

Infrastructure Stimulus Spending

Follow-up to VFM Section 3.07, *2010 Annual Report*

Background

In January 2009, the federal government announced the Economic Action Plan, which included infrastructure investments, tax relief and grants to businesses and individuals as measures to stimulate the economy and combat the effects of the global economic crisis.

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.

These programs were designed so that for every dollar that the eligible recipients—municipalities, First Nations and not-for-profit organizations—committed to an approved project, the federal and provincial governments would each commit another dollar. As well, a number of projects were undertaken by the province itself and funded 50/50 with the federal government. It was estimated that with full take-up, the programs would lead to more than \$8 billion in infrastructure spending across the province by the three levels of government.

In 2010, we conducted an audit that focused on three of these programs, which accounted for

about \$3.9 billion of the total \$6.9 billion federal–provincial short-term infrastructure commitment:

- 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 primarily supported construction of roads, bridges, parks and trails, along with facilities such as municipal buildings and water and wastewater processing plants, while RINC helped build recreational infrastructure. When the two governments unveiled the programs in spring 2009, they set March 31, 2011, as the deadline for substantial completion of projects. As of March 31, 2010, about \$3.1 billion of the \$3.9 billion available under the three programs had been committed to approximately 2,300 federal–provincial cost-shared projects.

The Ontario Ministry of Energy and Infrastructure (MEI—now divided into the ministries of Energy and Infrastructure) and the federal government were responsible for delivery of the three programs. MEI was the lead ministry responsible for oversight and negotiating funding arrangements. 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

(now the Ministry of Tourism, Culture and Sport) administered RINC.

In our *2010 Annual Report*, we noted that 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, as of March 31, 2010, the end of the first year of the two-year programs, 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 MEI, the three programs we examined would create and preserve about 44,000 jobs, 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.

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 approved as possible. For example, four municipalities submitted a total of almost 1,100 applications, accounting for 40% of the total 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 due diligence 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 so that informed funding decisions could be made. 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, the 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 were approved and which were not. In some cases, ministers' offices approved projects that civil servants had earlier deemed ineligible or about which they had flagged concerns.

Federal and provincial funding was to end on March 31, 2011, after two years. As only 16% of the committed funds had been spent after the first year, many recipients had difficulty completing their projects by this deadline. Our survey indicated that as of May 2010, more than one-third of respondents had to take such steps as adjusting project specifications and cost estimates in the original applications,

paying contractors overtime and sole-sourcing some contracts to meet the deadline.

We made a number of recommendations for improvement and received commitments from the Ministry of Infrastructure (Ministry) that it would take action to address our concerns.

In December 2010 (subsequent to our audit), both the federal and provincial governments announced a one-time extension of the March 31, 2011, deadline until October 31, 2011, to provide one more construction season for projects not likely to meet the original deadline. In order to qualify for this new deadline, projects had to have incurred eligible costs before March 31, 2011, and were required to submit an application for the extension. According to the Ministry, nearly 800 projects were approved for this extension. In November 2011 and February 2012, the province exempted 21 projects from the extended deadline and continued to reimburse its share of eligible costs incurred between November 1, 2011, and March 31, 2012.

STANDING COMMITTEE ON PUBLIC ACCOUNTS

The Standing Committee on Public Accounts held a hearing on this audit in March 2011. In May 2011, the Committee reported to the Legislature on this hearing. It stated in a letter that it was satisfied with the Ministry's responses to its questions and with the actions taken to date to address the Auditor General's recommendations. The Committee did not make any recommendations of its own.

Status of Actions Taken on Recommendations

The Ministry provided us with information in spring 2012 on the current status of the actions taken on our recommendations. According to this information, recommendations applicable to the

2009 programs have been substantially implemented, in part because of the federal and provincial governments' extension of the funding deadline for qualifying projects to October 31, 2011, and the further provincial extension for qualifying projects to March 31, 2012.

The Ministry agreed to take our recommendations pertaining to any future infrastructure programs into consideration when designing capital-grant programs. The status of the action taken on each of our recommendations at the time of our follow-up was as follows.

PROGRAM ELIGIBILITY AND APPLICATION ASSESSMENT

Program Design and the Submission of Applications

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.*

Status

Since our 2010 audit, the province has not initiated similar infrastructure programs. However, the Ministry indicated that it is committed to taking this recommendation into consideration when designing any future capital-grant programs. Specifically, the Ministry informed us that it will expand the use of risk-based program design and analysis, assess

the implications of program-design decisions on ministry resources, and work to incorporate technical expertise in the due-diligence process. The Ministry also committed to seeking the advice of the province's Internal Audit Division early in the development of future programs.

For future infrastructure programs that involve partner ministries, the Ministry committed to providing better guidance to all staff responsible for reviewing applications, to strengthen the due-diligence process for application assessments. The Ministry also indicated that it will ensure that future application processes place a greater onus on applicants to demonstrate that the proposal and claims in their applications are valid and achievable and that they address a priority need for the community.

Approvals of Applications

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.*

Status

Similar to the previous recommendation, this recommendation is also aimed at the administration of future capital-grant programs. However, after the March 31, 2011, deadline for the completion of projects under the 2009 infrastructure stimulus programs was extended to October 31, 2011, the Ministry made some efforts to implement the recommendation in the administration of the extended projects. For instance, recipients of the

infrastructure stimulus funding were required to apply for the October 31, 2011, extension and to submit supporting documentation including a detailed construction schedule signed by a professional engineer or architect. These applications were reviewed by the Ministry, the partner ministries and the federal government to assess whether each extension was compliant with the program criteria. The review process allowed for follow-up with applicants to seek clarification on issues and concerns identified in their applications before the decision on each extension was made. The Ministry maintained documentation to record whether each application for the extension was complete. In the case of incomplete applications, the reasons for their incomplete status were recorded so that the rationale for any denial of an extension was documented. Federal-provincial program management committees provided recommendations on extension approvals to the federal and provincial ministers, who had the final authority to approve extensions.

To improve the transparency of projects funded by infrastructure stimulus spending, in December 2010 the Ministry launched an enhanced version of the Revitalizing Ontario's Infrastructure website that contains additional information on the projects, such as project descriptions and maps that better indicate the location of projects. In 2011, further enhancements were made to the website, which included improved project filtering and the addition of web pages showing the benefits provided by the province's infrastructure projects. The Ministry indicated that the website continues to be updated with information on the construction status of projects funded by stimulus spending, given that for some projects, payments for costs incurred up to March 31, 2012, will continue well into the 2012/13 fiscal year.

PROJECT MANAGEMENT

Reporting and Monitoring the Progress of Projects

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.*

Status

In our 2010 Annual Report, we noted delays in reporting the status of 17% of the ISF municipal projects and 40% of the RINC projects. The status of the RINC projects, in particular, was difficult to determine reliably due to issues with RINC's information system. In June 2010, subsequent to our audit fieldwork, we were informed that progress reports had been submitted for 95% of all projects. However, we noted a variety of interpretations by recipients as to what constitutes "progress" on a project. Some defined it as estimated work done, while others used actual dollars spent and engineering assessments. The analysis we did in 2010 of progress based on actual spending by recipients revealed that only 16% of the 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 a significant amount of the funds originally committed still to be spent in the 2010/11 fiscal year.

As noted earlier, in December 2010, the federal government announced that it was extending the funding deadline for qualifying projects funded by stimulus spending to October 31, 2011, since these projects were at risk of not being completed

by the March 31, 2011, cut-off date for federal funding. Close to 800 projects were approved for the extension. Subsequent to the extension by the federal government, the Ontario government further exempted 21 projects from the extended deadline and continued to reimburse its share of eligible costs incurred to March 31, 2012. The Ministry indicated that, as a result of these federal and provincial measures, only 19 projects had not been completed by March 31, 2012. According to the Ministry, most of these had incurred sufficient eligible costs prior to March 31, 2012, to have the full provincial contribution paid out.

Costs to Meet the Funding Deadline

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.

Status

The Ministry indicated that following our 2010 audit, partner ministries engaged on an ongoing basis with recipients of stimulus spending, including conducting site visits to assess and validate project progress. The partner ministries regularly reported issues they noted to the Ministry and the federal government. They paid special attention to projects identified as delayed or otherwise at risk of not being completed by the new October 31, 2011, deadline or the March 31, 2012, provincial deadline. The provincial ministries and the federal government collaborated to assess options and identify solutions for projects that needed support. This included working with recipients of stimulus funds to identify options such as changing the scope of their projects so that they could be completed by the funding deadline.

The Ministry also indicated that, ultimately, funding recipients were accountable under the binding stimulus funding agreement for the procurement, management and delivery of their own projects by the funding deadline. Follow-up letters approved by the Ministry, the partner ministries and the federal government were issued when warranted to ensure that recipients were aware of the current situation related to their projects and the potential consequences that could arise if they did not take the required action.

As a result of the above actions by the Ministry, the partner ministries and the federal government, the number of projects considered at risk of not meeting the funding deadline steadily declined, and the vast majority of them were completed by March 31, 2012.

Financial and Claims Administration

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.

Status

In our *2010 Annual Report*, this recommendation was predominantly aimed at the better monitoring of about 150 not-for-profit organizations (NPOs) that at the time of our audit had received approximately \$360 million in stimulus funding. Since these NPOs were typically smaller organizations that ranged from multi-purpose community organizations and recreational centres to special-purpose organizations like sports clubs, they might lack the project-management expertise and accountability structures of larger organizations. Furthermore, the provincial ministries involved with this program had no previous experience in dealing with these smaller organizations.

Although since our 2010 audit it has not specifically audited any of the projects procured by these

smaller NPOs using stimulus funding, the Ministry did indicate that a small sample of the statements of expenditures submitted by the NPOs was reviewed by an accounting firm to assess whether the statements were prepared in accordance with the terms of the funding agreement. The Ministry also indicated that it has been working with the Ontario Internal Audit Division (OIAD) to ensure that project and program close-out protocols are providing appropriate monitoring and risk mitigation to achieve successful close-out of projects.

The Ministry noted that the binding funding agreements with recipients give the province the right to audit projects to determine whether funds have been spent wisely. The province's right to audit extends beyond the completion of the project. The Ministry indicated that the government will continue to use the risk-assessment model to determine if projects warrant an audit upon completion. To this end, following up on a recommendation provided by the OIAD, the Ministry issued an Assistant Deputy Minister-level memo to partner ministries on April 3, 2012, about these ministries' ongoing accountability responsibilities as they relate to the stimulus programs. One such responsibility is to retain proper and accurate project and program records for six years following March 31, 2012, to support any audits that may be undertaken. The Ministry stated that it will continue to seek advice from the OIAD as the government continues to wind down the stimulus programs and in the design and implementation of future programs.

MEASURING AND REPORTING ON PROGRAM EFFECTIVENESS

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.

Status

As noted earlier, to provide more timely and accurate information on the progress of projects funded by stimulus spending, shortly after our 2010 audit the Ministry added new features and additional information on the stimulus projects on its *Revitalizing Ontario's Infrastructure* website.

The Ministry also indicated that it uses job multipliers provided by the Ministry of Finance (MOF), which MOF annually updates on the basis of the latest data from Statistics Canada. These updated multipliers, according to the Ministry, help ensure that the most current information about the structure of the Ontario economy is used in job calculations.

Lastly, the Ministry stated that in view of the winding down of the stimulus programs, it continues to work with its partner ministries and the federal government to identify the lessons learned from the stimulus programs so that future programs can be made more effective and accountable.