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Final Report

2011-709

Consolidated Report of the Economic Action Plan / Accelerated Infrastructure Program Component Audits

January 26, 2012

Office of Audit and Evaluation

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MAIN POINTS

What we examined

i.   In January 2009, the Government of Canada launched the Economic Action Plan (EAP): a comprehensive two-year program designed to help Canada recover from the global recession through a $62 billion stimulus package.

ii. Public Works and Government Services Canada's (PWGSC) contribution to the EAP infrastructure component was three-fold: 1) PWGSC received over $435 million to accelerate infrastructure projects for custodial assets (i.e., the Accelerated Infrastructure Program (AIP)); 2) PWGSC provided project management services to other government departments on a fee for service basis; and 3) PWGSC carried out its duties as a common service provider to other government departments as they delivered their EAP components.

iii. Based on our risk assessment, we examined key management control elements of EAP/AIP program management, including governance, integrated risk management and information for decision making. This was achieved through specific audits of risk management, monitoring, and reporting. We also examined operational management, including resource allocation and project management. In addition, the Office of Audit and Evaluation has undertaken multiple continuous auditing reviews which assessed compliance of EAP/AIP project files.

Why it is important

iv. As common service provider of property, project management, contracting, and purchasing services, PWGSC played a key role in the delivery of the EAP's infrastructure elements. Aspects of the EAP/AIP posed certain timeliness and accountability challenges to the Department (i.e., significant new money to spend within two years under increased public scrutiny).

v.   The EAP/AIP was a large, complex initiative that brought an increased workload to PWGSC. Due to the importance of the program to Canadians, the Department was under pressure to successfully deliver and administer the program. A robust oversight program was necessary to ensure that risks were mitigated.

What we found

vi. In undertaking the EAP/AIP, PWGSC regions and branches collaborated to manage and deliver the program. The lessons during the EAP/AIP will assist the Department in improving its current operations, and the experience gained will assist in the delivery of other similar initiatives in the future.

vii. Overall, the findings of our audits were positive. We found that the Department had a strong governance structure to support the achievement of objectives. We also

found the Department implemented effective processes to manage EAP/AIP risks and to monitor and report on performance and compliance. Further, the Department efficiently allocated resources to eligible AIP projects. Finally, we found that EAP/AIP projects were generally managed effectively, in accordance with good project management practices. This enabled the Department to ensure the successful delivery within the two-year program horizon and achieve the objectives of the program.

viii. The findings did not indicate any specific weaknesses or deficiencies directly relating to EAP/AIP demands. While there were opportunities for improvement in processes, these did not compromise EAP/AIP delivery. Areas that required improvement (e.g., documentation of processes and approvals, enhanced monitoring and reporting) were communicated to senior management and action plans were developed. Since the Department utilized its existing processes to deliver the EAP/AIP, any improvements will have a lasting impact.

ix. Lessons learned were identified over the course of the EAP/AIP, including improvements to existing Real Property Branch processes. The Office of Audit and Evaluation also identified several lessons learned relating to the provision of assurance on the EAP/AIP, specifically relating to its innovative audit approach. This approach will be utilized in the future for similar initiatives.

Management Response

Management accepts the findings of the consolidated report as being a fair and accurate representation of the EAP/AIP component projects during the audit period. Throughout the audit, findings and recommendations were provided to program managers, and corrective action was taken. Although many of the Management Action Plans align with the completion of the program (March 2011), many of the actions will continue on post EAP/AIP. This is due to many of these actions representing improvements to Departmental processes that are used post EAP/AIP.

INTRODUCTION

Public Works and Government Services Canada

1. With a workforce of nearly 14,000 people across Canada, Public Works and Government Services Canada (PWGSC) is the common service provider to more than 140 Government of Canada departments, agencies, and Crown corporations. The department's goal is to provide the best value for taxpayers' dollars in common and central services for the Government of Canada, while having due regard for prudence, probity, and transparency.

2. The 1996 *Department of Public Works and Government Services Act* set out the legal authorities for PWGSC's services. Specifically, the Act establishes PWGSC as a common service agency providing government departments, boards, and agencies with services in support of their programs, including:

   - Acquisition of goods and services;
   - Office accommodation and facilities;
   - Architectural and engineering services;
   - Construction, maintenance, and repair of public works and federal real property; and
   - Provision of translation, information technology, telecommunications, industrial security, consulting, and audit services.

Economic Action Plan

3. On January 28, 2009, the Government of Canada tabled a comprehensive budget plan to stimulate economic growth, restore confidence, and support Canadians through the recession. Canada's Economic Action Plan (EAP) was intended to be a balanced stimulus plan that included investments in infrastructure, tax relief, and transfers, in addition to other new initiatives.

4. The EAP was intended to provide economic stimulus through six areas. The infrastructure component of the EAP included $12 billion in new infrastructure stimulus funding for roads, bridges, broadband internet access, electronic health records, laboratories, and border crossings. This was intended to support economic growth and employment, while bolstering Canada's long-run productive capacity.

PWGSC Support for EAP Investments

5. PWGSC's role in the EAP was three-fold:

   - Develop and implement the Accelerated Infrastructure Program (AIP) in buildings for which it was the custodian;
   - Provide project management services to other government departments responsible for delivering infrastructure projects on a fee for service basis; and

- Carry out its duties as a common service provider to other government departments as they deliver their EAP activities through contracting, banking, contract and personnel security, and translation services.

PWGSC's Accelerated Infrastructure Program

6. The Accelerated Infrastructure Program (AIP) was officially launched on April 1, 2009. PWGSC was granted $435.9 million over two years with $237.32 million in 2009/10 and $198.58 million in 2010/11. While the AIP enabled the completion of deferred repairs and recapitalization of federally-owned buildings, PWGSC was still required to meet ongoing operational requirements. Although Treasury Board stipulated that no money could be carried from year to year or spent beyond the program's termination at the end of fiscal year 2010/11, deadlines for certain non-PWGSC projects were extended to October 31, 2011. The extension applied to projects funded under the Infrastructure Stimulus Fund, the Building Canada Fund Communities Component Top-Up, the Recreational Infrastructure Canada Program, and the Knowledge Infrastructure Program, none of which were programs of PWGSC.

7. The objectives of the AIP were:

i)   Accelerated Investment:
- Maximize use of private sector.
- Demonstrable benefits to Canadians.

ii) Accountability:
- Safeguard public investment.
- Transparency in project selection and management.

8. The AIP was composed of six streams: Federal Buildings, Accessibility, Bridges, Alaska Highway, *Le Manège Militaire*, and Contaminated Sites.

- *Federal Buildings:* Infrastructure projects repaired and restored real property assets throughout Canada, including the conversion of space to allow for earlier renovations in the Parliament Buildings. Repair and restoration work funded through the stimulus package totaled $332.85 million.

- *Accessibility:* The AIP provided $40 million over two years to ensure that Canadians have barrier-free access to federal buildings. The focus was on projects that could be implemented immediately, such as exterior access, visitor parking, drinking fountains, and tactile signs, as well as intermediary readiness projects such as interior doors and corridors, building entrances, interior and exterior ramps, stairways, and existing washrooms.

- *Bridges:* The AIP provided $40 million over two years for the repair and restoration of four federal bridges: the LaSalle Causeway in Kingston, Ontario;

the Burlington Lift Bridge in Burlington, Ontario; and the Alexandra Bridge and Chaudière Crossing in the National Capital Region.

- *Alaska Highway:* $12.6 million was approved under the AIP for the reparation of eight bridges, asphalt resurfacing, and culvert repairs on the Alaska Highway.

- *Le Manège Militaire:* $2 million was set aside to hold public consultations and establish a future plan for the historic *Manège Militaire* in Quebec City, destroyed by fire in 2008. Part of the funding was allocated for environmental review of the site and decontamination of the land, if required.

- *Contaminated Sites:* Under the AIP, $8.45 million was approved for the assessment and remediation of contaminated sites.

PWGSC Services to Other Government Department in Support of their EAP Investment

9. PWGSC carried out its duties as a common service provider to other government departments as they delivered their EAP commitments. Services in support of the EAP were provided in a similar fashion to those provided to other government departments in the normal course of business as a common service provider.

10. The EAP funding received by other departments increased the demand for PWGSC's project management, contracting, banking, contracting and personnel security, and translation services. Services were provided using existing PWGSC processes, along with the increases in contract and project authorities granted to the department in 2009.

11. The most significant increases in demand were in the areas of project management of infrastructure projects and contracting for goods, services and construction. In addition, the most significant increase in demand for contracts was for construction contracts to support project management services. As a result of other government departments' spending on EAP infrastructure projects, PWGSC experienced a significant increase in regional business volumes.   Total EAP infrastructure spending by other government departments requiring PWGSC project management assistance was approximately $640 million. Total EAP contracting for goods, services and construction requiring PWGSC assistance was approximately $551 million.

Governance

12. Although the EAP/AIP were delivered through existing governance and accountability structures, governance was enhanced in a number of ways. The AIP Steering Committee, on behalf of the Deputy Minister for PWGSC, was set up to ensure the effective planning, implementation, monitoring, performance measurement, and reporting of PWGSC's activities related to EAP/AIP.   The AIP National Office was established to manage the program. The majority of the activity undertaken was in the regions, including the National Capital Area. Each region was

to establish a Regional Implementation Team. For the purposes of EAP/AIP, the oversight of quality management and financial controls was retained within existing departmental, branch, and regional governance structures.
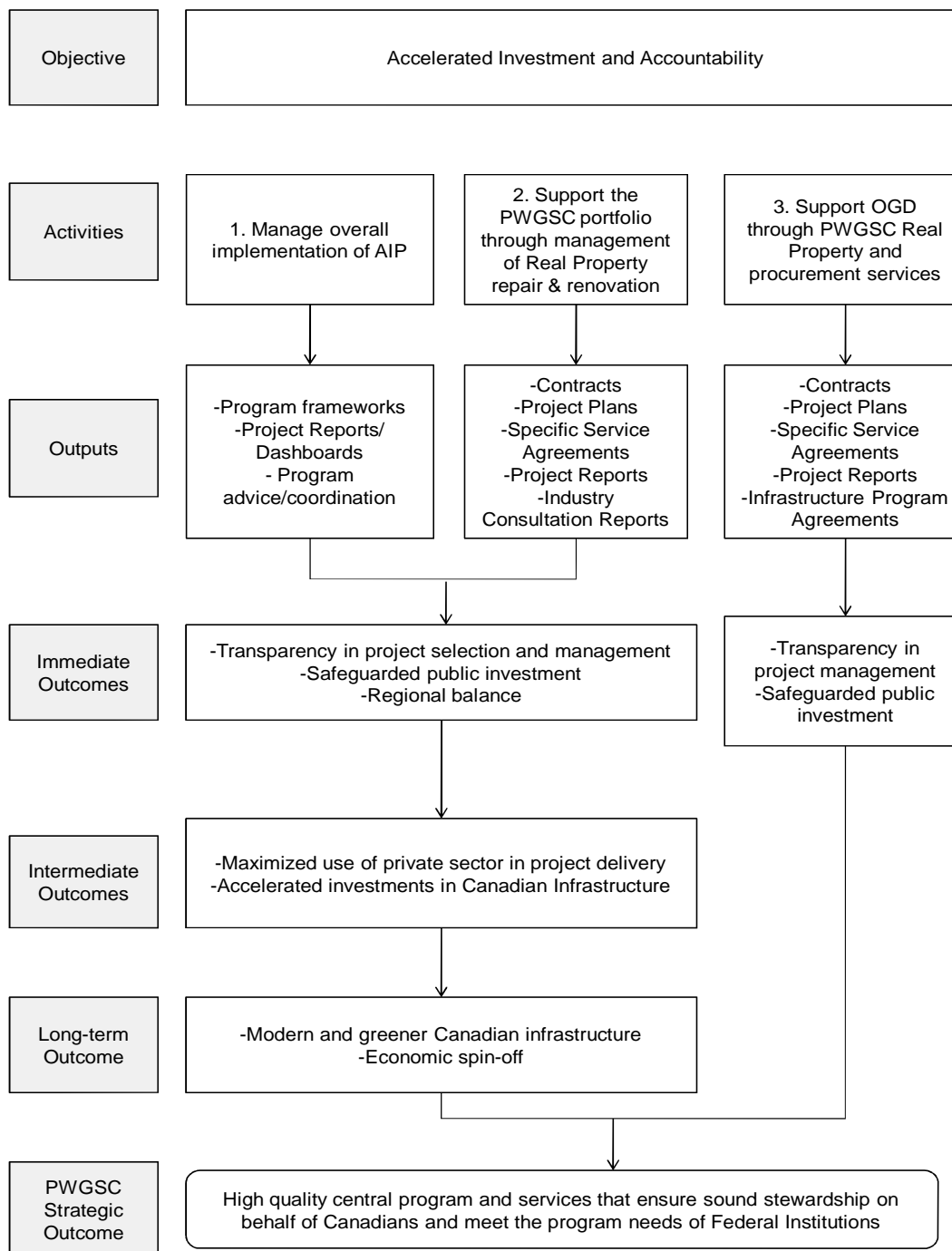
Delivery

13. PWGSC activities related to EAP/AIP commitments represented a significant increase in the normal volume of work. For the most part, these activities were delivered using existing procedures and methodologies. In the case of PWGSC, the contribution to EAP was to do 'more' of the kind of work it always does.

14. For the purpose of delivering the EAP/AIP, PWGSC requested and received increased contract, project, and transactional authorities. Amendments to contracts with the Alternative Form of Delivery service provider were also made to streamline administration and facilitate project implementation. These increased authorities were for the duration of the EAP/AIP (2009/10 to 2010/11). They allowed PWGSC to conduct its work more efficiently, as the need to request additional approval through Treasury Board Submissions was reduced. Increases to specific authorities included:

- Project authorities for non-building assets ($5 million to $30 million)
- Architectural and engineering services contracts ($2 million to $5 million)
- Construction contracts ($20 million to $40 million)
- Alternative Form of Delivery service provider contracts ($5.4 billion to $5.9 billion)
- Alternative Form of Delivery service provider project threshold ($1 million to $5 million)

Achievement of Outcomes

15. The logic model (exhibit 1) illustrates how activities undertaken by PWGSC led to the acceleration of AIP and other government department infrastructure projects, and the linkages and contributions toward the achievement of outcomes, including those ascribed to the EAP.

Exhibit 1: PWGSC Accelerated Infrastructure Program and Support to Other Government Departments' Economic Action Plan Infrastructure Investments

Objective	Accelerated Investment and Accountability

Activities	1. Manage overall implementation of AIP	2. Support the PWGSC portfolio through management of Real Property repair & renovation	3. Support OGD through PWGSC Real Property and procurement services

Outputs	-Program frameworks -Project Reports/ Dashboards - Program advice/coordination	-Contracts -Project Plans -Specific Service Agreements -Project Reports -Industry Consultation Reports	-Contracts -Project Plans -Specific Service Agreements -Project Reports -Infrastructure Program Agreements

Immediate Outcomes	-Transparency in project selection and management -Safeguarded public investment -Regional balance	-Transparency in project management -Safeguarded public investment

Intermediate Outcomes	-Maximized use of private sector in project delivery -Accelerated investments in Canadian Infrastructure

Long-term Outcome	-Modern and greener Canadian infrastructure -Economic spin-off

PWGSC Strategic Outcome	High quality central program and services that ensure sound stewardship on behalf of Canadians and meet the program needs of Federal Institutions

ABOUT THE CONSOLIDATED REPORT

Context

16. The delivery of the EAP/AIP represented a significant challenge to PWGSC. The Department was under pressure to deliver a large program within a two-year period in addition to the Department's regular work. The Deputy Minister of PWGS was accountable for ensuring there was an appropriate framework in place to ensure the timely delivery of the program. In addition, as the Accounting Officer for the Department, the Deputy Minister was accountable for ensuring the delivery of the program was properly administered in accordance with applicable property management, project management, and contracting policies.

17. To ensure that the EAP/AIP was delivered in accordance with the relevant policies, the Department needed to demonstrate sufficient oversight. The Deputy Minister tasked the Office of Audit and Evaluation to provide the necessary independent oversight and monitoring of the EAP/AIP's governance, risk management, and control processes. As a key member of the Department's management accountability framework, the Office of Audit and Evaluation was well positioned to perform this role.

Oversight approach considerations

18. In developing an appropriate oversight approach for the EAP/AIP, we considered the following:

- The Deputy Minister's need for assurance over the administration of the program;
- The need to balance oversight requirements against allowing program managers to deliver the program within the prescribed timeframe;
- The coverage required to provide adequate assurance over the administration of the program;
- The need to provide timely feedback to allow for the timely course corrections (where required);
- The Auditor General's oversight of the EAP; and
- The existing Office of Audit and Evaluation internal audit methodology and processes.

An innovative approach to EAP/AIP oversight

19. The short duration and the significant amounts invested in the program required Departmental senior management to have 'real-time' feedback. Taking into account the demands and complexities involved in the Department's delivery of the EAP/AIP, an innovative oversight approach was developed to provide timely feedback on all key areas of the EAP/AIP administration.

20. Specifically, internal audit processes were focused on the timely communication of findings as they were identified. These findings were communicated in regular meetings with Departmental program managers, enabling immediate course correction to the administration of the EAP/AIP (as required). Reporting processes were also expedited by communicating key findings and recommendations to senior level EAP/AIP steering committees, as well as the Departmental Audit and Evaluation Committee through the use of decks. This approach differed from the standard process of communicating findings and recommendations at the conclusion of a project through a formal report. Despite the expedited approach, audits were conducted in accordance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

21. Sensitive to time constraints imposed on program managers, steps were taken to ensure minimal interference with program delivery. Specifically, collaboration between internal audit teams was increased during concurrent audits to avoid duplication. Internal audit teams also collaborated with the Office of the Auditor General audit team in their audit of the EAP, thereby reducing the audit burden on program staff.

Focus of the oversight

22. To ensure adequate oversight coverage, a risk-based oversight plan was developed that included specific projects covering the key governance, risk management, and controls processes over the EAP/AIP. The EAP/AIP risk assessment considered the Management Accountability Framework, the EAP/AIP funding request, and oversight and monitoring guidance provided by the Auditor General. The risk assessment also took in account that PWGSC used its existing processes in the delivery of the EAP/AIP.

23. Given the importance of a strong management control framework, we considered each of the key elements of such a framework as potential candidates for audit. These include Governance, Organizational Capacity, Organizational Delivery, Integrated Risk Management, and Information for Decision Making. It was decided to focus our audits on Governance, Integrated Risk Management, and Information for Decision Making. Governance is examined in the Audit of Risk Management Practices and the Audits of Monitoring and Reporting. Integrated Risk Management was examined in the Audit of Risk Management Practices. Information for Decision Making is examined in the Audits of Monitoring and Reporting. Given that Organizational Capacity was identified as a key risk, it was examined indirectly in the Audit of Risk Management Practices. Because the EAP/AIP was delivered through existing governance and accountability structures and used existing processes and methodologies, Organizational Delivery was considered low risk.

24. The risk assessment also revealed that appropriate allocation of resources received by the Department to support infrastructure projects that met the Government's stated eligibility criteria was critical to the achievement of objectives. Because PWGSC's contribution to project management impacted other government departments' ability
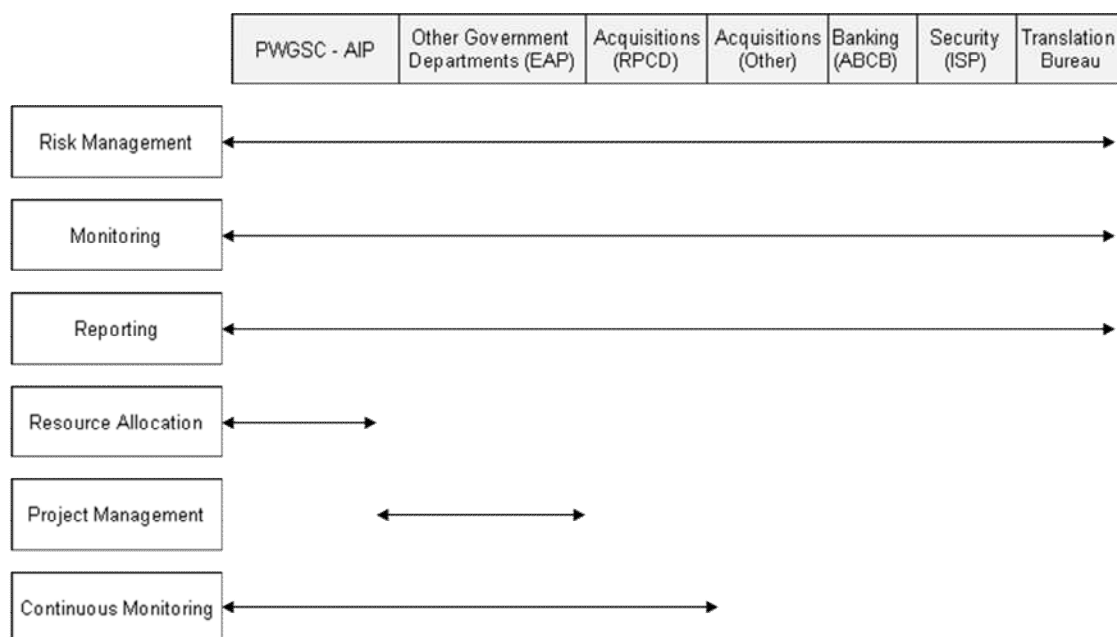
to achieve their objectives, the risk assessment revealed that assurance the project management activities were being conducted in accordance with good management practices was also important. Finally, because compliance to legislated authorities is key to PWGSC's mandate, continuous monitoring of transactions to ensure compliance was also considered a high priority for oversight attention.

25. We conducted our oversight projects on the EAP/AIP as it was being delivered. Specifically, oversight was focused on whether the Department had implemented:
   - An effective process in place to manage risk (Chapter 1) to support achievement of objectives;
   - The necessary key elements of a monitoring and reporting structure to manage its progress and performance in delivering the EAP/AIP (Chapter 2);
   - An effective resource allocation process for AIP projects (Chapter 3);
   - An effective process to provide project management services consistent with good project management practices (Chapter 4).

26. In addition to these areas, a continuous monitoring program focused on key contract administration controls for AIP-related contracts (Chapter 5). Finally, an evaluation framework was developed and shared with relevant program managers.

27. The Audit scope included: Real Property (real property and project management); Acquisitions (contracting for goods, services and construction); Parliamentary Precinct (real property management); Industrial Security Directorate (contractor and personnel security); Accounting, Banking, and Compensation (banking services); and Translation Bureau (translation services).

28. Based on detailed risk assessments completed during the planning phase for each audit, the Real Property and Acquisitions program areas were selected for detailed examination. Exhibit 2 illustrates the audit coverage of the EAP/AIP.

29. More information on the specific audit objective, scope, approach, and criteria for the individual audits are included in the detailed audit reports in the following chapters of this report.

Purpose of this report

30. The purpose of this report is to communicate all findings, recommendations, and related management action plans in a consolidated report. As noted previously, these findings have been communicated to senior management and the Department's Audit and Evaluation Committee in the form of decks.

EXHIBIT 2: Illustration of PWGSC areas covered by the Office of Audit and Evaluation[1]

	PWGSC - AIP	Other Government Departments (EAP)	Acquisitions (RPCD)	Acquisitions (Other)	Banking (ABCB)	Security (ISP)	Translation Bureau
Risk Management	←————————————————————————————→						
Monitoring	←————————————————————————————→						
Reporting	←————————————————————————————→						
Resource Allocation	←——————→						
Project Management			←——————→				
Continuous Monitoring	←————————————————————→						

STATEMENT OF ASSURANCE

31. The component audits that comprise the remainder of the report were conducted in accordance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*. The continuous monitoring program was not an audit, however, audit principles, approaches and practices were used as a starting point in the design and implementation of the program.

32. Sufficient and appropriate audit procedures have been conducted and evidence gathered to support the accuracy of the findings and conclusions in the subsequent chapters and to provide an audit level of assurance. The findings and conclusions are based on a comparison of the conditions—as they existed at the time—against pre-established audit criteria that were agreed on with management. Findings and conclusions are only applicable to the entity examined and for the scope and time period covered by the audit.

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[1] The Office of Audit and Evaluation's audits, reviews and monitoring activities focused on PWGSC Branches that were affected by the EAP/AIP and deemed high risk.

Final Report

2011-709

Chapter 1: Audit of Economic Action Plan Risk Management Practices

July 8, 2010

Office of Audit and Evaluation

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MAIN POINTS

What we examined

i. In January 2009, the Government of Canada launched the Economic Action Plan (EAP): a comprehensive two-year program designed to help Canada recover from the global recession through a $62 billion stimulus package.

ii. Public Works and Government Services Canada's (PWGSC) contribution to the EAP infrastructure component was three-fold: 1) PWGSC received over $435 million to accelerate infrastructure projects for custodial assets (i.e., the Accelerated Infrastructure Program (AIP)); 2) PWGSC provided project management services to other government departments on a fee for service basis; and 3) PWGSC carried out its duties as a common service provider to other government departments as they delivered their EAP components.

iii. A strong Management Accountability Framework includes a number of key pillars. One of these is Risk Management. This audit focuses on the risk management process. A governance structure was established to provide direction and oversight in support of an effective risk management process. This included the provision of strategic, functional and operational direction as well as the review and assessment of identified risks, along with monitoring of mitigation strategies and their implementation.

iv. We examined the governance structure and the risk management practices employed within PWGSC during program delivery at the national and regional levels. We reviewed the activities of the governance committees and the direction provided through the Risk Management Framework. We also examined the implementation of the Framework, including risk identification and assessment and risk mitigation, monitoring and reporting. Findings were communicated to management as they were identified allowing for course corrections to be implemented.

Why it is important

v. As common service provider of property, project management, contracting, and purchasing services, PWGSC played a key role in the delivery of the EAP's infrastructure elements. Aspects of the EAP/AIP posed certain timeliness and accountability challenges to the Department (i.e., significant new money to spend within two years under increased public scrutiny).

vi. The EAP/AIP was a large, complex initiative that brought an increased workload to PWGSC. Due to the importance of the program to Canadians, the Department was under pressure to successfully deliver and administer the program. As a result, there were significant risks that could have threatened the achievement of objectives. Robust risk management practices were necessary to ensure that risks were properly managed.

vii. It was important for the program to manage risks, as effective risk management ensures continuity of government operations, maintenance of services, and protection of the Canadian public interest.

What we found

viii. We found that at the onset of EAP/AIP several governance committees were formed but had not fully documented how they would support the risk management process. However, as a result of the audit, fully documented and approved Terms of References were developed for the various EAP/AIP committees outlining roles and responsibilities; and how risks would be adequately communicated, reported and monitored.

ix. We found a national risk management framework in the initial PWGSC funding request which outlined the risk management process that each region was to base their respective framework on. At the start of the EAP/AIP, some of the regions had developed frameworks that were not as consistent with the national framework as others. As a result, regional frameworks were revised to ensure consistency with the national framework.

x. We found that national and regional information on identified risks, risk status, risk mitigation strategies, and implementation was reported to the AIP National Office on a monthly basis. This information was consolidated and presented to the Deputy Minister's Senior Steering Committee for monitoring.

xi. Overall, the EAP/AIP had an effective risk management process, with an established national and regional governance structure to identify, assess, monitor, and report risks.

Management Response

Management accepts the findings of the report as being a fair and accurate representation for the EAP/AIP risk management practices during the audit period. Although many of the Management Action Plans align with the completion of the program (March 2011), many of these actions will continue on post EAP/AIP. This is due to many of these actions representing improvements to Departmental processes that are used post EAP/AIP.

RECOMMENDATIONS AND MANAGEMENT ACTION PLAN

Recommendation 1: The Assistant Deputy Minister, Real Property Branch should provide functional guidance to the Regional Directors General and Directors General, National Capital Area in the clarification and communication of roles and responsibilities with respect to the risk management process within and between those groups involved in the delivery of EAP/AIP.

Management Action Plan 1: The Real Property Branch is accountable for Economic Action Plan activities related to infrastructure, and therefore, this Management Action Plan addresses only such activities.

The AIP National Office will work with the Office of Audit and Evaluation in determining the appropriate departmental approach to assure the Deputy Minister with regards to risk, reporting, and monitoring of the PWGSC common service activities that support Other Government Department's implementation of their Economic Action Plan.

This will be done by:

- Continued reporting to the AIP Deputy Minister Senior Steering Committee of Real Property Branch's project management activities that support other government department's EAP infrastructure projects.

- Attending meetings organized by Office of Audit and Evaluation with relevant departmental Branch Heads to discuss a common departmental approach.

- Providing a forum at the AIP Deputy Minister Senior Steering Committee as an opportunity for Branch Heads to present information on Economic Action Plan activities to the Deputy Minister.

Management Action Plan 1.1: To clarify roles and responsibilities with respect to the AIP risk management process, the AIP National Office will lead the development of a comprehensive roles and responsibilities document through a consultation process with Regional Offices and national Real Property Sectors.

Management Action Plan 1.2: To clarify roles and responsibilities with respect to the AIP risk management process, the AIP National Office and Regional Implementation Team will distribute to Regional offices and national Real Property Sectors an AIP roles and responsibilities document for implementation for the duration of the Accelerated Infrastructure Program of activities.

Management Action Plan 1.3: To clarify roles and responsibilities with respect to the AIP risk management process, the AIP National Office will continue to have regular communication of AIP issues and approaches on assessment, mitigation, monitoring, documentation, and reporting risks to applicable stakeholders to ensure consistency in the national and regional offices.

Recommendation 2: The Assistant Deputy Minister, Real Property Branch should provide functional guidance to the Regional Directors General and Directors General, National Capital Area in the implementation of effective governance structures to support the risk management process.

Management Action Plan 2.1: To implement effective AIP governance structures that support the AIP risk management process the AIP National Office will lead the development of revised governance committees and revised terms of references through a consultation process with Regional offices and national Real Property Sectors.

Management Action Plan 2.2: To implement effective AIP governance structures that support AIP risk management process the AIP National Office and Regional Implementation Team will distribute to Regional offices and national Real Property Sectors revised terms of references for AIP governance committees for acceptance, implementation and approval.

Recommendation 3: The Assistant Deputy Minister, Real Property Branch should provide functional guidance to the Regional Directors General and Directors General, National Capital Area in the documentation, monitoring and reporting of the risk management process.

Management Action Plan 3.1: To ensure documentation, monitoring and reporting of the AIP risk management process are addressed, the AIP National Office will lead the development of a revised AIP Risk Management Framework and identify new emerging risks through a consultation process with Regional offices and national Real Property Sectors.

Management Action Plan 3.2: To ensure documentation, monitoring and reporting of the AIP risk management process are addressed, the AIP National Office and Regional Implementation Team will distribute the updated AIP national risk management framework for acceptance and implementation of strategies in the Regional offices and national Real Property Sectors.

Management Action Plan 3.3: To ensure documentation, monitoring and reporting of the AIP risk management process are addressed, Regional offices will report new emerging risks to the AIP National Office on a monthly basis for reporting to Deputy Minister Senior Steering Committee.

Management Action Plan 3.4: To ensure documentation, monitoring and reporting of the AIP risk management process are addressed, Regional offices will provide quarterly assessment of AIP risks to the AIP National Office for its assessment and monitoring.

Management Action Plan 3.5: To ensure documentation, monitoring and reporting of the AIP risk management process are addressed, the AIP National Office will provide quarterly updates of AIP national risk assessment to the Deputy Minister Senior Steering Committee.

Recommendation 4: The Assistant Deputy Minister, Real Property Branch should monitor the implementation of the functional guidance provided within the regions, including the National Capital Area, and report any unresolved issues related to the implementation of the guidance to the Deputy Minister Senior Steering Committee.

Management Action Plan 4.1: To monitor the implementation of functional guidance related to AIP risk management process and report any unresolved issues, the AIP National Office will monitor the Regional quarterly assessment of AIP emerging and new risks.

Management Action Plan 4.2: To monitor the implementation of functional guidance related to AIP risk management process and report any unresolved issues, the AIP National Office will provide an AIP national risk assessment to the Deputy Minister Senior Steering Committee.

Management Action Plan 4.3: To monitor the implementation of functional guidance related to AIP risk management process and report any unresolved issues, the Regional offices, the Sector heads and the AIP National Office will provide a forum at the AIP Deputy Minister Senior Steering Committee as an opportunity for Regional and Sector Heads to present information on AIP risk management practices to the Deputy Minister.

Management Action Plan 4.4: To monitor the implementation of functional guidance related to AIP risk management process and report any unresolved issues, the AIP National Office will provide a forum at the AIP Deputy Minister Senior Steering Committee to report on any unresolved issues related to the AIP risk management process.

Management Action Plan 4.5: To monitor the implementation of functional guidance related to AIP risk management process and report any unresolved issues, the AIP National Office will continue regular communication on AIP issues and approaches on assessment, mitigation, monitoring, documentation, and reporting of risks to applicable stakeholders to ensure consistency in the national and regional offices.

INTRODUCTION

1. In January 2009, the Government of Canada launched the Economic Action Plan (EAP): a comprehensive two-year program designed to help Canada recover from the global recession through a $62 billion stimulus package.

2. Public Works and Government Services Canada's (PWGSC) contribution to the EAP infrastructure component was three-fold: 1) PWGSC received over $435 million to accelerate infrastructure projects for custodial assets (i.e., the Accelerated Infrastructure Program (AIP)); 2) PWGSC provided project management services to other government departments on a fee for service basis; and 3) PWGSC carried out its duties as a common service provider to other government departments as they delivered their EAP components.

3. For the purpose of delivering the EAP/AIP, PWGSC received increased authorities and procurement delegation from Treasury Board. These increased authorities were for the duration of AIP (2009/10 to 2010/11). They allowed PWGSC to operate more efficiently as the need to request additional approval through Treasury Board Submissions was reduced.

4. PWGSC delivered its EAP/AIP activities through existing processes and procedures under established governance and accountability structures.

5. The EAP/AIP had to strike the right balance between due diligence and delivery of stimulus measures during its two-year lifespan. It was also to produce deliverables on time and within budget. This required accountability by program participants, proper oversight by AIP and regional management, stewardship of resources, etc.

6. The AIP National Office was established to manage the program and support the various AIP committees. As the majority of the investment was outside headquarters, each region established a Regional Implementation Team. For the purposes of the EAP/AIP, oversight of quality management and financial controls was retained within existing departmental, branch, and regional governance structures.

7. A strong Management Accountability Framework includes a number of key pillars. One of these is Risk Management. With the significant increase in funding and speed to complete the projects came an increase in risks. As such, a risk management process was needed to provide a systematic method for identifying, analyzing and assessing risk and implementing decisions aimed at mitigating program and project risks. This audit focuses on the risk management process. A governance structure was established to provide direction and oversight in support of an effective risk management process. This included the provision of strategic, functional and operational direction as well as the review and assessment of identified risks, along with monitoring of mitigation strategies and their implementation.

8. We examined the governance structure and the risk management practices employed within PWGSC during program delivery at the national and regional levels. We reviewed the activities of the governance committees and the direction provided through the Risk Management Framework. We also examined the implementation of the Framework, including risk identification and assessment and risk mitigation, monitoring and reporting.

FOCUS OF THE AUDIT

9. The objective of this audit was to determine whether the EAP/AIP had an effective process in place to manage risks.

10. The scope of the audit considered all branches impacted by the EAP/AIP, including Real Property, Acquisitions, Parliamentary Precinct, Accounting, Banking, and Compensation, Industrial Security Directorate, and Translation Bureau. The Parliamentary Precinct, Accounting, Banking, and Compensation, Industrial Security Directorate, and Translation Bureau were excluded from the examination phase as they were assessed as lower risk in relation to the delivery of the EAP/AIP Program

11. We examined national and regional risk management practices, including the documentation of risks, their assessment, mitigation strategies, and monitoring.

12. In addition, certain governance elements, such as roles and responsibilities and senior management oversight and monitoring, were examined, as they directly affect risk management.

13. This audit covered the period from April 2009 to January 2010. The examination work was substantially completed in January 2010. Findings were communicated to management as they were identified allowing for course corrections to be implemented.

14. More information on the audit objective, scope, approach, and criteria can be found in the "About the Audit" section at the end of the report.

STATEMENT OF ASSURANCE

15. This audit was conducted in accordance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing.*

16. Sufficient and appropriate audit procedures have been conducted and evidence gathered to support the accuracy of the findings and conclusions in this report and to provide an audit level of assurance. The findings and conclusions are based on a comparison of the conditions—as they existed at the time—against pre-established audit criteria that were agreed on with management. The findings and conclusion are only applicable to the entity examined and for the scope and time period covered by the audit.

OBSERVATIONS

GOVERNANCE

Direction and Oversight

17. An effective governance structure is designed to provide direction within an organization, ensure effective organisational performance management and accountability, and ensure effective communication of risk and control information.

18. In relation to organizational risk management, a key element of an effective governance structure is governance committees that provide direction and oversight over the conduct of risk identification, control identification, risk assessment, risk response, mitigation strategies, and reporting.

19. We expected to find governance committees that provided direction and oversight, and these committees would have documented terms of reference, as well as clearly defined and communicated roles and responsibilities related to risk management.

20. We found that PWGSC established the Deputy Minister's Senior Steering Committee, Core Teams, and Regional Governance Committees to provide strategic operational and functional direction over the EAP/AIP. In addition, the AIP National Office was established to manage this program as a whole and to support the various committees.

21. We found that at the beginning of the AIP, four committees (Deputy Minister's Senior Steering Committee, Core Operation Teams, AIP Steering Committee, and Core Team) were established. While three of the committees had documented terms of reference, the Deputy Minister's Senior Steering Committee did not establish a terms of reference until January 2010. Once this was completed, all governance committees' terms of reference were formalized and documented.

22. In addition, we found the number of regional committees varied from one to six. For example, the Pacific region had six committees, whereas the Western region had one. No correlation was found between number of committees and oversight quality.

23. Overall, an effective EAP/AIP committee structure was established nationally and regionally. As a result of the audit, specific actions were taken by the AIP National Office to ensure the governance committee terms of reference were documented and communicated; and the roles and responsibilities of the committee members were clearly defined.

Risk Management Framework

24. The purpose of a risk management framework is to define the risk management process. The main activities of a risk management process are: risk identification and assessment, identification and implementation of risk mitigation strategies, monitoring and reassessment of risks, and the documentation of these activities. A properly defined risk management

framework will help ensure appropriate processes will be followed consistently. A properly applied process will reduce the probability of unexpected issues negatively affecting the project manager's ability to deliver the project on time or on budget.

25. We expected that at the beginning of the program, there would be a national risk management framework in place that defined the risk management process to support the achievement of program objectives.

26. We also expected to find a regional risk management framework in each region, based on the national risk management framework. These regional frameworks would provide additional detail on how the regions would deal with risks. In addition, we expected consistency between the regional risk management frameworks to ensure that all regions worked toward a common goal.

27. We found a national risk management framework was developed by PWGSC's Office of the Chief Risk Officer and included in PWGSC's funding request. All regions developed their own risk management framework based on the national framework.

28. At the beginning of the program we found some inconsistencies amongst the regional frameworks, some regional frameworks were not as consistent with the national framework as others. However, as a result of this audit, the AIP National Office ensured that these regions later revised their initial Risk Management Frameworks to more closely align themselves with the national framework.

RISK IDENTIFICATION AND ASSESSMENT

29. The Identification, assessment and prioritization of risk on an ongoing basis furthers management's ability to monitor their programs and implement course corrections where/when necessary. Given the two year deadline of the EAP/AIP it was crucial that PWGSC implement an effective and recurring risk identification strategy, allowing for known and emerging EAP/AIP risks to be mitigated.

30. We expected risks to be identified and assessed on an ongoing basis. Further we expected senior management be consistently informed of risks throughout the EAP/AIP, allowing for effective management of the risks.

31. We found that in November 2009, a formal risk assessment process was conducted by each region. Risks were re-examined in light of the program's evolution. After this assessment, the regions revised their risks to link more closely to the national framework. Risks were reviewed monthly at the national and regional level, the status of the risk was reported to the AIP National Office, which then provided it to the Deputy Minister's Senior Steering Committee.

32. Consistency between the national and regional frameworks would ensure focus on the primary risks and enhance the reporting of risks at a national program level.

33. Throughout the EAP/AIP program, risks critical to the program's success were identified, documented, assessed, and reported to the AIP National Office, which provided this information to the governance committees.

RISK MITIGATION, MONITORING, AND REPORTING

Risk Mitigation Strategies

34. Risk management strategies are actions taken by management to prevent or minimize the impact or occurrence of risks. Identified risks would be methodically addressed through intervention and monitoring by management. Risk mitigation strategies are important, as unmitigated risks can lead to adverse events (e.g., the program not delivered on time, on budget, or within scope).

35. We expected that after EAP/AIP risks were identified, PWGSC would develop, document, communicate, and implement risk mitigation strategies for identified risks.

36. We found risk mitigation strategies for each identified risk at the national and regional levels. Initially, only a few regions could provide evidence that their risk mitigation strategies were implemented and monitored. As a result of the audit, the AIP National Office ensured all of the regions had documented the implementation and subsequent monitoring of their risk mitigation strategies.

37. We found that documentation regarding risk status and mitigation strategies was communicated to the AIP National Office on a monthly basis and presented to the Deputy Minister's Senior Steering Committee.

38. Overall, the EAP/AIP had an effective process to identify and implement risk mitigation strategies.

Monitoring and Reporting

39. Monitoring and reporting of risk mitigation strategies allows management to assess the functioning and effectiveness of risk responses and to take action where responses are not having the desired impact.

40. We expected PWGSC's EAP/AIP risk mitigation processes to be adequately documented and monitored in order to communicate and manage risks.

41. We also expected detailed and updated program information on identified risks, their status, and mitigation strategies at the national and regional level would be reported to the governance committees.

42. Initially we found that program information provided to national governance committees was primarily financial. In November 2009, a formal risk assessment process was

completed. After that, the regions provided the AIP National Office with documentation regarding risk status and mitigation strategies, which was then presented at the monthly Deputy Minister's Senior Steering Committee meetings.

43. In addition, we found that monitoring and reporting of risks and mitigation strategies also took place during scheduled meetings of the regional governance committees. Initially, there was inconsistency between the regions in the risk management information presented to the national governance committees. As the program progressed and management frameworks were revised, consistency increased.

44. Throughout the EAP/AIP, PWGSC made improvements to its risk management process to ensure that there was appropriate monitoring and reporting of risk mitigation strategies by the governance committees.

45. We found that the AIP National Office consolidated regional risk information and reported a national program of risk on a monthly and then later on a quarterly basis to the Deputy Minister's Senior Steering Committee.

46. Overall, the EAP/AIP had an effective monitoring and reporting process, with risk information being adequately documented, monitored and communicated to the governance committees.

CONCLUSIONS

47. EAP/AIP national and regional governance committees were set up to provide direction and oversight and ensure that risks were adequately communicated, reported, and monitored. The roles and responsibilities of these committees were formalized, documented, and communicated.

48. A national risk management framework was developed and included in PWGSC's funding request. The framework defined the risk management process with each region completing a regional risk management framework based on the national framework. As a result of the audit, the AIP National Office ensured that all risk management frameworks were consistent, ensuring that the national and regional offices focused on the primary risks and that reporting was consistent.

49. National and regional information on identified risks, risk status, risk mitigation strategies, and implementation was reported to the AIP National Office on a monthly basis. This information was consolidated and presented to the Deputy Minister's Senior Steering Committee for monitoring.

50. Overall, the EAP/AIP had an effective risk management process, with an established national and regional governance structure to identify, assess, monitor, and report risks.

MANAGEMENT RESPONSE

Management accepts the findings of the report as being a fair and accurate representation for the EAP/AIP risk management practices during the audit period. Although many of the Management Action Plans align with the completion of the program (March 2011), many of the actions will continue on post EAP/AIP. This is due to many of these actions representing improvements to Departmental processes that are used post EAP/AIP.

RECOMMENDATIONS AND MANAGEMENT ACTION PLAN

Recommendation 1: The Assistant Deputy Minister, Real Property Branch should provide functional guidance to the Regional Directors General and Directors General, National Capital Area in the clarification and communication of roles and responsibilities with respect to the risk management process within and between those groups involved in the delivery of EAP/AIP.

> **Management Action Plan 1:** The Real Property Branch is accountable for Economic Action Plan activities related to infrastructure, and therefore, this Management Action Plan addresses only such activities.
>
> The AIP National Office will work with the Office of Audit and Evaluation in determining the appropriate departmental approach to assure the Deputy Minister with regards to risk, reporting, and monitoring of the PWGSC common service activities that support Other Government Department's implementation of their Economic Action Plan.
>
> This will be done by:
>
> - Continued reporting to the AIP Deputy Minister Senior Steering Committee of Real Property Branch's project management activities that support other government department's EAP infrastructure projects.
>
> - Attending meetings organized by Office of Audit and Evaluation with relevant departmental Branch Heads to discuss a common departmental approach.
>
> - Providing a forum at the AIP Deputy Minister Senior Steering Committee as an opportunity for Branch Heads to present information on Economic Action Plan activities to the Deputy Minister.
>
> **Management Action Plan 1.1:** To clarify roles and responsibilities with respect to the AIP risk management process, the AIP National Office will lead the development of a comprehensive roles and responsibilities document through a consultation process with Regional Offices and national Real Property Sectors.
>
> **Management Action Plan 1.2:** To clarify roles and responsibilities with respect to the AIP risk management process, the AIP National Office and Regional Implementation Team will distribute to Regional offices and national Real Property Sectors an AIP roles and responsibilities document for implementation for the duration of the Accelerated Infrastructure Program of activities.

Management Action Plan 1.3: To clarify roles and responsibilities with respect to the AIP risk management process, the AIP National Office will continue to have regular communication of AIP issues and approaches on assessment, mitigation, monitoring, documentation, and reporting risks to applicable stakeholders to ensure consistency in the national and regional offices.

Recommendation 2: The Assistant Deputy Minister, Real Property Branch should provide functional guidance to the Regional Directors General and Directors General, National Capital Area in the implementation of effective governance structures to support the risk management process.

Management Action Plan 2.1: To implement effective AIP governance structures that support the AIP risk management process the AIP National Office will lead the development of revised governance committees and revised terms of references through a consultation process with Regional offices and national Real Property Sectors.

Management Action Plan 2.2: To implement effective AIP governance structures that support AIP risk management process the AIP National Office and Regional Implementation Team will distribute to Regional offices and national Real Property Sectors revised terms of references for AIP governance committees for acceptance, implementation and approval.

Recommendation 3: The Assistant Deputy Minister, Real Property Branch should provide functional guidance to the Regional Directors General and Directors General, National Capital Area in the documentation, monitoring and reporting of the risk management process.

Management Action Plan 3.1: To ensure documentation, monitoring and reporting of the AIP risk management process are addressed, the AIP National Office will lead the development of a revised AIP Risk Management Framework and identify new emerging risks through a consultation process with Regional offices and national Real Property Sectors.

Management Action Plan 3.2: To ensure documentation, monitoring and reporting of the AIP risk management process are addressed, the AIP National Office and Regional Implementation Team will distribute the updated AIP national risk management framework for acceptance and implementation of strategies in the Regional offices and national Real Property Sectors.

Management Action Plan 3.3: To ensure documentation, monitoring and reporting of the AIP risk management process are addressed, Regional offices will report new emerging risks to the AIP National Office on a monthly basis for reporting to Deputy Minister Senior Steering Committee.

Management Action Plan 3.4: To ensure documentation, monitoring and reporting of the AIP risk management process are addressed, Regional offices will provide quarterly assessment of AIP risks to the AIP National Office for its assessment and monitoring.

Management Action Plan 3.5: To ensure documentation, monitoring and reporting of the AIP risk management process are addressed, the AIP National Office will provide quarterly updates of AIP national risk assessment to the Deputy Minister Senior Steering Committee.

Recommendation 4: The Assistant Deputy Minister, Real Property Branch should monitor the implementation of the functional guidance provided within the regions, including the National Capital Area, and report any unresolved issues related to the implementation of the guidance to the Deputy Minister Senior Steering Committee.

Management Action Plan 4.1: To monitor the implementation of functional guidance related to AIP risk management process and report any unresolved issues, the AIP National Office will monitor the Regional quarterly assessment of AIP emerging and new risks.

Management Action Plan 4.2: To monitor the implementation of functional guidance related to AIP risk management process and report any unresolved issues, the AIP National Office will provide an AIP national risk assessment to the Deputy Minister Senior Steering Committee.

Management Action Plan 4.3: To monitor the implementation of functional guidance related to AIP risk management process and report any unresolved issues, the Regional offices, the Sector heads and the AIP National Office will provide a forum at the AIP Deputy Minister Senior Steering Committee as an opportunity for Regional and Sector Heads to present information on AIP risk management practices to the Deputy Minister.

Management Action Plan 4.4: To monitor the implementation of functional guidance related to AIP risk management process and report any unresolved issues, the AIP National Office will provide a forum at the AIP Deputy Minister Senior Steering Committee to report on any unresolved issues related to the AIP risk management process.

Management Action Plan 4.5: To monitor the implementation of functional guidance related to AIP risk management process and report any unresolved issues, the AIP National Office will continue regular communication on AIP issues and approaches on assessment, mitigation, monitoring, documentation, and reporting of risks to applicable stakeholders to ensure consistency in the national and regional offices.

ABOUT THE AUDIT

Authority

This audit was approved by the Audit and Evaluation Committee of Public Works and Government Services Canada as part of the 2009-2014 Risk-Based Audit and Evaluation Plan.

Objective

The objective of this internal audit was to determine whether the EAP/AIP had an effective process in place to manage risks.

Scope and Approach

The fieldwork was conducted from June 2009 to January 2010. The audit focused on risk management practices and certain governance elements at the program and regional level.

This audit was conducted in accordance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

The scope of the audit considered all branches impacted by the Economic Action Plan, including Real Property, Acquisitions, Parliamentary Precinct, Accounting, Banking, and Compensation, Industrial Security Directorate, and Translation Bureau. The Parliamentary Precinct, Accounting, Banking, and Compensation, Industrial Security Directorate, and Translation Bureau were excluded from the examination phase as they were assessed as lower risk in relation to the delivery of the Economic Action Plan Program

Interviews were conducted with Real Property Branch and other key stakeholders. Relevant processes and documentation were reviewed and examined. Based on analysis of the information and evidence collected, the audit team prepared audit findings and conclusions, which were validated with the appropriate staff. Preliminary results and areas of improvement were shared with the AIP National Office to support early corrective action. A deck was prepared and presented to the Assistant Deputy Minister, Real Property Branch and was tabled at the Audit and Evaluation Committee for approval by the Deputy Minister on July 8, 2010.

Criteria

The criteria for this audit were developed based on the Treasury Board *Integrated Risk Management Policy* and the Management Accountability Framework to assess the risk management process, governance, and controls established within the EAP/AIP.

The criteria were as follows:
 PWGSC management responsible for EAP/AIP nationally and in the regions:
1. Provides strategic direction towards delivering results;
2. Identifies, assesses, and documents the risks critical to success;
3. Identifies, implements, and monitors strategies to respond to risk; and
4. Documents the risk management process and communicates risks, risk management strategies, and results of these strategies

Audit Work Completed

Audit fieldwork for this audit was substantially completed in January 2010.

Audit Team

The audit was conducted by members of the Office of Audit and Evaluation, overseen by the Director Internal Audit Services, and under the overall direction of the Deputy Chief Oversight Officer.

The audit was reviewed by the quality assessment function of the Office of Audit and Evaluation.

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MAIN POINTS

What we examined

i.   In January 2009, the Government of Canada launched the Economic Action Plan (EAP): a comprehensive two-year program designed to help Canada recover from the global recession through a $62 billion stimulus package.

ii. Public Works and Government Services Canada's (PWGSC) contribution to the EAP infrastructure component was three-fold: 1) PWGSC received over $435 million to accelerate infrastructure projects for custodial assets (i.e., the Accelerated Infrastructure Program (AIP)); 2) PWGSC provided project management services to other government departments on a fee for service basis; and 3) PWGSC carried out its duties as a common service provider to other government departments as they delivered their EAP components.

iii. PWGSC's contribution to EAP/AIP was significant and success on behalf of Canadians was critical. To assist in achieving the program's objectives, the Department developed a comprehensive Management Control Framework. The monitoring and reporting structures, which form two key elements of a Management Control Framework, are the subject of this audit. Practices at the project, program, regional, and national levels were examined. Findings were communicated to management as they were identified allowing for course corrections to be implemented.

Why it is important

iv. As common service provider of property, project management, contracting, and purchasing services, PWGSC played a key role in the delivery of the EAP's infrastructure elements. Aspects of the EAP/AIP posed certain timeliness and accountability challenges to the Department (i.e., significant new money to spend within two years under increased public scrutiny).

v.   Monitoring of performance and compliance are key activities in supporting the achievement of objectives in a manner that respects legislated authorities. Reporting of accurate and timely information on performance and compliance to Senior Management helps ensure they are able to make accurate, informed decisions and implement course corrections when required to help ensure success.

What we found

vi. We found that the reviews conducted by Acquisitions Branch and Real Property Branch identified issues and improved reported project information. Operational managers and governance committees used the information to monitor and manage performance.

vii. We found that PWGSC complied with central agency reporting requirements, allowing the Government to regularly report on EAP/AIP implementation.

viii. We found quality performance information on contracting award activities was provided to operational managers on a regular basis and was reported to the various governance committees. This information was used to monitor and manage performance related to contract award.

ix. We found the that PWGSC used existing reporting and monitoring tools to manage and monitor performance, risks, and issues relating to projects undertaken for other government departments and for PWGSC projects.

x. We found that PWGSC adequately monitored project delivery information related to AFD; however opportunity exists to further challenge and verify the accuracy and completeness of the Alternative Form of Delivery service provider financial information.

xi. We found compliance monitoring controls for the *Financial Administration Act* (sections 32 and 34), *Supply Manual*, and *National Project Management System* were in place. Also, monitoring activities of project delivery were conducted on projects that were over $30M. However, a gap remains in project delivery compliance monitoring for all projects under $1 million.

xii. In addition, we found that PWGSC had the key elements of a monitoring structure in place to monitor the performance and compliance of its activities related to the Economic Action Plan.

xiii. Overall, we found that PWGSC had the key elements of a reporting structure in place to effectively measure, monitor and report the performance of its activities in support of the Economic Action Plan.

Management Response

Management accepts the findings of the report as being a fair and accurate representation of the reporting and monitoring practices related to the EAP/AIP during the audit period. Although many of the Management Action Plans align with the completion of the program (March 2011), many of the actions will continue on post EAP/AIP. This is due to many of these actions representing improvements to Departmental processes that are used post EAP/AIP.

RECOMMENDATIONS AND MANAGEMENT ACTION PLAN

Recommendation 1: The Regional Directors General under the direction of the Assistant Deputy Minister Real Property Branch should ensure that adequate compliance monitoring is done on projects with a value of less than $1 million.

Management Action Plan 1.1: Professional and Technical Services Management is finalizing the development of a monitoring process for projects over $1 million that is due March 31, 2011 to respond to the Audit of Project Management by Professional and Technical Services Management's recommendation.

In addition, through a consultation with regional experts and the AIP National Office, Professional and Technical Services Management will address a framework that ensures consistent and adequate project compliance monitoring for projects with a value of less than $1million.

As a step in the development of a compliance monitoring program, the regions of Western and Atlantic have an established quality management system for International Organization for Standardization certification, which includes a review of project management. As well, the Quebec region has started a project monitoring program. These regions will revise their activities, within International Organization for Standardization industry standards, to incorporate the functional direction from the Real Property Branch for this monitoring.

An additional step is modifications to an existing and accepted checklist. As presented in this audit report, the AIP National Office with the assistance of the Regional Offices completed a review of EAP/AIP project files. The results were presented to the AIP Deputy Minister Senior Steering Committee in November 2010. No major issues of non-compliance were noted. The AIP National Office and Regional Offices are preparing an action plan to address lessons-learned and improvements to the checklist and to real property best practices. This work can serve as a foundation for this monitoring program.

It is estimated that the resource impact per region to undertake this program for PWGSC and other government department projects will be ½ full time employee. This recommendation and management action plan does not include monitoring of projects managed by Real Property's Alternative Form of Delivery service Provider or the Parliamentary Precinct Branch.

Recommendation 2: The Assistant Deputy Minister Real Property Branch should enhance the controls in place to verify the accuracy, completeness, and reliability of performance information received from the Alternate Form of Delivery service provider.

Management Action Plan 2.1: Annually, PWGSC will verify that the costs billed and the costs paid compared to the actual costs incurred as per the annual audited reconciliation (cost submission) conducted by a third-party auditor.

Management Action Plan 2.2: PWGSC will review and update the current project file checklist to ensure necessary documents are retained on file to allow PWGSC's assessment and authorization. PWGSC will monitor the Alternate Form of Delivery service provider's compliance with this checklist on a regular basis as part of the quality monitoring process.

Management Action Plan 2.3: Improvements have been made to the quality management review process to ensure project management costs are accurately reflected in the project delivery report of Alternate Form of Delivery Management System. This process is identified in the Project Invoicing Detail Report monthly review. Monthly, 10% of projects, in each portfolio, are randomly selected. Project documentation that supports the payment of the completion of a milestone billing percentage is verified.

Management Action Plan 2.4: Reconciliation process between SIGMA and the Alternate Form of Delivery Management System Contract Module has been implemented as a monthly monitoring task.

Management Action Plan 2.5: PWGSC has implemented a process to ensure that the payment information in Alternate Form of Delivery Management System contract module matches the approved invoice.

Management Action Plan 2.6: Annually, cost audits will validate each portfolio's total payments received, in compliance to the contract terms and conditions.

Management Action Plan 2.7: PWGSC and the Alternate Form of Delivery service provider will jointly establish guidelines for minimum documentation and information required on files for Journal Vouchers.

INTRODUCTION

1. In January 2009, the Government of Canada launched the Economic Action Plan (EAP): a comprehensive two-year program designed to help Canada recover from the global recession through a $62 billion stimulus package.

2. Public Works and Government Services Canada's (PWGSC) contribution to the EAP infrastructure component was three-fold: 1) PWGSC received over $435 million to accelerate infrastructure projects for custodial assets (i.e., the Accelerated Infrastructure Program (AIP)); 2) PWGSC provided project management services to other government departments on a fee for service basis; and 3) PWGSC carried out its duties as a common service provider to other government departments as they delivered their EAP components.

3. PWGSC stated that it would deliver EAP/AIP activities through existing governance and accountability structures. The AIP Steering Committee (on behalf of the Deputy Minister) was to ensure the effective planning, implementation, monitoring, performance measurement, and reporting of all aspects of PWGSC's EAP/AIP activities. The AIP National Office was established to manage the program, which was delivered through standard Real Property Asset Management and Investment Management processes, as well as the Real Property Project Management Framework.

4. In most cases, PWGSC also used existing monitoring and reporting structures. Each of these was independent from the other and therefore performance information was collected, analyzed, validated and reported differently. The performance of each of the following activities were monitored and reported:
    - EAP/AIP Departmental Performance (reported externally);
    - Contract Award for procurement of goods, services and construction;
    - AIP Project Delivery;
    - Project Management on behalf of Other Government Departments; and
    - Alternative Form of Delivery Project Delivery.

5. The Department enhanced existing approaches, as well as developed new approaches to monitoring compliance with legislated authorities. These focused on ensuring contracts were awarded and administered in accordance with legislated contracting authorities and projects were managed in accordance with the National Project Management System.

6. The key elements of the PWGSC governance structure included:
    - *Deputy Minister Senior Steering Committee:* comprised of senior management, this committee provides oversight and is accountable for the successful delivery of the AIP;
    - *AIP Steering Committee:* comprised of regional and branch representatives with operational responsibilities, this committee provides advice and recommendations to the AIP Deputy Minister Senior Steering Committee;
    - *AIP Core Team:* comprised of key managers with operational responsibilities, this group responds to planning and implementation issues;

- *AIP National Office:* this body provides functional direction and support to operational groups and the governance committees;
- *Regional AIP Steering Committee:* comprised of Regional Directors General, regional champions, and relevant regional staff, this committee provides oversight and guidance on regional AIP implementation; and
- *PWGSC/Alternative Form of Delivery Service Provider committee:* this joint committee provides national-level AIP coordination, strategies, and action plans.

7. The following exhibit illustrates the AIP Governance model:
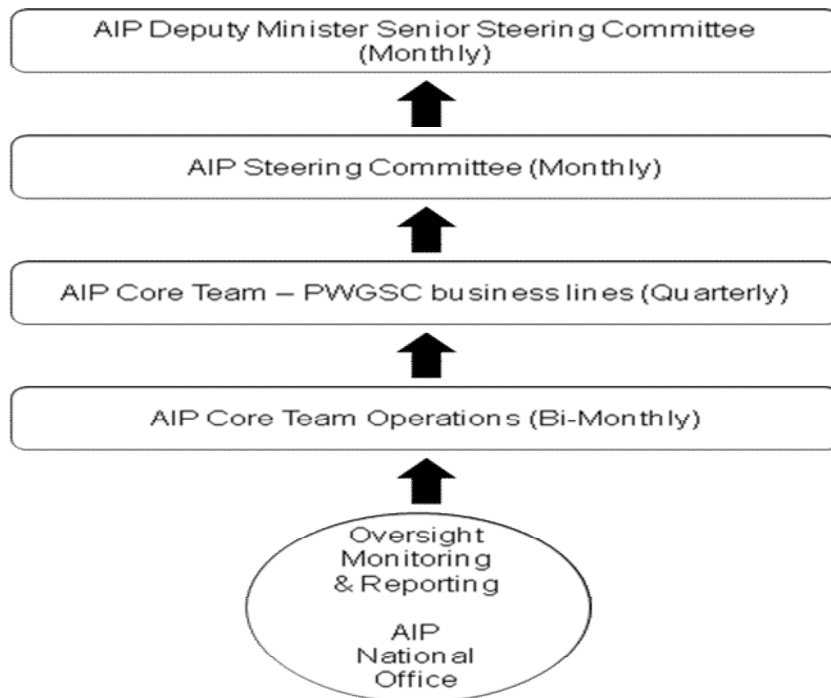
8. As the majority of the AIP spending was in PWGSC's regions (including the National Capital Area), each region established a Regional Implementation Team. The oversight of quality management and financial controls was retained within existing departmental, branch, and regional governance structures.

FOCUS OF THE AUDIT

9. The objective of the audit was to determine whether PWGSC's EAP/AIP monitoring and reporting practices for performance and compliance, included:
- Key elements of a monitoring structure to monitor the performance and compliance of its EAP/AIP activities; and
- Key elements of a reporting structure to effectively measure, monitor, and report the performance of its EAP/AIP activities.

10. Practices at project, program, regional, and national levels were examined in areas that were assessed as high risk. Branches examined were Real Property and Acquisitions, while regions examined were National Capital Area, Atlantic, Ontario, and Quebec.

11. Our audit examined the four reporting streams within PWGSC, as well as external reporting. Three streams were within Real Property Branch: AIP projects funded by PWGSC; EAP projects funded by other government departments; and AIP projects managed by the Alternative Form of Delivery service provider. The remaining stream (contract award) was under Acquisitions Branch.

12. This audit covered the period from April 2009 to August 2010. The examination work was substantially completed in August 2010. This audit was conducted subsequent to the audit of Risk Management Practices. Findings were communicated to management as they were identified to allow course corrections to be implemented.

13. More information on the audit objective, scope, approach, and criteria can be found in the "About the Audit" section at the end of the report.

STATEMENT OF ASSURANCE

14. This audit was conducted in accordance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

15. Sufficient and appropriate audit procedures have been conducted and evidence gathered to support the accuracy of the findings and conclusions in this report and to provide an audit level of assurance. The findings and conclusions are based on a comparison of the conditions, as they existed at the time, against pre-established audit criteria that were agreed on with management. The findings and conclusions are only applicable to the entity examined and for the scope and time period covered by the audit.

OBSERVATIONS

GOVERNANCE

16. The need to deliver the EAP/AIP successfully for Canadians elevated the need for effective monitoring and reporting structures to allow management to manage key aspects of the program including: performance, risks and issues.

17. One key element of a robust monitoring and reporting structure is an effective governance structure that has clearly defined roles and responsibilities related to monitoring, clearly defined monitoring and reporting processes, and adequate controls to ensure the integrity of the information reported.

18. We expected oversight committees would exist and would have clearly defined roles and responsibilities related to monitoring the achievement of objectives. We also expected clear processes to support monitoring and reporting activities to the committees would be

developed and applied consistently. Finally, we expected controls would be in place to ensure the integrity of the information reported to the committees.

19. We found a robust governance committee structure that included the AIP Deputy Minister Senior Steering Committee, AIP Steering Committee, and AIP Core Team. We found roles and responsibilities of the committees were clearly defined and documented. These roles and responsibilities included monitoring the program to ensure objectives were achieved. Further, we found these committees received regular reports to assist in their monitoring activities. Reporting included: financial, non-financial risks, and progress/performance information.

20. As previously noted, existing systems and processes were used to deliver the EAP/AIP. We found that additional controls were put in place at the national and regional level to help ensure the completeness and accuracy of EAP/AIP information.

21. For information reported to the AIP Deputy Minister Senior Steering Committee, the AIP National Office performed variance analysis and comparison reviews on data accuracy. Information reported included financial, risk management, greening benefits, human resources, etc.

22. We found regions performed reasonability checks of information related to AIP and regular A-based projects at both the project and managerial level. These checks helped identify issues relating to a range of operational responsibilities, including identifying data entry errors and projects that were not moving forward on a timely basis.

23. We determined that quality performance information on project delivery activities was provided to operational managers and governance committees. And, this information was used to monitor and manage performance.

PERFORMANCE MONITORING AND REPORTING

EAP/AIP External Reporting

24. Regular external EAP/AIP reporting to central agencies was required by all departments for the government to provide EAP/AIP-specific reports to Parliament. These reports were to provide Canadians with information on EAP/AIP implementation and illustrate progress toward the EAP/AIP's economic stimulus objective.

25. We expected that the performance monitoring and reporting process would be clear and processes would exist to ensure timely, accurate, and consistent performance information.

26. We found that PWGSC adhered to funding requirements and reported EAP/AIP information regularly. Status reports using the prescribed formats on financial reporting were prepared. In addition, information on progress indicators, descriptive outlines by budget initiative, and estimated regional stimulus were prepared throughout the program.

27. We also found that PWGSC reported the following information to central agencies: updates on initiatives by description, key timelines, factors affecting implementation timing, progress, performance to date, and budget amendment; spending by PWGSC nation-wide and regionally on Budget 2009 initiative (AIP); tracking of initiatives that increased or maintained the government's capital assets; and the number of times increased delegation was used for both departmental and other government departments projects.

28. We determined that the information reported satisfied funding requirements and that performance information was provided to central agencies in a timely manner. This allowed PWGSC to contribute to the Government's regular communication of results to Canadians on the EAP/AIP.

EAP/AIP Internal Reporting – Contract Award

29. The timely award of contracts was a critical success factor in the delivery of EAP/AIP. To help ensure timely award of contracts, delegated authorities were increased.

30. We expected a process would be developed to monitor contract award, including the timeliness of award. We also expected controls would be in place to ensure the integrity of the contract award information reported.

31. We found Acquisitions Branch created a useful report format that allowed senior managers in the Branch to monitor contract award performance. These reports were provided to senior management on a regular basis and included information on: the total number of contracts and amendments issued to date, as well as the dollar value of these contracts and amendments; contract number and contractor name by region; and throughput (i.e., number of days between requisition date and award date). This information made it possible to track the progress of contracting award activities, which facilitated early detection and identification of issues in the contracting award process.

32. We also found that the contract award information was shared with the governance committees allowing for the contract award process to be adequately managed and monitored at the most senior levels of the organization.

33. We found that there were controls in place to validate completeness and accuracy of the contract award data collected. More specifically, a quality review of the information collected was carried out by managers in Acquisitions Branch to help ensure the integrity of the information reported.

34. We determined that quality performance information on contracting award activities was provided to operational managers on a weekly basis and reported to the governance committees. This information was used to monitor and manage contract award performance.

EAP/AIP Internal Reporting – PWGSC Funded AIP Projects

35. Through the EAP/AIP, PWGSC received additional funding to cover ongoing maintenance and repair, as well as capital projects, on major assets for which it is custodian. The department used existing monitoring and reporting tools to manage and monitor performance, risks, and issues.

36. We expected a process would exist to monitor performance information and reported information would be validated to help ensure the completeness and accuracy of the information reported.

37. We found that there was a process in place to monitor performance information and validate the completeness and accuracy of the report data.

38. We found evidence that Finance Branch prepared a monthly report that provided information on budgets, hard commitments, project count, cost centres, and regions. The reports were sent to Regional Champions for review; identified issues were resolved and erroneous data corrected. If issues were identified, the reports were sent to the AIP National Office after resolution, to be presented at the AIP Steering Committee.

39. We determined that the regional reviews conducted helped to improve the accuracy and completeness of data used in the reports provided to senior management. The AIP Deputy Minister Senior Steering Committee used that information to monitor performance and make decisions.

EAP/AIP Internal Reporting – EAP Projects funded by Other Government Departments

40. EAP Projects funded by other government departments fell under the responsibility of Real Property Branch's Real Property Solutions. This group was also responsible for providing leadership for the national client relationship management activities of Real Property Branch and the management of Real Property Solutions as a business line.

41. PWGSC and Real Property Solutions increased their level of effort and communication with other government departments in order to coordinate plans; manage demands; and ensure adherence to the principles of fairness, openness, transparency and value for money. This approach increased the likelihood of a timely and successful implementation of the EAP.

42. We expected a process would be developed to monitor performance information and that performance information would be consistently accurate and complete to allow the AIP Deputy Minister Senior Steering Committee to make informed and timely decisions.

43. We found that a new reporting process was developed and implemented as a result of the EAP/AIP. While not formally documented, controls and procedures were consistently followed.

44. We found that Real Property Solutions completed a monthly review of EAP/AIP project information extracted from SIGMA, identifying any anomalies. They also prepared reports on projects with information including: planned expenditures, commitments, and forecasts. We found these reports were sent regularly to the AIP National Office, which then presented the findings to the AIP Deputy Minister Senior Steering Committee. To improve data integrity, the reports were sent to Regional Champions for issue resolution and correction of errors in SIGMA.

45. We determined that the regional reviews improved reported project information and helped identify significant issues requiring resolution. As a result, the AIP Deputy Minister Senior Steering Committee used the information to monitor performance and make decisions.

EAP/AIP Internal Reporting – Alternative Form of Delivery Projects

46. Alternative Form of Delivery is a PWGSC service delivery mechanism to provide property management services, project delivery services, and other optional services. PWGSC's property management Alternative Form of Delivery service provider was responsible for approximately 50% of the monies spent on AIP projects.

47. We expected that the Alternative Form of Delivery service provider would regularly send accurate, complete, and reliable performance information to PWGSC for monitoring and reporting purposes.

48. We found that the Alternative Form of Delivery service provider submitted all report data and project information on a bi-monthly basis to the Alternative Form of Delivery Strategic and Management Coordination group. The following reports addressed the reporting requirements:
    - AIP Project Details for Alternative Form of Delivery Managed Facilities;
    - AIP Project Volume in Alternative Form of Delivery Managed Facilities (by province);
    - AIP Allocation financial Status for Alternative Form of Delivery Managed Facilities;
    - AIP Allocation Summary by Qualifier for Alternative Form of Delivery Managed Facilities;
    - AIP Project Details for Alternative Form of Delivery Managed Facilities (by cost category); and
    - Financial Summary of the AIP (by building).

49. We found that while PWGSC adequately monitored project delivery information from the Alternative Form of Delivery service provider, opportunity exists to further challenge and verify the accuracy and completeness of the Alternative Form of Delivery service provider financial information.

50. We also found opportunities exist to further test performance measurement controls at the Alternative Form of Delivery service provider or assess the accuracy and completeness of the information provided by the Alternative Form of Delivery service provider.

51. We determined that increased data integrity monitoring would help ensure the accuracy and completeness and reliability of performance information.

COMPLIANCE MONITORING

PWGSC Legislative Authorities and Policies

52. EAP/AIP projects were to follow existing legislation, policies, and processes, including the *Financial Administration Act* (sections 32 and 34), *Treasury Board* Contracting Policy, PWGSC Supply Manual, and the National Project Management System.

53. We expected compliance monitoring and reporting to be conducted on EAP/AIP projects and contract administration and associated roles and responsibilities to be clearly defined.

54. We found that the *Financial Administration Act*, PWGSC *Supply Manual*, and the National Project Management System were documented and easily accessible.

Office of Audit and Evaluation
55. The Office of Audit and Evaluation, supported by the AIP National Office, verified compliance of EAP/AIP contracts through a quarterly review process. Findings on the EAP/AIP contracts were summarised and reported to the Assistant Deputy Minister, Real Property Branch and Regional Directors General. Identified deficiencies were followed up and corrected. The Office of Audit and Evaluation has reviewed approximately 11% of EAP/AIP contracts.

Finance Branch
56. We found the quality assurance group in the Finance Branch produced the quarterly National Compliance Review for Payment Transactions report. A sample of PWGSC payment transactions were reviewed for *Financial Administration Act* (section 34) compliance and findings were reported to senior management.

Real Property Branch
57. We found Real Property Branch headquarters had prepared the following reports that addressed compliance of project delivery (included National Project Management System compliance across all regions) however, no EAP/AIP projects have been reviewed or reported:
- Report on projects greater than $30 million (annual): evaluated each project against *National Project Management System* compliance, schedule, budget, and scope. The last report was prepared in August 2009 for the fiscal year 2008/09.
- Capacity Assessment of Organizational Project Management (every three years): evaluated client feedback on completed projects to identify areas for National Project Management System improvement. The last assessment was completed in December 2009 for the fiscal years 2006/07 and 2007/08. The next assessment is scheduled for December 2012 and it will cover fiscal years 2008/09, 2009/10, and 2010/11.

- Report on completed projects greater than $1 million (prepared twice in last four years) – evaluated completed projects for *National Project Management System* compliance.

58. We found that projects with a value of less than $1 million were not subject to National Project Management System complian*ce monitoring (approximately 70% o*f PWGSC-managed AIP projects had a value of less than $100,000). Most of the project delivery monitoring activities were conducted on projects that were over $30 million. While there was a coverage gap for projects under $30 million, Real Property Branch has prepared an action plan to monitor projects under $30 million and greater than $1 million.

59. However, we found that a gap remains in project delivery compliance monitoring for all projects under $1 million with respect to the *Financial Administration Act* (sections 32 and 34), *Supply Manual*, and *National Project Management System*. There was a risk that projects were non-compliant and not identified through monitoring.

Acquisitions Branch
60. We found that Acquisitions Branch conducted contract award and management compliance monitoring conducted on all contracts. Each region had an independent quality assurance group (Contract Quality Control Division) that reviewed contracts requiring the approval of a Senior Director (or higher) for compliance.

AIP National Office
61. We found that the AIP National Office requested each region to review a maximum of 20 projects managed on behalf of PWGSC and other government departments. The goal of the review was to demonstrate due diligence in ensuring that appropriate records were maintained in the project files, including documentation to support compliance with the *Financial Administration Act* (sections 32 and 34), PWGSC *Supply Manual*, and the *National Project Management System*. The AIP National Office received the information from the regions and presented findings to the AIP Deputy Minister Senior Steering Committee in November 2010. Identified deficiencies were followed up and corrected.

62. Overall, we determined that roles and responsibilities for staff involved in compliance monitoring were clear.

63. We also determined that the work initiated by the AIP National Office and the continuous monitoring reviews conducted by the Office of Audit and Evaluation helped identify and correct non-compliance with the *Financial Administration Act*, PWGSC *Supply Manual*, and the *National Project Management System*.

CONCLUSIONS

64. Reviews conducted by Acquisitions Branch and Real Property Branch at both the national and regional levels identified issues and improved reported project information. Managers and governance committees used the information to monitor and manage performance on an ongoing basis.

65. We found quality performance information on contracting award activities, budgets, hard commitments, project count, cost centres and regions was provided to operational managers on a weekly basis and was reported to the various governance committees. This information was consistently used to monitor and manage performance related to contract award.

66. PWGSC used existing monitoring and reporting tools to manage and monitor performance, risks, and issues relating to projects undertaken for other government departments and for PWGSC projects. This helped improve the project information being reported to senior management.

67. Compliance monitoring controls for the *Financial Administration Act* (sections 32 and 34), *Supply Manual*, and *National Project Management System* were in place. Also, monitoring activities of project delivery were conducted on projects that were over $30M. However, a gap remains in project delivery compliance monitoring for all projects under $1 million.

68. In addition, we found that PWGSC had the key elements of a monitoring structure in place to monitor the performance and compliance of its activities related to the EAP/AIP.

69. Overall, we found that PWGSC had the key elements of a reporting structure in place to effectively measure, monitor and report the performance of its activities in support of the EAP/AIP.

MANAGEMENT RESPONSE

Management accepts the findings of the report as being fair and accurate representation of the reporting and monitoring practices related to the EAP/AIP during the audit period. Although many of the Management Action Plans align with the completion of the program (March 2011), many of the actions will continue on post EAP/AIP. This is due to many of these actions representing improvements to Departmental processes that are used post EAP/AIP.

RECOMMENDATIONS AND MANAGEMENT ACTION PLAN

Recommendation 1: The Regional Directors General under the direction of the Assistant Deputy Minister Real Property Branch should ensure that adequate compliance monitoring is done on projects with a value of less than $1 million.

> **Management Action Plan 1.1:** Professional and Technical Services Management is finalizing the development of a monitoring process for projects over $1 million that is due March 31, 2011 to respond to the Audit of Project Management by Professional and Technical Services Management recommendation. In addition, through a consultation with regional experts and the AIP National Office, Professional and Technical Services Management will address a framework that ensures consistent and adequate project compliance monitoring for projects with a value of less than $1 million.

As a step in the development of a compliance monitoring program, the regions of Western and Atlantic have an established quality management system for International Organization for Standardization certification, which includes a review of project management. As well, the Quebec region has started a project monitoring program. These regions will revise their activities, within International Organization for Standardization industry standards, to incorporate the functional direction from the Real Property Branch for this monitoring.

An additional step is modifications to an existing and accepted checklist. As presented in this audit report, the AIP National Office with the assistance of the Regional Offices completed a review of EAP/AIP project files. The results were presented to the AIP Deputy Minister Senior Steering Committee in November 2010. No major issues of non-compliance were noted. The AIP National Office and Regional Offices are preparing an action plan to address lessons-learned and improvements to the checklist and to real property best practices. This work can serve as a foundation for this monitoring program.

It is estimated that the resource impact per region to undertake this program for PWGSC and other government department projects will be ½ full time employee. This recommendation and management action plan does not include monitoring of projects managed by Real Property's Alternative Forms of Delivery service Provider nor the Parliamentary Precinct Branch.

Recommendation 2: The Assistant Deputy Minister Real Property Branch should enhance the controls in place to verify the accuracy, completeness, and reliability of information received from the Alternate Form of Delivery service provider.

Management Action Plan 2.1: Annually, PWGSC will verify that the costs billed and the costs paid compared to the actual costs incurred as per the annual audited reconciliation (cost submission) conducted by a third-party auditor.

Management Action Plan 2.2: PWGSC will review and update the current project file checklist to ensure necessary documents are retained on file to allow PWGSC's assessment and authorization. PWGSC will monitor Alternate Form of Delivery service provider's compliance with this checklist on a regular basis as part of the quality monitoring process.

Management Action Plan 2.3: Improvements have been made to the quality management review process to ensure project management costs are accurately reflected in the project delivery report of Alternate Form of Delivery Management System. This process is identified in the Project Invoicing Detail Report monthly review. Monthly, 10% of projects, in each portfolio, are randomly selected. Project documentation that supports the payment of the completion of a milestone billing percentage is verified.

Management Action Plan 2.4: Reconciliation process between SIGMA and the Alternate Form of Delivery Management System Contract Module has been implemented as a monthly monitoring task.

Management Action Plan 2.5: PWGSC has implemented a process to ensure that the payment information in Alternate Form of Delivery Management System contract module matches the approved invoice.

Management Action Plan 2.6: Annually, cost audits will validate each portfolio's total payments received, in compliance to the contract terms and conditions.

Management Action Plan 2.7: PWGSC and the Alternate Form of Delivery service provider will jointly establish guidelines for minimum documentation and information required on files for Journal Vouchers.

ABOUT THE AUDIT

Authority

This audit was approved by the Audit and Evaluation Committee of Public Works and Government Services Canada as part of the 2010-2015 Risk-Based Multi-Year Audit and Evaluation Plan.

Objective

The objectives of this internal audit were:
- To determine whether PWGSC has the key elements of a monitoring structure in place to monitor the performance and compliance of its Economic Action Plan activities.
- To determine whether PWGSC has the key elements of a reporting structure in place to effectively measure, monitor, and report the performance of its activities in support of the Economic Action Plan.

Scope and Approach

The fieldwork was conducted from May 2010 to August 2010. The audit focused on PWGSC monitoring and reporting practices for performance and compliance in place for its activities related to the EAP/AIP.

This audit was conducted in accordance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing.*

In delivering the EAP/AIP, the Department focused on utilizing existing processes. As such, some findings relate to Real Property Branch or Acquisitions Branch processes. The report's conclusions differentiate between findings related to specific EAP/AIP issues and issues within existing Real Property or Acquisitions Branch processes.

A detailed risk assessment determined that the activities of Real Property Branch and Acquisitions Branch would be the focus of this audit**.** The risks were identified based on meetings with key PWGSC departmental staff and a completed questionnaire from selected regions (Atlantic, Quebec, Ontario, National Capital Area - Real Property Branch, and National Capital Area - Acquisitions Branch).

During the examination phase, in-depth interviews were conducted with key departmental personnel. Relevant systems, processes, and controls were examined to determine if PWGSC had a defined, documented reporting structure (including roles and responsibilities) to facilitate measuring, monitoring, and reporting of EAP/AIP performance.   Additional   activities   undertaken   to   compensate   for identified weaknesses were taken into account. Throughout the examination phase of the audit, the audit team updated the audited organization on issues as they arose.
Based on the analysis and evidence collected, the audit team prepared findings and conclusions which were validated with appropriate personnel. A deck was prepared and

presented to the Assistant Deputy Minister, Real Property Branch and was tabled at the Audit and Evaluation Committee for approval by the Deputy Minister on March 24, 2011.

Criteria

The criteria used to assess the reporting and monitoring practices in relation to EAP/AIP were in response to the Budget 2009 announcement of stimulus funding. PWGSC developed its request seeking the necessary funding, and incremental authorities, required to meet the Government's objectives. PWGSC assembled subject matter experts from across the Department to develop a Program Management Framework to guide the implementation of the EAP/AIP activities. This Framework included a governance structure to monitor and report performance.

The criteria were as follows:

Performance (Accountability) Reporting:
- There are properly defined and adequately communicated roles and responsibilities to measure performance to support accountability reporting for activities related to the EAP.
- There is a defined process in place to measure performance to support accountability reporting for activities related to the EAP and it is consistently applied.
- There are adequate controls in place to ensure data integrity to measure performance to support accountability reporting for activities related to the EAP.

Performance Monitoring:
- There are properly defined and adequately communicated roles and responsibilities to monitor performance to allow course corrections for activities related to the EAP.
- There is a defined process in place to monitor performance to allow course corrections for activities related to the EAP and it is consistently applied.
- There are adequate controls in place to ensure data integrity to monitor performance to allow course corrections for activities related to the EAP.

Compliance Monitoring:
- There are properly defined and adequately communicated roles and responsibilities to monitor compliance for activities related to the EAP.
- There is a defined process in place to monitor compliance for activities related to the EAP and it is consistently applied.
- There are adequate monitoring controls in place to prevent and detect non-compliance of activities related to the EAP.

Audit Work Completed

Audit fieldwork for this audit was substantially completed in August 2010.

Audit Team

The audit was conducted by members of the Office of Audit and Evaluation, overseen by the Acting Director, AIP Audit, and under the overall direction of the Deputy Chief Oversight Officer.

The audit was reviewed by the quality assessment function of the Office of Audit and Evaluation.

Public Works and Government Services Canada

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Final Report

2011-709

Chapter 3: Audit of Accelerated Infrastructure Program Resource Allocation

March 24, 2011

Office of Audit and Evaluation

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MAIN POINTS

What we examined

i.   In January 2009, the Government of Canada launched the Economic Action Plan (EAP): a comprehensive two-year program designed to help Canada recover from the global recession through a $62 billion stimulus package.

ii.   Public Works and Government Services Canada's (PWGSC) contribution to the EAP infrastructure component was three-fold: 1) PWGSC received over $435 million to accelerate infrastructure projects for custodial assets (i.e. the Accelerated Infrastructure Program (AIP)); 2) PWGSC provided project management services to other government departments on a fee for service basis; and 3) PWGSC carried out its duties as a common service provider to other government departments as they delivered their EAP components.

iii. We examined the process used by the Department to allocate its financial resources across Canada for those projects directly managed by PWGSC.   This audit concentrated on processes used at both the national and regional levels for the allocation and re-allocation of AIP resources. Findings were communicated to management as they were identified allowing for course corrections to be implemented.

Why it is important

iv.   Beginning in 2008, key economic sectors suffered significant job losses. To counter the impact of the global recession, the Government of Canada invested funds over a two-year period to stimulate the hardest hit sectors of the economy. As common service provider of property, project management, contracting, and purchasing services, PWGSC played a key role in the delivery of the infrastructure elements of the Federal Government's EAP stimulus initiative. There were a number of aspects of the EAP/AIP that increased the risk of the Department not achieving its objectives of timeliness and accountability (e.g., significant new money to spend within two years and increased public scrutiny).

v.   The Federal Budget provided direction on how the money was to be spent. As such, each department had to consider how it would allocate resources to respect this direction. In the case of PWGSC, resource allocation decisions were required in relation to the over $435M received under AIP. Where PWGSC supported other government departments as a common service provider, the other government department would have been accountable for decisions related to the allocation of resources. To ensure program objectives were achieved, the Department was required to allocate resources quickly and appropriately while maintaining compliance with existing regulations.

What we found

vi. This report's conclusions distinguish between findings related to AIP-specific issues and findings related to existing Real Property Branch processes.

vii. It was determined that Real Property Branch resource allocation roles and responsibilities (for AIP and non-AIP) were communicated and understood. However, some regional processes, approvals, and support required further documentation.

viii. We found prioritization criteria for repair and minor capital, accessibility and major capital projects were clear and consistent with AIP objectives. We also found the prioritization criteria were consistently applied. Due to a lack of Appropriation Base (A-base) funding, some higher priority repair and minor capital projects were funded by the AIP. This was not a specific issue during the AIP however this could result in an issue in future years once the AIP funds are no longer available.

ix. We found that it was a challenge for Real Property Branch to find enough individual shelf ready accessibility projects to spend the allotted $40 million, as these projects tended to be folded into larger renovation projects.

x. The Capital Project Briefing Notes process was well defined, this process was used by Real Property Branch – Program Management Sector for the initial funding allocation of resources to major capital projects.

xi. Planning processes at both the regional and branch levels were in place to help ensure adequate capacity (human and financial) was available to deliver the AIP. The approach taken to manage this and other emerging risks were reported frequently to the AIP Deputy Minister Senior Steering Committee.

xii. We found the Banking Day resource reallocation process was well-established and effective, with 96% of AIP funds spent in 2009/10 and over 98% in 2010/11. However, some regional and branch resource reallocation processes and practices (e.g., approvals) required further documentation.

xiii. Overall, we found that the AIP had an effective process in place to appropriately allocate resources to AIP projects and it was appropriately applied.

Management Response

Management accepts the findings as being a fair and accurate representation of the Accelerated Infrastructure Program's resource allocation process during the audit period. Although many of the Management Action Plans align with the completion of the program (March 2011), many of the actions will continue on post EAP/AIP. This is due to many of these actions representing improvements to Departmental processes that are used post EAP/AIP.

RECOMMENDATIONS AND MANAGEMENT ACTION PLAN

Recommendation 1: The Regional Directors General, Director Generals of the National Capital Area, and the Assistant Deputy Minister, Parliamentary Precinct Branch under the direction of the Assistant Deputy Minister, Real Property Branch should ensure regional processes for resource allocation and resource reallocation, in particular for approvals, and rationales for project priorities are appropriately documented.

> **Management Action Plan 1.1:** The process of initial budget allocation and banking day allocations for real property activities from Program Management to the regions will be further clarified and communicated by The Director General, Accommodation, Portfolio management and Real Estate through the Building Management Plan process.

> **Management Action Plan 1.2:** National guidelines will be developed by Accommodation and Portfolio Management to ensure consistent documentation in the regions regarding resource allocation for real property activities. The guidelines will be communicated through the National call letter for Building Management Plan.

> **Management Action Plan 1.3:** Regions within their existing regional governance frameworks, will document the process and decisions-taken for initial resource allocation and re-allocation during the fiscal year.

> **Management Action Plan 1.4:** Regions will communicate and share the approved process at the regional and provincial team levels.

> **Management Action Plan 1.5:** Regions will monitor the process to ensure effectiveness and make corrections where/when appropriate.

Recommendation 2: The Assistant Deputy Minister, Real Property Branch should develop a plan to help ensure repair and minor capital project priorities in the regions, including the National Capital Area and the Parliamentary Precinct Branch are adequately funded after the conclusion of the AIP.

> **Management Action Plan 2:** Funding received by Real Property for Federal Accommodation and Federal Holdings sub-activities is already price protected for increases in costs for repair and maintenance.

> Annually, Real Property distributes available funding across the PWGSC national portfolio of assets using a formula based budget allocation methodology. Recently it was determined that regions had directed funding from the initial allocation to expansion lease activity. Normally regions are required to make a specific request. Once instructions are followed and funds appropriately allocated the perception that repair and maintenance priorities are not adequately funded should disappear.

This anomaly is supported by actual expenditures on repairs and maintenance (excluding AIP) that have averaged $127M for the last 5 years, with a high of $136M and a low of $117M.

Management Action Plan 2.1: The Director General, Program management will reinforce allocation process with regions.

Management Action Plan 2.2: The Director General, Program management will amend regional initial budget allocation input form to isolate regional allocations to expansion leases.

Management Action Plan 2.3: The Director General, Program management will make adjustments to budget allocation process to redistribute repair and maintenance funding to ensure all regions receive a fair share.

Recommendation 3: The Assistant Deputy Minister, Real Property Branch should consider expanding the current quality and monitoring program for B1 projects to all repair and minor capital project ratings to ensure adequate monitoring process for all project priorities after the conclusion of the AIP.

Management Action Plan 3: The current quality assurance review conducted is primarily focused on B1 priority projects. To respond to the recommendation, a pilot program will be conducted over Fiscal Years 2011-12 and 2012-13 to determine the added benefit of expanding the monitoring program.

Management Action Plan 3.1: The pilot framework will be expanded to encompass the quality monitoring of projects as follows:
- Mid-Year review to ensure that the funding allocated to all project codes A1, B1 and C1 in the Building Management Plan are coded appropriately.
- Mid-Year review using a 20% random sample of all remaining project codes in the Building Management Plan to monitor if they are coded appropriately.
- Year-End review of all projects to ensure they have been closed or appropriately accounted for.

INTRODUCTION

1. In January 2009, the Government of Canada launched the Economic Action Plan (EAP): a comprehensive two-year program designed to help Canada recover from the global recession through a $62 billion stimulus package.

2. Public Works and Government Services Canada's (PWGSC) contribution to the EAP infrastructure component was three-fold: 1) PWGSC received over $435 million to accelerate infrastructure projects for custodial assets (i.e., the Accelerated Infrastructure Program (AIP)); 2) PWGSC provided project management services to other government departments on a fee for service basis; and 3) PWGSC carried out its duties as a common service provider to other government departments as they delivered their EAP components.

3. The Federal Budget provided direction on how the money was to be spent. As such, each department had to consider how it would allocate resources to respect this direction. In the case of PWGSC, resource allocation decisions were required in relation to the over $435M received under AIP. Where PWGSC supported other government departments as a common service provider, the other government department would have been accountable for decisions related to the allocation of resources.

4. Consistent with other elements of delivering AIP, the Department used its existing resource allocation process to allocate AIP funds to infrastructure projects. It should be noted the program is named the 'Accelerated' Infrastructure Program to reflect the fact the infrastructure projects undertaken were planned, but unfunded, and the resources provided were to 'accelerate' these planned, but unfunded projects.

5. For Appropriation based (A-base) or the regular annual funding for infrastructure that PWGSC accesses through parliamentary votes, there are four types of infrastructure related expenditures: non-discretionary (i.e. utilities and rent); repairs; major capital; and minor capital. Further, there are two sources of funding for infrastructure related expenditures: Parliamentary Vote 1 - Special Purpose Allotment and Parliamentary Vote 5 - Capital. The source of funding for the four types of expenditures for the A-Base is as follows:

Special Purpose Allotment (Vote 1)	Capital (Vote 5)
Non-discretionary	Major Capital (> $1 million)
Repairs	Minor Capital (< $1 million)

6. The funding provided to PWGSC for infrastructure funding was to be spent on repairs, major capital, and minor capital only. Non-discretionary expenses were not eligible AIP expenditures. The funding was distributed as follows:

AIP Budget Streams	2009/10	2010/11	
I – Repairs and Capital investment in PWGSC managed Federal Buildings	$174.9 M	$157.95M	Included in Scope of Audit
II – Improved Accessibility in PWGSC managed Federal Buildings	$20.0 M	$20.0 M	
III – Investment in the rebuilding of *Le Manège Militaire*	$1.0 M	$1.0 M	Excluded from Scope of Audit
V – Repairs and Capital Investment in PWGSC owned Bridges	$25.0 M	$15.0 M	
VI – Investment in addressing environmental risks at Federal Contaminated Sites	$3.82 M	$4.63 M	
VII – Upgrades on the Alaska Highway	$ 12.6M	$ 0.0M	
Total AIP Budget	**$237.32 M**	**$198.58 M**	

7. PWGSC allocated the resources to projects managed by PWGSC and projects managed through the Alternative Form of Delivery Service Provider. The actual expenditures for all AIP streams totalled $227.5 million in 2009/10, with PWGSC accounting for $110.7 million, and the Alternative Form of Delivery service provider $116.8 million. In 2010/11, expenditures totalled $192.9 million, with PWGSC delivering on projects worth $61.4 million and the Alternative Form of Delivery service provider delivering on projects worth $131.5 million.

8. The subject of this audit was the resource allocation processes used in supporting of repairs and capital investment in PWGSC managed federal buildings and improving accessibility in PWGSC managed federal owned buildings.

Prioritization of Projects

9. Similar to A-base funding, AIP funding was received from two separate votes: Parliamentary Vote 1 – Special Purpose Allotment; and Parliamentary Vote 5 – Capital.

10. Special Purpose Allotment funding used for repairs were prioritized by Real Property Branch in the following order:
   - Repairs, such as projects carried over from the previous fiscal year.
   - Any remaining funds are spent on new repair projects.[2]

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[2] New repair projects are to be completed based on the prioritization outlined in the Building Management Plan.

11. Capital funding used for major and minor capital was prioritized by Real Property Branch in the following order:
    • Major capital projects, such as projects carried over from the previous year and any approved new capital projects, were ranked according to six criteria (financial, strategy, timing, health and safety, tenant/user effects, and government policy and initiatives).
    • Minor capital projects, such as carry-over projects, sustainable development strategy projects, and new projects were ranked according to Building Management Plan prioritization process, which is based on business operational priorities and national objectives, as measured by whether it impacts health and safety, provides an operational efficiency, improves system integrity, or generally maintains the asset.

12. Accessibility projects were specifically identified as a funding stream within the AIP and were funded from both special purpose allotment and capital.

13. The allocation of funds from headquarters to regions for repairs, major capital and minor capital was based on two primary considerations:
    • the priority of projects to be completed in the regions, as per the project prioritization process for that type of expenditure.
    • the ability of each region to complete the work based on capacity within the department and the industry in that region.

14. Regions were responsible for resource allocation within their site offices. AIP funds were allocated to projects based on prioritization, with projects managed either by PWGSC or through Alternative Forms of Delivery.

PWGSC and Alternative Forms of Delivery

15. Delivery of projects was managed by either PWGSC or by PWGSC's service provider through Alternative Form of Delivery. The Alternative Form of Delivery is a service delivery mechanism strategy where property management services, project delivery services, and optional services are provided by a third-party on behalf of PWGSC. Currently there are eight contracts in place; one for each region and three for the National Capital Area.

16. The following table illustrates the number of facilities and actual expenditures for both Alternative Form of Delivery and PWGSC-managed projects.

	Facilities across Canada		2009-10 Actual Expenditures (in millions)		2010-11 Actual Expenditures (in millions)	
	Number	Percent	Dollar	Percent	Dollar	Percent
Alternative Forms of Delivery-Managed	270	76%	$116.8	51%	$131.5	68%
PWGSC-Managed	83	24%	$110.7	49%	$61.4	32%
Total	**353**	**100%**	**$227.5**	**100%**	**$192.9**	**100%**

PWGSC Project Prioritization Processes

17. The following represent the three main project prioritization processes used to allocate resources:

    - **Building Management Plan:** Used to prioritize repairs and minor capital projects (<$1 million) in federal buildings.[3]

    - **PWGSC Accessibility White Paper:** Produced by the PWGSC Accessibility Working Group, this document outlines the process and criteria to be used for resource allocation to accessibility projects. Accessibility was specifically identified as a funding stream under the AIP.

    - **Capital Project Briefing Notes:** Used to prioritize major capital projects, these notes provide crucial project information, including project description, project status, issue identification, approvals, ranking, scheduling, and key financial data. The Capital Project Briefing Notes are used for funding allocation, reallocation, project prioritization, and portfolio and program management.

18. The following table summarizes both the funding and project prioritization processes used for each type of expenditure for A-base and AIP projects:

Expenditure Type	Funding Source	Project Prioritization Process
Repairs	Special Purpose Allotment	Building Management Plan
Major Capital	Capital	Capital Project Briefing Notes
Minor Capital	Capital	Building Management Plan
Accessibility	Capital/Special Purpose Allotment	Accessibility White Paper

Overprogramming

19. To avoid significant funding lapses, PWGSC begins more projects than it plans to complete each fiscal year as projects can be deferred, delayed or cancelled for various reasons. This practice helps ensure the department avoids or mitigates the risk of a significant lapse occurring which, in the context of EAP/AIP, was crucial given the two year spend deadline of the EAP/AIP.

20. As per the Program Management Framework, the majority of repair and minor capital project expenditures take place in PWGSC regions, including the National Capital Area and Parliamentary Precinct Branch. The regions determined the appropriate level of overprogramming for repair and minor capital projects in their particular region, and are expected to ensure that actual expenditures and commitments do not exceed approved budgets.

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[3] N.B., AIP resources from special purpose allotment and capital were allocated to projects not covered by A-base funding.

FOCUS OF THE AUDIT

21. The objective of this audit was to determine whether the AIP had an effective resource allocation process in place.

22. We examined resource allocation processes at the national and regional levels for projects managed by Real Property Branch in the National Capital Area, Quebec region, Ontario region, and Parliamentary Precinct Branch. The audit also examined funding from two of the six AIP funding streams (Stream I - Federal buildings and Stream II – Accessibility Projects) and 40 AIP repair and minor capital project files.

23. This audit covered the period from April 2009 to August 2010. The examination work was substantially completed in August 2010. This audit was conducted subsequent to the Audit of Risk Management Practices. Findings were communicated to management as they were identified to allow course corrections to be implemented.

24. More information on the audit objective, scope, approach, and criteria can be found in the "About the Audit" section at the end of the report.

STATEMENT OF ASSURANCE

25. This audit was conducted in accordance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

26. Sufficient and appropriate audit procedures have been conducted and evidence gathered to support the accuracy of the findings and conclusions in this report and to provide an audit level of assurance. The findings and conclusions are based on a comparison of the conditions, as they existed at the time, against pre-established audit criteria that were agreed on with management. The findings and conclusions are only applicable to the entity examined and for the scope and time period covered by the audit.

OBSERVATIONS

RESOURCE ALLOCATION ROLES & RESPONSIBILITIES

27. An appropriate management structure provides program managers with the support, guidance, and oversight required to effectively perform their program management responsibilities. As part of the management structure for the AIP, properly defined and adequately communicated roles and responsibilities were required to ensure the successful delivery of the AIP.

28. It is important that resource allocation roles and responsibilities be defined and understood to help ensure that the Real Property Branch and the regions have support to resolve issues, and that significant risks are managed. This also helps to ensure AIP projects were eligible for funding, and that they were delivered on time, on scope, and on budget.

29. We expected AIP resource allocation roles and responsibilities to be properly defined and communicated.

30. We found that roles and responsibilities relating to the allocation of AIP resources from headquarters to regions were understood and that improvements have been made in clarifying key AIP roles and responsibilities.

31. The AIP National Office has formalized roles and responsibilities that were developed as part of the Management Action Plan for AIP Audit of Risk Management Practices (Chapter 1). Resource allocation roles and responsibilities for headquarters have been communicated through various mechanisms (e.g., annual national call letter, banking day, funding reallocation letter).

32. Overall, resource allocation roles and responsibilities (for AIP and non-AIP) were documented, communicated, and understood by the appropriate program staff in Real Property Branch and the regions.

DEFINED RESOURCE ALLOCATION PROCESS

33. PWGSC project prioritization processes to support resource allocation follow three main processes depending on the type of expenditure and funding stream: Building Management Plan, Accessibility White Paper, and Capital Project Briefing Notes.

34. These departmental processes were followed by regions to: identify eligible AIP projects; allocate resources to these projects in a consistent manner; and demonstrate prudent stewardship in the allocation of funds and selection of projects.

Building Management Plan

35. The annual National Building Management Plan Call Letter identifies objectives, priorities, and guidelines for the development of the Building Management Plan for PWGSC Crown-owned, leased, and lease-purchase facilities within the Real Property Program.

36. The Building Management Plan is a comprehensive, five-year asset management plan for each building. The Department prepares the plan annually for Crown-owned buildings, based on information from the Building Condition Report, the Building Performance Review, maintenance records, and other sources. The plan lists all potential projects for current and future years.

37. For the initial funding allocation at the beginning of the fiscal year, the Building Management Plan process was used by regions and Parliamentary Precinct Branch to allocate resources for AIP repair and minor capital projects (<$1 million) in federal buildings.

PWGSC Accessibility White Paper

38. An AIP Accessibility Working Group led by National Portfolio Management and comprised of representatives from Client Consultancy, the regions, Professional & Technical Services, and Program Management Sector was established to prepare ranking criteria to guide allocation of the accessibility funding. Guiding the deliberations around the criteria was a White Paper approved by the Director National Portfolio Management and presented to the Core Team and AIP National Office. This white paper detailed the methodology for selecting accessibility projects.

Capital Project Briefing Notes

39. Real Property Branch's Capital Project Priority Ranking Policy is an analytical process to assist management in making informed and rational decisions about the capital investment program.

40. Within the policy, the Capital Project Priority Ranking Framework is used by Real Property program officers to rank projects in their regions.

41. For the initial funding allocation, the Capital Project Briefing Notes process was used by Real Property Branch to allocate resources to major capital projects. These notes provided crucial project information, including project description, project status, issue identification, approvals, ranking, scheduling, and key financial data. The Notes are used for funding allocation, reallocation, project prioritization, and portfolio and program management.

42. We expected that the three processes (Building Management Plan, Accessibility White Paper, and Capital Project Briefing Notes) would have clearly defined AIP resource allocation processes.

43. We found that all three processes were well defined and communicated.

44. We found that some repair and minor capital projects in the regions had limited documentation for resource allocation decisions and approvals. In some cases, regions could have difficulty demonstrating adherence to established departmental processes and appropriate allocation. Overall we found that the Building Management Plan process was followed in allocating resources to repair and minor capital (< $1 million) projects.

45. In addition, the AIP National Office took steps to develop documentation requirements and standards for the resource allocation process to ensure sufficient documentation to demonstrate decisions and provide an audit trail.

46. Overall, resource allocation processes were well defined. However, some regional processes, approvals, and support for allocation decisions required further documentation.

CRITERIA TO PRIORITIZE PROJECTS

47. Distinct processes were used to differentiate projects within the various streams (i.e. repairs and minor capital, accessibility and major capital projects). Within these processes described above are criteria to prioritize the respective projects.

Repairs and Minor Capital – Project Prioritization Criteria

48. In the Building Management Plan process, repair and minor capital (< $1 million) projects are ranked based on the following priorities:
    - A1 - Emergency - A condition/deficiency that has occurred and has already or will very shortly result in the shutdown of a building/support system that will threaten human health, safety, or the environment. Emergency projects require immediate action.
    - B – A condition/deficiency that if left uncorrected next fiscal year, may become a Priority A1 Emergency project. This category is sub-divided as follows:
        - o B1 – Health, Safety, and Environment
        - o B2 – Operational Efficiency
        - o B3 – System Integrity
    - C – A condition/deficiency that if left uncorrected next fiscal year or beyond, may result in regulatory violations, operational inefficiencies, or increased costs. This category is sub-divided as follows:
        - o C1 – Health, Safety, and Environment
        - o C2 – Operational Efficiency
        - o C3 – System Integrity
        - o C4 – National Programs
    - D – A condition/deficiency that could be improved and does not threaten building systems, operations, human health, safety, or the environment. This category is sub-divided as follows:
        - o D1 – Asset Maintenance
        - o D2 – Appearance/Image
        - o D3 – Environmental Benefits
        - o D4 – Other
    - X – Projects for which the key factor is a significant financial benefit to the Real Property Services Branch. This category is sub-divided as follows:
        - o X1 – Return within one year
        - o X2 – Return within two years
        - o X3 – Return within three years or more

49. In response to the 2009 Office of the Auditor General audit - *Chapter 3 Health and Safety in Federal Office Buildings*, Real Property Branch developed a national quality assurance process to evaluate repair and minor capital project priorities on a quarterly basis. This process is mostly used for B1 projects (including AIP and non-AIP projects). As part of this process, project priorities are reviewed, analyzed, followed up, and monitored by regional managers. There was a concern that non-B1 projects would be improperly classified, since the quality assurance process does not monitor, challenge, or review the classification of these projects.

Accessibility - Project Prioritization Criteria

50. The AIP Accessibility Working Group, led by National Portfolio Management, was created to establish ranking criteria. It was comprised of representatives from Client Consultancy, regions, Professional and Technical Services, and Program Management Sector.

51. Guiding the deliberations was a White Paper approved by the Director National Portfolio Management and presented to the Core Team and AIP National Office detailing the methodology for selecting accessibility projects. The White Paper outlined the process and criteria used to allocate resources to accessibility projects for the initial funding allocation. The following criteria were used to prioritize the $40 million allotted over the AIP's two years for accessibility projects:
    • Improving accessibility in Crown-owned buildings where Human Resources and Skills Development Canada – Service Canada Centres are located;
    • Addressing accessibility issues in other Crown-owned high-traffic public centres; and
    • Any other accessibility projects.

52. Based on the three criteria, regions identified accessibility projects by analyzing building management plans and reports from accessibility audits performed over the last two years in PWGSC crown owned buildings.

Major Capital (>$1 million) - Project Prioritization Criteria

53. Applying the Capital Project Briefing Note process, all projects were ranked against criteria incorporating Real Property Program objectives, commitments, and policies.

54. The following six criteria were used by PWGSC to rank capital investments. Each capital investment was ranked against all others based on its priority score.
    • financial: the financial rating is based on the internal rate of return for the project.
    • strategy: the strategy criterion includes all business-like aspects of PWGSC's national, regional and community strategies, apart from the financial return calculation. These are mainly concerned with minimizing risks to the federal government through such measures as divestiture, introducing new technologies, and balancing the portfolio between owned and leased properties
    • timing: this criterion includes all factors that contribute to urgency. The urgency rating is based on a professional assessment of the degree to which delay would result in increased risks, increased net costs or forgone revenues for the Government of Canada.
    • health and safety: any aspects of health and safety, apart from those adequately dealt with in previous criteria are considered here. Ratings on this criterion may be affected by health and safety legislation, regulations or PWGSC's own objectives
    • tenant / user effect: this criterion includes tenant program delivery improvements (including those relating to internal efficiency) which are difficult to express in dollars, or external benefits to the public.
    • government policy and initiatives: Government of Canada objectives with respect to real property management such as accessibility, promotion of heritage values, implementation of the Federal Code of Environmental Stewardship, and regional economic and social development are considered.

55. We expected that all three processes (repair and minor capital, accessibility, and major capital) would have a clearly defined priority system to allocate AIP resources based on established allocation guidelines and eligibility criteria. We also expected that they would be consistently applied.

56. We found that eligibility criteria for all three processes (major capital projects, repair and minor capital projects, and accessibility projects) were clear and consistent with AIP objectives. We also found that they were consistently applied.

57. Since the AIP was to accelerate projects that would not otherwise be undertaken due to insufficient A-base, it was initially anticipated only B2 and below projects would be funded by AIP money. Given the urgent nature of A-1 projects normally these would be funded by the A-base.

58. To test the Building Management Plan resource allocation process we examined 40 repair and minor capital project files funded by the AIP. Three projects were identified as B1 priority which we had expected would be funded by A-base. The remaining projects were all identified as lower priority. The priority ranking assigned to the projects was assessed as reasonable by the audit team.

59. Of the three B1 priority projects, two projects (in the Pacific and Ontario regions) used AIP funds because no A-base was available for repair or minor capital projects. The remaining project was initially ranked below B1 and was only escalated after health and safety issues were identified in the building code conformance assessment. We believe this is an acceptable use of AIP resources.

60. The audit team also examined the total spend for 2009/10 AIP projects and their related priority ranking. Some regions were allocated AIP funds for higher priority projects (A1 and B1): 1% of total AIP funds were spent on A1 projects and 19% were spent on B1 projects. Given the nature of A1 (emergency) and B1 (health and safety) projects, we expected that these would be covered by A-base and not special interim funding.

61. Several regions reported insufficient A-base funding for high priority projects, and therefore used AIP funding. Because the AIP money was intended to support important projects not covered by A-base funding, we believe this is an acceptable use of AIP resources. However, it raises the concern that in the absence of AIP funds in future years, there is a possibility that high priority projects will not have A-base funding available. It is not yet clear how similar priorities will be funded post-AIP.

62. We also considered the risk of under spending A-base funds, based on an analysis prepared by Real Property Branch, this risk did not materialize in 2009/10, as the A-base spending for 2009/10 projects was consistent with historical trends. The actual spend of A-base for projects was approximately 90% of the A-base budget for projects. As of April 2011, Real Property Branch's actual spend of A-base for 2010/11 projects was approximately 94% of the A-base budget for projects. It is important to note that unspent A-base can be carried forward to future years.

63. The AIP National Office monitored the AIP repair and minor capital projects priorities. In some instances, there was limited documentation for the rationale of project priorities at the regional level.

64. Accessibility projects were identified and funded. As there were fewer projects than anticipated competing for the $40 million budget over the two-year program, a formal selection process to establish priority was unnecessary. Ultimately, it proved challenging for Real Property Branch to find enough individual shelf-ready accessibility projects to spend the allotted $40 million for AIP, as these projects tended to be folded into larger projects when major renovations were undertaken. By programs end, all $40 million had been spent on accessibility projects.

65. We found that major capital projects were funded in several regions. No major capital projects were funded in either the Western or Pacific regions. Since, all major capital projects were accepted, the prioritization process did not play a role in prioritizing projects for funding allocations.

66. Overall, the prioritization criteria for major capital projects, repair and minor capital projects, and accessibility projects were clear and consistent with the AIP objectives. Further, they were consistently applied. Some higher priority repair and minor capital projects were funded by AIP. For higher priority projects funded by the AIP because of the absence of A-base funds, there was concern about how Real Property Branch will fund similar priorities post-AIP.

PROPER PLANNING AND TIMELY ALLOCATION OF RESOURCES

67. Real Property Branch, through its Building Management Plan, Accessibility Project White Paper, and Major Capital Project Briefing Notes, has a structure designed to ensure projects are planned and resourced in a timely manner. This contributed to PWGSC completing AIP projects on a timely basis.

68. Consistent application of correct planning principles and timely resource allocation were vital to the successful delivery of the AIP. Such planning and allocation allowed for the early identification of issues and risks and helped ensure that AIP projects were delivered on time, on scope, and on budget.

69. We expected to find proper planning and timely allocation of resources to ensure effective delivery of the program and the achievement of AIP objectives.

Proper Resource Planning

70. We found effective resource planning at the national and regional level. For example, resource capacity to effectively deliver the EAP/AIP was identified as a risk in the Program Management Framework by the regions. As a result, mitigation strategies were developed, and monitored by the AIP Deputy Minister Senior Steering Committee. We also found that a

sunset strategy was being developed to help ensure resources could be properly re-directed after the close out of the AIP.

Timely Allocation of Resources

71. The audit team examined 40 AIP project files and determined that all selected projects were funded and completed in 2009/10. For these files, resources were allocated and spent on a timely basis.

72. The Department spent 96% of AIP funds budgeted for 2009/10. This indicates that AIP funds have been allocated to projects on a timely basis. Similarly, the Department has spent over 98% (as at April 4, 2011) of the 2010/11 AIP budget. We determined that AIP resources were allocated on a timely basis; AIP funding was allocated to projects and spent within the fiscal year.

RESOURCE REALLOCATION

73. A resource reallocation process for project funding provides Real Property Branch and the regions the opportunity to identify financial pressures and opportunities which can lead to the timely reallocation of resources. An effective reallocation process can help ensure effective and timely decisions on resource reallocation during the year, so they may be redirected to maximize limited financial resources and optimize return on investment. Regions are responsible for managing and monitoring their resources and reallocating resources between projects (as required).

74. We expected to find a clearly established process to update and reallocate AIP cash flow and resource requirements.

75. We found that the Program Management Sector within Real Property Branch had a Banking Day resource reallocation process in place. The Banking Day resource reallocation process is conducted three times a year in June, September, and December. Its participants include the Assistant Deputy Minister, Real Property Branch; the Director General, Program Management Sector; the Regional Directors General; and the Parliamentary Precinct Branch Director General, Planning and Operations.

76. We found the existing Banking Day process was used to reallocate funds among regions, request additional funding, or to return surplus funds within the Banking Day's timeframe. Factors considered in the realignment process included project priority, the region's ability to spend the money, return on investment, and project-specific contractual obligations. This process allowed budgets to be realigned with funding requirements and allocated any additional funding received through Supplementary Estimates.

77. In some instances, we found limited documentation for resource reallocation procedures and approvals in the regions. This could result in difficulty demonstrating accountability in following established departmental processes.

78. We determined that the Banking Day resource reallocation process was well-established and effective, with 96% of AIP funds spent in 2009/10 and over 98% in 2010/11. However, some regional and branch resource reallocation processes and practices (e.g., approvals) required further documentation.

CONCLUSIONS

79. Resource allocation roles and responsibilities were communicated and understood. While resource allocation processes were defined, some regional processes, approvals, and support required further documentation.

80. The prioritization criteria for repair and minor capital projects, accessibility projects, and major capital projects were clear and consistent with AIP objectives. We also found they were consistently applied. Some higher priority repair and minor capital projects were funded by the AIP due to a lack of A-base funding. This was not deemed to be an issue, but would indicate potential issues in the future once AIP funding has been sunset.

81. Accessibility projects were identified and funded. As there were fewer projects than anticipated competing for the $40 million budget over the two-year program, a formal priority based selection process was unnecessary. Ultimately, it proved challenging for Real Property Branch to find enough shelf-ready accessibility projects to spend the allotted $40 million.

82. The Capital Project Briefing Notes process was well defined and was used by Real Property Branch – Program Management Sector for the initial funding allocation of resources to major crown projects.

83. Effective planning processes were in place at both the regional and branch levels to help ensure they had the necessary capacity (human and financial) to deliver the AIP. The approach taken to manage this and other emerging risks were reported frequently to the AIP Deputy Minister Senior Steering Committee.

84. The Banking Day resource reallocation process was well-established and effective, with 96% of AIP funds spent in 2009/10 and over 98% in 2010/11.

85. Overall, it was determined that the Accelerated Infrastructure Program had an effective resource allocation process in place and it was appropriately applied.

MANAGEMENT RESPONSE

Management accepts the findings of the report as being a fair and accurate representation of the AIP's resource allocation process during the audit period. Although many of the Management Action Plans align with the completion of the program (March 2011), many of the actions will continue on post EAP/AIP. This is due to many of these actions representing improvements to Departmental processes that are used post EAP/AIP.

RECOMMENDATIONS AND MANAGEMENT ACTION PLAN

Recommendation 1: The Regional Directors General, Director Generals of the National Capital Area, and the Assistant Deputy Minister, Parliamentary Precinct Branch under the direction of the Assistant Deputy Minister, Real Property Branch should ensure regional processes for resource allocation and resource reallocation, in particular for approvals, and rationales for project priorities are appropriately documented.

> **Management Action Plan 1.1:** The process of initial budget allocation and banking day allocations for real property activities from Program Management to the regions will be further clarified and communicated by The Director General, Accommodation, Portfolio management and Real Estate through the Building Management Plan process.

> **Management Action Plan 1.2:** National guidelines will be developed by Accommodation and Portfolio Management to ensure consistent documentation in the regions regarding resource allocation for real property activities. The guidelines will be communicated through the National call letter for Building Management Plan.

> **Management Action Plan 1.3:** Regions within their existing regional governance frameworks, will document the process and decisions-taken for initial resource allocation and re-allocation during the fiscal year.

> **Management Action Plan 1.4:** Regions will communicate and share the approved process at the regional and provincial team levels.

> **Management Action Plan 1.5:** Regions will monitor the process to ensure effectiveness and make corrections where/when appropriate.

Recommendation 2: The Assistant Deputy Minister, Real Property Branch should develop a plan to help ensure repair and minor capital project priorities in the regions, including the National Capital Area and the Parliamentary Precinct Branch are adequately funded after the conclusion of the AIP.

> **Management Action Plan 2:** Funding received by Real Property for Federal Accommodation and Federal Holdings sub-activities is already price protected for increases in costs for repair and maintenance.

> Annually, Real Property distributes available funding across the PWGSC national portfolio of assets using a formula based budget allocation methodology. Recently it was determined that regions had directed funding from the initial allocation to expansion lease activity. Normally regions are required to make a specific request. Once instructions are followed and funds appropriately allocated the perception that repair and maintenance priorities are not adequately funded should disappear.

> This anomaly is supported by actual expenditures on repairs and maintenance (excluding AIP) that have averaged $127M for the last 5 years, with a high of $136M and a low of $117M.

Management Action Plan 2.1: The Director General, Program management will reinforce allocation process with regions.

Management Action Plan 2.2: The Director General, Program management will amend regional initial budget allocation input form to isolate regional allocations to expansion leases.

Management Action Plan 2.3: The Director General, Program management will make adjustments to budget allocation process to redistribute repair and maintenance funding to ensure all regions receive a fair share.

Recommendation 3: The Assistant Deputy Minister, Real Property Branch should consider expanding the current quality and monitoring program for B1 projects to all repair and minor capital project ratings to ensure adequate monitoring process for all project priorities after the conclusion of the AIP.

Management Action Plan 3: The current quality assurance review conducted is primarily focused on B1 priority projects. To respond to the recommendation, a pilot program will be conducted over Fiscal Years 2011-12 and 2012-13 to determine the added benefit of expanding the monitoring program.

Management Action Plan 3.1: The pilot framework will be expanded to encompass the quality monitoring of projects as follows:

- Mid-Year review to ensure that the funding allocated to all project codes A1, B1 and C1 in the Building Management Plan are coded appropriately.
- Mid-Year review using a 20% random sample of all remaining project codes in the Building Management Plan to monitor if they are coded appropriately.
- Year-End review of all projects to ensure they have been closed or appropriately accounted for.

ABOUT THE AUDIT

Authority

This audit was approved by the Audit and Evaluation Committee of Public Works and Government Services Canada as part of the 2010-2015 Risk-Based Multi-Year Audit and Evaluation Plan.

Objective

The objective of this internal audit was to determine whether the Accelerated Infrastructure Program (AIP) has an effective process in place to appropriately allocate resources to AIP projects.

Scope and Approach

The fieldwork was conducted from May 2010 to August 2010. The audit examined AIP only (including AIP funding paid to the Alternative Form of Delivery service provider) and only looked at resource allocation during the time period of April 2009 to August 2010.

The scope of this audit focused on the process used by the Accelerated Infrastructure Program to allocate its financial resources. In delivering the AIP, the Department focused on utilizing existing processes (i.e., the same processes used by the Department in allocating its A-base resources). As a result, the existing Departmental processes used to deliver the AIP have been audited. These processes include: allocation (from headquarters to regions to projects), project prioritization (for repairs and minor capital, accessibility, and major capital), and resource allocation.

The audit concentrated on those processes used at both the national and regional levels to allocate resources to PWGSC projects managed by PWGSC. The audit examined processes in Real Property Branch and Parliamentary Precinct Branch as well as processes in a sample of the regions (National Capital Area, Quebec, and Ontario). Also, the audit examined funding from two of the six AIP funding streams: Stream I - Federal buildings and Stream II – Accessibility Projects. This audit did not examine the allocation of human resources to the various projects within the AIP.

The audit team examined 40 repair and minor capital project files in order to gain an understanding of the project priority rankings; key AIP personnel were interviewed as well.

During the examination phase, in-depth interviews were conducted with key departmental personnel. Relevant systems, processes, and controls were examined to determine if PWGSC had an effective process in place to appropriately allocate resources to AIP projects. Additional activities undertaken within the departmental processes to

compensate for identified weaknesses were taken into account. Throughout the examination phase, the audit team updated the audited organization on issues as they arose.

Conclusions distinguish between findings related to AIP-specific issues and findings related to existing departmental processes.

Based on the analysis of information and evidence collected, the audit team prepared findings and conclusions that were validated with the appropriate personnel. The Draft Final Report will be tabled at the PWGSC Audit and Evaluation Committee for their recommendation for approval of the report by the Deputy Minister.

This audit was conducted in accordance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

Criteria

The criteria used to assess the resource allocation process for the AIP are derived from the following Treasury Board policies:
- *Policy on Investment Planning – Assets and Acquired Services;*
- *Policy Framework for the Management of Assets and Acquired Services;*
- *Policy on Management of Materiel; Policy on the Management of Projects;*
- *Policy on the Management of Real Property; Risk Management Policy, Policy on Transfer Payments;* and
- *Policy on Management, Resources and Results Structures*.

These criteria were also supported by the processes and practices outlined in the annual National Call Letter, which provides instructions for the development of the Building Management Plan.

The criteria were as follows:
- There are properly defined and adequately communicated roles and responsibilities with respect to resource allocation for activities related to AIP.
- There is a clearly defined process in place, which is used to allocate resources to AIP projects.
- There is a clearly defined priority system used to allocate AIP resources based on the established allocation guidelines and eligibility criteria.
- There is proper planning and timely allocation of resources to ensure effective delivery of the program and the achievement of AIP objectives.
- There is a clearly established process in place to update and re-allocate AIP cash flow and resource requirements.

Audit Work Completed

Audit fieldwork for this audit was substantially completed in August 2010.

Audit Team

The audit was conducted by members of the Office of Audit and Evaluation, overseen by the Director, Procurement Audit, and under the overall direction of the Deputy Chief Oversight Officer.

The audit was reviewed by the quality assessment function of the Office of Audit and Evaluation.

Final Report

2011-709

Chapter 4: Audit of Project Management by Professional & Technical Services Management

September 16, 2010

Office of Audit and Evaluation

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MAIN POINTS

What we examined

i.   Real Property Branch (the Branch) provides departments and agencies with professional expertise and technical real property services, such as project management. Project management services are provided to other government departments and Public Work and Government Services Canada (PWGSC) through the branch's Professional and Technical Services groups across the country. In the process of managing projects, all clients typically establish a timeframe and clients external to PWGSC also negotiate the level of services to manage the project.

ii. The Professional and Technical Management Service Sector in headquarters exercise a national role that includes oversight, functional direction, advice, and quality management.

iii. The project managers are responsible for: working with clients to identify the requirements, preparing a risk assessment, estimating costs, and preparing a statement of work. As technical authority for the project, project managers request contracting services from Acquisitions Branch. In addition, project managers manage the project and contracts in accordance with established policies and procedures.

iv. We examined the project management process used for 24 projects, half of which were designated as Accelerated Infrastructure Program (AIP) projects. Our sample was selected from the National Capital Area, Western, Quebec, and Atlantic regions.

Why it is important

v.   Effective project management practices ensure the effective and efficient delivery of services to clients, and compliance with applicable legislation and policies.

vi. In enabling other government departments and agencies to provide programs and services to Canadians, it is important that PWGSC put in place sound project management principles, and an appropriate project management approach that focuses on quality services, sound financial stewardship, and optimum value in projects.

vii. In April 2006, the branch launched the National Project Management System, a national project management methodology that was developed by the Branch with the participation of all regions. The National Project Management System provides on-line project management guidance, best practices, tools, templates, and technical documentation within the context of the Treasury Board *Policy on the Management of Projects* and the Project Management Institute's Body of Knowledge.

What we found

viii. We have determined that in general there was no notable difference in the management of projects funded by the Economic Action Plan, versus regular projects. The areas of concern relating to the management of projects funded through the Economic Action Plan are consistent with projects funded through the regular process. As a result, the findings are presented on a cumulative basis.

ix. We found that the number and type of committees (for example: operational committees and senior management committees) across the regions varies. Further, we found various committees at the national level. The combination of these committees provides adequate risk management governance.

x. We found that the branch had difficulty preparing accurate and complete reports summarizing project activities at a national level. These data completeness issues impair management's ability to monitor projects.

xi. We found that project management policies and procedures have been created and are appropriately communicated, however they are not consistently applied. Inconsistent project management practices have led in part to project management files missing documentation such as risk monitoring, status updates to key stakeholders, environmental assessments, and monitoring of project risks.

xii. We found that, although some planning procedures such as definition of scope and clear description of objectives were performed, improvement is needed on the part of project managers in the performance and documentation of planning procedures such as reporting progress and clarifying roles and responsibilities of major stakeholders.

Management Response

Management accepts the findings of the report as being a fair and accurate representation of the Project Management by Professional and Technical Services Management during the audit period. Although many of the Management Action Plans align with the completion of the program (March 2011), many of the actions will continue on post EAP/AIP. This is due to many of these actions representing improvements to Departmental processes that are used post EAP/AIP.

RECOMMENDATIONS AND MANAGEMENT ACTION PLAN

Recommendation 1: The Assistant Deputy Minister Real Property Branch should ensure that the process used for reporting the status of projects be reviewed to identify and address the data completeness issues that are encountered when reporting project activity performance at a national level.

Management Action Plan 1.1: The Director, National Strategic Business Advisory Services will produce and disseminate Business Rules for Improving project reporting nationally, by setting specific rules for entering project data.

Recommendation 2: The Assistant Deputy Minister Real Property Branch should ensure that, once data completeness issues are resolved, there is an adequate monitoring process in place for all project performance.

Management Action Plan 2.1: Based on the results of 1.1, The Director, Advisory and Practices (Project Delivery) will improve the data completeness and its quality assurance by implementing a national quarterly monitoring process for projects greater than $1M, using the existing reporting systems (SIGMA and IMRS) to assess the progress of project performance against key performance indicators (On-Time, On-Budget, On-Scope).

Recommendation 3: Under the direction of the Assistant Deputy Minister Real Property Branch, the Regional Director Generals should improve project management practices in their respective region. Areas of improvement include: performance of key planning activities, defining project roles and responsibilities, establishment and tracking of project plans and milestones, status updates to key stakeholders, the execution of the risk management process at the project level, risk monitoring, and environmental assessments.

Management Action Plan 3.1: The Director, Advisory and Practices (Project Delivery) and the Director, Environmental Services will ensure further communications and training will be made available for project teams to ensure the application of project management planning activities including:

- the establishment of project plans, tracking, and provision of status updates to key stakeholders of project milestones,
- establishment of project charters/ project plans which clearly define project roles and responsibilities,
- conduct of environmental assessments.

Management Action Plan 3.2: The Director, Advisory and Practices (Project Delivery) will complete release of improved National Project Management System project risk management practices and make related communications and training available to Regional staff.

Management Action Plan 3.3: The Regional Directors Professional and Technical Services Management will identify and ensure regional staff attend noted NPMS training, and receive communications regarding above noted planned improvements.

Management Action Plan 3.4: As part of the requirements to maintain the Treasury Board Organization Project Management Capacity Assessment, the Director, Advisory and Practices (Project Delivery) will conduct 2010/ 2011 annual management reviews of project management practices to confirm effectiveness of above actions.

INTRODUCTION

1. The Real Property Branch (the Branch) provides other government departments and agencies with professional expertise and technical real property services, such as project management.

2. Project management, as defined in the Treasury Board *Policy on the Management of Projects*, is the systematic planning, organizing and control of allocated resources to accomplish identified project objectives and outcomes. It is normally reserved for focused, non-repetitive, time-limited activities with some degree of risk, and for activities beyond the usual scope of program (operational) activities.

3. A project is defined as an activity or series of activities that:
    *   has a beginning and an end;
    *   produces defined outputs and realizes specific outcomes in support of a public policy objective, within a clear schedule and resource plan; and
    *   has specific parameters with regards to time, cost, and performance.

4. The Branch's Professional and Technical Management Services groups located in the regional offices are responsible for delivering projects for PWGSC and other government departments requesting project management services. In completing their project management responsibilities, the Branch's project managers must adhere to Treasury Board policies, such as the *Policy on the Management of Projects*.

5. The Professional and Technical Management Service Sector within the Branch's headquarters exercise a national role in the area of oversight, functional direction, advice, and quality management. This role includes leading a national program of professional and technical services that supports service management and service delivery in the areas of operations and maintenance, planning, design, renovation and construction of federal facilities.

6. In April 2006, the Branch launched the National Project Management System, a national project management methodology that was developed by the Branch with the participation of all regions. The National Project Management System provides on-line project management guidance, best practices, tools, templates, and technical documentation within the context of the Treasury Board *Policy on the Management of Projects* and the Project Management Institute's Body of Knowledge.

7. In the process of managing projects, all clients typically establish a timeframe. Clients external to PWGSC negotiate the level of services needed for PWGSC to manage the project. The role of the Branch's project managers is to work with the client to identify the requirements, and either internally prepare the plans and specifications or contract with an architectural or engineering firm to prepare them. The project manager then prepares a risk assessment, an estimation of costs, as well as a statement of work. As the technical authority for the project, project managers request contracting services from Acquisitions

Branch. Project managers manage the project and contracts in accordance with the National Project Management System.

8. In 2009, the Government of Canada announced the Economic Action Plan (EAP), a plan to provide stimulus funding to support the Canadian economy. The related PWGSC component is called the Accelerated Infrastructure Program (PWGSC-AIP). A number of other government departments (OGD) also received infrastructure funding from the Economic Action Plan (OGD-EAP) and are looking to the Branch's Professional and Technical Management Services groups to manage their infrastructure projects on their behalf. The Professional and Technical Services Management Sector manages regular departmental and OGD projects, as well as PWGSC-AIP, and OGD-EAP projects.

FOCUS OF THE AUDIT

9. The objective of this audit was to determine whether the Real Property Branch's Professional and Technical Services Management Sector provides project management services by using processes that are consistent with good project management practices.

10. We examined a sample of 24 project files managed by the Branch's Professional and Technical Services Management project managers; 12 of which were funded through the Economic Action Plan (either as PWGSC-AIP or OGD-EAP projects). Of the 12 Economic Action Plan projects selected, 6 were from the National Capital Area, and 6 from the Atlantic region. Of the 12 projects selected that were not related to the Economic Action Plan, 2 were from the National Capital Area, 6 from the Western region, and 4 from the Quebec region.

11. We examined contractual data from the Acquisitions Information System for the period of April 2006 to March 2009.

12. In addition, we examined the National Project Management System and interviewed key branch employees in the regions and in headquarters.

13. More information on the audit objective, scope, approach and criteria can be found in the section "About the Audit" at the end of the report.

STATEMENT OF ASSURANCE

14. This audit was conducted in accordance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

15. Sufficient and appropriate audit procedures have been conducted and evidence gathered to support the accuracy of the findings and conclusions in this report and to provide an audit level of assurance. The findings and conclusions are based on a comparison of the conditions, as they existed at the time, against pre-established audit criteria that were agreed on with management. The findings and conclusions are only applicable to the entity examined and for the scope and time period covered by the audit.

OBSERVATIONS

16. We have determined that, in general, there was no notable difference in the management of projects funded by the Economic Action Plan, versus regular projects. The findings of this audit related to the management of projects funded through the Economic Action Plan are consistent with our findings from projects funded through the regular process. As a result, the findings are presented on a cumulative basis.

17. In the performance of the audit work, several tests were not applicable to every file selected due to the differences in the projects (such as size, complexity, and source of funding). As a result, each finding identifies how many of the 24 sampled files are applicable.

MANAGEMENT STRUCTURE

18. Although each region has a decentralized responsibility for their project management activities, the Professional and Technical Services Management, Advisory and Practices group in headquarters is responsible for the creation and communication of policies and procedures such as the National Project Management System. This group also performs monitoring and reporting activities over regional project management activities.

Management structure is appropriate and monitoring could be improved

19. An appropriate management structure is one that provides project managers with the support, guidance, and oversight required to effectively perform their project management responsibilities. An appropriate management structure includes elements to ensure projects are effectively managed such as: clear roles and responsibilities; solid project management principles; active risk management; and regular monitoring.

20. Solid project management principles are a set of principles that have been established by the Project Management Institute and are internationally accepted as being integral to the effective and efficient execution of a project. The National Project Management System in place in the branch is based on the Project Management Institute's principles.

21. Such a structure is important to ensure that project managers have support to resolve issues, and that significant risks are managed at a regional and national level.

22. We expected that the branch would have an appropriate management structure for the project management process. This management structure was expected to include key elements such as:
   - the existence and communication of solid project management principles and practices including project planning, milestones tracking, and progress reporting;
   - a risk management process, including committees and networks, to support the Branch's regional management with overall project management process; and
   - active oversight and monitoring of projects across all regions by the Branch's senior management.

23. We found that project management standards and practices were adequately established through the creation of the National Project Management System. Furthermore, these have been appropriately communicated to project managers across the country. Despite an overall understanding, the examination of project files revealed varying levels of acceptance by project managers in applying the National Project Management System. This has delayed the consistent application of project management principles across the country.

24. We found that the number and type of committees (for example: operational committees and senior management committees) across the regions varies. There are several committees and processes at the regional level to address project management issues and risks. At the National level we found that there are several committees, networks, and groups that assist the regions with their risk management process. The combination of these committees provides adequate risk management governance.

25. We found evidence of active monitoring through the production of a detailed performance report for all projects over $30 million. This report assesses each project's performance based on three key performance indicators (on time, on scope, and on budget), and identified remediation strategies for projects not meeting their objectives. The same level of monitoring was not evidenced for projects under $30 million.

26. The reports prepared to support monitoring of projects between $1 million and $30 million are based on data from SIGMA. However, the usefulness of the reports was limited because we found that there was data completeness issues with reports produced from data entered into SIGMA. Difficulties (such as incomplete information) were encountered in preparing reports that included the status of projects from all regions for projects under $30 million. These data completeness issues do not affect the production of performance report on projects over $30 million since the key performance indicator reports are validated outside of SIGMA.

27. The existence of these key elements indicates there is an appropriate management structure in place. The presence of such a structure allows project managers and branch regional management to effectively execute their risk management process. However, the data completeness issues encountered in the production of national reports hinders management's ability to effectively monitor all projects regardless of their dollar value and reduces the effectiveness of the otherwise appropriate management structure.

PROJECT MANAGEMENT

28. Project management is the systematic planning, organizing and control of allocated resources to accomplish identified project objectives and outcomes. It is normally reserved for focused, non-repetitive, time-limited activities with some degree of risk and for activities beyond the usual scope of program (operational) activities.

29. Effective project management practices ensure the effective and efficient delivery of services to clients, and compliance with applicable legislation and policies. In enabling government departments and agencies to provide programs and services to Canadians, it is

important that PWGSC put in place and apply a sound project management framework, and an appropriate risk management approach, that focuses on quality services, sound financial stewardship, and optimum value in projects.

Planning inconsistent for some projects

30. Planning is the activity performed by the project manager to formally define the goals and objectives of the project and to document its key functional, technical and administrative requirements throughout all stages of the project. Adequate planning should address the size, scope, complexity, risk, visibility and administrative needs of the project. Proper planning is integral to a project meeting its objectives efficiently and effectively.

31. To demonstrate adequate planning, key planning elements should be included in the documentation of the project file. We expected to find that adequate planning had been performed and would be evidenced by:
    - project responsibilities and accountabilities are clearly defined and documented;
    - a proper definition of scope;
    - a clear description of objectives;
    - a proper work plan;
    - a clear agreement with the client on roles and responsibilities, fees, and progress reporting; and
    - a proper assessment of risks.

32. We found that of the 24 sampled files, there was inconsistent application of key planning elements. More specifically we found:
    - 14 clearly defined the roles and responsibilities of the major stakeholders;
    - 20 had a proper definition of scope;
    - 19 included a clear description of the project objectives; and
    - 16 included a detailed work plan.

33. Of the 18 files for which fees were charged to the client, there was evidence on 17 files of a clear agreement with clients included a clear outline of the fees charged by the Branch.

34. Of the 23 applicable sample files, we found little evidence regarding reporting as only 7 clearly defined the frequency of progress reporting, and only 2 had defined the format of the final reporting.

35. We found that 23 of the 24 files had an adequate risk assessment completed at the start of the project.

36. Without complete planning that addresses all of the key planning elements, there is an increased risk that projects may not meet performance objectives of being on time, on scope, and on budget.

Use of sound project management principles could be improved

37. The existence of sound project management principles is a key element of good project management governance. The consistent application of these principles is key to successful delivery of the project on time, on scope, and on budget.

38. To demonstrate good management of projects we expected to observe defined roles and responsibilities completed project plans, establishment and tracking of milestones, and documentation of project acceptance by key stakeholders.

39. We found that 19 of the 24 sampled files clearly identified the project manager and senior manager responsible for the project.

40. We found that of the 24 sampled files, 13 had a documented formal project plan, and 17 had documented the milestone deliverables. Of 22 applicable sample files, 12 had a documented structured approach to break down work effort into management components, and of 20 applicable files, 8 had a documented communication plan.

41. We also found that of the 24 sampled files, 9 had sufficient evidence that deliverables were tracked, and 10 had adequate documentation on the acceptance of the status of the project by key stakeholders.

42. Finally, we found that for the 12 AIP files tested for appropriate delegated authorities, all of the applicable files were compliant with section 32 and 34 of the *Financial Administration Act*.

43. Inconsistency in project management practices across the country could result in key principles not being followed. This may increase the risk that projects will not meet performance objectives of being on time, on scope, and on budget.

Project level risk management documentation could be improved

44. The main activities of a risk management process are risk identification and assessment; identification and implementation of risk mitigation strategies; monitoring and reassessment of risks; and the documentation of these activities. A properly applied risk management process will reduce the chances of unexpected issues negatively affecting the project manager's ability to deliver the project on time or on budget.

45. We expected that there would be a risk management process in place to support the achievement of project objectives, and that the project management files sampled contained appropriate evidence of the entire risk management process performed by the project manager.

46. We concluded that there was evidence of good risk planning as 23 of the 24 files had a risk assessment plan completed at the start of the project. For the project file without the risk

assessment plan, risks were managed informally and the project was completed without any significant issues. In addition, 20 files had identified risk mitigation strategies.

47. We also found that of the 24 sampled files, there was limited evidence that risks were monitored, 9 had evidence that there was a process in place to monitor risks, and 11 had evidence that risks had been reassessed at different stages of the project.

48. We were informed by project managers that risks are monitored throughout the life of the project, however, the process of monitoring and reassessing risk is not always documented in the file.

49. Inconsistent documentation of the risk management process could result in difficulties in the monitoring and reassessment of risks. This could also result in increased risk of a project encountering issues that could cause it to not meet its objectives, timeline, or budget.

Environmental standards generally followed

50. Stakeholders such as the client department's representative and the branch project manager are required to follow established environmental policies, including the goals, objectives, and targets included within the PWGSC Sustainable Development Strategy.

51. The project manager is responsible for determining if the project requires an environmental screening as identified under the *Canadian Environmental Assessment Act*.

52. It is important that project managers adequately discharge their environmental responsibilities to ensure that the targets in the PWGSC Sustainable Development Strategy are achieved, and the *Canadian Environmental Assessment Act* is respected.

53. We expected that project files sampled would include evidence that the project manager had followed their responsibilities by assessing projects for environment considerations.

54. We found that 14 of the 24 sampled files included a preliminary environmental assessment or a detailed environmental assessment. From discussions with project managers, it was explained that several others had performed the required environmental assessment and had not included them in the project file.

55. If a project has not been assessed for its potential environmental impact, there is the possibility that an environmental risk may not be addressed and that the PWGSC Sustainable Development Strategy and *Canadian Environmental Assessment Act* are not followed.

CONCLUSIONS

56. National and regional groups provide an appropriate framework to address the key elements of an adequate project management structure. However, the data completeness issues encountered in the production of national reports limits management's ability to monitor.

57. Although the majority of the key planning elements are documented in the project files, improvement can be made to ensure that other key elements are performed and documented.

58. Although project management principles have been established and properly communicated, there are varying levels of acceptance to applying them resulting in certain principles not being applied.

59. At the project level, there is limited documentation for: tracking deliverables; status updates provided to stakeholders; and the risk management process related to individual projects.

60. Environmental assessments have been performed for most projects, although improvement can be made to ensure that evidence of these assessments are included in the project file.

MANAGEMENT RESPONSE

Management accepts the findings of the report as being a fair and accurate representation of the Project Management by Professional and Technical Services Management during the audit period. Although many of the Management Action Plans align with the completion of the program (March 2011), many of the actions will continue on post EAP/AIP. This is due to many of these actions representing improvements to Departmental processes that are used post EAP/AIP.

RECOMMENDATIONS AND MANAGEMENT ACTION PLAN

Recommendation 1: The Assistant Deputy Minister Real Property Branch should ensure that the process used for reporting the status of projects be reviewed to identify and address the data completeness issues that are encountered when reporting project activity at a national level.

> **Management Action Plan 1.1:** The Director, National Strategic Business Advisory Services will produce and disseminate Business Rules for Improving project reporting nationally, by setting specific rules for entering project data.

Recommendation 2: The Assistant Deputy Minister Real Property Branch should ensure that, once data completeness issues are resolved, there is an adequate monitoring process in place for all projects.

> **Management Action Plan 2.1:** Based on the results of 1.1, The Director, Advisory and Practices (Project Delivery) will improve the data completeness and its quality assurance by implementing a national quarterly monitoring process for projects greater than $1M, using the existing reporting systems (SIGMA and IMRS) to assess the progress of project performance against key performance indicators (On-Time, On-Budget, On-Scope).

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> **Management Action Plan 3.1:** The Director, Advisory and Practices (Project Delivery) and the Director, Environmental Services will ensure further communications and training will be made available for project teams to ensure the application of project management planning activities including:
> - the establishment of project plans, tracking, and provision of status updates to key stakeholders of project milestones,
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> - conduct of environmental assessments.

> **Management Action Plan 3.2:** The Director, Advisory and Practices (Project Delivery) will complete release of improved National Project Management Systems project risk management practices and make related communications and training available to Regional staff.

> **Management Action Plan 3.3:** The Regional Directors Professional and Technical Services Management will identify and ensure regional staff attend noted NPMS training, and receive communications regarding above noted planned improvements.

> **Management Action Plan 3.4:** As part of the requirements to maintain the Treasury Board Organization Project Management Capacity Assessment, the Director, Advisory and Practices (Project Delivery) will conduct 2010/ 2011 annual management reviews of project management practices to confirm effectiveness of above actions.

ABOUT THE AUDIT

Authority

This audit was approved by the Audit and Evaluation Committee of Public Works and Government Services Canada as part of the 2009-2010 to 2013-2014 Risk-Based Multi-Year Audit and Evaluation Plan.

Objective

The objective of this internal audit was to determine whether the Real Property Branch Professional and Technical Service Management Sector provides project management services that are consistent with good project management practices.

Scope and Approach

The fieldwork was conducted from August 2009 to January 2010. The audit focused on projects managed by the branch's Professional and Technical Service Management group.

The audit focused on the process used for the management of projects on behalf of other government departments and clients within PWGSC from the inception of a project to the delivery phase.

This audit was conducted in accordance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

The Professional and Technical Service Management Sector projects pertaining to the Parliamentary Precinct were excluded from the scope of this audit, as they were included in the scope of an Office of the Auditor General audit. Services pertaining to bridges and dams were also excluded from the scope of this audit. Bridges and dams will be subject to a follow-up audit that is included in the 2009-2010 to 2013-2014 Risk-Based Multi-Year Audit and Evaluation Plan.

To establish our sample we examined contractual data from the Acquisitions Information System for the period of April 2006 to March 2009. A sample of 24 contracts was selected and validated with the data in the Branch's Project and Business Management System to identify the projects related to those contracts. Within the sample of 24 projects, 12 were designated as Accelerated Infrastructure Program (AIP) projects and were in progress as of September 30, 2009.

We have assessed that for the purposes of this audit, the cost of randomly testing a sufficient number of project files to warrant a statistical inference exceeded the benefits. Instead we used risk-based judgmental approach to select a sample for determining the

appropriateness of project management practices. This approach was based on a variety of criteria, and the cumulative knowledge and experience of the audit team. Criteria included empirical indicators such as number of contracts per annum, overall value of contracts, stratification of contract values, and variety of contract types. From a review of the data for the different regions we selected the National Capital Area, Western, Quebec, and Atlantic Regions. The underlying focus was on areas of risk identified by the Office of Audit and Evaluation through its cumulative audit knowledge and experience.

Project files prepared by the branch's Professional and Technical Service Management project managers were examined and relevant documentation such as the National Project Management System and the Treasury Board *Policy on the Management of Projects* within the branch were reviewed. Based on our judgmental sampling approach we selected 6 projects from Western region, 4 from the Quebec Region, and 2 from the National Capital Area in our scope for completed projects that were not designated as AIP. The Regions selected had a high overall volume and variety of contracts. As well, based on a risk assessment of the regions most affected by the AIP, 6 AIP projects from the National Capital Area and 6 from the Atlantic Region were selected.

In addition, key branch managers and project managers were interviewed. Given that the AIP projects were in the planning or early implementation stage, in some cases audit testing was limited to the early phases of the project.

Based on the analysis of the information and evidence collected, the audit team prepared findings and conclusions which were validated with the appropriate branch managers. The Draft Final Report will be tabled at the PWGSC Audit and Evaluation Committee for their recommendation for approval of the report by the Deputy Minister.

Criteria

The criteria used to assess the project management practices of the Branch's Professional and Technical Service Management group were based primarily on: the Office of the Auditor General of Canada criteria for projects relating to Canada's Economic Action Plan (identified in an Office of the Auditor General letter to the Treasury Board Secretariat, March 2009), the Treasury Board *Policy on the Management of Projects*, the Real Property Branch National Project Management System, and the Project Management Body of Knowledge created by the Project Management Institute.

The criteria were as follows:
- Real Property Branch has an appropriate governance structure in place to effectively manage the project management process.
- Adequate planning has been performed for projects to address the size, scope, complexity, risk, visibility and administrative needs of the project.
- Sound project management principles and practices exist, are communicated, and are being followed. These principles and practices help managers achieve project objectives.

- A risk management process is in place to support project leaders and managers in the achievement of project results.
- Mechanisms are in place to ensure that PWGSC responsibilities related to environmental assessments are respected.

Audit Work Completed

Audit fieldwork for this audit was substantially completed on January 8, 2010.

Audit Team

The audit was conducted by members of the Office of Audit and Evaluation, overseen by the Acting Director, AIP Audit, and under the overall direction of the Deputy Chief Oversight Officer.

The audit was reviewed by the quality assessment function of the Office of Audit and Evaluation.
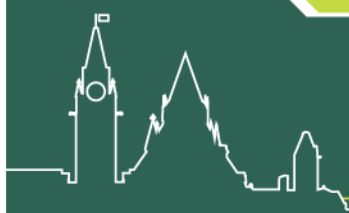
Final Report
2011-709

Chapter 5: Continuous Auditing of the Economic Action Plan / Accelerated Infrastructure Program

August 23, 2011

Office of Audit and Evaluation

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INTRODUCTION

1. In January 2009, the Government of Canada launched the Economic Action Plan (EAP): a comprehensive two-year program designed to help Canada recover from the global recession through a $62 billion stimulus package.

2. Public Works and Government Services Canada's (PWGSC) contribution to the EAP infrastructure component was three-fold: 1) PWGSC received over $435 million to accelerate infrastructure projects for custodial assets (i.e., the Accelerated Infrastructure Program (AIP)); 2) PWGSC provided project management services to other government departments on a fee for service basis; and 3) PWGSC carried out its duties as a common service provider to other government departments as they delivered their EAP components.

Project Management Services

3. The Real Property Branch provides PWGSC and other government departments with professional expertise and technical real property services, such as project management. This activity involves the systematic planning organizing and control of allocated resources to accomplish identified project objectives and outcomes.

4. The Real Property Branch's Professional and Technical Services groups located in the regional offices are responsible for delivering projects for PWGSC and other government departments requesting project management services. In completing their project management responsibilities, project managers must adhere to Treasury Board policies, such as the *Policy on the Management of Projects*. They are also expected to manage their projects in accordance with the Department's National Project Management System, a national project management methodology that was developed by the group with the participation of all regions.

5. Key steps in the project management process include:

   - Working with client to identify requirements;
   - Preparing plans or contract with architectural or engineering firm;
   - Preparing a risk assessment, estimation of costs, and statement of work;
   - Preparing the project plan;
   - Establishing and tracking progress against milestones to manage scope, cost and time;
   - Keeping clients informed of progress.

Construction Contracts Administration

6. Many of the projects managed by the Real Property Branch's Professional and Technical Services groups involve the procurement of construction services. As the project manager of these contracts, Real Property Branch's Professional and Technical Services groups are the project authority. In these cases, PWGSC is responsible for administering the contracts in accordance with legislated authorities.

EAP/AIP Contract Award and Administration

7. As common service provider, PWGSC's Acquisitions Branch provides other government departments with a centre of expertise and procurement tools to meet their contracting needs, as well as acts as contracting authority in the procurement of goods, services and construction. In carrying out its mandate, the Department uses contracts to procure goods, services and construction. As contracting authority, PWGSC is responsible for awarding contracts in accordance with legislated authorities. The project authority, the organization for whom the contract has been put in place, is responsible for administering the contract in accordance with legislated authorities.

8. There are a number of different contracting instruments that can be used to procure goods, services, or construction including: fixed price contracts, Supply Arrangements, Standing Offers, and Task Authorization Contracts.

9. The procurement process involves numerous tasks, the responsibility for which rests either with the contracting authority or the project authority, such as:
   - Identifying the need for a good or service;
   - Selecting the appropriate contracting vehicle;
   - Developing the statement of work;
   - Identifying security requirements;
   - Soliciting and evaluation competitive and non-competitive proposals and bids;
   - Awarding the contract
   - Initiating and monitoring work; and
   - Accepting the goods and services provided by the suppliers.

10. Regardless of the contracting instrument used to procure goods, services and construction, project and contracting authorities must ensure the required documentation is on file to substantiate all decisions, tasks, and steps involved in the procurement process.

FOCUS OF THE CONTINUOUS AUDITING: EAP / AIP

11. The Project Management Monitoring Program examined project management activities for infrastructure projects managed by PWGSC on behalf of itself and other government departments. The purpose of the program was to assess the project management services provided by PWGSC against key controls identified in the National Project Management System. The following key project management requirements were reviewed for all project files:
   - Formal agreement exists between RPB and client department; project accountabilities have been clearly defined;
   - The project has a formal project plan;
   - The frequency of progress reporting is clearly defined in the project plan;
   - The form of the final report is defined in the project plan;
   - Milestones & deliverables are tracked and compared to the project plan;

- Project status meetings are held at regular intervals and regular progress updates are provided to the client;
- An original risk assessment has been completed;
- Appropriate strategies have been identified to and implemented to mitigate risks; and
- RPB ensures that projects comply with environmental NPMS procedures related to environmental matters and environmental legislation if applicable.

12. The Construction Contract Monitoring Program examined contract administration activities for contracts managed as part of the provision of project management services. The purpose of this monitoring program was to assess PWGSC's management of construction contracts been administered as part of the provision of project management services. The following key contract construction administration requirements were reviewed for all contract files:
- A Requisition 9200 is on file;
- A Security Requirements Checklist is on file;
- A Risk management plan is on file;
- A bid solicitation document was used and is on file;
- The bid solicitation document describes the requirement; and clearly states the selection method/evaluation criteria;
- Proposals were evaluated in accordance with the specified criteria in the solicitation documentation;
- The contract was awarded to the bidder deemed successful, based on the selection method/evaluation criteria; and
- The contract was approved by the contracting authority and the supplier.

13. The EAP/AIP contract monitoring program examined contract award and contract administration activities for contracts issued by PWGSC. This included contracts for infrastructure projects for its own assets, contracts issued as part of providing real property project management services to other government departments, and contracts issued on behalf of other government departments for non-infrastructure projects. For those contracts issued on behalf of other government departments, we only examined contract award as contract administration was the responsibility of the other government departments. Further, we did not include contracts issued by the Alternative Form of Delivery service provider for infrastructure projects. The purpose of this monitoring program was to assess compliance of the award and administration of contracts with the existing Treasury Board *Contracting Policy* and the *Financial Administration Act*.

14. The criteria used to assess the award and administration of PWGSC contracts were based primarily on the Treasury Board Contracting Policy and the *Financial Administration Act*. The following key contract award and administration requirements were reviewed for all contract files:
- Statement of work is adequate and clear;
- Evaluation criteria is adequate and clear;
- Evaluation of bids are conducted properly;
- Contract is awarded to bidders that meet the evaluation criteria;
- Funds were appropriately committed;
- Terms and conditions were in place;

- Amendments were properly authorized; and
- Goods, services and/or construction were received.

15. These programs allowed anomalies to be corrected and the Regional Directors General and contract managers to examine other files/projects for similar weaknesses. It also provided Regional Directors General and contract managers' insight into the requirements of the legislated authorities.

16. While not an audit, audit principles, approaches, and practices were used as a starting point. The review was a real-time assessment of contract management, with the intent to communicate issues to appropriate personnel as they were observed.

OBSERVATIONS

PROJECT MANAGEMENT SERVICES

17. A total of 57 files were selected over the period from April 1, 2010 to March 31, 2011. The table below contains a summary of the findings:

Compliance Rates by Region – EAP/AIP Project Management

Region	Compliance Rate (% of the Criteria Complied With)
Quebec	100%
Western	100%
Atlantic	99%
Ontario	98%
Pacific	75%
National Capital Area	82%

CONSTRUCTION CONTRACTS ADMINISTRATION

18. A total of 28 files were selected over the period from April 1, 2010 to March 31, 2011. The table below contains a summary of the findings:

Compliance Rates by Region – EAP/AIP Construction Contracts

Region	Compliance Rate (% of the Criteria Complied With)
Atlantic	100%
Quebec	100%
Ontario	100%
Western	100%
National Capital Area	95%
Pacific	97%

EAP/AIP CONTRACT AWARD AND ADMINISTRATION

19. A total of 298 contracts were selected over the period from October 2008 to December 2010. There were contracts related to infrastructure that were started prior April 1, 2009 that were funded from EAP/AIP resources after April 1, 2009. These were included in our sample. The samples were selected from a listing of all EAP/AIP related contracts extracted from the Department's Acquisition Information System.

20. Phases 1 to 3 covered the period October 2008 to March 2010. Phase 4 was an expanded sample of the period from April 1, 2009 to March 31, 2010. Phase 5 covered the period from April 1, 2010 to December 31, 2010. The table below contains a summary of the findings:

Compliance Rates by Region and Phase – AIP/EAP Contract Award and Administration

Region	Compliance Rate (% of the Criteria Complied With)				
	Phase 1	Phase 2	Phase 3	Phase 4	Phase 5
Quebec	92%	100%	90%	100%	86%
Western	100%	85%	90%	94%	91%
Atlantic	100%	100%	90%	95%	100%
Ontario	100%	100%	100%	80%	75%
Pacific	100%	100%	100%	100%	75%
National Capital Area	N/A	100%	100%	100%	67%

CONCLUSIONS

21. These programs have allowed anomalies to be corrected and the Regional Directors General and contract or project managers to examine other files/projects for similar weaknesses. It also provided Regional Directors General and contract or project managers' insight into the requirements of the legislated authorities, and as a result, proper file management has been enhanced.

22. Overall, this program has provided assurance that the Department is generally in compliance with the award and administration of contracts with existing Treasury Board *Contracting Policy* and the *Financial Administration Act*.

ABOUT THE CONTINUOUS AUDITING PROGRAM

Authority

The Deputy Minister of Public Works and Government Services requested that the PWGSC Office of Audit and Evaluation conduct a review of project management services and associated construction contracts provided to other government departments in support of their EAP projects.

PROJECT MANAGEMENT SERVICES

Objectives

The objective of this review was to assess the project management services provided by PWGSC against key controls identified in the Department's project management framework – the National Project Management System.

This review provided the Deputy Minister of Public Works and Government Services, with independent, objective information about whether PWGSC services were delivered in accordance with the National Project Management System. It also provided the Assistant Deputy Minister, Real Property Branch with valuable information, which can be used in the renewal and redesign of project management services that the branch provides.

Scope and Approach

The review examined 57 EAP/AIP project management files from 2010/11. Original sample sizes were larger, but were reduced to limit the burden on regions in light of numerous concurrent reviews and audits and to ensure that the review would be completed in a timely manner. Samples were selected to be representative of the various regions and project types, but for reasons of materiality, there was an under-sampling of low dollar-value projects.

For the file reviews, a checklist was developed against which project management were assessed. The checklist contained 11 review criteria based on National Project Management System controls and addressed requirements related to project authority, project planning, risk management, and environmental assessment.

Reviews were carried out from National Headquarters by examining electronic documents stored on the departmental electronic document management system, E-DRM. In some cases, files or specific documents were provided in hard copy or via local digital storage mediums (e.g., CD-ROMs, Flash Drives). Field work was carried out between April and July 2011.

Audit Team

Reviews of the project management files were conducted by internal staff of the Office of Audit and Evaluation and staff contracted from Audit Services Canada.

CONSTRUCTION CONTRACTS ADMINISTRATION

Objective

The objective of this review was to assess PWGSC's management of construction contracts associated with EAP projects. PWGSC's management of these contracts were assessed against controls identified in the Department's Contract Management Control Framework. PWGSC managed construction contracts for its own EAP projects and for those of other government departments.

Scope and Approach

The review examined 28 construction contract files in support of EAP/AIP projects from 2010/11. Original sample sizes were larger, but were reduced to limit the burden on regions in light of numerous concurrent reviews and audits and to ensure that the review would be completed in a timely manner. Samples were selected to be representative of the various regions and project types, but for reasons of materiality, there was an under-sampling of low dollar-value contracts.

For the file review, checklists were developed against which construction contracts were assessed. In the case of construction contract files, the checklist contained 16 review criteria based on Government of Canada procurement policies and procedures related to the contract award and the contract administration phases.

Reviews were carried out from National Headquarters by examining electronic documents stored on the departmental electronic document management system, E-DRM. In some cases, files or specific documents were provided in hard copy or via local digital storage mediums (e.g., CD-ROMs, Flash Drives). Field work was carried out between April and July 2011.

Audit Team

Reviews of the construction contract files were conducted by internal staff of the Office of audit and Evaluation of the Departmental Oversight Branch and staff contracted from Audit Services Canada.

EAP/AIP CONTRACT AWARD AND ADMINISTRATION

Objective

The objective of the EAP/AIP contract monitoring program was to assess compliance of the award and administration of contracts with selected elements of the Treasury Board *Contracting Policy* and the *Financial Administration Act*.

The Program provided the Deputy Minister, PWGSC, and the Assistant Deputy Minister, Real Property Branch with valuable information, which can be used in the renewal and redesign of project management services provided by that Branch. It was provided to the Assistant Deputy Ministers of the Real Property and Acquisition Branches with valuable information which may be used to improve the process for managing construction contracts. As well, it provided Regional Directors General and contract managers insight into the requirements of the legislated authorities such that their awareness on proper file management is enhanced.

Scope and Approach

To assess both the award and administration of contracts, samples were selected from the Acquisition Information System's (AIS) listing of EAP/AIP Projects on a quarterly basis. In cases where a contract is managed by other government departments the administration of the contract is not assessed, as PWGSC is only the contracting authority. Relevant procurement documentation was reviewed. Based on an analysis of the information and evidence collected, the audit teams prepared their findings and conclusions.

Field work for this program was conducted in five phases. Phases I to III were carried out between December 2009 and July 2010. Field work for Phases IV and V was carried out between October 2010 and April 2011.

Audit Team

Phases I to III of this program were carried out by the Office of Audit and Evaluation and the reports on these phases were provided in September 2010. Phase IV was initiated by the Office of Audit and Evaluation which oversaw the fieldwork by Audit Services Canada. The analysis and reporting of the Phase IV results however was carried out by AIP National Office. Phase V was carried out by the AIP National Office. The Office of Audit and Evaluation currently exercises an oversight and quality assurance role in this program, with respect to methodology and findings. Regional audit staff of Audit Services Canada in PWGSC regional offices and in the National Capital Area were engaged to assist in the field work for all phases of this monitoring program on behalf of the Departmental Oversight Branch and, subsequently, the AIP National Office.
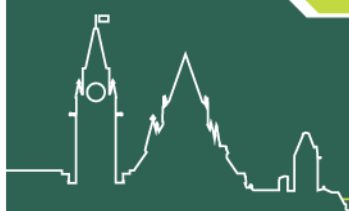
Final Report
2011-709

Chapter 6: Conclusions of the Economic Action Plan / Accelerated Infrastructure Program

January 26, 2012

Office of Audit and Evaluation

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CONCLUSIONS

1. PWGSC's delivery of its contribution to the Economic Action Plan is considered by the Department to have been a huge success. As it committed in its funding request, the Department developed a comprehensive accountability framework to manage the program of work. Part of this accountability framework included a robust audit and evaluation plan.

2. Based on the audits performed on the EAP/AIP, the Office of Audit and Evaluation did not identify any significant findings. Further, findings were communicated with Management as they were identified so that course corrections could be implemented. This was particularly evident in the improvements made to the Risk Management Framework. Finally, because the EAP/AIP was generally delivered using existing departmental process, audit findings and recommendations will serve to improve the processes going forward.

3. More specifically, we determined PWGSC had a strong governance structure in place to manage the Department's contribution to the EAP. Further, the results of our audit work were able to enhance an already solid Risk Management Framework. Finally, we determined the Department had effective reporting and monitoring structures to ensure quality information on performance and compliance needed for decision making was provided to management.

4. We also determined, at the operational level, that resources were allocated in accordance with resource allocation processes and respected allocation criteria. As well we determined that project management activities were generally carried out in accordance with the National Project Management System. Where issues were identified, recommendations were made and a management action plan to address the recommendations was implemented.

5. While the audits did identify some opportunities for improvement, the findings did not indicate any specific weaknesses or deficiencies relating to EAP/AIP demands. Further, we do not believe these opportunities for improvement compromised EAP/AIP delivery.

6. A number of key PWGSC program areas came together to execute the EAP/AIP. This collaboration not only led to the successful delivery of the program, but also developed best practices and lessons learned that will help to improve existing processes and aid the department in delivering similar future initiatives.