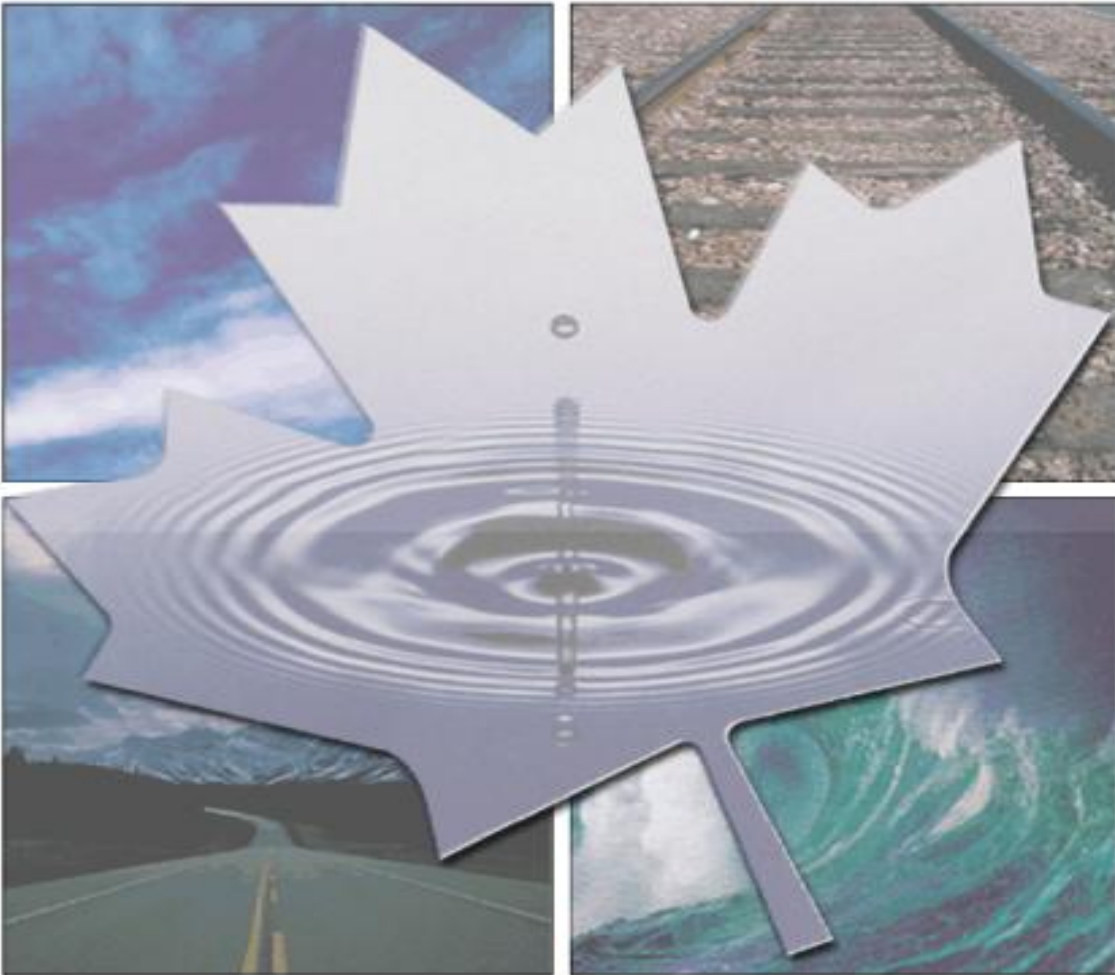


# ***Audit and Advisory Services***

***Integrity, Innovation and Quality***



## **Audit of Accommodation and Stewardship of Assets**

File Number: 1577-12/13-104

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## **Executive Summary**

### **Introduction**

An Audit of Accommodation and Stewardship of Assets was included in the 2012-2013 Transport Canada (TC) Risk-Based Internal Audit Plan. Its inclusion was the result of a risk assessment process aimed at identifying higher risk areas where internal audit attention and limited internal audit resources should be focussed. A further reason was an April 2010 Prime Minister's letter to the Minister of Public Works and Government Services Canada (PWGSC) and Treasury Board (TB) President asking that steps be taken to ensure federal departments appropriately manage spending on building and maintenance services.

The area of TC with responsibility for accommodation and stewardship of assets (in headquarters) is the Facility Management Organization (FMO) within the Material, Contracting, Security and Facility Management Directorate in the Corporate Services group, which reports to the Director General, Finance and Administration, who in turn reports to the Assistant Deputy Minister, Corporate Services.

The objectives of the audit were to assess whether:

- Transport Canada's policies, practices and controls (i.e., its management control framework) are adequate to plan and manage facility activities; and
- The activities of TC's Facility Management Organization (FMO) support an effective and efficient facilities management process.

### **Conclusions**

Overall the auditors can not provide assurance that the management control framework for accommodation services is adequate. Auditors found a lack of structure and tools that would provide the checks and balances to ensure transparency and value-for-money in FMO activities.

Examples of instances showing lack of contracting transparency and compliance included a Standing Offer Agreement "Request for Proposals" that understated the amount of work that would be asked of the successful bidder and overstated what would be required in terms of security clearances, contracting files that were unavailable or incomplete, contracting files that were not submitted for Senior Procurement Review Committee review, contracting files that were submitted to Senior Procurement Review Committee with incorrect information; and contracting files that did not show evidence of review, monitoring and oversight by Contracting and Material Management.

Examples of practices not consistent with the concept of value-for-money included a significant national capital region (NCR) work station vacancy rate, development of TC-specific standing offer agreements for services that could have been obtained more easily through PWGSC master agreements, significant expenditures on a software module and operator to track TC office space use in the NCR that was underutilized and eventually replaced by an Excel spreadsheet, long-term extensive use of full-time contract planners/designers at a cost much higher than government employees, continuation of full-time contract planner/designer and mover contracts even after a moratorium on all but the most essential moves, and multiple extensions of standing offer agreements that significantly increased their total value.

Other issues observed by auditors included warehouses and storage facilities with inadequate security and no lists of inventory and a risk of employer-employee relationships related to long-term contractors. Also, FMO did not have the policies, procedures and controls to ensure compliance with government policies. Overall, auditors observed a lack of management oversight of FMO activities, which allowed a culture of non-conformance to develop and continue.

A positive note was a number of changes in FMO practices since the audit began such as completion of service contracts involving long-term contractors, and some organizational renewal changes, may together bring corrective action in areas found deficient during the audit.

### **Recommendations**

1. The Deputy Minister should clarify all ADMs' accountabilities related to TC space management with a view to reducing TC and PWGSC expenditures for unneeded space. A lead ADM (the ADM Corporate Services) should be charged with bringing departmental space usage information to senior management committee with some regularity for the committee's review and discussion.
2. The ADM Corporate Services should ensure there are clear objectives for the Facility Management Organization and there is an effective, TB policy compliant framework of policies/programs/controls for each of its three units: Planning and Design, Building and Emergency Services (including warehouse security and inventory management), and Accommodation. FMO objectives should be regularly updated through a formal planning exercise.
3. The ADM Corporate Services should ensure that the Materiel, Contracting, Security and Facility Management Branch has the policies, practices and processes to ensure that Facility Management Organization contracts, contract management, and security arrangements are TB policy compliant.
4. Where PWGSC has supply arrangements for services that TC needs, the ADM Corporate Services should ensure that these supply arrangements are used by the Facility Management Organization. Any exception should be approved, in advance, by the Department's senior management committee.
5. With respect to record-keeping, the ADM Corporate Services should ensure there is a sound understanding in both the Contracting and the Material Management branch and the Facility Management areas of Corporate Services of procurement-related record-keeping responsibilities of departments and the two functions fulfil these responsibilities from this time forward.

**Statement of Conformance**

This audit conforms to the Internal Auditing Standards for the Government of Canada, as supported by the results of an external assessment as outlined in Internal Audit's quality assurance and improvement program.

**Signatures**

_____	_____
Dave Leach (CIA) Director, Audit and Advisory Services	June 14, 2013

_____	_____
Laura Ruzzier, Chief Audit Executive	June 14, 2013

## **1.0 INTRODUCTION**

### **1.1 THE MATERIAL, CONTRACTING, SECURITY, AND FACILITY MANAGEMENT BRANCH**

Transport Canada (TC) is the federal government department responsible for transportation policies and programs and the promotion of safe, secure, efficient and environmentally-responsible transportation.

The Department has approximately 5,300 full-time equivalent employees (FTEs), including 3,000 FTEs in the National Capital Region (NCR).

Within the Corporate Services Group, materiel, contracting, security and facility management are managed in NCR by the Material, Contracting, Security and Facility Management Branch. This branch has 29 FTEs in four units (Table 1).

The Director, Material, Contracting, Security and Facility Management, is an EX-1 level executive. The Director reports to the Director General, Finance and Administration, and the Director General, Finance and Administration, reports to the Assistant Deputy Minister, Corporate Services. The ADM, Corporate Services, reports to the Deputy Minister.

### **1.2 THE FACILITY MANAGEMENT ORGANIZATION**

Within the branch, there is a Facility Management Organization (FMO) to provide facility related advice to senior management and program managers and facility related functional guidance to TC offices in regions. FMO, because of its role and responsibilities, through the management chain influences decisions about building leases, office space, and office furniture purchases across the NCR.

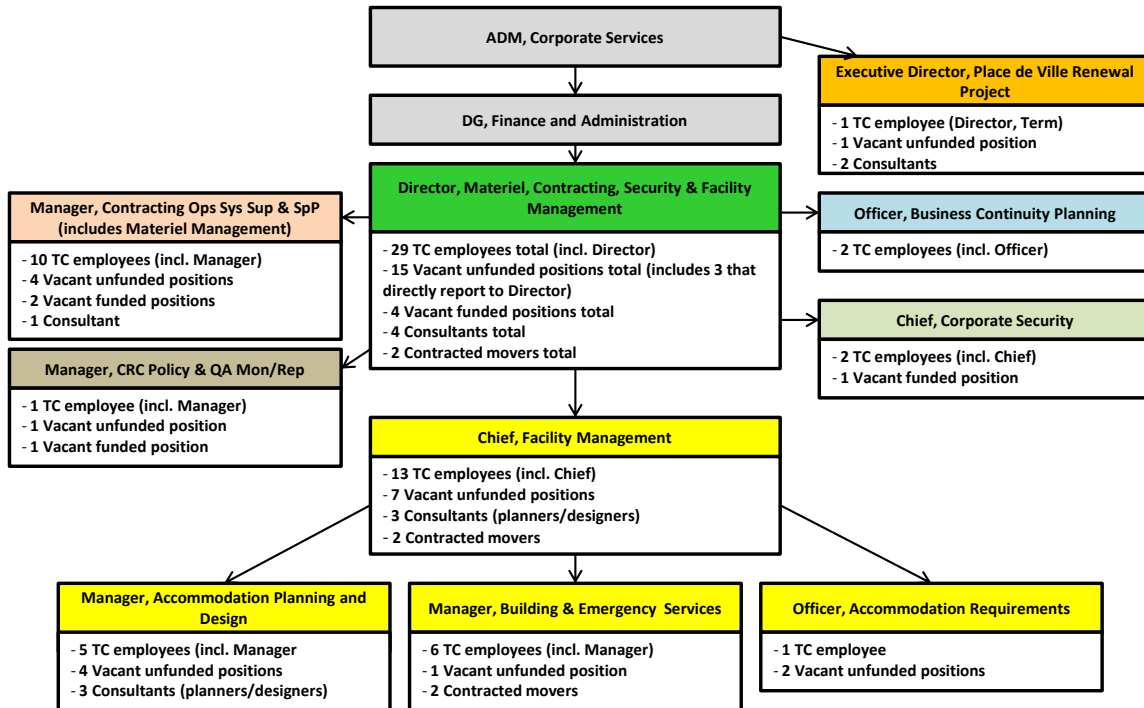
The Facilities Management Organization has three areas of activity:

- Accommodation planning and design (office space requirements, office design, office furniture purchases);
- Building and emergency services (moving services, painting services, inventory management, reservations for 13 of 48 boardrooms); and
- Accommodation requirements (accommodation strategies, signature on TC's behalf of TC "occupancy instruments" with PWGSC).

Until the number of full-time contractors was reduced on 31 March 2013, FMO had 13 FTEs plus a number of full-time contractors. Over the years, FMO has relied heavily on the services of contractors, in particular two planning/design companies and a moving company. Before 31 March 2013, each company was providing individuals to work full time for FMO, and one continues to provide two such workers.

The FMO has a fixed budget, however its expenditures can and do vary considerably from year to year, depending on planning/design activity and purchases. Between 2008-09 and 2012-13, FMO expenditures ranged between \$10.6M and \$4.5M (Table 2), not including the TC share of TC NCR accommodation costs or planning/design/moving services and furniture costs paid by other parts of the department.

**Table 1: Organization of the Materiel, Contracting, Security and Facility Management Branch on 31 January 2013<sup>1</sup>**



On 12 April 2010, the Prime Minister wrote to federal departments asking that they appropriately manage building and maintenance costs with the intent of reducing costs. In November 2011, a moratorium was declared on NCR accommodation projects involving furniture reconfigurations, construction work, and moves not related to staffing and FMO began charging back the cost of moving/installation services to departmental clients with a view to raising awareness of the cost of services and decreasing expenditures.

<sup>1</sup> Vacant Funding Positions are unoccupied positions for which funding is available. Vacant unfunded positions are unoccupied positions that are not funded. It is a Corporate Services Group practice to include vacant unfunded positions in its organization charts.

**Table 2: FMO expenditures, 2008-09 to 2012-13**

Expenditures	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013
Salaries	\$749,960	\$879,641	\$691,393	\$801,102	\$1,267,320
Other Operating Costs	\$1,470,752	\$1,282,957	\$2,040,499	\$2,703,091	\$3,448,191
Capital <sup>2</sup>	\$8,396,922	\$7,165,438	\$6,580,501	\$964,884	\$197,533
Total	\$10,617,634	\$9,328,036	\$9,312,393	\$4,469,077	\$4,913,044
<i>Minus</i> Place de Ville Renewal Project expenditures paid through FMO	\$124,969	\$508,657	\$1,140,162	\$1,000,004	\$495,973
<b>Revised Total</b>	<b>10,492,665</b>	<b>8,819,379</b>	<b>8,172,231</b>	<b>3,469,073</b>	<b>4,417,071</b>

### 1.3 AUDIT OBJECTIVES AND SCOPE

An Audit of Accommodation and Stewardship of Assets was included in the 2012-2013 Transport Canada Risk-Based Internal Audit Plan. Its inclusion was the result of a risk assessment process aimed at identifying higher risk areas where internal audit attention and limited internal audit resources should be focused. A further reason was the April 2010 Prime Minister's letter to the Minister of Public Works and Government Services Canada (PWGSC) and Treasury Board (TB) President, asking that steps be taken to ensure federal departments appropriately manage spending on building and maintenance services.<sup>3</sup>

The objectives of the audit were to assess whether:

- Transport Canada's policies, practices and controls (i.e., its management control framework) are adequate to plan and manage facility activities; and
- Facility Management Organization activities support an effective and efficient facilities management process.

The planning and examination phases of the audit were conducted by an external audit firm with direction/support from the Department's internal audit function.

Except for contractual arrangements with companies that began prior to 2008-09, the audit covered accommodation and stewardship of assets activity in the National Capital Region from April 2008 to March 2012.

<sup>2</sup> Capital expenditures include costs for movers, designers and planners that should have been coded to Other Operating Costs.

<sup>3</sup> Information about this letter was taken from a *TC Moratorium on HQ Accommodation Projects* deck dated Nov. 29, 2012 (RDIMS#7150363). The letter is not available, but the DG, Finance and Administration, provided an email sent by TBS on June 22, 2011 referencing the letter and informing of new/amended guidance to support departments in the management and scrutiny of accommodation services.



The audit scope did not include the Place de Ville Lease Renewal Project<sup>4</sup>, regional facility management activities, or property management activities of the TC Real Property Management Group in the TC Programs Group (related to TC-owned property).

Audit planning began in September 2012, followed by the conduct phase. The audit was completed in May 2013.

#### **1.4 AUDIT METHODOLOGY**

The effectiveness of the Department's policies, practices and controls for accommodation and stewardship of assets were assessed by:

- Reviewing Government of Canada and TC accommodation and procurement policies/guides;
- Reviewing FMO processes, reports and systems related to office moves, inventory management, charge-back for services, and procurement/contracting;
- Reviewing work descriptions for positions with responsibilities related to facility management and facility management oversight;
- Reviewing the *Archibus* systems used by TC to track work station utilization and manage corporate boardroom bookings;
- A walk-through of 39 of 47 NCR floors to assess the *Archibus* system's accuracy;
- Reviewing terms of reference of departmental contracting committees;
- Reviewing a judgemental sample of 43 FMO procurement/contract files (selected a representative cross-section of transactions (FY 2008-2012) by vendor (\$ value, # of purchase orders);
- Site visits to TC warehouses; and
- Interviews (ADM Corporate Services; ADM Programs; ADM Safety and Security; DG Finance and Administration; Director, Materiel, Contracting, Security and Facility Management; Chief, Facility Management; several FMO employees and on-site consultants; former employee or contractor who had expressed concern about FMO contracting/purchasing activities).

Throughout the audit, the audit team communicated significant observations to the Director, Materiel, Contracting, Security and Facility Management, for validation.

#### **1.5 AUDIT CONSTRAINTS**

- Changes in long-standing practices that occurred at the time of the audit;
- Gaps in corporate memory because of retirements and recent departures;
- Gaps in supporting documentation for procurement transactions which made it difficult to audit;
- Delays in the provision of procurement transaction information.

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<sup>4</sup> The Place de Ville Lease Renewal Project is a PWGSC-led project started in 2009 to develop a long-term federal government accommodation strategy for the downtown core of the NCR because many leases will expire in 2013-14. TC's Place de Ville Steering Committee was established in 2011. A project team was staffed with an executive director and two consultants. The Executive Director reports to the ADM, Corporate Services. Funding for its operation is provided through FMO.

## 2.0 FINDINGS

### 2.1 MANAGEMENT CONTROL FRAMEWORK

Essentially, a management control framework is the plan of policies, processes and procedures put in place by an organization's management team to ensure that the organization meets its goals. They include processes for planning, organizing, directing and controlling operations.

Certain central agency policies have been put in place to guide departments. Some important points from these documents relating to accommodation, material management and contracting activities from these documents include:

- Treasury Board's *Guide to the Management of Real Property – Appendix D: Accommodation Guidance for Departments*, which says that departments are responsible for developing and communicating well-documented guidance on accommodation needs, including requests for goods and services related to accommodation (internal policies, standards, and guidelines) and recommends that departments develop an accommodation management framework;
- Treasury Board's *Policy on Materiel Management*, which says that departments must have in place a materiel management framework that reflects an integrated approach to risk management, provides relevant performance information, sets out clear accountability and decision-making regimes, and supports timely, informed materiel management decisions;
- The Treasury Board's *Policy Framework for the Management of Assets and Acquired Services*, which says that Deputy Heads are accountable for implementing an effective framework for the management of assets and acquired services;
- The Treasury Board's *Contracting Policy*, which says that:
  - Government contracting is to be conducted in a manner that will stand the test of public scrutiny;
  - Departments must ensure they have adequate controls to protect the integrity of the bidding process;
  - Fees paid for service contracts must not exceed market rate;
  - Departments are to avoid entering into service contracts which create employer-employee relationships and ensure that no employer-employee relationship develops over time;
  - Contracting authorities must ensure compliance with the Security Policy, therefore ensuring that any necessary security clearances or reliability checks are carried out;
  - If temporary help is required, contracting authorities should consider obtaining temporary help services from companies with which PWGSC has entered into temporary help standing offers; and

- Departments are to consider the possibility of conflict of interest should a consultant or professional be in a position to exercise bias toward a third party that could put the latter in a favoured position for future business with the Crown.
- The *Financial Administration Act* and Treasury Board policies outline departments' responsibilities to implement proper controls and measures to account for the stewardship of public funds and assets. Specifically, management is responsible for ensuring adequate mechanisms are in place and effective to mitigate the risk of and to prevent and detect wrongdoing and fraud.

In TC's FMO, auditors expected to find policies/procedures/processes/ transaction records related to departmental space management, furniture purchase/reuse/disposal/warehousing, furniture inventory, building services and charge-backs. These tools would contribute to consistency of practice, a shared understanding within TC, compliance with central agency policies, and maximization of resources.

Few such documents were found.

The audit team could not find departmental objectives for FMO or the documents that would comprise an FMO management control framework, i.e., a plan of policies, processes and procedures put in place by management to guide FMO staff and ensure it achieves its objectives.

There was a small number of draft and final documents that could be the beginning of a management control framework. There is a draft planning and design manual (21 November 2011) titled *TC Design Criteria/Standards* that sets out procedures for planning and design related to NCR renovations and moves and a document with general service standards (29 November 2011) titled *HQ Service Standards: Materiel, Contracting, Security & Facilities Management* document and an inbox process to track and assign accommodation service requests was introduced in November 2011. More recently, FMO located a draft *Framework for Office and Related Accommodation within Transport Canada*, produced in 1985, which could possibly be a starting point for a current framework.

There is also a *TC Guide to Procurement and Material Management* dated 12 December 2012 that presents materiel management responsibilities of TC managers at all levels, e.g., for planning, use, custody, tracking and disposal of material, keeping it in good working condition, and protecting it.

## **2.2 ACCOUNTABILITIES RELATED TO TC ACCOMMODATION**

The government spends approximately \$25.1M for accommodation for TC employees in 2012-13 in NCR (Table 3). Responsibilities/accountabilities related to this space are shared between PWGSC and TC.

PWGSC is responsible for providing and managing federal government office space and special purpose space. PWGSC gives each department a "space envelope" based on TB-approved program submissions and pays the cost of this space. A department may work through PWGSC to obtain additional space but must pay "reimbursing rent" for any space that exceeds its approved space envelope. PWGSC holds leases with landlords and, besides the space envelope, pays for property maintenance (cleaning services, plumbing) and the fit-up of office space.

TC and PWGSC have signed “occupancy instruments” for space in 15 NCR buildings (Table 3). The total cost for this space, including TC’s reimbursing rent of \$1.5M for space beyond its approved space envelope, was \$25.1M in 2012-13.

**Table 3: TC’s NCR Accommodation Costs 2012-13**

#	Building	Total Non-Reimbursing Rent	Total Reimbursing Rent
1	Place de Ville Tower C, 330 Sparks St	\$17,804,386	\$11,908 <sup>5</sup>
2	Place de Ville Tower B, 112 Kent St	\$1,085,133	\$0
3	St. Andrews Tower, 275 Sparks St	\$141,520	\$0
4	180 Elgin St	\$157,377	\$0
5	275 Slater St	\$1,366,150	\$0
6	Vered Building, 245 Cooper St	\$656,596	\$0
7	2655 Lancaster Rd	\$128,715	\$662,582 <sup>6</sup>
8	Kent Square Building, 255 Albert St	\$388,478	\$0
9	Constitution Square, 350 Albert St	\$113,326	\$0
10	Minto Place, Enterprise Building, 427 Laurier Ave	\$1,062,444	\$0
11	29, de Varennes, Gatineau (warehouse)	\$80,239	\$0
12	80 Noel St, Gatineau	\$397,060	\$0
13	Bank of Commerce Building, 100 Ouellette St, Windsor (in Windsor but used by NCR)	\$74,622	\$0
14	160 Elgin St, Place Bell, 21st floor	\$0	\$844, 337 <sup>7</sup>
15	1860 Bank St (warehouse/workshop)	\$0	\$29,015 <sup>8</sup>
	<b>TOTAL</b>	<b>\$23,456,046</b>	<b>\$1,547,842</b>

<sup>5</sup> Showers and change rooms: as the official tenant, TC pays \$23,815 for this space but receives a 50% reimbursement from CRA

<sup>6</sup> TC’s Multi Media Publishing (Civil Aviation Program) pays the reimbursing cost

<sup>7</sup> As the official tenant, TC pays \$880,592 for this space but receives reimbursement from Correctional Services Canada (Oracle Group) of \$36,254.68 for the limited space they occupy (approximately 4%).

<sup>8</sup> TC’s EcoTechnology for Vehicles (ETV) program (Environmental Initiatives Group) pays the reimbursing cost

PWGSC's Place de Ville Lease Renewal Project, initiated in 2009 may have been the impetus for some progress because since TC's Place de Ville Steering Committee was established in May 2011, there has been some TC senior management discussion of space management to facilitate TC input into PWGSC Place de Ville Steering Committee Lease Renewal Project discussions.

Auditors observed a lack of clarity on where in the Department the responsibility/authority for overall management of TC accommodation resides. Staff of the ADM Corporate Services sign PWGSC occupancy instruments on behalf of TC, track NCR space usage by TC and pay the costs of such tracking, but each ADM is responsible for managing his/her group's own space allocation. The Department does not have an accommodation management framework and there is no department-wide process to ensure space utilization is maximized. As a result, there are many vacant work stations in NCR and the number is likely to increase with implementation of DRAP cuts first announced in spring 2012.

### 2.3 TRACKING OF TC SPACE UTILIZATION

For close to 20 years (from 1995 to March 31, 2013), the FMO has used a software module called *Archibus* to track TC work station utilization in NHQ. Another *Archibus* module was later purchased for a different purpose (details in Section 2.4). Altogether, costs totalled over \$2M (Table 4).

**Table 4: TC Payments for two Archibus Modules**

Archibus Module	Purpose (services provided)	Total Cost (as at February 19, 2013)
Facility Management (21 contracts)	Database development, software, customization, technical support, training, conference, full-time on-site consultant to operate system, design services	\$1,844,626
Room Reservation (3 contracts)	Upgrade software, customization, technical support, training	\$101,450
Both modules - Subscription renewals (7 contracts)	Yearly software fees	\$65,103
<b>Total</b>		<b>\$2,011,179</b>

TC's total costs for the facilities management module were over \$1.8M. They included software subscriptions, module customization and, because TC did not have an employee with the knowledge/experience to put the module to use, a full-time consultant from a design firm for at least two years at a cost of \$312,403. An FMO design/planning standing offer agreement was amended so FMO could use it to contract this individual; it is not clear that the use of the standing offer agreement for this purpose was appropriate.

Since PWGSC requires departments to record floor plans on an AutoCAD system (a software application for computer-aided design and drafting), a second responsibility of the consultant was keeping TC AutoCAD drawings updated. Until fall 2011, the consultant sent monthly emails to floor space

coordinators in each ADM's groups to request updates on work station utilization. Since then, there was no regular updating process but on the consultant's own initiative, periodic ad hoc information requests were made by telephone.

Recent *Archibus* records showed 639 vacant work stations in the NCR, a 21% vacancy rate.

To assess the system's accuracy, auditors did a walkthrough of 39 of the 47 TC floors in the NCR. They had obtained the most recent *Archibus* floor plans from FMO; 72% of the floor plans had been updated that month or the month previous. They found 783 vacant work stations (a 25% vacancy rate)<sup>9</sup>. Auditors were advised that the Corporate Services group has been in discussions with PWGSC in the hope of finding other tenants for the unoccupied TC leased office space.

Auditors did not find evidence that work station information in *Archibus* was analysed and provided to senior management to support discussions about space maximization; the only known use appears to have been for the recent Place de Ville Lease Renewal Project.

At the end of 2012-13 (on 29 March 2013), the FMO discontinued use of the *Archibus* facility management module and its contract for a full-time design consultant for the module's implementation. FMO staff have since been recording space information on an Excel spreadsheet and, as required by PWGSC, continuing with AutoCAD to produce floor plans.

The government's lease cost for Tower C space for TC was approximately \$17.8M in 2012-13. On that basis, the current annual cost of vacant work stations could be in the range of \$4.45M, not including fit-up costs.

## **2.4 ARCHIBUS ROOM RESERVATION MODULE**

The other *Archibus* module—this one for boardroom reservations--was purchased by FMO in 2006 (cost information not available), and an upgrade was purchased for an additional \$98K in March 2011.

There was a one-and-a-half-year delay before the upgrade was operational. It had been expected that the upgrade would be operational within five months, and the final payment was issued after five months, but the system was not operational until a year after final payment was made.

The upgraded module is being used to manage reservations for 13 shared Tower C boardrooms (10 on the concourse level, two on the 9<sup>th</sup> floor, and one on the 20<sup>th</sup> floor). This represents 27% of all Tower C boardrooms (13 of 48).

## **2.5 PLANNING AND DESIGN SERVICES**

Planning and Design Services has five FTEs (a manager, a project manager and three officers). Until 31 March 2013, there were also three full-time consultants. The consultants were from planning/design firms that had had standing offer agreements with FMO for many years.

Although PWGSC has master supply arrangements for planning/design services with several planning/design firms, including those used by FMO, and the development of standing offer agreements

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<sup>9</sup> Vacant work stations were scattered among the floors and were not solely attributable to recent downsizing.

is time-consuming for both departments and companies, FMO has repeatedly opted to develop TC-specific standing offer agreements and all its standing offer agreements have been with the same two companies. Total TC payments to the companies from 2008-09 to 2012-13 was \$3.8M, and total payments since the first contracts was \$5.9M.

Consultants from the planning/design firms performed much the same work as TC employees over the years. They managed moves, office reconfigurations, and construction projects. They created office designs using AutoCAD, estimated move/reconfiguration/restructuring costs, provided advice on furniture purchases and contractors, scheduled work, and ordered furniture. They also had a role in space management. In some cases they took direction from employees and in others, they provided direction to employees. One consultant had been working at TC for six years.

Some of the contracts were standing offer call-ups for full-time services of planners/designers, others were for small, short-term contracts. One company, for example, had several FMO contracts to provide a registered architect's sign-off on FMO designs. Accepted practice would have been to work through PWGSC.

There is the risk of an employer-employee relationship and value-for-money questions related to longer contracts. For example, FMO paid \$712K, an average of \$142K/year, for the full-time services of a planner/designer for a five year period.). The salary for an employee with the same experience (GT-3 level) would have been \$50K-\$57K/year.

## **2.6 INBOX COORDINATOR**

A month after the November 2011 moratorium on all but the most necessary accommodation projects, FMO made a call-up against one of its planning and design standing offer agreements for a full-time intermediate designer.

The work involved monitoring of FMO telephone and email inboxes, entering requests for accommodation services (chairs, furniture, reconfigurations, office moves, coat hooks, picture hooks, etc.) into an Excel spreadsheet, and forwarding requests to the Planning and Design Manager or the Building and Emergency Services Manager for action. A contracted intermediate designer was used for 15 months for this work at a cost of \$155,086 (approximately \$97,600/year), a significant commitment at a time of cutbacks. The work has since been done by a staff member at a cost of \$50-57K/year. The number of inbox entries between November 2011 and January 2013 was 585, an average of two entries per working day.

## **2.7 OFFICE FURNITURE SUPPLIERS**

PWGSC has supply arrangements with several companies for office furniture purchases. FMO purchases furniture from a small number of the suppliers and encourages others in the department to use the same suppliers. As a result, most TC furniture/wall panel orders are directed to three companies: orders to the top supplier totalled \$5,300,753 since 1999, orders to the second supplier totalled \$2,994,420 since 2007, and orders to the third supplier totalled \$1,554,950 since 2002.

## **2.8 WAREHOUSING AND INVENTORY**

FMO's Building and Emergency Services unit has six FTEs and two full-time contract movers. The unit manages two TC warehouses in the NCR--one on the P1 level of in Tower C and one in Gatineau, Quebec--and two Tower C storage rooms (on P2 and P3 levels of Tower C). The warehouses and storage rooms are used for new and used furniture and other inventory.

It was found that the controls to prevent or minimize inventory loss are weak.

The Gatineau warehouse has no security camera and the key can be duplicated. During a site visit in fall 2012, auditors found a minimal inventory of used furniture. In a follow-up visit in March 2013, there was new furniture with stickers showing purchase dates of 2003, 2009 and 2010.

The warehouse on the P1 level of Tower C has a security camera and requires swipe card access; at the time of the audit, there were 138 individuals with access, including all staff of the property manager, electrical and other contractors, cleaners, all FMO staff and all building commissionaires. It is not known whether all these individuals have security clearances.

The P2 and P3 storage rooms have no security cameras.

The TB *Policy on Real Property Management* encourages departments to minimize real property costs by borrowing, using surplus goods, leasing, or cost-sharing with another department, and TC managers sometimes ask whether FMO has new or used furniture to meet their needs in its warehouses.

However, FMO has no current inventory of warehouse and storage room contents. PWGSC performed a furniture inventory count of the NCR TC buildings in the summer 2012; but, the inventory list has not been used by FMO to monitor and control inventory (including inventory in warehouses). Developing and maintaining the inventories has been assigned to moving contractors, according to their contract, and this is not yet being done. Auditors are of the view that warehouse and storage room inventories should be done by employees rather than contractors.

Departmental controls were not effective to prevent unaccompanied or off-hours warehouse/storage room entry by staff or contractors.

## **2.9 MOVING SERVICES**

PWGSC also has supply arrangements that departments can use to obtain services from a moving company. The supply arrangements allow departments to hire movers on an "as and when required" basis.

Rather than using PWGSC supply arrangements, FMO has opted to request bids for TC-specific standing offer agreements.

Except for three months in 2004, the same company has had the TC standing offer agreement for moving services. There have been three standing offer agreements with the company since 1999 (1999-



2004, 2004-2008 and 2008-2013)<sup>10</sup>. Total TC expenditures were \$3M since 1999 (\$1.2M from 2008-09 to 2012-13).

During the three months in 2004 when the FMO standing offer agreement was with another supplier, this company was awarded a non-competitive contract for three office moves at a price of \$18,900.

FMO's 1 June 2008 Request for Proposals for moving services said movers would be required on an "as and when required basis". However, the successful supplier has had full-time work for at least two movers for the duration of the contract (four full-time movers until June 2012 and two since then). Payment records indicate that the movers were paid for 8-hour days rather than 7.5-hour days as specified by the contract.

There was also a discrepancy with respect to security provisions. The Request for Proposals said the successful bidder must have or be able to obtain secret clearance for two senior installers, secret clearance for two installers, and enhanced reliability for all other installers, and the clearances were to be obtained before the installers would be permitted access to TC premises, but FMO did not hold the successful bidder to these conditions.

Although the company has had movers full-time at TC since the contract awards, it has just one mover with secret clearance. The other has had an active building pass although he had no security clearance from 2007 to March 2013 (he had reliability clearance effective March 2013).

Because of security requirements and the "as and when required basis" service requirement in the Request for Proposals, there is evidence in departmental files that at least one company decided against submitting a bid. An email to TC from a company representative said the company "prides itself on providing our clients with reliable and high quality service and after reviewing the tender and its requirements, we felt that the requirement to have secret cleared staff available on an as needed basis would be hard to meet. Although we do employ a limited number of secret cleared people, we could not guarantee their availability when you need them. We feel it is important that when we commit to a service contract that we can always provide what the client requires when they require it. [Our company] has committed personnel to other government departments who are employed every day as part of the contract and we find this easier to maintain the staff required to service their contracts. If Transport Canada is looking at a permanent in house crew, we would [definitely] be interested in this type of tender".

The Treasury Board *Contracting Policy* says that even though the *Contracts Directive* allows for amendments, every effort should be made to avoid: inadequate initial funding resulting in amendments to increase the contract value; inadequate pre-planning resulting in amendments to change the design, specifications or quantity involved; and improper administrative procedures resulting in amendments to change the specifications and delivery or other requirement in order to protect the contractor or

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<sup>10</sup> After an advertised competitive process, another supplier was awarded the FMO standing offer agreement in 2004. However, the agreement was terminated shortly afterward because of an issue involving boxes left unattended. The standing offer agreement was then awarded to the company whose bid had received the second highest rating, the company that had held the first standing offer agreement. The standing offer was for services on an "as and when required" basis.

government agency involved. There were a total of 32 amendments to the TC standing offer agreements for moving services (Table 5).

**Table 5: Standing Offer Agreements for Moving Services**

Original Start Date	Original End Date (excluding option years)	Original Contract Limit	Number of Amendments	Final End Date (including option years & amendments)	Final Contract Limit (option years & amendments)	Total Expenditures
23 November 1999	31 May 2004	\$400,000	7	31 May 2004	\$1,313,043	\$1,077,784
30 August 2004	30 April 2006	\$333,000	12	1 May 2008	\$779,389	\$779,081
1 June 2008	31 May 2010	\$200,000	13	31 October 2013	\$1,279,922	\$1,114,422 as of 13 May 2013
<b>TOTAL</b>						<b>\$2,971,287</b>

The Deputy Minister had requested a senior procurement committee be established. In December 2011, the Senior Procurement Review Committee (SPRC), “to provide Transport Canada with improved oversight of procurement planning, priorities and expenditures”<sup>11</sup> was formed. The committee was established in 2011-12 and has Group/Region heads as members. Terms of Reference say proposals for professional service contracts over \$100K and contract amendments that would increase the total to more than \$100K must be reviewed.

FMO submitted three of the four most recent moving company contract amendment proposals for SPRC approval. Auditors reviewed two of the three amendment proposals and found that the proposals contained incorrect information. The proposals said the original contract value was \$800K rather than \$200K<sup>12</sup>, understating the size of the proposed increases. The most recent proposal (which the Committee approved) will bring the total increase to \$1.28M, a more than 500% increase.

In May 2012, senior management approval was sought on FMO’s behalf for a Request for Proposal for a new standing offer agreement for moving services. The note said TC needs its own standing offer because PWGSC’s ceiling (\$400K for three years) is too low; TC wishes to have an agreement that will allow expenditures totalling \$633K over four years (a two-year agreement plus two one-year extensions).

<sup>11</sup> From the final version of SPRC Terms of Reference in RDIMS, October 2011

<sup>12</sup> The original contract was for two years. \$100K for year one and \$100K for year two, for a total of \$200K. Reference was made in the RFP to two additional option years but no specific amounts were defined.

## 2.10 PROCUREMENT

Auditors found many weaknesses and gaps in procurement practices, based on the review of a sample of 43 FMO procurement files:

***Procurement and contract files were not well organized and in numerous instances, key documentation was incomplete and unavailable.***

Although the Treasury Board *Policy on Contracting* says procurement files should be established and structured to facilitate management oversight and to provide a complete audit trail, auditors found that 43 sample files were not organized, requiring a significant level of effort for reconstruction, and had the following deficiencies:

- In four instances, no documentation was provided to the audit team;
- In 37 instances, the complete procurement and contracting file was not provided to the audit team;
- Procurement files did not demonstrate evidence of review, monitoring and oversight by Contracting and Materiel Management.

***Evidence of a review and challenge function including review by the appropriate contract committee was not always documented.***

Key central agency policies say departments must ensure that management controls are adequate to protect the integrity of the procurement process and proper controls are in place to monitor and ensure corrective actions are taken. They also say that public servants must show prudence and probity when they conclude contractual arrangements on behalf of the Crown.

Auditors found that Transport Canada has two procurement committees—a Contract Review Committee, chaired by the DG Finance and Administration with DG-Director level members from across the Department, in place since 1996, and a Senior Procurement Review Committee (SPRC), established in December 2011, with a mandate to review professional services requirements related to operational requirements and provide Transport Canada with improved oversight of procurement planning, priorities and expenditures, but:

- There were no established quality assurance procedures to help ensure compliance with relevant central agency policies.
- There was no evidence of a monitoring mechanism on the status and progress of contracts.
- Of the four (4) samples that required SPRC review and approval, three were not reviewed by the SPRC.

***Documentation provided did not always comply with the Treasury Board Policy on Contracting.***

The audit included an analysis of the procurement and contracting process for goods and services procured on behalf of the Facility Management Organization. The following provides a summary of the results:

### Approval to Commit Funds (*Financial Administration Act* Section 32):

Of 28 contracting files that required *FAA* section 32, auditors observed:

- In six instances, there was no evidence of *FAA* section 32 (21% non-compliance or six of 28 files), and
- Of the *FAA* section 32 approvals received, there were two instances where *FAA* section 32 approvals were received after the contract award (9% non-compliance or two of 22 files).

### Bid Solicitation and Evaluation:

Public Servants are required to perform their duties in a way that will stand the test of highest public scrutiny and abide with conflict of interests measures and requirements. According to the Procurement Policy, bids are required to be solicited before contracts are awarded, unless they comply with specific exceptions (e.g. sole source). The sample testing indicating the following observations:

- Of 12 sole source contracts sampled, documentation justifying the sole source contract was not provided in seven of the samples.

### Contract Award:

Contracts or purchase orders are required to be in place prior to services being rendered. Of 43 contracting files sampled, auditors observed:

- In 20 of 43 instances, contracts/purchase orders/task authorizations were not provided/signed.
- In two instances, there were indications that services were rendered prior to the contract being signed.
- In one instance, there was an appearance of conflict of interest.

Rendering services prior to a contract being signed may result in additional financial and/or reputation risk to the department should funds not be available or disagreement in expectations arise between Transport Canada and the vendor. In addition, the appearance of conflict of interest or contract splitting could result in legal and reputational risk for the Department.

### Contract Amendments:

Although contract amendments are permitted, it is expected that contracts should not be amended unless they are in the best interests of the government<sup>13</sup>. Frequent contract amendments were observed to time and value without documented justification. The sample included four contracts for which the total value exceeded the original contract amount.

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<sup>13</sup> CP s.12.9.1 – Even though the Contracts Directive allows for amendments, contracts should not be amended unless such amendments are in the best interest of the government, because they save dollars or time, or because they facilitate the attainment of the primary objective of the contract. / PP s.12.9.2 – Every effort should be made to avoid: a) inadequate initial funding, resulting in amendments to increase the contract value; b) inadequate pre-planning, resulting in amendments to change the design, specifications or quantity involved; and c) improper administrative procedures, necessitating amendments to change the specifications and delivery or other requirement in order to protect the contractor or government agency involved.

In addition, a contract amendment was observed with per diem rates that exceeded the rates provided in the original contract without documented justification for the per diem increase (\$400 per day vs. \$292 per day).

Emphasis on contractors for work one would expect to see done by employees both in FMO and the procurement office

Auditors observed that some individuals had been contracted by FMO for long periods of time. They also identified an individual in the procurement area who had been contracted from more than one company since 1999 and who had been doing the work of a senior procurement officer. Such long term contracting is not effective for many reasons, one being cost and another being the risk of creating employer-employee relationships.

### **3.0 CONCLUSIONS**

The objectives of this audit were to assess whether Transport Canada's policies, practices and controls, (i.e., its management control framework), are adequate to plan and manage facility activities, and whether the activities of Transport Canada's Facility Management Organization support an effective and efficient facility management process.

Overall the auditors can not provide assurance that the management control framework for accommodation services is adequate. Auditors found a lack of structure and tools that would provide the checks and balances to ensure transparency and value-for-money in FMO activities.

A positive note is that there have been a number of changes in FMO practices since the audit began, such as the completion of service contracts involving long-term contractors, the centralization of all contracts via procurement and some organizational renewal.

These changes, along with improved oversight, may together bring corrective action in areas found deficient during the audit.

## 4.0 RECOMMENDATIONS AND MANAGEMENT ACTION PLAN

#	RECOMMENDATION	DETAILED ACTION PLAN	ESTIMATED DATE FOR COMPLETION
1.	<p>The Deputy Minister should clarify all ADMs' accountabilities related to TC space management with a view to reducing TC and PWGSC expenditures for unneeded space. A lead ADM (the ADM Corporate Services) should be charged with bringing departmental space usage information to senior management committee with some regularity for the committee's review and discussion.</p>	<p>With a view to minimizing unnecessary PWGSC and TC expenditures for TC accommodation:</p> <ul style="list-style-type: none"> <li>- The accountability of all DM direct reports (in NHQ and regions) for effective space management will be very clearly set out at an upcoming Executive Committee meeting. The ADM, Corporate Services, will be made accountable for bringing reports to senior management committee, at least semi-annually, on departmental space utilization (NHQ and regions) to facilitate senior management committee decision-making related to accommodation requirements.</li> </ul>	Summer 2013
2.	<p>The ADM Corporate Services should ensure there are clear objectives for the Facility Management Organization and there is an effective, TB policy compliant framework of policies/programs/controls for each of its three units: Planning and Design, Building and Emergency Services (including warehouse security and inventory management), and Accommodation. FMO objectives should be regularly updated through a formal planning exercise.</p>	<p>The Facility Management Organization (FMO) will develop an overall management framework for facility management function which will establish clear objectives and key controls for the three areas: Planning and Design, Building and Emergency Services (including warehouse security and inventory management) and Accommodation. Other government</p>	March 2014

#	RECOMMENDATION	DETAILED ACTION PLAN	ESTIMATED DATE FOR COMPLETION
		<p>departments will be consulted to leverage existing best practices in facility management procedures and controls. In the context of a re-designed FMO organization (organization change proposal in progress), this objective will be addressed in a step-by-step process:</p> <ol style="list-style-type: none"> <li>1. Clarify roles and responsibilities in each of the three business units;</li> <li>2. Develop processes and procedures associated with the functions (including necessary controls); and</li> <li>3. Develop an accommodation plan to be reviewed quarterly at Place de Ville Steering Committee (for NCR) and regional committees (for regional plans). Quarterly reviews will provide oversight of costs, budgets and scope of the activities.</li> </ol>	
3.	<p>The ADM Corporate Services should ensure that the Materiel, Contracting, Security and Facility Management Branch has the policies, practices and processes to ensure that Facility Management Organization contracts, contract management, and security arrangements are TB policy compliant.</p>	<p>Upon review of the draft audit findings, immediate action was taken to address observed weaknesses in contract management. The Chief of Accommodations and the Manager, Building and Emergency Services completed the in-house "Contracting for Managers / Project Authorities" course.</p>	May 2013

#	RECOMMENDATION	DETAILED ACTION PLAN	ESTIMATED DATE FOR COMPLETION
		<p>With actions completed for Recommendation #2, policies, practices and processes will be reviewed and up-dated as necessary to ensure that the Materiel, Contracting, Security and Facility Management Branch has the means to ensure contracts, contract management and security arrangements have the appropriate controls in place, reflect best practices and are TB policy compliant.</p>	On-going
4.	<p>Where PWGSC has supply arrangements for services that TC needs, the ADM Corporate Services should ensure that these supply arrangements are used by the Facility Management Organization. Any exception should be approved, in advance, by the Department's senior management committee.</p>	<p>FMO will use PWGSC supply arrangements for those services to be provided from external sources unless the department's Senior Procurement Review Committee (SPRC) has specifically approved an exception.</p> <p>In considering exceptions, SPRC will review the rationale, risks, costs and benefits of not using PWGSC supply arrangements, including value for money.</p> <p>As with all contract proposals under the mandate of the SPRC, any exception request will be made in writing to SPRC, and the rationale for both the proposal and SPRC's decision will be recorded in SPRC meeting notes.</p>	On-going



#	RECOMMENDATION	DETAILED ACTION PLAN	ESTIMATED DATE FOR COMPLETION
5.	With respect to record-keeping, the ADM Corporate Services should ensure there is a sound understanding in both the Contracting and the Material Management branch and the Facility Management areas of Corporate Services of procurement-related record-keeping responsibilities of departments and the two functions fulfil these responsibilities from this time forward.	Training will be provided to contracting officers and FMO managers on the requirements for record-keeping.	December 2013

