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Report of the Auditor General of Canada

CHAPTER 7

Outsourcing Building Management Services—Public Works and Government Services Canada



Office of the Auditor General of Canada

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CHAPTER 7

Outsourcing Building Management Services— Public Works and Government Services Canada

Performance audit reports

This report presents the results of a performance audit conducted by the Office of the Auditor General of Canada under the authority of the *Auditor General Act*.

A performance audit is an independent, objective, and systematic assessment of how well government is managing its activities, responsibilities, and resources. Audit topics are selected based on their significance. While the Office may comment on policy implementation in a performance audit, it does not comment on the merits of a policy.

Performance audits are planned, performed, and reported in accordance with professional auditing standards and Office policies. They are conducted by qualified auditors who

- establish audit objectives and criteria for the assessment of performance,
- gather the evidence necessary to assess performance against the criteria,
- report both positive and negative findings,
- conclude against the established audit objectives, and
- make recommendations for improvement when there are significant differences between criteria and assessed performance.

Performance audits contribute to a public service that is ethical and effective and a government that is accountable to Parliament and Canadians.

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Introduction

Background

Building management services—Building management and operation activities including services such as maintenance and repair, service calls, building cleaning, energy management, upkeep of grounds, project management, and lease administration services.

7.1 For about 1,800 locations across the country, the Real Property Branch within Public Works and Government Services Canada (the Department) provides **building management services**. As a common service organization for the government, the Department provides these services for other government departments as well as for its own buildings. The buildings contain offices and other workspaces for a large number of public servants who deliver government services and programs to the Canadian public.

7.2 For some of these buildings, the Department has outsourced building management services to the private sector. In other words, instead of managing the buildings itself, the Department uses third-party service providers to deliver services on its behalf. The work is currently managed through a series of multi-year performance-based contracts. A performance-based contract allows the service provider discretion, within certain terms and conditions, to determine how it will provide the services to achieve the required results. This type of contract includes incentive payments based on performance results.

7.3 Following competitive processes in 2004 (which we have not audited), a single service provider, SNC-Lavalin Operations & Maintenance Inc., was awarded eight contracts covering buildings in six regions across Canada. The service provider subcontracts some of the work. The total approved value of the eight contracts is \$5.9 billion over 10 years. Annual expenditures have ranged from about \$400 million to \$700 million.

7.4 When the contracts started in 2005, the Department initially outsourced the building management services for some of the buildings it owned. Since then, these contracts have been expanded to cover more buildings, including some owned by other government departments and some leased by the Department. As of the 2013–14 fiscal year, the management of over 1,000 buildings is outsourced under these contracts (Exhibit 7.1).

7.5 The 2005 building management contracts expire on 31 March 2015. The Department is undertaking a procurement process to replace them. The scope of the new contracts is expected to increase to cover more buildings as well as more services. The Department expects that the total value of the new contracts will be significantly higher, possibly more than double the value of the 2005 contracts.

Exhibit 7.1 Under the 2005 contracts, the Department has outsourced the management for over 1,000 buildings

| | Number of buildings | Percentage of total space |
|---------------------------------------|---------------------|---------------------------|
| Owned by the Department | 253 | 74% |
| Leased by the Department | 368 | 12% |
| Owned by other government departments | 447 | 14% |
| Total | 1,068 | 100% |

Source: Data provided by Public Works and Government Services Canada. The data is unaudited.

7.6 Various laws, regulations, and government policies covering a broad range of obligations apply to the management of buildings where public servants work. The Treasury Board Policy on Management of Real Property requires that buildings be managed in an environmentally responsible manner and that they be safe, secure, operational, and accessible for the large number of public servants who work in them to deliver government services to the public. Furthermore, the 2005 contracts require that any subcontracting done by the service provider is fair, transparent, and open to qualified subcontractors.

7.7 Deputy heads are generally responsible for ensuring that their respective departments comply with applicable legal, regulatory, and government policy requirements. However, the accountabilities for managing buildings are complex, and vary depending on the nature of the requirements and also on whether the managed buildings are owned by the Department, leased by the Department, or owned by other government departments. When Public Works and Government Services Canada provides building management services for other government departments, accountability for building obligations remains with the other government departments for their buildings. However, Public Works and Government Services Canada has a burden of care to support the other departments in fulfilling their responsibilities.

7.8 When Public Works and Government Services Canada outsources building management services to a third party, the roles and responsibilities become more complex. However, accountability for meeting building obligations does not change (it is not transferred to the service provider). The service provider is responsible for meeting its obligations under the contracts. It is important that the work be done to a standard at least as good as what would be done if services were not outsourced.

7.9 Public Works and Government Services Canada is the signatory for the 2005 outsourcing contracts on behalf of the Government of Canada. The Department is the primary point of contact with the service provider for all day-to-day operations, including administration and oversight. Under the contracts, the Department is specifically responsible for monitoring the service provider and measuring performance. Accordingly, the Department must have processes in place to do so.

7.10 Regionally, the Department's officials are responsible for administering the individual contracts, including monitoring the service provider, while a national management group is responsible for providing central coordination and functional guidance.

Focus of the audit

Controls—Activities that are designed to provide reasonable assurance that objectives, including compliance with applicable laws, regulations, and policies, will be achieved. In this case, controls are monitoring activities and incentive tools used by the Department to mitigate the risks associated with having a third party provide building management services on its behalf.

7.11 In this audit, we examined whether, when outsourcing building management services, Public Works and Government Services Canada had adequate **controls** to monitor that the service provider complied with the contracts' terms and conditions. This work supports the Department (and other government departments) in ensuring that the selected obligations related to building management services (outlined in Exhibit 7.2) would be met. We selected these obligations because of the potential impact on the public servants and the public who use the buildings should these obligations not be met.

7.12 Our audit focused on the Department's responsibilities for the eight contracts that started in 2005. We examined the appropriateness of the design and implementation of the key controls used by the Department to provide reasonable assurance that the service provider complied with the contracts' terms and conditions.

7.13 Our audit did not assess whether the selected obligations were met, or what other government departments did to ensure compliance with the selected obligations for their buildings managed under the contracts. We also did not audit the records or practices of the third-party service provider. Consequently, our conclusions do not pertain to any actions or practices of the third-party service provider.

7.14 We assessed the Department's controls during the period from April 2012 to September 2013. We also examined information and activities prior to this period as needed to properly understand the context of the current activities.

7.15 More details on the audit objective, scope, approach, and criteria are in **About the Audit** at the end of this chapter.

Exhibit 7.2 Our audit focused on selected building management obligations

| Obligation* | Importance |
|-----------------------------------|---|
| Environment and health and safety | Ensures compliance with regulatory requirements concerning environmental protection as well as health and safety in buildings where federal employees work. For the purposes of this audit, this includes the following areas, where proper management is important to minimize significant risks to occupants' health and safety: <ul style="list-style-type: none"> • hazardous materials and hazardous waste, • fuel storage tanks, • asbestos, • ozone-depleting substances, • polychlorinated biphenyls (PCBs), • potable water, • indoor air quality, and • fire safety. |
| Building security | Ensures an adequate level of security for the ongoing safety of the federal employees who work in the buildings and the public they serve. Also ensures preservation of the integrity and value of buildings and grounds. <p>For the purposes of this audit, building security includes the following activities:</p> <ul style="list-style-type: none"> • security for the building and its grounds; • security guard services, as required; • services dealing with security violations, theft, vandalism, or critical incidents; and • threat and risk assessments. |
| Operational building continuity | Ensures that buildings are operational and open so that federal employees who work in them can continue to deliver government services to the public. In the event of a disruption, minimizes the impact on federal employees and the public they serve. <p>This involves planning for continuity of critical building services in the event of a building system emergency. It includes</p> <ul style="list-style-type: none"> • ensuring that building emergency response plans and procedures are functional and up to date, • restoring critical building services after a disruption, and • protecting building assets during a disruption. |
| Accessibility | Ensures that members of the public and federal employees with disabilities have barrier-free access to and use of federal real property and services for areas such as <ul style="list-style-type: none"> • passenger elevators, • building entrances, and • washrooms. |
| Fairness when subcontracting | The eight outsourcing contracts specifically stipulate that if the service provider subcontracts work, the process should be fair, transparent, and open to qualified subcontractors. This ensures that members of the public have a fair opportunity to do business with the government when the Department has outsourced building management services. |

* Public Works and Government Services Canada is not accountable for ensuring that all these obligations are met for all buildings managed under the outsourcing contracts. However, the Department is responsible for ensuring that the service provider complies with the contracts' terms and conditions in support of these obligations.

Sources: Treasury Board Policy on Management of Real Property; the *Canadian Environmental Protection Act, 1999*; the *Emergency Management Act*; Treasury Board Policy on Government Security; Treasury Board operational security standards; Treasury Board Accessibility Standard for Real Property; the *Canada Labour Code*; the eight contracts used by the Department to outsource building management services, starting in 2005.

Observations and Recommendation

Design of controls

7.16 When outsourcing building management services, Public Works and Government Services Canada is supposed to have well-designed controls that, collectively, when applied as designed, provide reasonable assurance that the service provider is complying with the contracts' terms and conditions—work that supports the Department (and other government departments) in ensuring that applicable building obligations are being met.

7.17 To assess the design of the Department's key controls, we examined documentation describing how the controls were expected to be put in place. For example, we examined the contracts and their statements of work as well as other documentation, such as department policies and operating procedures, to determine whether the controls addressed the selected obligations.

Controls were adequately designed to address contractual requirements in support of selected building management obligations

7.18 We found that the controls we examined were appropriately designed to provide the Department with reasonable assurance that the service provider is complying with the contracts' terms and conditions in support of meeting the selected obligations.

7.19 Key requirements. We found that the contracts clearly described the service provider's responsibilities in providing building management services. Many of the services directly support the Department (and other government departments) in meeting the selected obligations for buildings managed under the contracts. The contracts also described how the Department was to monitor the service provider, measure its performance, and encourage the service provider to meet or exceed the contracts' requirements.

7.20 As part of the contracts, the Department had designed a **Quality Monitoring Program** specifically to assess whether contractual requirements were met by the service provider. The results of these reviews were intended, among other things, to feed the Department's measurement of the service provider's performance and related incentive payments. We found that, for this program, the Department had developed standard questions and procedures to evaluate the service provider's operations and processes across a broad range of services, including those that support all selected obligations covered

Quality Monitoring Program—Quarterly reviews by the Department of the service provider's practices in providing building management services. The reviews include on-site building visits, documentation review, and interviews. These reviews target a sample of buildings to verify that the service provider is meeting contractual requirements, to assess that the service provider's system for managing quality is effective, and to confirm that the service provider's performance data is accurate.

in this audit (see Exhibit 7.2). The Quality Monitoring Program is the Department's main control for monitoring the service provider.

Environmental due diligence reviews—

Building inspections and detailed file reviews by the Department to confirm the service provider's self-assessments of compliance with environmental laws and regulations concerning matters such as ozone-depleting substances, polychlorinated biphenyls (PCBs), environmental emergency response plans, petroleum storage tanks, and hazardous materials and products. The service provider is supposed to self-assess and inspect a third of the buildings each year. The Department is expected to review this work and reinspect at least 20 percent of the buildings reviewed by the service provider.

Accessibility evaluations—On-site inspections of buildings by the Department to assess compliance with the minimum accessibility standards as set out by the Treasury Board. These assessments are supposed to consider existing conditions, remaining economic life of accessibility elements, and modifications required to address any deficiencies. The evaluations are also supposed to consider the feasibility of modifications, their projected costs, and their timelines. Department procedures require an accessibility evaluation of each building to be done at least once every five years.

7.21 In some cases where requirements are very specific—for example, with obligations related to the environment as well as accessibility—we found that the Department had additional controls to obtain more in-depth information about the state of buildings managed under the contracts. The Department relies on **environmental due diligence reviews** and on **accessibility evaluations**, both of which include detailed on-site visits to assess compliance with specific laws, regulations, and standards.

7.22 Formal and systematic approach. We also found that, overall, the controls were designed to apply a formal and systematic approach and had the appropriate nature and scope to meet the intended objectives. Such an approach is important because it supports a consistent and efficient application of the controls and is needed to assess their effectiveness.

7.23 The design of the controls we examined included structured and formal processes involving distinct phases, such as planning, execution, reporting, and follow-up on identified issues. They were also based on the principles of continuous improvement, collecting sufficient and appropriate evidence, and ensuring that the individuals conducting the work have appropriate capabilities.

7.24 Consequently, we found that, collectively, the controls designed by the Department constituted an appropriate foundation. If properly implemented, they could be expected to provide the Department with reasonable assurance that the service provider complied with terms and conditions of the contracts—work that supports the Department (and other government departments) in ensuring the selected obligations would be met.

Implementation of controls

7.25 Public Works and Government Services Canada (the Department) has developed appropriate controls for the outsourcing of building management services. To be effective, these controls must be implemented as designed, using reliable information. The effectiveness of the controls also depends on whether the Department takes adequate steps to address individual issues raised by these activities, and whether it analyzes results for systemic issues to prevent problems from recurring.

7.26 We examined whether the controls were working to provide the Department with reasonable assurance that the service provider complied with the contracts' terms and conditions in support of the selected obligations. We examined the work done by the Department in the 2012–13 fiscal year. We reviewed documentation, performed detailed file reviews, observed actual building reviews, and conducted interviews, process walk-throughs, and data analyses.

Implementation weaknesses reduced the effectiveness of the Department's controls

7.27 We found that the Department's monitoring controls identified useful information. Nevertheless, we found deficiencies in the way the Department conducted each monitoring control we examined (its Quality Monitoring Program, environmental due diligence reviews, and accessibility evaluations). We also found specific monitoring issues related to buildings that are owned by other government departments or leased by the Department, and problems related to performance incentives.

7.28 Conduct of the Quality Monitoring Program. We found weaknesses in the Department's implementation of the Quality Monitoring Program for buildings it owns as well as for those owned by other government departments. Overall, we found a lack of information to support critical decisions and to demonstrate the extent of work conducted. As a result, the assurance that the Department can derive from this control for these two categories of buildings is reduced. This is particularly important in relation to the obligations for building security, operational building continuity, fairness when subcontracting, and certain health and safety elements such as water and air quality because the Quality Monitoring Program is the key control used by the Department to monitor the service provider's compliance with the relevant contract requirements in support of these obligations.

7.29 Specifically, we found insufficient evidence to support the selection of buildings and compliance areas to be reviewed by the Department under the Quality Monitoring Program—decisions that are supposed to be based on a variety of factors, including size, location, complexity, and past issues raised on the buildings. We also noted that key information that should be used to make those decisions (such as building inventories and results of past quality monitoring reviews) was not always complete. For two of the three contracts we examined in detail, the compliance area of physical security was not covered in any reviews conducted in the 2012–13 fiscal year, although such a review was required by the Department's operating procedures.

7.30 Furthermore, almost all the files we reviewed lacked relevant and sufficient evidence to indicate the nature and extent of work performed or conclusions reached by the reviewers. For example, we noted the following:

- No evidence in over 30 percent of the files that Department reviewers considered the previous issues raised, as required by operating procedures, when conducting the quality monitoring.
- In 40 percent of cases we examined, with the information it had on file, the Department could not demonstrate that it properly assessed whether the service provider followed fair practices when subcontracting.
- Close to 40 percent of the quality monitoring files lacked evidence showing why potential weaknesses were not raised as issues for reporting and follow-up with the service provider. For example, one file included a study recommending the removal of material containing asbestos to bring the building into compliance with regulations, but there was no explanation on file to explain why this was not raised in the final quality monitoring report. While, as a result of our follow-up, the Department provided information to show that the asbestos had been remediated, we were unable to conclude if this issue was adequately considered as part of the quality review process.
- Almost half the quality monitoring files were not clear about why weaknesses noted by the quality reviewer were classified and reported as opportunities for improvement instead of more severe issues. Examples included cases where emergency generator testing had not been done in accordance with required standards. Issues raised as opportunities for improvement do not require formal follow-up by the Department and have less impact on the assessments of the service provider's performance.

7.31 Despite these weaknesses in the conduct of the quality monitoring reviews, we found that the Department identified important issues through its Quality Monitoring Program, an initial step in taking corrective action and encouraging continuous improvement. We analyzed all the issues the Department raised through its Quality Monitoring Program in the 2012–13 fiscal year for the three large contracts we examined in detail. About 40 percent of the Department's reviews identified issues, including opportunities for improvement. Almost two-thirds of these issues were related to health and safety—for example, improvements to evacuation and safety plans and to fire safety measures. With a few exceptions, we found that in

the files we examined in detail in which the Department had raised issues as a result of its Quality Monitoring Program, the Department had taken appropriate steps to ensure that the service provider corrected the weaknesses identified.

7.32 We also found, however, that the Department conducted limited analyses of the results of its Quality Monitoring Program to identify trends and systemic issues. Such analyses could provide relevant information to focus work on areas of highest risk.

7.33 Conduct of environmental due diligence reviews. We found a variety of problems with the documentation, reporting, and follow-up on issues identified by environmental due diligence reviews. These problems affect the Department's ability to monitor compliance with environmental laws and regulations for buildings it owns as well as those of other government departments that are managed under the outsourcing contracts.

7.34 While the required number of buildings for the eight contracts underwent a review in the 2012–13 fiscal year, for the three contracts we examined in detail, we found little evidence to support the Department's selection decisions for its on-site visits. The Department uses the results of its reviews, by region and then nationally, to report on the state of compliance with environmental laws and regulations, as well as for follow-up and performance assessment purposes. We noted inconsistencies in reporting results in some regions, putting the accuracy of the Department's analysis at risk. For example, we noted multiple issues combined and reported as one issue. We also noted issues that were not included in the summary information reported.

7.35 We analyzed the issues the Department identified through its environmental due diligence reviews in the 2012–13 fiscal year. About 40 percent of these reviews raised issues, and at least a quarter of the issues were more than a simple deficiency in documentation—for example, improper storage of hazardous materials. Furthermore, we noted that for three of the eight contracts, the Department had not communicated the results of the reviews it conducted in the 2012–13 fiscal year to the service provider. It had also not completed the final national report on the results of its assessments of environmental compliance.

7.36 Conduct of accessibility evaluations. We found that the Department had not maintained its work to assess the state of accessibility of buildings it leases and owns that are managed under the outsourcing contracts. From 2005 to 2009, the Department conducted

accessibility evaluations of all its leased and owned buildings, including those for which it had outsourced building management services (about a quarter of the buildings assessed during this period). Results indicated a high level of compliance with accessibility standards at that time. The Department's procedures require that each building undergo an accessibility evaluation at least every five years. We found, however, that the Department was late in conducting an accessibility evaluation on just over a third of its leased and owned buildings managed under the outsourcing contracts. It is possible that equipment or fixtures required to meet minimum accessibility standards are modified during regular maintenance and renovation projects. Until a building is evaluated in detail, its current state of accessibility might remain unknown.

7.37 Based on our file review, we found that when accessibility evaluations were performed in the 2012–13 fiscal year, the work was properly conducted and the Department took appropriate action on identified deficiencies. We analyzed the issues identified by these evaluations. We found that, while all evaluations identified deficiencies, overall they found a high degree of compliance with accessibility standards. Examples of the deficiencies identified included the relocation of existing accessibility aids in washrooms and the installation of door handle hardware designed to be accessible.

7.38 Buildings of other government departments. For buildings of other government departments (14 percent of the space managed under the contracts), the Department is responsible for ensuring that the service provider complies with the terms and conditions of the contracts (including work that supports the other government departments in ensuring applicable obligations would be met for their buildings). The Department is also responsible for measuring the service provider's performance. The main control used by the Department to do this is its Quality Monitoring Program. Furthermore, the outsourcing contracts specifically intended the Department to use the results of the environmental due diligence reviews in assessing the service provider's performance.

7.39 We found that the Department conducted significantly fewer quality monitoring reviews on buildings of other government departments than on the buildings it owns. In addition, the Department did not conduct environmental due diligence reviews for some of the other government departments' buildings (about 90 buildings or 6 percent of the total space managed under the contracts).

7.40 Department officials told us its level of monitoring on these buildings was based on risk, and that most of the buildings that were not examined are small, located in remote areas, or in places where fewer public servants are located. However, the Department did not provide us with evidence of appropriate risk assessments to support its level of monitoring of the buildings of other government departments. The Department was also unable to demonstrate that the scope of work of the service provider had been significantly modified for buildings of other government departments and how any changes led to decisions about what monitoring work was conducted by the Department.

7.41 We found that when buildings of other government departments were added, the outsourcing contracts were not modified to define the responsibilities of the various parties involved. For example, other than adding these buildings to the lists of buildings to be managed under the contracts, limited changes were made to the scope of work for the service provider. Under the contracts, the service provider generally has the same contractual responsibility for the buildings of other government departments as it has for buildings owned by the Department—the day-to-day operation and maintenance of the buildings. Furthermore, there were no changes made to the monitoring responsibilities of the Department under the contracts.

7.42 We also reviewed the agreements between the Department and other departments to get a better understanding of expectations regarding the service provider's work and the Department's monitoring of that work. We found that many of the service-level agreements were not current or did not sufficiently address these matters.

7.43 These weaknesses could reduce the Department's effectiveness in monitoring the service provider's compliance with the contracts for buildings of other government departments. Defining clear roles and responsibilities of all parties and performing appropriate risk assessments to determine the level of monitoring required are critical to minimize the risk that important activities for building management are overlooked.

7.44 Buildings leased by the Department. In the case of leased buildings (12 percent of the space managed under the contracts), the service provider provides lease administration services. These services include, among other things, monitoring lessors' compliance with lease provisions. Lease provisions require the lessor to comply with all applicable laws, regulations, and standards—including for instance, specific requirements about accessibility, health and safety, and the environment.

7.45 The Department is supposed to have a way to ensure that the service provider is meeting its contractual requirements. When leased buildings were added to the contracts starting in 2009, the Department had intended to use its Quality Monitoring Program to do so. This monitoring is important not only to measure the service provider's performance, but also to provide the Department with important information for fulfilling its responsibilities with respect to providing these buildings for use by public servants.

7.46 We found, however, that the Department had implemented its Quality Monitoring Program inconsistently. The Program was not yet implemented for leased buildings managed under two of the contracts. These two contracts represented over 60 percent of the total leased buildings managed under the contracts, or over 230 buildings (8 percent of the total space managed under the contracts). We also found that when lease administration services were added to the contracts, the Department did not establish new measures to assess the service provider's performance for these types of buildings, contrary to what was stipulated in these contracts.

7.47 Consequently, where the Department had not implemented its Quality Monitoring Program for leased buildings, it could not properly assess how the service provider was doing in meeting its contractual obligations. Department officials told us that they did not perform environmental due diligence reviews on leased buildings because environmental regulations generally apply to the building owner rather than to the Department. In the case of accessibility evaluations, we found that they were being performed for leased buildings for all contracts. Department officials also indicated that their general lease oversight program provided them with the needed assurance that the service provider's responsibilities were appropriately fulfilled. We reviewed the relevant part of this program, but found that it had not been applied to all contracts under which leased buildings were outsourced in a way that would assess the quality of the service provider's work.

7.48 Performance incentives. Public Works and Government Services Canada pays monetary incentives to encourage the service provider to meet and exceed its contractual obligations, including supporting the Department (and other government departments) in meeting the selected obligations covered in this audit. The outsourcing contracts have two types of performance incentives—performance fees and the contractor incentive program. The Department pays about \$1.1 million to \$2.2 million each year in performance incentives (Exhibit 7.3).

7.49 We found that the Department did not have complete and reliable information to assess the service provider’s performance—the basis for paying performance incentives—and that performance targets set and measured under the Contractor Incentive Program did not meet the intent of the program.

7.50 Because the results of the Department’s Quality Monitoring Program and environmental due diligence reviews are a source of information used to measure the service provider’s performance, the weaknesses in the implementation of these controls affect the integrity of the performance assessment process. We also noted other examples in which the Department did not have complete and reliable information on the service provider’s performance.

7.51 In some instances, the Department did not validate performance self-assessments submitted by the service provider. Furthermore, it did not use the results of its quality monitoring reviews of leased buildings (when available) to measure the service provider’s performance. We also noted that, in five of the eight contracts, the Department did not use the results of the environmental due diligence reviews to assess the service provider’s performance in the 2012–13 fiscal year. Given the number of issues raised by the Department in some of these reviews, it is possible that the results could have affected the amount of performance incentives.

Exhibit 7.3 The Department used two types of performance incentives to encourage the service provider to meet and exceed its contractual obligations

| Performance incentive | Purpose | Approximate amount paid annually |
|------------------------------|--|----------------------------------|
| Performance fees | <p>A monetary incentive used to encourage the service provider to achieve the results set out under the contracts; the fees are paid only if performance is acceptable. Service provider performance is evaluated and measured annually using a series of pre-established performance indicators.</p> <p>The results of the Department’s Quality Monitoring Program and environmental due diligence reviews are a source of information used to measure the service provider’s performance, determine eligibility for payment, and establish the amounts to be paid.</p> | \$0.7 million to \$1.4 million |
| Contractor Incentive Program | <p>A monetary incentive used to encourage the service provider to achieve outstanding results in the pursuit of government and Department priorities that go beyond regular performance, as set out in the contracts. The incentive is intended to recognize and reward extraordinary creativity and innovation. Targets for payment are set annually by the Department.</p> <p>To be eligible, the service provider must first have earned one hundred percent of the performance fees by meeting the prerequisite performance indicators.</p> | \$0.4 million to \$0.8 million |

Source: Data provided by Public Works and Government Services Canada. The data is unaudited.

7.52 We also found that the targets set by the Department for the Contractor Incentive Program were not in line with the intent of the program. They did not require performance beyond the standards expected under the contracts and did not show a demonstrable benefit to the Crown, as required by the contracts. For example, most targets set for all contracts for the 2011–12 to 2013–14 fiscal years simply promoted accurate and timely financial forecasts and completion of projects on time. We also noted that, at times, the targets for the Contractor Incentive Program were similar to some of the indicators used to determine the performance fees.

7.53 In 2005, after the contracts were awarded, the Department planned to use a national governance structure to support the administration and awarding of payments under the Contractor Incentive Program, including consistency across the regions. Despite this intent, we found that, with the exception of identifying the performance targets, department staff in the regions carried out the Contractor Incentive Program with little national oversight. Furthermore, we observed some weaknesses in the performance measurement that provided the basis for the incentives. Examples included vague definitions of targets and the way they would be assessed, and an incentive amount for one contract that was paid by the Department without measuring the service provider's results.

7.54 Summary of key findings. The nature and extent of issues identified by the Department during its monitoring work underscores the importance of implementing the controls rigorously and monitoring the service provider to ensure that issues are identified and resolved appropriately. We found weaknesses in the implementation of controls that reduced the Department's effectiveness in monitoring the service provider's compliance with contractual requirements—work that supports the Department (and other government departments) in ensuring all applicable obligations would be met.

- For buildings owned by the Department, we found deficiencies in the conduct of the three monitoring controls we examined. These weaknesses included gaps in follow-up on potential or identified issues and in the analysis of systemic issues, as well as a lack of information to support important components of the Department's monitoring work.
- For buildings owned by other government departments, we found weaknesses in the conduct of the Quality Monitoring Program and environmental due diligence reviews. Furthermore, the Department had not adjusted the application of its controls

(including the outsourcing contracts and other related agreements) to reflect appropriate roles and responsibilities when these types of buildings were added to the contracts.

- For buildings leased by the Department, we found that the main control—the Quality Monitoring Program—was not yet implemented for about 60 percent of leases representing 8 percent of the total space managed under the contracts.

7.55 We also found that the Department did not have complete and reliable information to assess the service provider’s performance—the basis for paying performance incentives—and that performance targets set and measured under the Contractor Incentive Program did not meet the intent of the program.

7.56 Recommendation. Public Works and Government Services Canada should implement its controls rigorously. It should

- clearly define and document roles and responsibilities of all players, including itself and other government departments, in monitoring the service provider’s performance and in ensuring that selected obligations are met;
- determine and document which monitoring controls are to be applied for each category of buildings managed under the contracts;
- consistently and rigorously apply the appropriate controls to address the implementation weaknesses identified in this report;
- consider the need for a stronger oversight function that will support consistent understanding and implementation of the controls;
- strengthen its processes for validating the reliability and completeness of information used to measure the service provider’s performance and to determine incentive payments; and
- review the objective of the Contractor Incentive Program or ensure that its implementation aligns with its objectives.

The Department’s response. Agreed. The Department, through two generations of Alternate Forms of Delivery contracts, was able to save \$450 million. Leveraging the efficiency and the flexibility offered by the private sector enables the Department to avoid competing with the private sector and to better respond to the Government of Canada program needs and, thus, be seen as a leader in the real property industry. In addition, by taking advantage of the agility of the private sector, the Department stimulates the economy by giving the

service providers the flexibility to subcontract work to over 6,500 small-and-medium enterprises across the country.

The Department has already started to integrate the following actions in the next generation of contracts and associated framework. It is

- enhancing the way the controls are implemented to ensure consistency and compliance with the terms and conditions of the contracts;
- continuing to use these controls and improve, where possible, while recognizing the importance of value for money in the management of these complex contracts;
- continuing to better define the roles and responsibilities of stakeholders in monitoring the service provider's performance;
- ensuring that the controls apply to each type of building managed under the contracts and that key decisions, regarding the accountability of the other custodian departments when service providers are selected to conduct work according to the terms and conditions of the contracts, will be documented; and
- applying the modified Contractor Incentive Program, which has been changed to a discretionary program that will be reviewed annually and subjected to meeting all of the Key Performance Indicators for that fiscal year.

As a result of the previous audits and lessons learned, the full spectrum of oversight functions for Alternate Forms of Delivery contracts is currently under review with a view to developing a new regime. The new oversight regime is based on a recognized industry model and will ensure a comprehensive, integrated, and efficient approach is implemented for future Real Property contracts. The implementation of this new oversight regime will improve the way the contracts are managed, monitored and reported on; these changes will be applied to the next generation of contracts, which will be operational in 2015.

Conclusion

7.57 We concluded that, when outsourcing building management services, Public Works and Government Services Canada had appropriately designed controls. However, implementation weaknesses reduced the effectiveness of the controls we examined for monitoring the service provider's compliance with contractual terms and conditions—work that supports the Department (and other government departments) in ensuring applicable obligations would be met.

7.58 We found that, collectively, the controls designed by the Department when outsourcing building management services constituted an appropriate foundation. However, we found deficiencies in the way the Department applied each monitoring control we examined, which reduced the Department's assurance that the service provider complied with the contracts' terms and conditions. We also found that the Department had not given appropriate consideration to the implementation of controls when adding buildings leased by the Department and those owned by other government departments to the outsourcing contracts. Furthermore, there were problems with the performance incentives, due to weakness in assessing the performance of the service provider and in meeting the intent of the Contract Incentive Program. A rigorous application of controls is increasingly important as the Department prepares for the introduction of the next, and more significant, contracts for outsourcing its building management services in 2015.

About the Audit

The Office of the Auditor General’s responsibility was to conduct an independent examination of the key controls used by Public Works and Government Services Canada when outsourcing building management services to provide objective information, advice, and assurance to assist Parliament in its scrutiny of the government’s management of resources and programs.

All of the audit work in this chapter was conducted in accordance with the standards for assurance engagements set out by the Chartered Professional Accountants of Canada (CPA) in the CPA Canada Handbook—Assurance. While the Office adopts these standards as the minimum requirement for its audits, we also draw upon the standards and practices of other disciplines.

As part of our regular audit process, we obtained management’s confirmation that the findings reported in this chapter are factually based.

Objective

The objective of this audit was to determine whether, when outsourcing building management services, Public Works and Government Services Canada (the Department) had adequate controls to ensure that the following selected obligations would be met:

- environment and health and safety,
- building security,
- operational building continuity,
- accessibility, and
- fairness when subcontracting.

More specifically, we examined the Department’s controls to monitor that the service provider complied with the contracts’ terms and conditions to support the Department (and other government departments) in ensuring that applicable obligations would be met. We selected these obligations because of the potential impact on the public servants and the public who use the buildings should these obligations not be met.

Our audit was not designed to directly assess whether the selected obligations were met, nor what other government departments did to ensure the selected obligations would be met for their buildings managed under the 2005 contracts. We did not audit the process for awarding the 2005 outsourcing contracts. We also did not audit the records or practices of the third-party service provider. Consequently, our conclusions cannot and do not pertain to any practices of the service provider.

Scope and approach

We examined the nature and scope of the Department's controls to assess their design. We then tested how well they were working in practice, including whether appropriate follow-up actions were being taken to resolve identified issues. We assessed the controls for their collective ability to provide the information needed by the Department to assess whether the service provider complied with the contracts' terms and conditions in support of the selected obligations. Specifically, we examined the design and implementation of the following controls used by the Department:

- outsourcing contracts—the accountability tool by which the Department assigns responsibility to the service provider for delivering building management services on its behalf;
- the Quality Monitoring Program, which reviews the service provider's building management processes to ensure that contract requirements are met and that the service provider's performance data is accurate;
- environmental due diligence reviews, which assess buildings to evaluate compliance with various environmental regulations;
- accessibility evaluations, which assess buildings for their level of compliance with minimum accessibility standards set by the Treasury Board of Canada; and
- performance incentives, which are monetary incentives based on the service provider's performance in meeting established expectations, and which are also used to motivate the service provider to excel in key areas beyond the performance baselines set out in the contracts.

In assessing the design of the controls, we examined their nature and scope by reviewing existing documentation (including contracts, operating procedures, and working tools) that described the methodology and the way that controls were expected to be put in place. We also conducted interviews with entity representatives to confirm our understanding.

We assessed the implementation of the monitoring controls by testing whether they were working in practice, including whether they used reliable information and whether appropriate follow-up actions were being taken to resolve identified issues, including systemic problems. Our examination included a combination of document reviews, walk-throughs, detailed file reviews, data analyses, observation of actual reviews as they occurred, and interviews with department staff, both nationally and in the regions. In some cases, our detailed implementation testing was limited to three contracts: Ottawa perimeter, Ottawa downtown, and Ontario. We selected these contracts because they were three of the largest and included a mix of all types of buildings managed under the contracts, including buildings owned or leased by Public Works and Government Services Canada and buildings of other government departments.

The following table outlines the audit approach we used to test the implementation of each control:

| Control | Specific audit approach used to test the implementation |
|-------------------------------------|---|
| Contracts | We examined the eight contracts to assess whether they addressed the selected obligations and to ensure that they were signed (that is, duly executed). |
| Quality Monitoring Program | <p>For all contracts, we examined</p> <ul style="list-style-type: none"> • the way buildings and compliance areas were selected for review, including documentation supporting selection decisions; and • the extent of coverage of the reviews undertaken since the inception of the contracts. <p>For the three selected contracts (Ontario, Ottawa downtown, and Ottawa perimeter), we performed the following:</p> <ul style="list-style-type: none"> • A detailed file review of a sample of 22 of the 38 reviews conducted for these contracts in the 2012–13 fiscal year*. To select the reviews sampled, we used a judgmental approach based on both random selection and materiality. File review testing included <ul style="list-style-type: none"> • reviewing all documentation relating to the planning, conduct of reviews, and reporting; and • reviewing evidence of steps taken by the Department to communicate all issues reported in the reviews to the service provider, and to monitor action plans undertaken by the service provider. • An analysis of the nature and extent of all issues raised by the Department during the 2012–13 fiscal year. <p>We supplemented our file review by observing two quality reviews in August 2013, one in Ottawa downtown and one in Ottawa perimeter, and by performing a walk-through of the processes used to conduct the reviews with quality monitoring staff for the Ontario contract.</p> <p>*The Quality Monitoring Program for leased buildings was not implemented by the Department in these regions. As a result, our file review was performed for buildings owned by the Department and those owned by other government departments.</p> |
| Environmental due diligence reviews | <p>For all contracts, we examined</p> <ul style="list-style-type: none"> • the extent of coverage of the reviews undertaken for the 2012–13 fiscal year; • summary reports of results for 2012–13, as well as national summary reports for the 2011–12 and 2012–13 fiscal years; • actions taken by the Department on issues it identified in its 2012–13 reviews for Department-owned buildings managed under the contracts; and • the nature and extent of the instances of non-compliance raised by the Department during 2012–13, for Department-owned buildings managed under the contracts. <p>For the three selected contracts, we reviewed the Department’s planning, conduct of reviews, and reporting work undertaken in the 2012–13 fiscal year. This included</p> <ul style="list-style-type: none"> • all Department file reviews of the service provider’s self-assessments; • the way buildings were selected for on-site review by the Department, including documentation supporting these decisions; and • all of the Department’s eight on-site visits conducted in 2012–13. |

| Control | Specific audit approach used to test the implementation |
|----------------------------------|---|
| <p>Accessibility evaluations</p> | <p>For all contracts, we examined the planning, conduct, and reporting of the evaluations undertaken in the 2012–13 fiscal year by the Department. This included</p> <ul style="list-style-type: none"> • a detailed file review of all eight accessibility evaluations, and • testing of actions taken by the Department on all issues identified by it. <p>We analyzed the dates of the latest accessibility evaluations for all buildings owned and leased by the Department that are managed under the contracts to determine whether they were current as of September 2013.</p> <p>We also reviewed the methodology and results of the 2010 national report on the accessibility evaluations conducted by the Department over the period from 2005 to 2009 on all its buildings (both leased and owned by the Department).</p> |
| <p>Performance incentives</p> | <p>We tested three important performance indicators: environmental stewardship, quality management of property management services, and quality management of project delivery services.</p> <ul style="list-style-type: none"> • We selected these indicators based on their materiality in terms of their relationship to the selected obligations included in the scope of the audit, and in terms of their value in calculating performance fees. • For each of these indicators, we tested the following aspects for the three selected contracts for the 2012–13 fiscal year: <ul style="list-style-type: none"> • the establishment of performance baselines; • data collection and validation processes; • performance fee determination and calculation (the calculation of performance results was also tested for the 2011–12 fiscal year); and • the payment processes (tested for 2011–12 because these had not been completed for 2012–13 at the time we conducted our work). • We supplemented this work by examining cases in which instances of non-conformance were excluded from the calculation of performance, for all contracts, in 2011–12 and 2012–13. <p>We also examined the Contractor Incentive Program:</p> <ul style="list-style-type: none"> • We reviewed the selection of targets and their alignment with Department priorities for all contracts for three fiscal years: 2011–12, 2012–13, and 2013–14. • For the three selected contracts for the 2011–12 and 2012–13 fiscal years, we also tested <ul style="list-style-type: none"> • supporting information behind the establishment of targets, • methodology used in calculating and determining fees, and the payment process. |

Criteria

| Criteria | Sources |
|---|--|
| To determine whether, when outsourcing building management services, Public Works and Government Services Canada has adequate controls to ensure that selected obligations would be met, we used the following criteria: | |
| The Department has appropriately designed controls to ensure that the selected commitments and obligations would be met when it has outsourced its building management services. | Policy on the Management of Real Property, Treasury Board Policy Framework for the Management of Assets and Acquired Services, Treasury Board |
| The Department has appropriately implemented controls to ensure that the selected commitments and obligations would be met when it has outsourced its building management services. | Committee of Sponsoring Organizations of the Treadway Commission |

Management reviewed and accepted the suitability of the criteria used in the audit.

Period covered by the audit

This audit assessed practices in place during the period from April 2012 to September 2013. This period was selected to include the last full fiscal year of operation, as well as work up to the end of the examination period of the audit. To properly understand the context and activities on which current operations are based, we also reviewed and considered documentation and information prior to this period. Audit work for this chapter was completed on 31 January 2014.

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Appendix Recommendation

The following recommendation is found in Chapter 7. The number in front of the recommendation indicates the paragraph where it appears in the chapter. The numbers in parentheses indicate the paragraphs where the topic is discussed.

| Recommendation | Response |
|--|---|
| <p>Implementation of controls</p> <p>7.56 Recommendation. Public Works and Government Services Canada should implement its controls rigorously. It should</p> <ul style="list-style-type: none"> • clearly define and document roles and responsibilities of all players, including itself and other government departments, in monitoring the service provider’s performance and in ensuring that selected obligations are met; • determine and document which monitoring controls are to be applied for each category of buildings managed under the contracts; • consistently and rigorously apply the appropriate controls to address the implementation weaknesses identified in this report; • consider the need for a stronger oversight function that will support consistent understanding and implementation of the controls; • strengthen its processes for validating the reliability and completeness of information used to measure the service provider’s performance and to determine incentive payments; and | <p>Agreed. The Department, through two generations of Alternate Forms of Delivery contracts, was able to save \$450 million. Leveraging the efficiency and the flexibility offered by the private sector enables the Department to avoid competing with the private sector and to better respond to the Government of Canada program needs and, thus, be seen as a leader in the real property industry. In addition, by taking advantage of the agility of the private sector, the Department stimulates the economy by giving the service providers the flexibility to subcontract work to over 6,500 small-and-medium enterprises across the country.</p> <p>The Department has already started to integrate the following actions in the next generation of contracts and associated framework. It is</p> <ul style="list-style-type: none"> • enhancing the way the controls are implemented to ensure consistency and compliance with the terms and conditions of the contracts; • continuing to use these controls and improve, where possible, while recognizing the importance of value for money in the management of these complex contracts; • continuing to better define the roles and responsibilities of stakeholders in monitoring the service provider’s performance; • ensuring that the controls apply to each type of building managed under the contracts and that key decisions, regarding the accountability of the other custodian departments when service providers are selected to conduct work according to the terms and conditions of the contracts, will be documented; and |

| Recommendation | Response |
|---|--|
| <ul style="list-style-type: none"> review the objective of the Contractor Incentive Program or ensure that its implementation aligns with its objectives. <p>(7.27–7.55)</p> | <ul style="list-style-type: none"> applying the modified Contractor Incentive Program, which has been changed to a discretionary program that will be reviewed annually and subjected to meeting all of the Key Performance Indicators for that fiscal year. <p>As a result of the previous audits and lessons learned, the full spectrum of oversight functions for Alternate Forms of Delivery contracts is currently under review with a view to developing a new regime. The new oversight regime is based on a recognized industry model and will ensure a comprehensive, integrated, and efficient approach is implemented for future Real Property contracts. The implementation of this new oversight regime will improve the way the contracts are managed, monitored and reported on; these changes will be applied to the next generation of contracts, which will be operational in 2015.</p> |