

To: Council in Committee of the Whole

From: Jag Sharma, City Manager,
Office of the City Manager

Report Number: CM-17-05

Date of Report: April 27, 2017

Date of Meeting: May 1, 2017

Subject: Asset Management Audit

File: C-3100

1.0 Purpose

The purpose of this report is to present the KPMG Asset Management Audit Report (Attachment 1).

2.0 Recommendation

It is recommended to City Council:

That Report CM-17-05 dated April 27, 2017 and Attachment 1, being the KPMG audit report for asset management, be received for information and that the recommendations and management responses in the KPMG audit report be endorsed as the general basis for improvements to asset management.

3.0 Executive Summary

Not applicable

4.0 Input From Other Sources

The asset management audit by KPMG was conducted with the involvement of the appropriate City employees.

5.0 Analysis

On December 14, 2015, Council received for information the 2016 Audit Plan. The Plan was comprised of five audits, as follows:

- Real Estate Function
- Asset Management
- Oshawa Senior Citizens Centres (O.S.C.C.) Governance
- Health and Safety

- Fleet Purchasing and Inventory Management.

All audits are now complete.

The asset management audit contains eight recommendations without risk ratings related to a number of different aspects of the Council-approved Asset Management Plan. The recommendations are assigned to short (6 months), medium (7 months - 2 years) and long-term (2 - 5 years):

- Introduction (short to mid-term)
- State of local infrastructure (short to mid-term)
- Levels of service (mid to long-term)
- Asset management strategy (mid-term)
- Financing strategy (mid to long-term)
- Governance – policy and process (mid-term)
- Governance – roles and responsibilities (short to mid-term)
- Governance – tools and resources (short to mid-term)

The KPMG recommendations and the City's management responses will provide significant input to the further development and refinement of the City's asset management plan.

6.0 Financial Implications

There are no financial implications at this time.

7.0 Relationship to the Oshawa Strategic Plan

This report responds to the principle of financial stewardship, which underlies the Oshawa Strategic Plan. It also responds to the goals of Economic Prosperity – Ensure economic growth and a sound financial future, with specific connection to the theme of safe and reliable infrastructure, which speaks to asset management, as well as the goal of Accountable Leadership – Ensure respect, responsiveness and transparency.



Helen Break, Director, Strategic Initiatives,
Office of the City Manager



Stephanie Sinnott, Executive Director
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Jag Sharma, City Manager,
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City of Oshawa

Internal Audit of Asset Management Governance and the Asset Management Plan

KPMG LLP

April 7, 2017

This report contains 16 pages

Appendices comprise 1 page



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Distribution

To (for action):

- Melissa McCabe – Manager, Infrastructure Service

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- Helen Break – Director, Strategic Initiatives

Sponsor

- Stephanie Sinnott – Executive Director, Finance Services/Treasurer

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Section One

Executive Summary

Conclusion

Our review of the Asset Management Plan (AMP) at the City of Oshawa (“City” or “Corporation”) and governance structure around it has highlighted the important role of the steering committee in establishing awareness of asset management development within the City as a starting point for advancing asset management maturity. This review was specifically targeted at supporting the development of the AMP and the governance structure around it and consequently we have not provided an overall rating for this review as the work undertaken did not lend itself to a traditional internal audit approach. Our recommendations have been categorized in relation to priority of implementation on a short, medium or long-term basis. The AMP made a number of recommendations to enhance asset management across the Corporation, and our recommendations have identified areas where further enhancements could be made.

We performed a detailed review of the AMP relative to requirements defined in Province’s “Building Together Guide for Municipal Asset Management Plans” and leading practice. While significant effort has gone into developing the AMP and it covers assets across the whole Corporation, our review identified several opportunities for improvement, particularly as they relate to the aggregation and presentation of financial information. For example many costs are collected by the City in its capital and operations budgeting process, but only a portion of this information is included in the AMP. The City has also recognized the need for improved documentation of the desired levels of service for different asset classes through input from asset managers, Council, Corporation Leadership Team (CLT) and members of the community.

Our review of the City’s asset management governance structure confirmed that a steering committee has been established, and has been successful in building awareness of asset management within the City. While the City’s strategic priorities have been documented and integrated into asset management planning, there is no documented Asset Management Policy to guide implementation or demonstrate Council support. Also, while the City has appointed the Executive Director, Financial Services and Treasurer (referred to as Executive Director throughout) to oversee the adoption of asset management practices, asset management roles and responsibilities are not defined or incorporated into the job descriptions of other staff.

These observations place the City in line with other municipalities that have recently adopted a foundational AMP or are in the process of developing one. Ongoing work is needed to update the process, datasets, or strategic policies and procedures that support asset



management within the City; these improvements will need to be incorporated into future updates of the AMP.

Background

This internal audit formed part of the Internal Audit Plan for 2016 for the City. This review focused on asset management planning and governance within the Corporation.

The City’s asset management plan (AMP) has been recently adopted by Council as a first step towards integrating asset management into the City’s current business processes. Following this step, the City is evaluating recommendations for its governance structure as well as the next update of its AMP.

In this review, we followed a standard four step procedure that involved reviewing available documents and engaging stakeholders to identify gaps and opportunities. These findings were aligned with leading practices to develop a prioritized list of recommendations.

Step 1: Reviewing Current Documents

Step 2: Engaging Stakeholders

Step 3: Reviewing Leading Practices

Step 4: Reviewing Roadmap and Initial Report

The AMP was reviewed in line with sections outlined by the Province’s Building Together Guide. The current AMP follows the standard AMP structure below and has satisfied many of the objectives of a foundational AMP.

Business Goals and Objectives	Desired Levels of Service	State of Infrastructure	Asset Management Strategy	Financial Strategy
<ul style="list-style-type: none"> - Why are we here? - What is our vision and what do we want to achieve? 	<ul style="list-style-type: none"> - What services do we need to support these goals? - At what level do we need them to provide? 	<ul style="list-style-type: none"> - How does our infrastructure support service delivery? - Where are the gaps and opportunities? 	<ul style="list-style-type: none"> - What do we need to do to achieve this? - What capital and operating investment is needed? 	<ul style="list-style-type: none"> - What will this cost us and how will we pay for it? - What trade-offs are needed to make this sustainable?



The governance review focused on elements that contribute to the success of the asset management program within the City as outlined below. These elements include policy, tools and resources, and roles and responsibilities.



Objectives

Objective	Description of work undertaken
Objective one Reviewed the draft asset management plan (AMP)	A review of the City's AMP was undertaken in line with the Province's Building Together Guide. Leading practice was consulted for aspects of the AMP that targeted objectives beyond the Province's Guide.
Objective two Reviewed current governance processes	A review of the City's governance structure was conducted in relation to the asset management system. This review included an exploration of roles and responsibilities, policies, and tools and resources.

Areas of good practice

- ✓ **Established steering committee** – The City of Oshawa has established a steering committee and appointed the Executive Director to lead the adoption of the asset management plan and process.
- ✓ **Use of standardized AMP format** – Following the layout outlined by the Building Together Guide facilitates the use of the AMP to support funding applications as well as benchmark the various sections against other AMPs when appropriate.
- ✓ **Distinguished customer and technical levels of service** – Distinguishing between defining customer and technical levels of service shows a higher level of asset management program maturity.



Areas for development

- **Documented policy** – An asset management policy is key to securing commitment from Council and CLT, and guiding the implementation of the asset management governance framework. This AM policy should be integrated into other processes within the City to ensure AM is adopted across the organization.
- **Tools and resources** –The City should consider acquiring a centralized software platform or a suite of software products to support asset management data management and exchange.
- **Process roles and responsibilities** – As a new framework to some members of staff and management, assigning a process owner and integrating new processes within the job description for each position.
- **Training and capacity-building** – Engaging current staff in determining the skills and capabilities needed to perform their adapted roles and responsibilities, or use new software platforms effectively.

Recommendations raised

We have categorized recommendations based on whether they would typically be addressed within the first six months (short-term), six months to two years (mid-term), or two to five years plus (long-term). This categorization covers a typical period during which an AMP would be updated and a governance framework would reach higher levels of maturity. There are eight recommendations overall, with 29 possible actions identified.

Acknowledgement

We thank the staff involved for their help in completing this review.

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Section Two

Recommendations

This section summarizes the recommendations that we have identified from our work. We have given each of our observations a priority as follows:

Priority rating for recommendations raised		
<p>Short-Term: Issues that need to be addressed within the first six months to maintain the adoption momentum and garner greater buy-in across the organization.</p>	<p>Mid-Term: Issues arising in the first one to two years after the adoption of the AMP need to be addressed in order to set the platform for upcoming plan updates. These recommendations typically relate to data management and updating, and asset-to-service alignment.</p>	<p>Long-Term: Issues arising that would, if corrected, improve the plan and governance structure, but need greater investment from 2-5 years after the creation of a steering committee and the adoption of the AMP.</p>

#	Priority	Recommendation	Management response, owner and deadline
1	Short-Term to Mid-Term	<p>Asset Management Plan - Introduction</p> <p>Currently the Introduction section of the AMP clearly identifies the purpose of the plan. The Introduction also defines and recognizes the following:</p> <ul style="list-style-type: none"> • Internal and external drivers • Links to other strategic documents where available • Relevant Acts and regulatory elements <p>We recommend that the Corporation:</p>	<p>Management agrees with Recommendation 1.</p> <p>a) The specific links to the OSP will be clearly identified and documented providing a frame of reference to guide the future development and refinement of the AMP.</p> <p>b) An inventory of policy linkages and specific actions will be created over time to ensure that the AMP is in alignment with the City strategic direction and policy objectives.</p>



#	Priority	Recommendation	Management response, owner and deadline
		<p>a) Identify specific linkages to the Oshawa Strategic Plan 2015-2019 that drive the asset management program and its objectives (short-term).</p> <p>b) Link other policies and strategies impacting infrastructure demands and the need for investment as they are created (mid-term).</p>	<p>Owner: Executive Director, Finance Services/Treasurer</p> <p>Due date: a) Fourth Quarter 2017 b) Fourth Quarter 2018</p>
2	Short-Term to Mid-Term	<p>Asset Management Plan – State of Local Infrastructure</p> <p>At present this section covers a wide asset base through available data. Historical data based on PSAB3150 Tangible Capital Asset reporting is used for the valuation of assets. This form of valuation may not represent the true replacement cost of the asset.</p> <p>We recommend using alternative methods of defining the replacement cost that consider replacement values, asset condition and field assessments and observations.</p> <p>We also recommend that the Corporation consider the following:</p> <p>a) Establishing and maintaining a comprehensive physical asset register (mid-term)</p> <p>b) Breaking larger assets into smaller components for finer detail (short-term)</p>	<p>Management agrees with Recommendation 2.</p> <p>a) The asset register developed for Tangible Capital Asset accounting is being used as a starting point to establishing a comprehensive physical asset register with true replacement costs. Refining and augmenting the information contained in the current asset register by incorporating the suggested improvements identified in this recommendation will improve the data captured in the City's financial statements. To the extent that the final asset register differs from the current asset register, there may be a requirement to restate the City's financial statements (to be determined at a future date).</p> <p>b) Componentizing assets, where practical to do so, will be used to assist with refining the asset registry.</p>



#	Priority	Recommendation	Management response, owner and deadline
		<p>c) Standardizing and documenting procedures for updating costs (mid-term)</p> <p>d) Utilizing condition assessments to better understand asset performance and remaining useful life (mid-term)</p> <p>e) Managing data at the asset level where applicable (mid-term)</p>	<p>c) Asset Management policies and procedures for updating costs will be developed and communicated as the City's AMP matures.</p> <p>d) Condition assessments will be taken into account to better understand asset performance and remaining useful life.</p> <p>e) There are a number of Corporate Asset Management Policy (CAMP) meetings scheduled to collaborate on the development and implementation process of a CAMP for various asset classes. This policy will attempt to define, consolidate, and/or replace miscellaneous policies (Corporate Objectives, Services, LOS, Governance, Investment Strategies).</p> <p>Owner: Asset Management Steering Committee (AMSC) and Executive Director, Finance Services/Treasurer</p> <p>Due date: Second Quarter 2019</p>
3	Mid-Term to Long-Term	<p>Asset Management Plan – Levels of Service</p> <p>The current AMP distinguishes between defining customer and technical levels of service. This distinction shows a maturity in the understanding of levels of service, however, the performance metrics used to measure and communicate levels of service can be enhanced.</p>	<p>Management agrees with Recommendation 3.</p> <p>a) The City has clearly identified the need to align the Asset Management outcomes and desired levels of service to the overarching strategic plans and functionally specific master plans.</p> <p>b) and c) As the City's levels of services are developed, defined</p>



#	Priority	Recommendation	Management response, owner and deadline
		<p>Currently there is no evidence that levels of service are being tracked from year-to-year within the AMP.</p> <p>We recommend:</p> <ul style="list-style-type: none"> a) Clearly documenting linkages between the Corporation's business and strategic objectives and each level of service (mid-term) b) Defining additional performance metrics that are quantifiable and can be used to evaluate service adequacy and effectiveness (mid-term) c) Defining three to five grades within each service category to outline the highest and lowest limits for each performance metric (mid-term) d) Extending the tracking of levels of service to regular periods (such as seasons or years) for benchmarking, analysis and forecasting into the future (long-term) e) Involving council and members of the community in setting customer and corporate level of service targets and understanding trade-offs (mid-term) 	<p>performance metrics will be incorporated for ongoing evaluation.</p> <p>d) Staff will provide annual updates to Council on the AMP, which will include an analysis of the levels of service. Annual updates will provide meaningful information to Council in advance of the budget cycle.</p> <p>e) Council and public education on the AMP will be held and should promote dialogue on the establishment of level of service targets and the potential impacts of the decisions.</p> <p>Owner: AMSC and Executive Director, Finance Services/Treasurer</p> <p>Due date: Second Quarter 2019</p>
4	Long-Term	<p>Asset Management Plan – Asset Management Strategy</p> <p>The current plan identifies strategies to keep existing infrastructure in a state of good repair, as well as growth</p>	<p>Management agrees with Recommendation 4.</p> <p>a) Aggregated lifecycle costs for each asset category will be</p>



#	Priority	Recommendation	Management response, owner and deadline
		<p>strategies to cope with growing demand.</p> <p>A risk model is present but information on how risks and criticality are integrated into the recommended strategies or financial scenarios is not presented. The lifecycle costs for each asset class can also be enhanced to reflect values that can be more easily referenced and visualized.</p> <p>We recommend:</p> <ul style="list-style-type: none"> a) Providing aggregated lifecycle costs for each asset category, broken down by the type of activity when appropriate (mid-term) b) Considering multiple asset management strategies for each of the major asset classes (mid-term) c) Incorporating the current criticality and risk model into the decision-making process (mid-term) d) Integrating planning and strategies across asset classes (e.g. linear and facilities) (mid-term) 	<p>explored and developed, as appropriate.</p> <ul style="list-style-type: none"> b) Multiple asset management strategies will be explored for major asset classes. c) The City is currently updating its corporate risk management framework, which will provide guidance and support for risk-based asset management. d) The risk management framework will be integrated with the asset management strategy and form a critical input to the capital project scoring matrix used to prioritize the annual financial requirements for the capital budget submission. <p>Owner: AMSC and Executive Director, Finance Services/Treasurer</p> <p>Due date: Third Quarter 2019</p>
5	Mid-Term to Long-Term	<p>Asset Management Plan – Financing Strategy</p> <p>The AMP identified a diverse set of revenue sources however we note some improvements that could be made to the supporting Financing Strategy.</p> <p>We recommend:</p>	<p>Management agrees with Recommendation 5.</p> <ul style="list-style-type: none"> a) The capital reserve schedules currently contain annual revenue and expenditure forecasts for the next ten years. Funding from reserves is a major source of funding for the City’s capital plan. Currently a comprehensive analysis of the City Reserves is underway,



#	Priority	Recommendation	Management response, owner and deadline
		<p>a) Including yearly investment and revenue forecasts for all lifecycle categories (mid-term)</p> <p>b) Calculating the overall funding gap and presenting it as part of the generated scenarios (mid-term)</p> <p>c) Generating additional funding and spending scenarios to demonstrate the implications of adopting various decision-making approaches, including the impact on asset condition and levels of service (long-term)</p>	<p>which is expected to recommend policy changes that will formulate strategies for funding capital reserves at appropriate levels over time.</p> <p>b) The funding gap calculation will provide crucial information to further refine the City capital planning process and reserve strategy.</p> <p>c) During the approval process for the 2017 budget, a dedicated 1% levy for infrastructure was established. It is expected that this additional capital funding will significantly improve the City's ability to renew and replace aging infrastructure and contribute to sound long-term financial planning.</p> <p>Owner: AMSC and Executive Director, Finance Services/Treasurer</p> <p>Due date: Fourth Quarter 2019</p>
6	Mid-Term	<p>Governance – Policy and Process</p> <p>The City does not currently have a written policy focused on asset management.</p> <p>We recommend:</p> <p>a) Documentation of an AM policy as a formal commitment of leadership and council to asset</p>	<p>Management agrees with Recommendation 6.</p> <p>a) and b) A formal Asset Management policy will be developed as the program matures ensuring integration with other key policies.</p> <p>c) Although there are planned annual updates to Council related to the AMP, a formal refresh cycle will</p>



#	Priority	Recommendation	Management response, owner and deadline
		<p>management goals and principles (mid-term)</p> <p>b) Integrating the AM policy with other key policies to ensure AM is a key consideration in plans and decisions made across the organization (mid-term)</p> <p>c) Including a process for refreshing the asset management plan on a three to five year cycle (mid-term)</p>	<p>be established as the AMP will be a significant input to informing the City's Financial Strategy and OSP updates.</p> <p>Owner: AMSC and Executive Director, Finance Services/Treasurer</p> <p>Due date: First Quarter 2019</p>
7	Short-Term to Mid-Term	<p>Governance – Roles and Responsibilities</p> <p>The City has created a Steering Committee which leads the implementation of the AMP and communicates AM needs to the rest of the organization. An Executive Sponsor for asset management was appointed to ensure resources are available and processes are adopted within the City.</p> <p>We recommend:</p> <p>a) Using workshops, newsletters, and other forms of communication to expand awareness and build buy-in and support amongst leadership, management, and technical and operations resources (mid-term)</p> <p>b) Formalizing asset management roles and responsibilities amongst internal resources (short-term)</p> <p>c) Developing a training and capacity building plan linked to planned</p>	<p>Management agrees with Recommendation 7.</p> <p>a), b) and c) A resourcing plan is currently under development, which will include a clear definition of roles and responsibilities, education/ training initiatives and business process improvements related to asset management within the Corporation.</p> <p>Owner: Executive Director, Finance Services/Treasurer</p> <p>Due date: Second Quarter 2018</p>



#	Priority	Recommendation	Management response, owner and deadline
		business improvement milestones (training, knowledge transfer, etc) (mid-term)	
8	Short-Term to Mid-Term	<p>Governance – Tools and Resources</p> <p>Tools and resources include any support to the AM process whether in the form of software, templates, training, knowledge and skills, or consultation with other organizations.</p> <p>There is no centralized or specialized toolset or software platform currently being employed for asset management across the City. However, different units may be implementing their own software solutions to manage their assets.</p> <p>The City has started to build-up an asset management knowledge base through collection of asset management related guides and learning resources, through participation in industry conferences and events, and through networking with peer municipalities.</p> <p>We recommend:</p> <p>a) Establishing a review protocol to evaluate current data sets, identify gaps and guide needed improvements (mid-term)</p> <p>b) Compiling requirements for a Computerized Maintenance Management System (CMMS) or an alternative platform to track and manage physical asset</p>	<p>Management agrees with Recommendation 8.</p> <p>a) and b) Tools and resources required to gather, catalogue, evaluate, track and manage data sets will be considered as we move through the establishment of processes.</p> <p>c) and d) Currently there are a number of staff participating in capacity building programs which will be on-going. The City is currently exploring a training program offered through the Institute for Asset Management (IAM). IAM is recognized as the asset management industry training specialist. This program, if approved, would provide asset management training to approximately 25 staff members across the organization.</p> <p>Owner: AMSC and Executive Director, Finance Services/Treasurer</p> <p>Due date: Second Quarter 2018</p>



#	Priority	Recommendation	Management response, owner and deadline
		<p>management and financial needs (mid-term)</p> <p>c) Engaging current staff in determining the skills and capabilities needed to perform their adapted roles and responsibilities, or use new software platforms effectively (short-term)</p> <p>d) Engaging in capacity-building programs offered by other institutions to gain greater access to leading practices (short-term)</p>	



Appendices

Appendix A: Staff involvement and documents reviewed

We held a workshop in December 2016 with key stakeholders to inform this work, including:

Name	Title
Paul Ralph	Commissioner, Development Services
Melissa McCabe	Manager, Infrastructure Services
Stephanie Sinnott	Executive Director, Finance Services/Treasurer
Helen Break	Director, Strategic Initiatives

We received the following documentation over the course of fieldwork:

- Draft Asset Management Plan
- AMP Asset Count (spreadsheet)
- Job Descriptions
- Oshawa Strategic Plan 2015-2019