



Santé  
Canada

## **Final Audit Report**

# **Audit of the Real Property Management**

**December 2009**

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## Executive Summary

The Real Property and Facilities Management Division, of the Corporate Services Branch, provides national and strategic leadership in real property and environmental management services in support of Health Canada's programs.

The objective of the audit was to examine the management controls in place for administering the real property function. The audit was conducted in accordance with the Internal Auditing Standards for the Government of Canada, and has examined sufficient, relevant evidence and obtained sufficient information and explanations to provide a reasonable level of assurance in support of the audit conclusion.

Renewed leadership in the Real Property and Facilities Management Division has resulted in recent progress towards establishing and updating some key controls. In a short period of time, the Division have made significant improvements to the management controls for Health Canada's real property.

In April 2009 a Real Property Management Framework was implemented along with four critical policies. The accountability framework describes real property roles and responsibilities and the governance structure related to real property management. The new framework has been long overdue in the Department and will serve to guide the Real Property Division more strategically and will also provide a more consistent and comprehensive approach to managing the Department's real property portfolio on a national basis.

In September 2009, the Department put in place an approved Delegation of Authority Instrument for real property transactions. The formal signing and implementation of this instrument is a key element of the Real Property Management Framework and will assist the Real Property Division in further aligning departmental strategic priorities in relation to the management of Health Canada's real property portfolio.

Over the last five years Health Canada's reimbursing costs for accommodation have risen from approximately \$3 million to \$17.4 million. The Real Property Facilities Division must continue to work to put the Department in a better financial position vis-à-vis the reimbursing costs currently being consumed.

The Department would also benefit from a computerized maintenance system in order to reconcile the real property information used for decision making. The electronic system will also aid the updating of the Directory of Federal Real Property.

Management has agreed, with an action plan, to the three recommendations which will serve to strengthen the management control framework for real property.

## Introduction

### Background

Health Canada ranks fourth in the federal government in terms of occupied space. As of February 2009 the Department occupied space in 98 buildings throughout the country which accounted for \$58.6 million in total accommodation expenses.

The Real Property and Facilities Management Division, within the Corporate Services Branch, provides national and strategic leadership in real property and environmental management services in support of Health Canada's programs.

This leadership is accomplished through interpreting, developing and implementing policies and practices. The Real Property team also acquires and manages the Department's facilities to promote productivity and to ensure that employees have the best facilities possible.

#### Services from Real Property Division

- Capital Asset management and stewardship
- Building maintenance and repairs
- Capital Project leadership
- Strategic accommodation planning and design
- Space management
- Policy Development
- Implementation of real property information systems
- Monitoring and reporting

### Audit Objectives

The objective of the audit was to examine the management controls in place for administering the real property function.

### Audit Scope and Approach

The audit was undertaken by the Audit and Accountability Bureau in accordance with the Health Canada Risk-Based Audit Plan for 2008-2009 which was approved by the Departmental Audit Committee on April 3, 2008. The audit was conducted in accordance with the Internal Auditing Standards for the Government of Canada, and has examined sufficient, relevant evidence and obtained sufficient information and explanations to provide a reasonable level of assurance in support of the audit conclusion.

The audit criteria were developed from a variety of sources including Treasury Board policy, guides and standards, Health Canada policy and procedures and Public Works and Government Services Canada guidance. The criteria were reviewed and approved by the Real Property and Facilities Management Division.

Audit methodology included interviews, documentation reviews, sampling of Building Maintenance Plans and Service Agreements, analysis of cost, pricing and maintenance records, site visits and process mapping. The audit was conducted primarily within the National Capital Region, with regional site visits in Winnipeg and Toronto.

The audit was not a financial attest audit and therefore the audit did not confirm any amounts noted on departmental financial statements. As well, excluded from the audit were properties where Health Canada has no ownership (such as First Nations Inuit Health properties) nor did the audit include reviewing physical security of leased buildings.

## **Findings, Recommendations and Management Responses**

### **Real Property Management**

#### **Audit Criteria**

An appropriate real property management framework exists which includes a governance structure, policies, practices and procedures and a *Real Property Delegation of Authority Instrument* supporting real property transactions.

#### **Management Control Framework**

A real property management framework is a control structure defining roles and responsibilities and assigning accountabilities to ensure that the real property held by the Department is managed according to government principles: efficiency (value-for-money), lifecycle costing and integration of real property into the departmental framework and meets objectives of security, health and safety, environment, heritage, accessibility and Aboriginal interests.

In April 2009, a *Real Property Management Framework* was finalized. The accountability framework describes real property roles and responsibilities and the governance structure related to real property management.

The new framework has been long overdue in the Department and will serve to guide the Real Property Division more strategically. Given Health Canada's decentralized structure the new framework will provide a more consistent and comprehensive approach to managing the Department's real property portfolio on a national basis.

## Governance

The highest level of governance at Health Canada is the Senior Management Board (SMB) which is supported by the Sub-Committee: Operations; Finance Evaluation and Accountability which hear issues related to real property. Supporting the Senior Management Board and its related sub-committees is a series of operational committees.

One of the key operational committees is the Long Term Capital Planning Committee which has program and financial Branch representation. This committee is responsible for drafting the departmental investment plan which should be approved annually.

Secondly, there is a Liaison Committee which has representation from all Branch Accommodation Officers. As well, each Region has its own committee structure which reviews accommodations.

A third key committee is the Real Property Client Relations and Space Management Committee. This is a national committee with participation from Health Canada Branches and Regions. The Committee members provide advice on real property horizontal issues and strategies and make recommendations to the Director General, Internal Services Committee as well as to SMB sub-committees.

## Policies, Practices and Procedures

Treasury Board policy holds deputy heads and departments and agencies responsible for ensuring that their real property management frameworks include policies, practices and procedures that comply with federal legislation. As well, there should be systems that provide relevant program, financial and real property performance information.

Health Canada has developed a suite of policies, practices and procedures that address all corporate functions specific to managing real property. The policies form part of the Real Property Management Framework.

### Suite of Policies

- Office Accommodation Policy
- Lab Facility Management Policy
- Real Property Investment Policy
- Real Property Project Management Policy
- Accounting For Real Property Assets

While Health Canada does not have its own policy on accessibility standards the Department was recently the subject of an accessibility audit in the National Capital Region. The Canadian Human Rights Commission completed the audit and in June 2009 reported that Health Canada had the best accessibility the Commission has seen in the last ten years.

The recent updating and revising of the real property policies will provide for better overall management and continuity in decision-making.

## **Delegated Authorities Instrument**

The *Federal Real Property and Federal Immovables Act* sets out legal requirements relating to the acquisition, administration and disposition of real property and immovables by the Government of Canada. It also describes the authorities of custodian departments in discharging their statutory obligations for federal realty transactions.

As of September 2009, Health Canada has an approved Delegation of Authority Instrument for real property transactions. The Real Property Division has created an instrument which satisfies the Treasury Board's Policy on the Management of Real Property which sets thresholds above which Treasury Board approval is required before carrying out a transaction. The Instrument includes all designated positions authorized to enter into real property transactions on behalf of the Minister, conditional to approval by the Director General, Facilities and Security Directorate.

The formal signing and implementation of this instrument is a key element of the Real Property Management Framework and will assist the Real Property Division in further aligning departmental strategic priorities in relation to the management of Health Canada's real property portfolio.

## **Office Accommodation**

### **Audit Criteria**

Office accommodation conforms to all relevant legislation, policies and standards and represents the optimal use of money and space.

### **Reimbursing versus Non-Reimbursing**

Public Works and Government Services Canada (PWGSC) is responsible for providing office accommodation to departments and agencies and for furnishing other related property services. PWGSC controls the use of space through space envelopes. When a federal department or agency requires additional space, it can be financed in one of two ways: the department or agency can either obtain Treasury Board's approval for an increase in the Branch's appropriation to pay for office accommodation costs associated with a new program or it can pay for the additional space from its own budget.

Health Canada office accommodation is classified as either "reimbursing" or "non-reimbursing." The "non-reimbursing" space is funded by the Crown in accordance with a Treasury Board approved baseline staffing level for program delivery.

The baseline was established in 2001-02 as part of the government's *Space Envelope Realignment Strategy*. Since then, approved "space envelopes" have been adjusted to reflect subsequent Treasury Board approved program growth and contraction. Space which is provided in excess of the baseline level is classified as "reimbursing." In this

case, the Crown provides the space but Health Canada is required to reimburse for the cost of the space.

Over the last five years Health Canada's reimbursing costs have risen from approximately \$3 million to \$17.4 million. The primary reason for high reimbursing costs has been linked to the former process for acquiring accommodation. In the past, Branches were able to acquire space without proper project justification and guidelines in place to support the expansion requirement. As long as the Branches had funding to put toward new leases, additional space was acquired for the Department. This resulted in Branches not vacating space for programs with sunset conditions; unfunded growth for the Department; and a significant increase in reimbursing costs over a short time period.

Recently, the acquisition approvals process has been revised to require project justification from regional accommodation representatives thus allowing greater accountability and introducing tighter controls to encourage more effective management of Health Canada's property portfolio.

A second explanation for the growth in reimbursing costs is a lack of consistency in producing program business cases. When business cases identify staff requirements a corresponding accommodation formula is attached and the Crown pays for accommodation. When staff requirements are not identified in the business case no Crown accommodation funding is provided. At Health Canada, some business cases are being completed without identifying the staff requirements leaving the Department in a "reimbursing situation" with the Crown. The Real Property Division has recently started to match human resource plans with accommodation plans. While the Division recognizes there are still a number of challenges, such as having staffing plans identify whether accommodations cost for new staff would be reimbursing or non-reimbursing, integration of human resource plans with accommodation plans will help to ensure that the Department does not run out of space, has sufficient funding, and will help reduce reimbursing costs.

Senior Management has been briefed on the Department's reimbursing costs and recommended in February 2009 that the \$17 million be reduced to zero over the next three years. The Real Property Division has since put in place a plan to achieve this departmental goal. One key element towards the cost reduction savings will be through the use of the Department's unallocated space envelope held by PWGSC for Health Canada operations (a savings of \$8.9 million over 4 fiscal years). As well, gains will be realized with the consolidation of existing space and through the recovery of space for programs with sunset terms and conditions.

### **Recommendation 1**

*It is recommended that the Assistant Deputy Minister, Corporate Services Branch continue to work with the Branches and Regions towards eliminating reimbursing lease costs through a variety of tighter accountability mechanisms.*



## **Management Response**

Corporate Services Branch will implement the Real Property Delegation of Authority and Real Property Accountability Framework which will support enterprising real property and the lease reduction strategy through improved governance of the Real Property program.

Corporate Services Branch will work with other Branches and the Regions to implement the Real Property lease reduction strategy as approved by Senior Management Board-Operations.

## **Investment Planning**

### **Audit Criteria**

Health Canada utilizes a life cycle approach to managing the Department's real property assets and makes decisions based on an investment analysis over a five year period.

Investment planning is the function of allocating and reallocating resources to new and existing assets and acquired services that are aligned with program delivery to support program outcomes and government priorities. It is a key element in achieving value-for-money and sound stewardship.

As expected by Treasury Board, the Department has a five year Long Term Capital Plan. It provides a brief description of all Health Canada's capital assets consisting of real properties and moveable capital equipment (Information technology, scientific equipment and vehicles). One highlight from the plan includes that Health Canada has spent \$5 million on leasehold improvements in fiscal year 2007-08 in support of its strategic objectives and plans additional expenditures of approximately \$18 million from fiscal years 2008-09 to 2010-11. The current Long Term Capital Plan has forecasted expenditures totalling approximately \$59 million over the next five years to protect the integrity and ensure the viability of its assets over the life of the programs that they support.

On June 7, 2007, Treasury Board Ministers approved a new *Policy on Investment Planning* which will supersede the current Long Term Capital Plan. This policy represents a significant departure in how government carries out investment planning. As such Treasury Board of Canada Secretariat has adopted a four year phased implementation approach. The goal is that departments and agencies will have the systems and processes in place to meet the policy requirements by April 2011.

Health Canada will be transitioning to the new requirements (assets, acquired services and capital projects) as a participant of the second phase of the pilot project being conducted by the Treasury Board of Canada Secretariat.

The Department is currently developing its Investment Plan. This year's Management Accountability Framework Assessment noted that the investment planning document: ranked priority investments; considered investments over multiple years; and integrated investments decisions across all asset classes. Health Canada has developed and implemented its Real Property Investment Policy in support of Treasury Board policy requirements and to improve efficiency in management of the Department's real property portfolio.

## **Information Management System**

### **Audit Criteria**

A computerized maintenance management system exists to provide the capability to schedule, monitor and track all resource information required for maintenance activities as well as to generate up-to-date property condition information.

An information system is an important element of a real property management framework as reliable information (historical and current) is required for informed decision making.

The Department currently uses several different systems to provide information on Real Property such as the Framework for Integrated Resource Management System, Standard Payment System, Computer Aided Facilities Management System (PWGSC system), Office Accommodation Service Reporting System (PWGSC system), and the Program Growth Report (PWGSC system).

An analysis was completed on some of the standard real property reports; however, when an attempt was made to reconcile information between each of the reports it proved difficult. For example, the Program Growth Report for April 2009 was examined against the current occupancy report, the vacancy report and business cases; yet, these reports could not be reconciled with one another. The Real Property Division was also not able to perform the reconciliation.

The Real Property Division would benefit from having a comprehensive Computerized Maintenance Management System supporting the management and tracking of Real Property activities – accommodation, project documentation; historical tracking; tracking of scheduled and unscheduled maintenance; and interfacing with existing building management and control systems to provide energy and use profiles.

However, before a system is implemented the Real Property Division will need to reconcile all the relevant real property data.

## **Recommendation 2**

*It is recommended that the Assistant Deputy Minister of the Corporate Services Branch reconcile real property information and consider the acquisition of a computerized maintenance management system.*

### **Management Response**

Corporate Services Branch will identify potential solutions to reconcile real property information and address the need for computerized maintenance management systems which will increase efficiency in Real Property management.

## **Directory of Federal Real Property**

### **Audit Criteria**

The information found in the Crown's Directory of Federal Real Property is current, complete and accurate.

Crown lands in Canada are owned by *Her Majesty* and the administration of these lands is assigned to departments, agencies, and Crown corporations to support the delivery of government programs. These organizations are commonly referred to as custodians.

The Directory of Federal Real Property is the central record and only complete listing of real property holdings of the Government of Canada. It is administered by the Real Property and Materiel Policy Directorate of the Treasury Board of Canada Secretariat. The Directory maintains a record of basic information (e.g. primary use, address, floor area, land area, custodian) concerning the real property holdings of the Government of Canada.

While Health Canada's Real Property Facilities Management Division has corrected most of the discrepancies in the system, there are a few outstanding items. In particular, the issue of custodianship regarding First Nations Inuit Health Branch facilities still needs to be resolved at the departmental level.

## **Recommendation 3**

*It is recommended that the Assistant Deputy Minister, Corporate Services Branch, work with the Assistant Deputy Minister of the First Nations Inuit Health Branch, to continue to supply updated information to the Directory of Federal Real Property.*

## **Management Response**

First Nations Inuit Health Branch will confirm the status of properties currently identified in the Directory of Federal Real Property as under the control of Health Canada and will work with Corporate Services Branch as it continues to update the Directory to obtain annual certification and clarify responsibilities of Branches.

## **Conclusion**

The control framework used to manage Health Canada's real property has evolved rapidly over the last year and is now relatively sound. However there remain three areas where improvements need to be made to further strengthen the controls.

First, the Real Property Facilities Management Division must continue to work to put the Department in a better financial position vis-à-vis the reimbursing cost currently being consumed.

Second, the Division must use the assortment of real property reports to reconcile the relevant real property data in order to better manage and track real property activities. Moreover, the Division should consider the acquisition of a computerized maintenance system to facilitate management of the Department's real property portfolio.

Lastly, the Real Property Facilities Management Division must continue to ensure that accurate and updated information is supplied to Treasury Board's Directory of Federal Real Property, especially in relation to custodianship regarding First Nations and Inuit Health facilities.

## Appendix 1 - Lines of Enquiry and Audit Criteria

Line of Enquiry	Audit Criteria
<p>1. The Real Property Management Framework adheres to Treasury Board Policies and Guidelines including fit-up space allocations.</p>	<ul style="list-style-type: none"> <li>▪ Governance;</li> <li>▪ Investment decisions;</li> <li>▪ Policies and practices;</li> <li>▪ Delegated Financial Signing;</li> <li>▪ Reimbursement Strategy;</li> <li>▪ Performance Information.</li> </ul>
<p>2. Information used to support Real Property is accurate, current and reliable including the financial assertions relating to real property capital assets.</p>	<ul style="list-style-type: none"> <li>▪ Clear categorization of building usage, location and significance;</li> <li>▪ Design, construction, fit-up, operational and maintenance records are maintained;</li> <li>▪ Computerized maintenance management system;</li> <li>▪ Directory of Federal Real Property is accurate;</li> <li>▪ Betterments are differentiated from repairs;</li> <li>▪ There is an information system;</li> <li>▪ Reimbursable space is funded departmentally; and is charged back to the Branches.</li> </ul>
<p>3. There is an effective Life Cycle approach to the management of real property assets.</p>	<ul style="list-style-type: none"> <li>▪ Financial performance indicators and targets are used;</li> <li>▪ An economic and program analysis is undertaken;</li> <li>▪ A Long Term Capital Plan (LTCP) is prepared;</li> <li>▪ The Department regularly assesses the physical state of its real property inventory.</li> </ul>