

# Infrastructure Stimulus Spending

## Background

The global economic crisis in 2008 led governments around the world to adopt economic-stimulus measures. In Canada, the federal government announced in January 2009 its Economic Action Plan, which included infrastructure investments, tax relief, and grants to businesses and individuals.

The Plan also included several short-term programs to support infrastructure projects and create jobs throughout 2009 and 2010. These programs targeted construction-ready projects that would not otherwise have been built within those two years, and had requirements that they be substantially completed by March 31, 2011.

The Ontario government expected that the federal government would provide approximately \$3.45 billion to Ontario for these programs, with the province matching the federal contribution dollar-for-dollar. The plan was so designed that for every dollar that eligible recipients—municipalities, First Nations, and not-for-profit organizations—committed to an approved project, the federal and provincial governments would contribute another two dollars. As well, a number of projects were undertaken by the province itself and funded 50-50 with Ottawa. With full take-up, the programs would lead to more than \$8 billion in infrastructure

spending across the province. Funds could be used to rehabilitate existing, or build new, infrastructure in a variety of economic sectors.

Our audit focused on three of these programs:

- Infrastructure Stimulus Fund (ISF);
- Building Canada Fund—Communities Component Top-Up (BCF-CC); and
- Recreational Infrastructure Canada Program in Ontario and Ontario Recreational Program (RINC).

The ISF and BCF-CC programs would primarily support construction of roads, bridges, parks, and trails, along with facilities such as municipal buildings and water and wastewater processing plants, while RINC would help build recreational infrastructure. Together, the three programs accounted for about \$3.9 billion, or 57%, of the \$6.9 billion in total federal–provincial short-term infrastructure commitment.

The Ontario Ministry of Energy and Infrastructure (MEI), in partnership with other provincial ministries and its federal counterpart, was responsible for delivery of the three programs. In addition, MEI was the lead ministry responsible for oversight and negotiating funding arrangements. However, on a day-to-day basis, the Ministry of Agriculture, Food and Rural Affairs administered ISF and BCF-CC, while the Ministry of Tourism and Culture administered RINC.

(On August 18, 2010, the Ministry of Energy and Infrastructure was split into the two stand-alone ministries of Energy and Infrastructure. As our audit covers the period before the split, we will continue to refer to the Ministry of Energy and Infrastructure in this report, although our recommendations will be directed to the Ministry of Infrastructure.)

Each infrastructure program has a management committee, or equivalent, composed of federal and provincial representatives, with a mandate to oversee management and implementation of the program.

When the two governments unveiled the programs in spring 2009, they set March 31, 2011, as the deadline for substantial completion of projects. In December 2009, the federal government announced that the deadline for funds to be approved for projects was January 29, 2010. Any funds still uncommitted by January 29, 2010, would be re-allocated elsewhere or allowed to lapse.

As of March 31, 2010, about \$3.1 billion of the \$3.9 billion available under the three programs had been committed to federal–provincial cost-shared projects. Of the remaining \$800 million available, the federal government provided \$400 million directly to funding recipients on infrastructure projects and for its own administration costs while the province committed the remainder to infrastructure projects that do not have a March 31, 2011, deadline.

## Audit Objective and Scope

The objective of our audit was to assess whether adequate systems and procedures were in place to:

- ensure the timely distribution and prudent administration of these selected infrastructure-stimulus program funds; and
- measure and report on the effectiveness of these programs.

We developed audit criteria to evaluate the systems and procedures that should be in place for

effective program delivery. These criteria were discussed with and agreed to by senior management of the responsible ministries.

The scope of our audit included research into economic-stimulus initiatives in other Canadian and U.S. jurisdictions, a review of the federal–provincial and provincial-recipient funding agreements, relevant provincial ministries' files and information, and relevant federal government reports. We also interviewed staff of the ministries involved and funding recipients, and toured project sites. In addition, we engaged an independent firm to conduct an online survey of more than 100 recipients, which generated a response rate of over 90%.

Given that most of the funded projects were at a preliminary stage and the majority of committed funds had not yet been spent, we could not examine whether recipients had spent funds prudently and for the purposes intended.

At the time of our audit, the Office of the Auditor General of Canada and the auditors general of several other provinces were also conducting, or planning to conduct, audits of infrastructure stimulus programs. We collaborated with them on research and planning.

In addition, Ontario's Internal Audit Division assisted ministries with the identification of risks and the development of accountability frameworks and internal controls during the roll-out of the programs. The Division also conducted an assessment of the corporate controls and processes at the Ministry of Energy and Infrastructure, and issued a report in May 2010. This work was helpful in planning the scope and extent of our audit work.

Our audit covered neither the Infrastructure Stimulus Fund projects funded directly by the federal government nor the non-stimulus projects funded by Ontario. For example, the City of Toronto negotiated directly with Ottawa for \$190 million in federal funds for its infrastructure stimulus projects. Ontario's contribution of \$270 million to Toronto was to be spent on the Toronto Transit Commission's Light Rail Vehicle fleet and car-house

construction, with completion expected in 2018 and therefore outside the scope of our audit.

Our audit of Infrastructure Asset Management at Colleges (see section 3.06) also examined the approval process for stimulus funds provided to colleges under the Knowledge Infrastructure Program.

## Summary

In order to ensure that stimulus funds would be injected into the economy to create jobs as quickly as possible, the three programs were to give priority to construction-ready projects of demonstrable benefit to their communities that could be substantially completed within two years. Priority was also to be given to those who planned to spend 50% or more of the funds by March 31, 2010, the end of the programs' first year.

However, we noted that as of March 31, 2010, the end of the first year of the two-year program, less than \$510 million, or only about 16%, of the total \$3.1 billion committed by the federal and Ontario governments, had actually been spent. According to the job-creation model used by the Ministry of Energy and Infrastructure (MEI), the three programs we examined would create and preserve about 44,000 jobs (each job was defined as one person-year of employment). But given the lower level of actual spending during the first year of the programs, only about 7,000 jobs were estimated to have been created or preserved during the first year of the two-year program.

The tight deadlines for distributing funds made it necessary to plan and implement the infrastructure-stimulus programs within a short period. We noted that the responsible ministries devoted significant efforts to establish the appropriate systems and processes, and to adhere to the province's Transfer Payment Accountability Directive on program eligibility, reporting, and other accountability requirements. However, we noted a number of areas where improvements could be made to

similar future programs involving tight timelines to help ensure the selection of those projects that best meet program objectives.

With respect to the grant-application and application-assessment processes, we noted that:

- MEI placed no limit on the number of applications that municipalities with populations of more than 100,000 could submit under ISF, the largest of the three infrastructure programs. This provided an incentive to submit large numbers of applications in hopes of getting as many of them approved as possible. For example, four municipalities submitted a total of almost 1,100 applications, accounting for 40% of the applications submitted by the 421 Ontario municipalities for this program.
- Due to the tight deadlines, the time allotted for the provincial review of ISF applications was in most cases just one to two days. In one instance, we noted that a key component of the provincial review for 56 projects worth an estimated \$585 million was carried out in just four hours. In our view, it would not have been possible to conduct the necessary review work within such a tight time frame.
- Applicants were not required to prioritize their infrastructure needs, and none did in their applications, making it more difficult to assess the benefits of the proposed projects and make informed funding decisions. One municipality submitted 150 applications valued at \$408 million, and received approvals for 15 projects worth \$194 million. From our visit to this municipality, we noted that 11 of the approved projects, valued at \$121.7 million, were ranked at or near the bottom of the municipality's own priority list, while other, higher-ranked eligible projects were not approved.
- We noted that technical experts were generally not involved in assessing the applications even though thorough analysis by such experts would have helped assess the reasonableness of project cost estimates and identify

those unlikely to meet the two-year completion deadline.

After assessment and review by civil servants in the appropriate ministries, applications were submitted to the office of Ontario's Minister of Energy and Infrastructure and to his federal counterpart for final review and approval. With respect to this process, we noted that there was a general lack of documentation to support the decisions regarding which projects got approved, and which did not.

In some cases, ministers' offices approved projects that civil servants had earlier deemed ineligible or about which they had flagged concerns. We found little documentation to indicate how, or even if, the civil servants' concerns had been addressed prior to approvals being granted. Without such documentation, there is a heightened risk that the Ministry would be unable to demonstrate that the awarding of projects was open, fair, and transparent, or that political considerations did not come into play. In this regard, the results of our review of a sample of projects by electoral riding indicated there were no discernible patterns. Nevertheless, such approval decisions should be clearly documented and justified to ensure transparency and accountability in spending public money.

Federal and provincial funding ends on March 31, 2011, after two years. As only 16% of the committed funds had been spent after the first year, many recipients will be challenged to ensure that they complete projects before this deadline. Our survey indicated that as of May 2010, more than one-third of respondents faced such issues as having to adjust project specifications and cost estimates in the original applications, pay contractors overtime, and sole-source some contracts to meet the deadline. For example:

- It cost one recipient \$620,000 extra to move the completion date for a new \$13-million recreational facility up two months to meet the March 31, 2011, deadline.
- One municipality had to add incentive clauses ranging from \$50,000 to \$100,000 to five projects to try and advance their completion

dates, and was considering similar incentives for another seven.

- A number of recipients said that doing certain work in winter, such as laying asphalt or sod, to meet the spring 2011 deadline could lead to increased maintenance and other costs during the life cycle of a project.

We communicated our concerns regarding the completion of all work by the March 31, 2011, deadline to the relevant ministries during our audit to ensure that timely action could be taken. The ministries indicated they used a risk-assessment tool in February 2010 to identify and monitor projects experiencing delays, but we were concerned that the information used for this work was incomplete and out of date. The ministries were working to update their information at the completion of our field work in April, 2010.

## OVERALL MINISTRY RESPONSE

The Ministry of Infrastructure and its program delivery partners welcome the observations and recommendations of the Auditor General. Given that the infrastructure stimulus programs are still being implemented, we have already taken actions to address many of the Auditor General's recommendations, and will continue our efforts to increase accountability and oversight. The province's infrastructure stimulus programs are supporting thousands of projects throughout the province. As of October 2010, more than 90% of these projects were on track to be completed by the March 31, 2011, deadline.

The infrastructure stimulus programs were developed by the Government of Canada. Ontario's Transfer Payment Accountability Directive was paramount in guiding the steps taken to ensure accountability and transparency of these programs during implementation, while also ensuring that stimulus funds would be injected into the economy as quickly as possible.

A formal application process was used, including a requirement for a formal attestation

by applicants as to the accuracy of each application and their ability to complete projects by the March 31, 2011, deadline. In addition, all funding recipients are required to operate under a binding contribution agreement that ensures funds are spent in an appropriate and accountable manner.

Based on input from the Auditor General’s staff during this audit, and experience gained during program implementation, the Ministry has made significant improvements to these programs. Our monitoring and reporting is more complete and accurate, and we are assessing and monitoring all projects using a rigorous risk-assessment tool.

tions from existing programs or to invite new applications. Ontario chose to invite new applications for the Infrastructure Stimulus Fund (ISF), the Building Canada Fund–Communities Component Top-Up (BCF-CC), and the Recreational Infrastructure Canada Program in Ontario and Ontario Recreational Program (RINC).

The programs were launched during April and May 2009, and potential recipients had only two to three weeks to submit applications. These were then assessed by federal and provincial staff for eligibility, reasonableness of timelines, expected benefits, possible funding duplication, and alignment with provincial policies and priorities.

Applications assessed by the province were examined primarily by staff from the Ministry of Agriculture, Food and Rural Affairs (OMAFRA), and the Ministry of Tourism and Culture (MTC). Final decisions on project selection and approval were made jointly by the office of Ontario’s Minister of Energy and Infrastructure and by his federal counterpart. A summary of key information about the three programs is shown in Figure 1.

The tight deadline for committing funds made it necessary to plan and implement quickly an

## Detailed Audit Observations

When the federal government announced the infrastructure stimulus programs in January 2009, it gave provincial and territorial governments the choice of applying the funds to unfunded applica-

**Figure 1: Summary of Key Dates and Details for the Selected Programs as of March 31, 2010**

Source of data: Ministry of Energy and Infrastructure

	Infrastructure Stimulus Fund (ISF)			BCF-CC	RINC
	municipalities <sup>1</sup>	not-for-profit	provincial ministries <sup>2</sup>	municipalities (<100,000)	municipalities/ not-for-profit/ First Nations
committed funds (federal and provincial)	\$1.95 billion	\$154 million	\$212 million	\$392 million	\$390 million
date approved projects announced	June 5, 2009	Dec. 23, 2009	Jan. 29, 2010	June 5, 2009	June 26, 2009
application limits (by population)	unlimited-(>100,000) 3-(<100,000)	one	unlimited	one	unlimited
funding cap	no	no	no	no	\$1 million
# of applications received	2,746	954	411	430	1,539
# of projects approved (% of applications)	1,213 (44%)	70 (7%)	104 (25%)	187 (43%)	767 (50%)

1. Does not include funding for ISF projects for the City of Toronto (\$190 million from Ottawa and \$270 million from Ontario) because the city negotiated directly with the federal government for ISF funds, and provincial funding has been allocated to Light Rail Vehicles.

2. These project costs are shared 50-50 between the federal and provincial governments.

application and assessment process for the stimulus programs. Ministries, with assistance from Ontario Internal Audit, made significant efforts to establish such processes, along with appropriate controls. In addition, they made a conscious effort to adhere to principles of Ontario's Transfer Payment Accountability Directive, which includes a requirement to establish criteria for program eligibility and to insert accountability and reporting requirements in all funding agreements.

However, we noted a number of areas where improvements could be made to similar future programs involving tight timelines to help ensure selection of projects most likely to meet the objectives of an infrastructure and employment stimulus plan.

## **PROGRAM ELIGIBILITY AND APPLICATION ASSESSMENT**

### **Program Design and the Submission of Applications**

Municipalities with populations greater than 100,000 could apply for an unlimited number of projects under ISF. The actual number of applications received from each of these bigger communities varied greatly and ranged from three to 312. Four municipalities alone submitted a combined total of almost 1,100 applications, accounting for 40% of all applications. In total, 421 municipalities applied to ISF; a breakdown of applications made by the top-10 municipalities is shown in Figure 2.

As well, municipalities were not asked to prioritize their infrastructure needs in their applications, and none did. This, and the unlimited number of applications they were allowed to submit, could provide an incentive to submit applications for low- as well as high-priority projects in the hope of getting as many as possible approved. One municipality, for instance, acknowledged that it applied for several road projects close to each other even though it had not had sufficient time either to examine the impact on traffic or its capacity to handle the number of projects for which it had applied.

Another municipality submitted 150 applications valued at \$408 million and representing 80% of its estimated capital shortfall over the next five years. It received approvals for 15 projects worth \$194 million. However, we noted during a visit there that only four of the approved projects were ranked in the top 20, whereas the remaining 11, worth \$121.7 million, were ranked between 120 and 150—at or near the bottom of the municipality's own priorities list. We were subsequently informed that the approval was based on a decision by the then minister not to fund projects under \$1 million in large municipalities, as these municipalities would likely have the fiscal capacity to undertake them without the assistance of stimulus programs. However, there was a lack of documentation to explain why other, higher-ranked projects from this or other applicants were not approved instead.

Although applicants were required to describe the expected benefits of the proposed projects, neither the ministries nor the applicants estimated the extent to which the projects would create and preserve jobs—even though that was the primary objective of the stimulus programs. The impact on employment will vary with the size and nature of projects and so it would have been reasonable to take all relevant factors into consideration when evaluating applications.

Finally, although priority was to be given to projects that would spend 50% or more of project cost by March 31, 2010, it was clear from communications between federal and provincial staff that it would be unreasonable to expect recipients to spend evenly over the two years of the program. Instead, federal staff said to expect that spending would be heavily weighted toward 2010/11. However, in prioritizing the applications, the selection process was not adjusted to assess the reliability of the information or to initiate follow-up where appropriate.

**Figure 2: Analysis of Applications and Approved Projects for the 10 Municipalities Submitting the Most Applications**

Source of data: Ministry of Energy and Infrastructure

Municipality	# of ISF Applications Submitted	Total Value of Applications (\$ million)	# of Applications Approved	Total Value of Applications Approved (\$ million)	% of Requested \$ Approved
A	312	109.5	15	50.5	46
B	302	187.6	132	138.7	74
C	269	504.2	91	375.9	75
D	215	42.7	174	30.3	71
E	150	407.8	15	194.4	48
F	70	80.5	55	25.5	32
G	68	131.5	21	66.5	51
H	49	130.1	42	96.9	74
I	44	94.0	14	53.5	57
J	40	258.0	17	79.0	31
<b>Total</b>	<b>1,519</b>	<b>1,945.9</b>	<b>576</b>	<b>1,111.2</b>	<b>57</b>

### Assessing the Applications

The Ontario ministries and their federal counterpart were jointly responsible for assessing applications for infrastructure-stimulus funding. Although the assessment processes differed depending on the program, similar assessment criteria were applied across all programs to support construction-ready projects, including:

- reasonableness of construction start and end dates;
- reasonableness of cost estimates;
- likelihood of spending 50% of funding by March 31, 2010;
- applicant's financial capacity; and
- consistency with provincial policies and priorities.

OMAFRA and MTC were designated to carry out assessments on behalf of the province because they had previous experience delivering capital-grant programs and working with recipients. In addition, the two ministries already had payment-processing systems and staff in place to administer the programs.

The majority of applications were assessed over a two-week period in May and June 2009. The

assessment of the BCFCC and RINC applications were shared between federal and provincial staff. ISF applications were subject to an initial screening by federal staff based on a methodology that was agreed to by provincial staff before being forwarded to the province for additional review.

For ISF, the goal of the screening process carried out by federal staff was to identify stimulus-ready projects among the applications. Screening criteria included identifying any need for federal environmental assessments and consultation with First Nations, the share of funding, and projects costing more than \$100 million. After screening by federal staff, applications were then sent to the province for assessment and due diligence. However, OMAFRA had only about 15 assessment staff to handle more than 2,000 municipal applications, many for multi-million-dollar projects. In most cases, MEI allowed a turnaround time of just one to two days to flag concerns with the applications—and in one case, we noted that a key component of the provincial review for 56 projects with an estimated value of \$585 million was assessed in just four hours. In our view, it would not have been possible to carry out an appropriate due-diligence review of these applications under such circumstances.

In past capital-grant programs, ministry staff were mostly responsible for administering claims. Evaluation of the grant applications themselves usually required input from independent technical experts—engineers, for example—to assess such factors as a proposed project’s benefits, construction dates, and cost estimates. It was also previous practice to enlist the specialized expertise of other ministries, such as Transportation and Environment, although the administering ministries retained accountability for the overall success of capital-intensive programs.

We noted, however, that no technical experts were engaged to review applications under ISF and RINC, although a few were involved in assessing some BCF-CC applications.

Given the wide spectrum and complexity of applications for stimulus funding, feedback from technical experts would have been even more important here. For example, one-third of respondents to our survey acknowledged that one of the challenges they faced in completing applications was gathering reliable and accurate cost estimates for projects.

However, as one technical expert said in his review of certain BCF-CC applications, the time constraints under which he worked would not have allowed for a thorough review and follow-up on any concerns identified. Under the circumstances, we believe a more risk-based approach might be warranted, one that would focus attention and depth of review on high-risk projects prioritized by, for example, size and complexity. We found no evidence that such risk assessments were done.

In addition, we noted that descriptions in the applications of expected project benefits were, in many cases, generic and repeated across multiple applications. This made it difficult for ministry staff, already working under tight deadlines, to assess the merits of individual projects and prioritize their selection. For example, one municipality applied for 110 roads and 175 park and trail projects, all with the same description for each project category. Of these, 49 roads and 73 parks and trails

were recommended for approval. However, as all the applications contained the same information, it was impossible to determine how projects were ultimately selected and rejected. Similarly, six of another municipality’s 19 applications for bridge projects were selected, but all 19 applications contained the same information.

Although it was prudent to establish a formal assessment process to help ensure selection of projects best suited to program objectives, the tight time frames under which ministry staff worked made it extremely challenging to carry out proper assessment of applications. As well, conducting knowledgeable assessments would be difficult without more project-specific and reliable information from the applicants.

## RECOMMENDATION 1

To help ensure that projects best suited to meeting program objectives are funded in any future infrastructure programs, the Ministry of Infrastructure should:

- follow a more risk-based approach to designing and implementing future capital-grant programs and consider all important factors affecting program delivery, including project suitability, reasonableness of timelines, and the capacity of and demand on ministry resources;
- require that applicants better demonstrate the benefits of their proposed projects, provide evidence that the expected benefits are achievable, and prioritize their applications; and
- strengthen its due-diligence process and include the use of technical experts to review high-risk projects, in assessing grant applications.

## MINISTRY RESPONSE

The Ministry will expand the use of risk-based program design and analysis for future infrastructure programs. The Ministry will also



assess the resource implications of program-design decisions, and work to incorporate additional technical due diligence where warranted on a risk-based approach. The Ministry will also ensure that future application processes place a greater onus on applicants to demonstrate that the claims in their applications are valid and achievable, in addition to the formal attestation required for these programs.

## APPROVALS OF APPLICATIONS

Under Ontario's Transfer Payment Accountability Directive, the responsible minister is accountable to the public and the Legislative Assembly for authorizing grants. The results of assessment and recommendations by civil servants in the partner ministries and MEI were submitted to the offices of the Ontario Minister of Energy and Infrastructure and his federal counterpart for final review and approval.

Figure 3 summarizes the changes made to the ISF municipal applications and RINC applications after the assessment and recommendations by ministries' staff in May/June 2009. With respect to the BCF-CC projects, the results of technical reviews of the 430 applications were initially categorized into a high, medium, or low ranking by OMAFRA staff, but they did not make recommendations about which projects to fund.

All the applications were submitted to both the federal and Ontario ministers' offices, which subsequently worked with and communicated their selection to MEI staff verbally at meetings or over the telephone, or by email, before coming up with an approved list.

We noted there was generally a lack of formal documentation to support the decisions made by the ministers' offices. This made it difficult to determine the rationale for the final project selection, especially in cases where civil servants' recommendations and prioritization of projects were not

**Figure 3: Changes to Federal/Provincial Staff Recommendations, December 2009**

Source of data: Ministry of Energy and Infrastructure

	ISF-Municipal	RINC
<b># of applications</b>	<b>2,746</b>	<b>1,539</b>
recommended projects	1,289	717
removed by ministers' offices	(261)	(153)
added by ministers' offices	185	203
<b>Final List of Approved Projects</b>	<b>1,213</b>	<b>767</b>

followed. We did note from individual applications that concerns had been expressed about the timelines and sustainability of a number of projects that were approved. However, no documentation was maintained to indicate whether the concerns had been taken into consideration when making the ultimate decision.

For example, we noted with respect to ISF and RINC that many changes were made by ministers' offices to the lists of recommended projects, but there was a lack of documentation to support the final decision. For instance:

- Of the ISF municipal projects added by the ministers' offices, 21 of them, valued at \$304 million, had been originally deemed ineligible by federal and provincial civil servants due to unreasonable timelines or for failing to meet program criteria. MEI was unable to provide evidence that these concerns were addressed before projects were approved. In fact, our follow-up indicated that the concerns flagged during the assessments, including unreasonable completion timelines, were legitimate. Specifically, we noted that as of June 2010, 17 of the 21 projects had submitted claims for less than 10% of total project costs, even though the key program objective was to inject funds into the economy as quickly as possible.
- On June 2, 2009, the office of Ontario's Minister of Energy and Infrastructure asked for the removal of proposed ISF municipal projects submitted by large municipalities

where eligible costs were less than \$1 million. We noted that of the 622 recommended projects in this category, 225 of them, valued at \$70 million, were removed without written explanation about how these decisions were made. Often, small projects are better suited to meeting the objective of short-term job creation and could have been completed by the March 31, 2011, deadline because they require less start-up time.

- Six months after the initial announcement of ISF municipal projects, the ministers' offices announced in December 2009 an additional 29 municipal projects worth \$173 million for various municipal buildings, community centres, wastewater plants, and local road projects. Five of those projects, valued at \$78 million, had been turned down in previous applications. Applicants had been asked to re-apply despite the existence of many other eligible applications. Ministry staff had noted there was a risk about the perceived fairness of a process in which new projects were added without adequate documented support.
- Of the more than 700 recommended RINC projects, 153 were removed and replaced with 203 other applications, with no written justification as to why. Of the 203, 149 were not recommended by the assessment team due to late start dates, and 31 were originally assessed as ineligible due to lack of documentation, interpretation of program guidelines, and need for environmental assessment.

This lack of transparency to support the decisions made heightens the risk that the Ministry would be unable to demonstrate that the selection process was open and fair, and that political considerations did not come into play. We do acknowledge that this risk was mitigated by the fact that project selection was approved jointly by the federal and Ontario ministers. In this regard, however, MEI staff indicated they are not in a position to confirm whether a particular project was added or removed by the provincial minister or the federal minister.

We did ask the Ministry if it tracked the number of projects and dollars awarded by electoral riding. It replied that, other than providing information about approved projects and funding by location and census division, it did not.

Accordingly, we reviewed 100 of the projects, accounting for more than half of the funds available for the three programs, by riding but concluded that there were no discernible patterns. Nevertheless, the province's Transfer Payment Accountability Directive requires transparency and accountability in the spending of public money. With respect to these examples, decisions during the final stage of the approval process had not been clearly documented and justified to ensure a fair and consistent project selection process.

## RECOMMENDATION 2

To ensure a fair and transparent project selection process is followed for any similar programs in future, the Ministry of Infrastructure should:

- address all significant concerns raised during initial assessment and satisfactorily follow up and resolve them before approving the projects;
- strengthen documentation of the rationale for decisions reached throughout all stages of the grant-assessment and approval processes; and
- consider whether providing additional information would enhance transparency and be of interest to the general public and the Legislature.

## MINISTRY RESPONSE

The Ministry agrees that documentation at all stages of the approval process is required to meet public expectations for transparency and accountability. The Ministry agrees that increased documentation, including the resolution of concerns raised during the assessment process, would support the ability to demonstrate that selection processes are fair and

transparent. The Ministry will strengthen documentation processes in future similar programs to ensure that, as decisions are taken, rationales for those decisions are fully documented.

It is important to note that the decision process for the stimulus projects was a joint one, negotiated and agreed to between federal and provincial ministers. The final project-selection decisions were negotiated and made jointly with the federal government.

The Ministry is providing a wide range of useful information on the government’s *Revitalizing Ontario’s Infrastructure* website, including stimulus-project details such as project cost, location, and completion status. The Ministry continues to improve the website and plans to enhance project details in a future update of the site.

## PROJECT MANAGEMENT

### Reporting and Monitoring the Progress of Projects

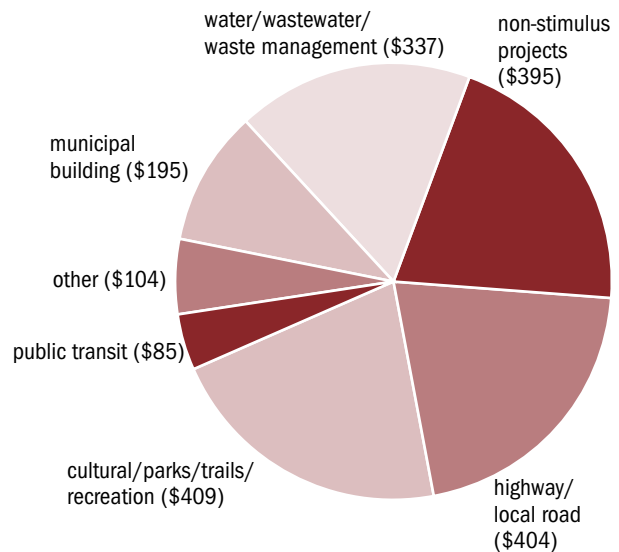
Provincial funding for the three programs by infrastructure category was as illustrated in Figure 4 and totalled more than \$1.9 billion.

Recipients were required under their agreement with the province to report monthly and quarterly on project progress, including expected and actual construction dates and estimated percentage of project completion. The information was reported to the federal government and used for reporting progress on MEI’s website.

At the end of March 2010, all BCF-CC recipients had reported on project progress. However, there had been either no status reports or delays in reporting the status of 17% of ISF municipal projects and 40% of RINC projects. The status of RINC projects, in particular, was difficult to determine reliably due to issues with RINC’s information system. Although the ministries indicated they had contacted recipients who had failed to report, the results of those discussions and any feedback on

**Figure 4: Provincial Funding of Infrastructure Stimulus Projects by Category, March 31, 2010 (\$ million)**

Source of data: Ministry of Energy and Infrastructure



Notes: Non-stimulus projects do not have the March 31, 2011, substantial completion requirement. Municipal building projects include halls, community centres, fire halls, and emergency management services. Other projects are primarily not-for-profit projects relating to community facilities.

the status of project progress was not updated in the ministries’ information systems. As a result, the project status reported to the federal government and the public was likely not complete and up-to-date. In June 2010, subsequent to our audit field work, we were informed that progress reports had been submitted for 95% of all projects.

We noted a variety of interpretations by recipients as to what project progress means. Some defined it as estimated work done while others used actual dollars spent and engineering assessments. We performed our own analysis of progress based on actual spending by recipients. As of March 31, 2010, our calculations indicated only \$510 million, or 16% of the \$3.1 billion in committed funds, had been spent. This lagged significantly behind the province’s initial expectation of equal spending in each of the program’s two years and left about \$2.6 billion of the \$3.1 billion originally committed still to be spent in the 2010/11 fiscal year.

Our follow-up with a sample of the recipients noted the following principal reasons for the delays:

- **Timing of application-approval process:** For work to start in time for the 2009 “good-weather” construction season, sufficient lead time was required in winter and spring to complete planning and procurement work. As projects were not approved until June 2009 or later, it was not possible to take advantage of the 2009 construction season for most of the projects, leaving the bulk of work to be completed in the 2010 construction season.
- **Size and complexity of projects:** Large construction projects generally require extensive planning and design, procurement, and construction-site preparation before work can start. Of the 1,574 ISF and BCF-CC projects, 85, or about 5.4%, accounted for 50% of the total available funding. In our review of 34 of these large projects, we noted 27 were not construction-ready at the time of application because the design phase was incomplete. Under normal circumstances, such projects would take anywhere from 36 to 48 months to complete.
- **Weather and the environment:** The progress of a number of projects was constrained by seasonal factors and environmental concerns such as the temperature requirement for asphalt and concrete work, and fish-habitat considerations in waterways. Fisheries and Oceans Canada has guidelines for the timing of in-water construction for the protection of fish and their habitats. As a result, work on bridges over water can only be done within a limited time during the construction season to ensure that it does not interfere with fish spawning.
- **Contingencies:** Some proposed project schedules were overly optimistic and failed to build in any contingencies for unanticipated delays. Recipients reported environmental discoveries that required further permits or reviews, soil conditions requiring additional work, archeological discoveries, and land-ownership issues.

The delays were even more evident for ISF projects involving not-for-profit organizations (NPOs).

These were not approved until December 2009, six months after funds for the ISF-municipal projects had been committed, even though they had the same project-completion deadline of March 31, 2011. Project progress reports were not available for the 70 NPO projects, with combined federal-provincial funding of \$155 million, because OMAFRA had yet to add these projects to its tracking system. In fact, as of March 2010, funding agreements with some NPOs were still being finalized, even though the same completion deadline applied.

About half of the respondents in our survey of grant recipients said they had concerns about whether some of their projects would meet the March 31, 2011, deadline for substantial completion. In most cases, they also indicated that pushing the deadline a few months further into the 2011 good-weather construction season would help them finish on time.

We acknowledge that the federal government stipulated the requirement that all work be substantially completed by March 31, 2011, and that funding recipients rather than the province are responsible for all costs incurred after that date. However, there is still a risk the province may have to step in and assume part or all of the cost of completing projects started by recipients unable to finish the work without continued federal and provincial funding. Any discontinuation of funding would put the fate of federal investments in upgrading Ontario’s infrastructure at risk. Given this risk, the ministries need to have reliable information on the current status of the funded projects.

We communicated our concerns to the ministries throughout the audit. In February 2010, OMAFRA’s management committee approved a risk-assessment tool to identify and monitor projects that are experiencing delays. However, we noted that the information used for this work was incomplete and out of date. The ministries were working to update the information at the completion of our field work in April, 2010.

### RECOMMENDATION 3

To help ensure that funded projects are completed on time and on budget, and to comply with funding agreements, the Ministry of Infrastructure should:

- ensure that recipients report project information consistently and on a timely basis, and follow up on projects at risk of missing the funding cut-off deadline; and
- consider raising the issue with the federal government once reliable data is available on the number and extent of projects that will not be completed by the March 31, 2011, federal funding cut-off.

### MINISTRY RESPONSE

The Ministry agrees that timely and accurate monitoring and reporting are essential aspects of stimulus-program delivery. The reporting mechanisms for the stimulus programs have improved significantly since they were initially implemented. In June 2010, for example, funding recipients submitted the required reports for 95% of all stimulus projects, and the delivery ministries followed up in each case where reports were not provided.

The Ministry also agrees that sharing risk information with our federal partners is essential to managing this program, and will continue to liaise with federal staff as risks are identified. Since April 2010, the Ministry has been carefully analyzing the risk that stimulus projects might not be completed by the March 31, 2011, deadline. This analysis has been completed for all of the stimulus projects, including those subject to this audit, and is updated on a continuous basis to help proactively manage at-risk projects.

### Costs to Meet the Funding Deadline

We noted that some recipients, in trying to meet the March 31, 2011, completion deadline, incurred additional costs that might not otherwise have been necessary. Although it was difficult to quantify the total cost of these additional expenses, more than one-third of respondents in our survey faced such issues as having to adjust original cost forecasts, pay contractor premiums, and sole-source some contracts to meet the deadline.

Some examples we noted:

- A recipient building a new 48,000-sq.-foot multi-purpose recreational facility for \$13 million originally stipulated penalties in its tender documents for missing the completion date. However, the architectural firm overseeing the project said no prequalified contractor was willing to bid with any penalties attached to the March 31, 2011, deadline. After the tender was revised to remove the penalty clauses, four bids were received. Although most contractors insisted that it was not possible to accelerate the construction schedule to reach substantial completion by March 31, 2011, the successful bidder offered for an additional \$620,000 to move the completion date up by two months to meet the deadline.
- A municipality received approvals for 12 projects worth \$130 million, and determined that an incentive clause was required for at least five of them. The municipality indicated the incentives, ranging from \$50,000 to \$100,000 per project, were necessary to advance project completion to the end of 2010 because the work in question could not be done in the winter months of 2011. It was also considering similar incentives for seven other projects.
- One municipality we visited introduced penalty clauses of up to \$10,000 for each day that work remains substantially uncompleted. In this regard, penalty clauses and early-completion bonuses are common in construction contracts to expedite work and avoid

subsequent contract disputes. However, such provisions are effective only if the timelines and the amount of damages are realistic. Otherwise, contractors will simply not bid, or increase their bid price to reflect the risks they are asked to bear.

In some cases, the quality of work could suffer in spite of any additional costs incurred as a result of the rush to finish. For example, the application of asphalt during low temperatures could lead to increased maintenance and other costs during the lifecycle of a project.

A number of recipients we visited also expressed concern about rushing through the design phase of large complex projects, which could lead to unforeseen issues, such as the need for change orders, during the construction phase.

#### RECOMMENDATION 4

To help ensure that funds are spent wisely, the ministries of Infrastructure, Tourism and Culture, and Agriculture, Food and Rural Affairs should work with any recipients experiencing significant delays on their projects to evaluate the options and solutions best suited to meet stimulus-program objectives and ensure value for money in completing the projects.

#### MINISTRY RESPONSE

The Ministry of Infrastructure, along with the other program-delivery ministries, is engaged with project proponents on an ongoing basis. Special attention is being paid to projects identified as delayed or otherwise at risk. This includes working with proponents to identify options such as changing the scope of projects so that they can meet the stimulus deadline, and requesting more detailed construction documentation.

Ultimately, project proponents are accountable for the procurement, management, and delivery of their own projects.

#### Financial and Claims Administration

Recipients are reimbursed for the federal and provincial share of eligible project costs subject to a review by the responsible ministries of expenses incurred. In addition, the funding agreements contain audit provisions that allow for reviews of project expenditures and cost eligibility.

Most of the funds were approved for projects in municipalities with which ministries had ongoing and established relationships. However, there were also 149 not-for-profit organizations (NPOs) with 94 RINC projects and 70 ISF projects valued at \$360 million. These NPOs were typically smaller and ranged from multi-purpose community organizations and recreational centres to special-purpose organizations like curling, soccer, and rowing clubs.

The ministries had no previous experience dealing with many of these smaller organizations, some of which might lack the project-management expertise and accountability structures of large municipalities. As a result, MEI needs to develop a better understanding of these organizations' controls and structures to identify risks associated with funds provided. Although the funding agreement did include an audit provision, more timely monitoring and audit might be warranted to ensure that funds were spent wisely and for the purposes intended.

#### RECOMMENDATION 5

To ensure that funds are spent wisely and for the purpose intended, the Ministry of Infrastructure should work with the Internal Audit Division to develop appropriate monitoring and audit coverage of fund recipients according to assessed risk.

#### MINISTRY RESPONSE

The Ministry agrees that the Internal Audit Division has an important role to play in helping the Ministry ensure the accountability of the stimulus programs, including monitoring and audit considerations. The Ministry proactively

engaged the services of the Division early in 2009 to provide advice on the design and implementation of the stimulus programs. We have been working with the Division continuously since then, and it has provided the Ministry with detailed advice on appropriate program design and risk mitigation. More recently, that work has focused on monitoring and audit requirements using a risk-based framework, which will assist the Ministry in ensuring that infrastructure funds are spent prudently and in accordance with negotiated contribution agreements.

## MEASURING AND REPORTING ON PROGRAM EFFECTIVENESS

The short-term infrastructure programs are part of the government's overall plans to spend a total of \$32.5 billion on Ontario's infrastructure over the next two years. This, along with municipal and other partner investments, is expected to support an estimated 146,000 jobs in the 2009/10 fiscal year and 168,000 jobs in 2010/11. A job is defined as one person-year of employment.

In November 2009, MEI launched the "Revitalizing Ontario's Infrastructure" website to allow the public to track the progress of projects, including those under ISF, BCF-CC, and RINC, along with the estimated number of jobs created across Ontario.

To estimate job creation, MEI worked with the Ministry of Finance to adopt an economic model that translated infrastructure investments into person-years of employment. MEI applied a multiplier of 8.8 jobs (updated to 9.45 jobs in 2010) for every \$1 million of federal, provincial, and municipal/partner investment. Using this method, close to 44,000 person-years of employment would have been created or preserved under the three programs over the two years.

However, as there have been significant delays in the start of projects, the job figures should be adjusted to reflect actual spending. MEI's own economic model, applied to the approximately \$510 million actually spent to date by the federal and provincial governments for the three infrastructure programs in our audit, along with municipal/partner spending totals supplied by MEI, suggests the total number of jobs supported during the 2009/10 fiscal year was just 7,000.

## RECOMMENDATION 6

To better enable the public and legislators to evaluate the effectiveness of these stimulus programs, the Ministry of Infrastructure should:

- provide timely and accurate information on the progress of these projects; and
- ensure that the methodology used to calculate the impact of stimulus funds on employment is adjusted as needed to reflect the actual flow of funds into the economy and the impact on the job market.

## MINISTRY RESPONSE

The Ministry agrees that providing timely and accurate information on the progress of infrastructure projects is essential. The Ministry launched a public website in November 2009 to provide current information about thousands of stimulus projects across Ontario. This website provides the progress status of each stimulus project and is updated monthly to ensure that the most up-to-date information on project progress is available to the public.

The Ministry is committed to providing credible and accurate estimates of job creation, and will continue to refine the methodologies used to ensure that job-creation results are reported to the public in an appropriate way.