Public Services and Procurement Canada
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INTERNAL AUDIT – AUDIT OF THE CHARGING MODEL

Office of the Chief Audit, Evaluation and Risk Executive

Content

1. Introduction

1. Public Services and Procurement Canada (PSPC) supports the Government of Canada's daily operations as provider of common services for federal departments and agencies. Many of these services are provided and funded, partially or completely, through the collection of revenues. PSPC is currently experiencing funding pressure which increases the need for the department to ensure that it is appropriately charging for its services.

2. PSPC's Finance Branch provides guidance on costing and cost recovery activities. However, all branches and regions are accountable to apply applicable Treasury Board and Departmental policies, directive, guidance, to their costing and cost recovery activities with the support of the Finance Branch.

2. Background

3. In accordance with Section 17 of the *Department of Public Works and Government Services Act*, the Minister of Public Works and Government Services has authority to charge for services provided by the department. Charges for services are subject to Treasury Board regulations.

4. As a common service provider, the department offers a wide range of services across the Federal Government such as translation, procurement, pay services, architecture and engineering, geomatics, property and management, workplace solutions, and Real Property Services. Departmental services are delivered using 1 of 3 funding options: Appropriation (A-Base), Vote-Netted Revenue or Revolving Fund. The department decides the appropriate funding option which is subsequently approved by Treasury Board Secretariat. Our audit scope included the Vote-Netted Revenue and Revolving Fund. The Appropriation funding option was not assessed as it does not include cost recovery activities, and is not subject to charging models.
    - Appropriation represents the funding levels needed to maintain existing PSPC branch's programs and services. This is the most common funding mechanism used to support program delivery. PSPC receives approximatively $3.9 billion of appropriation funding annually to support the delivery of its existing programs and services.

    - Vote-Netted Revenue is an alternative means of wholly or partially funding selected programs or activities that produce revenues[1]. The authorization to collect revenues through the Vote-Netted Revenue regime, called net-voting authority is provided to fund fluctuating special demands for services. It authorizes the department to apply revenues towards costs directly related to activities, and approves the net financial requirements for 1 fiscal year at a time. The Vote-Netted Revenue regime is used to deliver various services such as federal accommodation, procurement, pay and pension. PSPC has 9 branches and regions that recover costs through the Vote-Netted Revenue regime for a total of $1.3 billion annually (34% of total departmental revenues).

    - A Revolving Fund is a funding mechanism where revenues remain available to finance continuing operations without fiscal year limitations. The Revolving Fund Act authorizes PSPC to make expenditures in balance with revenues received (full cost recovery) from clients for the purpose of delivering services. The use of Revolving Fund is appropriate for substantial, distinct activities that

[1] Treasury Board Directive on Charging and Special Financial Authorities – Appendix B: Definitions

provide client-oriented services where costs can be financed from revenues over a reasonable business cycle. Activities financed by the fund are maintained separately from the activities financed by appropriations. PSPC has 3 Revolving Funds that collect $2.5 billion annually, which represents 66% of total departmental revenues.

5. A charging model is a framework and method for determining costs and prices to be charged to clients. PSPC’s charging model consists of costing, pricing, billing (invoicing), and collecting revenues. The charging model is determined following the funding option selected. We noted that in contrast to other charging models, at PSPC “charging” is a process that includes both costing and pricing. Costing is the process of determining the cost of providing a service associated, while pricing is setting the chargeable fees. The authority to charge, and to set the chargeable fees is typically obtained through the approval of Treasury Board Submissions. There are 10 active cost recovery activities under the Revolving Fund regime, and 35 under the Vote-Netted Revenue regime (see Appendix B for details). Each activity has its own charging model.

6. For example, the Real Property Services Revolving Fund, included in our audit scope, provides services such as project delivery and property management to other government programs (client programs) that have custody of real property assets. Client programs are situated in other government departments, as well as within PSPC.[2] The total budget estimate for the 2020 to 2021 fiscal year was established at $2.03 billion, and included $1.5 billion of pass-through costs, which are fees paid to private sector companies who operate on behalf of PSPC. Pass-through costs are costs charged to clients with no mark-up.

7. In 2009, a Departmental Cost Recovery Framework which includes both Revolving Fund and Vote-Netted Revenue costing was developed within PSPC, in consultation with the Treasury Board Secretariat, other government departments, and central agencies. The framework is based on simplicity, fairness, and sustainability. It was built as an approach to developing, evaluating and managing its cost recovery activities for all 3 funding options. The model seeks to ensure that the department has sound approaches for recovery programs and initiatives, services are delivered within appropriate funding options, transparency in full costs for services rendered, and cost recoveries are made in accordance with policy and legislation. We did not see any evidence that the framework was subsequently assessed, however in early 2020, a Funding Model Review Project was initiated but it only included Digital Services Branch as a pilot.

3. Focus of the audit

8. This internal audit was first included in the Office of the Chief Audit, Evaluation and Risk Executive`s (OCAERE) approved Risk-Based Audit Plan 2020 to 2021.

3.1 Importance

9. This audit is important because, during development of the PSPC 2020 to 2021 Risk-Based Audit and Evaluation Plan, concerns were raised regarding the funding of PSPC’s corporate services. In the current context of funding pressures, the collection of appropriate and earned revenue is a key factor in PSPC’s ability to deliver its services. Although PSPC is a common services provider, and its clients are within the

[2] Client programs within PSPC include the Federal Accommodation and Infrastructure program and the Parliament Hill and Surrounds program

federal government, it is in the public's interest to have a clear understanding on how financial resources are used.

10. In light of the comments received by senior management and current financial context, the charging model was identified as a high-risk area.

11. This engagement will support continuous improvement in the departmental charging model by conducting in depth examinations into specific program areas and controls, to provide moderate assurance with regards to the effectiveness of the charging controls in place, and to determine if course correction is required.

3.2 Objective

12. The audit objective was to provide moderate assurance that the cost recovery framework for the Vote-Netted Revenue funding regime of the Real Property Services Branch and the Real Property Services Revolving Fund was sufficient, appropriate, and applied consistently to support the achievement of PSPC's objectives to deliver high-quality, central programs and services that ensure sound stewardship on behalf of Canadians and meet the program needs of federal institutions.

3.3 Scope

13. The audit scope period covered the timeframe from April 1, 2019 to March 31, 2020. Relevant information obtained up to October 2021 was also considered. It should be noted that in mid-March 2020, due to COVID-19 events that caused an economic and social disruption, the Government of Canada announced measures that affected its operations. However, this announcement was made at the end of the audit scope period, and did not have an impact on the audit scope. In addition, in scope information obtained subsequent to our examination phase was considered.

14. The audit assessed the processes and controls in place over the following key control areas for the charging models: cost recovery environment, charging business processes and information management and monitoring.

15. The following selected cost recovery activities and services categories were included in our scope: The Vote-Netted - Revenue Federal Accommodation and Infrastructure Assets and the Real Property Services Revolving Fund. Together, these activities account for approximately 80% of PSPC's annual revenue. The other activities were excluded due to their relative low dollar value and percentage of overall revenues collected by the department (see Appendix B).

- Vote-Netted Revenue – Real Property Services Branch - Federal Accommodation and Infrastructure Assets – a) Provision of Space and Parking, b) Provision of Commercial Rental and c) Production and Distribution of Energy

- Real Property Services Revolving Fund - a) advisory, b) project delivery, and c) property and facility management)

16. For the purposes of this report, Provision of Space and Parking will refer to both the Provision of Space and Parking and the Provision of Commercial Rental categories. They are grouped because both are designed to provide space to various types of clients. In addition, per the 2021 to 2022 Annual Revenue, Provision of

Space and Parking accounted for 96% ($857.8M) of revenues, while Production and Distribution of Energy accounted for 4% ($35M).

17. The Appropriation funding option was not assessed as it does not include cost recovery activities, and is not subject to charging models.

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

3.4 Audit criteria, sources and methodology

19. The audit criteria, sources of criteria and methodology can be found in Appendix A.

20. The examination phase of the audit took place from February 2021 to May 2021.

21. The internal audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing, as supported by the results of the quality assurance and improvement program.

4. High level observations and findings

22. Overall, the cost recovery framework for the Vote-Netted Revenue funding regime of the Real Property Services Branch and the Real Property Services Revolving Fund was sufficient, appropriate, and applied consistently. However, deficiencies were noted in the cost recovery environment, the charging process, and information management. This section presents some key findings including those which led to recommendations but there are other opportunities for improvement that have been identified in the body of the report.

4.1 Roles and responsibilities

23. Roles and responsibilities were established, documented and communicated to employees with respect to cost recovery activities for the Provision of Space and Parking areas, and the Revolving Fund. In the Production and Distribution of Energy area, employees described the process for charging being used, however they were not documented. Defined and communicated roles and responsibilities assist in letting employees know what they are responsible and accountable for, as well as ensuring operational efficiency by reducing confusion and redundancies.

4.2 Pricing processes

24. Monthly monitoring of forecasted revenues compared to actual revenues was conducted in the Provision of Space and Parking areas, and in the Revolving Fund. However, for the Production and Distribution of Energy, there was no monitoring over revenues collected against the forecast. Subsequent to our examination phase, OCAERE was advised that Production and Distribution of Energy began monitoring of revenues collected against the forecast for the fiscal year 2020 to 2021. Monitoring of revenues against the forecast is important as it would help PSPC to identify and address discrepancies, make informed decisions, and take corrective actions.

25. Costing and pricing processes and procedures were in practice for the Production and Distribution of Energy, however, they were not documented. Lack of formal processes and procedures increases the risk

that the model used in practice may not accurately incorporate all relevant direct and indirect costs, and limits its ability to demonstrate compliance with PSPC and Treasury Board policies.

26. Pricing procedures for the Provision of Space and Parking were in place, aligned with the Annual Revenue Plan, and were communicated to relevant staff. A 3% administration fee can be charged as per a Treasury Board decision made in 1984. However, we were unable to determine if this fee should remain at 3% as there was no comparison to use. As this decision was made more than 35 years ago, Real Property Services should reassess the costs of providing the services and determine whether the fee is sufficient to cover the cost associated with providing space and parking to clients in leased accommodation.

4.3 Invoicing

27. Overall, invoices were accurate, however they lacked detailed information for the Revolving Fund. Details were provided to clients who inquired, and client complaints did not indicate that there were issues with PSPC costing and pricing. Without the details, clients would not be able to assess whether they are invoiced the proper fees.
28. PSPC's Revenue Management Framework indicated that clients must be invoiced within a maximum of 30 days after services are rendered, as per the department's billing standard requirements. Results from our sample identified issues of invoices not sent within 30 days for the Production and Distribution of Energy and the Revolving Fund. Timely invoicing is important to avoid delays in payment, and improve cash flow.

5. Findings, recommendations, and management action in response to the recommendation

29. The recommendations presented in this report address issues of high significance or mandatory requirements.

30. The Real Property Services Branch and Finance Branch have validated the findings of the internal audit, agree with the recommendations in this report and have developed related action plans. The Office of the Chief Audit, Evaluation and Risk Executive has determined that they appear reasonable to address the recommendations.

5.1. Cost Recovery Environment

31. Overall, the charging process framework was sufficient, and appropriately supported the cost recovery operations, however improvements are needed in the Production and Distribution of Energy area.

5.1.1 Roles and responsibilities were established, documented and communicated in all areas examined with the exception of Production and Distribution of Energy

32. We expected roles and responsibilities to be clearly defined, documented and communicated to staff working on the Vote-Netted and Revolving Fund revenue charging models.

5.1.1a Vote-Netted Revenue

33. We found that the roles and responsibilities related to the charging model were established, documented and clearly communicated to employees working in the Provision of Space and Parking areas. For example, a

process map which identified the roles and responsibilities of various parties for revenue charged from Occupancy Instruments, and for revenue from Commercial Rental was provided.

34. Employees interviewed in the Production and Distribution of Energy area described the process for charging that was being used. We were informed that there were roles and responsibilities in practice and fulfilled, however they were not documented. Due to the lack of documentation, we could not confirm if roles and responsibilities were communicated to employees.

35. The absence of documented roles and responsibilities in the Production and Distribution of Energy could lead to inconsistency in the application of the charging model, reduced operational performance, and increased risk that some roles are not fulfilled. Defined and communicated roles and responsibilities assist in letting staff know what they are responsible and accountable for, as well as ensuring operational efficiency by reducing confusion and redundancies.

36. Subsequent to our examination phase, we were informed that Real Property Services is in the process of formally documenting the roles and responsibilities for the Production and Distribution of Energy revenue stream.

5.1.1b Revolving Fund

37. We found that the roles and responsibilities were established, documented and clearly communicated to employees with respect to cost recovery activities for the Revolving Fund. A formal roles and responsibilities framework was in place to determine costs and the approach to charging to cover those costs, and responsibilities have been assigned to the various stakeholders involved in this process. For example, it included that project managers were responsible for ensuring the charging model is applied to their projects including ensuring third party costs and direct labour are recorded to the correct projects in the fund. They were also responsible for negotiating agreement with the client at the initiation of the project, which aligns with requirements under PSPC's Procedure on Charging.

Recommendation 1

The Assistant Deputy Minister, Real Property Services Branch, should ensure that the roles and responsibilities for cost recovery activities related to the Production and Distribution of Energy are formally documented.

Action Plan 1

Real Property Services will develop documentation that includes roles and responsibilities, for the cost recovery activities of Production and Distribution of Energy. Documentation will be approved by the appropriate senior management. The target completion date for this action plan is March 31, 2022.

5.1.2 Revenues were appropriately and timely forecasted in all areas examined with the exception of Production and Distribution of Energy

38. We expected timely and appropriate forecasting in place for revenue generating activities. This would include formal forecasts that were reviewed and approved by senior management, and monitoring to ensure adequacy of the forecast.

5.1.2a Vote-Netted Revenue

39. We found that revenues associated with the Vote-Netted Revenue were forecasted on an annual basis as part of preparing the Annual Revenue Plan. The initial revenue amounts were provided to Real Property Services Program and Resource Management which completed a quality assurance review to ensure the forecasted revenue was as accurate as possible. Senior management reviewed and approved these forecasts. The Annual Revenue Plan reflected the Branch Heads submissions of revenue forecasts, which included Assistant Deputy Minister, Real Property Services approved numbers. Once the Plan was finalized, it was approved by the Chief Financial Officer and presented to Senior Governance (Financial Management Committee and PSPC’s Executive Committee) for approval of the proposed strategy presented in the Annual Revenue Plan. The Office of the Chief Audit, Evaluation and Risk Executive did not perform test to corroborate the Annual Revenue Plan process.

40. We noted that monitoring was in place at the business line level to ensure recorded revenue in SIGMA was timely and accurately done, thus ensuring the Departmental Management Reports were accurate. However, for the Production and Distribution of Energy, there was no monitoring over revenues collected against the forecast. Subsequent to our examination phase, OCAERE was advised that Production and Distribution of Energy began monitoring of revenues collected against the forecast for the fiscal year 2020 to 2021.

41. Monitoring of revenues is important as it would help PSPC to identify and address discrepancies, make informed decisions, and take corrective actions. As the Production and Distribution of Energy charges on a cost recovery basis, not comparing actual revenue to forecasted revenue limits the ability of the business line to determine whether revenue is on track to cover costs or whether adjustments to the rates charged are required. As a result this may increase the risk that revenue could be collected in excess of what is required to cover costs, or that insufficient revenue could be charged to cover the underlying costs.

42. For the monitoring that was completed, the Centre for Expertise for property and facility management performed monthly monitoring over commercial revenue collected by property and facility managers to assess whether revenue had been collected and if it aligned with the letting agreements in place. Monthly monitoring over Occupancy Instruments was completed by the Supervisor, Policy and Control Officer in the Property and Facility Management, who compared the revenue to be billed through SIGMA on a monthly basis against the underlying Occupancy Instruments. This allowed the business lines to investigate discrepancies against forecasted revenue. PSPC’s Directive on forecasting requires managers to monitor forecasts on a monthly basis.

5.1.2b Revolving Fund

43. We found that revenue activities were appropriately forecasted for the Revolving Fund, and monitored on a timely basis. The Annual Revenue Plan process identified in the Vote-Netted Revenue section 5.1.2a also applies to the Revolving Fund. Revenues, as well as the associated costs with delivering those revenues were forecasted on an annual basis, and forecasts were reviewed and approved by Real Property Services senior management. On a monthly basis, the revenue forecast and associated budgets were monitored by the Real Property Services - Program and Resource Management Sector, through the Departmental Management Report and Revenue Dashboard processes. Each month actual revenues and budget utilization usage were compared to the forecast at the service line level to identify and address potential issues.

5.1.3 Costing and pricing policies, processes and procedures existed, implemented and communicated to appropriate employees in all areas examined with the exception of Production and Distribution of Energy

44. We expected that policies, guidelines, directives, processes and procedures on costing and pricing to exist, be implemented and communicated to appropriate employees. This is important to help guide employees through the process as they perform assigned tasks, as well as ensuring that mandatory requirements are met.

5.1.3a Vote-Netted Revenue

45. The Treasury Board Secretariat's Policy on the Management of Real Property requires that real property transactions respect the market value principle. It further details that amounts charged are required to approximate what would be generated by a comparable property, and be established through a market analysis. Our review of the policy focused on items related to the charging process, and we found that PSPC used the charging model based on market rate for the Provision of Space and Parking and Commercial Rental. Since market rate was used to charge the client, a costing procedure was not developed and was not required.

46. As a result, revenues from the Provision of Space and Parking and Commercial Rental were not collected on a cost recovery basis for occupancy. The charging model based on market price was approved by Treasury Board Circular 1985-29, and the requirements of the Treasury Board Secretariat's Policy on the Management of Real Property. Revenues were based on market rates that were determined at the time the Occupancy Instrument and Parking, or commercial letting agreement was signed with the clients.

47. We found that pricing procedures for the Provision of Space and Parking were in place, they aligned with the Annual Revenue Plan, and were communicated to relevant staff. Through interviews and the review of documents, we noted that a documented process was in place for Occupancy and Parking Instruments. The process which aligned with the requirements of the Treasury Board Secretariat Policy on the Management of Real Property, outlined guidance to ensure that the Occupancy Instruments were priced in accordance with the charging model. Rates charged in Occupancy Instruments were required to be supported by a market survey which identified the market rate for rental charges of comparable accommodations in the same geographic area. Occupancy Instruments identified that the annual rate will be escalated annually and included a 3% administration fee where the building being occupied is a leased building (fee does not apply to crown-owned facilities). In addition, revenue from Commercial Rental must reflect the current market rent the property would most probably command in the open market, as established through a market analysis, and documented in a letting agreement.

48. While a 3% administration fee can be charged as per a Treasury Board decision[3] made in 1984, we were unable to determine if this fee should remain at 3% as there was no comparison to use. We were also unable to obtain evidence on whether a review was conducted to determine whether this fee aligned with the actual cost associated with the provision of this service to clients. As this decision was made more than 35 years ago, Real Property Services should reassess the costs of providing the services and determine whether the

[3] Treasury Board decision #788470 – January 19, 1984

fee is sufficient to cover the cost associated with providing space and parking to clients in leased accommodation.

49. The supporting documentation for market rates charged with Occupancy Instruments were maintained by PSPC’s Appraisals and Valuations Services. The support for the Occupancy and Parking Instruments were maintained over the course of the lease by the Client Accommodations Services Advisors in hard copy, while the details of these instruments were entered into SIGMA.
50. We found that costing and pricing processes were in practice for the Production and Distribution of Energy, however, they were not documented, and the practice in place did not align with the Annual Revenue Plan in relation to the 15% management fee that should be charged. The Annual Revenue Plan is not the mechanism to establish the fee rates, however the branches and regions indicate the rates that should be used. According to the Annual Revenue Plan, a 15% management fee should be charged for utilities sold to Other Government Departments not managed by PSPC, and third party clients. Our testing confirmed that this fee was not charged during our audit scope, the fiscal year 2019 to 2020. We were informed that the 15% should not have been included in the Annual Revenue Plan as it had not been charged for many years based on a management decision. Management could not provide us with any documentation on the decision to stop this charge, nor provide supporting documentation to justify the cost of providing the service.

51. During our follow up meeting with management, we were advised that the decision to remove the mention of the management fee was not communicated to the Program Management team in charge of the development of the Annual Revenue Plan. Subsequent to our validation meetings, we were informed by Finance Branch that Real Property Services removed the mention of the 15% management fee from the 2022 to 2023 Annual Revenue Plan. To support that the 15% fee is not needed, Real Property Services provided an analysis of the total heating and cooling revenues and costs for 3 fiscal years 2018 to 2021. The analysis showed net revenues in 2018 to 2020 but a net loss in 2020 to 2021. We were advised that this fluctuation is expected as consumption rates are set 6 months in advance, and weather is unpredictable. The expectation is that these revenues and costs balance out over PSPC’s typical business cycle (5 to 10 years), which is consistent with the flexible nature and variations of this type of service. It should be noted that approximately 77% of the revenues are generated by PSPC’s custodial buildings. Differences between revenues and costs for these buildings net out at the aggregate Federal Accommodation and Infrastructure Program level, and it is administratively more efficient to manage revenue and cost variations centrally through the plant budget rather than having to make changes to each individual building operating budget.
52. The Treasury Board Secretariat Policy on Management of Real Property notes that deputy heads are responsible for ensuring that an appropriate real property management framework is in place and maintained that supports timely, informed real property management decisions and the strategic outcome of programs. PSPC’s Cost Recovery Framework notes that cost recovery will be based on consumption, usage and non-discretionary price increases. As a result of the lack of costing and pricing processes documentation, we could not confirm whether all relevant costs were included in the cost recovery model in use. The lack of formal processes increases the risk that the model used in practice may not accurately incorporate all relevant direct and indirect costs, and limits its ability to demonstrate compliance with the PSPC framework.

53. For sample testing results of the 4 revenue streams, a confidence level of 80 % and margin of error of 15 % were applied. Hence a compliance rate of 85% was deemed acceptable to have moderate level of assurance (see appendix C).

54. To verify implementation of the process in the Provision of Space and Parking area, we sampled 18 lease contracts. Overall, leases were charged in SIGMA according to the contracts, or signed Occupancy and Parking Instruments. We noted that 16 of 18 (89%) contracts were consistent between cashflow recorded in SIGMA and contracts, and in 16 of 18 (89%) the lease rate was supported by market rate documentation. For the 2 items where the cashflow was different from the contract, in 1 case there was a discrepancy of $12,437 an amount for an escalation fee that was wrongfully entered in SIGMA, the Real Property Client Accommodations Services team caught the error, made the necessary adjustment, and the client was not charged. The correct escalation fee of $8,989 was charged. In the 2nd case, there was discrepancy of $51,294. As it was close to the fiscal year end, Real Property Services had to estimate an amount to be charged to create a Receivable at year-end, which was appropriate. Once all the relevant information was received in the next fiscal year, they entered the new information in SIGMA but did not charge the updated amount. The client was charged $51,294 instead of $56,919, a difference of $5,625 which was not material. It should be noted that during our testing, we could not obtain all supporting documentation on how the lease rate was calculated, so the staff manually recalculated some of the lease rates that we examined. Not only does this elevate the chance of human error, it is also time consuming to redo the calculation each time.

55. To verify implementation of the process in the Provision of Commercial Rental area, we sampled 19 commercial leases. All leases were rented at market rate, and 18 of 19 (95%) had documentation supporting the amounts charged to client. However, 1 third party was not charged the amount that PSPC was charged by the supplier. The invoice from the supplier was $ 5,449.82 but $ 5,921.64 was charged to the client. Real Property Services could not explain the difference in amounts.

56. To verify implementation of the process in the Production and Distribution of Energy area, we sampled 19 heating and cooling project invoices related to 19 different contracts. The results were that 8 of 19 invoices, a contract was not required as it was part of the PSPC portfolio. Thus when we remove these 8 invoices, 10 of 11 invoices (91%) had had all documents including a signed Specific Service Agreement or contract with the client. Utility Management Services was not able to provide documented support that a Specific Service Agreement or contract was in place for the 1 client for these billings. Plus all 19 invoices had meter readings to support consumption by the client, and support for the charging rate used to bill the client based on that assumption.

57. Additional results included 14 of 19 (74%) were consistent and appropriate with the costing and pricing model Utility Management Services had used. We did not perform further testing as these 5 exceptions were all related to the Tunney’s Pasture Heating and Cooling Plant, all 5 invoices had a signed Specific Service Agreement or contracts with the client, and a meter reading supporting consumption was available. Although it is a mandatory as per policy, directives, guidelines to establish an annual rate of all the relevant costs to operate each plant, we were informed that due to employee turnover it appears that this process was not done for the Tunney’s Heating and Cooling Plant. Instead, the 2018 to 2019 costs were used. If the costing for charging clients is not up to date, it increases the risk that the cost-recovery model may not recover the relevant costs, or that amounts in excess of cost may be charged to clients.

58. Subsequent information received showed that fluctuations in the Tunney’s Heating and Cooling Plant for heating and cooling do not change significantly (heating: 2016 to 2017: $28.98, 2017 to 2018: $29.12 2018 to 2019: $30.85, and 2019 to 2020: $31.45; cooling: 2016 to 2017: $31.73, 2017 to 2018: $32.56, 2018 to 2019: $34.44 and 2019 to 2020: $34.70). In an attempt to calculate the impact on the difference rates used in 2018 to 2019 and 2019 to 2020, we used the consumption of heating (183,688 gigajoules) and cooling

(69,856 gigajoules) for 2019 to 2020 times the rates used in 2018 to 2019 and 2019 to 2020. For heating, the difference was $110,212 (2%) and cooling $18,162 (1%). These difference do not appear significant as the total cost for heating in 2019 to 2020 was $5.8M and for cooling $2.4M.

5.1.3b Revolving Fund

59. We found that costing and pricing guidelines, directives and procedures were in place for the Revolving Fund, reviewed annually and clearly demonstrated the assumptions behind the price structure, including pass through costs, direct labour and overhead charges. The costing and pricing guidelines were communicated to staff and a process was in place to update the costing and pricing guidelines as required, in response to changes in departmental and Treasury Board Secretariat guidelines.

60. The Revolving Fund Budget Framework identified the charging model for third party expenditures which are disbursements such as professional fees for design and construction, elevator inspection fees, and materials, were charged at cost without mark-up to the associated project. The direct labour hours (Real Property Services employees) were billed to the associated project at a specified hourly billable rate marked-up by the multiple 1.8[4]. The framework was supported by Real Property Service's Directive on Recording Billable and Non-billable Time, available on PSPC's intranet, which identified how labour costs were allocated across Real Property Services to comply with the framework. The multiple of 1.8 was designed to recover the overhead of the service cost which included:

- indirect operational and maintenance costs which was composed of rent and other operational and maintenance costs not directly related to projects
- Revolving Fund overhead labour which represented the value of the hours spent by Revolving Fund's employee in administrating and management both human and financial resources associated with the Fund
- service support charges which was comprised of amount charged to the Funds for support services obtained from other PSPC Branches (such as Human Resource and Finance) and external provider (such as Shared Service Canada and Justice).

61. We were informed that the Real Property Services pricing practice was to charge a multiple of 1.8 times the Hourly Billable Rates to assignments (or projects) related to the PSPC real property portfolios of composed of Federal Accommodation and Infrastructure program and the Parliament Hill and Surrounds program. For other government department clients, Real Property Services applied a pricing practice using the 1.8 multiple when clients committed early in the fiscal year on a significant program of work. A multiple of up to 2.0 times the hourly billable rates was charged to clients who requested a project on an individual or ad hoc basis, or when they were submitting their request late in the year. Real Property Services explained that they were using this approach to encourage early planning on the part of their clients, allowing them to realize the related efficiencies and avoid excessive downtime. Finally, Real Property indicated that multi-year projects were charged with a multiple of 1.8 on hourly billable rates regardless of the project start date during the fiscal year. In our sample of projects tested, we did not observe any cases where the multiple of 2.0 was charged.

[4] Real Property Services Program (Real Property Services Revolving Fund) Three-year Business Plan 2022-2023 to 2024-2025 (Draft)

62. An Office of Audit and Evaluation's Program evaluation completed in 2018 indicated that the multiple of 1.8 on the hourly billable rate appeared to be appropriate, given that it accurately reflected the underlying cost structure of the Real Property Services program. We did not do any further work to confirm the appropriateness of the multiple of 1.8.

63. We examined a sample of 19 files from the Revolving Fund to verify whether costs were appropriately charged to the correct project and labour hours were billed at the multiple of 1.8. The results were 18 out of 19 (95%) files sampled had support for disbursements such as professional fees for design and construction, elevator inspection fees, and materials that aligned with the amount charged, 1 file, an internal PSPC project did not achieve the multiple of 1.8 instead it was at 1.5. In 2020, Real Property Services noticed that there were approximately 3,600 errors not addressed in SIGMA which resulted in a non-material impact on revenues of $24k overall loss that was not adjusted. The error noted in our sample was included in the errors identified. We were advised that the errors were due to some timesheets entries not being transferred from 1 module to another due to a lack of budget in the project. In October 2021, we were advised that these errors were reduced to 51 as the errors generated by SIGMA were monitored and addressed on a daily basis to prevent the situation occurring again. We did not validate the efficiency of the monitoring process that was being used to clear errors identified in SIGMA.

Recommendation 2

The Assistant Deputy Minister, Real Property Services Branch should:

1. **ensure that the Production and Distribution of Energy process used for identifying relevant costs, and determining the price including management fees to charge clients are formally documented, implemented, and communicated to relevant staff.**
2. **reassess the appropriateness of the 3% administration fees that is applied on occupancy and parking instruments since it dates back to 1984. The reassessment would ensure that fees are supported by the costs associated with providing the service. In addition, this administrative fee should be reviewed every 3 to 5 years to ensure it is still appropriate.**

Action Plan 2

1. Real Property Services, in collaboration with Finance Branch, will:
   a. undertake a review of the costing model for Production and Distribution of Energy to ensure all relevant direct and indirect costs have been captured. The result of this review will be documented. The target completion date for this action plan is February 18, 2022.
   b. document the process used to identify all relevant costs required to determine the price charged including management fees. The target completion date for this action plan is March 11, 2022.
   c. communicate the documented process to relevant staff. The target completion date for this action plan is March 31, 2022.
   d. implement the process. The target completion date for this action plan is March 31, 2022.

2. Real Property Services:
   a. will conduct a review of the 3% administration fees applied to occupancy and parking instrument in leased facilities, using comparable from other levels of government (i.e. provincial) as well as

other similar large corporations, and document the results of the review. The target completion date for this action plan is June 30, 2022.

b. based on the result, Real Property Services will determine whether the 3% administration fees is still relevant or a new percentage will be established. The target completion date for this action plan is June 30, 2022.

c. the decision to keep the current percentage or the establishment of the new percentage will be approved by management, documented, communicated and implemented. The appropriate procedure/directive will be updated to include a review of the administrative fee every 5 years to ensure it is still appropriate. The target completion date for this action plan is November 30, 2022.

5.1.4 Training was in place to support the cost recovery activities in all areas examined with the exception of Production and Distribution of Energy

64. We expected classroom, online or on the job training of cost recovery activities to be in place to help boost employees' knowledge base and job skills, build efficiency in processes, and accomplish goals and objectives.

5.1.4a Vote-Netted Revenue

65. We found that pricing activities for the Provision of Space and Parking were supported by appropriate training. Specific SIGMA training was required for the Provision of Space, Parking and Commercial revenues. Some training courses were required to be completed by employees before they were given access to the coding in SIGMA to enter Occupancy Instruments. The training was supported by the lease-out process map which identified each step in the process of preparing and administrating Occupancy Instruments. In addition, in the National Capital Region, the Client Accommodations Service Advisors developed an informal training guide to assist with ensuring all necessary steps in the Occupancy Instrument process were completed.

66. We also noted that mandatory training was required for Commercial Rental. This training focused on ensuring the terms of the letting agreements were entered into SIGMA correctly to ensure that the subsequent billing was completed in accordance with the contract terms. Training was supported by business process guides, such as the Revenue Collection and Letting Administration for Commercial and Retail Letting.

67. For the Production and Distribution of Energy, we did not find any formal training or documentation for the costing and pricing process, or how to use the tool and its various estimates. Employees interviewed advised that there was on-the-job training, and had no issues on how to use the tools. We could not confirm if training was appropriate as to support the costing and pricing activities as the processes were not documented.

68. As mentioned before, processes that are not documented increases the risk that costing and pricing activities may be carried out incorrectly. While employees may obtain an understanding of the process in practice, employee departures may result in corporate knowledge being lost, and new employees unable to efficiently perform the work required. There is an opportunity for improvement to develop training for applying the cost-recovery model for the Production and Distribution of Energy to ensure it is used consistently and correctly.

5.1.4b Revolving Fund

69. We found that the costing and pricing for the Revolving Fund was supported by a mix of formal and on-the-job training. Interviews identified that additional training was provided to project managers and business managers through the Business Management Centre of Expertise. This training was ongoing throughout the year to capture any changes to processes and procedures. In addition a variety of other SIGMA based training was available for PSPC employees in real property functions involving SIGMA.

5.1.5 Mechanisms for oversight were in place for all but we cannot confirm if it was effective in the Production and Distribution of Energy area

70. We expected mechanisms to be in place to provide oversight over the cost recovery process. Effective oversight would help improve the efficiency and effectiveness of cost recovery activities, and allow management to provide direction, make appropriate decisions, deliver on requirements, and resolve issues in a timely manner.

5.1.5a Vote-Netted Revenue

71. Overall, we found that PSPC had an effective oversight mechanism in place over the Vote-Netted Revenue, which included review of revenue by relevant business lines and PSPC senior management as mentioned in section 5.1.2. Oversight was done throughout the year through monitoring completed for the Departmental Management Report Review and Revenue Dashboard Processes. These processes were used to identify significant variances in terms of actual revenues compared to the revenue forecast. Our audit did not include a review of the Departmental Management Report and Revenue Dashboard processes as per PSPC's Directive on Forecasting, all PSPC managers are required to prepare their monthly forecast using SIGMA in accordance with set timelines.

72. In addition, monitoring was completed through the Revenue Dashboard exercise actioned by Finance Branch from information provided by the Real Property Services Program and Resource Management group which coordinated the exercise on a national basis on behalf of Real Property Services including the regions. The revenue dashboard provided an effective oversight at the cost recovery activity level, with ongoing in-year monitoring with the Annual Revenue Plan as a base point. The Revenue Dashboard, with the Departmental Management Report, were presented periodically to senior governance (Financial Management Committee and PSPC’s Executive Committee) in periods 3, 6, 8, 10, 12 and at year end.

73. Although mechanisms for oversight were in place, we cannot conclude on its effectiveness for the Production and Distribution of Energy area as regular monitoring of revenues was not done at the operational level. The Production and Distribution of Energy was approximately 4% of the Vote-Netted revenue in our scope, therefore the impact may not be significant. However, there is a risk that senior management may not have the correct data to provide advice and recommendations in order to achieve expected results, and improve processes.

5.1.5b Revolving Fund

74. In addition, effective oversight of the Revolving Fund was provided by senior management through their involvement in the various steps in the annual forecasting, and subsequent monitoring of the fund as described in section 5.1.2. The budget and monitoring processes are described in the Annual Budget Framework.

5.2. Charging Business Processes

75. Invoices were generally accurate, and sent to clients in a timely manner, however they lacked detailed information on the amounts charged for services rendered. There is a process in place for resolving pricing issues.

5.2.1 Overall, invoices were accurate, however some lacked detailed information and were not sent to clients in a timely manner

76. We expected invoices to have detailed information of the description of the service rendered, the pricing, and payment owed, and sent to clients per the standards established. PSPC's Revenue Management Framework indicated that clients must be invoiced within a maximum of 30 days after services are rendered, as per the department's billing standard requirements.

5.2.1a Vote-Netted Revenue

77. For the Provision of Space and Parking and Commercial Rentals areas, a contract is signed at the beginning of the contract which includes all of the relevant billing information, thus the process did not involve the issuance of an invoice. Billings were automatically generated in SIGMA on a monthly basis based on the terms and conditions that have been entered into SIGMA for each Occupancy Instrument or letting agreement.
78. For the Production and Distribution of Energy area, we were advised that invoices were sent to the client following the end of month for heating and cooling used that month. We noted that invoices listed the total amount due to PSPC for heating and cooling and which building this charge was incurred for, but did not provide detailed information on charges such as the rate per gigajoule for heat or cooling that was charged, or the meter reading for that building. Emails were sent to the clients with the details of the charges. We found that 5 of 19 (26%) invoices sampled had been sent within 30 days of the month ending, while the remaining 14 invoices were sent within 2 months. This was a process step that was not operating consistently, hence there is also an opportunity for improvement for clients to be invoiced within a maximum of 30 days after services are rendered, as per the department's billing standard requirements. Timely invoicing is important to avoid delays in payment, and improve cash flow which will help the department reduce the risk of incurring losses.
79. The results of our test for accuracy and completeness for the Production and Distribution of Energy were as follows. 19 of the 19 (100%) heating and cooling invoices had support in the form of a report of meter readings from Utility Management Services. The meter reading, multiplied by the relevant charging rate for that plant aligned with the amount charged to the client on their invoice for 14 of 19 (74%) invoices. We did not perform further testing as the root cause of the exception were linked to utilities provided by 1 cooling and heating plant. These remaining 5 invoices which were all for the Tunney's Pasture Heating and Cooling Plant. Charges aligned with the report on meter readings, however, the 2018 to 2019 cost was used. Management informed us that due to the departure of the employee that was in charge of establishing the 2019 to 2020 cost, the 2018 to 2019 cost was used instead.

5.2.1b Revolving Fund

80. For the Revolving Fund, not all sampled projects included disbursements, and the quantity of disbursements varied each project. If there were no disbursements on the invoice, then it would only have the labour cost which is calculated by multiplying for the employee's hourly billable rate multiplied by the number of hours

charged. Of the 19 projects in the sample, 12 projects had disbursements, which consisted of 49 disbursements, comprising $1.6 million which were reviewed by the audit team. Each project has a variable number of invoices depending on how many disbursements were associated with the projects, and how many disbursements were billed on each PSPC invoice. The results of our testing were as follows, 47 of 49 (96%) disbursements had appropriate supporting documentation. Support for 2 disbursements, totaling $547, could not be provided.

81. In addition, for the Revolving Fund, of the 12 projects sampled, 22 PSPC invoices were provided which accounted for 11 of 12 (92%) projects. 1 project could not provide support in the form of PSPC invoices. Of the 22 invoices reviewed, 16 (73%) were sent in accordance with terms within 30 days of receipt of the third party invoice, with the remaining sent roughly 2 months after receiving the third party invoice. We did not perform additional testing as these invoices included the accumulation of low value third party invoices. We were informed that Real Property Services had a practice to cumulate a total of small third party amounts invoices before charging them back to their clients.
82. We noted that Revolving Fund invoices examined did not provide detailed information. While the invoices did provide sufficient information to clearly trace the charges to the relevant client and project, the invoices provided limited information on the nature of the disbursement, and only provided the amount billed at the marked up rate. For example, the underlying third party invoices supporting the disbursement charged were not sent to the client. Direct labour on the invoice listed the name of the individual charging labour to the project, the number of hours and the amount charged; however, there was no breakdown of the hourly billing rate, and the multiple of 1.8 component. Limited details would make it difficult for clients to understand exactly what they are being charged.
83. During the course of the examination phase, we were advised that more detailed information was provided to clients when requested. When asked if requests for additional information happened frequently, management responded that that client complaints on cost do not happen frequently. When clients require additional information, the details are sent by email. We were also informed that the low level of detail on the invoice was due to limitations in SIGMA. SIGMA does not have the capability to include details such as the rates applied and the consumption used.
84. We also noted that as part of the 2018 Evaluation of Real Property Services, the evaluation team included a question in their client survey, asking clients whether project costs were a concern on their projects. Of the 21 respondents who answered the question, 7 (33%) indicated they had a concern with costs, with only 1 citing the mark-up on labour costs as a concern. The main concern revolved around communication with respect to costs, not the costs themselves.
85. There is an opportunity for improvement to ensure that invoices provide sufficient information to support charges for services rendered as not providing a detailed invoice increases the risk that clients will not understand the basis of what they are being charged. This can result in additional time spent by PSPC staff to explain the charging process to the client and supporting documentation for the invoice. This also limits clients' ability to properly exercise their financial obligation under the *Financial Administration Act*.
86. There is also an opportunity for improvement for clients to be invoiced within a maximum of 30 days after services are rendered, as per the department's billing standard requirements. Timely invoicing is important to avoid delays in payment, and improve cash flow which will help the department reduce the risk of incurring losses.

5.3. Information Management

87. Overall, PSPC had a robust information management system, however information in the system should be kept up to date, and information from various sources should be appropriately reconciled.

5.3.1 Overall, information found in the financial system was reliable but improvements could be made.

88. We expected SIGMA to have reliable information to be used for costing, pricing and reporting purposes as it was used to retain financial information related to Vote-Netted Revenues and the Revolving Fund.

5.3.1a Vote-Netted Revenue

89. We observed that sufficient and reliable information was retained in the financial system for the Provision of Space, Parking and Commercial Rental. However, they were not used to identify the pricing of these services. Unlike the Revolving Fund and the Production and Distribution of Energy, the Provision of Space, Parking and Commercial Rental do not operate on a cost recovery basis. Occupancy and Parking instruments, along with commercial leases are based on the market rate at the signing of the agreement as per Treasury Board decision. The information recorded in the financial system is used for monitoring the revenue streams for the Provision of Space, Parking and Commercial rental to ensure that revenue collected aligns with forecasted revenue, and to investigate discrepancies.

90. Our sample results presented in section 5.1.3 confirmed that the information in SIGMA was reliable. In the Provision of Space and Parking area, 16 of 18 (89%) contracts did not have discrepancies noted between cashflow and contracts (explanation in 5.1.3), and in 16 of 18 (89%) the lease rate was supported by market rate documentation. For the 1st exception, a market analysis was not available for us to compare to the rate in SIGMA, hence we could not confirm if the rate in SIGMA were correct. For the 2nd exception, there was a market analysis, however when the employee recalculated the amount, it did not match the amount in SIGMA, and was $8,736 lower than the lease contract. As previously mentioned, the staff manually recalculated some of the lease rates that we examined, hence there is a potential for human error. In the Provision of Commercial Rental area, 19 of 19 (100%) commercial leases were rented at market rate, and 18 of 19 (95%) had charges that were fully supported.

91. As previously mentioned, we noted that the information retained in the financial system was not always sufficient and reliable for costing purpose for the Production and Distribution of Energy which was operated under a cost recovery mechanism. The information captured in the financial system was used to identify the cost associated with operating Heating and Cooling Plants. However, during our audit scope, the 2018 to 2019 rates were used for 1 of the 3 plants as none were calculated for 2019 to 2020. In addition, the information in the system was not used to monitor the revenue collected in order to identify any discrepancies.

5.3.1b Revolving Fund

92. We noted that the information recorded in the financial system provided sufficient and reliable information for the costing and reporting of Real Property Services Revolving Fund activities. Information in the financial system (SIGMA) is used for on-going monitoring. Our sample results presented in section 5.1.3 confirmed that the information in SIGMA was reliable as 18 out of 19 (95%) files sampled had support for disbursements charges that aligned with the amount charged.

93. Reliable information is important for reporting and monitoring purposes. If there are discrepancies between the information retained in the financial system and the information being reported, there is a risk that senior management may not have adequate information for financial monitoring and decision making.

6. Conclusion

94. Overall, we found that while opportunities for improvement were identified the cost recovery framework for the Vote-Netted Revenue's Provision of Space and Parking Rental and the Real Property Services Revolving Fund was sufficient, appropriate, and applied consistently. We also noted opportunities for improvement in the Production and Distribution of Energy, in the cost recovery environment, and the charging process. These included the need for defined roles and responsibilities, processes and procedures, and monitoring requirements.

7. Acknowledgement

95. In closing, we would like to acknowledge, recognize, and thank the Finance Branch, and the Real Property Services Branch for the time dedicated, and the information provided during the course of this engagement.

8. Audit team

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Appendices

Appendix A: Audit criteria and methodology

Based on the Office of the Chief Audit, Evaluation and Risk Executive risk assessment, the following lines of enquiry were identified:

Lines of enquiry	Criteria	Source of criteria
Cost recovery environment **1. A charging process framework is sufficient and appropriately supports the costs recovery operations**	1.1 Roles and responsibilities are established and clearly communicated with respect to cost-recovery activities.	*Management Accountability Framework* – AC-1 Accountability; *Management Accountability Framework* – AC-3 Accountability; *TBS - Guide to Internal Charging and Special Financial Authorities - parag. 4.3.1* *TBS - Guide to Cost Estimating – parag. 7*
	1.2 Revenues activities are appropriately and timely forecasted.	*Management Accountability Framework* – ST-3 Stewardship
	1.3 Costing and pricing determination policies, guidelines, directives and procedures are complete and communicated to appropriate management and staff.	*Management Accountability Framework* – ST-5 Stewardship
	1.4 Costing and pricing activities are supported by appropriate training.	*Management Accountability Framework* – PPL-4 People
	1.5 PSPC has effective oversight in place	*Management Accountability Framework – G-2 & G-6 Governance and Strategic Directions* *Policy on Financial Management – parag. 4.1*
Charging business processes	2.1 Appropriate and consistent costing and pricing methods are used to identify chargeable costs in accordance with	*TBS - Guide to Cost Estimating – parag.4*

Lines of enquiry	Criteria	Source of criteria
2. Costing, pricing and invoicing processes are in place and are working effectively	relevant policies, directives and guidelines.	
	2.2 Supporting documentation of underlying assumptions and methodology used to determine costs and pricing are maintained.	*Management Accountability Framework* – ST-12 Stewardship *TBS - Guide to Cost Estimating – parag. 6.7*
	2.3 Costing tools are periodically revised to properly reflect current costs.	*TBS - Guide to Cost Estimating – parag.6*
	2.4 Invoices are accurate, complete and transparent, and sent to customers in a timely manner.	*TBS - Guide to Internal Charging and Special Financial Authorities – parag. 4.3.2*
Information management and monitoring **3. PSPC has a robust information management system, and an effective monitoring process in place to support timely identification and resolution of costing and pricing issues**	3.1 Information retained in the financial systems is sufficient and reliable for costing, pricing, invoicing and reporting purposes.	*Management Accountability Framework* – ST-10 Stewardship *TBS - Guide to Cost Estimating – parag. 7*
	3.2 Changes to goods and services requests are adequately reflected into the cost estimates.	*TBS - Guide to Cost Estimating – parag. 3*
	3.3 Client feedback is being sought and actioned in order to resolve pricing issues.	*Management Accountability Framework* – CFS-1 Citizen-focused Service
	3.4 Key controls are designed and implemented to ensure alignment between the pricing and actual costs	*Management Accountability Framework* – ST-15 Stewardship

Methodology

96. The planning phase included document collection and review, as well as interviews with key stakeholders in the Finance Branch and Real Property Services Branch, involved in the department's charging processes.
97. During the examination phase, in-depth interviews were conducted with key departmental personnel along with additional documentation review, and sampling (see Appendix C for sampling strategy) of charges from the Revolving Fund and revenue streams from the Federal Accommodations and Infrastructure Vote-Netted Revenue. At the end of the examination phase, the audited organizations were requested to provide validation of the findings.
98. During the reporting phase, the audit team documented the audit findings, conclusions and recommendations in a Director's Draft Report. This report was internally cleared through the Office of the Chief Audit, Evaluation and Risk Executive quality assessment function. The audited organizations will be provided with the Director's Draft Report and will be requested to review and comment on the Report. Comments will be assessed and incorporated in the Chief Audit, Evaluation and Risk Executive's Draft Report. This report will be sent to the audited organizations for final acceptance. A management response to the Report, and a Management Action Plan in response to the audit recommendations, will be requested. The Draft Final Report, management response, and Management Action Plan will be tabled at the Departmental Audit Committee meeting for final approval.

Appendix B: 2020 to 2021 PSPC's Net Revenues*

Description	Net Revenues	Percentage of the funding option	Percentage of total revenues
Revolving Funds: Real Property Services Revolving Fund	$2,033.1M	86.3%	55%
Vote-Netted Revenues: Real Property Services Branch - Federal Accommodation and Infrastructure assets	$928.8M	70.6%	25%

		Key Activities	2020-21 Net Revenues		Percentage	
			Original	Revised	Original	Revised
REVOLVING FUNDS	RPSRF	Project Delivery	1639.6	1667.3	65.8%	70.8%
		Property and Facility Management	388.3	243	15.6%	10.3%
		Advisory	127.5	122.8	5.1%	5.2%
	OSRF	Vaccine Procurement	158.2	158.2	6.4%	6.7%
		Traffic Management	12.9	12.9	0.5%	0.5%
		Communication Procurement	2.4	2.4	0.1%	0.1%
	TBRF	Translation services	120.6	109.7	4.8%	4.7%
		Interpretation services	18.7	16.6	0.8%	0.7%
		Terminology services	14	14	0.6%	0.6%
		Others	9	9	0.4%	0.4%
Subtotal Revolving Funds			**2491.2**	**2355.9**	**100%**	**100%**
VOTE NETTED REVENUES (VNR)	AP	Dedicated procurement Services	94.3	97.8	7.5%	7.4%
		Advertising and Public opinion Research	1	1	0.1%	0.1%
	ATL	Cape Breton Operation - SPA	0.4	0.4	0.0%	0.0%
	DOB	Forensic Accounting Services	2.8	2.8	0.2%	0.2%
		Industrial Security Sector (Contract Security)	18.8	21	1.5%	1.6%
		Security & Emergency Management Sector	0.2	0.2	0.0%	0.0%
		Security System Management Sector (New)	0	0.1	0.0%	0.0%
	FAB	Enterprise Resource Planning Solution to SSC	2.5	2.9	0.2%	0.2%
	DSB	Free Balance	0.4	0.4	0.0%	0.0%
		Enterprise Program Management Office (GCDOCS)	22.3	32.8	1.8%	2.5%
		Centre for Enterprise HR Analytics	1.9	1.5	0.2%	0.1%
		Integrated Financial and Material System	15.2	20.3	1.2%	1.5%
		Shared Travel Services	7.3	3.8	0.6%	0.3%
		GCCase	6.4	9	0.5%	0.7%
	PAB	Shared Human Resources Services	7.1	4.5	0.6%	0.3%
		Pay Services-Miramichi	5.3	5.3	0.4%	0.4%
		Employment Insurance & Canada Pension Plan	0.9	0.9	0.1%	0.1%
		Telefilm	0	0	0.0%	0.0%
		Pensioners'Dental Service Plan	1.6	1.6	0.1%	0.1%
	PSB	GoC HR Management System	5.2	4.8	0.4%	0.4%
		My GCHR	6.2	11.9	0.5%	0.9%
	RPSB	Federal Accomodation and Infrastructure Assests - SPA	893.8	928.8	70.8%	70.6%
	RGPB	Pension Administration for the Public Service Pension Plan	81.8	81.8	6.5%	6.2%
		Pension Administration for DND/CFSA Pension Plan	26.9	26.9	2.1%	2.0%
		Document Imaging Services	13.1	13.1	1.0%	1.0%
		Payment Issuance - SPA	12.2	15	1.0%	1.1%
		Payment Issuance - Regular	4.4	5.2	0.3%	0.4%
		GCSurplus	12	3.2	1.0%	0.2%
		RCMP Pension	5.4	5.4	0.4%	0.4%
		Seized Property Management Directorate (SPMD)	6.9	6.5	0.5%	0.5%
		Copyright Media Clearance Program (CMCP)	2.1	2.1	0.2%	0.2%
		Bill Payment Services	0.3	0.3	0.0%	0.0%
		Canadian General Standards Board (CGSB)	1.7	1.3	0.1%	0.1%
		Producing and Publishing the Canada Gazette	2	1.7	0.2%	0.1%
		Common Departmental Financial System	0.5	0.5	0.0%	0.0%
Subtotal Vote Netted Revenues			**1262.9**	**1314.8**	**100.0%**	**100.0%**
GRAND TOTAL			**3754.1**	**3670.7**		

Legend

RPSRF	Real Property Services Revolving Fund
OSRF	Optional Services Revolving Fund
TBRF	Translation Bureau Revolving Fund
AP	Acquisitions Program
ATL	Atlantic Region
DOB	Departmental Oversight Branch
FAB	Finance and Administration Branch
DSB	Digital Services Branch
PAB	Pay Administration Branch
PSB	Pay Solutions Branch
RPSB	Real Property Services Branch
RGPB	Receiver General and Pension Branch

Included in Scope

Excluded from Scope

***** Internal charges ($79 million for Cost Allocation Model and Internal Services Support Costing Tool) are not reflected in the Vote-Netted Revenues figures.

Source: Cost and Revenue Management Directorate (Finance Branch) – PSPC

2020 to 2021 Original Net Revenues reflect the amount included in the 2020 to 2021 Annual Revenue Plan.

2020 to 2021 Revised Net Revenues are from the Period 04 2020 to 2021 Revenue Dashboard.

Appendix C: Sampling Strategy

Per our audit scope, the Real Property Services Vote-Netted Revenue – Federal Accommodation and Infrastructure Assets (3 revenue streams) and the Real Property Services Revolving Fund (1 revenue stream) made up our sample population. Additionally, we focused on cost recovery activities managed by the sectors located in the National Capital Region.

Methodology

We used a judgmental sampling approach for each revenue stream, the sample was selected based on the information gathered through interviews and document reviews conducted during the planning phase.

- For the Revolving Fund, the majority of files chosen (14 out of 19) were for revenues recovered from Other Government Departments as overall their value was higher than the internal files, and they included third party disbursements.
- For the Provision of Space and Parking and Provision of Commercial Rental, the selection of contracts was performed randomly as each type of contract did not have unique traits.
- For the Production and Distribution of Energy the audit team selected 3 months of billing based on its professional judgment. The months selected were based on the expected peak of consumption of cooling such as summer – June 2019, and heating which was the end of fall – November 2019, and winter – February 2020.

Although the testing results cannot be extrapolated to the entire population, they can be used to identify specific exceptions or types of errors found. The audit report presents the errors discovered, and identified the root causes of those errors where possible.

To assist in calculating a sample size for each revenue stream, we used the Survey Monkey sample size calculator. For the 4 revenue streams, a confidence level of 80 % and margin of error of 15 % were applied. These criteria enabled the collection of the appropriate level of confidence to provide a moderate level of assurance. Hence, a compliance rate of 85% was deemed acceptable.

Based on the parameters, the following sample sizes were calculated for each revenue stream. The samples were chosen randomly with the use of Excel.

Revenue Stream	Population	Population Value	Sample Size	Sample Value
Revolving Fund	4,059 projects	$598M	19 projects (review of all labour costs and 21 of the most significant disbursements for each project)	$3.5M
Provision of Space and Parking	532 contracts	$311.6M	18 contracts (review of all revenue cash flows for each contract)	$14.9M
Provision of Commercial Rental	580 contracts	$37.7M	19 contracts	$9.8M

Revenue Stream	**Population**	**Population Value**	**Sample Size**	**Sample Value**
			(review of all revenue cash flows for each contract)	
Production and Distribution of Energy	52 contracts	$26M	19 contracts (review of 1 monthly invoice for each contract)	$1.6M

The assessment of the sample size using Survey Monkey generated a sample size of 19 for Revolving Funds, 18 for Provision of Space and Parking, 18 for Provision of Commercial Rental, and 14 for Production and Distribution of Energy. Due the relatively small sample for each type of revenue stream, we decided to have a similar sample size for each revenue stream. For the Provision of Space and Parking, 19 contracts were originally selected but during the testing phase, 1 file was deemed not relevant as it was for a non-reimbursing client. As 18 was the original sample size calculated, we did not select another contract as a replacement. For the Production and Distribution of Energy, based on our judgment and the fact that the process was not documented, we increased the sample to 19 by selecting 5 additional contracts.

Appendix D: Glossary

Term	Definition
Annual Revenue Plan	The Annual Revenue Plan is a PSPC annual exercise for which branches submit a three-year plan for each of their Vote-Netted Revenue cost recovery activities and Revolving Fund activities that generate revenues. Intradepartmental revenues classified as “non-mandated” revenues or internal charges are also being reported. This exercise starts jointly with the Annual Reference Level Update process.
Costing	Compiling of cost information to serve a specific purpose, such as determining the cost of providing a service, aligning resources with results, measuring performance, evaluating efficiency or reallocating resources.
Escalation of Accommodation Charges[5]	Charges for accommodation may escalate, as required, for each fiscal year subsequent to the base year. The base year is a reference year corresponding to the fiscal year of the start date of the Occupancy Instrument or condition. Escalations are calculated by multiplying the estimates for taxes, operations and maintenance during the base year by the forecast percentage change in the *Consumer Price Index* (all items nationally).
Expansion Control Framework (ECF)[6]	Unprogrammed expansion space for a non-reimbursing client department that is beyond their approved occupancy limit
Funding	Allocation of money to a manager's budget or to a department's reference levels based on government priorities. If there is a gap between the cost of a program and the funding available, management must take action to align planned activities with the funding available. The amount of funding can also depend on revenues from fees in cases where an organization has the authority to spend revenues.
Market Rate[7]	The rental rate charged to client departments, which is determined through the use of market data and analysis.
Non-reimbursing Accommodations (client)[8]	Space provided to a client department is recorded on an Occupancy Instrument and provided to the client via occupancy agreement as per the Funding Framework for PSPC’s real property portfolio and related services. Services supplied to a client department in excess of those standard building services provided will be supplied on a cost recovery basis.

[5] Standard Terms and Conditions of PSPC-administered Accommodations [Microsoft Word - Std Ts Cs PSPC-admin Acc - March 2020 EN (gcpedia.gc.ca)]
[6] Standard Terms and Conditions of PSPC-administered Accommodations
[7] Standard Terms and Conditions of PSPC-administered Accommodations
[8] Standard Terms and Conditions of PSPC-administered Accommodations

Term	Definition
Occupancy Agreement[9]	A formal agreement between a client department and PSPC concerning occupancy in a particular asset that is under the administration of PSPC. The Occupancy Instrument, in conjunction with the Standard Terms and Conditions of PSPC-administered Accommodations, represent a binding interdepartmental agreement referred to as the occupancy agreement.
Occupancy Instrument[10]	Records the rentable and usable areas, the civic address and the planned general use of the particular parcel of accommodation that is subject to the agreement. A separate Occupancy Instrument will also be created to detail clients' parking requirements if applicable
Pricing	The process to set the amount that is charged for a good or service. The price the government charges for a good or service is based on the cost of providing that good or service. The government cannot charge more than cost, but it can charge less than cost in order to, for example, ensure fairness, minimize economic impact on clients, and achieve policy objectives.
Reimbursing Accommodations (client)[11]	Client departments provided with reimbursing accommodations in light of special funding arrangements with Treasury Board, as well as those provided with accommodations in excess of PSPC-funded accommodations will be responsible for all charges associated with the occupancy, including standard building services, operation and maintenance, taxes, and applicable escalations.
SIGMA	Public Services and Procurement Canada's financial system.

[9] Standard Terms and Conditions of PSPC-administered Accommodations
[10] Standard Terms and Conditions of PSPC-administered Accommodations
[11] Standard Terms and Conditions of PSPC-administered Accommodations