



Audit of the Real Property 1 and 2 contract oversight control framework (phase 2 – revenues)

Office of the Chief Audit Executive



**Audit of the Real Property 1 and 2 contract oversight control framework (phase 2 –
revenues)
Final report**

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Executive summary

- i. As the Government of Canada's real estate expert, Public Services and Procurement Canada (PSPC) manages a large and diverse real estate portfolio across the country. As part of this role PSPC focusses on a strategic advisory and service management role, while contracting the day to day operational services to the private sector.
- ii. Starting in 1998, PSPC has gradually transitioned from delivering the day to day property management operations and project delivery services of crown assets to using Real Property Management Contract mechanism which leverage private sector contractors for delivery of these services.
- iii. Since PSPC first began using such mechanism, audits of these major service delivery contracts identified a number of concerns and recommendations. In response to the recommendations of the various audits and reviews, PSPC has implemented improvements to strengthen the management and controls of the Real Property Services Management contracts.
- iv. PSPC is currently in the third generation of such contracts, which are currently made up of two mechanisms: 1) Property Management and Project Delivery Services; and, 2) National Capital Region Property Management and Project Delivery Services known as Real Property-1 (RP-1) and Real Property-2 (RP-2) respectively. RP-1, which commenced in April 2015, involves the delivery of diverse real estate services for buildings and assets across Canada. RP-2, which commenced in August 2013, is a contract for building management services for a smaller portfolio of buildings that are limited to the National Capital Region.
- v. Revenues from the RP-1 and RP-2 contracts come from commercial and retail letting, which includes third-party leases and agreements (leases and agreements) and parking agreements, which are in place for properties managed under the RP-1 contracts across each of PSPC's regions, and in place for RP-2 buildings in the National Capital Region.
- vi. Revenues from the RP-1 contracts were approximately \$44 million for fiscal year 2016 to 2017, while revenues from the RP-2 contract were approximately \$6 million for 2016 to 2017. The National Capital Area is the largest region with respect to volume of leases and parking agreements for RP-1, generating approximately 49% of total RP-1 revenues received in fiscal year 2016 to 2017 period.
- vii. The objective of this audit was to determine whether processes and operational control activities over revenues, including the management of parking holdings under the RP-1 and RP-2 contracts, were designed and implemented as intended.
- viii. The focus of the audit was to ensure that revenue related to RP-1 and RP-2 contracts were appropriately administered. The engagement reviewed activities and outputs undertaken from April 1, 2015 to September 30, 2017. We also reviewed relevant

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documentation up to September 2018 to obtain an understanding of activities subsequent to our examination period.

- ix. Overall, we determined that processes and control activities related to revenue existed for the RP-1 and RP-2 contracts to support appropriate administration of revenue collected under the contracts. Processes and procedures for managing revenue collection were designed and in place. Revenue forecasting at the regional level was regularly performed. Leases and agreements were aligned with Real Property Services policy and direction. Key performance indicators for the contractor were clearly communicated, updated as necessary, and performance was assessed and monitored.
- x. Improvements could be made to ensure that designed processes and procedures are fully implemented. More specifically key lease and revenue information was not recorded in PSPC's financial systems in a timely manner, revenue received was not reconciled between the project system and PSPC's financial system, and actual contractor performance results achieved measured against required performance was not reported to senior management.

Management response

Management has had the opportunity to review the report, and agrees with the conclusions and recommendations found therein. Management also developed a Management Action Plan to address these recommendations.

Recommendations and management action plan

Recommendation 1: The Assistant Deputy Minister, Real Property Services, should ensure key lease and agreement information related to the RP-1 and RP-2 contracts is recorded in PSPC's financial information system (SIGMA) in a timely manner.

Management Action Plan 1.1: Communicate to Commercial Leasing Operations the importance of adhering to established procedures regarding the timely recording of lease and agreement information in PSPC's financial system.

Management Action Plan 1.2: Introduce quarterly validation of sample agreements to ensure changes to agreements are being accurately captured in SIGMA in a timely manner.

Management Action Plan 1.3: Draft a plan for the development and implementation of system-generated reports required to monitor the timeliness of data entry into SIGMA.

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Recommendation 2: The Assistant Deputy Minister, Real Property Services, should ensure reconciliation activities are conducted to confirm that RP-1 and RP-2 revenues are accurate, and complete.

Management Action Plan 2.1: Enhance quality monitoring review activities by developing a checklist to highlight the process for verifying compliance to revenue collection.

Management Action Plan 2.2: Reconcile, on a regular basis in accordance with the lease agreement, the information in SIGMA to the reported deposit information to ensure data integrity and monitoring of lease information. Variances will be followed-up in a timely manner.

Management Action Plan 2.3: Communicate that the existing Quality Monitoring review process includes the receipt of the annual certified statements of percentage rent collected and is in accordance with the lease agreement.

Management Action Plan 2.4: Real Estate Services to work with the Property and Facilities Management Service Line to review the applicability for the annual certified statements for small commercial enterprise.

Recommendation 3: The Assistant Deputy Minister, Real Property Services, should ensure that the contractor's performance around revenues related to the RP-1 and RP-2 contracts is reported to branch oversight committees or senior management.

Management Action Plan 3.1: Semi-annually, provide status update of contractor performance around revenue related to RP-1 and RP-2 contract to the Real Property Service Integration Committee.

Introduction

1. This engagement was included in the Public Services and Procurement Canada (PSPC) 2017 to 2020 Risk-Based Audit and Evaluation Plan.
2. As the Government of Canada's real estate expert, PSPC manages a large and diverse real estate portfolio across the country. PSPC provides building maintenance services such as the operation, maintenance and management services for all mechanical, electrical systems and architectural components of the facilities and sites.
3. In the mid-1990s, in response to multiple challenges such as fiscal constraints, downsizing objectives resulting from program reviews and other reform initiatives, PSPC chose to focus on its strategic advisory and service management roles, while identifying a more efficient method of providing day-to-day operational services.
4. Since 1998, the first generation of procurement mechanisms (previously known as Alternate Forms of Delivery contracts) set PSPC on a course that began moving the department away from delivering day-to-day property management and project delivery services in Crown assets, to focus more on the strategic aspects of its business. Numerous audits on the second generation of Alternate Forms of Delivery contracts played a large role in shaping the third generation of contracting mechanisms.
5. An audit of PSPC's commercial and retail letting, conducted in 2009, identified a number of concerns, including whether internal controls over the identification, collection, recording and reporting of revenue generated from commercial and retail letting operations managed by PSPC were in place and operating as intended. Concerns were also raised that similar issues may be identified with parking revenues. A review of Real Property Services Controls of Revenue for the Alternative Form of Delivery Program, conducted in 2009, also found potential control weaknesses related to the monitoring of revenue for commercial and retail letting.
6. In response to the recommendations of the various audits and reviews completed over the past few years, PSPC implemented improvements to strengthen the management and controls of the Real Property Services Management contracts. These included the enhancement of the oversight framework; the development and application of tools to ensure that contractual obligations are met; the implementation of a performance delivery regime; and, the use of monitoring and training activities to ensure consistency across regions.
7. These improvements were encompassed within the third generation of contracts which are currently made up of 2 mechanisms: 1) Property Management and Project Delivery Services; and, 2) National Capital Region Property Management and Project Delivery Services known as RP-1 and RP-2 respectively.
8. In May 2013, PSPC awarded the RP-2 contract for building management services to Brookfield Johnson Controls. This contract includes providing real property services

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such as property management, project delivery and optional services to the Carling Campus, Tunney's Pasture and Graham Spry Building, which are all located in the National Capital Area. RP-2 was implemented first due to its smaller scope. The contract was effective August 2013.

9. In November 2014, PSPC announced the award of the RP-1 contracts to Brookfield Johnson Controls for the delivery of diverse real property services, including the management of approximately 3,800 Crown-owned and leased buildings and assets across Canada. RP-1 is composed of six contracts, each for a corresponding PSPC region, and one solely for the National Capital Area due to its quantity of buildings. The contract was effective in April 2015.
10. An oversight framework called the RP-n Oversight Framework was introduced in April 2016 and was designed to ensure the efficient and consistent management of the RP-1 and RP-2 contracts, as well as any future contracts of a similar scale. The framework was designed based on the Community of Sponsoring Organizations of the Treadway Commission framework, which is a commonly used internal control framework.
11. The RP-n Oversight Framework includes a number of elements such as leadership and direction, risk management, oversight and quality monitoring. It applies across all sectors in Real Property Services and all the regions, and its effective implementation is the joint responsibility of Real Property Services and the regions. The Strategic Sourcing Sector within Real Property Services exercises national RP-1 and RP-2 oversight accountability. The Strategic Sourcing Sector developed and facilitates the implementation of the framework, and acts as the integrator of all oversight activities related to RP-1 and RP-2 contracts.
12. In its service delivery role, Real Property Services is structured around 7 service lines, each offering a variety of services both to PSPC and to other government departments. The current RP-1 and RP-2 contracts include services that touch all 7 service lines. The 7 service lines are: Infrastructure Asset Management; Real Estate Services; Portfolio & Asset Management Services; Technical Services; Property & Facility Management Services; Project Management Services; and, Workplace Solutions Services.
13. Revenues from the RP-1 contracts come from commercial and retail letting, which includes leases and agreements, as well as parking agreements which are in place for properties managed under the RP-1 contracts across each of PSPC's regions. The RP-2 contract has similar revenue sources, but solely in the National Capital Region.
14. Commercial retail letting/third-party leases are used for the commercial lease of space to third parties in retail, office or storage at current market rates. Various similar agreements are used for situations where space is rented from PSPC; however, exclusive possession is not provided, such as leasing space for ATM or vending machine.
15. Revenue from leases and agreements can be for a fixed monthly payment, a payment based on sales volume, or a combination of both. Parking revenues may be a component of a letting agreement (rental of retail space, which includes 2 parking

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spaces and a storage area), a separate letting agreement for parking spaces, or revenue received from parking lot operators collecting and remitting revenues to the Crown.

16. Key information systems related to RP-1 and RP-2 revenues include the Alternative Forms of Delivery System and PSPC's financial system, SIGMA. Leasing and revenue information is input and maintained by the contractor in the Alternative Forms of Delivery System, although the system is owned by PSPC, and PSPC has access. The contractor shares the leasing and revenue information with PSPC, who inputs and maintains the same information in SIGMA.
17. Revenues from the RP-1 contracts were approximately \$44 million for fiscal year 2016 to 2017, while revenues from the RP-2 contract were approximately \$6 million for 2016 to 2017. The National Capital Area is the largest region with respect to volume of leases and parking agreements for RP-1, generating approximately 49% of total RP-1 revenues received in fiscal year 2016 to 2017 period.

Focus of the audit

18. The objective of this audit was to determine whether processes and operational control activities over revenues, including the management of parking holdings under the RP-1 and RP-2 contracts, were designed and implemented as intended.
19. The focus of the audit was to ensure that revenue related to RP-1 and RP-2 contracts were appropriately administered. The engagement reviewed activities and outputs undertaken from April 1, 2015 to September 30, 2017. We also reviewed relevant documentation up to September 2018 to obtain an understanding of activities subsequent to our examination period.
20. We examined a judgemental sample of 32 out of 388 leases and agreements chosen from a report dated September 2017. An additional sample of 15 out of 139 parking agreements were examined to assess procedures that applied to parking agreements.
21. Governance and risk management were reviewed at a high level during the planning phase of the audit, and the findings have been documented in a management letter.
22. 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 conformance

23. The audit conforms with the Internal Auditing Standards for the Government of Canada, as supported by the results of the quality assurance and improvement program.

24. 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

25. Audit observations were developed through a process of comparing criteria (the correct state) with condition (the current state). The following observations may note satisfactory performance, where the condition meets the criteria, or they may note areas for improvement, where there was a difference between the condition and the criteria.

Processes and controls activities were in place, but could be strengthened

26. Processes and procedures provide an authoritative reference to employees on how to discharge their administrative responsibilities. They should identify key controls, which are any actions taken by management or other parties to manage risks that may impede the achievement of established objective(s).
27. Well-developed processes and procedures, including internal controls, contribute to the effective management of the contracts, and help ensure that information is complete and accurate, financial information is reliable and departmental strategies and objectives are implemented as intended. For RP-1 and RP-2 contracts, such objective is the proper administration of revenue related to those contracts. This includes ensuring that PSPC receives all the revenue it is entitled to. As part of Real Property Services controls, we expected processes and controls activities would exist to help ensure revenue related to RP-1 and RP-2 contracts are appropriately administered.

Processes and controls activities were designed and documented

28. We expected to find that processes, including procedures and tools, for conducting third-party leasing activities are designed and documented. Third-party leases and agreements (leases and agreements) create a contract between the custodian and the tenant. Leases and agreements administration refers to the activities associated with managing leases and agreements undertaken by the Government of Canada for the use of government space. In the case of RP-1 and RP-2, this relationship is managed by the contractor on behalf of the Government of Canada.

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29. We found that documented processes and procedures, along with key controls, for conducting third-party leasing activities were in place. The RP-1 Procedure on Establishing Third-Party Leases and Agreements, and the RP-1 Third-Party Lease and Agreement Administration Services Deliverables Acceptance Procedures defined the approach for establishing and administering leases and agreements respectively. Both documents outlined the roles and responsibilities of the contractor, PSPC's Lease Officers, and Property and Facilities Managers. These documents also described the quality monitoring activities to be performed by PSPC employees when determining the acceptability of deliverables prepared by the RP-1 and RP-2 contractor.
30. Key controls identified in the processes and procedures include: development of forecast and reconciliation of actual revenues to forecasts; maintenance of accurate revenue information in PSPC's financial system (SIGMA) and reconciliation of actual revenue received; maintenance of accurate lease information provided by contractor data through the project management system (Alternative Forms of delivery Management System) and reconciliation to SIGMA. Further, processes and procedures documents defined contractor deliverables when establishing leases and agreements.
31. These processes and procedures applied to RP-1 leases for all regions. Processes and procedures for the RP-2 contract, which is limited to specific assets in the National Capital Area, were not formally documented separately, and generally followed those of the RP-1 contract.
32. We also noted the procedures did not apply to the management of parking lots. Roles and responsibilities for managing third-party parking were described in the RP-1 and RP-2 contracts.
33. We concluded that processes and procedures, including key controls, for conducting third-party leasing activities were designed and documented. Adequately developed processes and procedures play a key role in supporting the effectiveness and internal controls by enabling PSPC to apply consistent standards and practices across all regions for the management of RP-1 and RP-2 revenues.

RP-1 and RP-2 revenues were forecasted

34. Forecasting is a critical activity in financial management. It requires managers to develop forecasts, analyze variances, perform financial reviews, prepare corrective action plans where appropriate, and inform their management of any resulting issues.
35. We expected RP-1 and RP-2 contractor to provide revenue forecasts to PSPC on a monthly basis.
36. We found that the contractor prepared revenue forecasts for individual leases in leasing plans, and provided them to PSPC on a monthly basis. Further, our review of 32 leases and 15 parking agreements confirmed that forecasted revenues in the leasing plans agreed with amounts shown in the leases and agreements for 30 of the

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32 leases and 15 of the 15 parking agreements. We also found rental rates identified in the lease justification forms also agreed with the forecasted revenues.

37. The contractor was to provide support to the annual planning process by preparing revenue forecast for the Building Management Plans. The Building Management Plan is a five-year plan, prepared annually by the RP-1 contractor, which forecasts an asset's revenues and operations and utility costs, and provides a complete project plan and overall strategy for each asset.
38. We noted revenue forecasts through the Building Management Plans did not occur. We were informed steps had been taken to implement this process, and revenue projection is planned to be incorporated in the Building Management Plan for the fiscal year 2018 to 2019.
39. We concluded that revenue forecasts for individual leases were prepared through the leasing plans at the regional level. Revenue forecasts activities through the Building Management Plans, which forecast an asset's revenues and operations and utility costs over a period of 5 years, were not undertaken.

Timeliness of data entry impacted the completeness and accuracy of data in PSPC's financial system

40. Integrity and sufficiency of leasing and revenue information contained in PSPC's financial system (SIGMA) is important to track, monitor, and reconcile RP-1 and RP-2 revenue collection and receipt.
41. As such, we expected that Real Property Services would have accurately recorded information related to leases and agreements, including significant changes, in a timely manner in SIGMA. Related to timeliness, we expected leases and agreements, and parking lot data would be entered, and receivables created on a monthly basis in SIGMA. For leases with a different payment schedule, such as quarterly payments, we expected data, including receivables, to be processed in the relevant quarter.
42. We found discrepancies between SIGMA information and rates indicated in lease contracts' document. Receivables amount recorded for 14 of 32 leases (44%) and 4 of 15 parking lots (27%) differed from the amount due on lease contracts' documents.
43. We found for 26 of 32 leases (81%) and 6 of 15 parking lots (40%), receivables and key data were not entered in the month that the payment was due or occurred; multiple months' data was instead input in SIGMA at a later time, sometimes up to a year after the revenue was due and payment occurred. Further, while changes to lease and agreements were approved, we noted 5 leases (16%) where these changes were not recorded in a timely manner.
44. There were also no receivable or deposits associated with 7 parking lots (47%) in SIGMA. They had either no cash-flows, or were duplicate in SIGMA with the cash flow assigned to a different agreement number in the system. Duplicate lots referred to cases where multiple agreements were created in SIGMA for the same single parking

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lot. We were informed Real Property Services is aware that duplicate files exist, and intends to perform a validation exercise of the SIGMA data, including removing duplicate entries. No specific plans or timelines for this exercise were identified or provided.

45. We concluded that key details of leases and agreements, including receivables, amendments and other changes impacting revenue, were not consistently created and/or recorded in a timely manner in SIGMA. Timely data entry in PSPC's financial information system is important to tracking and reconciling information, and payment provided by the contractor.

Reconciliations were not completed

46. Regular reconciliation activities over the RP-1 and RP-2 revenues ensure that unusual items are caught and identified so that they can be addressed in a timely manner.
47. We expected data reconciliation exercises would be conducted as follows: monthly comparisons of revenue forecasted for both third-party leases and parking facilities to revenue deposited; alignment of lease and revenue information between the Alternative Forms of Delivery Management System and SIGMA; and validating the revenues invoiced to revenues received.

Actual revenues were not regularly reconciled to forecasts

48. RP-1 and RP-2 processes and procedures require reconciliation, on a monthly basis, of revenues received against forecasts for both third-party leases and parking facilities.
49. We found the regions and PSPC's Strategic Sourcing Sector compared actual revenue received to forecasts at year end, not on a monthly basis as required. As revenue forecasting activities through the Building Management Plans had not been implemented, reconciliation between revenue reported and monthly revenue forecast during the Building Management Planning cycle could not be completed. However, as indicated earlier, we were informed steps had been taken to implement this process for the fiscal year 2018 to 2019.

Lease and revenue information provided by the contractor was not reconciled to SIGMA

50. In accordance with RP-1 procedures, the lease and revenue information contained in Alternative Form of Delivery Management System is to be reconciled to SIGMA, and any discrepancies investigated. Finally, we also expected where third party validation was required under contract, that validation would be completed.
51. We found that the RP-1 and RP-2 contractor provided relevant information through Alternative Forms of Delivery Management System on leases and agreements, and parking lots. We also found the information was not validated against SIGMA.

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52. Finally, we noted that, where third-party validation was required under the contract, validation was not always complete. 16 out of 32 leases and agreements in our sample included a sales based rent component, of which 11 required audited annual statement of gross sales. We noted during our examination that the required statements were provided for 6 out of the 11 leases. Audited annual statements of gross sales are an important control, as they allow the amount of sales to be confirmed by an independent third party. Without this document the Property and Facility Manager's ability to validate sales based rent is limited.

Reconciliations were not conducted to validate revenue received to revenues invoiced

53. Lease and agreements administration procedures require reconciliation of revenue received and recorded in SIGMA against revenues invoiced.

54. We noted that Real Property Services did not complete reconciliations of revenue received against revenues invoiced on a monthly basis.

55. Overall, limited reconciliation activities were conducted. Regular reconciliation helps ensure that unusual items are caught and identified so that they can be addressed in a timely manner.

Contract deliverables were appropriately received and approved

56. Processes and procedures identified contractor's deliverables when establishing leases and agreements. We expected contract deliverables would be appropriately received and approved by PSPC.

57. We assessed whether leases and agreements, including any amendments, were signed by both the tenant and PSPC, and appeared on the approved leasing plan. We also verified that approved lease justification forms and lease control sheets existed for each lease and agreement.

58. We found that all lease contracts were signed by both PSPC (by an individual with the appropriate delegated authority to enter into the agreement) and the tenants. With respect to supporting documentation for leases and agreements, we found that: 31 of the 32 leases (97%) appeared on the approved leasing plan and were supported with an approved lease justification form; and 30 of the 32 leases (94%) had a lease control sheet.

59. Contract deliverables were appropriately received and approved.

Leases and agreements were aligned with Real Property Services policies, and direction

60. Treasury Board Secretariat's Policy on Management of Real Property requires that departments maximize the long-term economic advantage to the Crown by determining the market value of their interests. In addition, PSPC's Custodial Parking Policy requires the department to establish parking charges in accordance with market practice.
61. As part of Real Property Services' objective of maximizing revenues through commercial leasing, third-party leases are expected to be signed at market rates. As well, rates charged for parking spaces managed by the contractor on behalf of PSPC are expected to align with the department approved rates. Parking rates are determined by PSPC's Appraiser General through an assessment of local market conditions using a direct comparison approach to private and municipal lots available in the vicinity.
62. We expected to find that leases and agreements were aligned with Real Property Services policy and direction such as rental rate at market and/or approved rate, of nature of tenant's activity is compatible with PSPC identified intended use of spaces. We also expected PSPC to vet and approve tenants prior to signing leases and agreements.
63. We found for 31 of the 32 leases (97%) the rate on the form aligned with the rate in the leasing plan. As well, parking rates charged by the RP-1 and RP-2 contractor aligned with PSPC's approved rates for all 15 (100%) parking agreements examined.
64. Real Property Services vetted tenants through the review and approval of the leasing plan and the lease justification form provided by the RP-1 and RP-2 contractor to PSPC.
65. We concluded that leases and agreements were aligned with Real Property Services policies, and direction concerning leases and parking rates, and tenants vetted as required. Compliance with Real Property Services' policies and direction ensures that PSPC is maximizing revenues through commercial leasing.

Vendor performance management

66. Effective performance measurement and monitoring is a key element of ensuring the contractors are fulfilling their responsibilities, and meeting the organization's objectives. Measuring and reporting on performance are important steps in sound-decision making, and in demonstrating the extent to which PSPC achieved its objectives or expected results through the RP-1 and RP-2 contracts.
67. We expected that Real Property Services would have established performance indicators related to revenue collection for the RP-1 and RP-2 contractor that were

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communicated to the contractor and these key performance indicator would be updated, if necessary. We also expected that contractor's performance would be assessed and monitored at the operational level.

Vendor performance indicators were clearly defined, communicated, and updated

68. Key performance indicators, their target, and performance measurement approach were clearly outlined in the RP-1 and RP-2 contracts signed by BGIS, the contractor. Performance indicators included those related revenue collection under both the RP-1 and RP-2 contracts.
69. Performance indicators associated with revenue collection outlined in the RP-1 contract measure the contractor's success in attracting and retaining going-concern business and included: ratio of number of units vacant for 60 days or more and number of units over-holds in excess of 60 days to total number of leasable units based on the accepted leasing plan; resolution rate of overdue rent cases; and, variance in annual forecasting at Period 8 to actual revenue.
70. The RP-2 contract identified the following indicators in relation to revenue collection: planning commercial revenues, which measures the contractor's success in accurately estimating commercial revenues during the annual planning cycle; and, commercial accounts over 15 days, which measure the contractor's success in managing and collecting commercial rent.
71. We confirmed through a review of documentation, and other evidence provided by Real Property Services that key performance indicators, and their targets were reviewed, and updated annually to reflect changes in circumstances and to ensure continuous improvement in the administration of the contract. The revised targets were approved by all RP-1 regional contract managers, the RP-2 contract manager and the contractor.
72. We concluded that Real Property Services established and communicated key performance indicators, including those related to revenue collection. Furthermore, performance indicators were periodically revised and their targets updated to reflect changes in circumstances and to ensure continuous improvement in the management of RP-1 and RP-2 contracts.
73. Clearly defined and communicated key performance indicators is critical to assess the contractor's performance and to determine whether he is fulfilling his responsibilities and meeting contracts' objectives. It also ensures that relevant information on result is gathered and used for decision-making.

Vendor performance was assessed and monitored at operational level

74. The RP-1 and RP-2 contracts outlined mechanisms to assess and monitor vendor performance against performance indicator targets. As part of the assessment, the

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contractor self-reported on its performance on a monthly and annual basis. The evaluation of the contractor annual performance is completed after March 31, each year. The reports provided to PSPC from the contractor were to be reviewed, and validated by the region's contract managers, and also discussed at the Performance Measurement Regime Network (the network) monthly meetings. The network participants included all regional RP-1 contract managers, the RP-2 contract manager, and representatives from the Performance Measurement Regime National Office.

75. The audit determined that the contractor provided monthly reports and the annual report for the fiscal years 2016 to 2017, and 2017 to 2018 on its performance. The reports were reviewed, and validated by the region's contract managers. A review of the Performance Measurement Regime Network meetings minutes showed that RP-1 contract managers, the RP-2 contract manager, and representatives from the Performance Measurement Regime National Office attended the meetings, and discussed vendor's performance reports.
76. We also observed that the contractor provided revenue forecasts in Period 8 for RP-1 and estimated commercial revenues during the annual planning cycle for RP-2 for the fiscal year 2016 to 2017, and 2017 to 2018. The forecasts were assessed against key performance indicators target by the regions, and PSPC's Strategic Sourcing Sector.
77. The Performance Measurement Regime National Office also reviewed the annual report which were approved by the RP-1 regional contract managers and the RP-2 contract manager to validate vendor performance. We did not however find any evidence that vendor performance information was provided to Real Property Services management.
78. Based on our findings, we concluded that contractor's performance was assessed and monitored at the operational level. Performance information was not provided to the branch senior management to ensure adequate monitoring, and continuous improvement. Without senior management assessment and monitoring of vendor performance, opportunities for continuous improvement in the management of RP-1 and RP-2 contract are lost.

Conclusion

79. Overall, we determined that processes and control activities existed for the RP-1 and RP-2 contracts to help ensure revenues related to both contracts are appropriately administered. Improvements could be made to ensure timeliness of data entry, designed processes and procedures are fully implemented, and contract performance management is reviewed at Real Property Services senior management level.
80. Processes and procedures, including key controls for conducting third-party leasing activities were in place, however, some were not fully implemented. Inconsistencies were identified in the application of procedures for recording and reconciling revenues due to PSPC in a timely and accurate fashion in the departmental financial system.

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81. We found revenue forecasts for individual leases were prepared through the leasing plan at the regional level, and as part of the performance measurement program to assess the contractor's performance. Revenue forecast activities through the Building Management Plans were not undertaken.
82. We noted that timeliness of data entry impacted the completeness and accuracy of data in PSPC's financial system. Specifically, key details of leases and agreements, including amendments and other changes impacting revenue, were not consistently recorded in a timely manner in SIGMA.
83. Weaknesses were identified in the limited reconciliation activities of forecasted to actual revenue, information received from the contractor to SIGMA, and revenue received to invoiced.
84. We found that contract deliverables were appropriately received and approved by PSPC. In addition, leases and agreements were aligned with Real Property Services policy and direction concerning leases and parking rates. These help ensure that not only Real Property Services complies with the Treasury Board Secretariat's and departmental policies, but it is also maximizing revenues through commercial leasing.
85. We found that Real Property Services established and communicated key performance indicators, including those related to revenue collection. Performance indicators were periodically revised and their targets updated to reflect changes in circumstances and to ensure continuous improvement in the management of RP-1 and RP-2 contracts.
86. Finally, we concluded that contractor's performance was assessed and monitored at the operational level. However, we found no evidence that the contractor's performance information was provided to the Real Property Services senior management to ensure adequate monitoring and continuous improvement.

Management response

Management has had the opportunity to review the report, and agrees with the conclusions and recommendations found therein. Management also developed a Management Action Plan to address these recommendations.

Recommendations and management action plan

Recommendation 1: The Assistant Deputy Minister, Real Property Services, should ensure that key lease and agreement information related to the RP-1 and RP-2 contracts is recorded in PSPC's financial information system (SIGMA) in a timely manner.

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Management Action Plan 1.1: Communicate to Commercial Leasing Operations the importance of adhering to established procedures regarding the timely recording of lease and agreement information in PSPC's financial system.

Management Action Plan 1.2: Introduce quarterly validation of sample agreements to ensure changes to agreements are being accurately captured in SIGMA in a timely manner.

Management Action Plan 1.3: Draft a plan for the development and implementation of system-generated reports required to monitor the timeliness of data entry into SIGMA.

Recommendation 2: The Assistant Deputy Minister, Real Property Services, should ensure that reconciliation activities are conducted to confirm that RP-1 and RP-2 revenues are accurate, and complete.

Management Action Plan 2.1: Enhance quality monitoring review activities by developing a checklist to highlight the process for verifying compliance to revenue collection.

Management Action Plan 2.2: Reconcile, on a regular basis in accordance with the lease agreement, the information in SIGMA to the reported deposit information to ensure data integrity and monitoring of lease information. Variances will be followed-up in a timely manner.

Management Action Plan 2.3: Communicate that the existing Quality Monitoring review process includes the receipt of the annual certified statements of percentage rent collected and is in accordance with the lease agreement.

Management Action Plan 2.4: Real Estate Services to work with the Property and Facilities Management Service Line to review the applicability for the annual certified statements for small commercial enterprise.

Recommendation 3: The Assistant Deputy Minister, Real Property Services, should ensure that the contractor's performance around revenues related to the RP-1 and RP-2 contracts is reported to branch oversight committees or senior management.

Management Action Plan 3.1: Semi-annually, provide status update of contractor performance around revenue related to RP-1 and RP-2 contract to the Real Property Service Integration Committee.

About the audit

Authority

This engagement was included in the Public Services and Procurement Canada 2017-2020 Risk-Based Audit and Evaluation Plan.

Objective

The objective of this audit was to determine whether processes and operational control activities over revenues, including the management of parking holdings under the RP-1 and RP-2 contracts, were designed and implemented as intended.

Scope and approach

The objective of the this audit was to determine whether processes and operational control activities over revenues, including the management of parking holdings under the RP-1 and RP-2 contracts, is designed and implemented as intended.

The focus of the audit was to ensure that revenue related to RP-1 and RP-2 contracts are appropriately administered. The engagement reviewed activities and outputs undertaken from April 1, 2015 to September 30, 2017. We also reviewed relevant documentation up to September 2018 to obtain an understanding of activities subsequent to our examination period to address some items observed.

We examined a judgemental sample of 32 out of 388 leases and agreements chosen from a report dated September 2017. An additional sample of 15 out 139 parking agreements were examined to assess procedures that applied to parking agreements.

Interviews were conducted with key departmental personnel, including those service leads for both establishing leases and third-party agreements as well as service leads for administering third-party leases and agreements (leases and agreements). Relevant documentation, processes, and a randomly selected sample of 32 leases and agreements and 15 parking agreements were examined and tested. Questionnaires were also sent to all regions to determine the level of consistency across all regions with respect to processes and procedures carried out and training and guidance available. Based on analysis of the information and evidence collected, the audit team prepared audit findings and conclusions, which were validated with Real Property Services.

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

Audit of the Real Property 1 and 2 contract oversight control framework (phase 2 – revenues) Final report

Criteria

The criteria used to assess whether processes and operational control activities over revenues, including the management of parking holdings under the RP-1 and RP-2 contracts, is designed and implemented as intended were derived from the results of a detailed risk assessment.

The following criteria were assessed during this audit:

- **Control process:** Processes and control activities are in place to ensure that revenue related to the RP-1 and RP-2 contracts are appropriately administered.
 - Processes and procedures, which clearly define how to conduct third-party leasing activities, have been designed and implemented
 - RP-1 and RP-2 revenues are being forecasted, with forecasts compared to actual revenues collected and significant discrepancies investigated
 - Data related to third-party leases and parking agreements in PSPC's information systems is accurate and complete
 - Internal controls are in place to ensure that payments received match amounts recorded as revenues, and under/over payments are recorded appropriately and corrected
 - Third-party leases and parking agreements are aligned with Real Property Services policy and direction (ex. at market rates, tenants are compatible with the federal government)

- **Vendor performance management:** Performance of the RP-1 and RP-2 contractor is being monitored and performance measures are functioning as intended.
 - Vendor performance indicators exist, are communicated to the contractor, are adhered to and performance is monitored

Audit work completed

Fieldwork for this audit was substantially completed on May 28, 2018.

Audit team

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

The audit was reviewed by the quality assessment function of the Office of the Chief Audit Executive.