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Agency of Canada

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AUDIT REPORT

ON REAL PROPERTY MANAGEMENT

Audit Services Division

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Canada 

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Executive Summary

1. The overall objective of the audit was to provide Public Health Agency of Canada (PHAC or the Agency) management with an independent assessment of the degree to which the Agency's portfolio of real property is being managed with due regard to economy, efficiency and effectiveness, and in compliance with Treasury Board (TB) policies.
2. The audit work was conducted between June and September 2008, and included interviews with PHAC, Public Works and Government Services Canada (PWGSC) and Treasury Board of Canada Secretariat (TBS) officials with responsibilities for real property management.
3. The audit included site visits to the National Microbiology Laboratory (NML) in Winnipeg, and the Laboratory for Foodborne Zoonoses (LFZ) in Guelph; to the regional offices and office accommodations in Winnipeg, Toronto, Guelph, Kitchener, Ottawa and Halifax; and to the National Emergency Stockpile System (NESS) warehouse facility in Brampton.

Management Framework and Accountability

4. The Agency does not have a real property management framework in place. The lack of a management framework is contributing to confusion on roles and responsibilities for real property management in the Agency, and to entrenchment in past practices and resistance to change. In its last Management Accountability Framework (MAF) review by TBS, the Agency committed to developing a real property management framework in FY 2008-09, but the shortage of resources identified by the Corporate Administration, Facilities and Security Directorate (CAFSD) could jeopardize meeting this commitment.
5. The Agency has not yet developed its own suite of policies, practices and procedures for managing its real property. Agency managers currently lack guidance on staff entitlements to office and laboratory space, and CAFSD is missing a key corporate mechanism to review and validate program requests for space.

Real Property Information System

6. The real property and Full-Time Equivalent (FTE) data available to CAFSD to manage the Agency's custodial facilities and leased office space are inaccurate and inadequate. We identified several errors and inconsistencies in the real property information provided to us for the audit, and were unable to carry out an analysis of the Agency's space utilization. CAFSD intends to replace its existing system with a computer assisted facilities management system that it believes will meet its data requirements for managing the Agency's real property portfolio.
7. The Agency's custodial properties have not been listed in the TBS Directory of Federal Real Property (DFRP). The new Ward laboratory should now be

registered in the DFRP under PHAC. NML and LFZ are currently listed in the DFRP under Health Canada (HC). The properties have not yet been properly transferred to PHAC. An unresolved issue relating to which Minister should assume administration and control for the NML has delayed the transfer of these facilities.

Investment Decisions

8. The only new real property investment made by the Agency since its creation has been the 2007 acquisition of an existing building formerly used by the Government of Manitoba as a laboratory. This investment was the Ward laboratory, which was purchased for \$3.2 million and will involve an estimated \$42.1 million in retrofit costs.
9. The program requirement for the acquisition was tied to the Agency's mandate under the government's 2006 Avian and Pandemic Influenza Preparedness Strategy. The investment decision was supported by a PWGSC analysis that evaluated three options to meet the requirement for new laboratory space.
10. We concluded that the analysis supporting the Agency's decision to acquire the Ward laboratory met the TB expectations for needs and options analyses for new investment decisions.

Strategic Capital Planning

11. In September 2005, the Agency prepared a draft Long-term Capital Plan (LTCP), but was directed by TBS to suspend further work on this and refocus its efforts in developing an investment plan in line with the new TB *Policy on Investment Planning*. We were advised that the Agency's action plan for implementing the new policy is due to be presented to TBS in fall 2008.
12. The delay in having an approved corporate LTCP in place has been beyond the Agency's ability to control.

Accommodation and Use of Facilities

13. PWGSC follows its fit-up standards for office accommodations, which identify quantity and quality standards. If departments wish to exceed these standards, they must first seek exception approval through a multi-step process and fund the excess costs from their departmental budgets. The Agency has established a policy that deviations from the PWGSC fit-up standards will not be permitted.
14. For the Agency's custodial laboratories, the PWGSC office quantity and quality standards do not apply. The Agency does not have policies defining who qualifies for laboratory space or what fit-up standards should apply. In the absence of such policies and given the inaccuracies in the available real property data, we were unable to comment on whether the allocation of the Agency's laboratory space is efficient and represents the highest and best use of the space.

Capitalization of Land and Buildings

15. The Agency does not have appropriate accounting procedures in place to ensure that the Agency's land and buildings are properly reported in its 2008 unaudited financial statements in accordance with prescribed Agency and Central Agency accounting standards and relevant policies.

Conclusion

16. There is no assurance that the Agency's real property portfolio is being managed with due regard to economy, efficiency and effectiveness. Overall, the results of this audit indicate that the Agency's space requirements are being met by its corporate real property management function on a best-effort response to program space demands rather than as a proactive corporate activity anticipating the Agency's space needs and developing the plans to meet them.
17. As the Agency continues to build capacity to absorb the corporate functions formerly provided by HC, it currently lacks the overall framework of Agency-approved real property policies and information systems to guide program managers in defining their space demands and the corporate mechanisms to review and validate those space demands.
18. Key areas requiring improvement include:
 - Develop an appropriate real property management framework. The full support of the Executive Committee will be needed to implement the new management framework, since it will likely require some cultural change in the Agency;
 - Develop a policy suite for the management of the Agency's real property portfolio;
 - Acquire an improved real property information system to address the inherent deficiencies in the existing system; and
 - Renew efforts to resolve which Minister has administration and control over the Agency's custodial properties, and ensure that they are properly registered in the government's DFRP.

Management Response

19. The Agency's management agrees with our findings and recommendations and a management action plan is presented in Appendix B.

Background

20. The audit of the Public Health Agency of Canada's (PHAC or the Agency) real property management was conducted in accordance with the Risk-Based Audit Plan for financial year 2008-09.
21. Public Works and Government Services Canada (PWGSC) is the designated custodian of general-purpose office accommodation in Canada and sets the standards for them. The provision of office accommodation by PWGSC is on a mandatory basis to departments and agencies.
22. The Public Health Agency of Canada's (PHAC or the Agency) office accommodation is classified by PWGSC as either "non-reimbursing" or "reimbursing". The "non-reimbursing" space is funded by PWGSC in accordance with a Treasury Board (TB)-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 TB-approved program growth and contraction. Space which is provided in excess of the baseline level, such as when a program sunsets but the space is retained, or for new programs for which TB approval is outstanding, is classified as "reimbursing". In this case, PWGSC provides the space but the Agency is required to reimburse PWGSC for the cost of the space.
23. According to PHAC documents, the Agency has office accommodation in a total of 24 buildings, located in all provinces of Canada. In addition, the Agency has laboratory space at 8 locations in 4 provinces, and manages storage and warehouse space in all provinces. PHAC data indicate that as of May 2008, the Agency had a total of 2,559 approved Full-Time Equivalents (FTEs), a current population of 2,557 FTEs, and a projected growth by FY 2010-11 to 3,152 FTEs. We could not rely on the Agency's office and laboratory space data to provide further details on PHAC's real property portfolio.
24. The Agency's two major laboratory facilities are the National Microbiology Laboratory (NML), located in Winnipeg, and the Laboratory for Foodborne Zoonoses (LFZ), located in Guelph. The Canadian Science Centre for Human and Animal Health (CSCHAH) in Winnipeg houses both the Agency's NML and the Canadian Food Inspection Agency's (CFIA) National Centre for Foreign Animal Disease. PHAC and CFIA share the CSCHAH facility as co-custodians.
25. A Memorandum of Understanding (MOU) was signed May 10, 2005, between Health Canada (HC) and PHAC for the provision of certain shared services. Schedule C of the MOU sets out the provisions for Assets Management Corporate / Common Services. As it relates to Real Property and Facilities Management, the MOU includes the following provisions, among others:
 - HC will assist PHAC in the development of policies, procedures, training, standards and guidelines (for Real Property Assets / Accommodation);
 - PHAC will manage all office space requirements;

- PHAC will manage the CSCHAH and the LFZ;
- HC will manage/oversee capital planning and allocation for funding for HC-owned laboratory facilities nationally and liaise with PHAC on the provision of services required by PHAC for laboratory space shared between HC and PHAC;
- PHAC will develop its own Real Property Management Framework and National Agency (Departmental) Accommodation Plan to address the Agency's vision, mission and mandate; and
- At all HC facilities, HC will assess reporting requirements and the design, development, maintenance and data management of national facilities, environmental and real property information systems.

This audit did not examine the level of services provided by Health Canada or the cost of those services.

26. At the time of our audit, several reviews/assessments were underway in the Agency, some of which had the potential to impact the program activities, staffing levels and space allocations that were then in place.

Audit Objectives

27. Agency documents indicate that PHAC will expend \$3.3 million on office lease costs and \$4.3 million in major accommodations projects (expansion and fit-up) in FY 2008-09. The risk to the Agency from a real property management perspective is that these expenditures may not be in the best interest of the Agency or of the government, either by having an excess of space or a shortage of space, or by otherwise failing to meet its program requirements.
28. The overall objective of this audit was to provide PHAC management with an independent assessment of the degree to which the Agency's portfolio of real property is being managed with due regard to economy, efficiency and effectiveness.
29. The sub-objectives of the audit were to:
- Provide an assessment of the Agency's policies, systems and practices for managing its real property, and the extent to which they meet the TB policies for real property management;
 - Identify relevant opportunities for improvement; and,
 - Determine whether the Agency's land and buildings have been capitalized and reported in its FY 2007-08 unaudited financial statements in accordance with prescribed Agency and Central Agency accounting standards and relevant policies.

Scope of Audit

30. The audit focused on the real property management performance of the Agency from its creation in September 2004 to August 2008. However, for reasons of auditability, significance and other reviews/assessments concurrently underway

within the Agency, the audit was not designed to reach conclusions on the extent to which the Agency complied with the following provisions of the *TB Policy on Management of Real Property*:

- Project planning;
- Periodic review of real property;
- Revenue opportunities;
- Environmental considerations;
- Accessibility considerations;
- Real property common services; and
- Heritage considerations.

Approach and Methodology

31. This audit was conducted in accordance with the *TB Policy on Internal Audit* and the Institute of Internal Auditors' (IIA) *International Standards for the Professional Practice of Internal Auditing*, except that no external assessment was performed to demonstrate that PHAC's internal audit function complied with the IIA Standards and Code of Ethics.
32. The audit criteria presented in Appendix A were derived from the *TB Guide to the Monitoring of Real Property Management*.
33. The audit team used a combination of audit methodologies, including:
 - Reviewing documents (policies, plans, documented procedures and practices, reports, business cases, investment proposals, TB submissions, committee minutes, etc.) related to real property management at the Agency;
 - Interviewing Agency, PWGSC and Treasury Board of Canada Secretariat (TBS) managers and key personnel directly or indirectly responsible for real property, and requesting evidence as required; and
 - Site visits to the NML and LFZ laboratories; to the regional offices and office accommodations in Winnipeg, Toronto, Guelph, Kitchener, Ottawa and Halifax; and to the National Emergency Stockpile System (NESS) warehouse facility in Brampton.

Audit Findings and Recommendations

Management Framework and Accountability

Real Property Management Framework

34. TB policy holds the deputy heads of departments and agencies responsible for ensuring that an appropriate real property management framework is in place and maintained that supports timely, informed real property management decisions and the strategic outcome of programs. A clear governance regime that communicates who is responsible for what and who is accountable overall is important for sound stewardship.

35. A real property management framework is a control structure set up by a department or agency to operationalize TB policy direction to effectively and efficiently manage its real property inventory and associated responsibilities. In its most basic form, the real property management framework is the departmental master plan for managing real property in an integrated fashion with other departmental resources to meet operational needs.
36. At a minimum, a real property management framework consists of appropriate accountability and decision-making structures, planning structures and process, clearly communicated authorities, segregation of responsibilities, appropriate policies and practices, and financial and real property information systems that support informed decision making, and allow for timely monitoring of performance targets and results.
37. The framework is based, in part, on the consideration of the real property as one input to program delivery; the recognition of its financial and service values; life cycle management; sustainability; risk management; performance measurement; and linkages between senior-level and operational planning.
38. The Agency does not yet have a real property management framework in place. The absence of such a framework is contributing to confusion on roles and responsibilities in the management of the Agency's real property, and to entrenchment in past practices, and resistance to change. There is also a concern that operations and maintenance in the Agency's custodial laboratories are not integrated with other aspects of the Agency's programs that would enable an Agency-wide perspective for real property management.
39. The need for a real property management framework is made even more important because of the challenges posed by the Agency's decentralized structure, with Ottawa and Winnipeg headquarter pillars and the six regional offices.
40. The Agency's continuing process of evolving into a separate department from HC, with its own governance and accountability frameworks, accounts in part for the absence to date of a real property management framework. We noted, however, that the 2005 HC-PHAC MOU called for PHAC to develop its own real property management framework. The Agency continues to build its internal capacity to import and improve upon corporate services for real property management, previously provided by HC. It is important to note that the Corporate Administration, Facilities and Security Directorate (CAFSD) was created approximately one year ago. Several of its key staff resources have only recently joined the Agency and others continue to be recruited. A business case has been submitted, though not yet approved, requesting an additional seven FTEs to augment the Directorate's capacity to meet its expanded responsibilities.
41. Primary responsibility for preparing the real property management framework rests with the Director General, CAFSD. TBS guidance suggests that the real property management framework typically provides a central role to senior managers at the

assistant deputy minister level.

42. In its 2007-08 Management Accountability Framework (MAF) review by TBS, the Agency committed to preparing a real property management framework in FY 2008-09. However, we were advised that the absence of approval for new resources to augment the capacity within CAFSD could jeopardize meeting the timetable for this commitment.

Recommendation

43. We recommend that the Director General, Corporate Administration, Facilities and Security Directorate develop, communicate and seek approval for an appropriate real property management framework, in accordance with Treasury Board policy.

Real Property Policies, Practices, and Procedures

44. TB policy holds the deputy heads of departments and agencies responsible for ensuring that their real property management frameworks include policies, practices and procedures that comply with federal legislation, regulations and government policy, and systems that provide relevant program, financial and real property performance information.
45. The Agency has not yet developed a suite of policies, practices, and procedures that address all corporate functions, including those specific to managing its real property portfolio. The 2005 HC-PHAC MOU provides some reference to the real property management policies in place in HC at the time the Agency was created, but these have not been updated by the Agency nor does the Agency currently have an inventory of the specific policies it has imported or adopted.
46. The absence of such fundamental management structures has created an accountability vacuum within the Agency relating to the management of its real property. Managers at all levels lack the appropriate information for deciding who is entitled to office accommodation and laboratory space and the number and source of the Agency's approved FTEs (TB or PHAC).
47. A further consequence of not having documented policies and procedures is the loss of corporate memory when experienced employees leave the Agency and the lack of an important framework to guide new employees who join the Agency.
48. Without the formal delegation and communication of authority and accountability through approved real property policies, practices and procedures, the Agency lacks the corporate mechanisms to provide an effective review and validation function for program requests for office and laboratory space.
49. We noted that the DG, CAFSD was mandated in August 2008 to implement a Management Policy Suite at PHAC. As a first step in the process, the DG, CAFSD created a PHAC Policy Framework Structure and an inventory of policy instruments in use at PHAC and HC, and has circulated the documents to senior managers for their input and validation. The policy suite will include corporate

policy instruments that are in use and that apply Agency-wide, including those that were originally created by HC or later by the Agency.

Recommendation

50. We recommend that the Director General, Corporate Administration, Facilities and Security Directorate develop, communicate and seek approval for an appropriate suite of corporate management policies, practices and procedures, as mandated, to include those designed for the efficient and effective management of its real property. The policies and procedures addressing real property management should ensure open and public accountability for the allocation and use of the Agency's office and laboratory space.

Real Property Information System

51. TB policy requires that departments maintain accurate records of the real property they administer.
52. An appropriate information system is an important element of any real property management framework, as historical, current, and reliable information is vital to informed decision making and to the forecasting of future trends and needs. To ensure informed decision-making, the information system should allow for integrating real property information, including performance information, with information required for financial accounting and any necessary reporting.
53. The Agency currently does not have a corporate real property information system in place that presents accurate data on its inventory and use of real property, both owned and leased. Without such information, it is difficult for the Agency to ensure it is managing its real property assets economically and efficiently, and in the best interests of the Agency and of the government.
54. The Agency was unable to provide us with accurate and aggregated data on the following important metrics of its real property portfolio:
 - Total FTEs in office space;
 - Total FTEs in laboratories;
 - Total FTEs approved by TB (non-reimbursing);
 - Total FTEs funded by PHAC through business cases (reimbursing);
 - Total office space in square metres and by building and location;
 - Total laboratory space in square metres and by building and location;
 - Total vacant office space or space allocated for planned growth and by building;
 - Total warehouse space in square metres and by building and location;
 - Total storage space in square metres and by building and location; and
 - Total annual rental/lease costs for office space, laboratory space, warehouse space and storage space.
55. The Agency's current real property information system is based on a fragmented source of real property and accommodation information obtained through a variety

- of reports and documents. Some of the reports and documents are provided by PWGSC, and the others are generated by the Agency.
56. The PWGSC documents identify the FTEs approved through TB submissions and allocate them to programs, but not to facilities (offices or laboratories). Using the program allocations of FTEs, branches and regions identify their space requirements by indicating which FTEs are to be accommodated in offices and laboratories. Once space is allocated to FTEs, the FTEs are associated by buildings into PHAC's Space Envelope Report.
 57. Information in the Agency's Space Envelope Report reflects only PHAC occupancies in PWGSC owned and leased office accommodation facilities. An early attempt to include the laboratory space information was never finalized. The Space Envelope Report, used together with several other PWGSC and PHAC reports and documents, constitute the Agency's current real property information system.
 58. The requirement for space is generated by the number of approved FTEs that must be accommodated, but the Agency has not defined who is entitled to office or laboratory space. Accounting for space for FTEs must clarify that an entitlement to space exists for the category of worker being accommodated (e.g. consultants, students, visiting professors / scientists). The Agency's real property information system does not provide assurance that the FTE being provided space is entitled to that space.
 59. When we requested a complete listing of the Agency's real property portfolio for our audit, we were provided a copy of CAFSD's Space Envelope Report, dated January 14, 2008. As we worked with the data, we noted several errors and inconsistencies in the document:
 - Some Agency buildings that we visited or were made aware of were not listed in the document; (e.g. 820 Elgin, 505 Maisonneuve);
 - The usable space occupied and FTEs accommodated were in some cases understated and other cases overstated (e.g. 777 versus 1,700 square metres, and 105 versus 54 FTEs, for the LFZ);
 - The vacant work spaces we noted during our visit to several of the Agency's office buildings were not identified in the document, and actual space occupancy data were not available to CAFSD;
 - The FTEs associated with certain buildings were in some cases not listed, and in other cases were double counted;
 - The FTEs reported did not distinguish between those that were approved by TB for the life of the program as stated in the approval, and those that were approved by the Agency based on business cases, which might only have been approved for a specific period; and,
 - In some cases, FTEs approved for space in a given building were known to be occupying office space in a different building or in a different city, potentially resulting in the overstating of space requirements.

60. Based on the above noted limitations of the Agency's current real property information system, we concluded that CAFSD does not have the required information available to efficiently and effectively manage the Agency's real property inventory. Given our concern about the accuracy of the space and FTE data available, we did not undertake an analysis of the Agency's space utilization.
61. CAFSD is aware of the limitations of its existing information system, and has indicated its intent to acquire a Computer Assisted Facilities Management (CAFM) system in use in PWGSC. CAFSD has assessed the capabilities of the CAFM system, and believes it should allow for the effective management of the Agency's real property portfolio from a corporate perspective.

The Directory of Federal Real Property (DFRP)

62. The DFRP is the central real property inventory system of the Government of Canada. It is managed by TBS and serves as the focal point for sharing real property information across the government. The information held in the DFRP informs the Government of Canada about key characteristics of the federal real property held in support of its programs. It provides information concerning federal real property to ministers, members of Parliament, federal departments, Crown corporations, central agencies and the general public.
63. Custodian departments are responsible for designating an official whose responsibilities include, among others, the annual certification of the completeness and accuracy of the organization's records in the DFRP.
64. The Agency's custodial real property assets are not currently listed in the DFRP under PHAC. The "Health Canada Laboratory for Foodborne Zoonoses" is reported in the DFRP by HC – its DFRP Property Number is 27545. The Agency's NML is listed by HC under the "Canadian Science Centre for Human and Animal Health" – its DFRP Property Number is 71751. The property at 820 Elgin Street, Winnipeg, commonly referred to as the Elgin building, is located adjacent to NML and is being used as office accommodation for 41 NML staff. It is listed in the DFRP by HC as part of NML under DFRP Property Number 71751. The "Winnipeg Laboratory" is reported in the DFRP by CFIA – its DFRP Property Number is 70604. The Agency's newly acquired Ward laboratory is not listed in the DFRP.
65. The NML and LFZ properties are not recorded in the DFRP under PHAC because the administration and control for the properties have not yet been formally transferred to the Agency. PHAC initiated the administrative processes to effect these transfers in early 2006. The Memorandum to the Minister was then held back pending the restructuring of the PHAC senior management.
66. The current joint administration of the CSCHAH by the Ministers of Health and Agriculture and Agri-Food is not in compliance with the requirement of the *Federal Real Property and Immovables Act* that only one minister have administration of a piece of federal real property. The issue of whether the Minister of Health or the Minister of Agriculture and Agri-Food has administration responsibilities for the

CSCHAH has yet to be resolved. Resolution of this issue must occur before the remaining administrative procedures for the transfer of NML can be completed.

Recommendations

67. We recommend that the Director General, Corporate Administration, Facilities and Security Directorate implement a new real property information system. Once the new system is operational, the Director General should ensure the accuracy and completeness of the existing data transferred to the new system, and the new data captured by the system. The information can then be used to support more effective real property management and investment decisions on an Agency-wide basis.
68. We recommend that the Director General, Corporate Administration, Facilities and Security Directorate take the necessary action to have the Agency's Ward laboratory recorded in the Directory of Federal Real Property under the Public Health Agency of Canada, in accordance with Treasury Board policy.
69. We recommend that the Senior Assistant Deputy Minister renew the Agency's efforts to resolve the issue of the ministerial administration and control of the Canadian Science Centre for Human and Animal Health, as required under the *Federal Real Property and Immovables Act*, and to have it properly registered in the Directory of Federal Real Property, in accordance with Treasury Board policy.
70. We recommend that the Senior Assistant Deputy Minister ensure the timely transfer of the Laboratory for Foodborne Zoonoses from Health Canada to the Public Health Agency of Canada and that the property be recorded in the Directory of Federal Real Property under the Public Health Agency of Canada, in accordance with Treasury Board policy.

Investment Decisions

71. It is TB policy that departments acquire, maintain, preserve and dispose of real property to the maximum long-term economic advantage of the government. To ensure that they make real property decisions in this policy context, departments should conduct an investment analysis for each decision. The analysis should include assessment of the life-cycle costs of each investment decision, including costs of acquisition, operation, maintenance, leasing and fit-up, renovation and restoration. The real property requirement should also be linked to the analysis of program needs.
72. Soon after its creation in 2004, the Agency began assuming responsibility for the real property supporting the delivery of its mandated programs from HC. The only new real property investment entered into by the Agency since then has been the 2007 acquisition of an existing building formerly used by the Government of Manitoba as laboratory space. The building at 745 Logan Avenue, Winnipeg, known as the Ward (or Logan) laboratory, was purchased for \$3.2 million, and will involve an estimated \$42.1 million in retrofit costs.

73. The program requirement for the acquisition was tied to the Agency's mandate under the government's Avian and Pandemic Influenza Preparedness Strategy, which was supported by Cabinet in July 2006. The Strategy recognized that the NML was already operating at full capacity. The acquisition would provide expansion space for the relocation of Level II research currently conducted at the NML, thereby increasing its capacity for Level III and other Level II research.
74. An Investment Analysis Report was prepared by PWGSC in 2006. The Report evaluated three options for meeting the requirement for new laboratory space:
- Constructing a new laboratory in proximity to the NML;
 - Leasing a new or existing laboratory in proximity to the NML from the private sector. This included the sub-option of leasing a renovated Ward laboratory; and
 - Transfer of the Ward laboratory from the Government of Manitoba and its retrofit for reuse by the Crown, which was the recommended option.
75. The Investment Analysis Report considered both financial and non-financial factors in comparing the options. The financial comparison involved a present value cost of accommodation calculation for each alternative. The non-financial comparisons considered the timeliness of project completion, and proximity to the NML. The timeliness factor recognized the immediate need for further laboratory space. The proximity factor sought to minimize ongoing program and administrative costs by taking advantage of current NML operations.
76. We concluded that the analysis supporting the Agency's decision to acquire the Ward laboratory met the TB expectations for needs and options analyses for new investment decisions.
77. The Agency's two major laboratory facilities, NML and LFZ, are being maintained and refreshed in accordance with published planning documents - the annual Business Plan for NML and the Asset Management Plan for LFZ. Both buildings have expansion projects being planned to meet expanded program needs.

Strategic Capital Planning

78. Departmental strategic capital planning is currently guided by the government's *Policy on Long-term Capital Plans* (LTCP). The existing TB policy, in effect since June 1994, will be rescinded in April 2011, to be replaced by the *Policy on Investment Planning*. TBS is adopting a phased implementation approach that began in 2007 and involved some departments in a pilot.
79. The government's existing LTCP policy statement is that capital assets are to be:
- Acquired, improved and retained;
 - In support of program goals consistent with broader government objectives;
 - Based on long-term plans that outline a responsible investment program within available resources and that take into account managing the asset base on a

- life-cycle basis;
 - Justified and approved, through capital projects, in the context of long-term plans; and
 - Disposed of, as being surplus, when they are no longer required.
80. In September 2005, the Agency prepared a draft LTCP, for the period 2005-06 to 2009-10. When the draft was submitted to TBS, the Agency was directed to suspend further work on it and refocus its efforts to develop an investment plan in line with the new *Policy on Investment Planning*.
81. The Agency has been working with TBS in preparing an action plan for implementing the new policy direction. We were advised that the Agency's action plan is due to be presented to TBS in fall 2008.
82. The three-year delay, to date, in having an approved corporate LTCP in place has been beyond the Agency's ability to control. We noted that NML has an LTCP for its laboratories in Winnipeg, and is guided by it in its capital investment decisions. There is a risk that those investment decisions could be made in isolation and without reference to the Agency's corporate strategies.

Recommendation

83. We recommend that the Director General, Corporate Administration, Facilities and Security Directorate work with the Treasury Board of Canada Secretariat to expedite the development, approval and implementation of the Agency's new Investment Plan, to be used to guide strategic capital investments Agency-wide.

Accommodation and Use of Facilities

Office Accommodation

84. It is government policy that PWGSC is the designated custodian of general-purpose office accommodation in Canada and sets the standards for them.
85. The Agency's inventory of non-reimbursing and reimbursing space relates to office accommodation. As the office accommodation is provided by PWGSC, it is responsible for ensuring that the accommodation conforms to all relevant legislation, policies and standards.
86. PWGSC follows its Fit-up Standards - a Technical Reference Manual, which identifies quantity and quality standards. If departments wish to exceed these fit-up standards for their office accommodations, they must first seek exception approval through a multi-step process and fund the excess costs from their departmental budgets. The Agency has established a policy that deviations from the PWGSC fit-up standards will not be permitted.
87. For each leased space, the Agency has entered into written agreements with PWGSC, called Occupancy Instruments, which outline basic information about the leased space, including the length of time that the Agency agrees to occupy the

space, the use of the space and associated FTEs, the cost of the space, and what percentage of the cost if any is reimbursable to PWGSC.

Laboratory Space

88. It is government policy that departments and agencies are the designated custodians of special-purpose buildings required to support the mandated programs of their departments. For the Agency's laboratories, the quantity and quality standards used by PWGSC for office accommodation do not apply.
89. The Agency does not have policies defining who qualifies for laboratory space or what fit-up standards should apply. In the absence of such policies and given the inaccuracies in the available real property data, we were unable to comment on whether the allocation of the Agency's laboratory space is efficient and represents the highest and best use of the space.
90. The Agency has established a mechanism for dispute resolution in its co-custodial arrangement with the CFIA in the CSCHAH. The mechanism is to be found in the Terms of Reference of the facility's Laboratory Executive Committee. The Committee is established to address, discuss, and make decisions on issues which significantly relate to the overall management of the CSCHAH, including the use, security, biosafety, and management of the physical facility, the common support services and related service levels, and the strategic direction of the programs and related business plans.

Recommendation

91. We recommend that the Director General, Corporate Administration, Facilities and Security Directorate, working in collaboration with other appropriate departments, develop general guidelines for the allocation of space in its laboratory environments.

Capitalization of Land and Buildings

The Government's Accounting Rules

92. For government accounting purposes, a capital asset generally includes any asset which has been acquired, constructed or developed with the intention of being used on a continuous basis and is not intended for sale in the ordinary course of business. Capital assets also include betterments and leasehold improvements. Betterments are expenditures relating to the alteration or modernization of an asset that appreciably prolong the item's period of usefulness or improve its functionality. Leasehold improvements are betterments made to leased property.
93. It is government policy that all capital assets held by a department at April 1, 2001 (applied retroactively) must be identified and valued using an appropriate cost base. In addition, any future acquisition of capital assets must be properly valued and recorded.

94. The capitalization of assets requires that departments:
- Establish procedures to ensure all costs required to make a capital asset operational have been recorded; and
 - Ensure that procedures are in place to differentiate between betterments, which are capitalized, and repairs and maintenance, which are expensed.
95. In certain cases, more than one department or agency has some involvement with the use of an asset. The concept of control should be used in determining which department records and amortizes the asset in its financial statements. Control in this context means the ability to obtain future economic benefits in fulfilment of aims and objectives of the entity, and to restrict access to others. TBS should be consulted where it is unclear as to which entity should record the asset.
96. Where transfers of capital assets between departments take place, they should be at the net book value of the asset. The receiving department would record the asset at its original historical cost and accumulated amortization.

The Agency's Accounting Practices

97. This section should be read in conjunction with the section on The Directory of Federal Real Property.
98. The Agency's unaudited financial statements as at March 31, 2008 indicates that the carrying costs of its capital assets includes \$604,137 in land and \$74,982,562 in buildings.
99. SAP, the Agency's central financial system, provides the following information on these capital assets for the year ended March 31, 2008:

Capital Assets	April 1, 2007	Acquisitions	March 31, 2008
Land			
NML – CSCHAH Land	\$ 604,137	\$ 0	\$ 604,137
NML – Parking Lot Addition ¹	55,814		55,814
Total Land	\$ 659,951	\$ 0	\$ 659,951
Buildings			
NML – CSCHAH Building	\$ 67,875,600	\$ 0	\$ 67,875,600
NML – Expansion of CSCHAH Shipping and Receiving	76,039		76,039
LFZ – Building	3,789,600		3,789,600
Ward – Building		3,241,323	3,241,323
Total Buildings	\$ 71,741,239	\$ 3,241,323	\$ 74,982,562

100. **National Microbiology Laboratory (NML).** The \$67.8 million for the NML building

¹ At the time of the audit, the NML parking lot addition was not reflected in land costs in the Agency's unaudited financial statements as at March 31, 2008.

represents the then HC portion of the original construction costs of the CSCHAH facility. This information was derived from the original construction costs file for the CSCHAH.

101. An expansion of the CSCHAH's shipping and receiving area for \$76,039 is also included under buildings. The elements of the land cost are the land related to the NML building and a parking lot addition.
102. These figures were extracted from SAP without further verification, since we were not provided supporting documents to these costs.
103. While there have been several capital projects and betterments completed for NML since the commissioning of the facility in 1997, these have not been capitalized in accordance with the government's 2001 policy. NML has commissioned a study to review these capital projects and recommend which costs should be capitalized. A final report available at the time of our writing recommended capitalizing costs of approximately \$10.3 million.
104. **Elgin Building.** The building at 820 Elgin Street, located adjacent to NML, was transferred from the City of Winnipeg with the land transfer for the construction of the CSCHAH. The acquisition cost has not been recorded in the Agency's SAP. The property was to have been demolished on completion of the laboratory construction, but instead was allowed to remain vacant for a number of years. In August 2003, NML completed a retrofit of the building and the space is now being used by NML as office accommodation. The costs of the 2003 retrofit betterments have not been capitalized in the Agency's SAP.
105. **Laboratory for Foodborne Zoonoses (LFZ).** The \$3.8 million for LFZ property has been extracted from SAP without further verification, since we were not provided supporting documents to these costs. In addition, we could not determine if these costs included the related land and if additional costs should have been capitalized.
106. **Ward Laboratory (Ward).** The cost of the Ward property has been determined at \$3.2 million by a TB submission in 2007. We were not provided further supporting documents to determine the related cost of the land and if additional costs should have been capitalized for this property.

Conclusion

107. The Agency does not have appropriate accounting procedures in place to ensure that the Agency's land and buildings are properly reported in its 2008 unaudited financial statements in accordance with prescribed Agency and Central Agency accounting standards and relevant policies.

Recommendations

108. We recommend that the Chief Financial Officer develop, implement and communicate accounting policies and procedures to ensure that all costs required

for capital assets and leasehold improvements are recorded in accordance with Treasury Board accounting standards, and that betterments are differentiated from repairs and maintenance.

109. We recommend that the Chief Financial Officer analyse repairs and maintenance expenditures to identify assets that should be capitalized in SAP, the Agency's central financial system. All capital assets should be supported by proper documentation.
110. We recommend that the Chief Financial Officer develop and provide training sessions to managers involved with capital transactions.

Conclusion

111. There is no assurance that the Agency's real property portfolio is being managed with due regard to economy, efficiency and effectiveness. Overall, the results of this audit indicate that the Agency's space requirements are being met by its corporate real property management function on a best-effort response to program space demands rather than as a proactive corporate activity anticipating the Agency's space needs and developing the plans to meet them.
112. As the Agency continues to build capacity to absorb the corporate functions formerly provided by HC, it currently lacks the overall framework of Agency-approved real property policies and information systems to guide program managers in defining their space demands and the corporate mechanisms to review and validate those space demands.
113. Most of the recommendations in this report are directed at the Director General, Corporate Administration, Facilities and Security Directorate to address, such as developing the real property management framework and the corporate policy suite. However, implementing the changes that these new initiatives will necessitate will require the full support of the Executive Committee.
114. The criteria selected for this audit, from the applicable TB policies, were assessed as the most relevant for this first audit of the Agency's real property management activities. As the Agency matures in the development of its own real property management framework and information systems, and addresses the recommendations of this report, future audits should include additional TB policy requirements aimed at a broader assessment of the Agency's real property management performance.

Acknowledgments

115. We wish to express our appreciation for the cooperation and assistance afforded to the audit team by management and staff during the course of this audit.

Appendix A: Audit Criteria

We expected to find the following with regard to the Public Health Agency of Canada's (PHAC or the Agency) real property management:

1. Management Framework and Accountability

- a. The Agency's real property management framework provides the resources and data to ensure that the real property held for program delivery is managed efficiently and effectively.
- b. The Agency has developed and communicated appropriate real property management policies, practices, procedures and information systems that facilitate action supporting government policies.
- c. Delegation of authority and accountability, at levels appropriate to efficient service delivery, has been clearly defined.
- d. Copies of relevant Treasury Board (TB) and other policies are readily available to staff involved in real property management.
- e. Staff are qualified and receive training that develops and maintains the skills they need to execute their current and future responsibilities effectively.
- f. Copies of the Agency's real property plans, policies and decisions have been distributed appropriately and instructions have been followed.

2. Real Property Information System

- a. A real property information system is in place that readily provides information concerning restrictions on use, accessibility, contamination, cost, and other attributes of each property that the Agency administers.
- b. The real property information system identifies, where appropriate, the capital, historic and current operating and maintenance costs and cost trends of facilities.
- c. The Agency uses its real property information system to determine when and how to maintain, preserve or replace real property consistent with program needs.
- d. Real property information from other federal organizations is integrated into the Agency's system.
- e. The Agency provides current and accurate information in a timely manner to other departments and to the Directory of Federal Real Property, as required.

3. Investment Decisions

- a. The Agency conducts full assessments of the life-cycle costs of each investment decision including costs of acquisition, operation, maintenance, leasing and fit-up, renovation and restoration.

- b. The Agency has assessed alternatives, including consolidating facilities within the Agency or with other Agency facilities.
- c. Definitions and analyses of real property requirements are linked to the analysis of program needs.
- d. In deciding to reduce short-term infrastructure funding, the Agency takes into account the total costs of deferred facility maintenance, including the possibility of shortened facility or systems life, and higher operating and maintenance and repair costs.

4. Strategic Capital Planning

Long-term capital strategies related to real property are prepared, reviewed and updated in accordance with TB real property management policy objectives.

5. Accommodation and Use of Facilities

- a. The accommodation conforms to all relevant legislation, policies and standards.
- b. The Agency has identified quantity and quality standards and, where appropriate, deviations from them, as part of the approval process for budgets or projects (e.g. Long-Term Capital Plan, Multi-Year Operational Plan or project approvals).
- c. The Agency has established a process to ensure open and public accountability for the allocation and use of space, (e.g. metres held, people housed), and maintains records about its allocation and use of space in its facilities.
- d. The Agency has entered into written agreements with the custodian department that describe their respective responsibilities for meeting government policy objectives.
- e. The Agency has established a process to resolve disputes between custodians in its co-custodial arrangement in the Canadian Science Centre for Human and Animal Health.

6. Capitalization of Land and Buildings

The Agency appropriately accounts for its capital assets in accordance with prescribed Agency and Central Agency accounting standards and relevant policies.

Appendix B: Management Action Plan

Recommendation	Management Response	Officer of Prime Interest	Target Date
<p>Management Framework and Accountability</p> <p>43. We recommend that the Director General, Corporate Administration, Facilities and Security Directorate develop, communicate and seek approval for an appropriate real property management framework, in accordance with Treasury Board policy.</p> <p>50. We recommend that the Director General, Corporate Administration, Facilities and Security Directorate develop, communicate and seek approval for an appropriate suite of corporate management policies, practices and procedures, as mandated, to include those designed for the efficient and effective management of its real property. The policies and procedures addressing real property management should ensure open and public accountability for the allocation and use of the Agency's office and laboratory space.</p>	<p>Agree. The Corporate Administration, Facilities and Security Directorate (CAFSD) is currently in the midst of developing its real property management framework in accordance with Treasury Board (TB) policy. CASFD will seek approval of the Resource Planning and Management Committee and/or Executive Committee (EC) on the approach and implementation of the Framework.</p>	<p>Director General (DG), CAFSD</p>	<p>March 31, 2009</p>
	<p>Agree. The development of an appropriate suite of corporate management policies, practices and procedures is underway. A review of policies currently in use within the Agency, as well as ascertaining the future policy requirements, is the first step of the exercise. Determining the appropriate policies and procedures to address real property management will be a subset of the exercise. This subset will include a review of facilities management policies</p>	<p>DG, CAFSD</p>	<p>March 31, 2010</p>

Recommendation	Management Response	Officer of Prime Interest	Target Date
	<p>in use at similar type science based organizations. During the development of Agency-specific policies and directives related to accommodations, the Agency will continue to abide by the government-wide policies and practices governing all aspects of facilities management, e.g. Public Works Government and Services Canada Fit-up Standards, Canada Labour Code, etc.</p> <p>All policies in effect, current or newly created, will be communicated to the Agency.</p>		
<p>Real Property Information System</p> <p>67. We recommend that the Director General, Corporate Administration, Facilities and Security Directorate implement a new real property information system. Once the new system is operational, the Director General should ensure the accuracy and completeness of the existing data transferred to the new system, and the new data captured by the system. The information can then be used to support more effective real property management and investment decisions on an Agency-wide basis.</p>	<p>Agree. CAFSD has launched a pilot project to test the Computer Assisted Facilities Management system. The system can be designed to track a variety of facilities-related information including location of offices, personnel, TB Submission Full-Time Equivalents, etc. Should the system meet the Agency's facilities information requirements a full implementation will follow. All information to be held within this system will be validated.</p>	<p>DG, CAFSD</p>	<p>March 31, 2010</p>

Recommendation	Management Response	Officer of Prime Interest	Target Date
68. We recommend that the Director General, Corporate Administration, Facilities and Security Directorate take the necessary action to have the Agency's Ward laboratory recorded in the Directory of Federal Real Property under the Public Health Agency of Canada, in accordance with Treasury Board policy.	Agree. The Agency will take the appropriate action.	DG, CAFSD	March 31, 2009
69. We recommend that the Senior Assistant Deputy Minister renew the Agency's efforts to resolve the issue of the ministerial administration and control of the Canadian Science Centre for Human and Animal Health, as required under the <i>Federal Real Property and Immovables Act</i> , and to have it properly registered in the Directory of Federal Real Property, in accordance with Treasury Board policy.	Agree. The Agency is committed to working with the Canadian Food Inspection Agency in removing any existing barriers or concerns and reaching consensus on which Minister should have administration and control of the Canadian Science Centre for Human and Animal Health. When this is accomplished, the property will be properly recorded in the Directory of Federal Real Property (DFRP).	Senior Assistant Deputy Minister (SADM)	March 31, 2009
70. We recommend that the Senior Assistant Deputy Minister ensure the timely transfer of the Laboratory for Foodborne Zoonoses from Health Canada to the Public Health Agency of Canada and that the property be recorded in the Directory of Federal Real Property under the Public Health Agency of Canada, in accordance with Treasury Board policy.	Agree. As there are no obstacles to executing the transfer, the Agency will initiate the necessary documents and delegations to complete the transfer of the Laboratory for Foodborne Zoonoses to the Public Health Agency of Canada and have the property recorded in the DFRP.	SADM	March 31, 2009

Recommendation	Management Response	Officer of Prime Interest	Target Date
<p>Strategic Capital Planning</p> <p>83. We recommend that the Director General, Corporate Administration, Facilities and Security Directorate work with the Treasury Board of Canada Secretariat to expedite the development, approval and implementation of the Agency's new Investment Plan, to be used to guide strategic capital investments Agency-wide.</p>	<p>Agree. The development of the Agency's Investment Plan is underway. The Agency recognizes that the implementation of the Plan will guide strategic capital investments Agency-wide, including real property investments.</p>	<p>DG, CAFSD</p>	<p>December 31, 2009</p>
<p>Accommodation and Use of Facilities</p> <p>91. We recommend that the Director General, Corporate Administration, Facilities and Security Directorate, working in collaboration with other appropriate departments, develop general guidelines for the allocation of space in its laboratory environments.</p>	<p>Agree. The Agency will work with the appropriate departments to develop general guidelines for the allocation of space in its laboratory environments. The guidelines will be communicated Agency-wide to ensure a common understanding on the effective and efficient use of space in this environment. The guidelines will respect the all safety and security policies and guidelines related to laboratories.</p>	<p>DG, CAFSD</p>	<p>December 31, 2009</p>
<p>Capitalization of Land and Buildings</p> <p>108. We recommend that the Chief Financial Officer develop, implement and communicate accounting policies and procedures to ensure that all costs required for capital assets and leasehold</p>	<p>Agree. The Chief Financial Officer (CFO) will have those accounting policies in place by March 31, 2009 as part of the broader initiative to have an auditable</p>	<p>CFO</p>	<p>March 31, 2009</p>

Recommendation	Management Response	Officer of Prime Interest	Target Date
<p>improvements are recorded in accordance with Treasury Board accounting standards, and that betterments are differentiated from repairs and maintenance.</p> <p>109. We recommend that the Chief Financial Officer analyse repairs and maintenance expenditures to identify assets that should be capitalized in SAP, the Agency's central financial system. All capital assets should be supported by proper documentation.</p> <p>110. We recommend that the Chief Financial Officer develop and provide training sessions to managers involved with capital transactions.</p>	<p>financial statement for the year 2009-10.</p> <p>Agree. The CFO will have all balance sheet accounts as at April 1, 2009, including capital Assets, ready to be audited, as part of the broader initiative to have an auditable financial statement for FY 2009-10.</p> <p>Agree. The CFO will complete the training by March 31, 2009.</p>	<p>CFO</p> <p>CFO</p>	<p>March 31, 2009</p> <p>March 31, 2009</p>

Appendix C: List of Acronyms

Agency	Public Health Agency of Canada
CAFM	Computer Assisted Facilities Management
CAFSD	Corporate Administration, Facilities and Security Directorate
CFIA	Canadian Food Inspection Agency
CFO	Chief Financial Officer
CSCHAH	Canadian Science Centre for Human and Animal Health
DG	Director General
DFRP	Directory of Federal Real Property
FY	Financial Year
FTE	Full-Time Equivalent
HC	Health Canada
IIA	Institute of Internal Auditors
LFZ	Laboratory for Foodborne Zoonoses
LTCP	Long-term Capital Plan
MAF	Management Accountability Framework
MOU	Memorandum of Understanding
NESS	National Emergency Stockpile System
NML	National Microbiology Laboratory
PHAC	Public Health Agency of Canada
PWGSC	Public Works and Government Services Canada
SADM	Senior Assistant Deputy Minister
SAP	Systems Applications Products
TB	Treasury Board
TBS	Treasury Board of Canada Secretariat