evident
 - RISKS with ACCEPTED PRACTICES USED IN THE PAST caught up with HRM

- Effective decision making?
- Inexperienced staff undertaking significant projects without management oversight?
- Concerns around whether oversight at appropriate levels and points in time?
- Managers not involved until project is significantly underway?

- Too many people
 - Need 'two pizza' approach

- Lack of adherence to HRM's 'Red Book'?

- Lack of adherence to Procurement Policy?

- Appears no recognition of need for formal process to guide overall project

- History
- Record of decisions
- Lack of documented support for decisions – i.e. route change
- Costs charged to at least three different capital projects

- No documentation of the Province taking possession or of completion of final inspection
- Some documentation from the consultant still outstanding in June 2014, attempts made to obtain once OAG brought to attention of Chair of Audit and Finance Standing Committee and CAO

Significant Concern

- In late May 2014 (after many months into the OAG's work on the report and after multiple interviews with a significant number of HRM staff), the OAG became aware HRM may not have yet received the final inspection and certification package for the bridge structure at Washmill
- The OAG immediately brought this issue to the attention of the Chair of the Audit and Finance Committee and then the CAO. The OAG was later assured the Province of N.S. had inspected the bridge and accepted ownership

- The OAG recommends HRM Administration meet with all stakeholders to ensure the Washmill project meets appropriate construction standards, including HRM standards for road construction as prescribed in HRM's Municipal Service Standards guideline manual (known as the "Red Book") and CSA standard CAN/CSA-S6-00 Canadian Highway Bridge Design Code

➤ The CAO response to this recommendation is as follows:

“This issue was immediately acted upon and clarified once identified by the AG. It has been confirmed by staff at the Province of Nova Scotia that the province officially accepted ownership of the Washmill Bridge when it was opened to traffic. The Province has confirmed it conducted an inspection of the bridge, approved the opening of the highway to traffic (over the new structure) and is maintaining it on an annual basis. HRM has requested a formal confirmation of this from the Province and is in the process of obtaining the certification package from the contractor.”

Clarity and Timing of Information to Regional Council

- Timing
- Transparency and accuracy
- Class of estimate – ‘placeholder’ budgets
- History of decisions
- Lack of regular reporting
- Estimates / budget did not appear to include total project costs

Total Project Cost – To Date

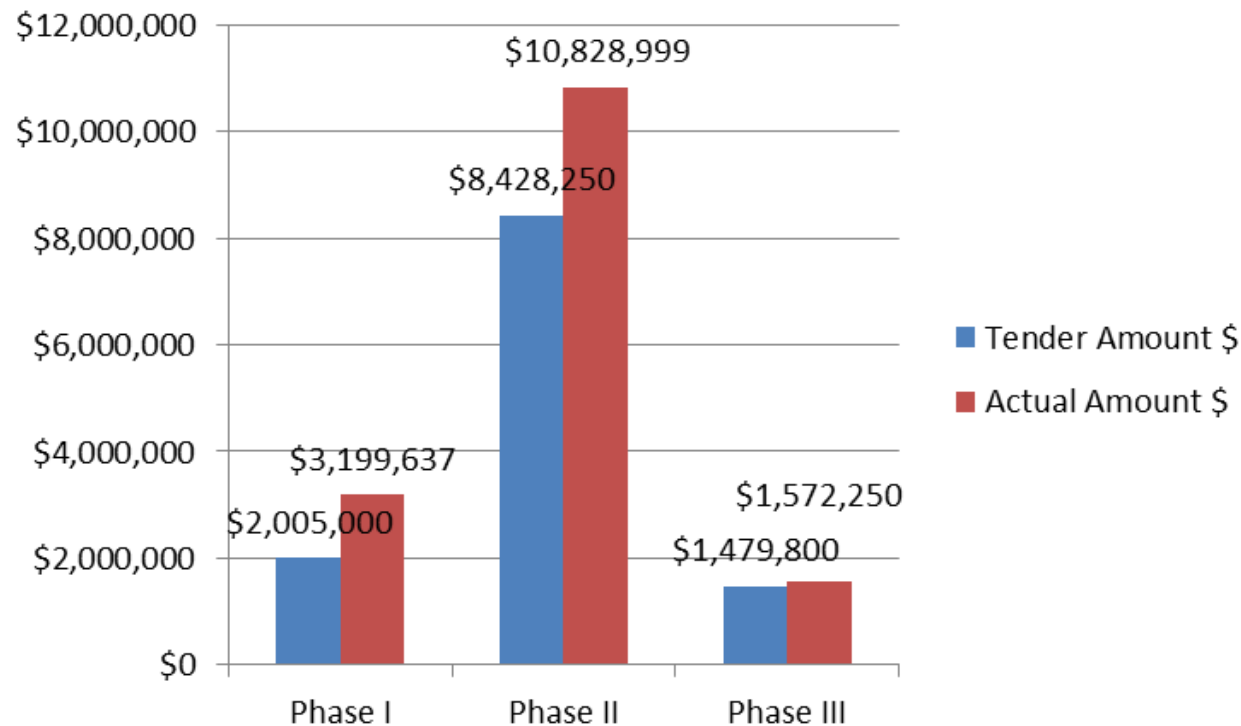
Analysis of Original Budget to Actual Costs (estimated by OAG based on available information (see Methodology Section))

	Dec-08 Budget	Mar-14 Actual	Change over/(under)	% Change
Bridge	\$2,000,000	\$5,690,485	\$3,690,485	185%
Street - HRM portion	2,543,868	10,706,847	8,162,979	321%
Oversizing - developer section	1,383,376	1,206,797	(176,579)	(13%)
Total - HRM Paid	5,927,244	17,604,129	11,676,885	197%
Additional right of way	170,658	170,658 *	-	
Street - developer portion	2,543,869	2,543,869 *	-	
Developer provided	2,714,527	2,714,527	-	
Project total	\$8,641,772	\$20,318,656	\$11,676,884	135%

*This amount is an estimate. It is included here for comparison purposes as it was included in the original budget provided to Regional Council. There has been no information requested regarding the actual costs incurred by the the private developer as it was not relevant or appropriate for this review. The project is represented including the HRM and developer costs as this was the manner in which it was presented to Regional Council.

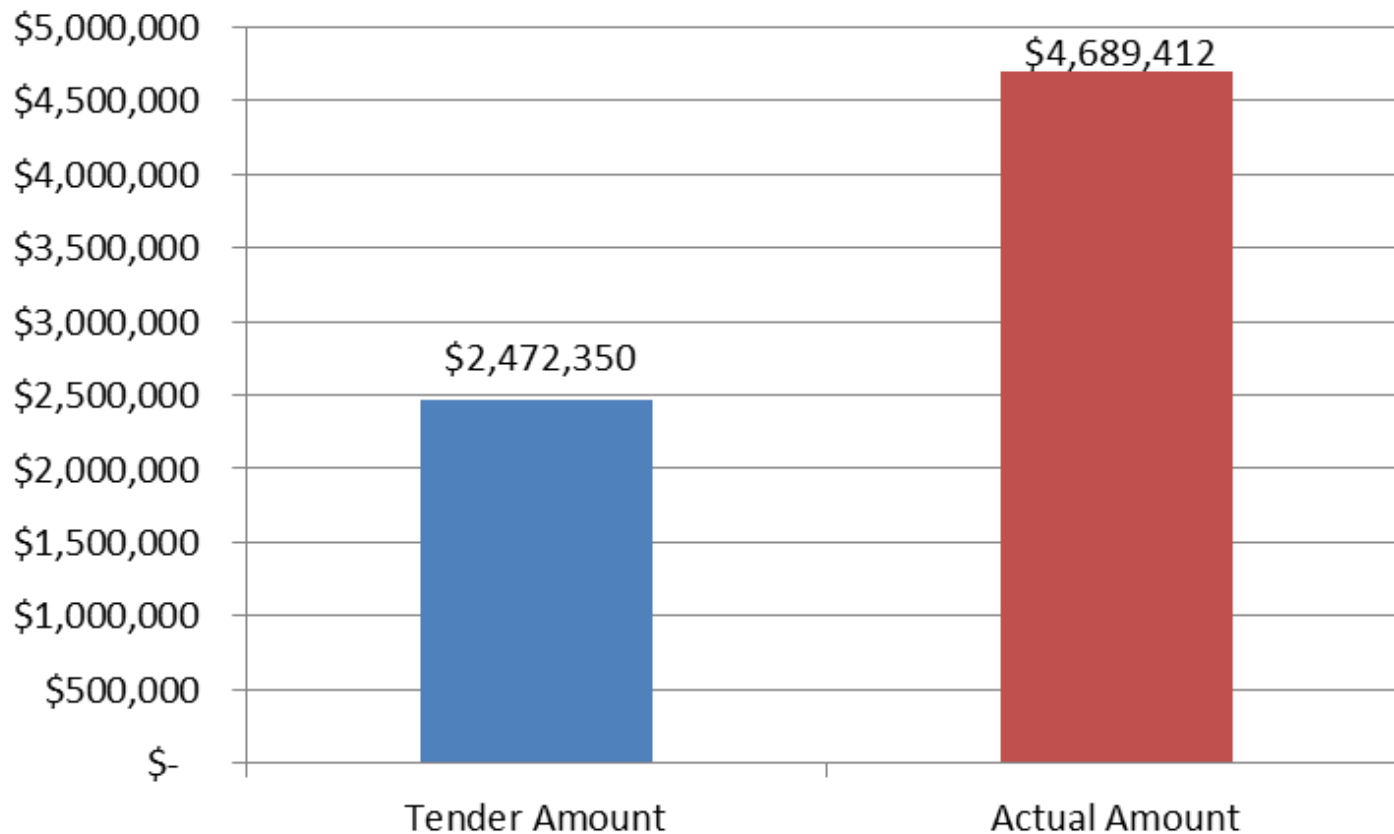
Analysis of Construction Tenders

Analysis of Tendered Amount vs. Actual Amount Paid (estimated by OAG based on available information (see Methodology Section))



Primary Areas of Cost Over Runs

Cost Comparison of Earthwork from Combined Tenders to Actual (estimated by OAG based on available information (see Methodology Section))



Executive Summary Concluding Commentary

- What the OAG has noticed in discussions with individuals in completing various reports is – there appears to be ‘some confusion’ as to the difference between the definitions of responsibility and accountability
- The OAG is of the view, without accountability you have uncoordinated areas of responsibility; actions likely being random with achievement of intended outcomes very much at risk
- The OAG simply cannot accept no one individual was responsible or accountable, or responsibility can be discharged simply by believing there is someone at a higher level who will ultimately be held accountable

Executive Summary Concluding Commentary

- ‘Signs of Projects in Trouble’ and ‘How to Avoid Shallow Causes for Failure’
- It is however interesting to note how many obvious issues with the project were ignored in the early stages and HRM apparently only defined the project as ‘in trouble’ after it became obvious there were budget issues (e.g. when there were insufficient funds to issue a tender for a construction portion of the project, even after the scope had been reduced)

- The OAG has no other alternative other than to conclude this project was not completed in an efficient or effective manner with due regard for economies and did not provide the taxpayers with the appropriate quality of stewardship over public funds

- Responsibility for Oversight
- Washmill Specific Issues
- Project Management
- Project Budgets
- Capital Project Approval Process
- Project Review-Management and Peer Review

- Management of Risks
- Clarity of Requests within Reports to Regional Council
- Responsibility for Ensuring Accuracy of Information Contained in Reports to Regional Council
- In-Camera Reports with respect to Capital Projects

- Possible Business Unit Changes
- Clarity in Business Unit Responsibilities
- Spending Authorities and Procurement
- Changes to Scope of Projects Previously Approved by Regional Council
- Management Development and Staff Expertise

Management Response

I have reviewed the report, *A Performance Review of the Washmill Lake Court Extension Project*, submitted to me by your office. I am in general agreement with its content and the overall direction proposed. As with all reports you have released to date, HRM Administration will take the recommendations under consideration and ensure that a plan to address the issues identified in the report is developed. Detailed responses to each of the report recommendations are attached to this letter.

The Washmill report highlights a number of breakdowns in communication, project management, and decision-making. These are issues that need attention. It is important to note that, since the completion of the Washmill project, several senior leaders have been replaced in the organization, operational areas within the administration have been reorganized, a new Council has been elected, and several revised policies and standard practices have been adopted. Although these changes have resulted in several improvements, we recognize that there is still work ahead.

On this note, we have initiated some activity in the past year which I expect will further address the issues raised in your report. Your recommendations will play a significant role in how these initiatives are implemented. These include:

- The ongoing realignment of corporate structure, primarily in the area of infrastructure development, construction, and management. We are assessing further reorganization which will better align decision-making in relation to capital projects. The content of the Washmill report will help to inform this process.

- Strengthening the process of financial reporting. Under the leadership of the current CFO, reporting on the budget and financial situation of the municipality has become increasingly more robust, and further enhancements are planned. Again, the suggestions provided in your report will be helpful in developing these further enhancements.
- Recent introduction of a new Council report development process which aims to ensure better accountability and clarity in the process of providing information to support Council's decision-making. Several of the issues raised in your report will be addressed as this process is implemented.

Overall, we expect to derive substantial corporate benefits from a continued focus on these activities.

The administration will strive to address the key themes identified in the report with an eye toward improving issues within our organization and building on areas of success. As usual, we will do so with a focus on transparency and accountability to Regional Council and residents of HRM.

Questions